

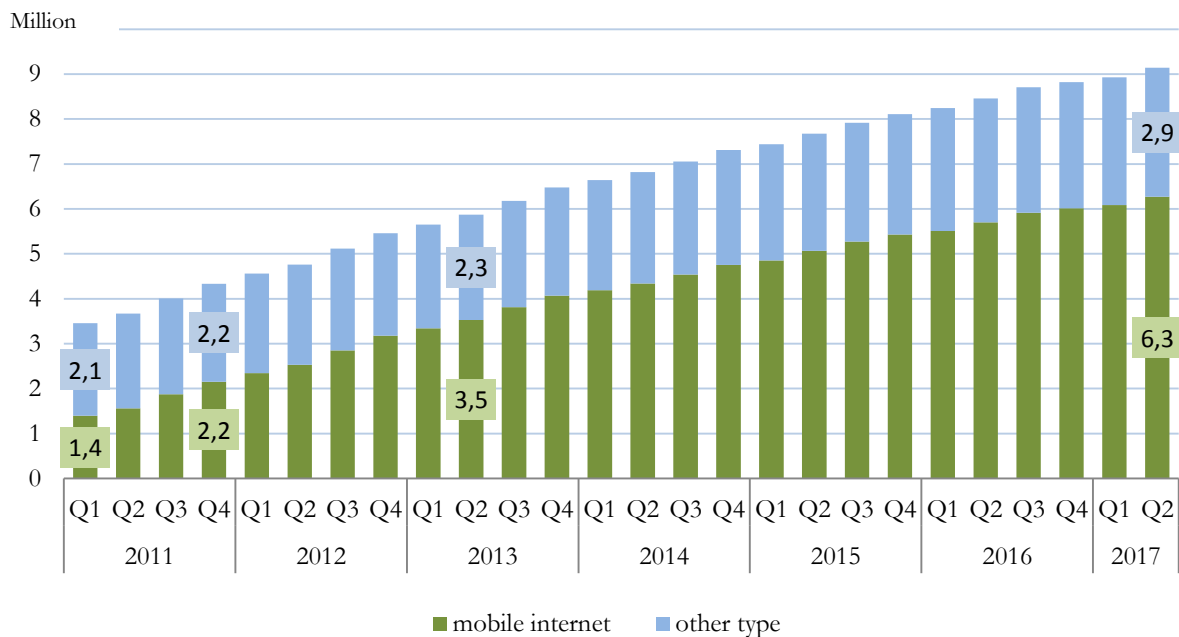


Internet penetration rising steadily in Hungary

According to the latest relevant report by the Hungarian Central Statistical Office (KSH), the Internet services market has continued to expand in the second quarter of 2017. The number of Internet subscriptions grew to 9.1 million by the end of the quarter, which shows an increase of 2.4 percent quarter-on-quarter and 8 percent year-on-year. 69 percent of subscriptions were for mobile Internet services.

In recent years, the Internet services market – in harmony with Government efforts – has grown steadily. The number of subscriptions has increased more than two-and-a-half times since Q1 2011, totalling more than 9.1 million at the end of Q2 2017. Due to the increasingly use of smart phones, the share of **mobile Internet subscriptions has been rising** within the total number of contracts: while at the end of Q1 2011 mobile Internet subscriptions accounted for only 40 percent of total, this indicator showed 50 percent at the end of the same year and as much as 60 percent in Q2 2013. Since then, the pace of growth has become more modest: at the end of Q2 2017 there were 6.3 million mobile Internet subscription contracts, constituting 69 percent of total. In the period April-June 2017, the number of mobile Internet subscriptions was up by 10 percent year-on-year.

Fig.1. Change in the number of Internet subscriptions



Source: Hungarian Central Statistical Office (KSH)

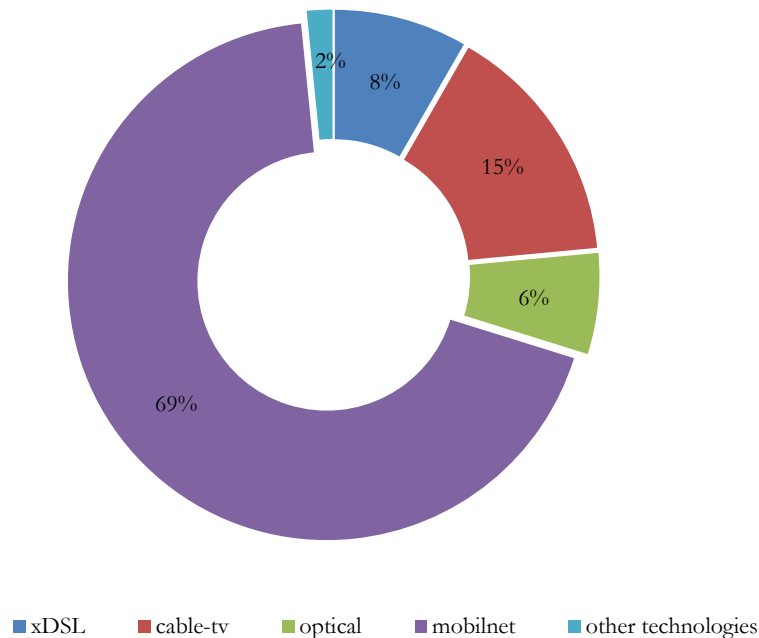


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In the second quarter, half of fixed Internet subscriptions, the number of which grew by 4 percent in the second quarter, were cable TV subscriptions, while slightly more than one-fourth of them were xDSL subscriptions. The number of subscriptions in the former category was up by 4.3 percent, and in the latter they decreased at a similar extent.

On the other hand, **dynamic growth was registered in the number of optical Internet subscriptions:** in Q2 2017, they were 18 percent higher than in the same period of the previous year. Consequently, more than one-fifth of Internet services nowadays already use this technology.

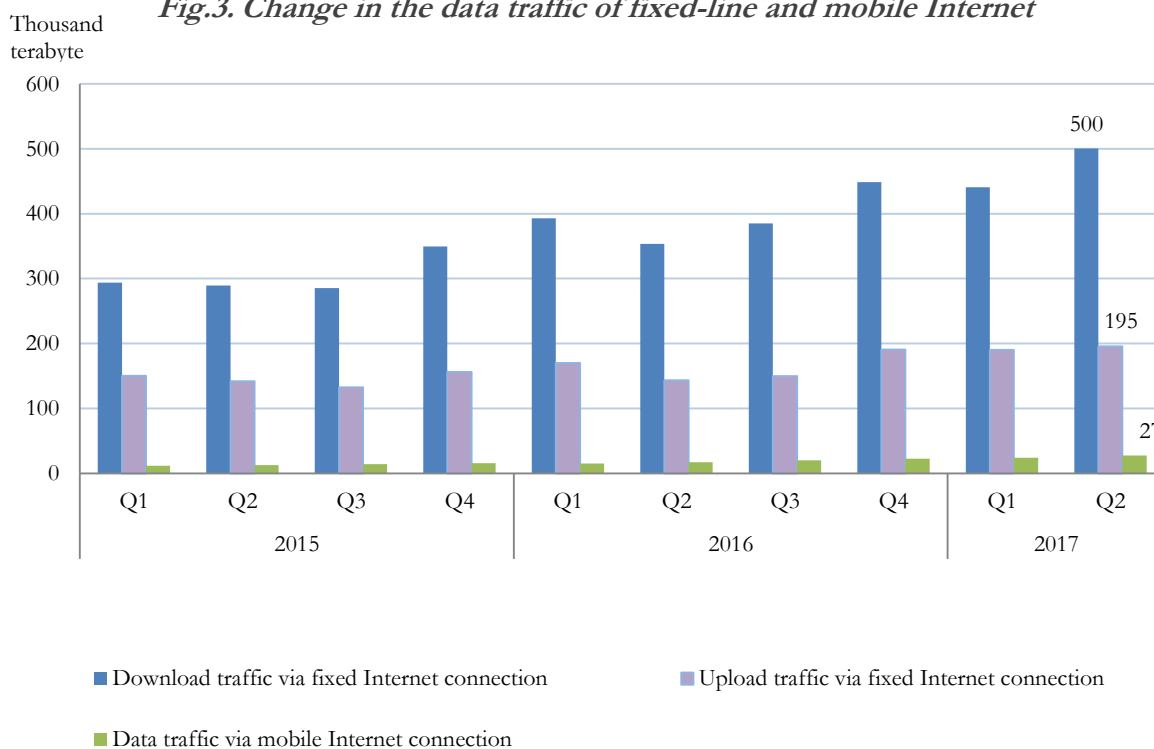
Fig.2. Distribution of Internet subscriptions by type of technology (% , Q2, 2017)



Source: Hungarian Central Statistical Office (KSH)

Although only 30 percent of the total number subscriptions are for fixed Internet, the bulk of data traffic still flows through these networks. In the second quarter, data traffic via both fixed and mobile Internet has increased substantially. Download and upload data traffic via fixed Internet was up by 42 percent and 37 percent, respectively, year-on-year. Data traffic via mobile Internet, where the volume of data flow is much smaller, the pace of growth was even more marked: 62 percent year-on-year.

Fig.3. Change in the data traffic of fixed-line and mobile Internet



Source: Hungarian Central Statistical Office (KSH)

In Q2 2017, net revenues at Internet services providers totalled HUF 55bn (EUR 177 million), up year-on-year by 13 percent at current prices. Despite discount packages and lower fees, sales growth matched the dynamic increase in the number of subscriptions. 45 percent of Internet services revenues were generated by mobile Internet subscriptions, up by 29 percent compared to data from April-June 2016. Market concentration was high; more than 96 percent of subscriptions were concluded with 10 service providers. Subscriptions by private persons and businesses accounted for 82 percent and 18 percent, respectively, of the total number of Internet subscriptions.

One of the main initiatives of the Europe 2020 Strategy was **the building of broadband networks** as a tool for fostering social integration and competitiveness within the EU. The EU's Digital Agenda aims to make access to super-fast (at least 30 Mbps) broadband Internet available for every EU citizen until 2020. In order to meet EU targets, the Hungarian Government, under the Super Fast Internet Programme, undertook to provide the required infrastructure all across

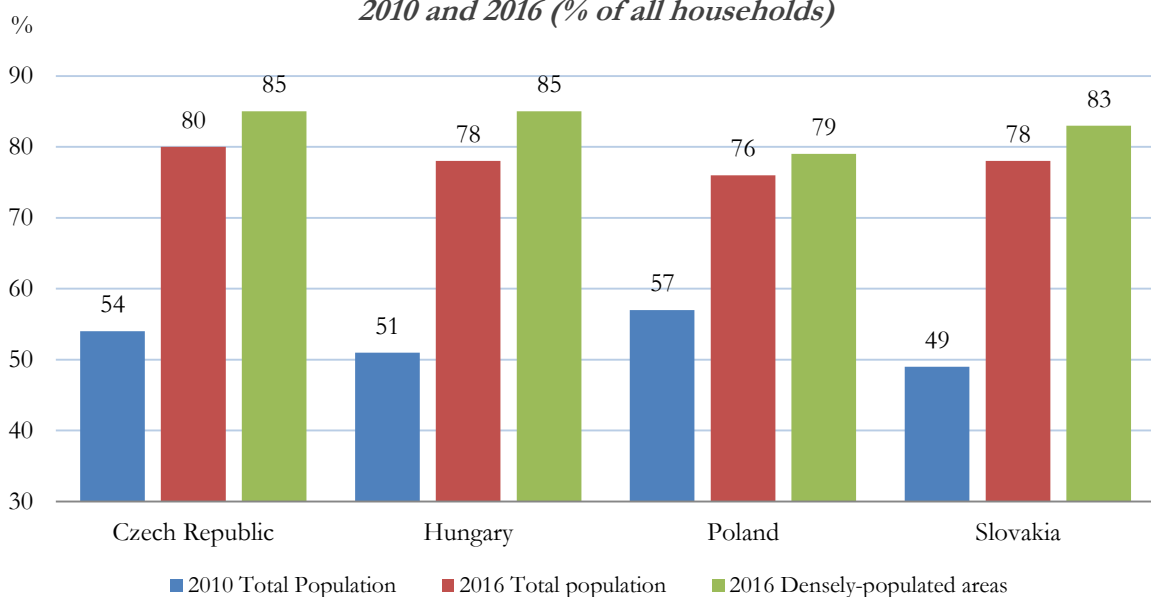


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the country by 2018, as one of the first within the EU, and put in place the ultra-fast broadband network vital for accessing and using digital public services.

In light of Eurostat data, since 2010 broadband Internet coverage for households has increased significantly in each country within the Visegrad Four. While only half of households had a broadband connection in 2010, in 2016 some four-fifth of them. As far as broadband penetration of households in cities is concerned, Hungary shares the first place with the Czech Republic in the region, with a figure of 85 percent.

Fig.4. Change in broadband Internet connection of households in the V4 countries, 2010 and 2016 (% of all households)



Source: Eurostat

In order to realize the target concerning the super-fast Internet connection for all before the end of 2018, two years before the EU's deadline, this year and next Hungary is to implement investment of HUF 150bn (EUR 490 million), financed partly from EU funds. Besides building a new country-wide Internet network, the Government wants to make Internet services not only accessible but also affordable for everyone. To this end, free Wi-Fi is planned to be made available at every Hungarian settlement up to the end of 2018, and the rate of VAT payable for Internet services is set to be reduced from 18 percent to 5 percent as of 1 January 2018.