

MAGYAR TELEKOM GROUP

Q2 2014 RESULTS PRESENTATION

AUGUST 7, 2014



LIFE IS FOR SHARING.

STRATEGIC HIGHLIGHTS

CUSTOMER EXPERIENCE

- Portfolio simplification
- Integrated offerings
- Faster and tailor made customer service

PARTNERING

- Expand IT revenue potential among SMBs via enhanced sales focus and fine-tuned service portfolio
- Becoming the transformation partner in the enterprise segment
- Exploit the benefits of partnering in business development projects

EFFICIENCY

- Headcount reduction measures
- Increase the role of automated processes
- Higher share of online transactions to simplify sales and back office tasks

ACHIEVEMENTS & CHALLENGES

- Expanding customer base
- Increasing average number of services and ARPU per household in Hungary
- Addressing challenges at our international operations



Q2 2014 FINANCIAL HIGHLIGHTS

REVENUE

-3.3%; HUF 151.8bn



Increase in TV, fixed and broadband revenues
Higher mobile broadband revenues



Lower fixed and mobile voice revenues
Lower revenues from SI/IT and energy services

REPORTED EBITDA

-0.3%; HUF 49.6bn



Expansion in the gross margins of energy and SI/IT services
Reduction in employee related expenses



Rise in the telecom tax charge
Competition driven margin erosion in Macedonia

FREE CASH FLOW*

HUF 0.7bn



Operating cash flow improvement



Higher cash Capex
Higher levels of repayment of other financial liabilities (factored vendor contracts coupled with 2014 payments of periodic frequency fees)

*Free cash flow defined as Net cash generated from operating activities + Net cash used in investing activities, adjusted with Proceeds from / Payments for other financial assets + Repayment of other financial liabilities

H1 2014 RESULTS AND PUBLIC TARGETS FOR 2014

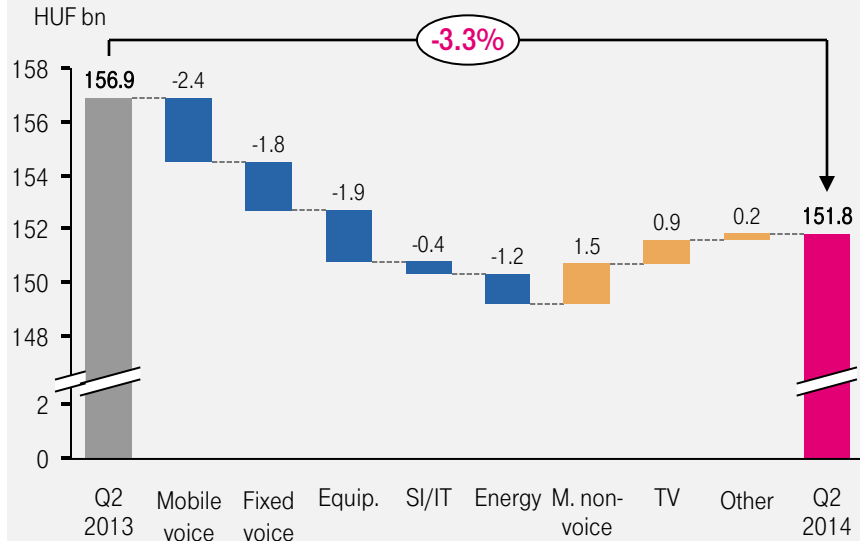
	H1 2014 RESULTS	2014 TARGETS
REVENUE	-3.1%	up to 3% decline
	<ul style="list-style-type: none"> Lower energy revenues due to cuts in regulated retail energy prices and the mild winter Decline in equipment sales and SI/IT revenues 	
REPORTED EBITDA	+1.5%	up to 3% decline*
	<ul style="list-style-type: none"> Strong improvement in energy margin from low level of H1 2013 Set-top-box financial lease treatment and annual frequency fee reduction and capitalization supported performance 	
CAPEX**	HUF 33.3bn	around HUF 87bn
	<ul style="list-style-type: none"> Network modernization, 4G roll-out Efficiency improving projects 	

*modified from 3%-6% decline

**excluding spectrum license fees and annual frequency fee capitalization

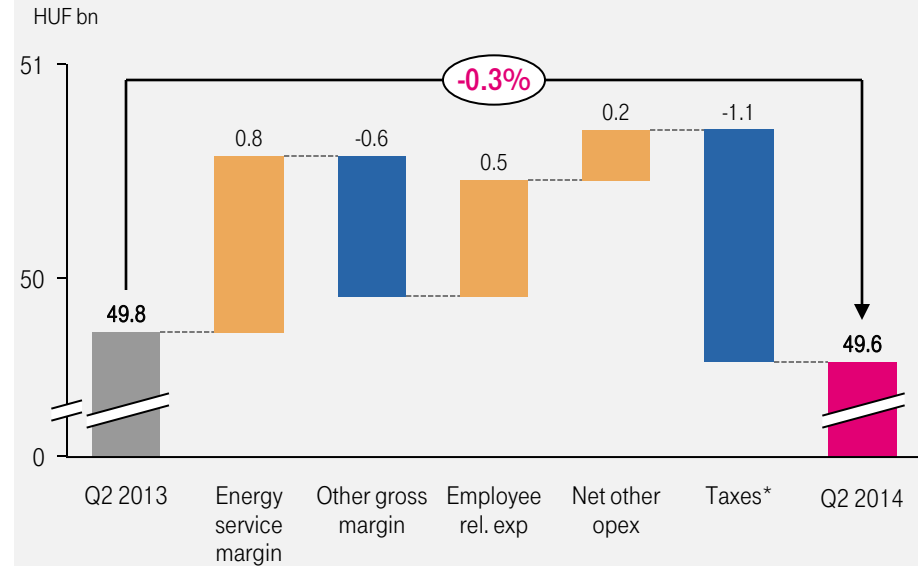
Q2 2014 GROUP RESULTS – REVENUES AND EBITDA

GROUP REVENUES



- Mobile voice revenue decline reflects intense competitive pressure in Macedonia
- Lower equipment sale revenues reflecting temporary saturation in the targeted segments
- Decline in energy service revenues due to retail price cuts
- SI/IT revenue decline due to a shift in focus to less equipment intensive deals
- Mobile non-voice revenues boosted by increasing customer base and usage of mobile internet

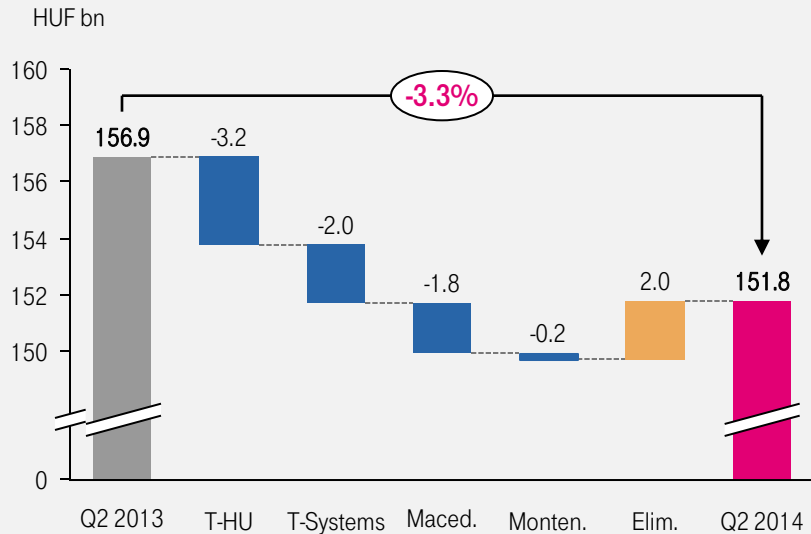
GROUP EBITDA



- Energy service margin improvement thanks to change in relevant legislation and increase in the share of business segment customers
- Other gross margin decline due to a fallout of high margin voice revenues and increased impairment related to equipment instalment sales
- Taxes* increased due to higher telecom tax rate from August 2013 on non-private individuals subscription

Q2 2014 SEGMENT RESULTS – REVENUES AND EBITDA

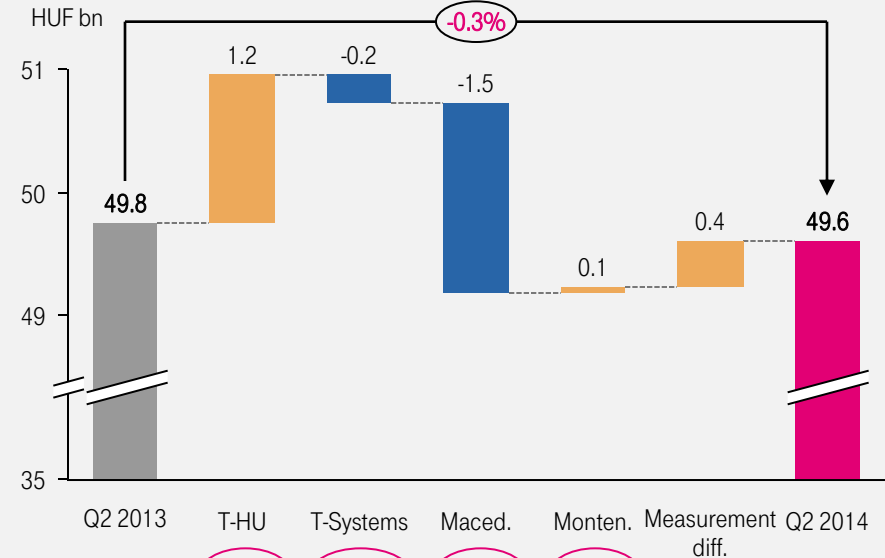
SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y: -3% (T-HU), -7% (T-Systems), -12% (Maced.), -2% (Monten.)

- **T-Hungary:** lower revenues from energy, equipment sales and fixed voice partially mitigated by higher mobile BB and TV revenues
- **T-Systems:** stabilizing telco revenues but lower volume of application revenues
- **Macedonia:** mobile voice revenue decline driven by fierce competitive pressures and 60% MTR cut effective from November 2013
- **Montenegro:** TV and internet growth mostly mitigated voice revenue decline

SEGMENTS' EBITDA DEVELOPMENT



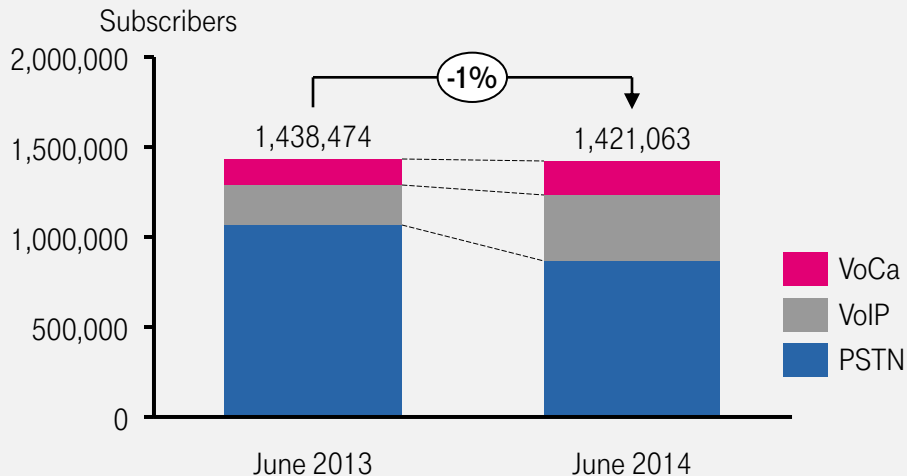
Change Y-o-Y: +3% (T-HU), -6% (T-Systems), -23% (Maced.), +2% (Monten.)

- **T-Hungary:** higher energy margin coupled with lower net opex (savings in fees and levies and profit from R/E sales)
- **T-Systems:** increased gross margin offset by higher telecom taxes and other costs
- **Macedonia:** competition driven margin pressure coupled with higher market investment to mitigate price pressure
- **Montenegro:** gross margin decline offset thanks to lower employee expenses

HUNGARY – FIXED VOICE MARKET



TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS

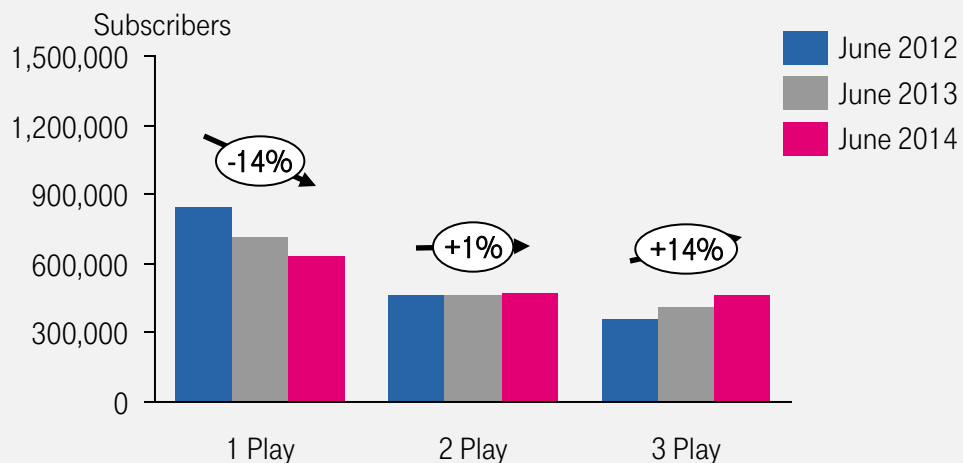


- Significant reduction in fixed voice churn due to the retention effect of:
 - Hoppá package
 - 2Play/3Play offers
 - Retail energy bundling
- Decline in 1 Play customer base to 40%

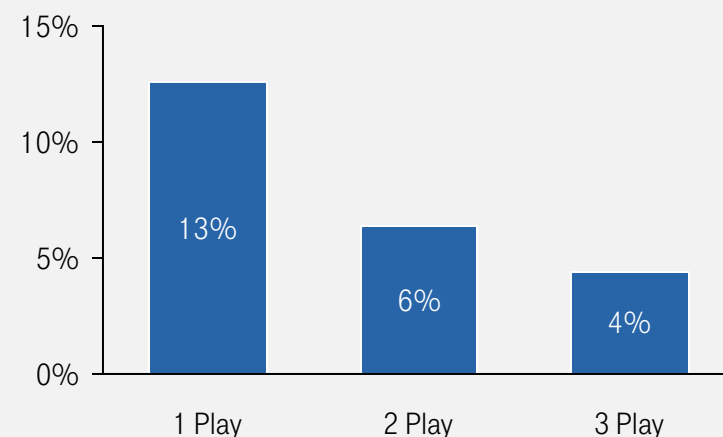
KPIs (Q2-o-Q2):

- ARPU: HUF 2,598 (-7%)
- MOU: 161 (-10%)

MULTI-PLAY DEVELOPMENTS



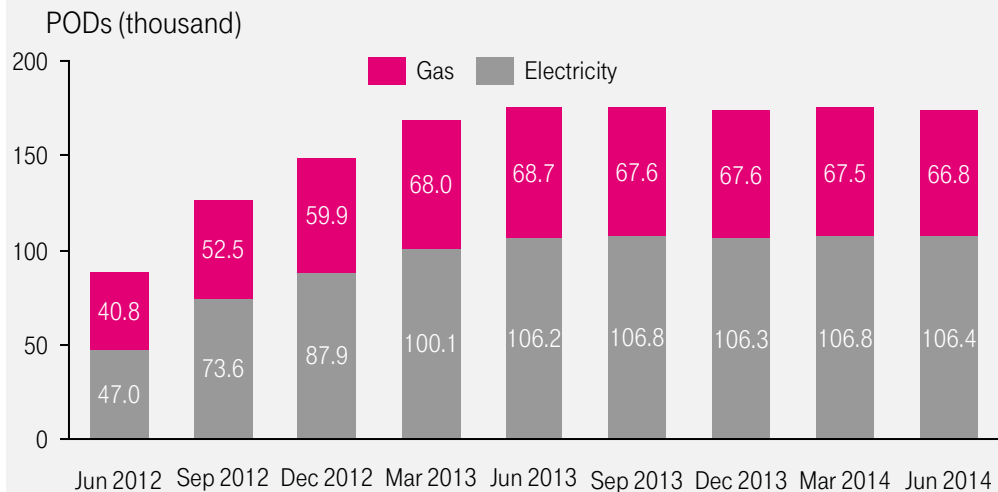
AVERAGE ANNUAL CHURN LEVEL



HUNGARY – ENERGY RETAIL



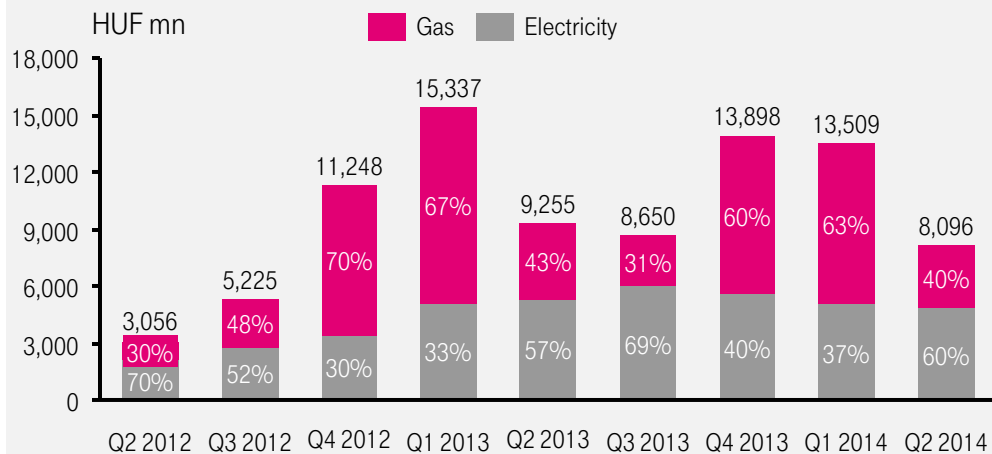
GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



RETAIL ENERGY BUSINESS

- Soft launch in 2010, nationwide since April 2012
- Residential customers receive a 3-8% discount to regulated universal service prices on their energy bill depending on the number of fixed line services they subscribe to
- Significant retention and upsell impact
- Increasing ratio of energy revenues generated from competitive segment customers
- Energy market is strongly seasonal

REVENUE PERFORMANCE



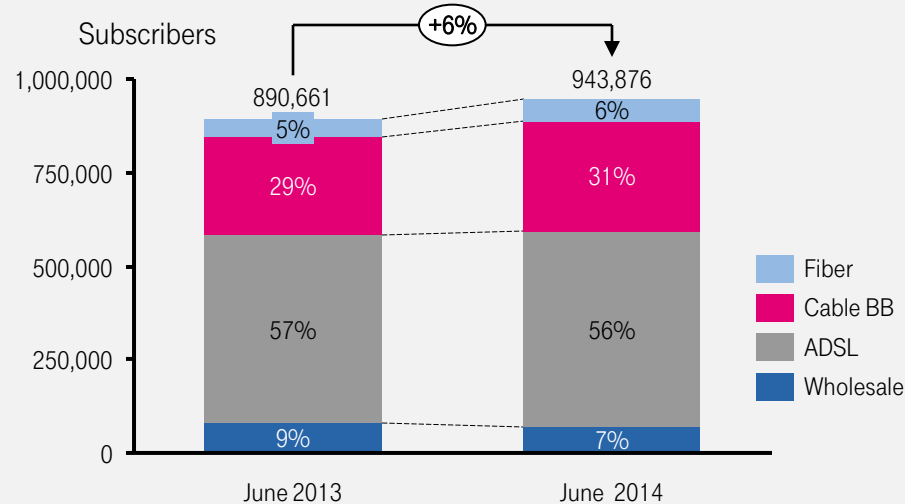
REGULATORY DEVELOPMENTS

- 10% and 11% 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 – BROADBAND AND TV MARKET

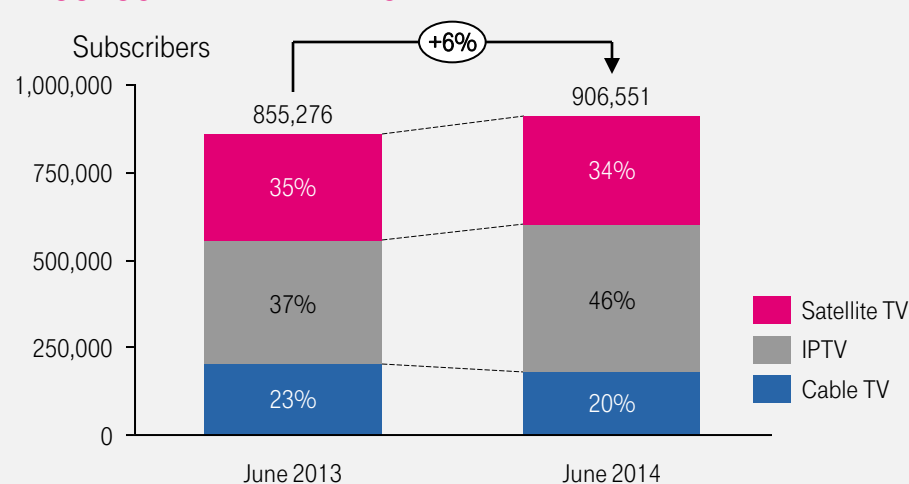


FIXED BROADBAND SUBSCRIBER BREAKDOWN



- Growth in broadband market driven by cable and fiber
- Significant ARPU pressure from multiplay migration and local pricing
- Broadband ARPU: HUF 3,415 (-3% Q2-o-Q2)

TV SUBSCRIBER BREAKDOWN

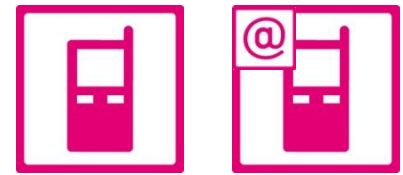


- TV ARPU stable thanks to increasing number of interactive IPTV customers
- Significant migration from cable to IPTV
- 3Play offers from HUF 4,550/month (EUR 15)
- TV ARPU: HUF 3,090 (flat Q2-o-Q2)



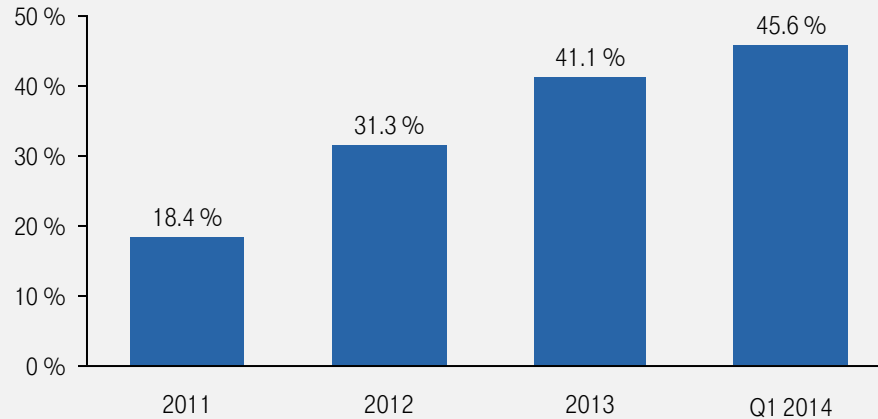
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TELEKOM HUNGARY – MOBILE MARKET



TELEKOM SMARTPHONE PENETRATION

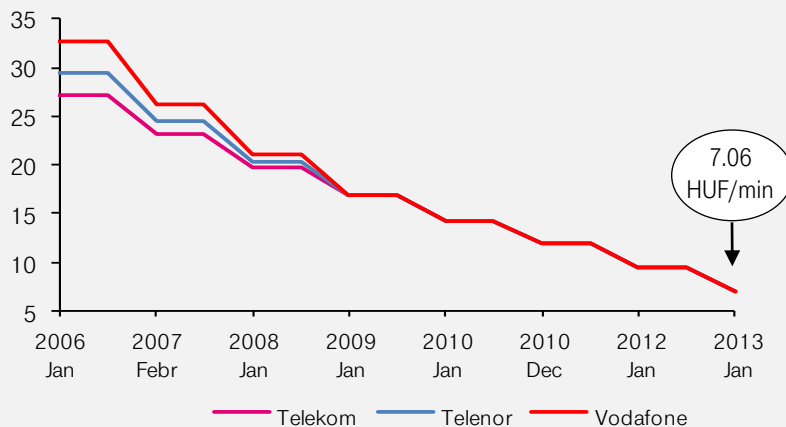
% of total handsets



- Improving customer mix: y-o-y increase in postpaid ratio from 48.0% to 49.3%
- Smartphone sales reached 90% of postpaid handsets
- Broadband subscription attach rate at ca. 90%
- Full 4G coverage in Budapest and 51% population-based coverage countrywide
- MTR cut: no further glide path announced

MOBILE TERMINATION RATE CUTS

HUF/min

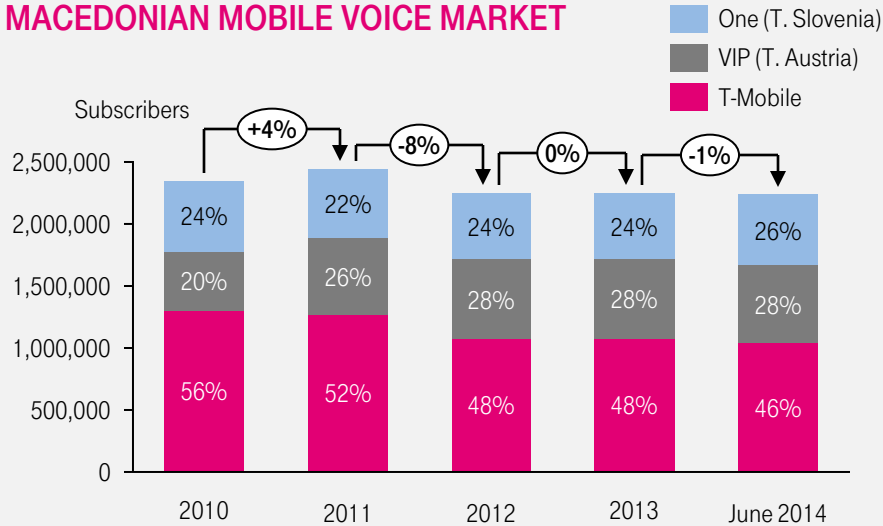


KPIs (Q2-o-Q2):

- ARPU: HUF 3,477 (+3%)
- Mobile MOU: 171 (+5%)
- SAC/gross add: HUF 4,975 (-7%)
- SRC/retained customer: HUF 12,826 (+5%)
- VAS within ARPU: HUF 928 (+10%)

MACEDONIA AND MONTENEGRO

MACEDONIAN MOBILE VOICE MARKET

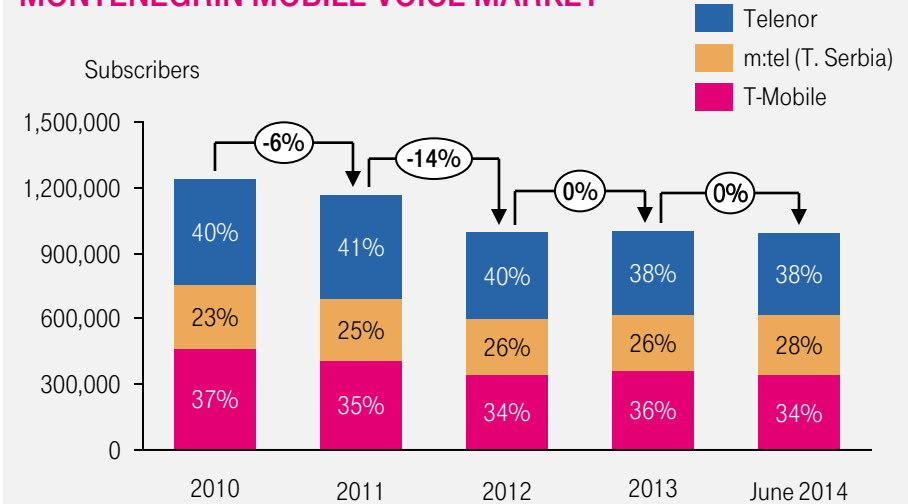


- Leading fixed line operation with 65% voice, 52% internet and 23% TV market shares
- Intense competition from cable operators on the fixed market
- Declining mobile revenues due to strong price competition

KPIs (Q2-o-Q2):

- Fixed voice churn: 5%
- Fixed outgoing traffic: -21%
- Mobile ARPU: HUF 1,852 (-16%)
- Mobile MOU: 206 (+9%)

MONTENEGRIN MOBILE VOICE MARKET



- Leading fixed line operation with 98% voice, 81% internet and 42% TV market shares
- Strong seasonality on the mobile market driven by tourism
- Economic environment put limitation on performance

KPIs (Q2-o-Q2):

- Fixed voice churn: -2%
- Fixed outgoing traffic: -14%
- Mobile ARPU: HUF 2,892 (-4%)
- Mobile MOU: 162 (-7%)

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q2 2013	Q2 2014	Change
Mobile revenues	78,939	77,372	-2.0%
Fixed line revenues	53,522	51,533	-3.7%
System Integration/Information Technology revenues	15,191	14,785	-2.7%
Revenue from Energy Services	9,255	8,096	-12.5%
Revenues	156,907	151,786	-3.3%
Direct costs	(55,534)	(50,242)	-9.5%
Employee-related expenses	(23,683)	(23,143)	-2.3%
Depreciation and amortization	(25,514)	(24,511)	-3.9%
Hungarian telecommunications and other crisis taxes	(5,342)	(6,425)	20.3%
Other operating expenses	(23,104)	(23,157)	0.2%
Total operating expenses	(133,177)	(127,478)	-4.3%
Other operating income	507	794	56.6%
Operating profit	24,237	25,102	3.6%
Net financial results	(6,549)	(7,767)	18.6%
Share of associates' profits	0	9	n.a.
Profit before income tax	17,688	17,344	-1.9%
Income tax expense	(3,851)	(4,757)	23.5%
Profit for the period	13,837	12,587	-9.0%
Non-controlling interests	1,630	1,004	-38.4%
Equity holders of the Company (Net income)	12,207	11,583	-5.1%

MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Jun 30, 2013	Jun 30, 2014	Change
Current assets	195,657	182,923	-6.5%
Cash and cash equivalents	15,118	13,967	-7.6%
Other current financial assets	31,009	14,420	-53.5%
Non current assets	842,406	886,558	5.2%
Property, plant and equipment - net	501,989	487,346	-2.9%
Intangible assets	314,211	377,492	20.1%
Total assets	1,038,063	1,069,481	3.0%
Equity	476,226	506,951	6.5%
Current liabilities	261,224	314,605	20.4%
Financial liabilities to related parties	48,187	101,806	111.3%
Other financial liabilities	72,984	82,908	13.6%
Non current liabilities	300,613	247,925	-17.5%
Financial liabilities to related parties	237,024	194,266	-18.0%
Other financial liabilities	35,014	23,990	-31.5%
Total equity and liabilities	1,038,063	1,069,481	3.0%



MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Jun 30, 2013	Jun 30, 2014	Change
Net cash generated from operating activities	41,468	56,216	35.6%
Investments in tangible and intangible assets	(40,620)	(33,330)	-17.9%
Adjustments to cash purchases	2,758	(9,390)	-440.5%
Purchase of subsidiaries and business units	(100)	(428)	n.a.
Cash acquired through business combinations	0	0	n.a.
Payments for / proceeds from other financial assets - net	20,765	17,526	-15.6%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	336	1,616	381.0%
Net cash used in investing activities	(16,861)	(24,006)	42.4%
Dividends paid to shareholders and minority interest	(65,174)	(6,411)	-90.2%
Net payments of loans and other borrowings	41,107	(12,828)	-131.2%
Repayment of other financial liabilities	(739)	(14,027)	1798.1%
Net cash used in financing activities	(24,806)	(33,266)	34.1%
Free cash flow*	3,103	657	-78.8%

*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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