

Investor presentation

Magyar Telekom Group – December 2012

Significant achievements in challenging environment, on track to meet full year revenue and EBITDA guidance

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# Strategy, Outlook and Guidance

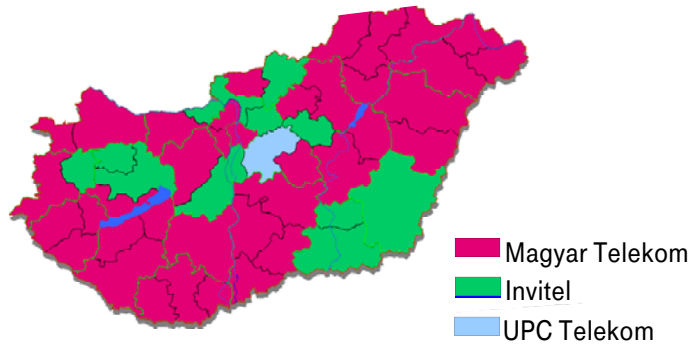


# Overview – Magyar Telekom Group at a glance

## International presence



## Incumbents in Hungary



## Overview

Leading telecommunications operator in Hungary, Macedonia and Montenegro

Majority owned by Deutsche Telekom (59.2%)

EUR 1.5 bn market capitalization as at December 2012

### Stock exchange listings

- primary listing on the Budapest Stock Exchange
- Level I ADR program, ADSs traded on the OTC Market

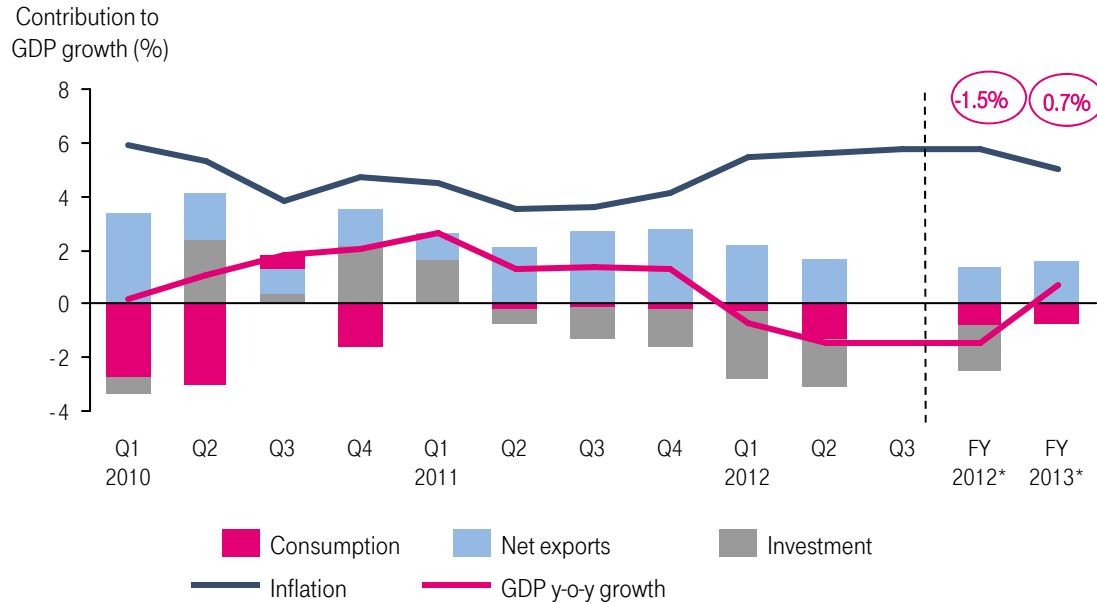
### Strategic priorities

- transform revenue base
- mitigate erosion of traditional high margin products
- enhance internal efficiency
- secure market position in key markets



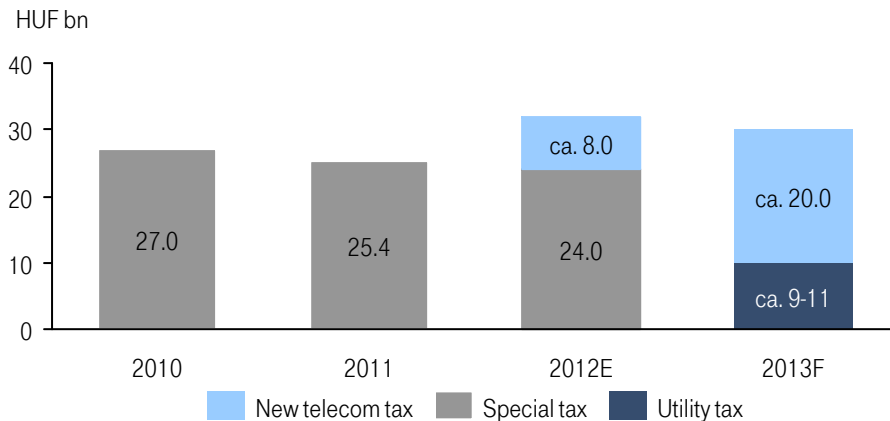
# Hungarian economic environment

## Growth structure and wages



\* Central Bank Sep 2012 forecast

## Additional taxes levied on Magyar Telekom



## Economic challenges

### Economic downturn coupled with high rate of inflation

- GDP performance is dependent on export dynamics
- consumption is under pressure due to declining household spending as a result of HUF weakening, low employment, and high inflation
- MT financials strongly correlated with trends in domestic demand

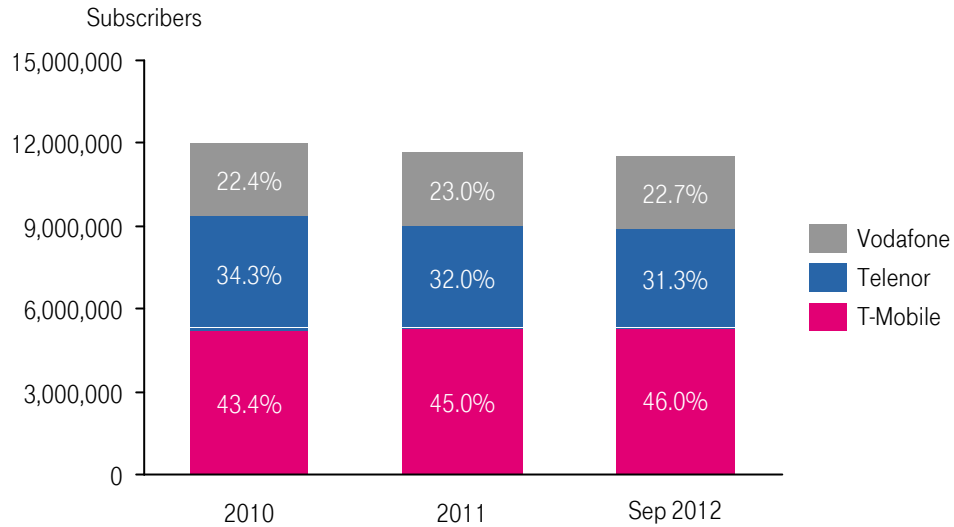
### New tax burdens introduced to reduce budget deficit

- special, revenue-based sector tax levied on a temporary basis between 2010-2012
- new, traffic-based permanent telecom tax introduced from July 2012
- tax on utility and telecom networks levied on operators from 2013 on a permanent basis

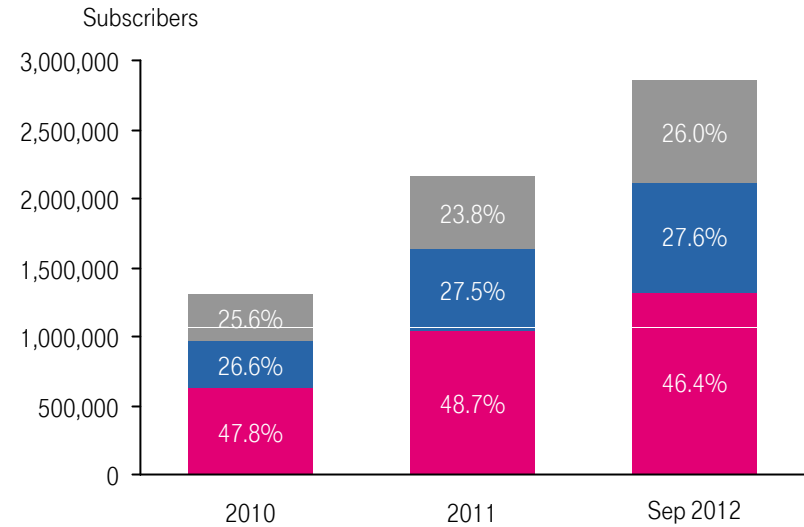


# Market positions on the Hungarian telecommunication market

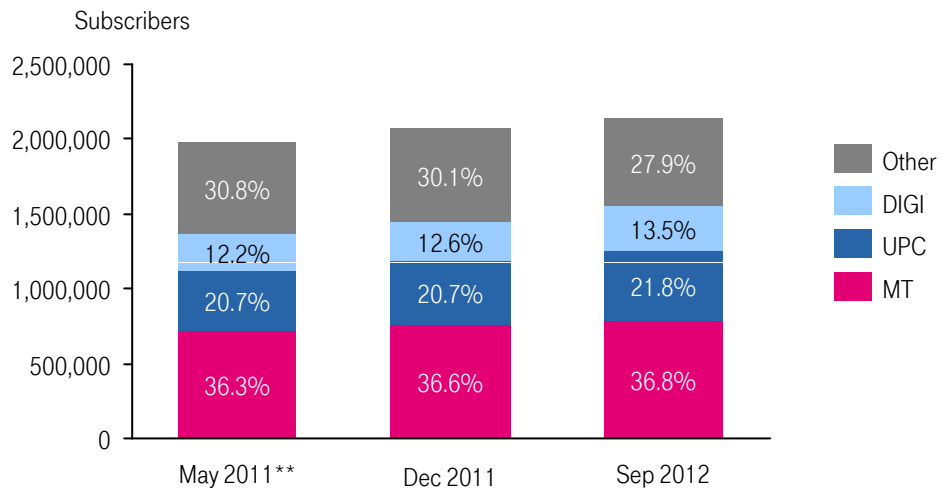
**Mobile voice market shares (based on total SIMs)**



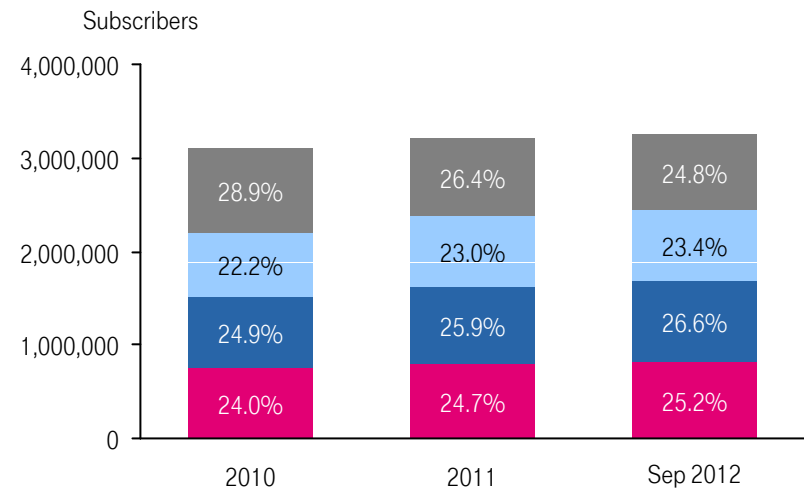
**Mobile broadband market shares (based on total SIMs)**



**Fixed broadband market shares\***



**TV market shares\***

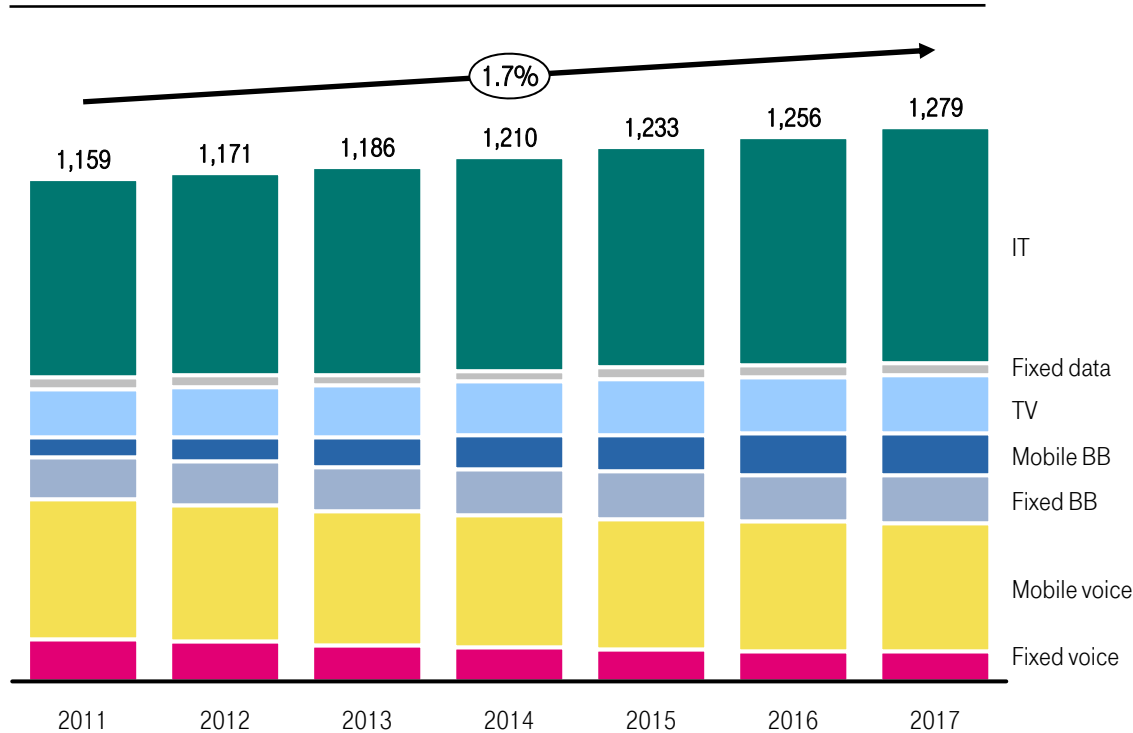


\*based on the total fixed BB/TV market estimated by the National Media and Infocommunications Authority  
 \*\*data is not available for earlier periods



# Hungarian ICT revenue trends

Hungarian ICT market development (HUF bn)



Source: Magyar Telekom and IDC estimates, April-2012

### ICT market

Hungarian ICT market is expected to expand

- wider economic recovery, when it comes, is expected to increase total market size
- CAGR of ca. 2% expected between 2011 and 2017
- growth to be mainly driven by mobile broadband and IT services
- continued decline in traditional voice revenues

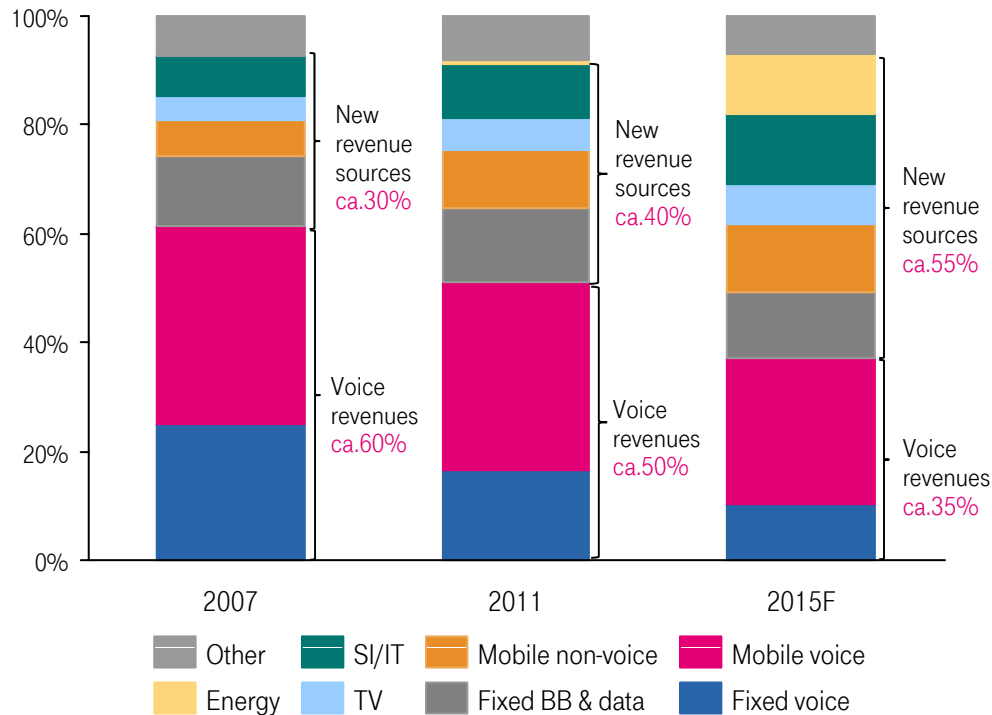
### Magyar Telekom's revenue market share

- Magyar Telekom has a blended market share of 46% in the retail telco market in Hungary
- supported by 16% market share in the IT market

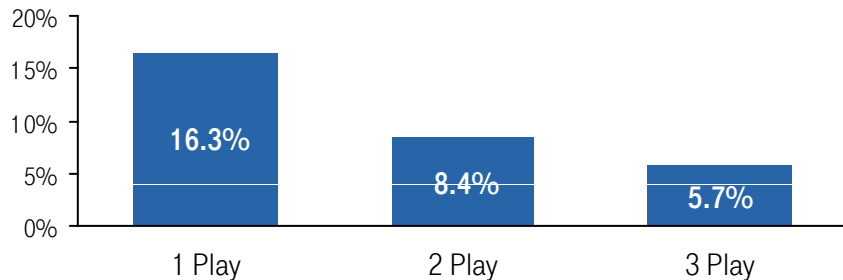


# Magyar Telekom's revenue mix

## Transformation of Magyar Telekom's Hungarian revenue mix



## Average annual churn level



### Revenue turnaround

#### Significant revenue potential from non-core activities

- demand for our energy service exceeding expectations
- further new services to be launched
- revenues from new services expected to surpass traditional voice revenues within the next few years

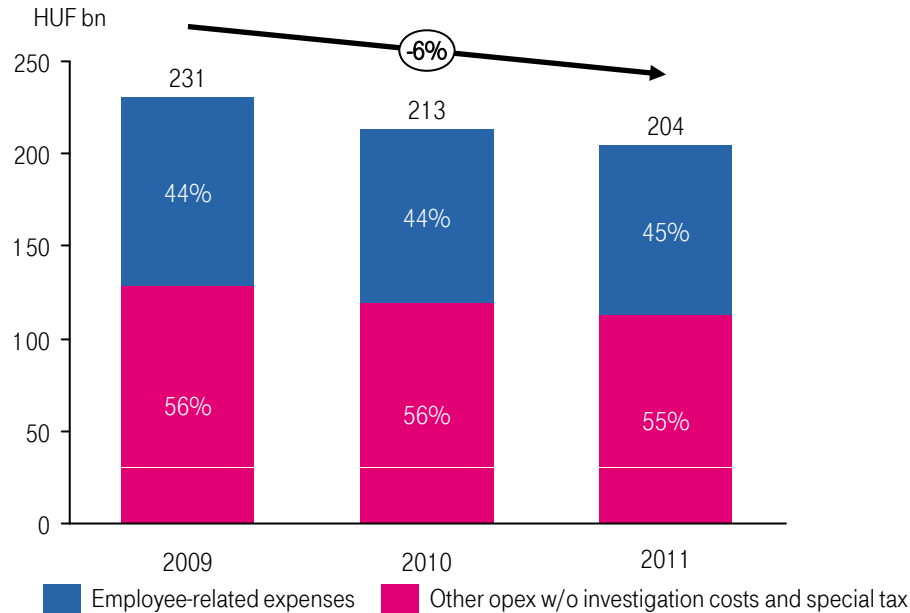
#### Non-core activities positively effect retention

- 85% of TV customers are 2Play or 3Play package subscribers
- fixed churn decreases further with energy contracts
- 45% of energy customers have 3Play package

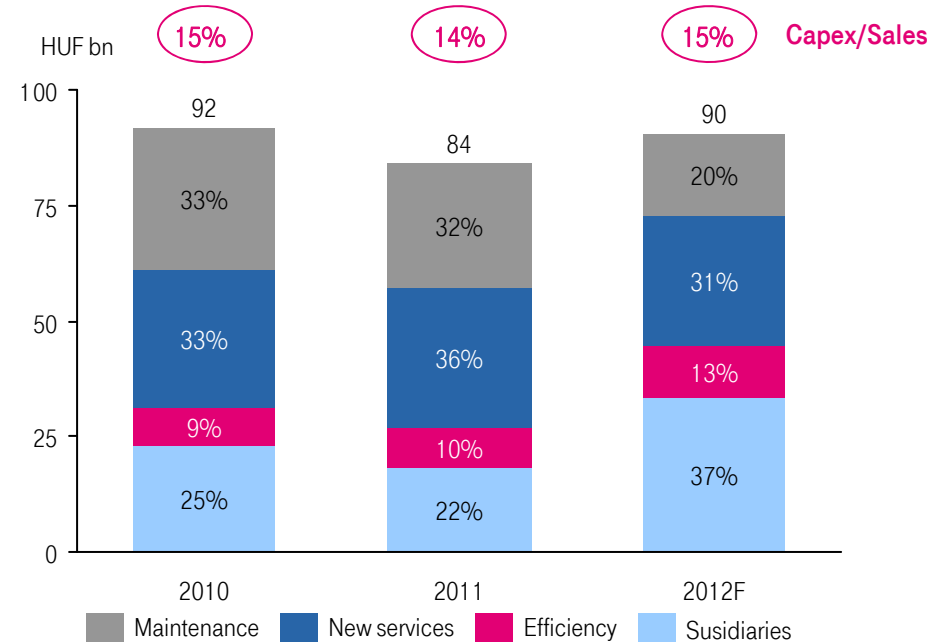


# Opex and Capex developments

## Cost structure



## Capex structure



### Continuous savings

- TWM (Total Workforce Management) savings\*:
  - HUF 3.4 bn in 2012 compared to 2010
  - HUF 5.8 bn in 2013 compared to 2011
- cost efficiency improvements reflected in the decline in other operating expenses

\*technical changes in the TWM cost structure distort comparability

### Efficiency measures dominate Capex spending

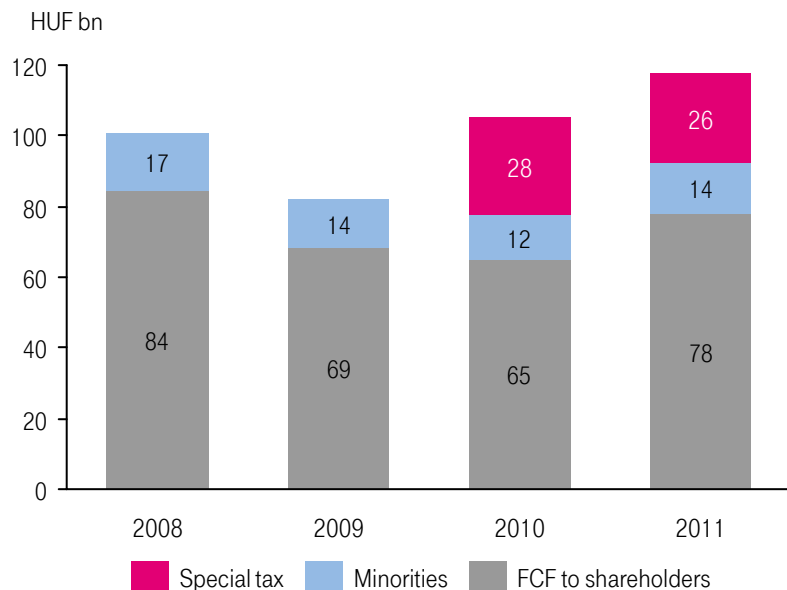
- major part of Capex is spent on network modernization
- internal efficiency projects to accelerate
- HUF 10.7 bn to be paid for a new Macedonian headquarter in 6 annual installments (accounted for as book Capex), mitigated by the HUF 6.9 bn trade-in value of old buildings





# Free cash flow and dividends

## Free cash flow\* generation

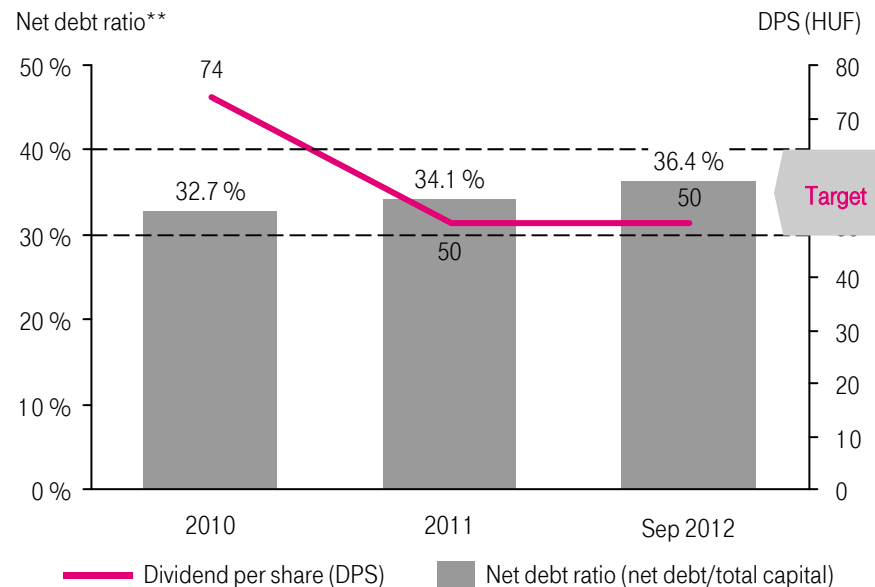


### Free cash flow generation

- FCF to decline in 2012 due to exceptional costs:
  - spectrum acquisition (HUF 10.9 bn)
  - DOJ/SEC settlement (HUF 22.1 bn)
  - new telecom tax introduced in July 2012 (HUF 8 bn)
- partially mitigated by proceeds from Pro-M sale (HUF 18 bn)

\*defined as Operating CF + Investing CF adjusted for proceeds from/payments for other financial assets

## Dividend payment



### Dividend policy

- to maintain an efficient capital structure, we have a net debt ratio target of 30-40%
- a combination of exceptional costs and the dividend payment pushed the ratio close to the upper limit by June 2012
- net debt ratio is expected to return to the middle of the range by the end of 2012

\*\*defined as net debt / total capital



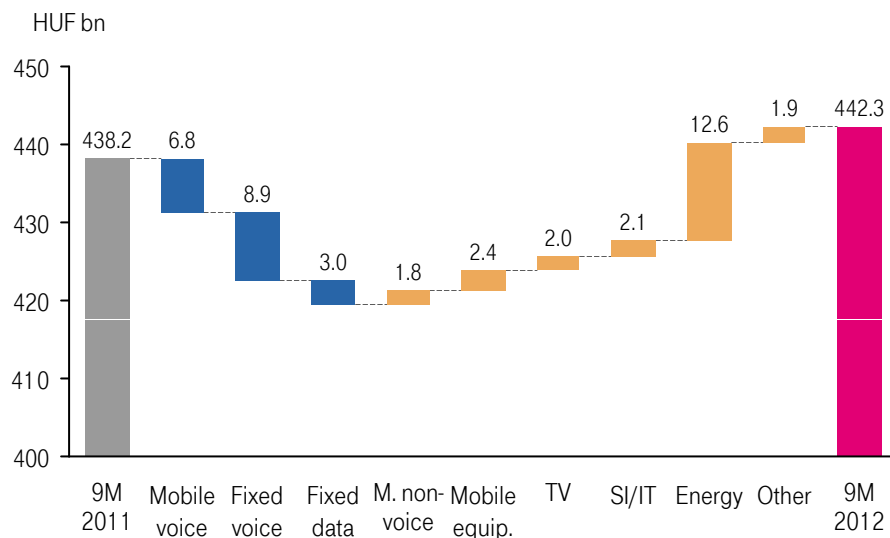
# 2012 targets and 9M 2012 results

	2012 targets	9M 2012 results
<b>Revenue</b>	Flat to -2% <ul style="list-style-type: none"> <li>changing revenue mix and energy services are facilitating revenue turnaround</li> <li>increase in recessionary pressures and declines in household consumption</li> <li>2011 figure: HUF 597.6 bn</li> </ul>	+0.9%
<b>Underlying EBITDA*</b> <i>*excluding special and new telecom taxes, investigation and severance expenses</i>	4-6% decline <ul style="list-style-type: none"> <li>changing revenue mix partly mitigated by efficiency enhancing measures</li> <li>sale of Pro-M and Macedonian real estate transaction support EBITDA</li> <li>increasing proportion of sales made up by low margin services</li> <li>2011 figure: HUF 245.0 bn</li> </ul>	-2.9%
<b>CAPEX modified**</b> <i>**excluding spectrum license fee of HUF 10.9 bn</i>	Approximately HUF 90 bn (previously flat) <ul style="list-style-type: none"> <li>HUF 10.7 bn Capex booked for the new Macedonian HQ</li> <li>network modernization, LTE and internal efficiency program</li> <li>2011 figure: HUF 83.8 bn</li> </ul>	+bn

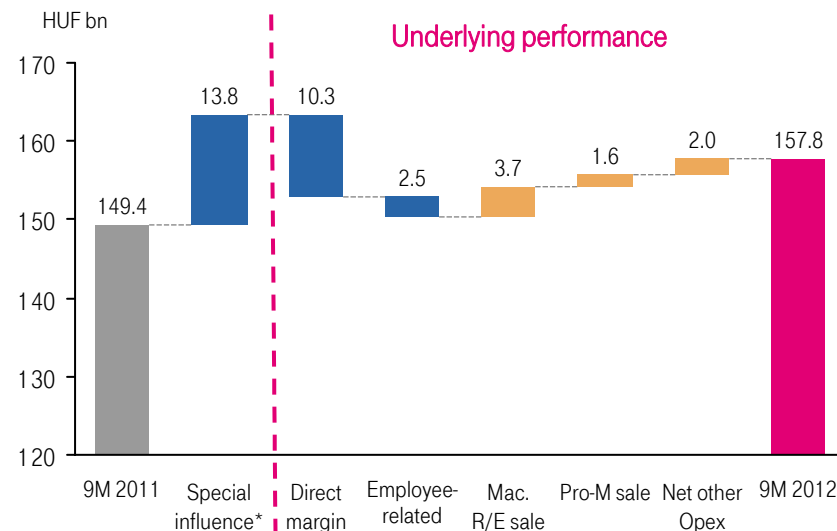


# 9M 2012 Group results – Revenues and EBITDA

## Group revenues



## Group EBITDA



### Revenue development

Group revenues up by 0.9% y-o-y

- strong contribution from energy service revenues
- fixed and mobile voice revenue decline reflect depressed household consumption and MTR cuts
- decreasing fixed data revenues primarily due to public sector insourcing
- increasing contribution from mobile internet revenues and smartphone sales

### EBITDA development

Underlying EBITDA down 2.9% y-o-y

- further erosion of traditional voice and data revenues
- lower direct margin contribution of new, growing businesses
- efficiency enhancing measures mitigate margin dilution
- launch of telecommunication tax from July 2012
- 9M 2011 results negatively impacted by HUF 18.3bn provision related to the SEC/DOJ settlement

\*investigation- and severance-related expenses, as well as special and new telecom taxes

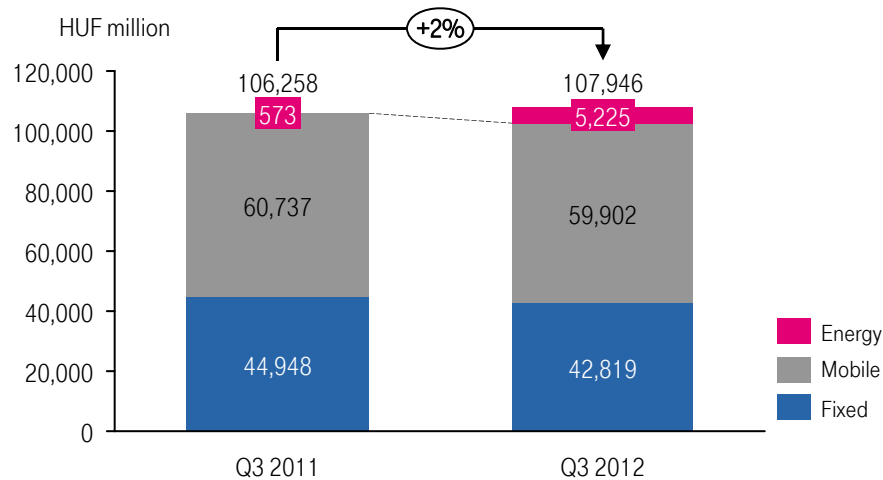


# Q3 2012 Results

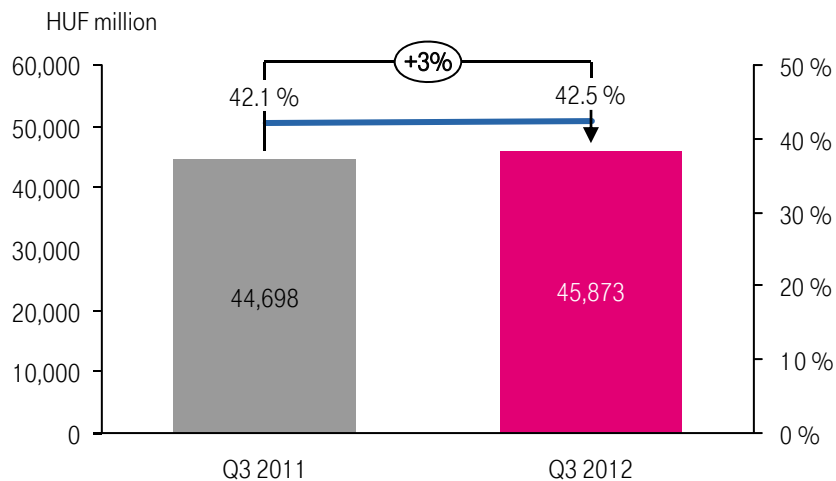


# Telekom Hungary – Financial performance

## Telekom Hungary revenues



## Underlying EBITDA and margin



### Telekom Hungary

**fixed line revenues** down by 5%

- higher revenues from TV services partly compensating for voice revenue erosion

**mobile revenues** declined by 1%

- higher non-voice and equipment revenues offset by decreasing tariffs and MTR rates

significantly higher **energy retail revenues**

- increasing number of PODs

**Increase in underlying EBITDA margin of 0.4pp**

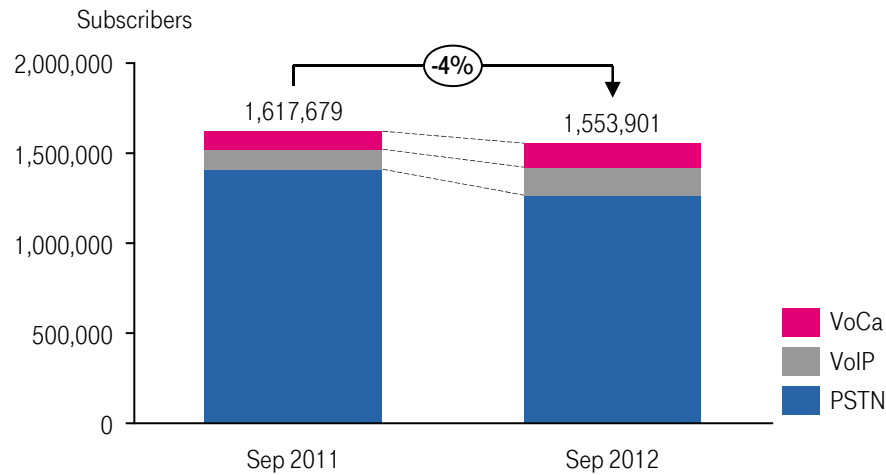
- reduction in high-margin voice revenues
- cost savings in other opex and employee related expenses



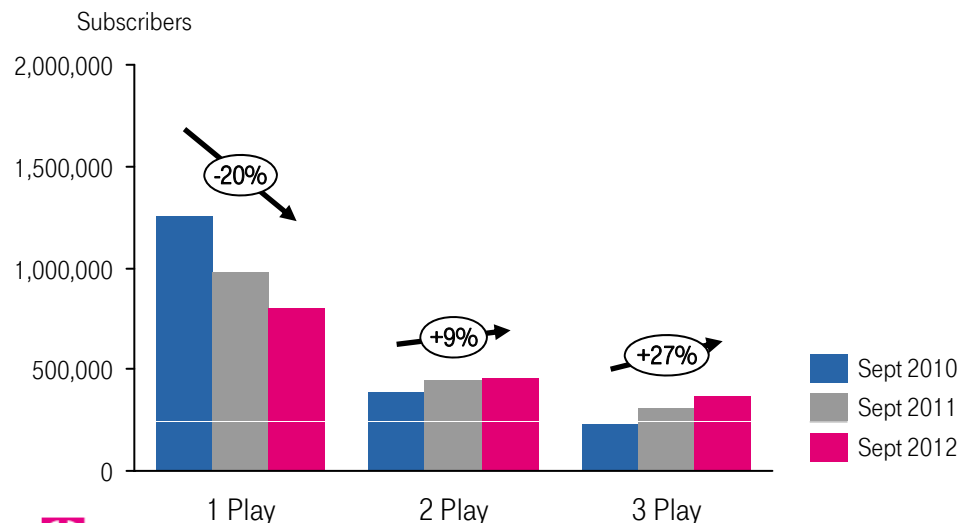
# Hungary – Fixed voice market



## Telekom Hungary fixed voice subscribers



## Multi-Play developments



## Market trends

- significant **reduction in fixed voice churn** thanks to the retention benefitst of:
  - **Hoppá package**: flat fee package; 37% of fixed line customers already subscribed
  - discounts offered in **bundled packages**, 4Play offer
  - retail **energy** bundling
- **increasing VoIP and VoCable** subscriber base already accounts for 18% of total voice subscribers
- **1Play customer base declined to 50%**

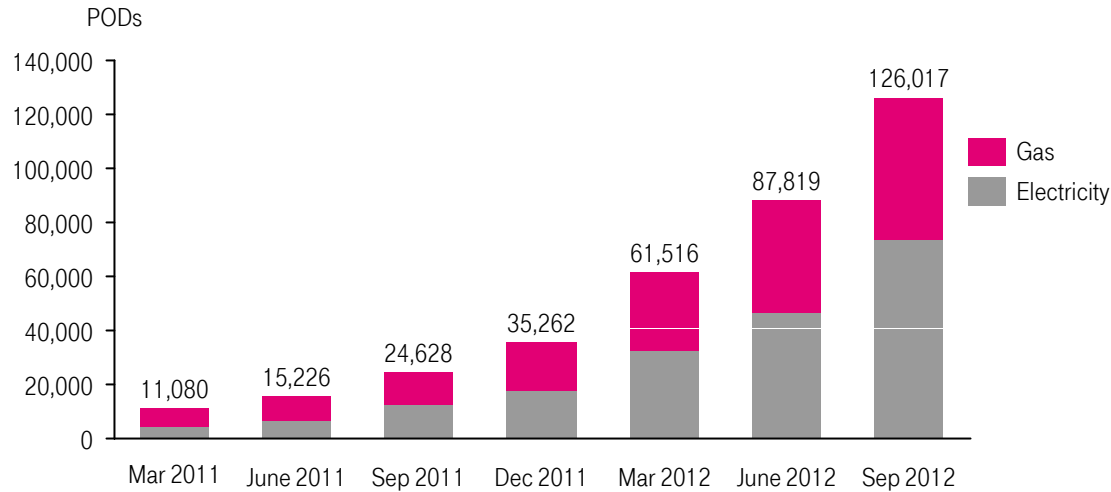
## KPIs (changes Q3-o-Q3)

- ARPA: HUF 2,802 (-9%)
- MOU: 173 (+5%)

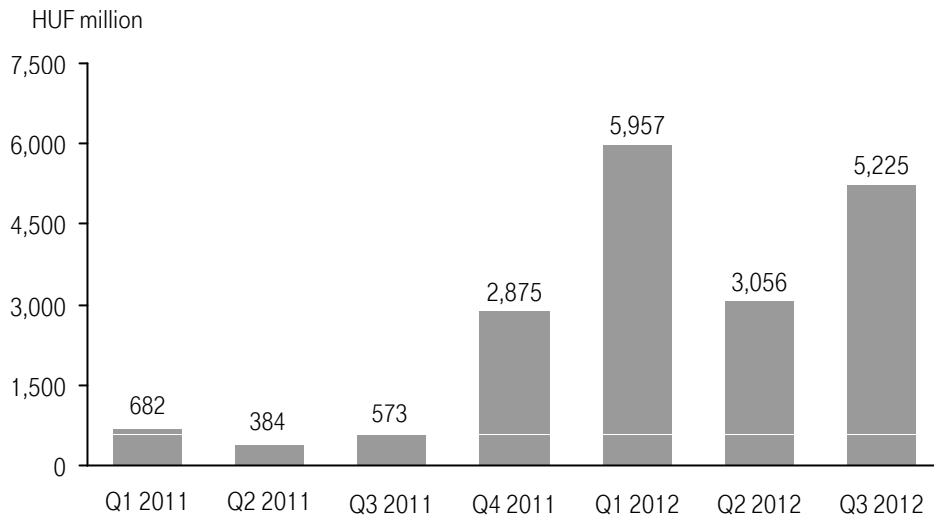


# Hungary – Energy retail

## Gas and electricity points of delivery (POD)



## Revenue performance



### Market trends

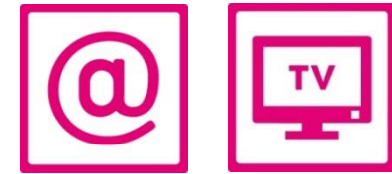
- soft launch in 2010, **nationwide from April 2012**
- customers receive **discounts of 3-8%** on their energy bill depending on the number of fixed line services they subscribe to
- **retention impact** is significant: fixed churn decreases further with energy contract
- 45% of energy customers subscribe to a 3Play package

### KPIs

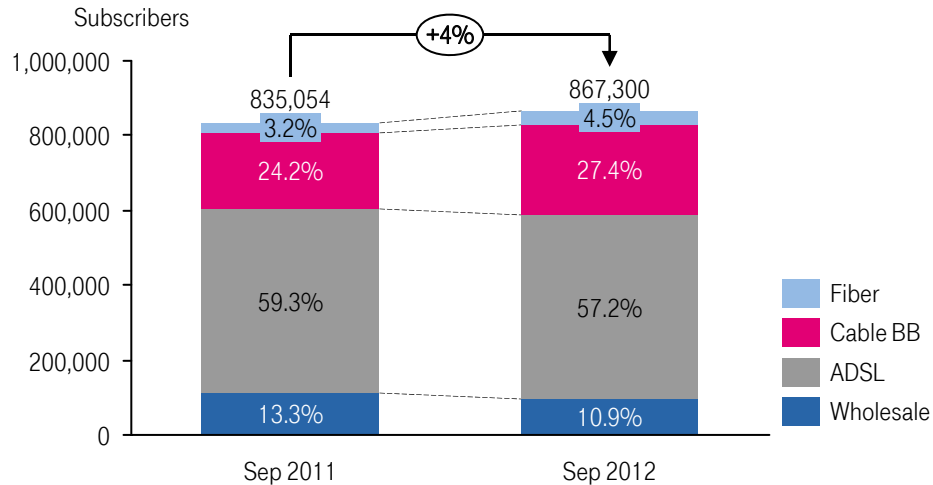
- energy market is strongly seasonal
- gas ARPU: ca. HUF 22,000 in 9M 2012
- electricity ARPU: ca. HUF 16,000 in 9M 2012



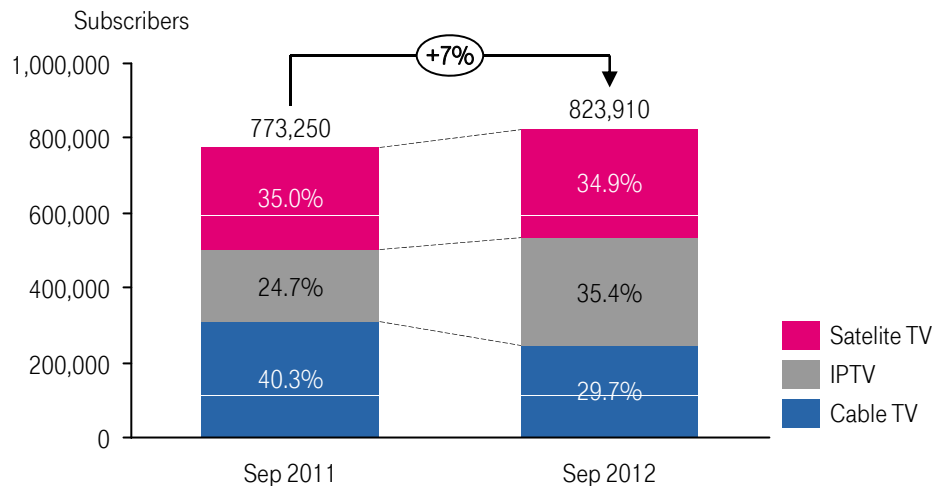
# Hungary – Fixed broadband and TV market



## T-Home fixed broadband subscriber breakdown



## T-Home TV subscriber growth



### Market trends

- broadband market **growth driven by cable and fiber**, while ADSL growth has slowed down
- restructured service portfolio to support **fixed broadband market share**
- increasing ratio of **interactive IPTV customers** supports ARPU
- significant **migration from cable to IPTV**
- **3Play offers** from HUF 7,640/month (EUR 27)

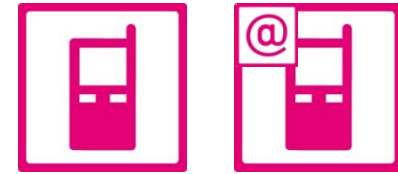
### KPIs (changes Q3-o-Q3)

- Broadband ARPU: HUF 3,751 (-6%)
- TV ARPU: HUF 3,040 (-2%)

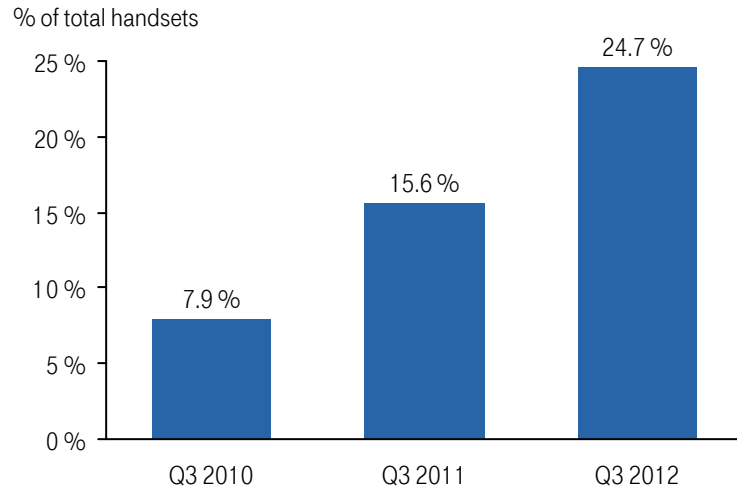




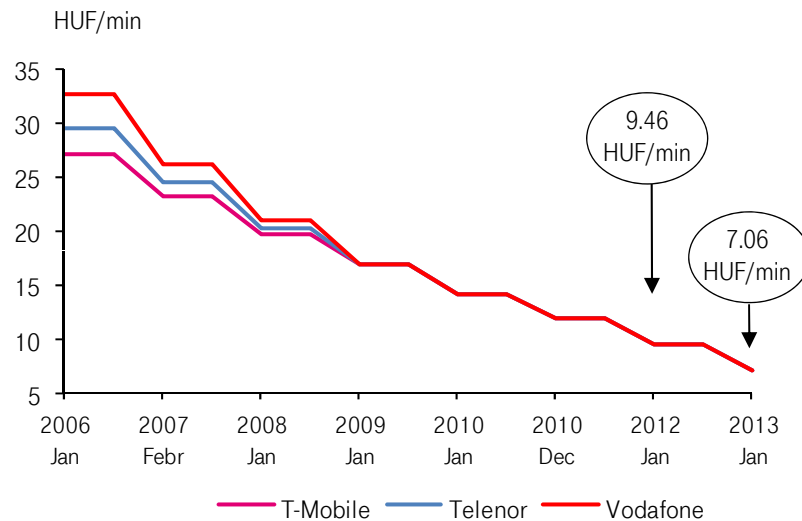
# Hungary – Mobile market



## T-Mobile smartphone penetration



## Mobile termination rate cuts



## Market trends

- **improving customer mix:** postpaid ratio increased from 45% to 47% y-o-y
- **smartphone sales** in the postpaid segment reached 85% in Q3 2012 (vs. 71% a year ago)
- broadband subscription **attach rate** is ca. 80%
- already **30% of base stations** offering 21Mbps download speed (HSPA+)
- MTR cuts: 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 €c

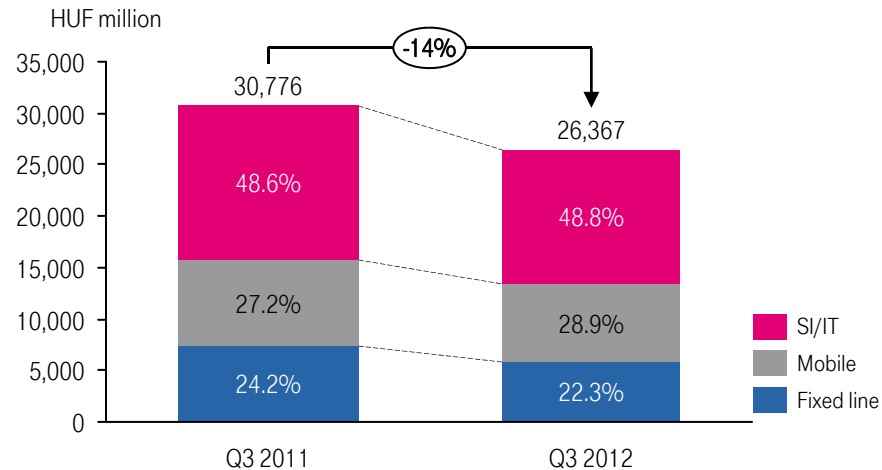
## KPIs (changes Q3-o-Q3)

- ARPU: HUF 3,542 (-5%)
- MOU: 159 (-4%)
- SAC/gross add: HUF 4,236 (-29%)
- SRC/retained customer: HUF 9,952 (-45%)
- VAS within ARPU: HUF 818 (+5%)

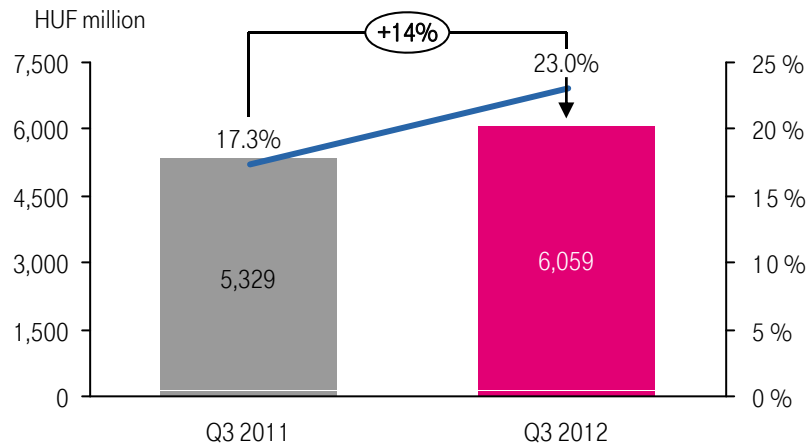


# T-Systems Hungary – Financial performance

## Revenues



## Underlying EBITDA and margin



## T-Systems Hungary

### Falling voice and data revenues

- lower usage on fixed voice and data networks
- continued pressure on tariff levels

### Decline in SI/IT revenues

- lower amount of infrastructure and application projects in Q3 2012
- major public projects remain on hold
- leading market position with 16% market share

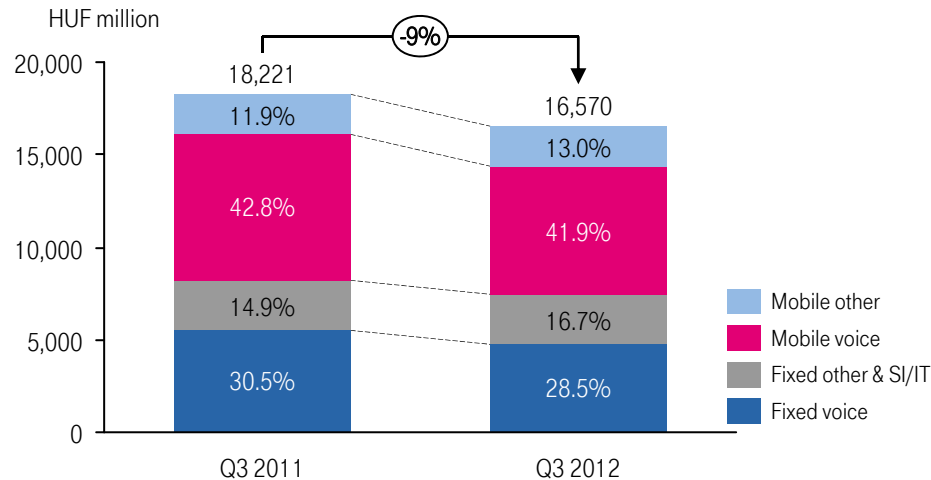
### Underlying EBITDA margin up to 23%

- HUF 1.4bn other operating income (incl. contribution from sale of Pro-M) supporting performance

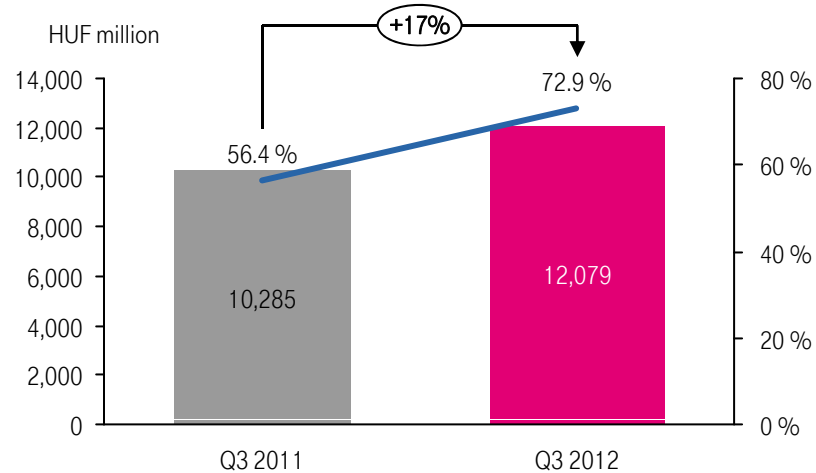


# Macedonia – Financial performance

## Revenues



## Underlying EBITDA and margin



## Macedonia

### Mobile revenues under pressure

- strong price competition
- MOU up due to increasing volume of bundled minutes
- #1 position maintained with 48% market share

### Fixed voice hit primarily by cable competition

- restructured service portfolio featuring attractively priced bundled offers

EBITDA supported by HUF 3.7bn gain on real estate transaction

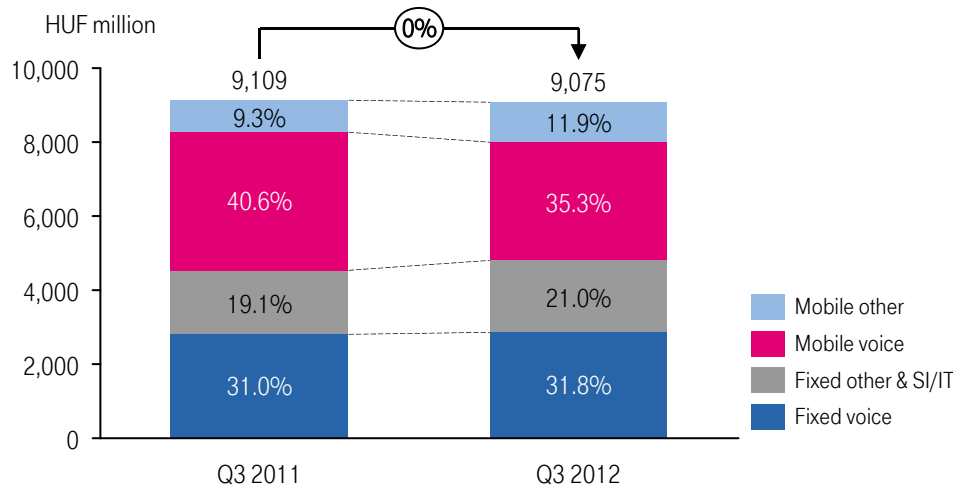
## KPIs (changes Q3-o-Q3)

- Fixed churn: 8%
- Fixed outgoing traffic: -17%
- Mobile ARPU: HUF 2,215(-5%)
- MOU: 167 (+23%)

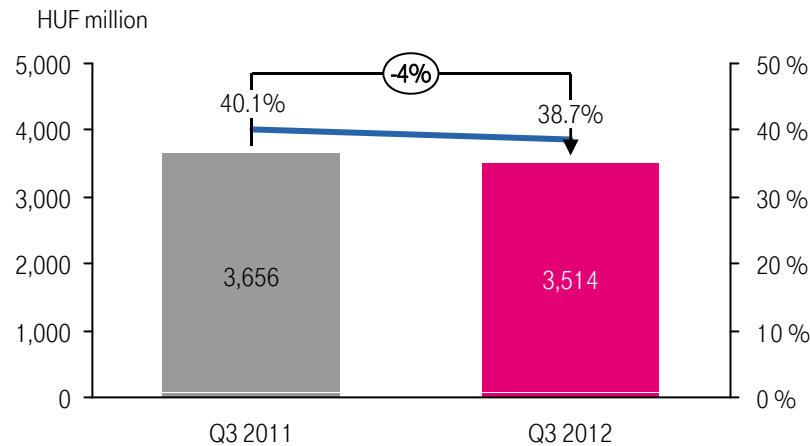


# Montenegro – Financial performance

## Revenues



## Underlying EBITDA and margin



## Montenegro

### Competitive mobile market

- weaker summer season put pressure on retail revenues
- lower wholesale revenues driven by cut in interconnection tariffs in 2011
- MOU increased due to tariff discounts
- 34% market share on the mobile voice market

### Stable performance of the fixed segment

- growing internet and TV revenues
- mobile substitution leading to lower usage

### EBITDA decline driven by one-off VAT charge

- performance negatively affected by retrospective charging of VAT on mobile handset subsidies for 2009-2011

## KPIs (changes Q3-o-Q3)

- Fixed churn: 1%
- Mobile ARPU: HUF 3,172 (-4%)
- MOU: 164 (+18%)



# Financials



# Magyar Telekom – Consolidated Income Statement

HUF million	3Q 2011	3Q 2012	Change
Mobile revenues	79,922	78,890	-1.3%
Fixed line revenues	58,594	54,793	-6.5%
System Integration/Information Technology revenues	13,031	11,237	-13.8%
Revenue from Energy Services	573	5,225	
<b>Revenues</b>	<b>152,120</b>	<b>150,145</b>	<b>-1.3%</b>
Direct costs	(43,345)	(45,067)	4.0%
Employee-related expenses	(20,688)	(21,628)	4.5%
Depreciation and amortization	(24,043)	(26,474)	10.1%
Hungarian telecommunications and other crisis taxes	(6,320)	(10,504)	n.a.
Other operating expenses	(30,968)	(22,827)	-26.3%
<b>Total operating expenses</b>	<b>(125,364)</b>	<b>(126,500)</b>	<b>0.9%</b>
Other operating income	797	6,475	
<b>Operating profit</b>	<b>27,553</b>	<b>30,120</b>	<b>9.3%</b>
Net financial expenses	(4,187)	(5,243)	25.2%
Share of associates' profits	5	0	
<b>Profit before income tax</b>	<b>23,371</b>	<b>24,877</b>	<b>6.4%</b>
Income tax	(6,710)	(5,860)	-12.7%
<b>Profit for the period</b>	<b>16,661</b>	<b>19,017</b>	<b>14.1%</b>
Non-controlling interests	3,324	4,242	27.6%
<b>Equity holders of the Company (Net income)</b>	<b>13,337</b>	<b>14,775</b>	<b>10.8%</b>



# Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2011	Sep 30, 2012	Change
<b>Current assets</b>	<b>220,396</b>	<b>179,666</b>	<b>-18.5%</b>
Cash and cash equivalents	14,451	13,867	-4.0%
Other current financial assets	65,286	40,038	-38.7%
<b>Non current assets</b>	<b>877,632</b>	<b>845,175</b>	<b>-3.7%</b>
Property, plant and equipment	536,224	512,645	-4.4%
Intangible assets	308,313	316,269	2.6%
<b>Total assets</b>	<b>1,098,028</b>	<b>1,024,841</b>	<b>-6.7%</b>
<b>Equity</b>	<b>556,091</b>	<b>517,613</b>	<b>-6.9%</b>
<b>Current liabilities</b>	<b>255,390</b>	<b>182,238</b>	<b>-28.6%</b>
Financial liabilities to related parties	49,865	24,703	-50.5%
Other financial liabilities	70,155	36,800	-47.5%
<b>Non current liabilities</b>	<b>286,547</b>	<b>324,990</b>	<b>13.4%</b>
Financial liabilities to related parties	230,166	281,849	22.5%
Other financial liabilities	17,928	7,372	-58.9%
<b>Total equity and liabilities</b>	<b>1,098,028</b>	<b>1,024,841</b>	<b>-6.7%</b>



# Magyar Telekom - Consolidated Cashflow Statement

HUF million	Sep 30, 2011	Sep 30, 2012	Change
<b>Net cash generated from operating activities</b>	<b>134,233</b>	<b>105,441</b>	<b>-21.4%</b>
Investments in tangible and intangible assets	(43,875)	(70,891)	61.6%
Adjustments to cash purchases	(6,705)	(1,658)	-75.3%
Purchase of subsidiaries and business units	(2,263)	(2,388)	5.5%
Cash acquired through business combinations	455	48	-89.5%
Proceeds from / (Payments for) other financial assets - net	7,109	15,567	119.0%
Proceeds from disposal of subsidiaries	0	13,421	n.a.
Proceeds from disposal of PPE and intangible assets	3,862	777	-79.9%
<b>Net cash used in investing activities</b>	<b>(41,417)</b>	<b>(45,124)</b>	<b>9.0%</b>
Dividends paid to shareholders and minority interest	(64,436)	(66,063)	2.5%
Net payments of loans and other borrowings	(29,543)	5,819	-119.7%
<b>Net cash used in financing activities</b>	<b>(93,979)</b>	<b>(60,244)</b>	<b>-35.9%</b>
<b>Free cash flow</b>	<b>85,707</b>	<b>44,750</b>	<b>-47.8%</b>

\* 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





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](mailto:investor.relations@telekom.hu)

Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, CUG: closed user group, HQ: headquarters, HSDPA: high-speed downlink packet access, IC: interconnection, IP: internet protocol, IT: information technology, LTE: long term evolution, LTO: local telecommunication operator, MOU: minutes of use, NGN: next generation network, NRA: National Regulatory Authority, POD: points of delivery, RIO: reference interconnection offer, RPC: revenue producing customer, SI: system integration, SIM: subscriber identity module, SMP: significant market power, Special influences: investigation- and headcount reduction-related expenses, Tetra: Terrestrial Trunked Radio, TWM: Total Workforce Management, UMTS: Universal Mobile Telecommunication System, VAS: value added services, VoCaTV: Voice over Cable TV, WiMax: Worldwide Interoperability for Microwave Access, WS: wholesale  
HUF/EUR exchange rate: 282.74 (average Q3 2012)

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, underlying EBITDA, underlying 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](http://www.telekom.hu/investor_relations).

