



EGYÜTT. VELED

SUBMISSION  
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

**REPORT OF THE BOARD OF DIRECTORS ON THE  
MANAGEMENT OF MAGYAR TELEKOM PLC., ON  
THE BUSINESS OPERATION, ON THE BUSINESS  
POLICY AND ON THE FINANCIAL SITUATION OF  
THE COMPANY AND MAGYAR TELEKOM GROUP  
IN 2013**

BUDAPEST, APRIL 11, 2014

# REPORT OF THE BOARD OF DIRECTORS ON THE MANAGEMENT OF MAGYAR TELEKOM PLC., ON THE BUSINESS OPERATION, ON THE BUSINESS POLICY AND ON THE FINANCIAL SITUATION OF THE COMPANY AND MAGYAR TELEKOM GROUP IN 2013

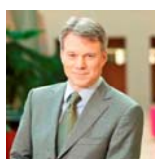
CHRISTOPHER MATTHEISEN  
CEO – MEMBER OF THE BOARD OF DIRECTORS

**ANNUAL GENERAL MEETING**  
**APRIL 11, 2014**

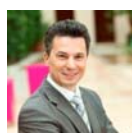


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## MANAGEMENT COMMITTEE



Christopher Mattheisen  
Chief Executive Officer



Attila Keszég  
Chief Commercial  
Officer Residential



Péter Lakatos  
Chief Commercial  
Officer SMB



Tibor Rékasi  
Chief Commercial  
Officer Enterprise



Walter Goldenits  
Chief Technology  
and IT Officer



Róbert Pataki  
Chief Business  
Development Officer



Éva Somorjai  
Chief Human  
Resources Officer



János Szabó  
Chief Financial  
Officer



Balázs Máthé  
Chief Legal and  
Corporate Affairs  
Officers



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# AWARDS WON IN 2013

Excellence in customer service award – best call center



Deficiency-friendly workplace award

Divers and family friendly organization



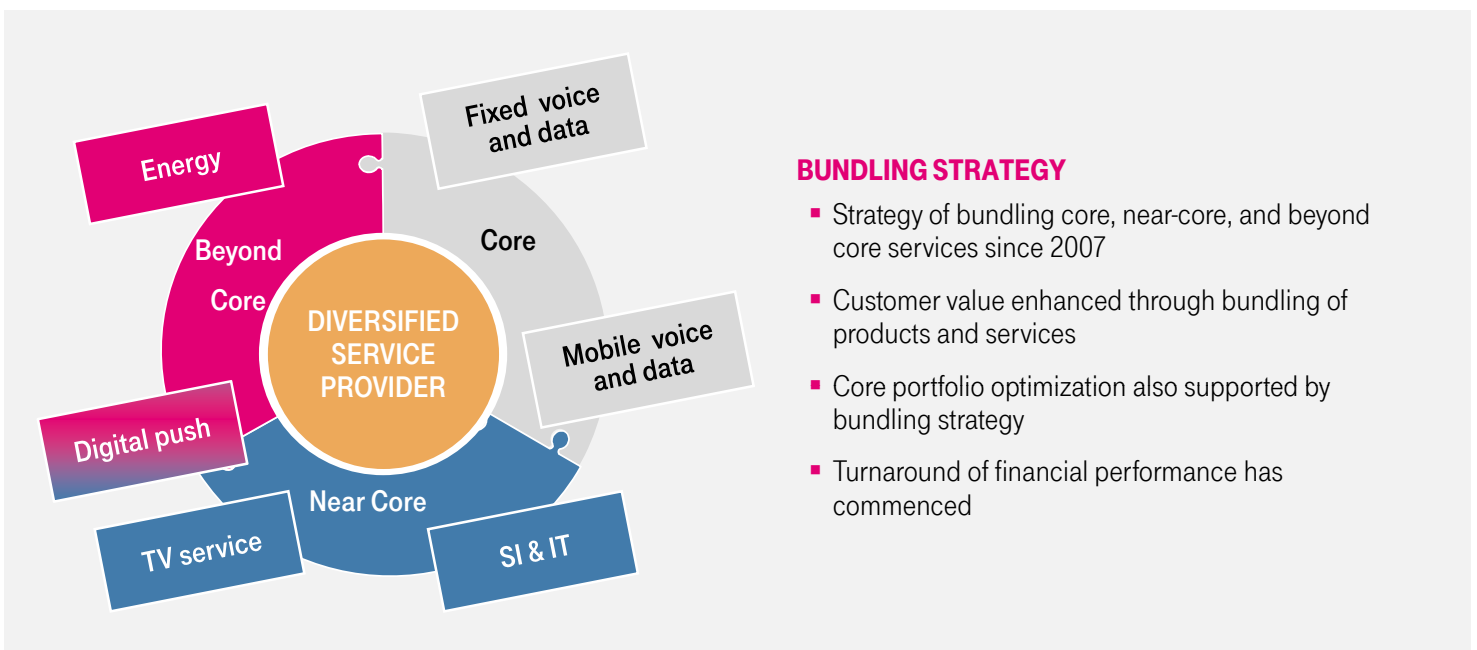
Award for Volunteering – Telekom MobileSchool



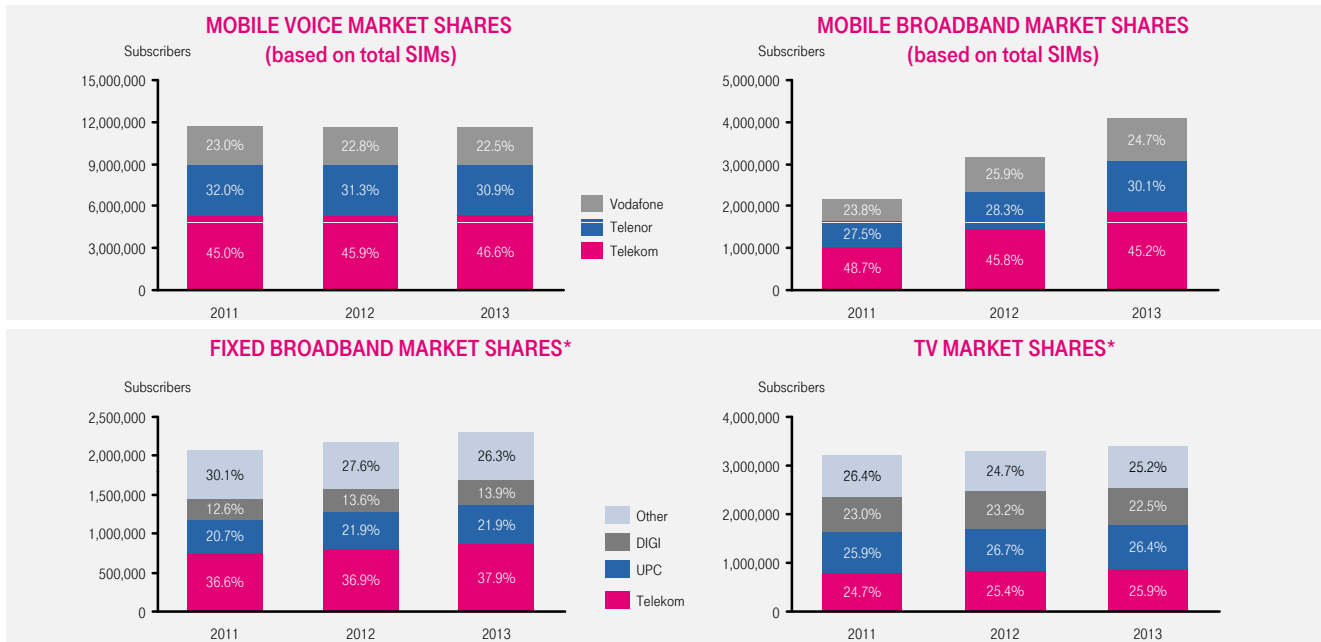
Hungarian Quality Product Award – CityPass system, T-City Szolnok



# MAGYAR TELEKOM STRATEGY

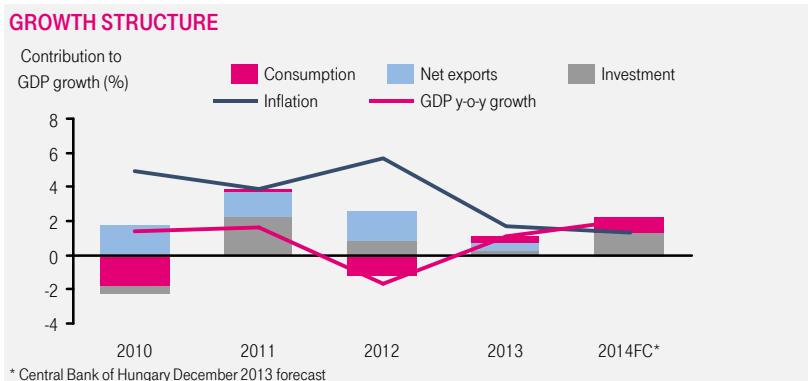


# MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET



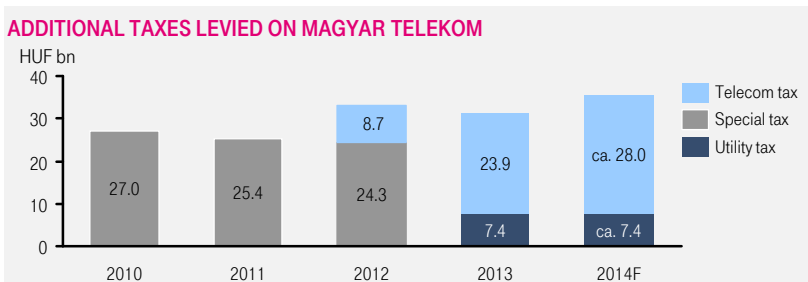
\*based on the total fixed BB / TV market estimated by the National Media and Infocommunications Authority

# HUNGARIAN ECONOMIC ENVIRONMENT



**CONTINUED DELEVERAGING KEEPS DOMESTIC DEMAND LOW**

- Net exports peaking, domestic demand bottoming in 2013
- Consumer spending and investments slowly turn the trend but growth remains fragile
- MT financials strongly correlate to trends in domestic demand

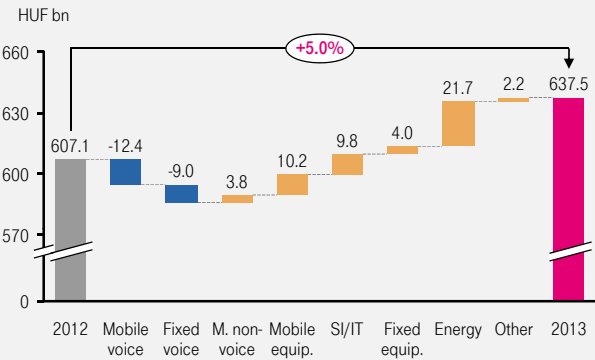


**TAX BURDENS INTRODUCED TO REDUCE BUDGET DEFICIT**

- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied from 2013

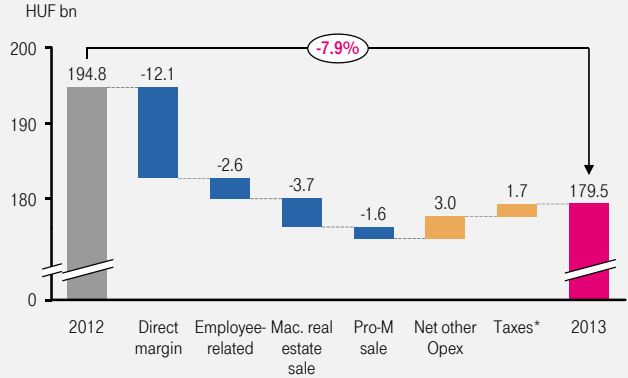
# 2013 GROUP RESULTS – REVENUES AND EBITDA

## GROUP REVENUES



- Strong contribution from energy service revenues
- SI/IT revenue growth fueled by application and infrastructure projects
- Increase in contribution from smart-device sales both in fixed and mobile business
- Decline in fixed and mobile voice revenues also reflects the lower contribution from Macedonian operation and MTR cuts

## GROUP EBITDA



- Direct margin erosion due to:
  - further erosion of traditional voice revenues
  - lower direct margin contribution of equipment sales and SI/IT
  - negative margin of energy services due to the 10% and 11% cuts in regulated energy prices effective from January and November, respectively
- Lower operating taxes\* and cost saving measures could not fully offset the impact of the sale of Pro-M and the Macedonian real estate transaction in Q3 2012

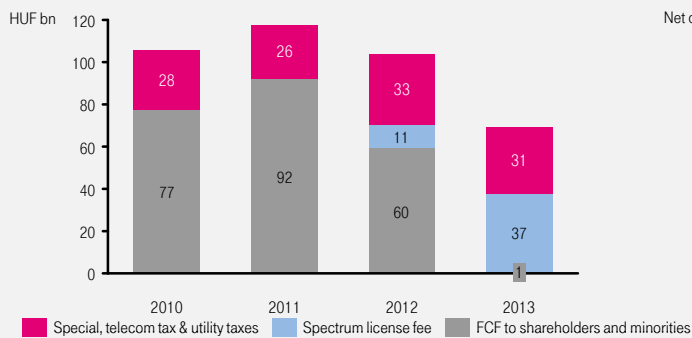
\*special, telecom and utility taxes



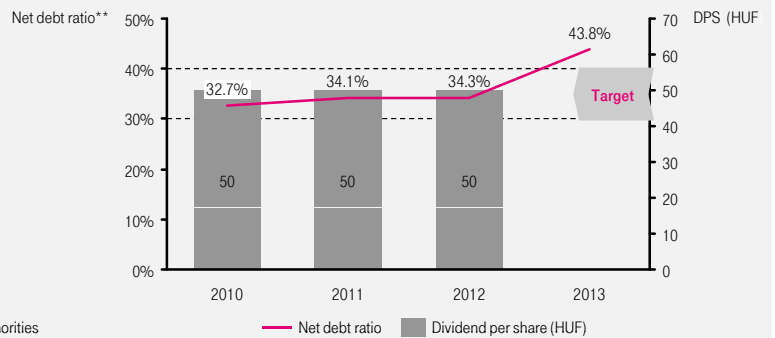
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# FREE CASH FLOW AND DIVIDENDS

## FREE CASH FLOW\* GENERATION



## DIVIDEND POLICY



- In order to maintain an efficient capital structure, we have a net debt ratio target of 30%-40%
- Increase in ratio attributed to exceptional costs in 2013
  - spectrum license fees (HUF 37bn) – Hungary and Macedonia
  - capitalization of annual frequency usage fees
  - change in the accounting treatment of set-top boxes

- The Board of Directors proposes no dividend payment on 2013 earnings for approval at the AGM

\*operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities

\*\* defined as net debt / total capital



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## PUBLIC TARGETS FOR 2014

	2014 TARGETS	2013 RESULTS
<b>Revenue</b>	<b>Flat to 3% decline</b> <ul style="list-style-type: none"><li>▪ Cuts in regulated retail energy prices</li><li>▪ Spending power in the business sector is expected to remain limited</li><li>▪ Continued pressure on Macedonian price levels</li></ul>	<b>+5.0%</b>
<b>Reported EBITDA</b>	<b>3%-6% decline</b> <ul style="list-style-type: none"><li>▪ Increasing proportion of sales made up by lower margin services</li><li>▪ Higher telecommunication tax</li></ul>	<b>-7.9%</b>
<b>CAPEX*</b> <small>*excluding spectrum license fees and annual frequency fee capitalization</small>	<b>ca. HUF 87bn</b> <ul style="list-style-type: none"><li>▪ Network modernization, LTE roll-out</li><li>▪ PSTN migrations</li></ul>	<b>HUF 87.4bn</b>

# THANK YOU FOR YOUR ATTENTION!

FOR FURTHER QUESTIONS PLEASE CONTACT THE INVESTOR RELATIONS DEPARTMENT:

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