

MAGYAR TELEKOM GROUP FULL YEAR AND Q4 2014 RESULTS PRESENTATION

FEBRUARY 26, 2015



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FULL YEAR RESULTS, OUTLOOK AND GUIDANCE

HIGHLIGHTS

STRENGTHENED MARKET POSITIONS

- We are now market leaders in all segments of the Hungarian telecommunication market
- Acquisition of crucial frequencies in 2014 coupled with the network and frequency sharing agreement with Telenor on the 800MHz spectrum strongly supports our mobile market leadership
- The acquisition of GTS Hungary strengthens our market positions among business customers

2014 FINANCIAL TARGETS MET

- Revenues declined by 1.7% due to voice revenue erosion and lower energy and SI/IT sales
- EBITDA grew by 1%, exceeding slightly our public target thanks to improved gross margins and headcount efficiency
- Capex* of HUF 86.8 billion was driven by increased spending on the Hungarian mobile network which resulted in population based coverage of 78% by end-2014

GUIDANCE FOR 2015 AND 2017

- Revenues to increase driven by successful rebalancing and bundling strategy
- EBITDA to be supported by further efficiency measures, EBITDA to surpass HUF 185bn by 2017
- Capex spending in 2015 to be dominated by Hungarian fixed HSI network investments
- FCF** to reach at least HUF 50 billion by 2017

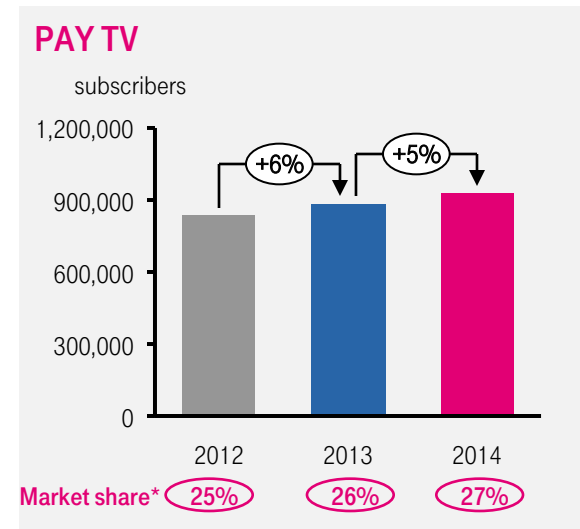
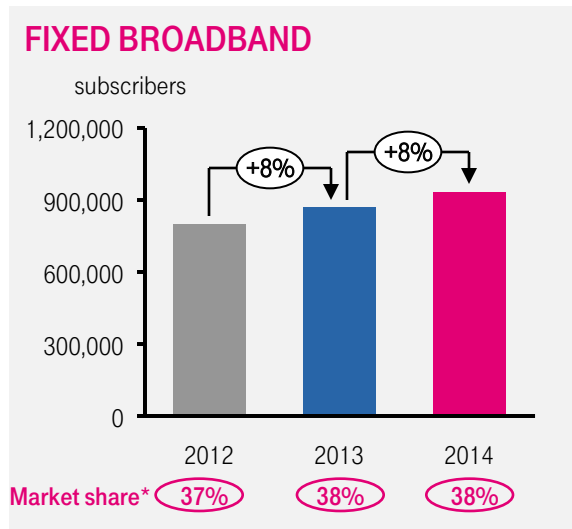
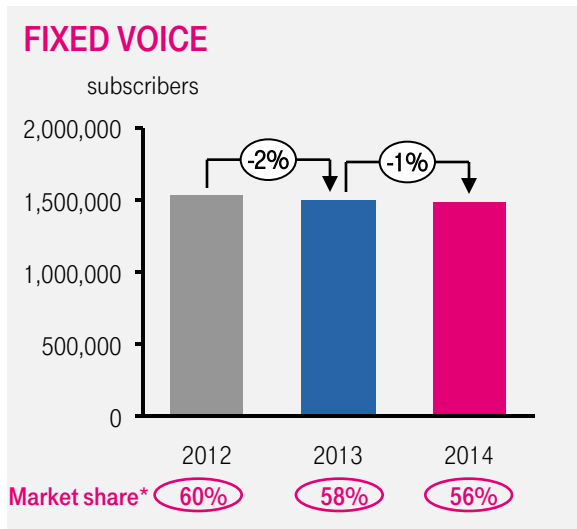
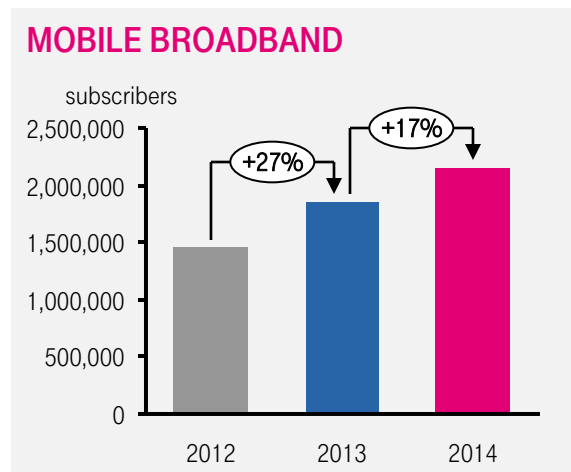
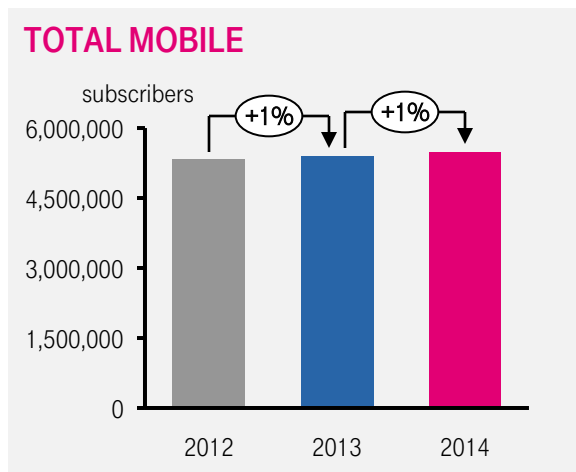
*excluding spectrum license fees and annual frequency fee capitalization

**after minority dividend payments



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MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET



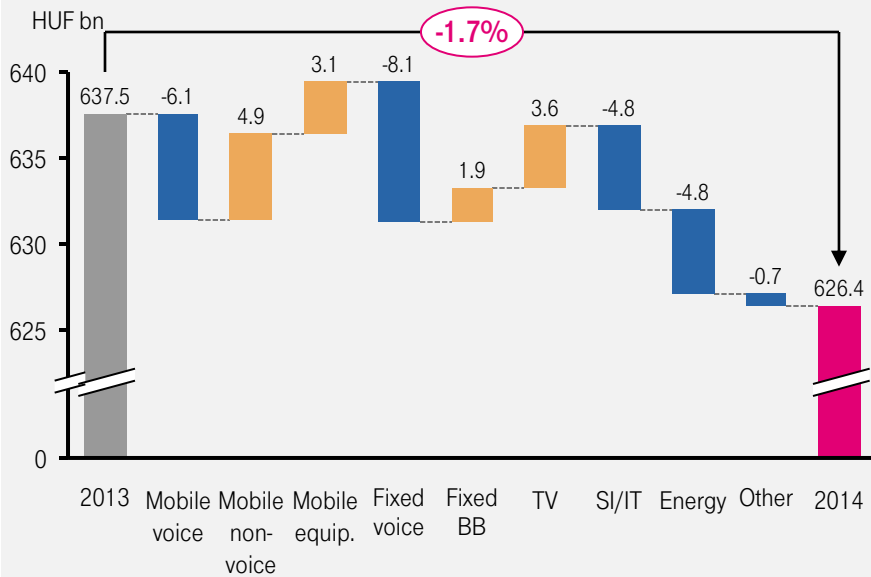
* Based on the total fixed voice / BB / pay TV market estimated by the National Media and Infocommunications Authority



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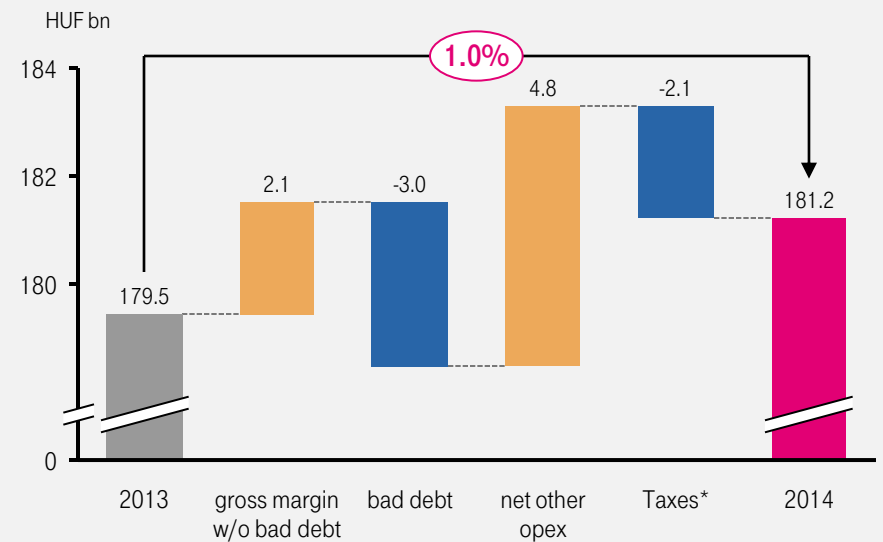
2014 GROUP RESULTS – REVENUES AND EBITDA

GROUP REVENUES



- Decline in mobile voice revenues counterbalanced by strong growth in mobile data usage resulting also in higher smart mobile device sales
- Traditional fixed voice revenue decline partly offset by growth in fixed broadband and TV revenues driven by the continuous increase in the customer base
- Lower SI/IT revenues caused by change in product mix
- Energy revenue decline due to regulated price reductions

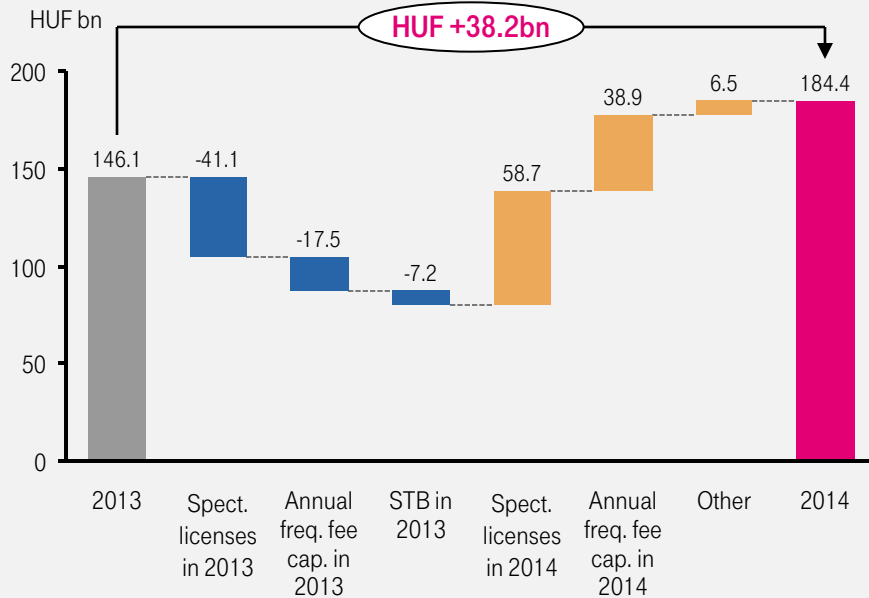
GROUP EBITDA



- Direct margin erosion driven by higher bad debt but partly mitigated by improved SI/IT and energy margin
- Savings in employee related expenses due to headcount reduction measures in 2013 in Hungary and Macedonia
- Lower operating expenses mostly driven by the reduction and changed accounting treatment of the annual frequency fees
- Higher operating taxes* due to increase in the rate of the telecom tax from August, 2013

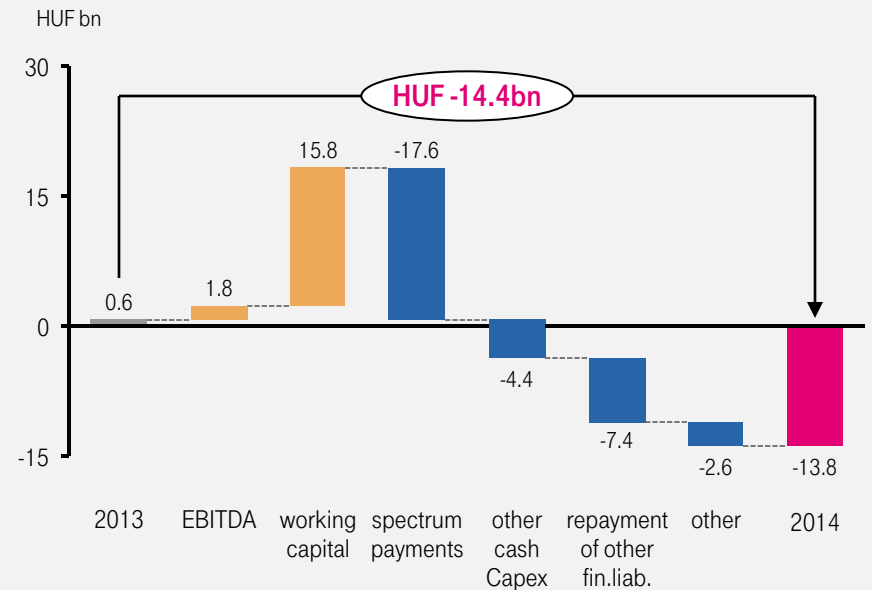
2014 GROUP RESULTS – CAPEX AND FCF

GROUP CAPEX



- HUF 38.0bn Capex related to the Hungarian spectrum license extension and HUF 3.1 bn 4G spectrum license fee in Macedonia in 2013
- HUF 58.7bn Capex related to the Hungarian spectrum license acquisition in 2014
- Hungarian annual frequency fees were capitalized resulting in a HUF 17.5bn increase in book Capex in 2013 and HUF 38.9bn in 2014
- Change in the accounting treatment of set top boxes in 2013 affected reported Capex

GROUP FCF*



- Working capital improvement due to:
 - reverse factored vendor invoices in 2013
 - lower increase in receivables related to equipment installment sales
 - favorable change in provisions
- Higher spectrum related payments in 2014
- Increase in repayment of other liabilities mainly due to higher payments related to reverse factored vendor invoices in 2014 compared to 2013

FINANCIAL OUTLOOK

	2014 RESULTS	2015 TARGETS	2017 TARGETS
REVENUE	HUF 626.4bn (-1.7%)	up to 3% increase	roughly stable compared to 2014 level
EBITDA	HUF 181.2bn (+1.0%)	up to 3% decline	surpassing HUF 185bn
CAPEX*	HUF 86.8bn	around HUF 105bn	around HUF 80bn
FCF**	ca. HUF -19.0bn		surpassing HUF 50bn
Dividend	HUF 0	minimum HUF 15 per share	

*excluding spectrum license fees and annual frequency fee capitalization

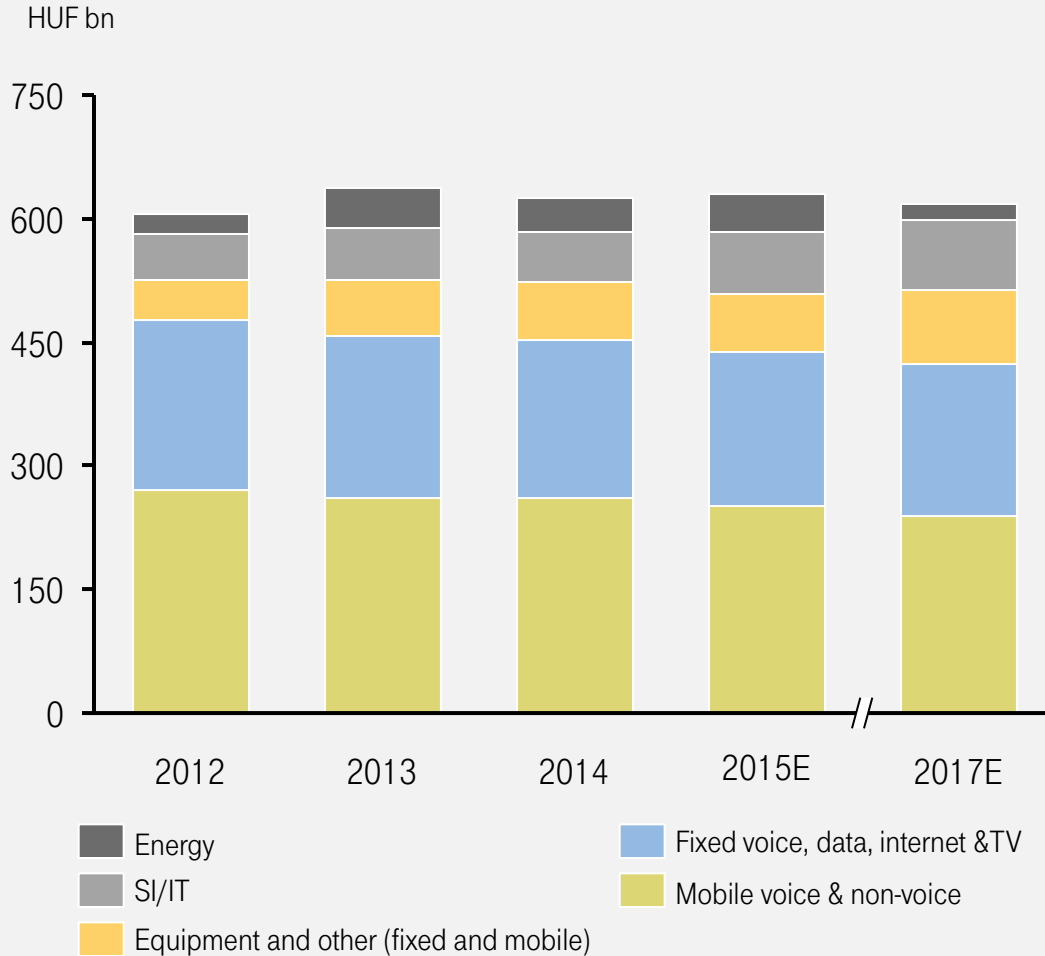
**after minority dividend payments



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REVENUE GROWTH DRIVEN BY SUCCESSFUL REBALANCING

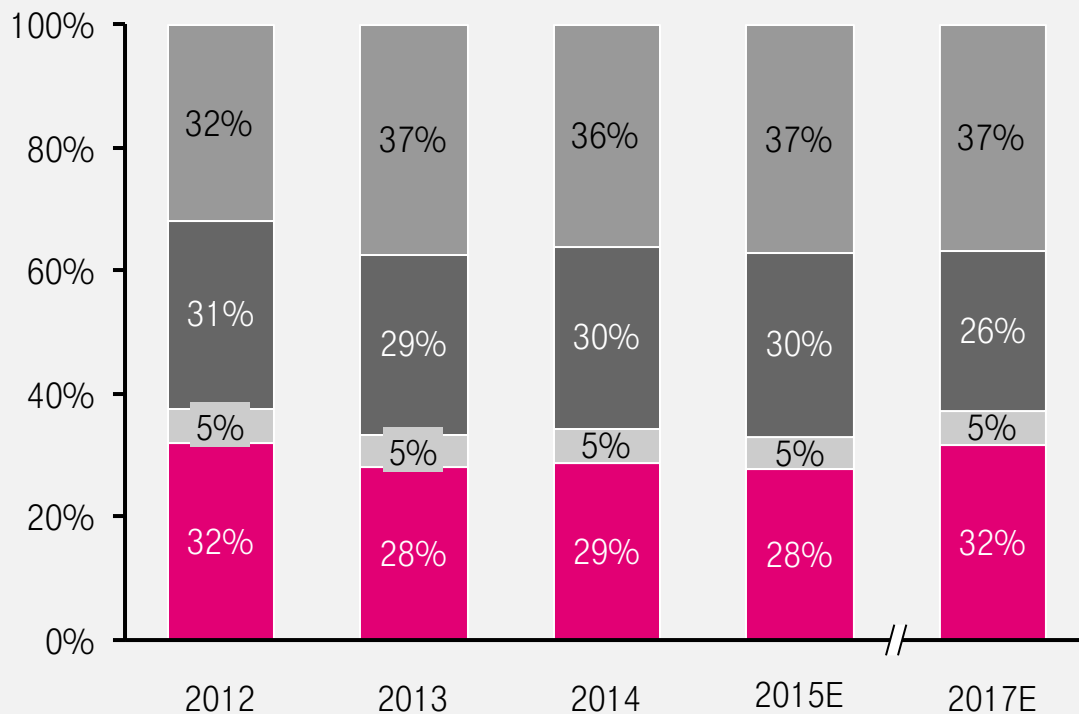
GROUP REVENUE DEVELOPMENTS



- 0-3% revenue growth anticipated for 2015 vs. 2014
- 2017 revenues to be roughly stable compared to the 2014 level due to the fall out of business energy revenues
- Mobile broadband growth mostly compensates for the decline in voice revenue
- Fixed voice revenue decline mitigated by growth in TV and BB revenues
- Growth in SI/IT revenues supported by market expansion

DISCIPLINED COST MANAGEMENT

EBITDA AND COST DEVELOPMENTS (RELATIVE TO REVENUES)

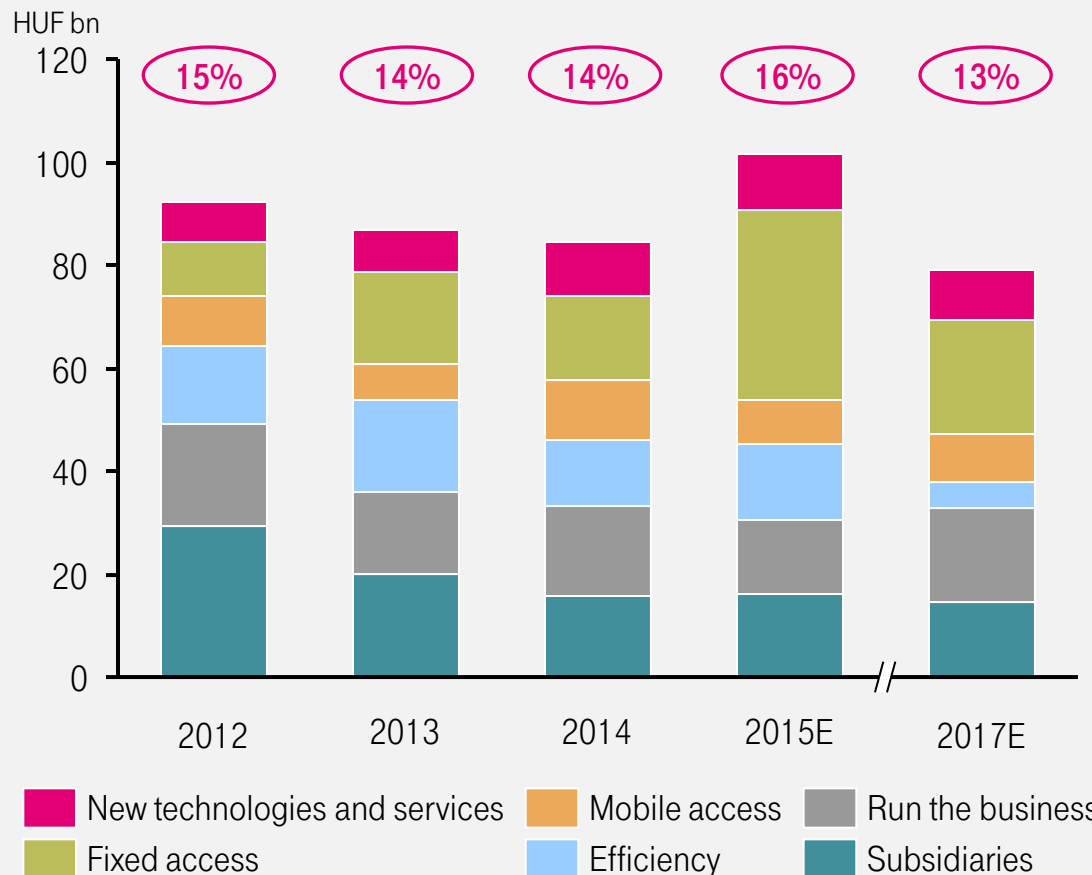


- 2015 EBITDA to decline by a maximum 3% vs. 2014 level
- 2017 EBITDA expected to surpass HUF 185 billion
- 2015 indirect costs include the expected ca. HUF 8 billion severance expense related to the redundancy program involving ca. 1,000 employees
- Direct costs expected to moderately rise in parallel with increasing revenues and change in product mix
- Constant operating* taxes assumed

Direct costs
 Indirect costs
 *Special-, telecom - and utility tax
 EBITDA

EFFICIENCY INVESTMENTS FREE UP CAPEX FOR NEW TECHNOLOGIES AND SERVICES

CAPEX DEVELOPMENTS*



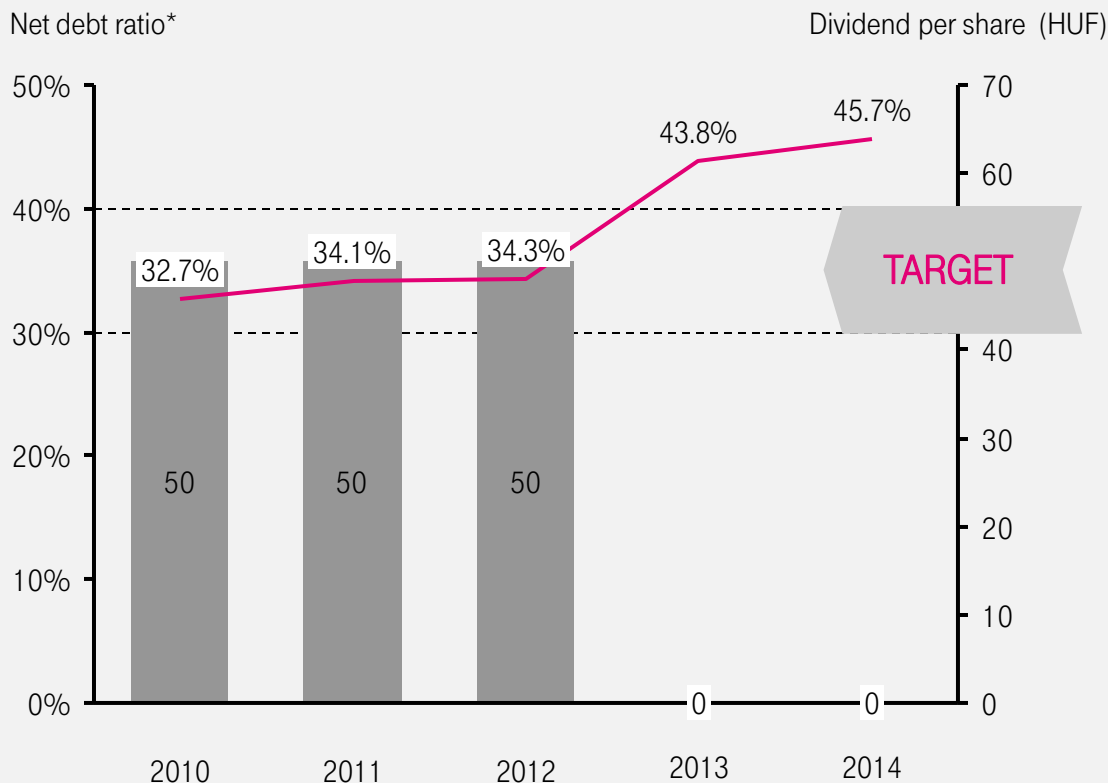
- Ca. HUF 105 billion Capex earmarked for 2015
- Fixed access: focus on increasing HSI coverage
- Mobile access: 4G population coverage to reach 97% by end 2015
- Efficiency investments:
 - Replacement of legacy network
 - PSTN migration
 - Online front end development
 - Mobile network modernization
 - CRM & Billing system project
- New technologies and services:
 - All IP network
 - Service innovation
 - HW as a service

○ CAPEX*/Sales

*CAPEX excluding spectrum license fees and annual frequency fee capitalization

DIVIDEND POLICY

DIVIDEND PAYMENT AND NET DEBT RATIO DEVELOPMENTS



- Maintain net debt ratio (net debt/total capital) target of 30% - 40%
- Board of Directors proposes no dividend payment on 2014 earnings for approval to the AGM
- Based on the current operating, regulatory and taxation environment and outlook coupled with the anticipated significant improvement in the free cash flow generation, the Company believes that it will be able to pay at least HUF 15 dividend per share on 2015 results**

— Net debt ratio ■ Dividend payment

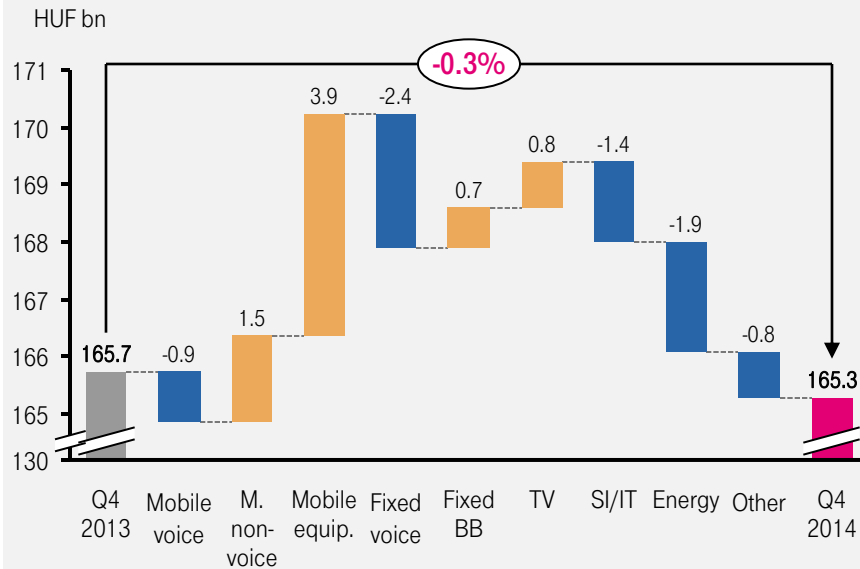
*defined as net debt / total capital

**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

Q4 2014 RESULTS

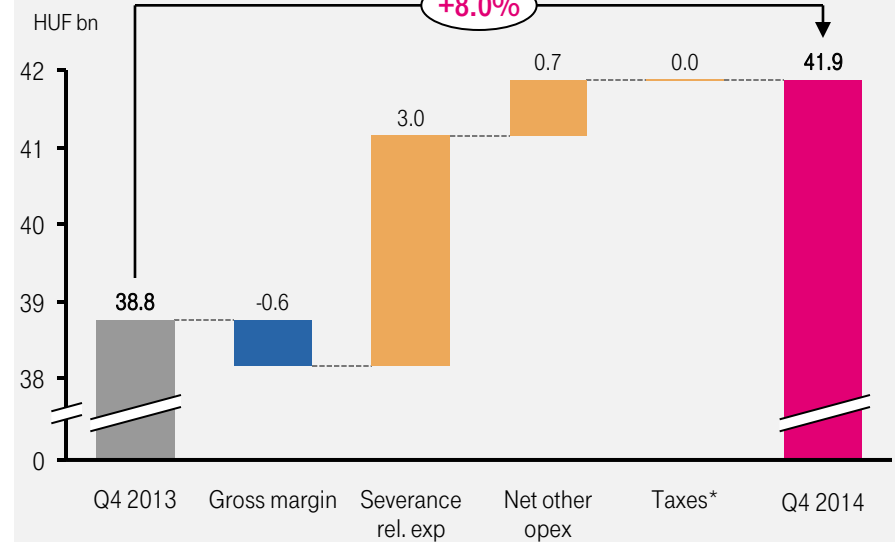
Q4 2014 GROUP RESULTS - REVENUES AND EBITDA

GROUP REVENUES



- Mobile non-voice revenues boosted by increasing mobile internet customer base and usage
- Higher mobile equipment revenues thanks to increased sales and higher average handset prices
- Lower fixed voice revenues partly mitigated by fixed BB and TV revenue growth
- SI/IT revenue decline due to a shift in focus to less equipment intensive deals
- Lower energy revenues due to regulatory price cuts

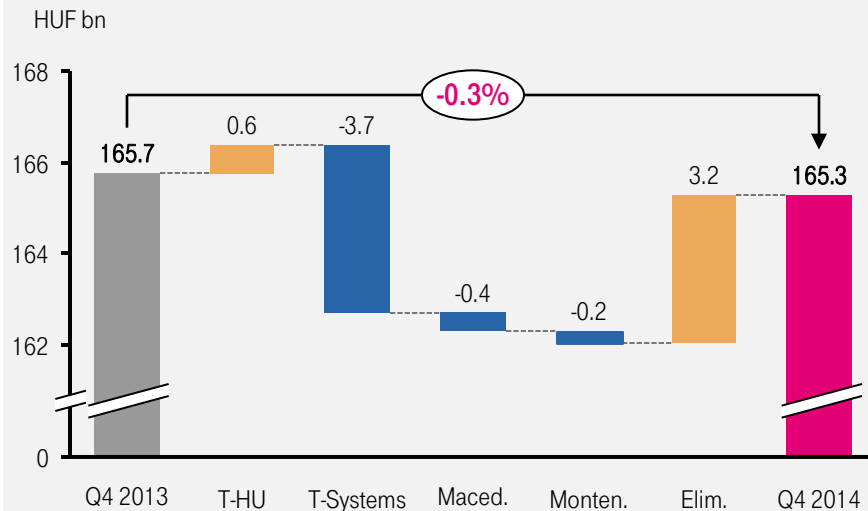
GROUP EBITDA



- Gross margin decline driven by lower fixed service margin partly offset by improvement in mobile service margins
- Lower severance expenses as the majority related to 2014 headcount reduction was booked in Q3 2014
- Lower other opex thanks to employee efficiency improvements
- Taxes* remained on the same level

Q4 2014 SEGMENT RESULTS – REVENUES AND EBITDA

SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y

+1%

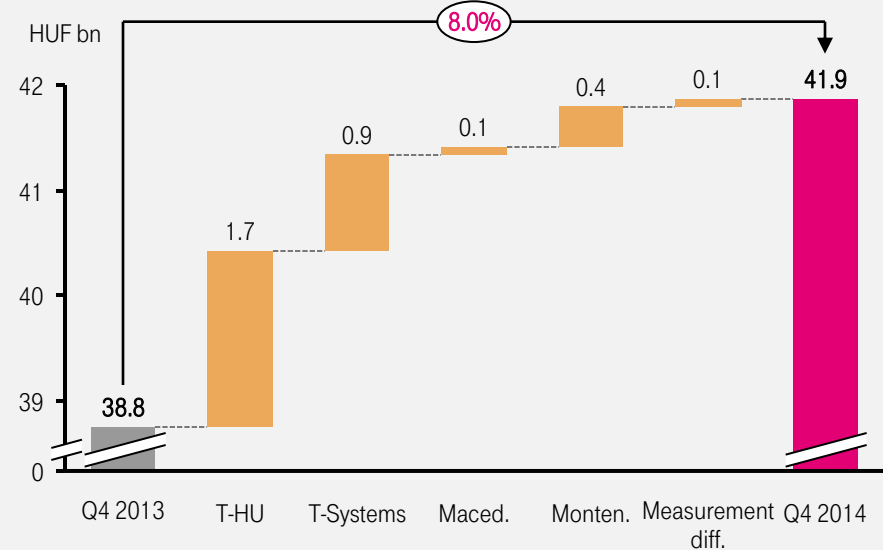
-11%

-3%

-3%

- **T-Hungary:** lower revenues from fixed voice and energy services offset by higher BB, mobile equipment and TV revenues
- **T-Systems:** lower volume of application and internal revenues
- **Macedonia:** mobile voice revenue decline primarily driven by MTR cuts while fixed voice revenue decline is mostly due to mobile substitution
- **Montenegro:** TV and internet growth mostly mitigated voice revenue decline

SEGMENTS' EBITDA DEVELOPMENT



Change Y-o-Y

+6%

+43%

+2%

+16%

- **T-Hungary:** higher mobile gross margin coupled with lower severance expenses and employee costs
- **T-Systems:** higher bad debt expense compensated by lower opex also reflecting the absence of the one-off non-deductible VAT charge booked in Q4 2013
- **Macedonia:** slight decline in gross margin mitigated by savings in operating costs
- **Montenegro:** gross margin decline offset by lower other operating expenses

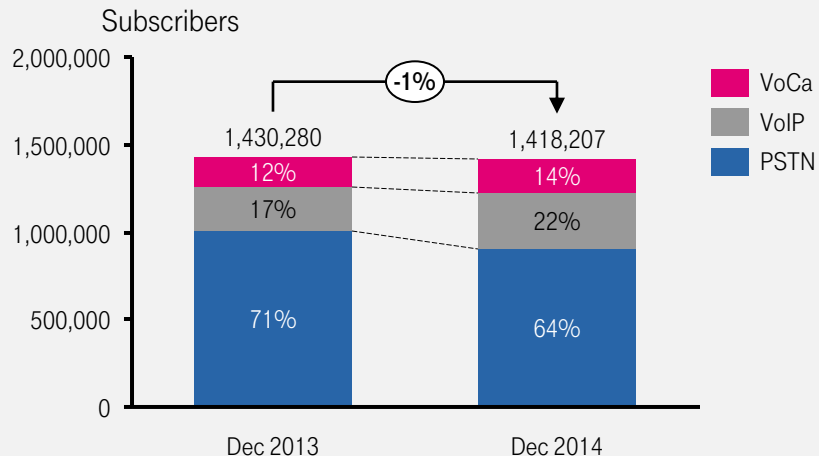


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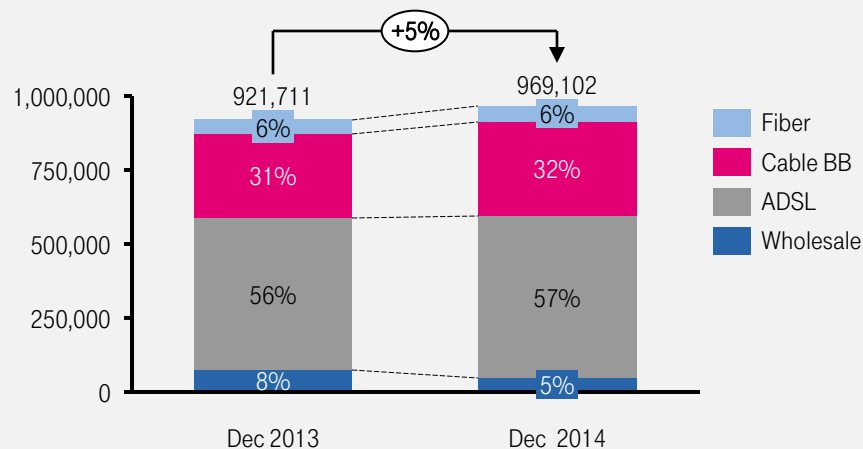
TELEKOM HUNGARY – FIXED LINE MARKET



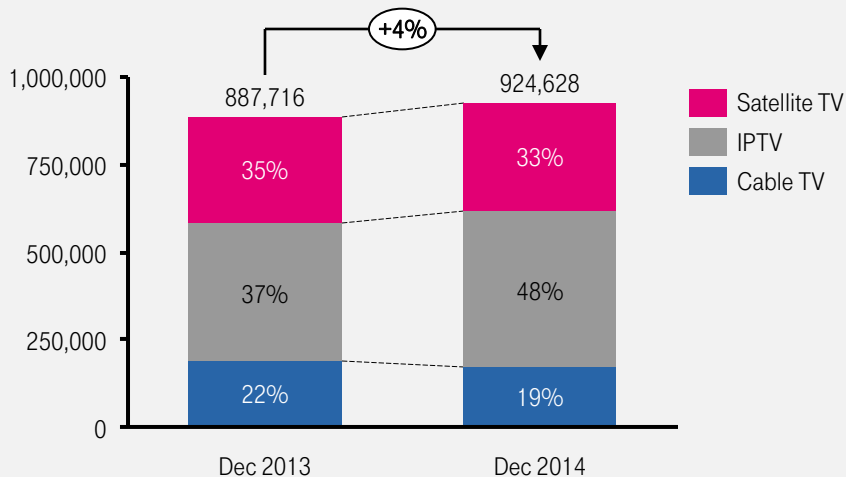
TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS



FIXED BROADBAND SUBSCRIBER BREAKDOWN



TV SUBSCRIBER BREAKDOWN



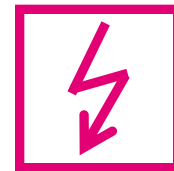
- Reduction in fixed voice churn due to the retention effect of local packages, 2Play/3Play offers and retail energy bundling
- Growth in broadband market driven by cable and fiber
- Significant migration from cable to IPTV

KPIs (Q4-o-Q4):

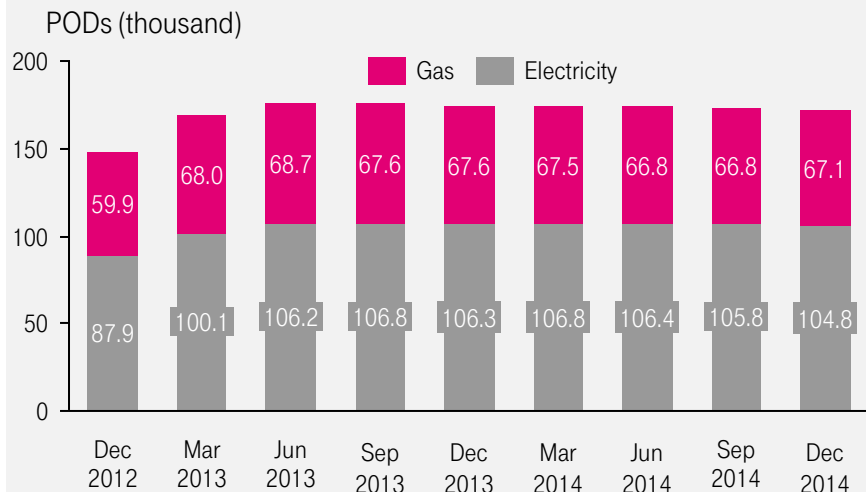
- Fixed voice ARPU: HUF 2,521 (-7.6%), due to local packages
- Fixed voice MOU: 163 (-8.4%)
- Broadband ARPU: HUF 3,478 (1.0%) thanks to upsell impacts
- TV ARPU: HUF 3,155 (0.5%) thanks to increasing number of interactive IPTV customers



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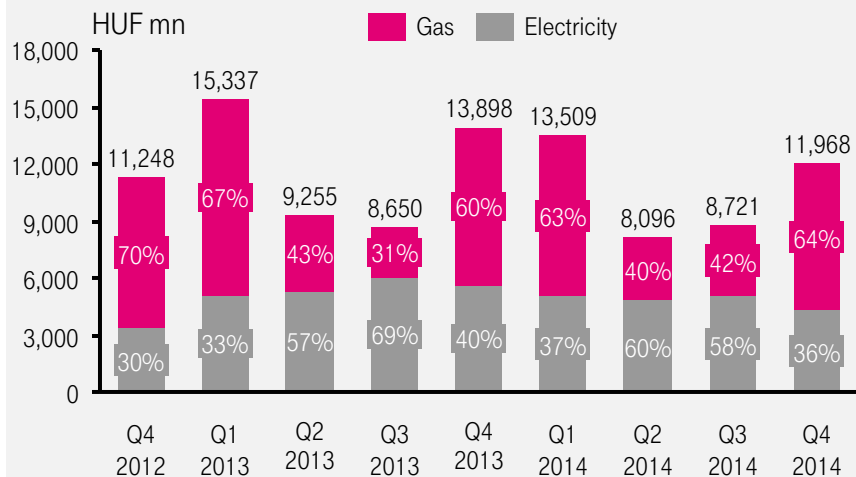
GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



RETAIL ENERGY BUSINESS

- Discounts offered to residential customers compared to the regulated universal service prices were cut to 2-3% from 5-8% to mitigate the unfavorable changes in the regulatory environment
- Increasing ratio of energy revenues generated from competitive segment customers (ca. 60% of total revenues in 2014)

REVENUE PERFORMANCE



REGULATORY DEVELOPMENTS

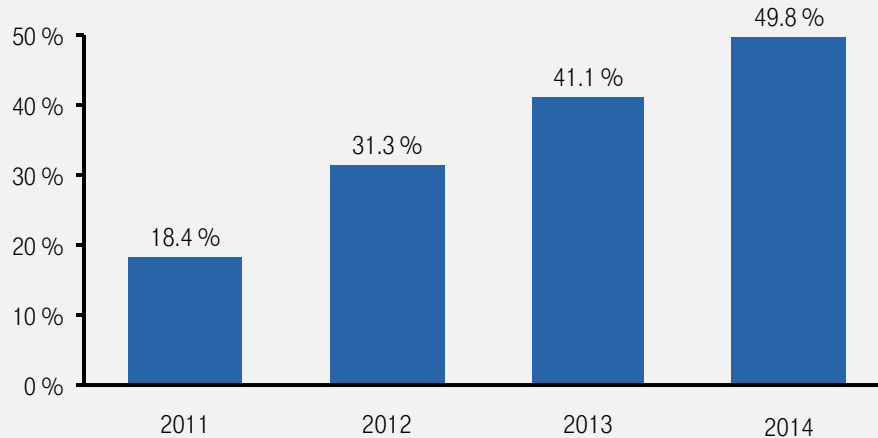
- 10% and 11% residential retail price reduction since January and November 2013, respectively
- Further 6.5% gas and 5.7% electricity price reductions effective from April and September 2014, respectively

TELEKOM HUNGARY – MOBILE MARKET



TELEKOM SMARTPHONE PENETRATION

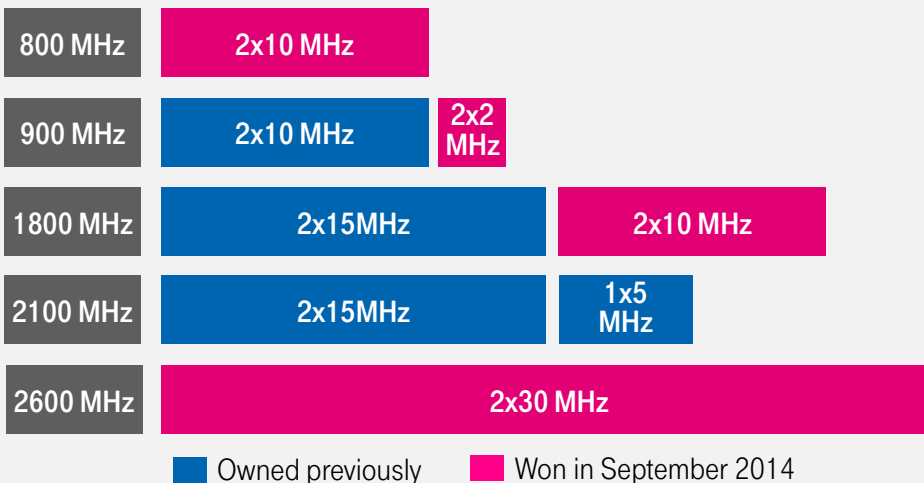
% of total handsets



MOBILE BUSINESS

- Smartphone sales reached 95% of postpaid handsets in Q4 2014
- Mobile broadband subscription attach rate at ca. 90%
- 78% population-based countrywide 4G coverage
- MTRs currently at HUF 7.06 / min
- HUF 58.7bn payment for new frequency licenses due in Q4 2014

CURRENT SPECTRUM OWNERSHIP OF MAGYAR TELEKOM



KPIs (Q4-o-Q4):

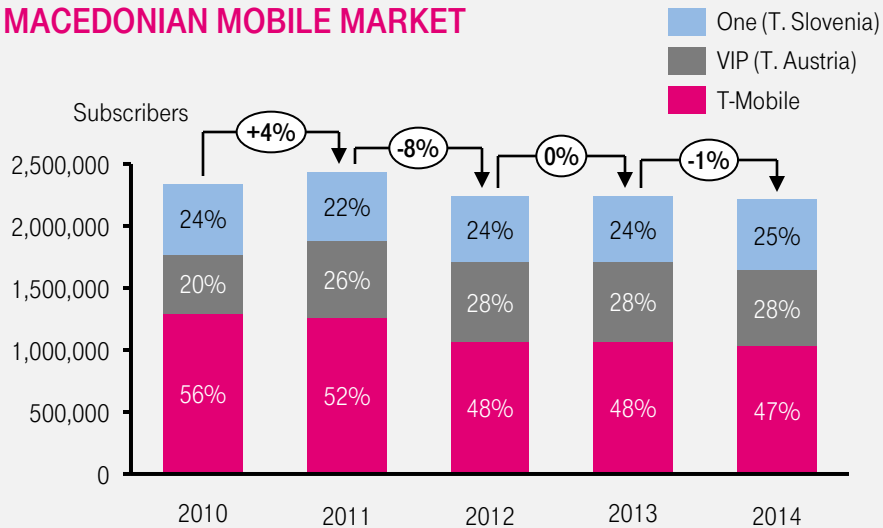
- RPC: 4.96 million (+1.6%)
- Postpaid ratio: 50.0% (+1.5ppt)
- ARPU: HUF 3,546 (+3.4%)
- Mobile MOU: 177 (+9.3%)
- SAC/gross add: HUF 7,224 (-6.9%)
- SRC/retained customer: HUF 16,551 (-13.8%)
- VAS within ARPU: HUF 968 (+7.8%)



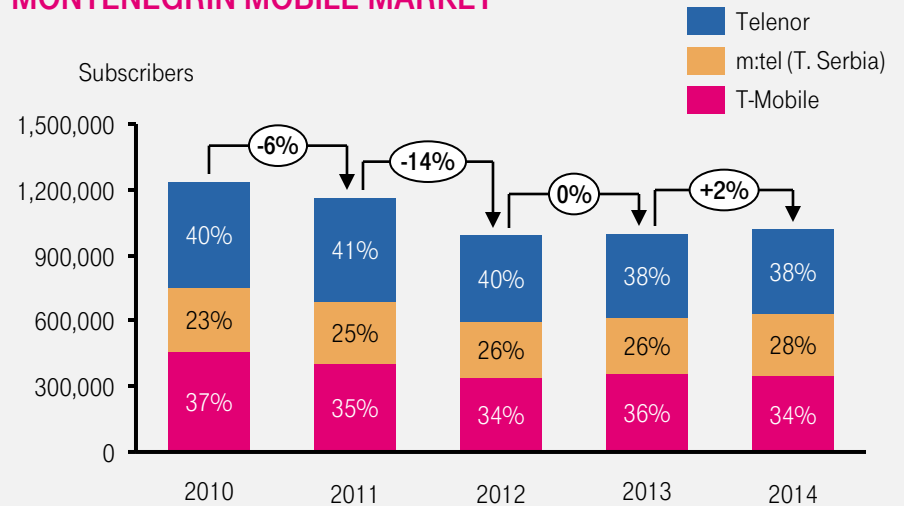
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MACEDONIA AND MONTENEGRO

MACEDONIAN MOBILE MARKET



MONTENEGRIN MOBILE MARKET



- Leading fixed line operation with 64% voice, 51% internet and 23% TV market shares
- Intense competition from cable operators on the fixed line market
- Declining mobile revenues due to intense competition

KPIs (Q4-o-Q4):

- Fixed voice churn: 5%
- Fixed BB customers: +2.7%
- TV customers: +12%
- Mobile ARPU: HUF 1,775 (-9%)
- Mobile MOU: 214 (+9%)

- Leading fixed line operation with 98% voice, 86% internet and 42% TV market shares
- Strong seasonality on the mobile market driven by tourism
- Economic environment restricts performance

KPIs (Q4-o-Q4):

- Fixed voice churn: 2%
- Fixed BB customers: +3.5%
- TV customers: +3.3%
- Mobile ARPU: HUF 2,572 (+2%)
- Mobile MOU: 177 (+11%)

FINANCIALS

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q4 2013	Q4 2014	Change
Mobile revenues	78,753	84,375	7.1%
Fixed line revenues	54,867	52,093	-5.1%
System Integration/Information Technology revenues	18,223	16,828	-7.7%
Revenue from Energy Services	13,898	11,968	-13.9%
Revenues	165,741	165,264	-0.3%
Direct costs	(67,728)	(67,841)	0.2%
Employee-related expenses	(27,346)	(23,186)	-15.2%
Depreciation and amortization	(27,006)	(26,694)	-1.2%
Hungarian telecommunications and other crisis taxes	(6,666)	(6,664)	0.0%
Other operating expenses	(26,758)	(26,861)	0.4%
Total operating expenses	(155,504)	(151,246)	-2.7%
Other operating income	1,510	1,150	-23.8%
Operating profit	11,747	15,168	29.1%
Net financial results	(8,026)	(7,944)	-1.0%
Share of associates' profits	0	0	n.a.
Profit before income tax	3,721	7,224	94.1%
Income tax expense	(2,476)	(4,574)	84.7%
Profit for the period	1,245	2,650	112.9%
Non-controlling interests	992	1,110	11.9%
Equity holders of the Company (Net income)	253	1,540	508.7%



MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Dec 31, 2013	Dec 31, 2014	Change
Current assets	193,941	197,897	2.0%
Cash and cash equivalents	14,633	14,625	-0.1%
Other current financial assets	28,615	23,690	-17.2%
Non current assets	897,307	992,879	10.7%
Property, plant and equipment - net	493,619	487,778	-1.2%
Intangible assets	381,199	478,486	25.5%
Total assets	1,091,248	1,190,776	9.1%
Equity	489,211	518,940	6.1%
Current liabilities	307,223	329,836	7.4%
Financial liabilities to related parties	58,682	110,858	88.9%
Other financial liabilities	100,060	65,131	-34.9%
Non current liabilities	294,449	336,542	14.3%
Financial liabilities to related parties	239,522	245,071	2.3%
Other financial liabilities	26,214	59,422	126.7%
Total equity and liabilities	1,090,883	1,185,318	8.7%

MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Dec 31, 2013	Dec 31, 2014	Change
Net cash generated from operating activities	131,612	145,495	10.5%
Investments in tangible and intangible assets	(146,122)	(184,364)	26.2%
Adjustments to cash purchases	25,984	42,211	62.4%
Purchase of subsidiaries and business units	(871)	(1,210)	n.a.
Cash acquired through business combinations	0	0	n.a.
Payments for / proceeds from other financial assets - net	13,772	10,227	-25.7%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	1,188	2,635	121.8%
Net cash used in investing activities	(106,049)	(130,501)	23.1%
Dividends paid to shareholders and minority interest	(65,405)	(6,761)	-89.7%
Net payments of loans and other borrowings	50,244	9,751	-80.6%
Repayment of other financial liabilities	(11,157)	(18,541)	66.2%
Net cash used in financing activities	(26,318)	(15,551)	-40.9%
Free cash flow*	634	(13,774)	-2272.6%

*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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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, VoCaTV: Voice over Cable TV, 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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