MAGYAR TELEKOM

QUARTERLY FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED MARCH 31, 2019

Budapest – May 8, 2019 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first quarter of 2019, in accordance with International Financial Reporting Standards (IFRS).

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1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q1 2018 IAS 17	Q1 2019 IFRS 16	Change (%)	Q1 2019 IFRS 16 effect	Q1 2019 excl. IFRS 16 effect	Change (%)
Total revenues	150,619	158,949	5.5%	0	158,949	5.5%
Operating profit	15,725	12,586	(20.0%)	527	12,059	(23.3%)
Profit attributable to:						
Owners of the parent	8,704	3,101	(64.4%)	(877)	3,978	(54.3%)
Non-controlling interests	810	881	8.8%	0	881	8.8%
	9,514	3,982	(58.1%)	(877)	4,859	(48.9%)
Gross profit	91,148	92,171	1.1%	0	92,171	1.1%
EBITDA	42,555	46,372	9.0%	5,057	41,315	(2.9%)
EBITDA margin	28.3%	29.2%	n.a.	n.m.	26.0%	n.a.
	1-3 months 2018	1-3 months 2019	Change (%)			
Free cash flow	(9,946)	(25,880)	(160.2%)			
CAPEX to Sales	9.6%	14.2%	n.a.	5.2%	9.0%	n.a.
Number of employees (closing full equivalent)	9,230	8,507	(7.8%)			
	Dec 31, 2018	Mar 31, 2019	Change (%)			
Net debt	272,805	404,718	48.4%	113,233	291,485	6.8%
Net debt / total capital	30.7%	39.5%	n.a.	n.a.	32.0%	n.a.

- **Revenue growth was maintained in both countries of operation as demand for data and smart equipment remained strong.**
  - **Integrated fixed-mobile offers attached to an attractive device portfolio, formed the flagship offering in both Hungary and North Macedonia, and continued to positively impact customer base developments**
  - **The structural decline of voice revenue was compensated for by strong growth in data across both the fixed and mobile segments**
  - **The growth in SI/IT revenues slowed, driven by seasonality as well as a high base effect**
- **The moderate increase in gross profit reflects a higher weighting of lower margin revenue sources**
- **Severance expenses of HUF 3.0 billion in Hungary led to a sharp rise in employee related expenses**
- **EBITDA, excluding the impacts of IFRS 16 adoption, declined due to increased severance expenses, but this was partly offset by higher gross profit and general cost saving measures**
- **Free cash flow decline reflects payment of the 2100 MHz frequency license extension fee along with some deterioration of working capital developments**
- **Net debt increased from HUF 272.8 billion at the end of 2018 to HUF 404.7 billion at the end of Q1 2019, reflecting the recognition of lease liabilities in line with IFRS 16 adoption.**

Tibor Rékasi, CEO commented:

"I am pleased to confirm that Magyar Telekom has maintained its momentum from 2018 to deliver both revenue and EBITDA growth in Q1 2019. We increased revenue by 5.5% to HUF 158.9 billion through strong performance of data driven services in both the fixed and the mobile segments and by continuing to grow equipment sales. While we recorded 9% growth in EBITDA, this was attributable to IFRS16 implementation, without which a slight decline was registered on the account of severance expenses incurred in Hungary. On Free Cash Flow we experienced a stronger than usual Q1 decline in our figures, but with the planned sale of real-estate in 2019, we remain confident that we will meet our guidance for 2019.

In Hungary, positive business trends continued in the first quarter, with revenue growth across all three major business lines.

In the mobile segment, demand for mobile data continued to grow alongside equipment sales revenues, offsetting a slight decline in voice revenues. This was reinforced by our ongoing strategy for equipment sales. Thanks to our efforts, Magyar Telekom became the largest online seller of mobile phones and tablets, taking a third of the Hungarian market in 2018, according to GKI Digital's market analysis.

In the fixed market, we continue to focus on the rollout of our fiber network, providing an increasing number of households with 100+ MB connections. We continued to see the positive results of this strategy in the growth of fixed line revenue, where – despite the industry-wide trend of declining voice revenues – we grew revenues by 2.1% year-on-year to HUF 52.7 billion in Q1 2019. While TV revenues remained broadly stable across the Group, we again succeeded in growing both equipment sales and broadband retail revenues.

With the strong performance of both our fixed and mobile business lines, we were able to focus on the third pillar of our core business strategy, our FMC customer base. In Q1 2019 we are still the only truly integrated player in the Hungarian market and are taking full advantage of this position to enforce our market presence and prepare for future developments in the market. The Magenta1 offering introduced in 2018, delivering discounted prices for services and related equipment, remains popular with our customers and supports the sustained growth in our Magenta1 customer base.

In line with our strategy, in Q1 2019 we continued to strengthen our online presence focusing on sales and customer service, providing simpler and more attractive solutions to our customers.

In the System Integration and IT segment we maintained our growth, with revenues increasing 3.1% year-on-year to reach HUF 21.4 billion in Q1 2019, primarily driven by public sector hardware and software delivery projects. We continue to pursue our strategy focused on building long-term relationships in the market and converting these deals into higher margin service contracts.

Group performance during the year was further supported by the continued turnaround in North Macedonia. Both revenues and EBITDA improved, thanks to a solid performance in both the fixed and mobile segments."

Public guidance

	2018 Actual	Public guidance for 2019[2]
Revenue	HUF 657 billion	slight decline
EBITDA	HUF 193 billion	increasing at 1%-2%
Capex[1]	HUF 92 billion	broadly stable
FCF[1]	HUF 68 billion	increasing at ca 5%
Dividend	HUF 25 per share	HUF 27 per share

[1] *excluding spectrum license fees*
[2] *on a comparable basis*

2. MANAGEMENT REPORT

2.1. Consolidated IFRS Group Results

2.1.1 Group Profit and Loss

Consolidated Statements of Comprehensive Income (HUF million)	Q1 2018 IAS 17	Q1 2019 IFRS 16	Change	Change (%)
Revenues				
Mobile revenues	78,272	84,877	6,605	8.4%
Fixed line revenues	51,590	52,681	1,091	2.1%
System Integration/Information Technology revenues	20,757	21,391	634	3.1%
Total revenues	**150,619**	**158,949**	**8,330**	**5.5%**
Direct costs	**(59,471)**	**(66,778)**	**(7,307)**	**(12.3%)**
Gross profit	**91,148**	**92,171**	**1,023**	**1.1%**
Indirect costs	**(48,593)**	**(45,799)**	**2,794**	**5.7%**
EBITDA	**42,555**	**46,372**	**3,817**	**9.0%**
Depreciation and amortization	(26,830)	(33,786)	(6,956)	(25.9%)
Operating profit	**15,725**	**12,586**	**(3,139)**	**(20.0%)**
Net financial result	(4,311)	(5,625)	(1,314)	(30.5%)
Share of associates and joint ventures' results	395	100	(295)	(74.7%)
Profit before income tax	**11,809**	**7,061**	**(4,748)**	**(40.2%)**
Income tax	(2,295)	(3,079)	(784)	(34.2%)
Profit for the period	**9,514**	**3,982**	**(5,532)**	**(58.1%)**
Profit attributable to non-controlling interests	810	881	71	8.8%
Profit attributable to owners of the parent	**8,704**	**3,101**	**(5,603)**	**(64.4%)**

Total revenues increased by 5.5% year-on-year to HUF 158.9 billion in Q1 2019, primarily driven by a strong increase in equipment sales and mobile data usage.

- **Mobile revenues increased by 8.4% year-on-year to HUF 84.9 billion in Q1 2019,** as growth in equipment sales, along with a continued increase in mobile data revenues, more than offset the moderate decline in voice revenue.
  - **Voice retail** revenues declined by 1.9% year-on-year to HUF 32.2 billion, as a result of prevailing price pressures in both countries, intense competition driven price erosion in the Hungarian mid-sized business segment, and the distorting effect of one-off revenues related to the termination of the prepaid loyalty program in North Macedonia in Q1 2018.
  - **Voice wholesale** revenue rose by 2.0 % year-on-year to HUF 2.4 billion in Q1 2019, driven by higher incoming domestic mobile traffic in Hungary, partly offset by lower volumes of incoming international mobile traffic in North Macedonia.
  - **Data** revenues grew 14.4% year-on-year to HUF 21.4 billion in Q1 2019, thanks to a higher number of mobile internet subscribers across the Group.
  - **SMS** revenues increased by 5.8% year-on-year to HUF 4.8 billion in Q1 2019, reflecting increased residential usage by a growing postpaid customer base, as well as higher revenues from mass messaging in Hungary.
  - **Mobile equipment** revenues increased by 23.5% year-on-year to HUF 21.4 billion in Q1 2019, attributable to a growing proportion of higher-end handsets within the sales mix in Hungary and a higher volume of smartphone sales in North Macedonia.
  - **Other mobile** revenues increased by 5.2% year-on-year to HUF 2.7 billion in Q1 2019, reflecting higher visitor revenues in both countries, which were partly offset by lower late payment revenues in Hungary.
- **Fixed line revenues rose by 2.1% year-on-year to HUF 52.7 billion in Q1 2019,** attributable to a further increase in equipment sales, as well as higher broadband retail service revenues.
  - **Voice retail** revenues declined by 4.5% year-on-year to HUF 10.5 billion in Q1 2019, reflecting the continued decline in usage levels in both counties.
  - **Broadband retail** revenues increased by 4.0% year-on-year to HUF 13.4 billion in Q1 2019, with revenue growing in both countries. In Hungary, higher customer numbers were coupled with broadly unchanged ARPUs, whilst in North Macedonia the positive impact from the expansion of the subscriber base was partly offset by a decline in price levels.

- **TV** revenues remained broadly stable year-on-year at HUF 12.0 billion in Q1 2019. In Hungary, TV revenues decreased moderately, as lower effective price levels and higher discounts in relation to attached equipment sales in the past 24 months, versus the base period, are now reflected in service revenues under IFRS 15. At a Group level that was balanced by higher TV revenues from the North Macedonian operations.
- **Fixed equipment** revenues grew to HUF 5.7 billion in Q1 2019 from HUF 4.1 billion in Q1 2018, reflecting a further increase in the volume of equipment sold in relation to fixed service contracts, along with a change in the subsidy policy in Hungary.
- **Data retail** revenues declined by 1.9% year-on-year to HUF 2.3 billion in Q1 2019, reflecting general pricing pressure in the Hungarian business segment.
- **Wholesale** revenues were 3.6% lower year-on-year at HUF 4.6 billion in Q1 2019, reflecting reduced wholesale DSL revenues in Hungary.
- **Other fixed line** revenues decreased by 6.7% year-on-year to HUF 4.2 billion in Q1 2019, due to the reclassification related to value added services revenues in Hungary.

▪ **System Integration (SI) and IT revenues grew by 3.1% year-on-year to HUF 21.4 billion in Q1 2019**, as revenues in Hungary continued to increase, primarily driven by public sector hardware and software delivery projects. SI/IT revenues declined in North Macedonia, reflecting a temporary reduction in project volumes.

Direct costs increased by 12.3% year-on-year, to HUF 66.8 billion in Q1 2019, primarily driven by higher equipment costs, in line with the growth in related revenue lines.

▪ **Interconnect costs** increased by 3.6% year-on-year to HUF 4.8 billion in Q1 2019, reflecting increased off-network mobile voice and SMS traffic in both countries, which led to higher payments to domestic mobile operators.

▪ **SI/IT service related costs** increased by 7.1% year-on-year to HUF 15.0 billion in Q1 2019, driven by a higher volume of lower margin delivery projects in the sales mix.

▪ **Bad debt expenses** increased by HUF 0.7 billion year-on-year to HUF 2.1 billion in Q1 2019. This was primarily driven by higher bad debt expense in Hungary, resulting from the strong growth in revenues and the absence of the positive one-off impact recorded in Q1 2018 relating to improvements in the aging structure of our receivables, in addition to temporarily favourable results related to factored trade receivables. In North Macedonia, bad debt expenses also increased due to higher equipment sales revenues.

▪ **Telecom tax** remained broadly stable year-on-year at HUF 6.2 billion in Q1 2019, as lower fixed voice usage mostly outweighed the increase in mobile traffic in Hungary.

▪ **Other direct costs** increased by 16.4% year-on-year to HUF 38.6 billion in Q1 2019, primarily due to an increase in the cost of equipment sales in line with higher sales, and an increase in TV content outpayments.

Gross profit increased by 1.1% year-on-year to HUF 92.2 billion in Q1 2019, thanks to a strong increase in revenues, but partly offset by the impact of the increasing weight of lower margin services in the sales mix.

Indirect costs improved by 5.7% year-on-year to HUF 45.8 billion in Q1 2019. Excluding the impact of IFRS 16 implementation, indirect costs were 4.7% higher at HUF 50.9 billion. The increase in costs was driven by growth in severance expenses booked in relation to the Hungarian headcount reduction programme, though this was partially offset by savings in other operating expenses.

▪ **Employee-related expenses** rose by 15.7% year-on-year to HUF 22.6 billion in Q1 2019, reflecting the HUF 3.0 billion in severance expenses in relation to the Hungarian headcount reduction programme, combined with increased expenses related to the restructuring of the remuneration system, driven by regulation changes in Hungary. Employee related expenses remained stable in North Macedonia.

▪ **Hungarian utility tax** remained broadly stable at HUF 7.2 billion in Q1 2019, reflecting an increase in the length of the taxable network, due to the refinement of the cable network records. This offset the positive effects of Magyar Telekom's tax credit relating to its new network investments and upgrades that enable internet access of at least 100 Mbps.

▪ **Other operating expenses** were HUF 6.1 billion lower year-on-year in Q1 2019, with IFRS 16 adoption accounting for HUF 5.1 billion of the decline. The underlying improvement of 4.4% was driven by lower IT maintenance and energy costs and temporary savings in marketing expenses. which more than offset increased rental fees in Hungary. Other operating expenses in North Macedonia remained broadly unchanged.

▪ **Other operating income** was HUF 0.1 billion lower year-on-year at HUF 0.9 billion in Q1 2019, reflecting the absence of one-off accrual reversals (related to lapsed unbilled liabilities in Q1 2018).

EBITDA increased by 9.0% year-on-year to HUF 46.4 billion in Q1 2019. Excluding the impact of IFRS 16 adoption, EBITDA was 2.9% lower year-on-year. This decline reflects higher severance expenses in Hungary, which more than offset increases in gross profit in both countries, and improvements in other operating expenses at the Hungarian operation.

Depreciation and amortization (D&A) expenses rose by HUF 7.0 billion year-on-year to HUF 33.8 billion in Q1 2019, with IFRS 16 adoption accounting for HUF 4.5 billion of that increase. The underlying increase of HUF 2.4 billion or 9.0% year-on-year was due to the shortened useful lives of customer connection related network elements.

Profit for the period declined by 58.1% year-on-year to HUF 4.0 billion in Q1 2019, as a combined result of higher severance expenses, an increase in tax expense, and the HUF 0.9 billion impact resulting from the adoption of IFRS 16.

- **Net financial expenses** increased by HUF 1.3 billion year-on-year to HUF 5.6 billion in Q1 2019, driven by the adoption of IFRS 16 (with an impact of HUF 1.4 billion). Excluding this impact, financial expenses declined 2.3% year-on-year thanks to lower interest expenses resulting from the lower debt level.
- **Income tax** expenses increased from HUF 2.3 billion in Q1 2018 to HUF 3.1 billion in Q1 2019, despite a decline in profit before tax. This was driven by a slight increase in local business taxes, which represent a substantial portion of income taxes, and arose on a near flat level in each quarter, combined with higher deferred tax expenses related to subsidiaries (i.e. a significant decrease in tax losses and a change in the handling of development reserves).
- **Profit attributable to non-controlling interests increased by 8.8% year-on-year to HUF 0.9 billion in Q1 2019,** as higher EBITDA led to increased profits at the North Macedonian operation.

2.1.2 Group Cash Flows

HUF millions	1-3 months 2018	1-3 months 2019	Change
Operating cash flow	10,091	(1,496)	(11,587)
Investing cash flow	(19,646)	(23,727)	(4,081)
Less: Payments for other financial assets - net	1,219	2,742	1,523
Investing cash flow excluding Payments for other financial assets – net	(18,427)	(20,985)	(2,558)
Repayment of other financial liabilities	(1,610)	(3,399)	(1,789)
Total free cash flow	**(9,946)**	**(25,880)**	**(15,934)**
Payments for other financial assets - net	(1,219)	(2,742)	(1,523)
Proceeds from loans and other borrowings - net	12,745	30,687	17,942
Dividend paid to shareholders and Non-controlling interests	(3)	0	3
Repurchase of treasury shares	(363)	0	363
Exchange differences on cash and cash equivalents	28	(19)	(47)
Change in cash and cash equivalents	**1,242**	**2,046**	**804**

Free cash flow (FCF) decreased from HUF 9.9 billion in Q1 2018 to HUF 25.9 billion in Q1 2019 due to the reasons described below.

Operating cash flow

Net cash generated from operating activities amounted to HUF 10.1 billion cash inflow in Q1 2018, compared to HUF 1.5 billion cash outflow in Q1 2019, as a result of the following trends:

- HUF 3.8 billion **positive impact** from higher **EBITDA** recorded in Q1 2019 compared to Q1 2018
- HUF 14.5 billion **positive change in active working capital,** mainly as a result of the following factors:
  - higher decrease in the balances of BAU receivables in Q1 2019 compared to Q1 2018 (positive impact: ca. HUF 6.6 billion)
  - higher decrease in instalment receivables year-on-year attributable to shorter instalment periods (positive impact: ca. HUF 3.2 billion)
  - higher decrease in SI/IT receivables in Q1 2019 compared to Q1 2018 (positive impact: ca. HUF 2.2 billion)
  - lower increase in SI/IT related and handset inventory balances in Q1 2019 compared to Q1 2018 due to different project timings and improved inventory management (positive impact: ca. HUF 1.3 billion)
  - reduced SI/IT related advance payment as well as higher advance payment settlement in Q1 2019 compared to Q1 2018, due to different project seasonality (positive impact: ca. HUF 1.0 billion)
- HUF 1.1 billion **positive change in provisions,** mainly due to a higher net addition to severance provision in Q1 2019 versus Q1 2018
- HUF 30.3 billion **negative change in passive working capital,** primarily driven by the following factors:

- higher decrease in the balance of equipment creditors resulting from changes in payment terms agreed with handset suppliers as well as higher decrease in the balances of invoiced and non-invoiced other creditors due to different timing of payment in Q1 2019 compared to Q1 2018 (negative impact: HUF 25.9 billion)
- higher payment related to SI/IT services in Q1 2019 than in Q1 2018 (negative impact: HUF 3.2 billion)

- HUF 1.1 billion **negative change** due to higher levels of **interest paid** in Q1 2019 compared to Q1 2018, as a result of the application of the new IFRS 16 accounting standard (negative impact: ca. HUF 1.4 billion) with effect from 1 January 2019

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF 18.4 billion in Q1 2018, compared to HUF 21.0 billion in Q1 2019, with the higher cash outflow driven mainly by the following:

- HUF 8.1 billion **negative effect** due to higher **CAPEX** in Q1 2019 vs. Q1 2018, mainly due to the application of the new IFRS 16 accounting standard (negative impact: ca. HUF 8.3 billion) with effect from 1 January 2019
- HUF 2.5 billion **positive change** due to combined effect of higher payments to **CAPEX creditors** (including payment of HUF 11 billion in relation to the extension of the 2100 MHz mobile license) in Q1 2019 compared to Q1 2018 which was more than offset with the effect of the application of the new IFRS 16 accounting standard
- HUF 0.7 billion **positive impact** from lower cash outflows for business combinations in Q1 2019 compared to Q1 2018 (**ITGen Kft.** in 2018), which was offset by the higher volume **of cable TV operation acquisitions** in Q1 2019 with a **negative impact** HUF 0.7 billion
- HUF 0.1 billion **negative impact** due to the lower amount of **cash acquired** through acquisitions
- HUF 3.3 billion **positive change** related to the **disposal of PPE,** mainly reflecting the sale of the Szerémi-Kaposvár building in Q1 2019 against smaller real estate sales in Q1 2018

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF 1.6 billion in Q1 2018 to HUF 3.4 billion in Q1 2019, mainly due to the following:

- HUF 1.6 billion **negative change** caused by higher **finance lease** payments in Q1 2019 compared to Q1 2018 due to the application of the new IFRS 16 accounting standard (negative impact: ca. HUF 1.8 billion) with effect from 1 January 2019
- HUF 0.4 billion **negative change** due to higher **content right** payments in Q1 2019 compared to Q1 2018

Free cash flow (FCF) decreased overall, from an outflow of HUF 9.9 billion to an outflow of HUF 25.9, mainly due to the reasons described above.

Payments for other financial assets - net increased by HUF 1.5 billion, primarily due to a higher amount of bank deposits over 3 months at Maktel in net terms in Q1 2019 vs. Q1 2018.

Proceeds from loans and other borrowings – net increased by HUF 17.9 billion, due to higher drawdown of DT Group loans, as well as higher inhouse cash funds in Q1 2019 compared to Q1 2018.

Repurchase of treasury shares improved by HUF 0.4 billion due to a lower repurchase of treasury shares for ESOP (Employee Stock Ownership Program) in Q1 2019 than in Q1 2018.

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

2.1.3 Statements of Financial Position

The most significant changes in the balances of the Statements of Financial Position from December 31, 2018 to March 31, 2019 can be observed in the following lines:

- Trade receivables and other assets
- Property plant and equipment, Right-of-use assets and intangible assets (including Goodwill)
- Financial liabilities to related parties (current and non-current combined)
- Lease liabilities (current and non-current combined)
- Trade payables

Trade receivables and other assets decreased by HUF 13.6 billion from December 31, 2018 to March 31, 2019, mainly driven by the HUF 7.8 billion decrease in SI/IT receivables. This effect was further boosted by the reclassification of the prepaid lease expenses to Right-of-use assets due to the transition requirement of the new IFRS 16accounting standard.

Property plant and equipment (PPE), Right-of-use assets and intangible assets (including Goodwill) together increased by HUF 90.2 billion from December 31, 2018 to March 31, 2019. The increase was mainly driven by the recognition of Right-of-use assets in connection with the transition of the new IFRS 16 accounting standard which was slightly offset by the decrease in the balances of Property plant and equipment and Intangible assets, as the depreciation and scrapping of assets exceeded capital expenditure for the period.

Financial liabilities to related parties (current and non-current combined) increased by HUF 21.9. billion from December 31, 2018 to March 31, 2019 mainly due to the drawdown of DT Group loans in 2019.

Lease liabilities (current and non-current combined) increased by HUF 113.2 billion from December 31, 2018 to March 31, 2019 driven by the transition to the new IFRS 16accounting standard. At the date of initial application, the total impact of opening balances was HUF 107.2 billion of which HUF 3.8 billion resulted from the reclassification of former financial leased liabilities under IAS17.

Trade payables decreased by HUF 60.4 billion from December 31, 2018 to March 31, 2019, largely as a reflection of the decrease in the balances outstanding to handset, SI/IT, CAPEX and OPEX suppliers.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position from December 31, 2018 to March 31, 2019. 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 2019 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 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 14.1 billion as at December 31, 2018. These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has to date been delivering on its contractual obligations and expects to continue to do so in the future; consequently, there have been no significant drawdown of the guarantees in 2019 and this is expected to continue to be the case going forward.

Commitments

There has not been any material change in the nature and amount of our commitments in Q1 2019.

Significant events

For any significant events that occurred between the end of the quarter (March 31, 2019) and the date publishing of this "Quarterly financial report", please see our Investor Relations website:

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

2.2. Segment reports

As of Q1 2019, 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 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 Management Committee (MC) of the Company and reconciled with the corresponding Group numbers. This information includes several key indicators of profitability that are considered for the purposes of assessing performance and allocating resources. It is the Management's belief that Revenue, EBITDA and Capex are the most appropriate indicators for monitoring each segment's performance and are most consistent with how the Group's results are reported in the statutory financial statements.

2.2.1 MT-Hungary

HUF million	Q1 2018 IAS 17	Q1 2019 IFRS 16	Change	Change (%)
Voice	31,169	30,814	(355)	(1.1%)
Non-voice	21,339	24,065	2,726	12.8%
Equipment	15,545	19,478	3,933	25.3%
Other	2,352	2,422	70	3.0%
Total mobile revenues	**70,405**	**76,779**	**6,374**	**9.1%**
Voice retail	9,817	9,349	(468)	(4.8%)
Broadband - retail	11,664	12,115	451	3.9%
TV	11,058	10,904	(154)	(1.4%)
Equipment	3,975	5,643	1,668	42.0%
Other	10,421	9,889	(532)	(5.1%)
Fixed line revenues	**46,935**	**47,900**	**965**	**2.1%**
SI/IT revenues	**20,543**	**21,209**	**666**	**3.2%**
Total revenues	**137,883**	**145,888**	**8,005**	**5.8%**
Direct costs	**(55,744)**	**(62,834)**	**(7,090)**	**(12.7%)**
Gross profit	**82,139**	**83,054**	**915**	**1.1%**
Indirect costs	**(44,900)**	**(41,890)**	**3,010**	**6.7%**
EBITDA	**37,239**	**41,164**	**3,925**	**10.5%**
Segment Capex	**13,371**	**20,425**	**7,054**	**52.8%**

Operational statistics – access numbers	Mar 31 2018	Mar 31 2019	Change (%)
Number of mobile customers (RPC)	5,297,842	5,305,191	0.1%
Postpaid share in the RPC base	64.8%	68.2%	n.a.
Total fixed voice access	1,401,632	1,377,574	(1.7%)
Total retail fixed broadband customers	1,088,513	1,170,173	7.5%
Total TV customers	1,038,871	1,106,644	6.5%

Operational statistics – ARPU (HUF)	Q1 2018 IFRS 15	Q1 2019 IFRS 15	Change (%)
Mobile ARPU	3,308	3,447	4.2%
Postpaid ARPU	4,574	4,605	0.7%
Prepaid ARPU	998	1,015	1.7%
Blended fixed voice ARPU	2,327	2,252	(3.2%)
Blended fixed broadband ARPU	3,494	3,485	(0.3%)
Blended TV ARPU	3,568	3,312	(7.2%)

Total revenues for the MT-Hungary segment increased by 5.8% year-on-year to HUF 145.9 billion in Q1 2019. This growth was primarily attributable to the high revenues obtained from equipment sales in both the mobile and fixed segments, and ongoing customer demand for data services. The focus on our Magenta1 offering continued in 2019, following the strong performance that resulted from the restructuring of the offering in 2018. Thanks to this initiative, we sustained ARPU growth in the mobile segment during the quarter.

- **Mobile revenues** grew by 9.1% year-on-year in Q1 2019 to HUF 76.8 billion. The increase was primarily driven by growth in mobile data and equipment sales, in line with the strategy set out in 2018. In addition, SMS revenues continued to grow in Q1, increasing by 6.0% to reach HUF 4.5 billion. Sustained growth in demand for larger data packages, supported by a moderate increase in mobile subscriber numbers, also had a positive effect on mobile ARPU. Blended ARPU grew by 4.2% year-on-year, thanks to our customizable postpaid tariff system and our continuing efforts to secure pre-to-postpaid migration.
  - **Mobile service** revenue increased by 4.5% year-on-year to HUF 54.9 billion in Q1 2019, as growth in mobile data revenues continued, outperforming Q1 2018 by 14.5%. These rising mobile data revenues, which offset a moderate decline in mobile voice revenues, were facilitated by our focus on the FMC segment and supported by growth in SMS revenues.
  - **Mobile equipment** revenue increased by 25.3% year-on-year to HUF 19.5 billion in Q1 2019. This resulted from a higher ratio of high-end handsets in the sales mix and our ongoing efforts to reduce the seasonal decline in sales that usually occurs in the first quarter.
  - **Other** revenues increased by 3.0% year-on-year in Q1 2019 to HUF 2.4 billion, reflecting higher visitor revenue versus the comparable period in 2018.
- **Fixed line revenues** increased by 2.1% year-on-year in Q1 2019 to HUF 47.9 billion. Growth in fixed broadband and equipment revenues more than offset the continued structural decline in voice retail revenues and a slight decrease in TV revenues. Continued strong growth of 42.0% in equipment sales in Q1 2019 was achieved through further increases in the volume of equipment sold, as a result of changes to the subsidy policy.
  - **Voice retail** revenues decreased by 4.8% year-on-year in Q1 2019, as the fixed voice market continued to contract.
  - **Broadband retail** revenues increased by 3.9% year-on-year to HUF 12.1 billion in Q1 2019. This was driven by an increase in the number of broadband subscribers, combined with the provision of gigabit internet connections to an increasing number of households, providing greater upselling opportunities.
  - **TV** revenues decreased by 1.4% year-on-year in Q1 2019, attributable to a slight decline in TV customer numbers and larger discounts related to equipment sales in the comparable period.
  - **Equipment** revenues increased by 42.0 % year-on-year to HUF 5.6 billion, due to a greater amount of equipment being sold in relation to fixed contracts.
  - **Other** fixed line revenues decreased by 7.4% year-on-year to HUF 3.9 billion in Q1 2019, due to the reclassification of value-added services revenues.
- **SI/IT revenues increased** by 3.2% year-on-year to HUF 21.2 billion in Q1 2019, as demand for hardware and software deliveries remained strong. These projects form the basis of our strategy in this area but typically have lower profit margins and a dilutive effect on the gross margin.

EBITDA in Q1 2019 increased by 10.5% year-on-year to HUF 41.2 billion, driven by the impact of IFRS16 accounting changes. The EBITDA without the IFRS16 effect showed a slight decline.

- **Gross profit** increased by 1.1% year-on-year in Q1 2019 to HUF 83.1 billion. These figures reflect the increase in revenues, which was partly offset by the increasing share of lower margin services.
- **Employee-related expenses** increased by 16.7% year-on-year to HUF 21.3 billion, as a result of HUF 3 billion in severance expenses in relation of the headcount reduction program, combined with increased social security expenses caused by regulatory changes.
- **Other operating expenses (net)** decreased by 31.4% year-on-year in Q1 2019, thanks largely to changes in accounting related to IFRS16. The underlying improvement was due to lower IT maintenance and energy costs, and temporary savings in marketing expenses.

Capex rose by HUF 7.1 billion year-on-year to HUF 20.4 billion in Q1 2019 driven by the impact of IFRS 16 adoption. Capex without the impact of IFRS 16 declined by HUF 1.0 billion year-on-year to HUF 12.3 billion, due to the seasonal drivers in spending.

Outlook: As still the only fully integrated operator on the Hungarian market, we believe that our position and commitment to the FMC market provides us an advantage for the future, when market conditions change. In Q1 2019 we have kept our focus on networks – both 4G on mobile and fibre-optics on fixed – to be able to leverage our advantages as a market leader in all business segments.

2.2.2 North Macedonia

HUF million	Q1 2018 IAS 17	Q1 2019 IFRS 16	Change	Change (%)
Voice	3,954	3,743	(211)	(5.3%)
Non-voice	1,924	2,164	240	12.5%
Equipment	1,757	1,894	137	7.8%
Other	232	297	65	28.0%
Total mobile revenues	7,867	8,098	**231**	**2.9%**
Voice retail	1,198	1,152	(46)	(3.8%)
Broadband - retail	1,271	1,332	61	4.8%
TV	916	1,062	146	15.9%
Equipment	125*	75	(50)	(40.0%)
Other	1,189	1,206	17	1.4%
Fixed line revenues	**4,699**	**4,827**	**128**	**2.7%**
SI/IT revenues	**214**	**182**	**(32)**	**(15.0%)**
Total revenues	**12,780**	**13,107**	**327**	**2.6%**
Direct costs	**(3,769)**	**(3,985)**	**(216)**	**(5.7%)**
Gross profit	**9,011**	**9,122**	**111**	**1.2%**
Indirect costs	**(3,710)**	**(3,552)**	**158**	**4.3%**
EBITDA	**5,301**	**5,570**	**269**	**5.1%**
Segment Capex	**1,133**	**2,172**	**1,039**	**91.7%**

*this amount also includes translation and rounding difference

Operational statistics – access numbers	Mar 31 2018	Mar 31 2019	Change (%)
Number of mobile customers	1,174,266	1,188,524	1.2%
Postpaid share in the customer base	48.9%	51.5%	n.a.
Total fixed voice access	209,039	212,204	1.5%
Total fixed retail broadband access	168,608	180,379	7.0%
Total TV customers	119,094	130,255	9.4%

Total revenues in North Macedonia increased by 2.6% year-on-year to HUF 13.1 billion in Q1 2019. This growth was largely attributable to sustained positive developments in both fixed and mobile revenues driven by a strong increase in mobile internet revenue, higher equipment sales, and increasing IPTV customers with higher ARPU in comparison to Q1 2018.

- **Mobile revenues** improved by 2.9% year-on-year in Q1 2019 as a result of continued growth in data, equipment sales revenues and other mobile revenues.
  - **Voice** revenues decreased moderately in Q1 2019, by 5.3% year-on-year, due to the absence of the positive one-off effect from the loyalty programme expiration points in Q1 2018.
  - **Non-voice** revenues increased by 12.5% year-on-year in Q1 2019, due to increased mobile internet revenues as the result of higher data traffic and higher usage of tariff models with voice-data bundles.
  - **Mobile equipment** revenues were up 7.8% year-on-year in Q1 2019, driven by an increase in the number of handsets sold, partly offset by the lower average price.
  - **Other** mobile revenues strongly increased by 28.0% year-on-year in Q1 2019 due to higher visitor revenues driven by lower prices for international traffic resulting from the Balkan roaming regulation and the revenue generated by the MVNO operation of Telekabel.
- **Fixed line revenue** continued to improve by 2.7% year-on-year in Q1 2019 due to higher TV, retail broadband and equipment sales revenues. This positive trend was partly offset by a temporary decline in voice revenue, caused by a general decrease in usage.
  - **Voice** retail revenues declined by 3.8% year-on-year in Q1 2019 caused by a general decrease in usage.
  - **Broadband** retail revenues were 4.8% higher year-on-year in Q1 2019 due to subscriber base growth which more than offset the lower ARPU during the quarter.
  - **TV** revenues grew by 15.9% year-on-year in Q1 2019 thanks to the dynamic expansion of the IPTV subscriber base and higher ARPU.
  - Fixed **equipment** revenues declined by 40% year-on-year in Q1 2019, mainly driven by lower sales of TV sets and other IT equipment.

- **SI/IT revenues** declined by 15.0% year-on-year in Q1 2019, caused by a temporary revenue decrease in customised solutions projects but slightly compensated by increased revenue form cloud computing.

EBITDA of HUF 5.3 billion was 5.1% higher year-on-year in Q1 2019 (+1.3% vs. Q1 2018 excl. IFRS 16 effect) thanks to stable growth in revenues and gross profit.

Capex expenditure rose by HUF 1 billion year-on-year to HUF 2.2 billion in Q1 2019 (excluding the impact of IFRS 16 adoption the increase was HUF 0.8 billion to HUF 1.9 billion), reflecting the investments in fixed network, mobile network and IT, related to higher realisation of the FTTH Passive Network, VoLTE, RAN equipment/services and DR Lan network renovation.

Outlook: With Telekabel acting as a MVNO and VIP's rebranding to A1, we expect market competition to rise in North Macedonia. Despite the downward pressure this trend may exert on our results in 2019, we expect the improving performance in the SI/IT segment and the extended FMC Magenta1 proposition to offset any negative effects.

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, 2018, 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, 2018 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2018 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, 2018 with the following exception.

As of January 1, 2019, the Group adopted IFRS 16. As a result of the adoption of the new standard, the following extracts from the accounting policy were applied by the Group:

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 "Leases." The standard is effective for the first time for financial years beginning on or after January 1, 2019. From the date of first-time adoption, the new lease standard has a material effect on Magyar Telekom Group's consolidated financial statements, as disclosed in the consolidated annual financial statements for the year ended December 31, 2018 particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position.

Magyar Telekom applied the modified retrospective approach. The Group mainly leases cell sites, rooftops, office buildings and retail shops, network assets, space on masts or towers and cars that are affected by the new standard. IFRS 16 standard has a significant effect on the consolidated financial statements and introduces a single lease accounting model by taking right-of-use assets and lease liabilities on the balance sheet. The transitional effect on right-of-use assets was HUF 108.0 billion and HUF 107.2 billion on lease liabilities (including finance lease assets in the amount of HUF 2.8 billion and finance lease liabilities in the amount of HUF 3.8 billion recognized as at December 31, 2018 under IAS 17, prior to the transition). As a result of adopting IFRS 16, the 2018 operating lease expenses are presented as depreciation and interest expense from January 1, 2019. For the agreements already concluded by the end of 2018, the transition effect on profit or loss is expected to be between HUF 17.1 and 20.9 billion in 2019 that includes the depreciation and interest expense excluding the leases which were previously accounted for as finance leases under IAS 17. On the lessor side, MT Group mainly analyzes the revised definition of leases including the head and sublease constructions. Other than that, MT Group does not have considerable impacts on the financial statements of the Group at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16.

Regarding the transition to IFRS 16, MT Group decided:

- not to apply the practical expedient in IFRS 16.C3 ("Grandfathering approach"). As a result, a re-assessment was performed whether existing contracts are or contain a lease at the date of initial application, i.e. as of January 1, 2019.
- not to use the low value exemption,
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment) as a lessee,
- not to apply the practical expedient regarding short-term leases except for some minor and insignificant lease arrangements with a lease term of one month or less,
- to use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease
- not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.62%.

For leases previously classified as finance leases the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in measurement adjustments. The remeasurements of the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Operating lease commitments disclosed as at December 31, 2018 (HUF 146,012 million) are adjusted in the below table, as a result of a thorough review of the lease-related contracts and processes.

MAGYAR TELEKOM - Adjustments recognised on adoption of IFRS 16

	in HUF millions
Operating lease commitments under IAS 17 as at December 31, 2018	**130 672**
Minimum lease payments (at its par value) from financial lease liabilities as of December 31, 2018	9 552
Discounting effect using the lessee's incremental borrowing rate of at the date of initial application	(37 646)
(Less): contracts reassessed as service agreements	(8 523)
Add/(less): adjustments as a result of a different treatment of extension and termination options	14 556
Other	(131)
Lease liability recognised as at January 1, 2019	**107 214**
Of which are:	
Current lease liabilities	12 191
Non-current lease liabilities	95 023
	107 214

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q1 2018 (unaudited)	Q1 2019 (unaudited)	Change	Change (%)
Revenues				
Voice retail	32,786	32,173	(613)	(1.9%)
Voice wholesale	2,337	2,384	47	2.0%
Data	18,714	21,415	2,701	14.4%
SMS	4,549	4,814	265	5.8%
Equipment	17,302	21,372	4,070	23.5%
Other mobile revenues	2,584	2,719	135	5.2%
Mobile revenues	**78,272**	**84,877**	**6,605**	**8.4%**
Voice retail	11,001	10,501	(500)	(4.5%)
Broadband retail	12,935	13,447	512	4.0%
TV	11,974	11,966	(8)	(0.1%)
Equipment	4,114	5,718	1,604	39.0%
Data retail	2,314	2,269	(45)	(1.9%)
Wholesale (voice, broadband, data)	4,797	4,622	(175)	(3.6%)
Other fixed line revenues	4,455	4,158	(297)	(6.7%)
Fixed line revenues	**51,590**	**52,681**	**1,091**	**2.1%**
System Integration/Information Technology revenues	20,757	21,391	634	3.1%
Total revenues	**150,619**	**158,949**	**8,330**	**5.5%**
Direct costs				
Interconnect costs	(4,667)	(4,834)	(167)	(3.6%)
SI/IT service related costs	(14,041)	(15,042)	(1,001)	(7.1%)
Bad debt expense	(1,435)	(2,086)	(651)	(45.4%)
Telecom tax	(6,163)	(6,225)	(62)	(1.0%)
Other direct costs	(33,165)	(38,591)	(5,426)	(16.4%)
Direct costs	**(59,471)**	**(66,778)**	**(7,307)**	**(12.3%)**
Gross profit	**91,148**	**92,171**	**1,023**	**1.1%**
Employee related expenses	(19,511)	(22,568)	(3,057)	(15.7%)
Utility tax	(7,159)	(7,218)	(59)	(0.8%)
Other operating expenses	(22,961)	(16,904)	6,057	26.4%
Other operating income	1,038	891	(147)	(14.2%)
EBITDA	**42,555**	**46,372**	**3,817**	**9.0%**
Depreciation and amortization	(26,830)	(33,786)	(6,956)	(25.9%)
Operating profit	**15,725**	**12,586**	**(3,139)**	**(20.0%)**
Net financial result	(4,311)	(5,625)	(1,314)	(30.5%)
Share of associates' and joint ventures' results	395	100	(295)	(74.7%)
Profit before income tax	**11,809**	**7,061**	**(4,748)**	**(40.2%)**
Income tax	(2,295)	(3,079)	(784)	(34.2%)
Profit for the period	**9,514**	**3,982**	**(5,532)**	**(58.1%)**
Change in exchange differences on translating foreign operations	670	(381)	(1,051)	n.m.
Revaluation of available-for-sale financial assets	75	59	(16)	(21.3%)
Other comprehensive income for the period	**745**	**(322)**	**(1,067)**	**n.m.**
Total comprehensive income for the period	**10,259**	**3,660**	**(6,599)**	**(64.3%)**
Profit attributable to:				
Owners of the parent	8,704	3,101	(5,603)	(64.4%)
Non-controlling interests	810	881	71	8.8%
	9,514	**3,982**	**(5,532)**	**(58.1%)**
Total comprehensive income attributable to:				
Owners of the parent	9,149	2,889	(6,260)	(68.4%)
Non-controlling interests	1,110	771	(339)	(30.5%)
	10,259	**3,660**	**(6,599)**	**(64.3%)**
Basic earnings per share (HUF)	**8.39**	**3.00**	**(5.39)**	**(64.2%)**
Diluted earnings per share (HUF)	**8.39**	**2.98**	**(5.41)**	**(64.5%)**

3.3. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2018 (audited)	Mar 31, 2019 (unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	7,204	9,250	2,046	28.4%
Trade receivables and other assets	195,220	181,600	(13,620)	(7.0%)
Other current financial assets	11,631	7,286	(4,345)	(37.4%)
Current income tax receivable	254	2,384	2,130	n.m.
Inventories	19,118	20,431	1,313	6.9%
	233,427	220,951	(12,476)	(5.3%)
Assets held for sale	0	0	0	n.a.
Total current assets	**233,427**	**220,951**	**(12,476)**	**(5.3%)**
Non current assets				
Property, plant and equipment	443,147	429,939	(13,208)	(3.0%)
Right-of-use assets	0	111,256	111,256	n.a.
Intangible assets	234,848	226,968	(7,880)	(3.4%)
Goodwill	213,104	213,104	0	0.0%
Investments in associates and joint ventures	1,393	1,494	101	7.3%
Deferred tax assets	77	94	17	22.1%
Other non current financial assets	24,985	23,608	(1,377)	(5.5%)
Other non current assets	5,015	4,942	(73)	(1.5%)
Total non current assets	**922,569**	**1,011,405**	**88,836**	**9.6%**
Total assets	**1,155,996**	**1,232,356**	**76,360**	**6.6%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	111,144	134,119	22,975	20.7%
Lease liabilities	0	16,976	16,976	n.a.
Other financial liabilities	9,228	8,246	(982)	(10.6%)
Trade payables	175,312	114,893	(60,419)	(34.5%)
Current income tax payable	343	1,207	864	251.9%
Provisions	3,418	4,045	627	18.3%
Other current liabilities	41,395	42,872	1,477	3.6%
	340,840	322,358	(18,482)	(5.4%)
Liabilities held for sale	0	0	0	n.a.
Total current liabilities	**340,840**	**322,358**	**(18,482)**	**(5.4%)**
Non current liabilities				
Financial liabilities to related parties	123,349	122,292	(1,057)	(0.9%)
Lease liabilities	0	96,257	96,257	n.a.
Other financial liabilities	47,919	43,364	(4,555)	(9.5%)
Deferred tax liabilities	17,246	17,426	180	1.0%
Provisions	11,265	11,572	307	2.7%
Other non current liabilities	445	483	38	8.5%
Total non current liabilities	**200,224**	**291,394**	**91,170**	**45.5%**
Total liabilities	**541,064**	**613,752**	**72,688**	**13.4%**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,263	27,263	0	0.0%
Treasury stock	(3,991)	(3,991)	0	0.0%
Retained earnings	429,294	432,407	3,113	0.7%
Accumulated other comprehensive income	23,650	23,438	(212)	(0.9%)
Total equity of the owners of the parent	**580,491**	**583,392**	**2,901**	**0.5%**
Non-controlling interests	34,441	35,212	771	2.2%
Total equity	**614,932**	**618,604**	**3,672**	**0.6%**
Total liabilities and equity	**1,155,996**	**1,232,356**	**76,360**	**6.6%**

3.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-3 months 2018 (unaudited)	1-3 months 2019 (unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	9,514	3,982	(5,532)	(58.1%)
Depreciation and amortization	26,830	33,786	6,956	25.9%
Income tax expense	2,295	3,079	784	34.2%
Net financial result	4,311	5,625	1,314	30.5%
Share of associates' and joint ventures' result	(395)	(100)	295	74.7%
Change in assets carried as working capital	(3,756)	10,731	14,487	n.m.
Change in provisions	(239)	865	1,104	n.m.
Change in liabilities carried as working capital	(18,225)	(48,559)	(30,334)	(166.4%)
Income taxes paid	(3,919)	(4,187)	(268)	(6.8%)
Dividends received	0	0	0	n.a.
Interest and other financial charges paid	(6,342)	(7,298)	(956)	(15.1%)
Interest received	80	86	6	7.5%
Other non-cash items	(63)	494	557	n.m.
Net cash generated from operating activities	**10,091**	**(1,496)**	**(11,587)**	**n.m.**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(14,454)	(22,591)	(8,137)	(56.3%)
Adjustments to cash purchases	(3,909)	(1,462)	2,447	62.6%
Purchase of subsidiaries and business units	(719)	(742)	(23)	(3.2%)
Cash acquired through business combinations	137	0	(137)	(100.0%)
Payments for other financial assets - net	(1,219)	(2,742)	(1,523)	(124.9%)
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	518	3,810	3,292	n.m.
Net cash used in investing activities	**(19,646)**	**(23,727)**	**(4,081)**	**(20.8%)**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(3)	0	3	100.0%
Proceeds from loans and other borrowings -net	12,745	30,687	17,942	140.8%
Repayment of other financial liabilities	(1,610)	(3,399)	(1,789)	(111.1%)
Repurchase of treasury shares	(363)	0	363	100.0%
Net cash used in financing activities	**10,769**	**27,288**	**16,519**	**153.4%**
Exchange differences on cash and cash equivalents	28	(19)	(47)	n.m.
Change in cash and cash equivalents	**1,242**	**2,046**	**804**	**64.7%**
Cash and cash equivalents, beginning of period	5,399	7,204	1,805	33.4%
Cash and cash equivalents, end of period	6,641	9,250	2,609	39.3%
Change in cash and cash equivalents	**1,242**	**2,046**	**804**	**64.7%**

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

In HUF millions	Opening						Changes affecting cash flows from financing activities				Closing
	Balance at Jan 1, 2019	Effect of first application of IFRS16	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Proceeds from loans and borrowings	Repayment of loans and other borrowings	Repayment of other financial liability	Other	Balance at Mar 31, 2019
Related party loans	233,881			(4,636)	2,922		59,110	(35,003)			256,274
Derivatives from related parties	612				765	(1,240)					137
Frequency fee payable	46,115			(616)	640				(889)		45,250
Finance lease liabilities	3,826	103,388		(1,414)	9,233				(1,800)		113,233
Debtors overpayment	1,327			(36)	0						1,291
Contingent consideration	708				0						708
Other financial liabilities	5,171			(239)	139	0			(710)		4,361
-Less cash and cash equivalent	(7,204)		(2,046)		0						(9,250)
-Less other current financial assets	(11,631)			-129	(760)	(1,346)	6,580				(7,286)
Net debt	**272,805**	**103,388**	**(2,046)**	**(7,070)**	**12,939**	**(2,586)**	**65,690**	**(35,003)**	**(3,399)**		**404,718**
Treasury share purchase										0	
Dividends paid to Owners of the parent and Non-controlling interest										0	
Net Cash used in financing activities										**27,288**	

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3.6. Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions										
			Capital reserves				Accumulated Other Comprehensive Income					
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2017	1,042,742,543	104,275	27,379	(97)	(2,187)	396,320	21,526	(21)	547,195	32,878	580,073
Adoption of new standards (IFRS15, IFRS9)						15,724			15,724	671	16,395
Dividend									0		0
Dividend declared to Non-controlling interests									0		0
Equity settled share-based transactions				(18)	18				0		0
Total comprehensive income						8,716	390	43	9,149	1,110	10,259
Treasury share repurchase					(363)				(363)		(363)
Disposal of subsidiaries									0		0
Balance at March 31, 2018	1,042,742,543	104,275	27,379	(115)	(2,532)	420,760	21,916	22	571,705	34,659	606,364
Adoption of new standards (IFRS15, IFRS9)									0		0
Dividend						(26,068)			(26,068)		(26,068)
Dividend declared to Non-controlling interests									0	(3,482)	(3,482)
Equity settled share-based transactions				(1)					(1)		(1)
Total comprehensive income						34,602	1,631	81	36,314	3,264	39,578
Treasury share repurchase					(1,459)				(1,459)		(1,459)
Disposal of subsidiaries									0		0
Balance at December 31, 2018	1,042,742,543	104,275	27,379	(116)	(3,991)	429,294	23,547	103	580,491	34,441	614,932
Adoption of new standards (IFRS16)						12			12		12
Dividend									0		0
Dividend declared to Non-controlling interests									0		0
Equity settled share-based transactions									0		0
Total comprehensive income						3,101	(246)	34	2,889	771	3,660
Treasury share repurchase									0		0
Disposal of subsidiaries									0		0
Balance at March 31, 2019	1,042,742,543	104,275	27,379	(116)	(3,991)	432,407	23,301	137	583,392	35,212	618,604

3.7. Exchange rate information

Exchange rate	Q1 2018	Q1 2019	Change (%)
HUF/EUR beginning of period	310.14	321.51	**3.7%**
HUF/EUR period-end	312.55	320.79	**2.6%**
HUF/EUR cumulative monthly average	312.08	317.80	**1.8%**
HUF/MKD beginning of period	5.04	5.23	**3.8%**
HUF/MKD period-end	5.08	5.21	**2.6%**
HUF/MKD cumulative monthly average	5.07	5.16	**1.8%**

3.8. Segment information

HUF millions	Q1 2018	Q1 2019	Change	Change (%)
Total MT-Hungary revenues	137,883	145,888	8,005	5.8%
Less: MT-Hungary revenues from other segments	(27)	(31)	(4)	(14.8%)
Telekom Hungary revenues from external customers	**137,856**	**145,857**	**8,001**	**5.8%**
Total North Macedonia revenues	12,780	13,107	327	2.6%
Less: North Macedonia revenues from other segments	(17)	(15)	2	11.8%
North Macedonia revenues from external customers	**12,763**	**13,092**	**329**	**2.6%**
Total consolidated revenue of the segments	150,619	158,949	8,330	5.5%
Measurement/rounding differences to Group revenue	0	0	0	n.a.
Total revenue of the Group	**150,619**	**158,949**	**8,330**	**5.5%**
Segment results (EBITDA)				
MT-Hungary	37,239	41,164	3,925	10.5%
North Macedonia	5,301	5,570	269	5.1%
Total EBITDA of the segments	**42,540**	**46,734**	**4,194**	**9.9%**
Measurement/rounding differences to Group EBITDA	15	(362)	(377)	(2513.3%)
Total EBITDA of the Group	**42,555**	**46,372**	**3,817**	**9.0%**

3.9. Fair value of financial instruments

Financial assets - carrying amounts and FV

March 31, 2019 In HUF millions	FINANCIAL ASSETS Amortized cost	 FVOCI (Level1)	 FVTPL (Level2)	Carrying amount	Fair value
Cash and cash equivalents	9,250			9,250	9,250
Bank deposits with original maturities over 3 months	5,397			5,397	5,397
Cashpool					
Trade receivables	153,134			153,134	153,134
Trade receivables over 1 year	16,684			16,684	17,749
Loans and receivables from employees	1,282			1,282	1,339
Derivative financial instruments contracted with related parties			1,197	1,197	1,197
Finance lease receivable	1,047			1,047	1,188
Equity instruments		600		600	600
Other current	703			703	703
Other non current	392			392	350
Total	**187,889**	**600**	**1,197**	**189,686**	**190,907**

December 31, 2018 In HUF millions	FINANCIAL ASSETS Amortized cost	 FVOCI (Level1)	 FVTPL (Level2)	Carrying amount	Fair value
Cash and cash equivalents	7,204			7,204	7,204
Bank deposits with original maturities over 3 months	3,915			3,915	3,915
Cashpool	6,580			6,580	6,580
Trade receivables	165,271			165,271	165,271
Trade receivables over 1 year	18,056			18,056	19,133
Loans and receivables from employees	706		748	1,454	1,524
Derivative financial instruments contracted with related parties			1,026	1,026	1,026
Finance lease receivable	358			358	467
Equity instruments		544		544	544
Other current	731			731	731
Other non current	392			392	325
Total	**203,213**	**544**	**1,774**	**205,531**	**206,720**

Financial liabilites - carrying amounts and FV

March 31, 2019 In HUF millions	FINANCIAL LIABILITIES Measured at amortized cost	 FVTPL (Level 2)	 FVTPL (Level 3)	Total	Fair value
Financial liabilities to related parties	256,274	137		256,411	266,357
Trade payables	114,893			114,893	114,893
Frequency fee payable	45,250			45,250	52,511
Finance lease liabilities	113,233			113,233	126,732
Debtors overpayment	1,291			1,291	1,291
Contingent consideration			708	708	708
Other current	3,034			3,034	3,034
Other non current	1,327			1,327	1,371
Total	**535,302**	**137**	**708**	**536,147**	**566,897**

December 31, 2018 In HUF millions	FINANCIAL LIABILITIES Measured at amortized cost	 FVTPL (Level 2)	 FVTPL (Level 3)	Total	Fair value
Financial liabilities to related parties	233,881	612		234,493	247,896
Trade payables	175,312			175,312	175,312
Frequency fee payable	46,114			46,114	52,845
Finance lease liabilities	3,826			3,826	7,119
Debtors overpayment	1,327			1,327	1,327
Contingent consideration			708	708	708
Other current	3,307			3,307	3,307
Other non current	1,865			1,865	1,885
Total	**465,632**	**612**	**708**	**466,952**	**490,399**

3.10. Effect of the new IFRS 16 accounting standard to the main KPIs

Description (HUF million)	Q1 2019 MT Group	Q1 2019 MT-Hungary	Q1 2019 North Macedonia
EBITDA excl. IFRS16 effect	41,315	36,309	5,368
IFRS16 effect on EBITDA	5,057	4,855	202
EBITDA incl. IFRS16 effect	46,372	41,164	5,570
IFRS 16 related D&A	(4,530)	(4,349)	(181)
IFRS 16 related Interest	(1,414)	(1,391)	(23)
EBITDA after lease	40,428	35,424	5,366
CAPEX after lease*	(14,251)	(12,337)	(1,920)

* 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 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 of Directors

János Szabó
Chief Financial Officer

Budapest, May 8, 2019

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, 2018, 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.