

Investor presentation

Magyar Telekom Group – September 2012

Strong market position maintained, but difficult economic environment puts increasing pressure on EBITDA

• • • **T** • • •

Strategy, Outlook and Guidance

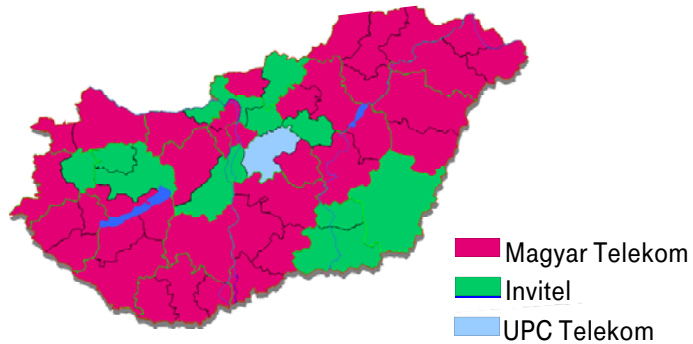


Overview – Magyar Telekom Group at a glance

International presence



Incumbents in Hungary



Overview

Integrated operations in Hungary, Macedonia and Montenegro

- leading telecommunications service provider in all three countries
- leading SI/IT service provider in Hungary

EUR 1.4 bn market capitalization as at September 2012

Stock exchange listings

- primary listing on the Budapest Stock Exchange
- Level I ADR program, ADSs traded on the OTC Market

Majority owned by Deutsche Telekom (59.2%)

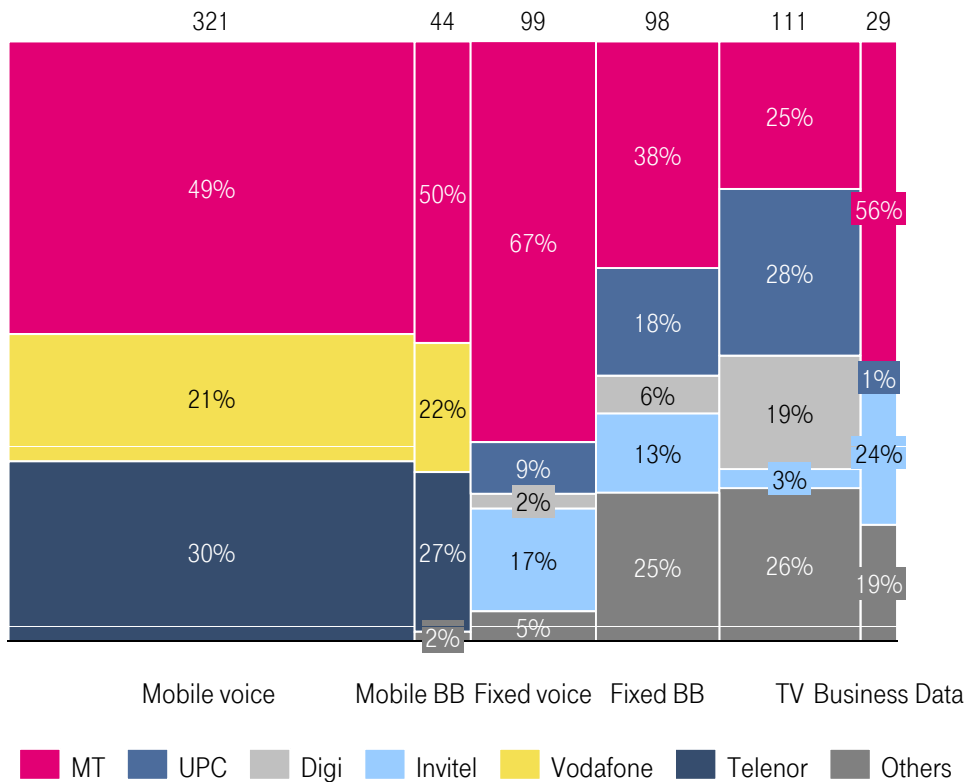
Strategic priorities

- mitigate erosion of traditional high margin products
- streamline cost base further
- secure market leader position in broadband
- achieve critical mass in the interactive TV market
- restructure revenue base

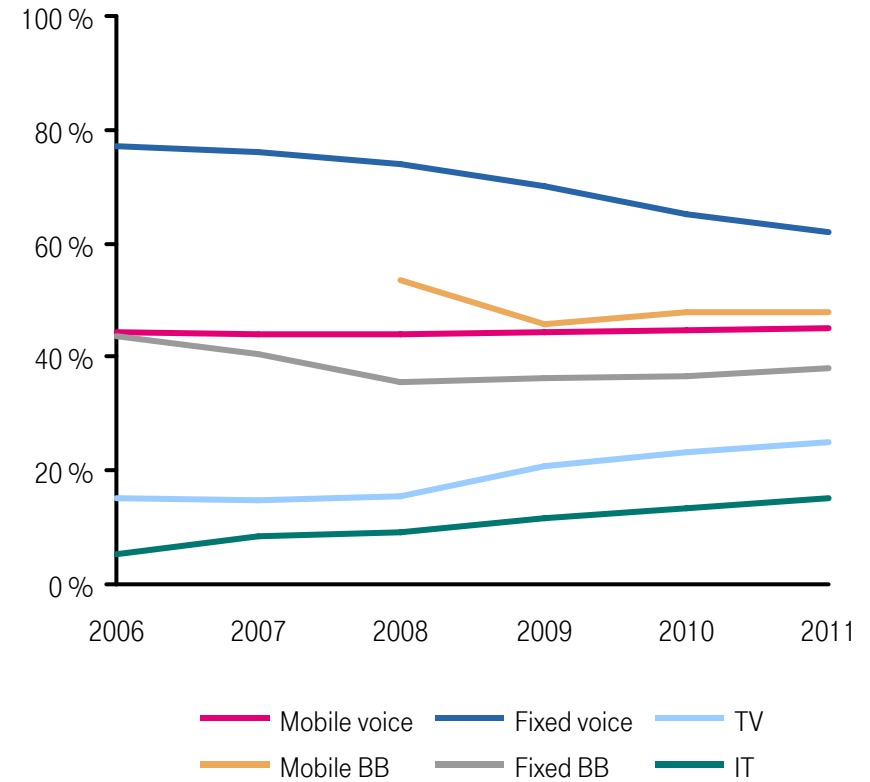


Market trends

Revenue based market shares in Hungary in 2011 (HUF bn)



Evolution of Magyar Telekom's market share since 2006



Magyar Telekom's revenue market share

- Magyar Telekom has a blended market share of 47% in the retail telco market in Hungary
- supported by 16% market share in the IT market

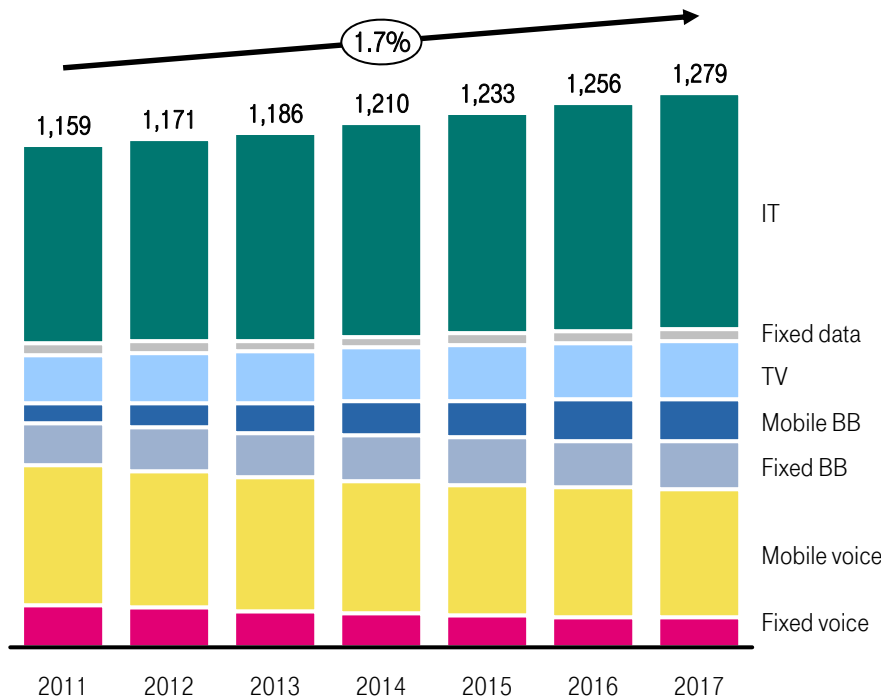
Market share development

- increasing market shares in the TV, mobile voice and IT markets
- stable market shares in the broadband markets



Change in revenue trends

Hungarian ICT market development (HUF bn)

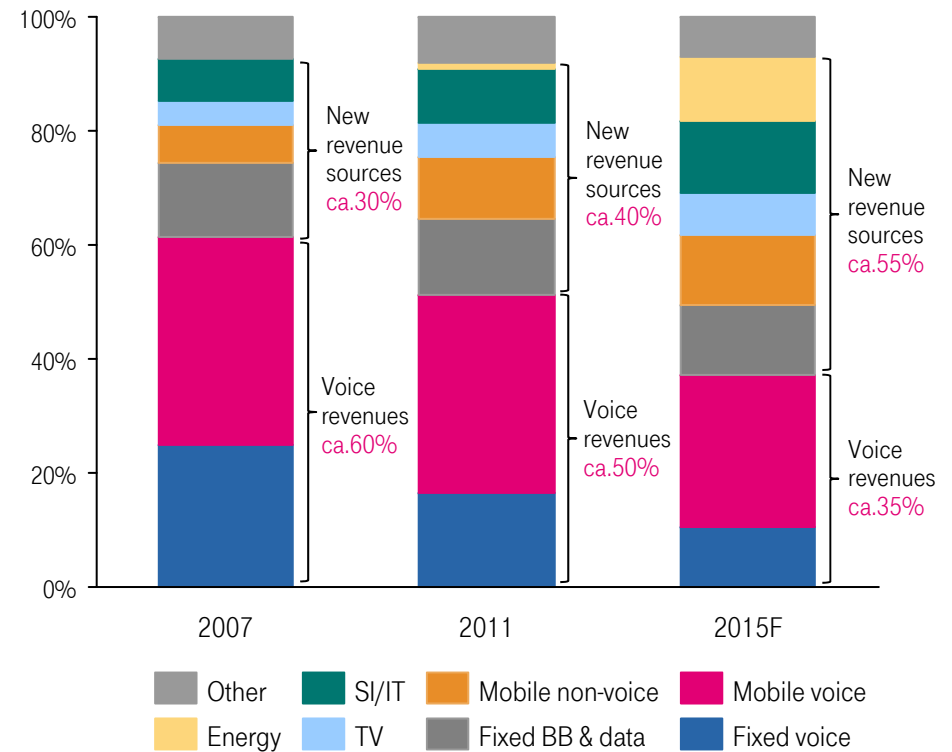


Source: Magyar Telekom and IDC estimates, April-2012

Hungarian ICT market expected to expand

- wider economic recovery, when it comes, is expected to increase total market size, mainly driven by mobile broadband and IT services
- predicted CAGR of ca. 2% projected between 2011 and 2017

Change in Magyar Telekom's Hungarian revenue mix



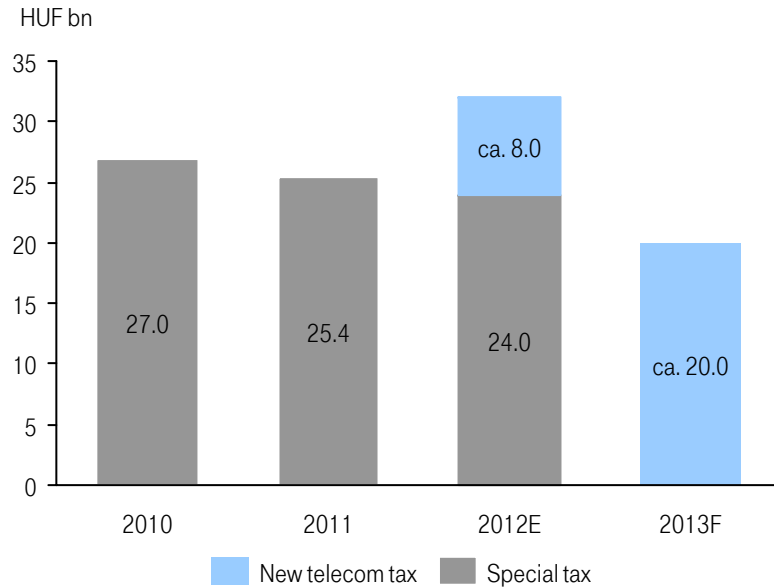
Change in revenue mix

- revenues from new services expected to surpass traditional voice revenues within the next few years
- revenue potential from non-core activities (insurance, energy, etc)

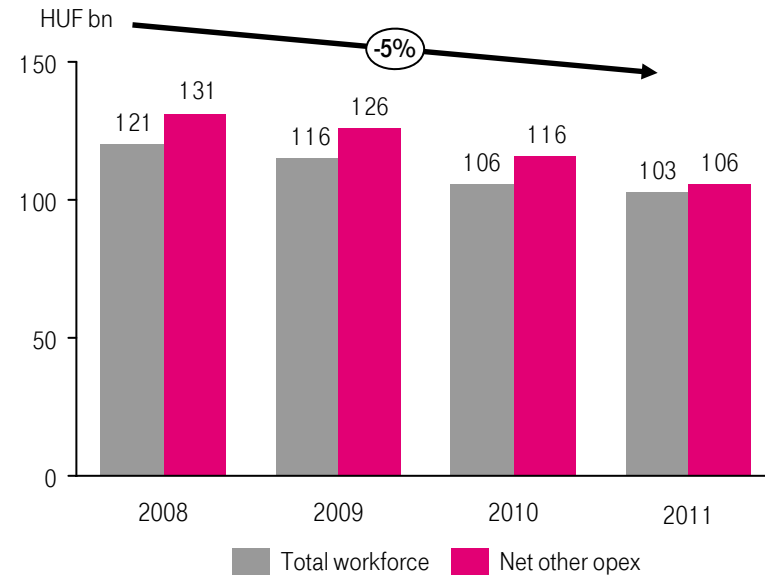


Unfavorable impact of special tax to be compensated by continued efficiency improvements

Telecom taxes



Cost saving



Sector and telecom tax

- special, revenue-based sector tax levied on a temporary basis between 2010-2012
- new, traffic-based telecom tax introduced from July 2012 and expected to be ongoing for an indefinite period

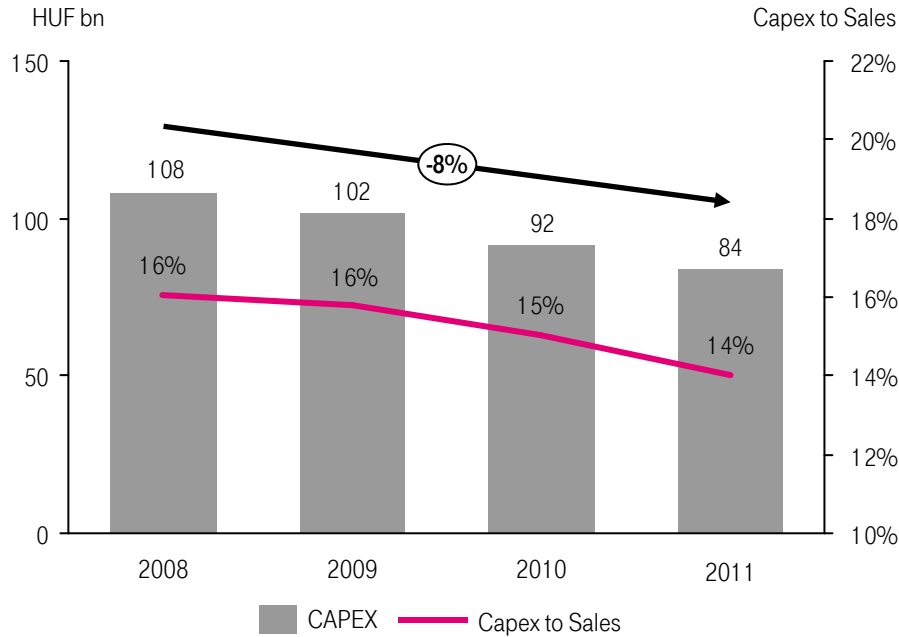
Continuous savings

- headcount reduction target: TWM saving of HUF 3.4 bn in 2012 compared to end 2010
- cost efficiency improvements reflected in a decline in other operating expenses

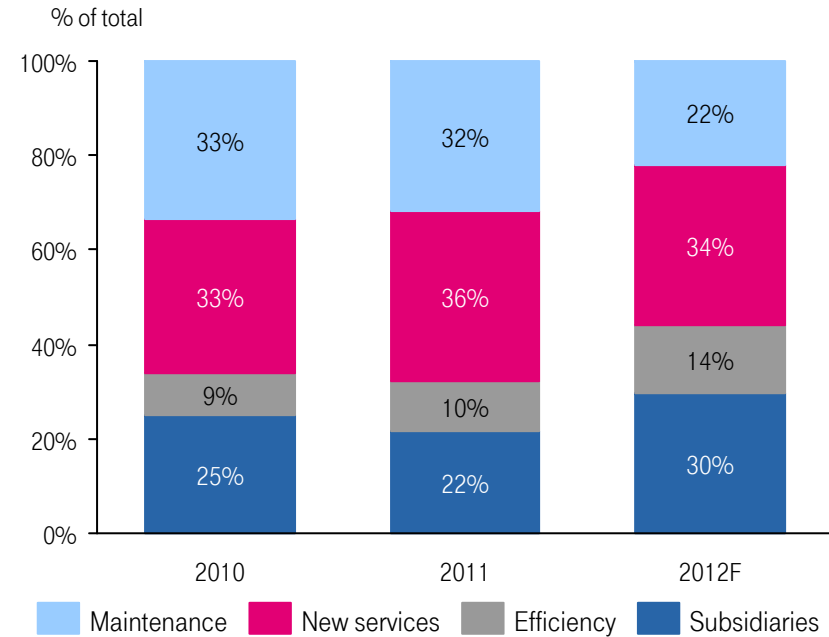


Capex developments

Capex trend



Capex breakdown



Capex to match revenue trends

- a CAPEX/Sales ratio below 15% is expected to be maintained
- flat Capex targeted for 2012, excluding costs relating to spectrum acquisition

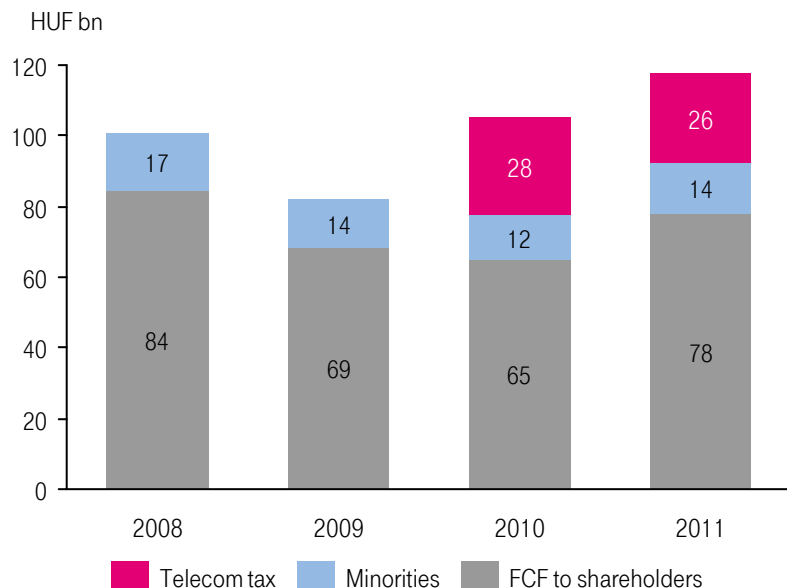
Efficiency improvements in Capex spendings

- major portion of Capex is spent on network modernization, LTE, TV set-top boxes
- internal efficiency projects to accelerate in 2012
- subsidiary network modernization requiring higher Capex spending



Free cash flow and dividends

Free cash flow* generation

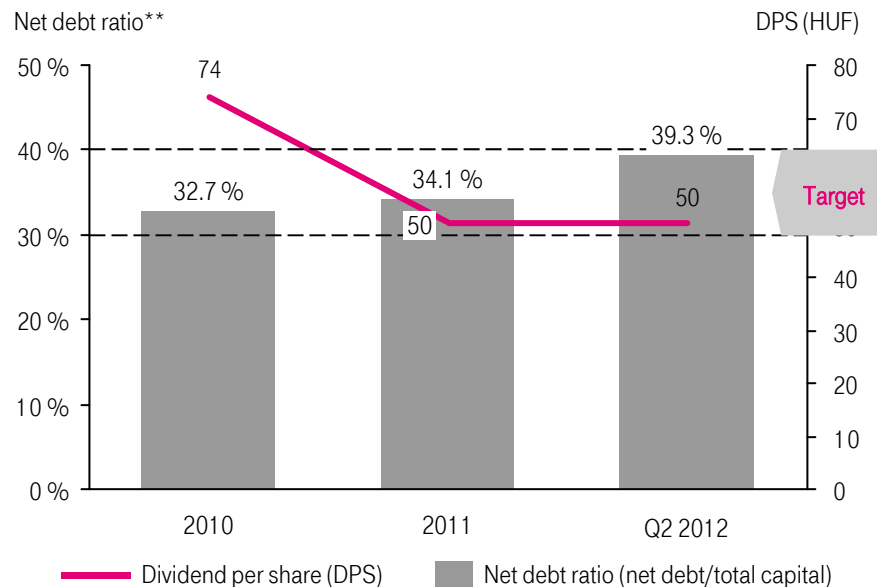


Free cash flow generation

- FCF to decline in 2012 due to exceptional costs:
 - spectrum acquisition (HUF 10.9bn)
 - DOJ/SEC settlement (HUF 20.7bn)
 - new telco tax introduced in July 2012 (HUF 8bn)

*defined as Operating CF + Investing CF adjusted for proceeds from/payments for other financial assets

Dividend payment



Dividend policy

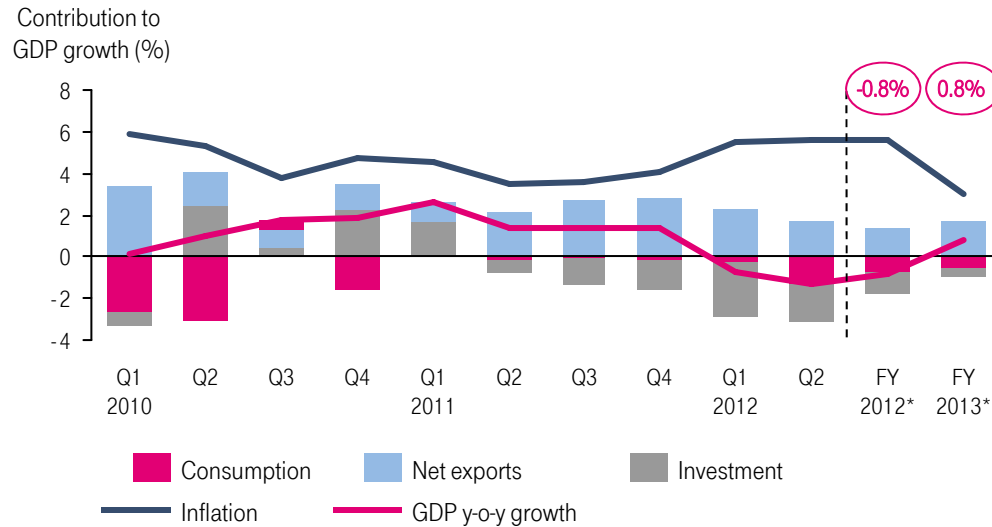
- to maintain an efficient capital structure, we have a net debt ratio target of 30-40%
- a combination of exceptional costs and the dividend payment pushed the ratio close to the upper limit by June 2012
- net debt ratio is expected to return to the middle of the range by the end of 2012 as FCF generation improves in H2

**defined as net debt / total capital

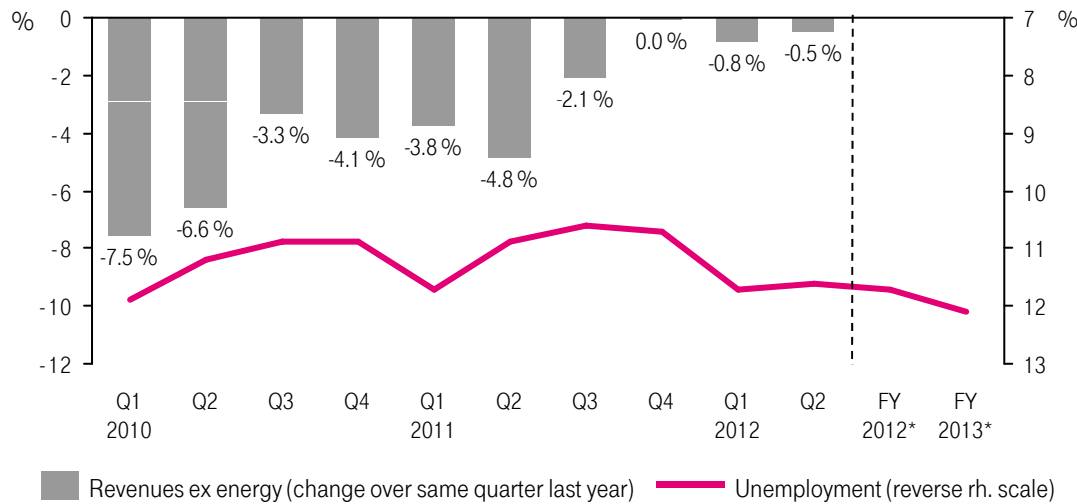


Hungarian economic trends 2010-2013

Growth structure and wages



Magyar Telekom revenue and unemployment



* Central Bank June 2012 forecast

Macro effects

Economic downturn coupled with high rate of inflation

- GDP performance is dependent on export dynamics
- consumption is under pressure as household spending decreases as a result of HUF weakening, low employment, and high inflation
- MT financials strongly correlate with internal demand



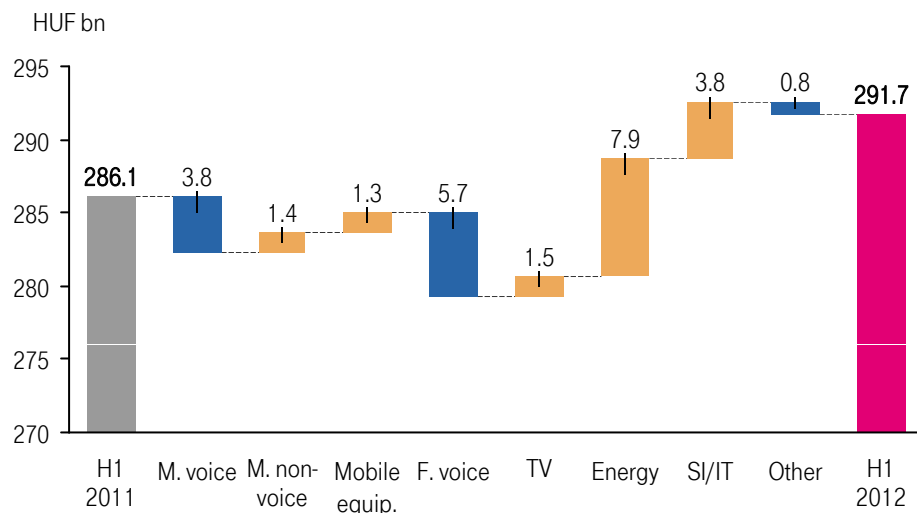
2012 targets and H1 2012 results

	2012 targets	H1 2012 results
Revenue	Flat to -2% <ul style="list-style-type: none"> changing revenue mix and energy resale are facilitating revenue turnaround increase in recessionary pressures and declines in household consumption 2011 comparable figure: HUF 597.6 bn 	+2.1%
Underlying EBITDA <i>Excluding telecom taxes, investigation and severance expenses</i>	4-6% decline <ul style="list-style-type: none"> both old and new telecom taxes excluded from underlying EBITDA changing revenue mix, coupled with an increasing ratio of low margin services 2011 comparable figure: HUF 245.0 bn 	-7.2%
CAPEX <i>Excluding spectrum acquisitions</i>	Flat <ul style="list-style-type: none"> network modernization, LTE and internal efficiency program spectrum license fee of HUF 10.9 bn paid in Q1 2012 excluded from comparison 2011 comparable figure: HUF 83.8 bn 	+14.5%

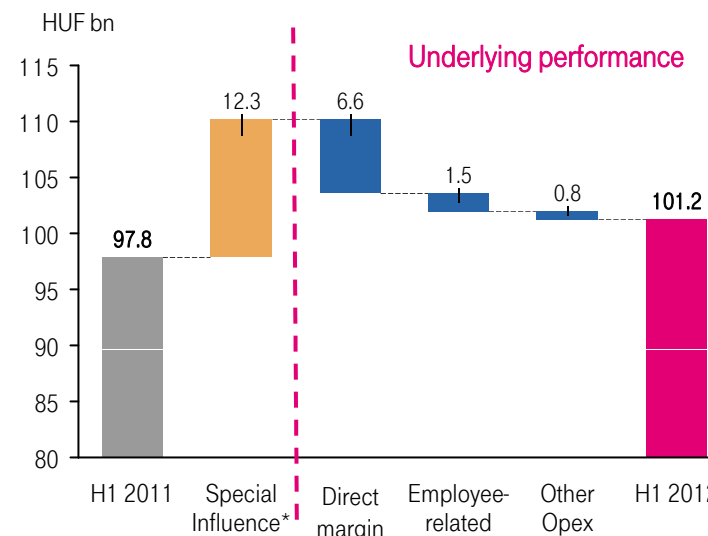


2012 H1 Group results – Revenues and EBITDA

Group revenues



Group EBITDA



*Investigation- and severance-related expenses, as well as telecom tax

Revenue development

Group revenues up 2.1% y-o-y

- H1 energy resale revenue increase of HUF 7.9 bn compared with the same period last year
- a decline in fixed and mobile voice revenues primarily due to continuing intense competition, depressed household consumption and MTR cuts
- SI/IT revenue growth driven by hardware/software sales
- mobile BB subscriber and revenue growth, higher TV revenues

EBITDA development

Underlying EBITDA down 5.5% y-o-y

- further decline in high margin voice revenues
- margin dilution impact of energy resale and SI/IT businesses
- market invest to be spread more evenly throughout 2012 whilst in 2011 weighted more towards the second half
- partly offset by the HUF 10.4bn provided for in Q2 2011 EBITDA relating to the SEC/DOJ settlement

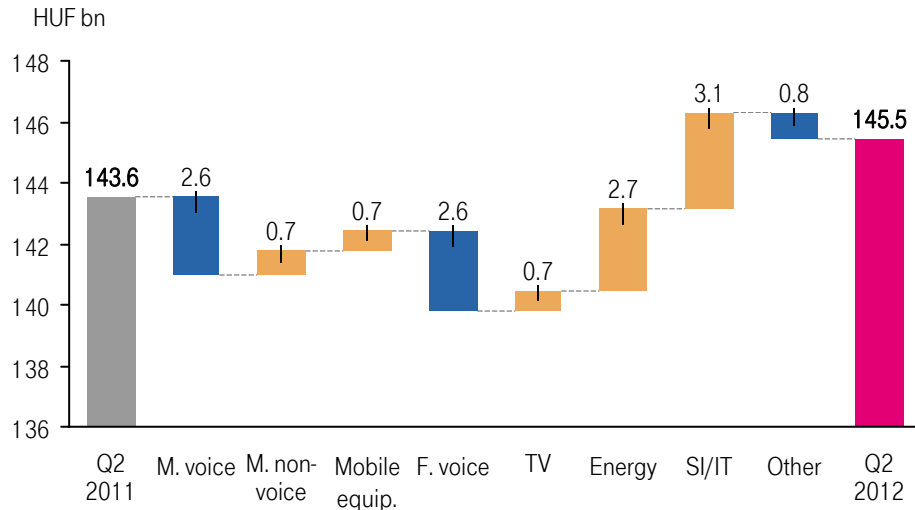


Q2 2012 Results

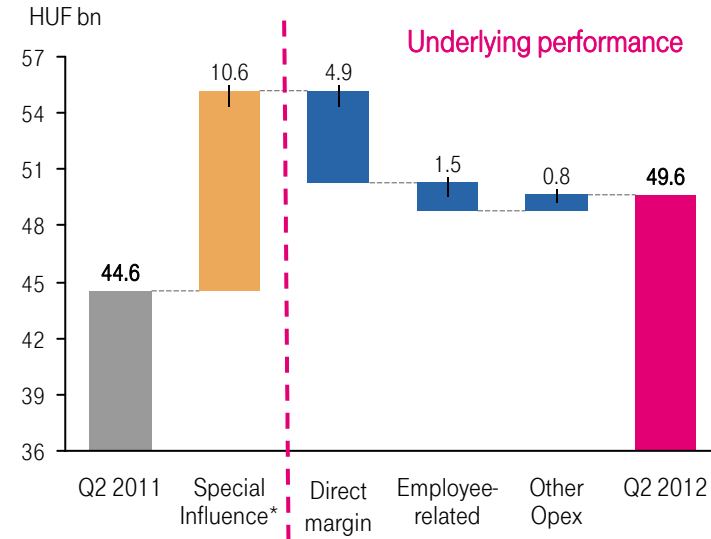


2012 Q2 Group results – Revenues and EBITDA

Group revenues



Group EBITDA



Revenue development

Group revenues up 1.3% y-o-y

- HUF 3.1bn revenues from energy resale in Q2 2012
- a decline in fixed and mobile voice revenues, primarily due to continuing intense competition, depressed household consumption and MTR cuts
- SI/IT revenue improvement driven by HW/SW sales
- mobile BB subscriber and revenue growth, higher TV revenues

EBITDA development

Underlying EBITDA down 9% y-o-y

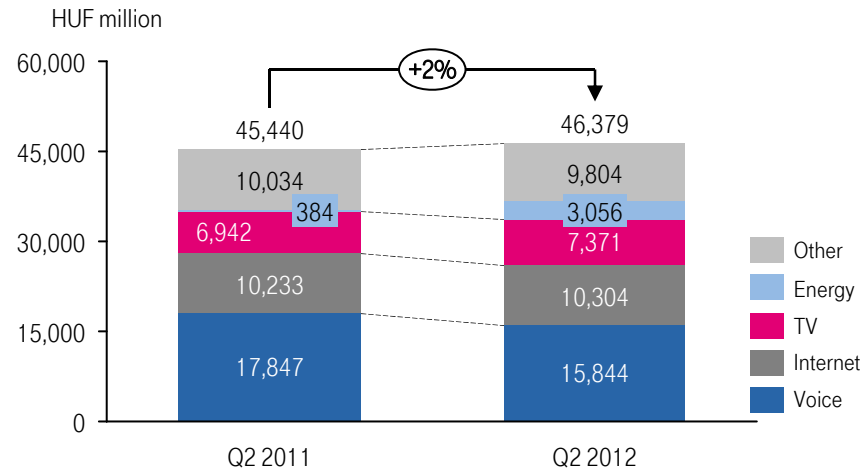
- direct margin decline driven by further erosion of traditional voice revenues
- energy resale and SI/IT businesses diluting margins further
- Q2 2011 EBITDA hit by HUF 10.4bn provision for SEC/DOJ settlement

*investigation- and severance-related expenses, as well as telecom tax

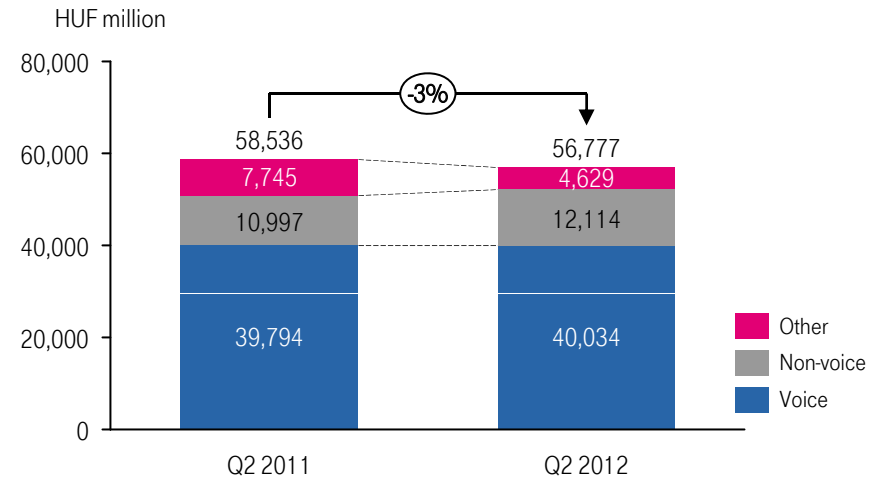


Telekom Hungary – Energy resale compensates for voice losses

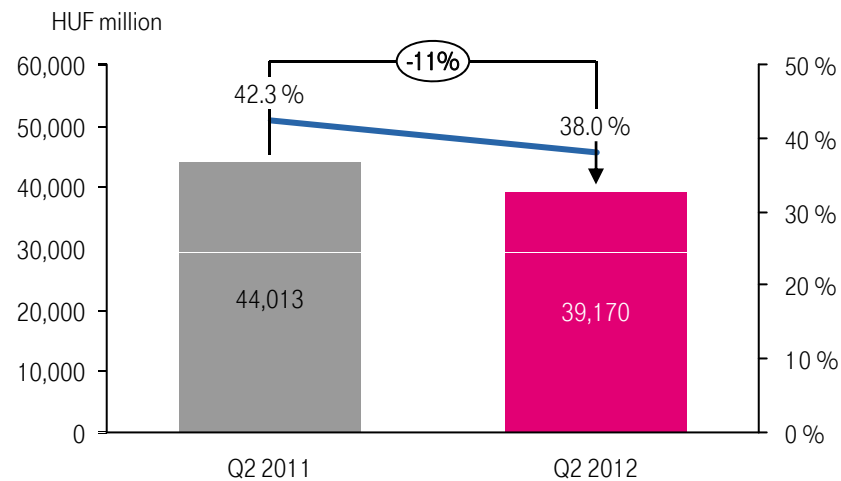
Fixed line and Energy resale revenues



Mobile revenues



Underlying EBITDA and margin



Telekom Hungary

Total Telekom Hungary revenues declined by 1%

- visible seasonality in energy resale revenues
- difficult economic environment put pressure on revenue performance

Decrease in underlying EBITDA margin of 4.3pp

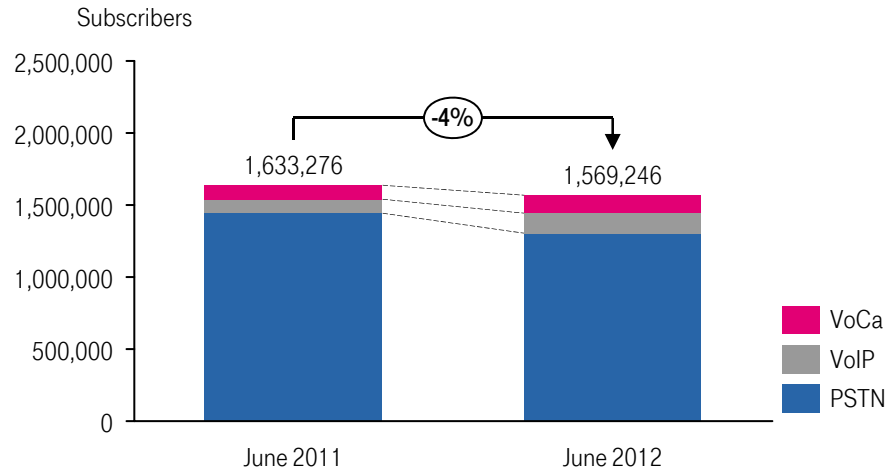
- reduction in high-margin voice revenues
- dilution impact of energy sales



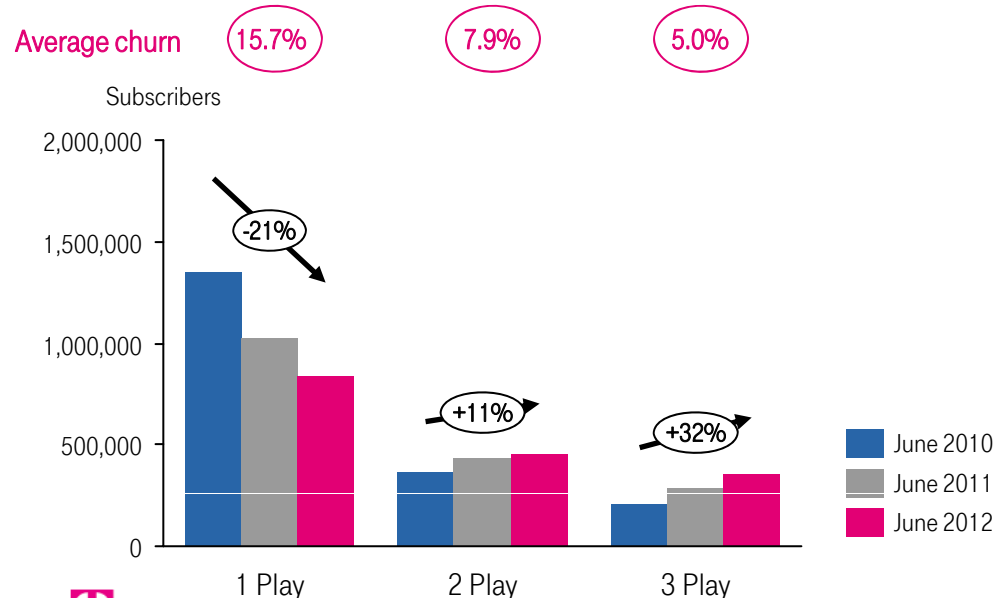
Hungary – Improvement in fixed voice churn



Telekom Hungary fixed voice subscribers



Multi-Play developments



Fixed voice

- significant reduction in fixed voice churn due to the retention effect of:
 - Hoppá package: flat fee package (34% of fixed customers already subscribed)
 - discounts offered in bundled packages, 4Play offer
 - retail energy bundling
 - 16k lines lost in Q2 2012 vs. 22k in Q2 2011
- 1Play decreased to 51% of total customer base
- increasing VoIP, VoCable subscriber base

KPIs (changes Q2-o-Q2)

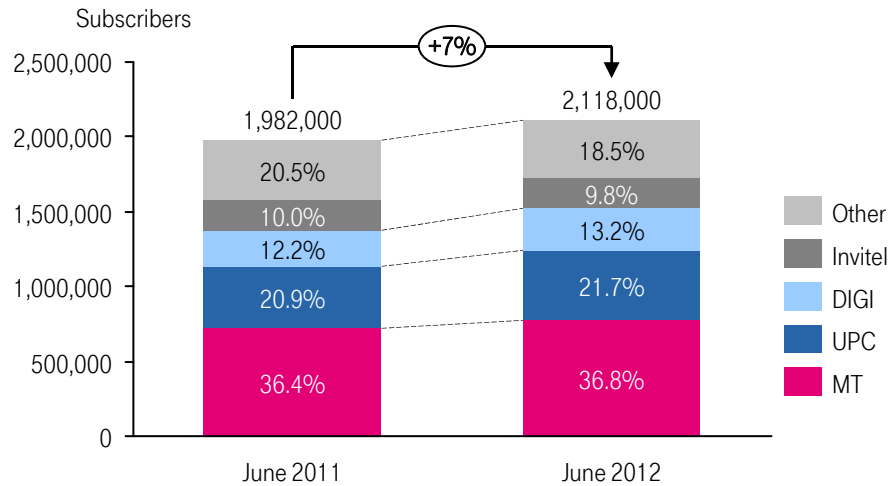
- ARPA: HUF 2,862 (-9%)
- MOU: 173 (+9%)



Hungary – Fixed broadband: solid market position

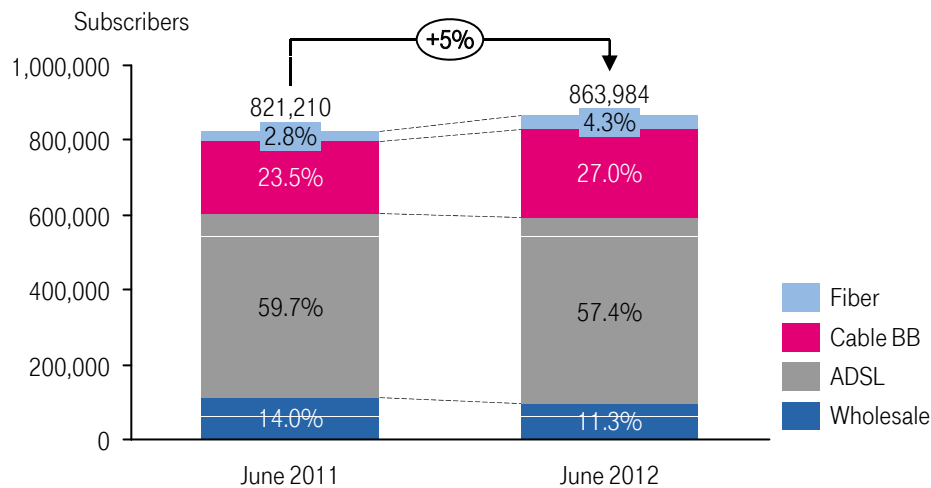


Fixed broadband market shares in Hungary*



*based on the total fixed BB market estimated by the National Media and Infocommunications Authority

T-Home fixed broadband subscriber breakdown



Fixed broadband

- market **growth driven by cable and fiber**, while ADSL base slowly declines
- **stable fixed BB market share**
- **ARPU** under continuous pressure
- residential standalone fixed BB prices:
 - 5Mbps speed: HUF 5,830/month (EUR 20)
 - 80Mbps speed: HUF 11,930/month (EUR 40)

KPIs (changes Q2-o-Q2)

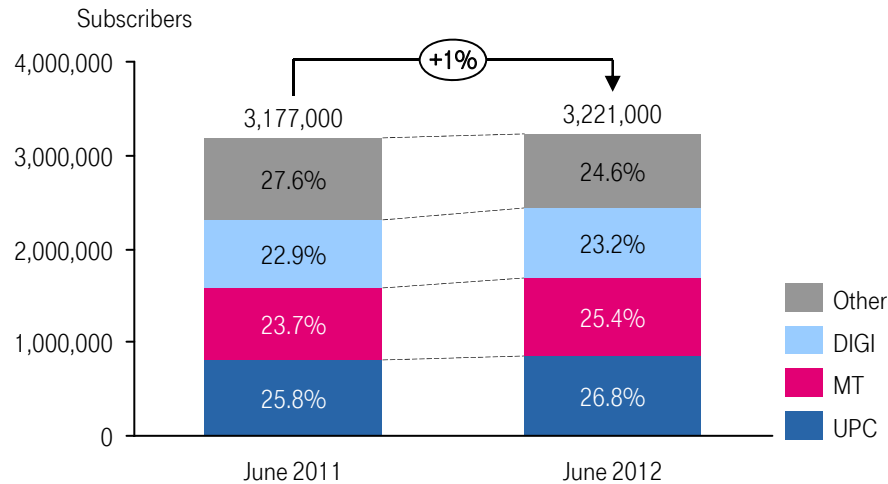
- ARPU: HUF 3,809 (-5%)



Hungary – TV market: strong subscriber growth

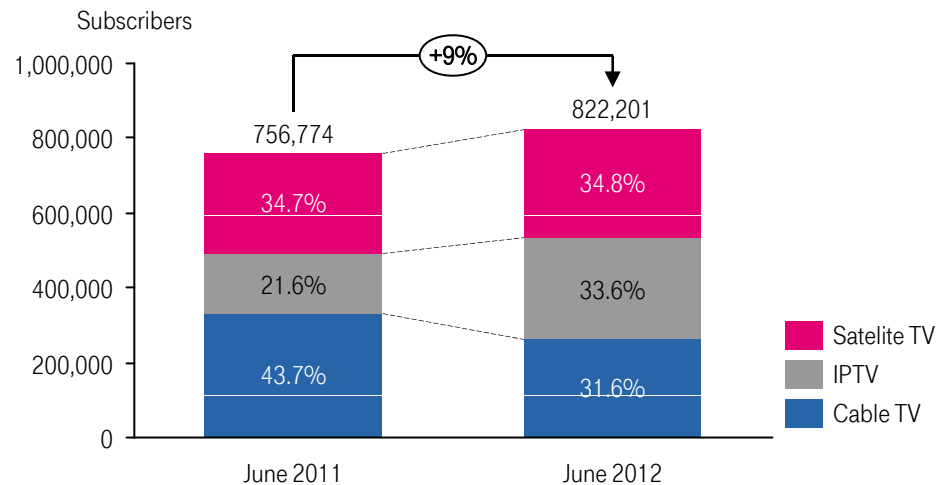


TV market shares in Hungary*



*based on the total TV market estimated by the National Media and Infocommunications Authority

T-Home TV subscriber growth



TV customer growth

- significant **migration from cable to IPTV** driven by ED3-enabled cable network
- increasing ratio of interactive IPTV customers stabilizing ARPU
- retention benefit: 82% of TV customers are 2Play or 3Play package subscribers
- 3Play offers from HUF 7,530/month (EUR 27)

KPIs (changes Q2-o-Q2)

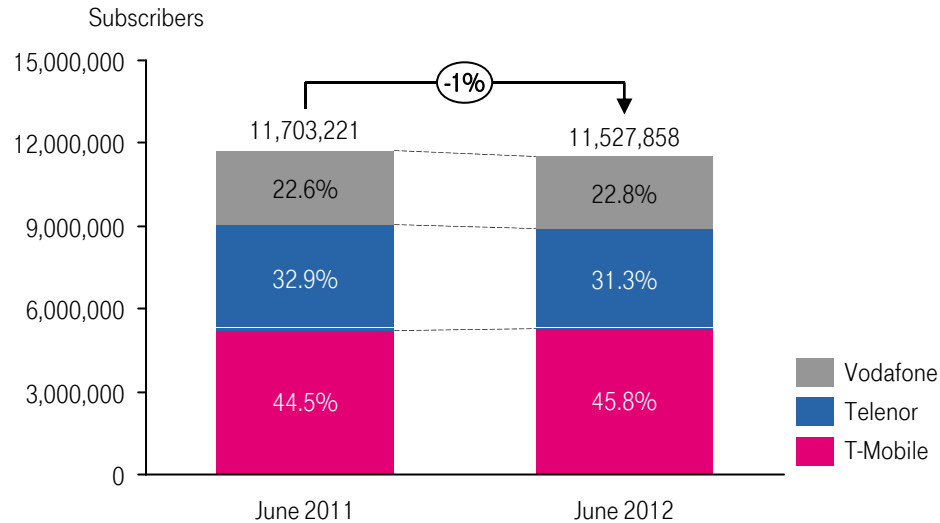
- ARPU: HUF 3,038 (-1%)



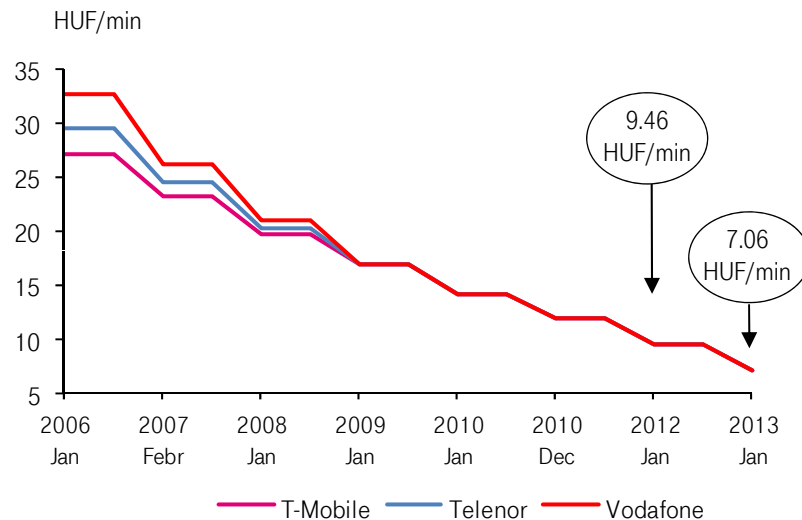
Hungary – Mobile voice: increased market share



Mobile voice market shares (based on total SIM cards)



Mobile termination rate cuts



Mobile voice

- 116% population-based penetration
- increase in T-Mobile's market share, slight growth in customer numbers
- improved customer mix: postpaid ratio increased from 45% to 47% y-o-y
- MTR cuts:
 - 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 €c

KPIs (changes Q2-o-Q2)

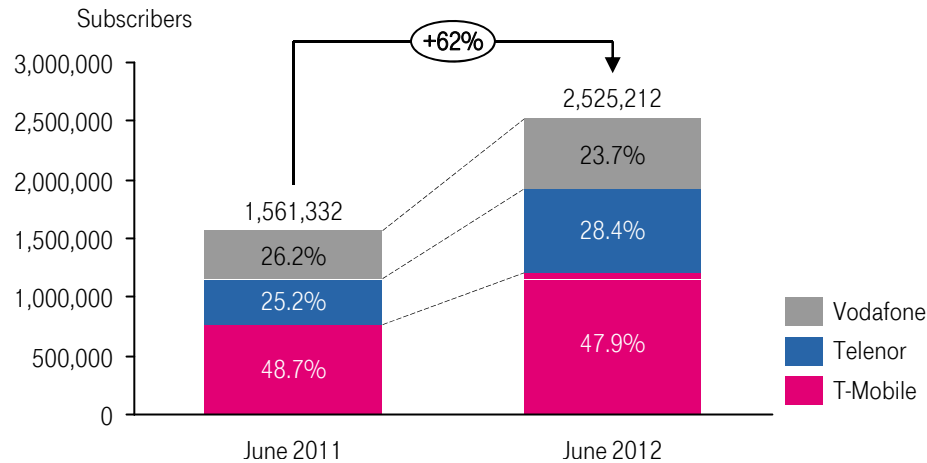
- ARPU: HUF 3,425 (-5%)
- MOU: 161 (-1%)
- Churn: 17% (-2ppt)
- SAC/gross add: HUF 6,014 (+5%)
- SRC/retained customer: HUF 16,476 (-8%)



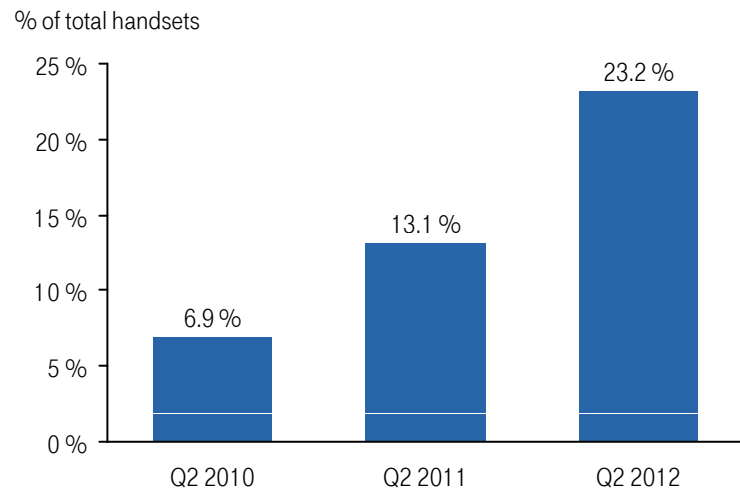
Hungary – Mobile broadband: continued dynamic growth



Mobile broadband market shares (based on total SIM cards)



T-Mobile smartphone penetration



Mobile broadband

- 770 HSPA+ base stations offering a download speed of 21 Mbps
- smartphone sales in the postpaid segment reached 82% in Q2 2012 (vs. 56% a year ago)
- ca. 80% BB subscription attach rate
- 61% of bundled mobile subscribers were in the two smallest packages (MediaMania XS, S)

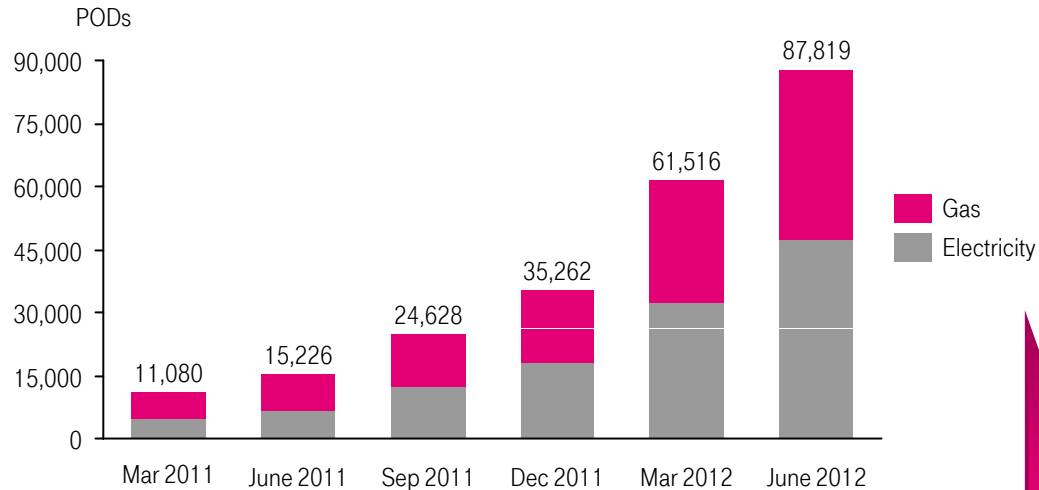
KPIs (changes Q2-o-Q2)

- VAS within ARPU: 23% (+3ppt)
- VAS within ARPU (HUF): 798 (+8%)

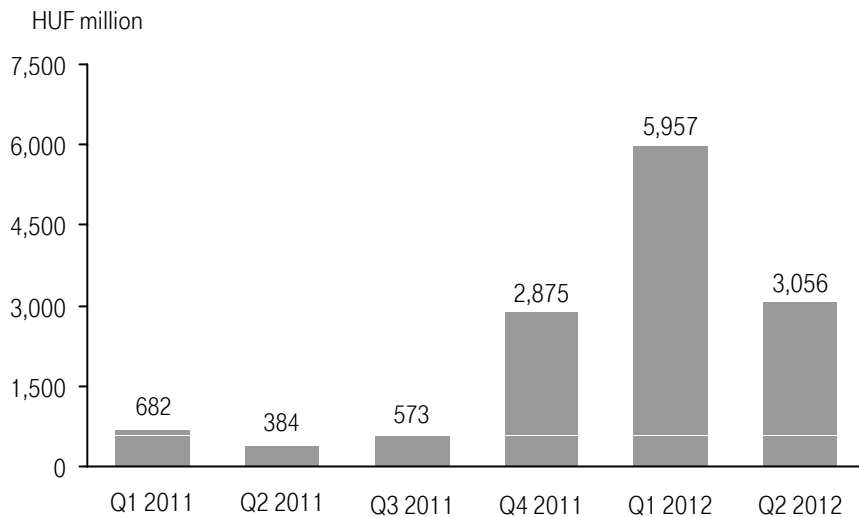


Hungary – Energy resale business as major growth driver

Gas and electricity points of delivery (POD)



Revenue performance



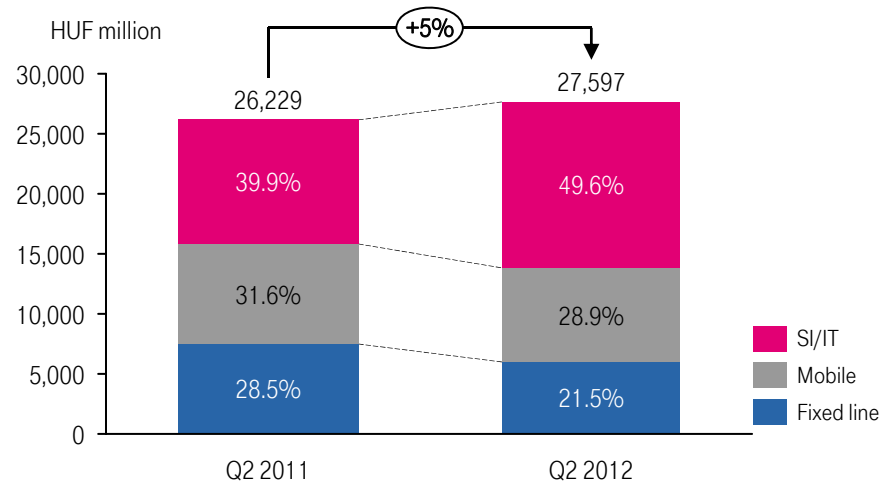
Energy resale

- soft launch in 2010, **nationwide from April 2012**
- customers receive a 5-8% discount on their energy bill depending on the number of fixed services they subscribe to
- **retention benefit is significant:** fixed churn may halve with energy contract
- 45% of energy customers have the 3Play package
- energy market is **highly seasonal**

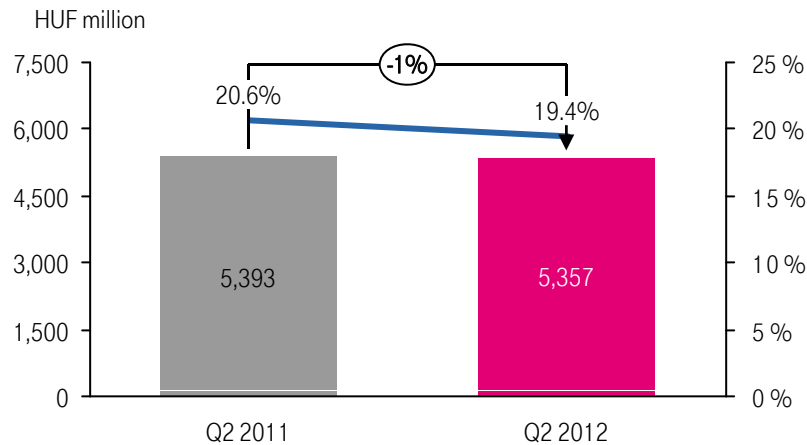


T-Systems Hungary – strong growth in SI/IT revenues

Revenues



Underlying EBITDA and margin



T-Systems Hungary

Falling voice and data revenues

- lower usage both on fixed and mobile networks
- continued pressure on tariff levels

Growth in SI/IT revenues

- some larger equipment delivery contracts in the public sector in Q2 2012
- major public projects remain subdued
- leading market position with 16% market share

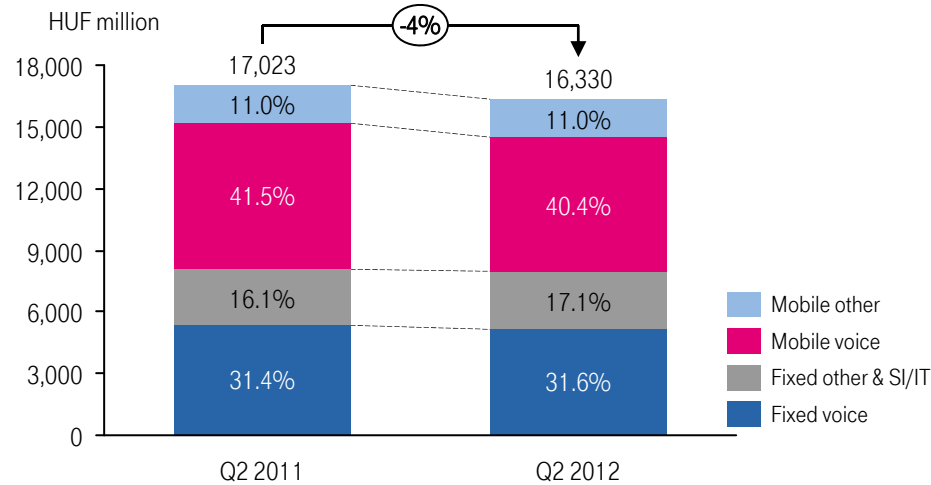
Underlying EBITDA margin decline

- IT equipment sale projects have lower margin contribution
- higher bad debt is a result of collection of outstanding public receivables in Q2 2011

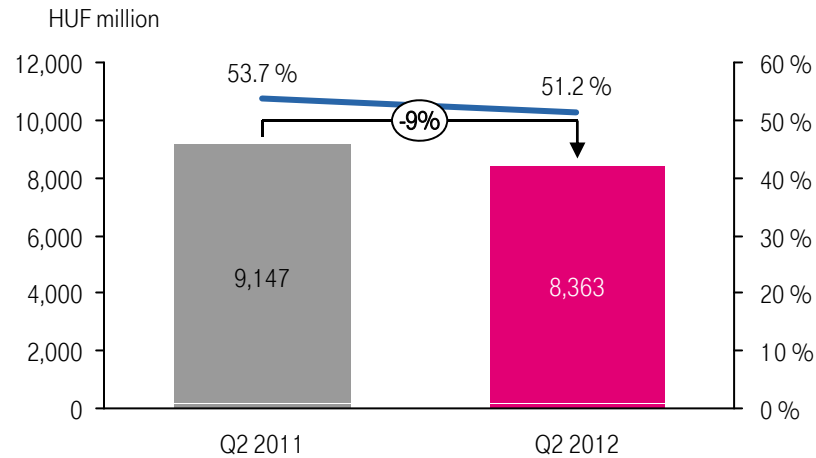


Macedonia – Financial performance

Revenues



Underlying EBITDA and margin



Macedonia

Significant FX impact: HUF weakened by 10.4% Q2-o-Q2 against MKD

Fixed voice hit primarily by cable competition

- repositioned portfolio with attractively priced bundled offers

Mobile revenues under pressure

- strong price competition
- MOU up due to increasing volume of bundled minutes
- #1 position maintained, stable 50% market share

Declining tariff levels and higher subsidies put pressure on margin

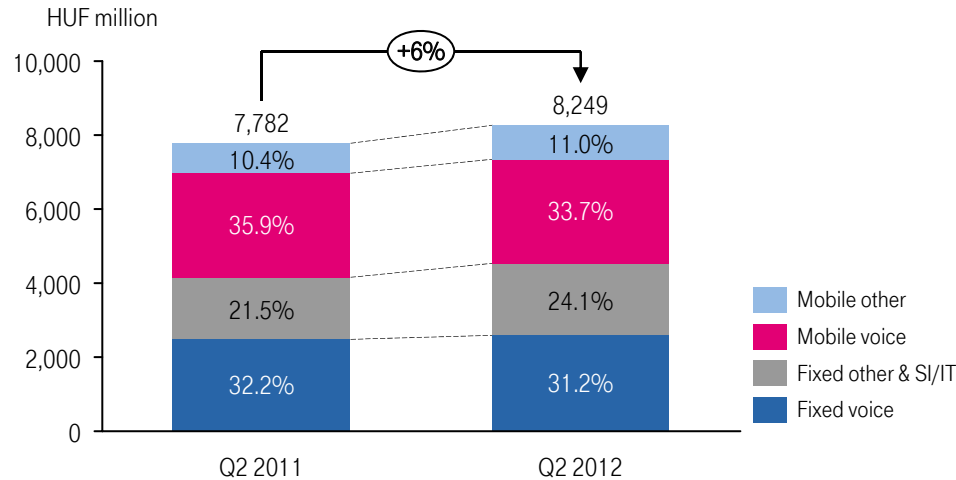
KPIs (changes Q2-o-Q2)

- Fixed churn: 9%
- Fixed outgoing traffic: -19%
- Mobile ARPU: HUF 2,099 (-1%)
- Mobile MOU : 159 (+20%)

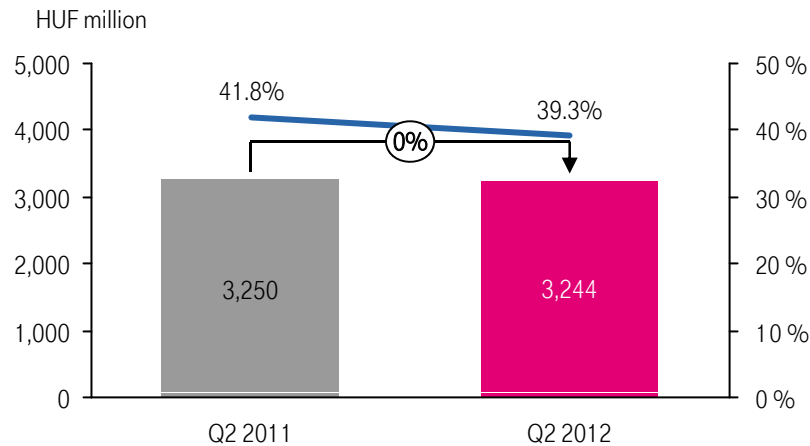


Montenegro – Financial performance

Revenues



Underlying EBITDA and margin



Montenegro

Significant FX impact: HUF weakened by 10.5% Q2-o-Q2 against EUR

Pressure on fixed voice revenues

- strong mobile substitution
- growing internet and TV revenues compensate for voice revenue decline

Competitive mobile market

- 34% market share of the mobile voice market
- MOU up due to tariff discounts and widening CUG offers
- lower wholesale revenues driven by cuts in interconnection tariffs in 2011

One-off items depressed the EBITDA margin; excluding these, underlying EBITDA margin slightly improved

KPIs (changes Q2-o-Q2)

- Fixed churn: 2%
- Mobile ARPU: HUF 3,510 (+16%)
- Mobile MOU: 165 (+13% y-o-y)



Financials



Magyar Telekom – Consolidated Income Statement

HUF million	2Q 2011	2Q 2012	Change
Mobile revenues	75,798	74,799	-1.3%
Fixed line revenues	58,086	55,171	-5.0%
System Integration/Information Technology revenues	9,298	12,436	33.7%
Revenue from Energy Services	384	3,056	
Revenues	143,566	145,462	1.3%
Direct costs	(35,975)	(42,783)	18.9%
Employee-related expenses	(21,482)	(23,161)	7.8%
Depreciation and amortization	(24,024)	(26,128)	8.8%
Hungarian telecommunications and other crisis taxes	(6,345)	(6,136)	-3.3%
Other operating expenses	(36,352)	(24,885)	-31.5%
Total operating expenses	(124,178)	(123,093)	-0.9%
Other operating income	1,145	1,128	-1.5%
Operating profit	20,533	23,497	14.4%
Net financial expenses	(8,051)	(7,313)	-9.2%
Share of associates' profits	0	0	
Profit before income tax	12,482	16,184	29.7%
Income tax	(5,156)	(3,113)	-39.6%
Profit for the period	7,326	13,071	78.4%
Non-controlling interests	2,964	2,392	-19.3%
Equity holders of the Company (Net income)	4,362	10,679	144.8%



Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2011	June 30, 2012	Change
Current assets	220,396	183,176	-16.9%
Cash and cash equivalents	14,451	11,992	-17.0%
Other current financial assets	65,286	36,461	-44.2%
Non current assets	877,632	851,077	-3.0%
Property, plant and equipment - net	536,224	512,170	-4.5%
Intangible assets	308,313	313,836	1.8%
Total assets	1,098,028	1,034,253	-5.8%
Equity	556,091	501,691	-9.8%
Current liabilities	255,390	199,546	-21.9%
Financial liabilities to related parties	49,865	24,619	-50.6%
Other financial liabilities	70,155	50,623	-27.8%
Non current liabilities	286,547	333,016	16.2%
Financial liabilities to related parties	230,166	281,365	22.2%
Other financial liabilities	17,928	16,025	-10.6%
Total equity and liabilities	1,098,028	1,034,253	-5.8%



Magyar Telekom - Consolidated Cashflow Statement

HUF million	June 30, 2011	June 30, 2012	Change
Net cash generated from operating activities	95,464	63,559	-33.4%
Investments in tangible and intangible assets	(26,656)	(40,181)	50.7%
Adjustments to cash purchases	(7,948)	(13,881)	74.6%
Purchase of subsidiaries and business units	(1,263)	(2,173)	72.1%
Cash acquired through business combinations	455	108	-76.3%
Proceeds from / (Payments for) other financial assets - net	11,413	22,591	97.9%
Proceeds from disposal of subsidiaries	0	84	n.a.
Proceeds from disposal of PPE and intangible assets	3,786	435	-88.5%
Net cash used in investing activities	(20,213)	(33,017)	63.3%
Dividends paid to shareholders and minority interest	(63,337)	(65,954)	4.1%
Net payments of loans and other borrowings	(11,654)	33,459	-387.1%
Net cash used in financing activities	(74,991)	(32,495)	-56.7%
Free cash flow	63,838	7,951	-87.5%

* Free cash flow defined as Net cash generated from operating activities plus Net cash used in investing activities, adjusted with Proceeds from / (Payments for) other financial assets



For further questions please contact the IR department:

Investor Relations

Phone: +36 1 458-0423
Fax: +36 1 458-0443
e-mail: investor.relations@telekom.hu

Abbreviations: 3G: third generation, 4G: fourth generation, ADR: american depository receipt, ADS: american depository shares, AGM: Annual General Meeting, ARPU: average revenue per user, BB: broadband, CAGR: compound annual growth rate, CUG: closed user group, DOJ: Department of Justice, DPS: dividend per share, ED3: eurodocsis 3.0, HSPA: high-speed packet access, IC: interconnection, IP: internet protocol, ICT: information and communication technology, IT: information technology, KPI: key performance indicator, LTE: long term evolution, LTO: local telecommunication operator, Mbps: megabit per secundum, MOU: minutes of use, MTR: mobile termination rate, NGN: next generation network, OTC: over-the-counter, POD: points of delivery, RPC: revenue producing customer, SAC: subscriber acquisition cost, SEC: Securities and Exchange Comission, SI: system integration, SIM: subscriber identity module, SMP: significant market power, SRC: subscriber retention cost, Tetra: Terrestrial Trunked Radio, TWM: Total Workforce Management, UMTS: Universal Mobile Telecommunication System, VAS: value added services, VoCaTV: Voice over Cable TV, WiMax: Worldwide Interoperability for Microwave Access, WS: wholesale HUF/EUR exchange rate: 293.30 (average Q2 2012)

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, underlying EBITDA, underlying 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.

