

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

JUNE, 2017



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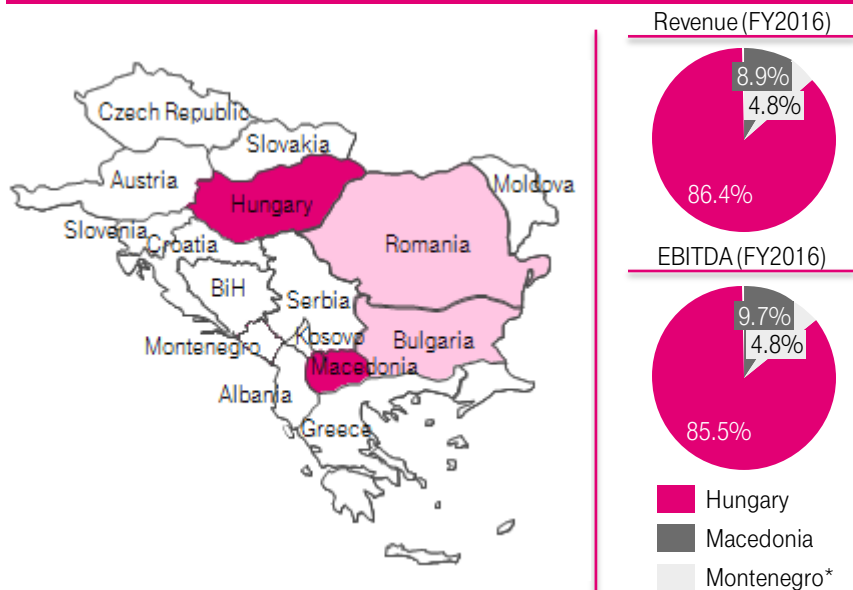
STRATEGY AND MARKET POSITION

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

Overview

- Integrated operations in Hungary and Macedonia*
 - leading telecommunications service provider in both countries
 - leading SI/IT service provider in Hungary
- 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

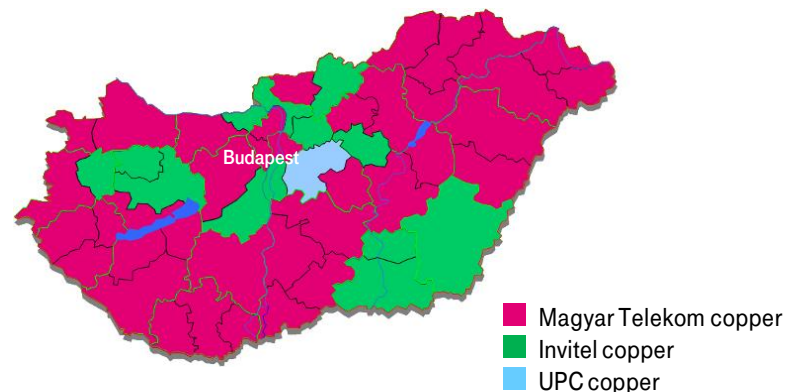
International presence



Main services offered

	Mobile	Copper	Coax	Fiber
	✓	✓	✓	✓
	✓	✓	✓	✓
	✓	✓	✓	✓

Incumbents in Hungary



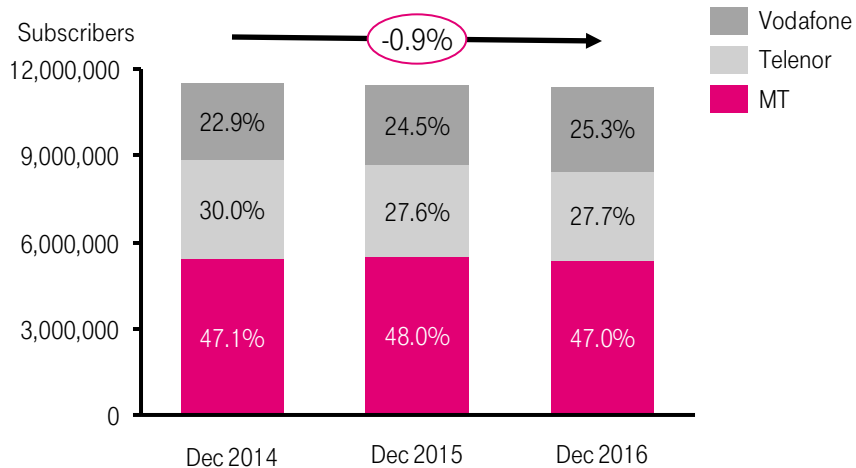
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*As announced on January 10, 2017, Magyar Telekom disposed of its majority stake in Crnogorski Telekom. The transaction closed at the end of January 2017; following this date, the Montenegrin operations will no longer be consolidated into Magyar Telekom Group's financials.

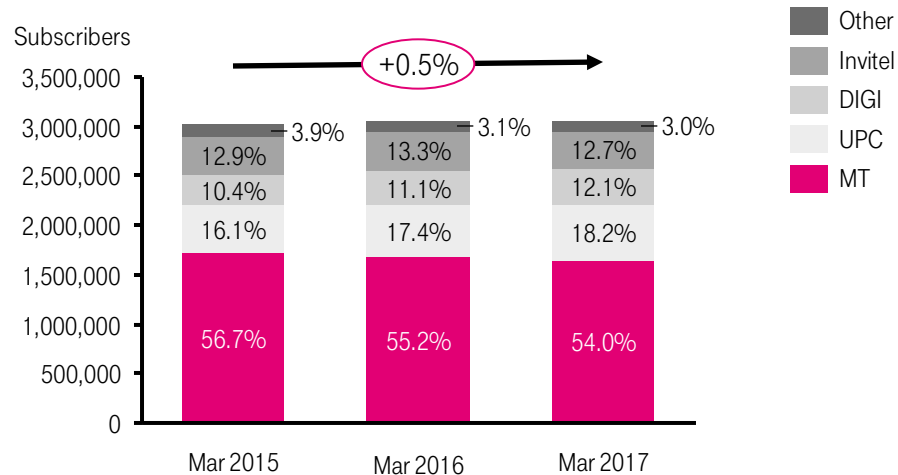
**As of May 31, 2017

MARKET POSITIONS IN THE HUNGARIAN TELCO MARKET

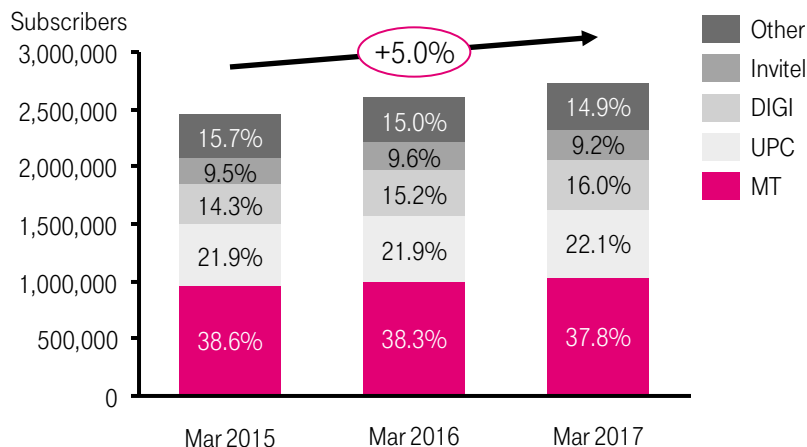
Total mobile market*



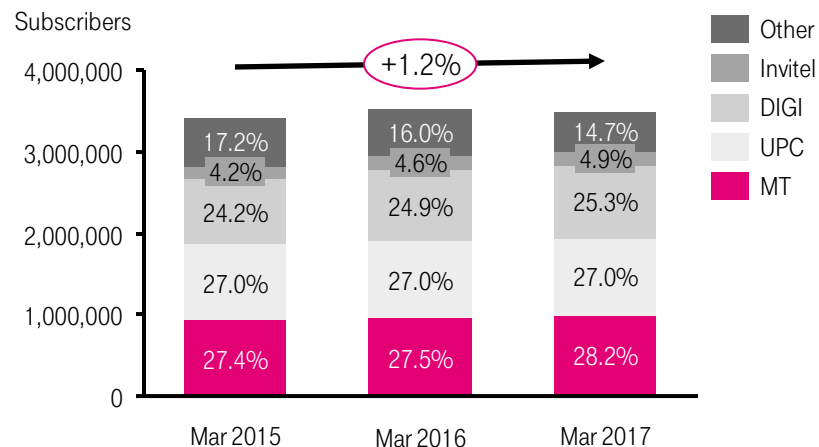
Fixed voice market**



Fixed broadband market**



TV market**



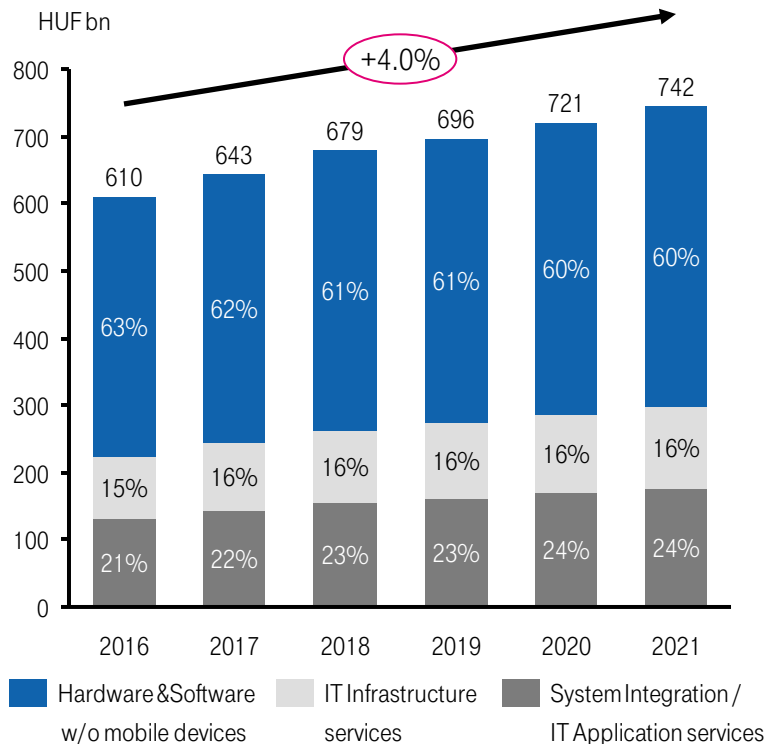
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*Based on internal calculations from Vodafone Group and Telenor Group reports

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

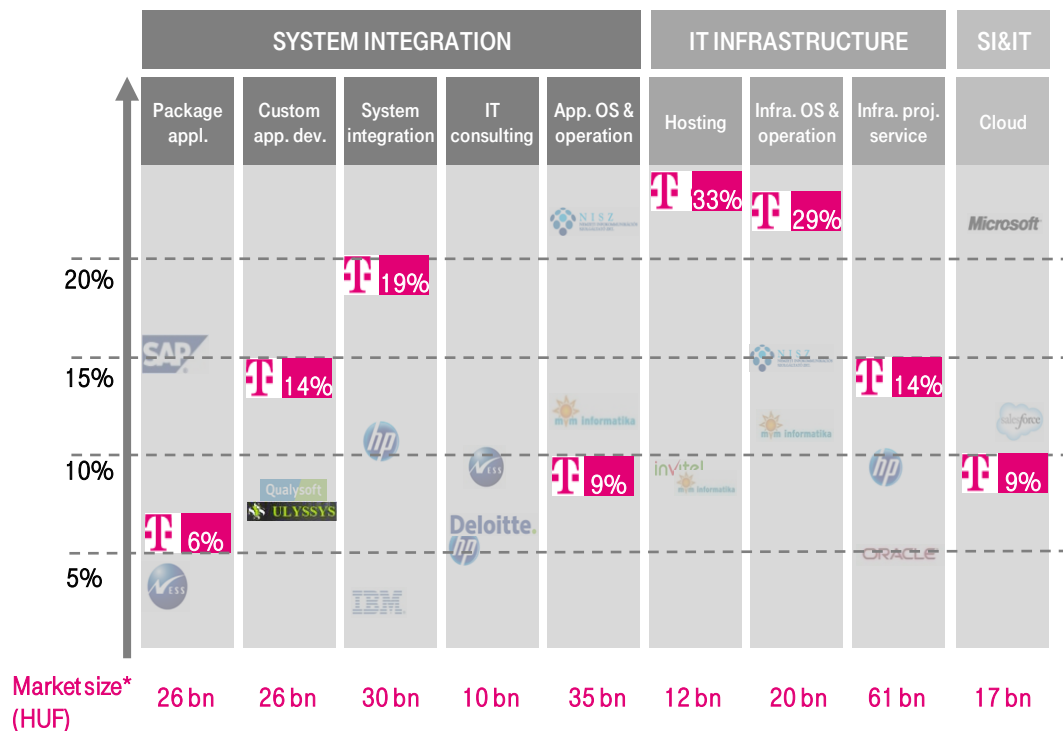
IT MARKET IN HUNGARY

Total IT market (HW&SW and IT services)*



- Magyar Telekom is the only fully integrated ICT company in Hungary
- Total IT market expected to grow by 4% CAGR over the next 5 years
- EU fund inflows are a major driver of IT spending in Hungary
- Magyar Telekom's total revenue based IT market share is ca. 12%

IT Services market shares (by revenue)*



- IT services market represents ca. 40% of the total IT market
- IT Services market in Hungary very fragmented
- Presence of major international players, such as HP, Microsoft, IBM
- Magyar Telekom is the market leader with 14.7% market share in the IT services market (ca. 12% total IT market ie. including HW&SW)

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

Strategic pillars

1 TOGETHER. FOR OUR CUSTOMERS

We listen: customer and colleague opinions form an important part of our decision making

2 INTEGRATED PRODUCTS & NETWORK

As a number 1 integrated service provider we give all our customers the opportunity to connect seamlessly

3 IT & DIGITAL SERVICES

IT and digital services are important areas of focus for us and will be key drivers of future growth

4 DIGITAL TELEKOM

Magyar Telekom's transformation into a digital company is part of our efforts to ensure customer satisfaction

Strategic goals

Increase customer satisfaction

Improve customer service level

Enhance employee engagement

Foster technology leadership

Monetize FMC capabilities

Strengthen integrated ICT brand

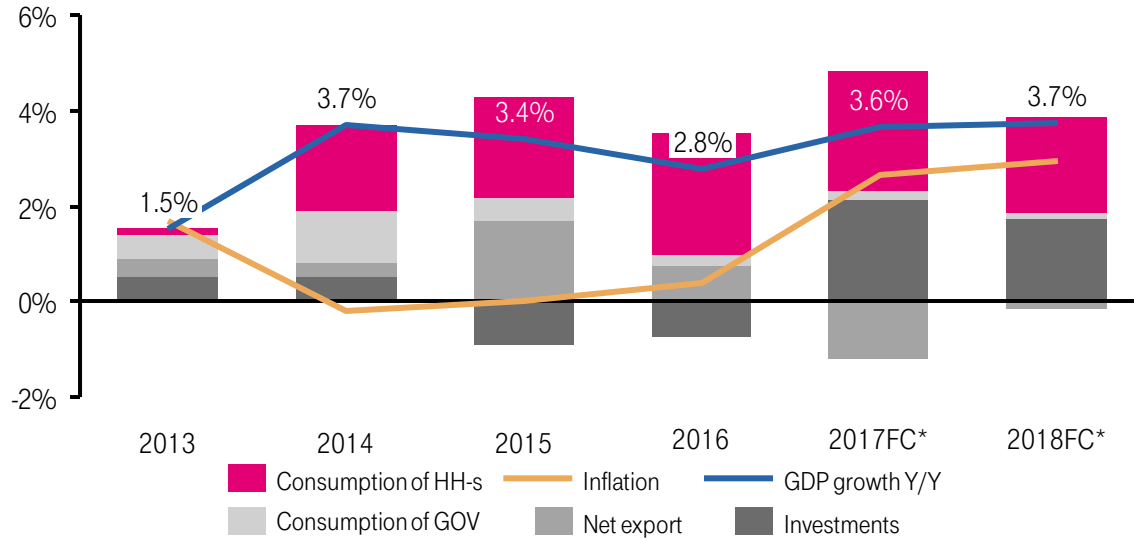
Grow in IT

Develop digital business

Push digital transformation

HUNGARIAN ECONOMIC ENVIRONMENT

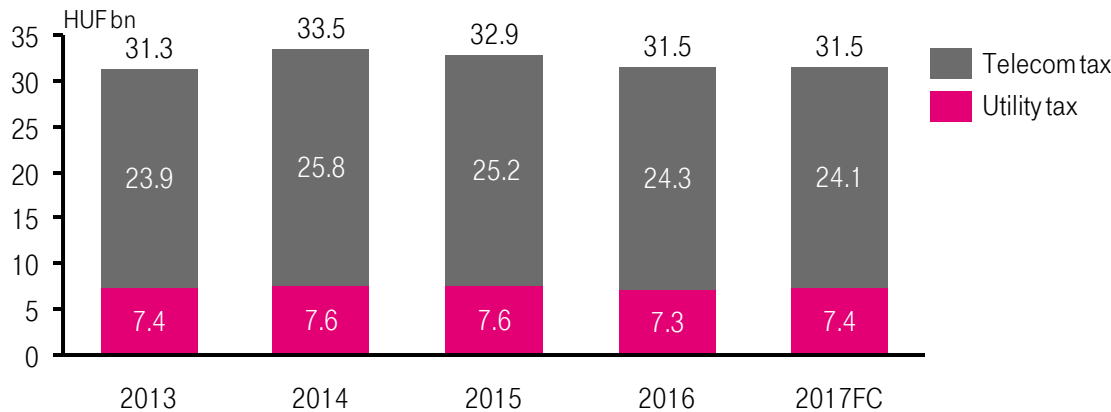
Growth structure



Domestic demand

- Domestic demand improved as economy recovered
- Governmental measures support consumer spending
- Investment levels show volatility due to EU fund cycles
- MT leveraged positive trends of domestic demand

Taxes levied on Magyar Telekom

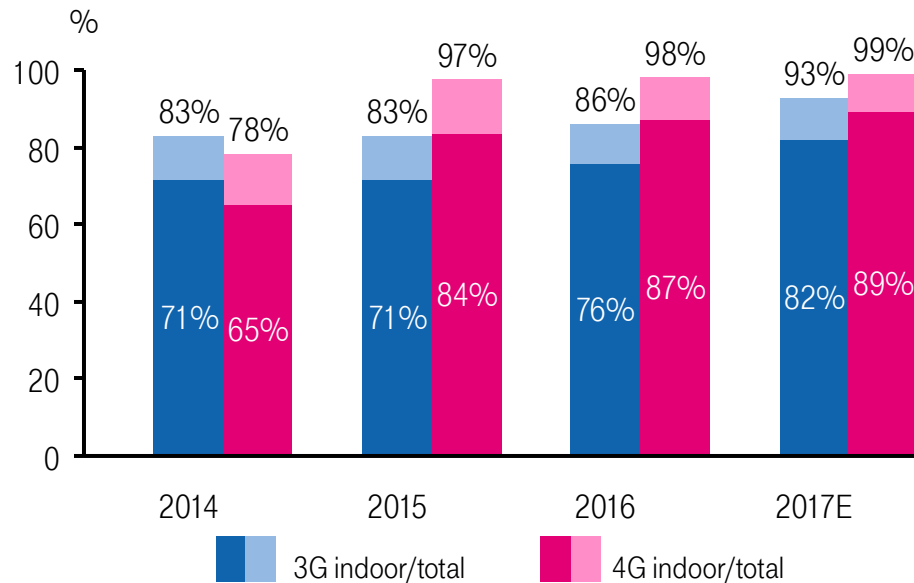


Tax burdens to reduce budget deficit

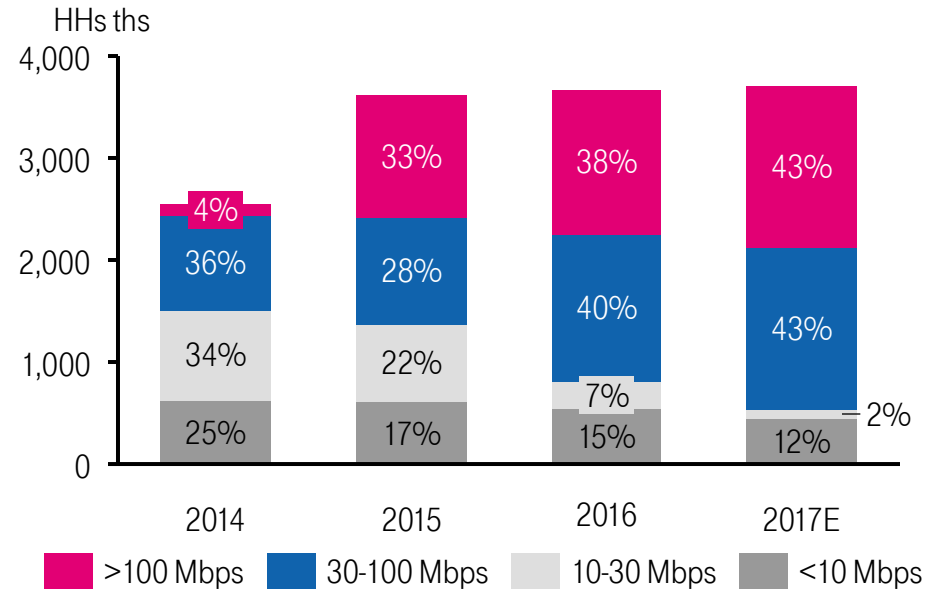
- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied in 2013, 5-year tax holiday on new networks > 100Mbps since 2016

NETWORK DEVELOPMENTS IN HUNGARY

Mobile network coverage (population based)



Fixed network (Households covered)

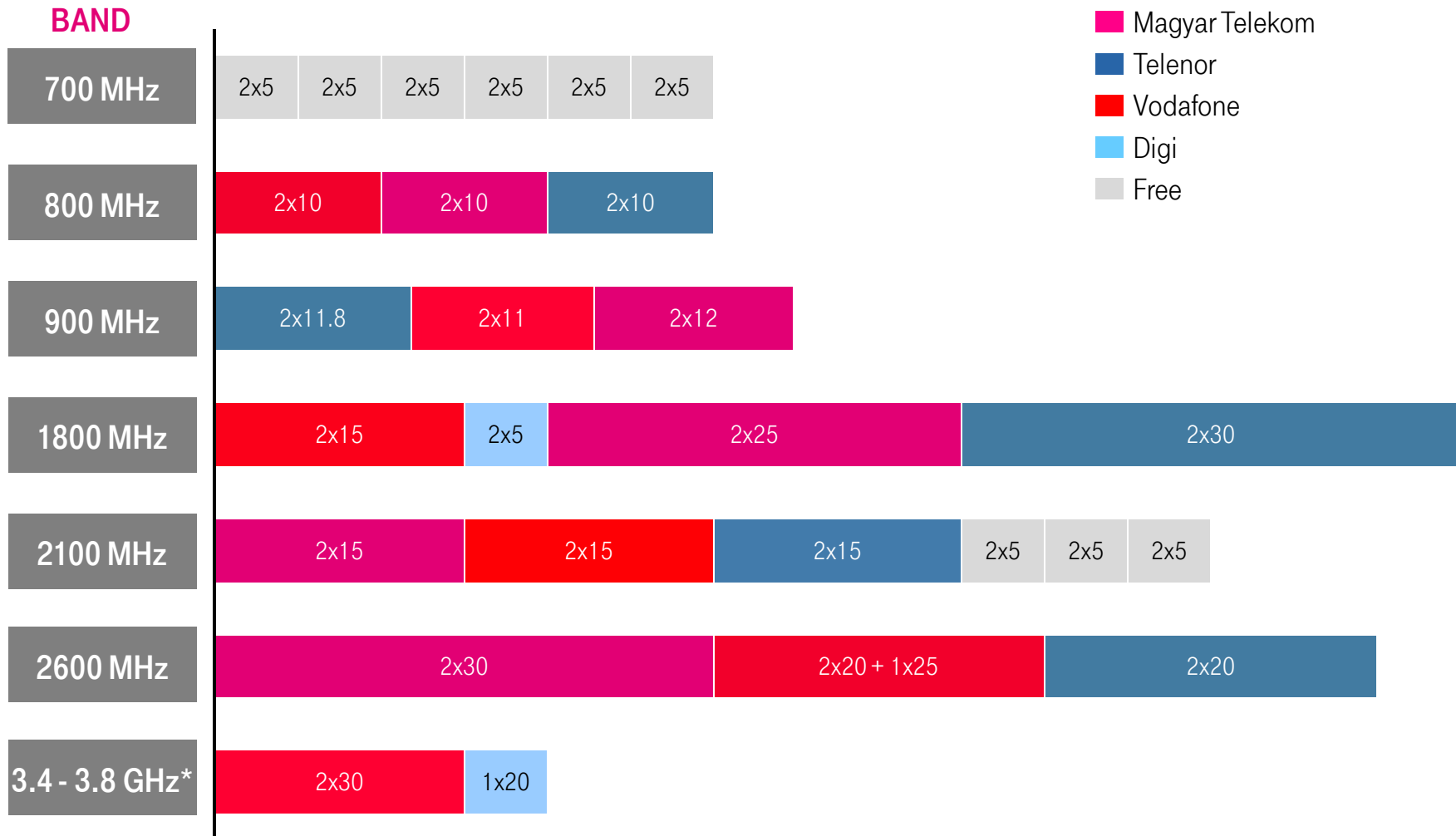


- Network sharing on 800 MHz with Telenor
- 4G+ coverage, enabling 250Mbps exceeded 30%
- Number of mobile data subscribers grew by 15% CAGR (2013-2016)
- Overall mobile data usage increased by over 30% CAGR (2013-2016)
- Average data usage grew by 50% from 764MB/month to 1,163 MB/month (2013-2016)

- 2.8 million households across the country covered by High Speed Internet (HSI) access
 - FTTx (684k HHs) – ongoing countrywide roll-out
 - ED3 (752k HHs) – participating in market consolidation
 - VDSL (1,375k HHs) – revitalizing copper, excl. overlaps
- Roll-out is ongoing, aim to reach in excess of another 250,000 households in 2017 with HSI

HUNGARIAN MOBILE SPECTRUM ALLOCATION

Current spectrum allocation (MHz)



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* TDD band

Q1 2017 RESULTS, GUIDANCE AND DIVIDEND

Q1 2017 FINANCIAL RESULTS AND 2017 TARGETS*

	Q1 2017 vs. Q1 2016	2016 FY RESULTS	2017 TARGETS
REVENUE	HUF 140.5 bn (+1.6%)	HUF 574.0 bn	around HUF 560 bn
	<ul style="list-style-type: none"> Revenue growth in mobile driven by mobile data and equipment sales following sales push Slight decline in fixed line revenues with higher TV and equipment sales unable to offset the declines in voice and broadband Higher SI/IT revenues driven by major public procurement tender wins 		
EBITDA	HUF 38.3 bn (-16.5%)	HUF 188.1 bn	around HUF 182 bn
	<ul style="list-style-type: none"> Q1 2016 EBITDA boosted by one-off gains from the sale of Infopark (Building G) and Origo Lower gross profit driven by an increase in mobile equipment subsidies and TV service margin compression (content fee introduced in July 2016) Deterioration in other OPEX driven by higher maintenance costs, repairs and remedial work expenses, and increased rental fees 		
CAPEX	HUF 15.5 bn (+39.2%)	HUF 97.9 bn	around HUF 85 bn
	<ul style="list-style-type: none"> Higher spending on our 4G+ network Higher number of set top boxes reflecting strong TV sales in Q1 2017 Lower PSTN migration investments 		
FCF	HUF 0.3 bn (-97.5%)	HUF 57.3 bn	around HUF 55 bn
	<ul style="list-style-type: none"> Q1 2016 FCF boosted by one-off gains of HUF 11.3 billion (sale of Infopark (Building G) and Origo) 		

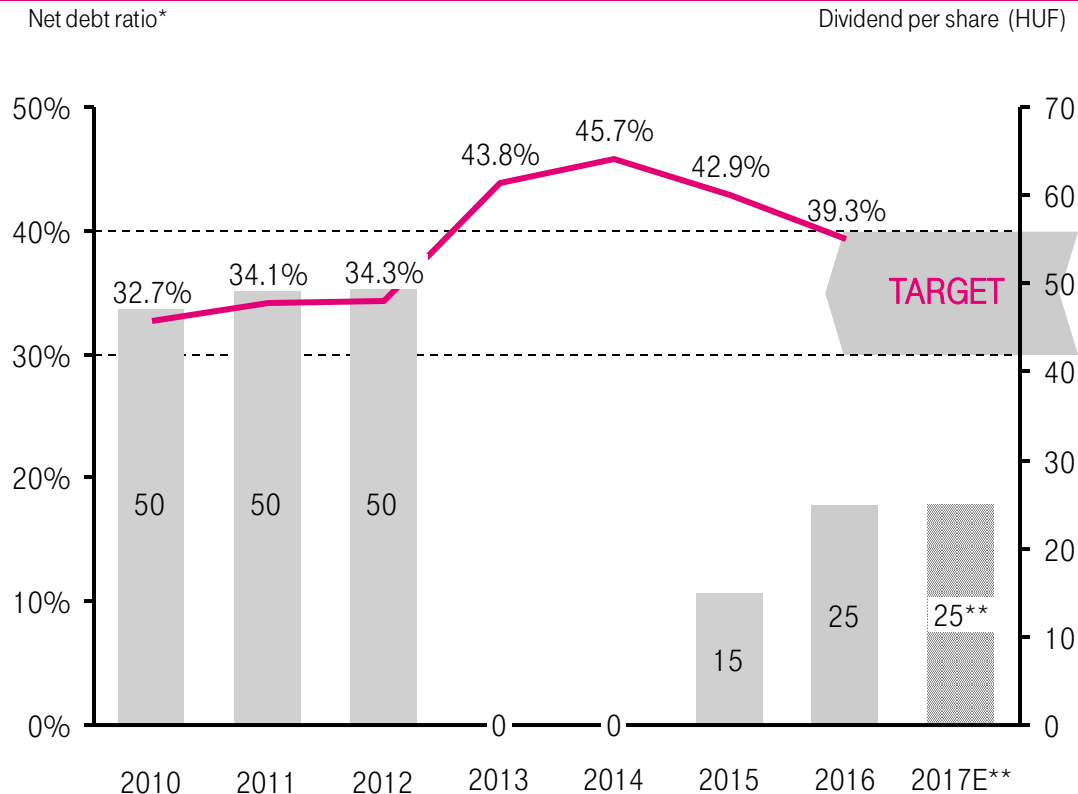


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*Excluding Crnogorski Telekom financials and the transaction price received for the disposal of the majority ownership in Crnogorski Telekom

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 25 dividend per share payment based on 2016 results
- We also expect the Company to pay HUF 25 dividend per share in relation to 2017 earnings, maintaining a stable dividend level compared to 2016 earnings**



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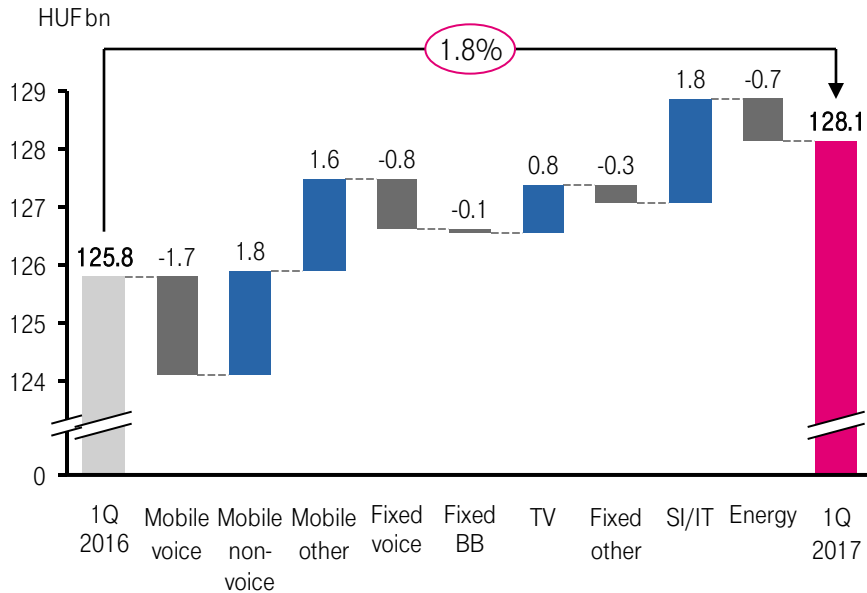
* Defined as net debt / total capital. At the end of March 31, 2017 net debt ratio stood at 37.0%.

** 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

Q1 RESULTS

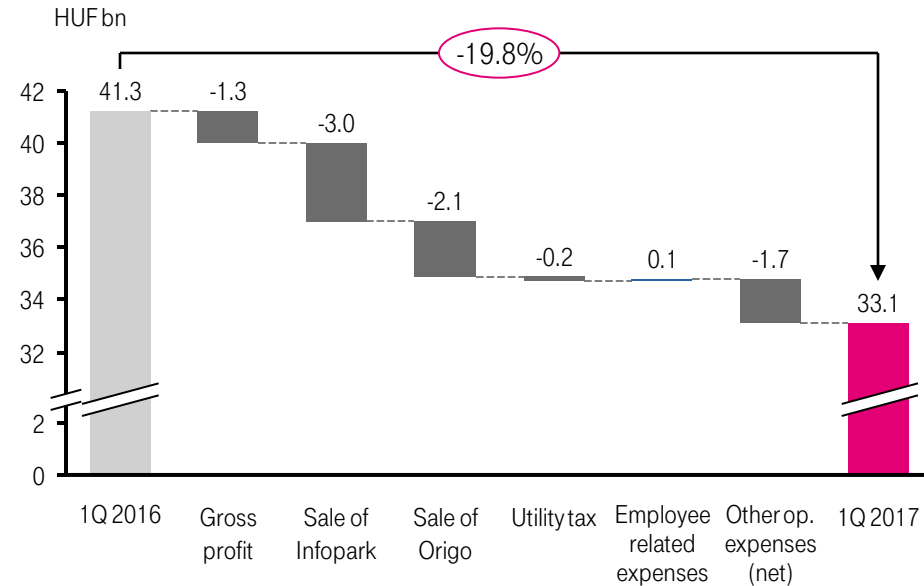
HUNGARY

Revenue*



- Increase in mobile revenues driven by mobile data growth and higher equipment sales thanks to our retention and acquisition efforts
- Slightly lower fixed broadband revenues as higher customer numbers were offset by a decline in price levels
- TV revenues increased due to a rise in the customer base and material increase in ARPU levels
- Significant increase in SI/IT thanks to public procurement tender wins

EBITDA



- Improvement in SI/IT margins and bad debt expenses more than offset by higher direct costs due to increased mobile equipment subsidies and the TV service margin deterioration (content fee introduced in July 2016)
- Profit on the sale of Infopark Building G and Origo in Q1 2016 results in significant year-on-year EBITDA decline
- Higher other OPEX due to higher network maintenance costs, repairs and remedial work expenses, and increased rental fees



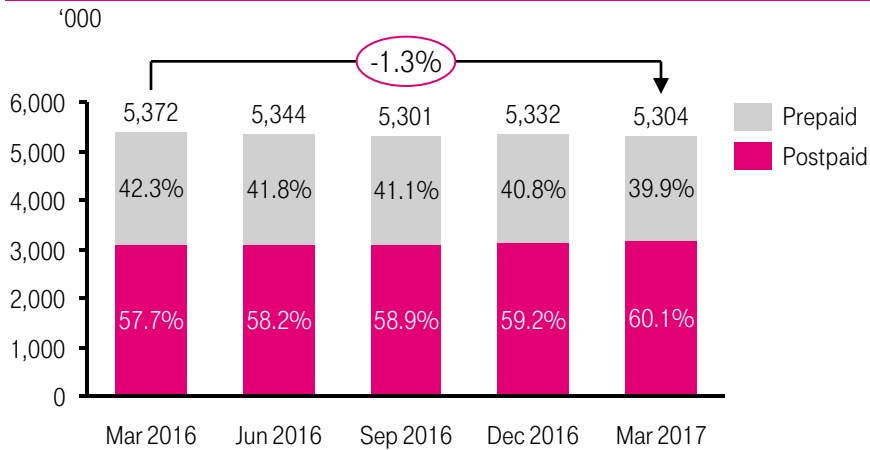
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*Mobile voice includes mobile retail and wholesale voice; Mobile non-voice includes data, SMS and equipment; Fixed other includes equipment, data, wholesale and other

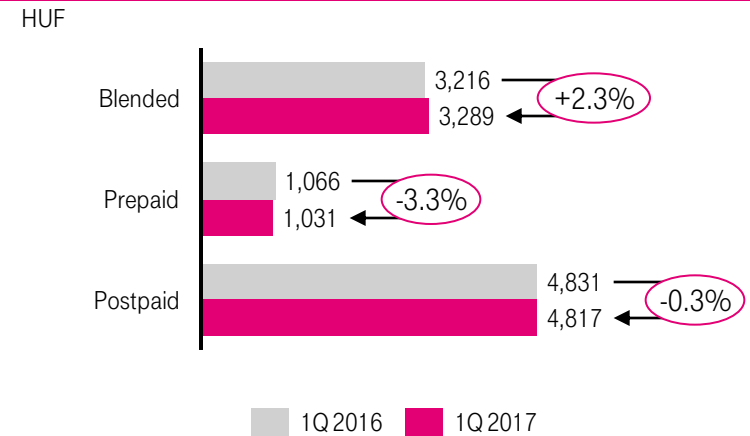
HUNGARY – MOBILE



Mobile SIMs



Mobile ARPU



New postpaid mobile portfolio

VOICE

S	M	L	XL
80 min/sms	Flat on net	Flat on net + 150 min/sms	Full flat
HUF 2,000	HUF 3,000	HUF 5,500	HUF 13,000

DATA

30 GB	HUF 10,000
10 GB	HUF 6,000
4 GB	HUF 4,000
1 GB	HUF 2,000
400 MB	HUF 1,000

Customers can combine **VOICE and DATA** packages based on their preferences

20-25% discount on multiple-play packages*

Highlights

- Customer base decline driven by prepaid churn and intense competition for business customers
- Increase in postpaid RPC driven by retention and acquisition efforts and strong data demand
- MOU up by 7% due to higher postpaid ratio and growing flat tariff subscriber base
- Increasing mobile ARPU due to higher data sales and successful prepaid to postpaid migration
- Continued increase in flat rate ratio among postpaid customer base
- New flexible postpaid tariff portfolio launched in March 2017



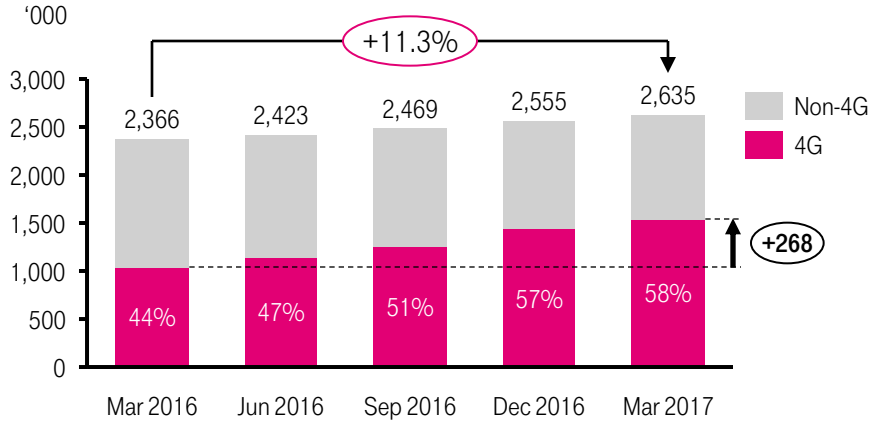
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*20% in case of fixed 2Play subscription, 25% in case of fixed 3Play subscription

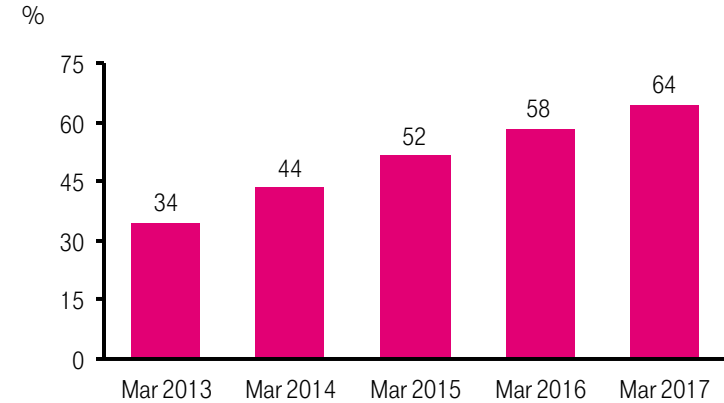
HUNGARY – MOBILE BROADBAND



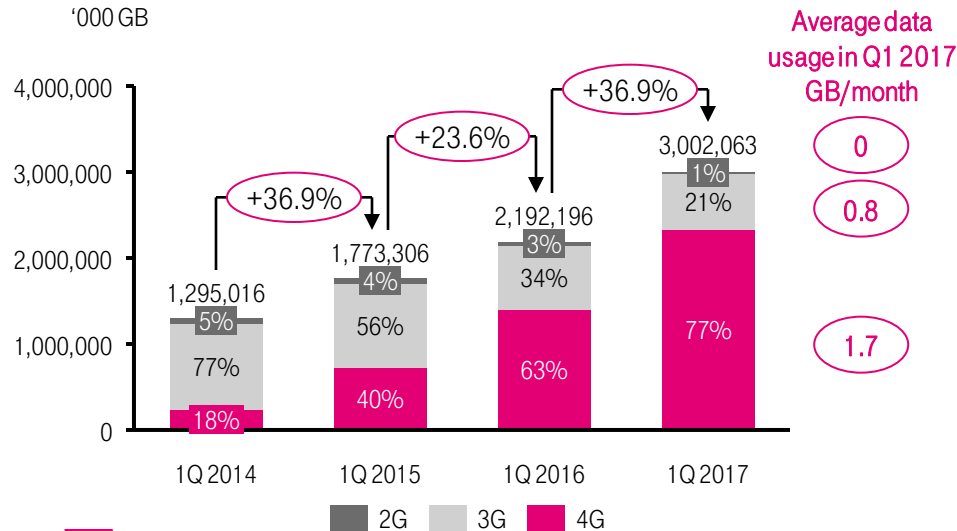
Mobile broadband user developments



Smartphone penetration



Total mobile data development among all users



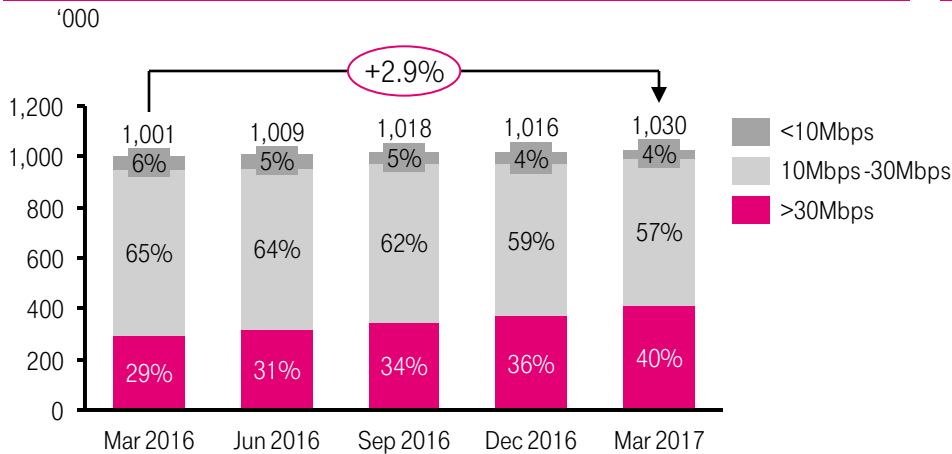
Highlights

- 4G outdoor population coverage at 98%
- Half a million yearly net adds in mobile broadband users
- Smartphone penetration over 64% (vs. 58% in Q1 2016)
- Significant growth in mobile data usage, particularly 4G
- Average data usage of 4G users is 1.7 GB/month vs. 0.5 GB/month for non-4G users, and 1.2 GB/month for the total basis

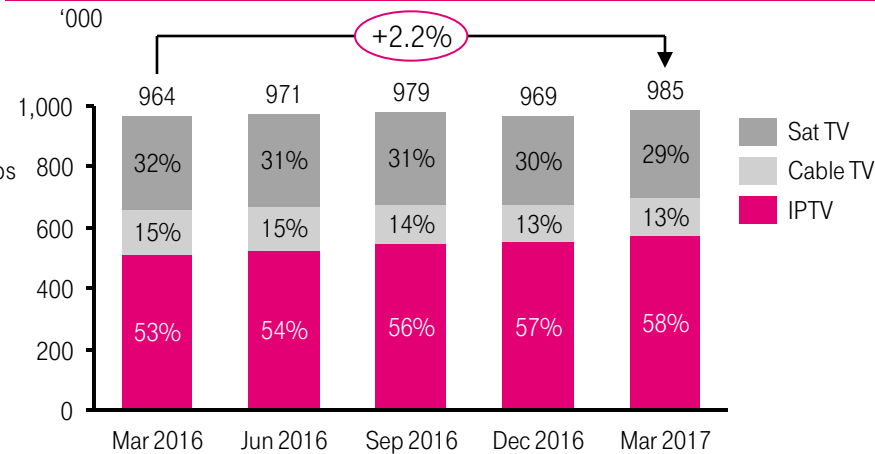
HUNGARY – FIXED VOICE, BROADBAND AND TV



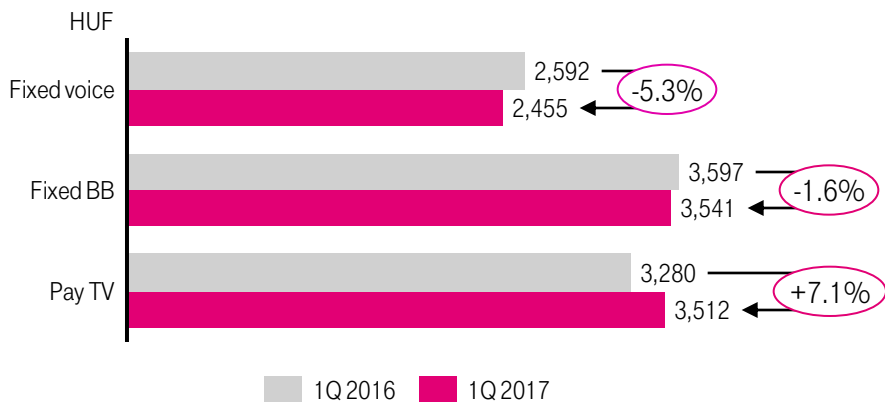
Fixed BB customer number



Pay TV customer number



Fixed Voice, BB and TV ARPU



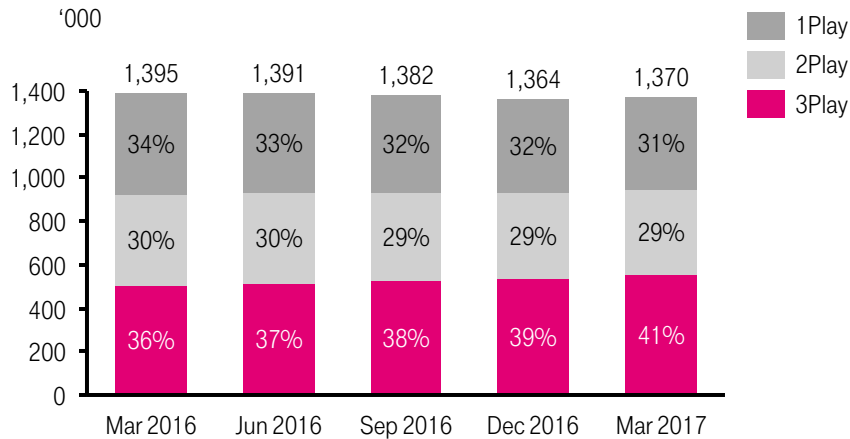
Highlights

- Focus on increasing the ratio of higher bandwidth packages and IPTV subscribers
- Fixed voice churn at 2% thanks to effective bundling strategy
- Growing fixed broadband and TV customer base
- Fixed voice and BB ARPU continues to decline, in the face of competitive bundled (3Play) offers
- Higher TV ARPU due to price increase reflecting the introduction of content fee

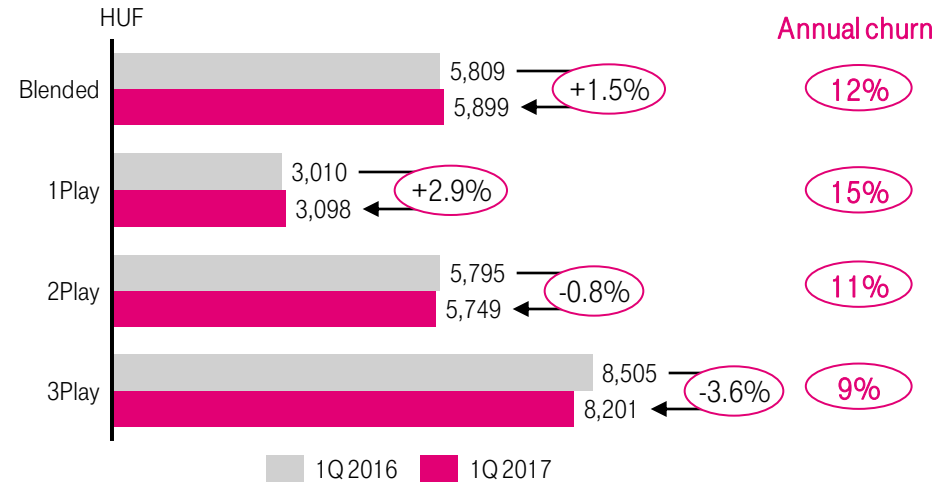
HUNGARY - MULTIPLAY



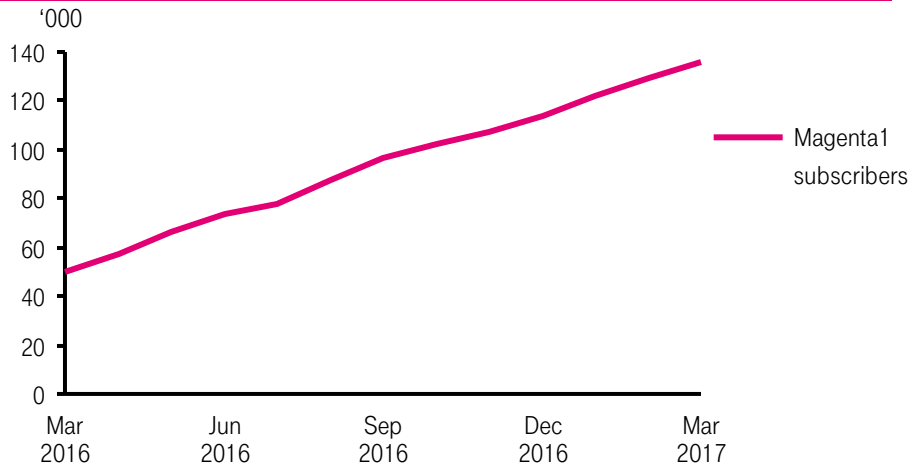
Fixed line multiplay residential subs. development



Fixed line multiplay residential ARPU development



4Play Magenta1 subscriber development

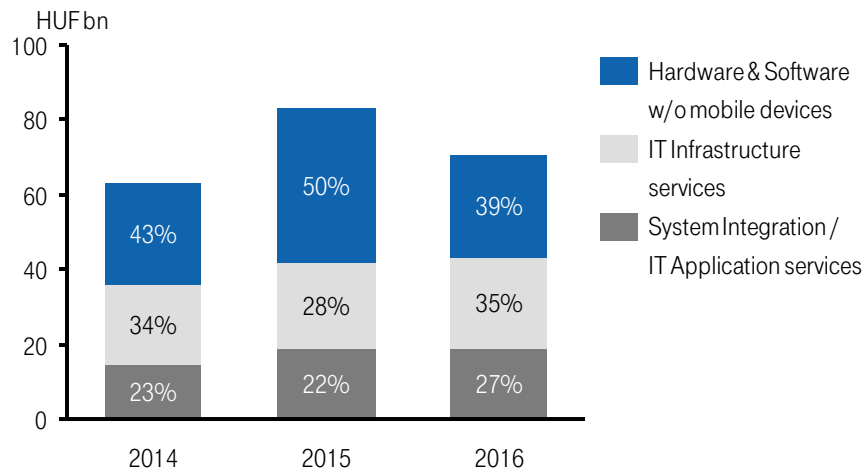


Highlights

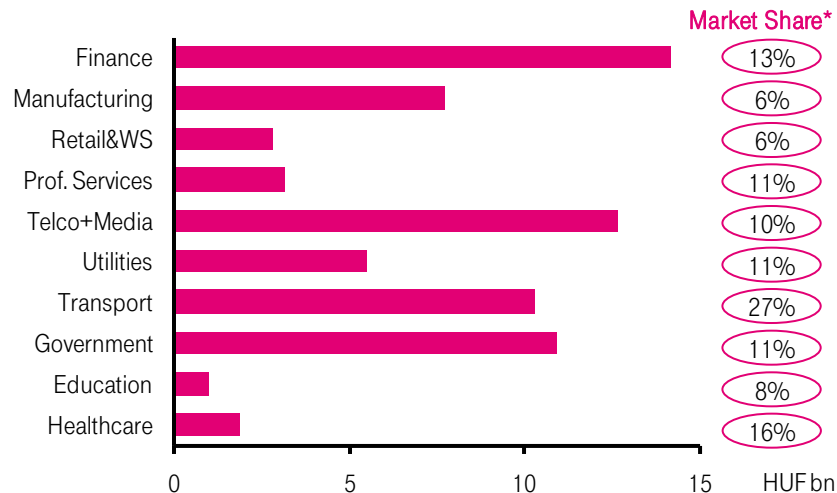
- Blended fixed line ARPU up by 2% thanks to continuously increasing 3Play share
- Lower churn among 2&3Play customers compared to 1Play subscribers
- More than 136,000 high-value 4Play Magenta1 customers, helping to maximize the telecommunication share of wallet in household spending
 - 54% of the Magenta1 customers use at least 30Mbps fixed broadband service
 - 50% of the Magenta1 customers subscribe to unlimited mobile voice and SMS

HUNGARY - SI/IT

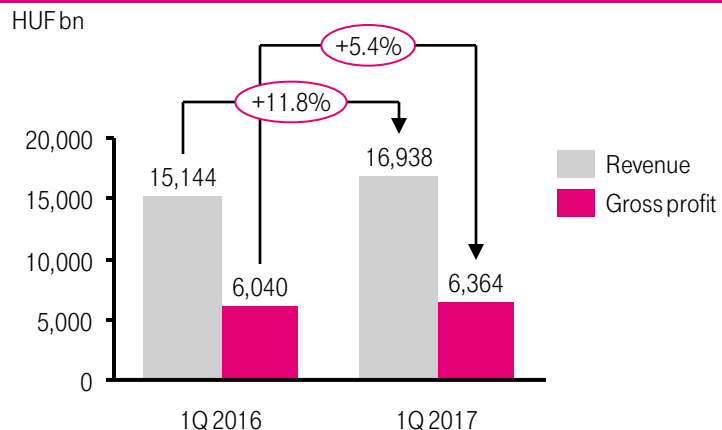
SI/IT revenue developments



SI/IT revenue breakdown by vertical segments*



SI/IT revenue and gross profit of MT Hungary



Gross margin

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40%

38%

Highlights

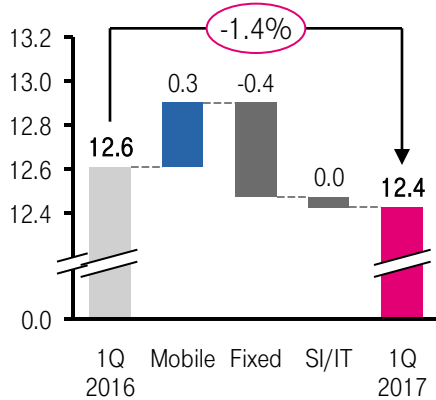
- 2016 fall in revenues due to the end of the previous EU fund cycle
- Total revenues expected to increase again in 2017 as a result of accelerating EU fund inflows
- T-Systems is an important player in all major vertical segments
- Q1 2017 revenue rise due to major public procurement tender wins
- Magyar Telekom's aim is to maintain a healthy level of gross profit by undertaking a diversified mix of both higher added value SI/IT projects and lower margin IT deals

*Based on IDC Research 2016, market shares based on revenues

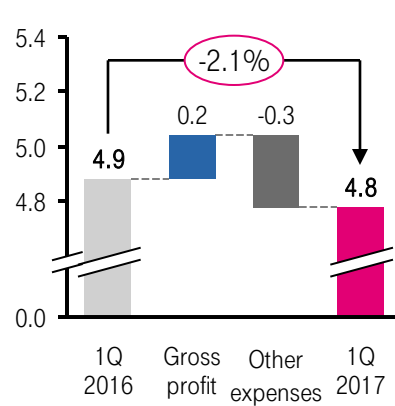
MACEDONIA

Financials

Revenues (HUF bn)

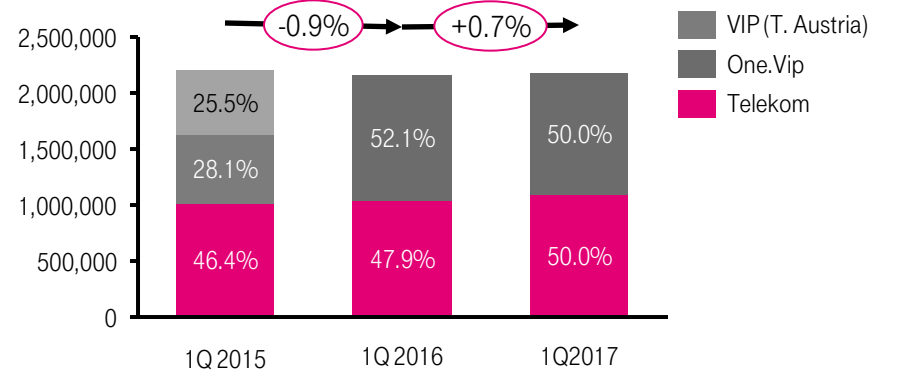


EBITDA (HUF bn)

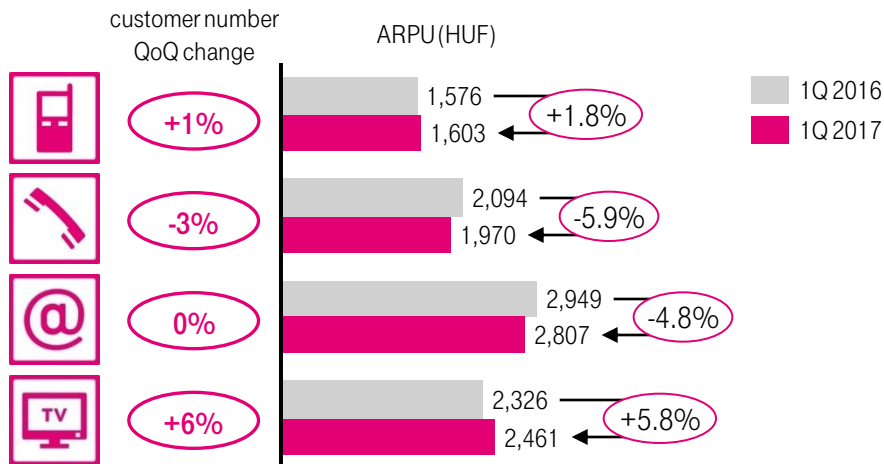


Mobile KPIs

Subscribers



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



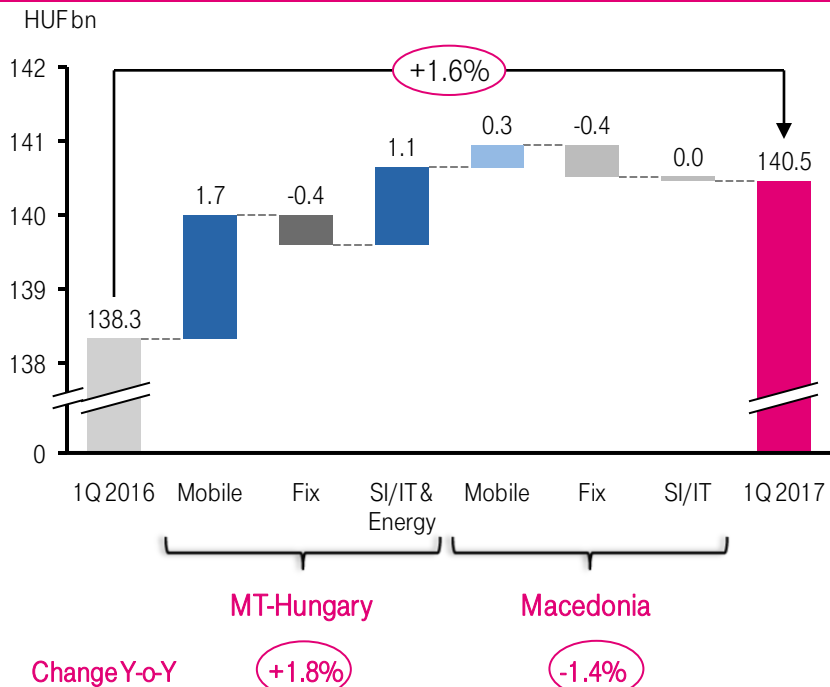
Highlights

- Continued mobile revenue increase despite 33% mobile termination rate cut effective from December 2016
- Slight EBITDA decline as higher other operating expenses offset savings in employee-related expenses and the improvement in gross profit
- Strong integrated competitor (under the VIP brand)
- Robust growth in TV subscribers and reduced churn in fixed voice
- Almost 50% of the fixed voice customer base is already a 3Play subscriber

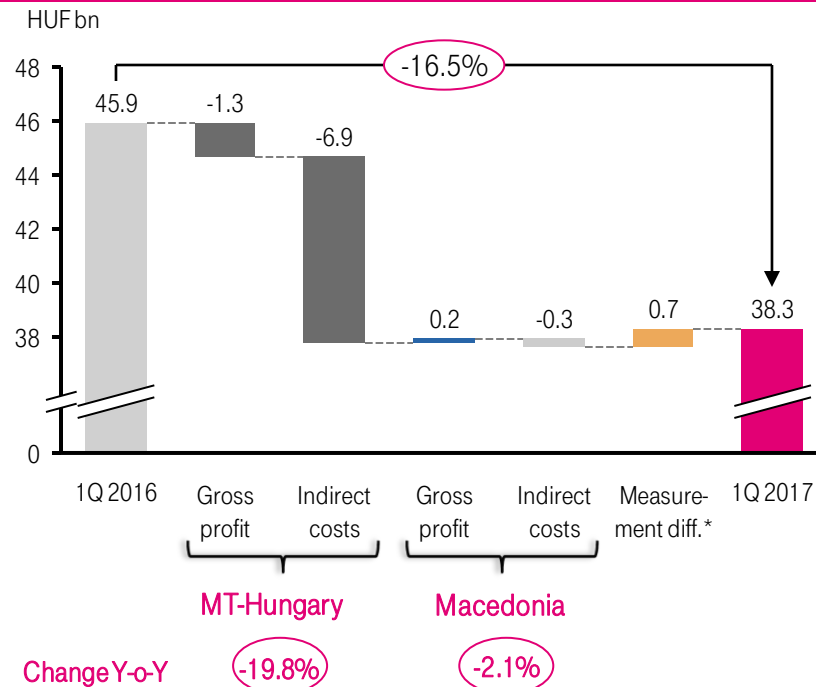
APPENDIX

Q1 2017 GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues



Group segmental EBITDA



- **Hungary:** higher mobile data, TV and equipment revenues, coupled with improvement in SI/IT revenues offset the declining voice retail (both mobile and fixed) and wholesale revenues
- **Macedonia:** significant improvement in mobile revenues driven by higher mobile data usage and customer numbers was offset by lower fixed voice and wholesale revenues

- **Hungary:** EBITDA declined due to the absence of material one-offs in other operating income realized in Q1 2016, coupled with higher other operating expenses and lower gross profit
- **Macedonia:** higher other operating expenses offsetting savings in employee-related expenses and the improvement in gross profit

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q1 2016	Q1 2017	Change
Mobile revenues	72,287	74,250	2.7%
Fixed line revenues	48,346	47,548	-1.7%
System Integration/Information Technology revenues	15,380	17,129	11.4%
Revenue from energy services	2,313	1,580	-31.7%
Revenues	138,326	140,507	1.6%
Direct costs	(49,688)	(52,942)	-6.5%
Employee-related expenses	(19,803)	(19,385)	2.1%
Utility tax	(7,265)	(7,418)	-2.1%
Depreciation and amortization	(25,308)	(25,720)	-1.6%
Other operating expenses	(22,147)	(23,152)	-4.5%
Total operating expenses	(124,211)	(128,617)	3.5%
Other operating income	6,512	732	-88.8%
Operating profit	20,627	12,622	-38.8%
Net financial results	(6,607)	(6,050)	8.4%
Share of associates' profits	(24)	309	n.a.
Profit before income tax	13,996	6,881	-50.8%
Income tax expense	(3,391)	(2,067)	39.0%
Profit for the period from continuing operations	10,605	4,814	-54.6%
Profit from discontinued operation	860	9,526	1007.7%
Total profit for the period	11,465	14,340	25.1%

MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	Dec 31, 2016	Mar 31, 2017	Change
Current assets	193,978	183,255	-5.5%
Cash and cash equivalents	10,805	8,999	-16.7%
Other current financial assets	5,104	6,008	17.7%
Non current assets	981,551	926,128	-5.6%
Property, plant and equipment - net	483,174	458,620	-5.1%
Intangible assets	253,299	255,022	0.7%
Total assets	1,175,529	1,109,383	-5.6%
Equity	581,333	575,628	-1.0%
Current liabilities	277,561	219,407	-21.0%
Financial liabilities to related parties	72,589	33,142	-54.3%
Other financial liabilities	22,600	25,222	11.6%
Non current liabilities	316,635	314,348	-0.7%
Financial liabilities to related parties	247,179	246,670	-0.2%
Other financial liabilities	50,098	48,286	-3.6%
Total equity and liabilities	1,175,529	1,109,383	-5.6%



MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	Q1 2016	Q1 2017	Change
Net cash generated from operating activities	24,878	27,639	11.1%
Investments in tangible and intangible assets	(11,100)	(15,452)	39.2%
Adjustments to cash purchases	(14,192)	(8,829)	-37.8%
Purchase of subsidiaries and business units	(13)	(1,777)	n.m.
Cash acquired through business combinations	0	475	n.m.
Payments for / proceeds from other financial assets - net	(4,942)	(2,723)	-44.9%
Proceeds from disposal of subsidiaries	3,464	0	n.m.
Proceeds from disposal of PPE and intangible assets	8,129	168	-97.9%
Payments for interests in associates and joint ventures	0	0	n.m.
Net cash used in investing activities	(18,654)	(28,138)	-50.8%
Dividends paid to shareholders and minority interest	(2,433)	0	n.m.
Net payments of loans and other borrowings	(7,776)	(37,594)	383.5%
Repayment of other financial liabilities	(1,234)	(1,974)	60.0%
Net cash used in financing activities	(11,443)	(39,568)	-245.8%
Free cash flow from continuing operation	9,932	250	97.5%
Free cash flow from discontinued operation	(185)	36,267	n.m.
Total Free cashflow	9,747	36,517	-274.6%

*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:

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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, 2016 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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