**PRESS RELEASE**

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# Magyar Telekom results for the second quarter of 2016

**Magyar Telekom today reported its consolidated financial results for the second quarter of 2016, in accordance with International Financial Reporting Standards (IFRS).**

## Highlights:

- **Total revenues amounted to HUF 148.2 billion in Q2 2016 compared to HUF 158.5 billion in Q2 2015, representing a decline of 6.5% year-on-year**, mostly as a result of lower SI/IT revenues, as well as a partial exit from the energy business. Stripping out contributions from SI/IT and energy, core like-for-like revenues increased by 2.2% in Q2 2016 due to improvement in mobile revenues. Total revenues decreased by 7.0% to HUF 293.2 billion in the first half of 2016 compared to H1 2015 driven by the same influencing factors as the ones affecting the quarterly results. However, year-to-date fixed line revenues slightly improved, where revenue surplus from GTS acquisition compensated for the Origo deconsolidation. **Mobile revenues amounted to HUF 79.8 billion in Q2 2016**, compared to HUF 76.9 billion in the same period of the previous year representing a 3.8% improvement. Higher mobile data, equipment and other revenues offset the shrinking voice retail and SMS revenues. On a year-to-date basis, mobile revenues remained roughly stable in H1 2106 as a result of the similar trends witnessed in the second quarter, as well as the Mobile Termination Rate (MTR) cut in Hungary negatively effecting Q1 2016. **Fixed line revenues remained stable at HUF 52.7 billion in Q2 2016** as improvement in broadband retail, TV and other revenues were offset by the decline in voice retail and equipment revenues. We witnessed a positive performance in Hungary but a decline at both foreign subsidiaries. Year-to-date fixed line revenues increased by 1.1% in the first half of this year partly thanks to the GTS acquisition effect in the first quarter. **System Integration and IT (SI/IT) revenues dropped by 23.1%** (down by HUF 4.3 billion) to HUF 14.3 billion due to the slowdown of EU fund inflows to Hungary partly mitigated by revenue growth in Macedonia. On the other hand, SI/IT gross profit increased by 2.1% resulting in a 46.4% margin in Q2 2016 (up from 35.0% in Q2 2015). Year-to-date SI/IT revenues declined only by 4.0% thanks to the strong first quarter results principally reflecting the carry forward of projects started in 2015. **Energy Service revenues decreased to HUF 1.5 billion** compared to HUF 10.4 billion in the same period of 2015, due to the exit from the residential gas business as of August 1, 2015 and the transfer of the B2B energy business into the joint venture (E2) with MET Holding AG as of January 1, 2016. Our energy revenues were down by HUF 23.4 billion in the first half of 2016 due to the same reasons.
- **Direct costs decreased by 19.9%** to HUF 44.9 billion, mainly due to a sharp decline in energy service related costs following the exit from the residential gas and B2B energy business, as well as lower SI/IT related costs, compensating the increasing in other direct costs. On a year-to-date basis, direct costs declined by 20.6% to HUF 90.4 billion as a result

of the same drivers. **Interconnect costs** increased by 9.9% to HUF 5.4 billion in Q2 2016 due to increased GTS fix voice and wholesale outpayments compared to Q2 2015. On the other hand, interconnect costs in H1 2016 decreased by 17.4% year-on-year to HUF 10.8 billion because of the MTR cut effecting the first quarter. **SI/IT service related costs** dropped by 36.6% on quarterly and 10.3% on year-to-date basis, mainly in line with dwindling revenues of the business line. **Other direct costs** went up by HUF 1.4 billion to HUF 28.1 billion due to higher cost of mobile accessories and other equipment sales, partly offset by savings on device related costs due to lower high-end handset, TV, tablet and notebook sales. In the first half of 2016, other direct costs increased by 4.5% compared to the first half of 2015 as a result of the above factors, partly mitigated by savings on TV and other content related costs. **Bad debt expenses** remained roughly stable at HUF 2.3 billion in the second quarter of 2016 compared to the same period last year. On year-to-date basis bad debt expenses deteriorated by 13.0% to HUF 4.7 billion, mainly owing to significantly higher amount of impairment loss charged in Q1 2016 and lower debt collection in Macedonia and Montenegro.

- **Gross margin slightly improved both on quarterly and year-to-date basis and amounted to HUF 103.2 billion and HUF 202.8 billion, respectively.** Improvement in the MT Hungary segment (TV, fixed and mobile broadband, as well as SI/IT margins) counterbalanced the declines at our foreign subsidiaries and the margin effect of the lower energy revenues.
- **Indirect costs deteriorated by 3.7% in the second quarter of 2016** compared to the same period last year due to higher other operating expenses offsetting the savings in employee related costs. At the same time, indirect costs improved by 3.3% on year-to-date basis, mainly driven by one-offs related to the Origo sale and the real estate transaction (Infopark). Furthermore, employee related expenses improved, while other operating expenses deteriorated resulting in the above mentioned improvement coupled with the one-offs. **Employee-related expenses** improved by HUF 1.1 billion to HUF 21.2 billion due to savings in the quarter stemming from the headcount reduction program implemented in 2014 and 2015, partly offset by lower capitalization of project related employee related costs, wage and cafeteria increase, as well as severance costs in Macedonia in relation to the outsourcing of the network operation to Ericsson. In the first half of 2016 employee related expenses improved by 4.9% and amounted to HUF 42.1 billion driven by the lay-off program in Hungary mentioned previously. **Hungarian sector specific taxes** in the second quarter of 2016 declined by 5.8% to HUF 6.1 billion as a result of lower telecommunication tax due to change in the customer behavior. In the first half of 2016, sector specific taxes decreased by 3.9% to HUF 19.6 billion compared to H1 2015. Besides improvement in the telecommunication tax, utility tax expense also went down by HUF 0.4 billion to HUF 7.3 billion compared to the same period of 2015. The primary reason for this is, that a five-year utility tax credit was granted for Magyar Telekom Group relating to those network investments and/or upgrades, which are executed following the 25$^{th}$ June 2015 and which enable an internet access of at least 100 Mbps. Secondly, in the first quarter of 2016 there was a utility tax expense decrease due to the refinement of the taxable network records

compared to the first quarter of 2015. **Other operating expenses** continued to increase by HUF 2.9 billion in Q2 2016, driven by the Hungarian segment: higher advisory fee due to HSI development for Digital Welfare Program, higher marketing expenses and increased sponsorship activities, higher maintenance, repairs, and remedial work expenses and parallel operation of legacy and next generation IT platforms. Furthermore, office rental fees also increased following the sale of Infopark. **Other operating income** declined by HUF 0.4 billion in Q2 2016 due to higher income from network construction works and real estate sale in the same period of 2015. On the other hand, other operating income grew by HUF 5.4 billion on year-to-date basis due to the HUF 5.1 billion one-off profits realized on the Infopark and the Origo sale.

- **EBITDA decreased by 2.0%** from HUF 52.2 billion in Q2 2015 to HUF 51.2 billion in Q2 2016, as lower direct costs compensated for lower revenues, leading to a 0.8% higher Gross profit. Lower employee related expenses were offset by higher other operating expenses. EBITDA increased by 5.0% in the first half of 2016 compared to the same period of last year, driven by the same trends but boosted by one-offs in Other operating income.
- **Depreciation and amortization expenses increased by 5.9%** to HUF 28.3 billion, as software activation related to the new billing and new ERP system caused higher depreciation costs in 2016. Meanwhile, it remained roughly stable at HUF 55.0 billion in H1 2016 compared to the same period last year.
- **Profit for the period declined by 14.3% to HUF 11.6 billion in Q2 2016**. On a year to date basis, Profit for the period rose by 36.9% compared to the first half of last year driven by higher EBITDA boosted by one-offs and improved net financial results. **Operating profit** declined from HUF 25.5 billion in Q2 2015 to HUF 22.9 billion in Q2 2016 (down by 10.2%), while year-to-date improvement was 10.3% for the reasons described above. **Net financial results** improved by 13.3% from HUF 6.8 billion loss in Q2 2015 to HUF 5.9 billion in Q2 2016. The result was primarily due to lower average interest rates (driven by favorable changes in the market conditions and decreasing amount of loans), as well as exchange gains on loans, accounts payable and receivables offsetting shrinking gains on derivatives. In year-to-date comparison, net financial results improved by 19.2% to HUF 12.5 billion loss also supported by gains on the fair valuation of derivatives. **Income tax expense** increased by 6.6% and by 12.3% on quarterly and year-to-date basis and amounted to HUF 5.5 billion and HUF 9.0 billion, respectively, which is driven by the withholding tax related to the dividend declaration of Stonbridge in Q2 2016. The increase in H1 2016 is due to the same reason besides the increase in Profit before income tax, which also contributed to the higher income tax expense. **Profit attributable** to non-controlling interests declined both in Q2 and in H1 2016 by HUF 0.8 billion to HUF 0.2 billion and HUF 1.0 billion, respectively, due to lower Profit for the period generated by international subsidiaries.
- Net debt improved by 9.6% compared to end of June 2015 and by 1.3% compared to year end 2015 amounting to HUF 404.1 billion. Meanwhile, **net debt ratio (net debt to total capital) improved from 42.9% at the end of December 2015 to 42.4%** driven by a

reduction in short- and long-term borrowings considered together. Magyar Telekom's dividend policy seeks to maintain its net debt within the 30%-40% range and the net debt ratio is on a downward trajectory. Thus, we expect that the net debt ratio will approach the targeted range between 30-40% in the coming years.

- **Free cash flow increase to HUF 20.2 billion** reflects higher EBITDA, improved working capital, lower interest payments and one-off profits despite the incremental severance payout and a higher settlement of capex creditor balances.

**Christopher Mattheisen, CEO commented**:

"I am pleased to report that the positive trends in our operations seen during the past few quarters have continued into the second quarter of this year. Although our headline revenue witnessed a 6.5% decline compared to the second quarter of 2015, this was primarily due to our decisions with respect to the energy business and lower Systems Integration and IT revenues resulting from a temporary slowdown in EU fund inflows. Excluding these, our core telco revenues continued to grow by 2.2% driven by growth in mobile data and equipment coupled with fixed broadband and TV revenue uplift. On the other hand, Group EBITDA for the quarter declined by 2.0% year-on-year as higher other operating expenses offset gross profit growth and lower employee related expenses.

Our Group revenues decreased by 7.0% compared to the first half of last year primarily driven by the decline in energy and SI/IT revenues which was partly mitigated by increasing telco revenues. Thanks to investments in 4G networks across our footprints, our Group mobile broadband and equipment revenues increased significantly whilst voice revenues declined. Following the fixed access network upgrades, we were also able to further grow our fixed broadband and TV customer bases at higher ARPUs in Hungary. Group-wide rollout of Magenta1, our quad-play proposition based on the integrated Telekom brand, has helped too in promoting our brand and services.

Our EBITDA performance improved by 5.0% year-on-year in the first half of this year. It was achieved not only through gross margin growth, but also thanks to significant savings in employee related expenses and one-off gains in the first quarter. Group Capex for the first half of 2016 was practically unchanged compared to last year, resulting in a steadily increasing Free Cash Flow. Group FCF for the half year exceeded HUF 20 billion, despite the incremental severance payout, loan repayment and a higher settlement of capex creditors. The net debt to total capital ratio improved from 42.9% at the end of 2015 to 42.4% driven by a reduction in both short- and long-term borrowings. There is a slight increase in our leverage compared to the previous quarter due to the dividend payout in May 2016, but we expect our net debt ratio to further decline in the second half of this year.

Our performance so far this year has been in-line with our expectations and I am pleased to reiterate our guidance targets; for the avoidance of doubt, the one-off gains recorded in the first quarter were as expected and have been incorporated into our outlook."

**Public guidance:**

| | Actual | Public guidance | |
|---|---|---|---|
| | 2015 | 2016 | 2017 |
| Revenue | HUF 656.3 billion* | between HUF 580-590 | between HUF 585-595 |
| EBITDA | HUF 187.3 billion | between HUF 187-191 | between HUF 189-193 |
| Capex** | HUF 109.8 billion | ca. 10% y-o-y decline | ca. 10% y-o-y decline |
| FCF | HUF 26.7 billion | | surpassing HUF 50bn*** |
| Dividend | HUF 15 per share | target HUF 25 per share | |

** includes HUF 49.3 billion relating to the energy business*
***excluding spectrum acquisitions and annual frequency fee capitalization*
**** after minority dividend payments*

For detailed information on Magyar Telekom's Q2 2016 results please visit our corporate website (www.telekom.hu/about_us/investor_relations) or the website of the Budapest Stock Exchange (www.bse.hu).