

MAGYAR TELEKOM GROUP

Q1 2016 RESULTS PRESENTATION

MAY 3, 2016



LIFE IS FOR SHARING.

STRATEGIC HIGHLIGHTS: CONTINUATION OF 2015 POSITIVE PERFORMANCE, BOOSTED BY ONE-OFFS

GROUP	REVENUE	<ul style="list-style-type: none"> Revenue declined primarily as a result of the exit from the energy business (excl. energy, revenues up by 1.8%)
	EBITDA	<ul style="list-style-type: none"> EBITDA growth accelerated to 13.6% year-on-year due to underlying revenue growth, boosted by one-off gains of HUF 5.1bn
	FCF	<ul style="list-style-type: none"> Increased FCF reflecting higher EBITDA, improved WC and one-off gains despite higher severance costs, loan repayment and higher settlement of capex creditors
	OPERATION	<ul style="list-style-type: none"> Sustained focus on cost efficiency through headcount reduction, process/product simplification and online
HUNGARY	TELCO	<ul style="list-style-type: none"> Continued growth in mobile, fixed line BB and TV revenues Magenta1 quad-play offer among key growth drivers
	SI/IT	<ul style="list-style-type: none"> Significant SI/IT revenue increase EBITDA turnaround at T-Systems
INT'L	MACEDONIA	<ul style="list-style-type: none"> Revenue turnaround achieved following 5 years of decline Competitive positioning reinforced through success of Magenta1
	MONTENEGRO	<ul style="list-style-type: none"> Sustained competitive and regulatory pressures Successful launch of Magenta1



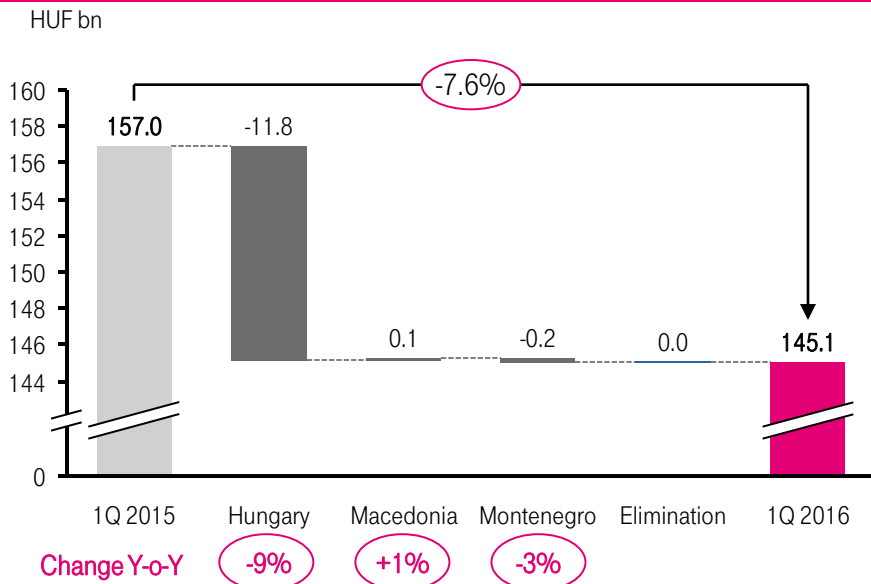
FINANCIAL HIGHLIGHTS AND TARGETS

	Q1 2016 RESULTS vs. Q1 2015	2016 TARGETS	2017 TARGETS
REVENUE	HUF 145.1 (-7.6%) <ul style="list-style-type: none"> Decline due to exit from energy business (excl. energy total revenues up by 1.8%) Group wide mobile data growth due to 4G push offset by Hungarian MTR cuts Revenue growth from fixed line maintained Increased Hungarian SI/IT revenues 	HUF 580 - 590bn	HUF 585 - 595bn
EBITDA	HUF 48.2 bn (+13.6%) <ul style="list-style-type: none"> Growth in underlying EBITDA boosted by one-off gains (real estate and Origo sale HUF 5.1 bn) Improved fixed and mobile broadband performance driven by higher ARPUs and larger customer base Lower utility tax as tax credits granted following HSI development 	HUF 187 - 191bn	HUF 189 - 193bn
CAPEX	HUF 11.6 bn (-4.6%) <ul style="list-style-type: none"> Slow-down in Fixed High Speed Internet (HSI) roll-out program in Hungary Less Capex spent on PSTN replacement Lower spending on Hungarian mobile networks due to NW sharing agreement 	ca. 10% yoy decline	ca. 10% yoy decline



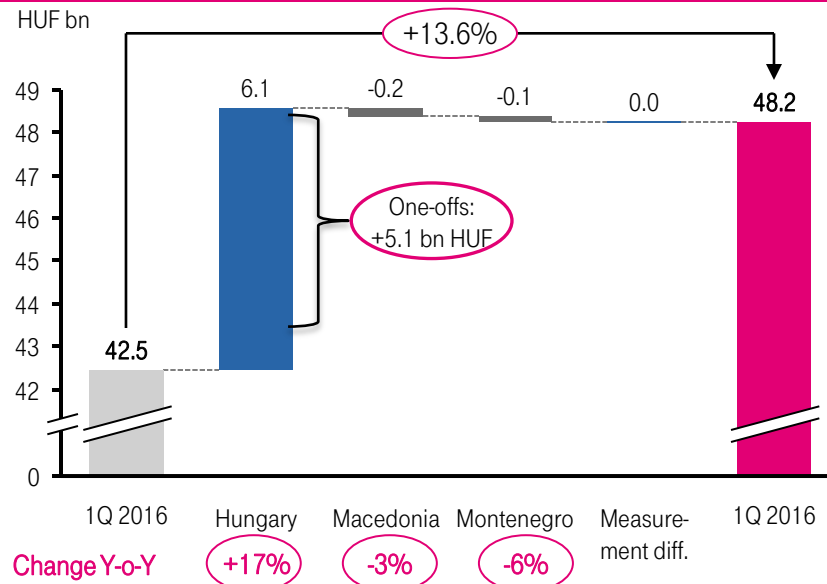
GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues



- **Hungary:** revenue declined primarily as a result of the exit from the energy business; while the lower mobile revenues (due to MTR cut) were offset by higher fixed line and SI/IT revenues
- **Macedonia:** revenue turnaround achieved driven by growth in mobile and SI/IT revenues
- **Montenegro:** decline due to intense competition and OTTs in mobile, and regulatory pressures on fixed line revenue

Group segmental EBITDA

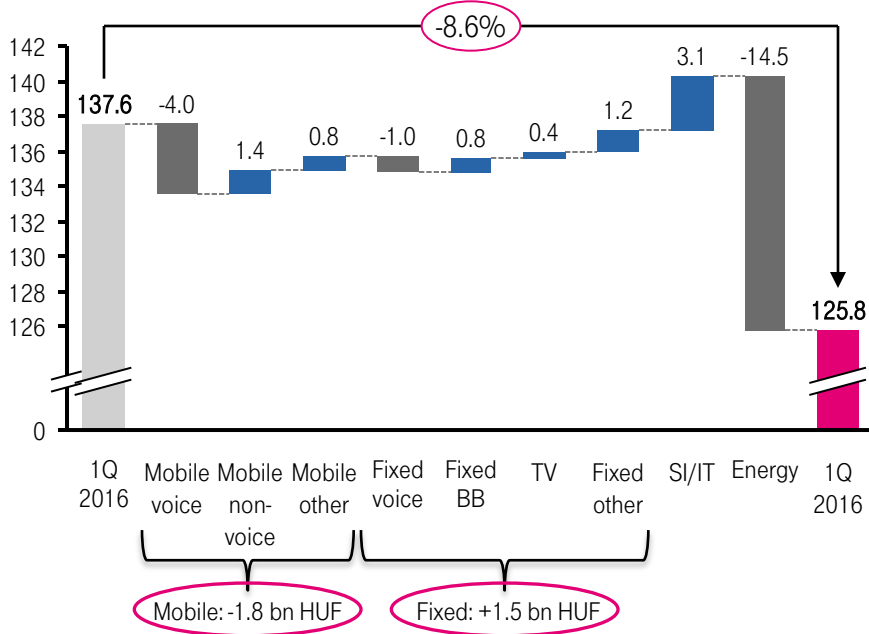


- **Hungary:** EBITDA increased by 17.3% due to an improvement in the gross profit, sustained focus on cost control and one-off gains realized on the real estate deal and the Origo sale
- **Macedonia:** decline slowed down to -3.3% due to smaller drop in gross profit and lower indirect costs
- **Montenegro:** decline due to sustained competitive and regulatory pressures, partly helped by a reduction in opex

HUNGARY

Revenue*

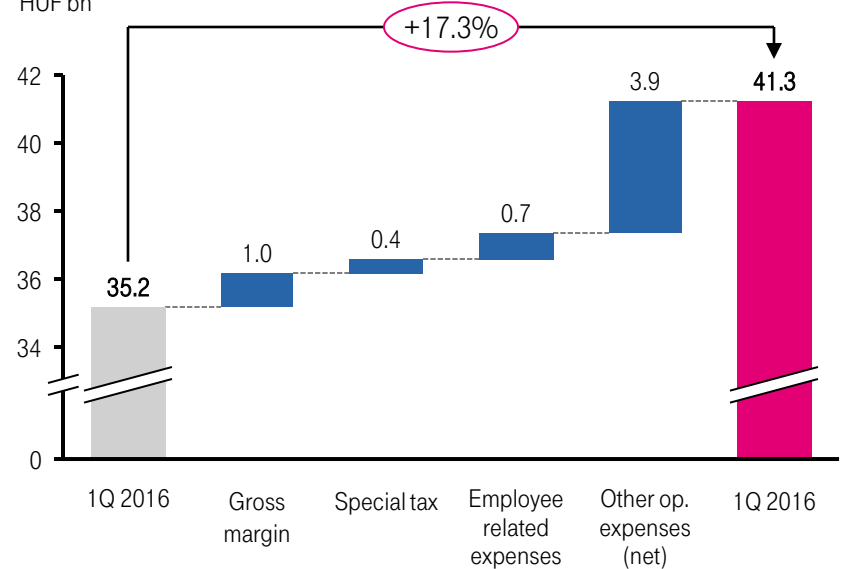
HUF bn



- Strong mobile broadband growth due to 4G push, coupled with higher mobile equipment sales
- MTR cut by 76% responsible for HUF 4.6bn loss in revenues
- Significant increase in both fixed broadband and TV revenues thanks to a growing customer base and ARPU
- Continued growth in SI/IT; higher fixed other due to GTS acquisition
- Drop in energy revenues following exit and deconsolidation

EBITDA

HUF bn



- Improvement in gross profit driven mostly by ARPU increases both in mobile (excl. MTR effect), fixed broadband and TV
- Utility tax credit following network investments and upgrades
- HUF 2.0bn savings resulting from headcount reduction program was partly offset by lower capitalized employee related costs
- One-off gains realized on the real estate deal and Origo sale



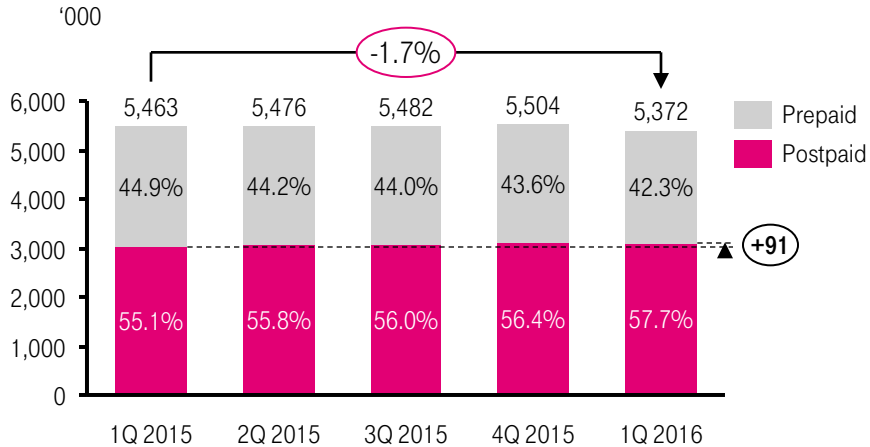
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* Mobile voice includes mobile retail and wholesale voice; Mobile non-voice includes data, SMS and equipment; Fixed other includes equipment, data, wholesale and other

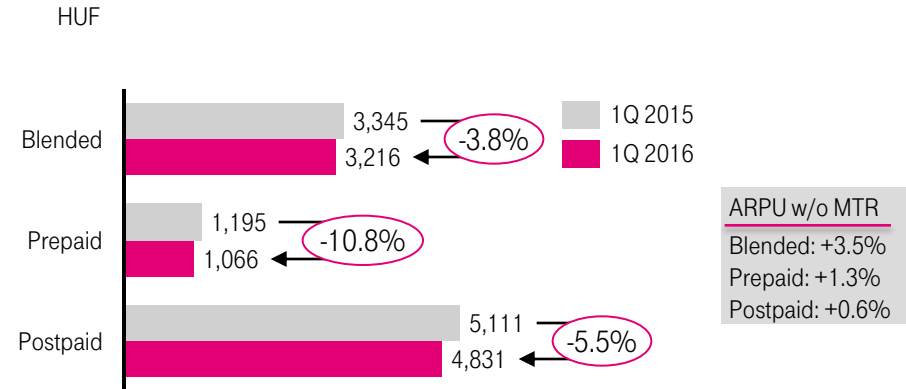
HUNGARY - MOBILE



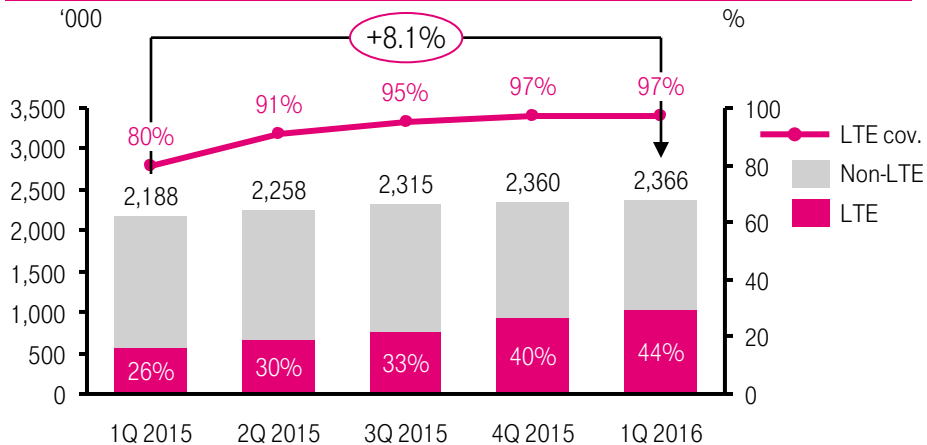
Mobile RPC



Mobile ARPU (HUF)



Mobile broadband development



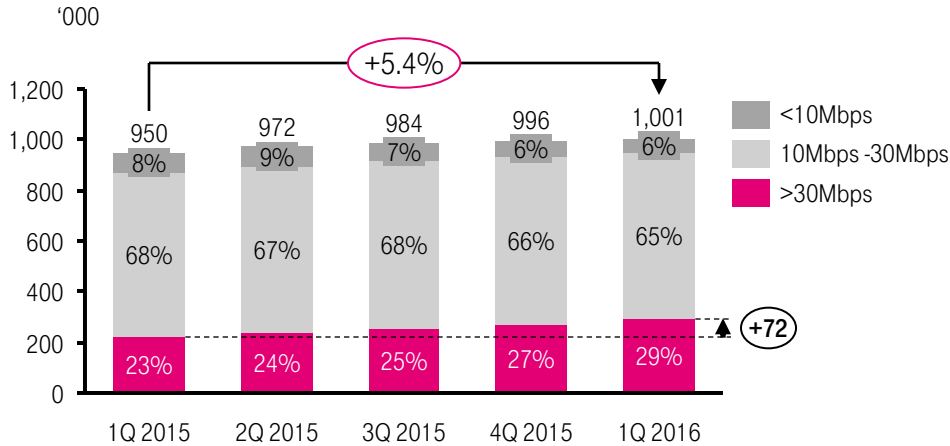
Highlights

- Declining customer base due to intense competition among business customers; 3% (+91k net adds) increase in postpaid RPC driven by strong data demand
- MOU increased by 4%, consistent with the growth in flat tariff subscriber base
- Decreasing ARPU due to sharp MTR cut (ARPU excl. MTR effect up by 4%)
- 4G outdoor population coverage above 97%
- Smartphone sales account for over 90% of postpaid handsets with total SP penetration at almost 60%
- Average 4G usage of 1.5 GB/month

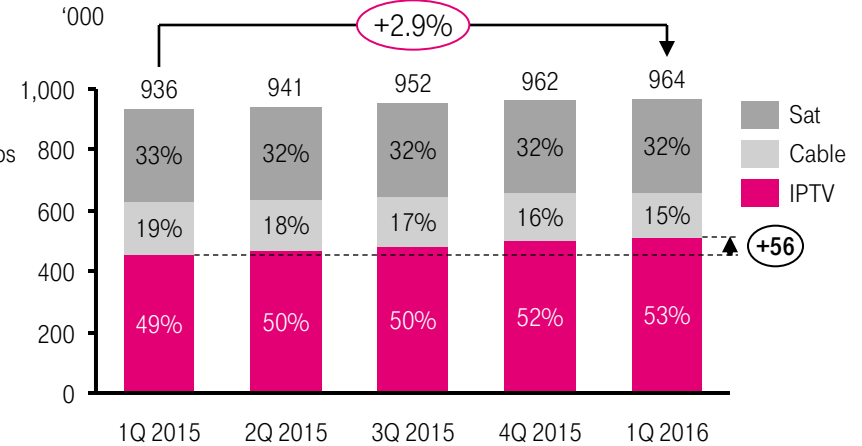
HUNGARY - FIXED BROADBAND AND TV



Fixed BB RPC

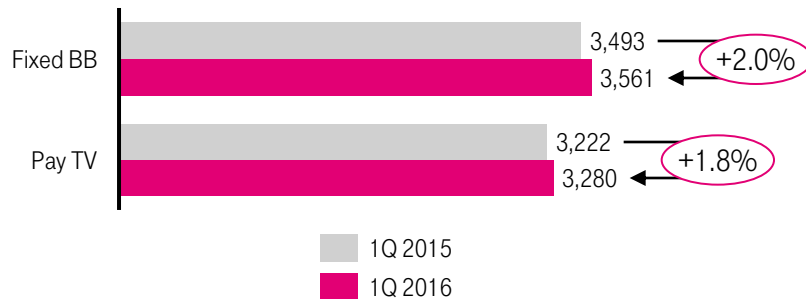


Pay TV RPC



Fixed BB and TV ARPU

HUF



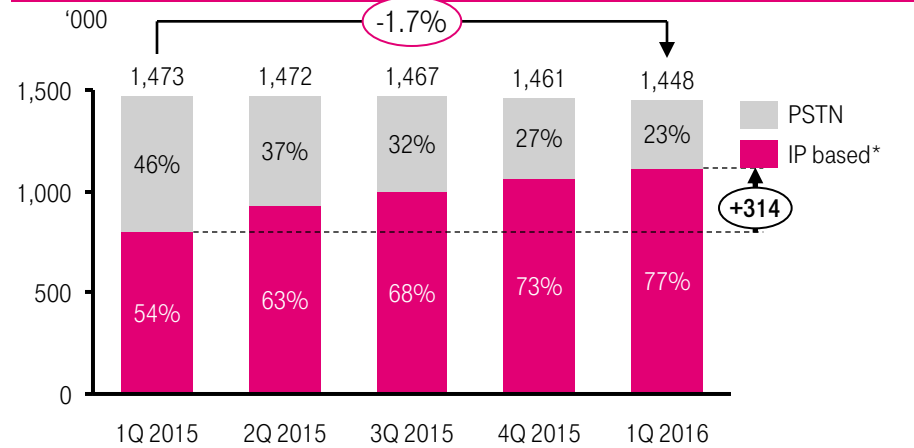
Highlights

- Over 1 million fixed broadband subscribers
- Ca. 51,000 broadband and 28,000 TV net adds, leading market positions maintained
- Increasing ratio of higher bandwidth packages due to upselling activities driven by network upgrades
- Focusing on IPTV to offer more value to our customers
- Higher ARPUs driven by upselling and price increases
- Competition in the business sub-segment remained intense

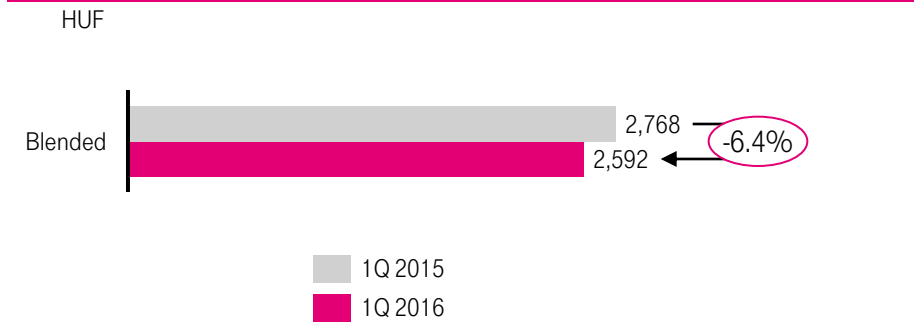
HUNGARY - FIXED VOICE AND ENERGY



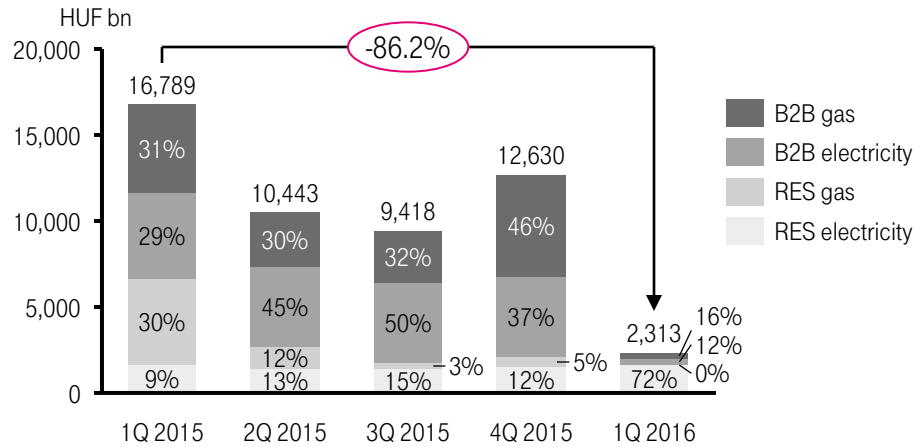
Fixed voice RPC



Fixed voice ARPU



Energy revenues



Highlights

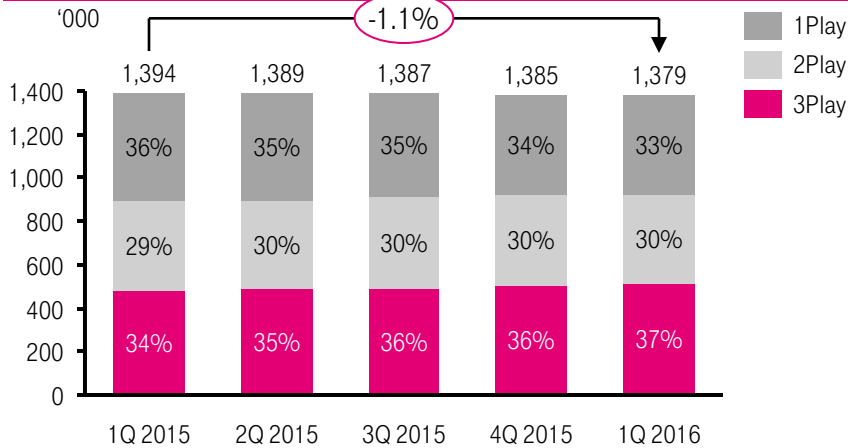
- Fixed voice churn at 2% due to smart bundling strategy
- Fast IP based migration to strive for efficiency
- Fixed voice MOU is down by 3%, ARPU rate of decline at 6%
- Exited from residential gas market with effect from July 31, 2015
- B2B energy deconsolidation to JV with effect from Dec 31, 2015 (only universal business customers in public sector remained)

* IP based RPC equals to VoIP and VoCa RPC

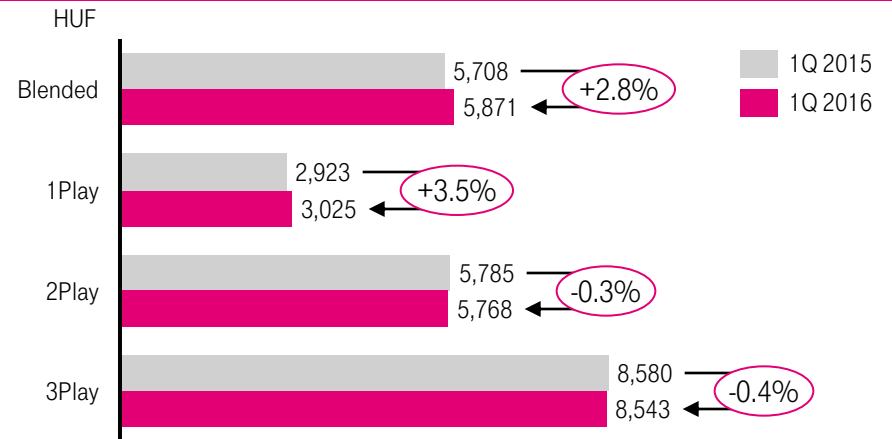
HUNGARY - MULTIPLAY



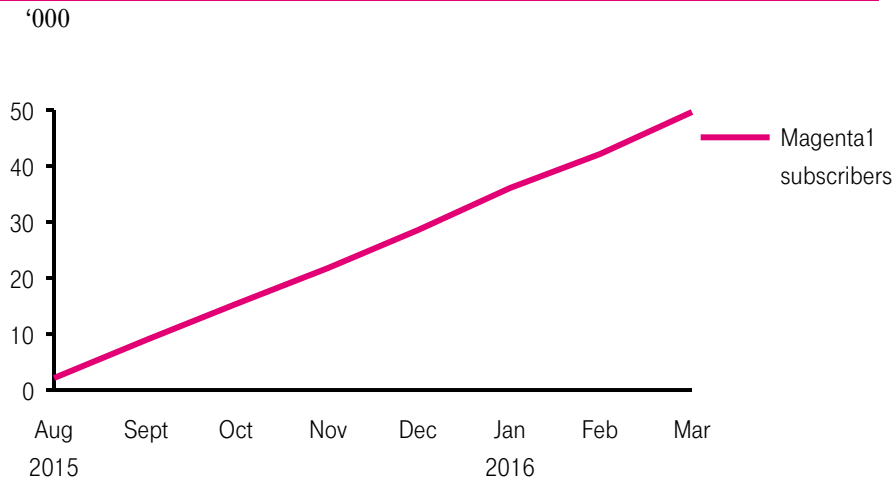
Fixed line multiplay residential RPC development



Fixed line multiplay residential ARPU development



Quad-play Magenta1 RPC development

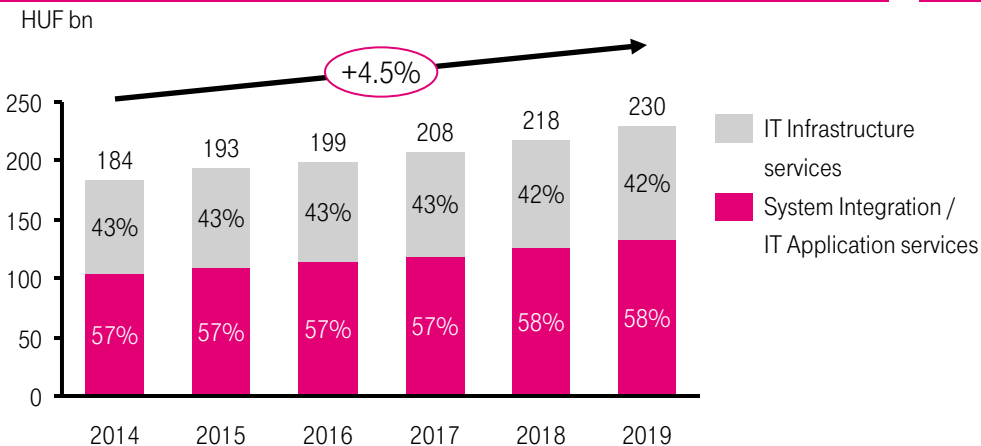


Highlights

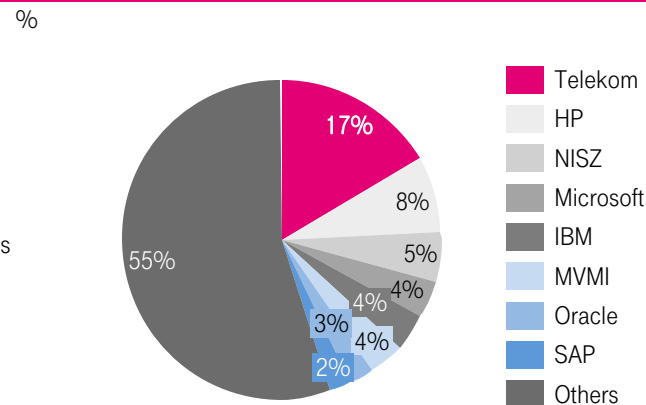
- Stable number of households with at least one Telekom fixed line service; continuously increasing 3Play share
- Lower churn among 2/3 Play customers
- Blended fixed line APRU up by 3%
- 50k quad-play Magenta1 customers help to maximize the telecommunication share of wallet in household spending
- 41% of Magenta1 customers have >30Mbps fixed broadband

HUNGARY - SI/IT

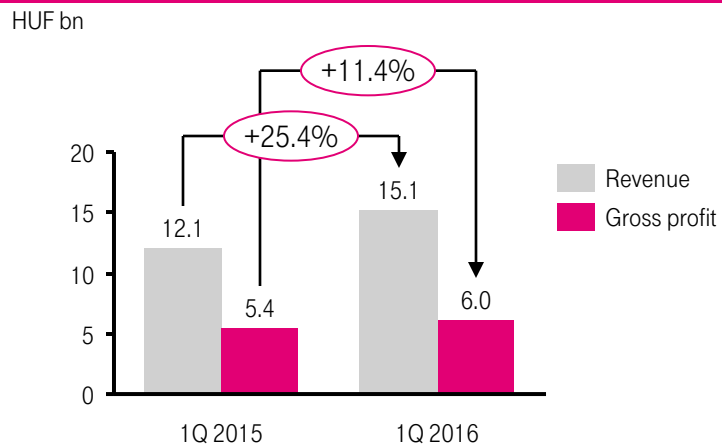
Total Hungarian IT services market development*



Market share*



SI/IT revenue and gross profit of MT Hungary

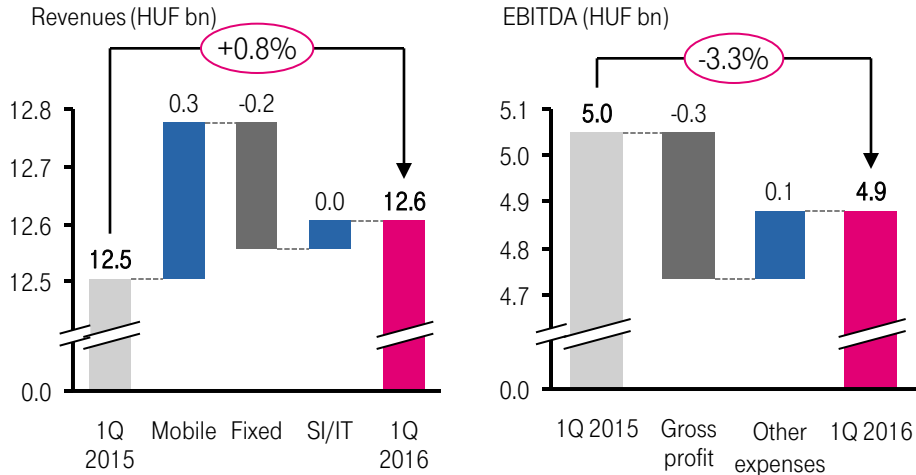


Highlights

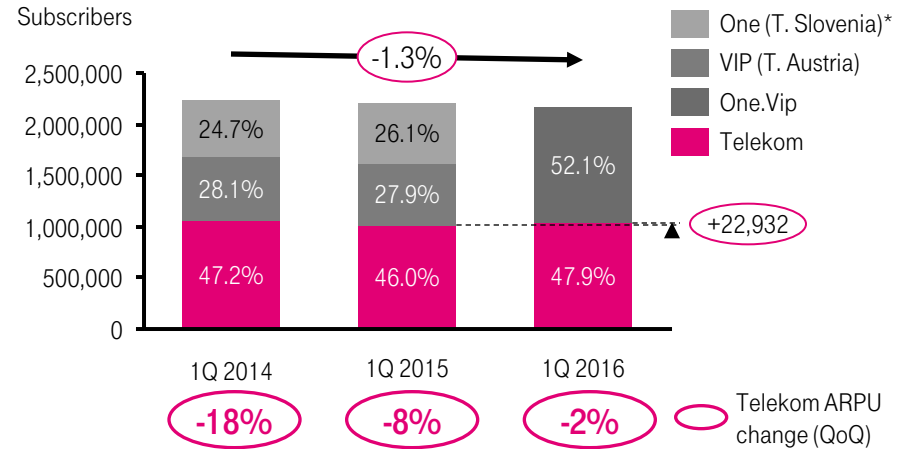
- Total SI/IT market will continue to grow in the next 5 years due to the significant potential opportunities in application development and integration
- Volatility of incoming EU funds to affect timing of projects
- Growing sectors: public (incl. Smart city), education, transport, healthcare and agriculture
- Total revenue increased as a result of projects undertaken for financial institutions, utilities and public sector companies
- Gross profit improved; however, contraction in gross margin due to calculated shift within the sales mix

MACEDONIA

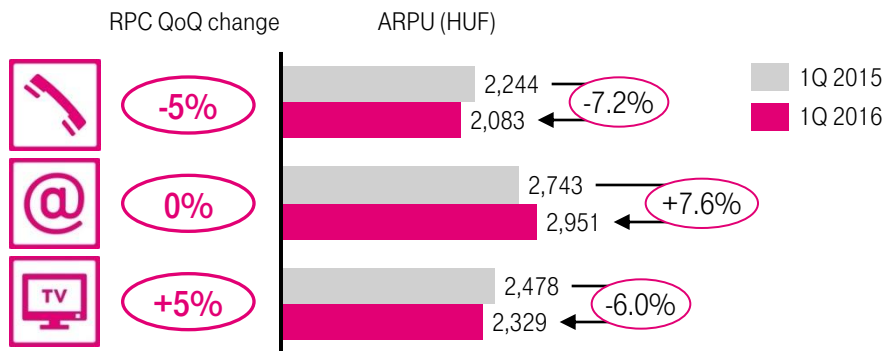
Financials



Mobile KPIs



Fixed KPIs (voice/BB/TV)



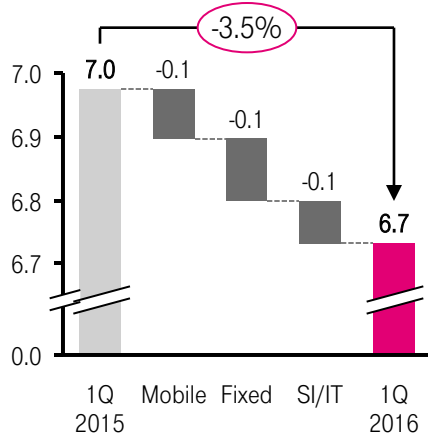
Highlights

- Revenue turnaround achieved following 5 years of decline
- Successful rebranding campaign to integrated "T" and 4play Magenta1 sales helped to increase mobile market share
- Mobile revenues increased by 4% due to market stabilization
- VIP/One merger has created a strong integrated competitor
- Robust growth in TV RPC but further churn in fixed voice
- Lower employee related expenses contributed to lower other operating expenses

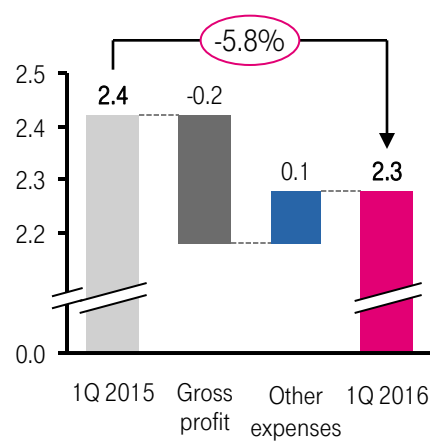
MONTENEGRO

Financials

Revenues (HUF bn)

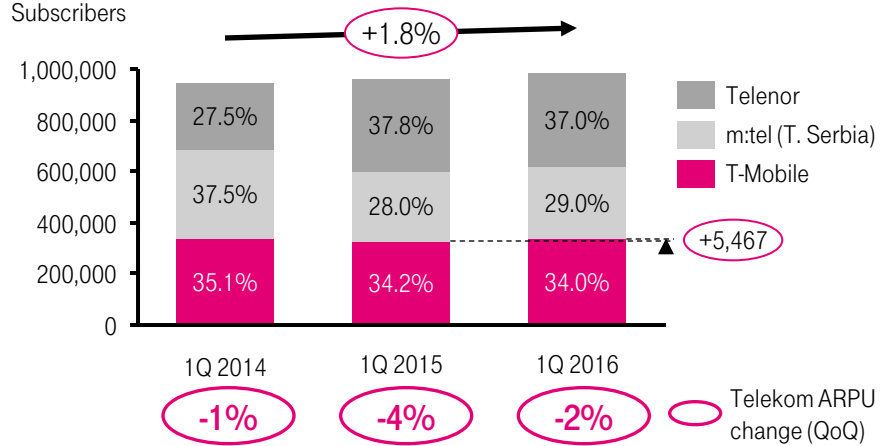


EBITDA (HUF bn)



Mobile KPIs

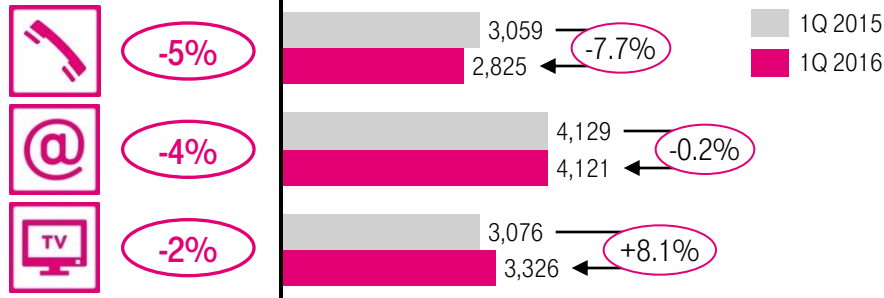
Subscribers



Fixed KPIs (voice/BB/TV)

RPC QoQ change

ARPU (HUF)



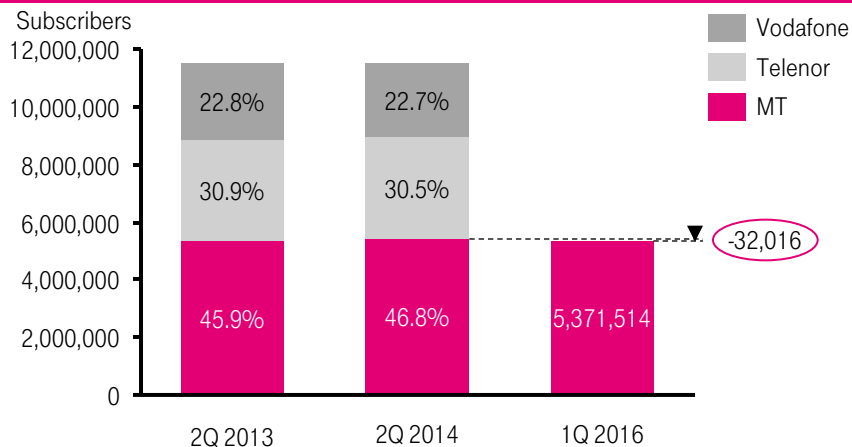
Highlights

- Revenue decline driven by lower mobile ARPU, regulatory pressure on fixed voice and broadband businesses, as well as declining SMS revenues due to higher OTT penetration
- 12% increase in postpaid customer base due to successful 4Play Magenta1 sales
- Decline in fixed voice and BB customer base due to stronger push by cable competitors of 3play bundle offers
- Slower rate of decline in EBITDA thanks to savings in employee related expenses

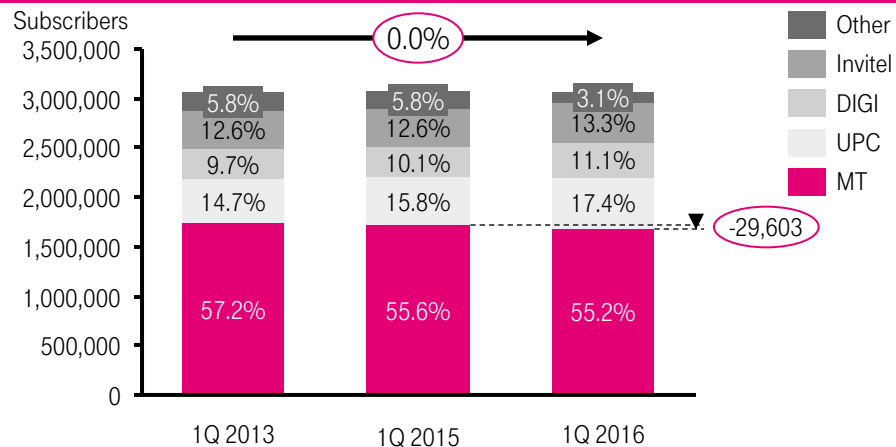
APPENDIX

MARKET POSITION IN HUNGARY

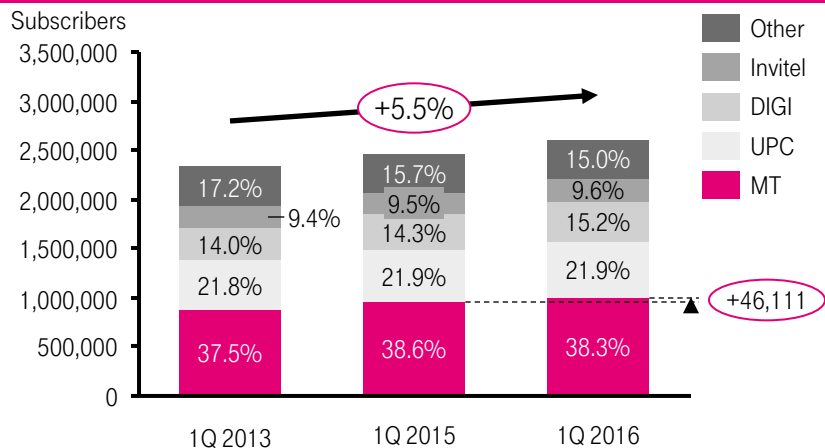
Total mobile market*



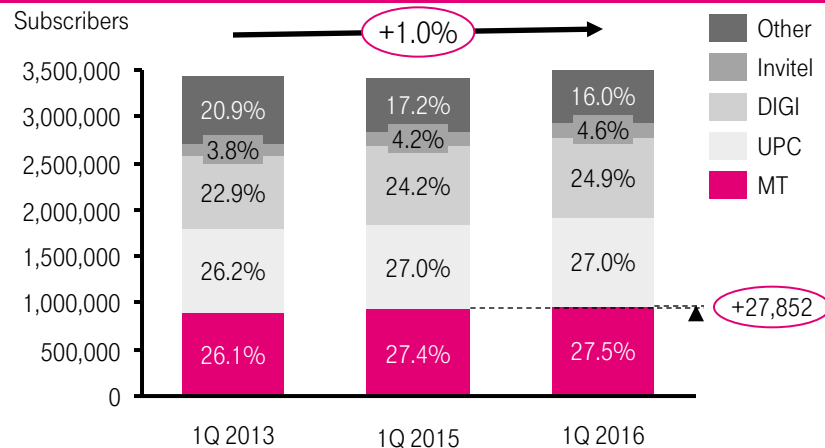
Fixed voice market**



Fixed broadband market**



TV market**



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

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

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q1 2015	Q1 2016	Change
Mobile revenues	76 938	75 294	-2,1%
Fixed line revenues	50 649	51 816	2,3%
System Integration/Information Technology revenues	12 581	15 628	24,2%
Revenue from energy services	16 789	2 313	-86,2%
Revenues	156 957	145 051	-7,6%
Direct costs	(57 777)	(45 427)	21,4%
Employee-related expenses	(21 898)	(20 843)	4,8%
Depreciation and amortization	(27 668)	(26 696)	3,5%
Hungarian telecommunications and other crisis taxes	(6 226)	(6 188)	0,6%
Other operating expenses	(21 711)	(23 628)	-8,8%
Total operating expenses	(135 280)	(122 782)	-9,2%
Other operating income	770	6 548	750,4%
Operating profit	22 447	28 817	28,4%
Net financial results	(8 613)	(6 558)	23,9%
Share of associates' profits	0	0	n.a.
Profit before income tax	13 834	22 259	60,9%
Income tax expense	(2 863)	(3 505)	-22,4%
Profit for the period	10 971	18 754	70,9%
Non-controlling interests	816	750	-8,1%
Equity holders of the Company (Net income)	10 155	18 004	77,3%



MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	Mar 31, 2015	Mar 31, 2016	Change
Current assets	197 487	197 391	0,0%
Cash and cash equivalents	13 333	12 191	-8,6%
Other current financial assets	19 154	15 438	-19,4%
Non current assets	971 503	974 590	0,3%
Property, plant and equipment - net	474 692	478 515	0,8%
Intangible assets	253 299	255 022	0,7%
Total assets	1 168 990	1 171 981	0,3%
Equity	520 551	556 767	7,0%
Current liabilities	317 859	305 175	-4,0%
Financial liabilities to related parties	129 088	128 663	-0,3%
Other financial liabilities	51 656	25 069	-51,5%
Non current liabilities	330 580	310 039	-6,2%
Financial liabilities to related parties	239 661	220 625	-7,9%
Other financial liabilities	58 268	53 280	-8,6%
Total equity and liabilities	1 168 990	1 171 981	0,3%



MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	Mar 31, 2015	Mar 31, 2016	Change
Net cash generated from operating activities	25 240	26 242	4,0%
Investments in tangible and intangible assets	(12 179)	(11 619)	4,6%
Adjustments to cash purchases	(10 734)	(15 274)	42,3%
Purchase of subsidiaries and business units	(1 469)	(13)	n.a.
Cash acquired through business combinations	0	0	n.a.
Payments for / proceeds from other financial assets - net	4 134	(4 917)	-218,9%
Proceeds from disposal of subsidiaries	0	3 464	n.a.
Proceeds from disposal of PPE and intangible assets	235	8 180	3380,9%
Payments for interests in associates and joint ventures	0	0	n.a.
Net cash used in investing activities	(20 013)	(20 179)	-0,8%
Dividends paid to shareholders and minority interest	(37)	(2 447)	-6513,5%
Net payments of loans and other borrowings	(3 456)	(7 776)	n.a.
Repayment of other financial liabilities	(2 534)	(1 234)	51,3%
Net cash used in financing activities	(6 027)	(11 457)	-90,1%
Free cash flow*	(1 441)	9 746	n.a.

*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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