



MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2016

Budapest – November 9, 2016 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the third quarter of 2016, in accordance with International Financial Reporting Standards (IFRS).

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2016 REVENUE AND EBITDA GUIDANCE INCREASED

1. HIGHLIGHTS

Financial highlights:

| MAGYAR TELEKOM Group Financial Results – IFRS (HUF million, except ratios) | Q3 2015 (Unaudited) | Q3 2016 (Unaudited) | Change (%) | 1-9 months 2015 (Unaudited) | 1-9 months 2016 (Unaudited) | Change (%) |
|---|---|---|-----------------------------|---|---|-----------------------------|
| Total revenues | 158,006 | 150,606 | (4.7%) | 473,458 | 443,823 | (6.3%) |
| Operating profit | 21,261 | 23,910 | 12.5% | 61,533 | 68,335 | 11.1% |
| Profit attributable to: | | | | | | |
| Owners of the parent | 9,336 | 12,440 | 33.2% | 24,362 | 34,525 | 41.7% |
| Non-controlling interests | 1,257 | 1,201 | (4.5%) | 3,082 | 2,177 | (29.4%) |
| | 10,593 | 13,641 | 28.8% | 27,444 | 36,702 | 33.7% |
| Gross margin | 104,245 | 103,353 | (0.9%) | 305,838 | 306,201 | 0.1% |
| EBITDA | 48,928 | 53,806 | 10.0% | 143,571 | 153,208 | 6.7% |
| EBITDA margin | 31.0% | 35.7% | n.a. | 30.3% | 34.5% | n.a. |
| Free cash flow | | | | 16,911 | 29,805 | 76.2% |
| Basic and diluted earnings per share (HUF) | 8.96 | 11.95 | 33.4% | 23.37 | 33.13 | 41.8% |
| CAPEX to Sales | | | | 12.7% | 15.3% | n.a. |
| Net debt | | | | 425,697 | 398,658 | (6.4%) |
| Net debt / total capital | | | | 43.9% | 41.6% | n.a. |
| Number of employees (closing full equivalent) | | | | 10,638 | 9,393 | (11.7%) |

Strategic highlights:

- Group revenue decline driven by exit from the residential gas business, transfer of the B2B energy business into the joint venture with MET Holding AG and lower System Integration/Information Technology (SI/IT) revenues
- Core telco revenues (excluding energy and SI/IT) up by 1.2% year-on-year in Q3 2016
- Growth in mobile revenues by 4.5% year-on-year driven by higher equipment revenues and increased mobile data, which more than offset shrinking voice retail and SMS revenues
- SI/IT revenues in Hungary declined due to lower EU fund inflows, but gross margin improved
- Reduction in employee related expenses driven by the lower amount of severance expenses and actual savings from the 2014/2015 headcount reduction program
- Q3 2016 EBITDA up by 10.0% year-on-year as lower employee related expenses and a decline in other operating expenses more than offset the somewhat lower gross profit.
- 9M 2016 EBITDA up by 6.7% year-on-year due to one-off gains of HUF 5.1 billion realized on the Infopark real estate deal and the Origo sale, coupled with savings on employee related expenses
- Free cash flow increase to HUF 29.8 billion (+76.2% compared to the first nine months in 2015) reflects higher EBITDA, lower interest payments and one-off profits despite the incremental severance payout and a higher settlement of book Capex and Capex creditor balances
- Performance in Hungary driven by increased customer base in fixed and mobile broadband, pay TV and postpaid mobile telephony
- Growing mobile revenues in Macedonia reflect the success of the 4Play Magenta 1 offer, increasing EBITDA following almost two years of decline

- Despite the continued competitive and regulatory pressures in Montenegro, the focus on cost efficiency resulted in an EBITDA decline of only 3.8% in Q3 2016
- Net debt ratio decreased to 41.6% in Q3 2016, further decline expected in Q4 2016
- 2016 full year revenue and EBITDA guidance increased

Christopher Mattheisen, CEO commented:

"I am pleased to report a 1.2% improvement in our core telco revenues during the third quarter of 2016 driven by mobile equipment and data revenue growth, as well as an increase in TV revenues. The 4.7% decline in our total revenues was primarily driven by the restructuring of our energy business and a temporary slowdown in EU fund inflows which affected SI/IT revenues. Group EBITDA for the quarter grew by 10.0% year-on-year, mainly due to a combination of underlying revenue growth, lower severance related expenses, improving SI/IT gross margin and actual savings from the headcount reduction program implemented over the past two years.

Our performance in Hungary was supported by the reversal of the EBITDA decline in Macedonia to a 1.9% gain, as the mobile market stabilized. In Montenegro, despite continued regulatory and competitive pressures, the decline in EBITDA decelerated to only 3.8% in the third quarter, largely due to our focus on cost efficiency.

The popularity of our 4Play Magenta 1 offer has helped to improve our performance in the high-end segment in both Hungary and international subsidiaries. By the end of September this year, we reached almost 100 thousand Magenta 1 subscribers in Hungary alone. As an integrated service provider, with an integrated IP network and highly valued brand, we are in a very advantageous position to maximise the telecommunication share of household wallet spend through further growth in the number of both 3Play and 4Play subscribers.

Our confidence for the full year is reflected in our decision to raise 2016 revenue and EBITDA targets to around 595 billion and around 193 billion forint, respectively. We no longer expect Digi to enter the mobile market in 2016 whilst household spending power in Hungary is on the rise. Our revenues will also continue to be supported by contribution from residential electricity services, which we do not plan to withdraw before March 2017. We reiterate our CAPEX guidance (excluding any spectrum acquisitions and annual frequency fee capitalization) for 2016 and previously stated targets for 2017."

Public guidance:

| | Actual | | Public guidance | |
|--------------------|--------------------------------|-------------------------------------|-------------------------------------|--|
| | 2015 | 2016 | 2016 | 2017 |
| Revenue | HUF 656.3 billion ¹ | around HUF 595 billion ³ | around HUF 595 billion ³ | between HUF 585-595 billion |
| EBITDA | HUF 187.3 billion | around HUF 193 billion ⁴ | around HUF 193 billion ⁴ | between HUF 189-193 billion |
| Capex ² | HUF 109.8 billion | ca. 10% y-o-y decline | ca. 10% y-o-y decline | ca. 10% y-o-y decline |
| FCF | HUF 26.7 billion | | | surpassing HUF 50 billion ⁵ |
| Dividend | HUF 15 per share | target HUF 25 per share | target HUF 25 per share | |

¹ includes HUF 49.3 billion relating to the energy business

² excluding spectrum acquisitions and annual frequency fee capitalization

³ increased from HUF 580-590 billion

⁴ increased from HUF 187-191 billion

⁵ after minority dividend payments

2. MANAGEMENT REPORT

2.1. Consolidated IFRS Group Results

2.1.1 Group Profit or Loss

MAGYAR TELEKOM

| Consolidated Statements of Comprehensive Income (HUF million) | Q3 2015 (Unaudited) | Q3 2016 (Unaudited) | Change ¹ | Change (%) | 1-9 months 2015 (Unaudited) | 1-9 months 2016 (Unaudited) | Change ¹ | Change (%) |
|---|---------------------|---------------------|---------------------|---------------|-----------------------------|-----------------------------|---------------------|---------------|
| Revenues | | | | | | | | |
| Mobile revenues | 79,105 | 82,659 | 3,554 | 4.5% | 232,916 | 237,714 | 4,798 | 2.1% |
| Fixed line revenues | 52,702 | 50,752 | (1,950) | (3.7%) | 155,996 | 155,228 | (768) | (0.5%) |
| System Integration/Information Technology revenues | 16,781 | 15,736 | (1,045) | (6.2%) | 47,896 | 45,619 | (2,277) | (4.8%) |
| Energy service revenues | 9,418 | 1,459 | (7,959) | (84.5%) | 36,650 | 5,262 | (31,388) | (85.6%) |
| Total revenues | 158,006 | 150,606 | (7,400) | (4.7%) | 473,458 | 443,823 | (29,635) | (6.3%) |
| Direct costs | (53,761) | (47,253) | 6,508 | 12.1% | (167,620) | (137,622) | 29,998 | 17.9% |
| Gross margin | 104,245 | 103,353 | (892) | (0.9%) | 305,838 | 306,201 | 363 | 0.1% |
| Employee-related expenses | (25,293) | (19,695) | 5,598 | 22.1% | (69,525) | (61,772) | 7,753 | 11.2% |
| Hungarian sector specific special taxes | (6,398) | (5,976) | 422 | 6.6% | (26,759) | (25,541) | 1,218 | 4.6% |
| Other operating expenses | (25,000) | (24,490) | 510 | 2.0% | (69,834) | (74,124) | (4,290) | (6.1%) |
| Other operating income | 1,374 | 614 | (760) | (55.3%) | 3,851 | 8,444 | 4,593 | 119.3% |
| EBITDA | 48,928 | 53,806 | 4,878 | 10.0% | 143,571 | 153,208 | 9,637 | 6.7% |
| Depreciation and amortization | (27,667) | (29,896) | (2,229) | (8.1%) | (82,038) | (84,873) | (2,835) | (3.5%) |
| Operating profit | 21,261 | 23,910 | 2,649 | 12.5% | 61,533 | 68,335 | 6,802 | 11.1% |
| Net financial result | (7,146) | (6,817) | 329 | 4.6% | (22,575) | (19,286) | 3,289 | 14.6% |
| Share of associates and joint ventures' results | 0 | (32) | (32) | n.a. | 0 | 46 | 46 | n.a. |
| Profit before income tax | 14,115 | 17,061 | 2,946 | 20.9% | 38,958 | 49,095 | 10,137 | 26.0% |
| Income tax | (3,522) | (3,420) | 102 | 2.9% | (11,514) | (12,393) | (879) | (7.6%) |
| Profit for the period | 10,593 | 13,641 | 3,048 | 28.8% | 27,444 | 36,702 | 9,258 | 33.7% |

Total revenues declined by 4.7% year-on-year to HUF 150.6 billion in Q3 2016, mostly as a result of partial exit from the energy business, lower SI/IT revenues and a decline in fixed line revenues. Excluding the contribution of SI/IT and energy businesses, core like-for-like telco revenues increased by 1.2% in Q3 2016, due to higher mobile revenues. Total revenues decreased by 6.3% to HUF 443.8 billion in the first nine months of 2016 compared to the same period of 2015, driven by the above-mentioned factors.

- **Mobile revenues in Q3 2016 increased by 4.5% year-on-year to HUF 82.7 billion** as higher mobile data and equipment revenues offset shrinking voice retail and SMS revenues. Mobile revenues in 9M 2016 increased by 2.1% year-on-year as a result of above-mentioned trends and the Mobile Termination Rate (MTR) cut in Hungary which negatively affected Q1 2016 revenues.
 - **Voice revenues** decreased by 4.3% to HUF 42.3 billion in Q3 2016, due to lower revenues in Hungary and Macedonia. The effect of the improving postpaid ratio (at 58.9% in Q3 2016 compared to 56.0% in Q3 2015) and increasing flat rate penetration was counterbalanced by the decline in the business segment, as well as lower roaming revenues in Hungary. The lower prepaid customer base and usage, as well as declining roaming revenues driven by the Balkan roaming agreement and decreasing international traffic due to the over-the-top(OTT) push, lead to lower revenues in Macedonia. Expansion of both the residential and the business postpaid customer base compensated for lower international mobile wholesale revenues, resulting in broadly stable revenues in Montenegro
 - **Data revenues** grew by 6.8% to HUF 16.7 billion due to higher mobile internet revenues in Hungary and Macedonia, where both subscriber numbers and usage increased, resulting in higher Average Revenues per User (ARPU). At the same time, mobile data revenues declined due to limited take-up of mobile broadband services and price erosion driven by competition in the Montenegrin market
 - **SMS revenues** decreased by 3.6% against Q3 2015, to HUF 4.6 billion. The increase in revenues from mass messaging in Hungary partly counterbalanced the decline in SMS revenues in Macedonia and Montenegro, driven by shrinking volume due to the OTT push
 - **Mobile equipment revenues** increased by 44.9% to HUF 14.8 billion in Q3 2016, thanks to improvement across the Group's footprint. Equipment sales grew significantly due to third party export sales in Hungary, a higher average selling price in Macedonia, and the greater number of handsets sold in Montenegro
- **Fixed line revenues decreased by 3.7% to HUF 50.8 billion in Q3 2016** as improvement in TV and other revenues was offset by the decline in voice retail, equipment, data and wholesale revenues. We witnessed a moderate decline in Hungary and a more substantial drop at both

foreign subsidiaries. 9M 2016 fixed line revenues remained roughly stable year-on-year at HUF 155.2 billion, against the decline in Q3 2016, driven by a revenue surplus from the GTS acquisition, which offset the effects of the Origo deconsolidation.

- **Voice-retail revenues** continued to decrease to HUF 13.4 billion (down by 9.2% in Q3 2016), mainly driven by the continuous decline in the customer base and usage, as well as average tariff levels in all segments
 - **Broadband retail revenues** remained unchanged at HUF 12.9 billion in Q3 2016. The effect of an enlarged customer base was partly offset by slightly lower ARPUs in Hungary and Macedonia, while in Montenegro, increasing cable based competition and regulatory pressure resulted in a 10.0% year-on-year decline. 9M 2016 broadband revenues of the Group improved by 3.0%, thanks to improved ARPUs and a larger customer base in Hungary and Macedonia, which offset the decline in Montenegro
 - **TV revenues** increased by 3.4% year-on-year to HUF 11.0 billion in Q3 2016, mainly driven by the growing IPTV subscriber base and ARPUs in Hungary. IPTV subscribers generate as much as 62% of the Group's TV revenues
 - **Fixed equipment revenues** declined further to HUF 1.2 billion in Q3 2016, mainly owing to lower sales of TV sets, tablets and laptops to retail customers in Hungary
 - **Data retail revenues** declined by 7.5% to HUF 2.6 billion in Q3 2016, due to price pressure and lower access numbers in the Hungarian enterprise segment
 - **Wholesale revenues** declined by 6.7% to HUF 5.3 billion in Q3 2016 as a result of lower fixed incoming domestic and international traffic at both foreign subsidiaries. On the other hand, 9M 2016 wholesale revenues grew by 3.2% year-on-year thanks to additional GTS revenues in the first quarter
 - **Other fixed line revenues** increased by 6.7% to HUF 4.4 billion in the third quarter, driven by higher value added services as well as more intense Video on Demand usage, which compensated for lower revenues resulting from the deconsolidation of Origo
- **SI/IT revenues declined by 6.2%** to HUF 15.7 billion due to lower revenues compared to Q3 2015 in all segments. In Hungary, the impact of fewer public projects due to lower EU fund inflows was partly mitigated by revenues generated from the financial sector, while in Macedonia and Montenegro two large projects boosted last year's revenues. 9M 2016 SI/IT revenues declined by 4.8% year-on-year to HUF 45.6 billion, primarily due to lower incoming EU funds
 - **Energy Service revenues decreased to HUF 1.5 billion** from HUF 9.4 billion in the same period of 2015, due to exit from the residential gas business as of August 1, 2015 and transfer of the B2B energy business into the joint venture (E2) with MET Holding AG as of January 1, 2016. 9M 2016 energy service revenues declined to HUF 5.3 billion from HUF 36.7 billion in the same period of 2015, driven by the above-mentioned factors. We do not expect to exit the residential electricity business before March 2017.

Direct costs decreased by 12.1% to HUF 47.3 billion, mainly due to a sharp decline in energy service related costs and lower SI/IT related costs, which compensated for the increase in other direct costs. Direct costs for 9M 2016 declined by 17.9% year-on-year to HUF 137.6 billion, as a result of the same drivers.

- **Interconnect costs** improved by 2.5% to HUF 5.8 billion in the third quarter driven by lower volume of traffic in both Macedonia and Montenegro, resulting in lower payments to domestic and international operators. Interconnect costs in the first nine months of 2016 decreased by 12.7% year-on-year to HUF 16.5 billion due to the MTR cut which affected the first quarter
- **SI/IT service related costs** declined by 13.6% in Q3 2016, in line with lower SI/IT revenues across the Magyar Telekom Group footprint. The SI/IT gross margin registered an improvement compared to both Q3 2015 and the first nine months of last year
- **Energy service related costs** declined by 85.5% against both Q3 2015 and the first nine months of 2016 (in line with exit from the residential gas business and transfer of the B2B energy business into the joint venture (E2) with MET Holding AG)
- **Bad debt expenses** improved by 4.1% year-on-year to HUF 1.9 billion in Q3 2016, as a result of favorable aging of bills in the enterprise segment, as well as the positive effect of liquidity checks and factoring in the residential mobile business in Hungary. At the same time, bad debt expenses improved in Macedonia as a result of a recently launched collection campaign, while in Montenegro, bad debt expenses increased due to lower collection efficiency. 9M 2016 bad debt expenses deteriorated by 7.5% year-on-year, owing to a significantly higher amount of impairment losses charged in all segments compared to the first nine months of 2015
- **Other direct costs** went up by HUF 3.3 billion to HUF 29.2 billion due to a higher cost of mobile equipment and accessories sales, driven by third party export transactions and launch of the new iPhone7, partly offset by savings on fixed device related costs due to lower TV, tablet and notebook sales

Gross margin slightly decreased versus Q3 2015, but remained stable versus 9M 2015 at HUF 103.4 billion and HUF 306.2 billion, respectively. Improving SI/IT margins and bad debt expenses were counterbalanced by higher other direct costs, due to increased mobile equipment sales in Hungary compared to Q3 2015. In Macedonia, gross margin slightly improved in Q3 2016 thanks to significant direct cost savings, while in Montenegro, we witnessed a 3.5% decline, mainly driven by a decline in revenues.

Indirect costs improved by 10.4% year-on-year in Q3 2016, mainly due to a decline in employee-related expenses at the MT-Hungary segment. At the same time, indirect costs for 9M 2016 declined by 5.7% year-on-year, where one-offs related to the Origo sale and the real estate transaction (Infopark) offset the increase in other operating expenses.

- **Employee-related expenses** improved by HUF 5.6 billion to HUF 19.7 billion, driven by the much lower severance expenses of HUF 0.1 billion booked in Q3 2016 (Q3 2015: HUF 4.6 billion), as well as savings resulting from the 2014/2015 headcount reduction program in Hungary. Furthermore, employee-related expenses significantly improved at both foreign subsidiaries, thanks to the outsourcing of network planning and maintenance to Ericsson
- **Hungarian sector specific taxes** decreased by 6.6% to HUF 6.0 billion in Q3 2016 due to the lower telecommunication tax expense as a result of changing customer behavior. In the first nine months of the year, telecommunication tax expenses decreased by 4.4% to HUF 18.3 billion compared to the same period last year. At the same time, Magyar Telekom recognized a utility tax expense of HUF 7.3 billion, HUF 0.4 billion lower than in the first nine months of 2015. The primary reason for this decline is the five-year utility tax credit granted to Magyar Telekom Group on 25 June 2015, related to the new network investments and upgrades aimed at providing internet access at the speed of at least 100 MB/s. Secondly, in the first quarter of 2016, there was a utility tax expense decrease due to the refinement of the taxable network records compared to the first quarter of 2015
- **Other operating expenses** improved by 2.0% to HUF 24.5 billion in Q3 2016, driven by the Hungarian segment, where lower marketing expenses and other contracted service costs compensated for higher expenses in Macedonia and Montenegro, which were mainly due to increased maintenance costs in relation to the outsourcing projects. At the same time, other operating expenses in 9M 2016 grew by HUF 4.3 billion (+6.1%), because of higher advisory fees related to the Digital Welfare Program, increased marketing expenses and sponsorship activities. Furthermore, maintenance costs connected to the parallel operation of legacy and next generation IT platforms increased, while there were rental costs related to the sale of Infopark and rental costs of some local state-of-the-art cable networks.
- **Other operating income** declined by HUF 0.8 billion due to lower income from network construction works in Hungary in Q3 2016, and a real estate sale in the same period of 2015 in Montenegro. On the other hand, other operating income in 9M 2016 grew by HUF 4.6 billion due to the HUF 5.1 billion one-off profits realized on the Infopark and the Origo sale in Q1 2016

EBITDA improved by 10.0% year-on-year to HUF 53.8 billion in Q3 2016, as lower direct costs compensated for lower revenues, leading to a broadly stable gross margin, while savings due to the headcount reduction program and outsourcing and the lower severance payment resulted in significant improvement in employee-related expenses. The increasing EBITDA in Hungary was supported by a higher EBITDA in Macedonia, while in Montenegro the decline was only 3.8% year-on-year. 9M 2016 EBITDA increased by 6.7%, driven by the same trends, and was further boosted by the one-off profits in other operating income, which compensated for higher other operating expenses.

Depreciation and amortization expenses increased by 8.1% year-on-year in Q3 2016 to HUF 29.9 billion, resulting in an increase of 3.5% to HUF 84.9 billion for 9M 2016. Software activation related to the new billing and Customer Relationship Management systems caused higher depreciation costs in 2016 in both Hungary and Montenegro.

Profit for the period improved by 28.8% to HUF 13.6 billion in Q3 2016 driven by higher EBITDA, improving net financial results and lower income tax. Profit for the period in 9M 2016 rose by 33.7% year-on-year.

- **Net financial loss narrowed** from HUF 7.1 billion in Q3 2015 to HUF 6.8 billion in Q3 2016. The result was primarily due to lower average interest rates (driven by favorable changes in the market conditions and decreasing amount of loans), as well as exchange gains on loans, accounts payable and receivables offsetting lower gains on derivatives. 9M 2016 net financial loss narrowed to HUF 19.3 billion, also supported by gains on the fair valuation of derivatives
- **Income tax** expense decreased by 2.9% against Q3 2015, as decline in energy suppliers' tax offset the effect of higher revenues compared to the same period of 2015. On the other hand, income tax expenses increased by 7.6% in the first nine months of the year, driven by the withholding tax related to the dividend declaration of Stonebridge in Q2 2016
- **Profit attributable to non-controlling interests** declined both versus Q3 2015 and 9M 2015, to HUF 1.2 billion and HUF 2.2 billion, respectively, due to lower profit for the period generated by international subsidiaries

At HUF 398.7 billion, net debt improved by 6.4% compared to the end of September 2015, and by 2.6% compared to year end 2015. Meanwhile, the **net debt ratio (net debt to total capital) improved from 42.9% at the end of December 2015, to 41.6%**, driven by a reduction in short- and long-term borrowings combined, coupled with higher equity driven by improvement in this year's profit. Magyar Telekom's dividend policy seeks to maintain its net debt ratio within the 30%-40% range. With the net debt ratio on a downward trajectory, we expect it to reach the targeted 30%-40% range in the coming years.

2.1.2 Group Cash Flows

| HUF millions | 1-9 months 2015 | 1-9 months 2016 | Change |
|--|-----------------|-----------------|-----------------|
| Operating cash flow | 106 993 | 104 473 | (2 520) |
| Investing cash flow | (62 252) | (60 828) | 1 424 |
| Less: Proceeds from other financial assets - net | (15 038) | (7 665) | 7 373 |
| Investing cash flow excluding Proceeds from other financial assets – net | (77 290) | (68 493) | 8 797 |
| Repayment of other financial liabilities | (12 792) | (6 175) | 6 617 |
| Free cash flow | 16 911 | 29 805 | 12 894 |
| Proceeds from other financial assets - net | 15 038 | 7 665 | (7 373) |
| Proceeds from/Repayment of loans and other borrowings - net | (23 012) | (23 317) | (305) |
| Dividend paid to shareholders and Non-controlling interests | (6 369) | (22 656) | (16 287) |
| Repurchase of treasury shares | 0 | (559) | (559) |
| Exchange differences on cash and cash equivalents | (80) | (86) | (6) |
| Change in cash and cash equivalents | 2 488 | (9 148) | (11 636) |

Free cash flow
Operating cash flow

Net cash generated from operating activities amounted to HUF 104.5 billion in the first nine months of 2016, compared to HUF 107.0 billion in the same period of 2015. Main reasons for the decrease of HUF 2.5 billion were the following:

- HUF 9.6 billion positive change due to the higher EBITDA in 9M 2016 than in 9M 2015
- HUF 18.2 billion positive change in active working capital due to the transfer of the energy services for business customers to E2 and due to the higher decrease in SI/IT receivables fully collected. Furthermore the changed terms of the installment receivables in 9M 2016 also contributed to this positive change through the decrease in installment receivables as the length of the installment period has been shortened
- HUF 5.7 billion positive change in active working capital due to MTR vendor overpayments in 9M 2015 (paid using old rate, accounted at new rate as expense)
- HUF 4.5 billion negative change due to lower net addition to severance provision in 9M 2016 than in 9M 2015
- HUF 1.0 billion negative change due to higher payment of severance provision in 9M 2016 than in 9M 2015
- HUF 1.0 billion positive change due to lower tax payments in Macedonia in 9M 2016 as a result of additional tax payment in 9M 2015 related to the changes of the tax law, no such payment in 9M 2016
- HUF 24 billion negative change in passive working capital due to the less volume of energy suppliers as a result of the launch of E2's operation in the energy market and the higher payment of the SI/IT services and also the higher payment of certain non-CAPEX related creditors
- HUF 6.7 billion negative change in passive working capital due MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF 4.3 billion positive change due to the lower interest paid mainly caused by the refinance of certain loans which resulted in more favorable credit terms
- HUF 5.1 billion negative change due to the accounting net result of the sale of Origo Zrt and Infopark building

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -68.5 billion in the first nine months of 2016, compared to HUF -77.3 billion in the same period in 2015. Main reasons for the HUF 8.8 billion lower cash outflow were the following:

- HUF 7.8 billion negative effect due to more CAPEX spending in 9M 2016 than in 9M 2015 mainly caused by the purchase of the new spectrum in Montenegro, as opposed to the CAPEX spending in MT-Hungary segment which showed a decrease compared to the same period of 2015
- HUF 9.4 billion negative change due to higher amount of CAPEX creditors paid in 9M 2016 than in 9M 2015
- HUF 14.7 billion positive change due to lower volume of acquisition of business units (GTS Hungary and smaller businesses) in 9M 2016 than in 9M 2015
- HUF 3.4 billion positive change due to the sale of Origo Zrt.
- HUF 7.9 billion positive change due to the sale of Infopark building

Repayment of other financial liabilities

Repayment of other financial liabilities decreased from HUF -12.8 billion in the first nine months of 2015 to HUF -6.2 billion in the same period in 2016. Main reason for the lower payment of HUF 6.6 billion was the combined effect of the following:

- HUF 7.2 billion positive change due to trade creditors with extended payment term were paid as financial liability in Q3 2015 (recognized as financial liability in 2014). There were no such payments in 2016.
- HUF 0.6 billion higher payment of content right liability in 9M 2016 than in 9M 2015

Free cash flow (FCF) overall increased from HUF 16.9 billion in 9M 2015 to HUF 29.8 billion in 9M 2016 due to the reasons described above

(Payments for) / Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 7.4 billion. Main reasons for the decrease were the following:

- HUF 6 billion lower cash inflows from derivatives in 9M 2016 compared to 9M 2015
- HUF 7 billion higher amount of Maktel's cash was invested as bank deposits over 3 months in 9M 2016 in net terms
- HUF 5.6 billion lower amount of CT's cash was invested as bank deposits over 3 months in 9M 2016 in net terms

Repayment of loans and other borrowings - net

- There were no significant movements in terms of net loan repayment in 9M 2016 compared to 9M 2015

Dividend paid to shareholders and Non-controlling interest

- Dividend paid to shareholders and Non-controlling interest increased by HUF 16.3 billion mainly as a result of Magyar Telekom's dividend payment to its parent and minority shareholders in 9M 2016 which was not in 9M 2015

Repurchase of treasury shares

- The change is due to the repurchase of treasury shares for ESOP (Employee Stock Ownership Plan) in 9M 2016, no such payment in 9M 2015

Exchange differences on cash and cash equivalents

- The change in exchange differences on cash and cash equivalent had no significant effect in 9M 2016 compared to 9M 2015

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

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

2.1.3 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2015 to September 30, 2016 can be observed in the following lines:

- Cash and cash equivalents and Other current financial assets
- Trade and other receivables
- Property, plant and equipment
- Intangible assets
- Financial liabilities to related parties (current and non-current parts)
- Trade payables
- Retained earnings

Cash and cash equivalents decreased by HUF 9.1 billion and the Other current financial assets decreased by HUF 7.4 billion from December 31, 2015 to September 30, 2016. The decrease is partially due to the dividend payment to the non-controlling interest of the Montenegrin and Macedonian subsidiaries and on the other hand due to the payment for the right of use of the new frequency blocks by the Montenegrin subsidiary. Further details of changes of Cash and cash equivalents are covered by the Consolidated Statement of Cash flows.

Trade and other receivables decreased by HUF 10.1 billion from December 31, 2015 to September 30, 2016. The decrease is mainly due to the decrease of the energy related receivables. E2 launched its operation from January 1, 2016 and started to provide energy services for business customers. The decrease of trade receivables from SI/IT debtors have also contributed to the change.

Property, plant and equipment (PPE) and intangible assets together decreased by HUF 24.0 billion from December 31, 2015 to September 30, 2016. The main reason for the decrease is that the depreciation and scrapping of assets exceeded the capital expenditure of assets.

The current and non-current parts of Financial liabilities to related parties decreased by HUF 21.1 billion from December 31, 2015 to September 30, 2016. The change is mainly caused by the repayment of DT group loans.

Trade payables decreased by HUF 40.4 billion from December 31, 2015 to September 30, 2016. The reason of the decrease is due to the higher payments to Capex and SI/IT related suppliers.

Retained earnings increased by HUF 18.9 billion from December 31, 2015 to September 30, 2016. The change is due to the HUF 34.5 billion increase of the profit attributable to owners of the parent generated in 2016 year-to-date opposed to the HUF 15.6 billion decrease as a result of the dividend declaration for 2015.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2015 to September 30, 2016. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2016 and the related explanations provided above in section 2.1.2. Cash flows.

2.1.4 Related party transactions

There have not been any significant changes in related party transactions during 9M 2016 since the most recent annual financial reports.

2.1.5 Contingencies and commitments

Contingent assets

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

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

Contingent liabilities

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

Guarantees

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 11.3 billion as at December 31, 2015. These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2016 or 2015, and is not expected to happen in the future.

Commitments

There has not been any material change in the nature and amount of our commitments in 2016.

2.1.6 Significant events

For any significant events happened between the end of the quarter (September 30, 2016) and the date publishing of the "Interim financial report" please see our Investor Relations website:

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

2.2. Segment reports

Magyar Telekom introduced a new reporting structure from the beginning of 2016 to further simplify the operation on every managerial level of the company. The Group's new operating segments are MT-Hungary, Macedonia and Montenegro. MT-Hungary includes the former T-Hungary segment (residential and SMB customers) and former T-Systems (enterprise segment). The Macedonia and Montenegro segments have not changed.

The MT-Hungary segment operates in Hungary providing mobile and fixed line telecommunications, TV distribution, information communication and system integration services, energy retail services to millions of residential and business customers under the Telekom and T-Systems brands. Small and medium business customers are served by the Telekom brand and key business customers (large corporate and public sector customers) are served by the T-Systems brand. The MT-Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real Estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. This segment is also responsible for the Group's points of presence in Bulgaria and Romania providing mainly wholesale services to local companies and operators. The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional operating segments of the Group.

The following tables present the information by reportable segment regularly provided to the Management Committee (MC) of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. These items vary year-over-year in nature and magnitude. Management believes that Revenue, EBITDA and Capex are the segment measures that are most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

2.2.1 MT-Hungary

Growth in mobile equipment and broadband, stable fixed line, slow-down in SI/IT

| HUF millions | Q3 2015 | Q3 2016 | Change | Change (%) | 1-9 months 2015 | 1-9 months 2016 | Change | Change (%) |
|--------------------------------|-----------------|-----------------|----------------|---------------|--------------------|--------------------|-----------------|---------------|
| Voice ¹ | 36,603 | 35,021 | (1,582) | (4.3%) | 110,910 | 104,761 | (6,149) | (5.5%) |
| Non-voice ² | 17,977 | 18,533 | 556 | 3.1% | 51,374 | 54,426 | 3,052 | 5.9% |
| Other ³ | 12,594 | 16,894 | 4,300 | 34.1% | 38,221 | 45,538 | 7,317 | 19.1% |
| Total mobile revenues | 67,174 | 70,448 | 3,274 | 4.9% | 200,505 | 204,725 | 4,220 | 2.1% |
| Voice retail | 11,862 | 10,924 | (938) | (7.9%) | 36,326 | 33,720 | (2,606) | (7.2%) |
| Broadband - retail | 10,643 | 10,671 | 28 | 0.3% | 31,731 | 32,796 | 1,065 | 3.4% |
| TV | 9,255 | 9,650 | 395 | 4.3% | 27,558 | 29,054 | 1,496 | 5.4% |
| Other ⁴ | 11,568 | 11,071 | (497) | (4.3%) | 32,700 | 33,945 | 1,245 | 3.8% |
| Fixed line revenues | 43,328 | 42,316 | (1,012) | (2.3%) | 128,315 | 129,515 | 1,200 | 0.9% |
| SI/IT revenues | 15,370 | 14,749 | (621) | (4.0%) | 45,077 | 43,005 | (2,072) | (4.6%) |
| Revenue from Energy services | 9,418 | 1,459 | (7,959) | (84.5%) | 36,650 | 5,262 | (31,388) | (85.6%) |
| Total revenues | 135,290 | 128,972 | (6,318) | (4.7%) | 410,547 | 382,507 | (28,040) | (6.8%) |
| Direct cost | (46,758) | (41,234) | 5,524 | 11.8% | (148,865) | (118,989) | 29,876 | 20.1% |
| Gross margin | 88,532 | 87,738 | (794) | (0.9%) | 261,682 | 263,518 | 1,836 | 0.7% |
| Telecom tax | (6,398) | (5,976) | 422 | 6.6% | (19,110) | (18,276) | 834 | 4.4% |
| Utility tax | 0 | 0 | 0 | n.a. | (7,649) | (7,265) | 384 | 5.0% |
| Other operating expenses (net) | (42,115) | (36,627) | 5,488 | 13.0% | (115,515) | (106,646) | 8,869 | 7.7% |
| EBITDA | 40,019 | 45,135 | 5,116 | 12.8% | 119,408 | 131,331 | 11,923 | 10.0% |
| Segment Capex | 21,117 | 19,835 | (1,282) | (6.1%) | 53,072 | 51,072 | (2,000) | (3.8%) |

¹ incorporates Voice retail and Voice wholesale revenues

² incorporates Data and SMS revenues

³ incorporates Equipment and Other revenues

⁴ incorporates Equipment, Data retail, Wholesale and Other revenues

| Operational statistics – access numbers | Sep 30, 2015 | Sep 30, 2016 | Change (%) |
|---|--------------|--------------|------------|
| Number of mobile customers (RPC) | 5,482,298 | 5,301,049 | (3.3%) |
| Postpaid share in the RPC base | 56.0% | 58.9% | n.a. |
| Total fixed voice access | 1,466,792 | 1,437,116 | (2.0%) |
| Total retail fixed broadband customers | 983,865 | 1,018,564 | 3.5% |
| Total TV customers | 951,521 | 978,692 | 2.9% |

| Operational statistics – ARPU (HUF) | Q3 2015 | Q3 2016 | Change (%) | 1-9 months 2015 | 1-9 months 2016 | Change (%) |
|-------------------------------------|---------|---------|------------|-----------------|-----------------|------------|
| Mobile ARPU | 3,324 | 3,354 | 0.9% | 3,295 | 3,295 | (0.0%) |
| Postpaid | 4,993 | 4,882 | (2.2%) | 4,999 | 4,870 | (2.6%) |
| Prepaid | 1,206 | 1,197 | (0.7%) | 1,178 | 1,130 | (4.0%) |
| Blended fixed voice ARPU | 2,750 | 2,533 | (7.9%) | 2,736 | 2,591 | (5.3%) |
| Blended retail fixed broadband ARPU | 3,570 | 3,521 | (1.4%) | 3,598 | 3,631 | 0.9% |
| Blended TV ARPU | 3,261 | 3,302 | 1.3% | 3,258 | 3,334 | 2.3% |

Total revenues decreased by 4.7% in Q3 2016 compared to the same quarter of the previous year in the Hungary segment (including former T-Hungary and T-Systems segments). This was primarily due to exit from the residential gas market and transfer of the B2B energy business into the E2, coupled with lower fixed line and SI/IT revenues. At the same time, mobile revenues increased, driven by higher equipment revenues related to increased smartphone sales and third party export sales, coupled with mobile broadband revenue growth. Excluding contributions from energy and SI/IT businesses, in Q3 2016 core like-for-like telco revenues improved by 2.0% year-on-year. Despite the good performance of the Hungarian telco market in the first nine months of 2016, total revenues declined by 6.8% versus 9M 2015, due to declining energy and SI/IT contribution.

- **Mobile revenues** grew by 4.9% compared to Q3 2015 to HUF 70.4 billion as equipment and mobile broadband revenues were partly offset by shrinking voice revenues. The retail mobile market remained relatively stable in the third quarter, while the business mobile market continued to face very strong price competition, given Magyar Telekom's higher than average market shares in both SMB and enterprise segments. Driven by strong demand for mobile broadband, prepaid to postpaid migration continued, resulting in a postpaid ratio of 58.9% in Q3 2016. Average revenue per prepaid and postpaid customer declined slightly, but the improved customer mix in favour of the more valuable postpaid customer resulted in a 0.9% increase in blended ARPU. The popularity of the flat rate plans, offering unlimited voice and messaging, remained high and we continued to enlarge our 4Play Magenta 1 subscriber base, helping to improve our performance in the high-end segment. More than one third of our postpaid customer base are subscribed to flat rate plans, resulting in an increased minutes of usage by 5.2%
 - **Mobile voice revenues** decreased by 4.3% year-on-year as the decline in total customers (mainly in the business segment) and lower roaming revenues were not offset by the slightly higher blended ARPU and the increased share of our flat rate customer base, supported by the successful sale of our 4Play Magenta 1 offer
 - **Mobile non-voice revenues** rose by 3.1% to HUF 18.5 billion in Q3 2016 compared to the same period in 2015, with continued mobile broadband growth partly offset by lower SMS revenues
 - **Other revenues** increased by 34.1% year-on-year to HUF 16.9 billion in Q3 2016, due to the significantly higher equipment and accessories sales stemming from higher smartphone sales, boosted further by the launch of the new iPhone7 and the increase in third party export sales
 - **Total mobile revenues** grew by 2.1% in the first nine months of 2016, as improved mobile broadband and equipment revenues were partly offset by lower voice revenues resulting from the MTR cut in the first quarter
- **Fixed line revenues** declined by 2.3% vs. Q3 2015 as increasing TV revenues (driven by the continued focus on IPTV offers) were offset by a fall in voice retail and equipment revenues
 - **Voice retail revenues** declined by 7.9% in Q3 2016 compared to Q3 2015, due to lower subscription fee revenues, resulting from decrease in the average number of fixed lines and lower ARPUs
 - **Broadband retail revenues** remained flat in Q3 2016 compared to the same period last year, as the slightly lower ARPU was counterbalanced by the higher number of retail broadband subscribers. The lower ARPU is a result of the intense local competition driven by our two biggest competitors, Digi and UPC. Thanks to our successful upgrade to higher bandwidth packages, we managed to increase ARPU in 9M 2016, which coupled with the higher subscriber base, led to a 3.4% increase in broadband retail revenues in Hungary
 - **TV revenues rose** by 4.3% year-on-year in Q3 2016 due to an increased customer base and higher ARPUs; our IPTV customer base increased by more than 65,000 in a year, driven by new customer acquisitions and migration from cable TV (our satellite TV subscriber base registered a slight decline)

- **Other fixed line revenues** decreased in Q3 2016, due to the deconsolidation of Origo and lower fixed equipment sales. Higher Video On Demand revenues and the GTS acquisition effect supported revenue growth in 9M 2016
- **Fixed line revenues for the first nine months of the year** rose by 0.9% vs. the same period of 2015 to HUF 129.5 billion, due to the GTS acquisition effect in the first quarter, the continued broadband and TV customer base growth, and improved TV ARPU (somewhat mitigated by lower voice revenues)
- **SI/IT revenues declined by 4.0% in Q3 2016** year-on-year due to the slowdown of EU fund inflows to the country
 - **Magyar Telekom won major projects in the financial and utility sectors**
 - **Our SI/IT margin** is up to 43.8% in Q3 2016 from 38.3% in the third quarter last year as a result of continued focus on the higher margin system integration projects
 - **SI/IT revenues** in the first nine months of 2016 declined only by 4.6% year-on-year

| Energy services | Sep 30, 2015 | Sep 30, 2016 | Change (%) |
|--------------------------------|-----------------|-----------------|---------------|
| Electricity points of delivery | 107,566 | 93,572 | (13.0%) |
| Gas points of delivery | 7,999 | 256 | (96.8%) |

- **Energy services revenues decreased by HUF 8.0 billion** (down by 84.5%) in Q3 2016 versus Q3 2015, due to the residential gas market exit and transfer of the B2B energy business into the E2
 - **The joint venture** that provides energy services for business (non-universal) customers started operating as of January 1, 2016
 - **The number of electricity points of delivery** decreased by 14 thousand due to our lower sales focus on the residential universal electricity business, following the change in the market environment and the transfer of our B2B electricity customers into the E2
 - **Electricity revenues declined** by HUF 4.7 billion in Q3 2016 compared to the same period last year, mostly due to the transfer of our high spending B2B customer base into the E2
 - **The drop in gas points of delivery** is caused by the exit from the residential segment of the gas market with effect from August 1, 2015, and the transfer of our non-universal B2B gas business into the E2, resulting in HUF 3.3 billion lower revenues year-on-year in Q3 2016
 - **Energy revenues** in the first nine months of 2016 **declined** by HUF 31.4 billion, due to the reasons described above
- **EBITDA increased by 12.8% in Q3 2016 to HUF 45.1 billion** due to lower severance payments, coupled with savings from the 2014/2015 headcount reduction, lower other operating expenses and a decrease in the telecommunication tax
 - **Gross profit** was roughly stable as improved SI/IT margins and bad debt expenses were counterbalanced by higher other direct costs (driven by increased low margin mobile equipment sales)
 - **Telecommunication tax** expense declined by HUF 0.4 billion due to the lower customer base and a change in calling habits
 - **Employee-related expenses** improved given the absence of severance expenses (Q3 2015: HUF 4.2 billion). This was coupled with savings realized on the headcount reduction program
 - **Other operating expenses** decreased by 3.7%, due to lower marketing costs and sponsorship activities, which more than offset: the increased office rental fees following the sale of Infopark, higher network rental fees in relation to local cable network rentals, higher maintenance, repairs, and remedial work expenses and the parallel operation of legacy and next generation IT platforms
- **Capex decreased by HUF 1.3 billion** in the third quarter of 2016 compared to the same period of last year mainly due to the delay in the Digital Hungary tender process. As a result we expect less investment in relation to the EU funded network development in 2016 than previously planned. Year-to-date CAPEX decreased by HUF 2.0 billion compared to the first nine months of 2015

Outlook: Despite some competitive and regulatory risks to growth in the year ahead - with Digi expected to enter the mobile market, the changing dynamics in the prepaid market (heavy competition started with lower prepaid offers launched in October 2016, which might also impact the postpaid segment; and an expected obligation to register for prepaid services), and potential further price erosion in the business segment - as an integrated operator, we believe that we are well positioned to address these challenges by maximizing the telecommunication share of wallet in household spending through further growth in the number of our 4Play Magenta 1 subscribers and by utilizing our HSI network. By now, more than 2.7 million households are covered by high speed internet, penetration figures are increasing, and the ratio of higher bandwidth package subscribers is growing. In addition, the **SI/IT market is expected to grow further** and our intention is to increase our market share focusing on high margin system integration projects.

2.2.2 Macedonia
EBITDA increase, continued increasing mobile market share

| HUF millions | Q3 2015 | Q3 2016 | Change | Change (%) | 1-9 months 2015 | 1-9 months 2016 | Change | Change (%) |
|--------------------------------|----------------|----------------|--------------|----------------|--------------------|--------------------|----------------|---------------|
| Voice | 5,284 | 5,000 | (284) | (5.4%) | 14,492 | 13,784 | (708) | (4.9%) |
| Non-voice | 1,481 | 1,905 | 424 | 28.6% | 4,096 | 4,870 | 774 | 18.9% |
| Other | 1,265 | 1,462 | 197 | 15.6% | 3,398 | 4,176 | 778 | 22.9% |
| Total mobile revenues | 8,030 | 8,367 | 337 | 4.2% | 21,986 | 22,830 | 844 | 3.8% |
| Voice retail | 1,491 | 1,353 | (138) | (9.3%) | 4,568 | 4,153 | (415) | (9.1%) |
| Broadband - retail | 1,349 | 1,397 | 48 | 3.6% | 3,955 | 4,225 | 270 | 6.8% |
| TV | 787 | 765 | (22) | (2.8%) | 2,293 | 2,237 | (56) | (2.4%) |
| Other | 1,934 | 1,584 | (350) | (18.1%) | 5,695 | 4,988 | (707) | (12.4%) |
| Fixed line revenues | 5,561 | 5,099 | (462) | (8.3%) | 16,511 | 15,603 | (908) | (5.5%) |
| SI/IT revenues | 824 | 511 | (313) | (38.0%) | 1,350 | 1,487 | 137 | 10.1% |
| Total revenues | 14,415 | 13,977 | (438) | (3.0%) | 39,847 | 39,920 | 73 | 0.2% |
| Direct cost | (4,498) | (3,967) | 531 | 11.8% | (12,055) | (12,483) | (428) | (3.6%) |
| Gross margin | 9,917 | 10,010 | 93 | 0.9% | 27,792 | 27,437 | (355) | (1.3%) |
| Other operating expenses (net) | (4,081) | (4,065) | 16 | 0.4% | (11,932) | (12,954) | (1,022) | (8.6%) |
| EBITDA | 5,836 | 5,945 | 109 | 1.9% | 15,860 | 14,483 | (1,377) | (8.7%) |
| Segment Capex | 3,050 | 2,278 | (772) | (25.3%) | 4,879 | 4,628 | (251) | (5.1%) |

| Operational statistics – access numbers | Sep 30, 2015 | Sep 30, 2016 | Change (%) |
|---|-----------------|-----------------|---------------|
| Number of mobile customers | 1,234,540 | 1,280,724 | 3.7% |
| Postpaid share in the customer base | 36.0% | 39.3% | n.a |
| Total fixed voice access | 226,653 | 219,564 | (3.1%) |
| Total retail fixed broadband customers | 164,748 | 166,319 | 1.0% |
| Total TV customers | 100,442 | 106,726 | 6.3% |

Following the revenue turnaround, and only a slight decline in EBITDA (excluding the severance expenses) in the first half of the year, we witnessed strong mobile performance which somewhat compensated for lower fixed and SI/IT revenues in the third quarter, resulting in a 3.0% decline in total revenues.

- This is the third consecutive quarter when **mobile revenues increased**. The growth in Q3 2016 (+4.2% vs. Q3 2015) reflects the success of our summer promotions, as well as the fine-tuning of the Magenta 1 4Play offer, launched to capitalize on the increasing demand for integrated fixed-mobile services
 - Principal components of this growth were the larger mobile customer base coupled with an increased postpaid share thanks to our focus on this segment. Our mobile market share continued to increase exceeding 49%, and by September 2016, approximately 39.3% of our customers subscribed for a postpaid package vs. 36.0% a year ago
 - Voice revenues decreased driven by a decline in the prepaid segment, shrinking roaming revenues resulting from the Balkan roaming agreement, as well as lower international traffic due to the OTT push. However, blended ARPUs remained roughly stable compared to the same period of 2015
 - Non-voice revenues increased (up by 28.6% vs. Q3 2015) due to a more than 20% higher mobile broadband customer base, as well as more intense usage, partly offset by a decline in the number of SMSs sent
 - Other mobile revenues rose significantly due to higher equipment sales stemming from the higher average price of handsets supported by the launch of a new postpaid portfolio this year
 - Year-to-date mobile revenues improved by 3.8% compared to the first nine months of 2015 due to the reasons described above
- Continued **decline in fixed line revenues** (down by 8.3% vs. Q3 2015) mainly driven by lower voice-retail and wholesale revenues

- Voice-retail revenue decline reflects lower traffic and customer base, partly offset by higher fixed broadband revenues
- Other fixed revenues declined due to lower sales of equipment, such as TV sets and IT equipment, while wholesale revenues decreased due to lower incoming international traffic volume and prices
- Year-to-date total fixed line revenues declined by 5.5% compared to the first nine months of 2015 in line with the trends witnessed in Q3 2016
- **System Integration/IT revenues** significantly decreased (down by 38.0%) due to exceptionally high revenues in the third quarter of 2015 stemming from a public transportation project
 - Higher uncertainty regarding public sector projects going forward presents a risk to SI/IT revenues
 - Despite the sharp year-on-year decline in Q3 2016, year-to-date SI/IT revenues increased by 10.1% vs the same period of 2015 thanks to increased revenues from customised solution projects
- **EBITDA improved by 1.9%** vs. Q3 2015 driven by a higher gross margin, savings on employee related expenses, as well as an increase in other operating income. This is the first time in almost two years that EBITDA increased
 - Lower interconnection costs and SI/IT service related costs in line with lower traffic volume and ICT⁵ projects
 - Improvement in bad debt expenses thanks to a recent collection campaign; however, other operating expenses increased due to higher maintenance costs which offset savings on marketing expenses and electricity costs
 - Year-to-date, EBITDA decreased by 8.7% compared to the first nine months of 2015 driven by lower gross margin and higher employee-related expenses due to a one-time severance booked in relation to the outsourcing of the network plan and maintenance activities to Ericsson as of July 1, 2016
- **Q3 2016 Capex declined** (-25.3% vs. Q3 2015) mainly due to lower investments in the mobile network. Capex in 9M 2016 decreased to HUF 4.6 bn (-5.1%) due to the same reasons impacting Q3 2016 coupled with lower Capex for customer-premises equipment related to FTTH.

Outlook: Despite the risks stemming from the current political environment in Macedonia, we believe that a stabilization in revenues and cost efficiency improvements shall lead to a sustainable turnaround in EBITDA.

2.2.3 Montenegro

Thanks to our focus on cost efficiency, EBITDA decline was lower compared to previous quarters

| HUF millions | Q3 2015 | Q3 2016 | Change | Change (%) | 1-9 months 2015 | 1-9 months 2016 | Change | Change (%) |
|--------------------------------|----------------|----------------|--------------|----------------|--------------------|--------------------|----------------|----------------|
| Voice | 2,338 | 2,306 | (32) | (1.4%) | 6,218 | 6,292 | 74 | 1.2% |
| Non-voice | 930 | 847 | (83) | (8.9%) | 2,663 | 2,251 | (412) | (15.5%) |
| Other | 667 | 697 | 30 | 4.5% | 1,567 | 1,637 | 70 | 4.5% |
| Total mobile revenues | 3,935 | 3,850 | (85) | (2.2%) | 10,448 | 10,180 | (268) | (2.6%) |
| Voice retail | 1,383 | 1,103 | (280) | (20.2%) | 4,077 | 3,438 | (639) | (15.7%) |
| Broadband - retail | 948 | 853 | (95) | (10.0%) | 2,720 | 2,554 | (166) | (6.1%) |
| TV | 583 | 572 | (11) | (1.9%) | 1,708 | 1,750 | 42 | 2.5% |
| Other | 1,001 | 895 | (106) | (10.6%) | 2,948 | 2,639 | (309) | (10.5%) |
| Fixed line revenues | 3,915 | 3,423 | (492) | (12.6%) | 11,453 | 10,381 | (1,072) | (9.4%) |
| SI/IT revenues | 587 | 476 | (111) | (18.9%) | 1,469 | 1,127 | (342) | (23.3%) |
| Total revenues | 8,437 | 7,749 | (688) | (8.2%) | 23,370 | 21,688 | (1,682) | (7.2%) |
| Direct cost | (2,603) | (2,117) | 486 | 18.7% | (6,936) | (6,357) | 579 | 8.3% |
| Gross margin | 5,834 | 5,632 | (202) | (3.5%) | 16,434 | 15,331 | (1,103) | (6.7%) |
| Other operating expenses (net) | (3,000) | (2,907) | 93 | 3.1% | (8,020) | (7,941) | 79 | 1.0% |
| EBITDA | 2,834 | 2,725 | (109) | (3.8%) | 8,414 | 7,390 | (1,024) | (12.2%) |
| Segment Capex | 686 | 10,430 | 9,744 | n.m. | 1,990 | 12,104 | 10,114 | n.m. |
| o/w Mobile frequency license | 0 | 8,481 | 8,481 | n.a. | 0 | 8,481 | 8,481 | n.a. |

⁵ Information and Communication Technologies

| Operational statistics – access numbers | Sep 30, 2015 | Sep 30, 2016 | Change (%) |
|---|-----------------|-----------------|---------------|
| Number of mobile customers | 360,000 | 368,595 | 2.4% |
| Postpaid share in the customer base | 42.5% | 48.6% | n.a |
| Total fixed voice access | 145,758 | 136,821 | (6.1%) |
| Total retail fixed broadband customers | 94,364 | 88,769 | (5.9%) |
| Total TV customers | 61,949 | 60,177 | (2.9%) |

Competitive and regulatory pressures continued to be felt across all major revenue lines, with **total revenues declining by 8.2%** year-on-year in Q3 2016 in HUF terms.

- **Mobile revenue decline** (-2.2% vs. Q3 2015) reflects lower voice wholesale revenues driven by strong OTT competition, the lower Balkan roaming rates, and a decline in SMSs. These were somewhat counterbalanced by higher mobile voice retail revenues mainly driven by positive developments on the postpaid market.
 - We continued to enlarge our 4Play Magenta 1 subscriber base, helping to improve our performance and resulting in a 17% increase in our postpaid customer base
 - Non-voice revenues declined due to a significant decline in mobile broadband prices, driven by fierce competition and lower SMS traffic
 - 9M 2016 total mobile revenues declined by 2.6% compared to the first nine months of 2015, due to the reasons described above
- **Fixed line revenue declined further** (-12.6% vs. Q3 2015), driven by sustained competitive and regulatory headwinds
 - Stronger push by cable competitors of 3Play bundle offers lead to decline in our TV market share
 - Fixed voice and broadband revenues decreased due to sustained regulatory pressures
 - Other fixed line revenues declined, as lower fixed wholesale revenues offset the higher revenues from fixed equipment sales
 - 9M 2016 total fixed line revenues declined by 9.4% compared to the first nine months of 2015, due to the above-mentioned factors
- **Decline in SI/IT revenues** (-18.9% vs. Q3 2015) reflects a different dynamic to the execution of ICT deals
 - 9M 2016 SI/IT revenues were down by 23.3% year-on-year due to exceptionally high revenues relating to a project in 2015 (Porto Montenegro)
- **Despite the 12.2% decline in EBITDA in the first nine months of 2016** compared to the same period last year, **in Q3 2016 EBITDA declined by only 3.8%** year-on-year thanks to our focus on cost efficiency as the decline in gross profit was somewhat offset by savings in employee-related expenses
 - Q3 decline in gross profit principally reflects the 8.2% fall in total revenues, due to ongoing competitive pressures across all business lines
 - Employee-related expenses declined, driven by the outsourcing of network planning and maintenance activities since August 2015
- **Capex increased** (up by HUF 9.7 billion vs Q3 2015) due to the frequency usage rights renewal and the one-off license fee for the new spectrum licenses (in total HUF 8.5 billion) and fixed network investments. 9M 2016 Capex increased to HUF 12.1bn (up by HUF 10.1 billion) due to the above-mentioned factors

Outlook: We believe that, with our 4Play proposition, we are well positioned to meet the challenges stemming from more intense competition and stricter regulation, and to defend our strong market share in fixed line voice and grow our mobile subscribers. In addition, thanks to the successful license extension and acquisition of new frequency blocks, Crnogorski Telekom will be able to build out a nationwide full-speed 4G network ahead of its competitors.

3. APPENDIX

3.1. Basis of preparation

This condensed consolidated interim financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2015, 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, 2015 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2015 were audited and the audit report was unqualified.

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2015 with the following exception.

As of January 1, 2016 the Group adopted the following IFRS amendment: **IFRS 11 (amended)**

The amendment to IFRS 11 explicitly requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in IFRS 3. The application of the amended standard did not result in significant changes in the financial statements of the Group, therefore no restatement of the previously reported balances is necessary.

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

| Consolidated Statements of Comprehensive Income (HUF million, except per share amounts) | Q3 2015 (Unaudited) | Q3 2016 (Unaudited) | Change ¹ | Change (%) |
|--|------------------------|------------------------|---------------------|---------------|
| Revenues | | | | |
| Voice retail | 41,040 | 39,208 | (1,832) | (4.5%) |
| Voice wholesale | 3,185 | 3,119 | (66) | (2.1%) |
| Data | 15,625 | 16,695 | 1,070 | 6.8% |
| SMS | 4,762 | 4,590 | (172) | (3.6%) |
| Equipment | 10,227 | 14,816 | 4,589 | 44.9% |
| Other mobile revenues | 4,266 | 4,231 | (35) | (0.8%) |
| Mobile revenues | 79,105 | 82,659 | 3,554 | 4.5% |
| Voice retail | 14,736 | 13,380 | (1,356) | (9.2%) |
| Broadband retail | 12,940 | 12,921 | (19) | (0.1%) |
| TV | 10,625 | 10,987 | 362 | 3.4% |
| Equipment | 1,787 | 1,164 | (623) | (34.9%) |
| Data retail | 2,769 | 2,560 | (209) | (7.5%) |
| Wholesale | 5,681 | 5,298 | (383) | (6.7%) |
| Other fixed line revenues | 4,164 | 4,442 | 278 | 6.7% |
| Fixed line revenues | 52,702 | 50,752 | (1,950) | (3.7%) |
| System Integration/Information Technology revenues | 16,781 | 15,736 | (1,045) | (6.2%) |
| Energy service revenues | 9,418 | 1,459 | (7,959) | (84.5%) |
| Total revenues | 158,006 | 150,606 | (7,400) | (4.7%) |
| Direct costs | | | | |
| Interconnect costs | (5,923) | (5,772) | 151 | 2.5% |
| SI/IT service related costs | (10,441) | (9,024) | 1,417 | 13.6% |
| Energy service related costs | (9,591) | (1,394) | 8,197 | 85.5% |
| Bad debt expense | (1,968) | (1,887) | 81 | 4.1% |
| Other direct costs | (25,838) | (29,176) | (3,338) | (12.9%) |
| Direct costs | (53,761) | (47,253) | 6,508 | 12.1% |
| Gross margin | 104,245 | 103,353 | (892) | (0.9%) |
| Employee-related expenses | (25,293) | (19,695) | 5,598 | 22.1% |
| Hungarian sector specific special taxes | (6,398) | (5,976) | 422 | 6.6% |
| Other operating expenses | (25,000) | (24,490) | 510 | 2.0% |
| Other operating income | 1,374 | 614 | (760) | (55.3%) |
| EBITDA | 48,928 | 53,806 | 4,878 | 10.0% |
| Depreciation and amortization | (27,667) | (29,896) | (2,229) | (8.1%) |
| Operating profit | 21,261 | 23,910 | 2,649 | 12.5% |
| Net financial result | (7,146) | (6,817) | 329 | 4.6% |
| Share of associates' and joint ventures' results | 0 | (32) | (32) | n.a. |
| Profit before income tax | 14,115 | 17,061 | 2,946 | 20.9% |
| Income tax | (3,522) | (3,420) | 102 | 2.9% |
| Profit for the period | 10,593 | 13,641 | 3,048 | 28.8% |
| Change in exchange differences on translating foreign operations | (753) | (2,342) | (1,589) | (211.0%) |
| Revaluation of available-for-sale financial assets | 3 | 38 | 35 | n.m. |
| Other comprehensive income for the period | (750) | (2,304) | (1,554) | (207.2%) |
| Total comprehensive income for the period | 9,843 | 11,337 | 1,494 | 15.2% |
| Profit attributable to: | | | | |
| Owners of the parent | 9,336 | 12,440 | 3,104 | 33.2% |
| Non-controlling interests | 1,257 | 1,201 | (56) | (4.5%) |
| | 10,593 | 13,641 | 3,048 | 28.8% |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | 8,842 | 10,876 | 2,034 | 23.0% |
| Non-controlling interests | 1,001 | 461 | (540) | (53.9%) |
| | 9,843 | 11,337 | 1,494 | 15.2% |
| Basic and diluted earnings per share (HUF) | 8.96 | 11.95 | 2.99 | 33.4% |

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

| Consolidated Statements of Comprehensive Income (HUF million, except per share amounts) | 1-9 months 2015 (Unaudited) | 1-9 months 2016 (Unaudited) | Change | Change (%) |
|--|--------------------------------|--------------------------------|-----------------|---------------|
| Revenues | | | | |
| Voice retail | 118,727 | 115,975 | (2,752) | (2.3%) |
| Voice wholesale | 12,893 | 8,862 | (4,031) | (31.3%) |
| Data | 44,243 | 48,101 | 3,858 | 8.7% |
| SMS | 13,889 | 13,446 | (443) | (3.2%) |
| Equipment | 31,984 | 39,886 | 7,902 | 24.7% |
| Other mobile revenues | 11,180 | 11,444 | 264 | 2.4% |
| Mobile revenues | 232,916 | 237,714 | 4,798 | 2.1% |
| Voice - retail | 44,971 | 41,311 | (3,660) | (8.1%) |
| Broadband retail | 38,406 | 39,575 | 1,169 | 3.0% |
| TV | 31,559 | 33,041 | 1,482 | 4.7% |
| Equipment | 5,340 | 4,104 | (1,236) | (23.1%) |
| Data retail | 8,066 | 7,829 | (237) | (2.9%) |
| Wholesale | 15,720 | 16,217 | 497 | 3.2% |
| Other fixed line revenues | 11,934 | 13,151 | 1,217 | 10.2% |
| Fixed line revenues | 155,996 | 155,228 | (768) | (0.5%) |
| System Integration/Information Technology revenues | 47,896 | 45,619 | (2,277) | (4.8%) |
| Energy service revenues | 36,650 | 5,262 | (31,388) | (85.6%) |
| Total revenues | 473,458 | 443,823 | (29,635) | (6.3%) |
| Direct costs | | | | |
| Interconnect costs | (18,922) | (16,510) | 2,412 | 12.7% |
| SI/IT service related costs | (29,370) | (25,996) | 3,374 | 11.5% |
| Energy service related costs | (35,473) | (5,131) | 30,342 | 85.5% |
| Bad debt expense | (6,095) | (6,551) | (456) | (7.5%) |
| Other direct costs | (77,760) | (83,434) | (5,674) | (7.3%) |
| Direct costs | (167,620) | (137,622) | 29,998 | 17.9% |
| Gross margin | 305,838 | 306,201 | 363 | 0.1% |
| Employee-related expenses | (69,525) | (61,772) | 7,753 | 11.2% |
| Hungarian sector specific special taxes | (26,759) | (25,541) | 1,218 | 4.6% |
| Other operating expenses | (69,834) | (74,124) | (4,290) | (6.1%) |
| Other operating income | 3,851 | 8,444 | 4,593 | 119.3% |
| EBITDA | 143,571 | 153,208 | 9,637 | 6.7% |
| Depreciation and amortization | (82,038) | (84,873) | (2,835) | (3.5%) |
| Operating profit | 61,533 | 68,335 | 6,802 | 11.1% |
| Net financial result | (22,575) | (19,286) | 3,289 | 14.6% |
| Share of associates' and joint ventures' results | 0 | 46 | 46 | n.a. |
| Profit before income tax | 38,958 | 49,095 | 10,137 | 26.0% |
| Income tax | (11,514) | (12,393) | (879) | (7.6%) |
| Profit for the period | 27,444 | 36,702 | 9,258 | 33.7% |
| Change in exchange differences on translating foreign operations | (893) | (1,247) | (354) | (39.6%) |
| Revaluation of available-for-sale financial assets | (25) | 27 | 52 | n.m. |
| Other comprehensive income for the period | (918) | (1,220) | (302) | (32.9%) |
| Total comprehensive income for the period | 26,526 | 35,482 | 8,956 | 33.8% |
| Profit attributable to: | | | | |
| Owners of the parent | 24,362 | 34,525 | 10,163 | 41.7% |
| Non-controlling interests | 3,082 | 2,177 | (905) | (29.4%) |
| | 27,444 | 36,702 | 9,258 | 33.7% |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | 23,879 | 33,721 | 9,842 | 41.2% |
| Non-controlling interests | 2,647 | 1,761 | (886) | (33.5%) |
| | 26,526 | 35,482 | 8,956 | 33.8% |
| Basic and diluted earnings per share (HUF) | 23.37 | 33.13 | 9.76 | 41.8% |

3.4. Consolidated Statements of Financial Position
MAGYAR TELEKOM

| Consolidated Statements of Financial Position (HUF million) | Dec 31, 2015 (Audited) | Sep 30, 2016 (Unaudited) | Change ¹ | Change (%) |
|--|---------------------------|-----------------------------|---------------------|----------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 17,558 | 8,410 | (9,148) | (52.1%) |
| Trade and other receivables | 162,762 | 152,654 | (10,108) | (6.2%) |
| Other current financial assets | 11,052 | 3,663 | (7,389) | (66.9%) |
| Current income tax receivable | 1,356 | 2,018 | 662 | 48.8% |
| Inventories | 12,665 | 13,462 | 797 | 6.3% |
| | 205,393 | 180,207 | (25,186) | (12.3%) |
| Assets held for sale | 4,785 | 1,857 | (2,928) | (61.2%) |
| Total current assets | 210,178 | 182,064 | (28,114) | (13.4%) |
| Non current assets | | | | |
| Property, plant and equipment | 493,204 | 474,162 | (19,042) | (3.9%) |
| Intangible assets | 260,909 | 255,916 | (4,993) | (1.9%) |
| Goodwill | 217,935 | 218,040 | 105 | 0.0% |
| Investments in associates and joint ventures | 1,000 | 1,046 | 46 | 4.6% |
| Deferred tax assets | 47 | 46 | (1) | (2.1%) |
| Other non current financial assets | 22,950 | 16,993 | (5,957) | (26.0%) |
| Other non current assets | 801 | 765 | (36) | (4.5%) |
| Total non current assets | 996,846 | 966,968 | (29,878) | (3.0%) |
| Total assets | 1,207,024 | 1,149,032 | (57,992) | (4.8%) |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Financial liabilities to related parties | 136,906 | 90,039 | (46,867) | (34.2%) |
| Other financial liabilities | 26,152 | 23,021 | (3,131) | (12.0%) |
| Trade payables | 140,182 | 99,740 | (40,442) | (28.8%) |
| Current income tax payable | 1,399 | 1,394 | (5) | (0.4%) |
| Provisions | 7,185 | 3,106 | (4,079) | (56.8%) |
| Other current liabilities | 39,142 | 36,022 | (3,120) | (8.0%) |
| | 350,966 | 253,322 | (97,644) | (27.8%) |
| Liabilities held for sale | 1,217 | 0 | (1,217) | n.a. |
| Total current liabilities | 352,183 | 253,322 | (98,861) | (28.1%) |
| Non current liabilities | | | | |
| Financial liabilities to related parties | 220,088 | 245,850 | 25,762 | 11.7% |
| Other financial liabilities | 54,857 | 51,821 | (3,036) | (5.5%) |
| Deferred tax liabilities | 23,813 | 27,760 | 3,947 | 16.6% |
| Provisions | 9,907 | 9,289 | (618) | (6.2%) |
| Other non current liabilities | 1,245 | 1,161 | (84) | (6.7%) |
| Total non current liabilities | 309,910 | 335,881 | 25,971 | 8.4% |
| Total liabilities | 662,093 | 589,203 | (72,890) | (11.0%) |
| EQUITY | | | | |
| Equity of the owners of the parent | | | | |
| Common stock | 104,275 | 104,275 | 0 | 0.0% |
| Capital reserves | 27,412 | 27,638 | 226 | 0.8% |
| Treasury stock | (307) | (834) | (527) | (171.7%) |
| Retained earnings | 337,014 | 355,906 | 18,892 | 5.6% |
| Accumulated other comprehensive income | 31,824 | 31,020 | (804) | (2.5%) |
| Total Equity of the owners of the parent | 500,218 | 518,005 | 17,787 | 3.6% |
| Non-controlling interests | 44,713 | 41,824 | (2,889) | (6.5%) |
| Total equity | 544,931 | 559,829 | 14,898 | 2.7% |
| Total liabilities and equity | 1,207,024 | 1,149,032 | (57,992) | (4.8%) |

3.5. Consolidated Statements of Cash Flows
MAGYAR TELEKOM

| Consolidated Statements of Cash Flows (HUF million) | 1-9 months 2015 (Unaudited) | 1-9 months 2016 (Unaudited) | Change ¹ | Change (%) |
|---|--------------------------------|--------------------------------|---------------------|----------------|
| Cash flows from operating activities | | | | |
| Profit for the period | 27 444 | 36 702 | 9 258 | 33,7% |
| Depreciation and amortization | 82 038 | 84 873 | 2 835 | 3,5% |
| Income tax expense | 11 514 | 12 393 | 879 | 7,6% |
| Net financial result | 22 575 | 19 286 | (3 289) | (14,6%) |
| Share of associates' and joint ventures' result | 0 | (46) | (46) | n.a. |
| Change in assets carried as working capital | (13 501) | 13 532 | 27 033 | n.m. |
| Change in provisions | 567 | (4 990) | (5 557) | n.m. |
| Change in liabilities carried as working capital | 9 394 | (25 606) | (35 000) | n.m. |
| Income tax paid | (10 099) | (9 115) | 984 | 9,7% |
| Dividend received | 0 | 14 | 14 | n.a. |
| Interest and other financial charges paid | (22 474) | (17 986) | 4 488 | 20,0% |
| Interest received | 749 | 499 | (250) | (33,4%) |
| Other non-cash items | (1 214) | (5 083) | (3 869) | (318,7%) |
| Net cash generated from operating activities | 106 993 | 104 473 | (2 520) | (2,4%) |
| Cash flows from investing activities | | | | |
| Investments in tangible and intangible assets | (59 929) | (67 804) | (7 875) | (13,1%) |
| Adjustments to cash purchases | (3 754) | (13 070) | (9 316) | (248,2%) |
| Purchase of subsidiaries and business units | (16 428) | (34) | 16 394 | 99,8% |
| Cash acquired through business combinations | 1 815 | 0 | (1 815) | (100,0%) |
| (Payments for) / Proceeds from other financial assets - net | 15 038 | 7 665 | (7 373) | (49,0%) |
| Proceeds from disposal of property, plant and equipment (PPE) and intangible assets | 1 006 | 8 931 | 7 925 | n.m. |
| Proceeds from disposal of subsidiaries and associates | 0 | 3 484 | 3 484 | n.a. |
| Net cash used in investing activities | (62 252) | (60 828) | 1 424 | 2,3% |
| Cash flows from financing activities | | | | |
| Dividends paid to shareholders and Non-controlling interests | (6 369) | (22 656) | (16 287) | (255,7%) |
| Proceeds from/Repayment of loans and other borrowings -net | (23 012) | (23 317) | (305) | (1,3%) |
| Repayment of other financial liabilities | (12 792) | (6 175) | 6 617 | 51,7% |
| Repurchase of treasury shares | 0 | (559) | (559) | n.a. |
| Net cash used in financing activities | (42 173) | (52 707) | (10 534) | (25,0%) |
| Exchange differences on cash and cash equivalents | (80) | (86) | (6) | (7,5%) |
| Change in cash and cash equivalents | 2 488 | (9 148) | (11 636) | n.m. |
| Cash and cash equivalents, beginning of period | 14 625 | 17 558 | 2 933 | 20,1% |
| Cash and cash equivalents, end of period | 17 113 | 8 410 | (8 703) | (50,9%) |
| Change in cash and cash equivalents | 2 488 | (9 148) | (11 636) | n.m. |

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

| | in HUF millions | | | | | | | | | | |
|--|-----------------|------------------------|--------------|----------------------------|----------------|-------------------|------------------------------------|---|--|----------------------|--------------|
| | pieces | Capital reserves | | | Treasury stock | Retained earnings | Accumulated translation adjustment | Other Comprehensive | | Equity of the parent | Total Equity |
| | | Shares of common stock | Common stock | Additional paid in capital | | | | Reserve for equity settled share-based transactions | Cumulative revaluation reserve for AFS financial assets - net of tax | | |
| Balance at December 31, 2014 | 1,042,742,543 | 104,275 | 27,379 | 17 | (307) | 310,406 | 32,276 | (92) | 473,954 | 50,444 | 524,398 |
| Dividend | | | | | | | | | 0 | 0 | 0 |
| Dividend declared to Non-controlling interests | | | | | | | | | 0 | (6,423) | (6,423) |
| Equity settled share-based transactions | | | | 12 | | (1,107) | | | 12 | | 12 |
| Acquisition of GTS Hungary | | | | | | 24,362 | (468) | (15) | (1,107) | | (1,107) |
| Total comprehensive income | | | | | | 24,362 | (468) | (15) | 23,879 | 2,647 | 26,526 |
| Balance at September 30, 2015 | 1,042,742,543 | 104,275 | 27,379 | 29 | (307) | 333,661 | 31,808 | (107) | 496,738 | 46,668 | 543,406 |
| Dividend | | | | | | | | | 0 | 0 | 0 |
| Dividend declared to Non-controlling interests | | | | | | | | | 0 | (2,699) | (2,699) |
| Equity settled share-based transactions | | | | 4 | | | | | 4 | | 4 |
| Total comprehensive income | | | | | | 3,353 | 84 | 39 | 3,476 | 744 | 4,220 |
| Balance at December 31, 2015 | 1,042,742,543 | 104,275 | 27,379 | 33 | (307) | 337,014 | 31,892 | (68) | 500,218 | 44,713 | 544,931 |
| Dividend | | | | | | (15,633) | | | (15,633) | | (15,633) |
| Dividend declared to Non-controlling interests | | | | | | | | | 0 | (4,650) | (4,650) |
| Equity settled share-based transactions | | | | 226 | | 34,525 | (820) | 16 | 33,721 | 1,761 | 35,482 |
| Total comprehensive income | | | | | | (559) | | | (559) | | (559) |
| Treasury share repurchase | | | | | | | | | | | |
| Balance at September 30, 2016 | 1,042,742,543 | 104,275 | 27,379 | 259 | (834) | 355,906 | 31,072 | (52) | 518,005 | 41,824 | 559,829 |

3.7. Exchange rate information

| Exchange rate | Q3 2015 | Q3 2016 | Change (%) | 1-9 months 2015 | 1-9 months 2016 | Change (%) |
|--|------------|------------|---------------|--------------------|--------------------|---------------|
| HUF/EUR beginning of period | 315.04 | 316.16 | 0.4% | 314.89 | 313.12 | (0.6%) |
| HUF/EUR period-end | 313.32 | 309.15 | (1.3%) | 313.32 | 309.15 | (1.3%) |
| HUF/EUR cumulative monthly average | 312.59 | 311.65 | (0.3%) | 308.70 | 312.54 | 1.2% |
| HUF/MKD beginning of period | 5.11 | 5.12 | 0.2% | 5.12 | 5.08 | (0.8%) |
| HUF/MKD period-end | 5.08 | 5.03 | (1.0%) | 5.08 | 5.03 | (1.0%) |
| HUF/MKD cumulative monthly average | 5.07 | 5.07 | 0.0% | 5.01 | 5.07 | 1.2% |

3.8. Segment information

| HUF million | Q3 2015 | Q3 2016 | 1-9 months 2015 | 1-9 months 2016 |
|---|----------------|----------------|--------------------|--------------------|
| Total Telekom Hungary revenues | 135,290 | 128,972 | 410,547 | 382,507 |
| Less: Telekom Hungary revenues from other segments | (74) | (66) | (205) | (198) |
| Telekom Hungary revenues from external customers | 135,216 | 128,906 | 410,342 | 382,309 |
| Total Macedonia revenues | 14,415 | 13,977 | 39,847 | 39,920 |
| Less: Macedonia revenues from other segments | (28) | (18) | (61) | (51) |
| Macedonia revenues from external customers | 14,387 | 13,959 | 39,786 | 39,869 |
| Total Montenegro revenues | 8,437 | 7,749 | 23,370 | 21,688 |
| Less: Montenegro revenues from other segments | (32) | (8) | (38) | (43) |
| Montenegro revenues from external customers | 8,405 | 7,741 | 23,332 | 21,645 |
| Total consolidated revenue of the segments | 158,008 | 150,606 | 473,460 | 443,823 |
| Measurement/rounding differences to Group revenue | (2) | 0 | (2) | 0 |
| Total revenue of the Group | 158,006 | 150,606 | 473,458 | 443,823 |
| Segment results (EBITDA) | | | | |
| Telekom Hungary | 40,019 | 45,135 | 119,408 | 131,331 |
| Macedonia | 5,836 | 5,945 | 15,860 | 14,483 |
| Montenegro | 2,834 | 2,725 | 8,414 | 7,390 |
| Total EBITDA of the segments | 48,689 | 53,805 | 143,682 | 153,204 |
| Measurement/rounding differences to Group EBITDA | 239 | 1 | (111) | 4 |
| Total EBITDA of the Group | 48,928 | 53,806 | 143,571 | 153,208 |



4. DECLARATION

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

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

Christopher Mattheisen
Chief Executive Officer, member of the Board

János Szabó
Chief Financial Officer

Budapest, November 9, 2016

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, 2015, available on our website at <http://www.telekom.hu> which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

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