

MAGYAR TELEKOM GROUP

Q3 2014 RESULTS PRESENTATION

NOVEMBER 6, 2014



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Q3 2014 FINANCIAL HIGHLIGHTS

REVENUE

-0.5%; HUF 157.5bn



Increase in TV and mobile internet revenues
Higher mobile equipment sale revenues



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

REPORTED EBITDA

-5.2%; HUF 49.2bn



Increase in gross margins of mobile services
Lower net operating expenses



Higher bad debt expenses
HUF 2.2 bn higher severance expenses

FREE CASH FLOW*

HUF 23.5bn



Significantly lower increase in receivables due to sale of equipments on installment
Lower 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

9M2014 RESULTS AND PUBLIC TARGETS FOR 2014

9M 2014 RESULTS

2014 TARGETS

REVENUE

-2.2%

up to 3% decline

- Further decline in fixed and mobile voice revenues
- Lower energy revenues due to cuts in regulated retail energy prices
- Decline in SI/IT revenues

REPORTED EBITDA

-1.0%

up to 3% decline

- Strong improvement in energy margin from low level of 9M 2013
- Set-top-box financial lease treatment and annual frequency fee reduction and capitalization supported performance

CAPEX*

HUF 53.6bn

around HUF 87bn

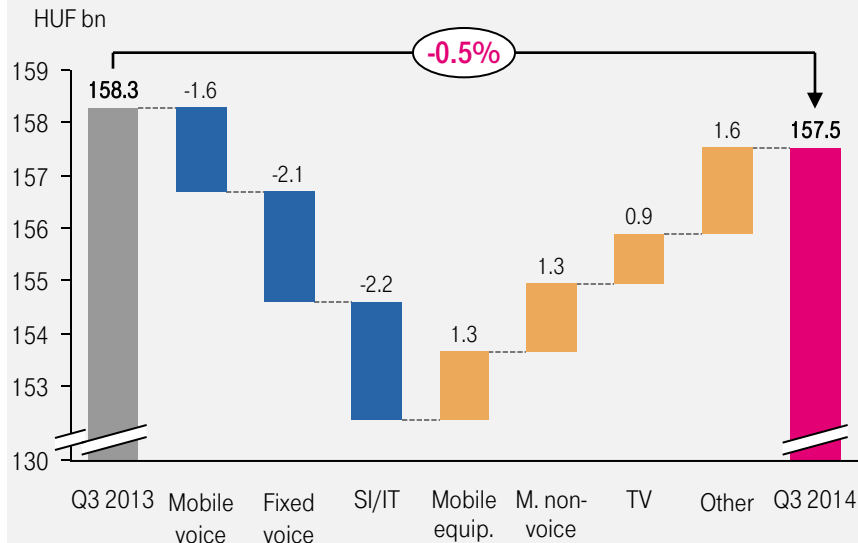
- Network modernization, 4G roll-out
- Efficiency improving projects

*excluding spectrum license fees and annual frequency fee capitalization



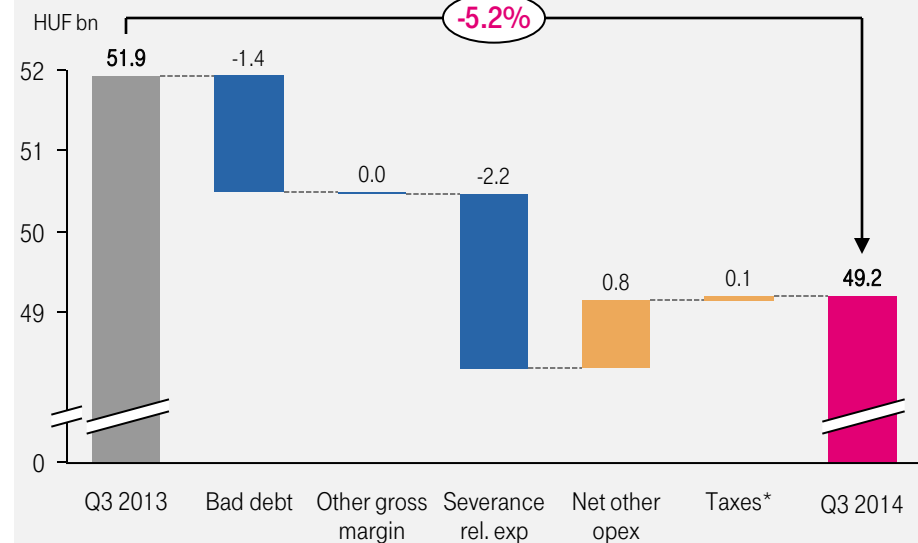
Q3 2014 GROUP RESULTS – REVENUES AND EBITDA

GROUP REVENUES



- Mobile voice revenue decline reflects intense competitive pressure in Macedonia and Montenegro as well
- Lower fixed voice revenues partly driven by IC fee cuts in Hungary
- SI/IT revenue decline due to a shift in focus to less equipment intensive deals
- Higher mobile equipment revenues thanks to increased sales and higher average handset prices
- Mobile non-voice revenues boosted by increasing customer base and usage of mobile internet

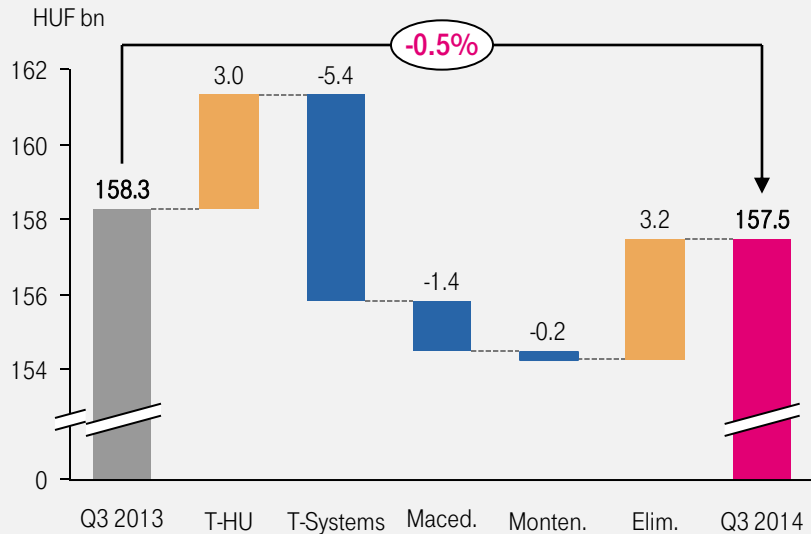
GROUP EBITDA



- Higher bad debt expense primarily relates to the waiver of HUF 0.9bn due from a major T-Systems customer
- Other gross margin remained stable as energy margin dilution was offset by improved mobile margin
- Higher severance expenses reflecting the HUF 3.6bn booked in relation to Parent Company headcount reduction program
- Lower net other opex reflecting change in annual frequency fees
- Taxes* increased slightly due to higher telecom tax rate from August 2013 on non-private individuals subscription

Q3 2014 SEGMENT RESULTS – REVENUES AND EBITDA

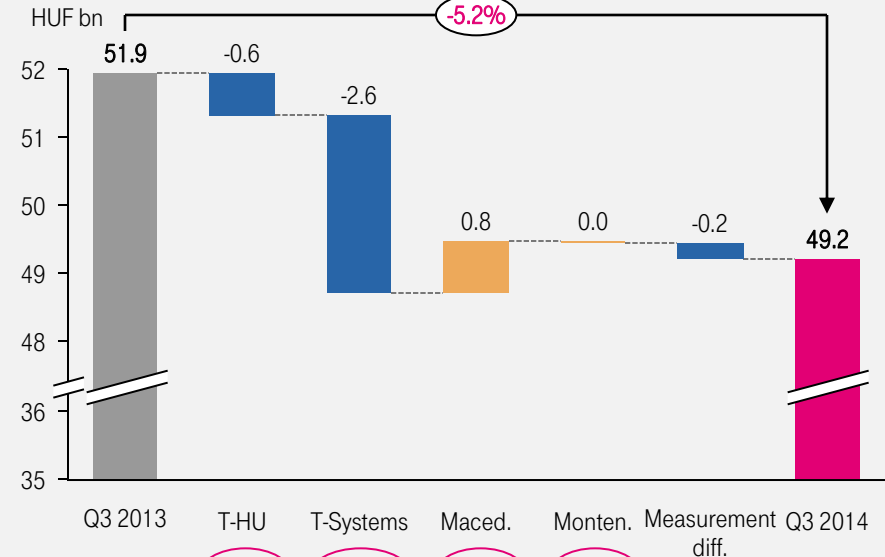
SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y **+3%** **-17%** **-9%** **-2%**

- **T-Hungary**: lower revenues from fixed offset by higher mobile 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



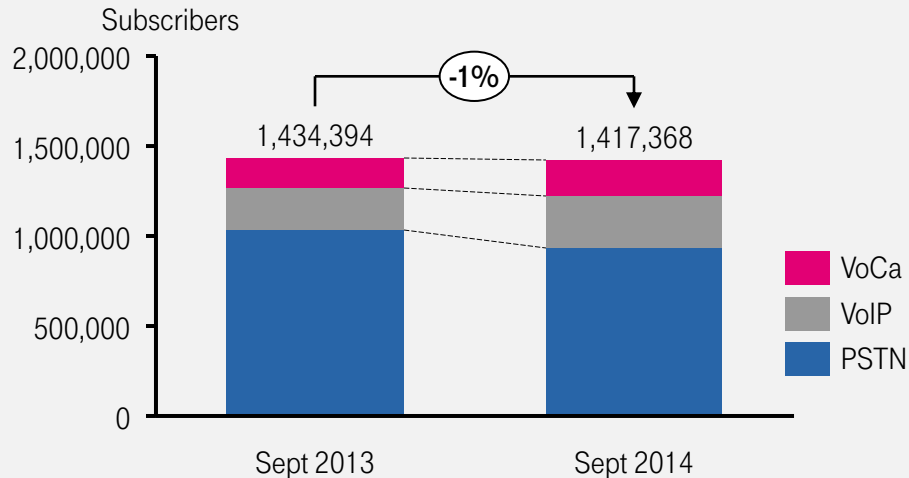
Change Y-o-Y **-2%** **-57%** **+12%** **-1%**

- **T-Hungary**: severance expense increase partly mitigated by higher mobile gross margin and lower operating expenses (savings in fees and levies and profit from R/E sales)
- **T-Systems**: significant drop in revenues coupled with higher other costs
- **Macedonia**: HUF 1.5bn expense booked in Q3 2013 related to redundancy program distorts comparability; decline in gross margin reflects competitive pressure
- **Montenegro**: gross margin decline offset thanks to lower employee expenses

HUNGARY – FIXED VOICE MARKET



TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS

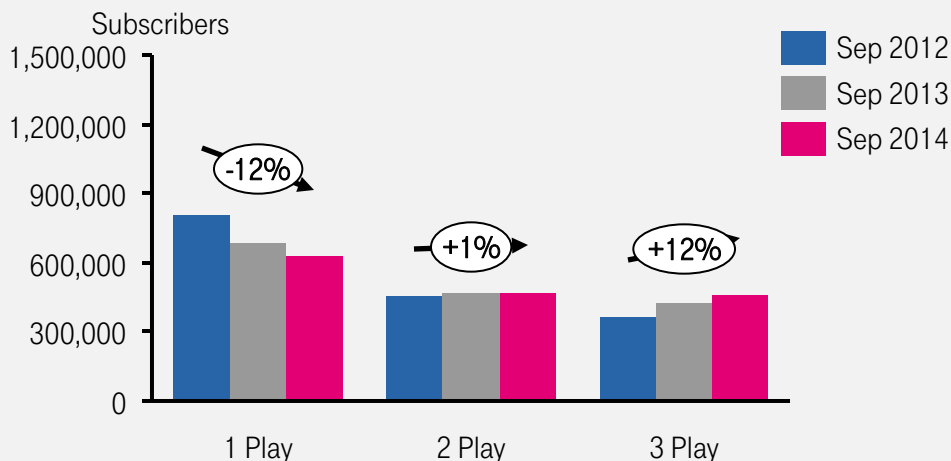


- Significant reduction in fixed voice churn due to the retention effect of:
 - Hoppá package
 - 2Play/3Play offers
 - Retail energy bundling
- Decline in 1 Play customer base to 40%

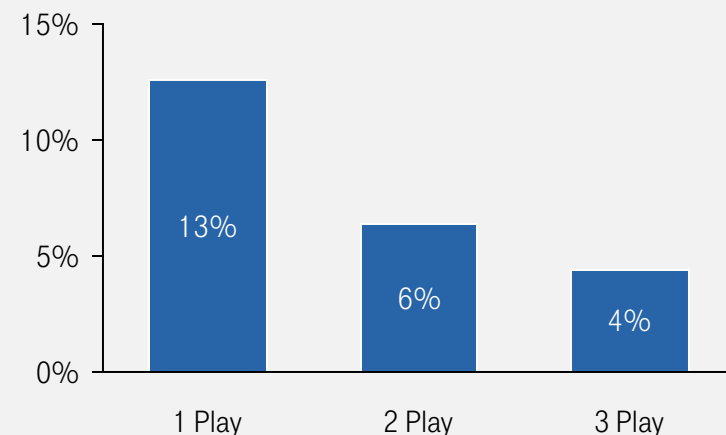
KPIs (Q3-o-Q3):

- ARPU: HUF 2,590 (-6.3%)
- MOU: 156 (-8.5%)

MULTI-PLAY DEVELOPMENTS



AVERAGE ANNUAL CHURN LEVEL

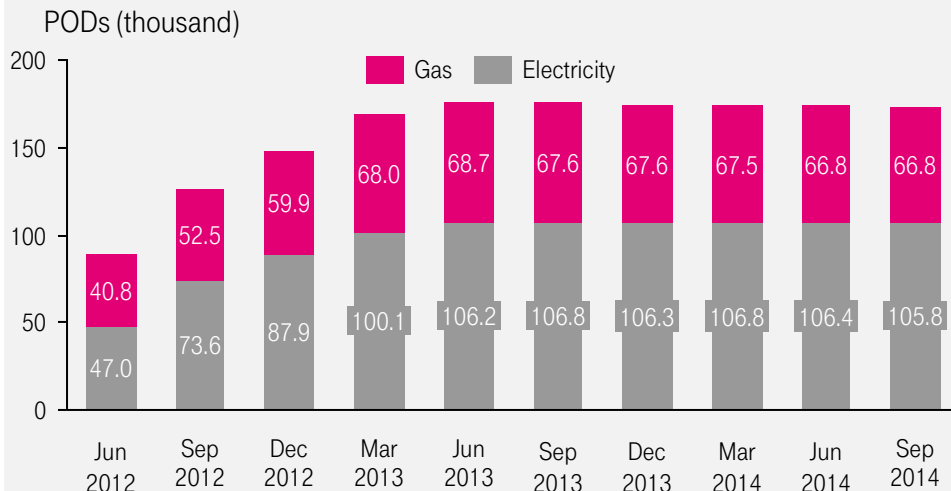


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HUNGARY – ENERGY RETAIL



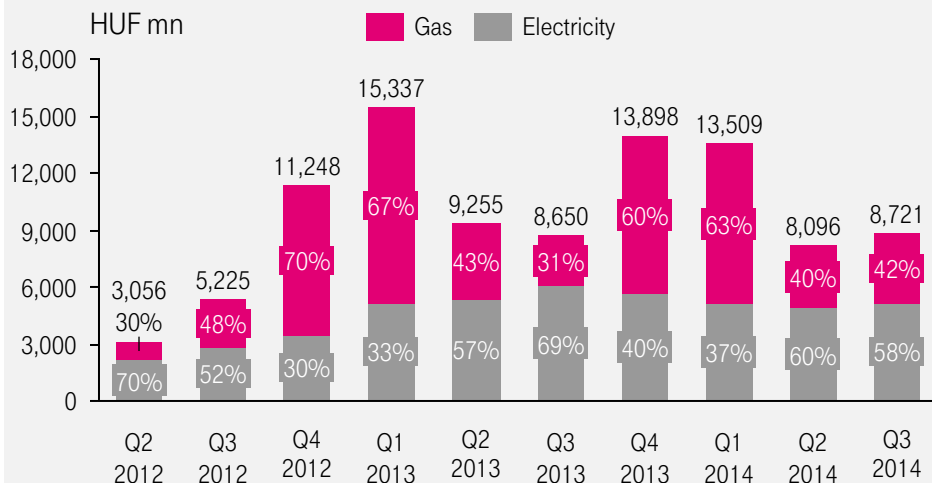
GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



RETAIL ENERGY BUSINESS

- 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



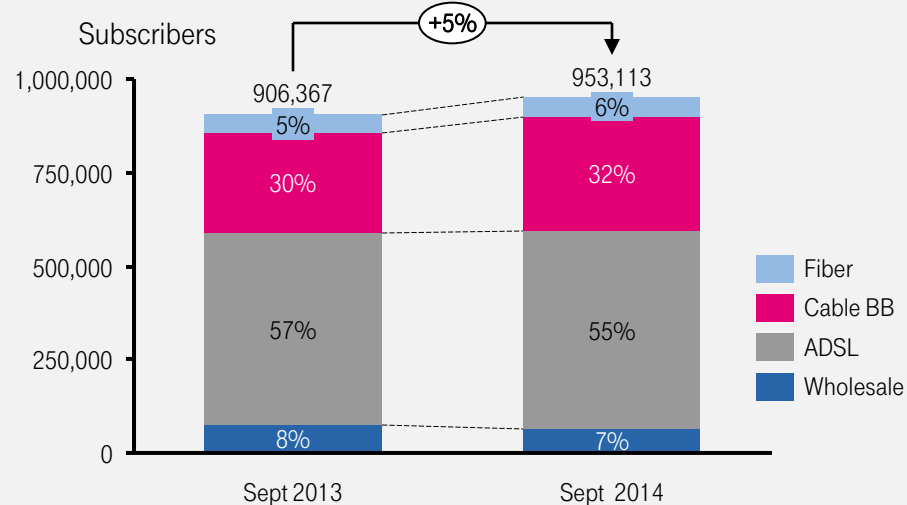
REGULATORY DEVELOPMENTS

- 10% and 11% 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 – BROADBAND AND TV MARKET

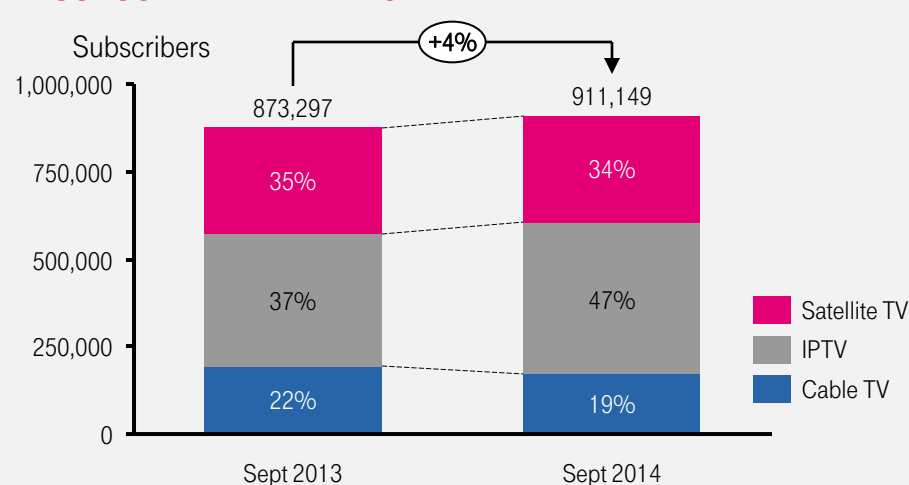


FIXED BROADBAND SUBSCRIBER BREAKDOWN



- Growth in broadband market driven by cable and fiber
- ARPU pressure from multiplay migration and local pricing
- Broadband ARPU: HUF 3,400 (-1.9% Q3-o-Q3)

TV SUBSCRIBER BREAKDOWN



- TV ARPU stable thanks to increasing number of interactive IPTV customers
- Significant migration from cable to IPTV
- 3Play offers from HUF 5,850/month (EUR 19)
- TV ARPU: HUF 3,128 (flat Q3-o-Q3)



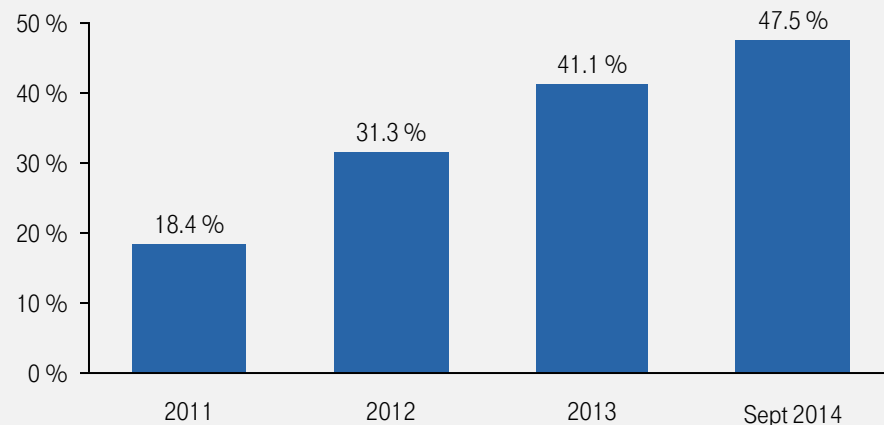
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TELEKOM HUNGARY – MOBILE MARKET



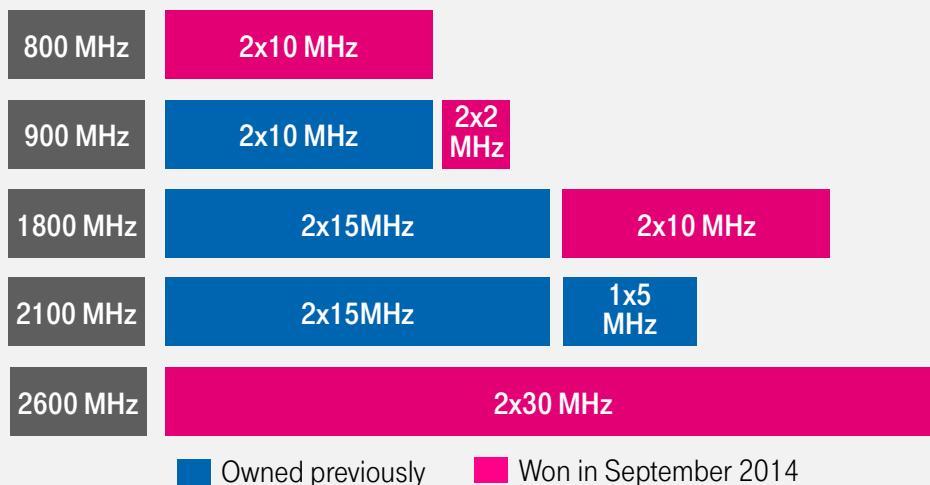
TELEKOM SMARTPHONE PENETRATION

% of total handsets



- Smartphone sales reached over 90% of postpaid handsets
- Broadband subscription attach rate at ca. 90%
- 73% population-based countrywide coverage
- MTRs currently at HUF 7.06 / min; no further glide path announced
- HUF 58.7bn payment for new frequency licenses due in Q4 2014

CURRENT SPECTRUM OWNERSHIP OF MAGYAR TELEKOM



KPIs (Q3-o-Q3):

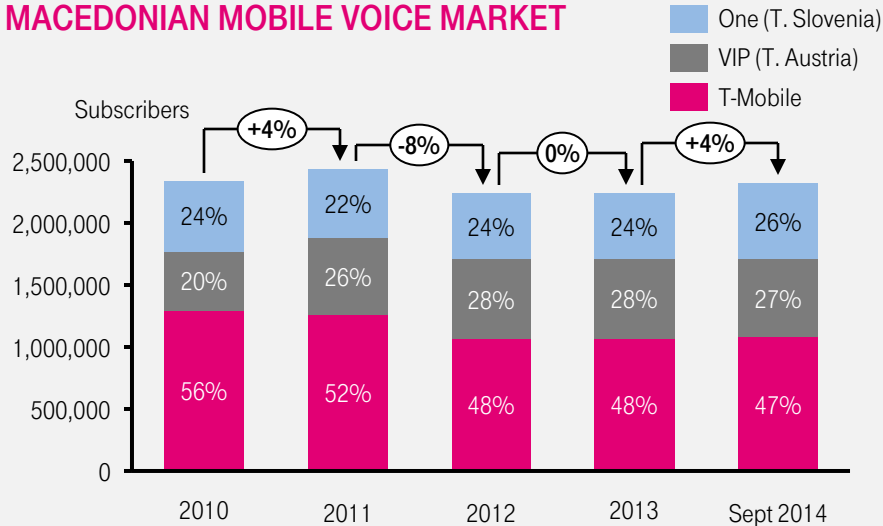
- Postpaid ratio: 49.6% (+1.3ppt)
- ARPU: HUF 3,598 (+3.6%)
- Mobile MOU: 175 (+8.2%)
- SAC/gross add: HUF 4,859 (-24.6%)
- SRC/retained customer: HUF 13,113 (-2.9%)
- VAS within ARPU: HUF 961 (+9.5%)



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MACEDONIA AND MONTENEGRO

MACEDONIAN MOBILE VOICE MARKET

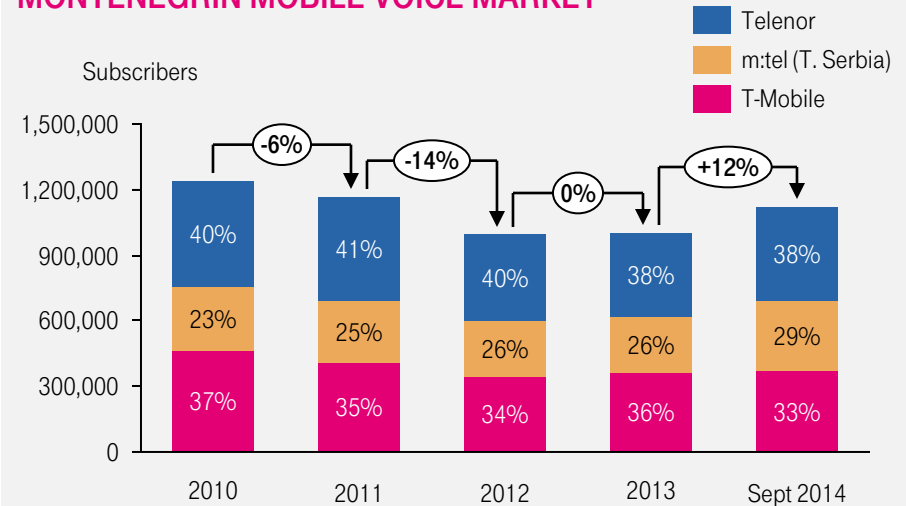


- Leading fixed line operation with 65% voice, 52% internet and 23% TV market shares
- Intense competition from cable operators on the fixed market
- Declining mobile revenues due to strong price competition

KPIs (Q3-o-Q3):

- Fixed voice churn: 5%
- Fixed outgoing traffic: -24%
- Mobile ARPU: HUF 2,022 (-14%)
- Mobile MOU: 212 (+8%)

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 (Q3-o-Q3):

- Fixed voice churn: 2%
- Fixed outgoing traffic: -17%
- Mobile ARPU: HUF 2,943 (-1%)
- Mobile MOU: 185 (+10%)

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q3 2013	Q3 2014	Change
Mobile revenues	80 040	82 295	2,8%
Fixed line revenues	52 946	52 079	-1,6%
System Integration/Information Technology revenues	16 628	14 404	-13,4%
Revenue from Energy Services	8 650	8 726	0,9%
Revenues	158 264	157 504	-0,5%
Direct costs	(53 704)	(54 395)	1,3%
Employee-related expenses	(23 061)	(25 858)	12,1%
Depreciation and amortization	(27 442)	(25 011)	-8,9%
Hungarian telecommunications and other crisis taxes	(6 529)	(6 465)	-1,0%
Other operating expenses	(23 355)	(22 228)	-4,8%
Total operating expenses	(134 091)	(133 957)	-0,1%
Other operating income	316	663	109,8%
Operating profit	24 489	24 210	-1,1%
Net financial results	(9 240)	(6 640)	-28,1%
Share of associates' profits	0	(14)	n.a.
Profit before income tax	15 249	17 556	15,1%
Income tax expense	(4 405)	(5 759)	30,7%
Profit for the period	10 844	11 797	8,8%
Non-controlling interests	1 539	1 137	-26,1%
Equity holders of the Company (Net income)	9 305	10 660	14,6%



MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Sep 30, 2013	Sep 30, 2014	Change
Current assets	198 502	191 891	-3,3%
Cash and cash equivalents	15 922	12 460	-21,7%
Other current financial assets	24 354	18 137	-25,5%
Non current assets	898 065	941 659	4,9%
Property, plant and equipment - net	496 251	481 879	-2,9%
Intangible assets	377 986	377 582	-0,1%
Total assets	1 096 567	1 133 550	3,4%
Equity	489 211	518 940	6,1%
Current liabilities	312 620	367 616	17,6%
Financial liabilities to related parties	49 853	103 469	107,5%
Other financial liabilities	92 625	128 592	38,8%
Non current liabilities	294 736	246 994	-16,2%
Financial liabilities to related parties	237 248	192 972	-18,7%
Other financial liabilities	28 745	24 007	-16,5%
Total equity and liabilities	1 096 567	1 133 550	3,4%

MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Sep 30, 2013	Sep 30, 2014	Change
Net cash generated from operating activities	76 662	98 094	28,0%
Investments in tangible and intangible assets	(117 445)	(53 633)	-54,3%
Adjustments to cash purchases	54 114	(5 791)	-110,7%
Purchase of subsidiaries and business units	(494)	(1 156)	n.a.
Cash acquired through business combinations	0	0	n.a.
Payments for / proceeds from other financial assets - net	18 264	14 498	-20,6%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	548	2 262	312,8%
Net cash used in investing activities	(45 013)	(43 820)	-2,7%
Dividends paid to shareholders and minority interest	(65 361)	(6 705)	-89,7%
Net payments of loans and other borrowings	40 367	(34 492)	-185,4%
Repayment of other financial liabilities	(6 154)	(15 581)	153,2%
Net cash used in financing activities	(31 148)	(56 778)	82,3%
Free cash flow*	7 231	24 195	234,6%

*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:

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.



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