

Group Q3 2011 Results Presentation

Magyar Telekom

Signs of revenue pressures easing with growth in underlying EBITDA margin;
guidance for full-year confirmed



Q3 highlights

Revenues down by 1.7% ,
improvement compared to last
quarters

- deteriorating economic indicators, GDP forecast downgraded to ca. 1%
- fixed voice churn slowed down
- higher SI/IT revenues thanks to some infrastructure projects at KFKI
- increasing TV and mobile internet revenues

Underlying EBITDA down by
6.9%, margin still at a healthy
level

- change in the revenue mix (increased contribution of lower margin SI/IT revenues)
- increased level of handset subsidies
- further savings in employee-related expenses and other opex

Full year targets maintained

- revenue target of a 3-5% decline
- underlying EBITDA decline of 4% decline
- CAPEX target of approximately 5% reduction

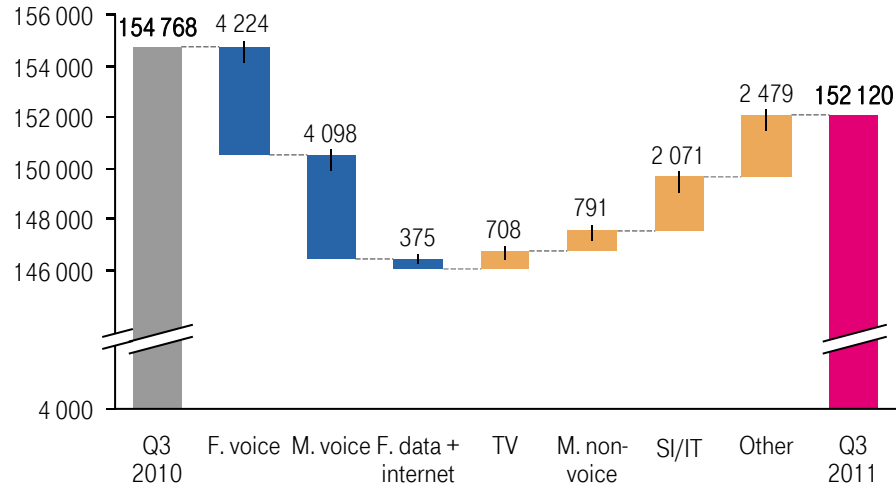
Provisions related to the
investigation

- increased provisions booked in relation to the investigation:
HUF 8.2 bn in Q3 2011
 - HUF 5.5 bn was accounted within Other operating expenses
 - HUF 2.7 bn was accounted within the Net financial results

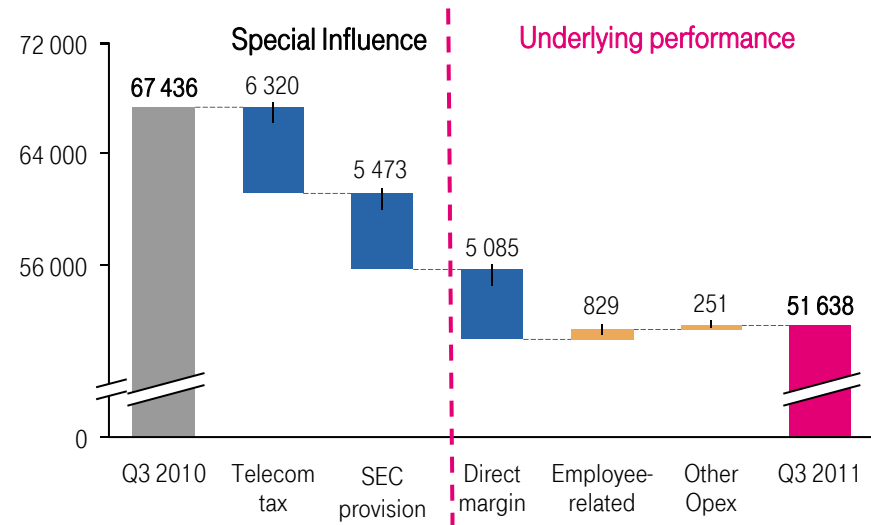


Q3 2011 Group results

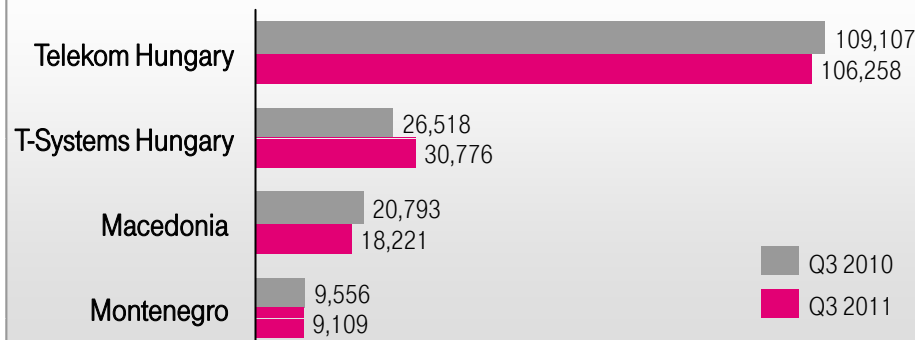
Group revenues



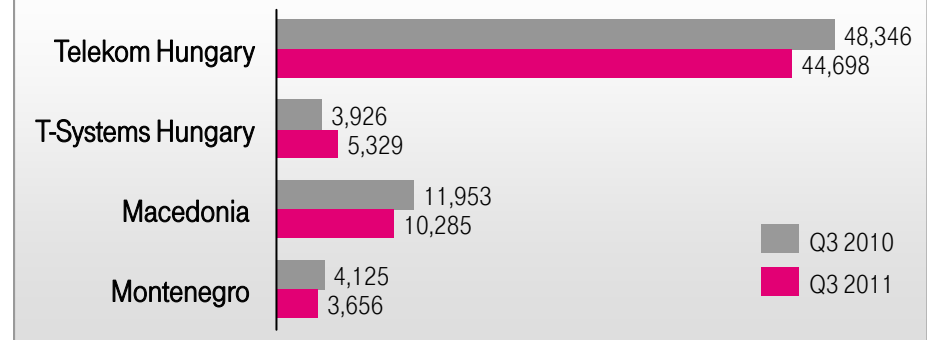
Group EBITDA



Revenues Q3-o-Q3 (HUF million)



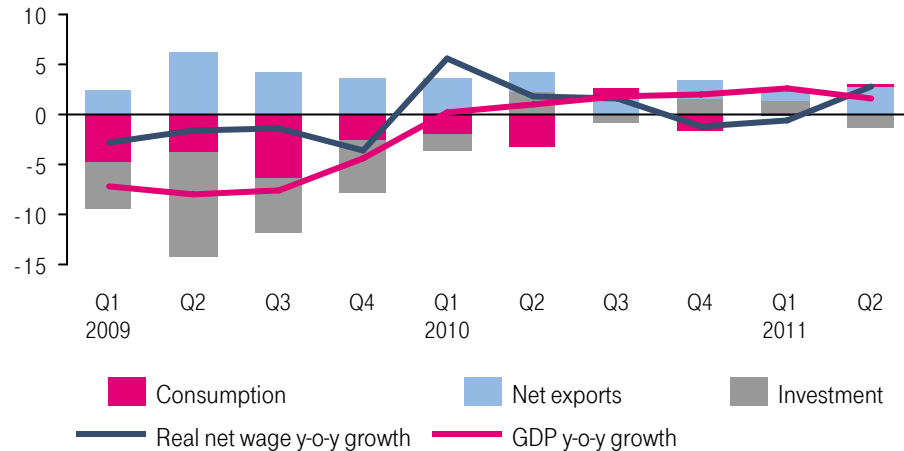
Underlying EBITDA Q3-o-Q3 (HUF million)



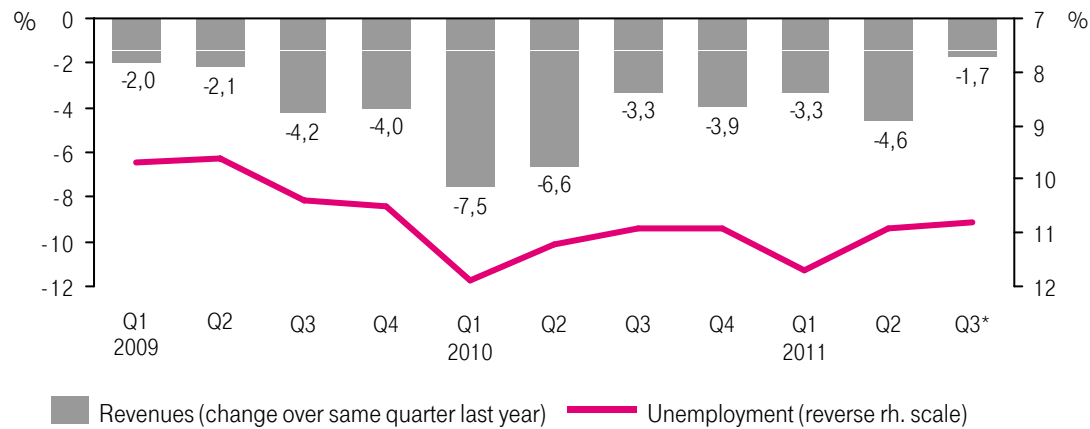
Results and Hungarian macro-economy trends 2009-2011

Growth structure and wages

Contribution to
GDP growth (%)



Magyar Telekom revenue and unemployment



*August unemployment data

Macro effects

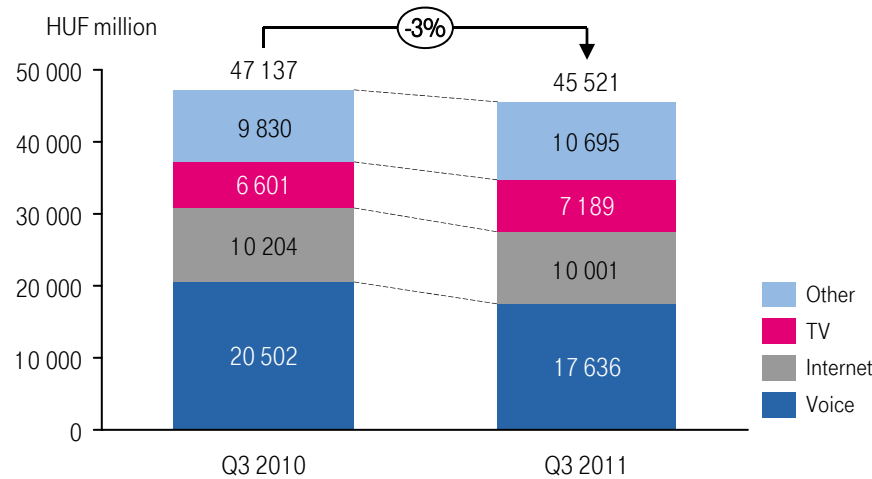
Economic recovery still doubtful and hurts MT results

- MT results are most sensitive to developments in internal demand
- the pick-up in internal demand lost momentum in 2011, while the sustainability of an export-led recovery turns doubtful as external demand slows rapidly
- consumption outlook worsens as households' BS deteriorates as a result of HUF weakening

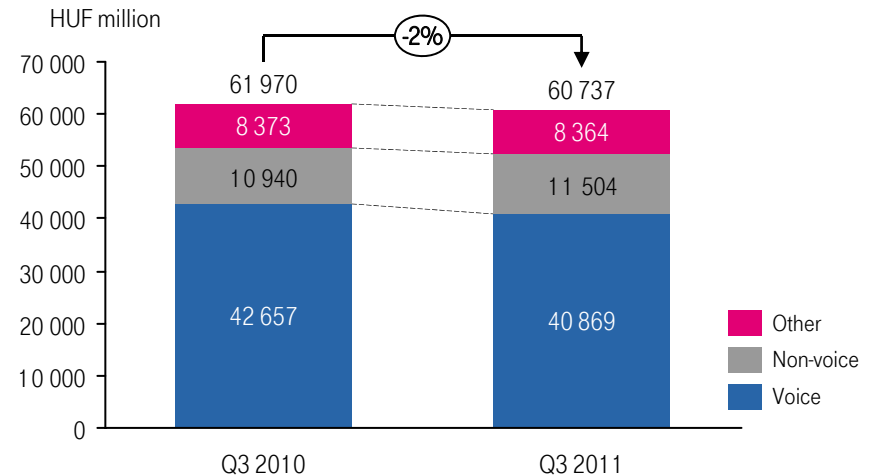


Telekom Hungary – fixed revenue decline slowing down

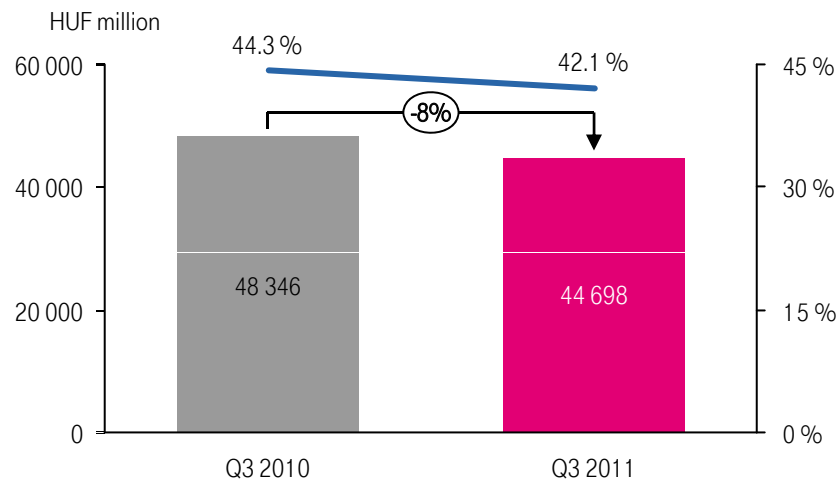
Fixed line revenues



Mobile revenues



Underlying EBITDA and margin



Telekom Hungary

Revenues down by 2.6%

- declining voice revenues partly offset by higher TV, other fixed and mobile non-voice revenues
- 10.8% other fixed line revenue increase driven by retail energy offers
- regulatory impacts on mobile revenues (cut in mobile termination rates and roaming tariffs)

Decrease in underlying EBITDA margin by 2.2pp

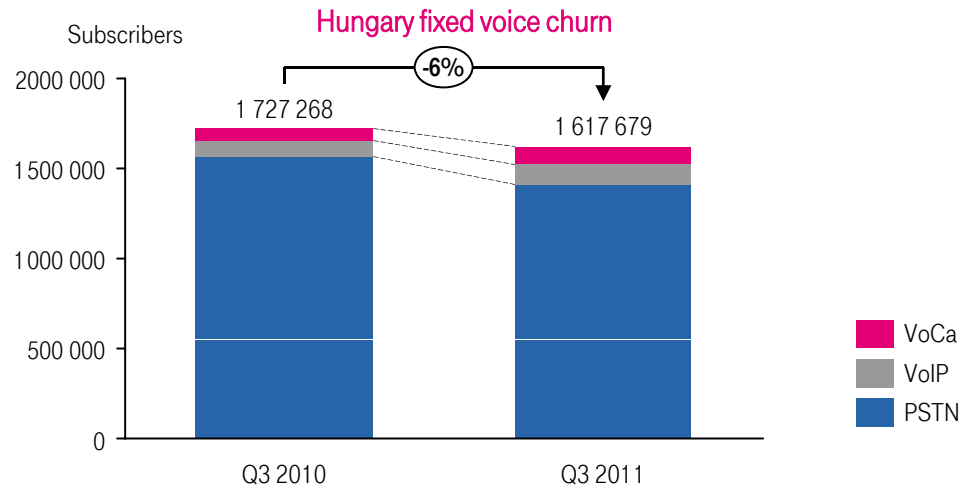
- reduction in high-margin voice revenues
- increased handset subsidies



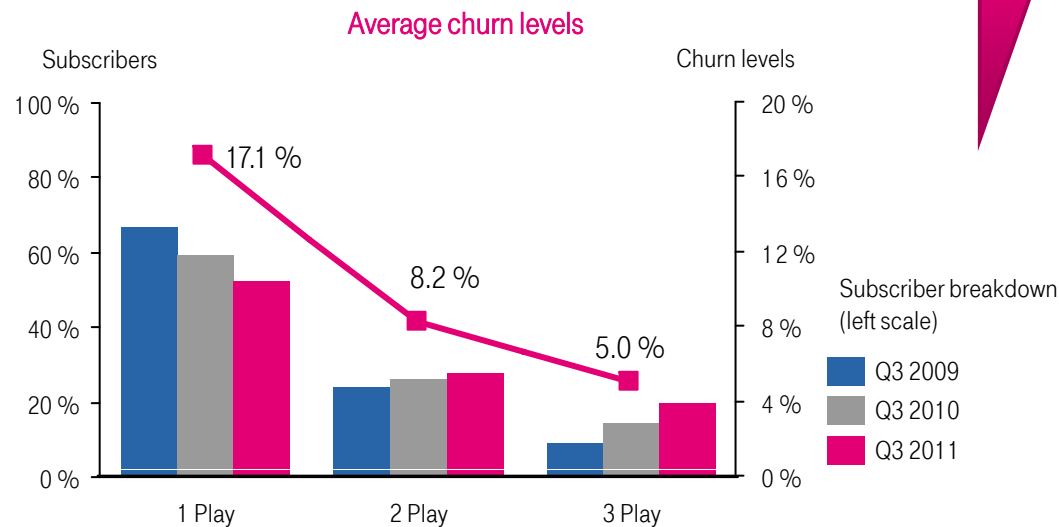
Hungary – improvement in fixed voice churn



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 16k in Q3 2011 vs. 46k in Q3 2010

KPIs

- ARPA: HUF 3 150 (-11% y-o-y)
- MOU: 161 (+13% y-o-y)

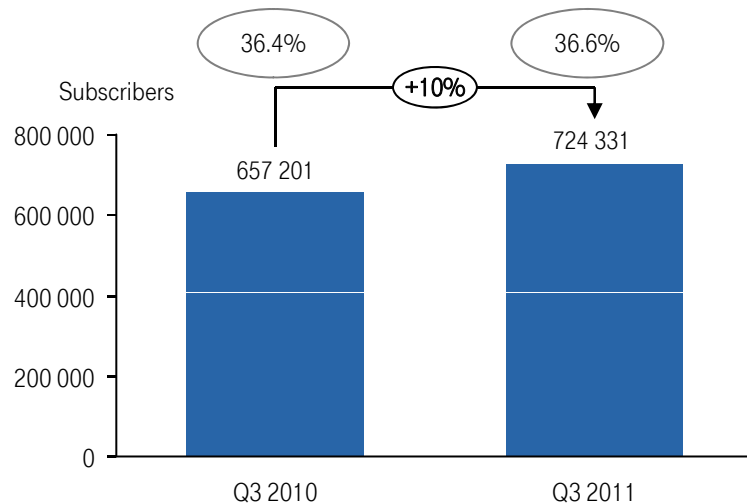


Hungary – Fixed broadband: stable market position

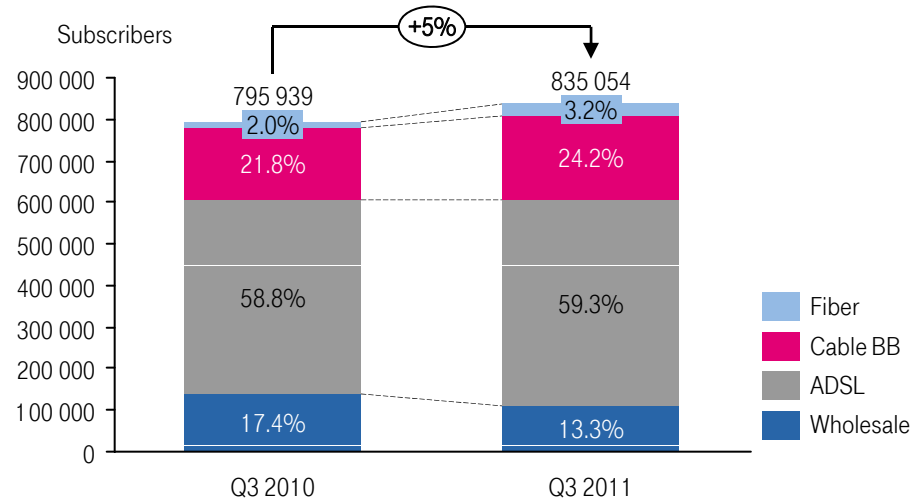


Fixed broadband market developments in Hungary

T-Home retail fixed BB market share



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%
- ARPU dilution driven by migration to multi-play packages and more favorable offers
- residential standalone fixed BB prices:
 - 5Mbps speed: HUF 5 600/month (EUR 19)
 - 80Mbps speed: HUF 11 600/month (EUR 39)

KPIs

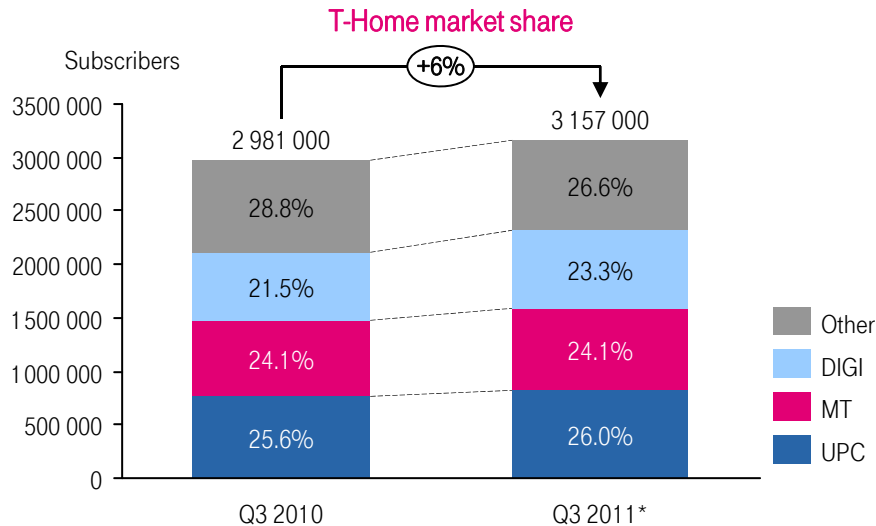
- ARPU: HUF 3 965 (-8% y-o-y)



Hungary – TV market: significant growth achieved

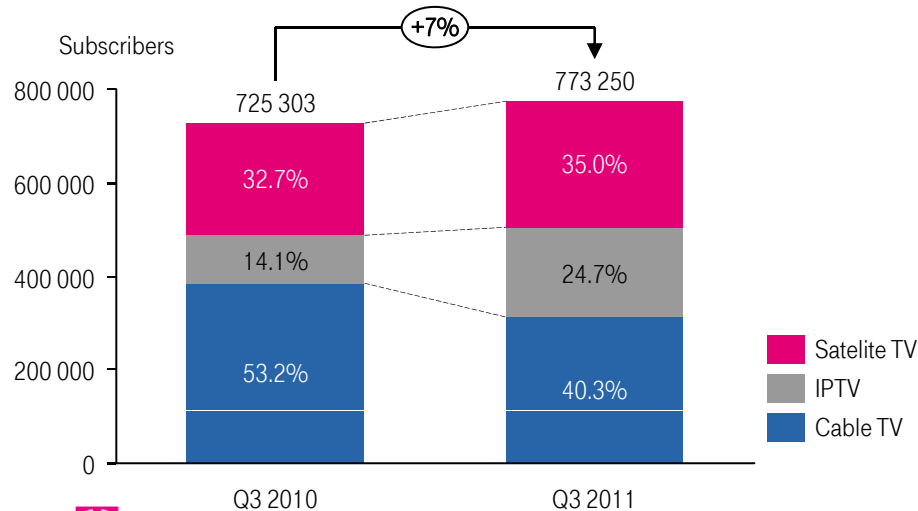


TV market growth in Hungary



**based on August-2011 data

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 773k, stable market position with 24% 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 5 600/month (EUR 19)

KPIs

- ARPU: HUF 3 060(+4% y-o-y)

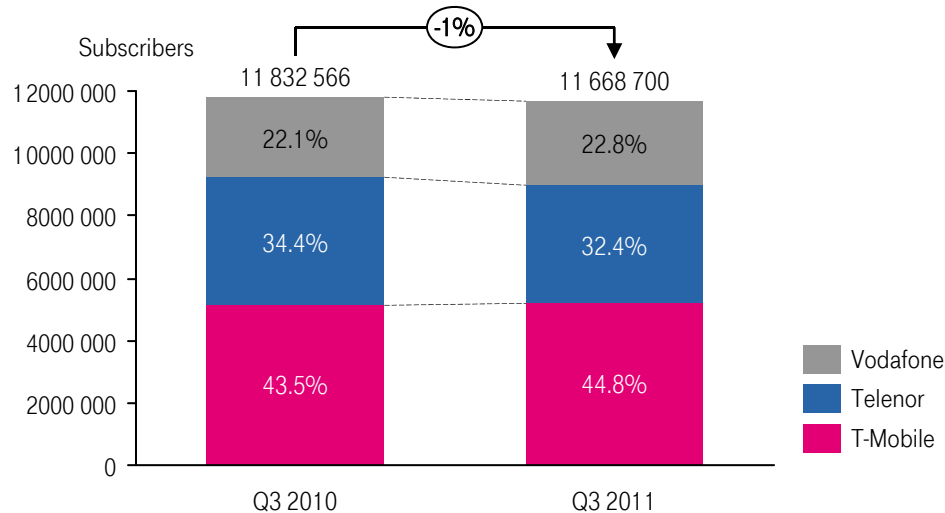
**based on the total TV market estimated by the National Media and Infocommunications Authority Hungary



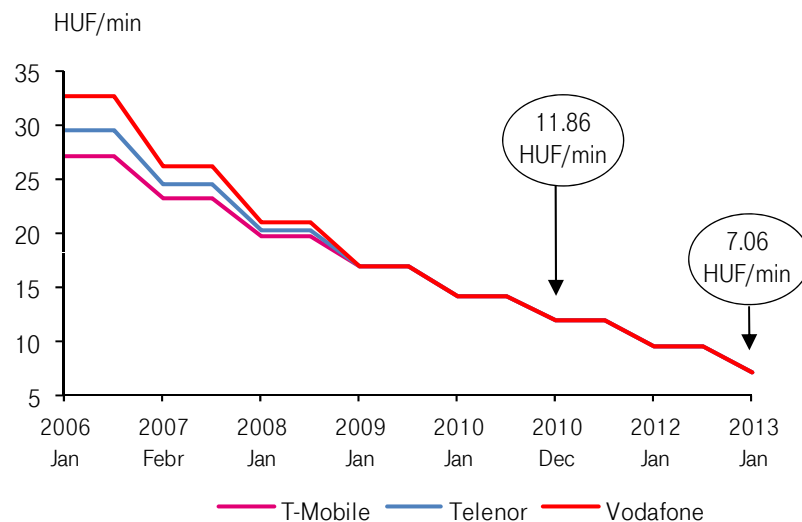
Hungary – Mobile voice: stable market share



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 43% to 45% y-o-y
- mobile termination rate regulation:
 - further cuts: 20% from Jan 2012, 25% from Jan 2013 to 2.4 €c

KPIs

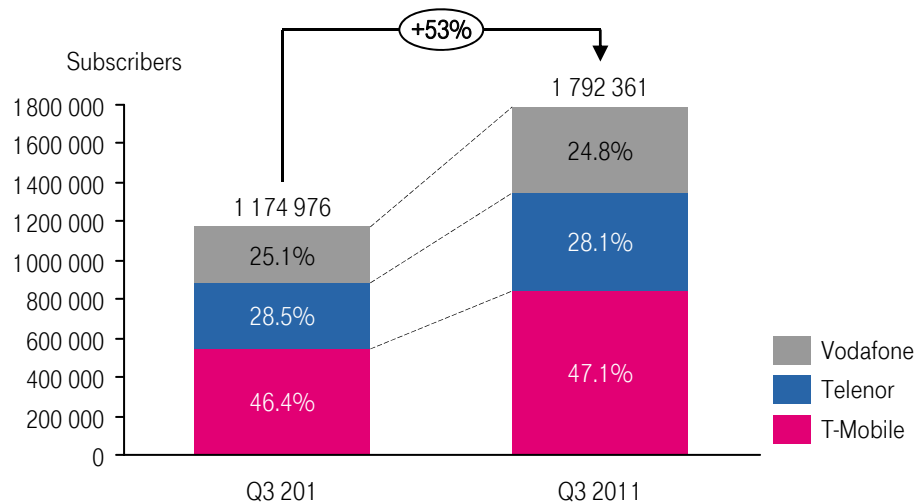
- ARPU: HUF 3 394 (-3% y-o-y)
- MOU: 160 (+5% y-o-y)
- Churn: 19% (-1 ppt y-o-y)
- SAC: HUF 5 529 (-18% y-o-y)



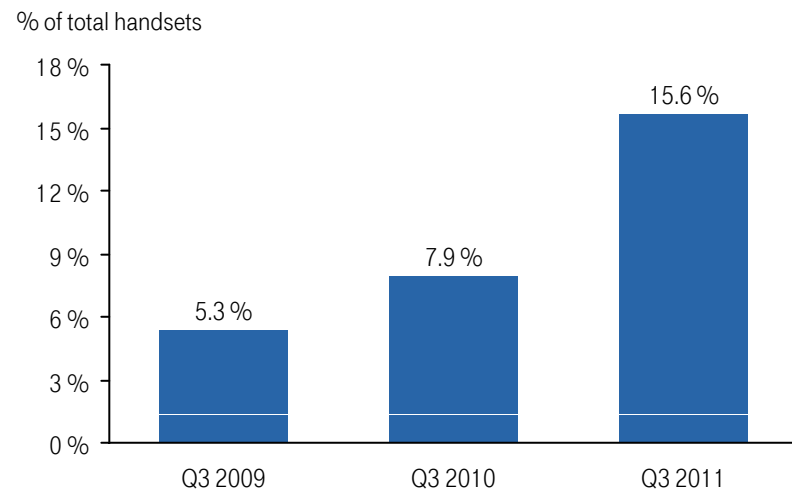
Hungary – Mobile broadband: major growth driver



Mobile broadband market developments (based on total SIM cards)



T-Mobile smartphone penetration



Mobile broadband

- 300 HSPA+ base stations offering 21 Mbps, full coverage by 2013
- significantly increasing smartphone sales
 - the ratio of smartphone sales in the postpaid segment reached 70% in Q3 2011 (vs. 30% a year ago)
 - BB subscription attach rate is ca. 55%
- the most widely used operating system is Symbian, but Android is gaining market share
- 60% of bundled mobile subscribers were in the two smallest package (MediaMania XS,S)

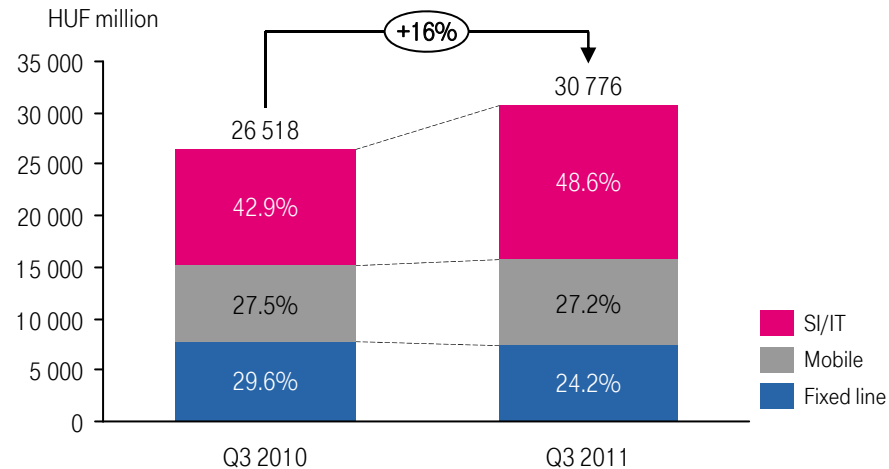
KPIs

- VAS within ARPU (%): 21% (+3 ppt y-o-y)
- VAS within ARPU (HUF): 706 (+10% y-o-y)

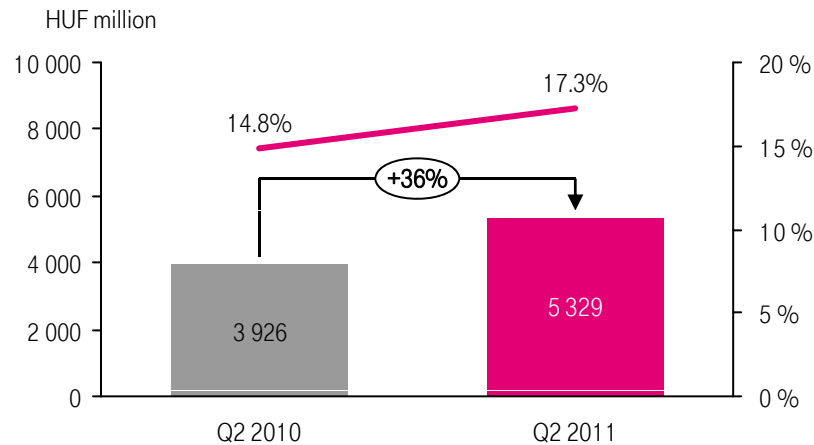


T-Systems Hungary – Revenue growth of 16% in Q3

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
- higher mobile revenues mainly due to a negative one-off in Q3 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

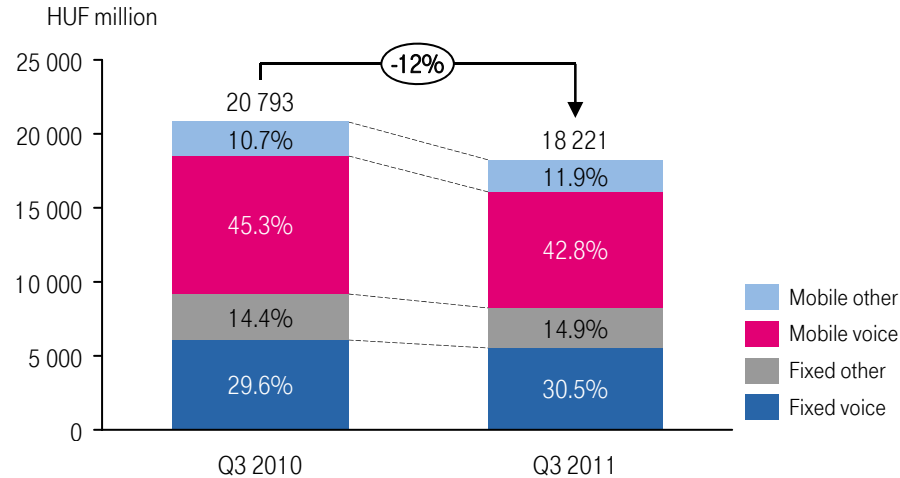
Underlying EBITDA margin improved

- cost efficiency measures mainly in employee-related costs
- lower bad debt due to collecting some outstanding public receivables
- higher other mobile revenues

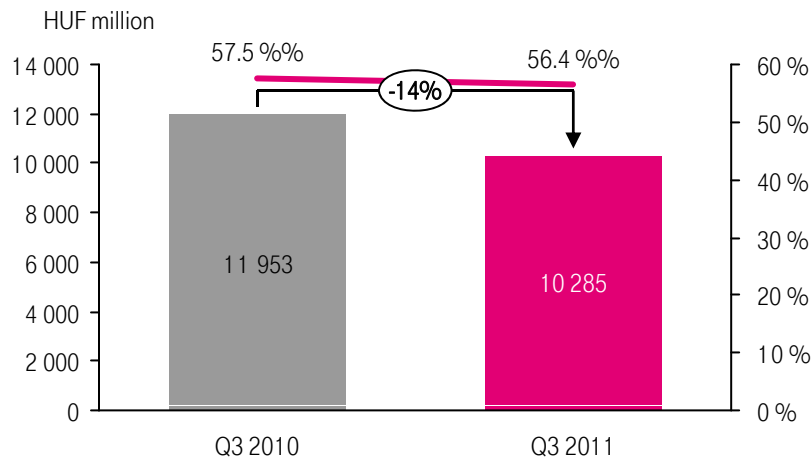


Macedonia – Financial performance

Revenues



Underlying EBITDA and margin



Macedonia

HUF strengthened by 3.9% Q3-o-Q3 against MKD

Declining fixed line revenues

- decreasing fixed retail voice revenues due to cable competition and strong mobile substitution
- positive contribution from broadband and TV revenues

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

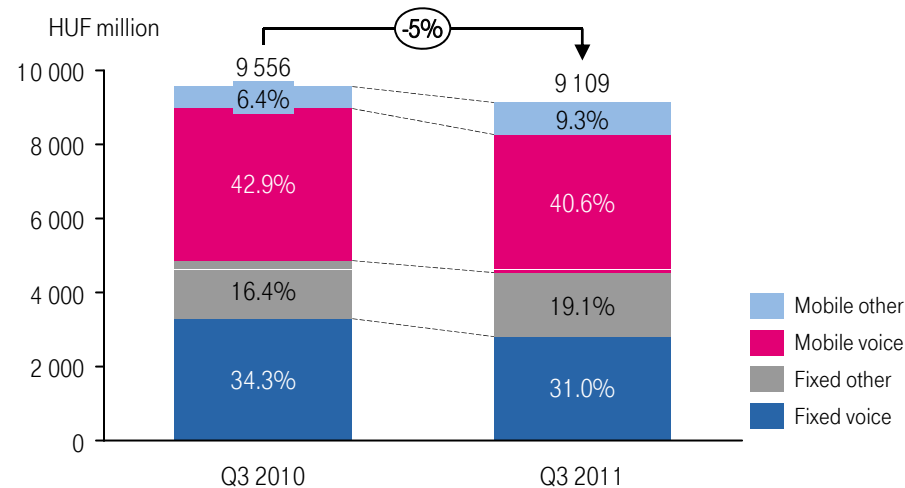
KPIs

- Fixed churn: 9%
- Mobile ARPU: HUF 2 496 (-8% y-o-y)
- MOU : 138 (+4% y-o-y)

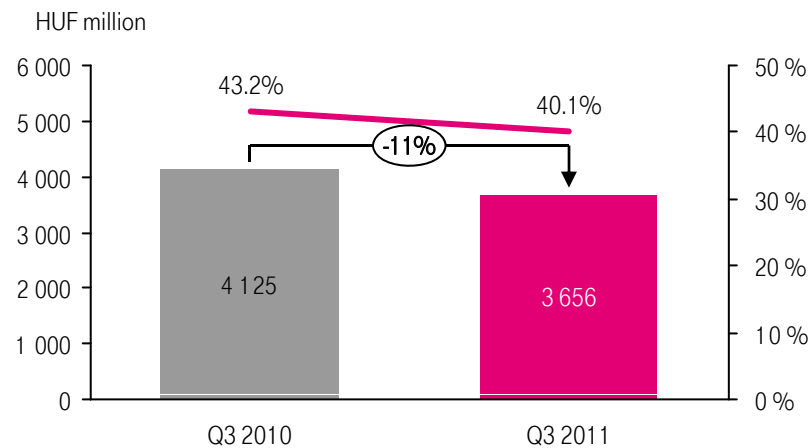


Montenegro – Financial performance

Revenues



Underlying EBITDA and margin



Montenegro

HUF strengthened by 3.9% Q3-o-Q3 against EUR

Fixed voice revenues under pressure

- deterioration in retail voice revenues driven by strong mobile substitution
- growing internet and TV revenues
- #1 position in the pay-TV market with a 38% market share

Mobile revenues down due to FX

- in local currency, mobile revenues were flat
- growth of retail and non-voice revenues
- offset by lower wholesale revenues driven by a 15% cut in interconnection tariffs from April 2011

KPIs

- Fixed churn: 1%
- Mobile ARPU: HUF 2 523 (+5% y-o-y)
- MOU: 117 (+11% y-o-y)



Financials



Magyar Telekom - Consolidated Income Statement

HUF million	Q3, 2010	Q3, 2011	Change
Fixed line revenues	62 157	59 167	-4.8%
Mobile revenues	81 651	79 922	-2.1%
System Integration/Information Technology revenues	10 960	13 031	18.9%
Revenues	154 768	152 120	-1.7%
Direct costs	(39 084)	(41 521)	6.2%
Employee-related expenses	(21 517)	(20 688)	-3.9%
Depreciation and amortization	(24 803)	(24 043)	-3.1%
Hungarian telecommunications and other crisis taxes	0	(6 320)	n.a.
Other operating expenses	(28 457)	(32 792)	15.2%
Total operating expenses	(113 861)	(125 364)	10.1%
Other operating income	1 726	797	
Operating profit	42 633	27 553	-35.4%
Net financial expenses	(7 195)	(4 187)	-41.8%
Share of associates' profits	(2)	5	-350.0%
Profit before income tax	35 436	23 371	-34.0%
Income tax	(6 652)	(6 710)	0.9%
Profit for the period	28 784	16 661	-42.1%
Non-controlling interests	4 278	3 324	-22.3%
Equity holders of the Company (Net income)	24 506	13 337	-45.6%



Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2010	Sep 30, 2011	Change
Current assets	200 574	196 151	-2.2%
Cash and cash equivalents	15 841	15 087	-4.8%
Other current financial assets	56 560	49 650	-12.2%
Non current assets	908 432	891 404	-1.9%
Property, plant and equipment - net	549 752	529 880	-3.6%
Intangible assets - net	332 993	330 102	-0.9%
Total assets	1 109 006	1 087 555	-1.9%
Equity	594 712	581 300	-2.3%
Current liabilities	246 817	246 860	0.0%
Financial liabilities to related parties	72 208	49 843	-31.0%
Other financial liabilities	46 647	55 375	18.7%
Non current liabilities	267 477	259 395	-3.0%
Financial liabilities to related parties	234 164	223 661	-4.5%
Other financial liabilities	8 828	8 247	-6.6%
Total equity and liabilities	1 109 006	1 087 555	-1.9%



Magyar Telekom - Consolidated Cashflow Statement

HUF million	Sep 30, 2010	Sep 30, 2011	Change
Net cash generated from operating activities	148 185	134 233	-9.4%
Investments in tangible and intangible assets	(54 303)	(43 875)	-19.2%
Adjustments to cash purchases	(4 177)	(6 705)	60.5%
Purchase of subsidiaries and business units	(1 493)	(2 263)	51.6%
Cash acquired through business combinations	6	455	7483.3%
Proceeds from / (Payments for) other financial assets - net	39 584	7 109	-82.0%
Proceeds from disposal of subsidiaries	780	0	n.a.
Proceeds from disposal of PPE and intangible assets	725	3 862	432.7%
Net cash used in investing activities	(18 878)	(41 417)	119.4%
Dividends paid to shareholders and minority interest	(91 545)	(64 436)	-29.6%
Net payments of loans and other borrowings	(54 190)	(29 543)	-45.5%
Other	(22)	0	n.a.
Net cash used in financing activities	(145 757)	(93 979)	-35.5%
Free cash flow*	89 723	85 707	-4.5%

* 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



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 United States Department of Justice (the "DOJ"), the United States Securities and Exchange Commission (the "SEC") and the Ministry of Interior of the Republic of Macedonia commenced investigations into certain of the activities that were the subject of the internal investigation. Further, in relation to certain activities that were the subject of the internal investigation, the Hungarian Central Investigating Chief Prosecutor's Office has commenced a criminal investigation into alleged corruption with the intention of violating obligations in international relations and other alleged criminal offenses. In addition, the Montenegrin Supreme State Prosecutor is also investigating the activities of the Company's Montenegrin subsidiary that were the subject of the internal investigation and has requested information from the Company's Montenegrin subsidiary in relation to the relevant contracts. These governmental investigations are continuing, and the Company continues to cooperate with these investigations.

On June 24, 2011, Magyar Telekom announced that its Board of Directors had approved an agreement in principle with the staff of the SEC to resolve the SEC's investigation relating to the Company through a settlement. Pursuant to the agreement in principle, the Company, without admitting or denying the allegations against it, would consent to a U.S. court order permanently enjoining it from any future FCPA violations and pay disgorgement and a conditional civil penalty. The agreement in principle reflects the SEC staff's consideration of the Company's self-reporting, remediation and cooperation with the SEC's investigation. The agreement in principle is not a final settlement of the SEC's investigation. While the Company's Board of Directors has approved the terms of a final settlement, the final settlement remains subject to approval by the SEC and a U.S. District Court.

The Company continues to engage in discussions with the DOJ regarding the possibility of resolving the DOJ's investigation of the Company through a negotiated settlement. The Company may be unable to reach a negotiated settlement with the DOJ. Any resolution of the DOJ investigation could result in criminal sanctions, including monetary penalties, which could have a material effect on the Company's financial position, results of operations or cash flows, as well as require additional changes to its business practices and compliance program. The Company cannot predict whether or when a resolution of the DOJ investigation will occur, or the terms, conditions, or other parameters of any such resolution.

In light of the ongoing negotiations with the DOJ, the Company has increased the amount of the provision recognized in connection with these investigations to HUF 19.6 bn (USD 90.8 million) in the third quarter of 2011. However, the amount of any payment obligation upon final settlement or other resolution of these investigations may differ from the amount of the provision.

In addition to the provision, Magyar Telekom incurred HUF 0.9 bn expenses relating to the investigations in the first three quarters of 2011, which are included in other operating expenses of the Telekom Hungary segment.



For further questions please contact the IR department:

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Abbreviations: 3G: third 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, 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: 271.2 (average 9M 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.

