

Investor presentation  
Magyar Telekom Group – June 2012

New revenue sources improve top-line but dilute margins



# Strategy, Outlook and Guidance

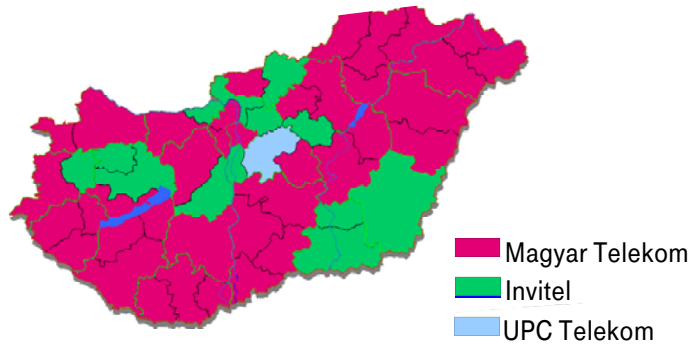


# Overview – Magyar Telekom Group at a glance

## International presence



## Incumbents in Hungary



## Overview

### Integrated operations in Hungary, Macedonia and Montenegro

- leading telecommunications service provider in all three countries
- leading SI/IT service provider in Hungary

EUR 1.5 bn market capitalization as at June 2012

### Stock exchange listings

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

Majority owned by Deutsche Telekom (59.2%)

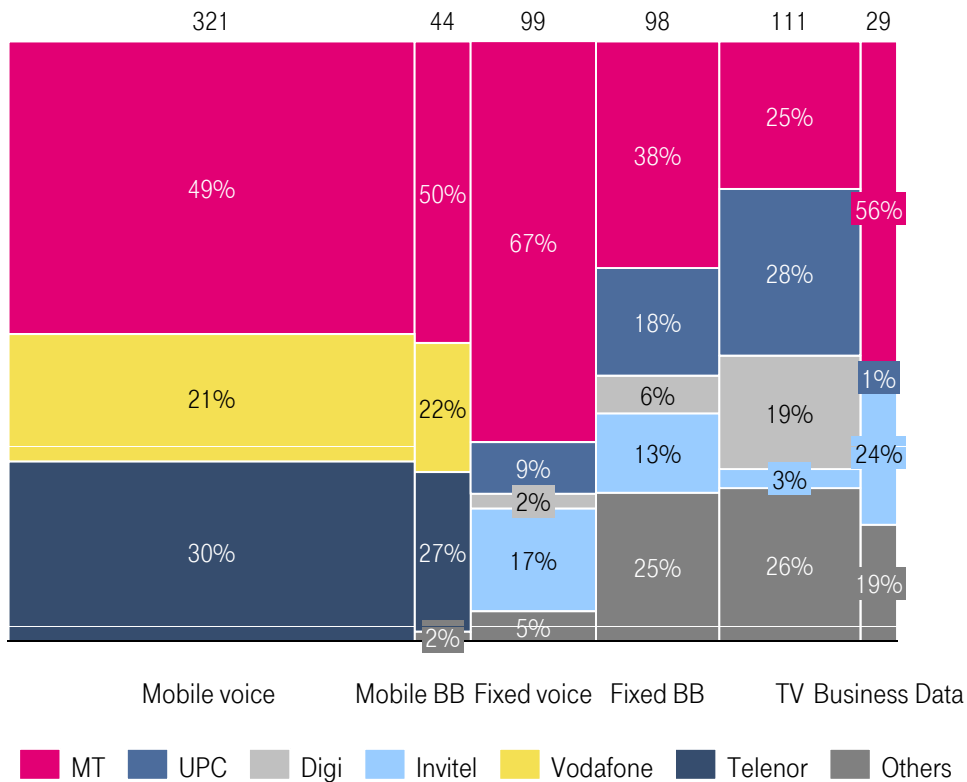
### Strategic priorities

- slow down erosion of traditional high margin products
- further improve cost base
- secure market leader position in broadband
- achieve critical mass in the interactive TV market
- restructure revenue base

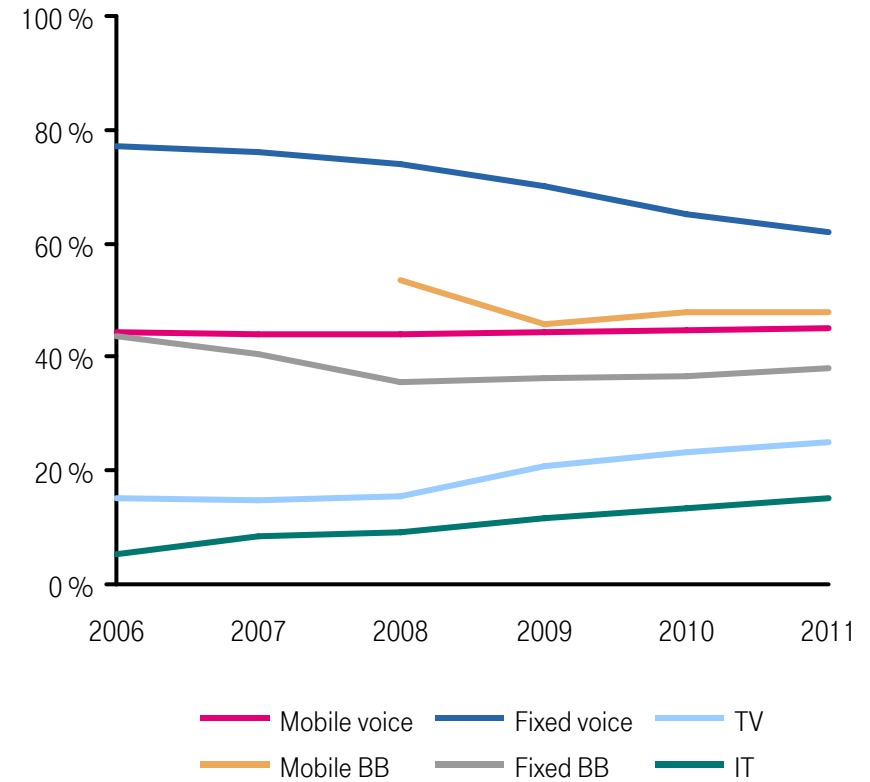


# Market trends

Revenue based market shares in Hungary in 2011 (HUF bn)



Evolution of Magyar Telekom's market share since 2006



## Magyar Telekom's revenue market share

- Magyar Telekom has a blended market share of 47% in the retail telco market in Hungary
- Additional 16% market share in the IT market

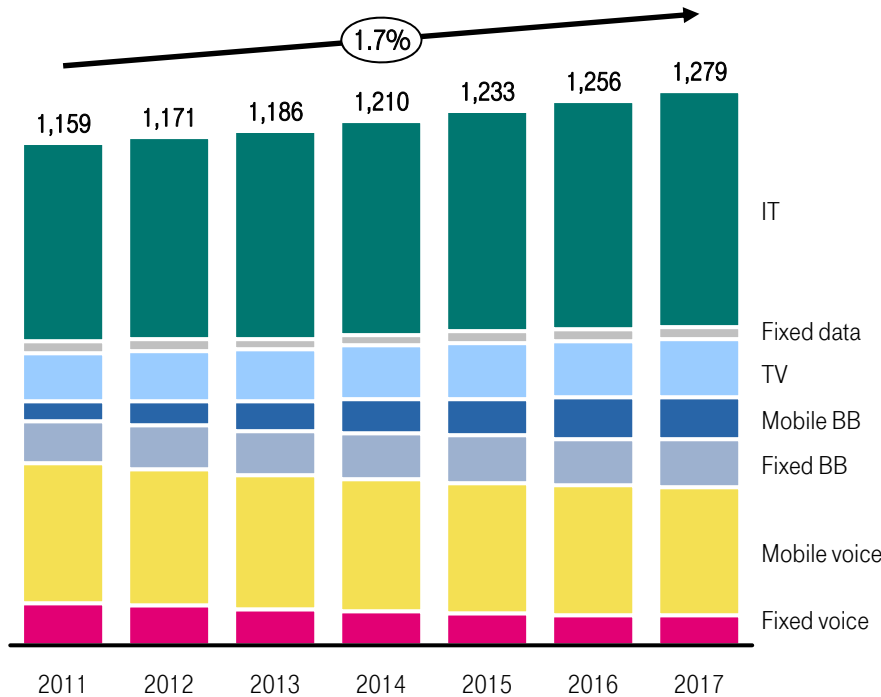
## Market share development

- Increasing market share in the TV market
- Stable market shares in the broadband markets
- Further potential in the IT market



# Change in revenue trends

Hungarian ICT market development (HUF bn)

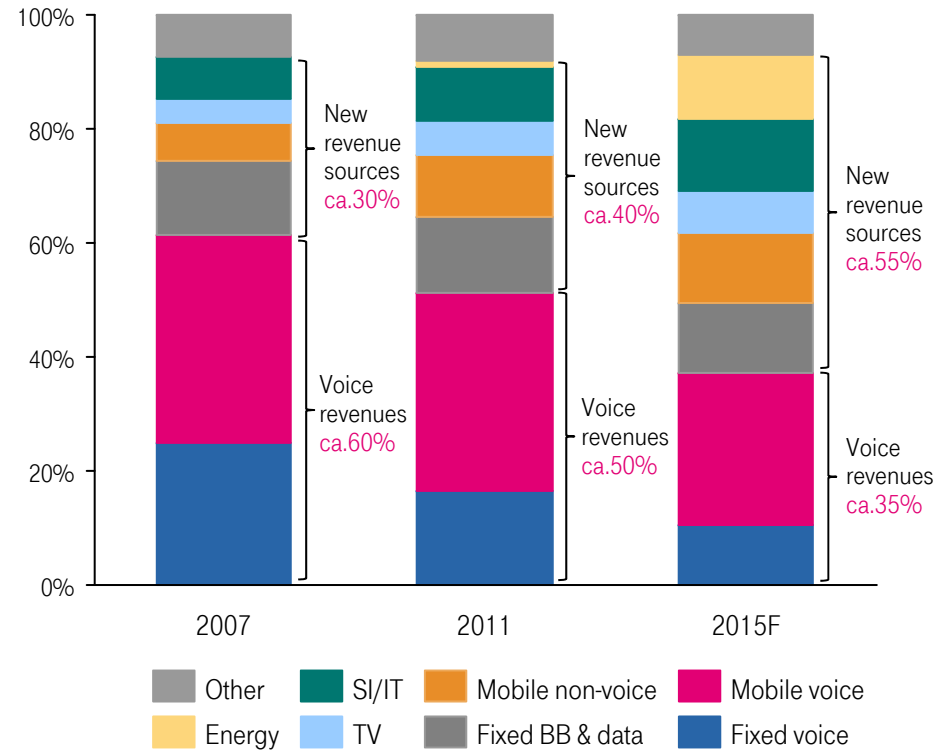


Source: Magyar Telekom and IDC estimates, April-2012

## Hungarian ICT market expected to recover

- Following the contraction of the market in 2009, economic recovery is expected to expand the total market size mainly driven by mobile broadband and IT services
- CAGR of ca. 2% between 2011 and 2017 projected

Change in Magyar Telekom's Hungarian revenue mix



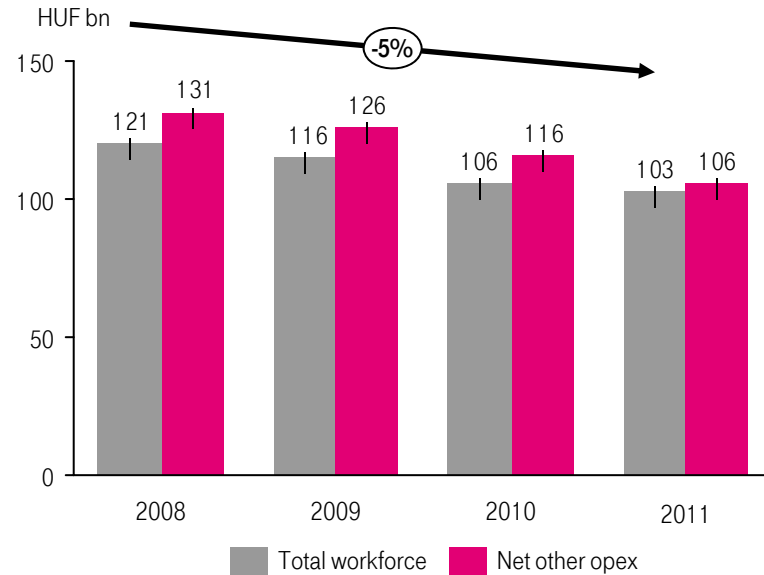
## Change in revenue mix

- The revenues from new services projected to surpass traditional voice revenues in a few years
- Revenue potential in non-core revenues (insurance, energy, etc)

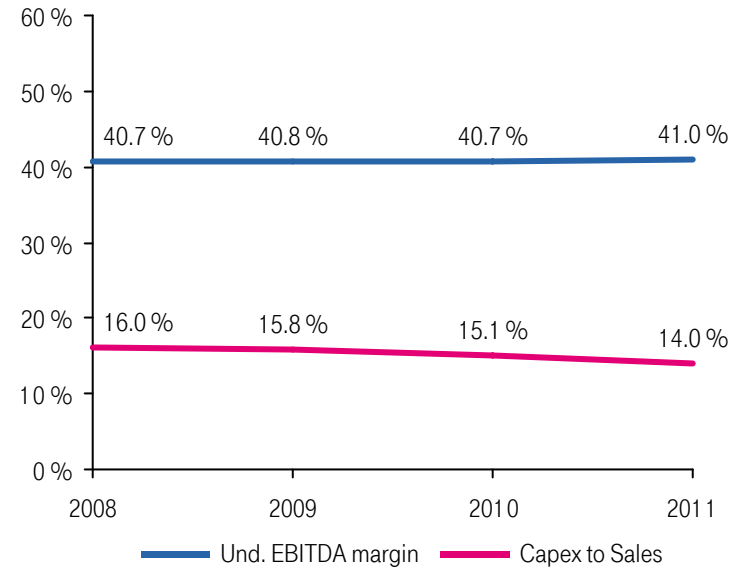


# Continued efficiency improvements in core operations

## Cost saving



## Stable underlying margin and CAPEX-to-Sales



### Continuous savings

- Headcount reduction target: TWM saving of HUF 3.4 bn in 2012 compared to end 2010
- Cost efficiency improvements reflected in declining other operating expenses

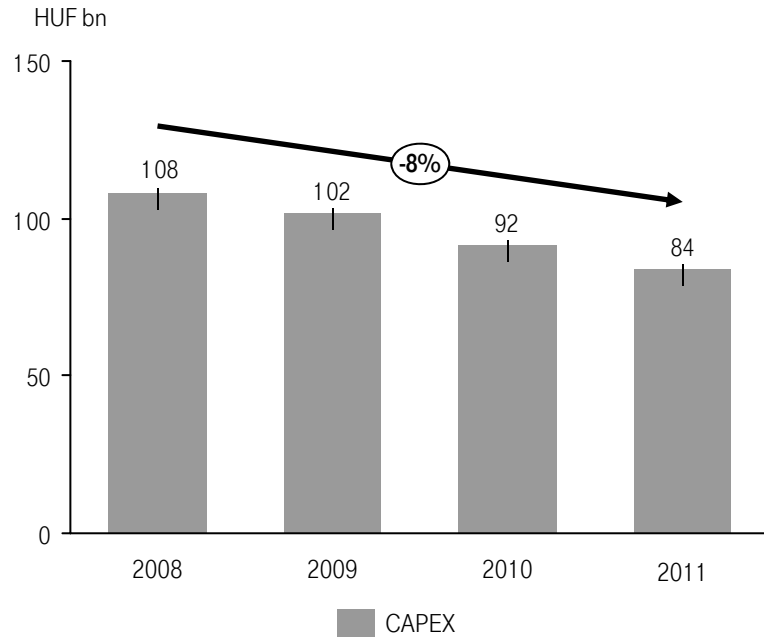
### Stable profitability

- Despite declining revenues and changing revenue mix, stable underlying margin maintained at above 40%
- Capex cuts in line with the revenue decline



# Capex

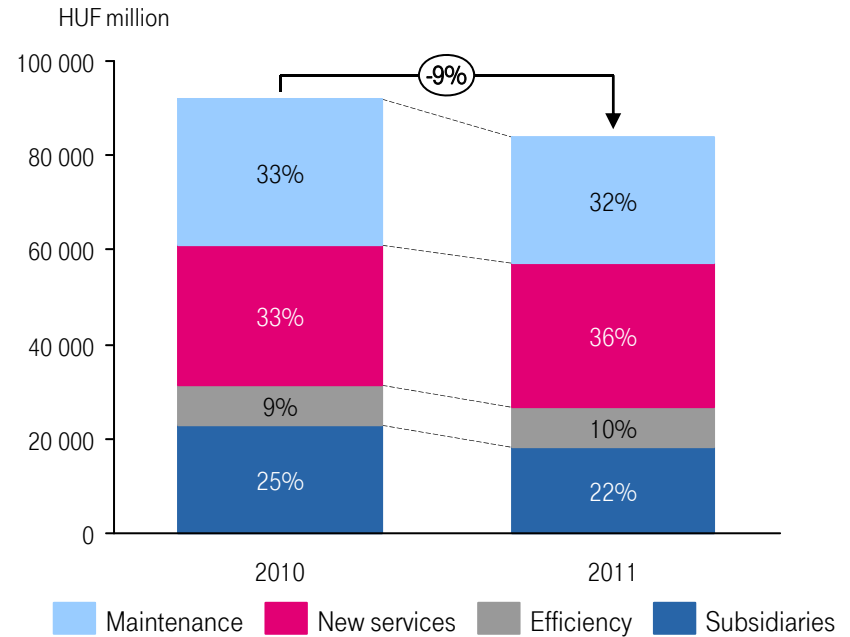
## Capex trend



### Capex cuts match revenue decline

- CAPEX/Sales ratio below 15% is to be maintained
- Flat Capex targeted for 2012, excluding spectrum acquisition

## Capex breakdown



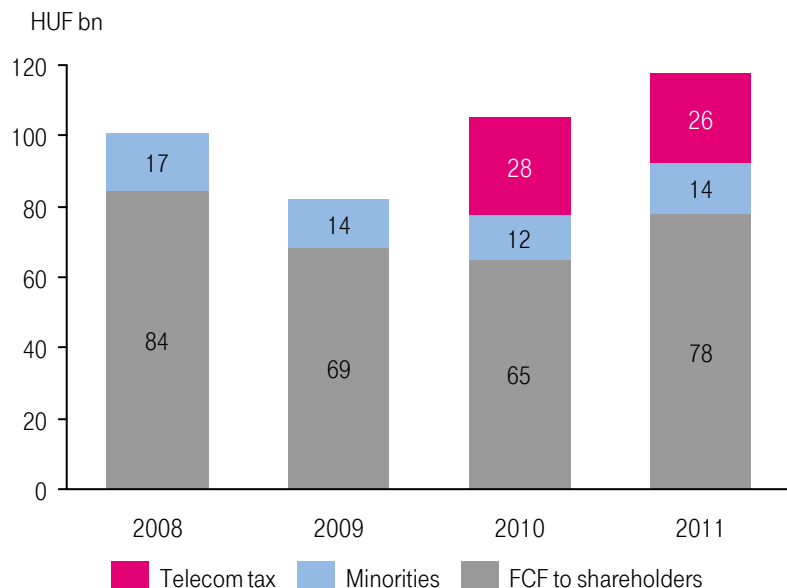
### Efficiency improvements in Capex spendings

- Composition of Capex shifting towards new services and internal projects
  - Network modernization, LTE
  - Internal efficiency projects

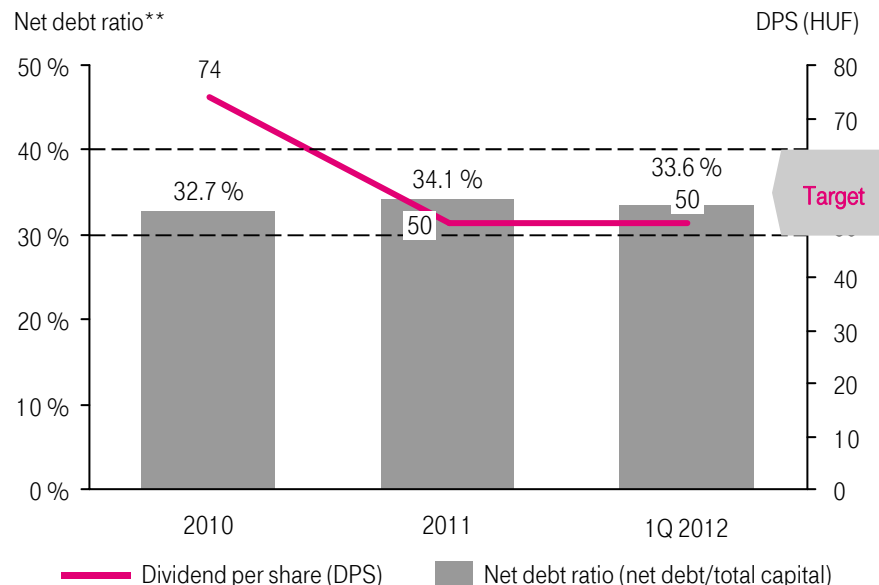


# Free cash flow and dividends

## Free cash flow\* generation



## Dividend payment



### Free cash flow generation

- Strong CF generation driven by efficiency improvements and strict CAPEX spending
- FCF to decline in 2012 due to one-offs:
  - Spectrum acquisition (HUF 10.9bn)
  - DOJ/SEC settlement (HUF 20.7bn)

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

### Dividend policy

- To maintain an efficient capital structure a net debt ratio of 30-40% is targeted
- AGM approved the **HUF 50 DPS** for 2011 earnings
- 9% dividend yield (based on the share price of HUF 586 at February 23, 2012)

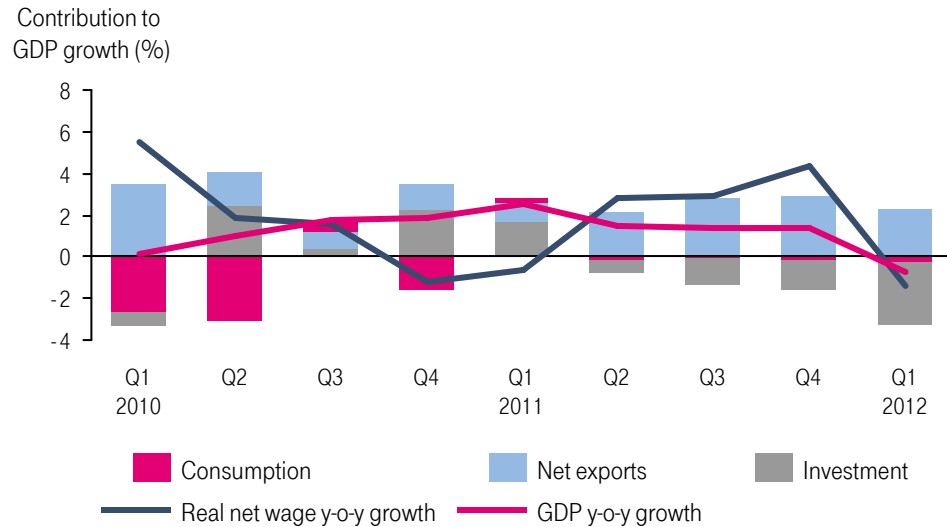
\*\*defined as net debt / total capital



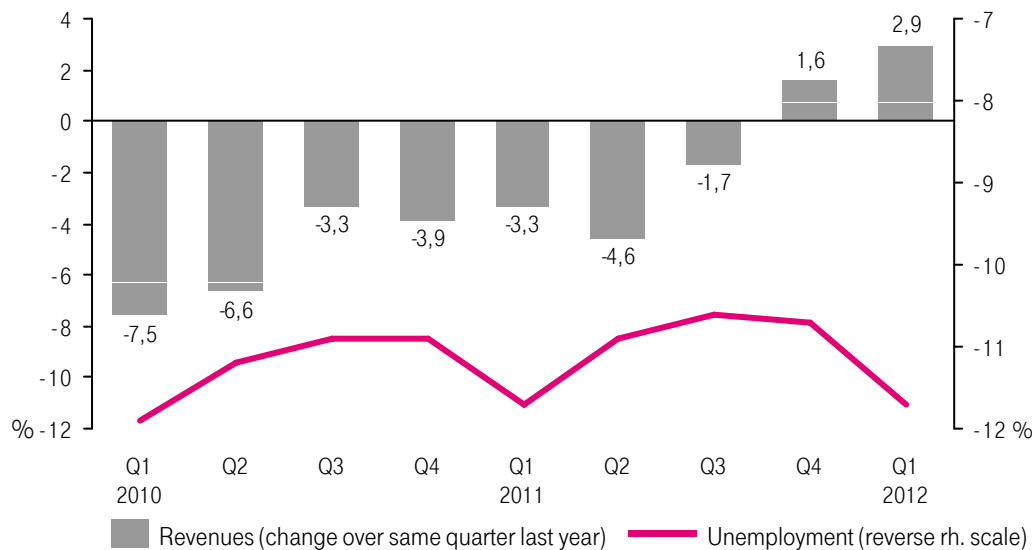


# Results and Hungarian macro-economy trends 2010-2011

## Growth structure and wages



## Magyar Telekom revenue and unemployment



### Macro effects

#### Economic downturn impacting MT results

- MT results are very sensitive to fluctuations in domestic demand
- Consumption outlook worsens as households' balance sheets deteriorate as a result of HUF weakening
- Recent GDP performance and outlook is deteriorating as the Hungarian economy's interdependence with the ailing eurozone is strong



# 2012 targets and Q1 2012 results

	2012 targets	Q1 2012 results
<b>Revenue</b>	Flat to -2% <ul style="list-style-type: none"> <li>changing revenue mix and energy resale enable revenue turnaround</li> <li>recessionary pressure and declining household consumption strengthen</li> <li>2011 comparable figure: HUF 597.6 bn</li> </ul>	+2.9% <ul style="list-style-type: none"> <li>energy resale revenue increase of HUF 5.3 bn Q1-o-Q1</li> <li>performance also supported by price increases from beginning of the year</li> </ul>
<b>Underlying EBITDA</b> <i>Excluding telecom tax, investigation and severance expenses</i>	4-6% decline <ul style="list-style-type: none"> <li>impact of the just approved 'new' telecom tax is not incorporated in the public target</li> <li>changing revenue mix with increasing ratio of low margin services</li> <li>2011 comparable figure: HUF 245.0 bn</li> </ul>	-5.5% <ul style="list-style-type: none"> <li>declining high margin voice revenues</li> <li>margin dilution impact of energy resale business offsetting improved internal efficiency</li> <li>Q1 2011 result supported by real estate sale</li> </ul>
<b>CAPEX</b> <i>Excluding spectrum acquisitions</i>	Flat <ul style="list-style-type: none"> <li>network modernization, LTE</li> <li>internal efficiency program</li> <li>2011 comparable figure: HUF 83.8 bn</li> </ul>	+5.1% <ul style="list-style-type: none"> <li>different within year dynamics of capex spending</li> <li>spectrum license fee of HUF 10.9 bn paid in Q1 2012 excluded from y-o-y comparison</li> </ul>

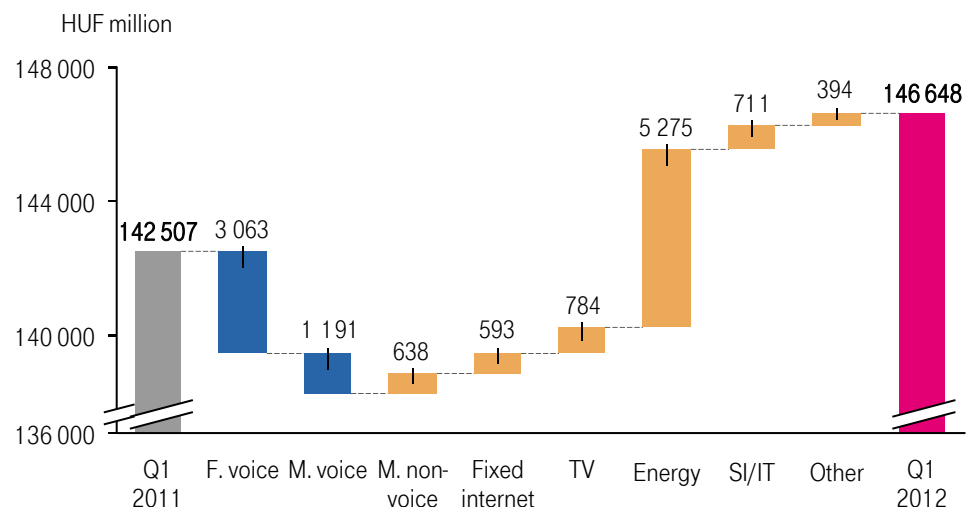


# Q1 2012 Results

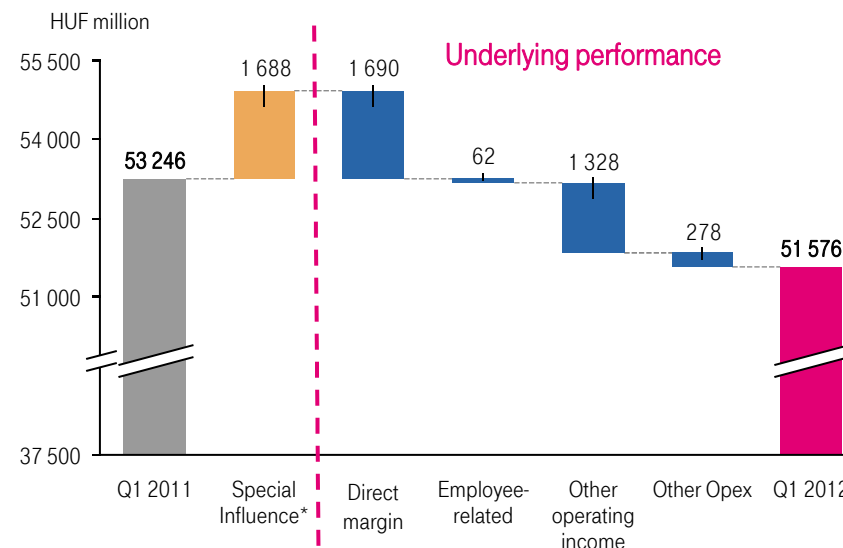


# 2012 Q1 Group results – Revenues and EBITDA

## Group revenues



## Group EBITDA



### Revenue development

- Group revenues up by 2.9% y-o-y
- HUF 6.0bn revenues from energy resale in Q1 2012
- fixed and mobile voice revenues declined primarily due to continuing intense competition, depressed household consumption and MTR cut
- SI/IT improvement, mobile BB subscriber and revenue growth, higher TV and fixed internet revenues
- general price increase from January 2012

### EBITDA development

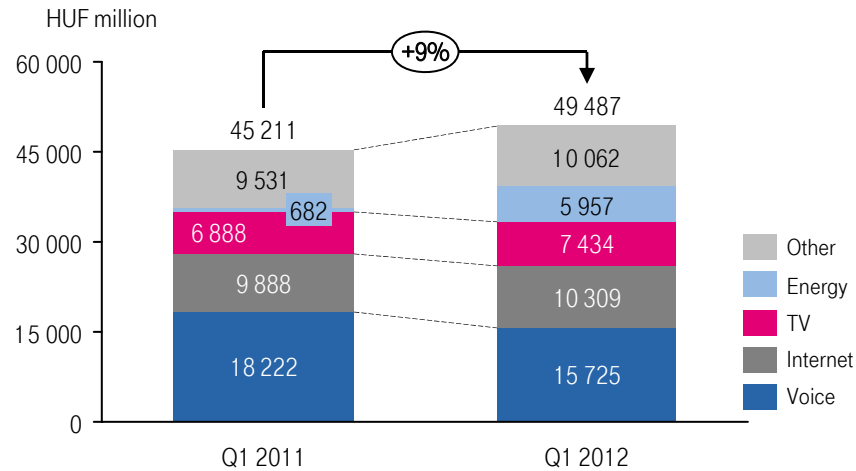
- underlying EBITDA down by 5.5% y-o-y
- Direct margin decline driven by further erosion of traditional voice revenues, while energy resale is further diluting margins
- other operating income decline due to the HUF 1.4bn gain on real estate sale in Hungary accounted in Q1 2011

\*investigation- and severance-related expenses, as well as telecom tax

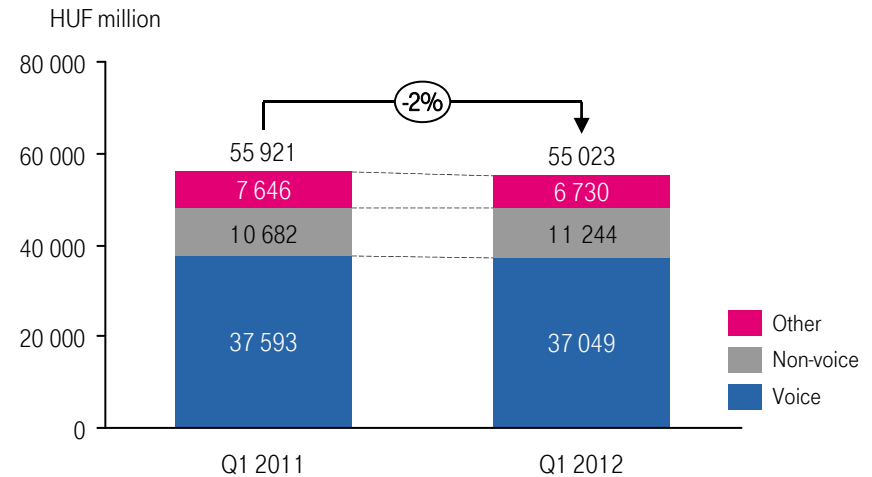


# Telekom Hungary – significant contribution from energy resale

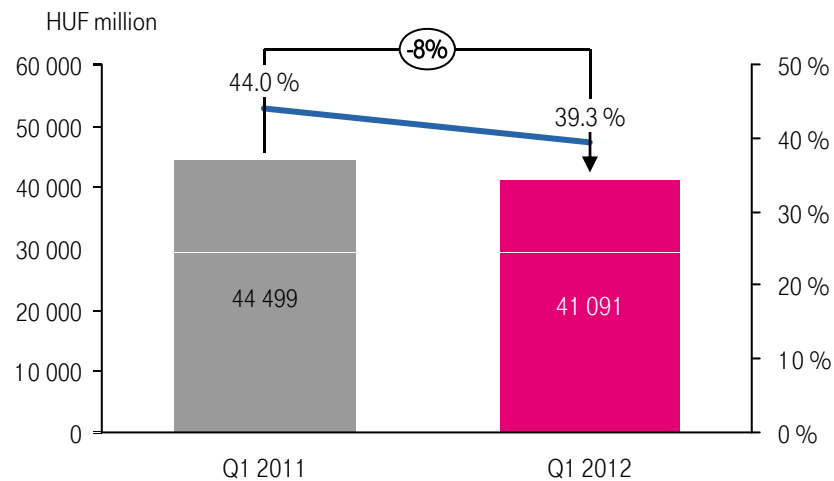
## Fixed line and Energy resale revenues



## Mobile revenues



## Underlying EBITDA and margin



## Telekom Hungary

### Revenues up by 3.3%

- significant increase in energy resale revenues
- regulatory impacts on mobile revenues

### Decrease in underlying EBITDA margin by 7.7pp

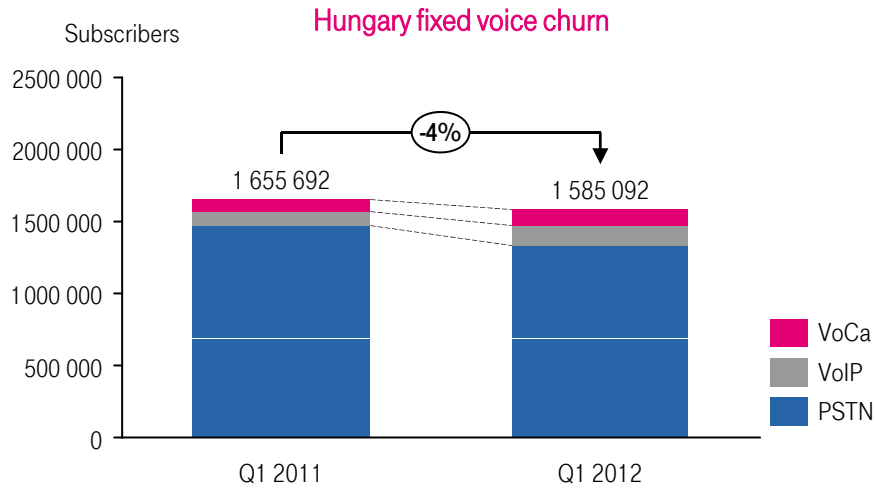
- reduction in high-margin voice revenues
- dilution impact of energy sales
- gain on real estate sales accounted in Q1 2011



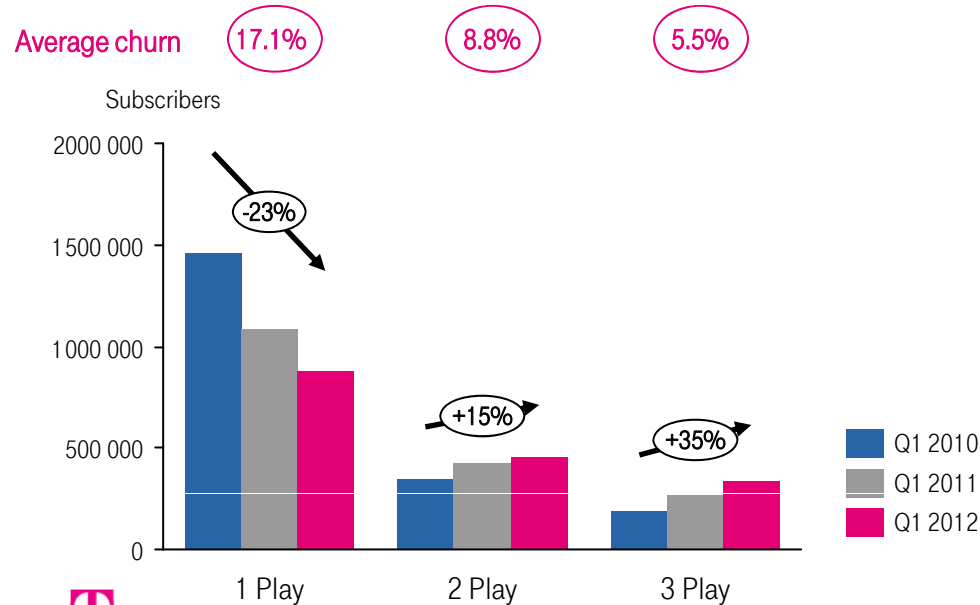
# Hungary – improvement in fixed voice churn



## Telekom Hungary fixed voice subscribers



## Multi-Play developments



### Fixed voice

- significant **reduction in fixed voice churn** thanks to the retention effect of:
  - Hoppá package: flat fee package; 32% of fixed customers already subscribed
  - discounts offered in bundled packages, 4Play offer
  - retail energy bundling
- as a result, number of lines lost was 19k in Q1 2012 vs. 33k in Q1 2011
- 1Play customer base declined to 52%**

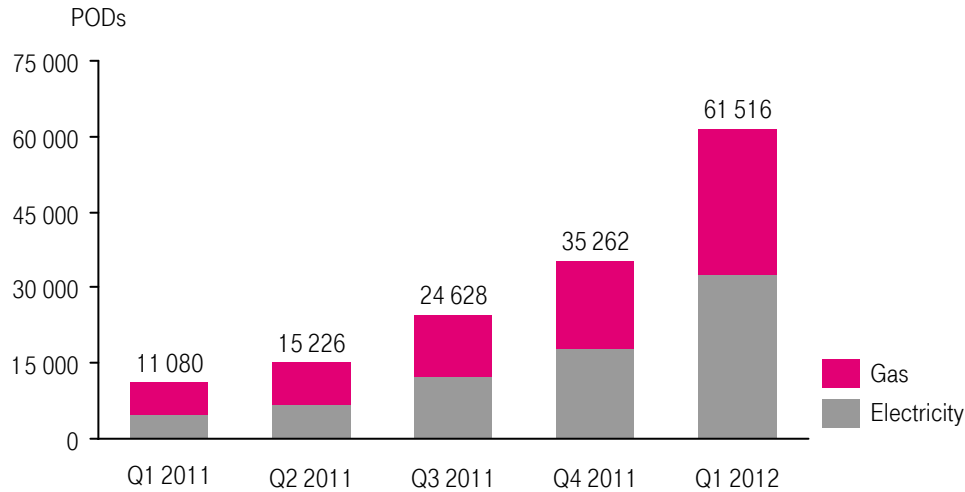
### KPIs

- ARPA: HUF 2 927 (-10% y-o-y)
- MOU: 191 (+21% y-o-y)

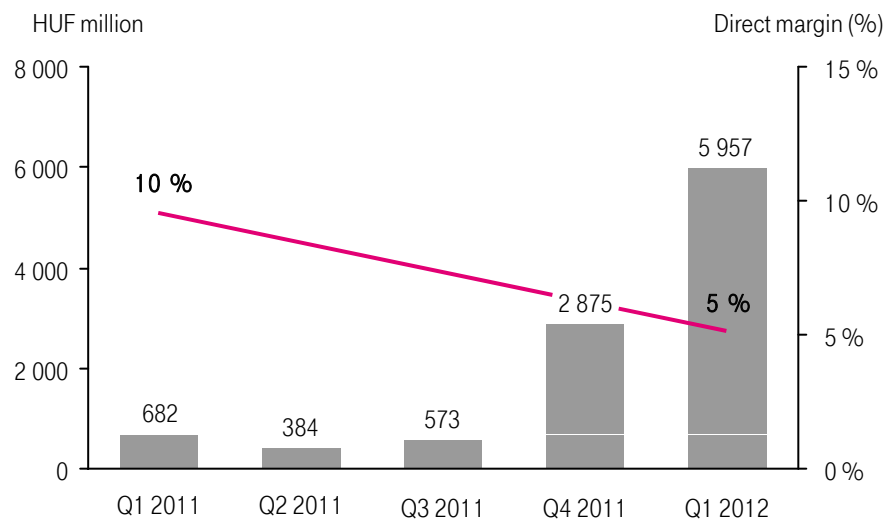


# Hungary – Energy resale business as major growth driver

## Gas and electricity points of delivery (POD)



## Revenue and direct margin performance



### Energy resale

- soft launch in 2010, **nationwide from April 2012**
- customers get 5-8% discounts on their energy bill depending on the amount of their fixed subscriptions
- **retention impact is significant:** fixed churn may halve with energy contract
- 45% of energy customers have 3Play package

### KPIs

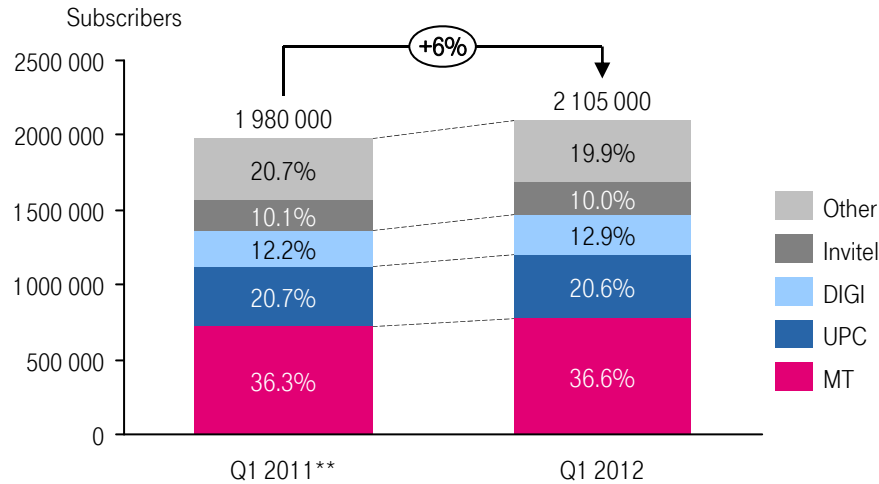
- Gas ARPU: c.a. HUF 18 000
- Electricity ARPU: c.a. HUF 9 000



# Hungary – Fixed broadband: stable market position

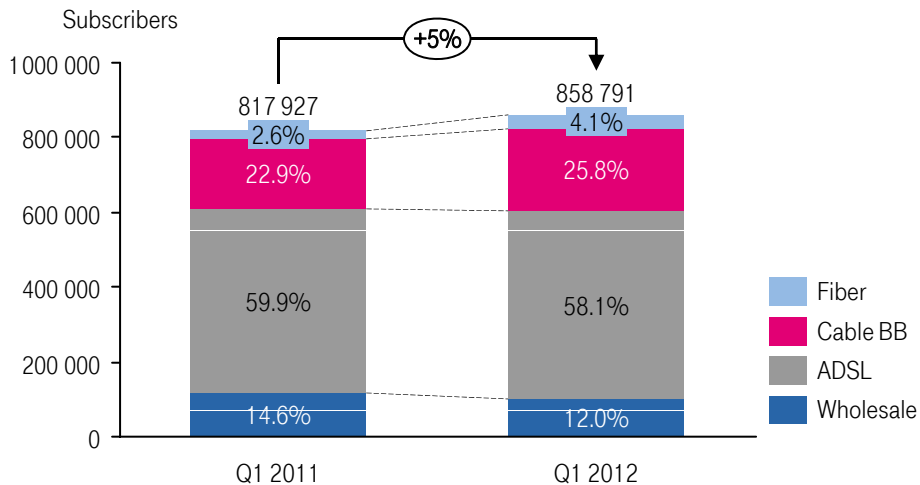


## Fixed broadband market shares\*



\*based on the total fixed BB market estimated by the National Media and Infocommunications Authority  
 \*\*data as of May-2011

## T-Home fixed broadband subscriber breakdown



### Fixed broadband

- market **growth driven by cable and fiber**, while ADSL growth has slowed down
- **stable fixed BB market share**
- residential standalone fixed BB prices:
  - 5Mbps speed: HUF 5 630/month (EUR 20)
  - 80Mbps speed: HUF 11 730/month (EUR 40)

### KPIs

- ARPU: HUF 3 862 (-2% y-o-y)

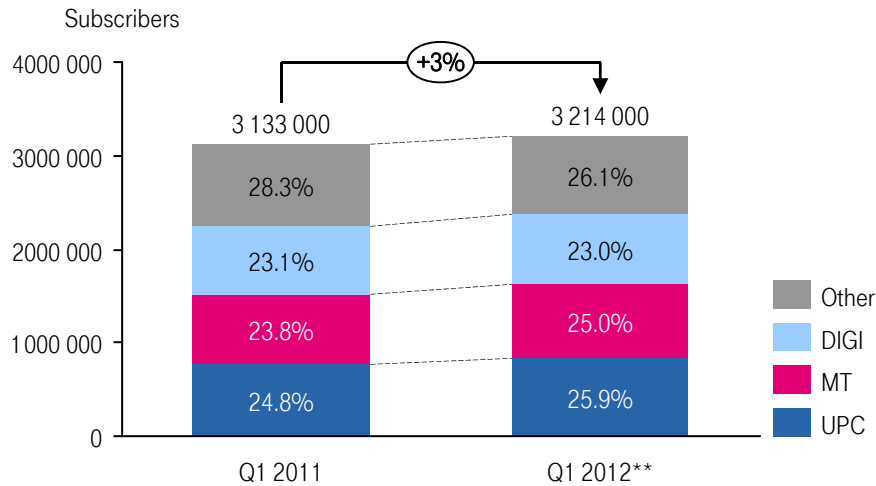




# Hungary – TV market: further growth achieved

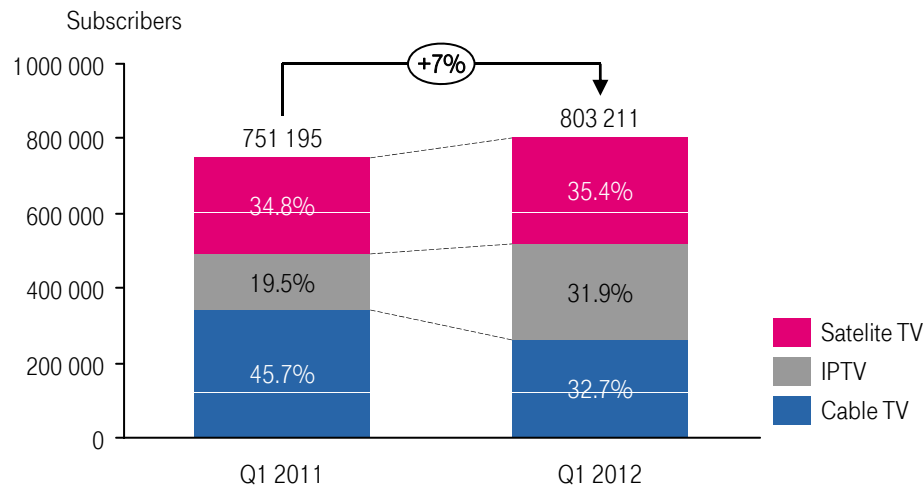


## TV market shares\*



\*based on the total TV market estimated by the National Media and Infocommunications Authority  
 \*\*data as of February-2012

## T-Home TV subscriber breakdown



### TV customer growth

- significant **migration from cable to IPTV** driven by ED3-enabled cable network
- increasing ratio of interactive IPTV customers improve ARPU
- retention benefit: 80% of TV customers are 2Play or 3Play package subscribers
- 3Play offers from HUF 7 530/month (EUR 25)

### KPIs

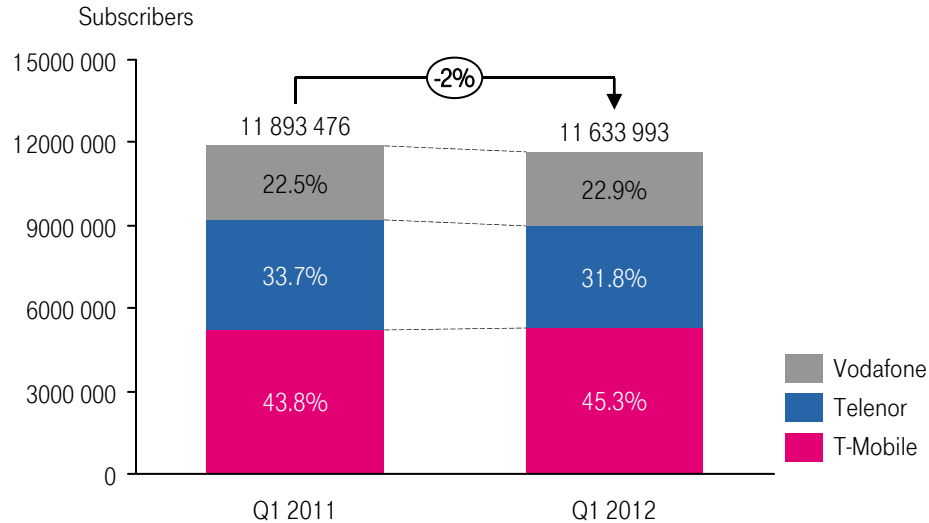
- ARPU: HUF 3 061 (+2% y-o-y)



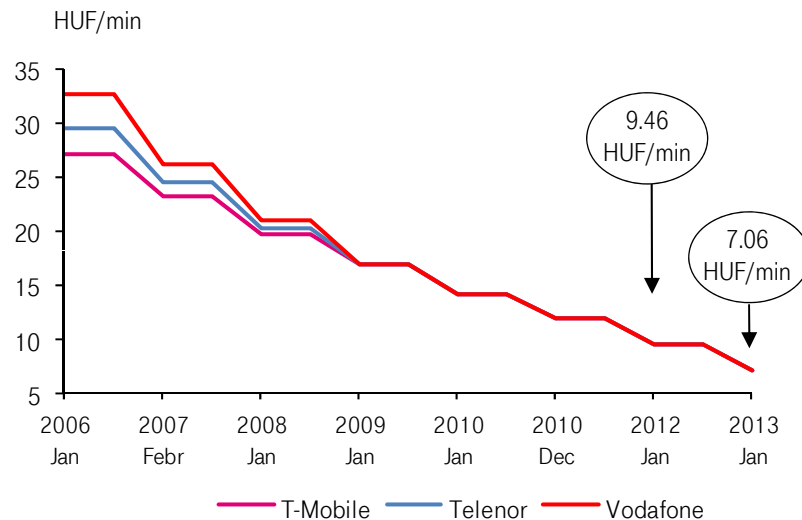
# Hungary – Mobile voice: increased market share



## Mobile voice market shares (based on total SIM cards)



## Mobile termination rate cuts



### Mobile voice

- population-based **penetration at 117%**
- higher market share, slight growth in customer numbers
- improving customer mix: postpaid ratio increased from 44% to 46% y-o-y
- MTR cuts:**
  - 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 €c

### KPIs

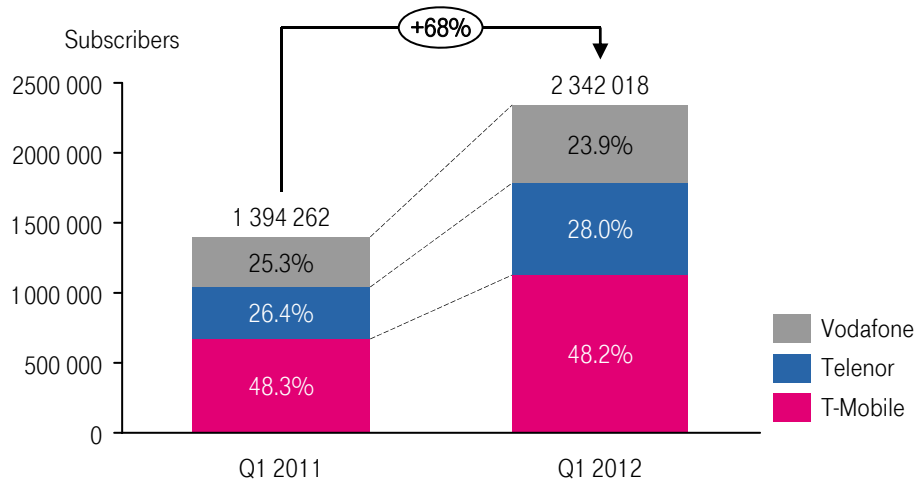
- ARPU: HUF 3 344 (-3% y-o-y)
- MOU: 159 (+3% y-o-y)
- Churn: 17% (-1ppt y-o-y)
- SAC/gross add: HUF 5 569 (+14% y-o-y)
- SRC/retained customer: HUF 13 581 (-18% y-o-y)



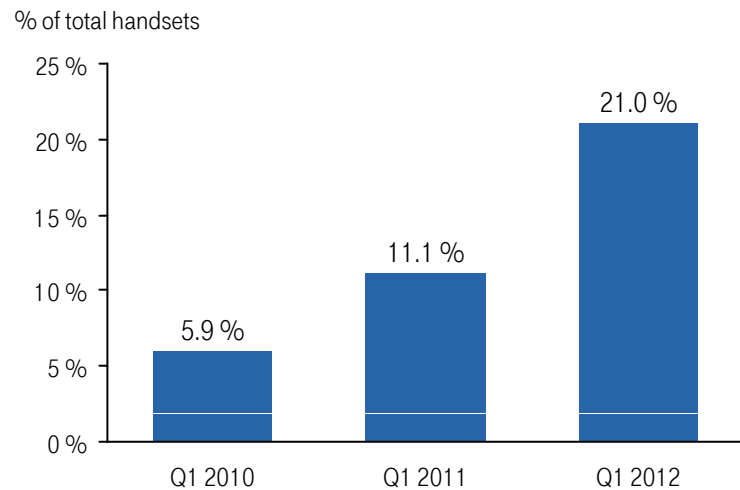
# Hungary – Mobile broadband: continued dynamic growth



## Mobile broadband market shares (based on total SIM cards)



## T-Mobile smartphone penetration



### Mobile broadband

- already 600 HSPA+ base stations offering 21 Mbps download speed
- **smartphone sales in the postpaid segment reached 79% in Q1 2012** (vs. 47% a year ago)
- **BB subscription attach rate is ca. 76%**
- 67% of bundled mobile subscribers were in the two smallest package (MediaMania XS, S)

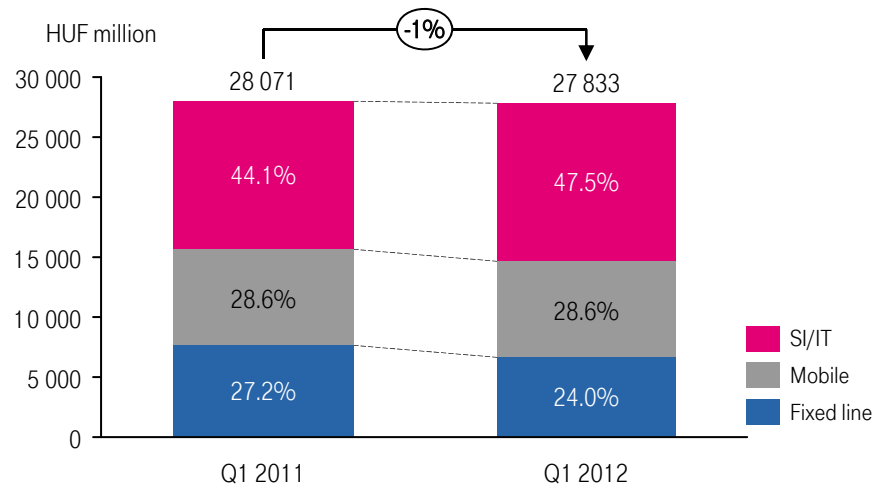
### KPIs

- VAS within ARPU: 23% (+2ppt y-o-y)
- VAS within ARPU (HUF): 779 (+9% y-o-y)

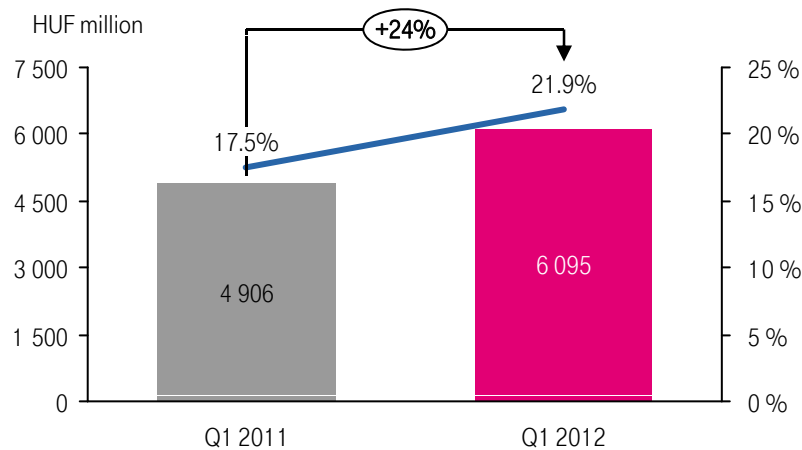


# T-Systems Hungary – SI/IT revenue growth and healthy margin

## Revenues



## Underlying EBITDA and margin



## T-Systems Hungary

### Falling voice and data revenues

- lower usage and high fixed churn, principally caused by mobile substitution
- continued pressure on mobile tariff levels

### Growth in SI/IT revenues

- Daten-Kontor consolidation impact (inclusion from March 2011)
- some bigger equipment delivery contracts in Q1 2012 in the public sector
- major public projects remain subdued
- leading market position with 16% market share

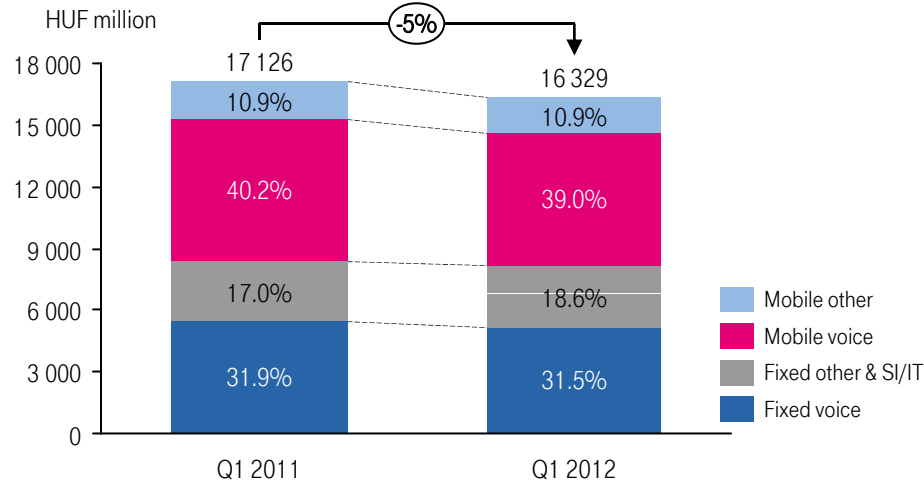
### Underlying EBITDA margin improved

- strict cost control
- lower bad debt due to collecting some outstanding public receivables

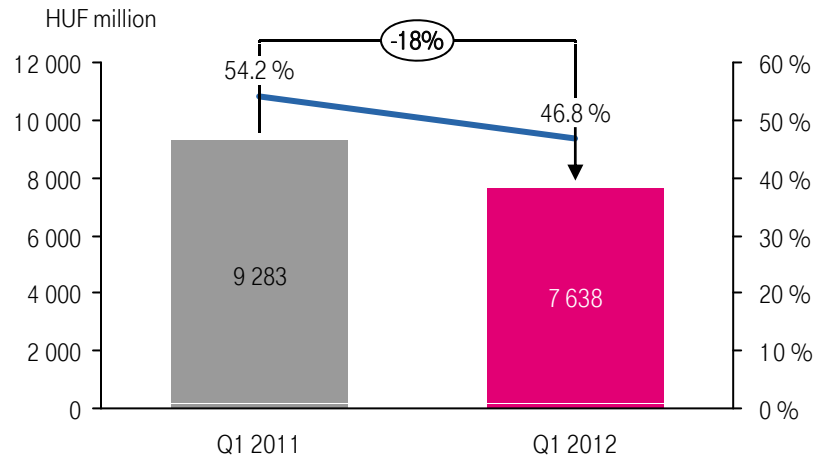


# Macedonia – Financial performance

## Revenues



## Underlying EBITDA and margin



## Macedonia

Significant FX impact: HUF weakened by 8.6% Q1-o-Q1 against MKD

Declining fixed line revenues in MKD

- cable competition and strong mobile substitution

Mobile competition getting fierce

- strong price competition
- MOU up due to free bundled minutes and widening CUG offers
- #1 position maintained, stable 50% market share

Declining tariff levels and higher subsidies put pressure on margin

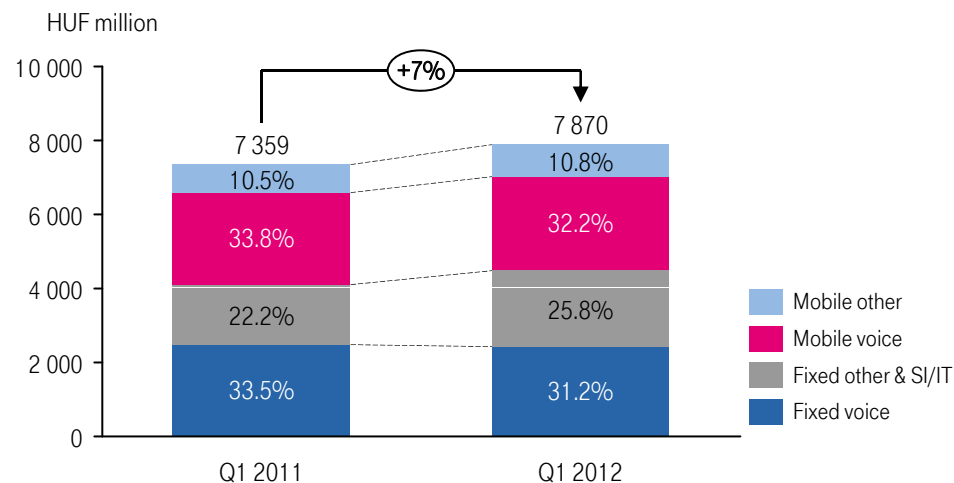
## KPIs

- Fixed churn: 9%
- Mobile ARPU: HUF 1 968(-4% y-o-y)
- MOU : 146 (+19% y-o-y)

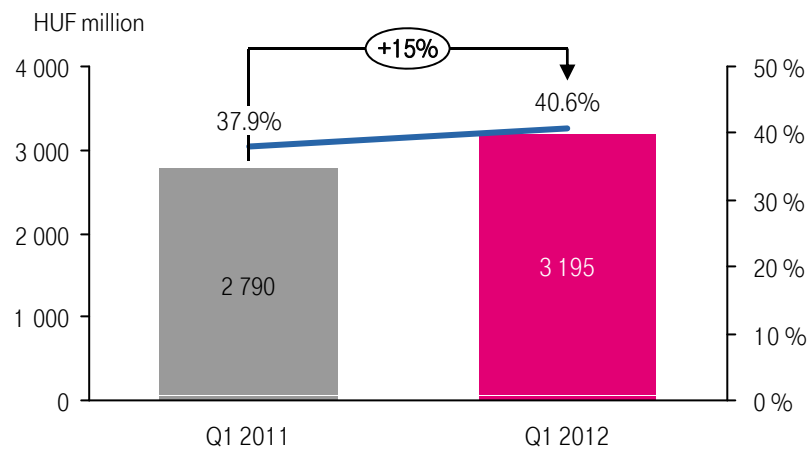


# Montenegro – Financial performance

## Revenues



## Underlying EBITDA and margin



## Montenegro

Significant FX impact: HUF weakened by 8.4% Q1-o-Q1 against EUR

Flat fixed revenues in EUR

- strong mobile substitution
- growing internet and TV revenues
- #1 position in the pay-TV market with a 42% market share

Higher mobile revenues

- lower wholesale revenues driven by cuts in interconnection tariffs in 2011
- MOU up due to free bundled minutes and widening CUG offers
- 35% market share on the mobile voice market

Margin improvement driven by lower headcount

## KPIs

- Fixed churn: 2%
- Mobile ARPU: HUF 3 175 (+21% y-o-y)
- MOU: 160 (+31% y-o-y)



# Financials



# Magyar Telekom – Consolidated Income Statement

HUF million	March 31, 2011	March 31, 2012	Change
Mobile revenues	72,449	72,614	0.2%
Fixed line revenues	58,431	56,421	-3.4%
System Integration/Information Technology revenues	10,945	11,656	6.5%
Revenue from Energy Services	682	5,957	
<b>Revenues</b>	<b>142,507</b>	<b>146,648</b>	<b>2.9%</b>
Direct costs	(37,175)	(43,006)	15.7%
Employee-related expenses	(22,177)	(21,218)	-4.3%
Depreciation and amortization	(23,994)	(25,312)	5.5%
Hungarian telecommunications and other crisis taxes	(6,341)	(6,085)	n.a.
Other operating expenses	(25,695)	(25,562)	-0.5%
<b>Total operating expenses</b>	<b>(115,382)</b>	<b>(121,183)</b>	<b>5.0%</b>
Other operating income	2,127	799	
<b>Operating profit</b>	<b>29,252</b>	<b>26,264</b>	<b>-10.2%</b>
Net financial expenses	(8,440)	(7,600)	-10.0%
Share of associates' profits	(1)	0	-100.0%
<b>Profit before income tax</b>	<b>20,811</b>	<b>18,664</b>	<b>-10.3%</b>
Income tax	(2,944)	(3,724)	26.5%
<b>Profit for the period</b>	<b>17,867</b>	<b>14,940</b>	<b>-16.4%</b>
Non-controlling interests	2,700	1,922	-28.8%
<b>Equity holders of the Company (Net income)</b>	<b>15,167</b>	<b>13,018</b>	<b>-14.2%</b>





# Magyar Telekom - Consolidated Balance Sheet

HUF million	Dec 31, 2011	March 31, 2012	Change
<b>Current assets</b>	<b>220,396</b>	<b>223,028</b>	<b>1.2%</b>
Cash and cash equivalents	14,451	41,364	186.2%
Other current financial assets	65,286	38,259	-41.4%
<b>Non current assets</b>	<b>877,632</b>	<b>863,704</b>	<b>-1.6%</b>
Property, plant and equipment - net	536,224	521,526	-2.7%
Intangible assets	308,313	315,305	2.3%
<b>Total assets</b>	<b>1,098,028</b>	<b>1,086,732</b>	<b>-1.0%</b>
<b>Equity</b>	<b>556,091</b>	<b>559,752</b>	<b>0.7%</b>
<b>Current liabilities</b>	<b>255,390</b>	<b>253,926</b>	<b>-0.6%</b>
Financial liabilities to related parties	49,865	64,908	30.2%
Other financial liabilities	70,155	64,714	-7.8%
<b>Non current liabilities</b>	<b>286,547</b>	<b>273,054</b>	<b>-4.7%</b>
Financial liabilities to related parties	230,166	216,121	-6.1%
Other financial liabilities	17,928	17,504	-2.4%
<b>Total equity and liabilities</b>	<b>1,098,028</b>	<b>1,086,732</b>	<b>-1.0%</b>



# Magyar Telekom - Consolidated Cashflow Statement

HUF million	March 31, 2011	March 31, 2012	Change
<b>Net cash generated from operating activities</b>	<b>44,620</b>	<b>22,255</b>	<b>-50.1%</b>
Investments in tangible and intangible assets	(12,314)	(23,841)	93.6%
Adjustments to cash purchases	(8,097)	(13,974)	72.6%
Purchase of subsidiaries and business units	(941)	(23)	-97.6%
Cash acquired through business combinations	455	0	-100.0%
Proceeds from / (Payments for) other financial assets - net	(8,160)	21,781	-366.9%
Proceeds from disposal of subsidiaries	0	84	n.a.
Proceeds from disposal of PPE and intangible assets	3,282	261	-92.0%
<b>Net cash used in investing activities</b>	<b>(25,775)</b>	<b>(15,712)</b>	<b>-39.0%</b>
Dividends paid to shareholders and minority interest	(10)	(27)	170.0%
Net payments of loans and other borrowings	(8,198)	21,395	-361.0%
<b>Net cash used in financing activities</b>	<b>(8,208)</b>	<b>21,368</b>	<b>-360.3%</b>
<b>Free cash flow</b>	<b>27,005</b>	<b>(15,238)</b>	<b>-156.4%</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:

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Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, CBC: call-by-call, CPS: carrier pre-selection, 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, POP: point of presence, 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: 295.65 (average Q1 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).

