

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION



LIFE IS FOR SHARING.

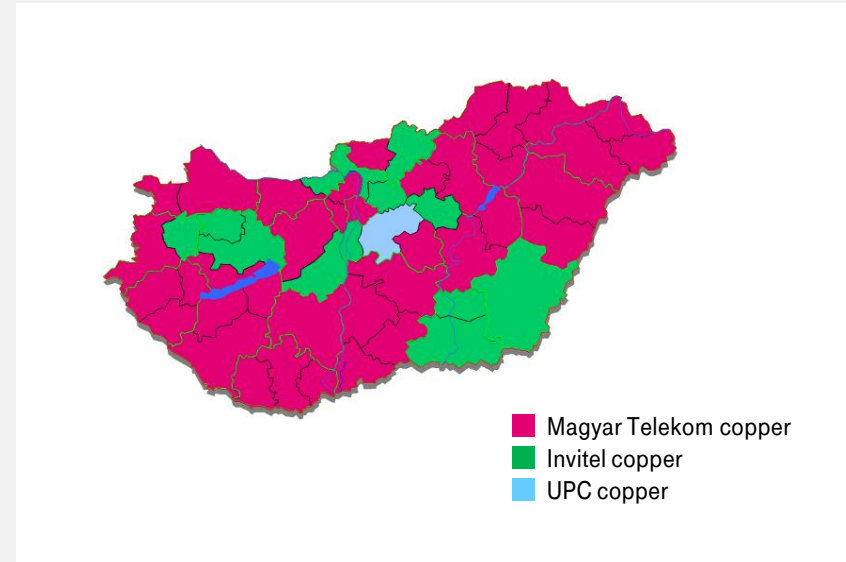
STRATEGY AND MARKET POSITIONS

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

INTERNATIONAL PRESENCE



HUNGARY



- Leading telecommunications operator in Hungary, Macedonia and Montenegro
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.25bn market capitalization
- Stock exchange listings
 - Primary listing on Budapest Stock Exchange
 - Level I ADR program, ADSs traded on the OTC Market

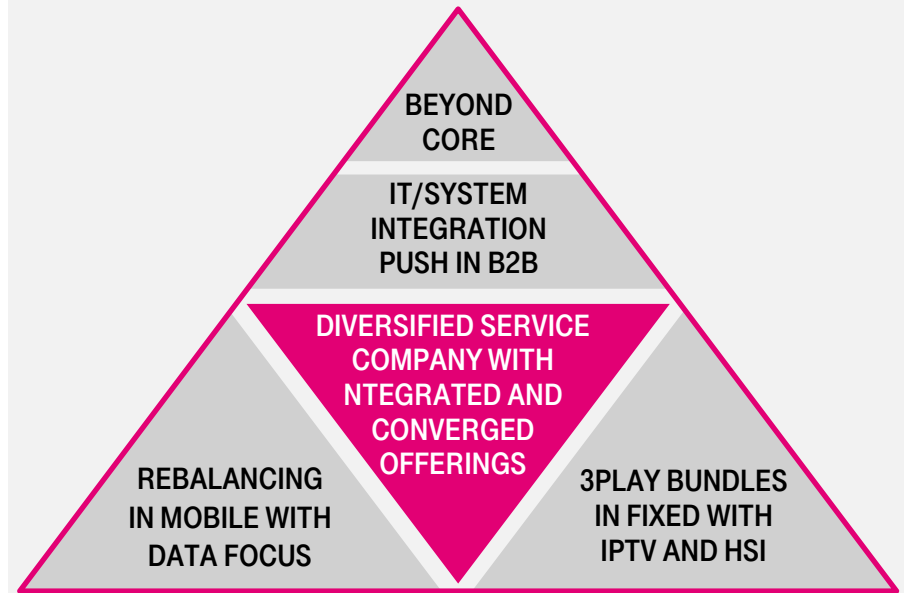
- MT is the incumbent fixed telco provider on ca. 75% of primary copper areas of Hungary
- Over 1.8mn households covered with High Speed Internet (HSI) access across country
 - FTTx (325k HHs) – ongoing countrywide roll-out
 - ED3 (675k HHs) – participating in market consolidation
- 83% population coverage of 3G
- 78% population coverage of 4G

STRATEGY OVERVIEW

TELEKOM 2017 STRATEGY



BUNDLING STRATEGY



- Telekom / T-Systems are the leading ICT brands in Hungary
- Focus on simplicity and push online transition to enhance customer experience while improving internal efficiency
- Seamless product experience offered to customers
- Aiming for undisputed fixed/mobile technology leadership
- Continued investment in our people: new competencies, empowerment, inspiring leadership, collaboration
- Partnering to facilitate achievement of these goals

- Restructuring revenues: shift from traditional (voice, data) to near-core (IT, TV) and beyond-core (energy, insurance)
- Strategy of bundling fixed, mobile, IT and beyond core services since 2007
- Customer loyalty improved through bundling
- Beyond core services to support core portfolio optimization leading to financial stabilization
- Turnaround of financial performance has commenced

STRATEGIC HIGHLIGHTS

SPECTRUM ACQUISITIONS

- Extension of existing spectrum licenses on 900 MHz and 1800 MHz in Hungary in 2013
- Acquisition of necessary spectrum blocks in 2014 to reinforce mobile market leadership

MOBILE NETWORK SHARING

- Agreement with Telenor Hungary to develop and maintain shared 4G network in 800 MHz band
- Primary goal of is to accelerate broadband coverage rollout in the countryside and to offer higher bandwidth

ACQUISITION OF GTS HUNGARAY

- Acquisition of GTS Hungary to strengthen its market position among business customers
- Expected synergies from process, network and headcount rationalization; fixed and mobile and IT cross-selling

B2B ENERGY JV AGREEMENT

- JV to improve and optimize B2B energy operations of Magyar Telekom
- Significant opportunities driven primarily by greater economies of scale and potential for risk sharing

TV MARKET LEADERSHIP

- With #1 position in the TV market, now leader in all segments of the Hungarian ICT market
- Around 50% of our customers already have an interactive TV subscription supporting our TV ARPU developments

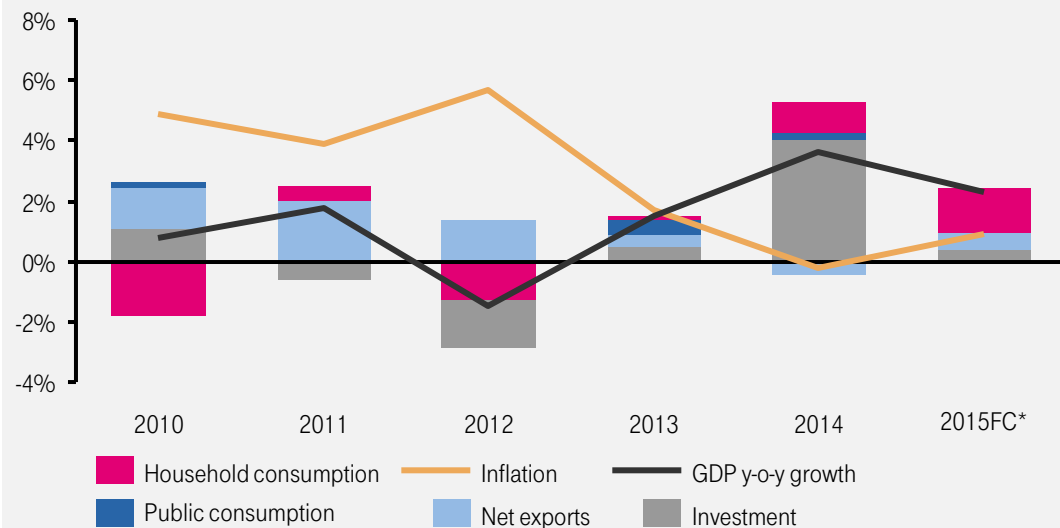
SUBSIDIARIES

- Macedonia: slower mobile revenue decline and successful bundling strategy in fixed line
- Montenegro: maintaining stable market share and financial performance



HUNGARIAN ECONOMIC ENVIRONMENT

GROWTH STRUCTURE

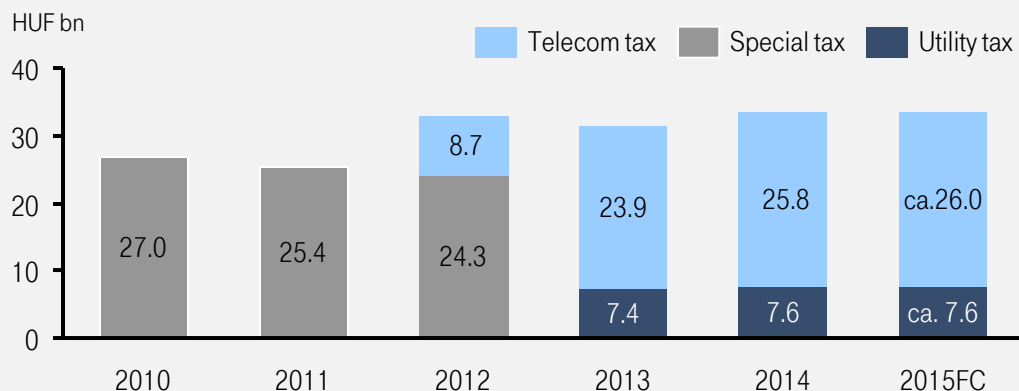


* Central Bank December 2014 forecasts

DOMESTIC DEMAND SHOWS SIGNS OF IMPROVEMENT AS ECONOMY RECOVERS

- Governmental measures support consumer spending
- Investment levels show strong volatility due to EU fund cycles
- MT is expected to benefit from positive trends of domestic demand

TAXES LEVIED ON MAGYAR TELEKOM

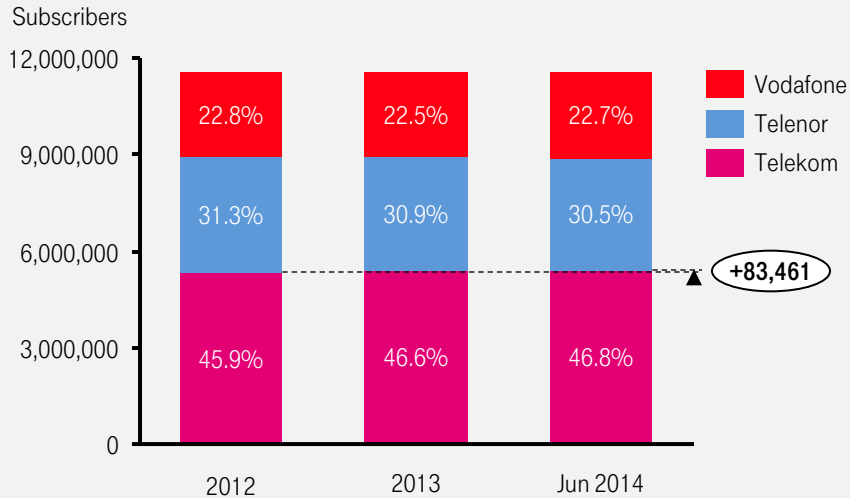


TAX BURDENS INTRODUCED TO REDUCE BUDGET DEFICIT

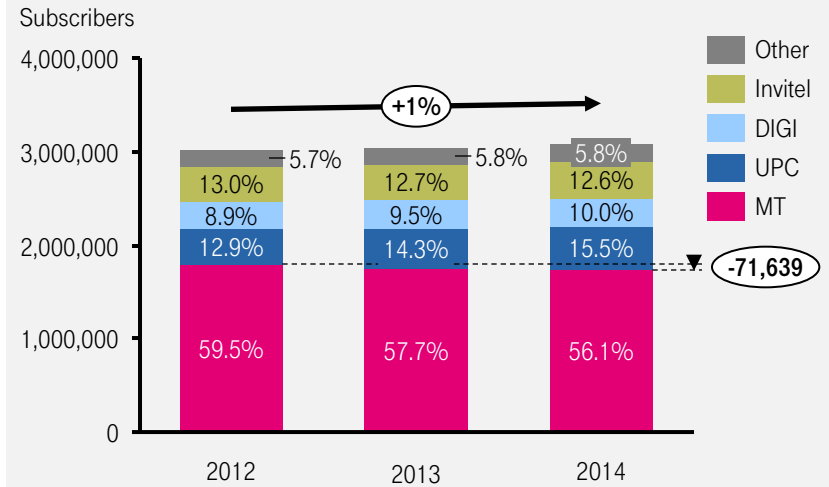
- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied from 2013

MARKET POSITIONS ON THE HUNGARIAN TELCO MARKETS

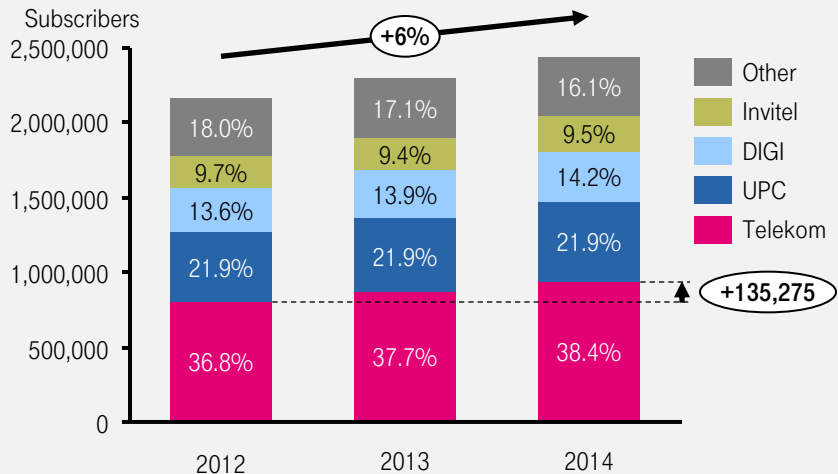
TOTAL MOBILE MARKET SHARES*



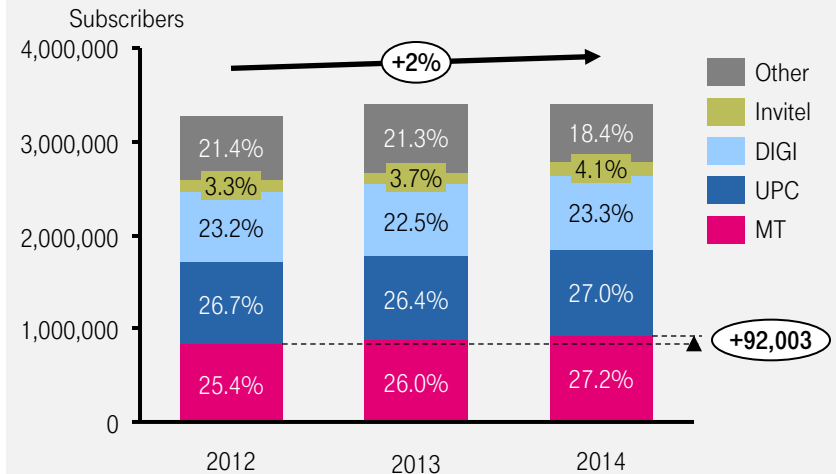
FIXED VOICE MARKET SHARES**



FIXED BROADBAND MARKET SHARES**



TV MARKET SHARES**



LIFE IS FOR SHARING.

* based on the total SIMs, data available only until June 2014 by National Media and Infocommunications Authority (NMAIAH) due to definition debate


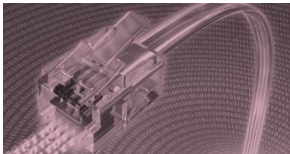




** based on the total fixed voice / BB / pay TV market estimated by the NMAIAH

WIDE RANGE OF TELECOM SERVICES, SYSTEM INTEGRATION AND IT INFRASTRUCTURE COMPETENCES AT T-SYSTEMS HUNGARY

CONNECTIVITY

43.0% of total revenue

65% of total margin*

Fixed voice	Fixed data	Fixed internet	Mobile voice	Mobile internet	Mobile data
					

SYSTEM INTEGRATION

17.5% of total revenue

31% of total margin*

Business Intelligence	Integration & Developm.	ERP & CRM	Transport	Billing & Cloud	E- Health
					

IT INFRASTRUCTURE

39.5% of total revenue

13% of total margin*

Computer systems	Network solutions	Communication	IT service & systems management	IT Security	Datacenter services
					

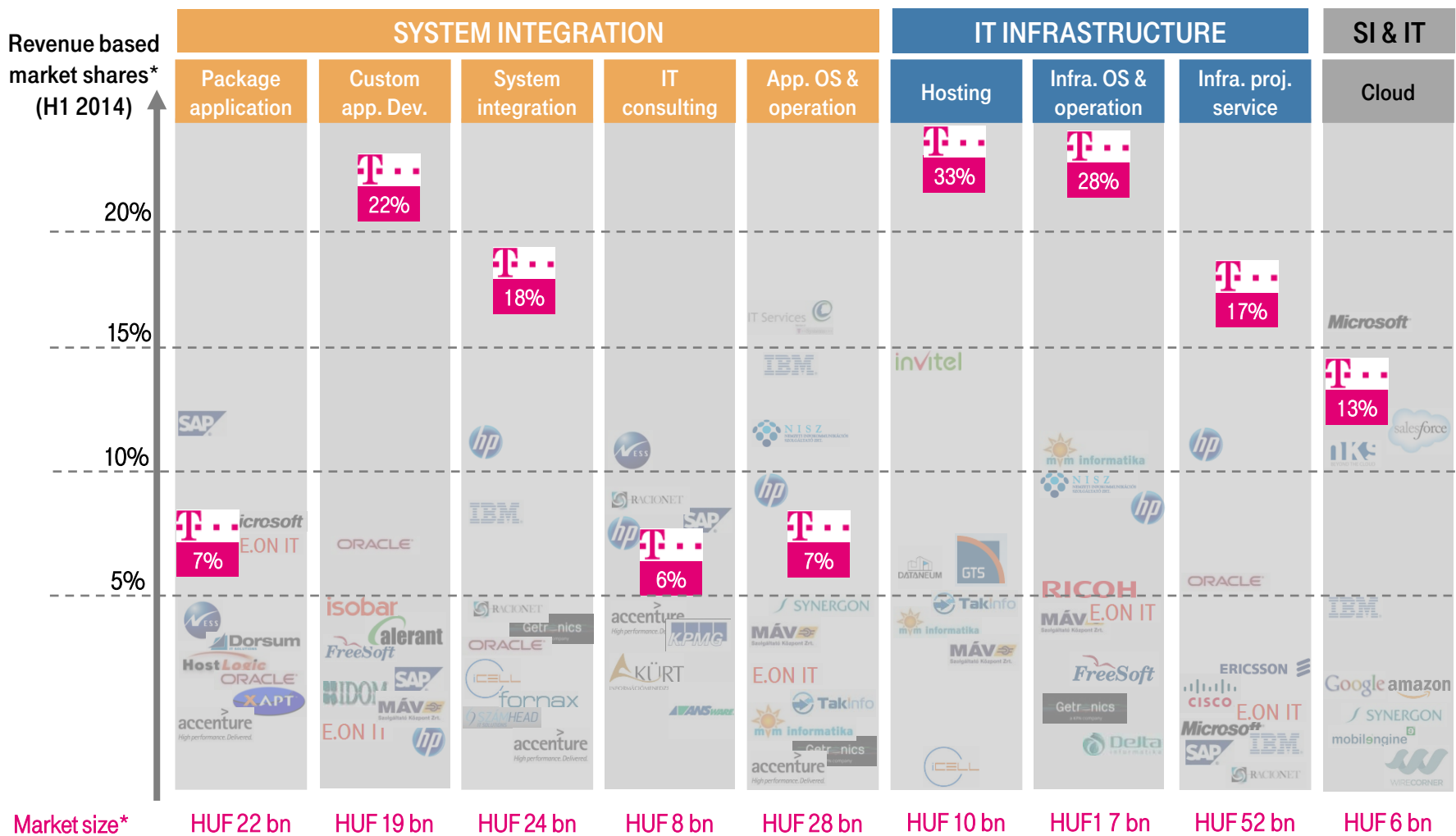
Financial figures are based on T-Systems Hungary's 2014 performance

*Total margin = Production margin = Direct margin – Direct Delivery expenses, Bad Dept (-9%) included



LIFE IS FOR SHARING.

MARKET LEADER IN IT SERVICES DUE TO WIDE RANGE OF IT SOLUTIONS BOTH IN IT PROJECTS AND IT OUTSOURCING



*Source: IDC 2014; Market size by demand side, while market shares by supply side data;

GUIDANCE AND OUTLOOK

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

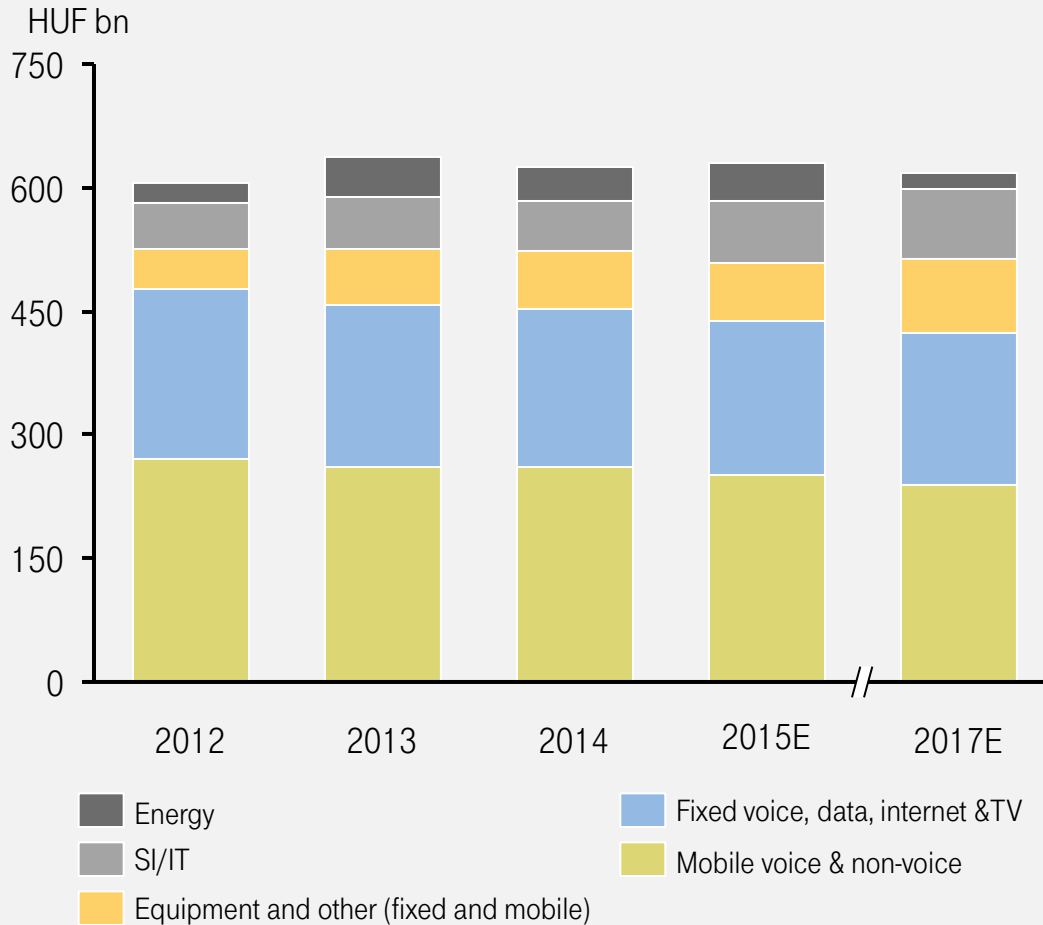
**after minority dividend payments



LIFE IS FOR SHARING.

REVENUE GROWTH DRIVEN BY SUCCESSFUL REBALANCING

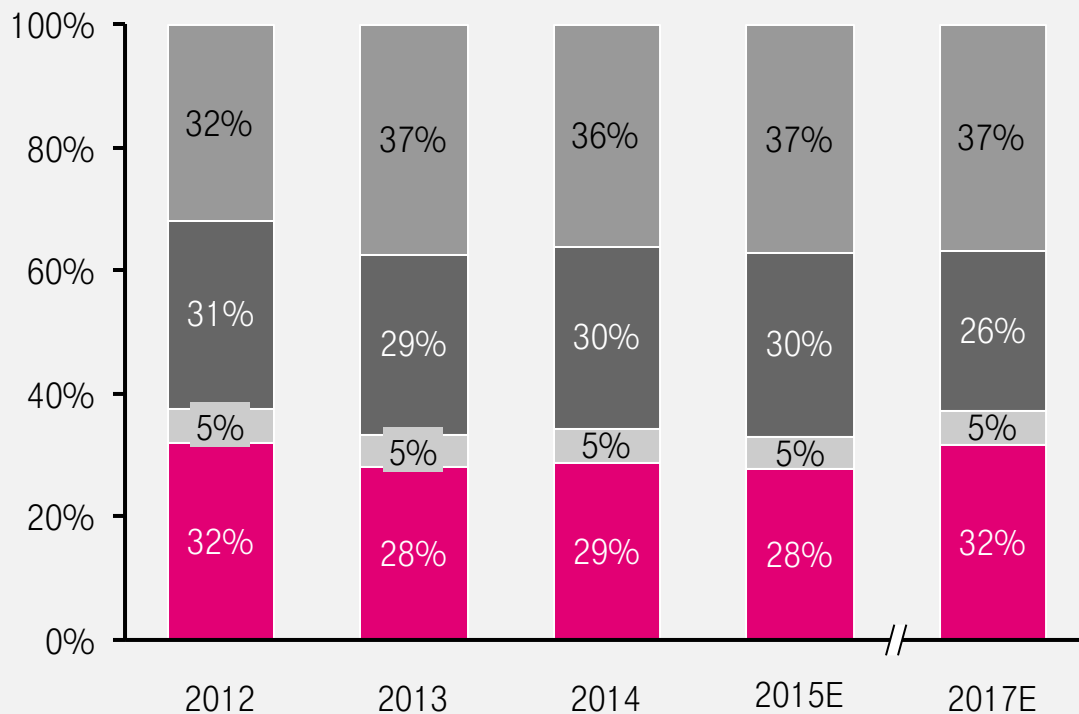
GROUP REVENUE DEVELOPMENTS



- 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)

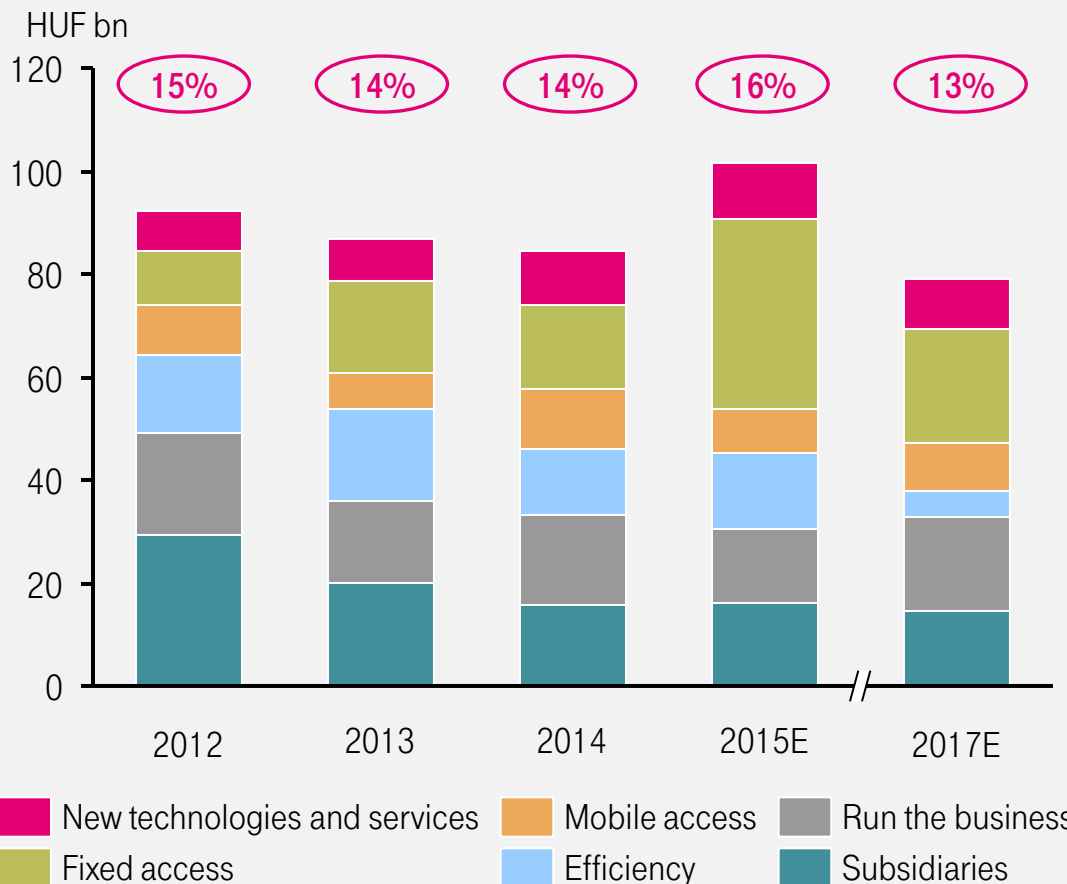


- 2015 EBITDA to decline by a maximum 3% vs. 2014 level
- 2017 EBITDA expected to surpass HUF 185 billion
- 2015 indirect costs include the expected ca. HUF 8 billion severance expense related to the redundancy program involving ca. 1,000 employees
- Direct costs expected to moderately rise in parallel 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*



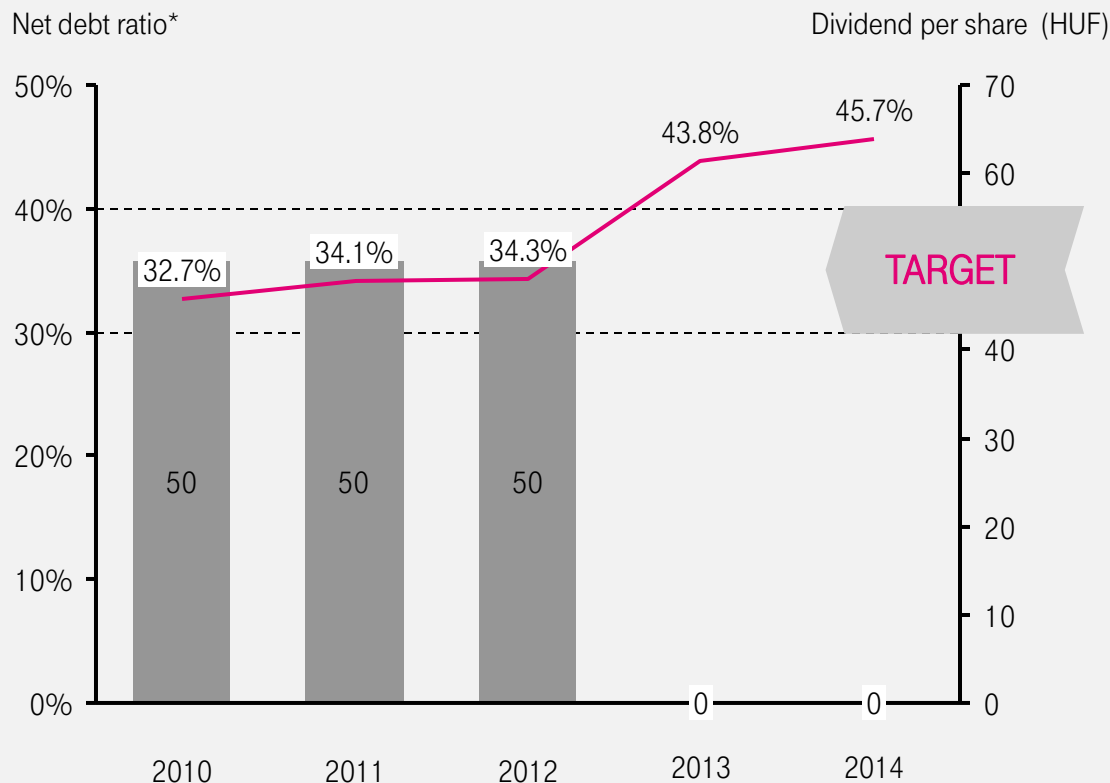
- Ca. HUF 105 billion Capex earmarked for 2015
- Fixed access: focus on increasing HSI coverage
- Mobile access: 4G population coverage to reach 97% by end 2015
- Efficiency investments:
 - Replacement of legacy network
 - PSTN migration
 - Online front end development
 - Mobile network modernization
 - 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

2014 FULL YEAR RESULTS

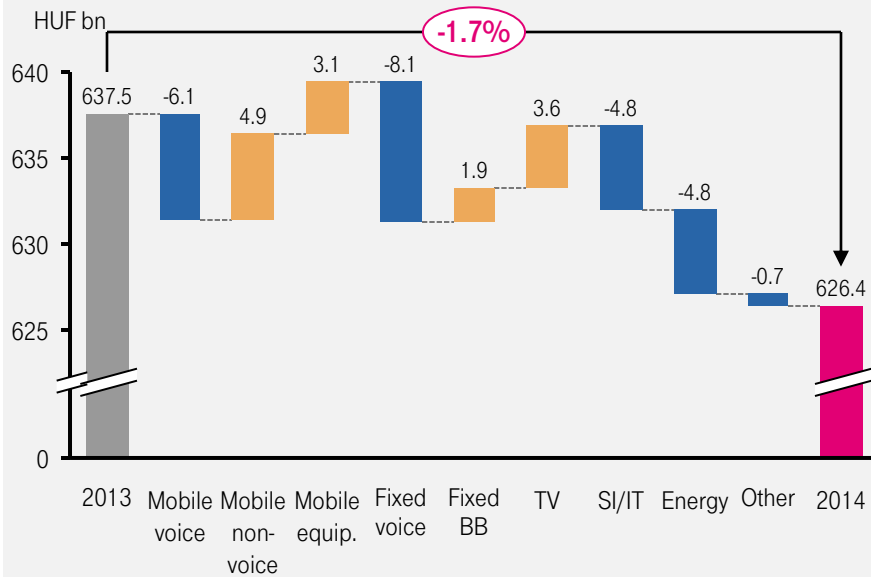
2014 PUBLIC TARGETS ACHIEVED

	2014 RESULTS	2014 TARGETS
REVENUE	-1.7%	up to 3% decline
	<ul style="list-style-type: none"> ▪ Further decline in fixed and mobile voice revenues ▪ Lower energy revenues due to cuts in regulated retail energy prices ▪ Decline in SI/IT revenues reflecting change in service mix 	
REPORTED EBITDA	+1.0%	up to 3% decline
	<ul style="list-style-type: none"> ▪ Higher energy gross margin vs. low level in 2013 ▪ Headcount efficiency improvements ▪ Annual frequency fee reduction and capitalization 	
CAPEX*	HUF 86.8bn	around HUF 87bn
	<ul style="list-style-type: none"> ▪ Network modernization, 4G roll-out ▪ Efficiency improving projects 	

*excluding spectrum license fees and annual frequency fee capitalization

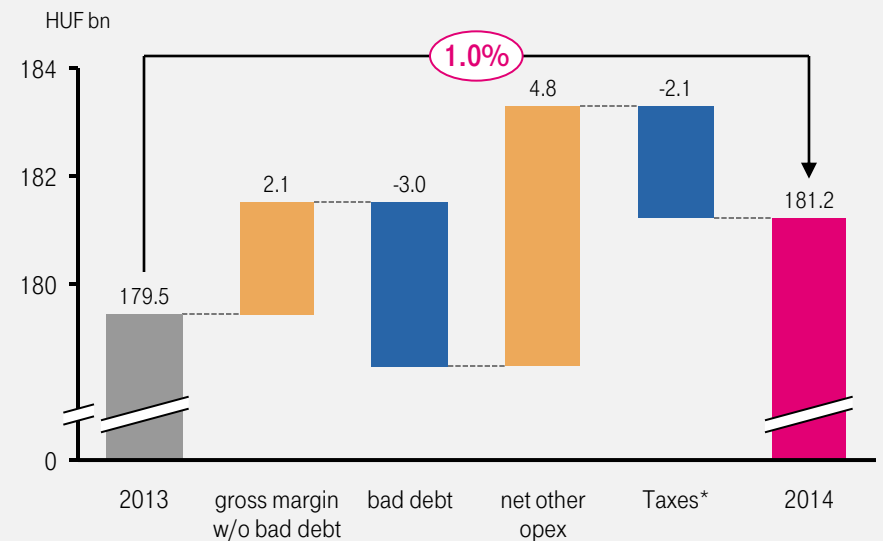
2014 GROUP RESULTS – REVENUES AND EBITDA

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

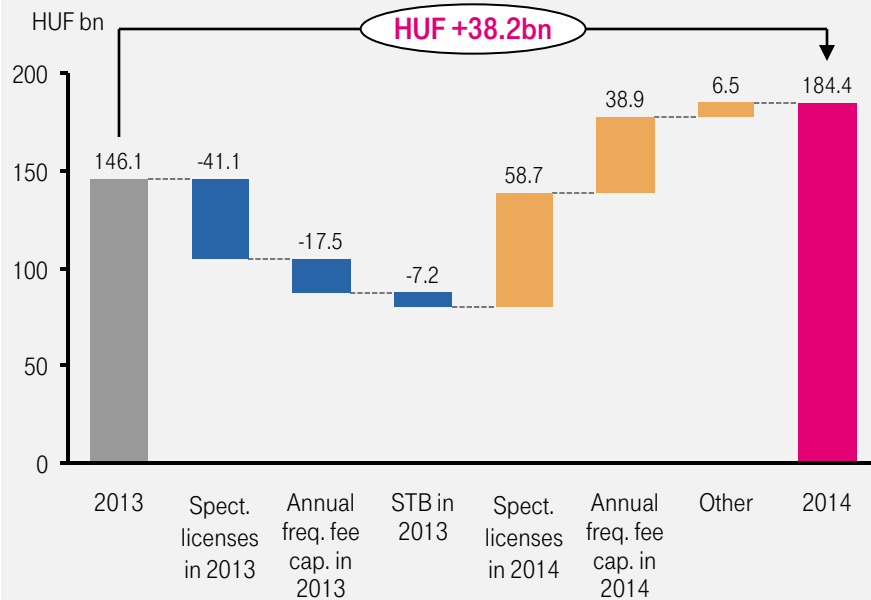
GROUP EBITDA



- 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

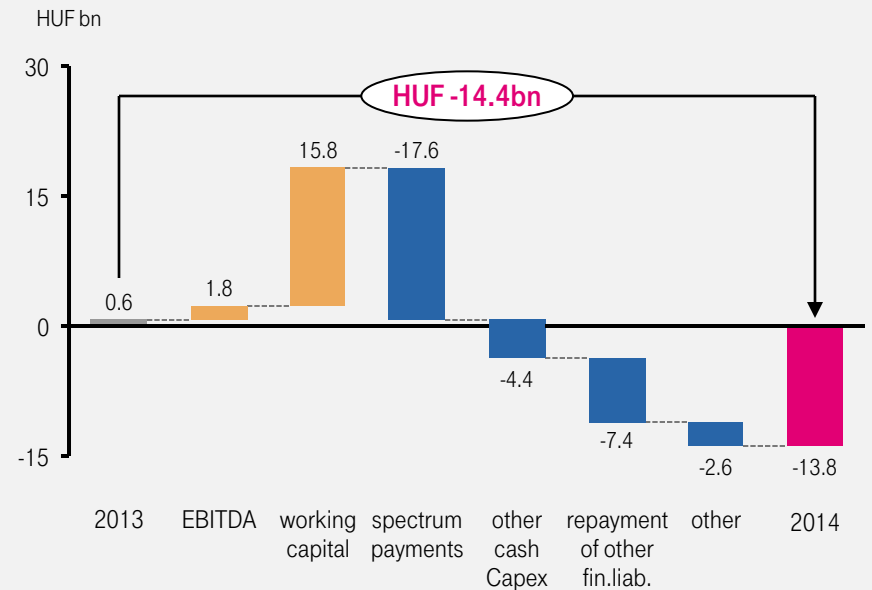
2014 GROUP RESULTS – CAPEX AND FCF

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

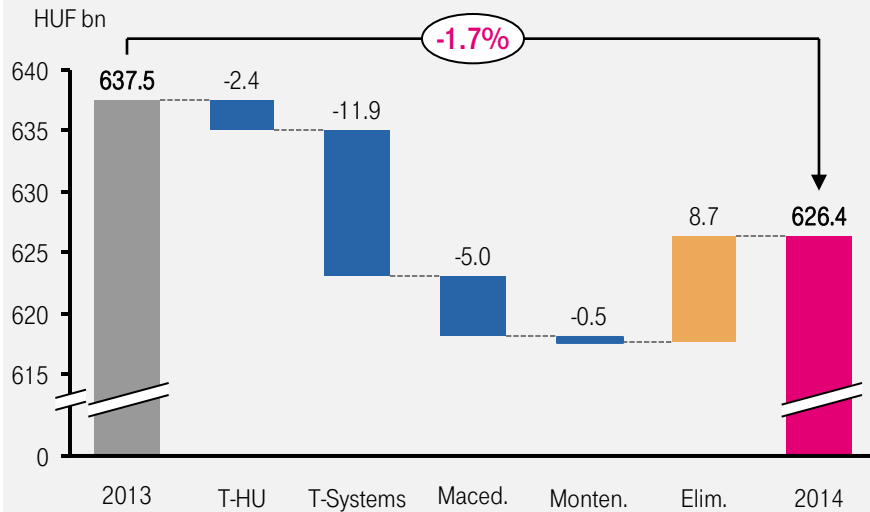
GROUP FCF*



- 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

2014 SEGMENT RESULTS – REVENUES AND EBITDA

SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y

-1%

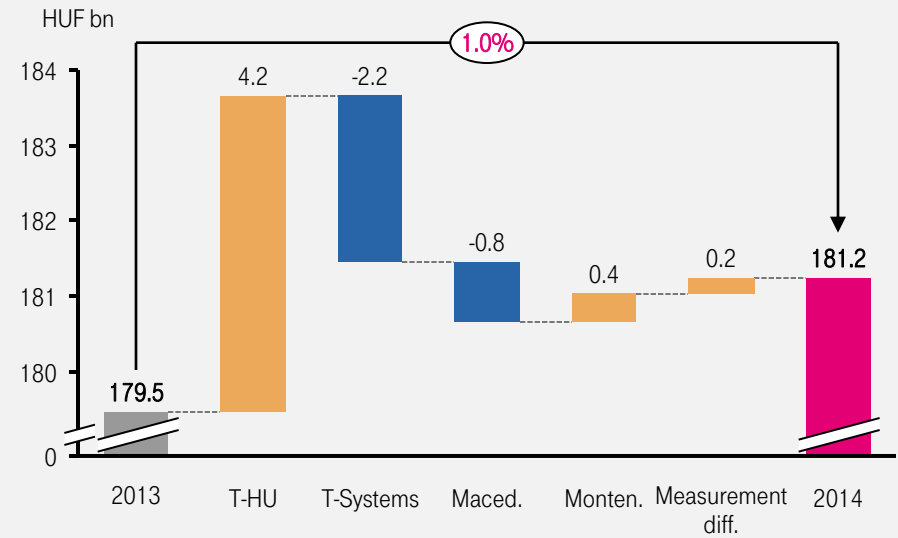
-10%

-8%

-2%

- **T-Hungary:** lower revenues from fixed voice and energy services mitigated 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 offset voice revenue decline

SEGMENTS' EBITDA DEVELOPMENT



Change Y-o-Y

+3%

-16%

-3%

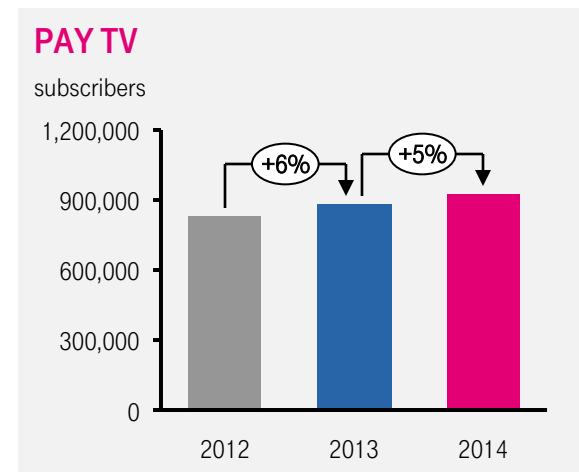
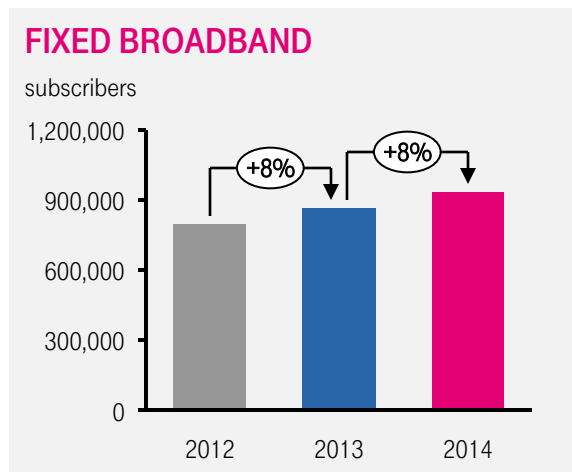
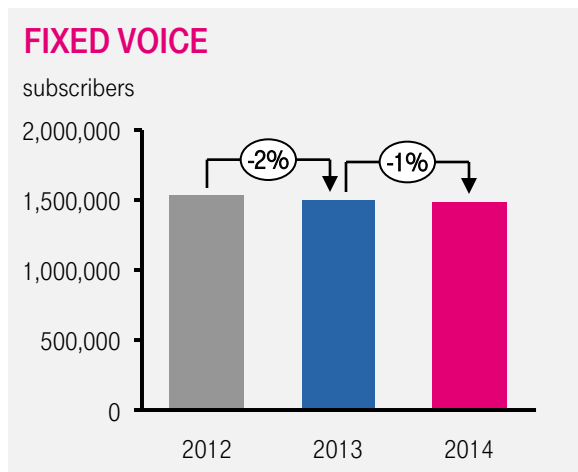
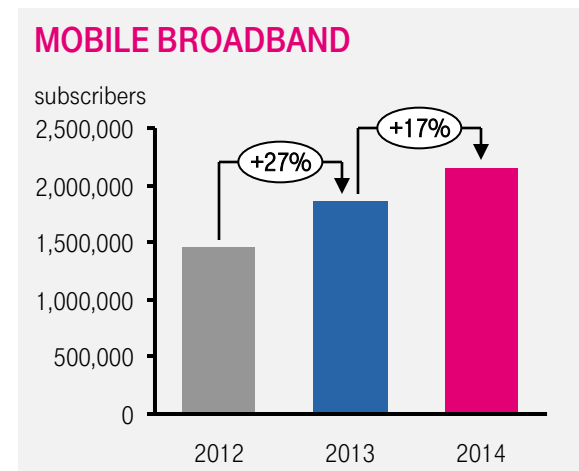
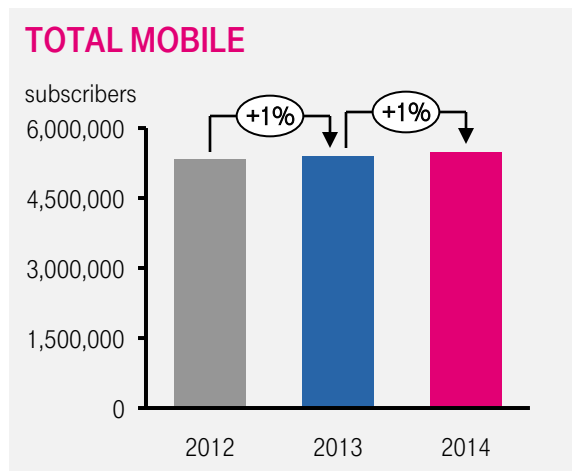
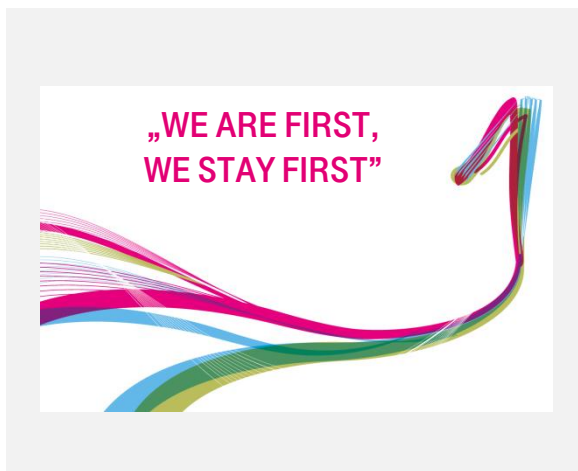
+3%

- **T-Hungary:** higher mobile and energy gross margin coupled with lower net operating expenses (savings in fees and levies)
- **T-Systems:** higher bad debt expense and telecommunication tax expense
- **Macedonia:** decline in gross margin partly mitigated by savings in operating costs
- **Montenegro:** gross margin decline offset thanks to efficiency savings



LIFE IS FOR SHARING.

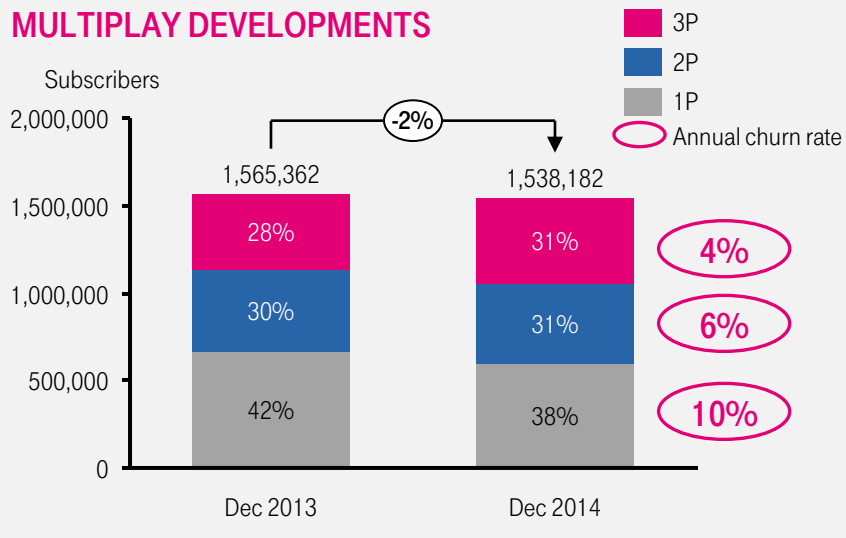
SUBSCRIBER DEVELOPMENTS ON THE HUNGARIAN TELCO MARKETS



TELEKOM HUNGARY – FIXED LINE MARKET



MULTIPLAY DEVELOPMENTS

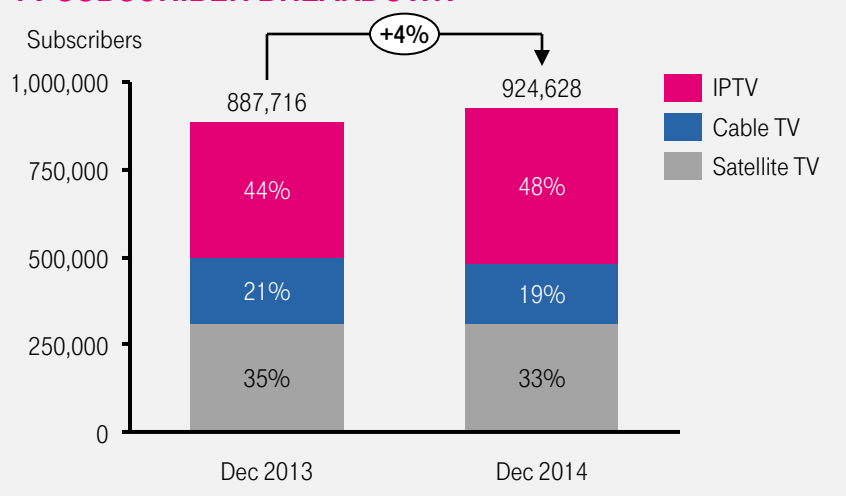


- Reduction in fixed voice churn due to the retention effect of local packages, 2Play/3Play offers and retail energy bundling
- Growth in broadband market driven by cable and fiber
- Significant migration from cable to IPTV

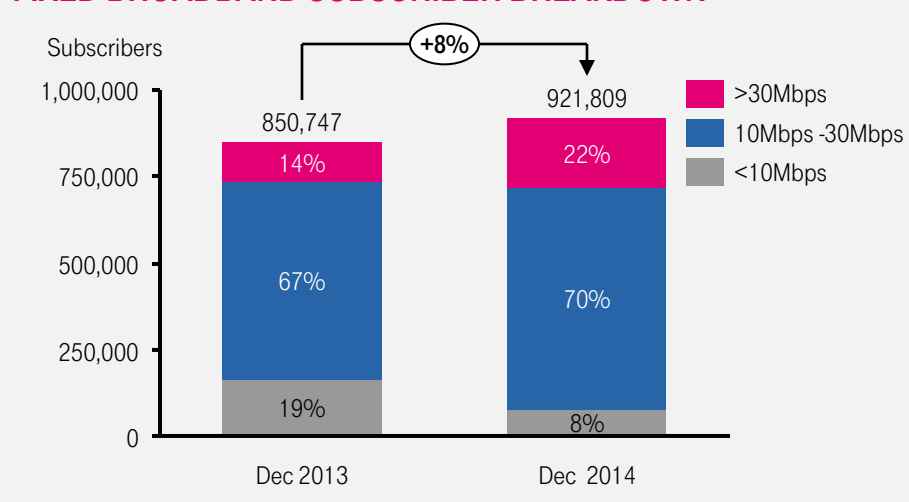
KPIs (2014 YTD):

- Fixed voice ARPU: HUF 2,587 (-6.5%)
- Fixed voice MOU: 164 (-9.4%)
- Broadband ARPU: HUF 3,429 (-2.9%)
- TV ARPU: HUF 3,111 (no change)

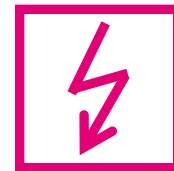
TV SUBSCRIBER BREAKDOWN



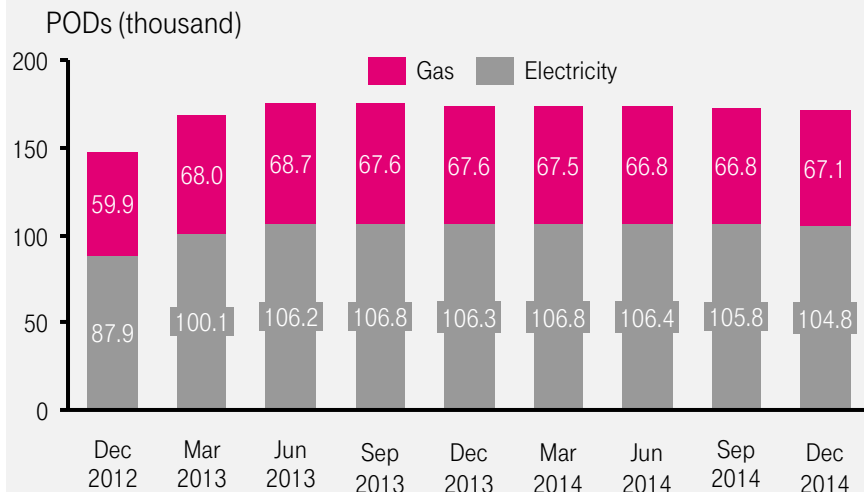
FIXED BROADBAND SUBSCRIBER BREAKDOWN



LIFE IS FOR SHARING.



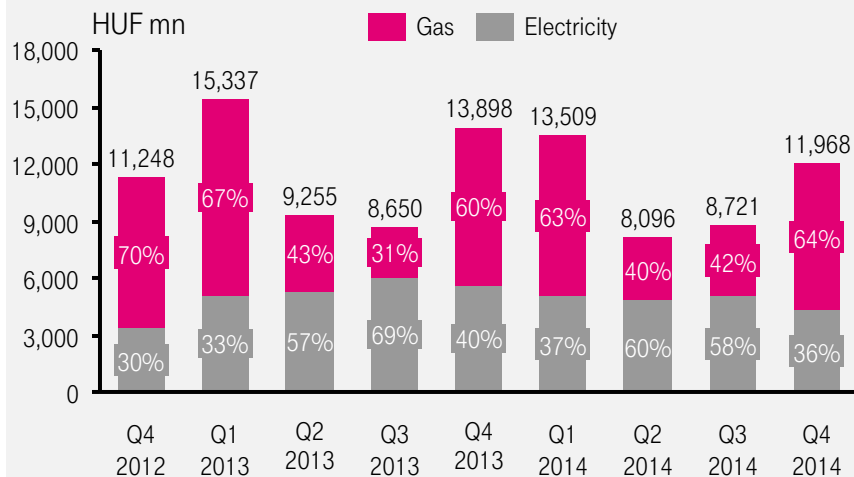
GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



RETAIL ENERGY BUSINESS

- 6.8% of total revenues from energy in 2014
- 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



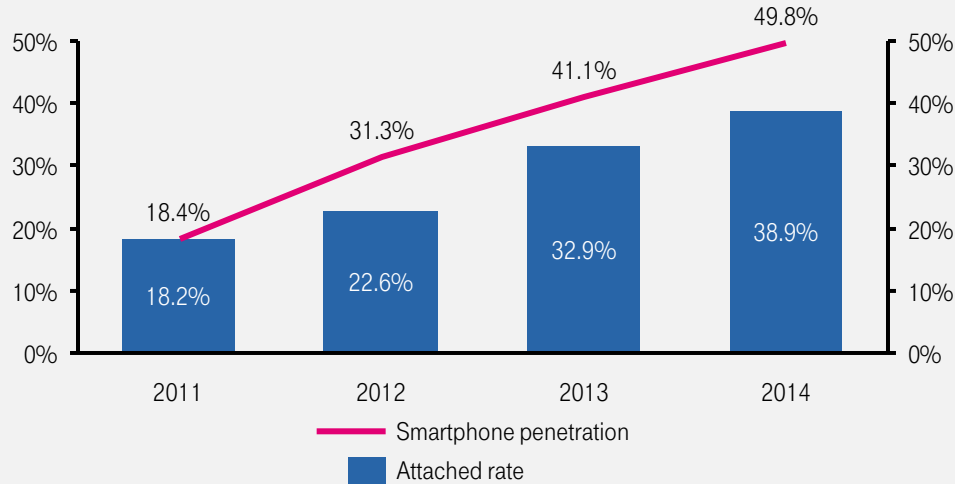
REGULATORY DEVELOPMENTS

- 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



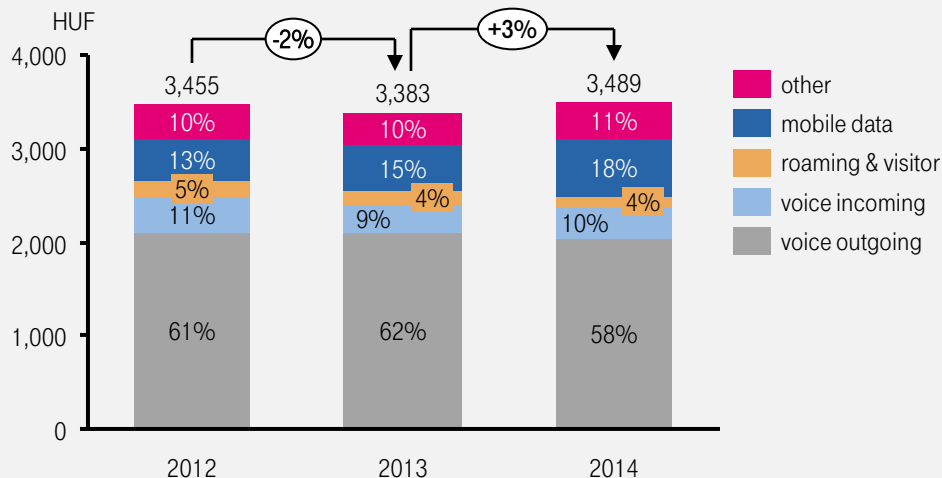
SMARTPHONE PENETRATION AND ATTACHED RATE



MOBILE BUSINESS

- Smartphone sales reached 95% of postpaid handsets in Q4 2014
- Postpaid attach rate at 72%
- 78% population-based countrywide 4G coverage
- Current MTR at HUF 7.06 / min cut to HUF 1.71 / min effective from April 1, 2015
- HUF 58.7bn payment for new frequency licenses in Q4 2014

APRU BREAKDOWN



KPIs (2014 YTD):

- RPC: 4.96 million (+1.6%)
- Postpaid ratio: 50.0% (+1.5ppt)
- ARPU: HUF 3,489 (+3.1%)
- Mobile MOU: 171 (+6.2%)
- SAC/gross add: HUF 5,722 (-10.7%)
- SRC/retained customer: HUF 14,248 (-4.7%)
- VAS within ARPU: HUF 935 (+8.8%)

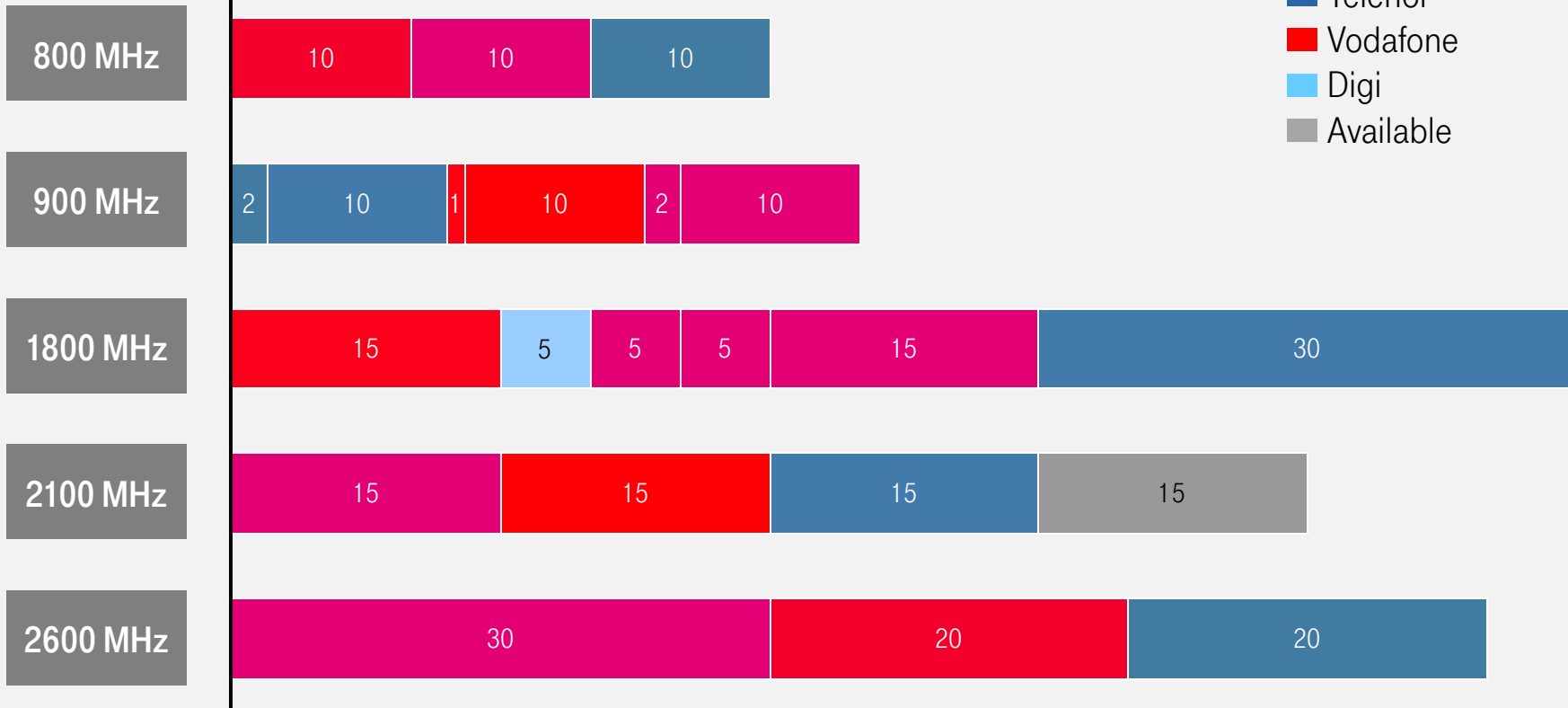
HUNGARIAN MOBILE SPECTRUM SITUATION

CURRENT SPECTRUM SITUATION

FDD (2x1 MHz)

BAND

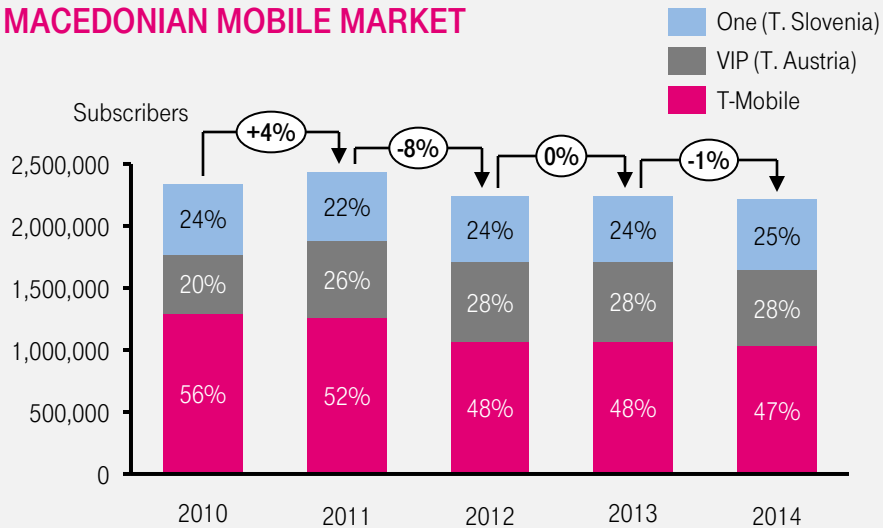
- Magyar Telekom
- Telenor
- Vodafone
- Digi
- Available



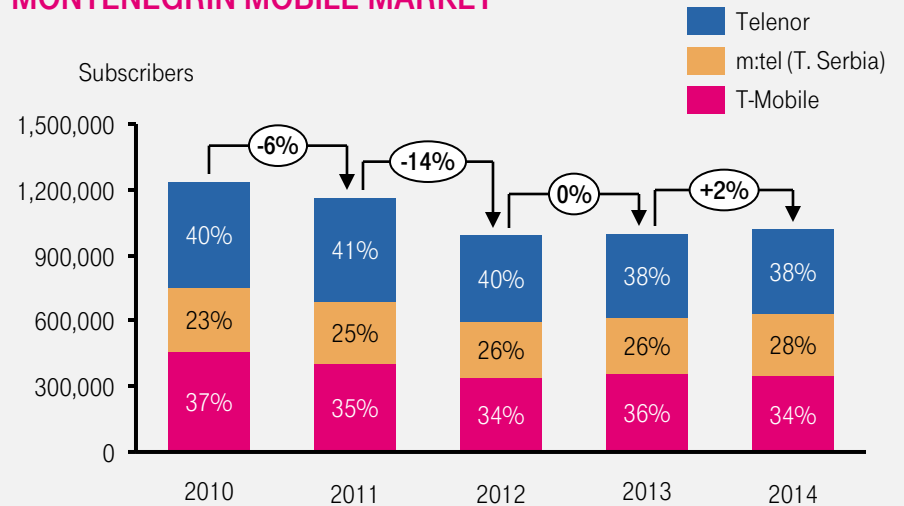
LIFE IS FOR SHARING.

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 (2014 YTD):

- Fixed voice churn: 5%
- Fixed BB customers: +3%
- TV customers: +12%
- Mobile ARPU: HUF 1,855 (-14%)
- Mobile MOU: 205 (+7%)

- 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 (2014 YTD):

- Fixed voice churn: 2%
- Fixed BB customers: +4%
- TV customers: +3%
- Mobile ARPU: HUF 2,790 (-1%)
- Mobile MOU: 179 (+8%)

FINANCIALS

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	2013	2014	Change
Mobile revenues	310,945	317,424	2.1%
Fixed line revenues	215,382	207,518	-3.7%
System Integration/Information Technology revenues	64,054	59,206	-7.6%
Revenue from Energy Services	47,140	42,299	-10.3%
Revenues	637,521	626,447	-1.7%
Direct costs	(236,470)	(226,357)	4.3%
Employee-related expenses	(96,691)	(94,750)	2.0%
Depreciation and amortization	(104,741)	(100,650)	3.9%
Hungarian telecommunications and other crisis taxes	(31,387)	(33,466)	-6.6%
Other operating expenses	(96,700)	(93,724)	3.1%
Total operating expenses	(565,989)	(548,947)	3.0%
Other operating income	3,189	3,074	-3.6%
Operating profit	74,721	80,574	7.8%
Net financial results	(31,560)	(28,397)	10.0%
Share of associates' profits	0	(5)	n.a.
Profit before income tax	43,161	52,172	20.9%
Income tax expense	(14,306)	(20,148)	-40.8%
Profit for the period	28,855	32,024	11.0%
Non-controlling interests	5,395	3,413	-36.7%
Equity holders of the Company (Net income)	23,460	28,611	22.0%

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	489,576	524,398	7.1%
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	1,091,248	1,190,776	9.1%

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)	-38.9%
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)	(8,008)	87.8%
Net payments of loans and other borrowings	50,244	10,998	-78.1%
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)	

*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, 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.



LIFE IS FOR SHARING.