

Roadshow presentation

Magyar Telekom Group – November 2011

Signs of revenue pressures easing with growth in  
underlying EBITDA margin; guidance for full-year confirmed

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# Strategy, Outlook and Guidance

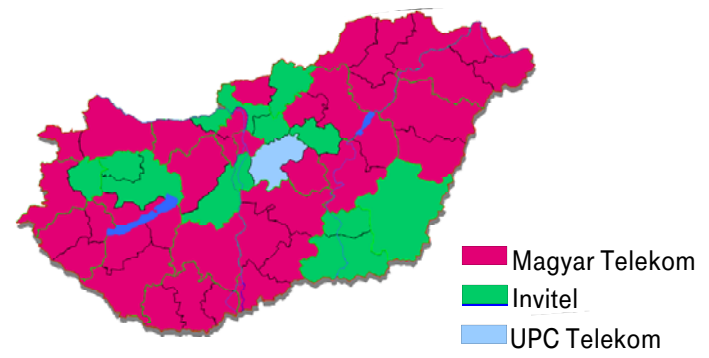


# Overview – Magyar Telekom Group at a glance

## 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 1.7bn market capitalization

### 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%)

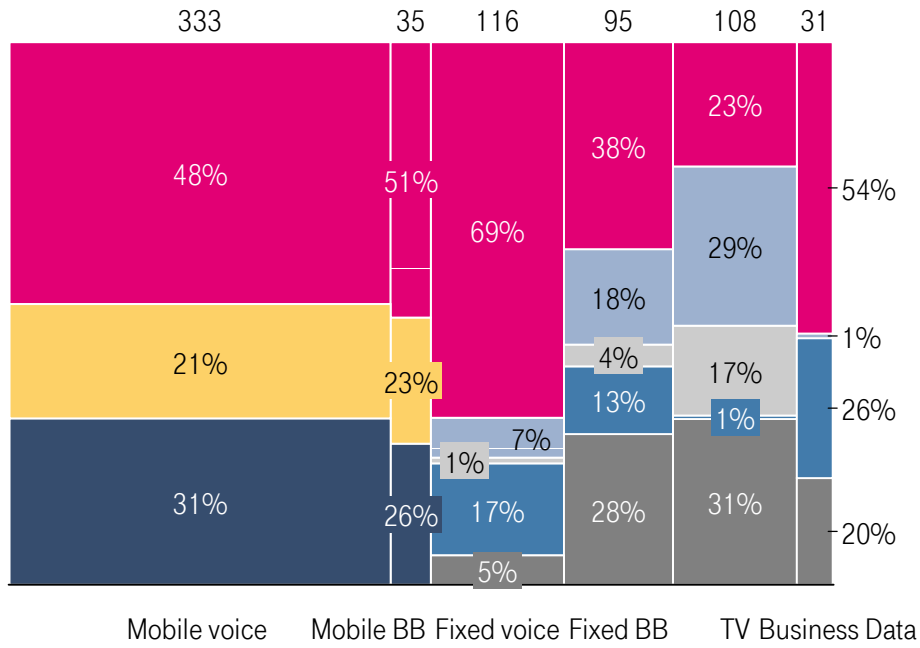
### Strategic priorities

- Save 4 Service (simplified and focused lean operation)
- maintain market leadership (maintain or increase market shares)
- focused innovation (add new services to increase share of wallet)



# Market trends

Revenue based market shares in Hungary in 2010 (HUF bn)

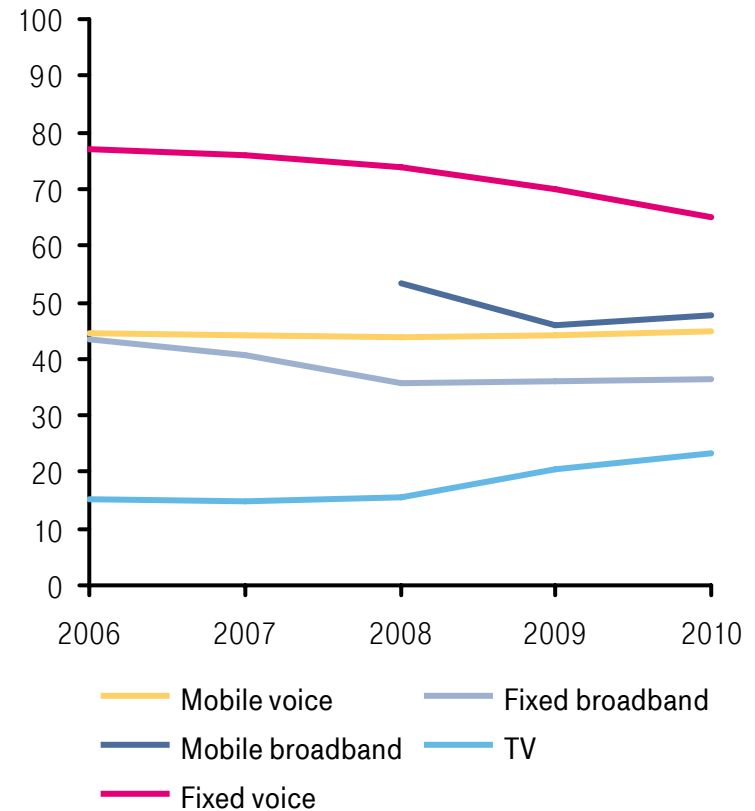


■ MT    ■ Digi    ■ Vodafone    ■ Others  
■ UPC    ■ Invitel    ■ Telenor

## Magyar Telekom's revenue market share

- Magyar Telekom has a blended market share of 47% in the retail telco market in Hungary
- additional 15% market share in the IT market

Magyar Telekom's market share development (%)



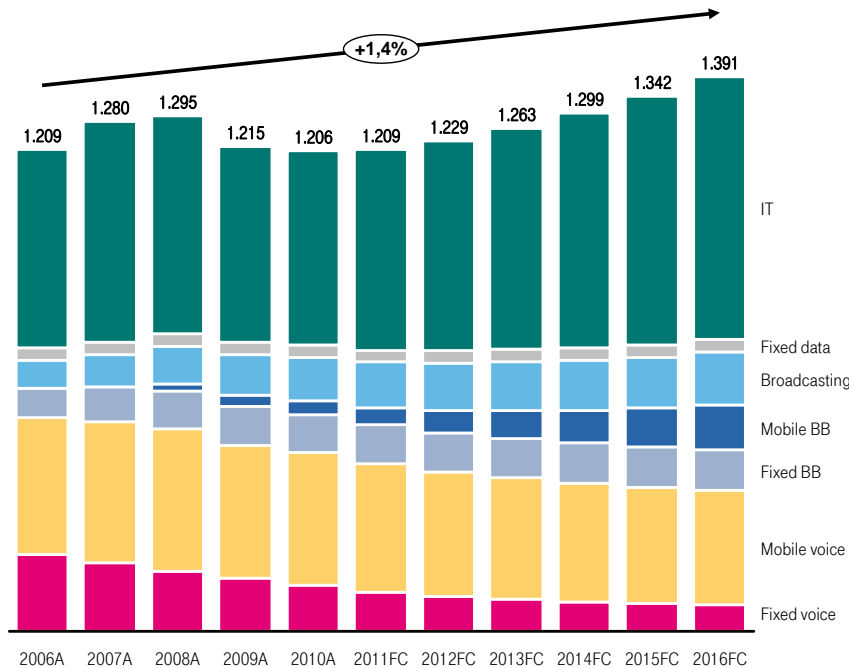
## Market share development

- increasing market share in the TV market
- stable market shares in the broadband markets
- further potential in the IT market



# Change in revenue trends

## Hungarian ICT market development (HUF bn)

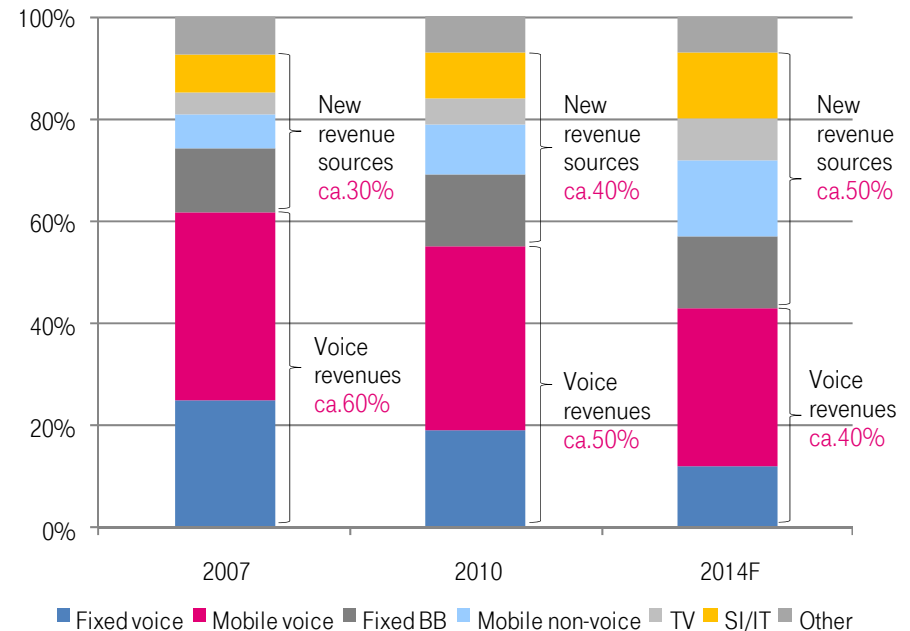


Source: Bell Research-Ariosz, April-2011

### Hungarian ICT market expected to recover

- following the contraction of the market in 2009, economic recovery is expected to expand the total market size mainly driven by mobile broadband and IT services
- CAGR of ca. 2% between 2010 and 2016 projected

## Change in Magyar Telekom's Hungarian revenue mix



### Change in revenue mix

- the revenues from new services will surpass traditional voice revenues in a few years
- further revenue potential in non-core revenues (insurance, energy, etc)

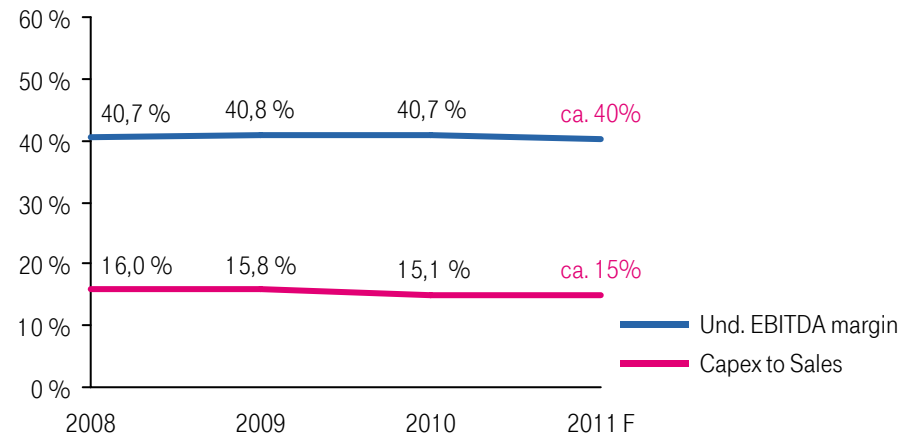


# Continued efficiency improvements in core operations

## Cost saving



## Stable underlying margin and CAPEX spending



### Headcount reduction in 2011

- target: TWM saving of HUF 3.4bn in 2012 compared to end 2010
- headcount reduction of 250 in 2012, severance-related expenses of HUF 2.6bn to be accounted for in Q4 2011
- cost efficiency improvements reflected in declining other operating expenses

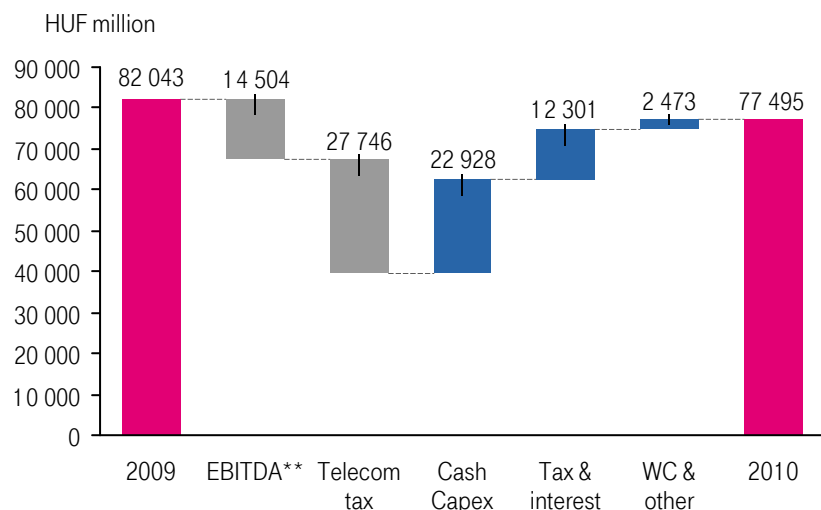
### Stable profitability

- despite declining revenues and changing revenue mix, stable underlying margin maintained at above 40%
- Capex spending cuts in line with the revenue decline
- Capex cut by 10% in 2010 and by a further 5% in 2011



# Free cash flow generation and dividend policy

## Free cash flow\* generation



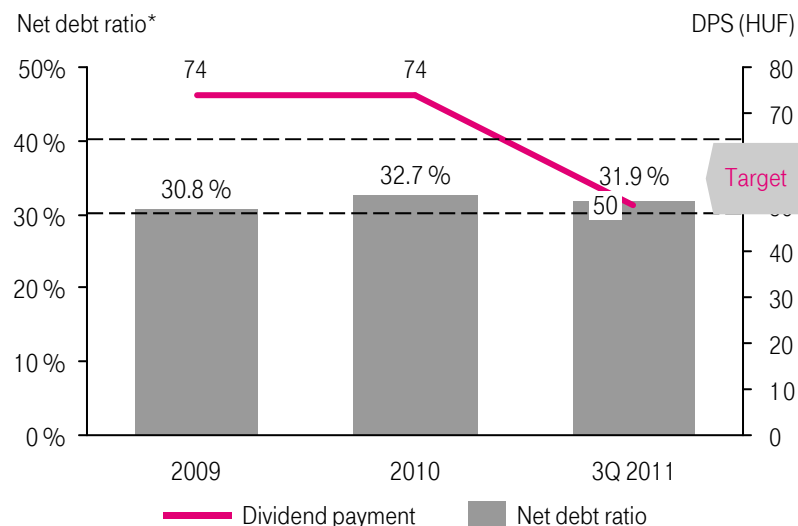
\*defined as Operating CF + Investing CF adjusted for proceeds from/payments for other financial assets

\*\*excluding special influences and the telecom tax

### Strong cash flow generation in 2010

- despite the advance payment of special telecoms tax, FCF was down by only HUF 5bn
- FCF was helped by:
  - lower interest payments, due to lower interest rates
  - cut in CAPEX (-10% y-o-y)
  - significant decrease in adjustments to cash purchases

## Dividend payment



\* net debt to total capital

### Dividend policy

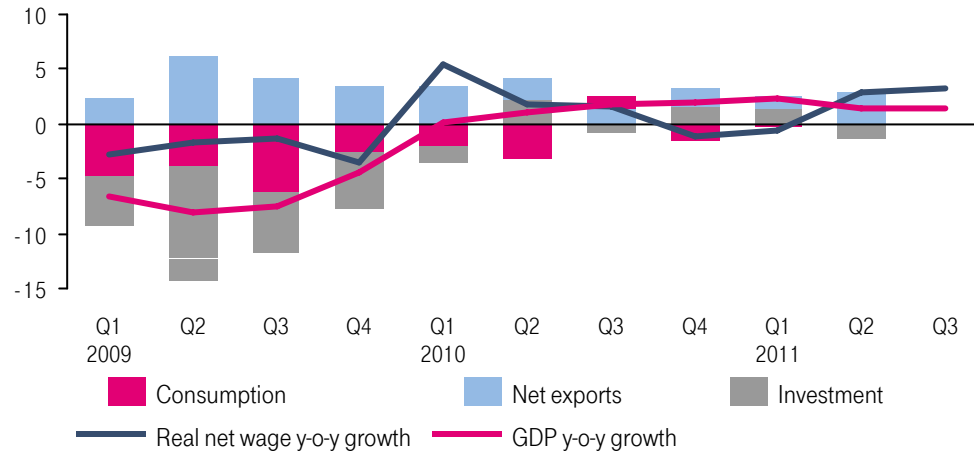
- keep net debt ratio within 30-40% range
- maintain a flexible balance sheet in case value-creating acquisition opportunities arise
- 9% dividend yield (based on the share price of HUF 554 at February 24, 2011)



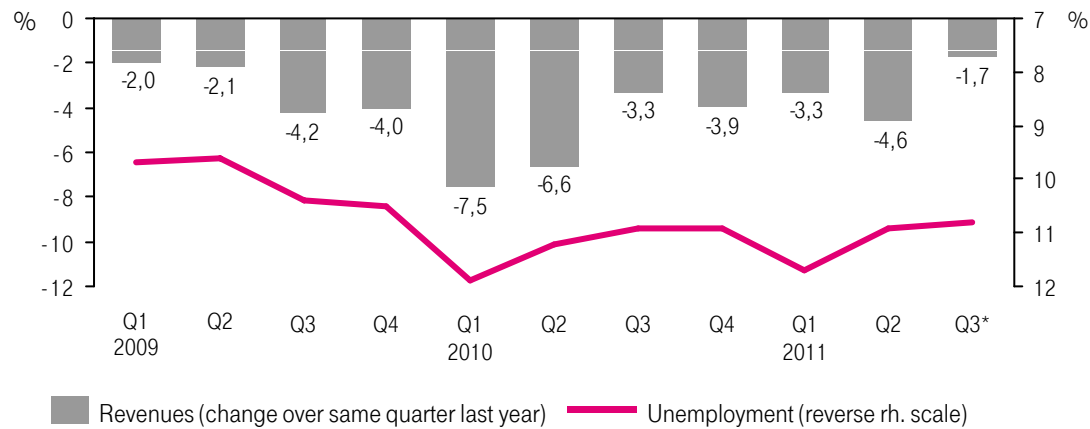
# Results and Hungarian macro-economy trends 2009-2011

## Growth structure and wages

Contribution to GDP growth (%)



## Magyar Telekom revenue and unemployment



\*August unemployment data

### Macro effects

Economic recovery still doubtful and hurts MT results

- MT results are most sensitive to developments in internal demand
- the pick-up in internal demand lost momentum in 2011, while the sustainability of an export-led recovery turns doubtful as external demand slows rapidly
- consumption outlook worsens as households' BS deteriorates as a result of HUF weakening





# Public targets for 2011

	2011 Public targets	2011 9M Results
<b>Revenue</b>	<p>3-5% decline</p> <ul style="list-style-type: none"> <li>intense competition, slow recovery of economy</li> <li>further decrease in governmental revenues</li> <li>2010 comparable figure: HUF 609 579 million</li> </ul>	<p>-3.2%</p> <ul style="list-style-type: none"> <li>intense competition, unfavorable economic environment and regulatory impacts</li> <li>growth in TV, mobile BB and SI/IT revenues</li> </ul>
<b>Underlying EBITDA</b> <i>Excluding investigation and severance expenses, as well as telecom tax</i>	<p>4% decline</p> <ul style="list-style-type: none"> <li>new revenue streams with lower EBITDA margin</li> <li>unfavourable macro environment</li> <li>2010 comparable figure: HUF 248 304 million</li> </ul>	<p>-2.0%</p> <ul style="list-style-type: none"> <li>fall out of high margin voice revenues</li> <li>partly compensated by efficiency measures and cost cuttings</li> </ul>
<b>CAPEX</b>	<p>5% decline</p> <ul style="list-style-type: none"> <li>2010 comparable figure: HUF 91 762 million</li> </ul>	<p>-19.2%</p> <ul style="list-style-type: none"> <li>timing difference, to reverse by year-end</li> </ul>



# Q3 2011 Results



# Q3 highlights

Revenues down by 1.7% ,  
improvement compared to last  
quarters

- deteriorating economic indicators, GDP forecast downgraded to ca. 1%
- fixed voice churn slowed down
- higher SI/IT revenues thanks to some infrastructure projects at KFKI
- increasing TV and mobile internet revenues

Underlying EBITDA down by  
6.9%, margin still at a healthy  
level

- change in the revenue mix (increased contribution of lower margin SI/IT revenues)
- increased level of handset subsidies
- further savings in employee-related expenses and other opex

Full year targets maintained

- revenue target of a 3-5% decline
- underlying EBITDA decline of 4% decline
- CAPEX target of approximately 5% reduction

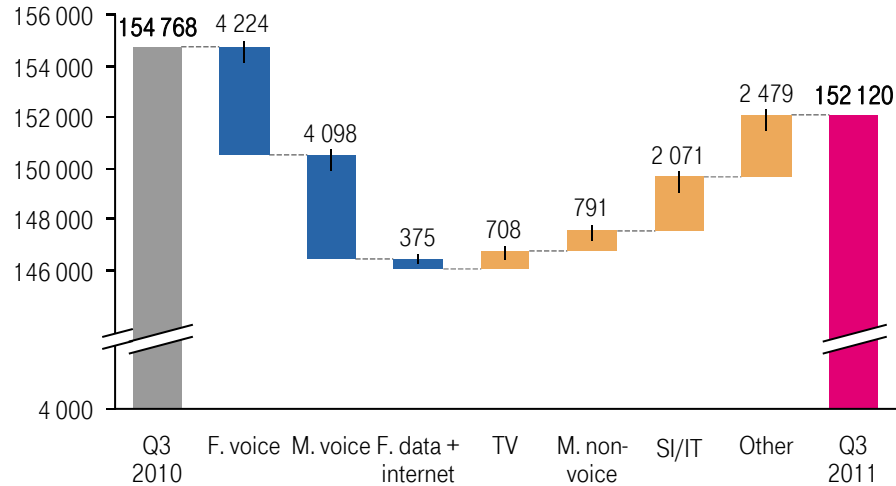
Provisions related to the  
investigation

- increased provisions booked in relation to the investigation:  
HUF 8.2 bn in Q3 2011
  - HUF 5.5 bn was accounted within Other operating expenses
  - HUF 2.7 bn was accounted within the Net financial results

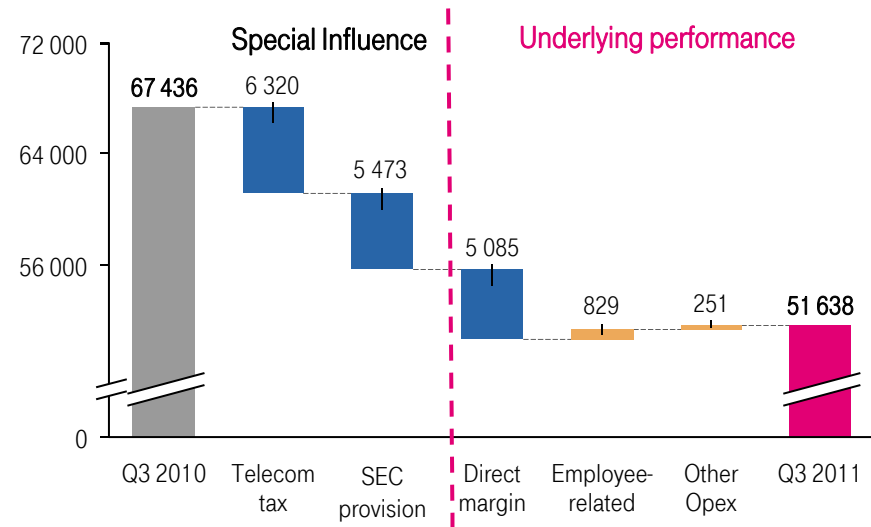


# Q3 2011 Group results

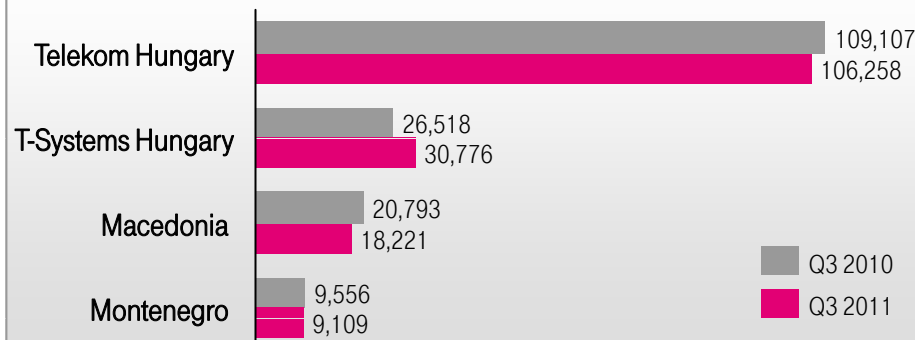
## Group revenues



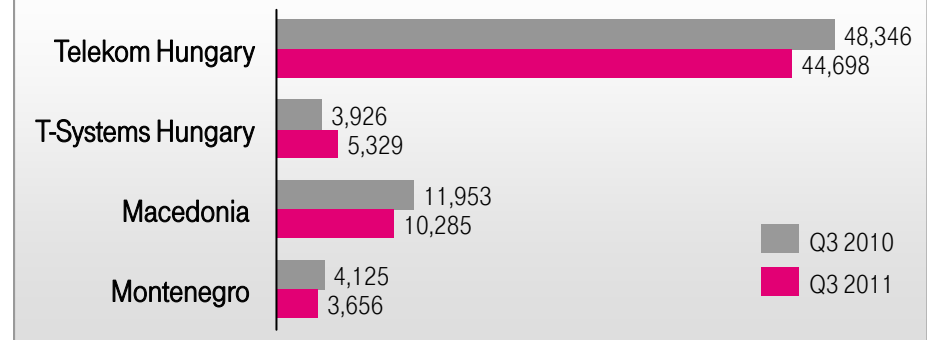
## Group EBITDA



### Revenues Q3-o-Q3 (HUF million)

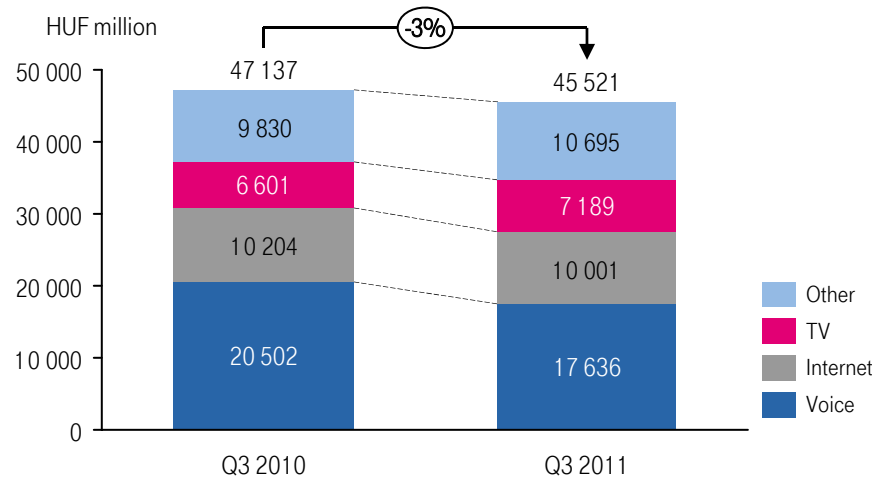


### Underlying EBITDA Q3-o-Q3 (HUF million)

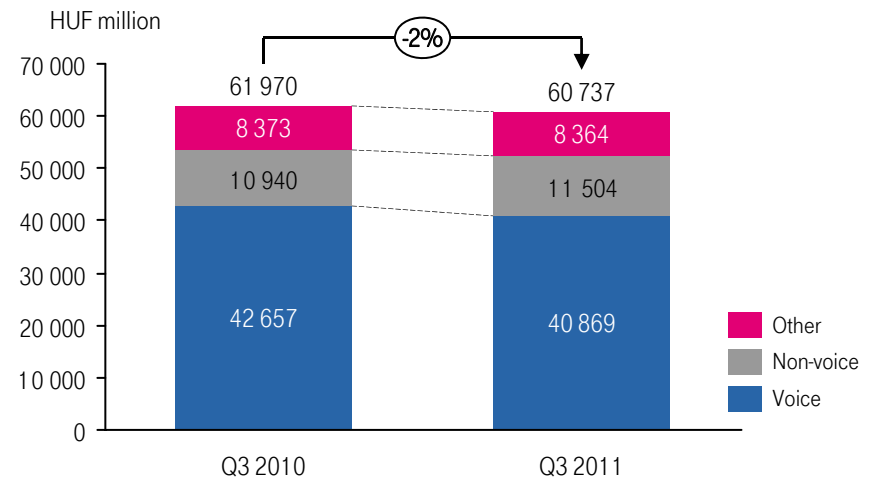


# Telekom Hungary – fixed revenue decline slowing down

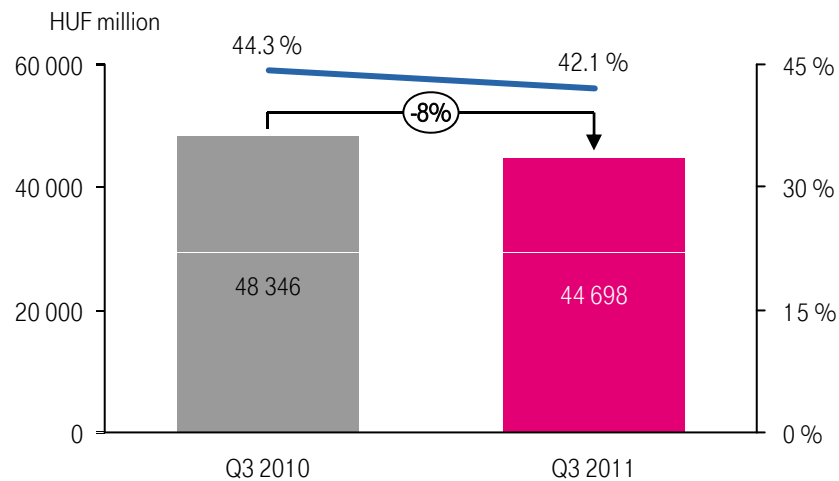
## Fixed line revenues



## Mobile revenues



## Underlying EBITDA and margin



## Telekom Hungary

### Revenues down by 2.6%

- declining voice revenues partly offset by higher TV, other fixed and mobile non-voice revenues
- 10.8% other fixed line revenue increase driven by retail energy offers
- regulatory impacts on mobile revenues (cut in mobile termination rates and roaming tariffs)

### Decrease in underlying EBITDA margin by 2.2pp

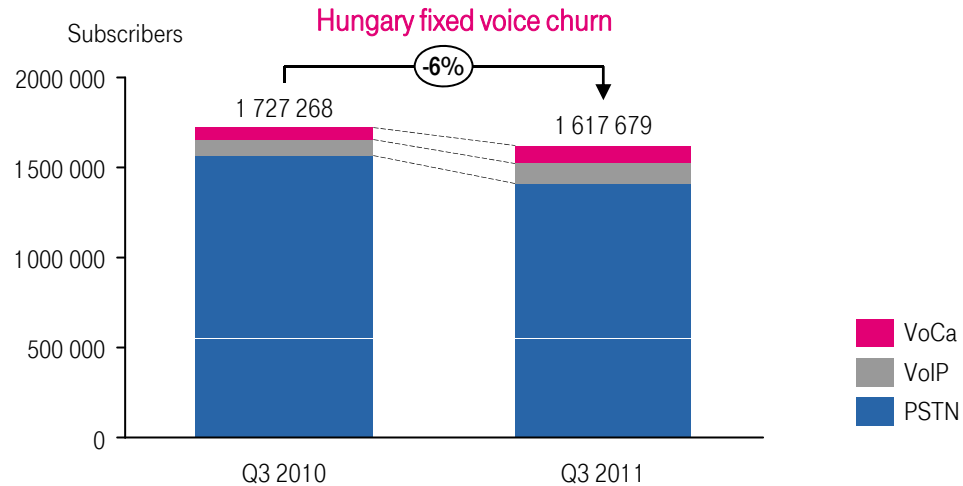
- reduction in high-margin voice revenues
- increased handset subsidies



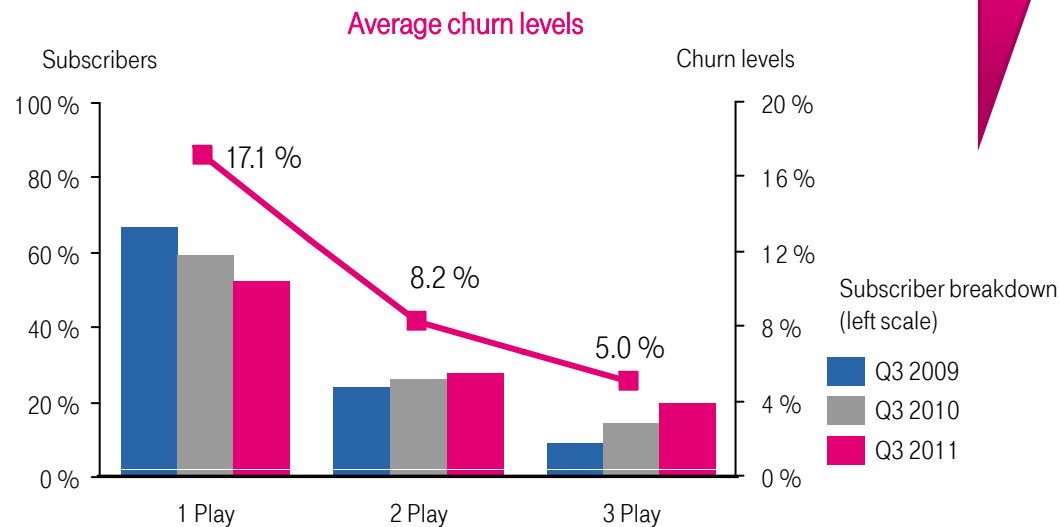
# Hungary – Fixed voice: improvement in churn



## Telekom Hungary fixed voice subscribers



## Multi-Play developments



## Fixed voice

- significantly lower fixed voice churn thanks to the retention effect of:
  - Hoppá package: flat fee package with unlimited calls to domestic fixed line and T-Mobile numbers; quarter of fixed customers subscribed, majority signed a 2-year contract
  - discounts offered in bundled packages, 4Play offer launched in 2010
  - retail energy bundling
- as a result, number of lines lost was 16k in Q3 2011 vs. 46k in Q3 2010

## KPIs

- ARPA: HUF 3 150 (-11% y-o-y)
- MOU: 161 (+13% y-o-y)

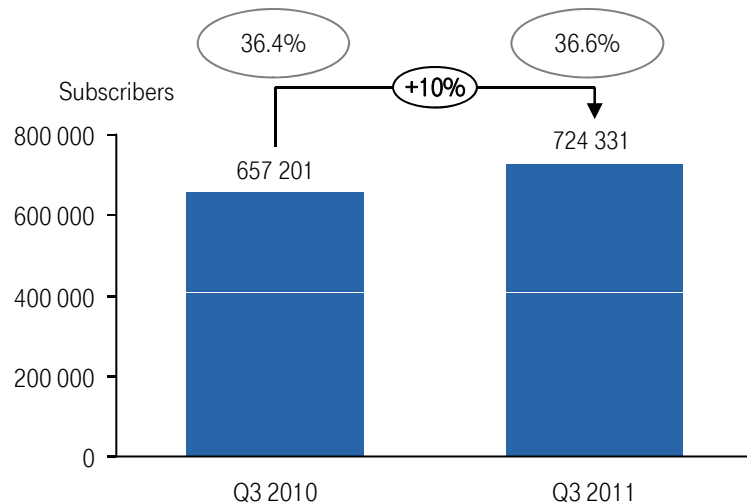


# Hungary – Fixed broadband: stable market position

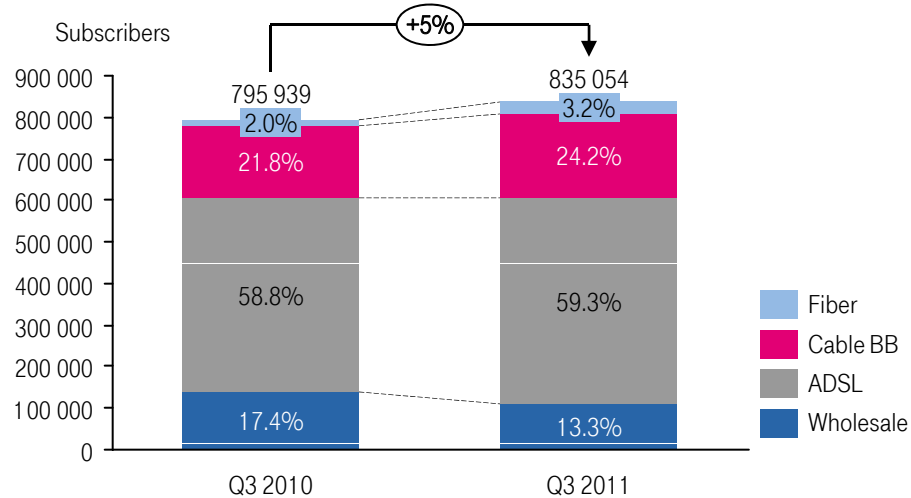


## Fixed broadband market developments in Hungary

T-Home retail fixed BB market share



## T-Home fixed broadband subscriber breakdown



### Fixed broadband

- market growth driven by cable and fiber, while ADSL market growth has slowed down
- stable fixed BB market share at 36%
- ARPU dilution driven by migration to multi-play packages and more favorable offers
- residential standalone fixed BB prices:
  - 5Mbps speed: HUF 5 600/month (EUR 19)
  - 80Mbps speed: HUF 11 600/month (EUR 39)

### KPIs

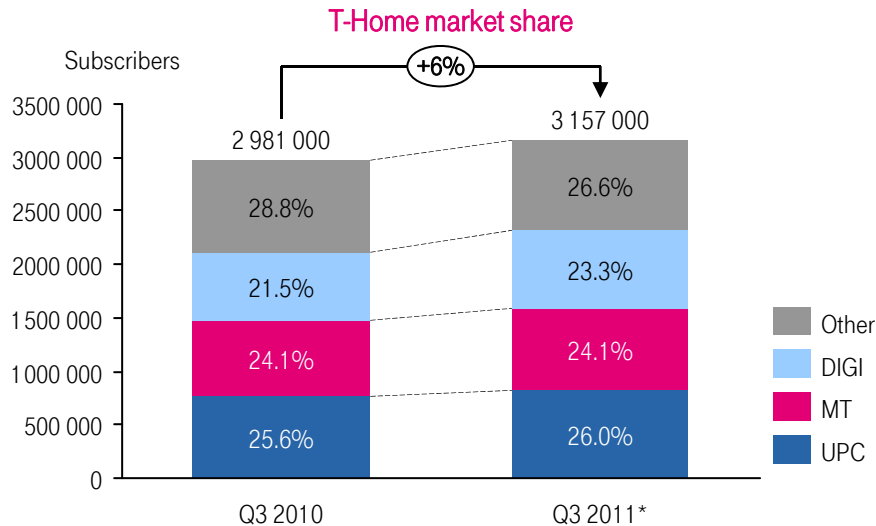
- ARPU: HUF 3 965 (-8% y-o-y)



# Hungary – TV market: significant growth achieved

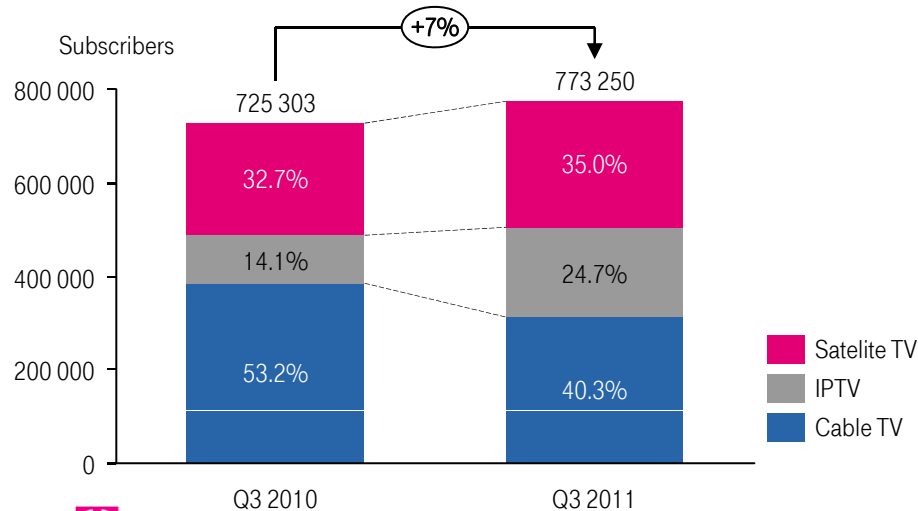


## TV market growth in Hungary



\*\*based on August-2011 data

## T-Home TV subscriber growth



## TV customer growth

- significant migration from cable to IPTV driven by EuroDocsis 3-enabled cable network
- number of TV customers exceeded 773k, stable market position with 24% market share\*\*
- retention benefit: 80% of TV customers are 2Play or 3Play package subscribers
- increasing ratio of interactive IPTV customers improve ARPU
- 3Play offers from HUF 5 600/month (EUR 19)

## KPIs

- ARPU: HUF 3 060(+4% y-o-y)

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

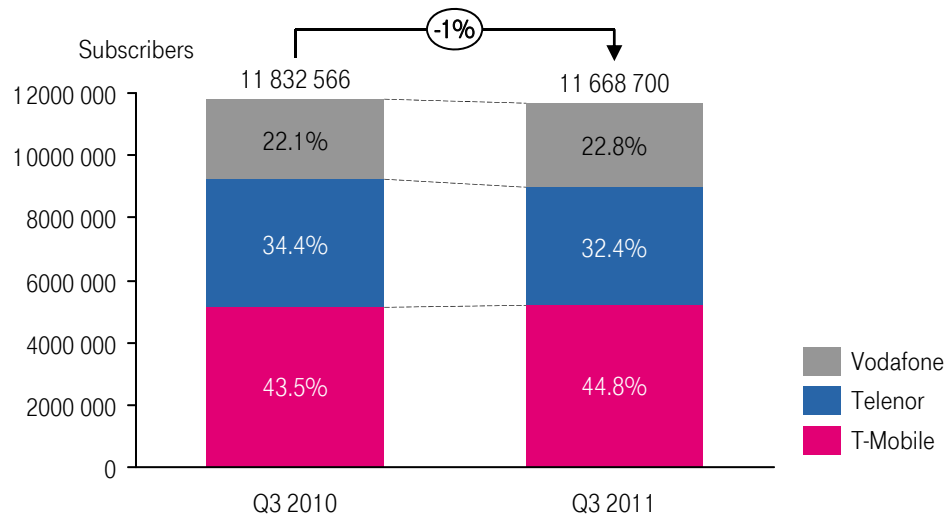




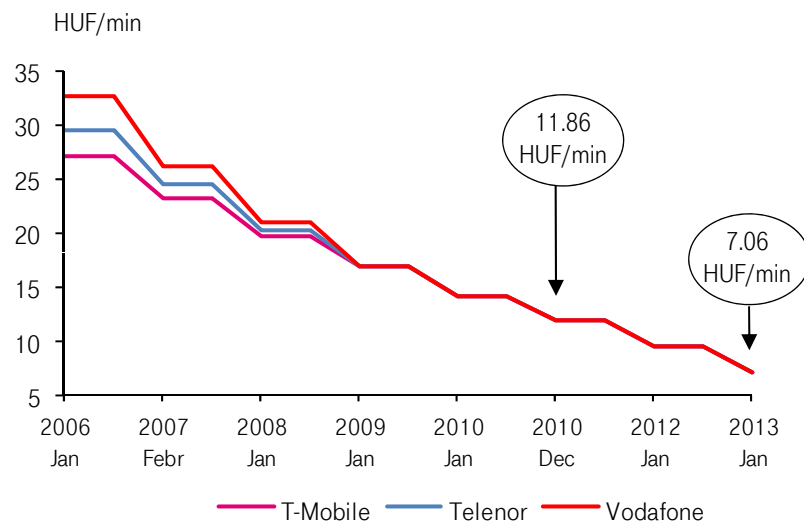
# Hungary – Mobile voice: stable market share



## Mobile voice market shares (based on total SIM cards)



## Mobile termination rate cuts



### Mobile voice

- population-based penetration at 117%
- stable market share, slight growth in customer numbers
- improving customer mix: postpaid ratio increased from 43% to 45% y-o-y
- mobile termination rate regulation:
  - further cuts: 20% from Jan 2012, 25% from Jan 2013 to 2.4 €c

### KPIs

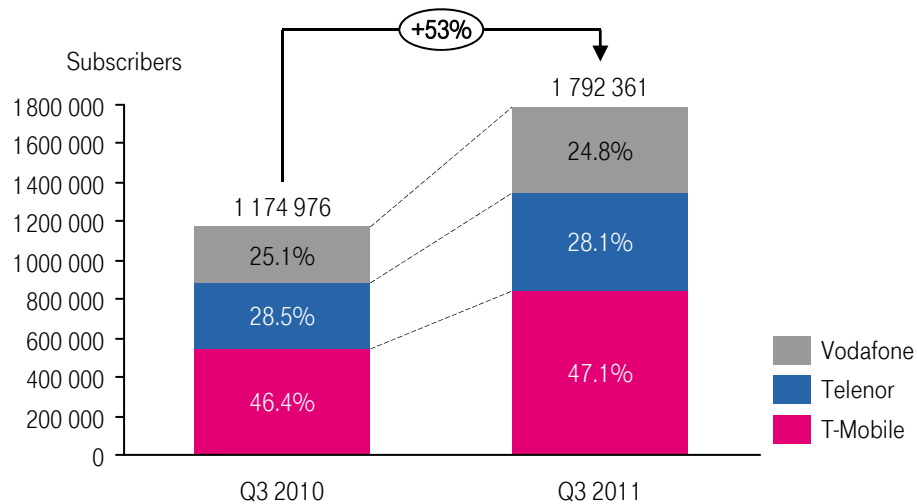
- ARPU: HUF 3 394 (-3% y-o-y)
- MOU: 160 (+5% y-o-y)
- Churn: 19% (-1 ppt y-o-y)
- SAC: HUF 5 529 (-18% y-o-y)



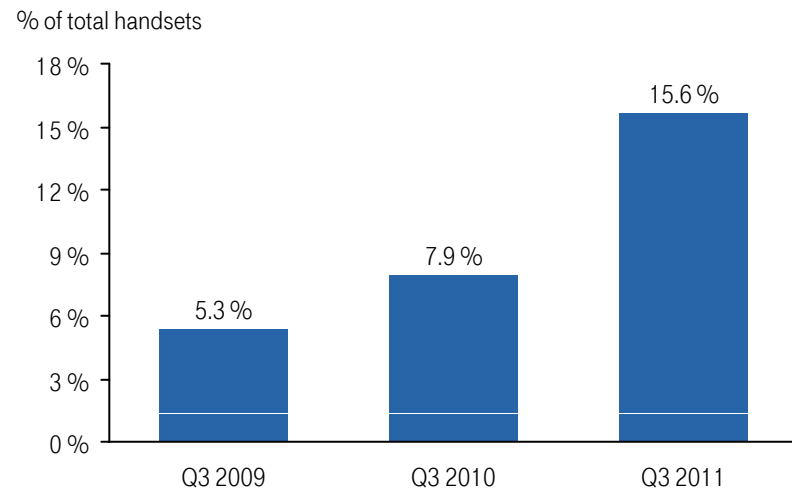
# Hungary – Mobile broadband: major growth driver



## Mobile broadband market developments (based on total SIM cards)



## T-Mobile smartphone penetration



### Mobile broadband

- 300 HSPA+ base stations offering 21 Mbps, full coverage by 2013
- significantly increasing smartphone sales
  - the ratio of smartphone sales in the postpaid segment reached 70% in Q3 2011 (vs. 30% a year ago)
  - BB subscription attach rate is ca. 55%
- the most widely used operating system is Symbian, but Android is gaining market share
- 60% of bundled mobile subscribers were in the two smallest package (MediaMania XS,S)

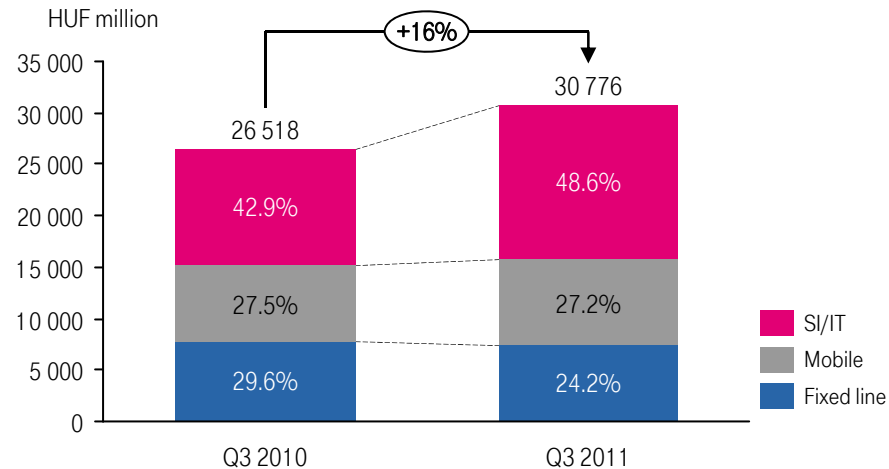
### KPIs

- VAS within ARPU (%): 21% (+3 ppt y-o-y)
- VAS within ARPU (HUF): 706 (+10% y-o-y)

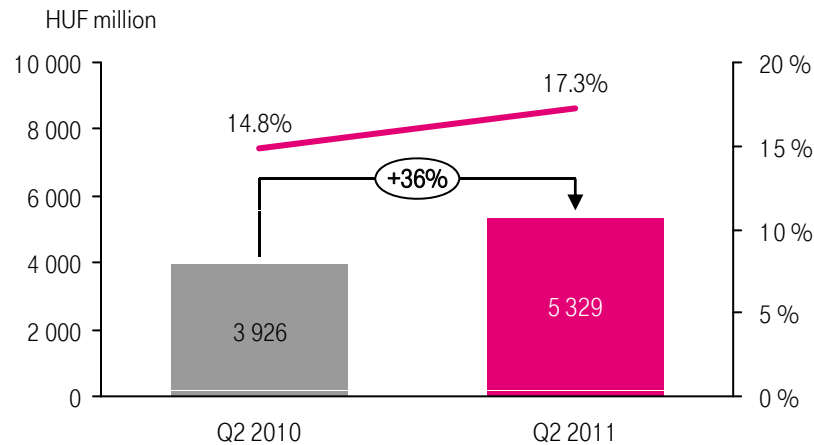


# T-Systems Hungary – Revenue growth of 16% in Q3

## Revenues



## Underlying EBITDA and margin



## T-Systems

### Falling voice and data revenues

- lower usage and high fixed churn, principally caused by mobile substitution
- continued pressure on mobile tariff levels
- higher mobile revenues mainly due to a negative one-off in Q3 2010 in other mobile revenues relating to governmental contract renegotiation

### Significant growth in SI/IT revenues

- some big infrastructure projects in the corporate segment
- public projects still not launched
- leading market position with 15% market share maintained

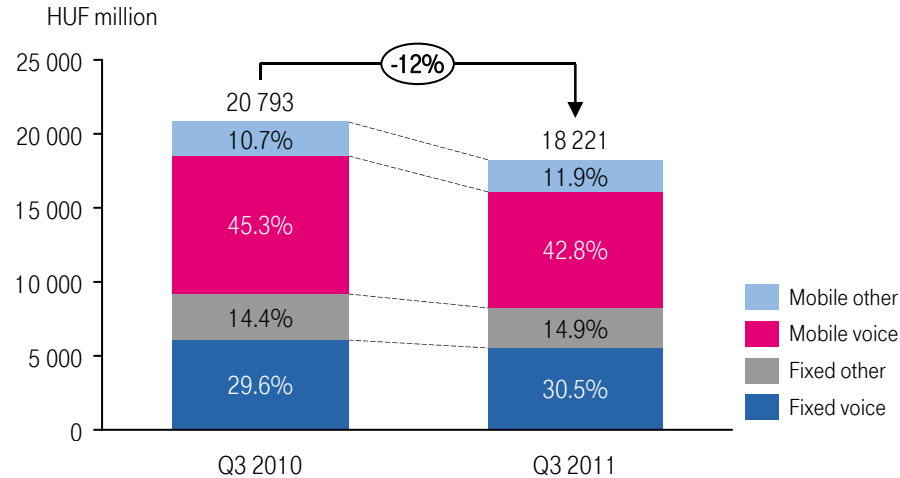
### Underlying EBITDA margin improved

- cost efficiency measures mainly in employee-related costs
- lower bad debt due to collecting some outstanding public receivables
- higher other mobile revenues

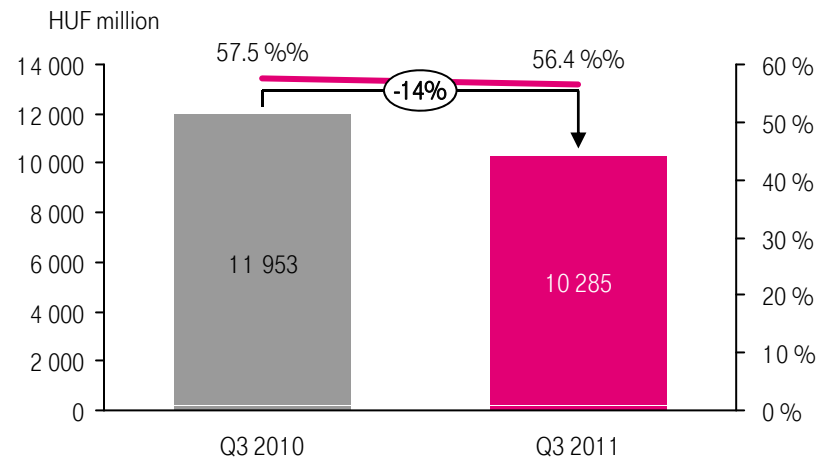


# Macedonia – Financial performance

## Revenues



## Underlying EBITDA and margin



## Macedonia

HUF strengthened by 3.9% Q3-o-Q3 against MKD

### Declining fixed line revenues

- decreasing fixed retail voice revenues due to cable competition and strong mobile substitution
- positive contribution from broadband and TV revenues

### Mobile competition getting fierce

- strong price competition in the business and prepaid segments
- declining tariff levels and higher subsidies put pressure on margin
- #1 position maintained, 50% market share stabilized after price war in prev. quarters

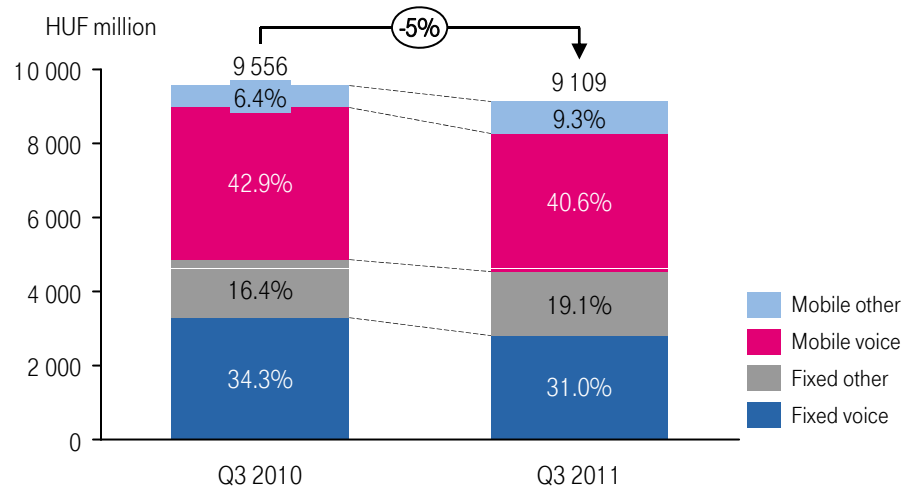
## KPIs

- Fixed churn: 9%
- Mobile ARPU: HUF 2 496 (-8% y-o-y)
- MOU : 138 (+4% y-o-y)

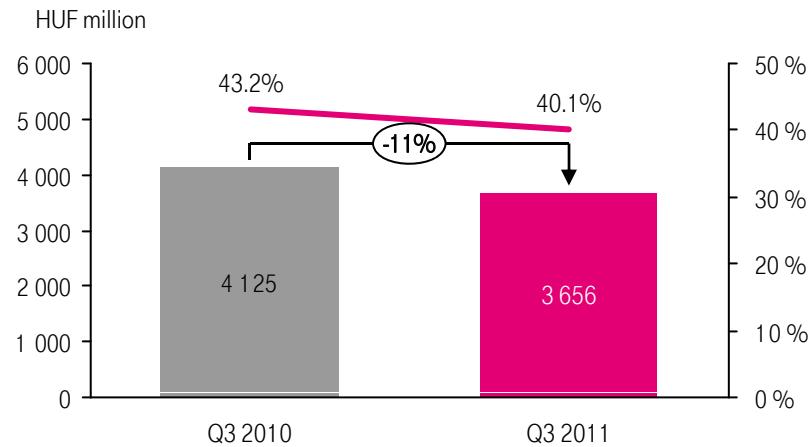


# Montenegro – Financial performance

## Revenues



## Underlying EBITDA and margin



## Montenegro

HUF strengthened by 3.9% Q3-o-Q3 against EUR

Fixed voice revenues under pressure

- deterioration in retail voice revenues driven by strong mobile substitution
- growing internet and TV revenues
- #1 position in the pay-TV market with a 38% market share

Mobile revenues down due to FX

- in local currency, mobile revenues were flat
- growth of retail and non-voice revenues
- offset by lower wholesale revenues driven by a 15% cut in interconnection tariffs from April 2011

## KPIs

- Fixed churn: 1%
- Mobile ARPU: HUF 2 523 (+5% y-o-y)
- MOU: 117 (+11% y-o-y)



# Financials



# Magyar Telekom - Consolidated Income Statement

HUF million	Q3, 2010	Q3, 2011	Change
Fixed line revenues	62 157	59 167	-4.8%
Mobile revenues	81 651	79 922	-2.1%
System Integration/Information Technology revenues	10 960	13 031	18.9%
<b>Revenues</b>	<b>154 768</b>	<b>152 120</b>	<b>-1.7%</b>
Direct costs	(39 084)	(41 521)	6.2%
Employee-related expenses	(21 517)	(20 688)	-3.9%
Depreciation and amortization	(24 803)	(24 043)	-3.1%
Hungarian telecommunications and other crisis taxes	0	(6 320)	n.a.
Other operating expenses	(28 457)	(32 792)	15.2%
<b>Total operating expenses</b>	<b>(113 861)</b>	<b>(125 364)</b>	<b>10.1%</b>
Other operating income	<b>1 726</b>	<b>797</b>	
<b>Operating profit</b>	<b>42 633</b>	<b>27 553</b>	<b>-35.4%</b>
Net financial expenses	(7 195)	(4 187)	-41.8%
Share of associates' profits	(2)	5	-350.0%
<b>Profit before income tax</b>	<b>35 436</b>	<b>23 371</b>	<b>-34.0%</b>
Income tax	(6 652)	(6 710)	0.9%
<b>Profit for the period</b>	<b>28 784</b>	<b>16 661</b>	<b>-42.1%</b>
Non-controlling interests	4 278	3 324	-22.3%
<b>Equity holders of the Company (Net income)</b>	<b>24 506</b>	<b>13 337</b>	<b>-45.6%</b>



# Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2010	Sep 30, 2011	Change
<b>Current assets</b>	<b>200 574</b>	<b>196 151</b>	<b>-2.2%</b>
Cash and cash equivalents	15 841	15 087	-4.8%
Other current financial assets	56 560	49 650	-12.2%
<b>Non current assets</b>	<b>908 432</b>	<b>891 404</b>	<b>-1.9%</b>
Property, plant and equipment - net	549 752	529 880	-3.6%
Intangible assets - net	332 993	330 102	-0.9%
<b>Total assets</b>	<b>1 109 006</b>	<b>1 087 555</b>	<b>-1.9%</b>
<b>Equity</b>	<b>594 712</b>	<b>581 300</b>	<b>-2.3%</b>
<b>Current liabilities</b>	<b>246 817</b>	<b>246 860</b>	<b>0.0%</b>
Financial liabilities to related parties	72 208	49 843	-31.0%
Other financial liabilities	46 647	55 375	18.7%
<b>Non current liabilities</b>	<b>267 477</b>	<b>259 395</b>	<b>-3.0%</b>
Financial liabilities to related parties	234 164	223 661	-4.5%
Other financial liabilities	8 828	8 247	-6.6%
<b>Total equity and liabilities</b>	<b>1 109 006</b>	<b>1 087 555</b>	<b>-1.9%</b>





# Magyar Telekom - Consolidated Cashflow Statement

HUF million	Sep 30, 2010	Sep 30, 2011	Change
<b>Net cash generated from operating activities</b>	<b>148 185</b>	<b>134 233</b>	<b>-9.4%</b>
Investments in tangible and intangible assets	(54 303)	(43 875)	-19.2%
Adjustments to cash purchases	(4 177)	(6 705)	60.5%
Purchase of subsidiaries and business units	(1 493)	(2 263)	51.6%
Cash acquired through business combinations	6	455	7483.3%
Proceeds from / (Payments for) other financial assets - net	39 584	7 109	-82.0%
Proceeds from disposal of subsidiaries	780	0	n.a.
Proceeds from disposal of PPE and intangible assets	725	3 862	432.7%
<b>Net cash used in investing activities</b>	<b>(18 878)</b>	<b>(41 417)</b>	<b>119.4%</b>
Dividends paid to shareholders and minority interest	(91 545)	(64 436)	-29.6%
Net payments of loans and other borrowings	(54 190)	(29 543)	-45.5%
Other	(22)	0	n.a.
<b>Net cash used in financing activities</b>	<b>(145 757)</b>	<b>(93 979)</b>	<b>-35.5%</b>
<b>Free cash flow*</b>	<b>89 723</b>	<b>85 707</b>	<b>-4.5%</b>

\* 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



### Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether the Company and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation. For further information regarding the internal investigation, see the Company's annual report for the year ended December 31, 2010.

The United States Department of Justice (the "DOJ"), the United States Securities and Exchange Commission (the "SEC") and the Ministry of Interior of the Republic of Macedonia commenced investigations into certain of the activities that were the subject of the internal investigation. Further, in relation to certain activities that were the subject of the internal investigation, the Hungarian Central Investigating Chief Prosecutor's Office has commenced a criminal investigation into alleged corruption with the intention of violating obligations in international relations and other alleged criminal offenses. In addition, the Montenegrin Supreme State Prosecutor is also investigating the activities of the Company's Montenegrin subsidiary that were the subject of the internal investigation and has requested information from the Company's Montenegrin subsidiary in relation to the relevant contracts. These governmental investigations are continuing, and the Company continues to cooperate with these investigations.

On June 24, 2011, Magyar Telekom announced that its Board of Directors had approved an agreement in principle with the staff of the SEC to resolve the SEC's investigation relating to the Company through a settlement. Pursuant to the agreement in principle, the Company, without admitting or denying the allegations against it, would consent to a U.S. court order permanently enjoining it from any future FCPA violations and pay disgorgement and a conditional civil penalty. The agreement in principle reflects the SEC staff's consideration of the Company's self-reporting, remediation and cooperation with the SEC's investigation. The agreement in principle is not a final settlement of the SEC's investigation. While the Company's Board of Directors has approved the terms of a final settlement, the final settlement remains subject to approval by the SEC and a U.S. District Court.

The Company continues to engage in discussions with the DOJ regarding the possibility of resolving the DOJ's investigation of the Company through a negotiated settlement. The Company may be unable to reach a negotiated settlement with the DOJ. Any resolution of the DOJ investigation could result in criminal sanctions, including monetary penalties, which could have a material effect on the Company's financial position, results of operations or cash flows, as well as require additional changes to its business practices and compliance program. The Company cannot predict whether or when a resolution of the DOJ investigation will occur, or the terms, conditions, or other parameters of any such resolution.

In light of the ongoing negotiations with the DOJ, the Company has increased the amount of the provision recognized in connection with these investigations to HUF 19.6 bn (USD 90.8 million) in the third quarter of 2011. However, the amount of any payment obligation upon final settlement or other resolution of these investigations may differ from the amount of the provision.

In addition to the provision, Magyar Telekom incurred HUF 0.9 bn expenses relating to the investigations in the first three quarters of 2011, which are included in other operating expenses of the Telekom Hungary segment.



For further questions please contact the IR department:

### Investor Relations

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Abbreviations: 3G: third generation, ARPU: average revenue per user, BB: broadband, CBC: call-by-call, CPS: carrier pre-selection, HQ: headquarters, HSDPA: high-speed downlink packet access, IC: interconnection, IP: internet protocol, IT: information technology, LTO: local telecommunication operator, MOU: minutes of use, NGN: next generation network, NRA: National Regulatory Authority, POP: point of presence, RIO: reference interconnection offer, RPC: revenue producing customer, SI: system integration, SIM: subscriber identity module, SMP: significant market power, Special influences: investigation- and headcount reduction-related expenses, 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: 271.2 (average 9M 2011)

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](http://www.telekom.hu/investor_relations).

