

Group Q4 2011 Results Presentation

Magyar Telekom

Public targets achieved, strong cost focus reflected in margins



2011 results and 2012 public targets

	2011 Public targets and results	2012 Public targets
Revenue	3-5% decline -2.0% <ul style="list-style-type: none"> increasing revenues from energy resale higher revenues from handset sales strong SI/IT performance 	Flat to -2% <ul style="list-style-type: none"> fears for recession, declining household income strengthen changing revenue mix and energy resale enable revenue turnaround 2010 comparable figure: HUF 597,617 million
Underlying EBITDA <i>Excluding telecom tax, investigation and severance expenses</i>	4% decline -1.3% <ul style="list-style-type: none"> strong cost cutting higher margin at T-Systems Hungary compared to 2010 	4-6% decline <ul style="list-style-type: none"> changing revenue mix with increasing ratio of low margin services limited room for further cost cutting 2011 comparable figure: HUF 244,983 million
CAPEX	5% decline -8.7% <ul style="list-style-type: none"> more efficient CAPEX management despite weakening HUF 	Flat <ul style="list-style-type: none"> internal efficiency project network modernization, LTE 2011 comparable figure: HUF 83,796 million



2011 Q4 highlights

Revenues up by 1.6% ,
improvement compared to last
quarters

- fixed voice churn slowed down
- higher SI/IT , mobile equipment, TV and mobile internet revenues
- contribution of energy resale business
- international subsidiaries' higher contribution due to HUF weakening

Underlying EBITDA up by 0.8% ,
margin at a healthy level

- cost cutting initiatives aimed at reducing marketing and material and maintenance expenses
- healthier SI/IT margins in Q4 2011 than in Q4 2010
- international subsidiaries' higher contribution due to HUF weakening

Impairment loss

- impairment loss of HUF 31.4bn from the goodwill recognized on the Macedonia segment due to less favourable long-term outlook, fiercer competitive environment and worse economic environment

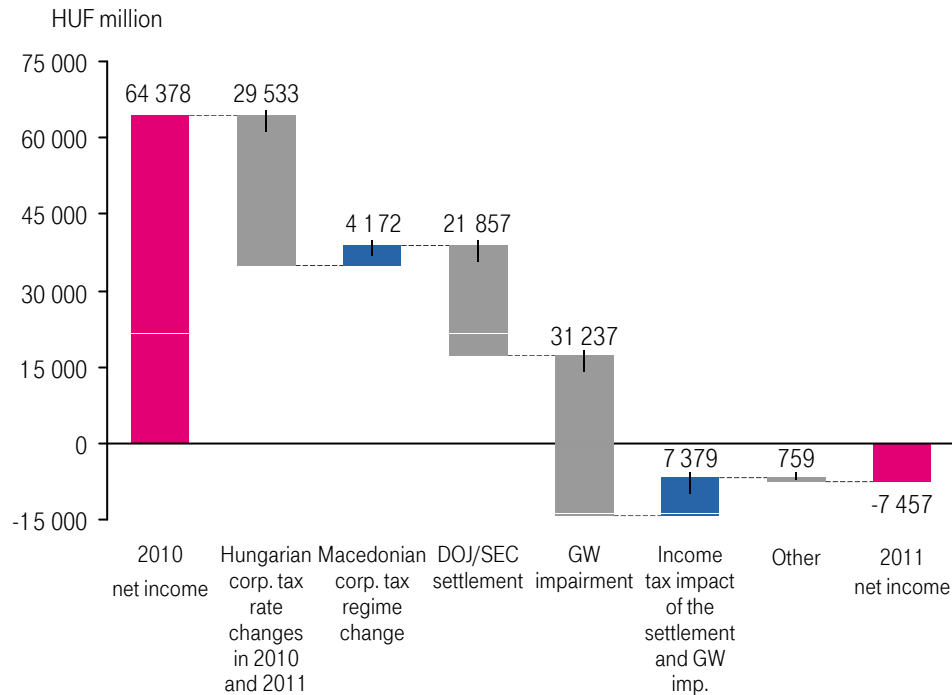
Significant increase in income
tax expense

- due to changes in Hungarian corporate tax rate (in 2010: universal 10% corporate tax rate from 2013 was enacted resulting in a HUF 14.6bn one-off decrease in income tax expense, vs. in 2011: tax law was changed ,19% remained effective, thus the one-off decrease in deferred tax liabilities recognized in Q4 2010 was reversed in Q4 2011, increasing the income tax expense of the Group by HUF 15.0 bn

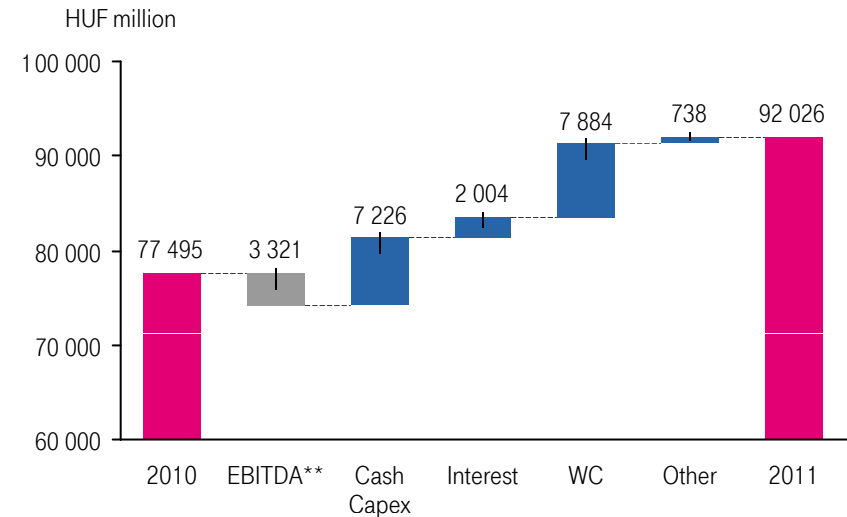


2011 FY Group results – Net income and FCF generation

Net income development



Free cash flow* generation



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

**excluding investigation and severance expenses, as well as telecom tax

Drivers of the decline in net income

- **net income declined** due to the following factors
 - change to the corporate tax regime in Hungary
 - goodwill impairment accounted on the Macedonian operation
 - provision related to the SEC/DOJ settlement

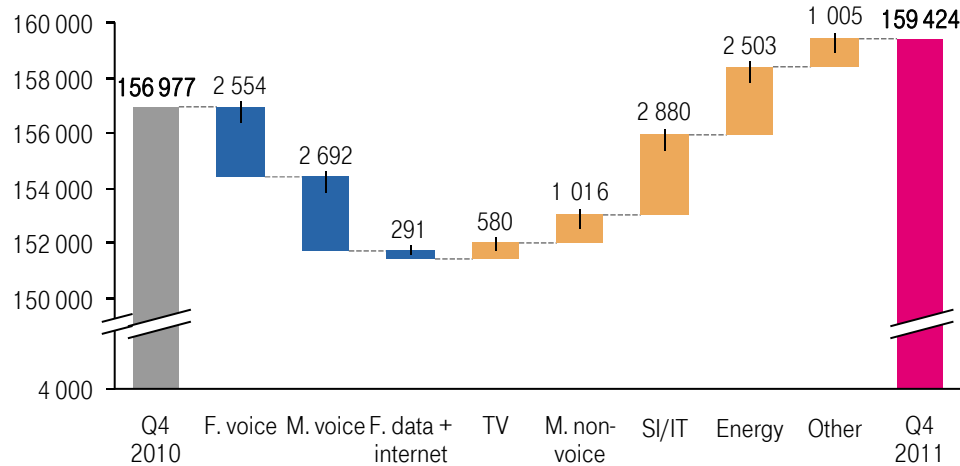
FCF generation

- slight decline in underlying EBITDA offset by lower Capex and more efficient working capital management
- **free cash flow increased by HUF 14.5 bn in 2011**

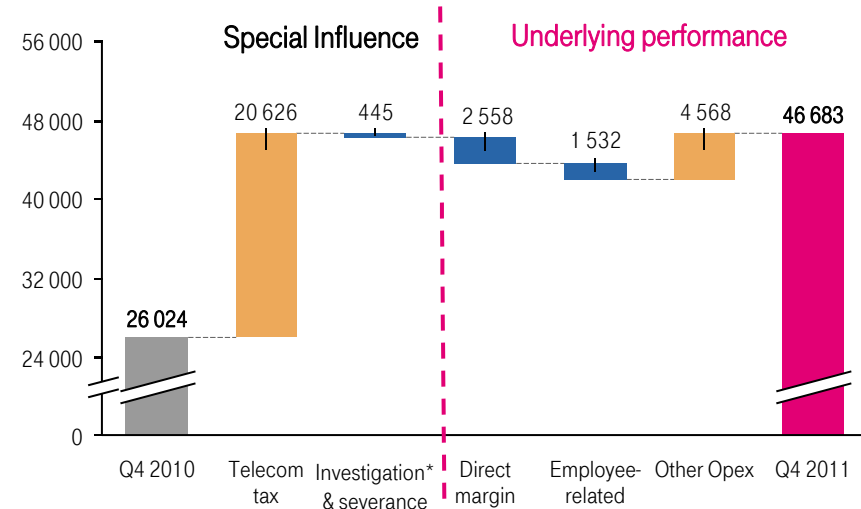


2011 Q4 Group results – Revenues and EBITDA

Group revenues



Group EBITDA



* also including the SEC/DOJ related provisions

Revenue development

- Group revenues up by 1.6% y-o-y
- fixed and mobile voice revenues declined primarily due to continuing intense competition, depressed household consumption and MTR cut
- significant SI/IT improvement and mobile BB subscriber and revenue growth, higher TV and mobile equipments sales revenues
- HUF 4.5bn revenues from retail energy

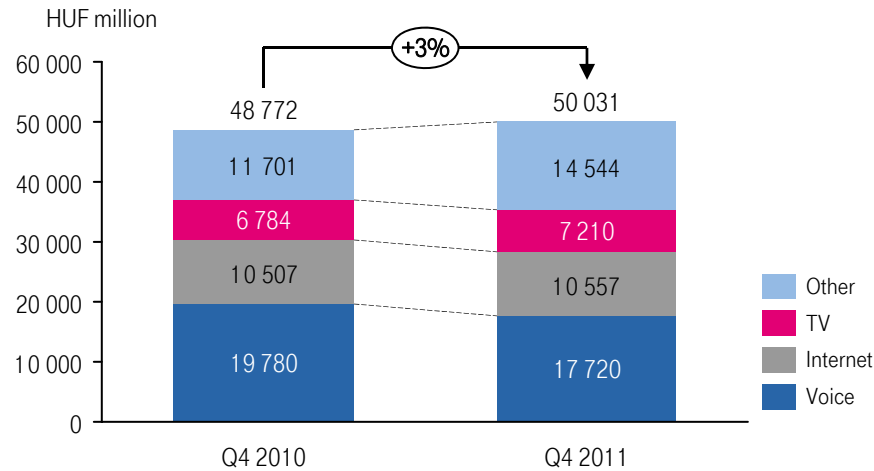
EBITDA development

- underlying EBITDA up by 0.8% y-o-y
- underlying EBITDA margin under pressure due to further erosion of traditional voice revenues
- cost efficiency improvements reflected in declining other operating expenses

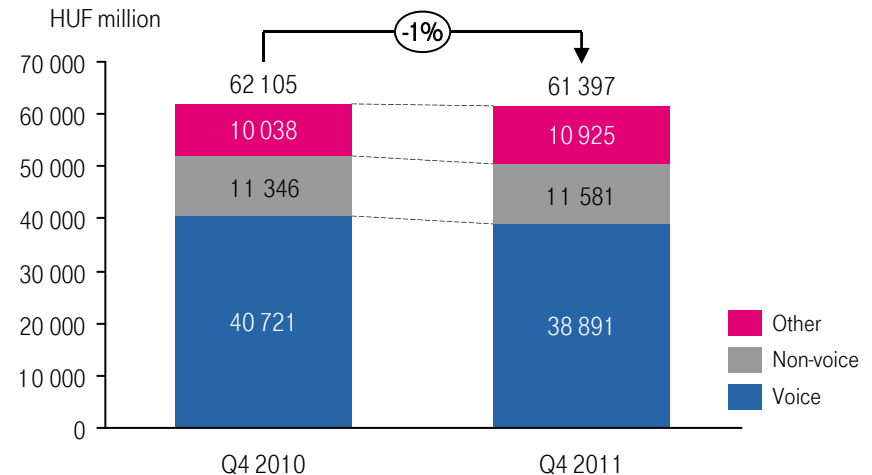


Telekom Hungary – fixed revenue decline slowing down

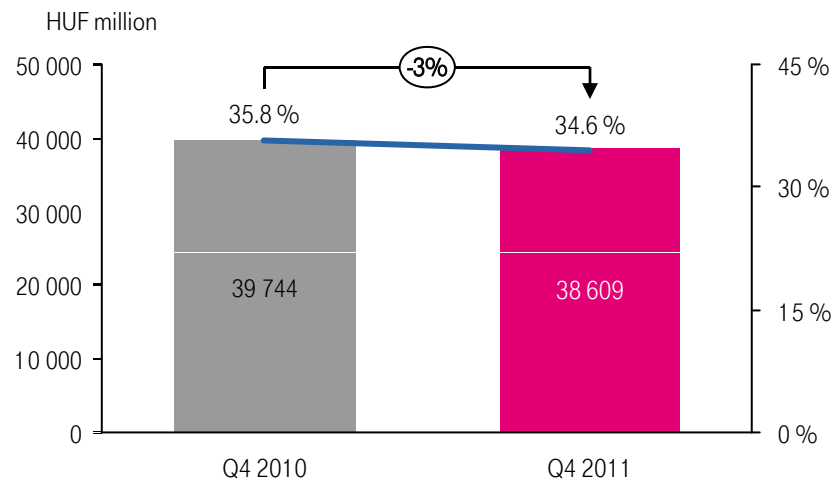
Fixed line and SI/IT revenues



Mobile revenues



Underlying EBITDA and margin



Telekom Hungary

Revenues up by 0.5%

- declining voice revenues partly offset by higher TV, other fixed, mobile non-voice and mobile equipment sales revenues
- 28.6% other fixed line revenue increase driven by retail energy offers
- regulatory impacts on mobile revenues

Decrease in underlying EBITDA margin by 1.2pp

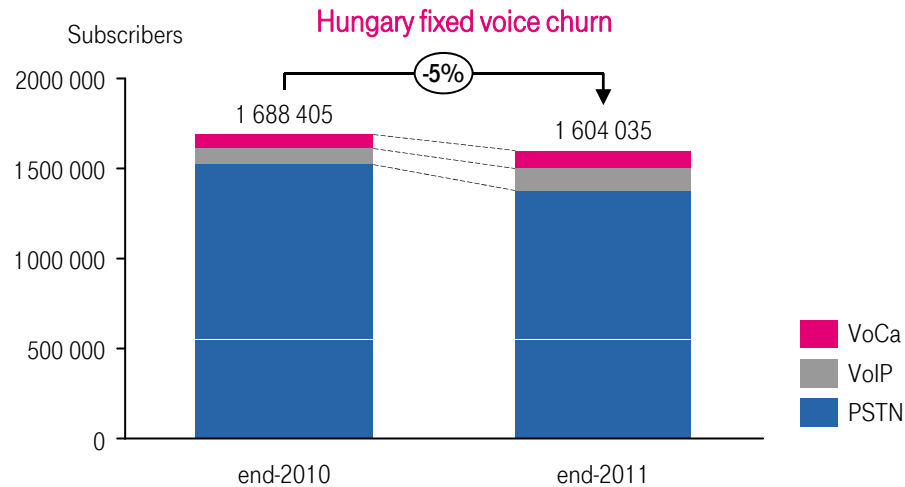
- reduction in high-margin voice revenues
- dilution impact of energy sales



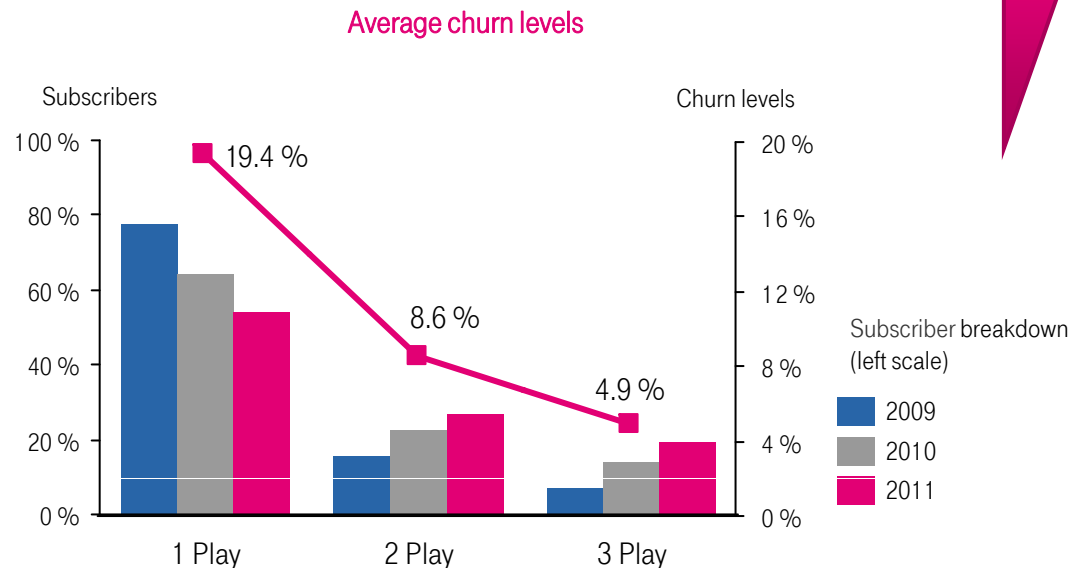
Hungary – improvement in fixed voice churn



Telekom Hungary fixed voice subscribers



Multi-Play developments



Fixed voice

- 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 14k in Q4 2011 vs. 39k in Q4 2010

KPIs

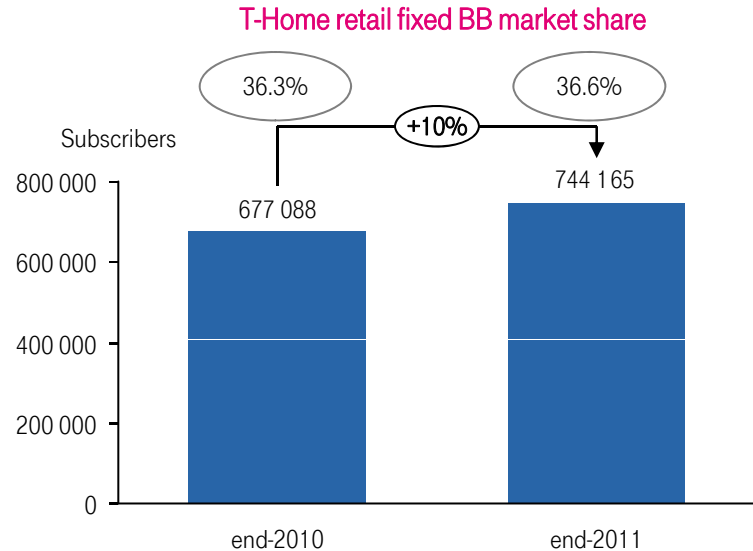
- ARPA: HUF 3 138 (-11% y-o-y)
- MOU: 166 (+15% y-o-y)



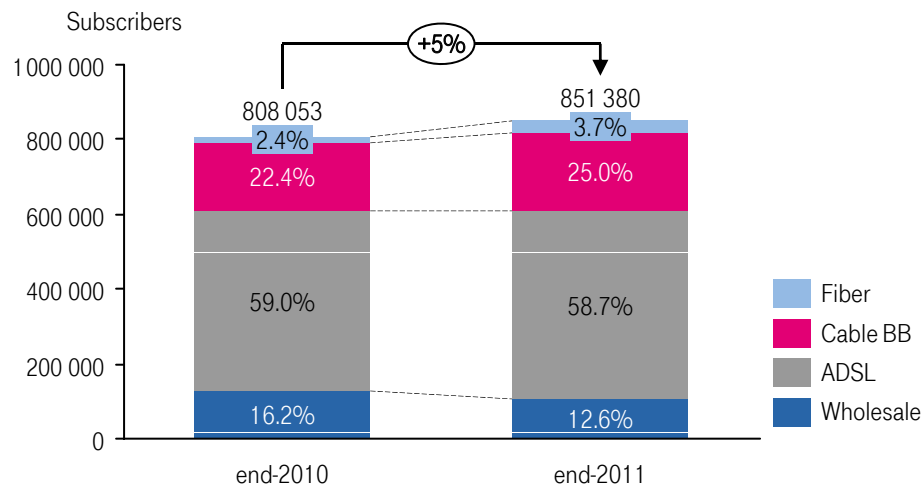
Hungary – Fixed broadband: stable market position



Fixed broadband market developments in Hungary



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 36-37%
- ARPU dilution driven by migration to multi-play packages and more favorable offers
- residential standalone fixed BB prices:
 - 5Mbps speed: HUF 5 630/month (EUR 20)
 - 80Mbps speed: HUF 11 730/month (EUR 40)

KPIs

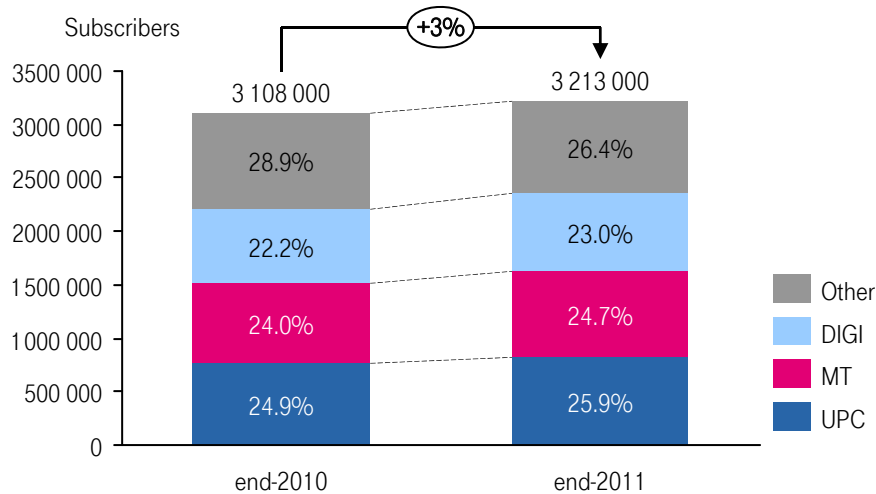
- ARPU: HUF 3 950 (-7% y-o-y)



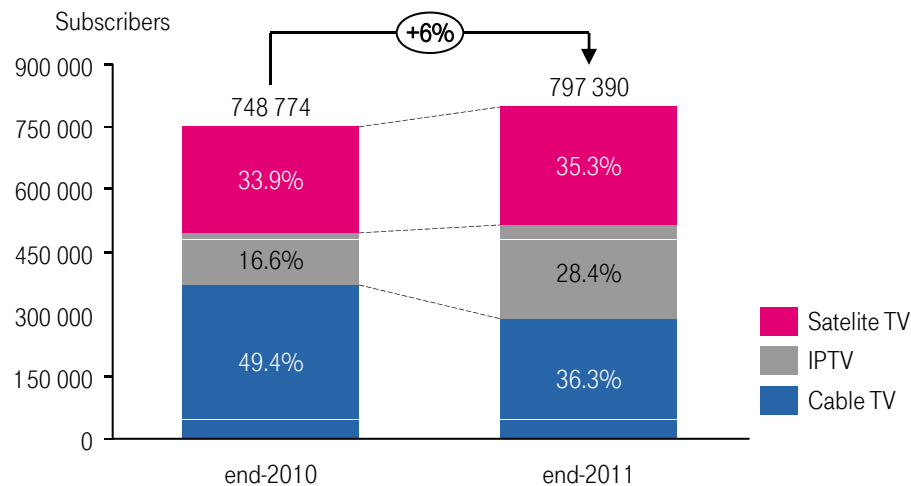
Hungary – TV market: significant growth achieved



TV market share



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 797k, slightly increasing 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 7 530/month (EUR 26)

KPIs

- ARPU: HUF 3 048(+3% y-o-y)

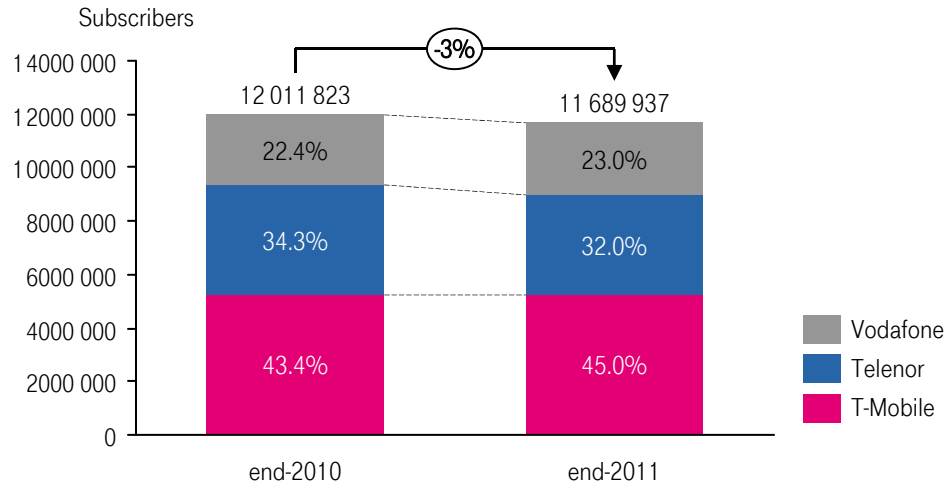
*based on the total TV market estimated by the National Media and Infocommunications Authority Hungary



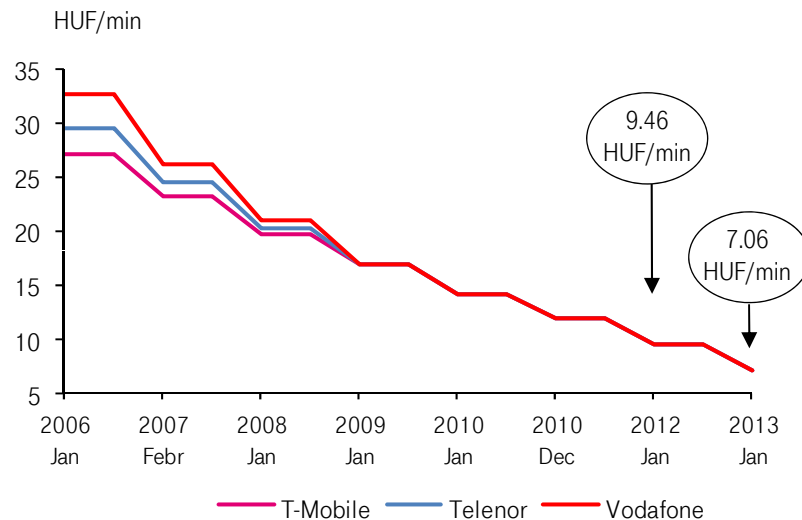
Hungary – Mobile voice: stable market share



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 44% to 46% y-o-y
- mobile termination rate regulation:
 - 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 €c

KPIs

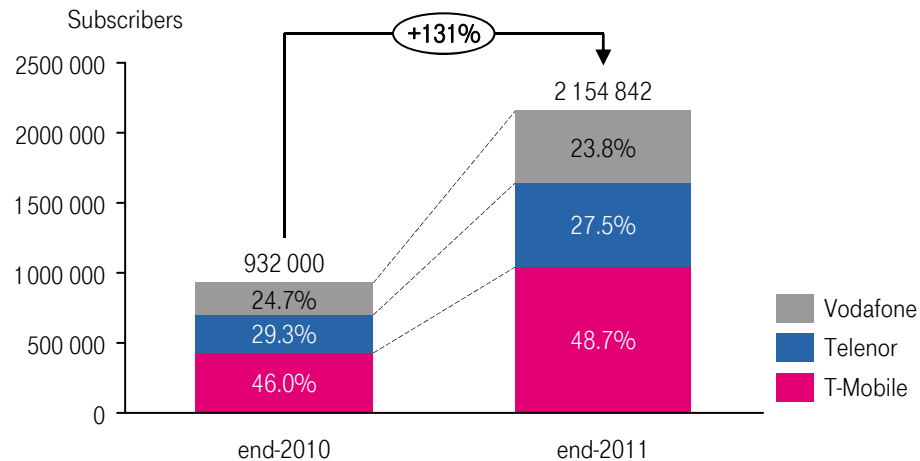
- ARPU: HUF 3 393 (-3% y-o-y)
- MOU: 161 (+5% y-o-y)
- Churn: 20% (-1ppt y-o-y)
- SAC: HUF 6 449 (-3% y-o-y)



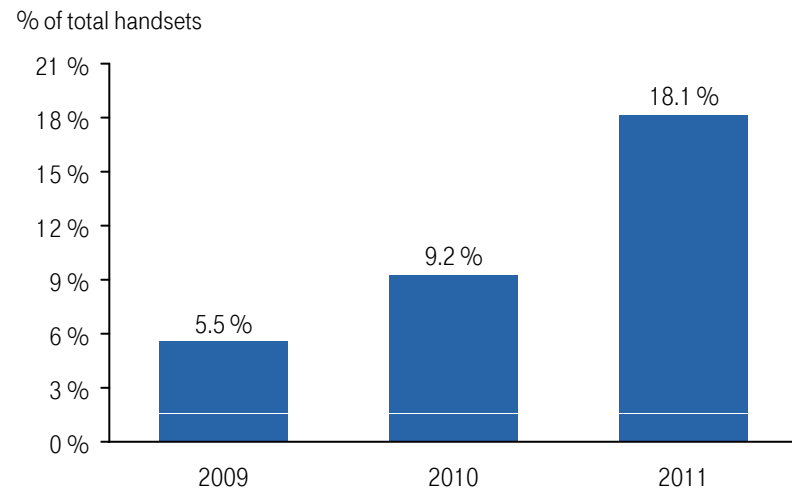
Hungary – Mobile broadband: major growth driver



Mobile broadband market developments (based on total SIM cards)



T-Mobile smartphone penetration



Mobile broadband

- already 600 HSPA+ base stations offering 21 Mbps download speed
- significantly increasing smartphone sales
 - the ratio of smartphone sales in the postpaid segment reached 78% in Q4 2011 (vs. 38% a year ago)
 - BB subscription attach rate is ca. 68%
- the most widely used operating system is Symbian, but Android is gaining market share
- 65% of bundled mobile subscribers were in the two smallest package (MediaMania XS,S)

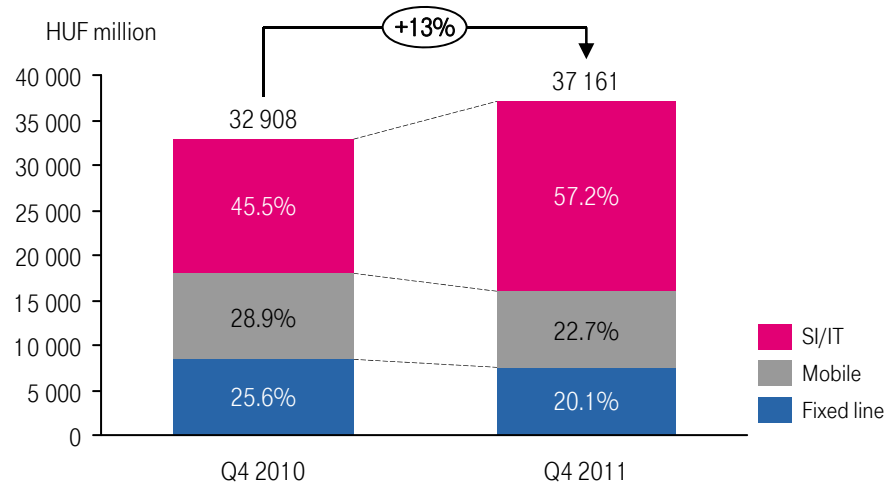
KPIs

- VAS within ARPU (%): 21% (+2ppt y-o-y)
- VAS within ARPU (HUF): 713 (+9% y-o-y)

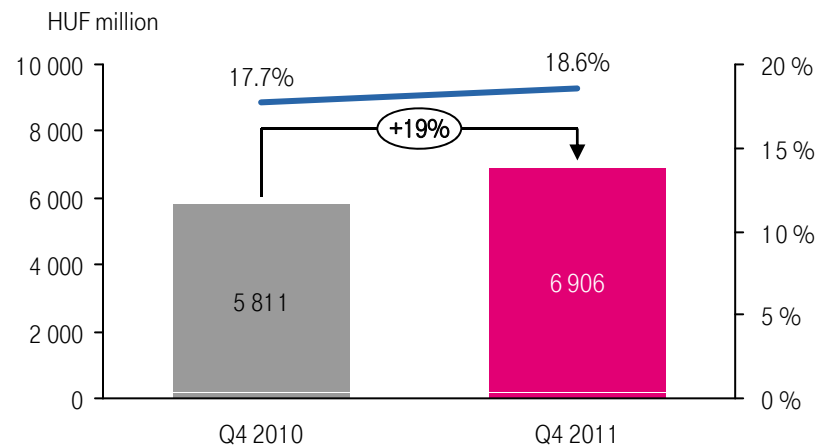


T-Systems Hungary – Strong revenue growth in Q4

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
- lower mobile revenues mainly due to a positive one-off reversal in Q4 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

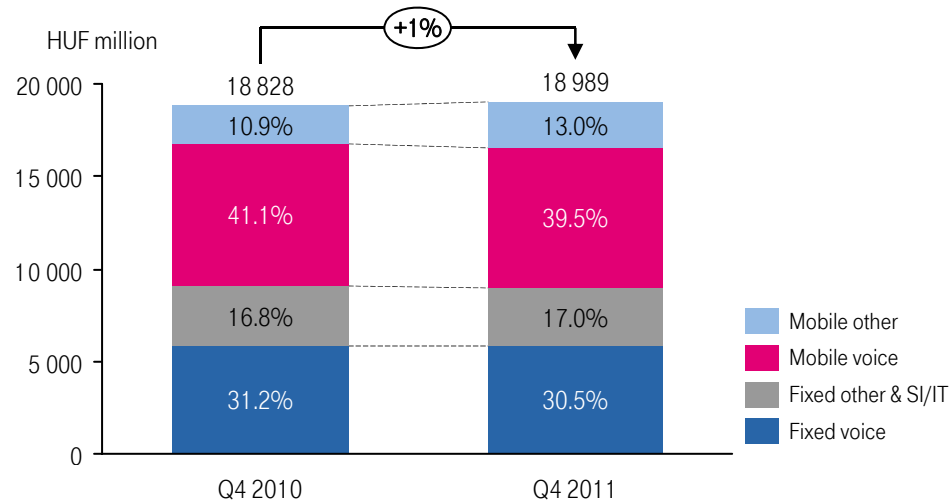
Underlying EBITDA margin improved

- healthier SI/IT margins in Q4 2011 than in Q4 2010
- lower bad debt due to collecting some outstanding public receivables

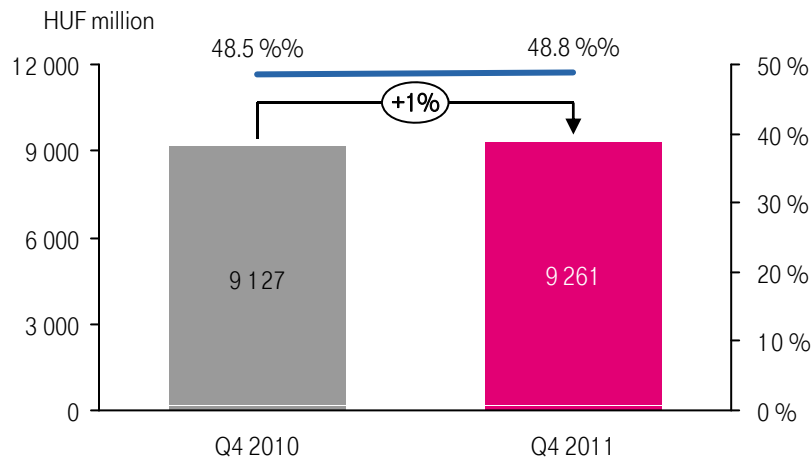


Macedonia – Financial performance

Revenues



Underlying EBITDA and margin



Macedonia

Significant FX impact: HUF weakened by 9.3% Q4-o-Q4 against MKD

Declining fixed line revenues in MKD

- decreasing fixed retail voice revenues due to cable competition and strong mobile substitution

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

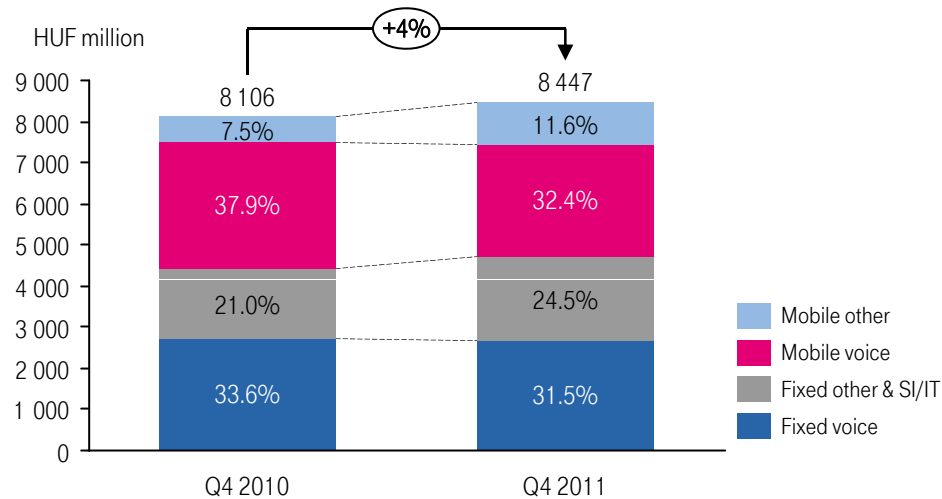
KPIs

- Fixed churn: 9%
- Mobile ARPU: HUF 2 533 (-6% y-o-y)
- MOU : 142 (+5% y-o-y)

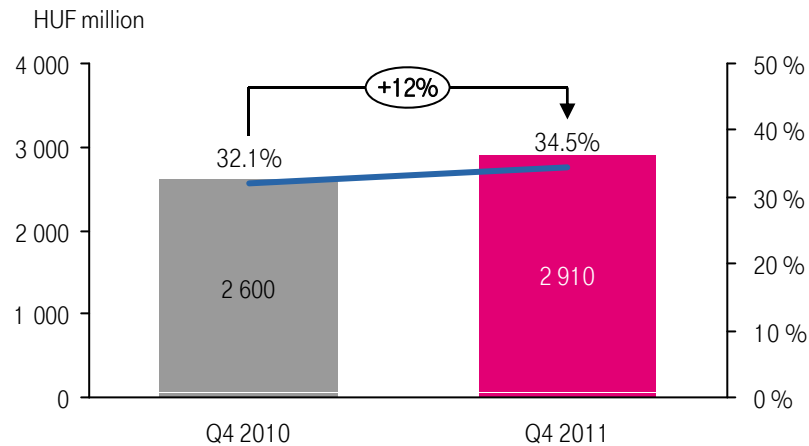


Montenegro – Financial performance

Revenues



Underlying EBITDA and margin



Montenegro

Significant FX impact: HUF weakened by 9.3% Q4-o-Q4 against EUR

Fixed voice revenues under pressure

- deterioration in retail voice revenues (in EUR) driven by strong mobile substitution
- growing internet and TV revenues
- #1 position in the pay-TV market with a 41% market share

Mobile revenues down due to FX

- increased mobile substitution and discounts offered in flat-rate packages
- lower wholesale revenues driven by two cuts in interconnection tariffs from April and November 2011

KPIs

- Fixed churn: 2%
- Mobile ARPU: HUF 2 521 (+4% y-o-y)
- MOU: 117 (+11% y-o-y)



Financials



Magyar Telekom – Q4 2011 Consolidated Income Statement

HUF million	Q4 2010	Q4 2011	Change
Fixed line revenues	63 507	63 802	0.5%
Mobile revenues	81 077	80 349	-0.9%
System Integration/Information Technology revenues	12 393	15 273	23.2%
Revenues	156 977	159 424	1.6%
Direct costs	(44 890)	(49 895)	11.1%
Employee-related expenses	(25 967)	(27 476)	5.8%
Depreciation and amortization	(26 644)	(60 854)	128.4%
Hungarian telecommunications and other crisis taxes	(26 970)	(6 344)	n.a.
Other operating expenses	(34 207)	(31 349)	-8.4%
Total operating expenses	(158 678)	(175 918)	10.9%
Other operating income	1 081	2 323	
Operating profit	(620)	(14 171)	2185.6%
Net financial expenses	(6 632)	(11 784)	77.7%
Share of associates' profits	(7)	8	-214.3%
Profit before income tax	(7 259)	(25 947)	257.4%
Income tax	16 971	(12 728)	-175.0%
Profit for the period	9 712	(38 675)	-498.2%
Non-controlling interests	2 229	1 648	-26.1%
Equity holders of the Company (Net income)	7 483	(40 323)	-638.9%



Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2010	Dec 31, 2011	Change
Current assets	200 574	220 396	9.9%
Cash and cash equivalents	15 841	14 451	-8.8%
Other current financial assets	56 560	65 286	15.4%
Non current assets	908 432	877 632	-3.4%
Property, plant and equipment - net	549 752	536 224	-2.5%
Intangible assets	332 993	308 313	-7.4%
Total assets	1 109 006	1 098 028	-1.0%
Equity	594 712	556 091	-6.5%
Current liabilities	246 817	255 390	3.5%
Financial liabilities to related parties	72 208	49 865	-30.9%
Other financial liabilities	46 647	70 155	50.4%
Non current liabilities	267 477	286 547	7.1%
Financial liabilities to related parties	234 164	230 166	-1.7%
Other financial liabilities	8 828	17 928	103.1%
Total equity and liabilities	1 109 006	1 098 028	-1.0%



Magyar Telekom - Consolidated Cashflow Statement

HUF million	Dec 31, 2010	Dec 31, 2011	Change
Net cash generated from operating activities	164 670	168 781	2.5%
Investments in tangible and intangible assets	(91 762)	(83 796)	-8.7%
Adjustments to cash purchases	4 462	3 722	-16.6%
Purchase of subsidiaries and business units	(1 534)	(2 675)	74.4%
Cash acquired through business combinations	6	468	7700.0%
Proceeds from / (Payments for) other financial assets - net	34 327	(997)	-102.9%
Proceeds from disposal of subsidiaries	780	0	n.a.
Proceeds from disposal of PPE and intangible assets	873	5 526	533.0%
Net cash used in investing activities	(52 848)	(77 752)	47.1%
Dividends paid to shareholders and minority interest	(91 819)	(64 626)	-29.6%
Net payments of loans and other borrowings	(38 748)	(28 602)	-26.2%
Other	(22)	0	n.a.
Net cash used in financing activities	(130 589)	(93 228)	-28.6%
Free cash flow*	77 495	92 026	18.8%

* 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 Company's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation.

On December 29, 2011, the Company announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to the Company. The settlements concluded the DOJ's and the SEC's investigations. The Company disclosed the key terms of the settlements with the DOJ and the SEC on December 29, 2011. On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14.7bn) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7.4bn in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22.1 bn) paid with respect to the settlements with the DOJ and the SEC.

The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011.

In addition to the DOJ's and the SEC's investigations, the Ministry of Interior of the Republic of Macedonia, the Montenegrin Supreme State Prosecutor and the Hungarian Central Investigating Chief Prosecutor's Office commenced investigations into certain of the activities that were the subject of the internal investigation. These governmental investigations are continuing, and the Company and/or its relevant subsidiaries continue to cooperate with these investigations.

Magyar Telekom incurred HUF 17.5bn operating expenses relating to the investigations in 2011 (HUF 1.3bn legal costs and HUF 16,2bn provision for the settlements) included in the Hungary segment, and additional losses and expenses of HUF 5.7bn included in the net financial results (HUF 1.1bn interest expense and HUF 4.5bn foreign exchange loss).



For further questions please contact the IR department:

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Abbreviations: 3G: third generation, 4G: fourth 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, LTE: long term evolution, 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: 279.1 (average 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.

