

# **MAGYAR TELEKOM**

## HALF YEARLY REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE  
SECOND QUARTER ENDED JUNE 30, 2020



Budapest – August 5, 2020 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB, hereinafter the “Company”), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the second quarter and first half of 2020, in accordance with International Financial Reporting Standards (IFRS) as adopted by EU.

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## 1. HIGHLIGHTS

### Financial highlights:

| MAGYAR TELEKOM   | Q2 2019 | Q2 2020 | Change (%) | 1-6 months 2019 | 1-6 months 2020 | Change (%) |
|--|---------|---------|------------|-----------------|-----------------|------------|
| Group Financial Results - IFRS<br>(HUF million, except ratios) |         |         |            |                 |                 |            |
| Total revenues   | 160,754 | 157,187 | (2.2%)     | 319,703         | 316,520         | (1.0%)     |
| Operating profit   | 24,774  | 20,785  | (16.1%)    | 37,360          | 33,508          | (10.3%)    |
| Profit attributable to:  |         |         |            |                 |                 |            |
| Owners of the parent   | 13,389  | 10,543  | (21.3%)    | 16,490          | 8,950           | (45.7%)    |
| Non-controlling interests                                      | 1,112   | 938     | (15.6%)    | 1,993           | 1,719           | (13.7%)    |
|  | 14,501  | 11,481  | (20.8%)    | 18,483          | 10,669          | (42.3%)    |
| Gross profit   | 92,634  | 90,135  | (2.7%)     | 184,805         | 182,376         | (1.3%)     |
| EBITDA   | 56,931  | 56,127  | (1.4%)     | 103,303         | 102,528         | (0.8%)     |
| EBITDA AL  | 51,483  | 50,187  | (2.5%)     | 91,911          | 91,040          | (0.9%)     |
|  | Q2 2019 | Q2 2020 | Change (%) | 1-6 months 2019 | 1-6 months 2020 | Change (%) |
| Free cash flow   |         |         |            | (7,137)         | (50,822)        | (612.1%)   |
| Free cash flow excl. spectrum license                          |         |         |            | 3,863           | 3,418           | (11.5%)    |
| Capex after lease  | 19,529  | 118,688 | 507.8%     | 33,780          | 140,115         | 314.8%     |
| CAPEX after lease excl. spectrum licenses                      | 19,529  | 27,106  | 38.8%      | 33,780          | 48,533          | 43.7%      |
| Number of employees (closing full equivalent)                  |         |         |            | 8,462           | 7,228           | (14.6%)    |
|  |         |         |            | Dec 31, 2019    | Jun 30, 2020    | Change (%) |
| Net debt   |         |         |            | 349,357         | 471,576         | 35.0%      |
| Net debt / total capital                                       |         |         |            | 35.6%           | 43.2%           | n.a.       |

- Revenues declined by HUF 3.6 billion, or 2.2% year-on-year, to HUF 157.2 billion in Q2 2020, driven by lower contribution from the SI/IT business segment
- Gross profit declined by HUF 2.5 billion, or 2.7% year-on-year, to HUF 90.1 billion in Q2 2020, attributable to the fall in SI/IT contribution and the impact of COVID-19 on the profitability of mobile and fixed line services
- Indirect cost saving efforts, mainly from headcount reduction partly mitigated by the decline in gross profit. As a result, EBITDA AL edged down by HUF 1.3 billion, or 2.5% year-on-year, to HUF 50.2 billion in Q2 2020, while H1 2020 EBITDA AL amounted to HUF 91.0 billion
- CAPEX AL (excluding spectrum license fees) grew substantially to HUF 27.1 billion in Q2 2020 and amounted to HUF 48.5 billion in H1 2020, an increase of HUF 14.8 billion year-on-year, mainly due to increased investments into the fiber network. A further HUF 91.6 billion was capitalized consisting of a HUF 54.2 billion cash outflow and a HUF 37.3 billion non-cash item representing the present value of frequency fees related to the previously announced 5G auction in Q2 2020
- Free cash flow (excluding spectrum license fees) amounted to HUF 3.4 billion in H1 2020 mainly influenced by the above mentioned EBITDA and Capex trends
- Net debt grew to HUF 471.6 billion at June 30, 2020, corresponding to a net debt to total capital ratio of 43.2% driven by the spectrum and dividend outpayments and sharebuyback transaction during Q2 2020

### Operational highlights

- The gigabit capable network reached over 2.2 million access points in Hungary by the end of Q2 2020
- Following the launch of 5G services in early April 2020, Magyar Telekom is now able to offer significantly higher bandwidth, lower latency and seamless connectivity. The service has been subsequently extended and now covers new areas in Hungary such as parts of the lake Balaton
- Magyar Telekom signed a supplier agreement with Ericsson to support the modernization of the mobile network and the roll-out of 5G services

**Tibor Rékasi, Magyar Telekom CEO commented:**

*“Magyar Telekom has been through an extremely challenging second quarter with COVID-19 impacting our operations in many ways. I am very proud that we supported families, communities as well as businesses allowing for enhanced digital cooperation during this extraordinary period. At the same time, we were equally successful in preserving the profitability of Magyar Telekom by delivering strong results in the second quarter despite fast-changing external conditions.*

*We have decided to fast-track the development of our fiber network to enhance broadband coverage, driving our 2020 investments higher than we anticipated earlier. Early signs of changing customer behavior in light of COVID-19 proves that we are on the right track. We expect these investments to further reinforce our position as a trusted provider of seamless telecommunications services in both Hungary and North Macedonia, which will be key to leveraging favorable long-term trends accelerated by recent developments.*

*Looking ahead to the second half of 2020, we will focus on delivering our previously announced EBITDA AL target.”*

**Outlook**

|                          | 2019 Actual       | Public guidance for 2020      | Public guidance for 2021 |
|--------------------------|-------------------|-------------------------------|--------------------------|
| <b>Revenue</b>           | HUF 666.7 billion | broadly stable                |                          |
| <b>EBITDA AL</b>         | HUF 197.6 billion | increasing at 1%-2% per annum |                          |
| <b>Capex<sup>1</sup></b> | HUF 89.6 billion  | increasing with ca. 10%*      | broadly stable vs 2019   |
| <b>FCF<sup>2</sup></b>   | HUF 65.1 billion  | broadly stable*               | broadly stable*          |

<sup>1</sup> excluding spectrum license fees and CAPEX of right-of-use assets (i.e. the impact of IFRS 16)

<sup>2</sup> excluding spectrum license fees

\* modified

## 2. MANAGEMENT REPORT

### 2.1. Consolidated IFRS Group Results

#### 2.1.1 Group Profit and Loss

| Consolidated Statements of Profit or Loss and Comprehensive Income extract (HUF million) | Q2 2019         | Q2 2020         | Change         | Change (%)     | 1-6 months 2019  | 1-6 months 2020  | Change         | Change (%)     |
|--|-----------------|-----------------|----------------|----------------|------------------|------------------|----------------|----------------|
| <b>Revenues</b>  |                 |                 |                |                |                  |                  |                |                |
| Mobile revenues  | 84,859          | 85,955          | 1,096          | 1.3%           | 169,736          | 174,102          | 4,366          | 2.6%           |
| Fixed line revenues  | 52,666          | 53,102          | 436            | 0.8%           | 105,347          | 105,933          | 586            | 0.6%           |
| System Integration/Information Technology revenues                                       | 23,229          | 18,130          | (5,099)        | (22.0%)        | 44,620           | 36,485           | (8,135)        | (18.2%)        |
| <b>Total revenues</b>  | <b>160,754</b>  | <b>157,187</b>  | <b>(3,567)</b> | <b>(2.2%)</b>  | <b>319,703</b>   | <b>316,520</b>   | <b>(3,183)</b> | <b>(1.0%)</b>  |
| <b>Direct costs</b>  | <b>(68,120)</b> | <b>(67,052)</b> | <b>1,068</b>   | <b>1.6%</b>    | <b>(134,898)</b> | <b>(134,144)</b> | <b>754</b>     | <b>0.6%</b>    |
| <b>Gross profit</b>  | <b>92,634</b>   | <b>90,135</b>   | <b>(2,499)</b> | <b>(2.7%)</b>  | <b>184,805</b>   | <b>182,376</b>   | <b>(2,429)</b> | <b>(1.3%)</b>  |
| <b>Indirect costs</b>  | <b>(35,703)</b> | <b>(34,008)</b> | <b>1,695</b>   | <b>4.7%</b>    | <b>(81,502)</b>  | <b>(79,848)</b>  | <b>1,654</b>   | <b>2.0%</b>    |
| <b>EBITDA</b>  | <b>56,931</b>   | <b>56,127</b>   | <b>(804)</b>   | <b>(1.4%)</b>  | <b>103,303</b>   | <b>102,528</b>   | <b>(775)</b>   | <b>(0.8%)</b>  |
| Depreciation and amortization  | (32,157)        | (35,342)        | (3,185)        | (9.9%)         | (65,943)         | (69,020)         | (3,077)        | (4.7%)         |
| <b>Operating profit</b>  | <b>24,774</b>   | <b>20,785</b>   | <b>(3,989)</b> | <b>(16.1%)</b> | <b>37,360</b>    | <b>33,508</b>    | <b>(3,852)</b> | <b>(10.3%)</b> |
| Net financial result   | (6,531)         | (5,446)         | 1,085          | 16.6%          | (12,156)         | (16,415)         | (4,259)        | (35.0%)        |
| Share of associates' and joint ventures' results   | 115             | 0               | (115)          | (100.0%)       | 215              | (66)             | (281)          | n.m.           |
| <b>Profit before income tax</b>  | <b>18,358</b>   | <b>15,339</b>   | <b>(3,019)</b> | <b>(16.4%)</b> | <b>25,419</b>    | <b>17,027</b>    | <b>(8,392)</b> | <b>(33.0%)</b> |
| Income tax   | (3,857)         | (3,858)         | (1)            | (0.0%)         | (6,936)          | (6,358)          | 578            | 8.3%           |
| <b>Profit for the period</b>   | <b>14,501</b>   | <b>11,481</b>   | <b>(3,020)</b> | <b>(20.8%)</b> | <b>18,483</b>    | <b>10,669</b>    | <b>(7,814)</b> | <b>(42.3%)</b> |
| Profit attributable to non-controlling interests   | 1,112           | 938             | (174)          | (15.6%)        | 1,993            | 1,719            | (274)          | (13.7%)        |
| <b>Profit attributable to owners of the parent</b>                                       | <b>13,389</b>   | <b>10,543</b>   | <b>(2,846)</b> | <b>(21.3%)</b> | <b>16,490</b>    | <b>8,950</b>     | <b>(7,540)</b> | <b>(45.7%)</b> |

**Total revenues declined by 2.2% year-on-year to HUF 157.2 billion in Q2 2020 and by 1.0% year-on-year to HUF 316.5 billion in the first six months of 2020.** Further increases in telecommunication service revenues in both countries of operation, along with positive foreign exchange impact stemming from the strengthening of the denar compared to the forint, were offset by the decline in System Integration and IT ('SI/IT') revenues in Hungary.

- **Mobile revenues were up 1.3% year-on-year to HUF 86.0 billion in Q2 2020**, and 2.6% higher at HUF 174.1 billion in the first half of 2020, thanks to higher mobile data revenues in both countries of operation which were partially offset by lower retail voice revenues. In H1 2020, mobile revenues grew by 2.6% year-on-year to HUF 174.1 billion.
  - **Voice retail** revenues, at Group level, declined 5.4% year-on-year to HUF 30.8 billion in Q2 2020. While postpaid customer numbers, voice usage and post-paid ratios improved in both countries, the prevailing competitive pressure in Hungary's mid-size business segment coupled with declining roaming and prepaid revenues - particularly impacting the North Macedonian results - led to lower mobile voice revenues in both countries.
  - **Voice wholesale** revenue increased by 16.5% year-on-year to HUF 3.0 billion in Q2 2020, primarily driven by a strong increase in incoming domestic mobile traffic in Hungary, coupled with higher machine-to-machine traffic in North Macedonia.
  - **Data** revenue growth slowed to 6.5% year-on-year reaching HUF 24.2 billion in Q2 2020, as increases in mobile internet subscribers and usage levels were partially offset by the extended mobile data allowance provided to customers during the COVID-related lockdown and the lack of data roaming revenues in both Hungary and North Macedonia.
  - **SMS** revenues remained broadly stable in both countries, amounting to HUF 5.0 billion at Group level in Q2 2020, as lower revenues from roaming in both countries were offset by increased residential usage by a growing postpaid customer base and higher revenues from mass messaging in Hungary.
  - **Mobile equipment** revenues increased by 9.5% year-on-year to HUF 20.7 billion in Q2 2020, as declines in sales in Hungary were more than compensated by the higher volume of third party export sales, as well as the positive contribution of the North Macedonian operation, with the latter primarily attributable to the weakening of the forint.
  - **Other mobile** revenues decreased by 27.4% to HUF 2.3 billion in Q2 2020, attributable to the sharp decline in visitor revenues coupled with lower late payment fees reflecting the allowances provided in response to the COVID-19 pandemic crisis, in both countries.
- **Fixed line revenues increased moderately, by 0.8% year-on-year, to HUF 53.1 billion in Q2 2020** and by 0.6% to HUF 105.9 billion in the first half of 2020. Higher broadband and TV retail service revenues were able to offset the decline in equipment sales, higher volumes of discounts and lower network-related revenues.

- **Voice retail** revenue declined by 3.9% year-on-year to HUF 9.9 billion in Q2 2020. The continued decline reflects the general contraction in the fixed voice customer base, coupled with a temporary increase in usage levels in response to the COVID-related lockdowns in both countries.
- **Broadband retail** revenues increased by 9.8% year-on-year to HUF 15.1 billion in Q2 2020, with further growth in the customer base (in both countries) amplified by the acceleration in bandwidth upgrade transactions in Hungary.
- **TV** revenues grew by 6.9% year-on-year to HUF 13.0 billion in Q2 2020, driven by the growing IPTV subscriber base in both countries of operation.
- **Fixed equipment** revenues contracted by 11.7% to HUF 4.3 billion in Q2 2020, driven by a decline in transaction volumes in Hungary at the beginning of the period due to COVID-19 restrictions.
- **Data retail** revenues increased moderately year-on-year to HUF 2.2 billion in Q2 2020, as the moderate decline recorded at the Hungarian operation due to price pressure was fully offset by a higher contribution from the North Macedonian operation.
- **Wholesale** revenues increased moderately year-on-year to HUF 4.9 billion in Q2 2020, as a decline in network-related revenues was offset by higher wholesale data revenues in Hungary.
- **Other fixed line** revenues declined by 18.9% to HUF 3.7 billion in Q2 2020, primarily driven by the higher volume of discounts provided for customers in relation to online bill payments coupled with lower infrastructure revenues in Hungary.
- **System Integration (SI) and IT ('SI/IT') revenues declined by 22.0% year-on-year to HUF 18.1 billion in Q2 2020, with revenues down by 18.2% year-on-year in H1 2020.** Revenues in Hungary contracted due to lower demand in the Hungarian public and corporate sector driven by changing customer needs as a result of the COVID-19 pandemic.

**Direct costs were down 1.6% year-on-year, at HUF 67.1 billion in Q2 2020, and by 0.6% year-on-year in H1 2020.** While other direct costs and the telecom tax continued to rise in Q2 2020, SI/IT related expenses were significantly lower resulting in the year-on-year cost decline.

- **Interconnect costs** increased by 2.5% year-on-year to HUF 5.4 billion in Q2 2020, reflecting increased off-network mobile voice traffic in both countries, which led to higher payments to domestic mobile operators.
- **SI/IT service-related costs** declined by 26.1% year-on-year, to HUF 12.8 billion in Q2 2020, driven by a significant reduction in the volume of related projects in Hungary.
- **Bad debt expenses** improved by 13.0% year-on-year to HUF 2.1 billion in Q2 2020, as the favorable aging of mobile receivables at the Hungarian operation and the absence of negative one-off items impacting Q2 2019 results in North Macedonia offset the negative impact of COVID-19 on bad debt expenses and the lower results from factoring activities. However, in H1 2020, bad debt expenses deteriorated by 5.8% year-on-year to HUF 4.8 billion, as the impact of the COVID-19 pandemic, lower results from factoring and the release of certain customers from a loyalty period could only be partly mitigated by the favorable aging of mobile receivables at the Hungarian operation.
- **Telecom tax** was up 6.8% year-on-year at HUF 6.8 billion in Q2 2020, reflecting an increase in mobile voice traffic in the business and residential segments coupled with higher residential landline usage during the months of lockdown in Hungary.
- **Other direct costs** increased by 8.7% year-on-year to HUF 39.9 billion in Q2 2020, primarily due to an increase recorded at the Hungarian operation. This was attributable to higher TV content outpayments and equipment costs (both further amplified by the weakening of the forint against the euro), which could only be partially offset by the lower roaming outpayments.

**Gross profit declined by 2.7% and 1.3% year-on-year to HUF 90.1 billion in Q2 2020 and to HUF 182.4 billion in H1 2020, respectively.** This result is broadly attributable to the lower SI/IT and roaming result coupled with increases in telecom tax expenses.

**Indirect costs improved by 4.7% year-on-year, to HUF 34.0 billion in Q2 2020, and by 2.0% year-on-year to HUF 79.8 billion in H1 2020,** thanks to broad-based cost saving measures in both countries.

- **Employee-related expenses** declined by 9.4% year-on-year to HUF 17.9 billion in Q2 2020, driven primarily by lower headcount in both Hungary and North Macedonia, supported by a reduction in Hungarian social contribution charges and the revised trainee employment terms.
- **Other operating expenses** improved by 4.5% year-on-year to HUF 16.8 billion in Q2 2020, primarily due to savings in marketing and advisory expenses which more than offset higher spending in relation to COVID-19 protective measures.
- **Other operating income** declined by HUF 1.0 billion year-on-year in Q2 2020, reflecting the absence of income related to real estate sales and a legal case closed in the second quarter of 2019.

**EBITDA was down by 1.4% year-on-year to HUF 56.1 billion in Q2 2020,** and by 0.8% to HUF 102.5 billion in H1 2020, as savings in indirect costs could not fully compensate for the lower gross profit. **EBITDA AL declined by 2.5% year-on-year in Q2 2020,** reflecting year-on-year increases in IFRS 16 depreciation and amortization expenses.

**Depreciation and amortization ('D&A') expenses grew by HUF 3.2 billion year-on-year, to HUF 35.3 billion in Q2 2020,** reflecting higher expenses in both countries of operation. In Hungary, the increase was attributable to the newly acquired frequency licenses as well as the shortened

useful life of copper network elements driven by preparations to the copper retirement program. In North Macedonia, the D&A expense increase was driven by higher amortization expenses in relation to content rights, software and licenses.

**Profit for the period declined by 20.8% year-on-year to HUF 11.5 billion in Q2 2020**, as lower EBITDA and an increase in D&A expenses could only be partially mitigated by better net financial results. In the first half of 2020, net profit declined by 42.3% year-on-year to HUF 10.7 billion, owing to lower EBITDA, higher D&A expenses and a weakening of the forint in Q1 2020.

- **Net financial expenses** improved by 16.6% year-on-year to HUF 5.4 billion in Q2 2020, as the positive impacts of lower average interest rates and more favorable FX rate movements during the second quarter of 2020 (moderate strengthening of the forint against the euro between end-March and end-June 2020 as opposed to weakening during Q2 2019) outweighed the increases in interest costs stemming from higher overall debt levels due to the frequency license purchases.
- **Income tax** expenses remained stable at HUF 3.9 billion in Q2 2020, despite a year-on-year decline in profit before tax. That was primarily driven by higher withholding tax in relation to the dividend payment of the North Macedonian holding company, Stonebridge, combined with higher corporate tax expenses reflecting the run-out of earlier investment tax credits.

**Profit attributable to non-controlling interests decreased by 15.6% year-on-year to HUF 0.9 billion in Q2 2020**, as the improvement in EBITDA was offset by higher D&A expenses, resulting in reduced profit at the North Macedonian operation.

## 2.1.2 Group Cash Flows

| HUF millions  | 1-6 months 2019 | 1-6 months 2020 | Change          |
|---|-----------------|-----------------|-----------------|
| Operating cash flow   | 42,850          | 67,704          | 24,854          |
| Investing cash flow   | (43,674)        | (109,026)       | (65,352)        |
| Less: Payments for / Proceeds from other financial assets - net                         | 1,701           | 2,075           | 374             |
| Investing cash flow excluding Payments for / Proceeds from other financial assets - net | (41,973)        | (106,951)       | (64,978)        |
| Payments for lease and other financial liabilities                                      | (8,014)         | (11,575)        | (3,561)         |
| <b>Total free cash flow</b>   | <b>(7,137)</b>  | <b>(50,822)</b> | <b>(43,685)</b> |
| Payments for / Proceeds from other financial assets - net                               | (1,701)         | (2,075)         | (374)           |
| Proceeds from / Repayment of loans and other borrowings - net                           | 35,053          | 79,937          | 44,884          |
| Dividends paid to Owners of the parent and Non-controlling interests                    | (26,083)        | (21,048)        | 5,035           |
| Repurchase of treasury shares   | 0               | (5,218)         | (5,218)         |
| Exchange differences on cash and cash equivalents                                       | 11              | 804             | 793             |
| <b>Change in cash and cash equivalents</b>  | <b>143</b>      | <b>1,578</b>    | <b>1,435</b>    |

**Free cash flow (FCF) deteriorated to HUF 50.8 billion cash outflow in H1 2020 (H1 2019: HUF 7.1 billion cash outflow), mainly due to the reasons described below.**

### *Operating cash flow*

**Net cash generated from operating activities** amounted to a cash inflow of HUF 67.7 billion in H1 2020, compared to cash inflow of HUF 42.9 billion in H1 2019, attributable to the reasons outlined below:

- **EBITDA** broadly unchanged in H1 2020 versus H1 2019
- HUF 19.9 billion **positive change in active working capital**, mainly as a result of the following factors:
  - higher decrease in SI/IT receivables in H1 2020 compared to H1 2019 due to different project seasonality (positive impact: ca. HUF 14.8 billion)
  - higher decrease in installment receivables due to different volume of sales increase and favorable ageing (positive impact: ca. HUF 3.1 billion)
  - favorable change in handset inventory balances in H1 2020 compared to H1 2019 (positive impact: ca. HUF 2.2 billion)
- HUF 7.0 billion **positive change in passive working capital**, primarily driven by the following factors:
  - combined effect of lower decline in the balances of invoiced and non-invoiced other creditors and higher decrease in the balance of equipment creditors due to timing differences of payments in H1 2020 versus H1 2019 (positive impact: HUF 11.3 billion)
  - lower decrease in the balance of creditors in relation to the new headquarter building in H1 2020, due to fit-out costs outpayment relating to the new building for the Company's headquarters in 2019 (positive impact: HUF 1.7 billion)

- higher decrease in the balance of DT Group suppliers due to the timing differences in H1 2020 versus H1 2019 (negative impact: HUF 3.0 billion)
  - higher payment related to SI/IT services in H1 2020 compared to H1 2019 (negative impact: HUF 5.6 billion)
  - lower HR-related personnel expense payments driven by changes in the terms of the bonus payments in H1 2020 compared to H1 2019 (positive impact: HUF 3.4 billion)
- HUF 1.1 billion **negative change** due to higher levels of **income tax paid** in H1 2020 compared to H1 2019, mainly due to slightly higher corporate income tax and higher local business tax paid versus last year
  - HUF 1.7 billion **positive change** mainly due to lower levels of **interest paid** in H1 2020 compared to H1 2019, following the maturity of a loan in H1 2019 thanks to more favorable average interest rates on the loans compared to H1 2019
  - HUF 1.5 billion **negative change in other non-cash items**, attributable to a higher forint weakening during H1 2020 compared to H1 2019

*Investing cash flow excluding proceeds from other financial assets – net*

**Net cash used in investing activities** amounted to HUF 107.0 billion in H1 2020, compared to HUF 42.0 billion in H1 2019, with the higher cash outflow driven mainly by the following:

- HUF 100.0 billion **negative effect** due to higher **CAPEX** in H1 2020 versus H1 2019 due to the combined effect of increase in spectrum license fees and content rights capitalization coupled with higher investment in gigabit access and consumer-provided equipment and lower capitalization of right-of-use assets. For further information please see section 2.2 Segment reports.
- HUF 37.8 billion **positive change** due to the combined effect of higher present value of **spectrum license fees (net cash flow effect is amounted 54.2 billion) and content right capitalization to be paid in the future**, lower payments to **CAPEX creditors** against the effect of lower capitalization of right-of-use assets in H1 2020 versus H1 2019
- HUF 3.4 billion **negative change** related to the **disposal of PPE**, mainly reflecting a reduction in proceeds from real estate sales in H1 2020 compared to H1 2019

*Payments for lease and other financial liabilities*

**Payments for lease and other financial liabilities** increased to HUF 11.6 billion in H1 2020 from HUF 8.0 billion in H1 2019, mainly due to higher **lease** payments in H1 2020 versus H1 2019.

In H1 2020 **Cash and cash equivalents** amounted to a HUF 1.6 billion positive change compared to a HUF 0.1 billion positive change in H1 2019. Besides the changes in Free cash flow (FCF) the increase is attributed to the followings:

**Proceeds from loans and other borrowings – net** improved by HUF 44.9 billion due to the higher drawdown of DT Group loans and as well as the favorable development of inhouse Group funds in H1 2020 compared to H1 2019.

**Dividends paid to Owners of the parent and Non-controlling interests** decreased by HUF 5.0 billion mainly due to the lower dividend payment from Magyar Telekom to its Parent and Non-controlling interests as the dividend per share ('DPS') has reduced from HUF 25 in 2019 to HUF 20 in 2020.

**Repurchase of treasury shares** increased by HUF 5.2 billion due to the repurchase of treasury in H1 2020.

**Exchange differences on cash and cash equivalents** improved by HUF 0.8 billion due to the higher MKD/HUF foreign exchange rate movement during H1 2020.

The financial and operating statistics are available on the following website:

[http://www.telekom.hu/about\\_us/investor\\_relations/financial](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, 2019 to June 30, 2020 (see Appendix 3.3) can be observed in the following lines:

- Trade receivables
- Other financial assets (current and non-current combined)
- Assets held for sale
- Intangible assets



- Investments in associates and joint ventures
- Financial liabilities to related parties (current and non-current combined)
- Trade payables
- Other financial liabilities (current and non-current combined)
- Treasury stock

**Trade receivables** decreased by HUF 24.4 billion from December 31, 2019 to June 30, 2020 mainly driven by the HUF 16.8 billion decrease in SI/IT receivables.

**Other financial assets** (current and non-current combined) increased by HUF 12.5 billion from December 31, 2019 to June 30, 2020 mainly as a result of a HUF 14.5 billion increase in derivative financial instruments contracted with related parties mainly due to weakening of forint in Q1 2020, and a HUF 3.6 billion decrease in cashpool receivables.

**Assets held for sale** increased by HUF 2.6 billion from December 31, 2019 to June 30, 2020 mainly due to the Telekom Park building reclassified from Property, plant and equipment, after fulfilling all relevant criteria.

**Intangible assets** increased by HUF 82.9 billion from December 31, 2019 to June 30, 2020 mainly due to Magyar Telekom Plc. won spectrum licenses related to 5G and mobile broadband services. The present value of the future annual band fees to be paid by Magyar Telekom until 2040 and the one-time fee were capitalized in April 2020 in the amount of HUF 91.6 billion. For further information please see section 2.1.2 Group Cash Flows.

**Investments in associates and joint ventures** decreased by HUF 1.1 billion from December 31, 2019 to June 30, 2020. The decline reflects that the Company lost its joint control and significant influence over E2 Hungary Zrt. based on the agreement with MET Holding AG. Following the agreement investment in E2 Hungary Zrt. is disclosed in Other non-current financial assets.

**Financial liabilities to related parties** (current and non-current combined) increased by HUF 88.0 billion from December 31, 2019 to June 30, 2020 due to the repayments and drawdowns of short- and long term DT Group loans.

**Trade payables** declined by HUF 52.6 billion from December 31, 2019 to June 30, 2020, reflecting a decrease in outstanding balances to handset, SI/IT, CAPEX and OPEX suppliers.

**Other financial liabilities** (current and non-current combined) increased by HUF 39.2 billion from December 31, 2019 to June 30, 2020, due to the recognition of present value of the future annual band fees for spectrum licenses related to 5G and mobile broadband services.

**Treasury stock** increased by HUF 5.2 billion from December 31, 2019 to June 30, 2020 as a result of a repurchase of own shares.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position in the period from December 31, 2019 to June 30, 2020. 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 2020 and the related explanations provided above in section 2.1.2 Group Cash Flows.

#### 2.1.4 Related party transactions

The significant changes in the volume of related party transactions have been disclosed in sections 2.1.2 Group Cash Flows and 2.1.3 Statement of Financial Position. There have not been any other 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 14.7 billion (excluded the expired guarantees for spectrum tender related to 5G and mobile broadband services due to the auction was successful in 2020) as at December 31, 2019. These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. To date, the Group has been delivering on its contractual obligations and expects to continue to do so in the future. Consequently, there has been no significant drawdown of the guarantees in 2020 and this is expected to continue being the case going forward.

## Commitments

There has been no material change in the nature and amount of our commitments in H1 2020.

### 2.1.6 Significant events

For any significant events that occurred since the end of the reporting period (June 30, 2020), please see our Investor Relations website: [http://www.telekom.hu/about\\_us/investor\\_relations/investor\\_news](http://www.telekom.hu/about_us/investor_relations/investor_news)

## 2.2. Segment reports

As of June 30, 2020, Magyar Telekom's operating segments are: MT-Hungary and North Macedonia.

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 small and medium-sized business 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 North Macedonia segment is responsible for the Group's full-scale mobile and fixed line telecommunications operations in North Macedonia.

The following tables present financial information related to these reportable segments. Such information is regularly provided to the Company's Management 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.

Following the streamline of Magyar Telekom's management structure, the Management Committee ceased to exist as a formal corporate decision-making body as of January 1, 2020. The Company has subsequently initiated an assessment of the potential consequences of this change on corporate disclosure. This assessment has not been finalized yet but management believes it is unlikely that the identification of reportable segments will be changed. Therefore, in these interim condensed financial statements the management reporting disclosures follows the same structure as in the previous reports.

**2.2.1 MT-Hungary**

| HUF million                              | Q2 2019        | Q2 2020        | Change         | Change (%)     | 1-6 months 2019 | 1-6 months 2020 | Change         | Change (%)     |
|--|----------------|----------------|----------------|----------------|-----------------|-----------------|----------------|----------------|
| Voice                                    | 31,210         | 29,838         | (1,372)        | (4.4%)         | 62,024          | 59,744          | (2,280)        | (3.7%)         |
| Non-voice                                | 25,384         | 26,696         | 1,312          | 5.2%           | 49,449          | 53,823          | 4,374          | 8.8%           |
| Equipment                                | 17,186         | 18,804         | 1,618          | 9.4%           | 36,664          | 38,784          | 2,120          | 5.8%           |
| Other                                    | 2,740          | 1,997          | (743)          | (27.1%)        | 5,162           | 4,410           | (752)          | (14.6%)        |
| <b>Total mobile revenues</b>             | <b>76,520</b>  | <b>77,335</b>  | <b>815</b>     | <b>1.1%</b>    | <b>153,299</b>  | <b>156,761</b>  | <b>3,462</b>   | <b>2.3%</b>    |
| Voice retail                             | 9,155          | 8,716          | (439)          | (4.8%)         | 18,504          | 17,509          | (995)          | (5.4%)         |
| Broadband - retail                       | 12,397         | 13,635         | 1,238          | 10.0%          | 24,512          | 26,886          | 2,374          | 9.7%           |
| TV                                       | 11,043         | 11,708         | 665            | 6.0%           | 21,947          | 23,186          | 1,239          | 5.6%           |
| Equipment                                | 4,849          | 4,268          | (581)          | (12.0%)        | 10,492          | 9,168           | (1,324)        | (12.6%)        |
| Other                                    | 10,309         | 9,401          | (908)          | (8.8%)         | 20,198          | 18,604          | (1,594)        | (7.9%)         |
| <b>Fixed line revenues</b>               | <b>47,753</b>  | <b>47,728</b>  | <b>(25)</b>    | <b>(0.1%)</b>  | <b>95,653</b>   | <b>95,353</b>   | <b>(300)</b>   | <b>(0.3%)</b>  |
| <b>SI/IT revenues</b>                    | <b>22,617</b>  | <b>17,423</b>  | <b>(5,194)</b> | <b>(23.0%)</b> | <b>43,826</b>   | <b>35,204</b>   | <b>(8,622)</b> | <b>(19.7%)</b> |
| <b>Total revenues</b>                    | <b>146,890</b> | <b>142,486</b> | <b>(4,404)</b> | <b>(3.0%)</b>  | <b>292,778</b>  | <b>287,318</b>  | <b>(5,460)</b> | <b>(1.9%)</b>  |
| Direct costs                             | (64,007)       | (62,645)       | 1,362          | 2.1%           | (126,841)       | (125,128)       | 1,713          | 1.4%           |
| <b>Gross profit</b>                      | <b>82,883</b>  | <b>79,841</b>  | <b>(3,042)</b> | <b>(3.7%)</b>  | <b>165,937</b>  | <b>162,190</b>  | <b>(3,747)</b> | <b>(2.3%)</b>  |
| Indirect costs                           | (33,129)       | (30,309)       | 2,820          | 8.5%           | (75,019)        | (72,105)        | 2,914          | 3.9%           |
| <b>EBITDA</b>                            | <b>49,754</b>  | <b>49,532</b>  | <b>(222)</b>   | <b>(0.4%)</b>  | <b>90,918</b>   | <b>90,085</b>   | <b>(833)</b>   | <b>(0.9%)</b>  |
| <b>EBITDA AL</b>                         | <b>44,504</b>  | <b>43,803</b>  | <b>(701)</b>   | <b>(1.6%)</b>  | <b>79,928</b>   | <b>79,018</b>   | <b>(910)</b>   | <b>(1.1%)</b>  |
| Segment Capex excl. spectrum licences    | 21,830         | 27,352         | 5,522          | 25.3%          | 42,255          | 47,302          | 5,047          | 11.9%          |
| Segment Capex AL excl. spectrum licences | 17,441         | 23,116         | 5,675          | 32.5%          | 29,778          | 41,054          | 11,276         | 37.9%          |
| <b>Spectrum licenses</b>                 | <b>0</b>       | <b>91,582</b>  | <b>91,582</b>  | <b>n.m.</b>    | <b>0</b>        | <b>91,582</b>   | <b>91,582</b>  | <b>n.m.</b>    |

| Operational statistics – access numbers | June 30 2019 | June 30 2020 | Change (%) |
|---|--------------|--------------|------------|
| Number of SIM cards                     | 5,332,289    | 5,398,060    | 1.2%       |
| Postpaid share in total *               | 63.6%        | 64.8%        | n.a.       |
| Total fixed voice access                | 1,371,699    | 1,346,440    | (1.8%)     |
| Total retail fixed broadband customers  | 1,188,696    | 1,270,747    | 6.9%       |
| Total TV customers                      | 1,122,182    | 1,191,293    | 6.2%       |

| Operational statistics – ARPU (HUF) | Q2 2019 | Q2 2020 | Change (%) | 1-6 months 2019 | 1-6 months 2020 | Change (%) |
|-------------------------------------|---------|---------|------------|-----------------|-----------------|------------|
| Blended mobile ARPU                 | 3,546   | 3,494   | (1.5%)     | 3,496           | 3,517           | 0.6%       |
| Postpaid ARPU *                     | 5,038   | 4,900   | (2.7%)     | 5,001           | 4,935           | (1.3%)     |
| Prepaid ARPU                        | 1,125   | 984     | (12.5%)    | 1,070           | 999             | (6.6%)     |
| M2M ARPU                            | 644     | 589     | (8.5%)     | 653             | 602             | (7.8%)     |
| Blended fixed voice ARPU            | 2,217   | 2,145   | (3.2%)     | 2,235           | 2,149           | (3.8%)     |
| Blended fixed broadband ARPU        | 3,494   | 3,579   | 2.4%       | 3,489           | 3,568           | 2.3%       |
| Blended TV ARPU                     | 3,301   | 3,292   | (0.3%)     | 3,307           | 3,283           | (0.7%)     |

\*Charged due to new representation of mobile SIMs since M2M SIMs and ARPU were highlighted from Postpaid on a separate line.

**Total revenues for the MT-Hungary segment** decreased by 3.0% year-on-year to HUF 142.5 billion in Q2 2020, reflecting the unfavorable effects of the COVID-19 pandemic which were partly mitigated by continued favorable trends in the underlying telecommunication performance. Transaction volumes, and thus equipment sales, remained low at the beginning of the second quarter. However, with the gradual easing of lockdown measures, by the end of the period most usage and other customer behavior trends returned to pre-COVID trajectories.

- **Mobile revenues** increased moderately, at 1.1% year-on-year in Q2 2020 to HUF 77.3 billion. Mobile data revenue continued to grow, however growth temporarily slowed in the period reflecting the free data allowances provided to customers during lockdown in Hungary. The growth in data revenues largely offset the decline in voice revenues that resulted from a fall in roaming revenues, as well as reduced spending in both the prepaid and mid-size business segments. These declines could only be partly mitigated by higher retail and wholesale revenues, stemming from increased usage levels experienced in the months of strict social distancing measures during April and part of May, given the high ratio of customers on unlimited voice plans.

Reduced tourist activity was visible in the sharp decline of visitor revenues, while equipment sales revenues were significantly supported by higher third-party export sales year-on-year. Retail sales recorded a temporary decline.

- **Fixed line revenues** remained broadly stable year-on-year both in the second quarter and the first six months of 2020. The continued growth in fixed broadband and TV revenues was broadly offset by lower year-on-year equipment revenues, reflecting a temporary fall in customer

transaction volumes and a higher volume of discounts provided to customers in relation to online billing. Underlying positive momentum in broadband and TV customer base expansion was maintained, despite the impact of COVID-19, while an increase in customer demand for higher bandwidth broadband packages, highlighted the benefits of the fiber roll-out program.

- **SI/IT revenues** recorded a 23.0% decline year-on-year in Q2 2020 and a fall of 19.7% year-on-year in H1 2020, reflecting lower project volumes from the public segment since the outbreak of COVID-19. Following the outbreak of COVID-19, demand for our services among small- and medium-sized companies strengthened, demonstrating the importance of digital services and infrastructure, however the overall scale of this segment is not sufficient to compensate for the reduction of high volume public sector deliveries.

**Gross profit** in Q2 2020 declined 3.7% year-on-year to HUF 79.8 billion. Lower contribution from SI/IT services was coupled with the increase in telecom tax and higher other direct costs.

**EBITDA** in Q2 2020 declined moderately year-on-year, by 0.4%, to HUF 49.5 billion, as savings in indirect costs (particularly in employee expenses) partially mitigated the decline in gross profit. Simultaneously, **EBITDA AL** was 1.6% lower year-on-year in Q2 2020 at HUF 43.8 billion, reflecting an increase in IFRS 16-related depreciation and amortization charges driven by higher level of right-of-use assets compared to Q2 2019.

**Capex AL** (excluding spectrum fees and the right-of-use assets recognized in accordance with the IFRS 16) increased 32.5 % year-on-year in Q2 2020 and by 37.9% in H1 2020, due to higher spending on gigabit access driven by the rollout of the fiber network, allowing us to reach a further 135 thousand access points with the gigabit capable network during the first half of 2020.

**Outlook:** The COVID-19 pandemic impacted operations most significantly during the months of lockdown, however, clear signs of recovery were evident by the end of the second quarter as trends recovered to pre-COVID levels. Looking forward, uncertainty remains around the development of the pandemic and its potential impact on the Company's operational and financial performance in the remainder of the year. The Company will continuously monitor the potential impacts on the business.

With social distancing measures still in place globally, the importance of telecommunications services has increased further. The Company intends to continue its strong focus on its fiber development program and initiate the modernization of the mobile network. The latter will facilitate the future roll-out of 5G services, enabling further access to the world of digitalization.

## 2.2.2 North Macedonia

| HUF million                  | Q2 2019        | Q2 2020        | Change       | Change (%)    | 1-6 months 2019 | 1-6 months 2020 | Change       | Change (%)     |
|------------------------------|----------------|----------------|--------------|---------------|-----------------|-----------------|--------------|----------------|
| Voice                        | 3,882          | 3,941          | 59           | 1.5%          | 7,625           | 7,844           | 219          | 2.9%           |
| Non-voice                    | 2,359          | 2,513          | 154          | 6.5%          | 4,523           | 4,962           | 439          | 9.7%           |
| Equipment                    | 1,724          | 1,902          | 178          | 10.3%         | 3,618           | 3,957           | 339          | 9.4%           |
| Other                        | 376            | 264            | (112)        | (29.8%)       | 673             | 578             | (95)         | (14.1%)        |
| <b>Total mobile revenues</b> | <b>8,341</b>   | <b>8,620</b>   | <b>279</b>   | <b>3.3%</b>   | <b>16,439</b>   | <b>17,341</b>   | <b>902</b>   | <b>5.5%</b>    |
| Voice retail                 | 1,163          | 1,202          | 39           | 3.4%          | 2,315           | 2,385           | 70           | 3.0%           |
| Broadband - retail           | 1,372          | 1,490          | 118          | 8.6%          | 2,704           | 2,947           | 243          | 9.0%           |
| TV                           | 1,113          | 1,289          | 176          | 15.8%         | 2,175           | 2,523           | 348          | 16.0%          |
| Equipment                    | 61             | 68             | 7            | 11.5%         | 136             | 146             | 10           | 7.4%           |
| Other                        | 1,246          | 1,329          | 83           | 6.7%          | 2,452           | 2,632           | 180          | 7.3%           |
| <b>Fixed line revenues</b>   | <b>4,955</b>   | <b>5,378</b>   | <b>423</b>   | <b>8.5%</b>   | <b>9,782</b>    | <b>10,633</b>   | <b>851</b>   | <b>8.7%</b>    |
| <b>SI/IT revenues</b>        | <b>612</b>     | <b>707</b>     | <b>95</b>    | <b>15.5%</b>  | <b>794</b>      | <b>1,281</b>    | <b>487</b>   | <b>61.3%</b>   |
| <b>Total revenues</b>        | <b>13,908</b>  | <b>14,705</b>  | <b>797</b>   | <b>5.7%</b>   | <b>27,015</b>   | <b>29,255</b>   | <b>2,240</b> | <b>8.3%</b>    |
| <b>Direct costs</b>          | <b>(4,153)</b> | <b>(4,452)</b> | <b>(299)</b> | <b>(7.2%)</b> | <b>(8,138)</b>  | <b>(9,104)</b>  | <b>(966)</b> | <b>(11.9%)</b> |
| <b>Gross profit</b>          | <b>9,755</b>   | <b>10,253</b>  | <b>498</b>   | <b>5.1%</b>   | <b>18,877</b>   | <b>20,151</b>   | <b>1,274</b> | <b>6.7%</b>    |
| <b>Indirect costs</b>        | <b>(3,491)</b> | <b>(3,658)</b> | <b>(167)</b> | <b>(4.8%)</b> | <b>(7,043)</b>  | <b>(7,702)</b>  | <b>(659)</b> | <b>(9.4%)</b>  |
| <b>EBITDA</b>                | <b>6,264</b>   | <b>6,595</b>   | <b>331</b>   | <b>5.3%</b>   | <b>11,834</b>   | <b>12,449</b>   | <b>615</b>   | <b>5.2%</b>    |
| <b>EBITDA AL</b>             | <b>6,066</b>   | <b>6,384</b>   | <b>318</b>   | <b>5.2%</b>   | <b>11,432</b>   | <b>12,028</b>   | <b>596</b>   | <b>5.2%</b>    |
| <b>Segment Capex</b>         | <b>2,184</b>   | <b>4,120</b>   | <b>1,936</b> | <b>88.6%</b>  | <b>4,356</b>    | <b>7,745</b>    | <b>3,389</b> | <b>77.8%</b>   |
| <b>Segment Capex AL</b>      | <b>2,080</b>   | <b>3,990</b>   | <b>1,910</b> | <b>91.8%</b>  | <b>4,000</b>    | <b>7,479</b>    | <b>3,479</b> | <b>87.0%</b>   |

| Operational statistics – access numbers | June 30<br>2019 | June 30<br>2020 | Change<br>(%) |
|---|-----------------|-----------------|---------------|
| Number of mobile SIMs                   | 1,198,053       | 1,158,806       | (3.3%)        |
| Postpaid share in total *               | 40.8%           | 43.3%           | n.a.          |
| Total fixed voice access                | 211,552         | 216,023         | 2.1%          |
| Total fixed retail broadband access     | 180,352         | 191,061         | 5.9%          |
| Total TV customers                      | 131,876         | 138,034         | 4.7%          |

\*Changed due to new representation of mobile SIMs since M2M SIMs and ARPU were highlighted from Postpaid on a separate line.

**Total revenues in North Macedonia** increased by 5.7% year-on-year to HUF 14.7 billion in Q2 2020. Positive foreign exchange impact - stemming from the strengthening of the denar compared to the forint - fully offset the moderate revenue decline in local currency terms resulting from the COVID-19 pandemic. In the first half of 2020, total revenues amounted to HUF 29.3 billion, representing an 8.3% improvement year-on-year, reflecting a significant increase in SI/IT revenues coupled with the favorable impact of foreign exchange movements.

- **Mobile revenue** recorded an improvement of 3.3% year-on-year in Q2 2020 in forint terms. Revenues generated by the postpaid customer base improved further due to higher customer numbers coupled with broadly stable spending levels. Meanwhile, the prepaid segment recorded some year-on-year declines as a result of a fall in usage levels and tourist activity, both a direct consequence of the COVID-19 pandemic.
- **Fixed line revenues** increased 8.5% year-on-year in Q2 2020, driven by higher TV and retail broadband revenues resulting from customer base expansion. However, data limit extensions and additional TV channels provided free of charge – both offered to help alleviate the difficulties posed by the COVID-related lockdown - resulted in a slowing of revenue growth.
- **SI/IT revenues** grew by 15.5% year-on-year in Q2 2020, thanks to the continued increase in demand for customized solutions projects.

**Gross profit** increased by 5.1% year-on-year in Q2 2020, reflecting higher revenues coupled with some increases in direct costs, especially in relation to higher SI/IT service volumes and increased voice traffic.

**EBITDA** in Q2 2020 rose 5.3% year-on-year to HUF 6.6 billion, with **EBITDA AL** up 5.2% year-on-year to HUF 6.4 billion.

**Capex AL** (excluding right-of-use assets recognized in accordance with the IFRS 16) increased by HUF 1.9 billion year-on-year, to HUF 4.0 billion, in Q2 2020 and by HUF 3.5 billion in H1 2020 to HUF 7.5 billion, driven by increased capitalization of content fees.

**Outlook:** The COVID-19 pandemic has negatively impacted the financial performance of our North Macedonian subsidiary, especially during the months of lockdown. While signs of recovery were observed in June 2020, the infection rate has recently increased, creating further uncertainty. Management continues to closely monitor the situation and will implement mitigating measures, as necessary, to both support its stakeholders and safeguard financial results.

### 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, 2019, 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, 2019 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary.

The statutory accounts for December 31, 2019 were audited and the audit report was unqualified. It was approved by the Board of Directors on April 24, 2020 based on the authorization set out in Section 9 (2) of Government Decree no. 102/2020. (IV. 10.), instead of the Annual General Meeting originally convened for April 8, 2020 but not held due to the situation caused by the coronavirus pandemic (COVID-19).

In the first few months of 2020, coronavirus spread globally, and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event for 2019. The precise annual impact of the current situation remains uncertain however, management of the Group is closely monitoring the impact of the pandemic on operations and will provide further updates to stakeholders as the situation evolves. Furthermore, the Group’s management is in close communication with local state institutions and remains compliant with official guidelines.

Magyar Telekom responded to the COVID-19 situation swiftly. The Company continues to meet the increased demand for connectivity through its network and has not identified any events which could jeopardize the going concern of its operation, furthermore based on the management’s assessment of future cashflows no underperformance is expected to year-end figures and in the long term. However, to assess the potential impacts of COVID-19 on our financials, during the preparation of the Q2 2020 interim financial information the management decided to update its goodwill impairment test taking into account the latest book values, EUR/HUF exchange rate, and weighted average cost of capital and as a result of that, no impairment needed to be recognized in Q2 2020. Management continuously monitors the solvency of customers and, as a result of such assessment, a higher bad debt expense was recognized in Q1 2020 due to COVID-19 which was not material. However – based on experiences of last three months and expectations – the management concluded that there was no need to recognize further allowance for bad debts in Q2 2020. (See the detailed COVID-19 effect on the analyses of group and segment results.)

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, 2019 with the following exception.

#### Initial application of standards, interpretations and amendments in the reporting period

| Pronouncement  | Title                                  | To be applied by Magyar Telekom from | Changes  | Expected impact on the presentation of Magyar Telekom’s results of operations and financial position |
|--|--|--------------------------------------|--|--|
| Amendments to References to the Conceptual Framework | References to the Conceptual Framework | Jan. 1, 2020                         | Updating of the cross references to the revised conceptual framework in the corresponding standards and interpretations.                 | No material impact.  |
| Amendments to IAS 1 and IAS 8                        | Definition of Material                 | Jan. 1, 2020                         | Clarification of the definition of the concept of materiality.   | No material impact.  |
| Amendments to IFRS 9, IAS 39, and IFRS 7             | Interest Rate Benchmark Reform         | Jan. 1, 2020                         | Practical expedients for hedge accounting requirements that are mandatory for all hedges affected by the interest rate benchmark reform. | No material impact.  |
| Amendments to IFRS 3                                 | Business Combinations                  | Jan. 1, 2020                         | Changes in the definition of a business to clarify whether a business or a group of assets was being acquired.                           | No material impact is expected. Further information is below.  |

IASB issued amendments to the definition of a business in IFRS 3 Business Combinations with the effective date as of January 1, 2020. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any



missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

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

| Consolidated Statements of Profit or loss and other comprehensive income<br>(HUF million, except per share amounts) | Q2 2019<br>(unaudited) | Q2 2020<br>(unaudited) | Change         | Change<br>(%)  |
|---|------------------------|------------------------|----------------|----------------|
| <b>Revenues</b>   |                        |                        |                |                |
| Voice retail  | 32,503                 | 30,764                 | (1,739)        | (5.4%)         |
| Voice wholesale   | 2,589                  | 3,015                  | 426            | 16.5%          |
| Data  | 22,742                 | 24,221                 | 1,479          | 6.5%           |
| SMS   | 5,001                  | 4,988                  | (13)           | (0.3%)         |
| Equipment   | 18,910                 | 20,706                 | 1,796          | 9.5%           |
| Other mobile revenues   | 3,114                  | 2,261                  | (853)          | (27.4%)        |
| <b>Mobile revenues</b>  | <b>84,859</b>          | <b>85,955</b>          | <b>1,096</b>   | <b>1.3%</b>    |
| Voice retail  | 10,318                 | 9,918                  | (400)          | (3.9%)         |
| Broadband retail  | 13,769                 | 15,125                 | 1,356          | 9.8%           |
| TV  | 12,156                 | 12,997                 | 841            | 6.9%           |
| Equipment   | 4,910                  | 4,336                  | (574)          | (11.7%)        |
| Data retail   | 2,168                  | 2,197                  | 29             | 1.3%           |
| Wholesale (voice, broadband, data)  | 4,841                  | 4,878                  | 37             | 0.8%           |
| Other fixed line revenues   | 4,504                  | 3,651                  | (853)          | (18.9%)        |
| <b>Fixed line revenues</b>  | <b>52,666</b>          | <b>53,102</b>          | <b>436</b>     | <b>0.8%</b>    |
| System Integration/Information Technology revenues  | 23,229                 | 18,130                 | (5,099)        | (22.0%)        |
| <b>Total revenues</b>   | <b>160,754</b>         | <b>157,187</b>         | <b>(3,567)</b> | <b>(2.2%)</b>  |
| <b>Direct costs</b>   |                        |                        |                |                |
| Interconnect costs  | (5,262)                | (5,395)                | (133)          | (2.5%)         |
| SI/IT service related costs   | (17,276)               | (12,774)               | 4,502          | 26.1%          |
| Bad debt expense  | (2,462)                | (2,142)                | 320            | 13.0%          |
| Telecom tax   | (6,369)                | (6,801)                | (432)          | (6.8%)         |
| Other direct costs  | (36,751)               | (39,940)               | (3,189)        | (8.7%)         |
| <b>Direct costs</b>   | <b>(68,120)</b>        | <b>(67,052)</b>        | <b>1,068</b>   | <b>1.6%</b>    |
| <b>Gross profit</b>   | <b>92,634</b>          | <b>90,135</b>          | <b>(2,499)</b> | <b>(2.7%)</b>  |
| Employee related expenses   | (19,787)               | (17,925)               | 1,862          | 9.4%           |
| Utility tax   | 0                      | 3                      | 3              | n.a.           |
| Other operating expenses  | (17,648)               | (16,849)               | 799            | 4.5%           |
| Other operating income  | 1,732                  | 763                    | (969)          | (55.9%)        |
| <b>EBITDA</b>   | <b>56,931</b>          | <b>56,127</b>          | <b>(804)</b>   | <b>(1.4%)</b>  |
| Depreciation and amortization   | (32,157)               | (35,342)               | (3,185)        | (9.9%)         |
| <b>Operating profit</b>   | <b>24,774</b>          | <b>20,785</b>          | <b>(3,989)</b> | <b>(16.1%)</b> |
| Net financial result  | (6,531)                | (5,446)                | 1,085          | 16.6%          |
| Share of associates' and joint ventures' results  | 115                    | 0                      | (115)          | (100.0%)       |
| <b>Profit before income tax</b>   | <b>18,358</b>          | <b>15,339</b>          | <b>(3,019)</b> | <b>(16.4%)</b> |
| Income tax  | (3,857)                | (3,858)                | (1)            | (0.0%)         |
| <b>Profit for the period</b>  | <b>14,501</b>          | <b>11,481</b>          | <b>(3,020)</b> | <b>(20.8%)</b> |
| Change in exchange differences on translating foreign operations  | 641                    | (755)                  | (1,396)        | n.m.           |
| Revaluation of FVOCI financial assets   | (31)                   | (18)                   | 13             | 41.9%          |
| <b>Other comprehensive income for the period</b>  | <b>610</b>             | <b>(773)</b>           | <b>(1,383)</b> | <b>n.m.</b>    |
| <b>Total comprehensive income for the period</b>  | <b>15,111</b>          | <b>10,708</b>          | <b>(4,403)</b> | <b>(29.1%)</b> |
| <b>Profit attributable to:</b>  |                        |                        |                |                |
| Owners of the parent  | 13,389                 | 10,543                 | (2,846)        | (21.3%)        |
| Non-controlling interests   | 1,112                  | 938                    | (174)          | (15.6%)        |
|   | <b>14,501</b>          | <b>11,481</b>          | <b>(3,020)</b> | <b>(20.8%)</b> |
| <b>Total comprehensive income attributable to:</b>  |                        |                        |                |                |
| Owners of the parent  | 13,783                 | 10,116                 | (3,667)        | (26.6%)        |
| Non-controlling interests   | 1,328                  | 592                    | (736)          | (55.4%)        |
|   | <b>15,111</b>          | <b>10,708</b>          | <b>(4,403)</b> | <b>(29.1%)</b> |
| <b>Basic earnings per share (HUF)</b>   | <b>12.95</b>           | <b>10.20</b>           | <b>(2.75)</b>  | <b>(21.2%)</b> |



**3.3. Interim Consolidated Statements of Profit or loss and other comprehensive income – first half year-to-date comparison**
**MAGYAR TELEKOM**

| Consolidated Statements of Profit or loss and other comprehensive income<br>(HUF million, except per share amounts) | 1-6 months 2019<br>(unaudited) | 1-6 months 2020<br>(unaudited) | Change         | Change<br>(%)  |
|---|--------------------------------|--------------------------------|----------------|----------------|
| <b>Revenues</b>   |                                |                                |                |                |
| Voice retail  | 64,676                         | 61,775                         | (2,901)        | (4.5%)         |
| Voice wholesale   | 4,973                          | 5,813                          | 840            | 16.9%          |
| Data  | 44,157                         | 48,663                         | 4,506          | 10.2%          |
| SMS   | 9,815                          | 10,122                         | 307            | 3.1%           |
| Equipment   | 40,282                         | 42,741                         | 2,459          | 6.1%           |
| Other mobile revenues   | 5,833                          | 4,988                          | (845)          | (14.5%)        |
| <b>Mobile revenues</b>  | <b>169,736</b>                 | <b>174,102</b>                 | <b>4,366</b>   | <b>2.6%</b>    |
| Voice retail  | 20,819                         | 19,894                         | (925)          | (4.4%)         |
| Broadband retail  | 27,216                         | 29,833                         | 2,617          | 9.6%           |
| TV  | 24,122                         | 25,709                         | 1,587          | 6.6%           |
| Equipment   | 10,628                         | 9,314                          | (1,314)        | (12.4%)        |
| Data retail   | 4,437                          | 4,326                          | (111)          | (2.5%)         |
| Wholesale (voice, broadband, data)  | 9,463                          | 9,593                          | 130            | 1.4%           |
| Other fixed line revenues   | 8,662                          | 7,264                          | (1,398)        | (16.1%)        |
| <b>Fixed line revenues</b>  | <b>105,347</b>                 | <b>105,933</b>                 | <b>586</b>     | <b>0.6%</b>    |
| System Integration/Information Technology revenues  | 44,620                         | 36,485                         | (8,135)        | (18.2%)        |
| <b>Total revenues</b>   | <b>319,703</b>                 | <b>316,520</b>                 | <b>(3,183)</b> | <b>(1.0%)</b>  |
| <b>Direct costs</b>   |                                |                                |                |                |
| Interconnect costs  | (10,096)                       | (10,729)                       | (633)          | (6.3%)         |
| SI/IT service related costs   | (32,318)                       | (25,620)                       | 6,698          | 20.7%          |
| Bad debt expense  | (4,548)                        | (4,813)                        | (265)          | (5.8%)         |
| Telecom tax   | (12,594)                       | (13,269)                       | (675)          | (5.4%)         |
| Other direct costs  | (75,342)                       | (79,713)                       | (4,371)        | (5.8%)         |
| <b>Direct costs</b>   | <b>(134,898)</b>               | <b>(134,144)</b>               | <b>754</b>     | <b>0.6%</b>    |
| <b>Gross profit</b>   | <b>184,805</b>                 | <b>182,376</b>                 | <b>(2,429)</b> | <b>(1.3%)</b>  |
| Employee related expenses   | (42,355)                       | (40,094)                       | 2,261          | 5.3%           |
| Utility tax   | (7,218)                        | (7,215)                        | 3              | 0.0%           |
| Other operating expenses  | (34,552)                       | (33,635)                       | 917            | 2.7%           |
| Other operating income  | 2,623                          | 1,096                          | (1,527)        | (58.2%)        |
| <b>EBITDA</b>   | <b>103,303</b>                 | <b>102,528</b>                 | <b>(775)</b>   | <b>(0.8%)</b>  |
| Depreciation and amortization   | (65,943)                       | (69,020)                       | (3,077)        | (4.7%)         |
| <b>Operating profit</b>   | <b>37,360</b>                  | <b>33,508</b>                  | <b>(3,852)</b> | <b>(10.3%)</b> |
| Net financial result  | (12,156)                       | (16,415)                       | (4,259)        | (35.0%)        |
| Share of associates' and joint ventures' results  | 215                            | (66)                           | (281)          | n.m.           |
| <b>Profit before income tax</b>   | <b>25,419</b>                  | <b>17,027</b>                  | <b>(8,392)</b> | <b>(33.0%)</b> |
| Income tax  | (6,936)                        | (6,358)                        | 578            | 8.3%           |
| <b>Profit for the period</b>  | <b>18,483</b>                  | <b>10,669</b>                  | <b>(7,814)</b> | <b>(42.3%)</b> |
| Change in exchange differences on translating foreign operations  | 260                            | 6,619                          | 6,359          | n.m.           |
| Revaluation of FVOCI financial assets   | 28                             | (89)                           | (117)          | n.m.           |
| <b>Other comprehensive income for the period</b>  | <b>288</b>                     | <b>6,530</b>                   | <b>6,242</b>   | <b>n.m.</b>    |
| <b>Total comprehensive income for the period</b>  | <b>18,771</b>                  | <b>17,199</b>                  | <b>(1,572)</b> | <b>(8.4%)</b>  |
| <b>Profit attributable to:</b>  |                                |                                |                |                |
| Owners of the parent  | 16,490                         | 8,950                          | (7,540)        | (45.7%)        |
| Non-controlling interests   | 1,993                          | 1,719                          | (274)          | (13.7%)        |
|   | <b>18,483</b>                  | <b>10,669</b>                  | <b>(7,814)</b> | <b>(42.3%)</b> |
| <b>Total comprehensive income attributable to:</b>  |                                |                                |                |                |
| Owners of the parent  | 16,672                         | 12,884                         | (3,788)        | (22.7%)        |
| Non-controlling interests   | 2,099                          | 4,315                          | 2,216          | 105.6%         |
|   | <b>18,771</b>                  | <b>17,199</b>                  | <b>(1,572)</b> | <b>(8.4%)</b>  |
| <b>Basic earnings per share (HUF)</b>   | <b>15.95</b>                   | <b>8.66</b>                    | <b>(7.29)</b>  | <b>(45.7%)</b> |

**3.4. Interim Consolidated Statements of Financial Position**
**MAGYAR TELEKOM**

| Consolidated Statements of Financial Position<br>(HUF million) | Dec 31, 2019<br>(audited) | Jun 30, 2020<br>(unaudited) | Change          | Change<br>(%) |
|--|---------------------------|-----------------------------|-----------------|---------------|
| <b>ASSETS</b>  |                           |                             |                 |               |
| <b>Current assets</b>  |                           |                             |                 |               |
| Cash and cash equivalents                                      | 13,398                    | 14,976                      | 1,578           | 11.8%         |
| Trade receivables  | 170,503                   | 146,065                     | (24,438)        | (14.3%)       |
| Other assets   | 6,437                     | 8,364                       | 1,927           | 29.9%         |
| Other current financial assets                                 | 8,996                     | 13,581                      | 4,585           | 51.0%         |
| Contract assets  | 16,306                    | 16,119                      | (187)           | (1.1%)        |
| Current income tax receivable                                  | 434                       | 1,014                       | 580             | 133.6%        |
| Inventories  | 19,833                    | 16,874                      | (2,959)         | (14.9%)       |
|  | 235,907                   | 216,993                     | (18,914)        | (8.0%)        |
| Assets held for sale   | 659                       | 3,271                       | 2,612           | 396.4%        |
| <b>Total current assets</b>                                    | <b>236,566</b>            | <b>220,264</b>              | <b>(16,302)</b> | <b>(6.9%)</b> |
| <b>Non-current assets</b>                                      |                           |                             |                 |               |
| Property, plant and equipment                                  | 426,826                   | 426,962                     | 136             | 0.0%          |
| Right-of-use assets  | 106,682                   | 103,411                     | (3,271)         | (3.1%)        |
| Intangible assets  | 212,714                   | 295,621                     | 82,907          | 39.0%         |
| Goodwill   | 213,107                   | 213,126                     | 19              | 0.0%          |
| Investments in associates and joint ventures                   | 1,078                     | 0                           | (1,078)         | (100.0%)      |
| Deferred tax assets  | 103                       | 112                         | 9               | 8.7%          |
| Trade receivables over one year                                | 17,448                    | 15,484                      | (1,964)         | (11.3%)       |
| Other non-current financial assets                             | 5,593                     | 13,516                      | 7,923           | 141.7%        |
| Contract assets  | 3,800                     | 3,099                       | (701)           | (18.4%)       |
| Other non-current assets                                       | 4,953                     | 4,286                       | (667)           | (13.5%)       |
| <b>Total non-current assets</b>                                | <b>992,304</b>            | <b>1,075,617</b>            | <b>83,313</b>   | <b>8.4%</b>   |
| <b>Total assets</b>  | <b>1,228,870</b>          | <b>1,295,881</b>            | <b>67,011</b>   | <b>5.5%</b>   |
| <b>LIABILITIES</b>   |                           |                             |                 |               |
| <b>Current liabilities</b>                                     |                           |                             |                 |               |
| Financial liabilities to related parties                       | 80,493                    | 162,755                     | 82,262          | 102.2%        |
| Lease liabilities  | 17,355                    | 18,284                      | 929             | 5.4%          |
| Trade payables   | 155,048                   | 102,435                     | (52,613)        | (33.9%)       |
| Other financial liabilities                                    | 8,633                     | 10,893                      | 2,260           | 26.2%         |
| Current income tax payable                                     | 844                       | 817                         | (27)            | (3.2%)        |
| Provisions   | 4,755                     | 3,174                       | (1,581)         | (33.2%)       |
| Contract liabilities   | 11,167                    | 9,792                       | (1,375)         | (12.3%)       |
| Other current liabilities                                      | 23,283                    | 28,944                      | 5,661           | 24.3%         |
| <b>Total current liabilities</b>                               | <b>301,578</b>            | <b>337,094</b>              | <b>35,516</b>   | <b>11.8%</b>  |
| <b>Non-current liabilities</b>                                 |                           |                             |                 |               |
| Financial liabilities to related parties                       | 129,823                   | 135,598                     | 5,775           | 4.4%          |
| Lease liabilities  | 94,642                    | 94,829                      | 187             | 0.2%          |
| Other financial liabilities                                    | 40,805                    | 77,774                      | 36,969          | 90.6%         |
| Deferred tax liabilities                                       | 19,030                    | 19,577                      | 547             | 2.9%          |
| Provisions   | 10,446                    | 10,957                      | 511             | 4.9%          |
| Contract liabilities   | 383                       | 434                         | 51              | 13.3%         |
| Other non-current liabilities                                  | 9                         | 6                           | (3)             | (33.3%)       |
| <b>Total non-current liabilities</b>                           | <b>295,138</b>            | <b>339,175</b>              | <b>44,037</b>   | <b>14.9%</b>  |
| <b>Total liabilities</b>                                       | <b>596,716</b>            | <b>676,269</b>              | <b>79,553</b>   | <b>13.3%</b>  |
| <b>EQUITY</b>  |                           |                             |                 |               |
| <b>Equity of the owners of the parent</b>                      |                           |                             |                 |               |
| Common stock   | 104,275                   | 104,275                     | 0               | 0.0%          |
| Capital reserves   | 27,379                    | 27,379                      | 0               | 0.0%          |
| Treasury stock   | (3,991)                   | (9,209)                     | (5,218)         | (130.7%)      |
| Retained earnings  | 444,278                   | 432,373                     | (11,905)        | (2.7%)        |
| Accumulated other comprehensive income                         | 25,047                    | 28,981                      | 3,934           | 15.7%         |
| <b>Total equity of the owners of the parent</b>                | <b>596,988</b>            | <b>583,799</b>              | <b>(13,189)</b> | <b>(2.2%)</b> |
| Non-controlling interests                                      | 35,166                    | 35,813                      | 647             | 1.8%          |
| <b>Total equity</b>  | <b>632,154</b>            | <b>619,612</b>              | <b>(12,542)</b> | <b>(2.0%)</b> |
| <b>Total liabilities and equity</b>                            | <b>1,228,870</b>          | <b>1,295,881</b>            | <b>67,011</b>   | <b>5.5%</b>   |

**3.5. Interim Consolidated Statements of Cash Flows**
**MAGYAR TELEKOM**

| Consolidated Statements of Cash Flows<br>(HUF million)                              | 1-6 months 2019<br>(unaudited) | 1-6 months 2020<br>(unaudited) | Change          | Change<br>(%)   |
|---|--------------------------------|--------------------------------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>   |                                |                                |                 |                 |
| Profit for the period   | 18,483                         | 10,669                         | (7,814)         | (42.3%)         |
| Depreciation and amortization   | 65,943                         | 69,020                         | 3,077           | 4.7%            |
| Income tax expense  | 6,936                          | 6,358                          | (578)           | (8.3%)          |
| Net financial result  | 12,156                         | 16,415                         | 4,259           | 35.0%           |
| Share of associates' and joint ventures' result                                     | (215)                          | 66                             | 281             | n.m.            |
| Change in assets carried as working capital   | 8,552                          | 28,452                         | 19,900          | 232.7%          |
| Change in provisions  | (1,425)                        | (1,290)                        | 135             | 9.5%            |
| Change in liabilities carried as working capital                                    | (50,810)                       | (43,778)                       | 7,032           | 13.8%           |
| Income taxes paid   | (5,317)                        | (6,451)                        | (1,134)         | (21.3%)         |
| Dividends received  | 442                            | 51                             | (391)           | (88.5%)         |
| Interest and other financial charges paid   | (11,568)                       | (9,888)                        | 1,680           | 14.5%           |
| Interest received   | 187                            | 134                            | (53)            | (28.3%)         |
| Other non-cash items  | (514)                          | (2,054)                        | (1,540)         | (299.6%)        |
| <b>Net cash generated from operating activities</b>                                 | <b>42,850</b>                  | <b>67,704</b>                  | <b>24,854</b>   | <b>58.0%</b>    |
| <b>Cash flows from investing activities</b>   |                                |                                |                 |                 |
| Purchase of property plant and equipment (PPE) and intangible assets                | (46,613)                       | (146,640)                      | (100,027)       | (214.6%)        |
| Adjustments to cash purchases   | 1,574                          | 39,418                         | 37,844          | n.m.            |
| Purchase of subsidiaries and business units   | (972)                          | (323)                          | 649             | 66.8%           |
| Cash acquired through business combinations   | 0                              | 0                              | 0               | n.a.            |
| Payments for / Proceeds from other financial assets - net                           | (1,701)                        | (2,075)                        | (374)           | (22.0%)         |
| 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 | 4,038                          | 594                            | (3,444)         | (85.3%)         |
| <b>Net cash used in investing activities</b>  | <b>(43,674)</b>                | <b>(109,026)</b>               | <b>(65,352)</b> | <b>(149.6%)</b> |
| <b>Cash flows from financing activities</b>   |                                |                                |                 |                 |
| Dividends paid to Owners of the parent and Non-controlling interests                | (26,083)                       | (21,048)                       | 5,035           | 19.3%           |
| Proceeds from / Repayment of loans and other borrowings - net                       | 35,053                         | 79,937                         | 44,884          | 128.0%          |
| Payments for lease and other financial liabilities                                  | (8,014)                        | (11,575)                       | (3,561)         | (44.4%)         |
| Repurchase of treasury shares   | 0                              | (5,218)                        | (5,218)         | n.a.            |
| <b>Net cash used in financing activities</b>  | <b>956</b>                     | <b>42,096</b>                  | <b>41,140</b>   | <b>n.m.</b>     |
| Exchange differences on cash and cash equivalents                                   | 11                             | 804                            | 793             | n.m.            |
| <b>Change in cash and cash equivalents</b>  | <b>143</b>                     | <b>1,578</b>                   | <b>1,435</b>    | <b>n.m.</b>     |
| Cash and cash equivalents, beginning of period                                      | 7,204                          | 13,398                         | 6,194           | 86.0%           |
| Cash and cash equivalents, end of period  | 7,347                          | 14,976                         | 7,629           | 103.8%          |
| <b>Change in cash and cash equivalents</b>  | <b>143</b>                     | <b>1,578</b>                   | <b>1,435</b>    | <b>n.m.</b>     |

**3.6. Net debt reconciliation to changes in Statements of Cash Flows**

| In HUF millions   | Opening<br>Balance at<br>Jan 1, 2020 | Changes in<br>cash and<br>cash<br>equivalents | Changes<br>affecting<br>cash flows<br>from<br>operating<br>activities | Changes in<br>financial<br>liabilities<br>without cash<br>movement | Changes<br>affecting<br>cash flows<br>from<br>investing<br>activities | Changes affecting cash flows from financing activities |   |  | Closing<br>Balance at<br>June 30,<br>2020 |
|---|--------------------------------------|---|---|--|---|--|---|--|---|
|   |                                      |   |   |  |   | Proceeds from<br>loans and<br>borrowings               | Repayment of<br>loans and other<br>borrowings | Repayment of<br>other financial<br>liability |   |
| Related party loans   | 208,426                              |   | (4,353)   | 17,893   |   | 159,409  | (83,035)                                      |  | 298,340                                   |
| Derivatives from related parties                                    | 1,890                                |   |   | 799  | (2,676)   |  |   |  | 13  |
| Spectrum fee payable  | 42,744                               |   | (1,444)   | 38,843   |   |  |   | (1,903)                                      | 78,240                                    |
| Finance lease liabilities   | 111,997                              |   | (2,662)   | 12,020   |   |  |   | (8,242)                                      | 113,113                                   |
| Debtors overpayment   | 1,324                                |   | 112   |  |   |  |   |  | 1,436                                     |
| Contingent consideration  | 539                                  |   |   |  | (120)   |  |   |  | 419                                       |
| Other financial liabilities   | 4,831                                |   | 126   | 5,045  |   |  |   | (1,430)                                      | 8,572                                     |
| -Less cash and cash equivalent                                      | (13,398)                             | (1,578)                                       |   |  |   |  |   |  | (14,976)                                  |
| -Less other current financial assets                                | (8,996)                              |   | 484   | (9,548)  | 916   | 3,563  |   |  | (13,581)                                  |
| <b>Net debt</b>   | <b>349,357</b>                       | <b>(1,578)</b>                                | <b>(7,737)</b>  | <b>65,052</b>  | <b>(1,880)</b>  | <b>162,972</b>   | <b>(83,035)</b>                               | <b>(11,575)</b>                              | <b>471,576</b>                            |
| Treasury share purchase   |                                      |   |   |  |   |  |   |  | (5,218)                                   |
| Dividends paid to Owners of the parent and Non-controlling interest |                                      |   |   |  |   |  |   |  | (21,048)                                  |
| <b>Net Cash used in financing activities</b>                        |                                      |   |   |  |   |  |   |  | <b>42,096</b>                             |

**3.7. Interim Consolidated Statements of Changes in Equity**
**MAGYAR TELEKOM - Consolidated Statements of Changes in Equity (unaudited)**

|  | in HUF millions        |                |                            |   |                |  |                                   |   |                      |                           |                |
|--|------------------------|----------------|----------------------------|---|----------------|--|-----------------------------------|---|----------------------|---------------------------|----------------|
|  | Shares of common stock |                | Capital reserves           |   |                | Accumulated Other Comprehensive Income |                                   | Equity of the parent  |                      | Non-controlling interests | Total Equity   |
|  | pieces                 |                | Additional paid in capital | Reserve for equity settled share-based transactions | Treasury stock | Retained earnings                      | Cumulative translation adjustment | Revaluation reserve for FVOCI financial assets - net of tax | Equity of the parent | Non-controlling interests | Total Equity   |
| <b>Balance at December 31, 2018</b>                          | <b>1,042,742,543</b>   | <b>104,275</b> | <b>27,379</b>              | <b>(116)</b>  | <b>(3,991)</b> | <b>429,294</b>                         | <b>23,547</b>                     | <b>103</b>  | <b>580,491</b>       | <b>34,441</b>             | <b>614,932</b> |
| Adoption of new standards (IFRS16)                           |                        |                |                            |   |                | 12                                     |                                   |   | 12                   |                           | 12             |
| Dividend   |                        |                |                            |   |                | (26,069)                               |                                   |   | (26,069)             |                           | (26,069)       |
| Dividend declared to Non-controlling interests               |                        |                |                            |   |                |  |                                   |   |                      | (3,663)                   | (3,663)        |
| Treasury share repurchase                                    |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Transaction with owners in their capacity as owners          | 0                      | 0              | 0                          | 0   | 0              | (26,069)                               | 0                                 | 0   | (26,069)             | (3,663)                   | (29,732)       |
| Equity settled share-based transactions                      |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Total comprehensive income                                   |                        |                |                            |   |                | 16,490                                 | 164                               | 18  | 16,672               | 2,099                     | 18,771         |
| Transfers between paid-in and generated shareholders' equity |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| <b>Balance at June 30, 2019</b>                              | <b>1,042,742,543</b>   | <b>104,275</b> | <b>27,379</b>              | <b>(116)</b>  | <b>(3,991)</b> | <b>419,727</b>                         | <b>23,711</b>                     | <b>121</b>  | <b>571,106</b>       | <b>32,877</b>             | <b>603,983</b> |
| Adoption of new standards (IFRS16)                           |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Dividend   |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Dividend declared to Non-controlling interests               |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Treasury share repurchase                                    |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| Transaction with owners in their capacity as owners          | 0                      | 0              | 0                          | 0   | 0              | 0                                      | 0                                 | 0   | 0                    | 0                         | 0              |
| Equity settled share-based transactions                      |                        |                |                            |   |                | 24,667                                 | 1,152                             | 63  | 25,882               | 2,289                     | 28,171         |
| Total comprehensive income                                   |                        |                |                            |   |                | (116)                                  |                                   |   |                      |                           | 0              |
| Transfers between paid-in and generated shareholders' equity |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| <b>Balance at December 31, 2019</b>                          | <b>1,042,742,543</b>   | <b>104,275</b> | <b>27,379</b>              | <b>0</b>  | <b>(3,991)</b> | <b>444,278</b>                         | <b>24,863</b>                     | <b>184</b>  | <b>596,988</b>       | <b>35,166</b>             | <b>632,154</b> |
| Dividend   |                        |                |                            |   |                | (20,855)                               |                                   |   | (20,855)             |                           | (20,855)       |
| Dividend declared to Non-controlling interests               |                        |                |                            |   |                |  |                                   |   |                      | (3,668)                   | (3,668)        |
| Treasury share repurchase                                    |                        |                |                            |   |                | (5,218)                                |                                   |   | (5,218)              |                           | (5,218)        |
| Transaction with owners in their capacity as owners          | 0                      | 0              | 0                          | 0   | 0              | (20,855)                               | 0                                 | 0   | (26,073)             | (3,668)                   | (29,741)       |
| Total comprehensive income                                   |                        |                |                            |   |                | 8,950                                  | 3,972                             | (38)  | 12,884               | 4,315                     | 17,199         |
| Transfers between paid-in and generated shareholders' equity |                        |                |                            |   |                |  |                                   |   |                      |                           | 0              |
| <b>Balance at June 30, 2020</b>                              | <b>1,042,742,543</b>   | <b>104,275</b> | <b>27,379</b>              | <b>0</b>  | <b>(9,209)</b> | <b>432,373</b>                         | <b>28,835</b>                     | <b>146</b>  | <b>583,799</b>       | <b>35,813</b>             | <b>619,612</b> |

**3.8. Exchange rate information**

| Exchange rate                            | Q2<br>2019 | Q2<br>2020 | Change<br>(%) | 1-6 months<br>2019 | 1-6 months<br>2020 | Change<br>(%) |
|--|------------|------------|---------------|--------------------|--------------------|---------------|
| HUF/EUR beginning of period .....        | 320.79     | 359.09     | <b>11.9%</b>  | 321.51             | 330.52             | <b>2.8%</b>   |
| HUF/EUR period-end .....                 | 323.54     | 356.57     | <b>10.2%</b>  | 323.54             | 356.57             | <b>10.2%</b>  |
| HUF/EUR cumulative monthly average ..... | 323.32     | 353.06     | <b>9.2%</b>   | 320.56             | 346.75             | <b>8.2%</b>   |
| HUF/MKD beginning of period .....        | 5.21       | 5.82       | <b>11.7%</b>  | 5.23               | 5.38               | <b>2.9%</b>   |
| HUF/MKD period-end .....                 | 5.25       | 5.78       | <b>10.1%</b>  | 5.25               | 5.78               | <b>10.1%</b>  |
| HUF/MKD cumulative monthly average ..... | 5.26       | 5.72       | <b>8.7%</b>   | 5.21               | 5.62               | <b>7.9%</b>   |

**3.9. Segment information**

| HUF millions  | Q2<br>2019     | Q2<br>2020     | 1-6 months<br>2019 | 1-6 months<br>2020 |
|---|----------------|----------------|--------------------|--------------------|
| Total MT-Hungary revenues                               | 146,890        | 142,486        | 292,778            | 287,318            |
| Less: MT-Hungary revenues from other segments           | (28)           | (32)           | (59)               | (62)               |
| <b>Telekom Hungary revenues from external customers</b> | <b>146,862</b> | <b>142,454</b> | <b>292,719</b>     | <b>287,256</b>     |
| Total North Macedonia revenues                          | 13,908         | 14,705         | 27,015             | 29,255             |
| Less: North Macedonia revenues from other segments      | (16)           | (18)           | (31)               | (37)               |
| <b>North Macedonia revenues from external customers</b> | <b>13,892</b>  | <b>14,687</b>  | <b>26,984</b>      | <b>29,218</b>      |
| Total consolidated revenue of the segments              | 160,754        | 157,141        | 319,703            | 316,474            |
| Measurement/rounding differences to Group revenue       | 0              | 46             | 0                  | 46                 |
| <b>Total revenue of the Group</b>                       | <b>160,754</b> | <b>157,187</b> | <b>319,703</b>     | <b>316,520</b>     |
| Segment results (EBITDA)                                |                |                |                    |                    |
| MT-Hungary  | 49,754         | 49,532         | 90,918             | 90,085             |
| North Macedonia   | 6,264          | 6,595          | 11,834             | 12,449             |
| <b>Total EBITDA of the segments</b>                     | <b>56,018</b>  | <b>56,127</b>  | <b>102,752</b>     | <b>102,534</b>     |
| Measurement/rounding differences to Group EBITDA        | 913            | 0              | 551                | (6)                |
| <b>Total EBITDA of the Group</b>                        | <b>56,931</b>  | <b>56,127</b>  | <b>103,303</b>     | <b>102,528</b>     |

**3.10. Fair value of financial instruments**
**Financial assets - carrying amounts and FV**

| June 30, 2020<br>In HUF millions                                 | FINANCIAL ASSETS  |                   |                   |                   | Carrying<br>amount | Fair value     |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|----------------|
|  | Amortized<br>cost | FVOCI<br>(Level1) | FVTPL<br>(Level2) | FVTPL<br>(Level3) |                    |                |
| Cash and cash equivalents  | 14,976            |                   |                   |                   | 14,976             | 14,976         |
| Bank deposits with original maturities over 3 months             | 0                 |                   |                   |                   | 0                  | 0              |
| Cashpool   | 0                 |                   |                   |                   | 0                  | 0              |
| Trade receivables  | 146,065           |                   |                   |                   | 146,065            | 146,065        |
| Trade receivables over 1 year                                    | 15,484            |                   |                   |                   | 15,484             | 16,185         |
| Loans and receivables from employees                             | 915               |                   |                   |                   | 915                | 966            |
| Derivative financial instruments contracted with related parties |                   |                   | 17,403            |                   | 17,403             | 17,403         |
| Receivables from group companies                                 | 10                |                   |                   |                   | 10                 | 10             |
| Finance lease receivable   | 1,216             |                   |                   |                   | 1,216              | 1,220          |
| Equity instruments   |                   | 667               |                   | 1,183             | 1,850              | 1,850          |
| Other current  | 5,371             |                   |                   |                   | 5,371              | 5,371          |
| Other non current  | 332               |                   |                   |                   | 332                | 288            |
| <b>Total</b>   | <b>184,369</b>    | <b>667</b>        | <b>17,403</b>     | <b>1,183</b>      | <b>203,622</b>     | <b>204,334</b> |

| December 31, 2019<br>In HUF millions                             | FINANCIAL ASSETS  |                   |                   |                   | Carrying<br>amount | Fair value     |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|----------------|
|  | Amortized<br>cost | FVOCI<br>(Level1) | FVTPL<br>(Level2) | FVTPL<br>(Level3) |                    |                |
| Cash and cash equivalents  | 13,398            |                   |                   |                   | 13,398             | 13,398         |
| Bank deposits with original maturities over 3 months             | 0                 |                   |                   |                   | 0                  | 0              |
| Cashpool   | 3,563             |                   |                   |                   | 3,563              | 3,563          |
| Trade receivables  | 170,503           |                   |                   |                   | 170,503            | 170,503        |
| Trade receivables over 1 year                                    | 17,448            |                   |                   |                   | 17,448             | 18,540         |
| Loans and receivables from employees                             | 1,026             |                   |                   |                   | 1,026              | 1,109          |
| Derivative financial instruments contracted with related parties |                   |                   | 2,909             |                   | 2,909              | 2,909          |
| Finance lease receivable   | 1,346             |                   |                   |                   | 1,346              | 1,122          |
| Equity instruments   |                   | 711               |                   |                   | 711                | 711            |
| Other current  | 4,686             |                   |                   |                   | 4,686              | 4,686          |
| Other non current  | 348               |                   |                   |                   | 348                | 310            |
| <b>Total</b>   | <b>212,318</b>    | <b>711</b>        | <b>2,909</b>      | <b>0</b>          | <b>215,938</b>     | <b>216,851</b> |

**Financial liabilities - carrying amounts and FV**

| June 30, 2020<br>In HUF millions         | FINANCIAL LIABILITIES         |                 |                 | Total          | Fair value     |
|--|-------------------------------|-----------------|-----------------|----------------|----------------|
|  | Measured at<br>amortized cost | FVTPL (Level 2) | FVTPL (Level 3) |                |                |
| Financial liabilities to related parties | 298,340                       | 13              |                 | 298,353        | 303,892        |
| Trade payables                           | 102,435                       |                 |                 | 102,435        | 102,435        |
| Spectrum fee payable                     | 78,240                        |                 |                 | 78,240         | 77,138         |
| Lease liabilities                        | 113,113                       |                 |                 | 113,113        | 114,545        |
| Debtors overpayment                      | 1,436                         |                 |                 | 1,436          | 1,436          |
| Contingent consideration                 |                               |                 | 419             | 419            | 419            |
| Other current                            | 4,841                         |                 |                 | 4,841          | 4,841          |
| Other non current                        | 3,599                         |                 | 132             | 3,731          | 3,670          |
| <b>Total</b>                             | <b>602,004</b>                | <b>13</b>       | <b>551</b>      | <b>602,568</b> | <b>608,376</b> |

| December 31, 2019<br>In HUF millions     | FINANCIAL LIABILITIES         |                 |                 | Total          | Fair value     |
|--|-------------------------------|-----------------|-----------------|----------------|----------------|
|  | Measured at<br>amortized cost | FVTPL (Level 2) | FVTPL (Level 3) |                |                |
| Financial liabilities to related parties | 208,426                       | 1,890           |                 | 210,316        | 216,171        |
| Trade payables                           | 155,048                       |                 |                 | 155,048        | 155,048        |
| Spectrum fee payable                     | 42,744                        |                 |                 | 42,744         | 51,914         |
| Finance lease liabilities                | 111,997                       |                 |                 | 111,997        | 125,163        |
| Debtors overpayment                      | 1,324                         |                 |                 | 1,324          | 1,324          |
| Contingent consideration                 |                               |                 | 539             | 539            | 539            |
| Other current                            | 3,430                         |                 |                 | 3,430          | 3,430          |
| Other non current                        | 1,401                         |                 |                 | 1,401          | 1,461          |
| <b>Total</b>                             | <b>524,370</b>                | <b>1,890</b>    | <b>539</b>      | <b>526,799</b> | <b>555,050</b> |

**3.11. EBITDA reconciliation and Capex after lease**

| Description<br>(HUF million) | Q2 2019       | Q2 2019       | Q2 2019            | Q2 2020        | Q2 2020        | Q2 2020            |
|------------------------------|---------------|---------------|--------------------|----------------|----------------|--------------------|
|                              | MT Group      | MT-Hungary    | North<br>Macedonia | MT Group       | MT-Hungary     | North<br>Macedonia |
| <b>EBITDA</b>                | <b>56,931</b> | <b>49,754</b> | <b>6,264</b>       | <b>56,127</b>  | <b>49,532</b>  | <b>6,595</b>       |
| IFRS 16 related D&A          | (4,028)       | (3,857)       | (171)              | (4,612)        | (4,429)        | (183)              |
| IFRS 16 related Interest     | (1,420)       | (1,393)       | (27)               | (1,328)        | (1,300)        | (28)               |
| <b>EBITDA after lease</b>    | <b>51,483</b> | <b>44,504</b> | <b>6,066</b>       | <b>50,187</b>  | <b>43,803</b>  | <b>6,384</b>       |
| <b>Capex after lease*</b>    | <b>19,529</b> | <b>17,441</b> | <b>2,080</b>       | <b>118,688</b> | <b>114,698</b> | <b>3,990</b>       |

\* Excluding Capex of Right-of-use assets





## EGYÜTT. VELED

| Description<br>(HUF million) | 1-6 months<br>2019 | 1-6 months<br>2019 | 1-6 months<br>2019 | 1-6 months<br>2020 | 1-6 months<br>2020 | 1-6 months<br>2020 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                              | MT Group           | MT-Hungary         | North<br>Macedonia | MT Group           | MT-Hungary         | North<br>Macedonia |
| EBITDA excl. IFRS16 effect   | 93,570             | 81,573             | 11,446             | 91,983             | 79,961             | 12,028             |
| IFRS16 effect on EBITDA      | 9,733              | 9,345              | 388                | 10,545             | 10,124             | 421                |
| <b>EBITDA</b>                | <b>103,303</b>     | <b>90,918</b>      | <b>11,834</b>      | <b>102,528</b>     | <b>90,085</b>      | <b>12,449</b>      |
| IFRS 16 related D&A          | (8,558)            | (8,206)            | (352)              | (8,826)            | (8,462)            | (364)              |
| IFRS 16 related Interest     | (2,834)            | (2,784)            | (50)               | (2,662)            | (2,605)            | (57)               |
| <b>EBITDA after lease</b>    | <b>91,911</b>      | <b>79,928</b>      | <b>11,432</b>      | <b>91,040</b>      | <b>79,018</b>      | <b>12,028</b>      |
| <b>Capex after lease*</b>    | <b>33,780</b>      | <b>29,778</b>      | <b>4,000</b>       | <b>140,115</b>     | <b>132,636</b>     | <b>7,479</b>       |

\* Excluding Capex of Right-of-use assets

#### 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



Daria Dodonova  
Chief Financial Officer, member of the Board

Budapest, August 5, 2020

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, 2019, 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 AL, 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](http://www.telekom.hu/investor_relations).