

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

AUGUST, 2016



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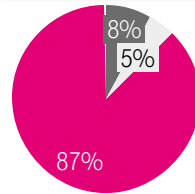
STRATEGY AND MARKET POSITION

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

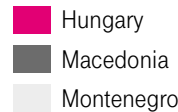
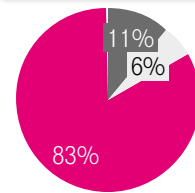
International presence



Revenue (FY2015)

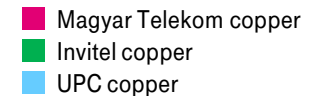
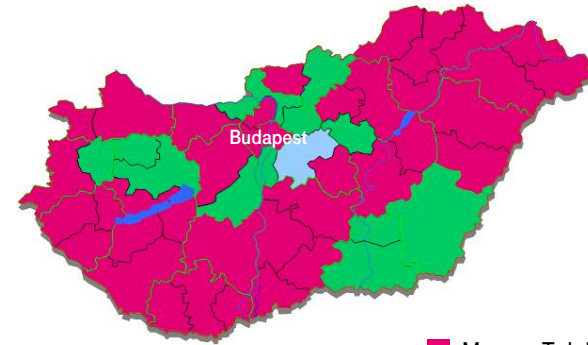


EBITDA (FY2015)



- Leading telecommunications operator in Hungary, Macedonia and Montenegro
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.6bn market capitalization
- Stock exchange listings
 - Primary listing on Budapest Stock Exchange
 - Level I ADR program, ADSs traded on the OTC Market

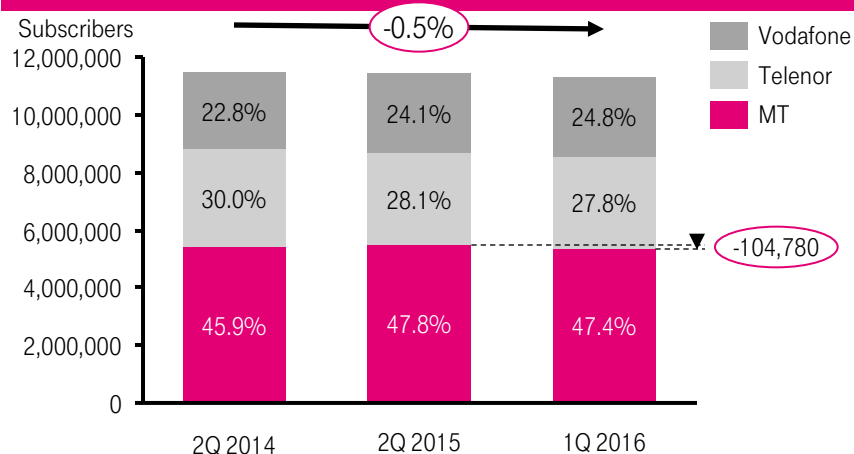
Hungary



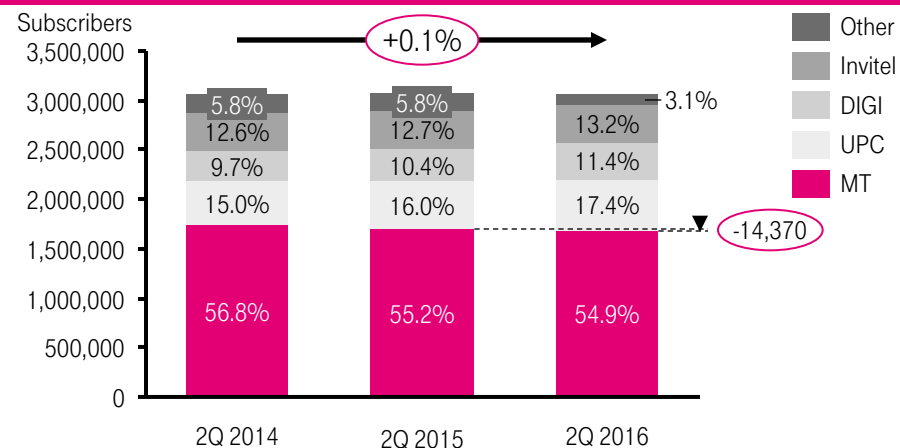
- MT is the incumbent fixed telco provider on ca. 75% of primary copper areas of Hungary
- 2.7 million households covered with High Speed Internet (HSI) access across country
 - FTTx (576k HHs) – ongoing countrywide roll-out
 - ED3 (738k HHs) – participating in market consolidation
 - VDSL (1,382k HHs) – revitalizing copper, excl. overlaps
- 83% outdoor population coverage of 3G
- 98% outdoor population coverage of 4G

MARKET POSITION IN HUNGARY

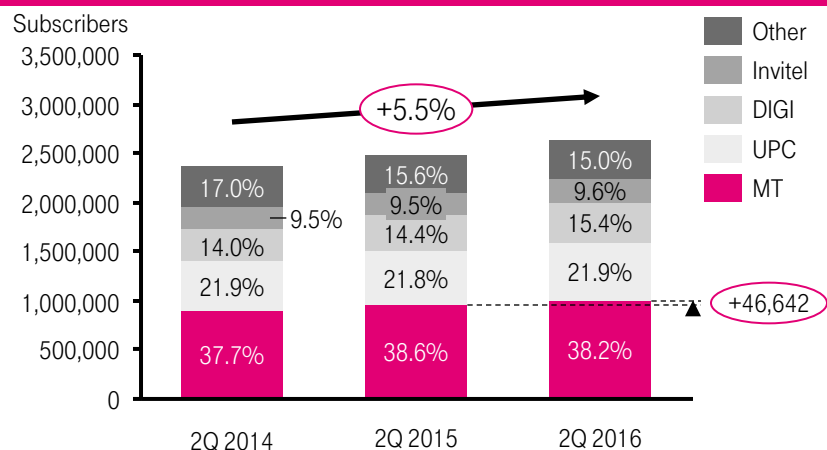
Total mobile market*



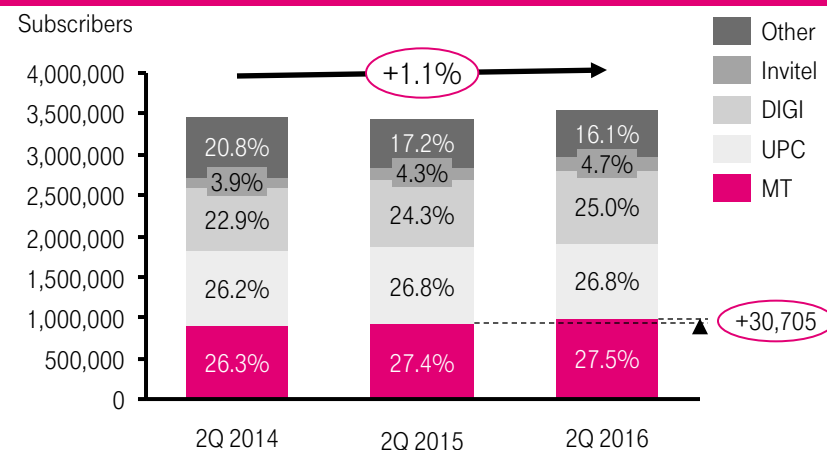
Fixed voice market**



Fixed broadband market**



TV market**



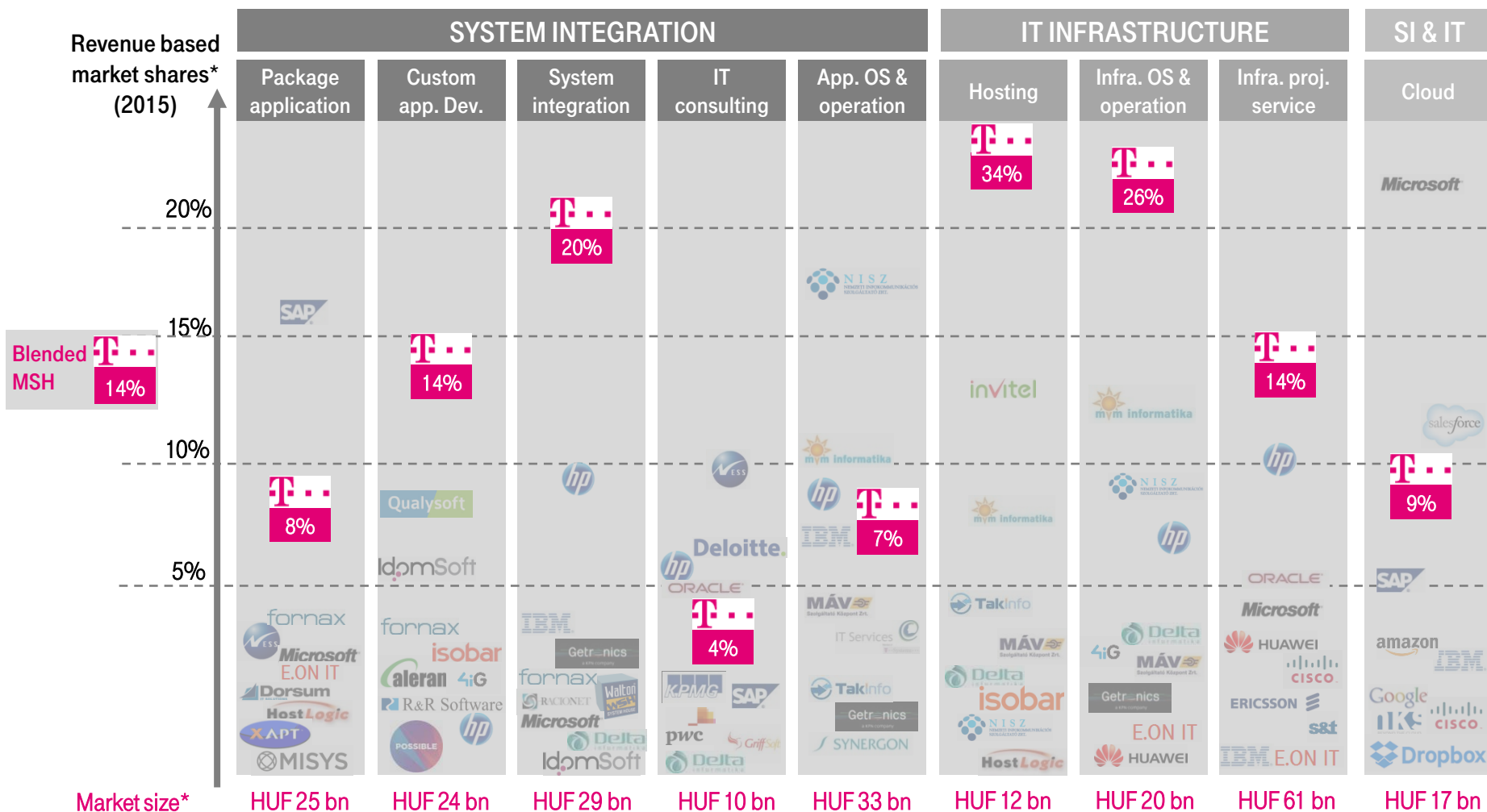
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* based on internal calculations from Vodafone Group and Telenor Group Reports

** based on the total fixed voice channels / BB access / pay TV access market estimated by the National Media and Infocommunications Authority (NMA)

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

Total Hungarian IT services market



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* Source: IDC 2015; Market size by demand side, while market shares by supply side data

STRATEGY OVERVIEW: WITH OUR ENGAGED PEOPLE WE ARE BUILDING A GROWING ICT COMPANY SERVING SATISFIED CUSTOMERS

Strategic pillars

Strategic goals

Main KPIs for 2016

1

TOGETHER. FOR OUR CUSTOMERS

We all listen to our customers and colleagues: we truly listen to them and we consider what they say when making decisions

Improve customer satisfaction

Improve customer service level

Improve employees' engagement

- Cut number of complaints
- Improve customer satisfaction index (TRIM)
- Improve overall satisfaction of all channels (NGICCA)
- Launch Employee Share Program

2

INTEGRATED PRODUCTS & NETWORK

As a nr. 1 integrated service provider we give all our customers the opportunity to connect in a seamless way

Foster technology leadership

Monetize FMC capabilities

Strengthen integrated ICT brand

- Increase nr of additional HP with HSI with more than half million
- Increase LTE indoor coverage to 87%
- Have additional 100k Magenta1 households
- Increase the awareness of the Telekom brand to over 60%

3

IT & DIGITAL SERVICES

We believe that IT and digital services mean great opportunity for our customers and are key drivers of our future growth

Grow in IT

Develop digital business

- Grow last year's SI/IT revenues (excl. 2015 Dec one-offs)
- Find new revenue streams in Cloud, M2M, IoT, Big data, Security

4

DIGITAL TELEKOM

We continue to transform Telekom into a digital company to make it effortless for our customers to do business with us

Push digital transformation

- Increase eBill, eSales, eCare ratios
- Cut nr of non-selling transactions by additional 30%
- Increase remote work ratio to 30%



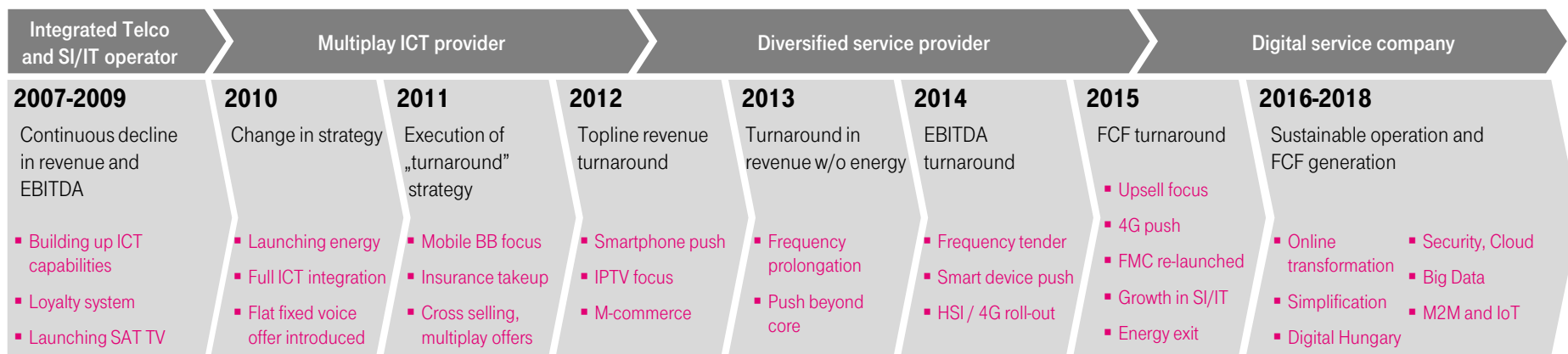
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Q2 2016 STRATEGIC HIGHLIGHTS: HUNGARIAN SEGMENT CONTINUES TO DRIVE GROUP PERFORMANCE

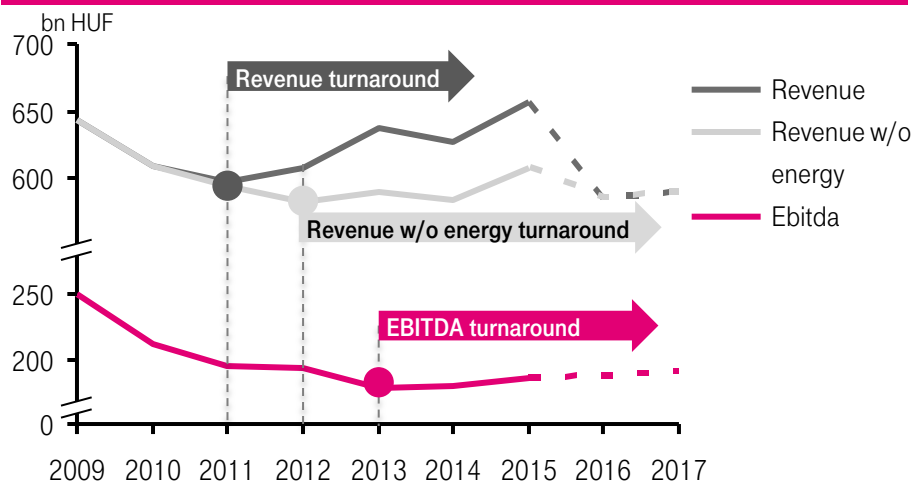
GROUP	REVENUE	<ul style="list-style-type: none"> Decline due to partial energy exit and lower SI/IT revenues; excl. energy and SI/IT, revenues up by 2.2% driven by growth in mobile and fixed line revenues
	EBITDA	<ul style="list-style-type: none"> EBITDA down by 2.0% as higher other operating expenses offset gross profit growth and lower employee related expenses
	FCF	<ul style="list-style-type: none"> Increased FCF reflective of higher EBITDA, improved WC and one-off gains which offset higher severance costs, loan repayment and higher settlement of capex creditors
	OPERATIONS	<ul style="list-style-type: none"> Sustained focus on cost efficiency through headcount reduction, process/product simplification and online customer servicing
HUNGARY	TELCO	<ul style="list-style-type: none"> Continued growth in mobile, fixed line BB and TV revenues Magenta 1 quad-play offer among key growth drivers
	SI/IT	<ul style="list-style-type: none"> SI/IT revenue decline due to a slowdown in EU fund inflows Sustained EBITDA turnaround at our enterprise sub-segment
INT'L	MACEDONIA	<ul style="list-style-type: none"> Sustained revenue turnaround achieved following 5 years of decline EBITDA decline due to one-offs; excl. severance payments EBITDA down by only 1.3%
	MONTENEGRO	<ul style="list-style-type: none"> Continued competitive and regulatory pressures on telco margins Strong take up of Magenta 1

TURNAROUND STORY OF MAGYAR TELEKOM

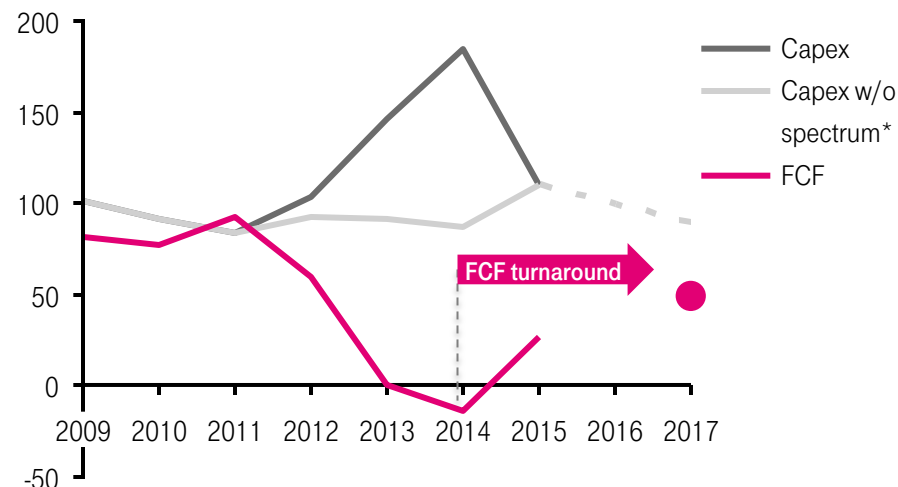
Major financial and strategic milestones



Revenue and Ebitda turnaround



Capex and free cash-flow development



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* Excluding spectrum license fees and annual frequency fee capitalization

TELEKOM AS THE LEADING OPERATOR AND BRAND IN HUNGARY

Our vision

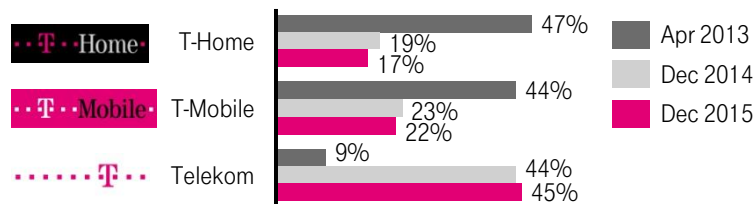
FIRST NOW FIRST FOREVER

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

* Source: Brand tracking research, TNS, Dec 2014
(Brands identified by the logos)

Our major awards



EXCELLENCE IN CUSTOMER SERVICE AWARD



FAMILY-FRIENDLY WORKPLACE AWARD



SUSTAINABILITY AWARDS
(OEKOM, CEERIUS, DELOITTE)



BICYCLE-FRIENDLY WORKPLACE AWARD



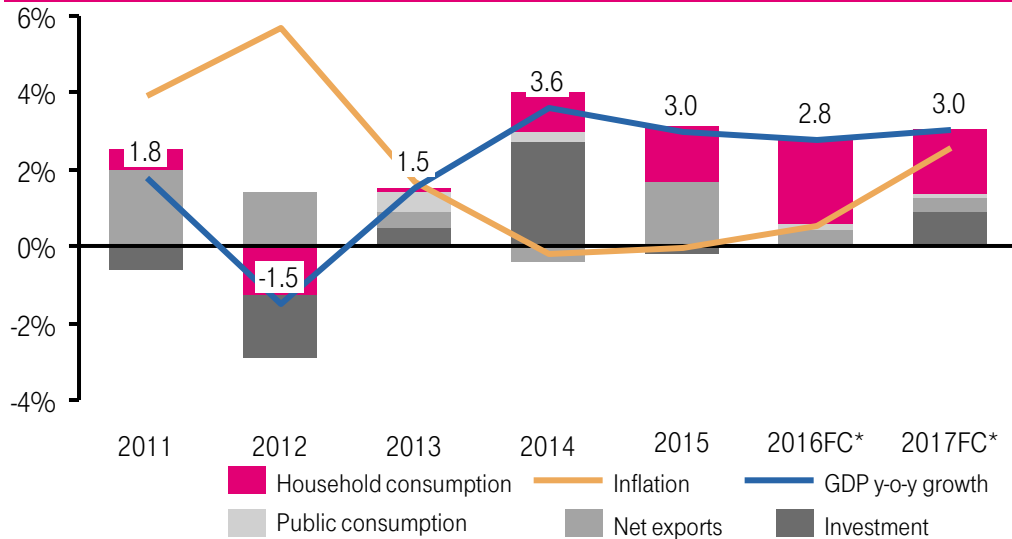
100% CARBON NEUTRAL COMPANY



DIVERSE ORGANIZATION AWARD

HUNGARIAN ECONOMIC ENVIRONMENT

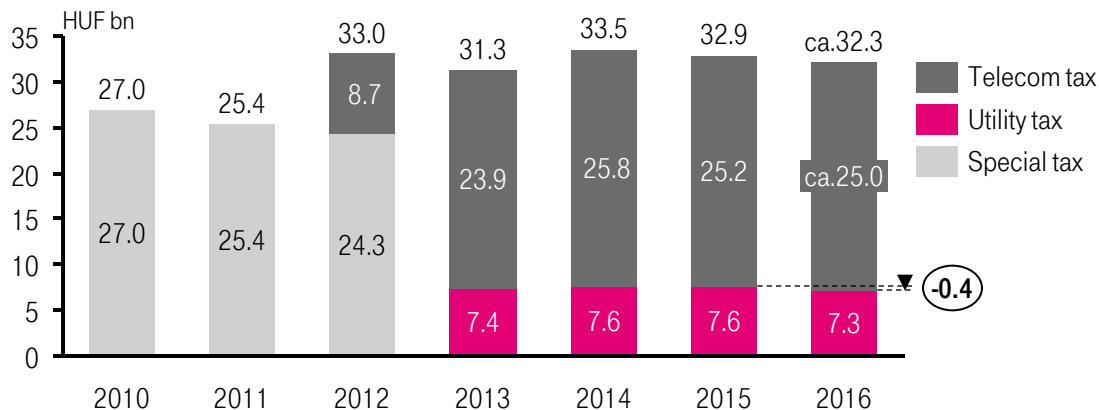
Growth structure



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 in 2013, but slight decrease in 2016 due to 5-year tax holiday on networks > 100Mbps



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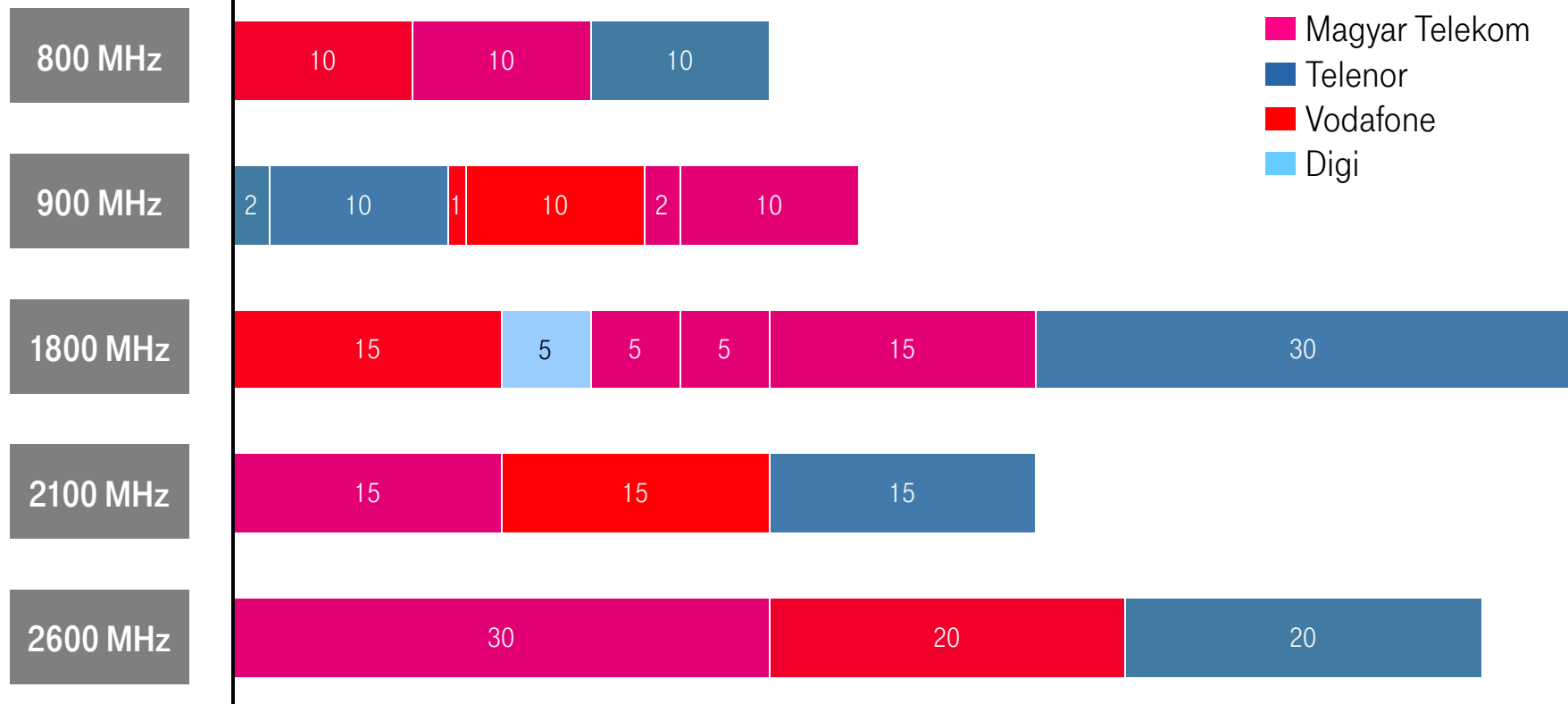
* Central Bank March 2016 forecasts

HUNGARIAN MOBILE SPECTRUM SITUATION

Current spectrum situation after auction in 2014

FDD (2x1 MHz)

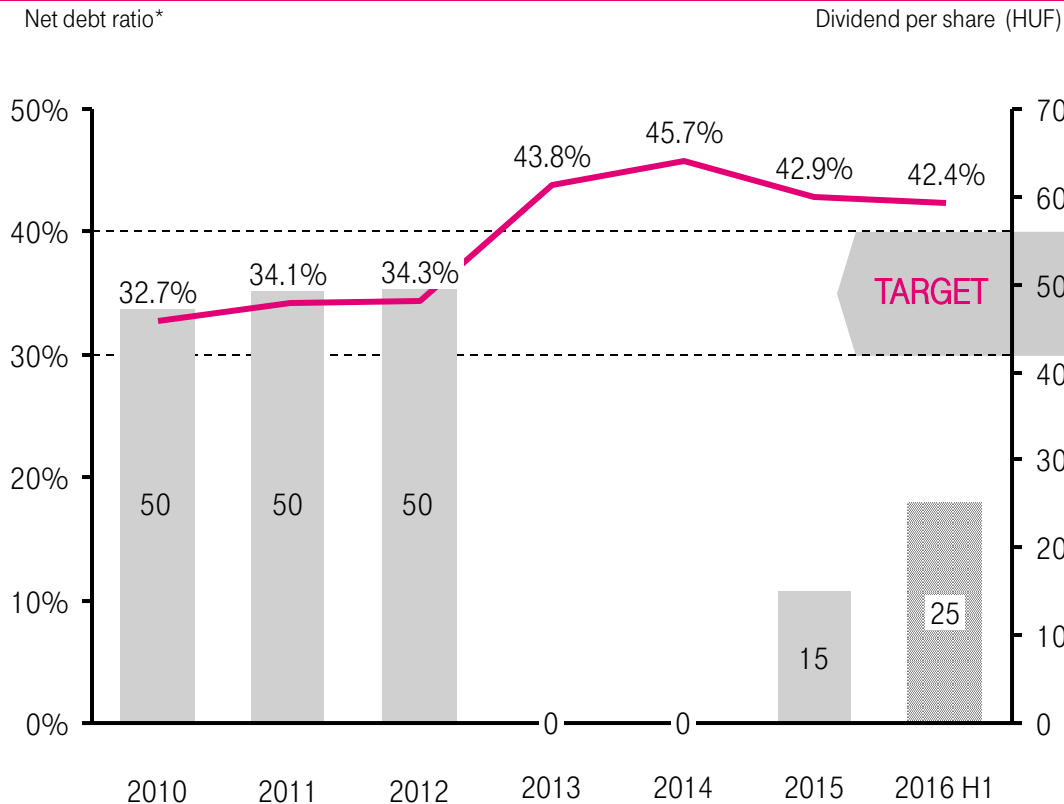
BAND



DIVIDEND AND GUIDANCE

DIVIDEND POLICY

Dividend payment and net debt ratio developments



Highlights

- Aiming to maintain net debt ratio (net debt/total capital) target of 30% - 40%
- HUF 15 dividend paid on 2015 earnings in May 2016
- Based on the current operating, regulatory and taxation environment and outlook coupled with the anticipated significant improvement in the free cash flow generation, the management of the Company targets to pay HUF 25 dividend per share on 2016 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

PUBLIC GUIDANCE: CONTINUES GROWTH

	2015 RESULTS	2016 TARGETS	2017 TARGETS
REVENUE	HUF 656bn* (+4.8%)	HUF 580 - 590bn	HUF 585 - 595bn
EBITDA	HUF 187bn (+3.4%)	HUF 187 - 191bn	HUF 189 - 193bn
CAPEX**	HUF 110bn	ca. 10% yoy decline	ca. 10% yoy decline
FCF	HUF 27bn		Surpassing HUF 50bn***
DIVIDEND	HUF 15 per share	Target HUF 25 per share	



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* Includes HUF 49.3 billion relating to the energy business

** Excluding spectrum license fees and annual frequency fee capitalization

*** After minority dividend payments

H1 2016 FINANCIAL HIGHLIGHTS AND TARGETS

	H1 2016 RESULTS vs. H1 2015	2016 TARGETS	2017 TARGETS
REVENUE	HUF 293.2 (-7.0%) <ul style="list-style-type: none"> Decline due to partial energy exit and lower SI/IT revenues; excl. energy and SI/IT, revenues up by 0.9% driven by growth in mobile and fixed line revenues Revenue growth in mobile driven by mobile data and equipment sales due to 4G push Revenue growth from fixed line maintained 	HUF 580 - 590bn	HUF 585 - 595bn
EBITDA	HUF 99.4 bn (+5.0%) <ul style="list-style-type: none"> EBITDA boosted by one-off gains Increased margins in telco and SI/IT Improved fixed and mobile broadband performance driven by higher ARPUs and larger customer base Lower utility tax due to tax credits granted following HSI development and lower telco tax Higher other operating expenses due to higher marketing, sponsorship and advisory fees, increased rental fees, higher network maintenance and IT platform costs 	HUF 187 - 191bn	HUF 189 - 193bn
CAPEX*	HUF 35.3 bn (-0.5%)	ca. 10% yoy decline	ca. 10% yoy decline



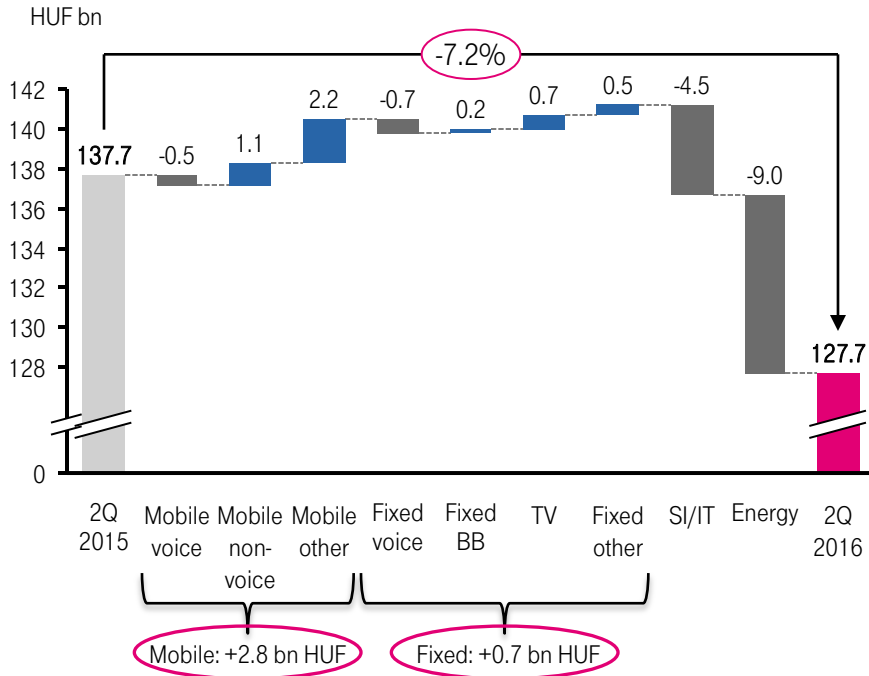
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* Excluding spectrum acquisitions

Q2 2016 RESULTS

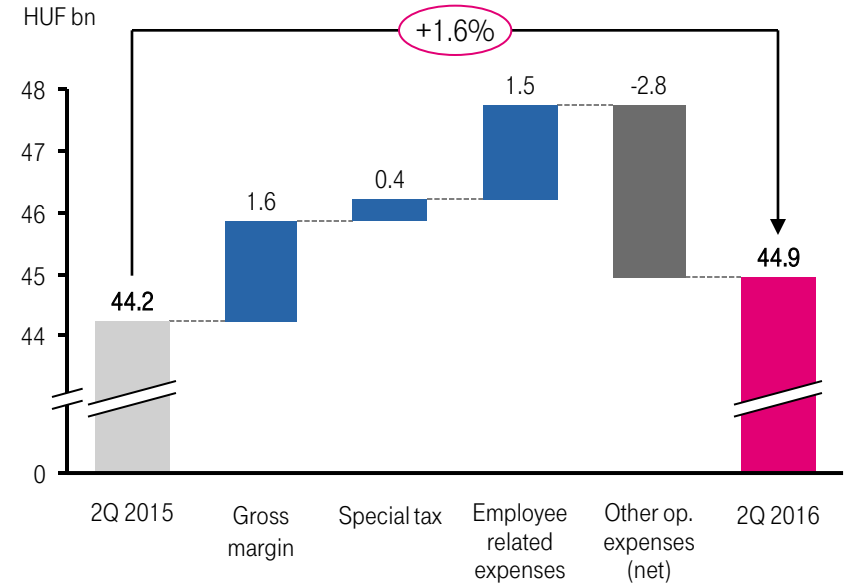
HUNGARY

Revenue*



- Mobile revenue up by 4.2% driven by ARPU uplift
- Strong mobile broadband growth due to 4G push, coupled with higher mobile equipment sales
- Significant increase in both fixed broadband and TV revenues thanks to a growing customer base and ARPU
- Decline in SI/IT due to a slowdown in EU fund inflows
- Drop in energy revenues following exit and transfer to JV

EBITDA

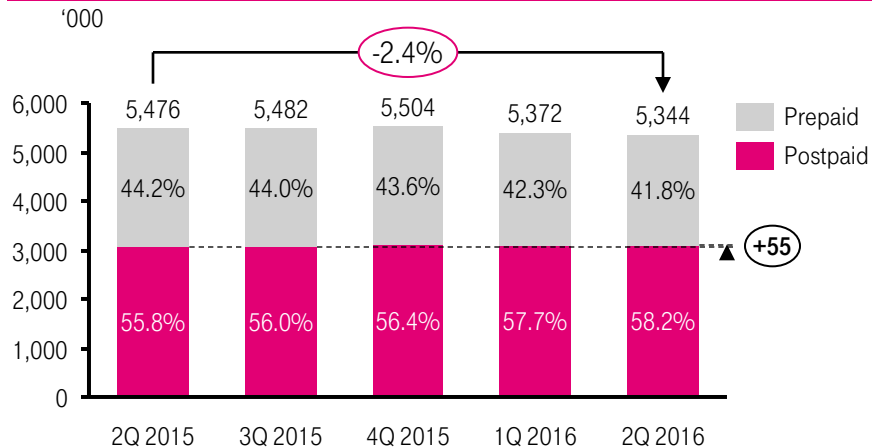


- Improvement in gross profit driven mostly by ARPU growth in mobile, fixed broadband and TV
- Lower telco tax due to fewer subs and changing calling habits
- HUF 2.0 bn of savings resulting from headcount reduction, partly offset by wage and cafeteria benefit increases and lower capitalized employee related costs
- Significantly higher other OPEX due to higher marketing, sponsorship and advisory fees, increased rental fees, higher network maintenance and IT platform costs

HUNGARY – MOBILE

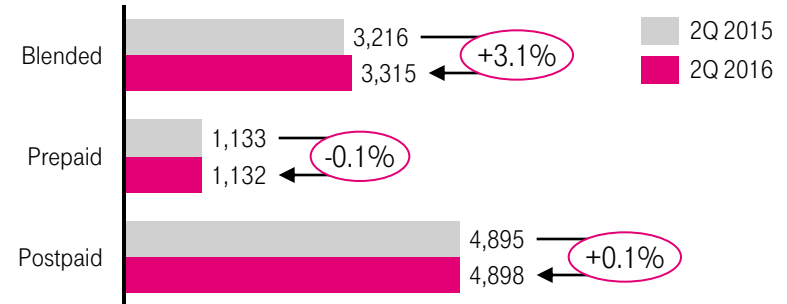


Mobile SIMs

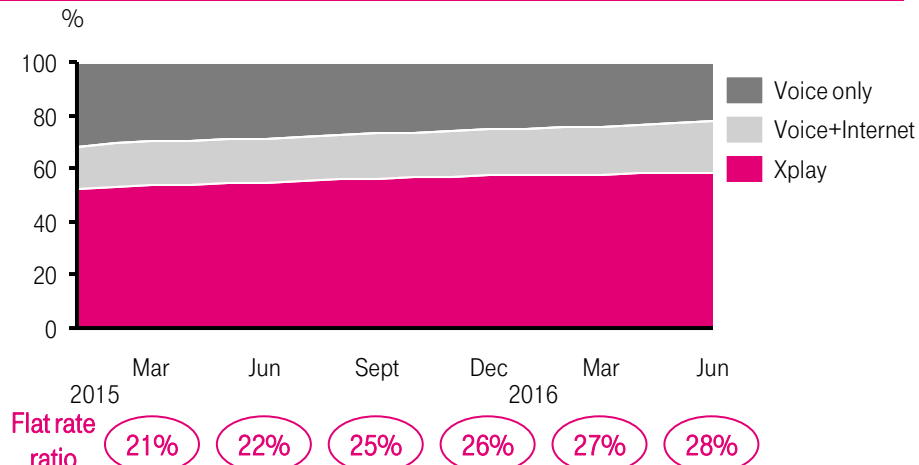


Mobile ARPU

HUF



Distribution of postpaid voice SIMs



Flat rate ratio



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* outdoor population coverage

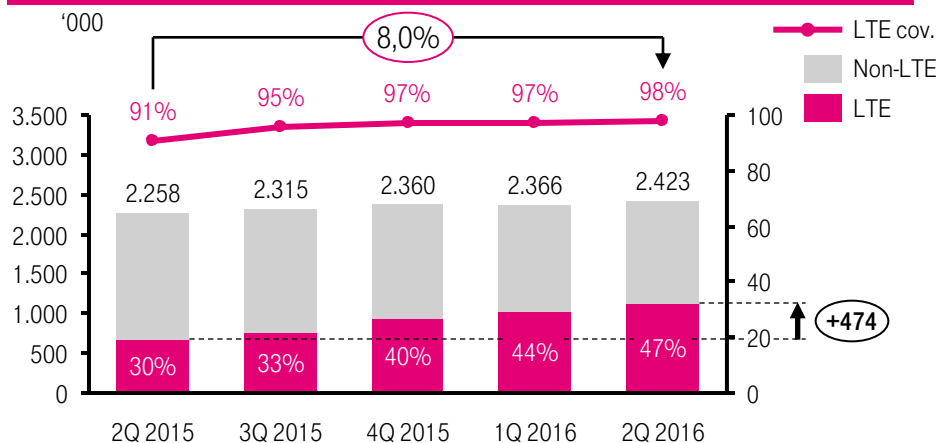
Highlights

- Customer base decline due to fewer prepaid customers and intense competition for business customers
- 2% (+55k net adds) increase in postpaid RPC driven by strong data demand
- MOU up by 7% due to higher postpaid ratio and growing flat tariff subscriber base
- Growth in ARPU driven by successful prepaid to postpaid migration
- All postpaid voice services bundled with mobile broadband
- Continued increase in flat rate ratio among postpaid customer base

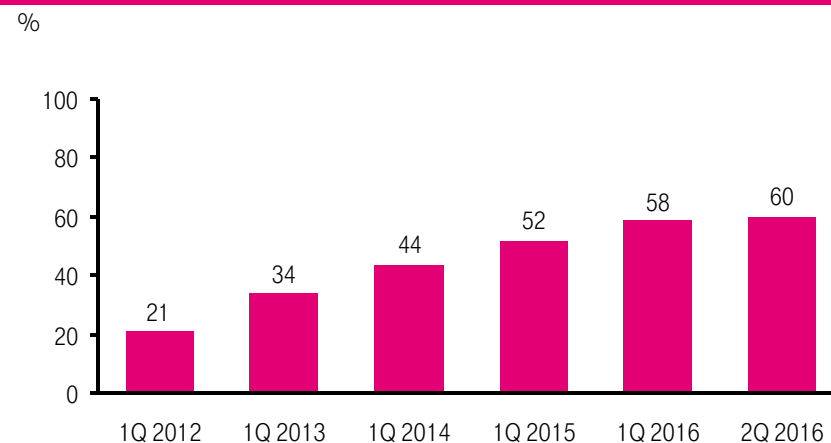
HUNGARY – MOBILE BROADBAND



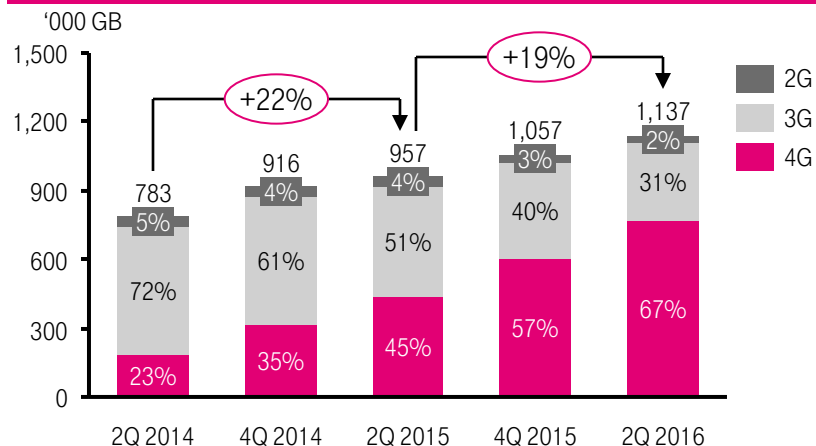
Mobile broadband development



Smartphone penetration



Total mobile data development among all users



Highlights

- 4G outdoor population coverage above 98%
- Almost half million yearly netadd in mobile broadband users
- Smartphone sales account for over 90% of postpaid handsets with total SP penetration at almost 60%
- Significant growth in mobile data usage driven by 4G
- Average 4G usage of 1.6 GB/month



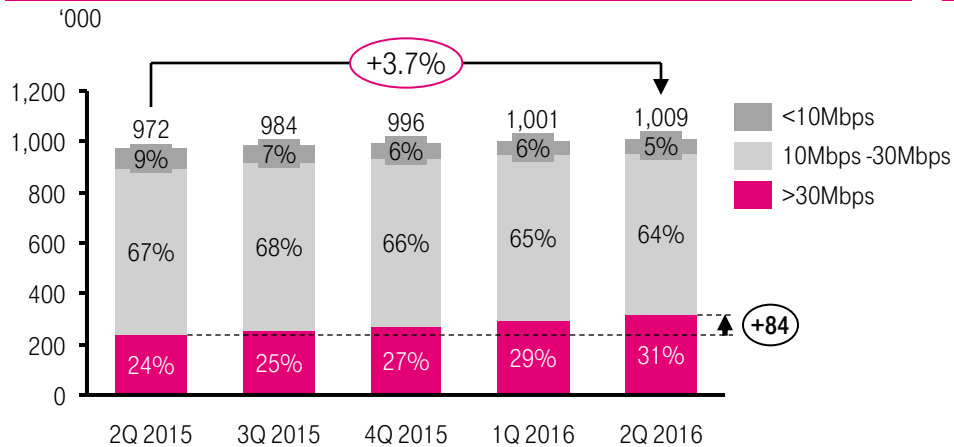
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* outdoor population coverage

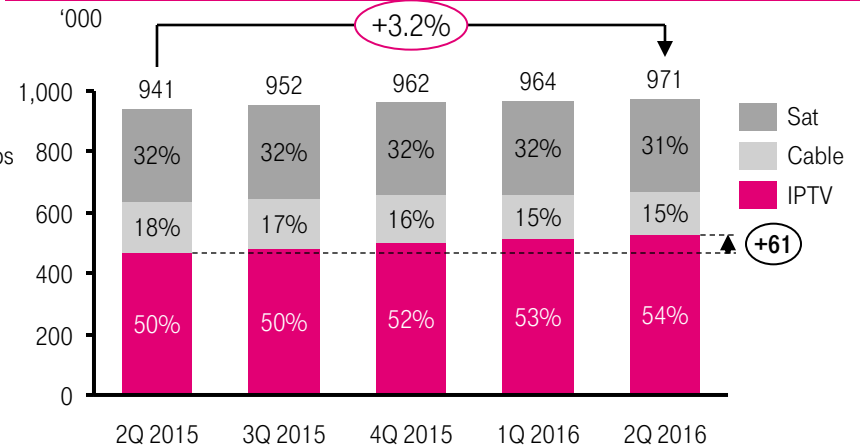
HUNGARY – FIXED BROADBAND AND TV



Fixed BB RPC

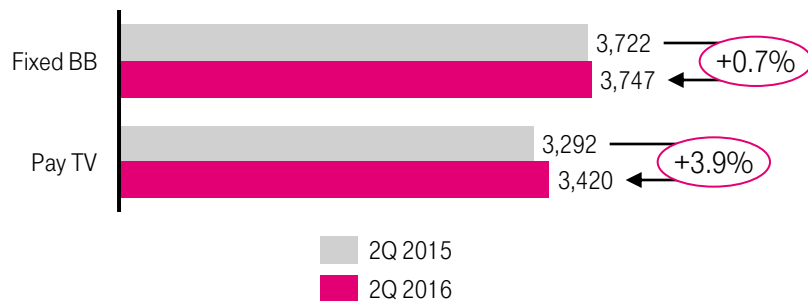


Pay TV RPC



Fixed BB and TV ARPU

HUF



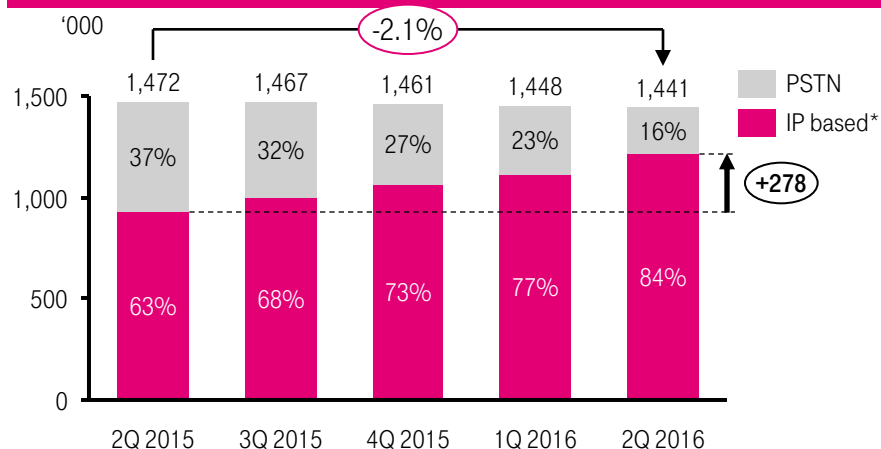
Highlights

- More than 1 million fixed broadband subscribers thanks to over 30Mbps customer net adds
- Leading market positions reinforced through ca. 36,000 broadband and 30,000 TV net adds
- Increasing ratio of higher bandwidth packages due to upselling activities driven by network upgrades
- Focus on IPTV to offer added value to customers
- Higher ARPUs driven by upselling and price increases
- Continued intense competition in the business sub-segment

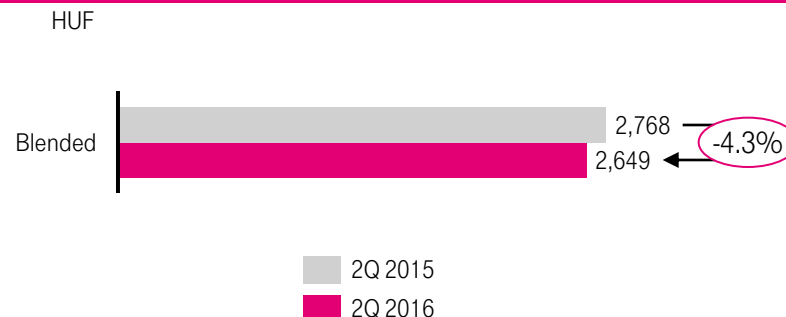
HUNGARY – FIXED VOICE AND ENERGY



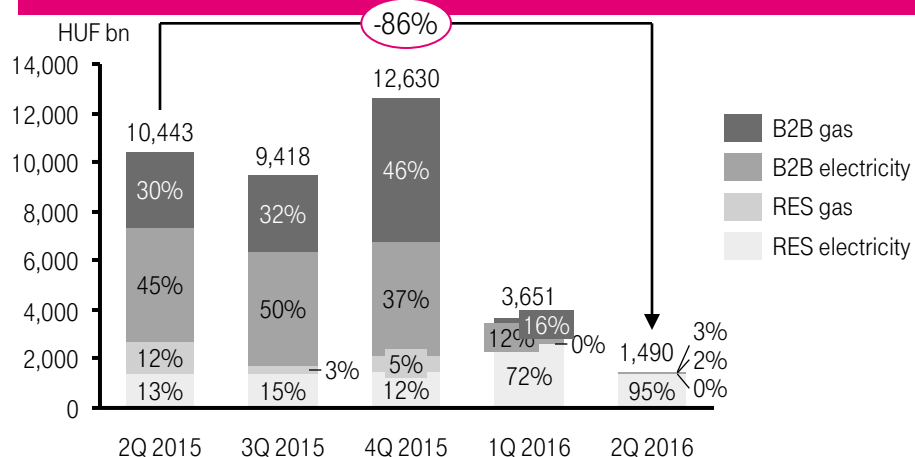
Fixed voice customer number



Fixed voice ARPU



Energy revenues



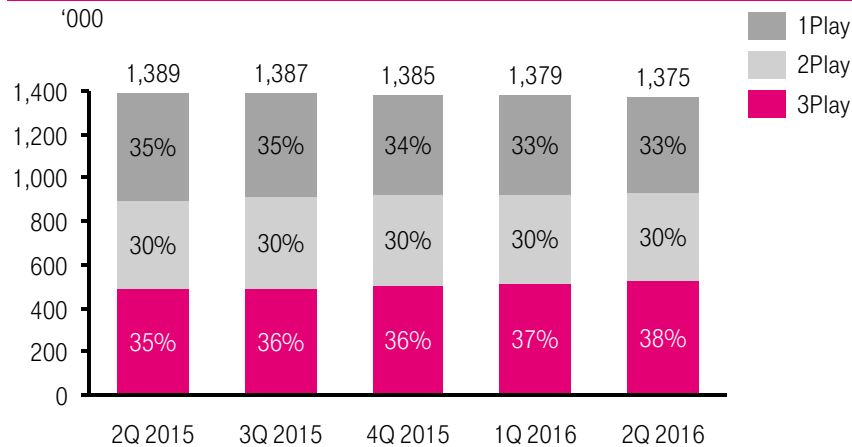
Highlights

- Fixed voice churn at 2% due to effective bundling strategy
- Fast IP based migration supports strive for efficiency
- Fixed voice MOU down by 1%, ARPU rate of decline at 4%
- Exited residential gas market as of July 31, 2015
- B2B energy deconsolidation as of Dec 31, 2015**

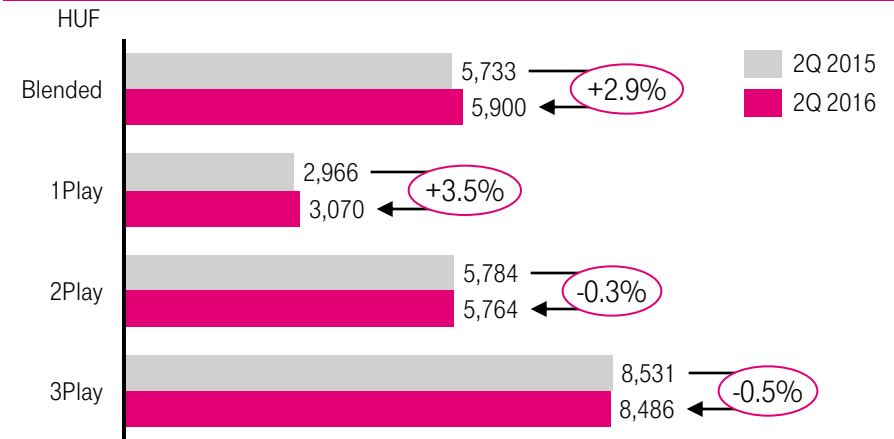
HUNGARY – MULTIPLAY



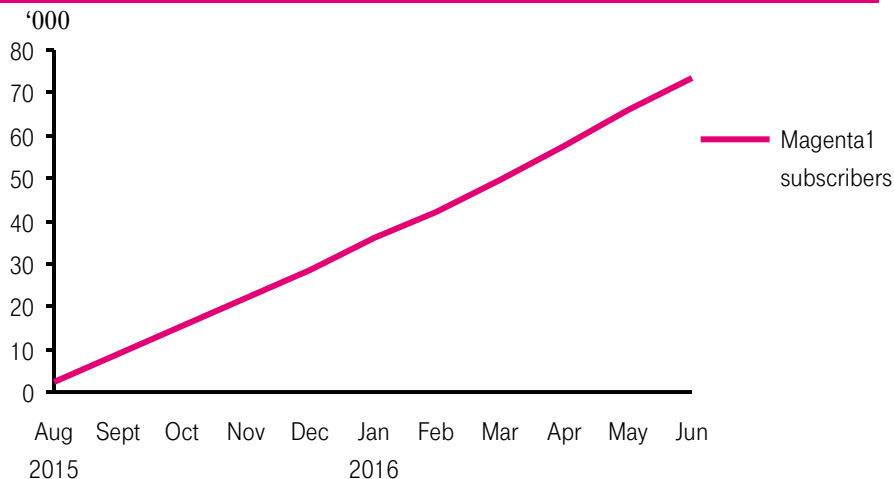
Fixed line multiplay residential subs. development



Fixed line multiplay residential ARPU development



Quad-play Magenta1 subscriber development

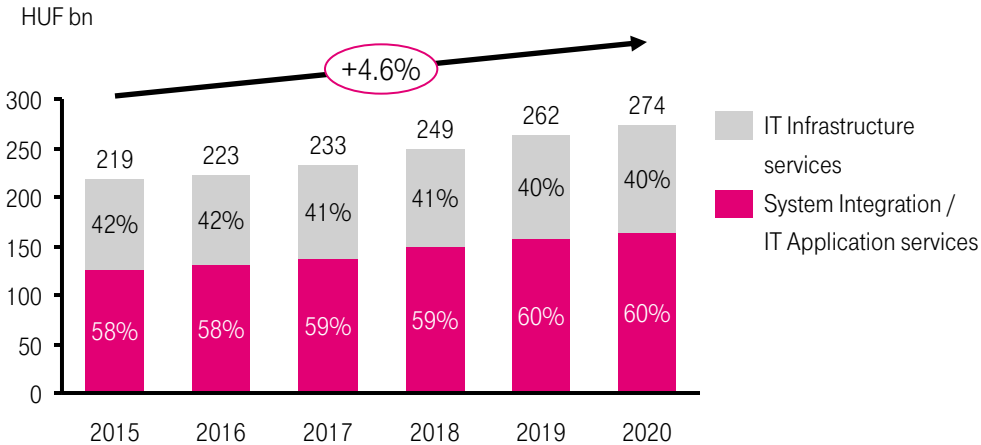


Highlights

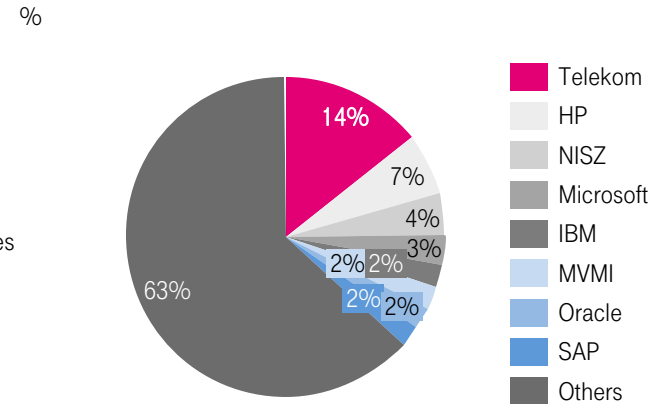
- Stable number of households with at least one Telekom fixed line service; continuously increasing 3Play share
- Lower churn among 2/3 Play customers
- Blended fixed line APRU up by 3%
- Over 73,000 quad-play Magenta1 customers help maximize the telecommunication share of wallet in household spending
- More than half of Magenta1 customers have at least 30Mbps fixed broadband

HUNGARY - SI/IT

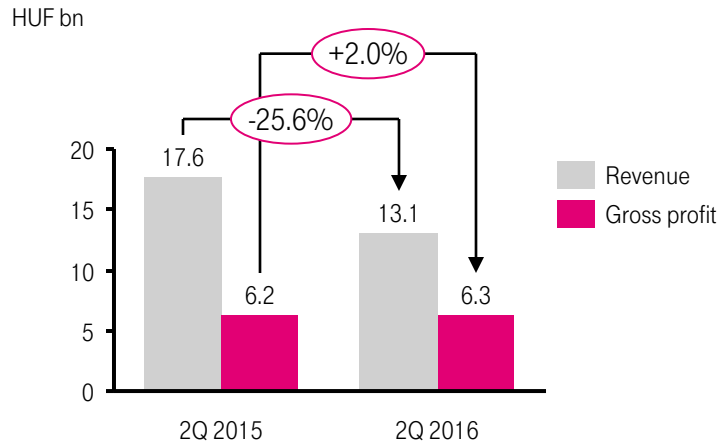
Total Hungarian IT services market development*



Market share**



SI/IT revenue and gross profit of MT Hungary



Highlights

- Total SI/IT market expected to grow over the next 5 years due to significant opportunities in application development and integration
- Volatility of incoming EU funds to affect timing of projects
- Total revenue decreased as a result of a slowdown in EU fund inflows
- Major project wins in the financial and utility sectors
- Slight improvement in gross profit with significant margin growth due to successful sales mix shift towards higher added value system integration projects



Margin

35%

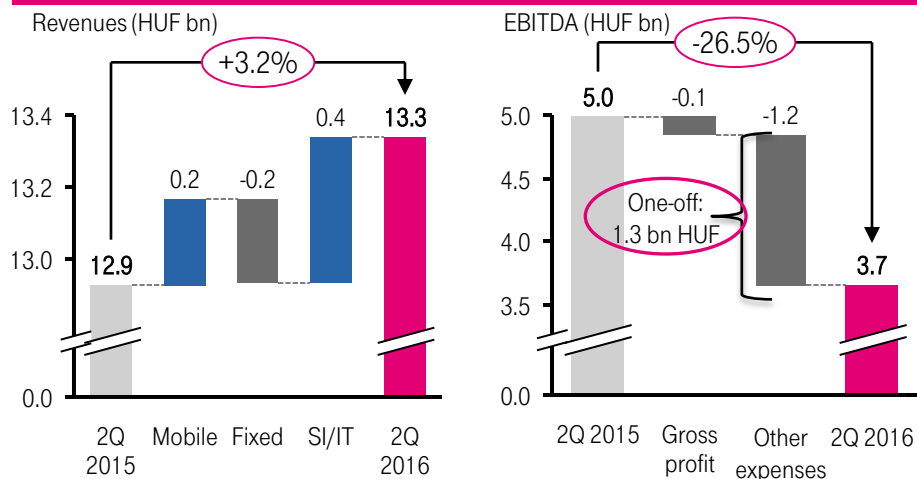
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* Hardware and software markets are excluded, IDC Research, 2015

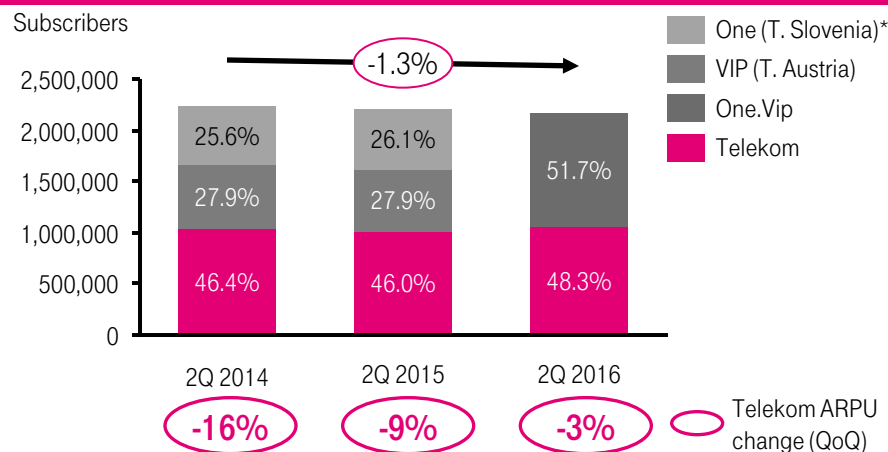
** Based on new methodology leading to higher total market size

MACEDONIA

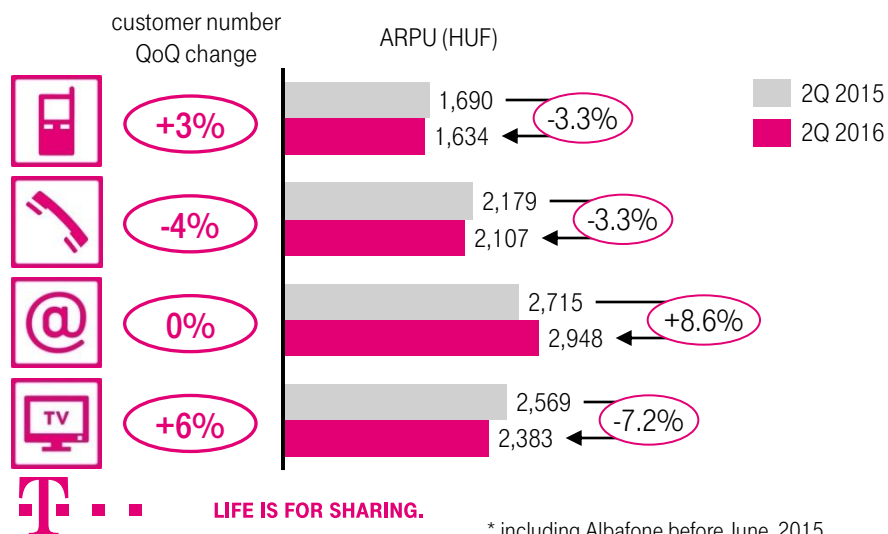
Financials



Mobile KPIs



KPIs (mobile/fixed voice/fixed BB/TV)



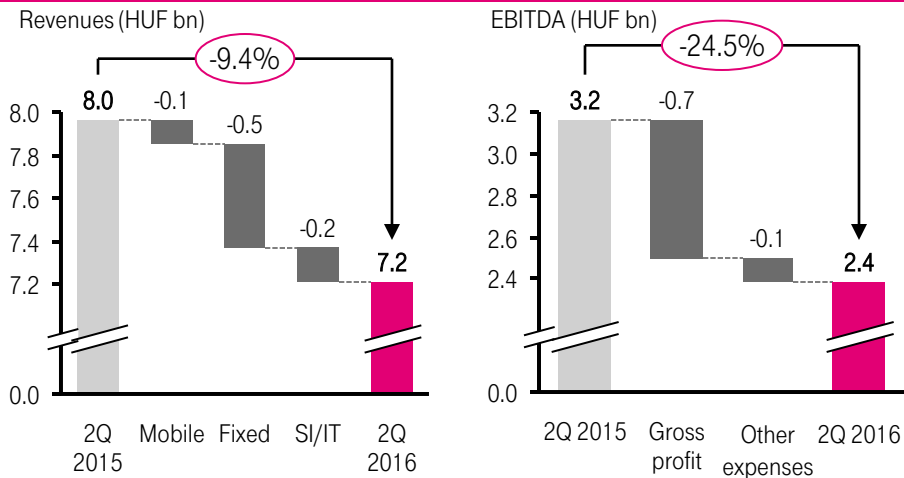
Highlights

- Sustained revenue turnaround following 5 years of decline
- Successful rebranding campaign to integrated "T" brand and 4play Magenta1 sales helped to increase mobile market share
- Mobile revenues increased by 3% due to market stabilization
- VIP/One merger has created a strong integrated competitor which started to offer fixed-mobile bundles under VIP brand
- Robust growth in TV subs and reduced churn in fixed voice
- EBITDA decline due to one-off in employee related expenses following outsourcing deal impacted app. 20% of total employees; excl. severance EBITDA down only by 1.3%

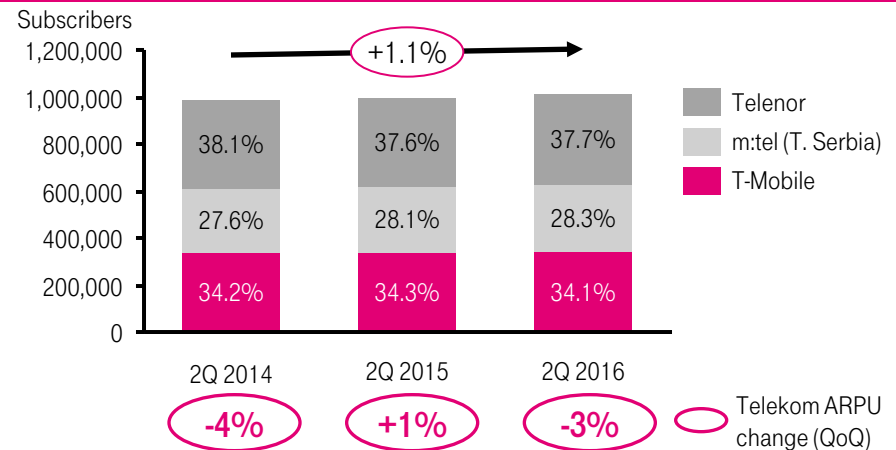
* including Albalone before June, 2015

MONTENEGRO

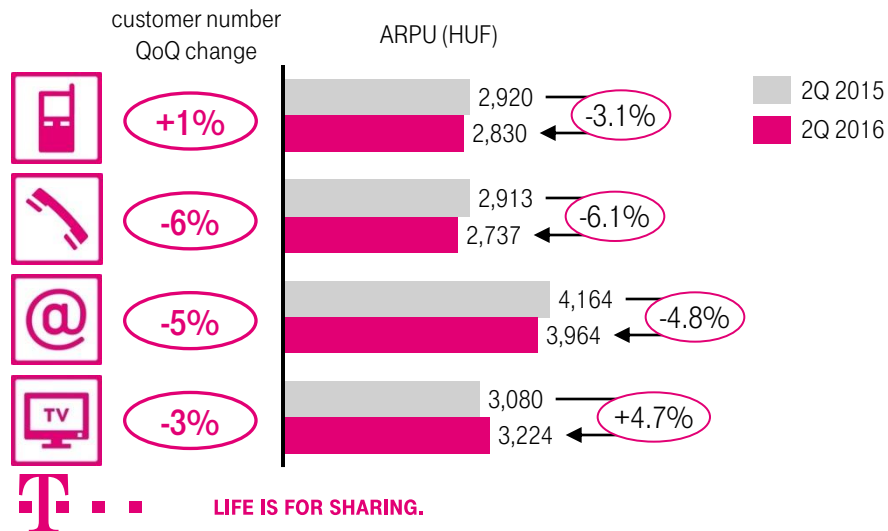
Financials



Mobile KPIs



KPIs (mobile/fixed voice/fixed BB/TV)



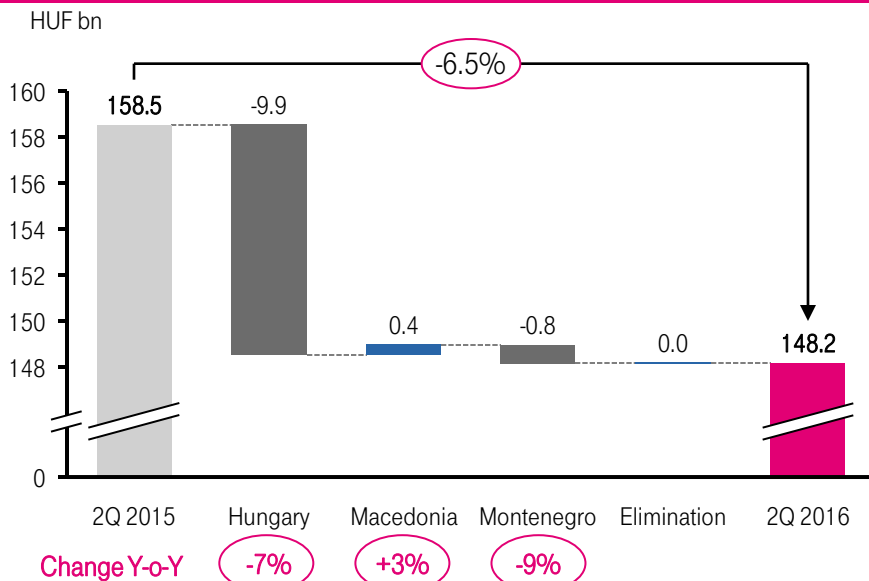
Highlights

- Revenue decline driven by lower mobile ARPU and lower SMS revenues due to higher OTT penetration, as well as regulatory pressure on fixed voice and broadband businesses
- 16% increase in postpaid customer base due to successful 4Play Magenta 1 sales
- Decline in fixed line customer base due to competition from cable competitors offering 3play bundle packages
- EBITDA decline due to margin pressures and higher other OPEX despite savings in employee related expenses

APPENDIX

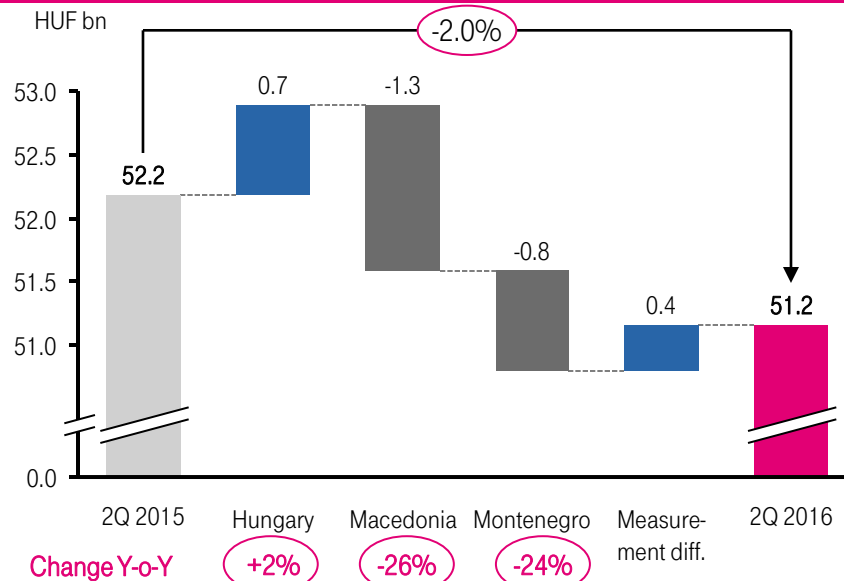
GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues



- **Hungary:** revenue decline primarily a result of the exit from the energy business and lower SI/IT revenues, while both mobile and fixed line revenues increased
- **Macedonia:** revenue turnaround sustained thanks to higher mobile (increased market share) and SI/IT revenues
- **Montenegro:** decline due to intense competition and OTTs in mobile, and regulatory pressure on fixed line revenues

Group segmental EBITDA



- **Hungary:** EBITDA up by 1.6% due to gross profit growth and lower employee related expenses, mitigated by higher other operating expenses
- **Macedonia:** decline due to one-off employee related expenses following outsourcing deal; excl. severance payments EBITDA down by only 1.4%
- **Montenegro:** decline due to sustained pressure on margins and higher OPEX

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q2 2015	Q2 2016	Change
Mobile revenues	76 873	79 761	3,8%
Fixed line revenues	52 645	52 660	0,0%
System Integration/Information Technology revenues	18 534	14 255	-23,1%
Revenue from energy services	10 443	1 490	-85,7%
Revenues	158 495	148 166	-6,5%
Direct costs	(56 082)	(44 942)	19,9%
Employee-related expenses	(22 334)	(21 234)	4,9%
Depreciation and amortization	(26 703)	(28 281)	-5,9%
Hungarian telecommunications and other crisis taxes	(6 486)	(6 112)	5,8%
Other operating expenses	(23 123)	(26 006)	-12,5%
Total operating expenses	(134 728)	(126 575)	-6,1%
Other operating income	1 707	1 282	-24,9%
Operating profit	25 474	22 873	-10,2%
Net financial results	(6 816)	(5 911)	13,3%
Share of associates' profits	0	102	n.a.
Profit before income tax	18 658	17 064	-8,5%
Income tax expense	(5 129)	(5 468)	-6,6%
Profit for the period	13 529	11 596	-14,3%
Non-controlling interests	1 009	226	-77,6%
Equity holders of the Company (Net income)	12 520	11 370	-9,2%

MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	December 31, 2015	June 30, 2016	Change
Current assets	210 178	197 538	-6,0%
Cash and cash equivalents	17 558	14 028	-20,1%
Other current financial assets	11 052	13 312	20,4%
Non current assets	996 846	967 007	-3,0%
Property, plant and equipment - net	493 204	477 633	-3,2%
Intangible assets	260 909	251 200	-3,7%
Total assets	1 207 024	1 164 545	-3,5%
Equity	544 931	548 803	0,7%
Current liabilities	352 183	327 329	-7,1%
Financial liabilities to related parties	136 906	157 422	15,0%
Other financial liabilities	26 152	23 401	-10,5%
Non current liabilities	309 910	288 413	-6,9%
Financial liabilities to related parties	220 088	198 291	-9,9%
Other financial liabilities	54 857	52 332	-4,6%
Total equity and liabilities	1 207 024	1 164 545	-3,5%

MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	1-6 months 2015	1-6 months 2016	Change
Net cash generated from operating activities	58 479	62 369	6,7%
Investments in tangible and intangible assets	(35 088)	(35 261)	-0,5%
Adjustments to cash purchases	(6 201)	(15 144)	144,2%
Purchase of subsidiaries and business units	(15 773)	(28)	n.a.
Cash acquired through business combinations	1 815	0	n.a.
Payments for / proceeds from other financial assets - net	17 075	(1 180)	-106,9%
Proceeds from disposal of subsidiaries	0	3 484	n.a.
Proceeds from disposal of PPE and intangible assets	737	8 760	1088,6%
Payments for interests in associates and joint ventures	0	0	n.a.
Net cash used in investing activities	(37 435)	(39 369)	-5,2%
Dividends paid to shareholders and minority interest	(6 158)	(19 224)	-212,2%
Net payments of loans and other borrowings	(11 317)	(3 401)	n.a.
Repayment of other financial liabilities	(5 372)	(4 000)	25,5%
Net cash used in financing activities	(22 847)	(26 625)	-16,5%
Free cash flow*	(1 403)	20 180	n.a.

*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:

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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, 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.



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