

MAGYAR TELEKOM GROUP

Q1 2014 RESULTS PRESENTATION

MAY 8, 2014



LIFE IS FOR SHARING.

Q1 2014 HIGHLIGHTS

REVENUE

- Revenues decreased by 3.0% to HUF 151.9 billion
- Lower fixed and mobile voice revenues, coupled with lower revenues from SI/IT and energy services

REPORTED EBITDA

- EBITDA increased by 3.8% to HUF 40.5 billion
- Improvement in gross margins across all areas coupled with reductions in other operating expenses mostly driven by lower rental fees and fees and levies

NET INCOME

- Net income increased to HUF 4.8 billion
- EBITDA improvement was coupled with lower financial expenses thanks to the higher amount of gains related to derivative fair valuations reflecting forint weakening
- Increase in tax expense was mostly offset by lower minority interests

FREE CASH FLOW*

- Free cash flow was HUF -11.4 billion
- Operating cash flow improvement was offset by increased cash Capex and higher amount of repayment of other financial liabilities
- Net debt ratio was at 43.6% at the end of Q1 2014

* Free cash flow defined as Net cash generated from operating activities + Net cash used in investing activities, adjusted with Proceeds from / Payments for other financial assets + Repayment of other financial liabilities

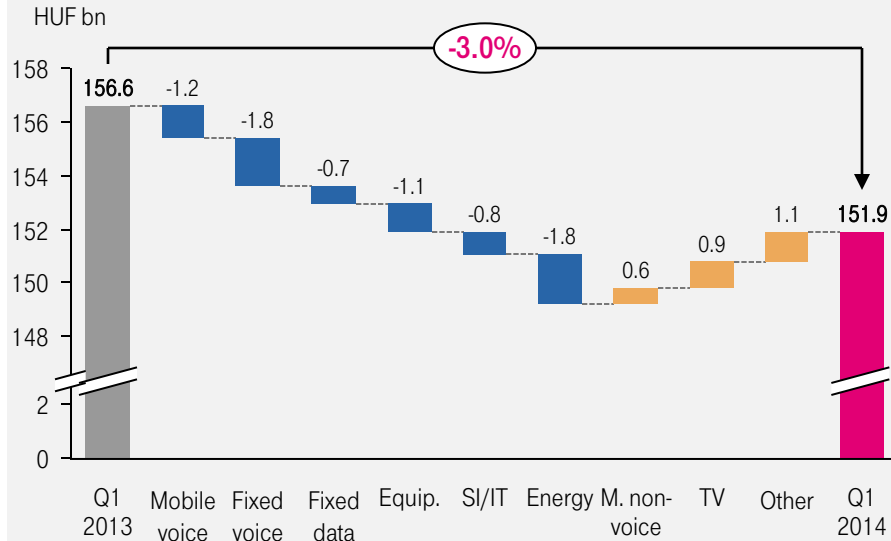
Q1 2014 RESULTS AND PUBLIC TARGETS FOR 2014

	Q1 2014 RESULTS	2014 TARGETS
REVENUE	-3.0%	Flat to 3% decline
	<ul style="list-style-type: none"> Lower energy revenues due to November 2013 cut in regulated retail energy prices and the mild winter Decline in equipment sales and SI/IT revenues 	
REPORTED EBITDA	+3.8%	3%-6% decline
	<ul style="list-style-type: none"> Strong improvement in energy margin as Q1 2013 was heavily hit by the price reduction Set-top-box financial lease treatment and annual frequency fee reduction and capitalization supports performance 	
CAPEX*	HUF 17.3bn	around HUF 87bn
	<ul style="list-style-type: none"> Network modernization, LTE roll-out Efficiency improving projects 	

*excluding spectrum license fees and annual frequency fee capitalization

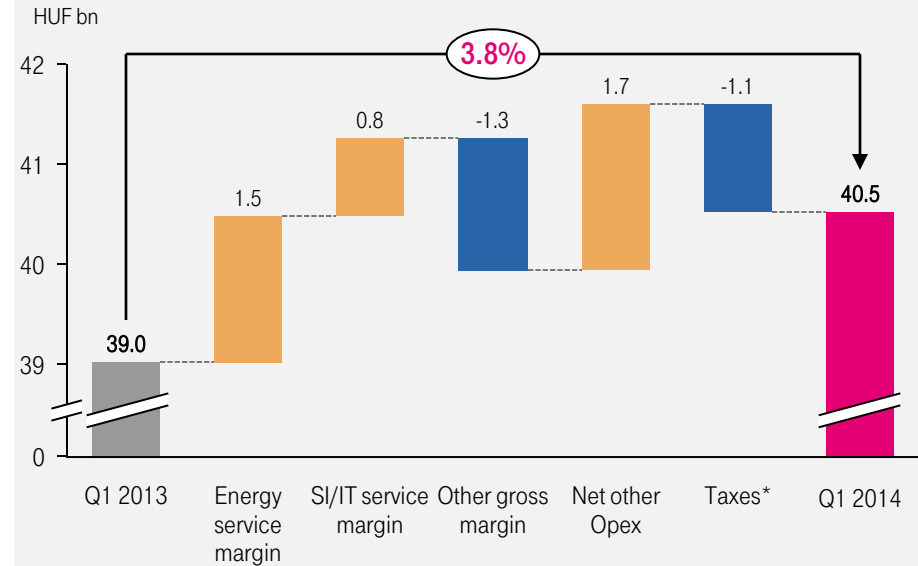
Q1 2014 GROUP RESULTS – REVENUES AND EBITDA

GROUP REVENUES



- Decline in energy service revenues due to 11% retail price cut in November 2013 coupled with lower gas consumption due to the mild winter
- Lower equipment sale revenues reflecting change in sales approach
- SI/IT revenue decline reflects shift in our focus to less equipment intensive deals

GROUP EBITDA

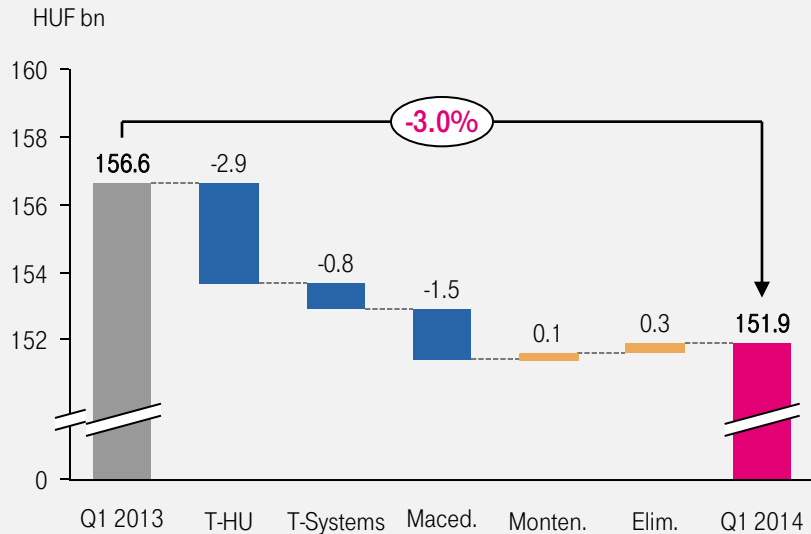


- Energy service margin improvement thanks to change in relevant legislation
- SI/IT service margin increase reflects shift to projects where we can act as a real service or transformation partner
- Other gross margin decline due to higher bad debt driven by one-off write-off at T-Systems and increased impairment related to equipment instalment sales
- Taxes* increased due to higher telecom tax rate from August 2013 on non-private individuals subscription



Q1 2014 SEGMENT RESULTS – REVENUES AND EBITDA

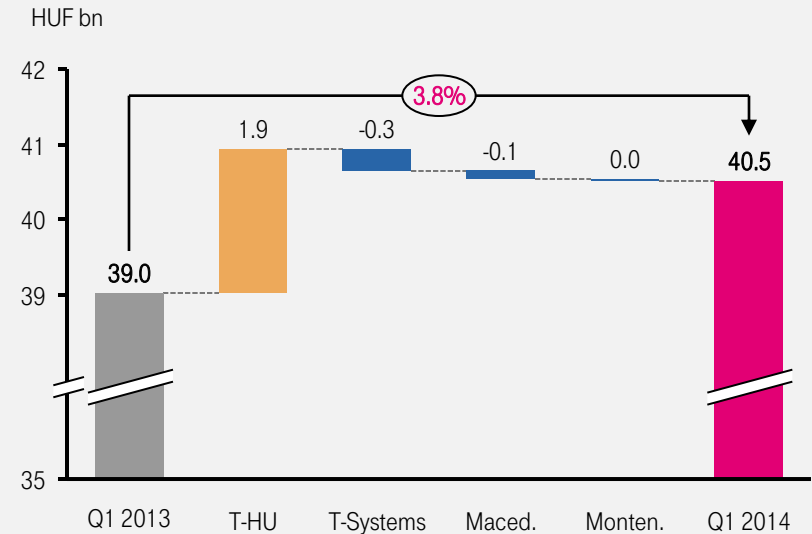
SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y: -3% (T-HU), -3% (T-Systems), -10% (Maced.), +2% (Monten.)

- **T-Hungary:** lower revenues from energy, equipment sales and fixed voice partially mitigated by higher mobile BB and TV revenues
- **T-Systems:** stabilizing telco revenues but lower volume of application revenues
- **Macedonia:** mobile voice revenue decline driven by fierce competitive pressures and 60% MTR cut effective from November 2013
- **Montenegro:** TV and internet growth mitigated voice revenue decline

SEGMENTS' EBITDA DEVELOPMENT



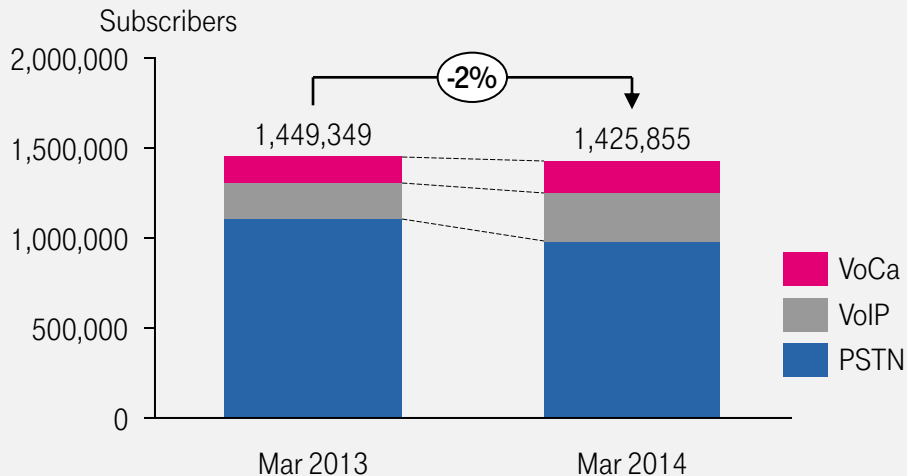
Change Y-o-Y: +7% (T-HU), -8% (T-Systems), -2% (Maced.), -1% (Monten.)

- **T-Hungary:** higher energy margin coupled with lower net opex (savings in service fees, fees and levies and marketing expenses)
- **T-Systems:** increased gross margin offset by higher employee and other costs
- **Macedonia:** competition driven margin pressure mitigated with cost saving; EBITDA margin up by 3.2ppt to 40.5%
- **Montenegro:** severance expense leading to moderate decline; EBITDA margin at 35.8%

HUNGARY – FIXED VOICE MARKET



TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS

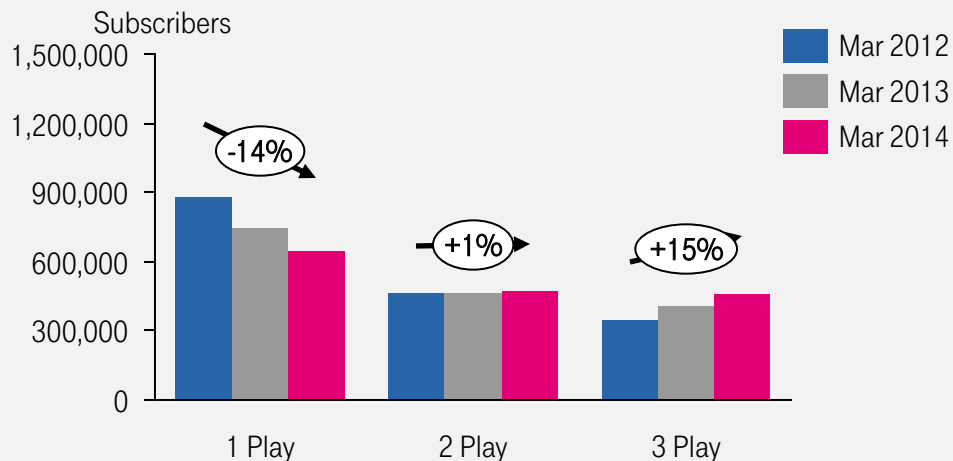


- Significant reduction in fixed voice churn due to the retention effect of:
 - Hoppá package
 - 2Play/3Play offers
 - Retail energy bundling
- Decline in 1Play customer base to 42%

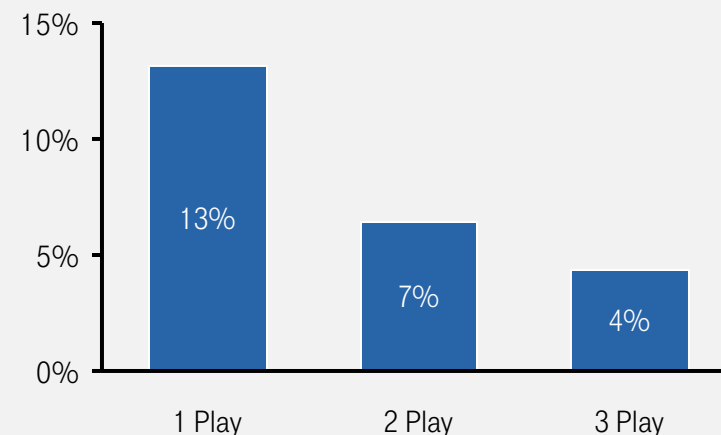
KPIs (Q1-o-Q1):

- ARPU: HUF 2,638 (-5%)
- MOU: 174 (-11%)

MULTI-PLAY DEVELOPMENTS



AVERAGE ANNUAL CHURN LEVEL

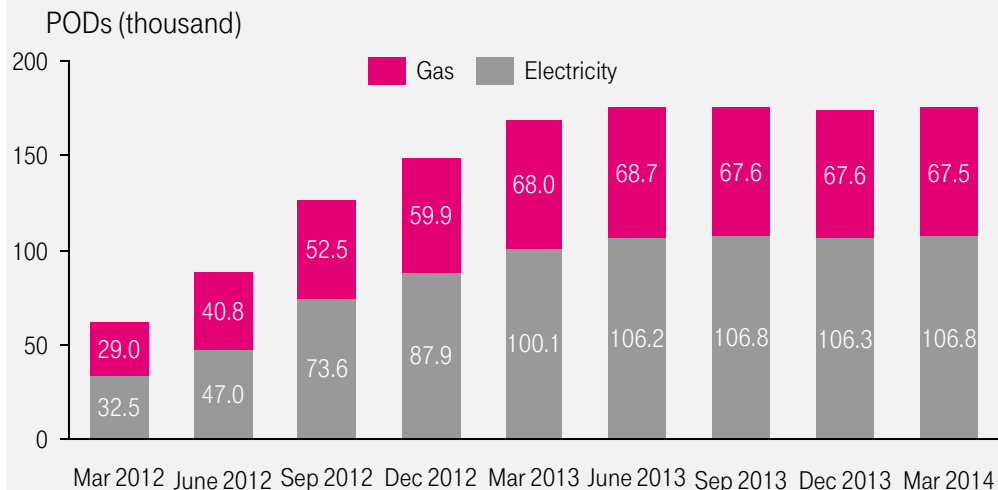


LIFE IS FOR SHARING.

HUNGARY – ENERGY RETAIL



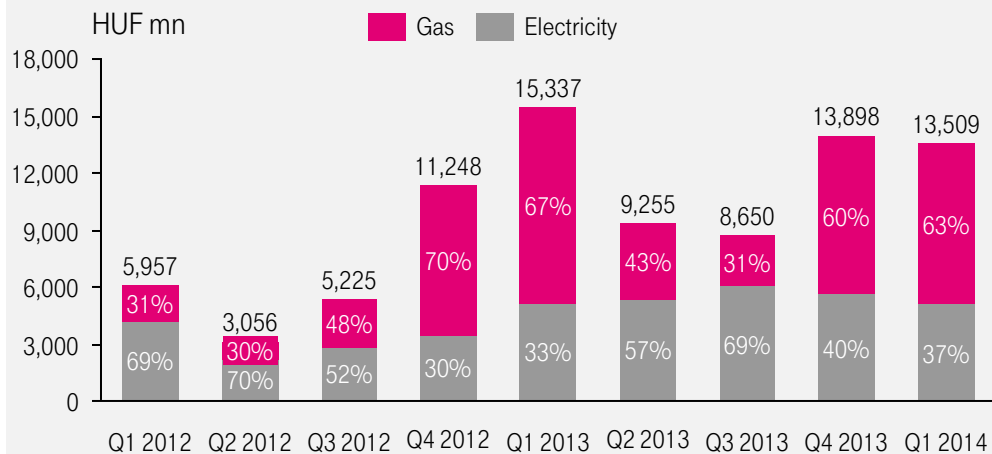
GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



RETAIL ENERGY BUSINESS

- Soft launch in 2010, nationwide since April 2012
- Residential customers receive a 3-8% discount to regulated universal service prices on their energy bill depending on the number of fixed line services they subscribe to
- Significant retention and upsell impact
- Increasing ratio of energy revenues generated from competitive segment customers
- Energy market is strongly seasonal

REVENUE PERFORMANCE



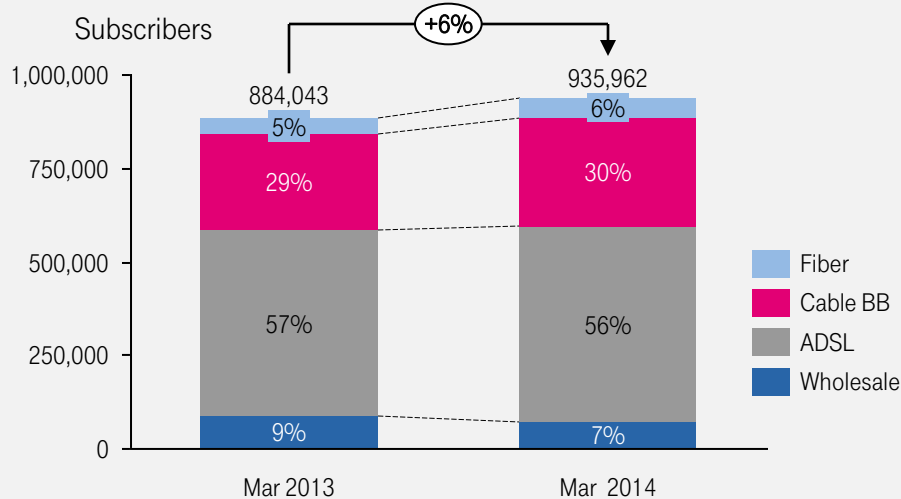
REGULATORY DEVELOPMENTS

- 10% and 11% retail price reduction since January and November 2013 respectively
- Further 6.5% gas and 5.7% electricity price reduction approved effective from April and September 2014 respectively

TELEKOM HUNGARY – BROADBAND AND TV MARKET

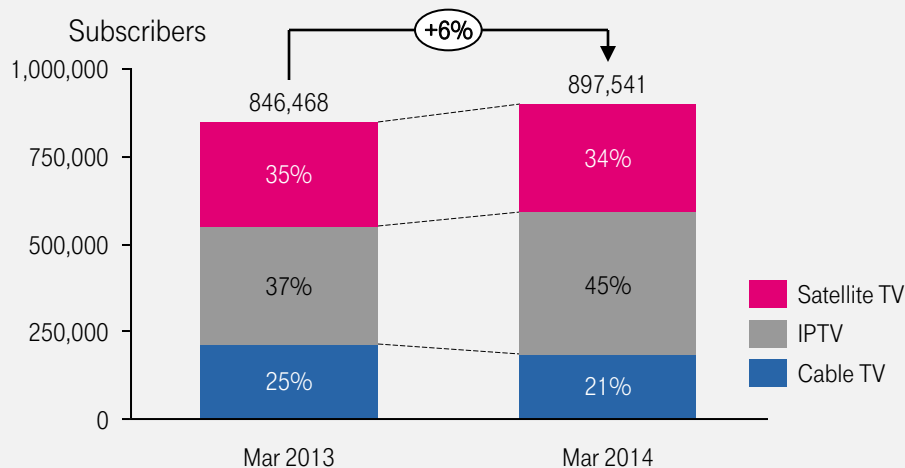


FIXED BROADBAND SUBSCRIBER BREAKDOWN



- Growth in broadband market driven by cable and fiber
- Significant ARPU pressure from multiplay migration and local pricing
- Broadband ARPU: HUF 3,421 (-8% Q1-o-Q1)

TV SUBSCRIBER BREAKDOWN



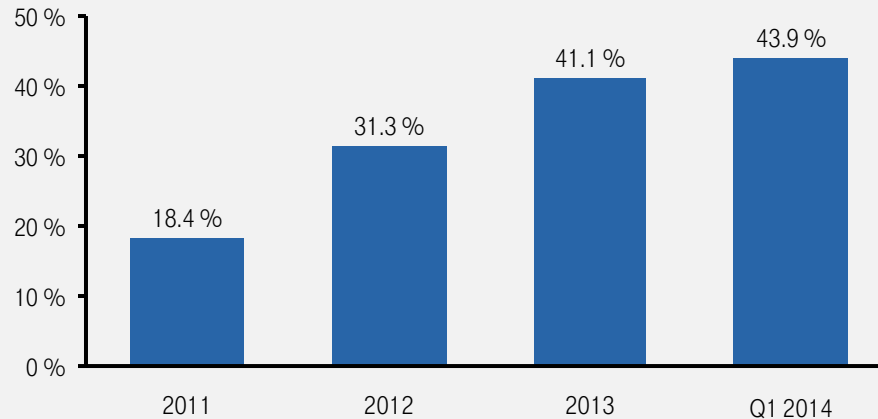
- TV ARPU stabil thanks to increasing number of interactive IPTV customers
- Significant migration from cable to IPTV
- 3Play offers from HUF 4,550/month (EUR 15)
- TV ARPU: HUF 3,069 (flat Q1-o-Q1)

TELEKOM HUNGARY – MOBILE MARKET



TELEKOM SMARTPHONE PENETRATION

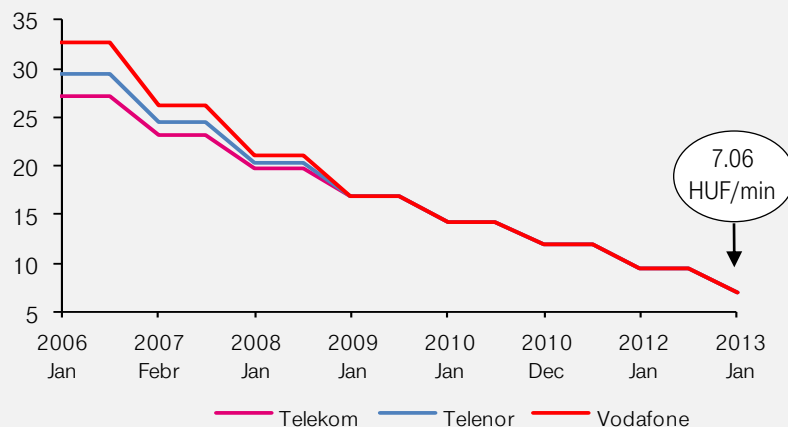
% of total handsets



- Improving customer mix: y-o-y increase in postpaid ratio from 47.5% to 48.7%
- Smartphone sales reached 92% of postpaid handsets
- Broadband subscription attach rate at ca. 90%
- Full LTE coverage in Budapest and 45% population-based coverage countrywide
- MTR cut: no further glide path is announced yet

MOBILE TERMINATION RATE CUTS

HUF/min



KPIs (Q1-o-Q1):

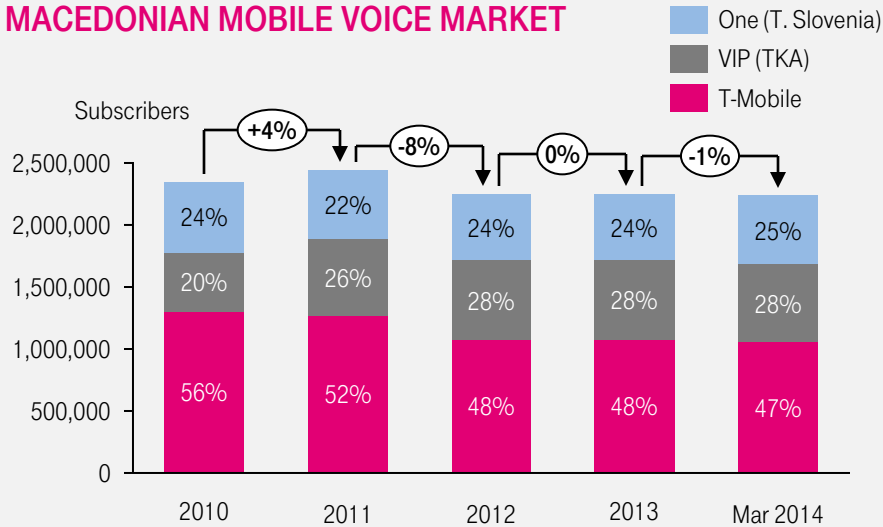
- ARPU: HUF 3,333 (+3%)
- Mobile MOU: 159 (+2%)
- SAC/gross add: HUF 5,703 (-1%)
- SRC/retained customer: HUF 13,935 (+2%)
- VAS within ARPU: HUF 887 (+7%)



LIFE IS FOR SHARING.

MACEDONIA AND MONTENEGRO

MACEDONIAN MOBILE VOICE MARKET

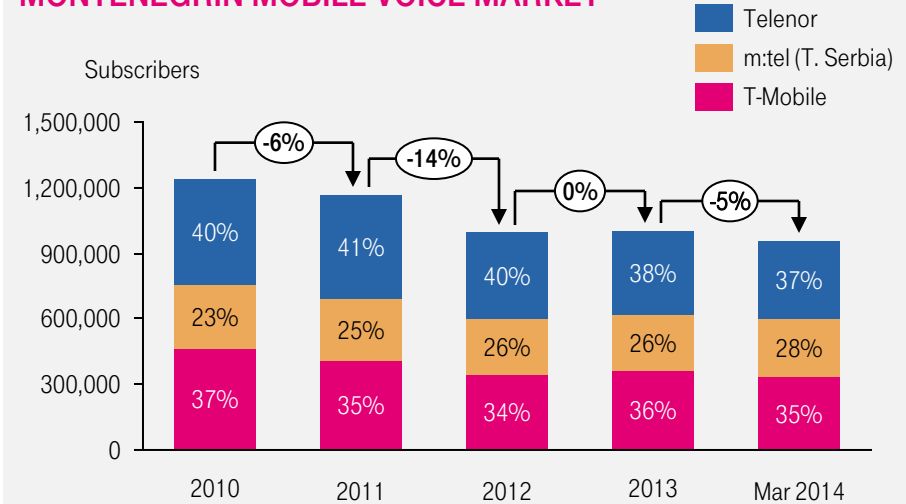


- Leading fixed line operation with 66% voice, 52% internet and 22% TV market shares
- Intense competition from cable operators on the fixed market
- Declining mobile revenues due to strong price competition

KPIs (Q1-o-Q1):

- Fixed voice churn: 6%
- Fixed outgoing traffic: -22%
- Mobile ARPU: HUF 1,750 (-18%)
- Mobile MOU: 188 (+5%)

MONTENEGRIN MOBILE VOICE MARKET



- Leading fixed line operation with 98% voice, 82% internet and 43% TV market shares
- Strong seasonality on the mobile market driven by tourism
- Economic environment put limitation on performance

KPIs (Q1-o-Q1):

- Fixed voice churn: 2%
- Fixed outgoing traffic: -15%
- Mobile ARPU: HUF 2,729 (-1%)
- Mobile MOU: 164 (+1%)

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q1 2013	Q1 2014	Change
Mobile revenues	73,213	73,382	0.2%
Fixed line revenues	54,047	51,813	-4.1%
System Integration/Information Technology revenues	14,012	13,189	-5.9%
Revenue from Energy Services	15,337	13,509	-11.9%
Revenues	156,609	151,893	-3.0%
Direct costs	(59,504)	(53,879)	-9.5%
Employee-related expenses	(22,601)	(22,563)	-0.2%
Depreciation and amortization	(24,779)	(24,434)	-1.4%
Hungarian telecommunications and other crisis taxes	(12,850)	(13,912)	8.3%
Other operating expenses	(23,483)	(21,478)	-8.5%
Total operating expenses	(143,217)	(136,266)	-4.9%
Other operating income	856	467	-45.4%
Operating profit	14,248	16,094	13.0%
Net financial results	(7,745)	(6,046)	-21.9%
Share of associates' profits	0	0	n.a.
Profit before income tax	6,503	10,048	54.5%
Income tax expense	(3,574)	(5,058)	41.5%
Profit for the period	2,929	4,990	70.4%
Non-controlling interests	1,234	162	-86.9%
Equity holders of the Company (Net income)	1,695	4,828	184.8%

MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Mar 31, 2013	Mar 31, 2014	Change
Current assets	231,042	202,910	-12.2%
Cash and cash equivalents	34,799	13,748	-60.5%
Other current financial assets	42,560	33,916	-20.3%
Non current assets	845,670	893,699	5.7%
Property, plant and equipment - net	505,277	492,312	-2.6%
Intangible assets	314,685	379,370	20.6%
Total assets	1,076,712	1,096,609	1.8%
Equity	521,970	494,135	-5.3%
Current liabilities	251,038	320,634	27.7%
Financial liabilities to related parties	25,947	73,658	183.9%
Other financial liabilities	62,989	103,869	64.9%
Non current liabilities	303,704	281,840	-7.2%
Financial liabilities to related parties	265,830	226,695	-14.7%
Other financial liabilities	5,531	25,776	366.0%
Total equity and liabilities	1,076,712	1,096,609	1.8%



MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Mar 31, 2013	Mar 31, 2014	Change
Net cash generated from operating activities	13,003	25,263	94.3%
Investments in tangible and intangible assets	(16,712)	(17,292)	3.5%
Adjustments to cash purchases	(3,875)	(8,031)	107.3%
Purchase of subsidiaries and business units	0	(201)	n.a.
Cash acquired through business combinations	0	0	n.a.
Payments for / proceeds from other financial assets - net	12,716	(1,992)	-115.7%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	165	268	62.4%
Net cash used in investing activities	(7,706)	(27,248)	253.6%
Dividends paid to shareholders and minority interest	(10)	(4)	-60.0%
Net payments of loans and other borrowings	13,591	12,246	-9.9%
Repayment of other financial liabilities	(118)	(11,430)	9586.4%
Net cash used in financing activities	13,463	812	-94.0%
Free cash flow*	(7,537)	(11,423)	51.6%

* 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

Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, CUG: closed user group, 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, POD: points of delivery, 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: 307.81 (average Q1 2014)

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.



LIFE IS FOR SHARING.