

Investor presentation

Magyar Telekom Group – February 2013

Revenue target exceeded, EBITDA towards the better end of the targeted range

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Strategy, Outlook and Guidance

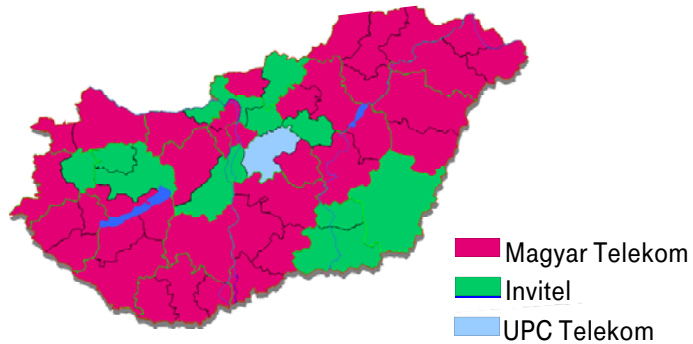


Overview – Magyar Telekom Group at a glance

International presence



Incumbents in Hungary



Overview

Leading telecommunications operator in Hungary, Macedonia and Montenegro

Majority owned by Deutsche Telekom (59.2%)

EUR 1.4 bn market capitalization as at February 2013

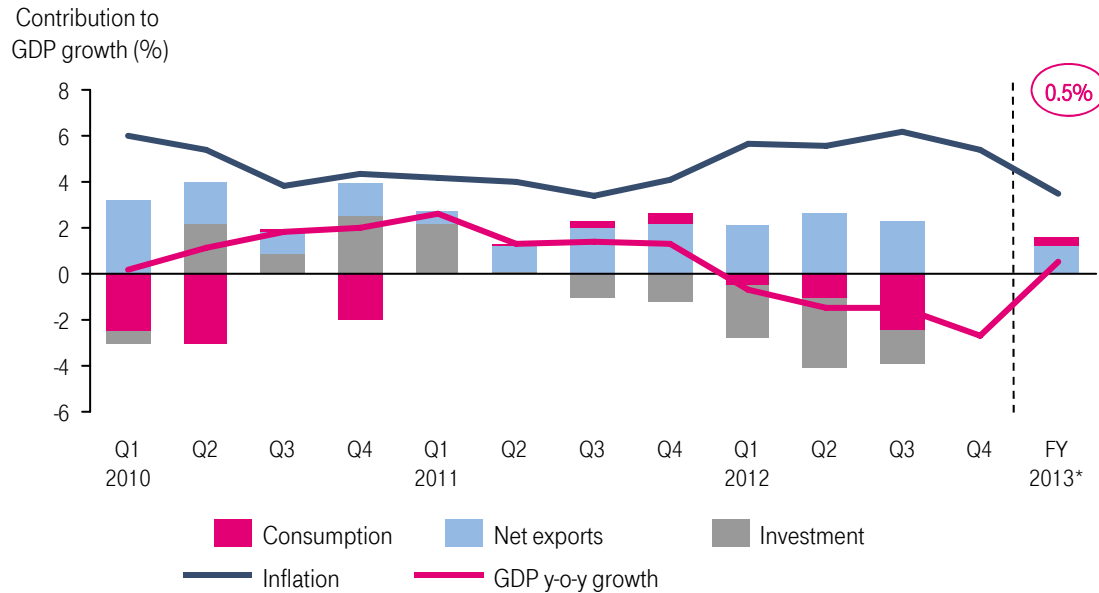
Stock exchange listings

- primary listing on the Budapest Stock Exchange
- Level I ADR program, ADSs traded on the OTC Market



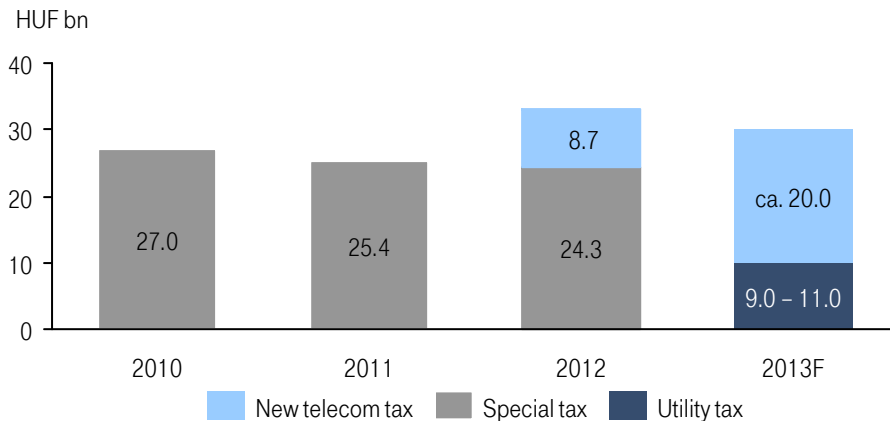
Hungarian economic environment

Growth structure and wages



* Central Bank of Hungary December 2012 forecast

Additional taxes levied on Magyar Telekom



Economic challenges

Economic downturn coupled with a high rate of inflation

- GDP performance dependent on export dynamics
- continued decline in household spending due to the weakening HUF, high unemployment and inflation has put pressure on consumption
- MT financials strongly correlated with trends in domestic demand

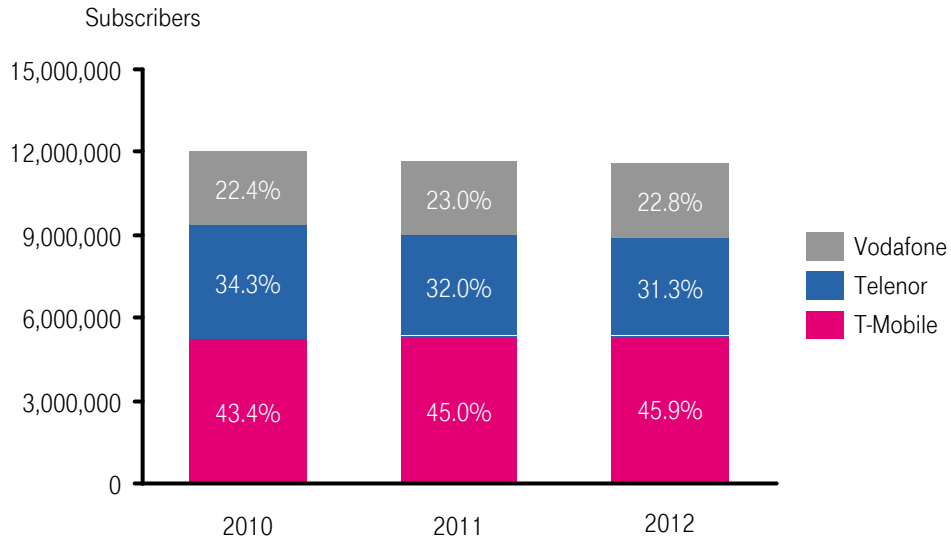
Tax burdens introduced to reduce budget deficit

- special, revenue-based sector tax levied on a temporary basis between 2010-2012
- new, traffic-based permanent telecom tax introduced from July 2012
- permanent tax on utility and telecom networks levied from 2013

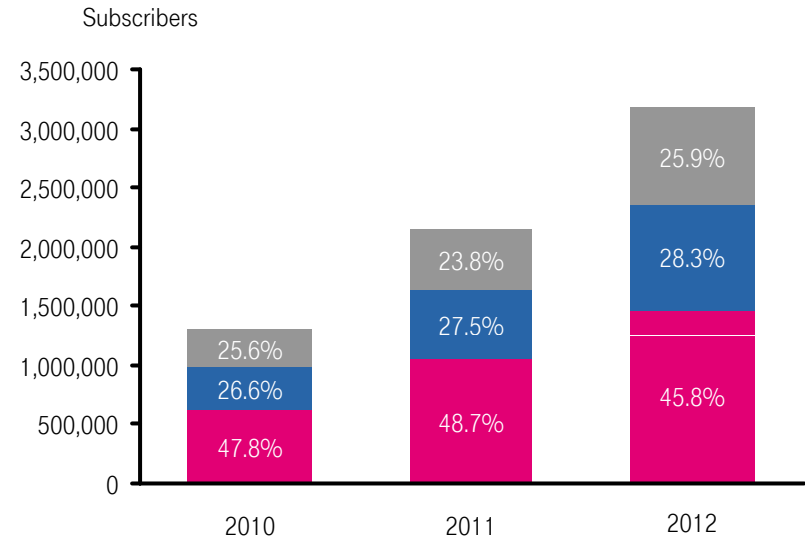


Market positions on the Hungarian telecommunication market

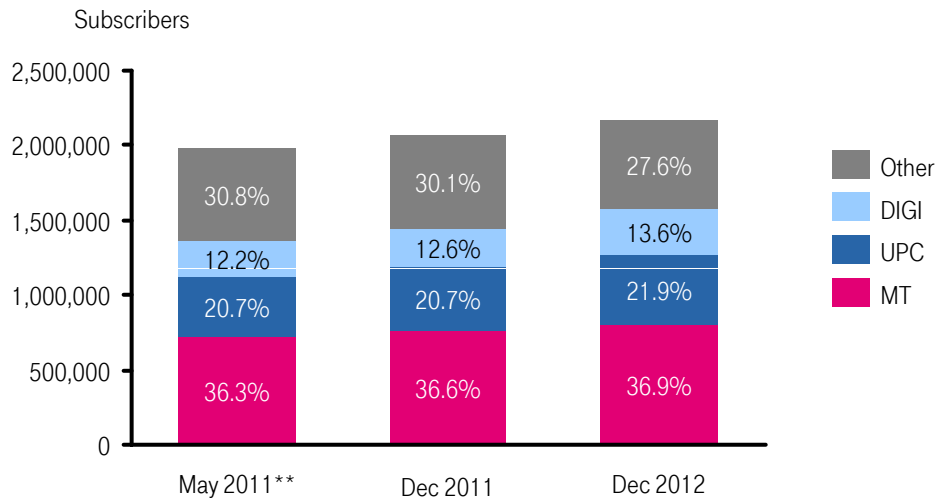
Mobile voice market shares (based on total SIMs)



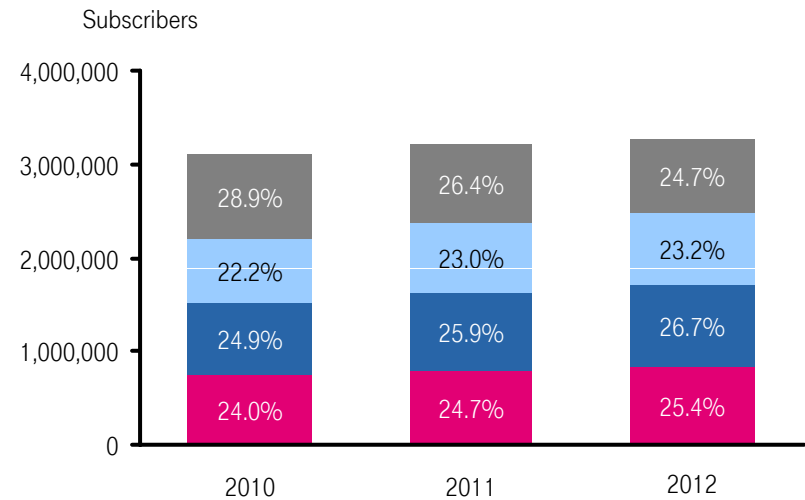
Mobile broadband market shares (based on total SIMs)



Fixed broadband market shares*



TV market shares*

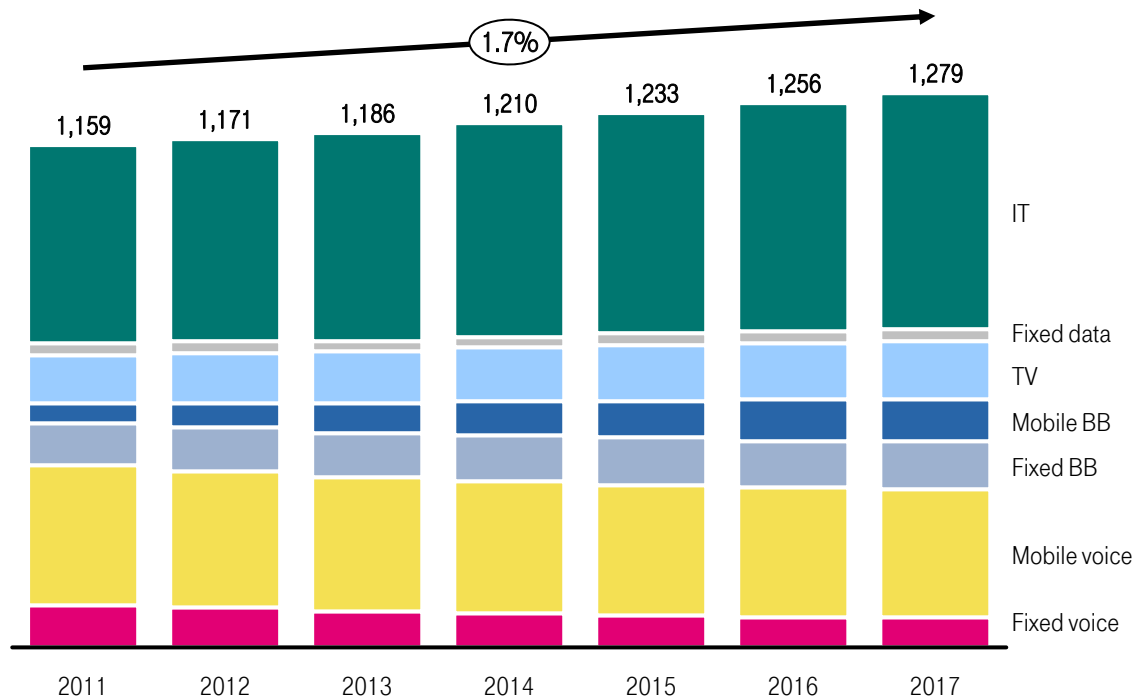


*based on the total fixed BB/TV market estimated by the National Media and Infocommunications Authority
 **data is not available for earlier periods



Hungarian ICT revenue trends

Hungarian ICT market development (HUF bn)



Source: Magyar Telekom and IDC estimates, April-2012

ICT market

Hungarian ICT market is expected to expand

- wider economic recovery, when it comes, is expected to increase total market size
- CAGR of ca. 2% expected between 2011 and 2017
- growth to be mainly driven by mobile broadband and IT services
- continued decline in traditional voice revenues

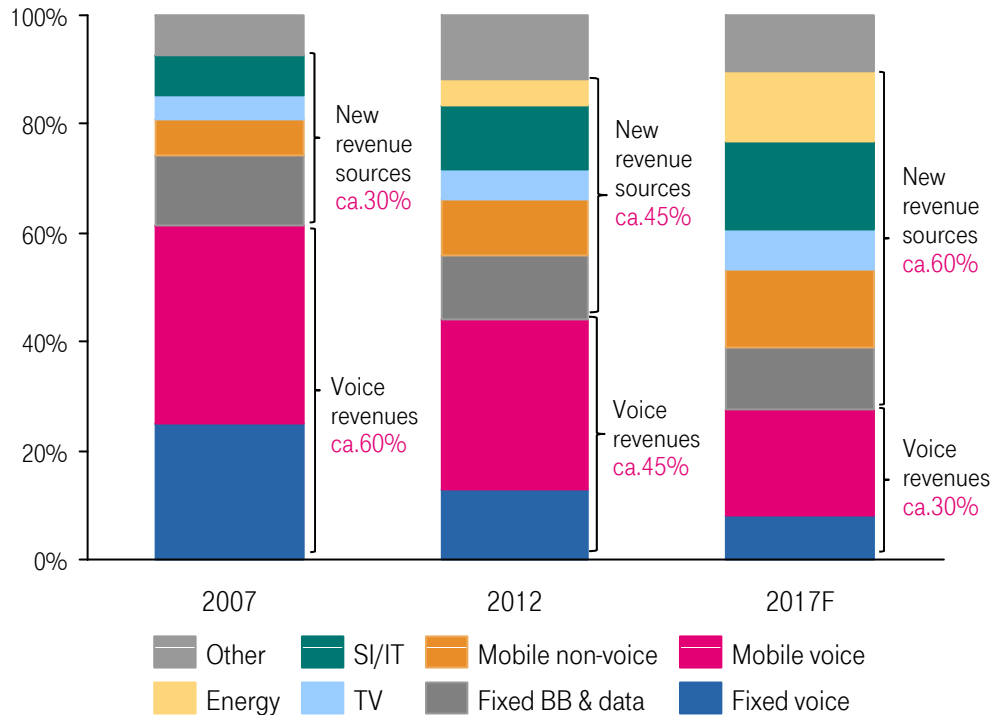
Magyar Telekom's revenue market share

- Magyar Telekom has a blended market share of 46% in the retail telco market in Hungary
- supported by 16% market share in the IT market



Magyar Telekom's revenue mix

Transformation of Magyar Telekom's Hungarian revenue mix



Revenue turnaround

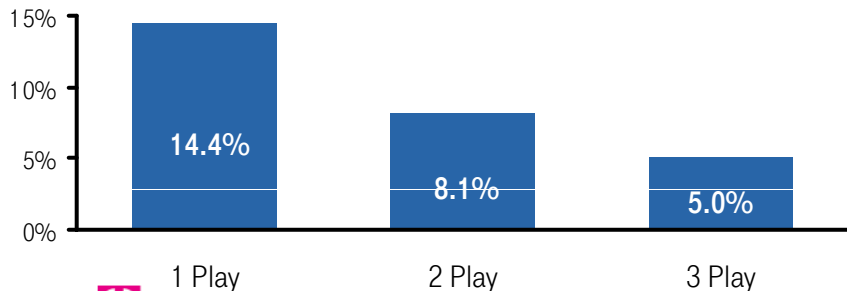
Significant revenue potential from non-core activities

- revenues from new services expected to surpass traditional voice revenues within the next few years
- demand for our energy service exceeding expectations
- further new services to be launched

Non-core activities positively effect retention

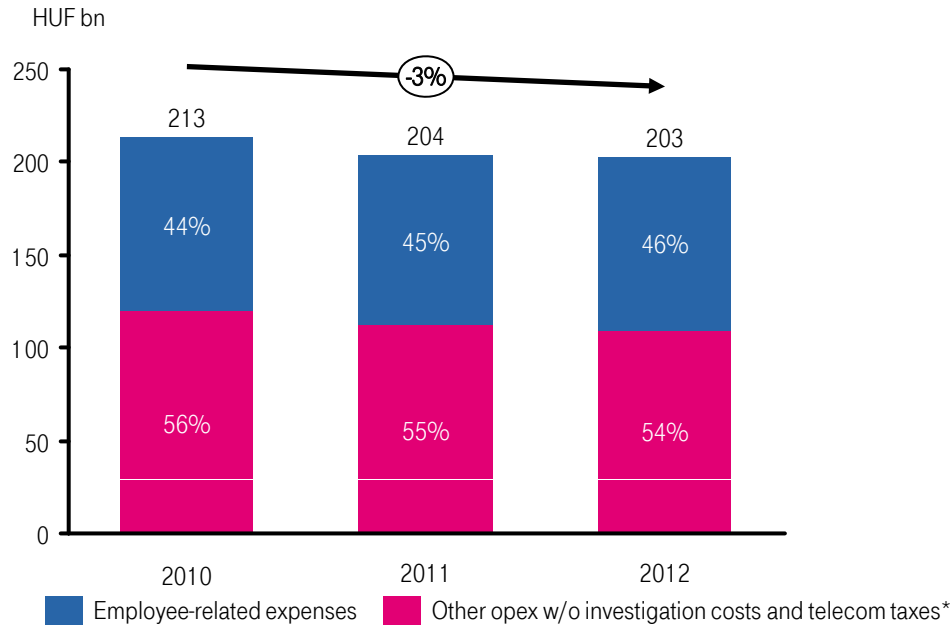
- 85% of TV customers are 2Play or 3Play package subscribers
- fixed churn decreases further with energy contracts
- 45% of energy customers have 3Play package

Average annual churn level

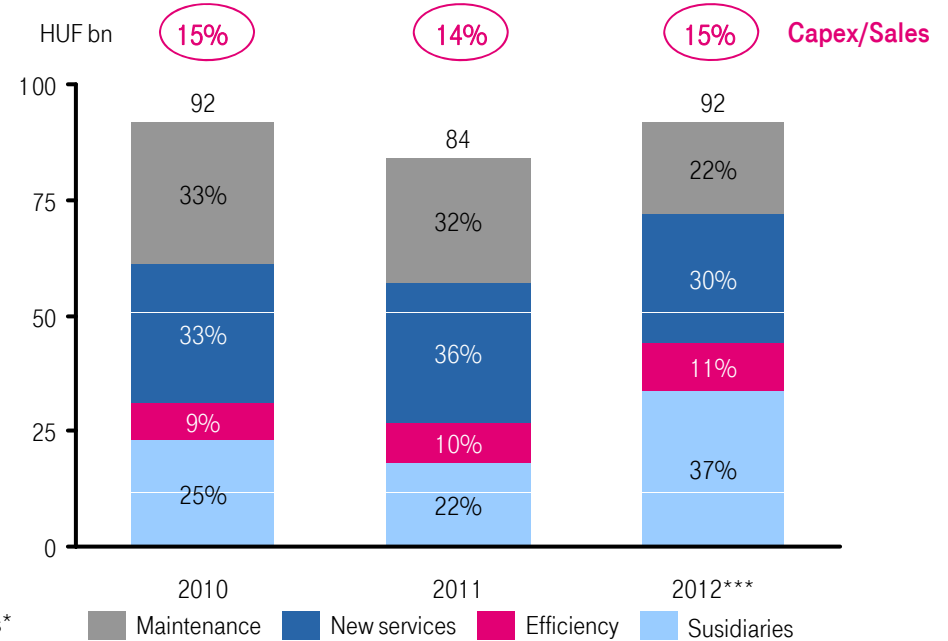


Opex and Capex developments

Cost structure



Capex structure



Continuous savings

- TWM (Total Workforce Management) savings**:
 - HUF 3.4 bn in 2012 compared to 2010
 - HUF 5.8 bn in 2013 compared to 2011
- cost efficiency improvements reflected in the decline in other operating expenses

*including bad debt expenses (reclassified as direct expense from 2011)

**technical changes in the TWM cost structure distort comparability

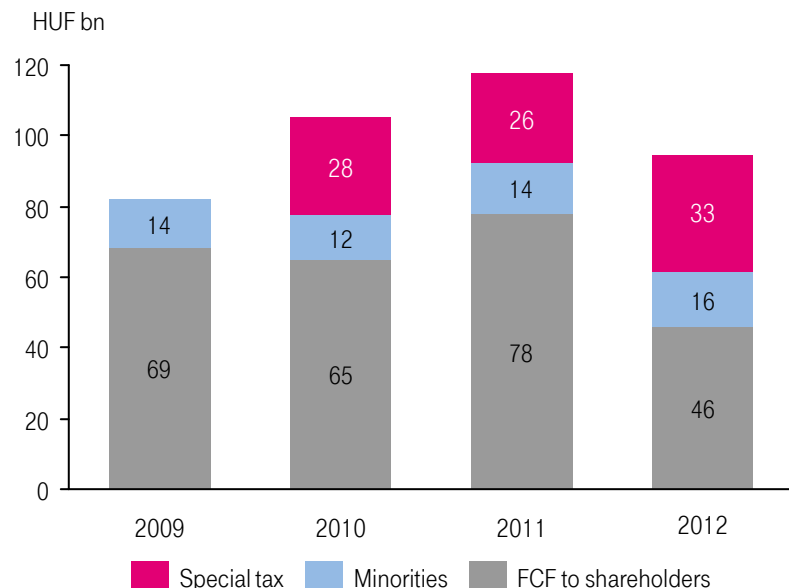
Efficiency measures dominate Capex spending

- major part of Capex is spent on network modernization
- internal efficiency projects were accelerated
- HUF 10.7 bn to be paid for a new Macedonian headquarter in 6 annual installments (accounted for as book Capex)

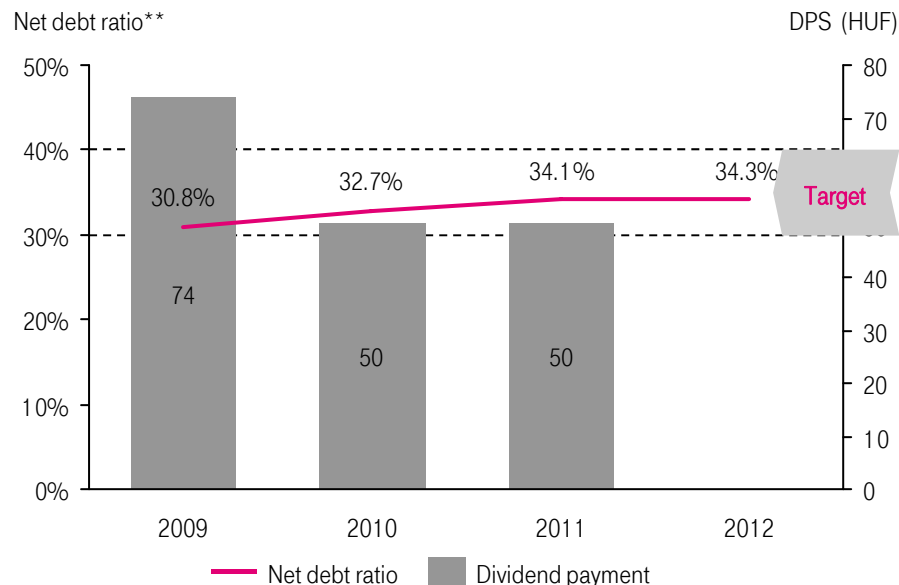
***excluding spectrum license fee

Free cash flow and dividends

Free cash flow* generation



Dividend payment



Free cash flow generation

- FCF declined in 2012 due to a number of exceptional costs:
 - spectrum acquisition (HUF 10.9 bn)
 - DOJ/SEC settlement (HUF 22.1 bn)
 - new telecom tax introduced in July 2012 (HUF 8.7 bn)
- partially mitigated by proceeds from Pro-M sale (HUF 20 bn)

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

Dividend policy

- in order to maintain an efficient capital structure, we have a net debt ratio target of 30-40%
- increase in ratio attributed to exceptional costs in 2012

**defined as net debt / total capital



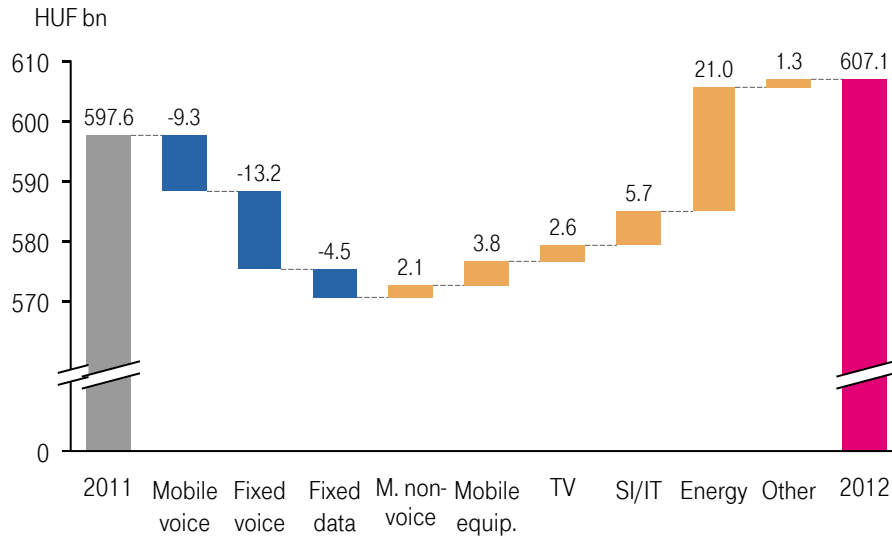
Public targets for 2013

	2013 targets	2012 results
Revenue	Flat to -3% <ul style="list-style-type: none"> pressure on real disposable income to lead to a further decline in household consumption spending power in the business sector is expected to remain limited shortfall of Pro-M revenues 	+1.6%
Reported EBITDA <p><i>*4.4% decline y-o-y refers to change in underlying EBITDA</i></p>	4-7% decline <ul style="list-style-type: none"> changing revenue mix with increasing proportion of sales made up by lower margin services margin dilution partially mitigated by efficiency enhancing measures 	-4.4%*
CAPEX** <p><i>**excluding spectrum license fee</i></p>	ca. 5% decline <ul style="list-style-type: none"> network modernization, LTE roll-out internal efficiency programs 	92.4 bn

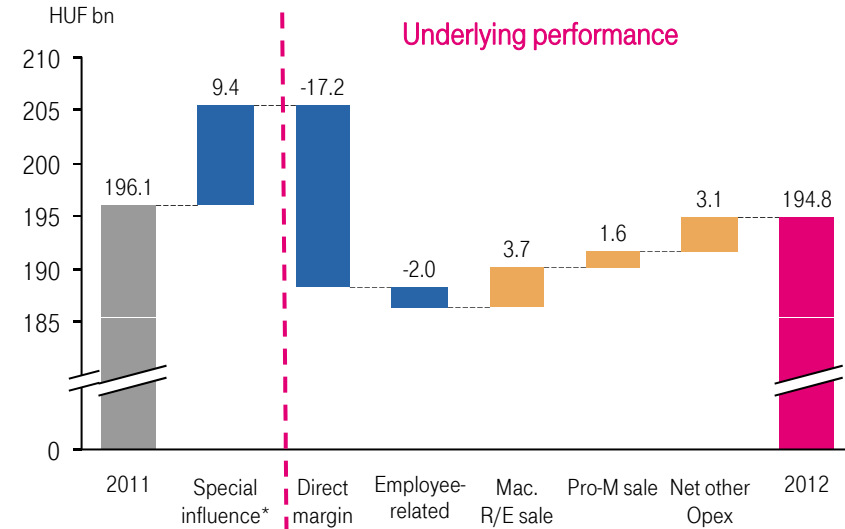


2012 Group results – Revenues and EBITDA

Group revenues



Group EBITDA



Revenue development

Group revenues up by 1.6% y-o-y

- strong contribution from energy service revenues
- increase in contribution from mobile internet revenues and smartphone sales
- fixed and mobile voice revenue decline reflect depressed household consumption and MTR cuts
- decrease in fixed data revenues primarily due to public sector insourcing

EBITDA development

Underlying EBITDA down 4.4% y-o-y

- further erosion of traditional voice and data revenues
- lower direct margin contribution of new, growing businesses
- efficiency enhancing measures have mitigated margin dilution
- introduction of new telecommunications tax from July 2012
- negative impact of HUF 16.2 bn provision related to the SEC/DOJ settlement on 2011 results

*investigation- and severance-related expenses, as well as special and new telecom taxes

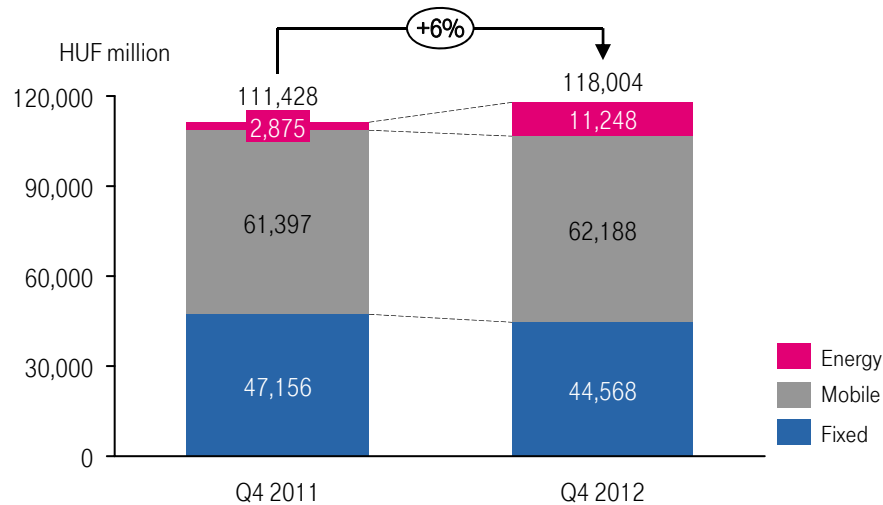


Q4 2012 Results

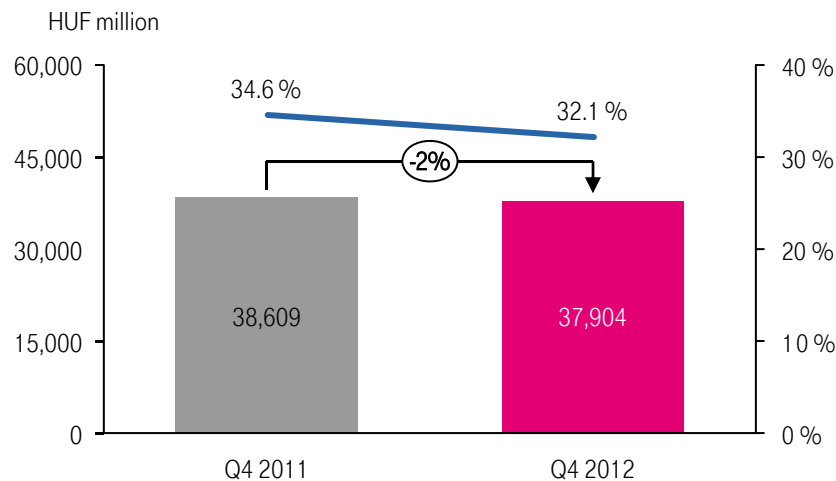


Telekom Hungary – Financial performance

Telekom Hungary revenues



Underlying EBITDA and margin



Telekom Hungary

Fixed line revenues down by 5%

- higher revenues from TV services and equipment sales partly compensating for voice revenue erosion

Mobile revenues increased by 1%

- higher non-voice and equipment revenues offset the decreasing tariffs and MTR rates

significantly higher energy retail revenues

- increasing number of PODs

Decrease in underlying EBITDA margin of 2.5pp

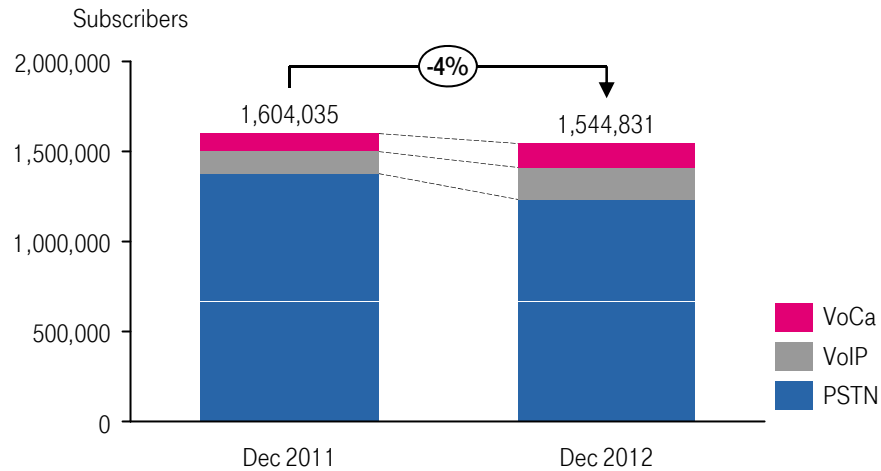
- reduction in high-margin voice revenues
- cost savings in other opex and employee related expenses



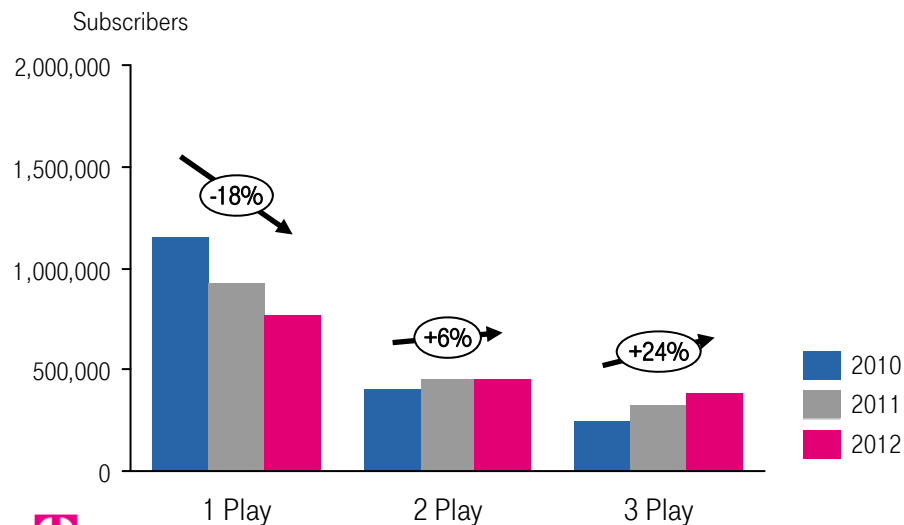
Hungary – Fixed voice market



Telekom Hungary fixed voice subscribers



Multi-Play developments



Market trends

- significant **reduction in fixed voice churn** due to the retention benefit of:
 - **Hoppá** package
 - **2Play/3Play offers**
 - retail **energy bundling**
- decline in **1Play** customer base to **48%**

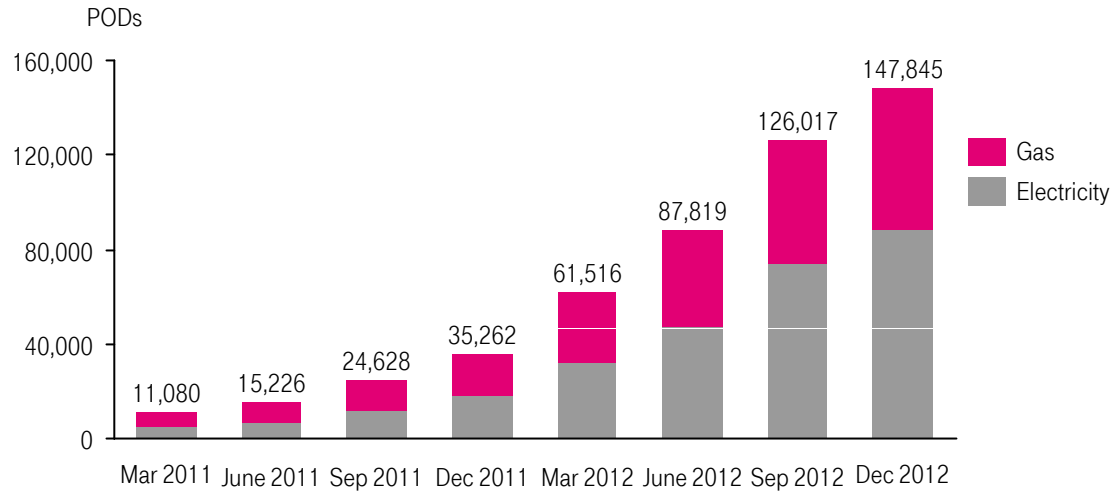
KPIs (changes Q4-o-Q4)

- ARPU: HUF 2,797 (-10%)
- Fixed MOU: 186 (+2%)

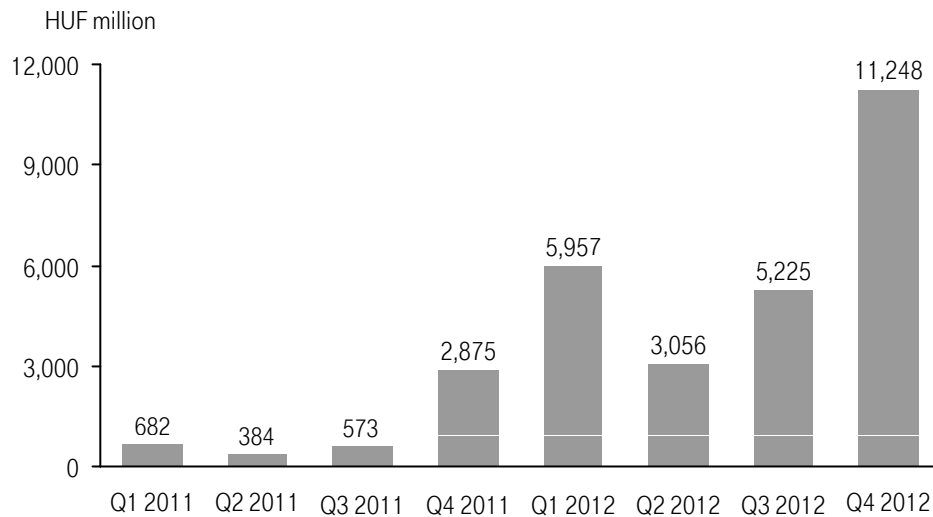


Hungary – Energy retail

Gas and electricity points of delivery (POD)



Revenue performance

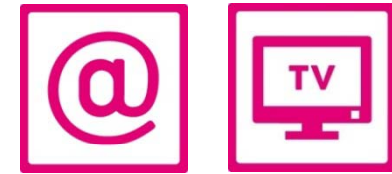


Market trends

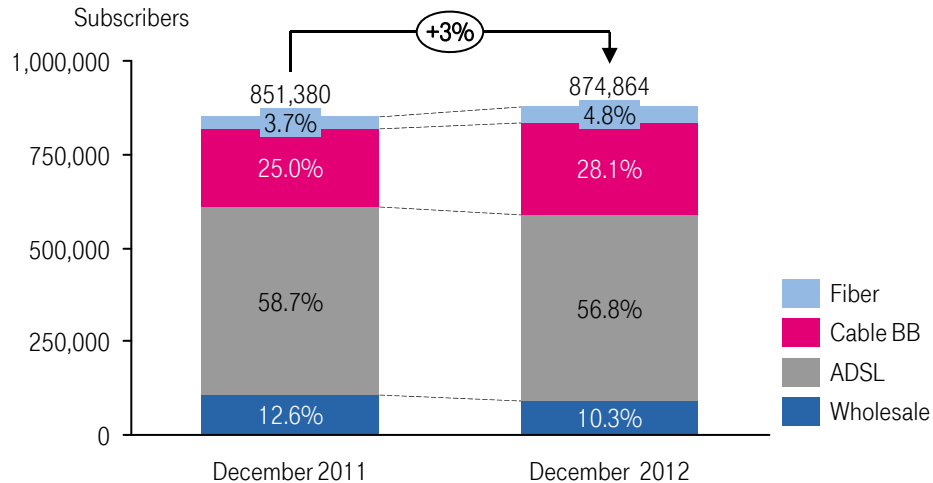
- soft launch in 2010, **nationwide from April 2012**
- customers receive **discounts of 3-8%** on their energy bill depending on the number of fixed line services they subscribe to
- **retention impact** is significant: fixed churn decreases further with energy contract
- success of the retail energy business demonstrated by a significant increase in the number of **energy delivery points**
- 45% of energy customers subscribe to a 3Play package
- energy market is strongly **seasonal**



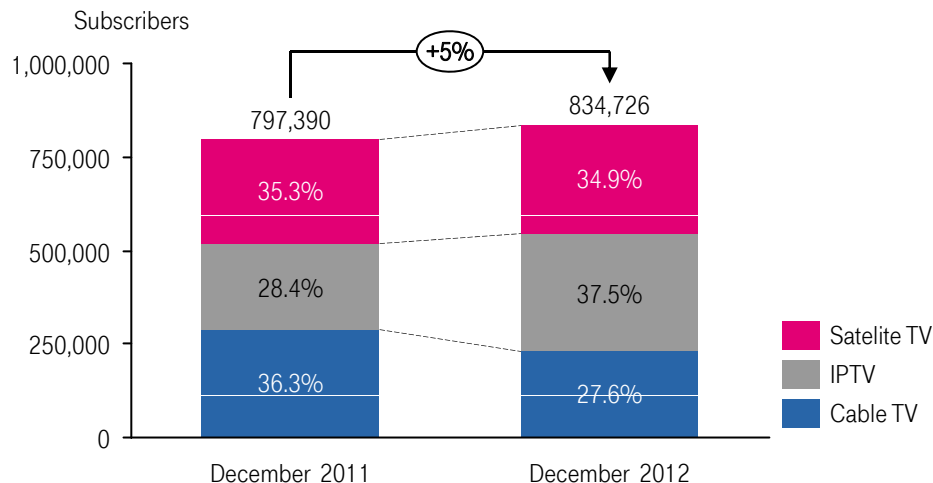
Hungary – Fixed broadband and TV market



T-Home fixed broadband subscriber breakdown



T-Home TV subscriber breakdown



Market trends

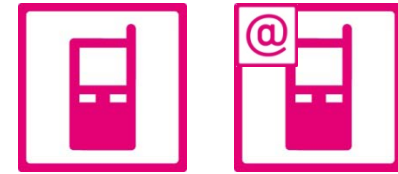
- broadband market **growth driven by cable and fiber**, while ADSL is slightly decreasing
- internet service portfolio restructured to **support fixed broadband market share**
- TV ARPU supported by increasing ratio of **interactive IPTV customers**
- significant **migration from cable to IPTV**
- **3Play offers** from HUF 7,640/month (EUR 26)

KPIs (changes Q4-o-Q4)

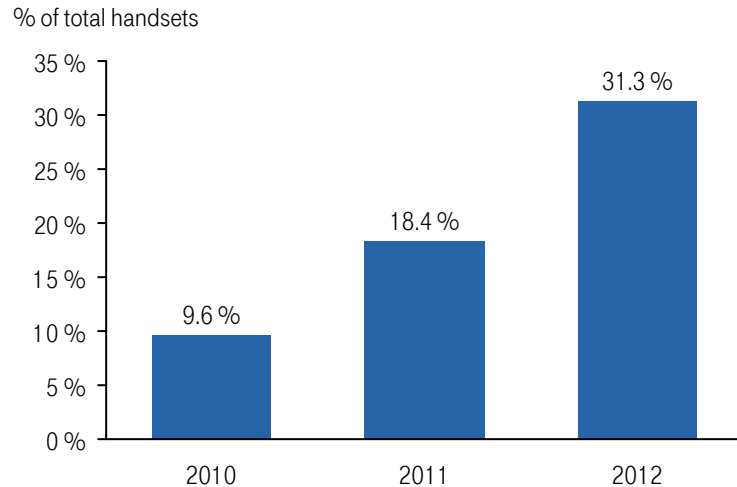
- Broadband ARPU: HUF 3,828(-3%)
- TV ARPU: HUF 3,106 (+3%)



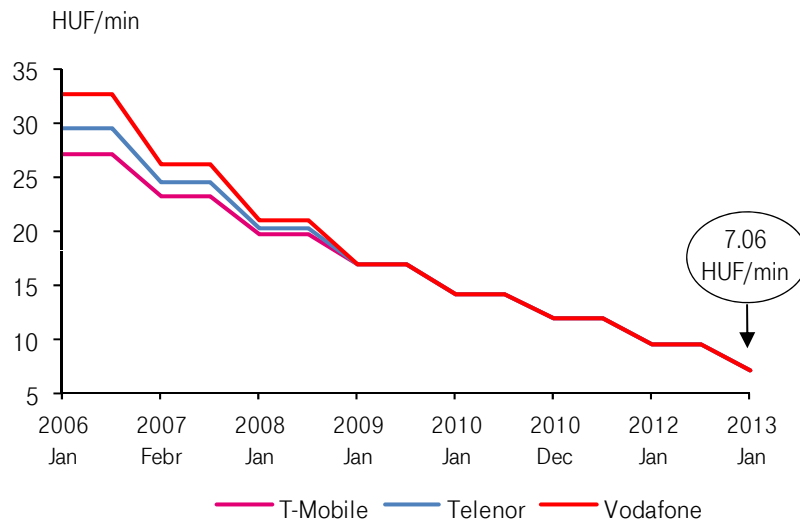
Hungary – Mobile market



T-Mobile smartphone penetration



Mobile termination rate cuts



Market trends

- **improving customer mix:** y-o-y increase in postpaid ratio to 47% from 46%
- **smartphone sales reached 70%** in 2012
- broadband subscription **attach rate at ca. 80%**
- full **LTE coverage** in Budapest and 65 additional towns in Hungary
- **MTR cuts:** 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 eurocents

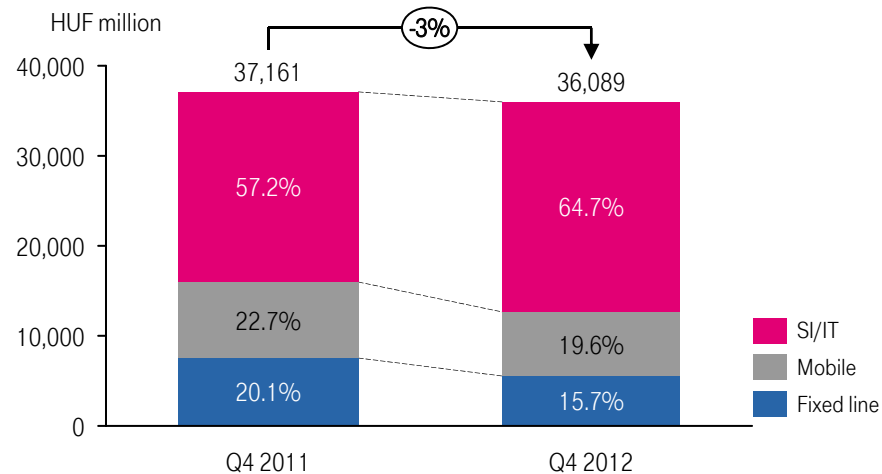
KPIs (changes Q4-o-Q4)

- ARPU: HUF 3,508 (-2%)
- Mobile MOU: 160 (-2%)
- SAC/gross add: HUF 6,045 (-29%)
- SRC/retained customer: HUF 13,863 (-38%)
- VAS within ARPU: HUF 845 (+9%)

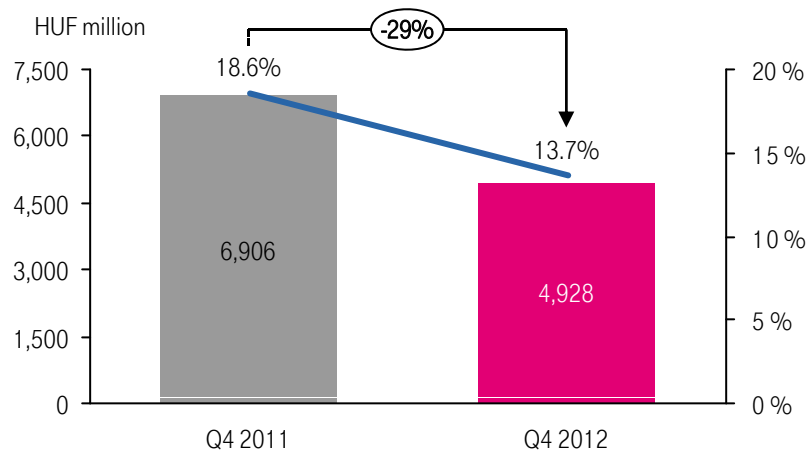


T-Systems Hungary – Financial performance

Revenues



Underlying EBITDA and margin



T-Systems Hungary

Falling voice and data revenues

- lower usage on fixed voice and data networks
- continued pressure on tariff levels

10% increase in SI/IT revenues

- higher amount of infrastructure and application projects
- leading market position with 16% market share

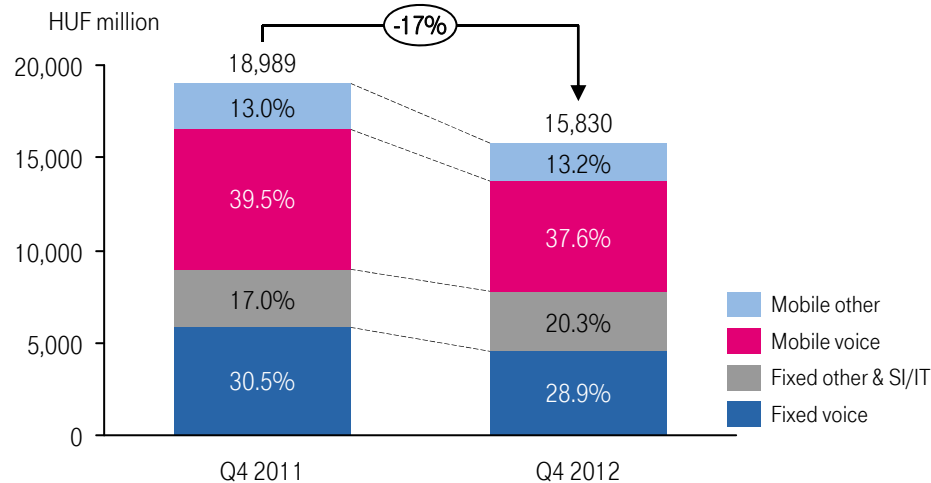
Underlying EBITDA margin declined by 4.9ppt

- decline of the higher margin telecommunication revenues
- shift in SI/IT to lower margin projects

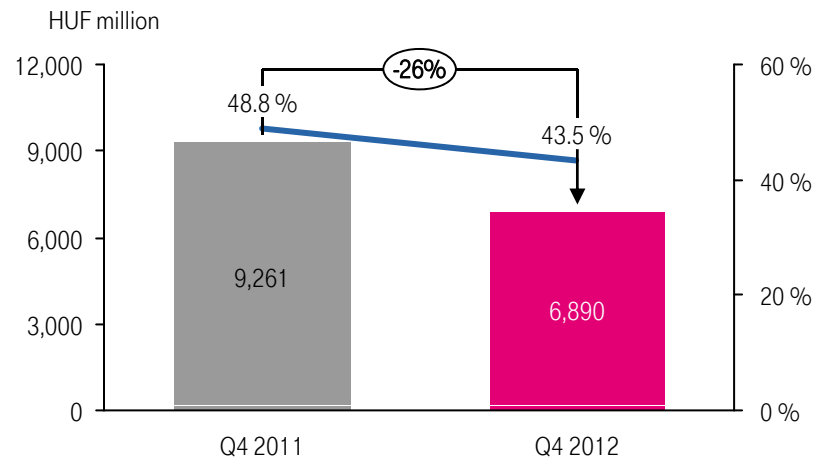


Macedonia – Financial performance

Revenues



Underlying EBITDA and margin



Macedonia

Significant FX impact: HUF strengthened by 6.9% Q4-o-Q4 against MKD

Mobile revenues under pressure

- strong price competition
- MOU up due to increasing volume of bundled minutes
- #1 position maintained with 45% market share

Fixed voice hit primarily by cable competition

- restructured service portfolio featuring attractively priced bundled offers

EBITDA reflects severe price pressure in both fixed and mobile business

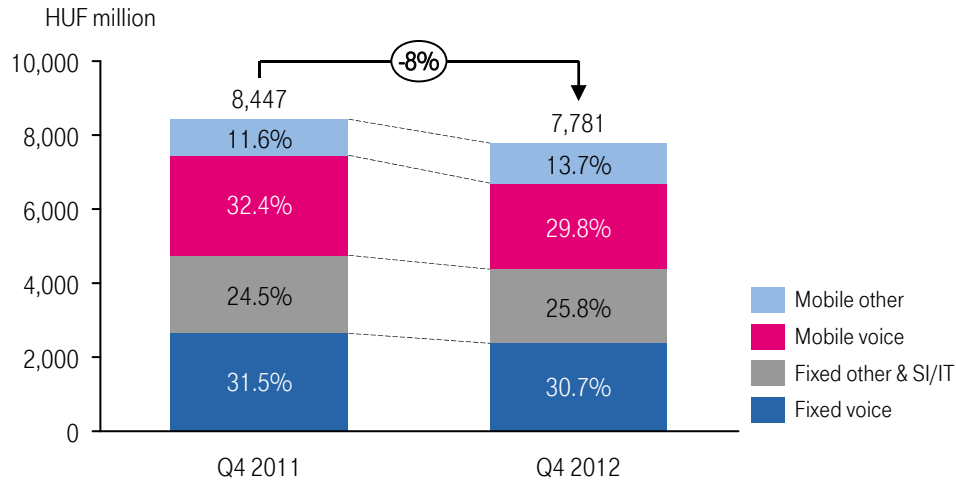
KPIs (changes Q4-o-Q4)

- Fixed churn: 6%
- Fixed outgoing traffic: -22%
- Mobile ARPU: HUF 1,964 (-13%)
- Mobile MOU: 180 (+21%)

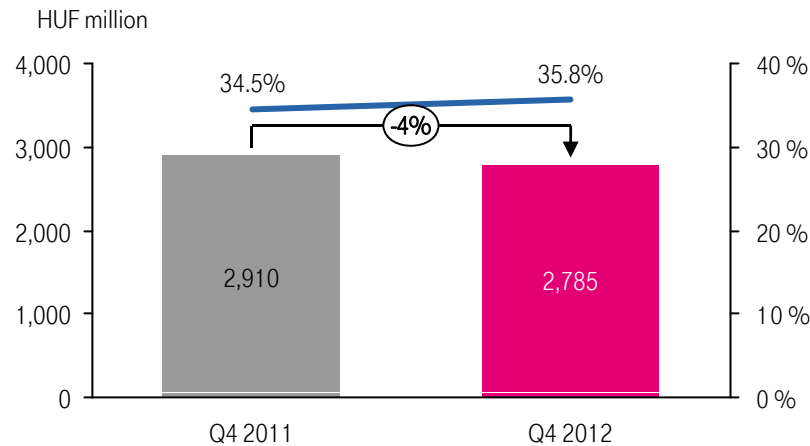


Montenegro – Financial performance

Revenues



Underlying EBITDA and margin



Montenegro

Significant FX impact: HUF strengthened by 6.9% Q4-o-Q4 against EUR

Competitive mobile market

- unfavorable economic environment put pressure on retail voice revenues
- lower wholesale revenues driven by cut in interconnection tariffs in 2011
- 34% market share on the mobile voice market

Stable performance of the fixed segment

- growing internet and TV revenues
- mobile substitution leading to lower usage

EBITDA decline mitigated by cost cutting

- 1.3 ppt margin improvement thanks to strong cost management

KPIs (changes Q4-o-Q4)

- Fixed churn: 2%
- Mobile ARPU: HUF 3,152 (+4%)
- Mobile MOU: 163 (+20%)



Financials



Magyar Telekom – Consolidated Income Statement

HUF million	4Q 2011	4Q 2012	Change
Mobile revenues	80 349	78 662	-2.1%
Fixed line revenues	60 927	56 036	-8.0%
System Integration/Information Technology revenues	15 273	18 927	23.9%
Revenue from Energy Services	2 875	11 248	
Revenues	159 424	164 873	3.4%
Direct costs	(50 807)	(63 122)	24.2%
Employee-related expenses	(27 476)	(28 077)	2.2%
Depreciation and amortization	(60 854)	(28 983)	-52.4%
Hungarian telecommunications and other crisis taxes	(6 344)	(10 367)	n.a.
Other operating expenses	(30 437)	(28 052)	-7.8%
Total operating expenses	(175 918)	(158 601)	-9.8%
Other operating income	2 323	1 768	
Operating profit	(14 171)	8 040	-156.7%
Net financial expenses	(11 784)	(8 442)	-28.4%
Share of associates' profits	8	0	
Profit before income tax	(25 947)	(402)	-98.5%
Income tax	(12 728)	(771)	-93.9%
Profit for the period	(38 675)	(1 173)	-97.0%
Non-controlling interests	1 648	440	-73.3%
Equity holders of the Company (Net income)	(40 323)	(1 613)	-96.0%



Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2011	Dec 31, 2012	Change
Current assets	220 396	215 923	-2.0%
Cash and cash equivalents	14 451	15 211	5.3%
Other current financial assets	65 286	53 966	-17.3%
Non current assets	877 632	841 921	-4.1%
Property, plant and equipment - net	536 224	510 962	-4.7%
Intangible assets	308 313	311 066	0.9%
Total assets	1 098 028	1 057 844	-3.7%
Equity	556 091	522 083	-6.1%
Current liabilities	255 390	234 907	-8.0%
Financial liabilities to related parties	49 865	35 344	-29.1%
Other financial liabilities	70 155	40 341	-42.5%
Non current liabilities	286 547	300 854	5.0%
Financial liabilities to related parties	230 166	261 126	13.5%
Other financial liabilities	17 928	5 498	-69.3%
Total equity and liabilities	1 098 028	1 057 844	-3.7%



Magyar Telekom - Consolidated Cashflow Statement

HUF million	Dec 31, 2011	Dec 31, 2012	Change
Net cash generated from operating activities	168 781	145 227	-14.0%
Investments in tangible and intangible assets	(83 796)	(103 298)	23.3%
Adjustments to cash purchases	3 722	6 684	79.6%
Purchase of subsidiaries and business units	(2 675)	(2 388)	-10.7%
Cash acquired through business combinations	468	48	-89.7%
Payments for / proceeds from other financial assets - net	(997)	10 645	n.m.
Proceeds from disposal of subsidiaries	0	14 388	n.a.
Proceeds from disposal of PPE and intangible assets	5 526	1 046	-81.1%
Net cash used in investing activities	(77 752)	(72 875)	-6.3%
Dividends paid to shareholders and minority interest	(64 626)	(66 104)	2.3%
Net payments of loans and other borrowings	(28 602)	(4 958)	-82.7%
Net cash used in financing activities	(93 228)	(71 062)	-23.8%
Free cash flow*	92 026	61 706	-32.9%

* 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



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, 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: 283.8 (average Q4 2012)

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.

