



**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 2012**

Budapest, April 12, 2013

# 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 2012

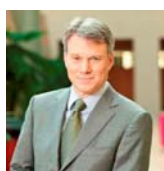
CHRISTOPHER MATTHEISEN  
CHAIRMAN -CEO

ANNUAL GENERAL MEETING  
APRIL 12, 2013

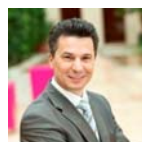


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## MANAGEMENT COMMITTEE AND REPORTING STRUCTURE



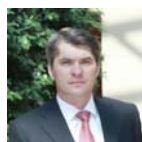
Christopher Mattheisen  
Chairman and  
Chief Executive Officer



Attila Keszég  
Chief Commercial  
Officer Residential



Péter Lakatos  
Chief Commercial  
Officer SMB



Róbert Budafoki  
Chief Commercial  
Officer Enterprise



Walter Goldenits  
Chief Technology  
and IT Officer



Róbert Pataki  
Chief Business  
Development Officer



Éva Somorjai  
Chief Human  
Resources Officer



Thilo Kusch  
Chief Financial  
Officer



Balázs Máthé  
Chief Legal and  
Corporate Affairs  
Officers

Reporting  
structure

Telekom Hungary

- residential, SoHo, SMB customers

T-Systems Hungary

- public sector and enterprise clients

Macedonia

Montenegro



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# AWARDS WON IN 2012

Excellence in customer service award in the personal service category



Best employer in Hungary

Best sustainability report in Hungary



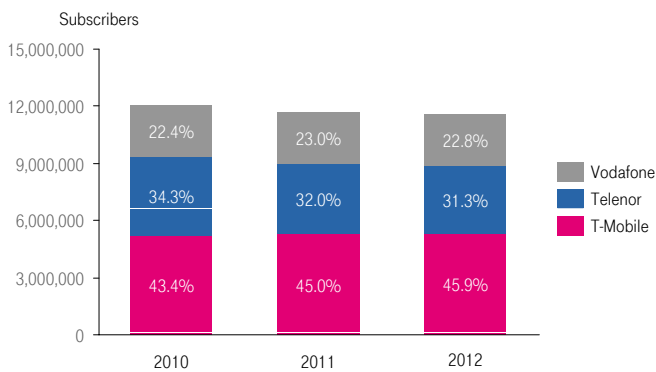
Best Organizational Development project in Hungary - Service attitude program



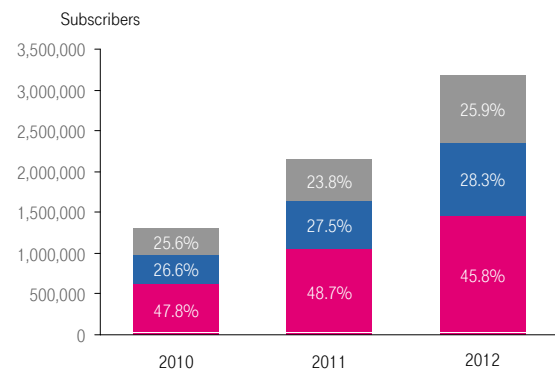
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## MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET

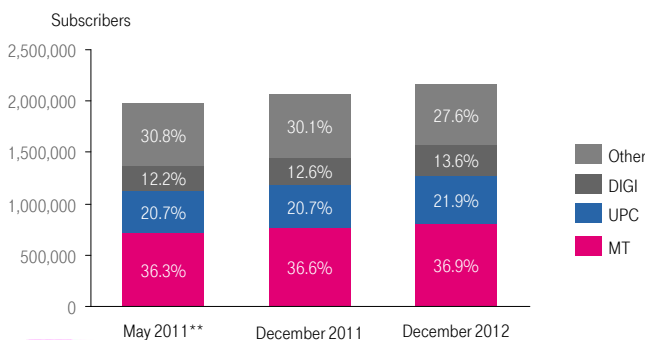
Mobile voice market shares (based on total SIMs)



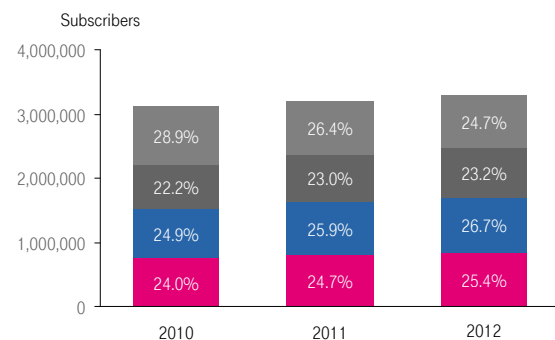
Mobile broadband market shares (based on total SIMs)



Fixed broadband market shares\*



TV market shares\*

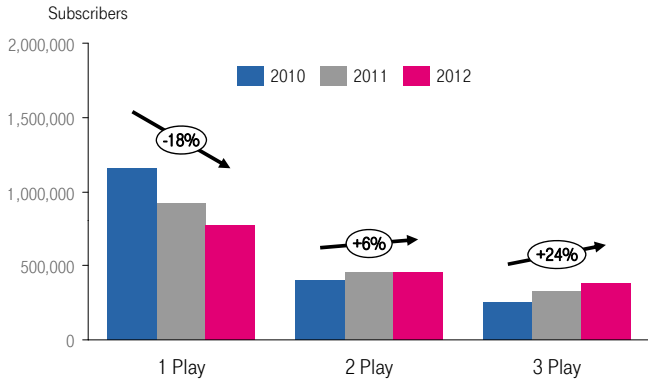


\*based on the total fixed BB/TV market estimated by the National Media and Infocommunications Authority  
\*\*data is not available for earlier periods

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# HUNGARY – FIXED VOICE MARKET AND RETAIL ENERGY

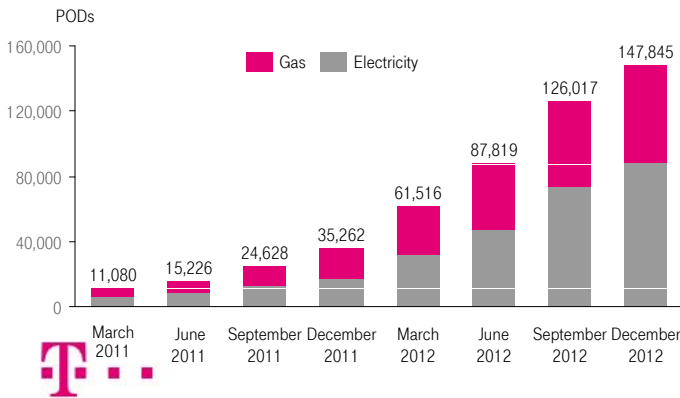
## Multi-Play developments



### Market trends

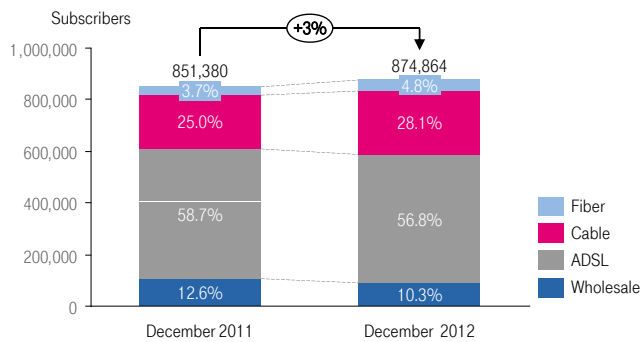
- significant **reduction in fixed voice churn** due to the retention benefit of:
  - Hoppá package
  - 2Play/3Play offers
  - retail **energy** bundling
- decline in **1Play** customer base to **48%**
- success of the retail energy business demonstrated by a significant increase in the number of **energy delivery points**
- 45% of energy customers subscribe to a 3Play package

## Gas and electricity points of delivery (POD)



# HUNGARY – FIXED BROADBAND AND TV MARKET

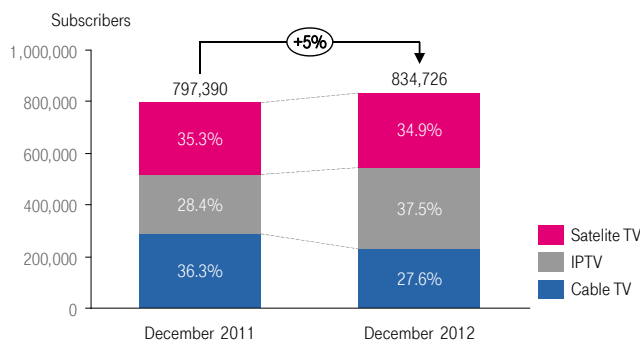
## T-Home fixed broadband subscriber breakdown



### Market trends

- broadband market **growth driven by cable and fiber development**, while ADSL growth has slowed
- internet service portfolio restructured to **support fixed broadband market share**
- TV ARPU supported by increasing ratio of **interactive IPTV customers**
- significant **migration from cable to IPTV**

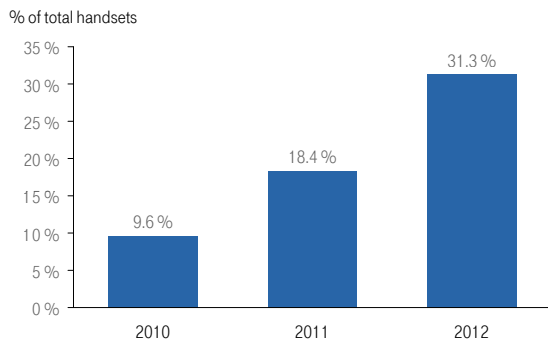
## TV subscriber breakdown



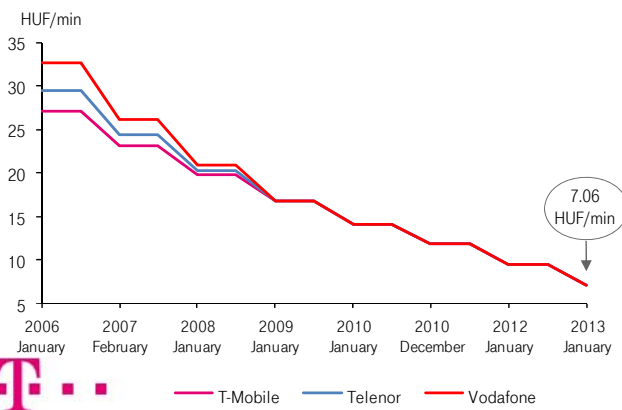
# HUNGARY – MOBILE VOICE AND DATA MARKET



## T-Mobile smartphone penetration



## Mobile termination rate cuts



### Market trends

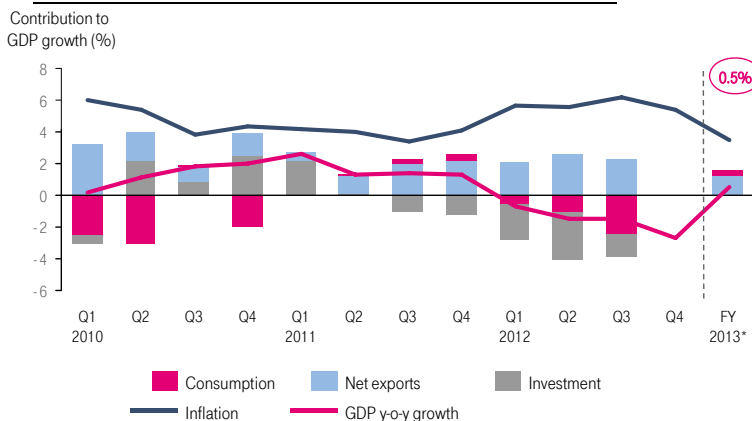
- improving customer mix: y-o-y increase in postpaid ratio to 47% from 46%
- smartphone sales reached 70% in 2012
- broadband subscription attach rate at ca. 80%
- full LTE coverage in Budapest and 65 additional towns in Hungary
- MTR cuts: 20% cut from Jan 2012, further 25% cut from Jan 2013 to 2.4 eurocents



— T-Mobile — Telenor — Vodafone

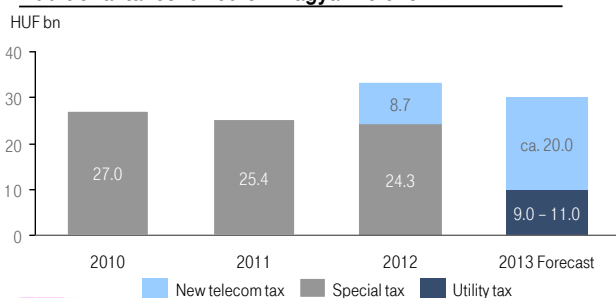
# HUNGARIAN ECONOMIC ENVIRONMENT

## Growth structure



\* Central Bank of Hungary December 2012 forecast

## Additional taxes levied on Magyar Telekom



■ New telecom tax ■ Special tax ■ Utility tax

### Economic challenges

**Economic downturn coupled with a high rate of inflation**

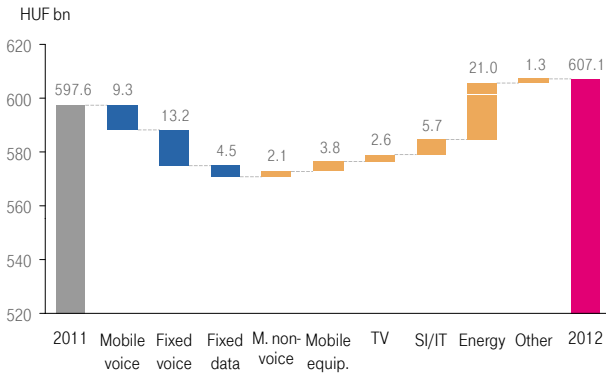
- GDP performance dependent on export dynamics
- continued decline in household spending due to the weakening HUF, high unemployment and inflation has put pressure on consumption
- MT financials strongly correlated with trends in domestic demand

**New tax burdens introduced to reduce budget deficit**

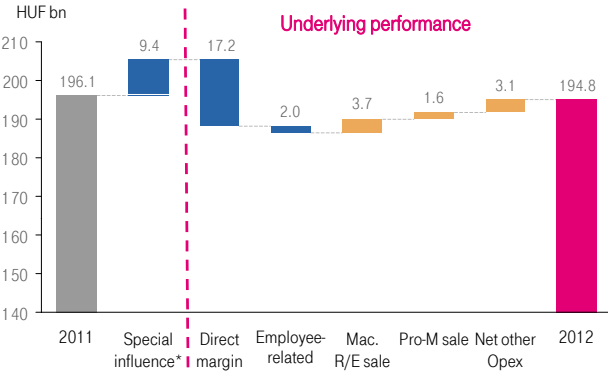
- special, revenue-based sector tax levied on a temporary basis between 2010-2012
- new, traffic-based permanent telecom tax introduced from July 2012
- permanent tax on utility and telecom networks levied from 2013

# 2012 GROUP RESULTS – REVENUES AND EBITDA

## Group revenues



## Group EBITDA



### Revenue development

#### Group revenues up 1.6% y-o-y

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

### EBITDA development

#### Underlying EBITDA down 4.4% y-o-y

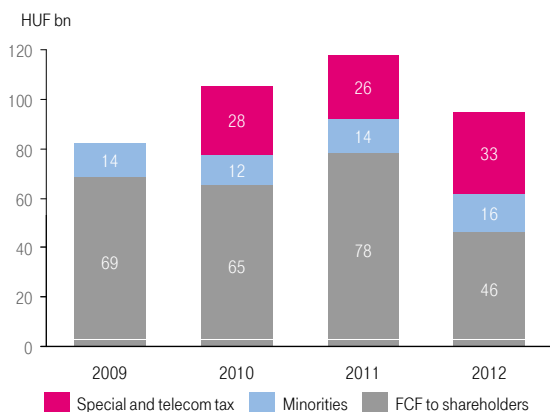
- further erosion of traditional voice and data revenues
- lower direct margin contribution of new, growing businesses
- efficiency enhancing measures have mitigated margin dilution
- introduction of new telecommunications tax from July 2012
- negative impact of HUF 16.2bn provision related to the SEC/DOJ settlement on 2011 results

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

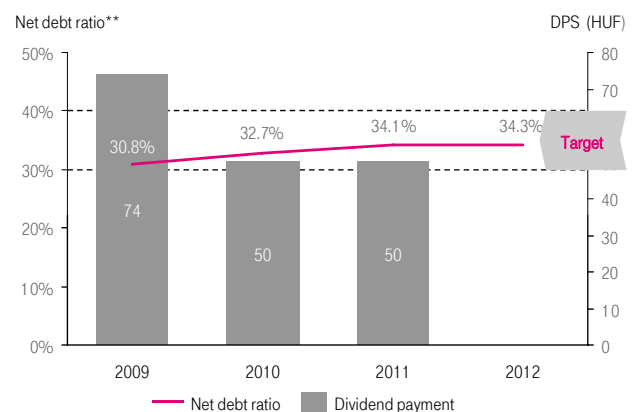


# FREE CASH FLOW AND DIVIDENDS

## Free cash flow\* generation



## Dividend payment



### Free cash flow generation

- FCF declined in 2012 due to a number of exceptional costs:
  - spectrum acquisition (HUF 10.9 bn)
  - DOJ/SEC settlement (HUF 22.1 bn)
  - new telecom tax introduced in July 2012 (HUF 9 bn)
- partially mitigated by proceeds from Pro-M sale (HUF 20 bn)

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

### 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 2012
- the Board of Directors proposes HUF 50 dividend per share on 2012 earnings for approval at the AGM

\*\* defined as net debt / total capital



# MAGYAR TELEKOM STRATEGIC BUSINESS PRIORITIES 2013

We aim to become the most highly regarded SERVICE company, thereby maintaining our leadership in all segments and achieving turnaround in our financials both top- and bottom-line. Short-term corporate targets are derived from long-term priorities

## INNOVATE the core

1. Build online Company through E-TRANSFORMATION both externally and internally
2. Differentiate through outstanding CUSTOMER EXPERIENCE in all channels
3. Secure leadership in BROADBAND QUALITY countrywide (fixed and mobile)
4. Improve OPERATIONAL EXCELLENCE through online and agility
5. Develop PEOPLE as our most important assets

## GROW the core

6. Leverage B2B competences in IT services regionally and increase non-telco revenues

## EXTEND the core

7. Boost INNOVATION and capture new revenue streams in Digital Home and Retail+



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## PUBLIC TARGETS FOR 2013

	2013 targets	2012 results
<b>Revenue</b>	Flat to -3% <ul style="list-style-type: none"> <li>■ pressure on real disposable income to lead to a further decline in household consumption</li> <li>■ spending power in the business sector is expected to remain limited</li> <li>■ shortfall of Pro-M revenues</li> </ul>	+1.6%
<b>Reported EBITDA</b> <p><i>*4.4% decline y-o-y refers to change in underlying EBITDA</i></p>	4 – 7% decline <ul style="list-style-type: none"> <li>■ changing revenue mix with increasing proportion of sales made up by lower margin services</li> <li>■ margin dilution partially mitigated by efficiency enhancing measures</li> </ul>	-4.4%*
<b>CAPEX**</b> <p><i>**excluding spectrum license fees</i></p>	5% decline <ul style="list-style-type: none"> <li>■ network modernization, LTE roll-out</li> <li>■ internal efficiency programs</li> </ul>	92.4bn



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## DIVIDEND PAYMENT DETAILS

The proposed gross dividend is HUF 50 per ordinary share with a nominal value of HUF 100

- April 22, 2013 detailed announcement will be published on the order of dividend disbursement on the homepage of the Company and the Budapest Stock Exchange
- May 6, 2013 last day of trading with Magyar Telekom shares entitled to dividend
- May 7, 2013 ex-dividend date
- May 9, 2013 record date for dividend entitlement
- May 16, 2013 first day of dividend disbursement



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# THANK YOU FOR YOUR ATTENTION!

FOR FURTHER QUESTIONS PLEASE CONTACT THE INVESTOR RELATIONS DEPARTMENT:

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