

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

MARCH, 2017



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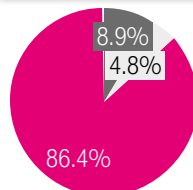
STRATEGY AND MARKET POSITION

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

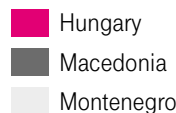
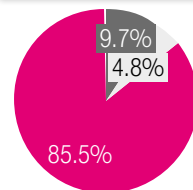
International presence



Revenue (FY2016)

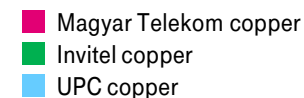


EBITDA (FY2016)



- Leading telecommunications operator in Hungary, Macedonia and Montenegro*
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.6bn market capitalization
- Stock exchange listings
 - Primary listing on Budapest Stock Exchange
 - Level I ADR program, ADSs traded on the OTC Market

Hungary



- MT is the incumbent fixed telco provider on ca. 75% of primary copper areas of Hungary
- 2.8 million households covered with High Speed Internet (HSI) access the across country
 - FTTx (684k HHs) – ongoing countrywide roll-out
 - ED3 (752k HHs) – participating in market consolidation
 - VDSL (1,375k HHs) – revitalizing copper, excl. overlaps
- 86% outdoor population coverage of 3G
- 98% outdoor population coverage of 4G

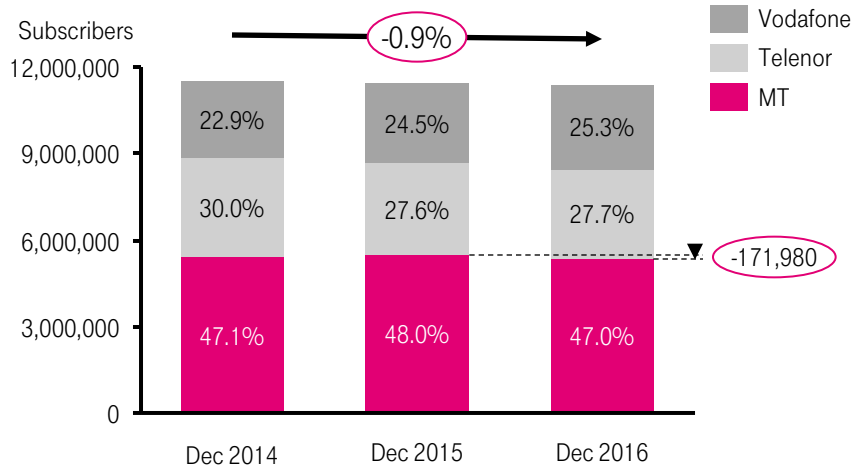


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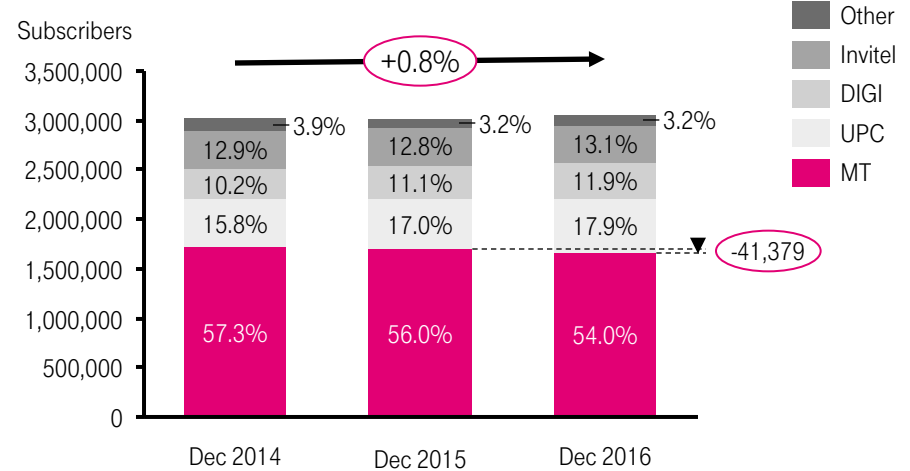
* As announced on January 10, 2017, Magyar Telekom disposed of its majority stake in Crnogorski Telekom. The transaction closed at the end of January 2017; following this date, the Montenegrin operations will no longer be consolidated into Magyar Telekom Group's financials.

MARKET POSITION IN HUNGARY

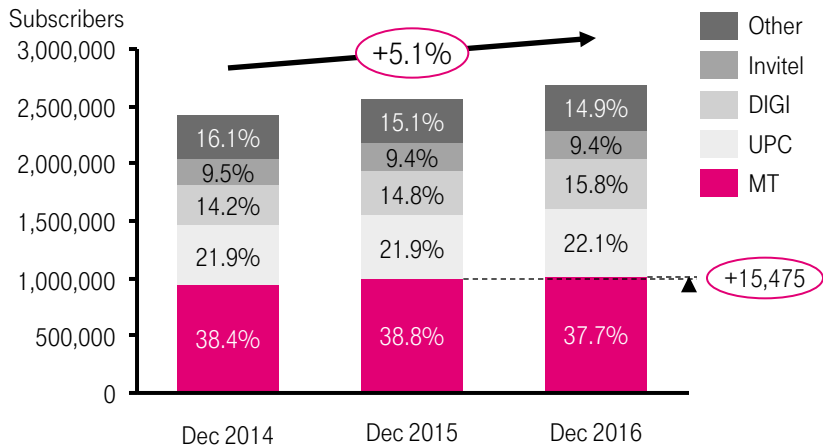
Total mobile market*



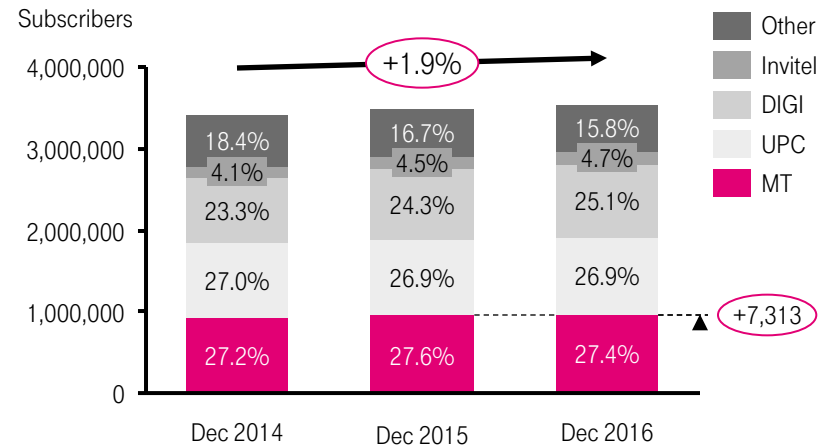
Fixed voice market**



Fixed broadband market**



TV market**



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* based on internal calculations

** based on the total fixed voice channels/BB access/pay TV access market estimated by the National Media and Infocommunications Authority (NMA)

STRATEGY OVERVIEW: WITH OUR ENGAGED PEOPLE, WE ARE BUILDING A GROWING ICT COMPANY SERVING SATISFIED CUSTOMERS

Strategic pillars

1 TOGETHER. FOR OUR CUSTOMERS

We listen: customer and colleague opinions form an important part of our decision making

2 INTEGRATED PRODUCTS & NETWORK

As a number 1 integrated service provider we give all our customers the opportunity to connect seamlessly

3 IT & DIGITAL SERVICES

IT and digital services are important areas of focus for us and will be key drivers of future growth

4 DIGITAL TELEKOM

Magyar Telekom's transformation into a digital company is part of our efforts to ensure customer satisfaction

Strategic goals

Increase customer satisfaction

Improve customer service level

Enhance employee engagement

Foster technology leadership

Monetize FMC capabilities

Strengthen integrated ICT brand

Grow in IT

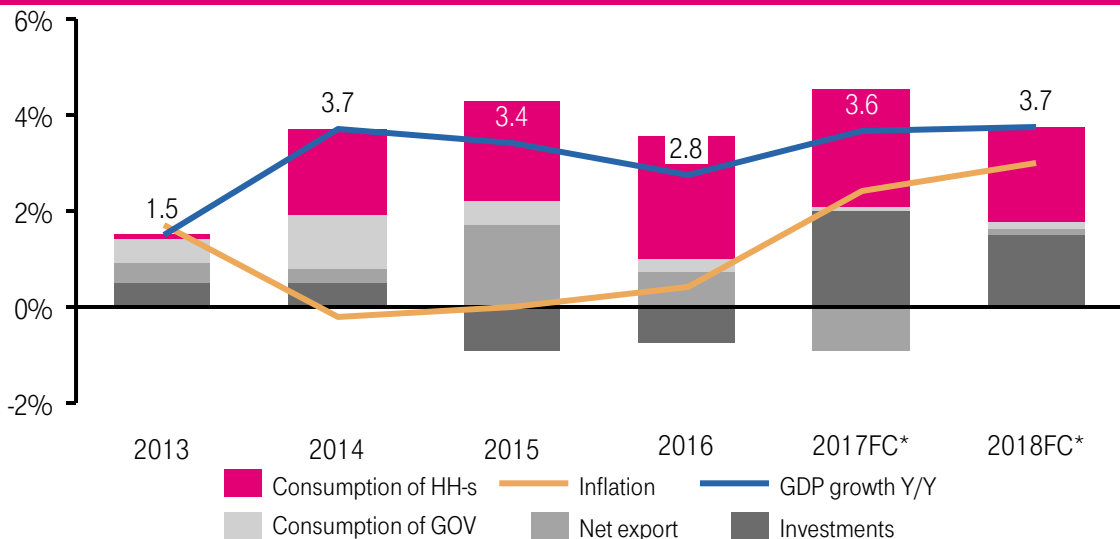
Develop digital business

Push digital transformation



HUNGARIAN ECONOMIC ENVIRONMENT

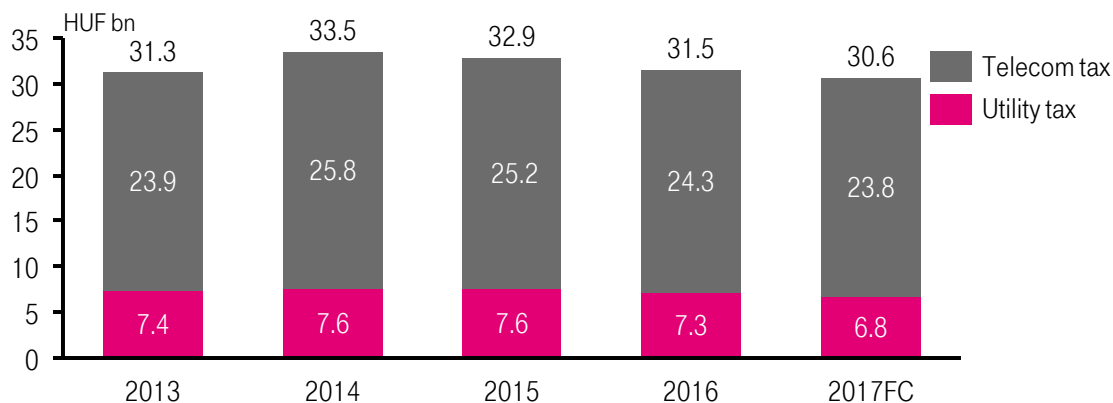
Growth structure



Domestic demand

- Domestic demand improved as economy recovered
- Governmental measures support consumer spending
- Investment levels show volatility due to EU fund cycles
- MT leveraged positive trends of domestic demand

Taxes levied on Magyar Telekom

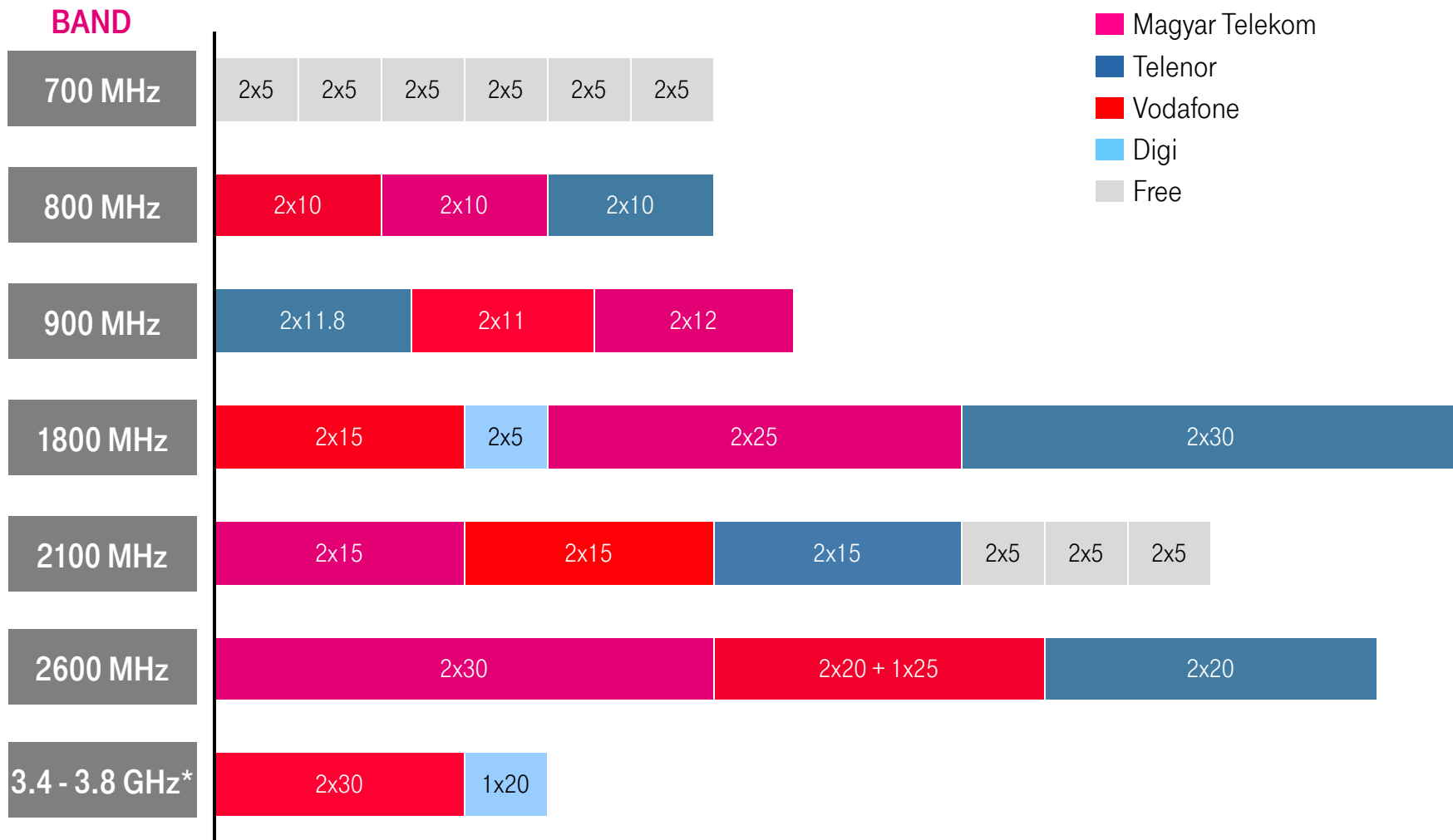


Tax burdens to reduce budget deficit

- 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 in 2013, but slight decrease in 2016 due to 5-year tax holiday on new networks > 100Mbps

HUNGARIAN MOBILE SPECTRUM ALLOCATION

Current spectrum allocation (MHz)



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* TDD band

FULL YEAR RESULTS, GUIDANCE AND DIVIDEND

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 of HUF 5.2 bn (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 than previously guided driven by network investments at our foreign subsidiaries 	ca. 10% yoy decline
FCF	HUF 50.0 bn (+87.1%) <ul style="list-style-type: none"> Higher EBITDA Lower interest payments Higher Capex, as well as increase in Capex creditors paid 	



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* excluding spectrum license fees and annual frequency fee capitalization

2016 RESULTS AND PUBLIC TARGETS FOR 2017

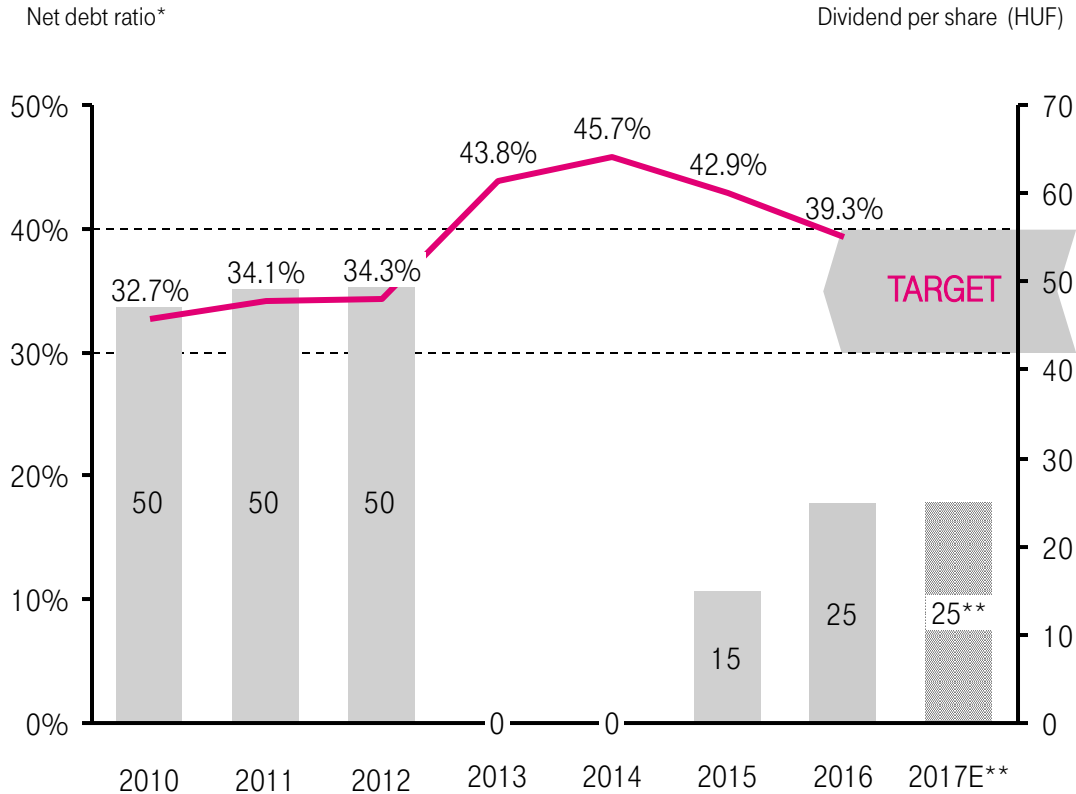
	2016 RESULTS with CT	2016 RESULTS without CT	2017 NEW TARGETS Excluding CT financials
REVENUE	HUF 602.7 bn	HUF 574.0 bn	around HUF 560 bn
EBITDA	HUF 197.0 bn	HUF 188.1 bn	around HUF 182 bn
CAPEX ¹	HUF 104.8 bn	HUF 97.9 bn	around HUF 85 bn
FCF	HUF 50.0 bn	HUF 57.3 bn	around HUF 55 bn ²
DIVIDEND	HUF 25 DPS	HUF 25 DPS	HUF 25 DPS

¹ Excluding spectrum acquisitions and annual frequency fee capitalization

² Excluding the transaction price received for the disposal of the majority ownership in Crnogorski Telekom

DIVIDEND POLICY

Dividend payment and net debt ratio developments



Highlights

- Aiming to maintain net debt ratio (net debt/total capital) target of 30% - 40%
- HUF 15 dividend paid on 2015 earnings in May 2016
- Based on the current operating, regulatory and taxation environment the Board of Directors propose HUF 25 dividend per share payment based on 2016 results to be approved at the AGM
- We also expect the Company to pay HUF 25 dividend per share in relation to 2017 earnings, maintaining a stable dividend level compared to 2016 earnings**



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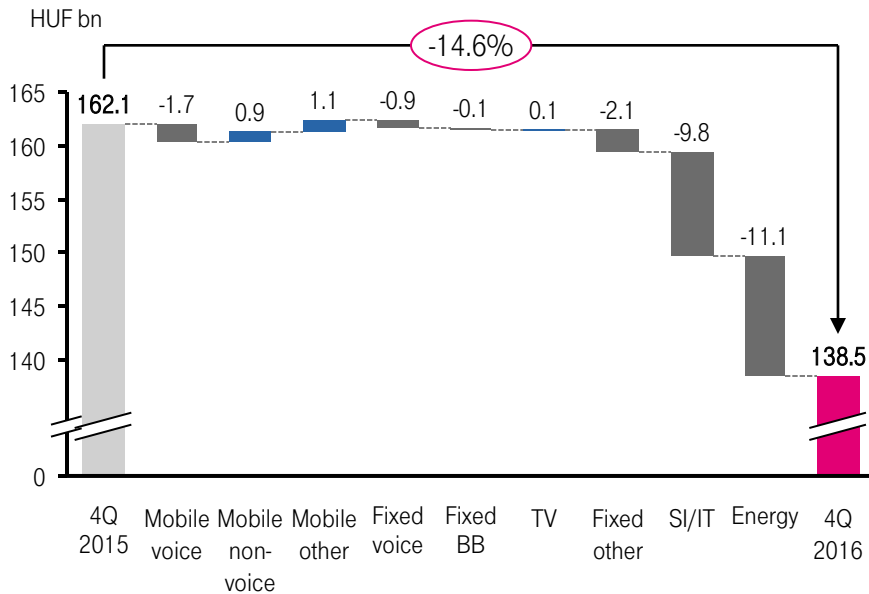
* Defined as net debt / total capital

** 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 2016 RESULTS

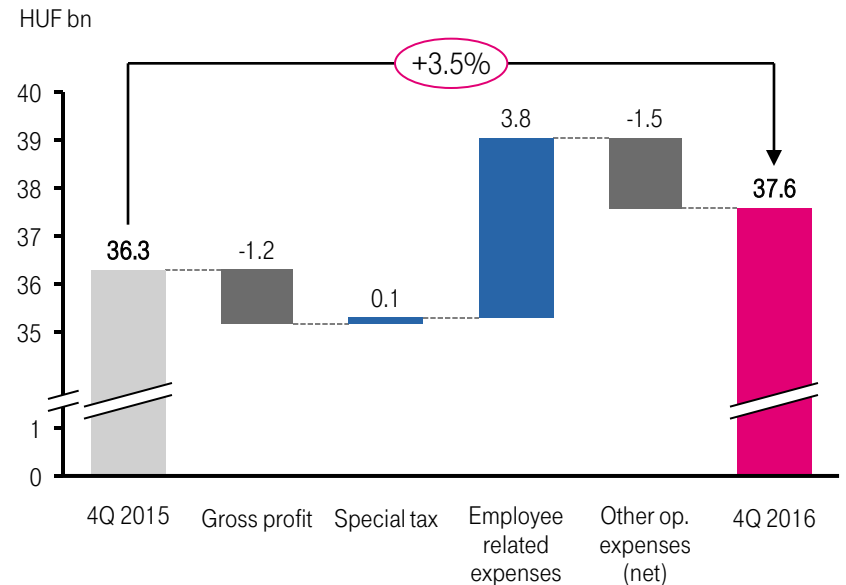
HUNGARY

Revenue*



- 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 ARPUs
- 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

EBITDA

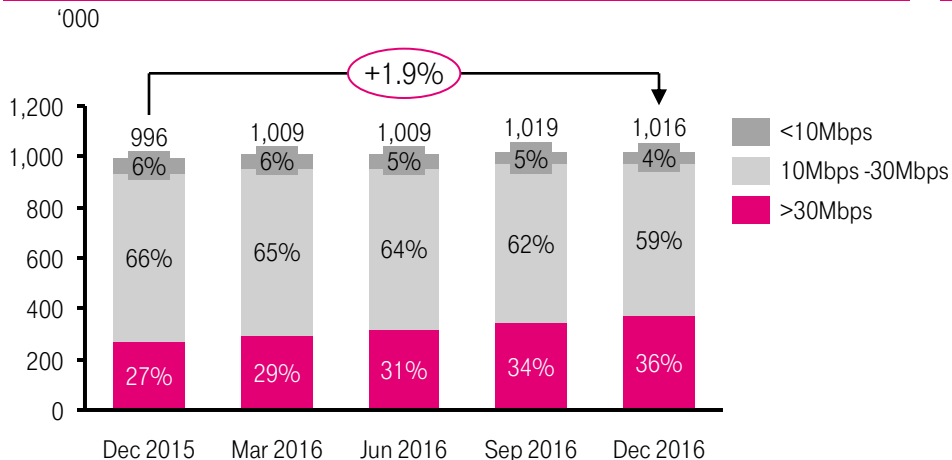


- Improving SI/IT margins and bad debt expenses counterbalanced by higher direct costs due to increased mobile equipment sales and the TV content fee introduced in July 2016 leading to gross profit decline
- Decrease in employee-related expenses attributable to lower severance expenses and actual savings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

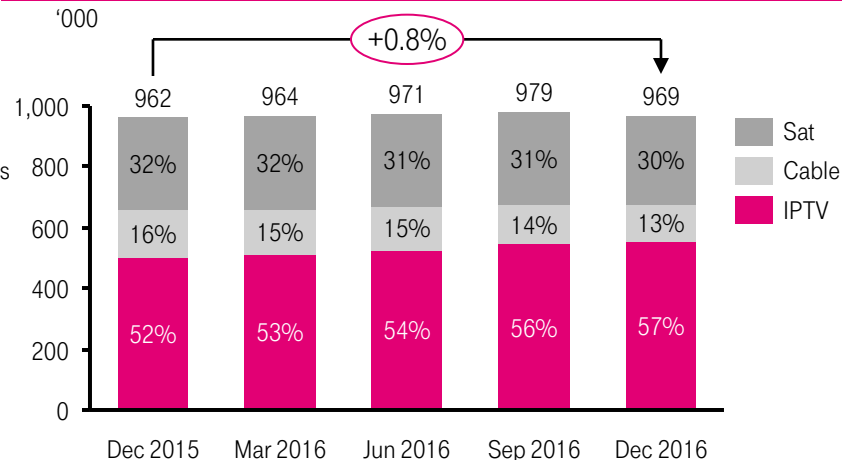
HUNGARY - FIXED VOICE, BROADBAND AND TV



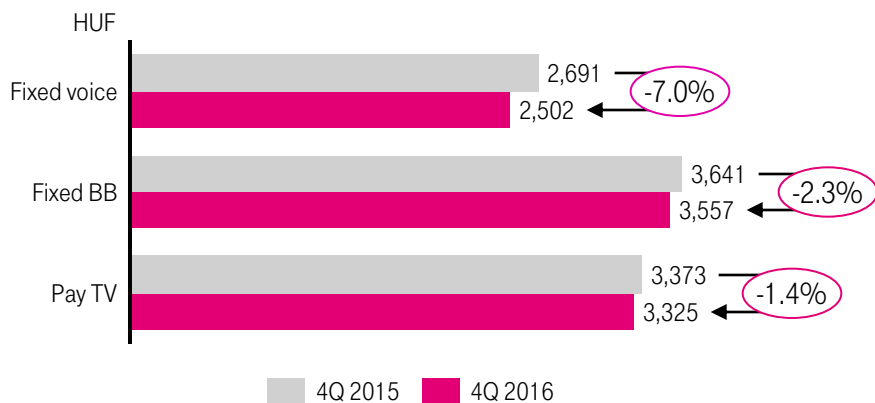
Fixed BB customer number



Pay TV customer number



Fixed Voice, BB and TV ARPU



Highlights

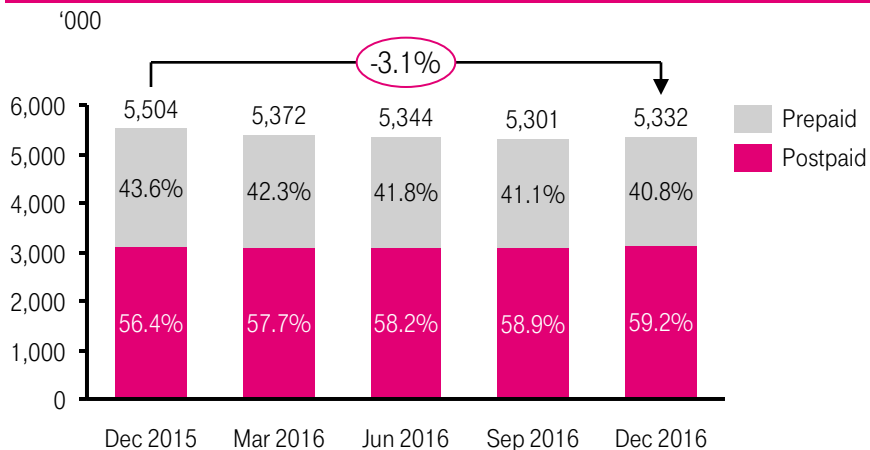
- Fixed voice churn at 3% due to effective bundling strategy
- Increased ratio of higher bandwidth BB packages due to upselling activities
- Focus on IPTV to offer added value to customers
- Customer numbers declined compared to September 2016 due to forced disconnections of non-paying customers
- ARPU decline driven by intense local 3Play competition



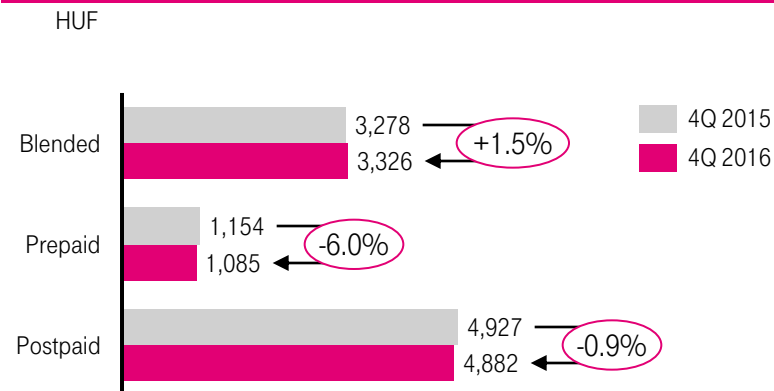
HUNGARY - MOBILE



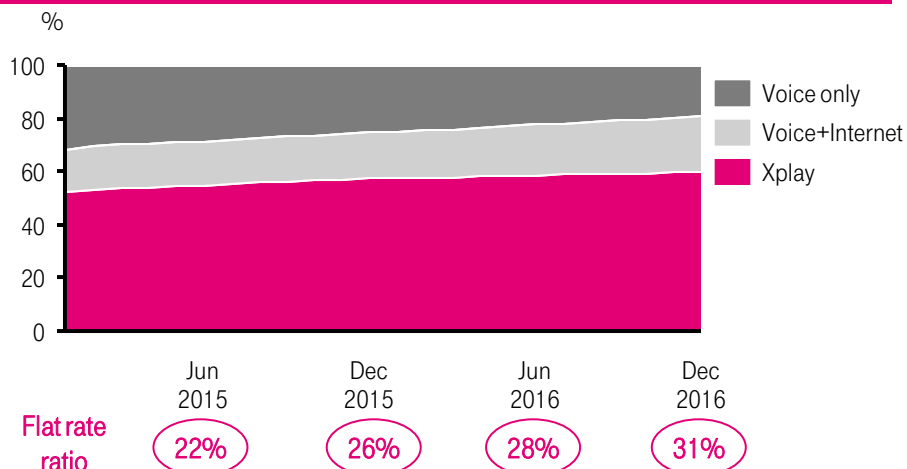
Mobile SIMs



Mobile ARPU



Distribution of postpaid voice SIMs



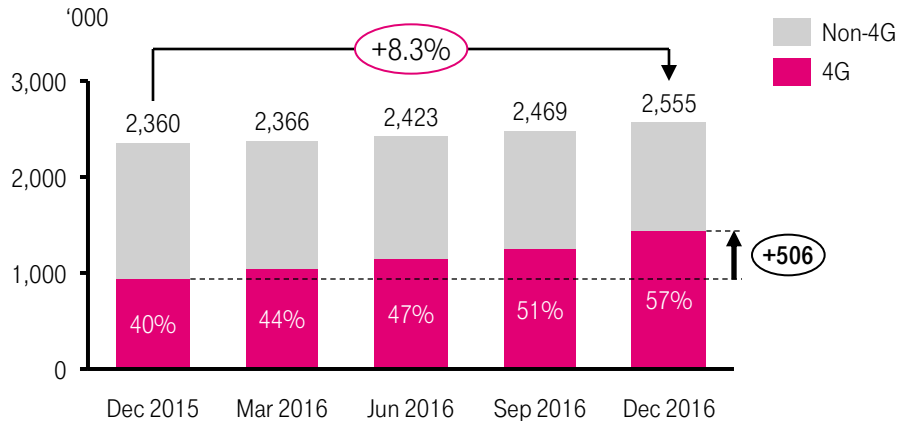
Highlights

- 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
- Growth in ARPU driven by successful prepaid to postpaid migration
- All postpaid voice services bundled with mobile broadband
- Continued increase in flat rate ratio among postpaid customer base

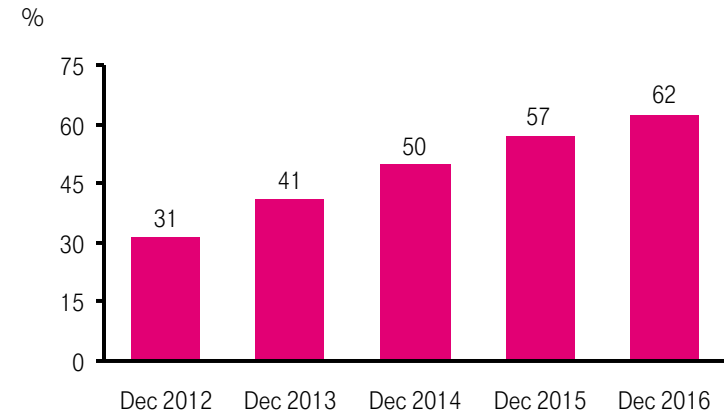
HUNGARY - MOBILE BROADBAND



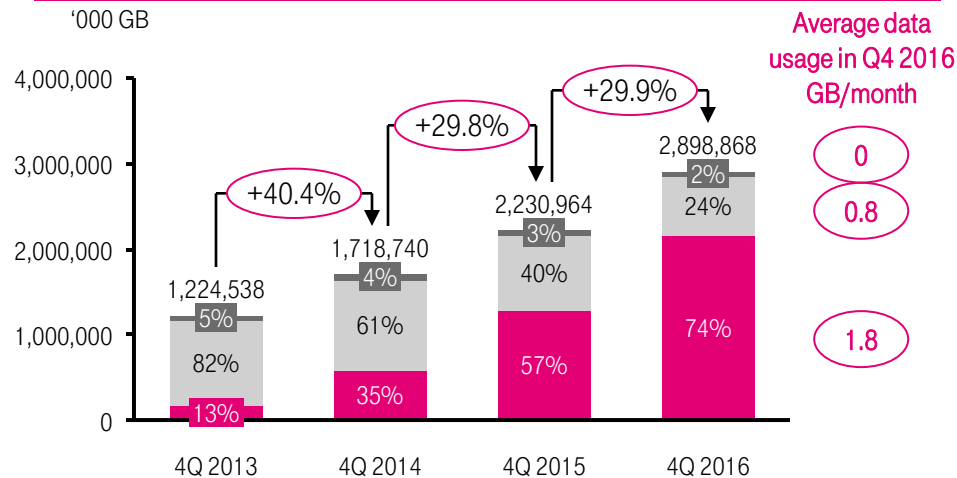
Mobile broadband development



Smartphone penetration



Total mobile data development among all users



Highlights

- 4G outdoor population coverage at 98%
- Half a million yearly net adds in mobile broadband users
- Smartphone sales accounted for over 90% of postpaid handsets with total smartphone penetration over 62%
- Significant growth in mobile data usage, particularly 4G
- Average data usage of 1.2 GB/month



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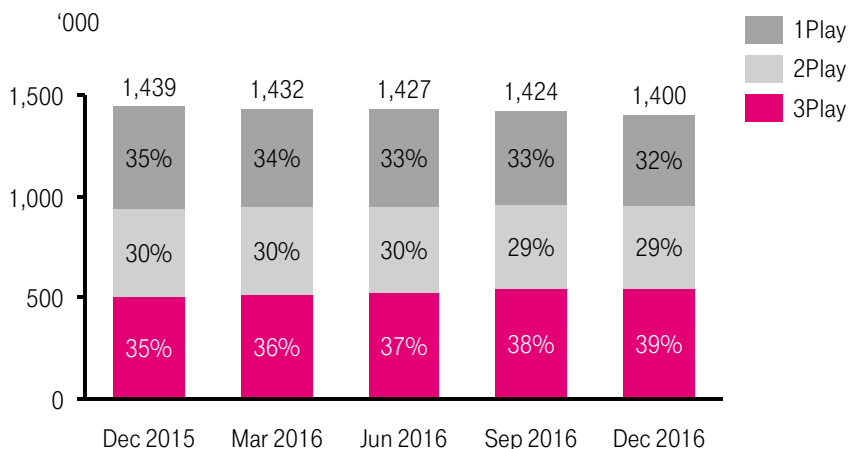
2G 3G 4G

* outdoor population coverage

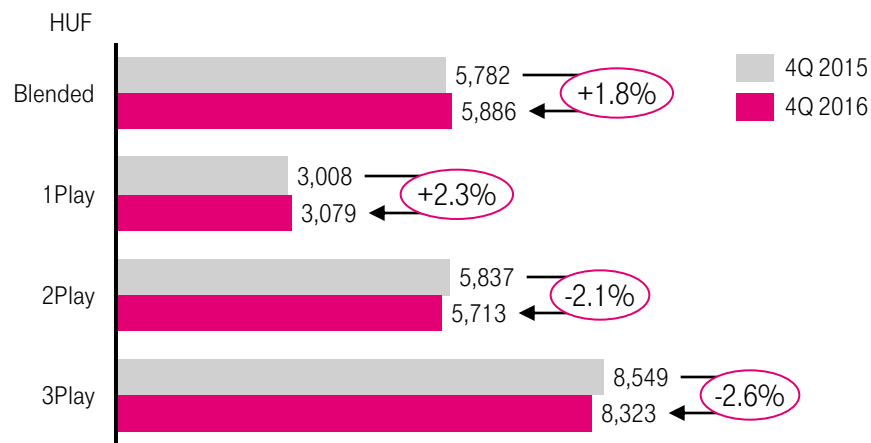
HUNGARY - MULTIPLAY



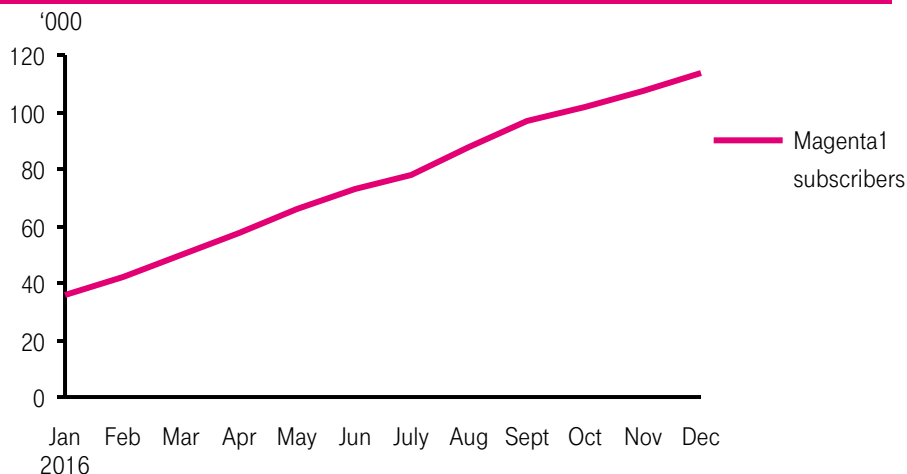
Fixed line multiplay residential subs. development



Fixed line multiplay residential ARPU development



4Play Magenta1 subscriber development

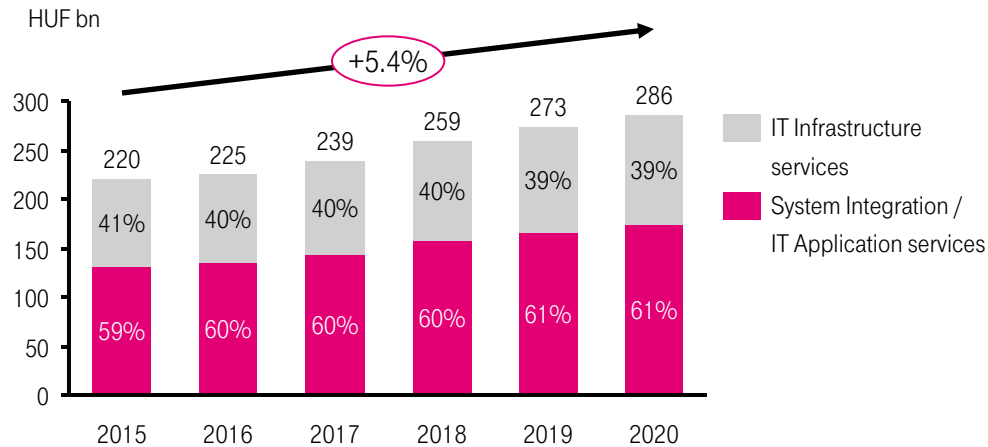


Highlights

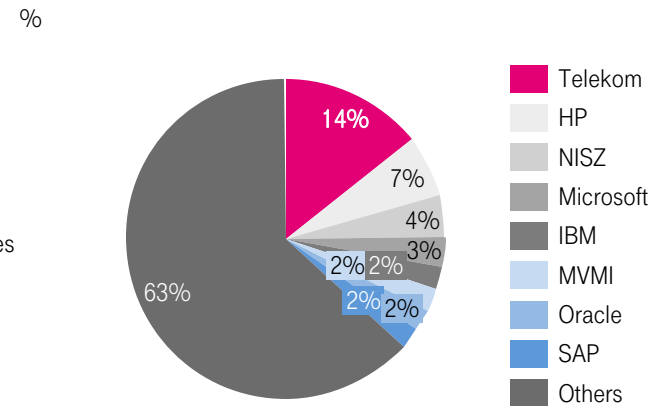
- Continuously increasing 3Play share
- Lower churn among 2&3Play customers compared to 1Play subscribers
- Blended fixed line ARPU up by 2%
- 113,000 4Play Magenta1 customers, helping to maximize the telecommunication share of wallet in household spending
- More than half of 4Play Magenta1 customers have at least 30Mbps fixed broadband and close to 50% of plans include unlimited mobile voice and SMS

HUNGARY - SI/IT

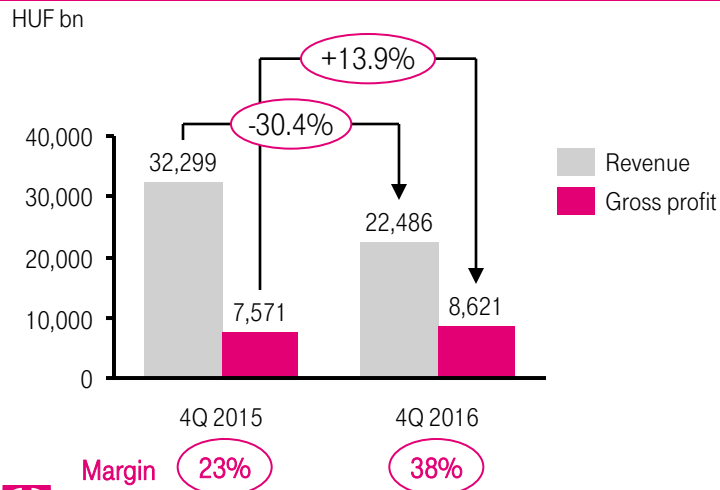
Total Hungarian IT services market development*



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%

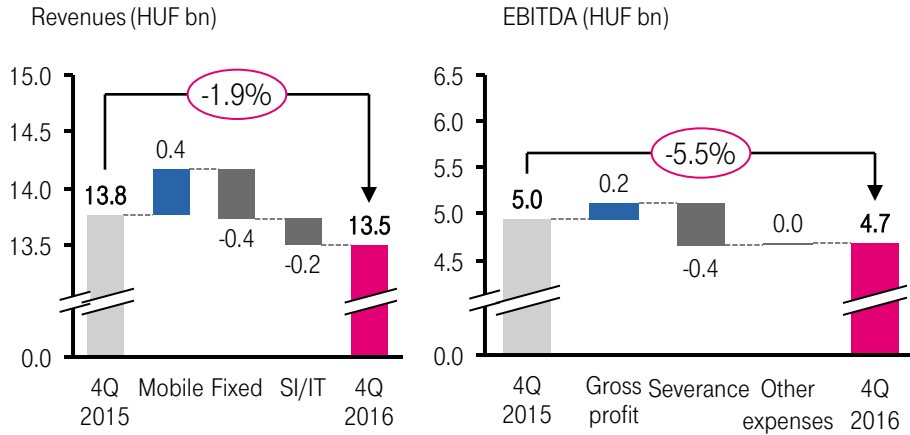
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* hardware and software markets are excluded, IDC Research, 2015

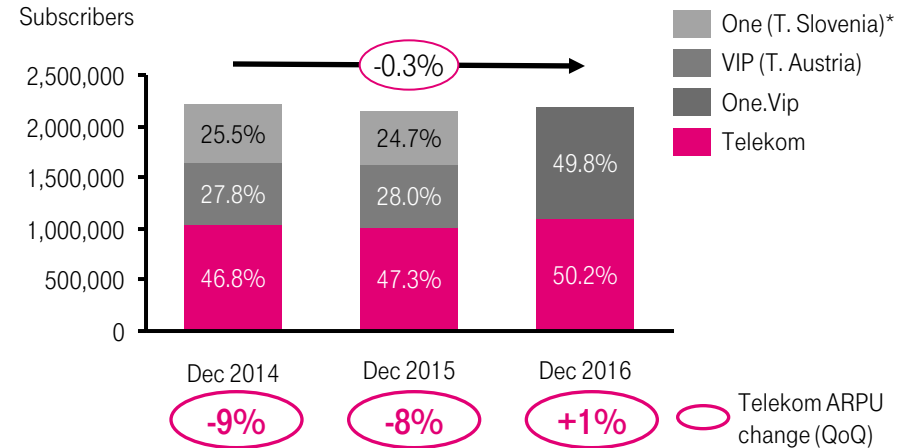
** based on IDC Research

MACEDONIA

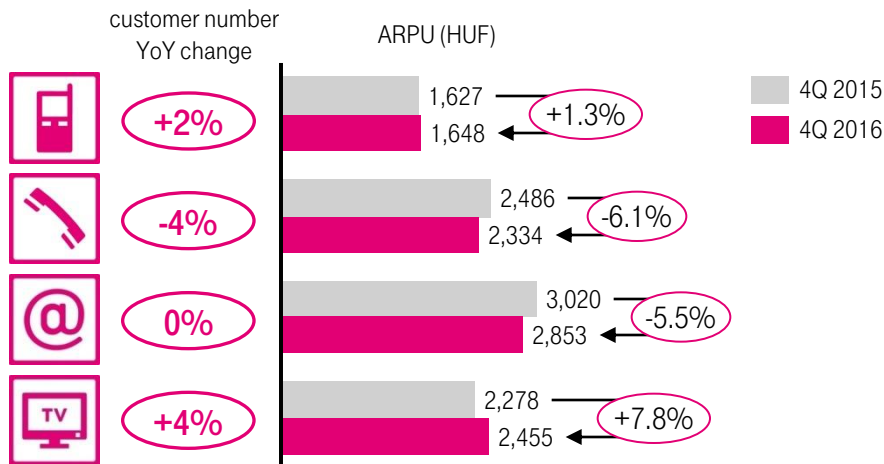
Financials



Mobile KPIs



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

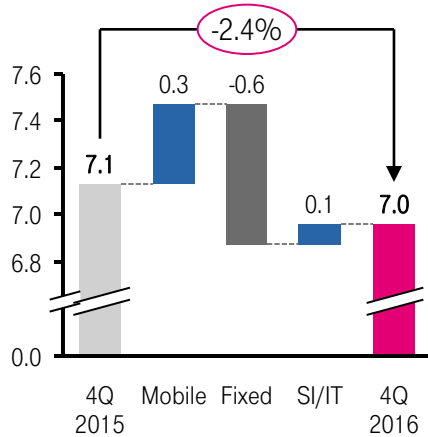


Highlights

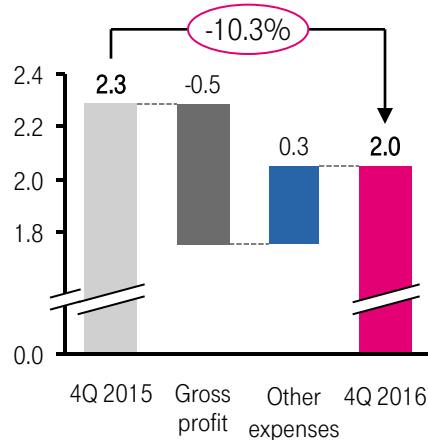
- Successful 4Play Magenta 1 sales and Christmas campaign helped to increase mobile market share
- Mobile revenues increased for the fourth consecutive quarter
- VIP/One merger has created a strong integrated competitor which now offers fixed-mobile bundles under the VIP brand
- Robust growth in TV subs 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

Financials

Revenues (HUF bn)



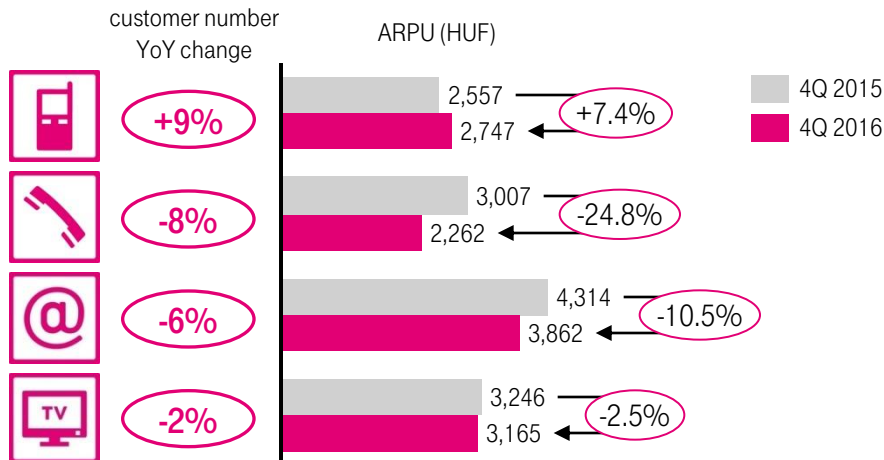
EBITDA (HUF bn)



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

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



Sale of Crnogorski Telekom

- Magyar Telekom's majority (76.53%) stake in Crnogorski Telekom transferred to Hrvatski Telekom
- Transaction price of EUR 123.5 million (approx. HUF 38.1 billion)
- Transaction was closed at 31 January 2017
- The disposal is in line with Magyar Telekom's renewed focus on its Hungarian operations



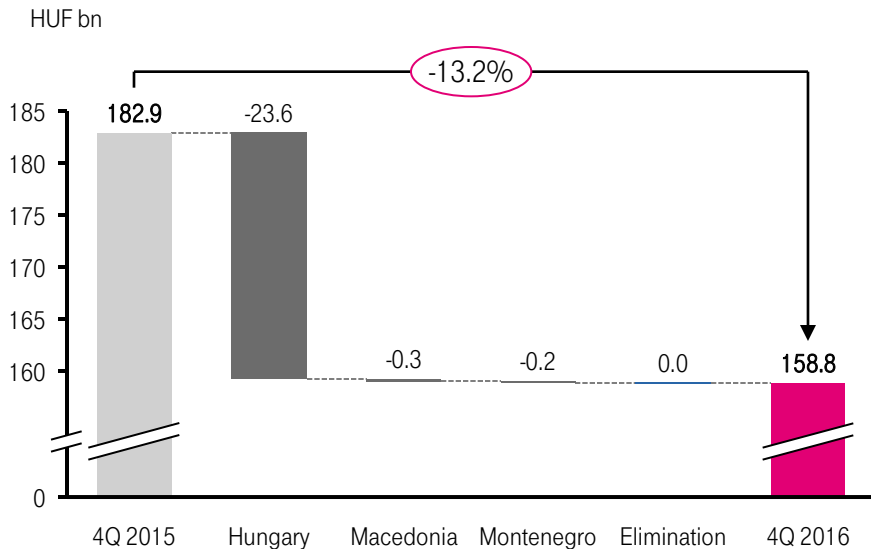
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APPENDIX

Q4 2016 GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues



Change Y-o-Y

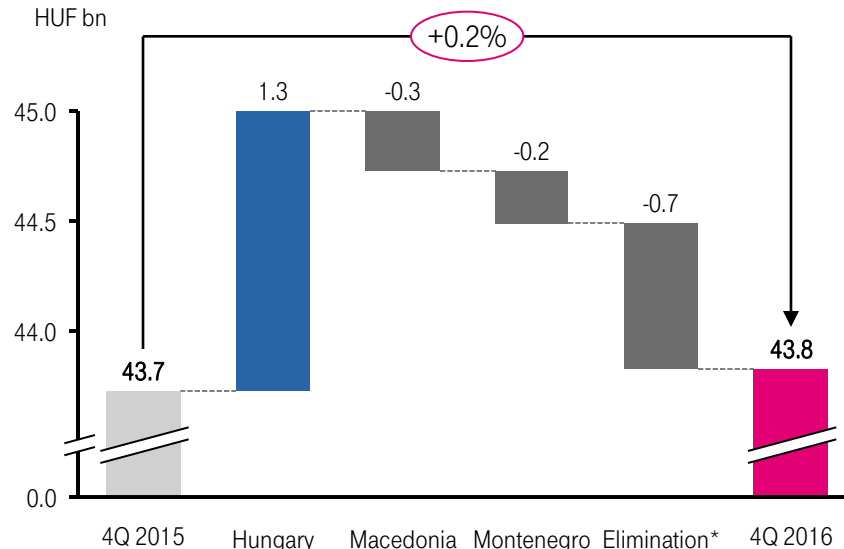
-15%

-2%

-2%

- **Hungary:** revenue decline primarily a result of partial exit from the energy business and lower SI/IT revenues, coupled with lower fixed voice and other revenues (due to the deconsolidation of Origo)
- **Macedonia:** slight revenue decline as significant improvement in mobile revenues (and market share) were 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
- **Macedonia:** decline in EBITDA as improving gross profit was 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

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:

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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.



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