

MAGYAR TELEKOM GROUP

Q4 2016 RESULTS PRESENTATION

FEBRUARY 22, 2016



LIFE IS FOR SHARING.

2016 FINANCIAL RESULTS

	2016 RESULTS	2016 TARGETS
REVENUE	HUF 602.7 bn (-8.2%) <ul style="list-style-type: none"> Decline due to partial exit from the energy business and lower SI/IT revenues Revenue growth in mobile driven by mobile data and equipment sales due to 4G push Slight decline in fixed revenues with higher TV and BB unable to offset the declines in voice and equipment 	around HUF 595 bn
EBITDA	HUF 197.0 bn (+5.2%) <ul style="list-style-type: none"> EBITDA boosted by one-off gains from the sale of Infopark (building G) and Origo Higher SI/IT gross profit due to a strategic focus on higher margin projects Decrease in employee related expenses driven by lower severance expenses and savings from the 2014/2015 headcount reduction program Deterioration in other OPEX driven by higher marketing expenses, increased maintenance, repairs, and remedial work expenses, and higher rental fees 	around HUF 193 bn
CAPEX*	HUF 104.8 bn (-4.2%) <ul style="list-style-type: none"> Although reported Capex increased by 3.1% , HUF 8.5 billion was in relation to spectrum acquisition in Montenegro Higher spending on our 4G network and transformation and streamlining projects in 2016 more than offset by lower investment in the consolidation of our TV platform, IT systems and PSTN migration 	ca. 10% yoy decline
FCF	HUF 50.0 bn (+87.1%) <ul style="list-style-type: none"> Higher EBITDA despite the incremental severance payout Lower interest payments Higher Capex, as well as increase in Capex creditors paid 	



LIFE IS FOR SHARING.

* excluding spectrum license fees and annual frequency fee capitalization

2016 RESULTS AND PUBLIC TARGETS FOR 2017¹

	2016 RESULTS with CT	2016 RESULTS without CT	2017 PREVIOUS TARGETS	2017 NEW TARGETS
REVENUE	HUF 602.7 bn	HUF 574.0 bn	HUF 560-570 bn	around HUF 560 bn
EBITDA	HUF 197.0 bn	HUF 188.1 bn	HUF 181-185 bn	around HUF 182 bn
CAPEX ²	HUF 104.8 bn	HUF 97.9 bn	ca. 15% y-o-y decline	around HUF 85 bn
FCF	HUF 50.0 bn	HUF 57.3 bn	surpassing HUF 50 bn ³	around HUF 55 bn ⁴
DIVIDEND	HUF 25 DPS	HUF 25 DPS	HUF 25 DPS	HUF 25 DPS

¹Excluding Crnogorski Telekom financials

² Excluding spectrum acquisitions and annual frequency fee capitalization

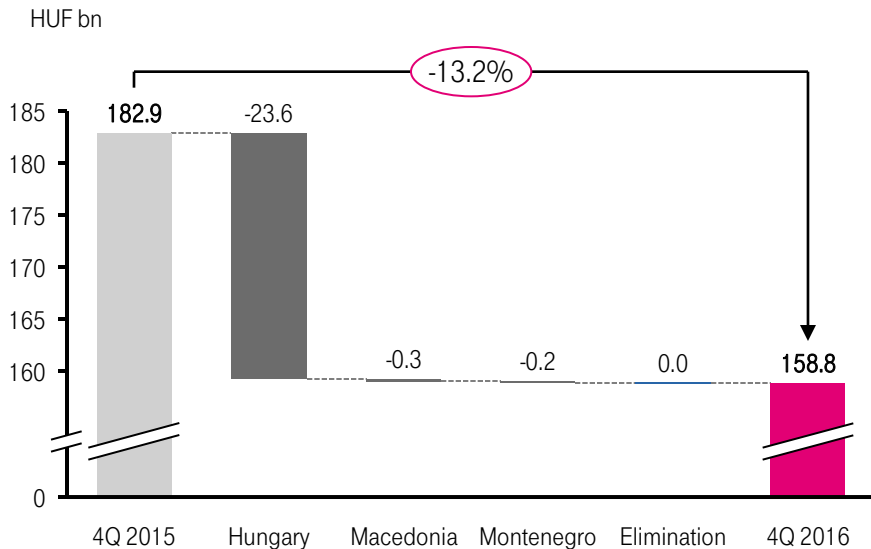
³ After minority dividend payments

⁴ Excluding the transaction price received for the disposal of the majority ownership in Crnogorski Telekom



Q4 2016 GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues



Change Y-o-Y

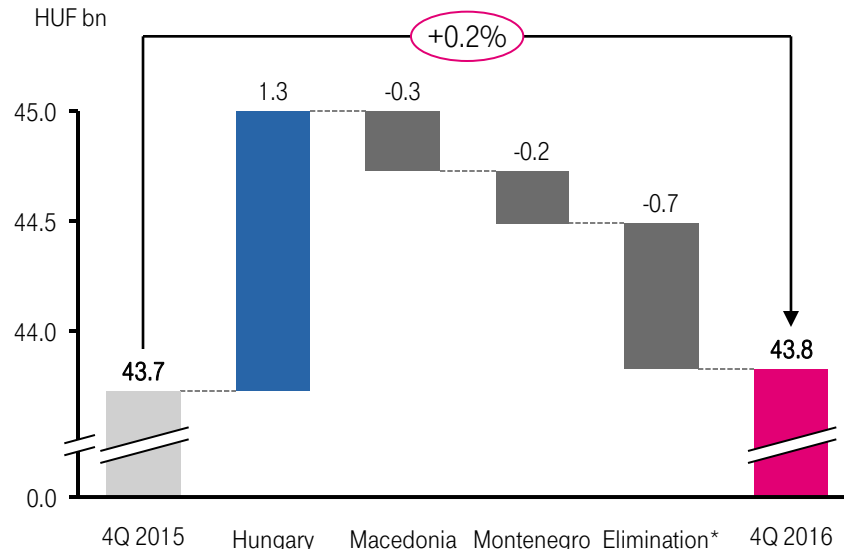
-15%

-2%

-2%

- **Hungary:** revenue decline primarily a result of energy business and lower SI/IT revenues, coupled with lower fixed voice and other revenues (due to the deconsolidation of Origo)
- **Macedonia:** significant improvement in mobile revenues (and market share) offset by lower fixed voice, wholesale and SI/IT revenues
- **Montenegro:** slight revenue decline due to intense competition in fixed and mobile segments, as well as regulatory pressure on fixed line revenues

Group segmental EBITDA



Change Y-o-Y

+3%

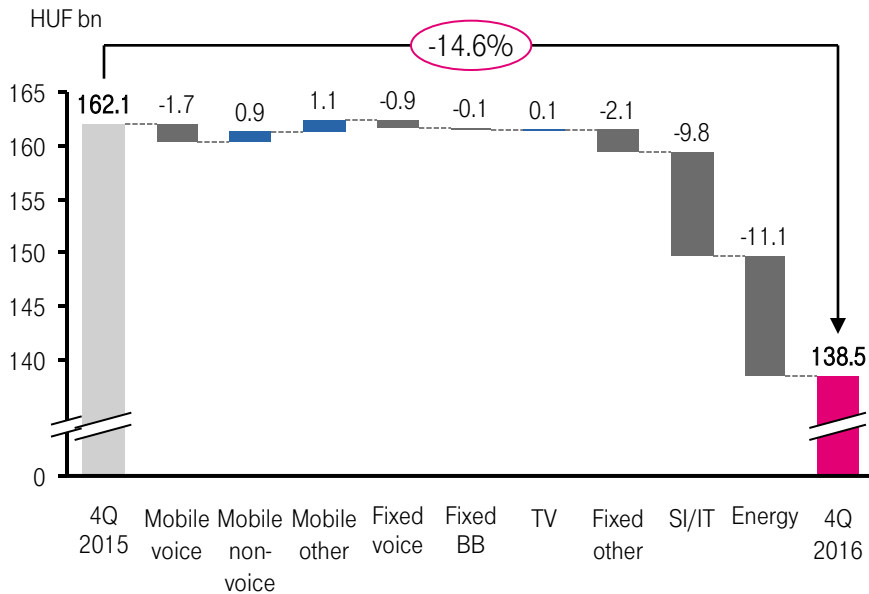
-5%

-10%

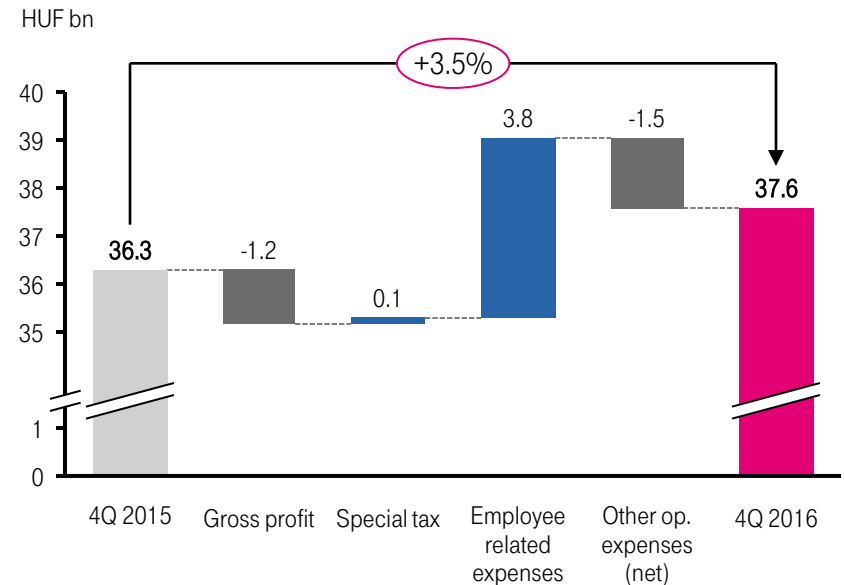
- **Hungary:** EBITDA up due to savings driven by recent headcount reduction and lower severance expenses, offsetting slight decline in gross profit and higher other OPEX
- **Macedonia:** improving gross profit more than offset by higher severance expenses and one-off gain on real estate sale in 2015
- **Montenegro:** fall in EBITDA due to sustained pressure on margins, higher OPEX and rental costs

HUNGARY

Revenue*



EBITDA



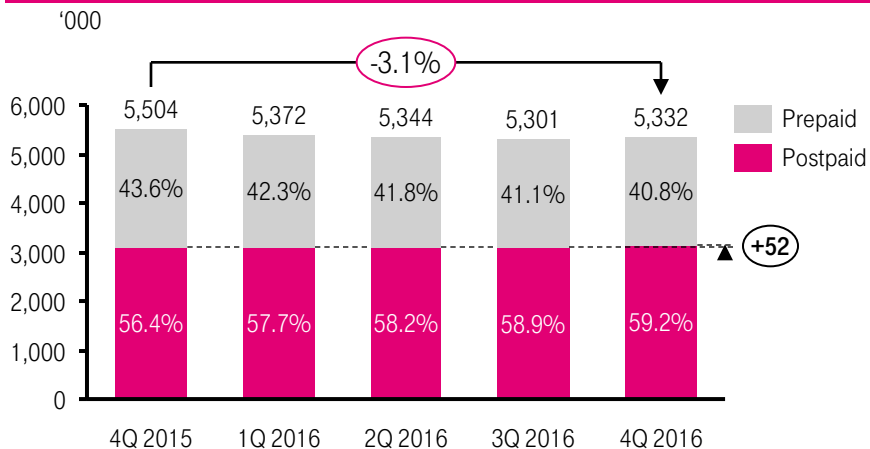
- Broadly stable mobile revenues as growth in equipment sales and mobile broadband revenues were partly offset by lower mobile voice
- Slightly lower fixed broadband and TV revenues as marginally higher customer numbers were offset by the slight decline in ARPU
- Lower fixed other revenues mainly driven by the deconsolidation of Origo
- Significant decline in SI/IT due to very strong Q4 2015 comparative
- Drop in energy revenues following transfer of the B2B energy business into a joint venture

- Improving SI/IT margins and bad debt expenses counterbalanced by higher direct costs due to increased mobile equipment sales and the TV content fee introduced in July 2016 leading to gross profit decline
- Decrease in employee-related expenses attributable to lower severance expenses and actual savings from headcount reduction
- Significantly higher other OPEX due to higher network maintenance, repairs and remedial work expenses, increased rental, marketing and sponsorship fees

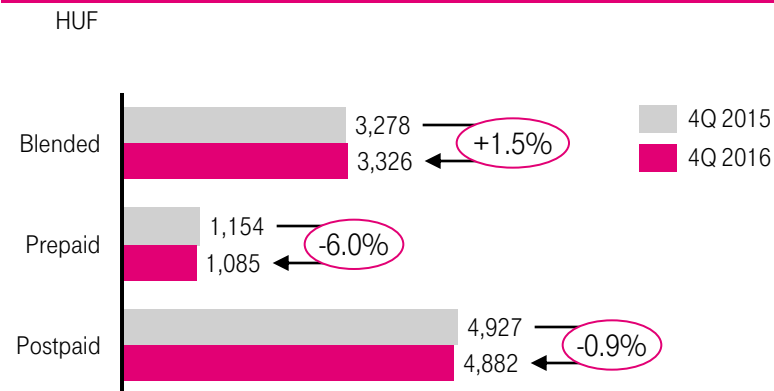
HUNGARY - MOBILE



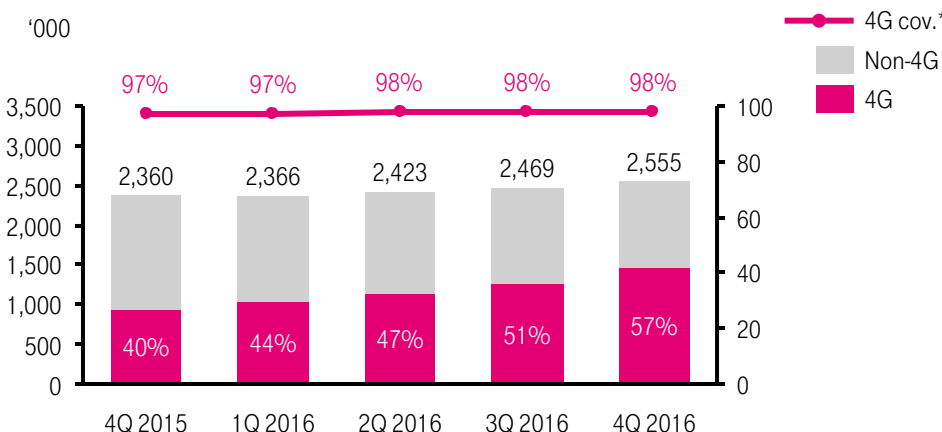
Mobile SIMs



Mobile ARPU



Mobile broadband subscriber development



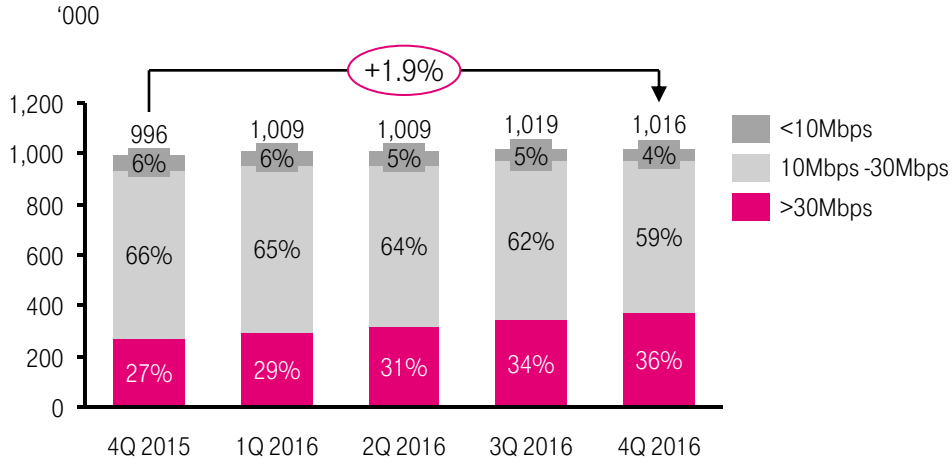
Highlights

- Customer base decline driven by prepaid churn and intense competition for business customers; 2% (+52k net adds) increase in postpaid RPC driven by strong data demand
- MOU up by 7% due to higher postpaid ratio and growing flat tariff subscriber base
- Increasing ARPU due to successful prepaid to postpaid migration
- 4G outdoor population coverage above 98%
- Smartphone sales account for over 95% of postpaid handsets with total SP penetration over 62%
- Average 4G usage of 1.7 GB/month

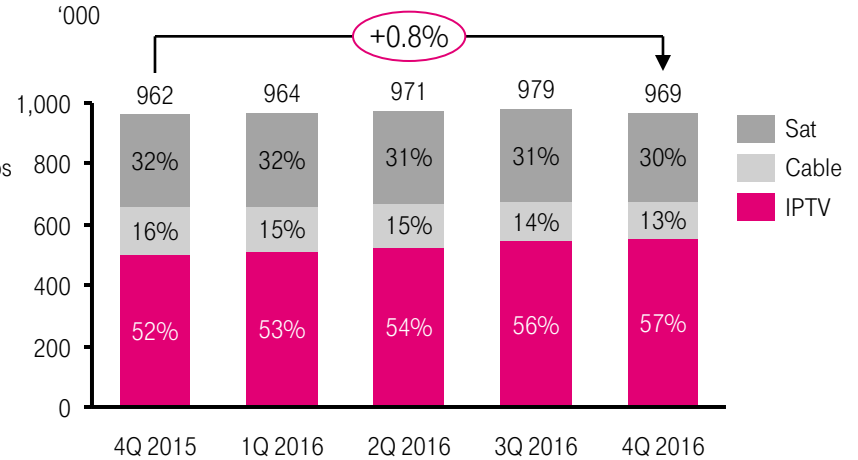
HUNGARY – FIXED BROADBAND AND TV



Fixed BB customer number

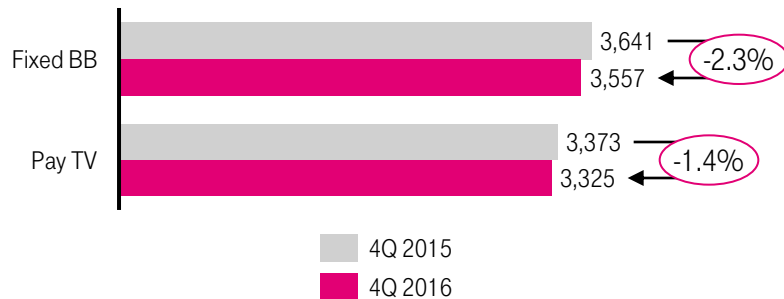


Pay TV customer number



Fixed BB and TV ARPU

HUF



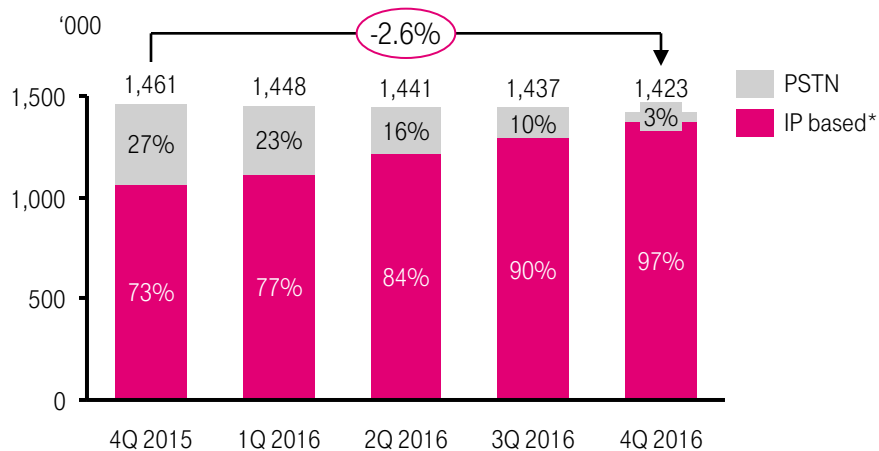
Highlights

- 2.8 million households covered with High Speed Internet (HSI) access across country
 - FTTx (684k HHs) – ongoing countrywide roll-out
 - ED3 (752k HHs) – participating in market consolidation
 - VDSL (1,375k HHs) – revitalizing copper, excl. overlaps
- Increasing ratio of higher bandwidth packages due to upselling activities
- Customer numbers declined compared to September 2016 due to forced disconnections of non-paying customers
- Fixed BB and TV ARPU decline driven by intense local 3Play competition
- Focus on IPTV to offer added value to customers

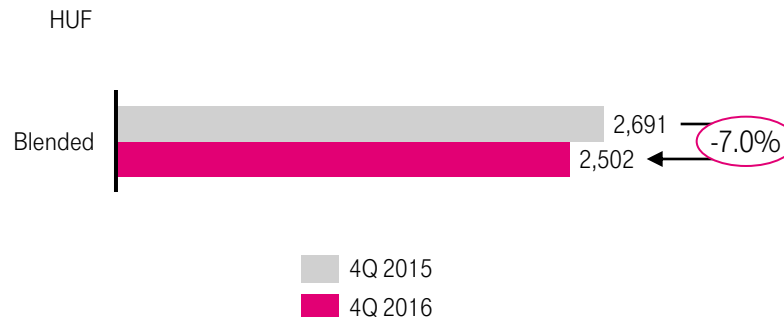
HUNGARY - FIXED VOICE AND ENERGY



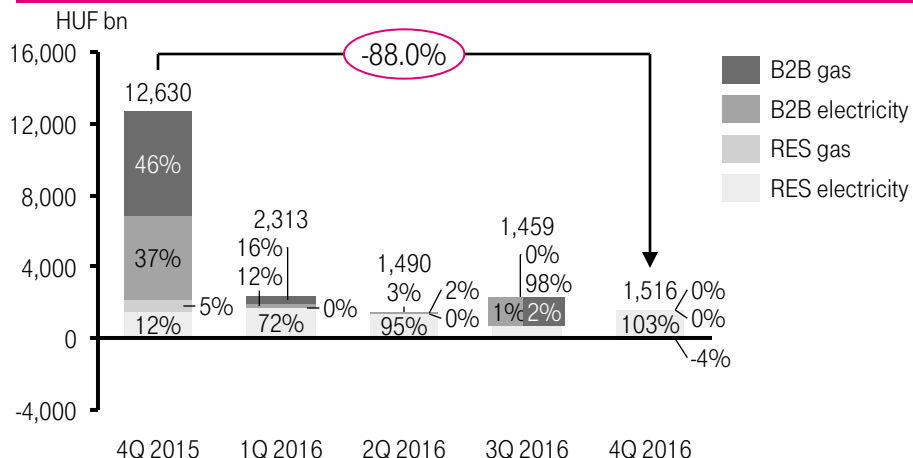
Fixed voice customer number



Fixed voice ARPU



Energy revenues



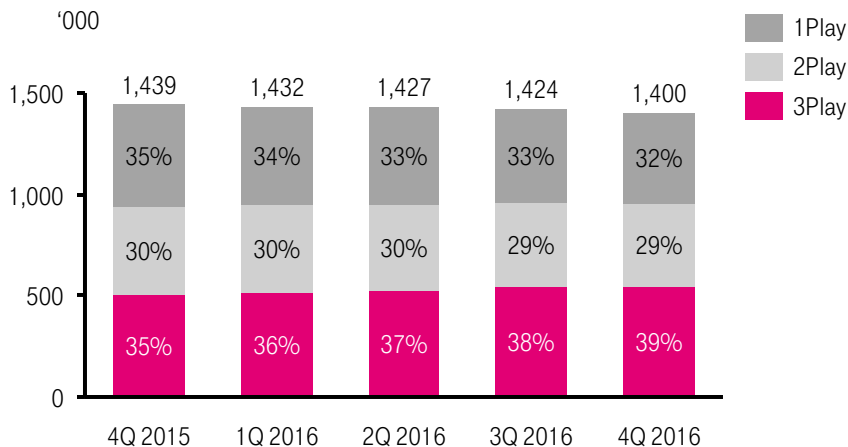
Highlights

- Fixed voice churn at 3% due to effective bundling strategy
- Fast IP based migration supports strive for efficiency
- Fixed voice MOU flat, ARPU rate of decline at 7%
- Exited residential gas market as of July 31, 2015
- B2B energy deconsolidation as of Dec 31, 2015**

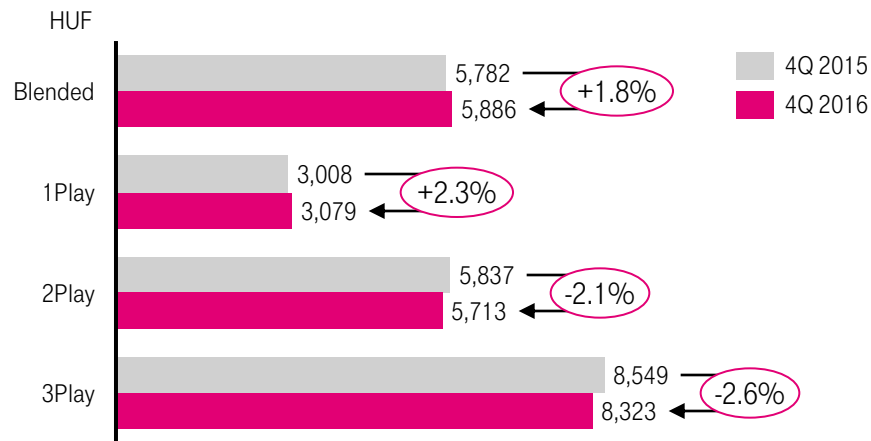
HUNGARY - MULTIPLAY



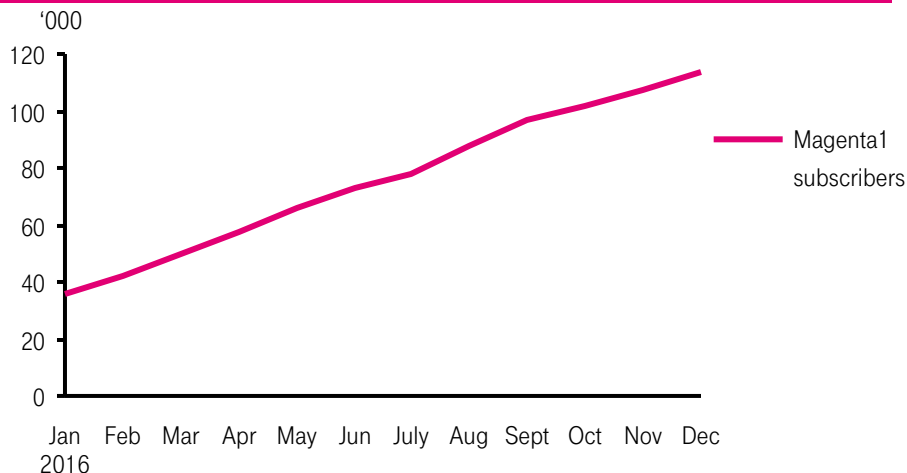
Fixed line multiplay residential subs. development



Fixed line multiplay residential ARPU development



4Play Magenta1 subscriber development

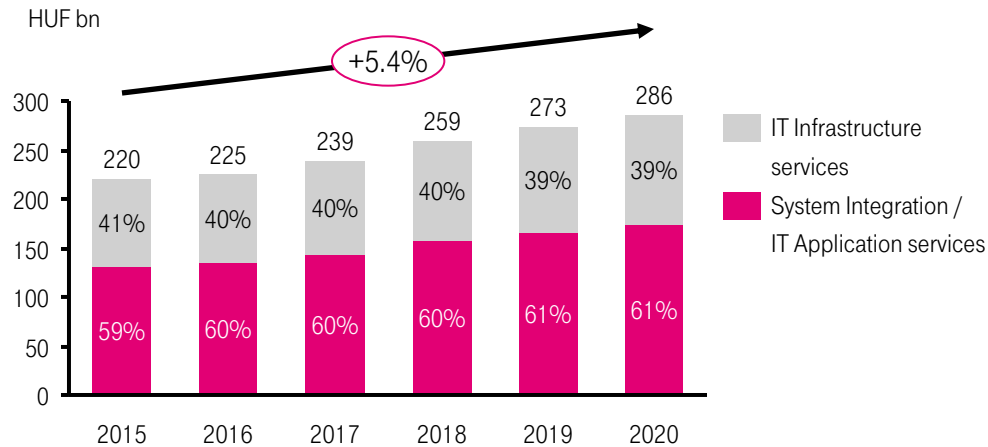


Highlights

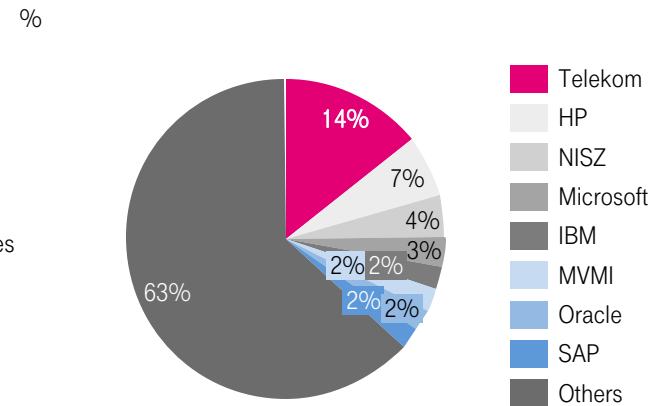
- Continuously increasing 3Play share
- Lower churn among 2&3Play customers compared to 1Play subscribers
- Blended fixed line ARPU up by 2%
- More than 113 thousand 4Play Magenta1 customers, helping to maximize the telecommunication share of wallet in household spending
- More than half of 4Play Magenta1 customers have at least 30Mbps fixed broadband with the share of plans including unlimited mobile voice and SMS at close to 50%

HUNGARY - SI/IT

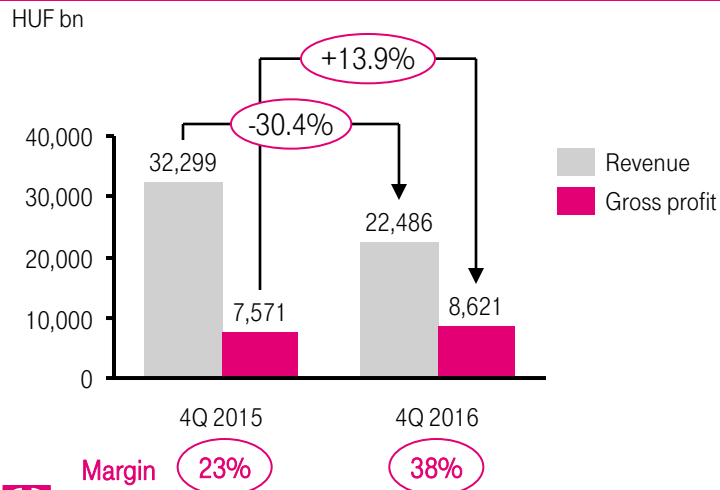
Total Hungarian IT services market development*



Market share**



SI/IT revenue and gross profit of MT Hungary



Highlights

- Total SI/IT market expected to grow over the next 5 years due to significant opportunities in application development and integration
- Volatility of incoming EU funds to affect timing of projects
- Total revenue decreased as a result of a slowdown in EU fund inflows
- Major project wins in the public sector
- Significant improvement both in gross profit and gross margin ratio, due to successful sales mix shift towards higher added value SI/IT projects



Margin

23%

38%

LIFE IS FOR SHARING.

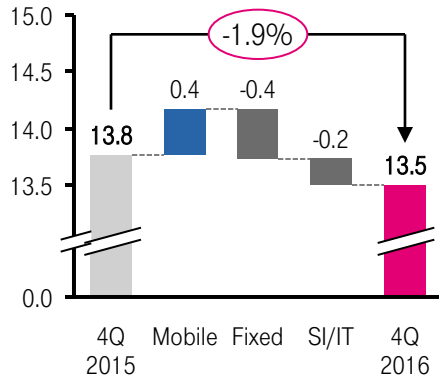
* hardware and software markets are excluded, IDC Research, 2015

** based on IDC Research

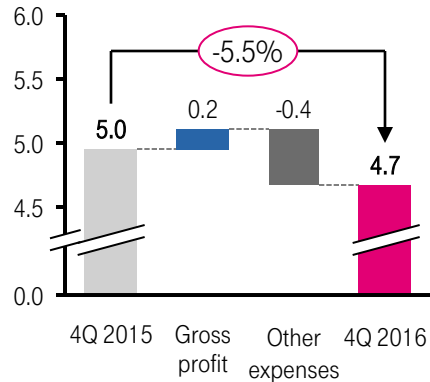
MACEDONIA

Financials

Revenues (HUF bn)

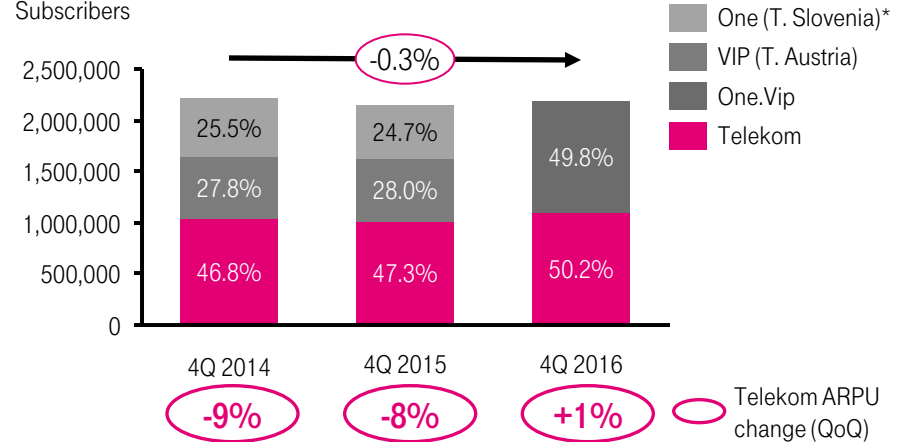


EBITDA (HUF bn)

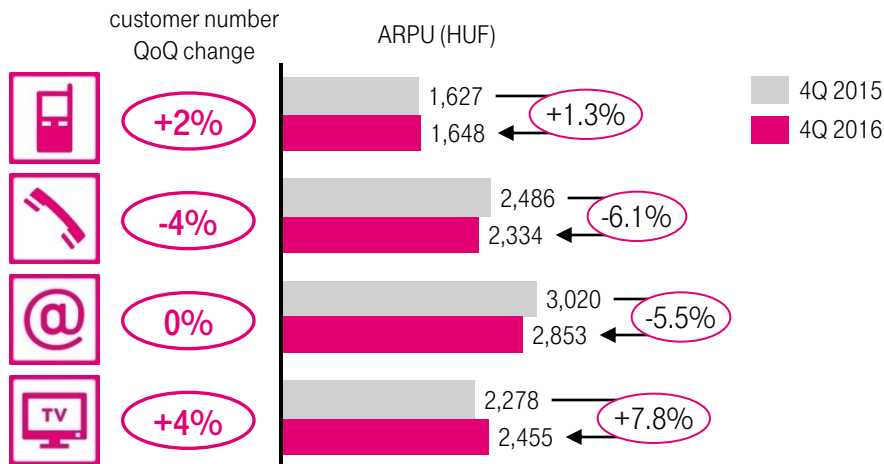


Mobile KPIs

Subscribers



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



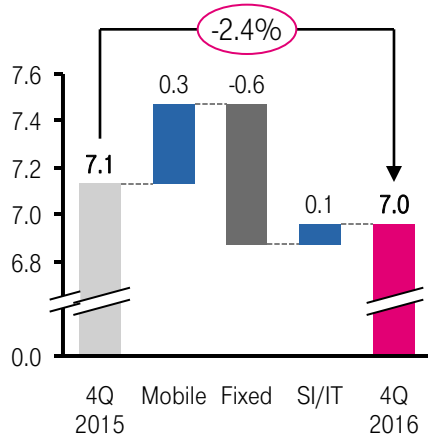
Highlights

- Successful 4Play Magenta 1 sales and Christmas campaign helped to increase mobile market share
- Mobile revenues increased for the fourth consecutive quarter
- VIP/One merger has created a strong integrated competitor which now offers fixed-mobile bundles under the VIP brand
- Robust growth in TV subs and reduced churn in fixed voice
- Excluding the severance expense related to outsourcing, EBITDA increased by more than 3% despite a one-off gain in other operating income in Q4 2015. This increase was primarily due to higher gross margin supported by improving bad debt in Q4 2016

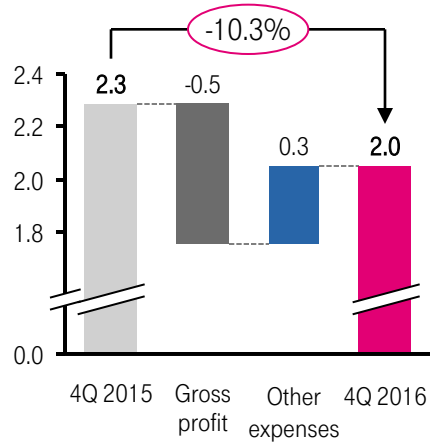
MONTENEGRO¹

Financials

Revenues (HUF bn)

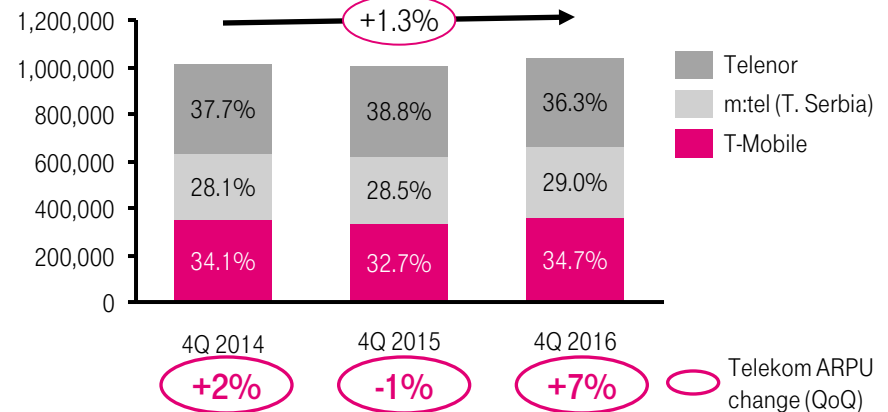


EBITDA (HUF bn)

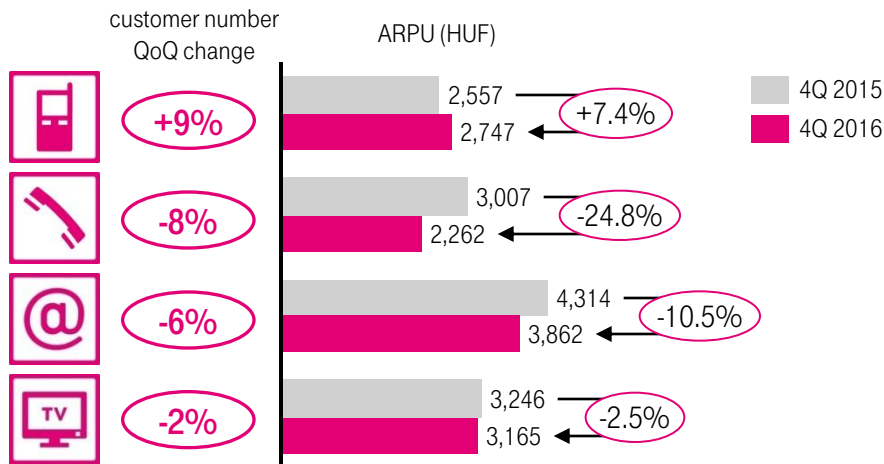


Mobile KPIs

Subscribers



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



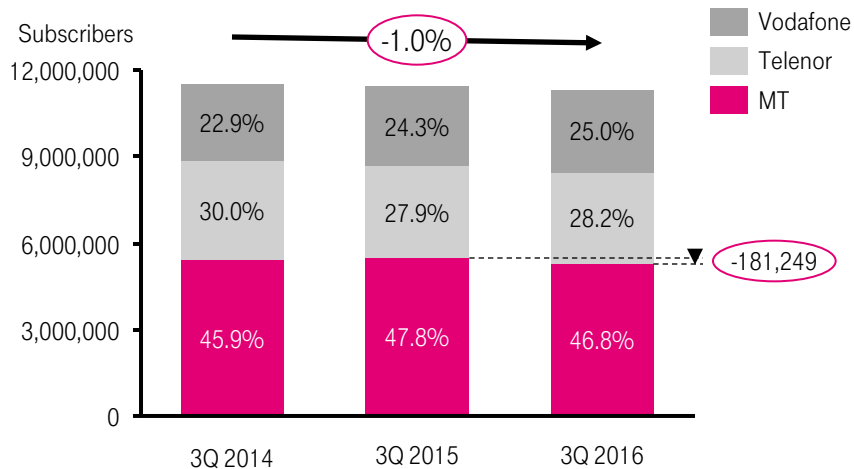
Highlights

- Moderate revenue decline driven by OTT push and lower Balkan roaming rates, partly offset by higher mobile BB revenues
- Postpaid share in the RPC base up to 51% due to successful 4Play Magenta 1 sales
- Continued regulatory pressure on fixed voice and BB businesses
- Decline in fixed line customer base due to competition from cable players offering 3Play bundle packages
- EBITDA decline at 10.3%, as higher municipality taxes (reversal of accruals in Q4 2015) and increased rental costs for base stations offset employee-related cost savings

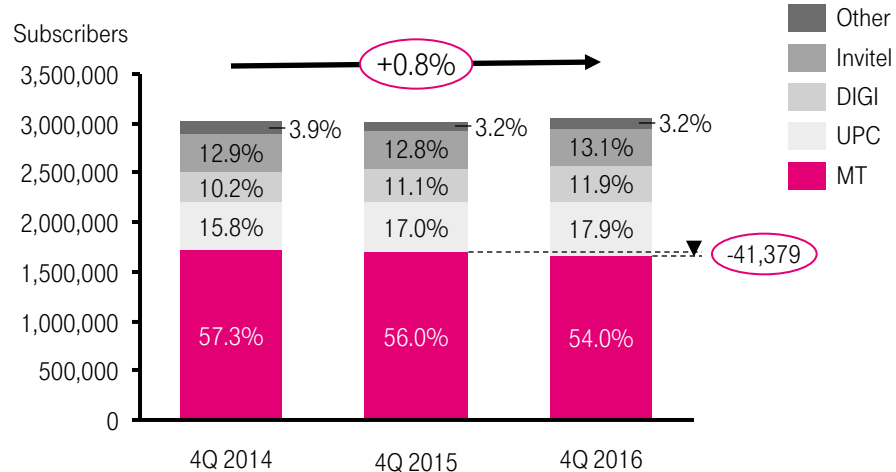
APPENDIX

MARKET POSITION IN HUNGARY

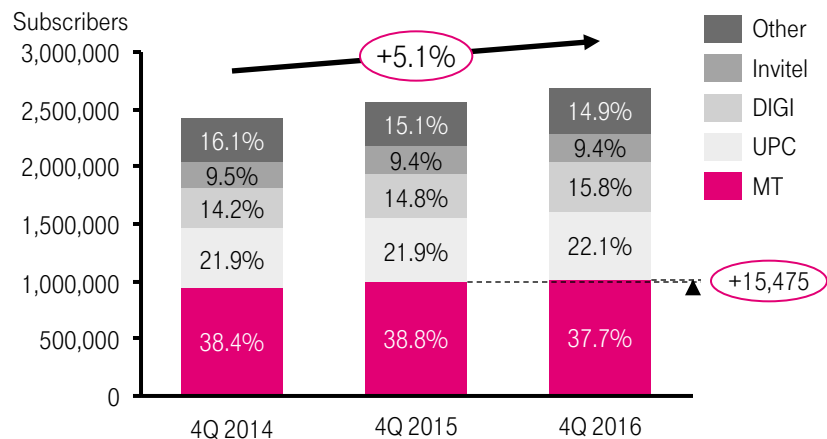
Total mobile market*



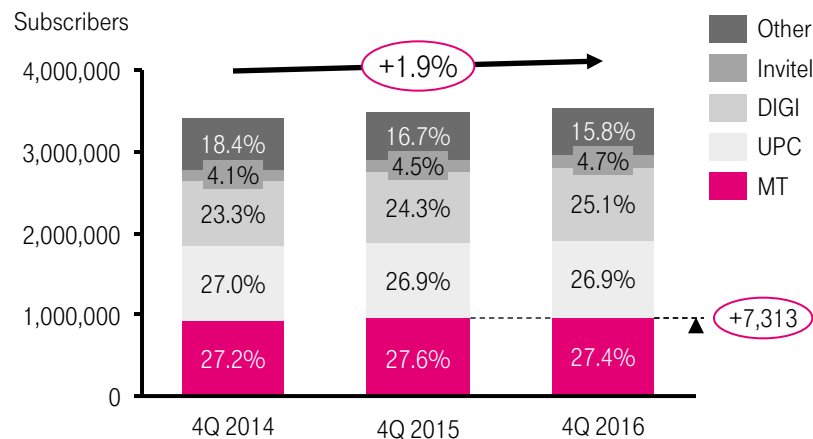
Fixed voice market**



Fixed broadband market**



TV market**



LIFE IS FOR SHARING.

* 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 (NMA)

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	2015	2016	Change
Mobile revenues	314,033	319,929	1.9%
Fixed line revenues	212,032	207,209	-2.3%
System Integration/Information Technology revenues	80,997	68,735	-15.1%
Revenue from energy services	49,280	6,778	-86.2%
Revenues	656,342	602,651	-8.2%
Direct costs	(249,377)	(196,869)	21.1%
Employee-related expenses	(95,160)	(83,327)	12.4%
Depreciation and amortization	(113,784)	(117,476)	-3.2%
Hungarian telecommunications and other crisis taxes	(32,872)	(31,525)	4.1%
Other operating expenses	(98,503)	(104,881)	-6.5%
Total operating expenses	(589,696)	(534,078)	-9.4%
Other operating income	6,871	10,990	59.9%
Operating profit	73,517	79,563	8.2%
Net financial results	(28,176)	(26,815)	4.8%
Share of associates' profits	0	78	n.a.
Profit before income tax	45,341	52,826	16.5%
Income tax expense	(13,794)	4,397	131.9%
Profit for the period	31,547	57,223	81.4%
Non-controlling interests	3,832	2,944	-23.2%
Equity holders of the Company (Net income)	27,715	54,279	95.8%

MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	2015	2016	Change
Current assets	210,178	193,978	-7.7%
Cash and cash equivalents	17,558	10,805	-38.5%
Trade and other receivables	162,762	157,645	-3.1%
Other current financial assets	11,052	5,104	-53.8%
Non current assets	996,846	966,968	-3.0%
Property, plant and equipment - net	493,204	483,174	-2.0%
Intangible assets	260,909	260,165	-0.3%
Total assets	1,207,024	1,175,529	-2.6%
Equity	544,931	581,333	6.7%
Current liabilities	352,183	277,561	-21.2%
Financial liabilities to related parties	136,906	72,589	-47.0%
Trade payables	140,182	136,623	-2.5%
Other financial liabilities	26,152	22,600	-13.6%
Non current liabilities	309,910	316,635	2.2%
Financial liabilities to related parties	220,088	247,179	12.3%
Other financial liabilities	54,857	50,098	-8.7%
Total equity and liabilities	1,207,024	1,175,529	-2.6%



MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	2015	2016	Change
Net cash generated from operating activities	156,298	154,825	-0.9%
Investments in tangible and intangible assets	(109,847)	(113,255)	-3.1%
Adjustments to cash purchases	12,992	3,347	-74.2%
Purchase of subsidiaries and business units	(16,737)	(128)	99.2%
Cash acquired through business combinations	1,815	0	n.a.
Payments for / proceeds from other financial assets - net	13,137	6,940	-47.2%
Proceeds from disposal of subsidiaries	0	3,484	n.a.
Payments for interests in associates and joint ventures	(1,000)	0	n.a.
Proceeds from disposal of PPE and intangible assets	2,127	10,413	389.6%
Net cash used in investing activities	(97,513)	(89,199)	8.5%
Dividends paid to Owners of the parent and Non-controlling interest	(6,691)	(22,686)	-239.1%
Payments for / Proceeds from loans and other borrowings - net	(30,160)	(40,423)	-34.0%
Repayment of other financial liabilities	(18,923)	(8,676)	54.2%
Repurchase of treasury shares	0	(550)	n.a.
Net cash used in financing activities	(55,774)	(72,335)	-29.7%
Free cash flow*	26,725	50,010	87.1%

*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

Márton Lennert

Head of Investor Relations
Phone: +36 1 457-6084
e-mail: lennert.marton@telekom.hu

Linda László

Investor Relations Consultant
Phone: +36 1 481-7676
e-mail: laszlo.linda@telekom.hu

Gerda Gáti

Investor Relations Manager
Phone: +36 1 458-0334
e-mail: gati.gerda@telekom.hu

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, 2014 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.



LIFE IS FOR SHARING.