

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

SEPTEMBER, 2015



LIFE IS FOR SHARING.

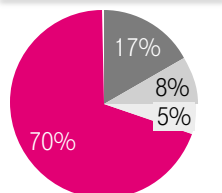
STRATEGY AND MARKET POSITION

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

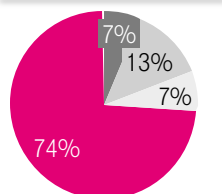
International presence



Revenue (FY2014)

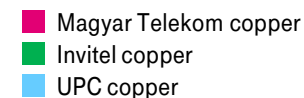
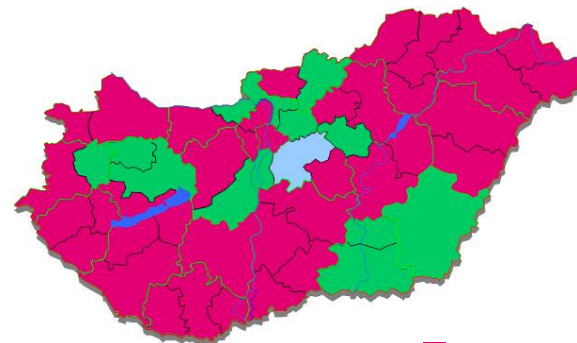


EBITDA (FY2014)



- Leading telecommunications operator in Hungary, Macedonia and Montenegro
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.3bn market capitalization
- Stock exchange listings
 - Primary listing on Budapest Stock Exchange
 - Level I ADR program, ADSs traded on the OTC Market

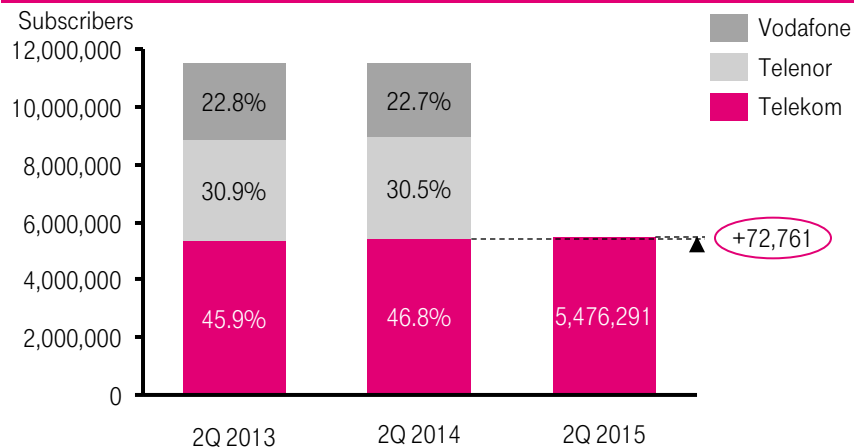
Hungary



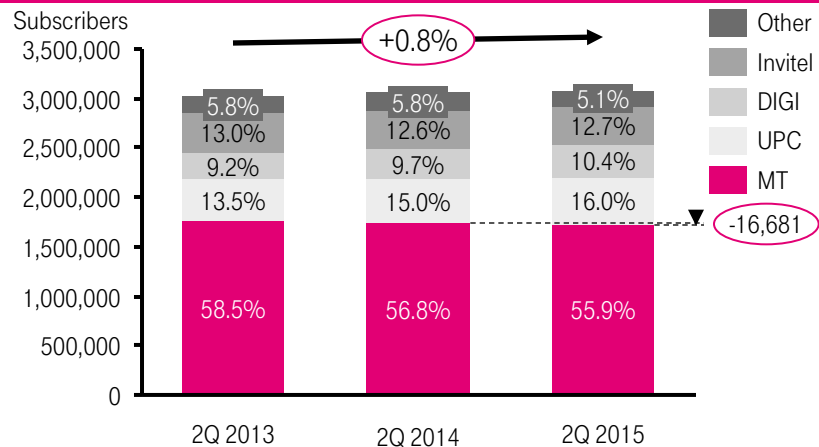
- MT is the incumbent fixed telco provider on ca. 75% of primary copper areas of Hungary
- Over 1.9mn households covered with High Speed Internet (HSI) access across country
 - FTTx (354k HHs) – ongoing countrywide roll-out
 - ED3 (699k HHs) – participating in market consolidation
 - VDSL (897k HHs) – revitalizing copper
- 83% population coverage of 3G
- 91% population coverage of 4G

MARKET POSITION IN HUNGARY

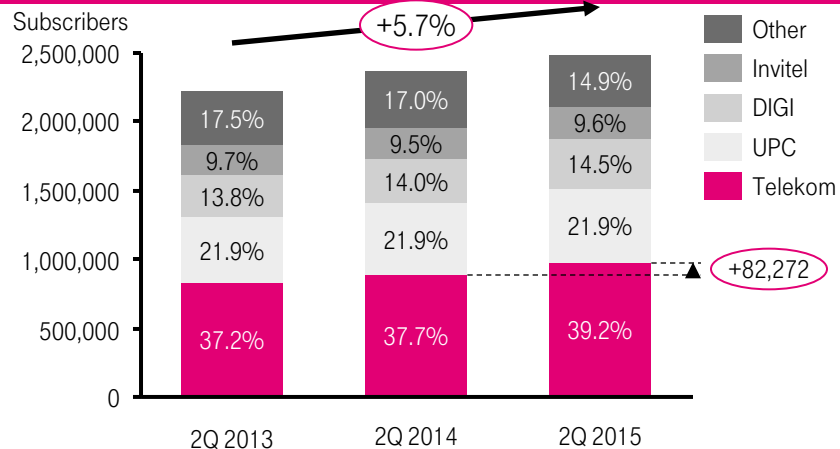
Total mobile market*



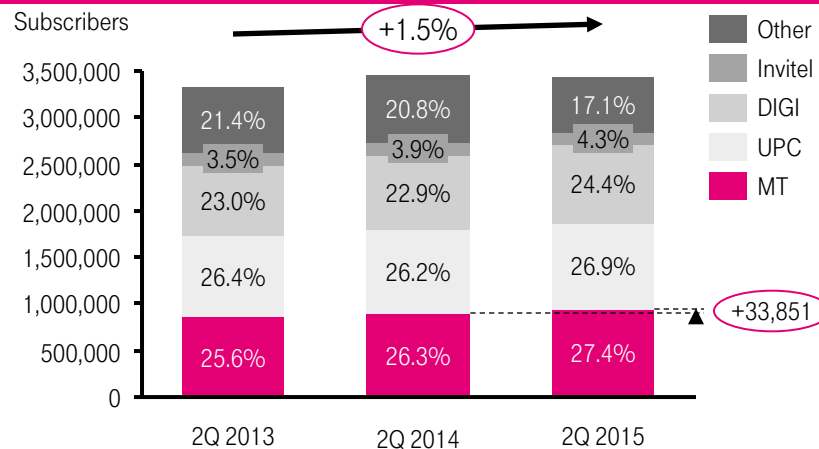
Fixed voice market**



Fixed broadband market**



TV market**



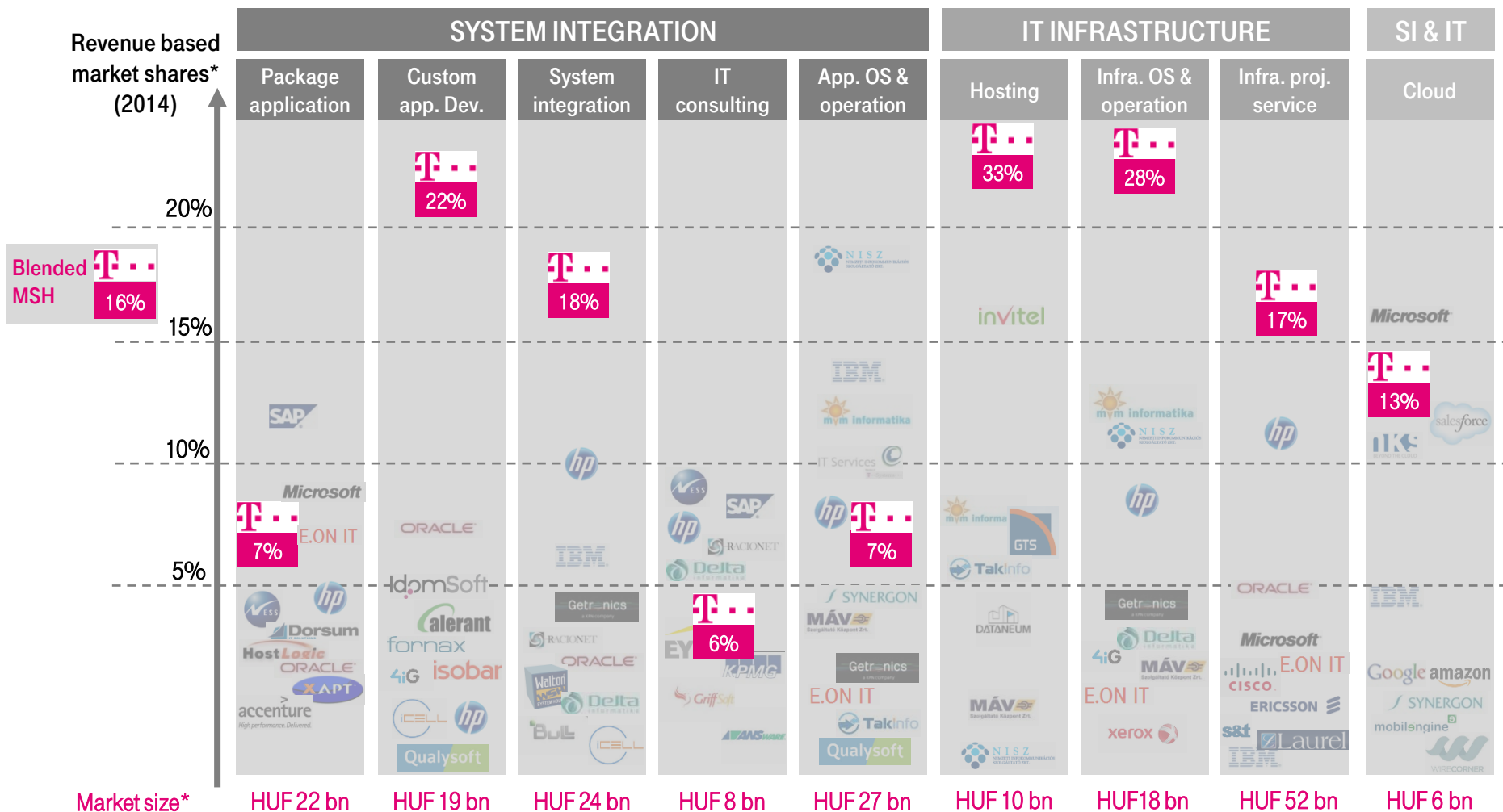
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* Based on the total SIMs, data available only until June 2014 by National Media and Infocommunications Authority (NMAIAH) due to definition debate

** Based on the total fixed voice / BB / pay TV market estimated by the NMAIAH

MARKET LEADER IN IT SERVICES IN HUNGARY DUE TO WIDE RANGE OF IT SOLUTIONS BOTH IN IT PROJECTS AND IT OUTSOURCING

Total SI/IT market



* Source: IDC 2014; Market size by demand side, while market shares by supply side data

STRATEGY OVERVIEW

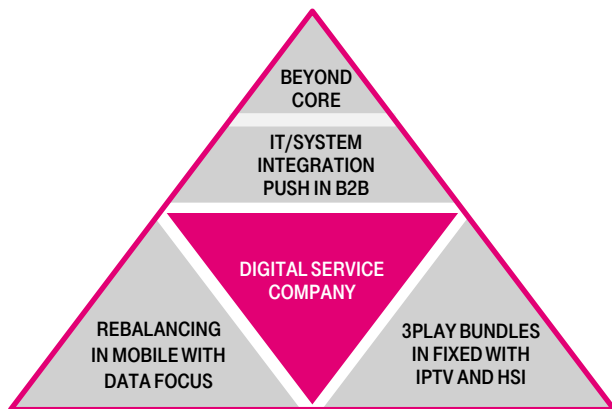
Telekom 2017 strategy and EoY 2015 targets

BEST CUSTOMER EXPERIENCE

- 1 LEADING INTEGRATED QUALITY BRAND
- 2 EFFORTLESS PRODUCTS & SIMPLIFIED PROCESSES
- 3 ONLINE CUSTOMER SERVICING
- 4 INTEGRATED ALL-IP NETWORK
- 5 WINNING CULTURE

- 1 ■ Increase the awareness of the Telekom brand to the level of our previous brands
- 2 ■ Cut billable / sellable products by 50%
- 3 ■ Cut # of non-selling transactions by 50%
- 4 ■ Increase # of IP voice customers to 1 million
 ■ Roll out 440k additional HSI households
 ■ Increase LTE coverage (pop. outdoor) to at least 97%
 ■ Increase # of 4G users to 1 million
- 5 ■ Maintain employee satisfaction

Bundling strategy



- Restructuring revenues: shift from traditional (voice, data) to near-core (IT, TV) and beyond-core (energy, insurance)
- Strategy of bundling fixed, mobile, IT and beyond core services since 2007
- Customer loyalty improved through bundling
- Beyond core services to support core portfolio optimization leading to financial stabilization
- Turnaround of financial performance has commenced



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STRATEGIC HIGHLIGHTS

MOBILE NETWORK

- Acquisition of necessary spectrum blocks in 2014 to reinforce mobile market leadership
- Agreement with Telenor Hungary to develop and maintain shared 4G network in 800 MHz band
- More than 700 thousand active LTE users, 4G traffic exceeds 3G traffic in our network

FIXED LINE NETWORK

- Fixed High Speed Internet roll-out program (mostly fiber) commenced in Hungary; push Digital Hungary program
- Continuous upgrade of our existing copper and cable network, participation in cable market consolidation

ACQUISITION OF GTS HUNGARY

- Acquisition of GTS Hungary to strengthen our market position among business customers
- Expected synergies from process, network and headcount rationalization; fixed and mobile and IT cross-selling

STRENGTHENING MARKET POSITIONS

- With #1 position in the TV market, now leader in all segments of the Hungarian ICT market
- Increasing ARPU in fixed Broadband, TV and mobile (ecl. MTR effect), revenue growth in SI/IT

ENERGY

- JV with MET Holding to improve and optimize B2B energy operations – greater economies of scale and risk sharing
- Exit from the residential gas business due to changes in the market environment

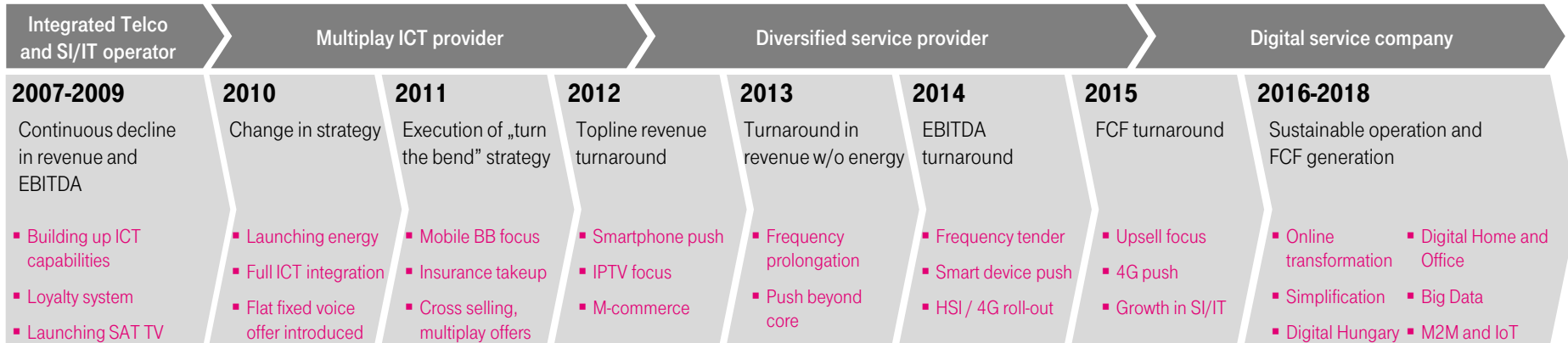
SUBSIDIARIES

- Macedonia: slower mobile revenue decline and successful bundling strategy in fixed line
- Montenegro: maintaining stable market share and financial performance

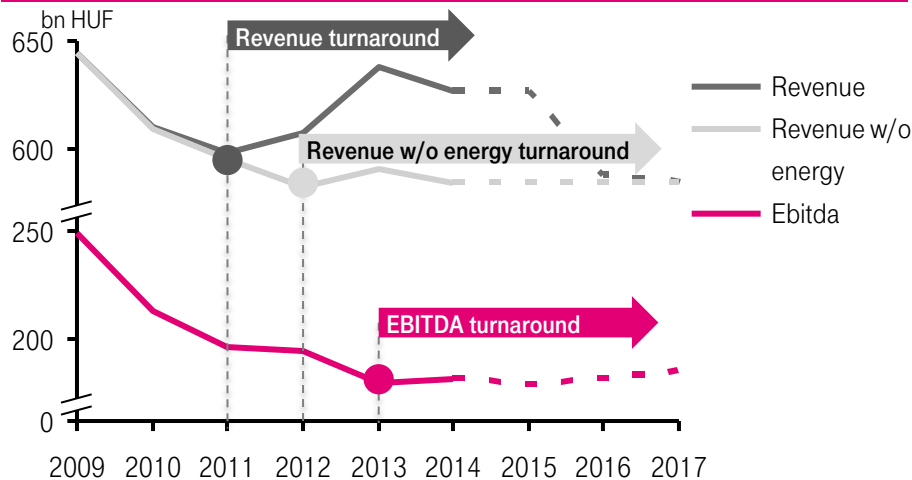


TURNAROUND STORY OF MAGYAR TELEKOM

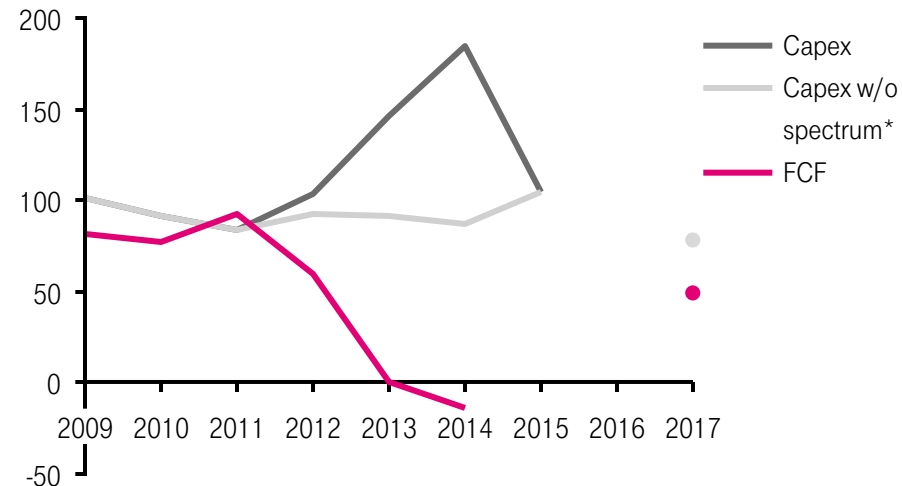
Major financial and strategic milestones



Revenue and Ebitda turnaround



Capex and free cash-flow development



TELEKOM AS THE LEADING OPERATOR AND BRAND IN HUNGARY

Our vision

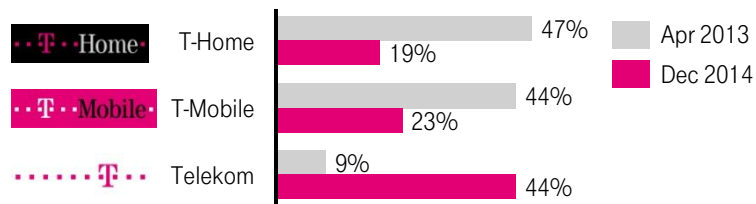
FIRST NOW FIRST FOREVER

Our mission

OUR MISSION IS TO MAKE THE DIGITAL WORLD MORE UNDERSTANDABLE AND ACCESSIBLE FOR EVERYONE.

WE ENABLE PEOPLE TO HAVE A MORE EFFORTLESS, COLOURFUL AND SUCCESSFUL LIFE.

Brand awareness* and brand values



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INNOVATION
SIMPLICITY
COMPETENCE

Our major awards



EXCELLENCE IN CUSTOMER SERVICE AWARD



FAMILY-FRIENDLY WORKPLACE AWARD



SUSTAINABILITY AWARDS (OEKOM, CEERIUS, DELOITTE)



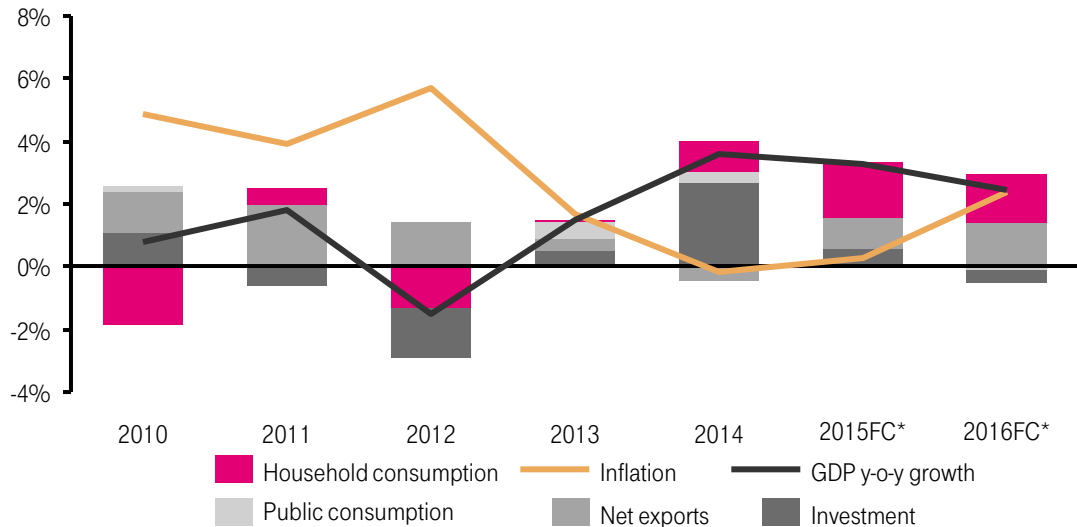
BICYCLE-FRIENDLY WORKPLACE AWARD



DIVERSE ORGANIZATION AWARD

HUNGARIAN ECONOMIC ENVIRONMENT

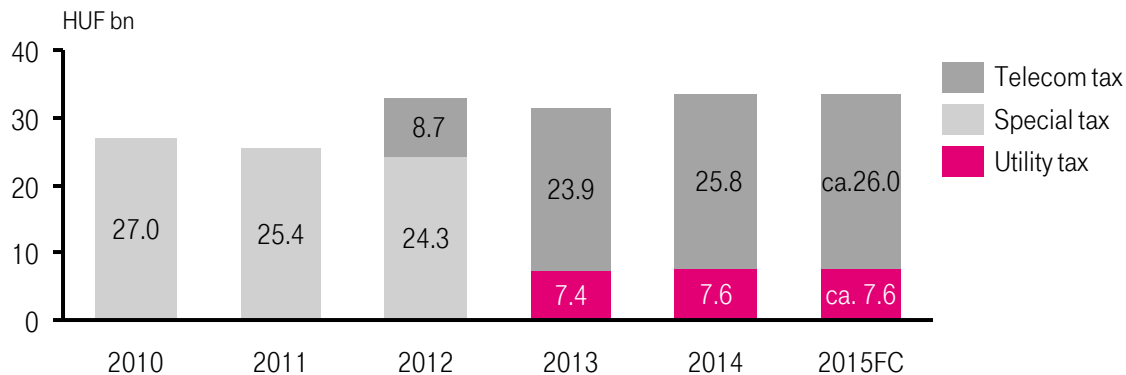
Growth structure



Domestic demand

- Domestic demand improved as economy recovers
- Governmental measures support consumer spending
- Investment levels show strong volatility due to EU fund cycles
- MT is expected to benefit from positive trends of domestic demand

Taxes levied on Magyar Telekom



Tax burdens to reduce budget deficit

- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied between 2013-2015, but slight decrease is expected from 2016

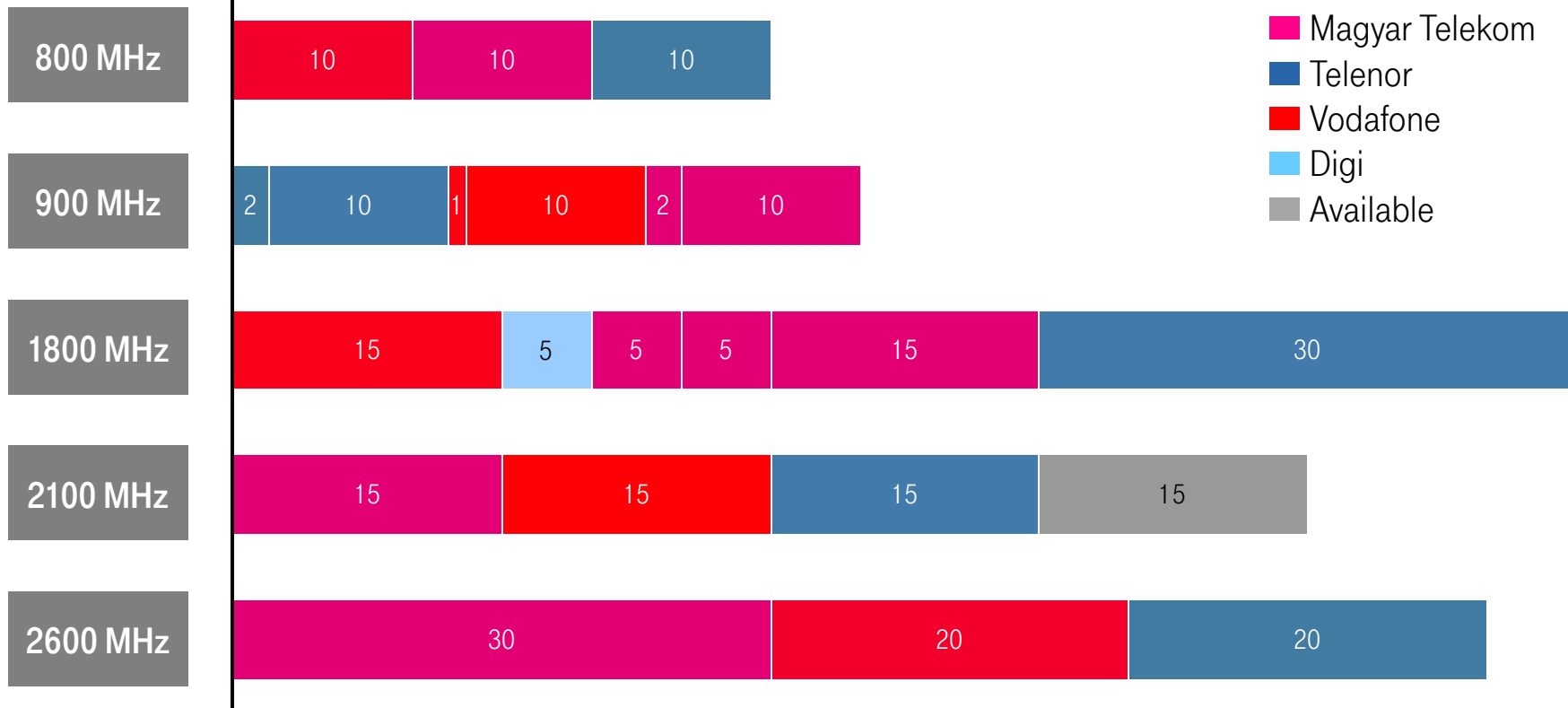


HUNGARIAN MOBILE SPECTRUM SITUATION

Current spectrum situation

FDD (2x1 MHz)

BAND



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GUIDANCE AND OUTLOOK

FINANCIAL HIGHLIGHTS AND TARGETS

	2014 RESULTS	2015 TARGETS	2017 TARGETS
REVENUE	HUF 626.4bn (-1.7%)	roughly stable	roughly stable excluding energy compared to 2014
EBITDA	HUF 181.2bn (+1.0%)	up to 3% decline	surpassing HUF 185bn
CAPEX*	HUF 86.8bn	around HUF 105bn	around HUF 80bn
FCF**	HUF -19.9bn		surpassing HUF 50bn
DIVIDEND	HUF 0	Minimum HUF 15 per share	



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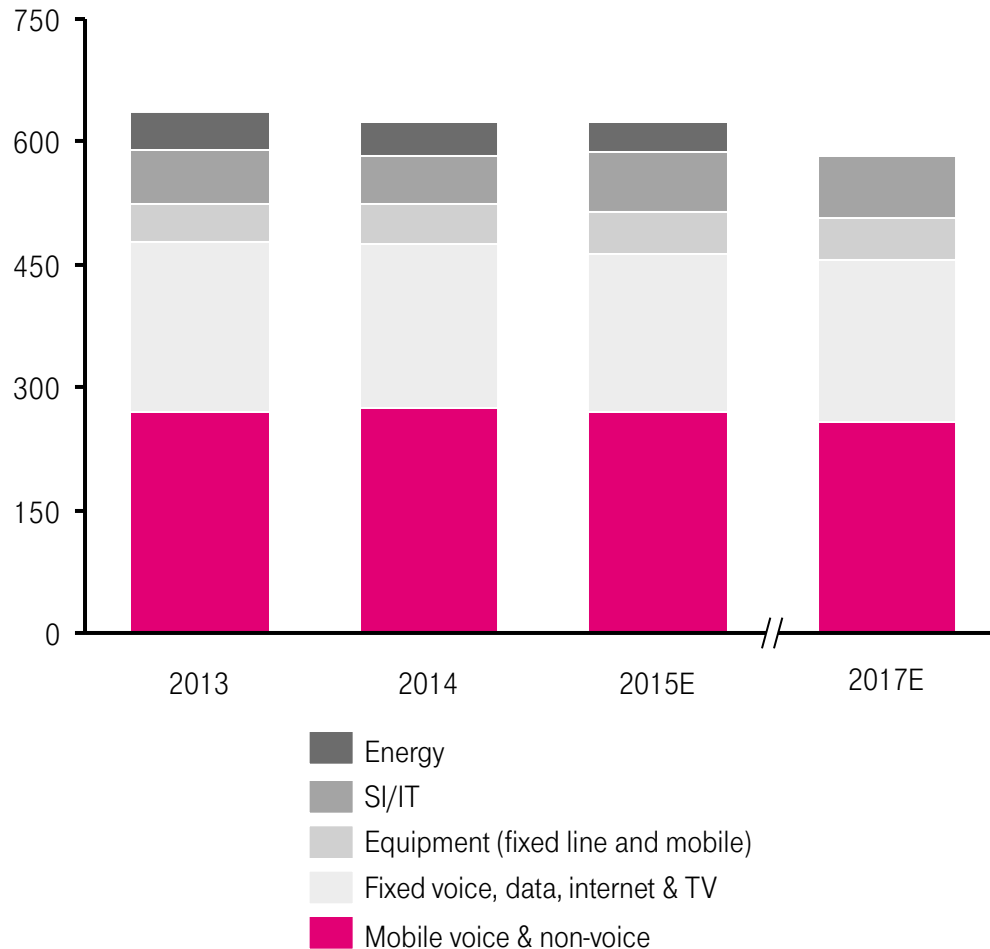
* Excluding spectrum license fees and annual frequency fee capitalization

** After minority dividend payments

ROUGHLY STABLE REVENUES EXCLUDING ENERGY

Group revenue developments

HUF bn



Highlights

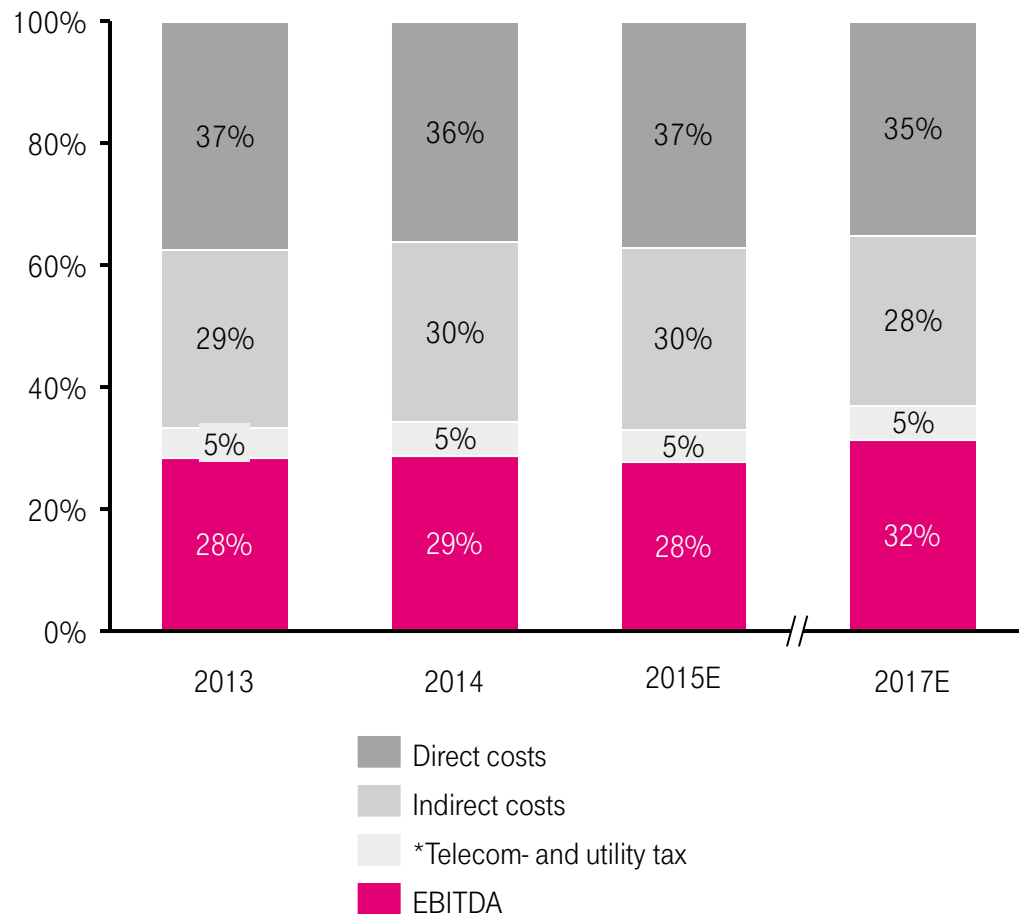
- Roughly stable revenue anticipated for 2015 vs. 2014
- 2017 revenues to be roughly stable compared to the 2014 level due to the fall out of energy revenues
- Mobile broadband cannot fully compensate for the decline in voice revenue due to MTR cut
- Fixed voice revenue decline mitigated by growth in TV and BB revenues
- Growth in SI/IT revenues supported by market expansion



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INCREASING EBITDA MARGIN

EBITDA and cost developments (relative to revenues)



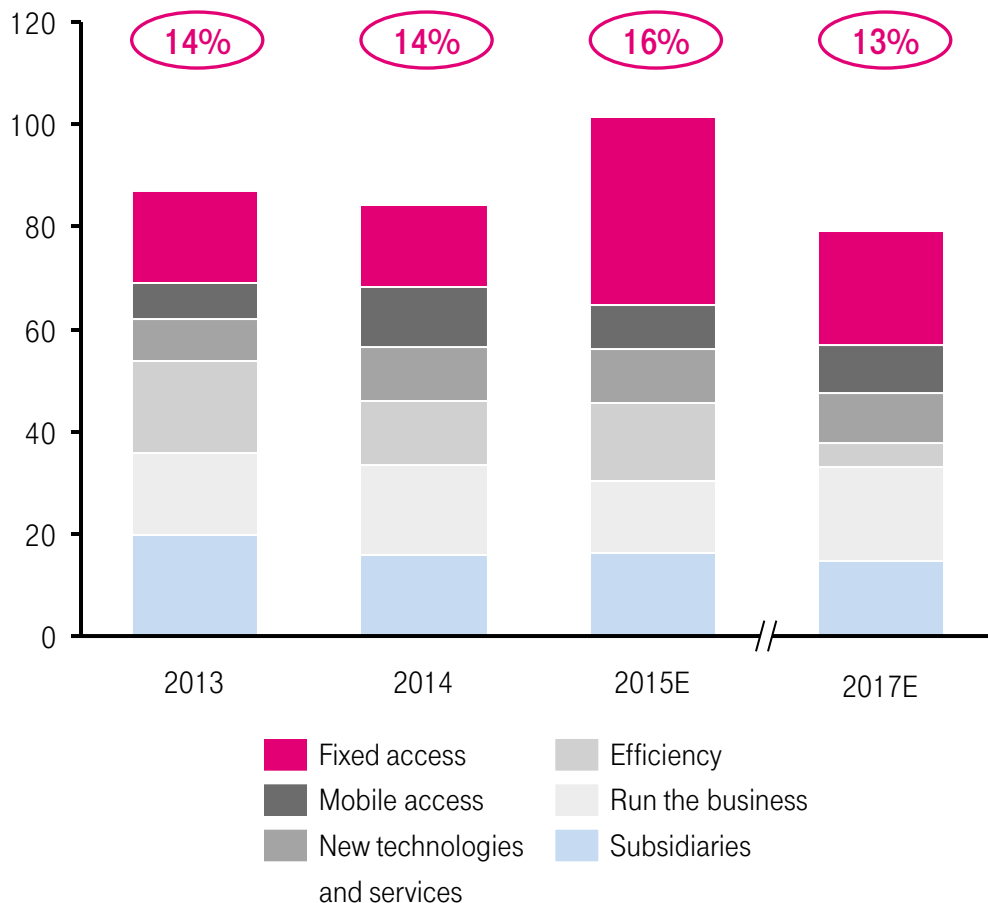
Highlights

- 2015 EBITDA to decline by a maximum 3% vs. 2014 level
- 2017 EBITDA expected to surpass HUF 185 billion
- 2015 indirect costs include the expected ca. HUF 8 billion severance expense related to the redundancy program involving ca. 1,000 employees
- Direct costs expected to moderately rise in parallel with increasing revenues and change in product mix
- Slightly decreasing operating* taxes assumed

EFFICIENCY INVESTMENTS FREE UP CAPEX FOR ACCESS DEVELOPMENTS

Capex developments*

HUF bn



Highlights

- Ca. HUF 105 billion Capex earmarked for 2015
- Fixed access: focus on increasing HSI coverage
- Mobile access: 4G population coverage to reach 97% by end 2015
- Efficiency investments:
 - Replacement of legacy network
 - PSTN migration
 - Online front end development
 - Mobile network modernization
 - CRM & Billing system project
- New technologies and services:
 - All IP network
 - Service innovation
 - HW as a service

○ CAPEX*/Sales

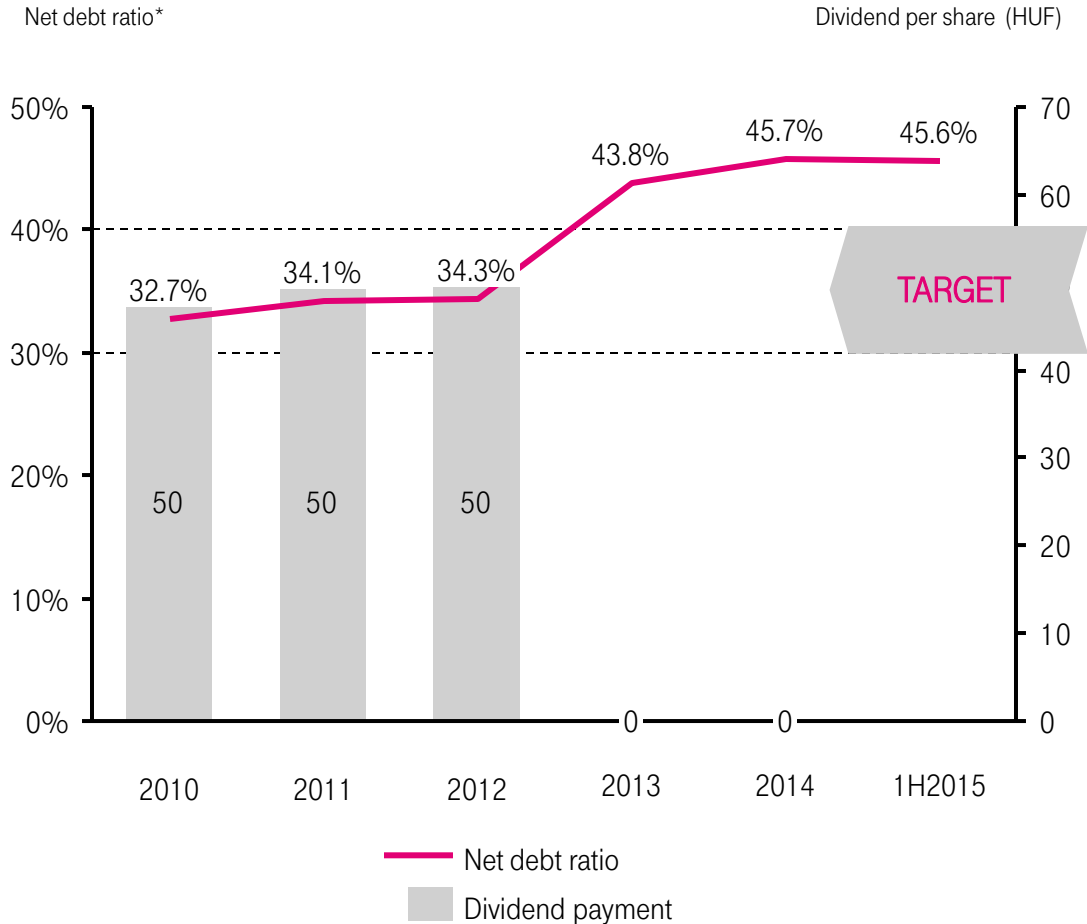


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* CAPEX excluding spectrum license fees and annual frequency fee capitalization

DIVIDEND POLICY

Dividend payment and net debt ratio developments



Highlights

- Maintain net debt ratio (net debt/total capital) target of 30% - 40%
- Board of Directors proposed no dividend payment on 2014 earnings for approval to the AGM
- Based on the current operating, regulatory and taxation environment and outlook coupled with the anticipated significant improvement in the free cash flow generation, the Company believes that it will be able to pay at least HUF 15 dividend per share on 2015 results**



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* Defined as net debt / total capital

** Subject to the Board of Directors' future proposal to the General Meeting, which will be made in due course, when all necessary information is available and all prerequisites to making such proposal are met

H1 2015 RESULTS

STRATEGIC HIGHLIGHTS IN 1H2015

HUNGARY	MOBILE	<ul style="list-style-type: none">▪ On April 1, MTR was cut by 76% resulting in a sharp decline in mobile voice revenues▪ Mobile data growth due to attractive device portfolio and strong 4G push almost fully offset revenue loss caused by regulation
	FIXED	<ul style="list-style-type: none">▪ Successful upgrade campaigns led to higher TV and broadband ARPUs▪ Significant fixed line network development program commenced▪ Acquisition of GTS Hungary increased our fixed wholesale and data revenues from April 1
	ENERGY	<ul style="list-style-type: none">▪ Strong revenue growth in B2B segment ahead of preparing to set up joint venture
	SI/IT	<ul style="list-style-type: none">▪ T-Systems won major IT projects resulting in a 14% increase in SI/IT revenues
INT'L	MACEDONIA	<ul style="list-style-type: none">▪ Successful approval of the accession of T-Mobile Macedonia to Makedonski Telekom▪ VIP/One merger has created a strong integrated competitor
	MONTENEGRO	<ul style="list-style-type: none">▪ Intense competition in mobile and fixed line driven by regulatory pressures

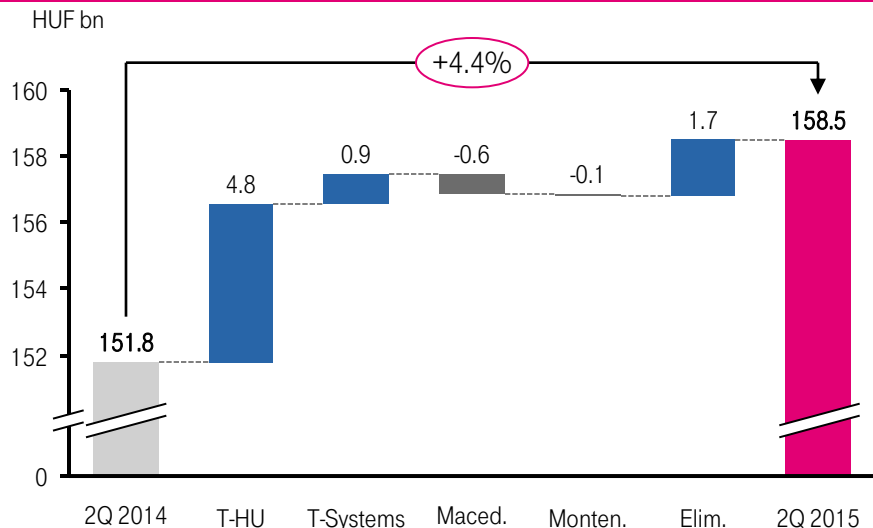
FINANCIAL HIGHLIGHTS AND TARGETS

	1H 2015 RESULTS	2015 TARGETS	2017 TARGETS
REVENUE	+3.9%	roughly stable	roughly stable excluding energy compared to 2014
	<ul style="list-style-type: none"> Group wide mobile data and device sales growth due to 4G push Hungarian MTR cut effective from April 1 Improved fixed line performance in Hungary coupled with GTS closing Increased SI/IT revenues across all segments Higher energy sales in Hungarian B2B segment 		
EBITDA	+5.0%	up to 3% decline	surpassing HUF 185bn
	<ul style="list-style-type: none"> Increased fixed margin due to higher customer base and ARPU uplift in broadband and TV in Hungary SI/IT margin increased across all segments Savings in employee related expenses; however, no severance payments in Hungary for the period 		
CAPEX	HUF 35.1bn	around HUF 105bn	around HUF 80bn
	<ul style="list-style-type: none"> Fixed High Speed Internet roll-out program commenced in Hungary Speeding up PSTN replacement Lower spending on Hungarian mobile networks than initially expected due to NW sharing agreement 		



GROUP SEGMENTAL REVENUE AND EBITDA

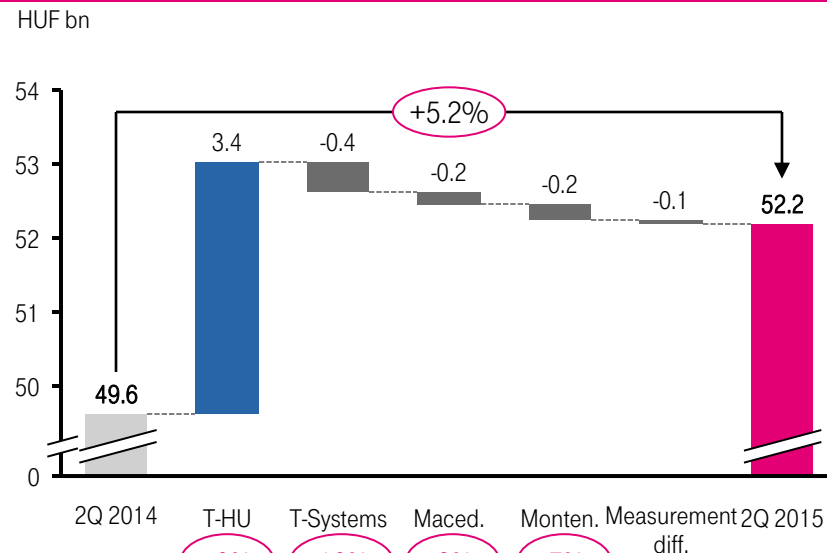
Group segmental revenue



Change Y-o-Y **+4%** **+3%** **-5%** **-1%**

- **Telekom Hungary:** primary driver of Group revenue as a result of strong fixed and energy performance despite regulatory pressure on mobile IC
- **T-Systems:** following previous quarters of decline, revenues increased by 3% during the period driven by a material increase in the SI/IT business line
- **Macedonia:** slight decline in total revenues driven by mobile data, equipment and SI/IT, which is a great achievement
- **Montenegro:** total revenues decreased by a minimal 1%, despite the regulatory pressure on both fixed and mobile

Group segmental EBITDA



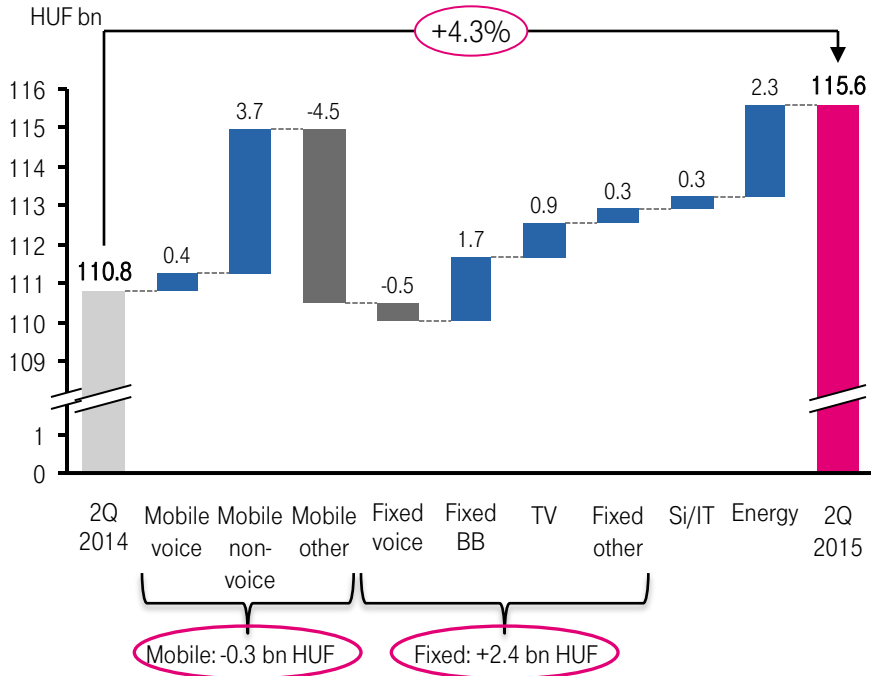
Change Y-o-Y **+9%** **-10%** **-3%** **-7%**

- **Telekom Hungary:** higher gross margins in fixed and energy coupled with savings in employee related expenses
- **T-Systems:** competitive pressure led to lower SI/IT margins coupled with intercompany accounting and regulatory pressure mitigated by improved other operating income
- **Macedonia:** limited EBITDA decrease due to relatively low decline of gross margin partly offset by lower costs for mobile equipment and frequency fees
- **Montenegro:** lower gross margin and employee related costs partly mitigated by higher other operating income

SEGMENTAL OVERVIEW

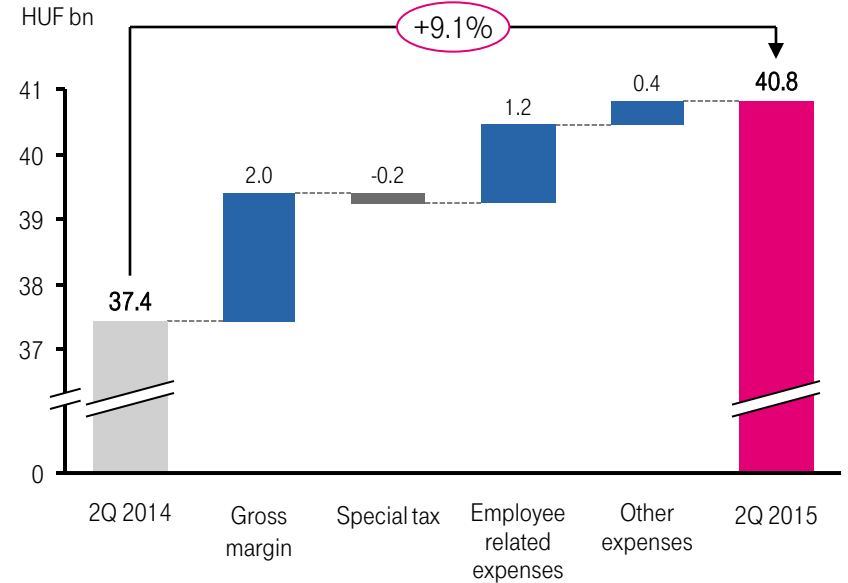
T-HUNGARY

T-Hungary revenue



- Strong mobile broadband and equipment sales due to 4G push
- MTR cut by 76% resulting in a HUF 5bn loss in revenues
- Significant growth in both fixed broadband and TV thanks to ever larger customer bases and higher ARPUs
- Higher fixed wholesale and data revenues were largely a reflection of the GTS acquisition
- Higher energy revenues in B2B sub-segment

T-Hungary EBITDA



- Improvement in gross margin driven mostly by ARPU increases both in mobile (excl. MTR effect), fixed broadband and TV due to successful fixed line cross-sell and upgrade campaigns
- After many years of decline, margin expansion amongst SMB helped by the tailwind of a general economic recovery
- Further savings in employee-related expenses due to FTE cuts by the end of 2014



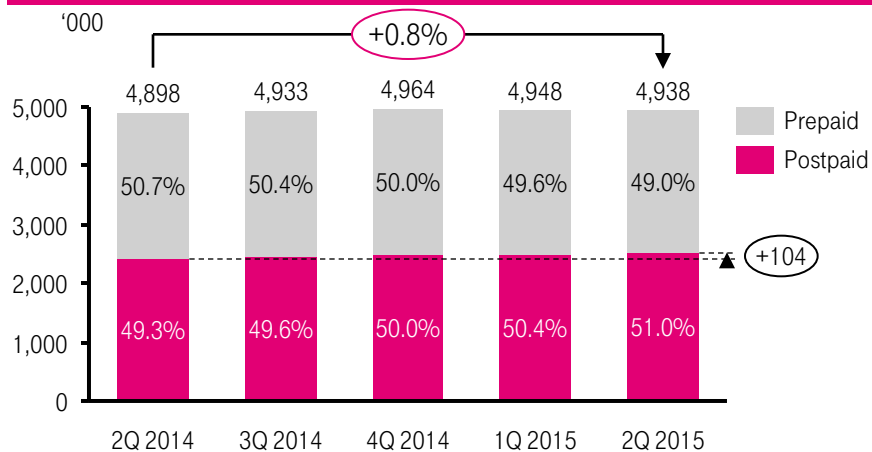
LIFE IS FOR SHARING.

* Mobile voice includes mobile retail voice only; Mobile non-voice includes data, SMS and equipment; Mobile other includes wholesale and other

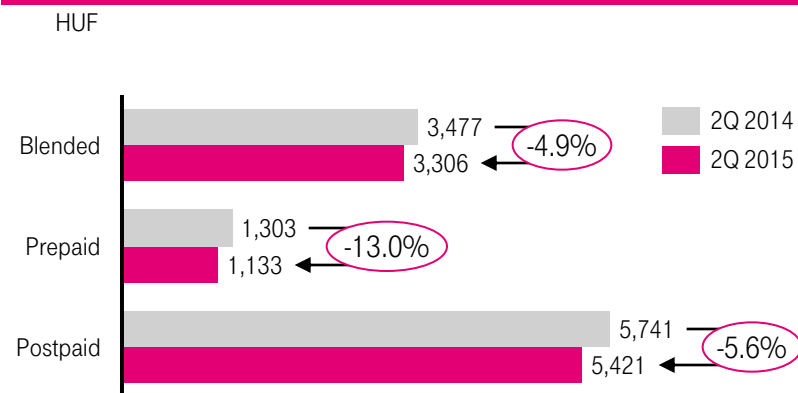
T-HUNGARY - MOBILE



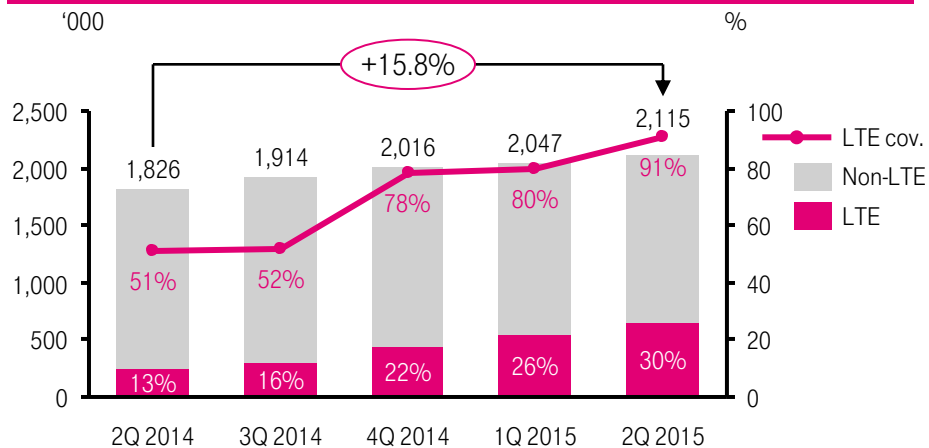
Mobile RPC



Mobile ARPU (HUF)



Mobile broadband development



Highlights

- 4% increase in postpaid RPC driven by lower churn and higher prepaid to postpaid migration
- MOU increased by 9%, consistent with the growth in flat tariff subscriber base
- Decreasing ARPU due to sharp MTR cut (postpaid ARPU increased by 2% excluding MTR impact)
- 4G outdoor population coverage above 90%
- Growing mobile data revenue due to increasing small screen internet penetration (RPC up by 17% YoY), 4G traffic exceeds 3G
- Smartphone sales account for over 90% of postpaid handsets



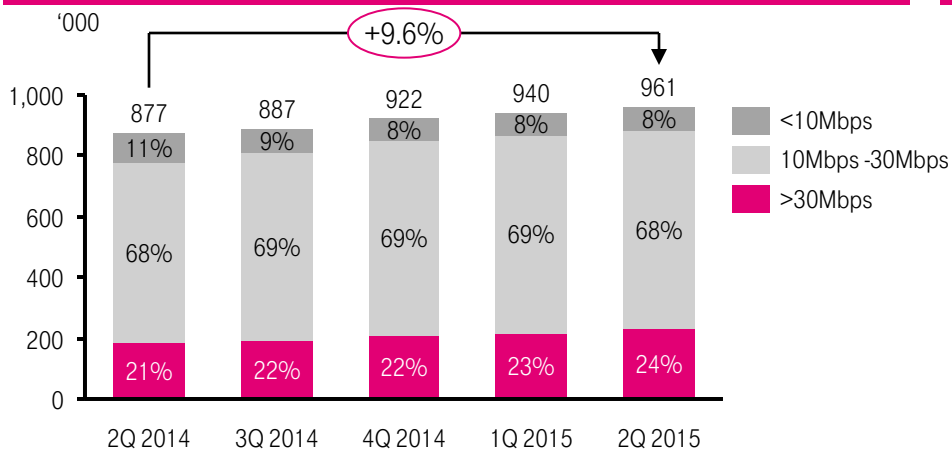
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* Outdoor population coverage

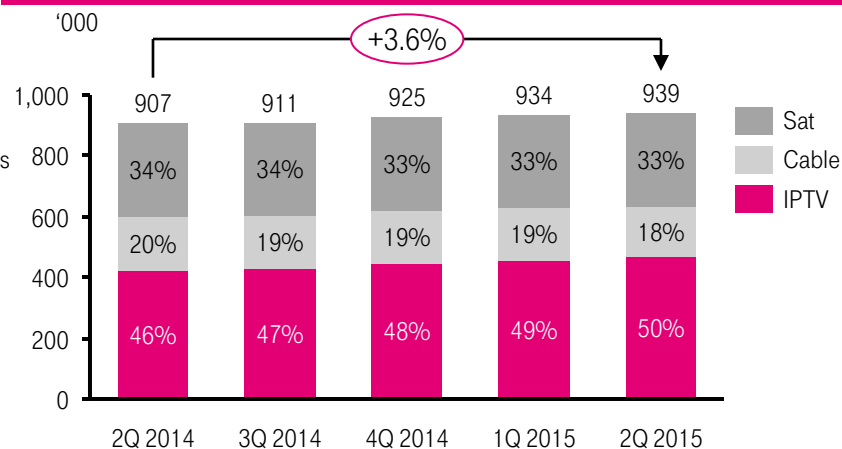
T-HUNGARY - FIXED BROADBAND AND TV



Fixed BB RPC

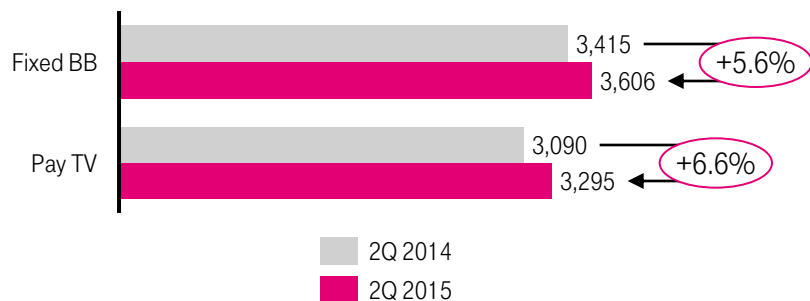


Pay TV RPC



Fixed BB and TV ARPU

HUF



Highlights

- 84 thousand broadband and 33 thousand TV net adds, which helped maintain leading market positions
- Increasing ratio of higher bandwidth packages due to upselling activities driven by network upgrades
- Focusing on IPTV to offer more value to our customers
- Higher ARPUs driven by upselling and price increase

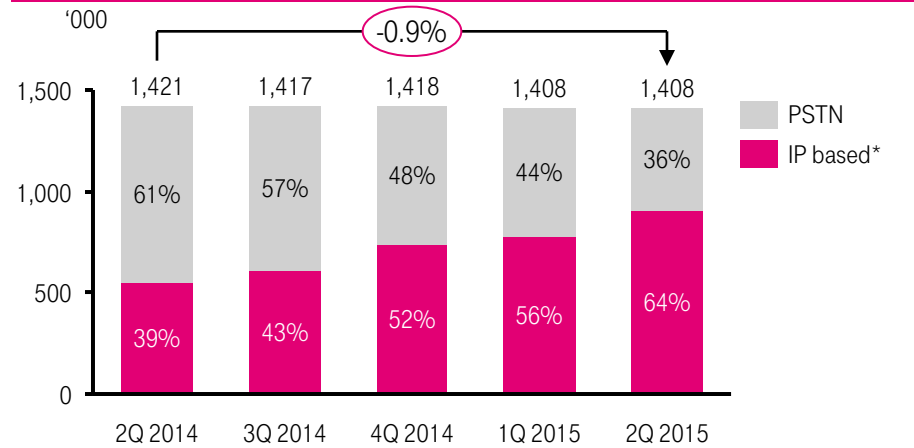


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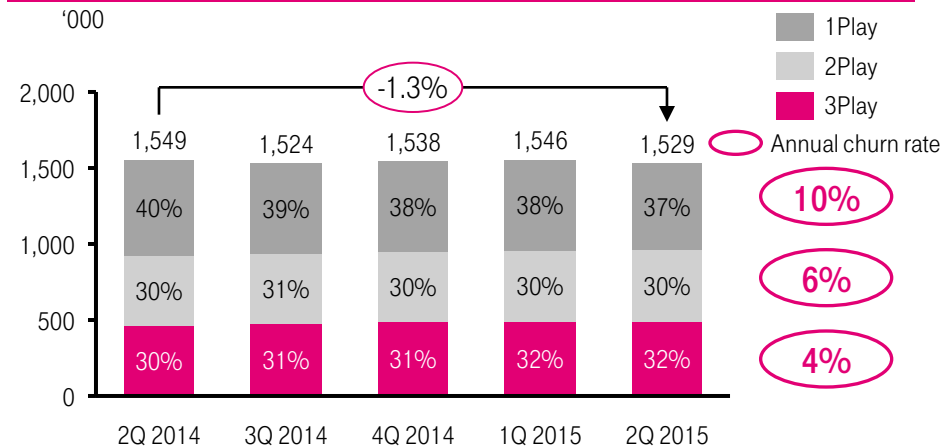
T-HUNGARY - FIXED VOICE, MULTIPLAY AND ENERGY



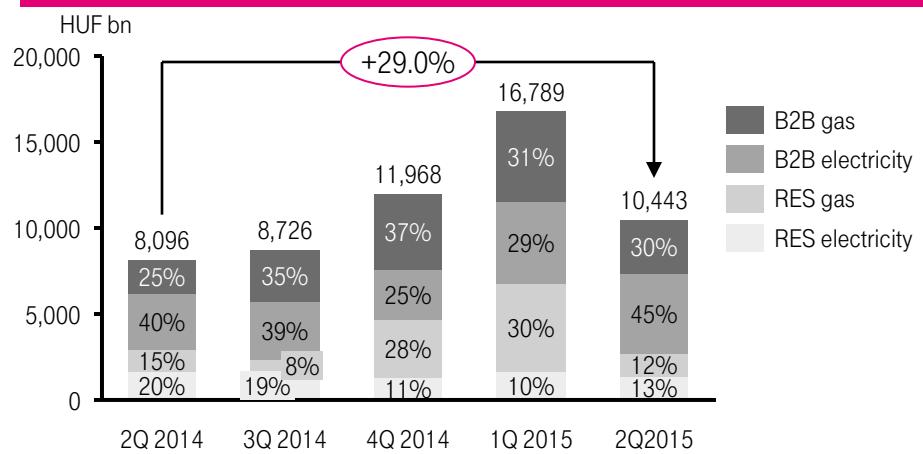
Fixed voice RPC



Multiplay development among residential customers



Energy revenues



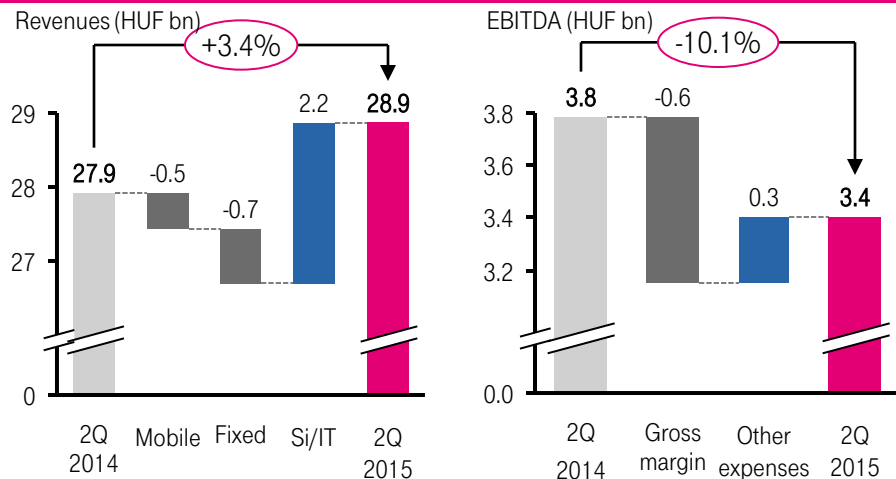
Highlights

- Fixed voice churn is below 1% due to smart bundling strategy
- Fast IP based migration to strive for efficiency
- Fixed voice ARPU rate of decline at 2.5%, the lowest in recent years
- Lower churn among 2/3play customers
- Energy revenue growth driven by larger electricity customer base and larger gas volumes in the business sub-segment

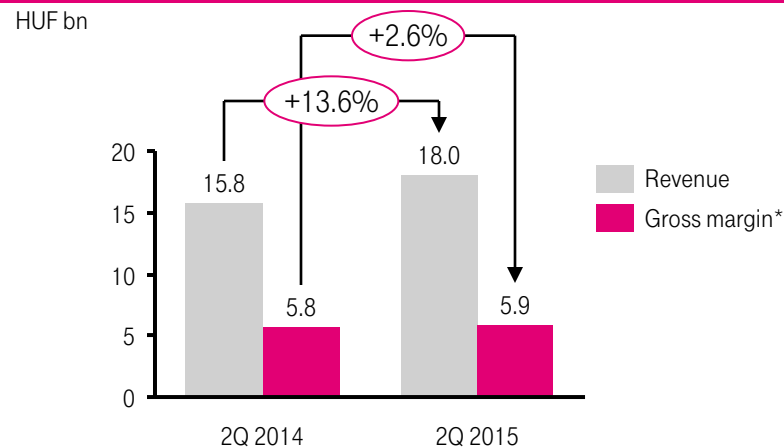
* IP based RPC equals to VoIP and VoCa RPC

T-SYSTEMS

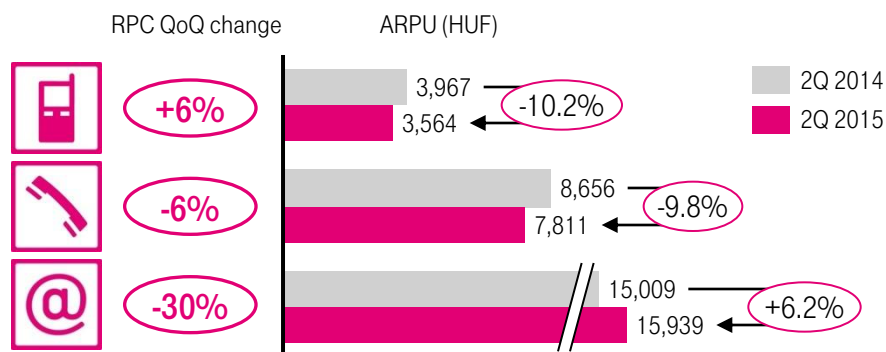
Financials



SI/IT revenue and margin



KPIs (mobile/fixed voice/fixed BB)



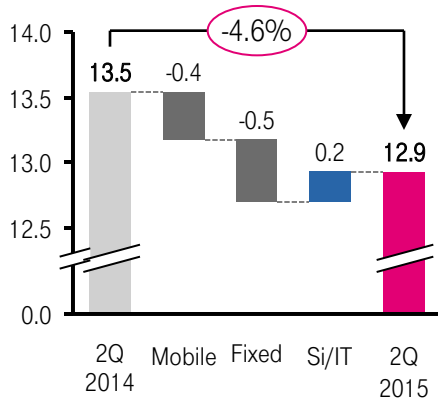
Highlights

- Material increase of SI/IT revenues due to the initiation of new projects largely driving revenue growth, bodes well for the future
- Significant fall in mobile wholesale voice revenues and interconnection costs due to MTR cuts
- Mobile voice and mobile broadband customer base increased by more than 6% and 9%, respectively
- Intense competition lead to erosion in both mobile voice and broadband ARPU
- State-owned operator behind significant churn among government related broadband and fixed data customers

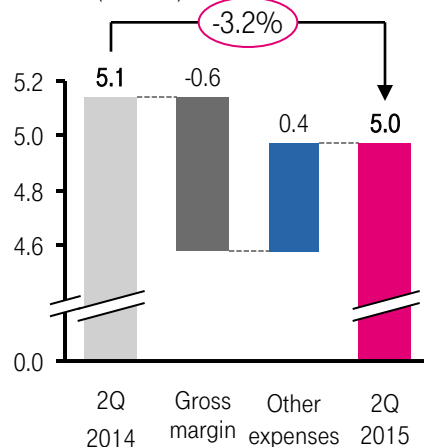
MACEDONIA

Financials

Revenues (HUF bn)

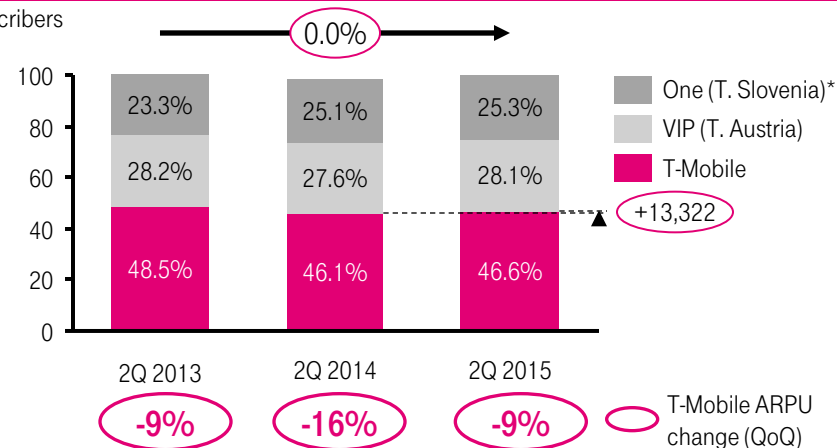


EBITDA (HUF bn)



Mobile KPIs

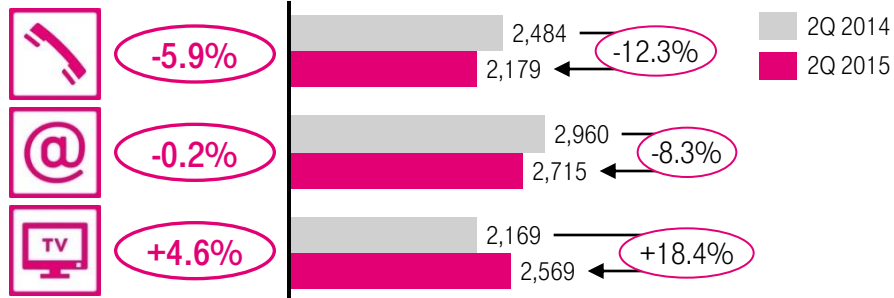
Subscribers



Fixed KPIs (voice/BB/TV)

RPC QoQ change

ARPU (HUF)



Highlights

- Merger of T-Mobile Macedonia and Maktel provides enhanced opportunities for fixed and mobile offerings
- The market stabilization experienced in the first quarter continued and is reflected by the limited revenue decline
- Significant increase in mobile equipment and data revenues mitigated the decline in mobile voice and SMS
- Rate of decline in fixed revenue, at 8%, on an improving trend – supported by TV
- Strong growth in Si/IT revenues driven by governmental and transport projects



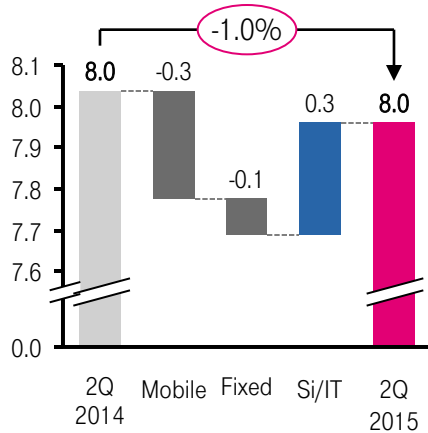
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* Including Alfabone

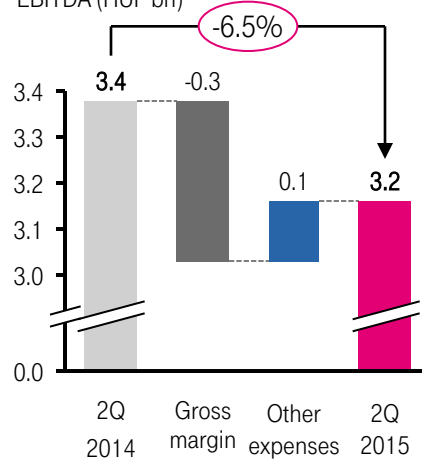
MONTENEGRO

Financials

Revenues (HUF bn)

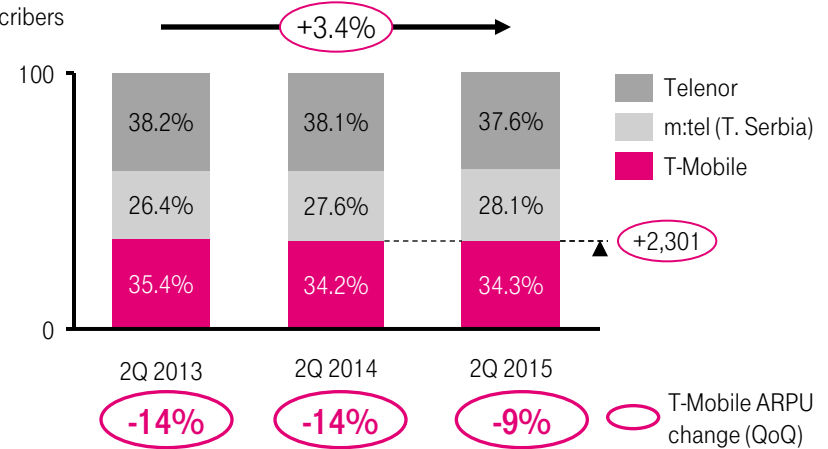


EBITDA (HUF bn)



Mobile KPIs

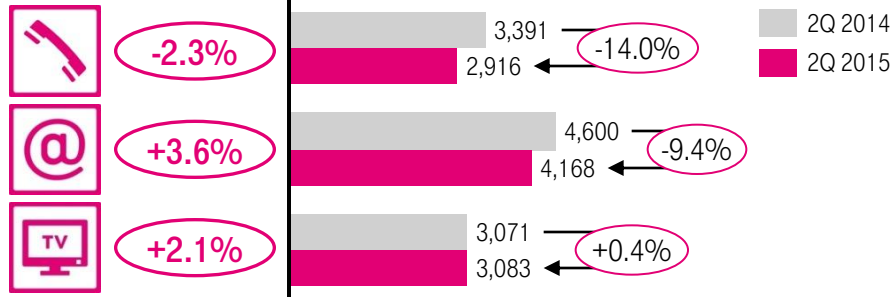
Subscribers



Fixed KPIs (voice/BB/TV)

RPC QoQ change

ARPU (HUF)



Highlights

- Limited revenue decline of 1% driven by the improvement in SI/IT due to a higher number of ICT customers
- Mobile revenue declined of 7% driven by a fall in prepaid mobile voice, wholesale and SMS, in line with lower traffic
- Regulatory price cap heavily affected fixed line revenues resulting in lower fixed voice and broadband ARPUs
- Improvement in fixed equipment revenues, and the reclassification of international incoming traffic between mobile and fixed wholesale mitigated the fixed price cap effect

FINANCIALS

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q2 2014	Q2 2015	Change
Mobile revenues	77 372	76 873	-0,6%
Fixed line revenues	51 533	52 645	2,2%
System Integration/Information Technology revenues	14 785	18 534	25,4%
Revenue from energy services	8 096	10 443	29,0%
Revenues	151 786	158 495	4,4%
Direct costs	(50 242)	(56 082)	11,6%
Employee-related expenses	(23 143)	(22 334)	-3,5%
Depreciation and amortization	(24 511)	(26 703)	8,9%
Hungarian telecommunications and other crisis taxes	(6 425)	(6 486)	0,9%
Other operating expenses	(23 157)	(23 123)	-0,1%
Total operating expenses	(127 478)	(134 728)	5,7%
Other operating income	794	1 707	115,0%
Operating profit	25 102	25 474	1,5%
Net financial results	(7 767)	(6 816)	-12,2%
Profit before income tax	17 344	18 658	7,6%
Income tax expense	(4 757)	(5 129)	7,8%
Profit for the period	12 587	13 529	7,5%
Non-controlling interests	1 004	1 009	0,5%
Equity holders of the Company (Net income)	11 583	12 520	8,1%

MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	Jun 30, 2014	Jun 30, 2015	Change
Current assets	182 923	194 421	6,3%
Cash and cash equivalents	13 967	12 812	-8,3%
Other current financial assets	14 420	7 313	-49,3%
Non current assets	886 558	986 041	11,2%
Property, plant and equipment - net	487 346	482 082	-1,1%
Intangible assets	159 257	259 108	62,7%
Total assets	1 069 481	1 180 462	10,4%
Equity	506 951	533 560	5,2%
Current liabilities	314 605	259 481	-17,5%
Financial liabilities to related parties	101 806	65 691	-35,5%
Other financial liabilities	82 908	48 659	-41,3%
Non current liabilities	247 925	387 421	56,3%
Financial liabilities to related parties	194 266	297 317	53,0%
Other financial liabilities	23 990	55 671	132,1%
Total equity and liabilities	1 069 481	1 180 462	10,4%



MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	Jun 30, 2014	Jun 30, 2015	Change
Net cash generated from operating activities	56 216	58 479	4,0%
Investments in tangible and intangible assets	(33 330)	(35 088)	5,3%
Adjustments to cash purchases	(9 390)	(6 201)	-34,0%
Purchase of subsidiaries and business units	(428)	(15 773)	n.a.
Cash acquired through business combinations	0	1 815	n.a.
Payments for / proceeds from other financial assets - net	17 526	17 075	-2,6%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	1 616	737	-54,4%
Net cash used in investing activities	(24 006)	(37 435)	55,9%
Dividends paid to shareholders and minority interest	(6 411)	(6 158)	-3,9%
Net payments of loans and other borrowings	(12 828)	(11 317)	-11,8%
Repayment of other financial liabilities	(14 027)	(5 372)	-61,7%
Net cash used in financing activities	(33 266)	(22 847)	-31,3%
Free cash flow*	657	(1 403)	-313,5%

*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 and Repayment of other financial liabilities

For further questions please contact the IR department:

Investor Relations

Phone: +36 1 458-0424
Fax: +36 1 458-0443
e-mail: investor.relations@telekom.hu

DISCLAIMER

This investor presentation 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 Reports for the year ended December 31, 2014 available on our website at <http://www.telekom.hu>.

Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, IP: internet protocol, IT: information technology, LTE: long term evolution, MOU: minutes of use, MTR: mobile termination rate, NRA: National Regulatory Authority, POD: points of delivery, R/E: real estate, RPC: revenue producing customer, SAC: subscriber acquisition cost, SRC: subscriber retention cost, SI: system integration, SIM: subscriber identity module, SMB: small and medium businesses, TWM: Total Workforce Management, VAS: value added services, VoCaTV: Voice over Cable TV, WS: wholesale

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.

