MAGYAR TELEKOM

HALF YEARLY REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED JUNE 30, 2019

EGYÜTT. VELED

Budapest – August 7, 2019 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the second quarter and first half 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)	Q2 2018 IAS 17	Q2 2019 IFRS 16	Change (%)	Q2 2019 IFRS 16 effect	Q2 2019 excl. IFRS 16 effect	Change (%)
Total revenues	167,666	160,754	(4.1%)	0	160,754	(4.1%)
Operating profit	21,173	24,774	17.0%	648	24,126	13.9%
Profit attributable to:						
Owners of the parent	13,744	13,389	(2.6%)	(772)	14,161	3.0%
Non-controlling interests	974	1,112	14.2%	0	1,112	14.2%
	14,718	14,501	(1.5%)	(772)	15,273	3.8%
Gross profit	92,523	92,634	0.1%	0	92,634	0.1%
EBITDA	50,203	56,931	13.4%	4,676	52,255	4.1%
EBITDA margin	29.9%	35.4%	n.a.	n.m.	32.5%	n.a.
	1-6 months 2018	1-6 months 2019	Change (%)			
Free cash flow	11,626	(7,137)	(161.4%)			
CAPEX to Sales	9.7%	14.6%	n.a.	4.0%	10.6%	n.a.
Number of employees (closing full equivalent)	9,163	8,462	(7.7%)			
	Dec 31, 2018	Jun 30, 2019	Change (%)			
Net debt	272,805	411,412	50.8%	112,587	298,825	9.5%
Net debt / total capital	30.7%	40.5%	n.a.	n.a.	33.1%	n.a.

- Group revenues declined despite favourable telecommunication service revenue trends across both mobile and fixed segments, due to SI/IT revenue contraction
  - Attractive integrated fixed-mobile offers continued to drive customer base and ARPU growth in both Hungary and North Macedonia
  - The decline of voice revenue was offset by strong growth in data across both the fixed and mobile segments
  - Lower Hungarian SI/IT revenues resulted from the absence of major one-off project completed in H1 2018 and temporarily lower volume of public sector contracts
- Gross profit remained stable owing to a combination of improving telecommunication service trends and lower SI/IT profit contribution
- EBITDA, excluding the impacts of IFRS 16 adoption, increased thanks to lower indirect costs
- Free cash flow decline reflects payment of the 2100 MHz frequency license extension fee together with a deterioration in working capital
- Net debt increased to HUF 411.4 billion at the end of Q2 2019 reflecting the recognition of lease liabilities in accordance with IFRS 16 and the payment of dividends in May 2019.

Tibor Rékasi, CEO commented:

"I am pleased to announce that, in H1 2019, positive trends across both the fixed and mobile segments in Hungary and all business segments in North-Macedonia facilitated consolidated moderate revenue and EBITDA growth, despite challenges in the Hungarian Systems Integration and IT (SI/IT) segment. With this performance, we are well on track to meet our guidance for 2019, which assumes a moderate decline in revenues and continued EBITDA growth.

Looking at Q2 2019, specifically, the revenue decline in the quarter is solely due to lower Hungarian SI/IT revenues attributable to a significant reduction in the volume of public sector contracts realized and the absence of a one-off project that was completed in the prior year. We recorded revenue growth across all other segments in Hungary and in North Macedonia during the quarter.

In the Hungarian mobile segment, strong demand for data helped offset the decline in voice revenues and lower equipment sales driven by a temporary slowdown in purchases of Huawei handsets. As long expected, DIGI launched its mobile service in Hungary during the quarter; however, their service offering, and availability remains very limited.

In the fixed segment, the ongoing rollout of our fiber network, which replaces crucial parts of our legacy network with fiber optic, played a key role in facilitating further development of our product offering. We are pleased to report that this has resulted in continued growth of our customer base and broadband ARPU. We were also successful in maintaining momentum in the TV segment, growing both revenues and our customer base. Despite the structural decline in voice revenues, we delivered 3.1% year-on-year fixed revenue growth in Q2 2019.

In line with our strategy, we continued to place strong emphasis on growing our FMC customer base. Even with the recent market changes we are the leading integrated player in the Hungarian market and we are taking full advantage of this position to reinforce our market presence and prepare for future developments in the market. Our Magenta1 offering, introduced in 2018 to deliver highly attractive services and related equipment, remains popular with our customers and supports the sustained growth in our FMC customer base.

Our efforts to further strengthen our online presence are reflected in improved sales and customer service, as we deliver increasingly simple and attractive solutions to our customers."

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million)	Q2 2018 IAS 17	Q2 2019 IFRS 16	Change	Change (%)	1-6 months 2018 IAS 17	1-6 months 2019 IFRS 16	Change	Change (%)
Revenues								
Mobile revenues	83,364	84,859	1,495	1.8%	161,636	169,736	8,100	5.0%
Fixed line revenues	51,062	52,666	1,604	3.1%	102,652	105,347	2,695	2.6%
System Integration/Information Technology revenues	33,240	23,229	(10,011)	(30.1%)	53,997	44,620	(9,377)	(17.4%)
Total revenues	**167,666**	**160,754**	**(6,912)**	**(4.1%)**	**318,285**	**319,703**	**1,418**	**0.4%**
Direct costs	**(75,143)**	**(68,120)**	**7,023**	**9.3%**	**(134,614)**	**(134,898)**	**(284)**	**(0.2%)**
Gross profit	**92,523**	**92,634**	**111**	**0.1%**	**183,671**	**184,805**	**1,134**	**0.6%**
Indirect costs	**(42,320)**	**(35,703)**	**6,617**	**15.6%**	**(90,913)**	**(81,502)**	**9,411**	**10.4%**
EBITDA	**50,203**	**56,931**	**6,728**	**13.4%**	**92,758**	**103,303**	**10,545**	**11.4%**
Depreciation and amortization	(29,030)	(32,157)	(3,127)	(10.8%)	(55,860)	(65,943)	(10,083)	(18.1%)
Operating profit	**21,173**	**24,774**	**3,601**	**17.0%**	**36,898**	**37,360**	**462**	**1.3%**
Net financial result	(2,999)	(6,531)	(3,532)	(117.8%)	(7,310)	(12,156)	(4,846)	(66.3%)
Share of associates and joint ventures' results	(88)	115	203	n.m.	307	215	(92)	(30.0%)
Profit before income tax	**18,086**	**18,358**	**272**	**1.5%**	**29,895**	**25,419**	**(4,476)**	**(15.0%)**
Income tax	(3,368)	(3,857)	(489)	(14.5%)	(5,663)	(6,936)	(1,273)	(22.5%)
Profit for the period	**14,718**	**14,501**	**(217)**	**(1.5%)**	**24,232**	**18,483**	**(5,749)**	**(23.7%)**
Profit attributable to non-controlling interests	974	1,112	138	14.2%	1,784	1,993	209	11.7%
Profit attributable to owners of the parent	**13,744**	**13,389**	**(355)**	**(2.6%)**	**22,448**	**16,490**	**(5,958)**	**(26.5%)**

Total revenues declined by 4.1% year-on-year to HUF 160.8 billion in Q2 2019 as the continued positive trend in fixed and mobile service revenues was offset by a sharp decline in System Integration and IT revenues. Total revenues remained broadly stable in the first half of 2019 compared to the same period in 2018, as the increase in service revenues were coupled with higher equipment sales as well thus could counterbalance the lower SI/IT revenues.

- **Mobile revenues were up 1.8% year-on-year at HUF 84.9 billion in Q2 2019**, owing to higher mobile data revenues in both countries of operation which were partially offset by lower voice and equipment sales revenues. In H1 2019, mobile revenues grew by 5.0% year-on-year to HUF 169.7 billion, reflecting higher mobile data and equipment sales revenues.
  - **Voice retail** revenues, at Group level, declined 2.5% year-on-year to HUF 32.5 billion in Q2 2019. While total voice usage and post-paid ratios improved in both countries, the prevailing competitive pressures resulted in price erosion.
  - **Voice wholesale** revenue increased by 3.3% year-on-year to HUF 2.6 billion in Q2 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 by 13.5% year-on-year to HUF 22.7 billion in Q2 2019, reflecting the higher number of mobile internet subscribers across the Group and increasing average usage levels.
  - **SMS** revenues increased by 4.9% year-on-year to HUF 5.0 billion in Q2 2019, reflecting increased residential usage by a growing postpaid customer base, as well as higher revenues from mass messaging in Hungary.
  - **Mobile equipment** revenues declined by 4.5% year-on-year to HUF 18.9 billion in Q2 2019, due to lower mobile handset sales volumes in Hungary. In the first half of 2019, mobile equipment sales increased by 8.6% year-on-year, driven by higher export sales revenues at the Hungarian operation and higher average handset prices in the sales mix in the first quarter of 2019 compared to the prior year.
  - **Other mobile** revenues increased by 7.2% to HUF 3.1 billion in Q2 2019 attributable to higher visitor revenues in both countries.
- **Fixed line revenues were up 3.1% higher year-on-year at HUF 52.7 billion in Q2 2019** and 2.6% higher at HUF 105.3 billion in the first half of 2019. Rising equipment sales and TV and broadband retail service revenues were among the key drivers behind this increase.
  - **Voice retail** revenues declined by 7.6% year-on-year to HUF 10.3 billion in Q2 2019, primarily as a result of a continued decline in the customer base in Hungary.
  - **Broadband retail** revenues increased by 9.4% year-on-year, to HUF 13.8 billion in Q2 2019, primarily attributable to the improvement in Hungary, where the expansion of the customer base was coupled with improved ARPU reflecting the positive impact of customers migrating to higher bandwidth packages. In North Macedonia, the positive impact of the expanded customer base was partly offset by a decline in price levels.
  - **TV** revenues increased by 4.8% year-on-year to HUF 12.2 billion in Q2 2019, driven by the growing IPTV subscriber base in both countries of operation.

  - **Fixed equipment** revenues grew to HUF 4.9 billion in Q2 2019, reflecting the significant increase in the volume of equipment sold in Hungary, which fully offset the decline recorded in North Macedonia.
  - **Data retail** revenues declined by 7.5% year-on-year to HUF 2.2 billion in Q2 2019 due to strong competition driven price pressure in the Hungarian business segment.
  - **Wholesale** revenues decreased by 5.0% year-on-year to HUF 4.8 billion in Q2 2019 as wholesale broadband revenues and voice transit revenues declined in both countries.
  - **Other fixed line** revenues were up by 7.2% to HUF 4.5 billion in Q2 2019, reflecting higher revenues stemming from increased usage of Video on Demand in Hungary.
- **System Integration (SI) and IT revenues declined by 30.1% year-on-year to HUF 23.2 billion in Q2 2019**, resulting in a year-on-year revenue contraction of 17.4% for the first half of 2019. This result has been driven by lower income from Hungarian public sector projects including the absence of the benefit from a major PC delivery completed for the education sector in the prior year period of Q2 2018. In North Macedonia, the increase in SI/IT revenues was driven by the higher volume of projects delivered in the public sector.

Direct costs were down 9.3% year-on-year, at HUF 68.1 billion in Q2 2019, and broadly stable in H1 2019 versus H1 2018. While other direct costs continued to rise in Q2 2019, SI/IT related expenses were significantly lower thus resulting in a year-on-year cost decline in the second quarter.

- **Interconnect costs** were broadly unchanged at HUF 5.3 billion in Q2 2019, as increased payments to mobile operators (reflecting higher off-network mobile traffic) were counterbalanced by lower outpayments to fixed operators in both countries.
- **SI/IT service related costs** declined by 31.7% year-on-year, to HUF 17.3 billion in Q2 2019, driven by a lower volume of related projects.
- **Bad debt expenses** deteriorated by 7.7% year-on-year in Q2 2019, reflecting higher fixed and mobile revenues in Hungary and the absence of one-off items positively impacting the prior year figures in North Macedonia.
- **Telecom tax** was down 3.6% year-on-year, at HUF 6.4 billion in Q2 2019, as the lower fixed voice usage more than offset an increase in mobile traffic in Hungary.
- **Other direct costs** increased by 3.1% year-on-year, to HUF 36.8 billion in Q2 2019, reflecting an increase in Hungarian content fees and roaming outpayments.

Gross profit remained stable at HUF 92.6 billion in Q2 2019 and at HUF 184.8 billion in H1 2019. This result is broadly attributable to improved performance of telecommunication services, offset by lower SI/IT profit contribution.

Indirect costs improved by 15.6% year-on-year, to HUF 35.7 billion in Q2 2019, and by 10.4% year-on-year to HUF 81.5 billion in H1 2019. If the impact of IFRS 16 implementation is excluded, indirect costs were down 4.6% at HUF 40.4 billion in Q2 2019 and broadly stable at HUF 91.2 billion in H1 2019.

- **Employee-related expenses** declined by 2.1% year-on-year, to HUF 19.8 billion in Q2 2019, driven by lower headcount in both Hungary and North Macedonia. In H1 2019, employee-related expenses were up 6.6% year-on-year, due to the HUF 3.0 billion in severance expenses booked in Q1 2019 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.
- **Other operating expenses** were down HUF 5.5 billion year-on-year, at HUF 17.6 billion in Q2 2019, with IFRS 16 adoption and higher level of provision reversal driving the decline. The underlying performance reflects higher rental expenses offset by general cost savings across several other expense lines. Other operating expenses in North Macedonia increased moderately, driven by higher electricity, regulatory, marketing and maintenance expenses.
- **Other operating income** increased by HUF 0.7 billion year-on-year in Q2 2019, mostly attributable to income related to a legal case .

EBITDA increased by 13.4% year-on-year to HUF 56.9 billion in Q2 2019, and by 11.4% to HUF 103.3 billion in H1 2019. **Excluding the impact of IFRS 16 adoption, EBITDA was 4.1% higher year-on-year in Q2 2019** and improved 0.9% year-on-year in H1 2019.

Depreciation and amortization (D&A) expenses rose by HUF 3.1 billion year-on-year, to HUF 32.2 billion in Q2 2019, with IFRS 16 adoption accounting for HUF 4.0 billion increase; the underlying decline reflects the one-off increase in D&A driven by the shortened useful life of customer connection related network elements in Q2 2018. In the first half of 2019, D&A increased by HUF 10.1 billion, HUF 8.6 billion of this increase relates to the adoption of IFRS 16, with the remaining balance attributable to the shortened useful lives of customer connection related network elements.

Profit for the period declined moderately by 1.5% year-on-year to HUF 14.5 billion in Q2 2019, resulting from the HUF 0.8 billion impact resulting from the adoption of IFRS 16. In the first half of 2019, net profit declined by 23.7% year-on-year to HUF 18.5 billion as a combined result of higher severance expenses, an increase in tax expense in Q1 2019, and the overall HUF 1.7 billion impact resulting from the adoption of IFRS 16.

- **Net financial expenses** increased by HUF 3.5 billion year-on-year to HUF 6.5 billion in Q2 2019, driven partly by the adoption of IFRS 16 (with an impact of HUF 1.4 billion), the unrealized losses in relation to the fair valuation of derivatives driven by the changes in the relevant yield curves during the period as well as the absence of the unrealized gains recorded in relation to the fair valuation of derivatives in Q2 2018 that was driven by the 5.1% weakening of the EUR-HUF exchange rate in the period.

- **Income tax** expenses increased by 14.5% to HUF 3.9 billion in Q2 2019, despite only a moderate increase in profit before tax. This was driven by a slight increase in local business tax, 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) and higher withholding tax in relation to the dividend payment of the North Macedonian holding company, Stonebridge.
- **Profit attributable to non-controlling interests increased by 14.2% year-on-year to HUF 1.1 billion in Q2 2019,** as higher EBITDA led to increased profits at the North Macedonian operation.

2.1.2 Group Cash Flows

HUF millions	1-6 months 2018	1-6 months 2019	Change
Operating cash flow	51,317	42,850	(8,467)
Investing cash flow	(37,860)	(43,674)	(5,814)
Less: Payments for other financial assets - net	1,330	1,701	371
Investing cash flow excluding Payments for other financial assets – net	(36,530)	(41,973)	(5,443)
Repayment of other financial liabilities	(3,161)	(8,014)	(4,853)
Total free cash flow	**11,626**	**(7,137)**	**(18,763)**
Payments for other financial assets - net	(1,330)	(1,701)	(371)
Proceeds from loans and other borrowings - net	19,473	35,053	15,580
Dividend paid to shareholders and Non-controlling interests	(25,999)	(26,083)	(84)
Repurchase of treasury shares	(1,822)	0	1,822
Exchange differences on cash and cash equivalents	234	11	(223)
Change in cash and cash equivalents	**2,182**	**143**	**(2,039)**

Free cash flow (FCF) decreased to HUF 7.1 billion cash outflow in H1 2019 (H1 2018: HUF 11.6 billion cash inflow), mainly due to the reasons described below.

Operating cash flow

Net cash generated from operating activities amounted to HUF 42.9 billion cash inflow in H1 2019, compared to HUF 51.3 billion cash inflow in H1 2018, as a result of the following trends:

- HUF 10.5 billion **positive impact** from higher **EBITDA** recorded in H1 2019 compared to H1 2018
- HUF 21.0 billion **positive change in active working capital,** mainly as a result of the following factors:
  - favourable change in instalment receivables year-on-year attributable to shorter instalment periods (positive impact: ca. HUF 8.4 billion)
  - larger decrease in SI/IT receivables in H1 2019 compared to moderate increase in H1 2018 (positive impact: ca. HUF 4.5 billion)
  - greater decrease in the balances of BAU receivables in H1 2019 compared to H1 2018 (positive impact: ca. HUF 3.3 billion)
  - decrease in SI/IT related and handset inventory balances in H1 2019 compared to an increase in H1 2018, due to differences in project timings and improved inventory management (positive impact: ca. HUF 1.8 billion)
  - reduced SI/IT related advance payment, as well as higher advance payment settlement in H1 2019 compared to H1 2018, due to differences in project seasonality (positive impact: ca. HUF 1.5 billion)

- HUF 0.9 billion **negative change in provisions,** mainly due to change of legal provisions in H1 2019 versus H1 2018

- HUF 36.1 billion **negative change in passive working capital,** primarily driven by the following factors:
  - greater decrease in the balance of equipment creditors resulting from changes in payment conditions agreed with handset suppliers as well as larger decline in the balances of invoiced and non-invoiced other creditors, due to the different timing of payments in H1 2019 versus H1 2018 (negative impact: HUF 19.7 billion)
  - larger payment related to SI/IT services in H1 2019 compared to moderate increase in H1 2018 (negative impact: HUF 8.3 billion)
  - higher HR-related personnel expense payments in H1 2019 compared to H1 2018 (negative impact: HUF 2.5 billion)
  - lower increase in non-invoiced SI/IT related items in H1 2019 than in H1 2018 (negative impact: HUF 2.4 billion)

- HUF 2.2 billion **negative change** due to higher levels of **interest paid** in H1 2019 compared to H1 2018, as a result of the application of the new IFRS 16 accounting standard applied from January 1, 2019

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF 42.0 billion in H1 2019, compared to HUF 36.5 billion in H1 2018, with the higher cash outflow driven mainly by the following:

- HUF 15.8 billion **negative effect** due to higher **CAPEX** in H1 2019 versus H1 2018, mainly due to the application of the new IFRS 16 accounting standard applied from January 1, 2019 (negative impact: ca. HUF 12.8 billion)
- HUF 7.0 billion **positive change** due to the 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 H1 2019 compared to H1 2018 which was more than offset by the effect of the application of the new IFRS 16 accounting standard
- the following two effects offset each other in year-on-year comparison: HUF 0.7 billion **positive impact** from lower cash outflows for business combinations (**ITGen Kft.** in 2018) and the higher volume **of cable TV operation acquisitions** which produced a **negative impact** of HUF 0.7 billion in H1 2019
- HUF 0.1 billion **negative impact** due to the lower amount of **cash acquired** through acquisitions
- HUF 3.4 billion **positive change** related to the **disposal of PPE,** mainly reflecting the sale of the Szerémi-Kaposvár building in H1 2019 compared to smaller real estate sales in H1 2018

Repayment of other financial liabilities

Repayment of other financial liabilities increased to HUF 8.0 billion in H1 2019 from HUF 3.2 billion in H1 2018, mainly due to:

- HUF 4.8 billion **negative change** caused by higher **finance lease** payments in H1 2019 versus H1 2018, due to the application of the new IFRS 16 accounting standard with effect from January 1, 2019
- HUF 0.4 billion **negative change** due to higher North Macedonian **content right** payments in H1 2019 compared to H1 2018

Free cash flow (FCF) decreased from an inflow of HUF 11.6 billion to an outflow of HUF 7.1, mainly due to the reasons described above.

Payments for other financial assets - net increased by HUF 0.4 billion, primarily due to a higher amount of bank deposits over 3 months at Maktel in net terms in H1 2019 versus H1 2018.

Proceeds from loans and other borrowings – net increased by HUF 15.6 billion, owing to the drawdown of DT Group loans, as well as higher inhouse cash funds in H1 2019 compared to H1 2018.

Repurchase of treasury shares improved by HUF 1.8 billion due to the absence of a repurchase of treasury shares for the ESOP (Employee Stock Ownership Program) in H1 2019.

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 June 30, 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 8.1 billion from December 31, 2018 to June 30, 2019, mainly driven by the HUF 4.1 billion decrease in SI/IT receivables. This effect was further amplified by the reclassification of the prepaid lease expenses to Right-of-use assets by HUF 3.3 billion due to the transition requirement of the new IFRS 16 accounting standard.

Property plant and equipment (PPE), Right-of-use assets and intangible assets (including Goodwill) together increased by HUF 80,0 billion from December 31, 2018 to June 30, 2019. This increase was driven mainly by the recognition of Right-of-use assets in connection with the transition to the new IFRS 16 accounting standard - this amounted to HUF 108.0 billion, of which HUF 2.8 billion resulted from the reclassification of former financial leased assets under IAS 17. This effect was 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 29.0 billion from December 31, 2018 to June 30, 2019 mainly due to the drawdown of DT Group loans in 2019.

Lease liabilities (current and non-current combined) increased by HUF 112.6 billion from December 31, 2018 to June 30, 2019 driven by the transition to the new IFRS 16 accounting standard. At the date of initial application (January 1, 2019), 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 IAS 17.

Trade payables declined by HUF 59.2 billion from December 31, 2018 to June 30, 2019, reflecting the decrease in outstanding balances 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 in the period from December 31, 2018 to June 30, 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 H1 2019.

2.1.6 Significant events

Potential sale of T-Systems Magyarország Zrt.

Magyar Telekom Nyrt. has announced the signing of Heads of Terms regarding the sale of T-Systems Magyarország Zrt. to 4iG Nyrt. The small and medium size enterprise sales business and other less significant activities of T-Systems Magyarország Zrt. will not be part of the transaction, and they will transfer to Magyar Telekom Nyrt. prior to transaction closing.

The finalization of the contractual conditions including the purchase price and the signing of the binding legal documentation are subject to the due diligence of T-Systems Magyarország Zrt., the final decision of the Board of Directors of Magyar Telekom Nyrt. and receipt of the requisite authority clearance(s).

According to the applicable agreement between the parties the preliminary purchase price shall not be disclosed to the public. The financial impact of the transaction cannot yet be reliably estimated. The closing of the transaction is expected in 2019.

Notification on termination of contracts

After the reporting period one of our major suppliers has notified T-Systems Magyarország Zrt. that under standard contractual terms it terminates its contracts with T-Systems Magyarország Zrt.
We are currently assessing the financial impact of it.

For any other significant events that occurred since the end of June 30, 2019, please see our Investor Relations website:
http://www.telekom.hu/about_us/investor_relations/investor_news

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2.2. Segment reports

As of June 30, 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

Continued EBITDA growth driven by Telco service and cost saving measures

HUF million	Q2 2018 IAS 17	Q2 2019 IFRS 16	Change	Change (%)	1-6 months 2018 IAS 17	1-6 months 2019 IFRS 16	Change	Change (%)
Voice	32,015	31,210	(805)	(2.5%)	63,184	62,024	(1,160)	(1.8%)
Non-voice	22,764	25,384	2,620	11.5%	44,103	49,449	5,346	12.1%
Equipment	18,108	17,186	(922)	(5.1%)	33,653	36,664	3,011	8.9%
Other	2,619	2,740	121	4.6%	4,971	5,162	191	3.8%
Total mobile revenues	**75,506**	**76,520**	**1,014**	**1.3%**	**145,911**	**153,299**	**7,388**	**5.1%**
Voice retail	9,981	9,155	(826)	(8.3%)	19,798	18,504	(1,294)	(6.5%)
Broadband - retail	11,280	12,397	1,117	9.9%	22,944	24,512	1,568	6.8%
TV	10,648	11,043	395	3.7%	21,706	21,947	241	1.1%
Equipment	4,007	4,849	842	21.0%	7,982	10,492	2,510	31.4%
Other	10,396	10,309	(87)	(0.8%)	20,817	20,198	(619)	(3.0%)
Fixed line revenues	**46,312**	**47,753**	**1,441**	**3.1%**	**93,247**	**95,653**	**2,406**	**2.6%**
SI/IT revenues	**32,885**	**22,617**	**(10,268)**	**(31.2%)**	**53,428**	**43,826**	**(9,602)**	**(18.0%)**
Total revenues	**154,703**	**146,890**	**(7,813)**	**(5.1%)**	**292,586**	**292,778**	**192**	**0.1%**
Direct costs	**(71,364)**	**(64,007)**	**7,357**	**10.3%**	**(127,108)**	**(126,841)**	**267**	**0.2%**
Gross profit	**83,339**	**82,883**	**(456)**	**(0.5%)**	**165,478**	**165,937**	**459**	**0.3%**
Indirect costs	**(38,592)**	**(33,129)**	**5,463**	**14.2%**	**(83,492)**	**(75,019)**	**8,473**	**10.1%**
EBITDA	**44,747**	**49,754**	**5,007**	**11.2%**	**81,986**	**90,918**	**8,932**	**10.9%**
Segment Capex	**14,699**	**21,830**	**7,131**	**48.5%**	**28,070**	**42,255**	**14,185**	**50.5%**

Operational statistics – access numbers	June 30 2018	June 30 2019	Change (%)
Number of mobile customers (RPC)	5,305,926	5,332,289	0.5%
Postpaid share in the RPC base	65.6%	68.6%	n.a.
Total fixed voice access	1,391,050	1,371,699	(1.4%)
Total retail fixed broadband customers	1,104,456	1,188,696	7.6%
Total TV customers	1,044,919	1,122,182	7.4%

Operational statistics – ARPU (HUF)	Q2 2018 IFRS 15	Q2 2019 IFRS 15	Change (%)	1-6 months 2018	1-6 months 2019	Change (%)
Mobile ARPU	3,441	3,546	3.1%	3,375	3,496	3.6%
Postpaid ARPU	4,696	4,669	(0.6%)	4,635	4,637	0.0%
Prepaid ARPU	1,095	1,125	2.7%	1,046	1,070	2.3%
Blended fixed voice ARPU	2,383	2,217	(7.0%)	2,355	2,235	(5.1%)
Blended fixed broadband ARPU	3,466	3,494	0.8%	3,480	3,489	0.3%
Blended TV ARPU	3,412	3,301	(3.3%)	3,490	3,307	(5.2%)

Total revenues for the MT-Hungary segment decreased by 5.1% year-on-year to HUF 146.9 billion in Q2 2019. While both the Fixed and Mobile segment continued on the growth trajectory observed in previous quarters, this was offset by declining SI/IT revenues in the quarter. Across H1 2019 as a whole, however, revenues remained broadly stable. This result is due to rising revenues from services and equipment sales which offset the sharp decline in SI/IT revenues in Q2 2019.

- **Mobile revenues** grew by 1.3% year-on-year in Q2 2019 to HUF 76.5 billion, mainly attributable to the continuing data need from the customers and the still growing SMS revenues. This offset the decline in equipment sales revenue in the second quarter. In H1 2019, mobile revenues grew by 5.1% to HUF 153.3 billion, owing to growth in mobile data and equipment sales revenues.
  - **Mobile service** revenue increased by 3.3% year-on-year to HUF 56.6 billion in Q2 2019, as growth in mobile data revenues continued, outperforming Q2 2018 by 13.1%. 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 decreased by 5.1% year-on-year to HUF 17.2 billion in Q2 2019. While we have continued to see a higher proportion of high-end handsets in the sales mix, sales of Huawei handsets registered a strong decline as a result of uncertainty resulting from the introduction of U.S. sanctions against the company and the customer needs not converting to other brand devices. Despite the decline in Q2 2019, we still report growing revenues from equipment sales in H1 2019 which are up 8.9% year-on-year.
  - **Other revenues** increased by 4.6% year-on-year in Q2 2019 to HUF 2.7 billion, reflecting higher visitor revenue versus the comparable period in 2018.
- **Fixed line revenues** increased by 3.1% year-on-year in Q2 2019 to HUF 47.8 billion. Growth in fixed broadband, TV and equipment revenues more than offset the continued structural decline in voice retail revenues. In H1 2019, fixed line revenues grew by 2.6%, totalling HUF 95.7 billion for the period.
  - **Voice retail** revenues decreased by 8.3% year-on-year in Q2 2019, as the fixed voice customer base continued to shrink.
  - **Broadband retail** revenues increased by 9.9% year-on-year to HUF 12.4 billion in Q2 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. These gigabit internet connections have provided greater upselling opportunities which, in turn, have improved the ARPU for the product.
  - **TV** revenues increased by 3.7% year-on-year in Q2 2019. This is a favourable result following a decline in the previous quarter and is attributable to an increase in the number of TV customers which offset the slightly declining ARPU levels.
  - **Equipment** revenues increased by 21.0% year-on-year to HUF 4.8 billion, due to a greater amount of equipment being sold in relation to fixed contracts.
  - **Other fixed line** revenues decreased by 0.8% year-on-year to HUF 10.3 billion in Q2 2019, as increased customer demand for our Video on Demand services was offset by lower data and wholesale revenues.
- **SI/IT revenues** decreased by 31.2% year-on-year to HUF 22.6 billion in Q2 2019, due to a sharp decline in public sector demand for SI/IT services. This decrease is against an unusually high Q2 2018 when our results benefited from a delivery of a one-off major education-related PC contract. SI/IT revenues for H1 2019 declined by 18.0% year-on-year across as a consequence of the weaker Q2 2019.

EBITDA in Q2 2019 increased by 11.2% year-on-year to HUF 49.8 billion, despite declining revenues. This is attributable to a significant decline in direct costs, which were down 10.3% year-on-year in Q2 2019. The majority of the savings were in SI/IT-related costs driven by the lower volume of associated projects. In H1 2019, EBITDA grew by 10.9% year-on-year.

- **Gross profit** in Q2 2019 declined marginally, by 0.5% year-on-year, to HUF 82.9 billion. This is largely owing to the SI/IT performance in the quarter.
- **Employee-related expenses** decreased by 0.7% year-on-year to HUF 18.5 billion, driven by a lower headcount following the implementation of the headcount reduction programme earlier in the year.
- **Other operating expenses** (net) decreased by 26.7% year-on-year in Q2 2019, thanks largely to changes in accounting related to IFRS16. The underlying improvement was due to lower IT maintenance and energy costs.

Capex increased by 50.5% year-on-year in H1 2019 to HUF 42.3 billion driven by the adoption of IFRS 16. Capex without the IFRS 16 adoption effect has increased by HUF 1.7 billion to HUF 29.8 billion, due to seasonal drivers in spending.

Outlook: Even with the market changes in Q2 2019 and afterwards we are still the leading FMC provider in the country and our aim is to keep this position. We'll do this by focusing on our keys Telco business, strengthening our network – both fixed and mobile – and continuing our goal to help digitalize Hungary.

2.2.2 North Macedonia

Further improved profitability owing to higher revenues and cost saving measures

HUF million	Q2 2018 IAS 17	Q2 2019 IFRS 16	Change	Change (%)	1-6 months 2018 IAS 17	1-6 months 2019 IFRS 16	Change	Change (%)
Voice	3,837	3,882	45	1.2%	7,791	7,625	(166)	(2.1%)
Non-voice	2,045	2,359	314	15.4%	3,969	4,523	554	14.0%
Equipment	1,689	1,724	35	2.1%	3,446	3,618	172	5.0%
Other	290	376	86	29.7%	522	673	151	28.9%
Total mobile revenues	**7,861**	**8,341**	**480**	**6.1%**	**15,728**	**16,439**	**711**	**4.5%**
Voice retail	1,171	1,163	(8)	(0.7%)	2,369	2,315	(54)	(2.3%)
Broadband - retail	1,308	1,372	64	4.9%	2,579	2,704	125	4.8%
TV	950	1,113	163	17.2%	1,866	2,175	309	16.6%
Equipment	157*	61	(96)	(61.1%)	282*	136	(146)	(51.8%)
Other	1,290	1,246	(44)	(3.4%)	2,479	2,452	(27)	(1.1%)
Fixed line revenues	**4,876**	**4,955**	**79**	**1.6%**	**9,575**	**9,782**	**207**	**2.2%**
SI/IT revenues	**355**	**612**	**257**	**72.4%**	**569**	**794**	**225**	**39.5%**
Total revenues	**13,092**	**13,908**	**816**	**6.2%**	**25,872**	**27,015**	**1,143**	**4.4%**
Direct costs	**(3,824)**	**(4,153)**	**(329)**	**(8.6%)**	**(7,593)**	**(8,138)**	**(545)**	**(7.2%)**
Gross profit	**9,268**	**9,755**	**487**	**5.3%**	**18,279**	**18,877**	**598**	**3.3%**
Indirect costs	**(3,706)**	**(3,491)**	**215**	**5.8%**	**(7,416)**	**(7,043)**	**373**	**5.0%**
EBITDA	**5,562**	**6,264**	**702**	**12.6%**	**10,863**	**11,834**	**971**	**8.9%**
Segment Capex	**1,686**	**2,184**	**498**	**29.5%**	**2,819**	**4,356**	**1,537**	**54.5%**

*this amount also includes translation and rounding difference

Operational statistics – access numbers	June 30 2018	June 30 2019	Change (%)
Number of mobile customers	1,172,368	1,198,053	2.2%
Postpaid share in the customer base	49.9%	51.8%	n.a.
Total fixed voice access	209,562	211,552	0.9%
Total fixed retail broadband access	171,321	180,352	5.3%
Total TV customers	121,734	131,876	8.3%

Total revenues in North Macedonia increased by 6.2% year-on-year to HUF 13.9 billion in Q2 2019. This growth is largely due to positive service revenue trends, coupled with strong increase in SI/IT revenues. In the first half of 2019, total revenues amounted to HUF 27.0 billion, representing a 4.4% improvement over the same period in 2018.

- **Mobile revenues** improved by 6.1% year-on-year in Q2 2019 (H1 2019: 4.5%) as a result of continued growth in data revenues and higher other revenues.
  - **Voice** revenues rose moderately in Q2 2019, by 1.2% year-on-year, as slightly higher retail voice revenues offset the negative impact of lower international mobile termination on wholesale revenues. The increase in retail voice revenues was driven by the combined impact of a larger customer base and higher ratio of postpaid customers. In the first half of 2019, voice revenues were lower by 2.1% year-on-year, reflecting the absence of one-off revenue booked in Q1 2018 relating to the termination of the prepaid loyalty programme.
  - **Non-voice** revenues were up 15.4% year-on-year in Q2 2019, attributable to the expansion of the mobile broadband customer base which has driven mobile data revenue growth.
  - **Mobile equipment** revenues increased by 2.1% year-on-year in Q2 2019, reflecting higher sales volumes.

  - **Other mobile** revenues increased significantly, by 29.7% year-on-year, in Q2 2019 due to higher visitor revenues driven by lower prices for international traffic and revenues received from the mobile virtual network operator, Telekabel.

- **Fixed line revenues** recorded a moderate increase year-on-year of 1.6% in Q2 2019 and 2.2% in the first half of 2019 as higher TV and retail broadband revenues compensated for lower equipment, wholesale and retail voice revenues.
  - **Voice retail** revenue decline slowed to 0.7% year-on-year in Q2 2019, reflecting a more combined impact of stable customer base but eroding usage levels.
  - **Broadband retail** revenues continued to rise in Q2 2019, by 4.9% year-on-year, as the higher retail customer base offset most of the competition driven price erosion.
  - **TV** revenues grew by 17.2% year-on-year in Q2 2019, as both the subscriber base and ARPU levels continued to increase.
  - **Fixed equipment** revenues were down 61.1% year-on-year in Q2 2019 reflecting a lower volume of TV sets sales as well as the impact of translation and rounding differences on Q2 2018 figures.
  - **Other** fixed revenues declined by 3.4% year-on-year in Q2 2019 as a result of lower domestic and international incoming traffic revenues.

- **SI/IT revenues** rose by 72.4% year-on-year in Q2 2019, resulting in a 39.5% year-on-year increase in H1 2019, thanks to a significant uptake in public sector projects.

EBITDA in the second quarter amounted to HUF 6.3 billion, up 12.6% year-on-year (or HUF 6.1 billion and +9.3% vs. Q2 2018 excl. IFRS 16 effect), driven by growth in revenues and gross profit coupled with savings in employee related expenses.

- **Direct costs** increased owing to higher SI/IT outpayments in line with higher related revenues, as well as due to an increase in the bad debt expense that reflected the absence of one-off items positively impacting the base period.
- **Indirect cost** improvement was driven by savings in employee salaries attributable to a reduced headcount and lower severance expenses.

Capex expenditure in the first half of 2019 rose by HUF 1.5 billion year-on-year to HUF 4.4 billion, reflecting the increased investment levels in fixed and mobile network. (Excluding the impact of IFRS 16 adoption the increase was HUF 1.2 billion to HUF 4.0 billion.)

Outlook: While Telekabel operating as an MVNO and VIP's rebranding as A1, market competition is expected to further intensify in North Macedonia. However, we believe that with our attractive Magenta 1 FMC offering, our strong performance in the SI/IT segment and our efforts to drive further efficiencies in the cost base, we are well positioned to maintain the positive performance recorded in the first half of the year.

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 EBITDA 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

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3.2. Interim 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)	Q2 2018 (unaudited)	Q2 2019 (unaudited)	Change	Change (%)
Revenues				
Voice retail	33,345	32,503	(842)	(2.5%)
Voice wholesale	2,507	2,589	82	3.3%
Data	20,043	22,742	2,699	13.5%
SMS	4,766	5,001	235	4.9%
Equipment	19,797	18,910	(887)	(4.5%)
Other mobile revenues	2,906	3,114	208	7.2%
Mobile revenues	**83,364**	**84,859**	**1,495**	**1.8%**
Voice retail	11,168	10,318	(850)	(7.6%)
Broadband retail	12,588	13,769	1,181	9.4%
TV	11,598	12,156	558	4.8%
Equipment	4,067	4,910	843	20.7%
Data retail	2,344	2,168	(176)	(7.5%)
Wholesale (voice, broadband, data)	5,097	4,841	(256)	(5.0%)
Other fixed line revenues	4,200	4,504	304	7.2%
Fixed line revenues	**51,062**	**52,666**	**1,604**	**3.1%**
System Integration/Information Technology revenues	33,240	23,229	(10,011)	(30.1%)
Total revenues	**167,666**	**160,754**	**(6,912)**	**(4.1%)**
Direct costs				
Interconnect costs	(5,307)	(5,262)	45	0.8%
SI/IT service related costs	(25,291)	(17,276)	8,015	31.7%
Bad debt expense	(2,286)	(2,462)	(176)	(7.7%)
Telecom tax	(6,606)	(6,369)	237	3.6%
Other direct costs	(35,653)	(36,751)	(1,098)	(3.1%)
Direct costs	**(75,143)**	**(68,120)**	**7,023**	**9.3%**
Gross profit	**92,523**	**92,634**	**111**	**0.1%**
Employee related expenses	(20,207)	(19,787)	420	2.1%
Utility tax	0	0	0	n.a.
Other operating expenses	(23,167)	(17,648)	5,519	23.8%
Other operating income	1,054	1,732	678	64.3%
EBITDA	**50,203**	**56,931**	**6,728**	**13.4%**
Depreciation and amortization	(29,030)	(32,157)	(3,127)	(10.8%)
Operating profit	**21,173**	**24,774**	**3,601**	**17.0%**
Net financial result	(2,999)	(6,531)	(3,532)	(117.8%)
Share of associates' and joint ventures' results	(88)	115	203	n.m.
Profit before income tax	**18,086**	**18,358**	**272**	**1.5%**
Income tax	(3,368)	(3,857)	(489)	(14.5%)
Profit for the period	**14,718**	**14,501**	**(217)**	**(1.5%)**
Change in exchange differences on translating foreign operations	4,166	641	(3,525)	(84.6%)
Revaluation of available-for-sale financial assets	166	(31)	(197)	n.m.
Other comprehensive income for the period	**4,332**	**610**	**(3,722)**	**(85.9%)**
Total comprehensive income for the period	**19,050**	**15,111**	**(3,939)**	**(20.7%)**
Profit attributable to:				
Owners of the parent	13,744	13,389	(355)	(2.6%)
Non-controlling interests	974	1,112	138	14.2%
	14,718	**14,501**	**(217)**	**(1.5%)**
Total comprehensive income attributable to:				
Owners of the parent	16,463	13,783	(2,680)	(16.3%)
Non-controlling interests	2,587	1,328	(1,259)	(48.7%)
	19,050	**15,111**	**(3,939)**	**(20.7%)**
Basic earnings per share (HUF)	**13.26**	**12.95**	**(0.31)**	**(2.3%)**
Diluted earnings per share (HUF)	**13.26**	**12.90**	**(0.36)**	**(2.7%)**

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-6 months 2018 (unaudited)	1-6 months 2019 (unaudited)	Change	Change (%)
Revenues				
Voice retail	66,131	64,676	(1,455)	(2.2%)
Voice wholesale	4,844	4,973	129	2.7%
Data	38,757	44,157	5,400	13.9%
SMS	9,315	9,815	500	5.4%
Equipment	37,099	40,282	3,183	8.6%
Other mobile revenues	5,490	5,833	343	6.2%
Mobile revenues	**161,636**	**169,736**	**8,100**	**5.0%**
Voice retail	22,169	20,819	(1,350)	(6.1%)
Broadband retail	25,523	27,216	1,693	6.6%
TV	23,572	24,122	550	2.3%
Equipment	8,181	10,628	2,447	29.9%
Data retail	4,658	4,437	(221)	(4.7%)
Wholesale (voice, broadband, data)	9,894	9,463	(431)	(4.4%)
Other fixed line revenues	8,655	8,662	7	0.1%
Fixed line revenues	**102,652**	**105,347**	**2,695**	**2.6%**
System Integration/Information Technology revenues	53,997	44,620	(9,377)	(17.4%)
Total revenues	**318,285**	**319,703**	**1,418**	**0.4%**
Direct costs				
Interconnect costs	(9,974)	(10,096)	(122)	(1.2%)
SI/IT service related costs	(39,332)	(32,318)	7,014	17.8%
Bad debt expense	(3,721)	(4,548)	(827)	(22.2%)
Telecom tax	(12,769)	(12,594)	175	1.4%
Other direct costs	(68,818)	(75,342)	(6,524)	(9.5%)
Direct costs	**(134,614)**	**(134,898)**	**(284)**	**(0.2%)**
Gross profit	**183,671**	**184,805**	**1,134**	**0.6%**
Employee related expenses	(39,718)	(42,355)	(2,637)	(6.6%)
Utility tax	(7,159)	(7,218)	(59)	(0.8%)
Other operating expenses	(46,128)	(34,552)	11,576	25.1%
Other operating income	2,092	2,623	531	25.4%
EBITDA	**92,758**	**103,303**	**10,545**	**11.4%**
Depreciation and amortization	(55,860)	(65,943)	(10,083)	(18.1%)
Operating profit	**36,898**	**37,360**	**462**	**1.3%**
Net financial result	(7,310)	(12,156)	(4,846)	(66.3%)
Share of associates' and joint ventures' results	307	215	(92)	(30.0%)
Profit before income tax	**29,895**	**25,419**	**(4,476)**	**(15.0%)**
Income tax	(5,663)	(6,936)	(1,273)	(22.5%)
Profit for the period	**24,232**	**18,483**	**(5,749)**	**(23.7%)**
Change in exchange differences on translating foreign operations	4,836	260	(4,576)	(94.6%)
Revaluation of available-for-sale financial assets	241	28	(213)	(88.4%)
Other comprehensive income for the period	**5,077**	**288**	**(4,789)**	**(94.3%)**
Total comprehensive income for the period	**29,309**	**18,771**	**(10,538)**	**(36.0%)**
Profit attributable to:				
Owners of the parent	22,448	16,490	(5,958)	(26.5%)
Non-controlling interests	1,784	1,993	209	11.7%
	24,232	**18,483**	**(5,749)**	**(23.7%)**
Total comprehensive income attributable to:				
Owners of the parent	25,612	16,672	(8,940)	(34.9%)
Non-controlling interests	3,697	2,099	(1,598)	(43.2%)
	29,309	**18,771**	**(10,538)**	**(36.0%)**
Basic earnings per share (HUF)	**21.65**	**15.95**	**(5.70)**	**(26.3%)**
Diluted earnings per share (HUF)	**21.65**	**15.88**	**(5.77)**	**(26.7%)**

3.4. Interim Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2018 (audited)	June 30, 2019 (unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	7,204	7,347	143	2.0%
Trade receivables and other assets	195,220	187,096	(8,124)	(4.2%)
Other current financial assets	11,631	7,964	(3,667)	(31.5%)
Current income tax receivable	254	575	321	126.4%
Inventories	19,118	18,000	(1,118)	(5.8%)
	233,427	220,982	(12,445)	(5.3%)
Assets held for sale	0	559	559	n.a.
Total current assets	**233,427**	**221,541**	**(11,886)**	**(5.1%)**
Non current assets				
Property, plant and equipment	443,147	427,096	(16,051)	(3.6%)
Right-of-use assets	0	109,831	109,831	n.a.
Intangible assets	234,848	221,031	(13,817)	(5.9%)
Goodwill	213,104	213,104	0	0.0%
Investments in associates and joint ventures	1,393	1,204	(189)	(13.6%)
Deferred tax assets	77	15	(62)	(80.5%)
Other non current financial assets	24,985	22,831	(2,154)	(8.6%)
Other non current assets	5,015	4,759	(256)	(5.1%)
Total non current assets	**922,569**	**999,871**	**77,302**	**8.4%**
Total assets	**1,155,996**	**1,221,412**	**65,416**	**5.7%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	111,144	135,824	24,680	22.2%
Lease liabilities	0	17,234	17,234	n.a.
Other financial liabilities	9,228	8,336	(892)	(9.7%)
Trade payables	175,312	116,139	(59,173)	(33.8%)
Current income tax payable	343	1,510	1,167	340.2%
Provisions	3,418	2,713	(705)	(20.6%)
Other current liabilities	41,395	41,177	(218)	(0.5%)
	340,840	322,933	(17,907)	(5.3%)
Liabilities held for sale	0	0	0	n.a.
Total current liabilities	**340,840**	**322,933**	**(17,907)**	**(5.3%)**
Non current liabilities				
Financial liabilities to related parties	123,349	127,713	4,364	3.5%
Lease liabilities	0	95,353	95,353	n.a.
Other financial liabilities	47,919	42,263	(5,656)	(11.8%)
Deferred tax liabilities	17,246	17,966	720	4.2%
Provisions	11,265	10,736	(529)	(4.7%)
Other non current liabilities	445	465	20	4.5%
Total non current liabilities	**200,224**	**294,496**	**94,272**	**47.1%**
Total liabilities	**541,064**	**617,429**	**76,365**	**14.1%**
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	419,727	(9,567)	(2.2%)
Accumulated other comprehensive income	23,650	23,832	182	0.8%
Total equity of the owners of the parent	**580,491**	**571,106**	**(9,385)**	**(1.6%)**
Non-controlling interests	34,441	32,877	(1,564)	(4.5%)
Total equity	**614,932**	**603,983**	**(10,949)**	**(1.8%)**
Total liabilities and equity	**1,155,996**	**1,221,412**	**65,416**	**5.7%**

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3.5. Interim Consolidated Statements of Cash Flows

MAGYAR TELEKOM Consolidated Statements of Cash Flows (HUF million)	1-6 months 2018 (unaudited)	1-6 months 2019 (unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	24,232	18,483	(5,749)	(23.7%)
Depreciation and amortization	55,860	65,943	10,083	18.1%
Income tax expense	5,663	6,936	1,273	22.5%
Net financial result	7,310	12,156	4,846	66.3%
Share of associates' and joint ventures' result	(307)	(215)	92	30.0%
Change in assets carried as working capital	(12,411)	8,552	20,963	n.m.
Change in provisions	(538)	(1,425)	(887)	(164.9%)
Change in liabilities carried as working capital	(14,714)	(50,810)	(36,096)	(245.3%)
Income taxes paid	(4,663)	(5,317)	(654)	(14.0%)
Dividends received	535	442	(93)	(17.4%)
Interest and other financial charges paid	(9,449)	(11,568)	(2,119)	(22.4%)
Interest received	153	187	34	22.2%
Other non-cash items	(354)	(514)	(160)	(45.2%)
Net cash generated from operating activities	**51,317**	**42,850**	**(8,467)**	**(16.5%)**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(30,818)	(46,613)	(15,795)	(51.3%)
Adjustments to cash purchases	(5,501)	1,574	7,075	n.m.
Purchase of subsidiaries and business units	(985)	(972)	13	1.3%
Cash acquired through business combinations	137	0	(137)	(100.0%)
Payments for other financial assets - net	(1,330)	(1,701)	(371)	(27.9%)
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	637	4,038	3,401	n.m.
Net cash used in investing activities	**(37,860)**	**(43,674)**	**(5,814)**	**(15.4%)**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(25,999)	(26,083)	(84)	(0.3%)
Proceeds from loans and other borrowings -net	19,473	35,053	15,580	80.0%
Repayment of other financial liabilities	(3,161)	(8,014)	(4,853)	(153.5%)
Repurchase of treasury shares	(1,822)	0	1,822	100.0%
Net cash used in financing activities	**(11,509)**	**956**	**12,465**	**n.m.**
Exchange differences on cash and cash equivalents	234	11	(223)	(95.3%)
Change in cash and cash equivalents	**2,182**	**143**	**(2,039)**	**(93.4%)**
Cash and cash equivalents, beginning of period	5,399	7,204	1,805	33.4%
Cash and cash equivalents, end of period	7,581	7,347	(234)	(3.1%)
Change in cash and cash equivalents	**2,182**	**143**	**(2,039)**	**(93.4%)**

3.6. 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 June 30, 2019
Related party loans	233,881			(5,910)	5,659		105,541	(77,068)			262,103
Derivatives from related parties	612				2,296	(1,474)					1,434
Frequency fee payable	46,115			(1,149)	1,260				(1,570)		44,656
Finance lease liabilities	3,826	103,388		(2,834)	13,476				(5,269)		112,587
Debtors overpayment	1,327			17							1,344
Contingent consideration	708					(180)					528
Other financial liabilities	5,171			(239)	314				(1,175)		4,071
-Less cash and cash equivalent	(7,204)		(143)								(7,347)
-Less other current financial assets	(11,631)			(1,069)	(1,749)	(95)	6,580				(7,964)
Net debt	**272,805**	**103,388**	**(143)**	**(11,184)**	**21,256**	**(1,749)**	**112,121**	**(77,068)**	**(8,014)**		**411,412**
Treasury share purchase										0	
Dividends paid to Owners of the parent and Non-controlling interest										(26,083)	
Net Cash used in financing activities										**956**	

3.7. Interim 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						(26,068)			(26,068)		(26,068)
Dividend declared to Non-controlling interests									0	(3,482)	(3,482)
Equity settled share-based transactions				(18)	18				0		0
Total comprehensive income						22,448	3,027	137	25,612	3,697	29,309
Treasury share repurchase					(1,822)				(1,822)		(1,822)
Disposal of subsidiaries									0		0
Balance at June 30, 2018	1,042,742,543	104,275	27,379	(115)	(3,991)	408,424	24,553	116	560,641	33,764	594,405
Adoption of new standards (IFRS15, IFRS9)									0		0
Dividend									0		0
Dividend declared to Non-controlling interests									0		0
Equity settled share-based transactions				(1)					(1)		(1)
Total comprehensive income						20,870	(1,006)	(13)	19,851	677	20,528
Treasury share repurchase									0		0
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						(26,069)			(26,069)		(26,069)
Dividend declared to Non-controlling interests									0	(3,663)	(3,663)
Equity settled share-based transactions									0		0
Total comprehensive income						16,490	164	18	16,672	2,099	18,771
Treasury share repurchase									0		0
Disposal of subsidiaries									0		0
Balance at June 30, 2019	1,042,742,543	104,275	27,379	(116)	(3,991)	419,727	23,711	121	571,106	32,877	603,983

3.8. Exchange rate information

Exchange rate	Q2 2018	Q2 2019	Change (%)	1-6 months 2018	1-6 months 2019	Change (%)
HUF/EUR beginning of period	312.55	320.79	**2.6%**	310.14	321.51	**3.7%**
HUF/EUR period-end	328.60	323.54	**(1.5%)**	328.60	323.54	**(1.5%)**
HUF/EUR cumulative monthly average	317.36	323.32	**1.9%**	314.72	320.56	**1.9%**
HUF/MKD beginning of period	5.08	5.21	**2.6%**	5.04	5.23	**3.8%**
HUF/MKD period-end	5.34	5.25	**(1.7%)**	5.34	5.25	**(1.7%)**
HUF/MKD cumulative monthly average	5.16	5.26	**1.9%**	5.11	5.21	**2.0%**

3.9. Segment information

HUF millions	Q2 2018	Q2 2019	1-6 months 2018	1-6 months 2019
Total MT-Hungary revenues	154,703	146,890	292,586	292,778
Less: MT-Hungary revenues from other segments	(31)	(28)	(58)	(59)
Telekom Hungary revenues from external customers	**154,672**	**146,862**	**292,528**	**292,719**
Total North Macedonia revenues	13,092	13,908	25,872	27,015
Less: North Macedonia revenues from other segments	(17)	(16)	(34)	(31)
North Macedonia revenues from external customers	**13,075**	**13,892**	**25,838**	**26,984**
Total consolidated revenue of the segments	167,747	160,754	318,366	319,703
Measurement/rounding differences to Group revenue	(81)	0	(81)	0
Total revenue of the Group	**167,666**	**160,754**	**318,285**	**319,703**
Segment results (EBITDA)				
MT-Hungary	44,747	49,754	81,986	90,918
North Macedonia	5,562	6,264	10,863	11,834
Total EBITDA of the segments	**50,309**	**56,018**	**92,849**	**102,752**
Measurement/rounding differences to Group EBITDA	(106)	913	(91)	551
Total EBITDA of the Group	**50,203**	**56,931**	**92,758**	**103,303**

3.10. Fair value of financial instruments

Financial assets - carrying amounts and FV

June 30, 2019	FINANCIAL ASSETS Amortized cost	FVOCI (Level1)	FVTPL (Level2)	Carrying amount	Fair value
Cash and cash equivalents	7,347			7,347	7,347
Bank deposits with original maturities over 3 months	5,447			5,447	5,447
Cashpool					
Trade receivables	161,010			161,010	161,010
Trade receivables over 1 year	15,526			15,526	16,389
Loans and receivables from employees	1,169			1,169	1,248
Derivative financial instruments contracted with related parties			1,551	1,551	1,551
Finance lease receivable	1,312			1,312	1,090
Equity instruments		574		574	574
Other current	1,362			1,362	1,362
Other non current	403			403	339
Total	**193,576**	**574**	**1,551**	**195,701**	**196,357**

December 31, 2018	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

June 30, 2019 In HUF millions	FINANCIAL LIABILITIES Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 3)	Total	Fair value
Financial liabilities to related parties	262,103	1,434		263,537	270,699
Trade payables	116,139			116,139	116,139
Frequency fee payable	44,656			44,656	53,108
Finance lease liabilities	112,587			112,587	128,822
Debtors overpayment	1,344			1,344	1,344
Contingent consideration			528	528	528
Other current	2,829			2,829	2,829
Other non current	1,242			1,242	1,288
Total	**540,900**	**1,434**	**528**	**542,862**	**574,757**

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**

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

Description (HUF million)	Q2 2019 MT Group	Q2 2019 MT-Hungary	Q2 2019 North Macedonia	1-6 months 2019 MT Group	1-6 months 2019 MT-Hungary	1-6 months 2019 North Macedonia
EBITDA excl. IFRS16 effect	52,255	45,264	6,078	93,570	81,573	11,446
IFRS16 effect on EBITDA	4,676	4,490	186	9,733	9,345	388
EBITDA incl. IFRS16 effect	56,931	49,754	6,264	103,303	90,918	11,834
IFRS 16 related D&A	(4,028)	(3,857)	(171)	(8,558)	(8,206)	(352)
IFRS 16 related Interest	(1,420)	(1,393)	(27)	(2,834)	(2,784)	(50)
EBITDA after lease	51,483	44,504	6,066	91,911	79,928	11,432
CAPEX after lease*	(19,529)	(17,441)	(2,080)	(33,780)	(29,778)	(4,000)

* Excluding CAPEX of Right-of-use assets

4. DECLARATION

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

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

Tibor Rékasi	János Szabó
Chief Executive Officer, member of the Board	Chief Financial Officer

Budapest, August 7, 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.