

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject:	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 2011
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Budapest, April 16, 2012

Annual General Meeting

April 16, 2012

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 2011

Christopher Mattheisen

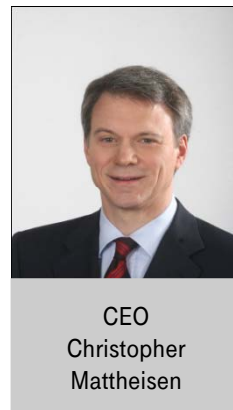
Chairman and CEO



„According to Section 7.4.1.e) of the Articles of Association and Section 10.1.e) of the Rules of Procedure of the Board of Directors, the Board of Directors draws up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.”



Management Committee and Reporting Structure



Marketing
István Király



Sales & Service
Attila Keszég



Technology and IT
István Maradi



Business Services
Business Unit
Róbert Budafoki



Strategy and
Corporate
Development
Róbert Pataki



Human Resources
Éva Somorjai



Finance
Thilo Kusch



Legal and
Corporate Affairs
Balázs Máthé

Reporting
structure

Telekom Hungary

- residential, Soho, SMB customers

T-Systems Hungary

- mid-size businesses and enterprise clients

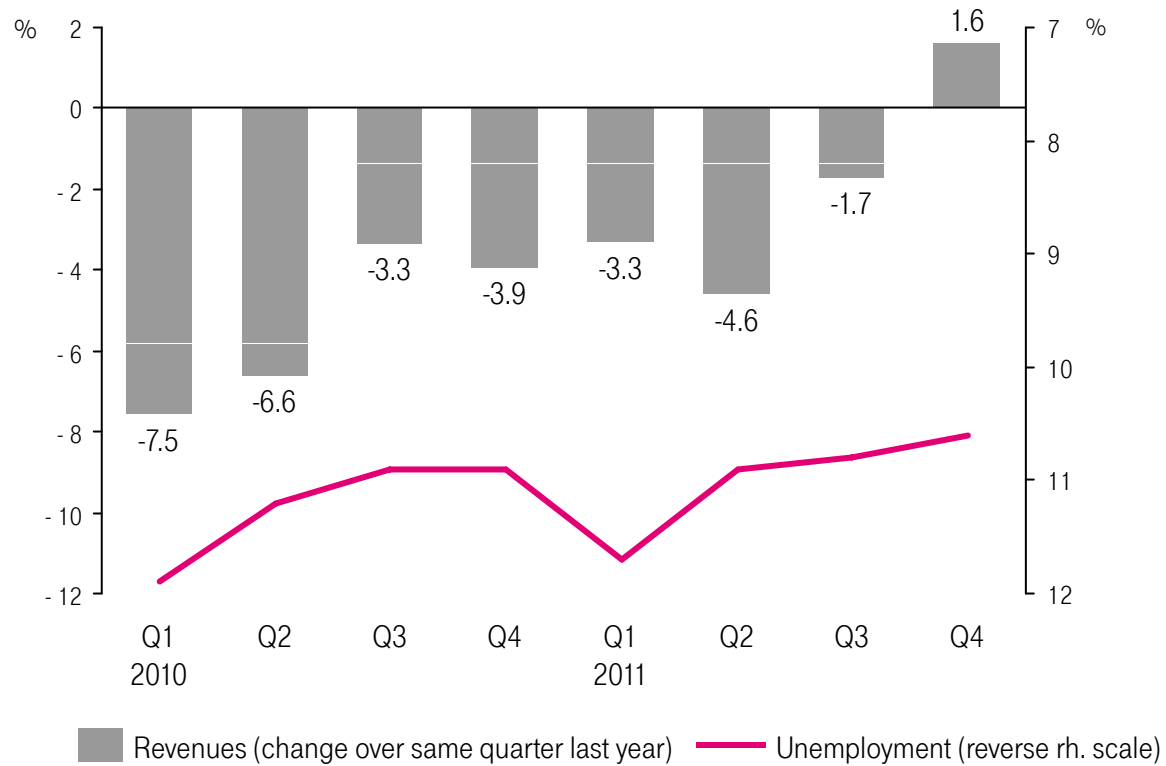
Macedonia

Montenegro



Correlation of results and the Hungarian economy

Magyar Telekom revenue and unemployment



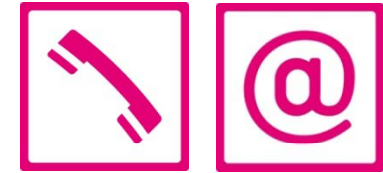
Macro effects

Economic downturn impacting MT results

- MT results are very sensitive to developments in internal demand
- correlation with unemployment, disposable income are strong
- slow improvement in the economy can be felt in the revenue trends in the last two years

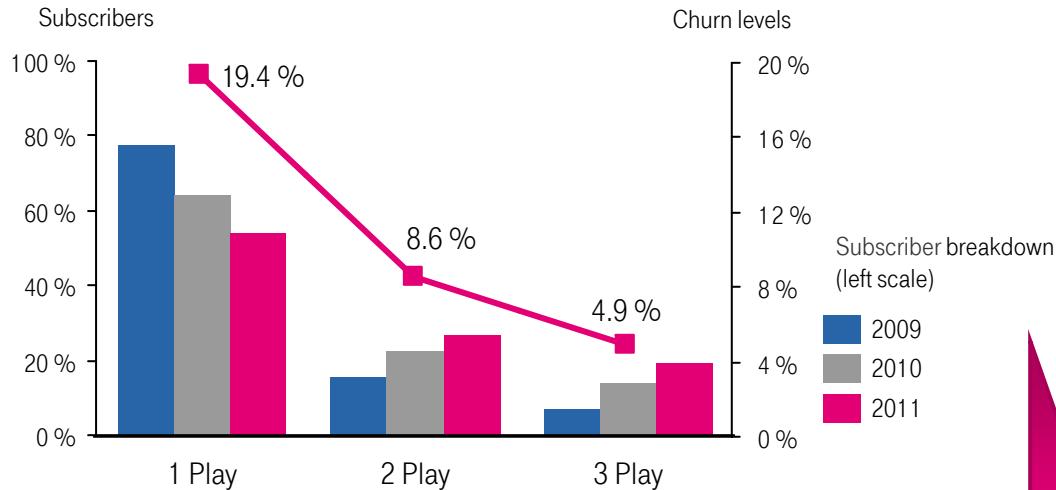


Hungarian market – Fixed voice and broadband

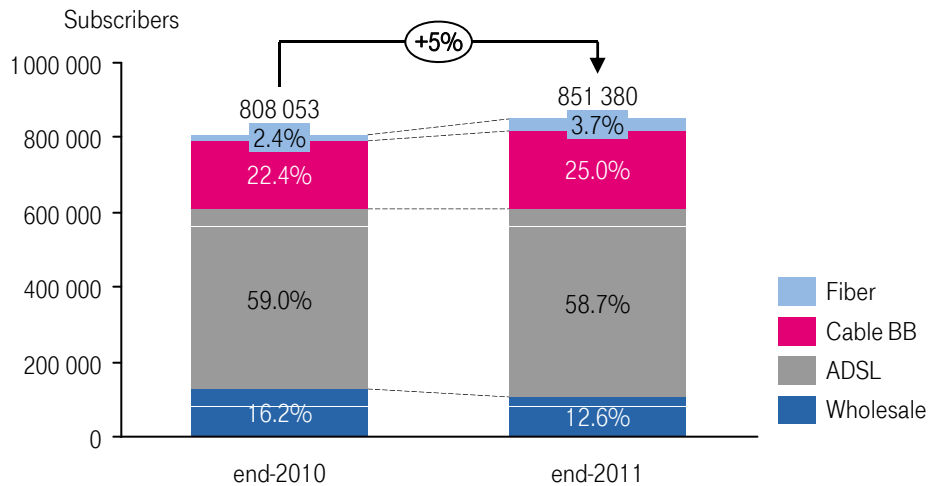


Multi-Play developments

Average churn levels



T-Home fixed broadband subscriber breakdown



Fixed voice

- significantly lower fixed voice churn thanks to the retention effect of:
 - Hoppá package
 - discounts offered in bundled packages
 - retail energy bundling
- churn declined from 8.8% in 2010 to 5.0% in 2011

Fixed broadband

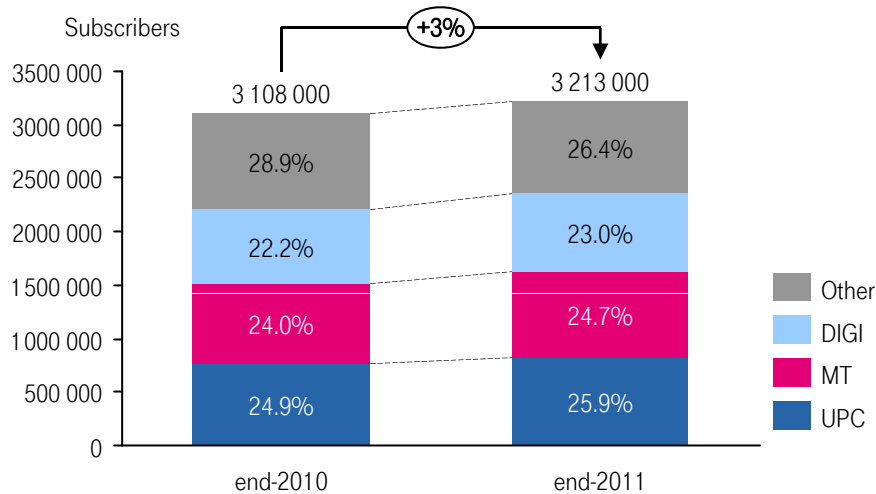
- market growth driven by cable and fiber services
- stable fixed BB market share at 37%



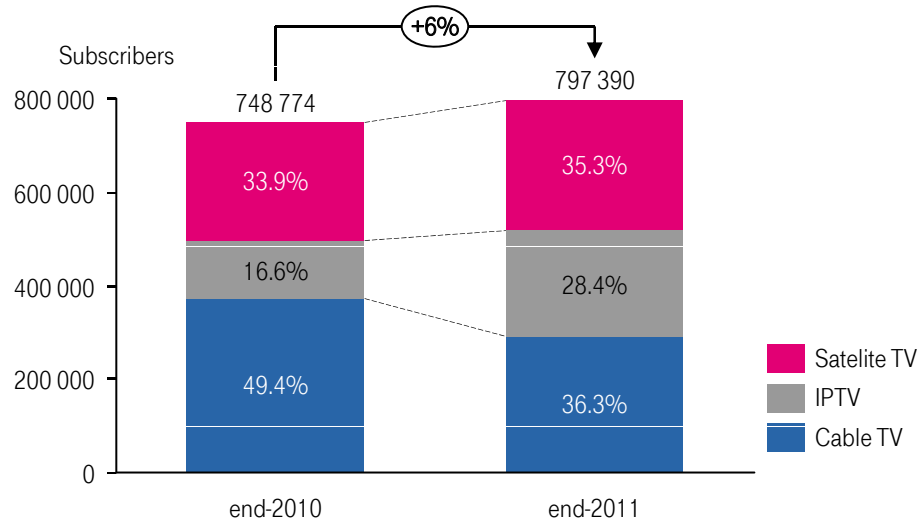
Hungarian market – TV



TV market shares



T-Home TV subscriber growth

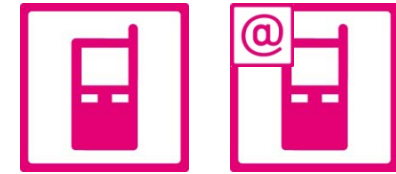


TV customer growth

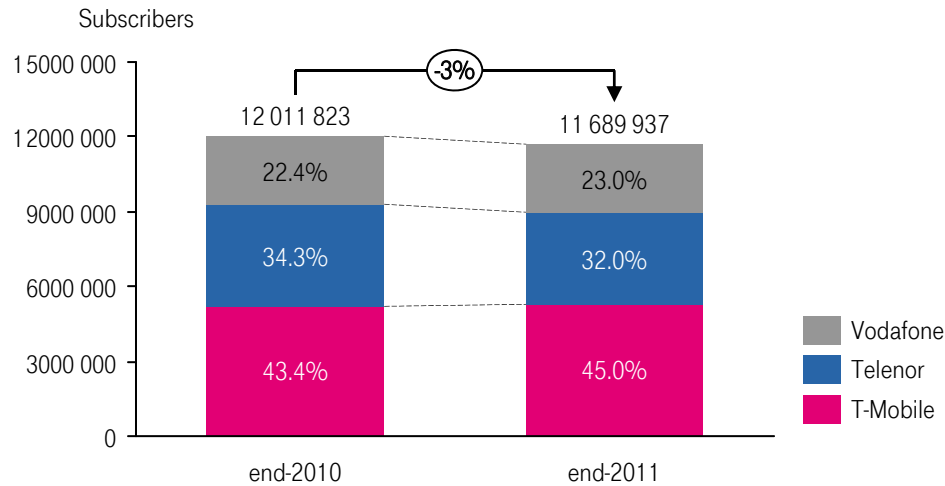
- significant migration from cable to IPTV
- number of TV customers growing fast, stable market position
- retention benefit: 80% of TV customers are 2Play or 3Play package subscribers
- increasing ratio of interactive IPTV customers improve ARPU



Hungarian market – Mobile voice and broadband



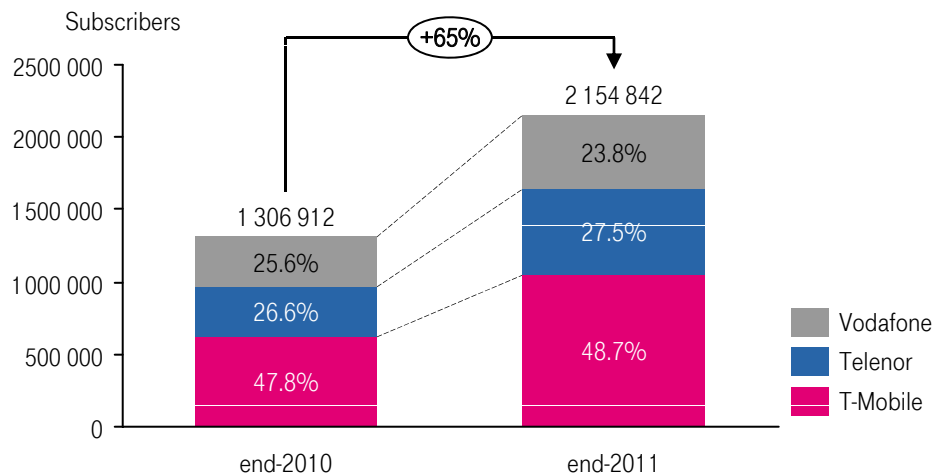
Mobile voice market shares (based on total SIM cards)



Mobile voice

- population-based penetration at 117%
- market share slightly increased

Mobile broadband market shares (based on total SIM cards)



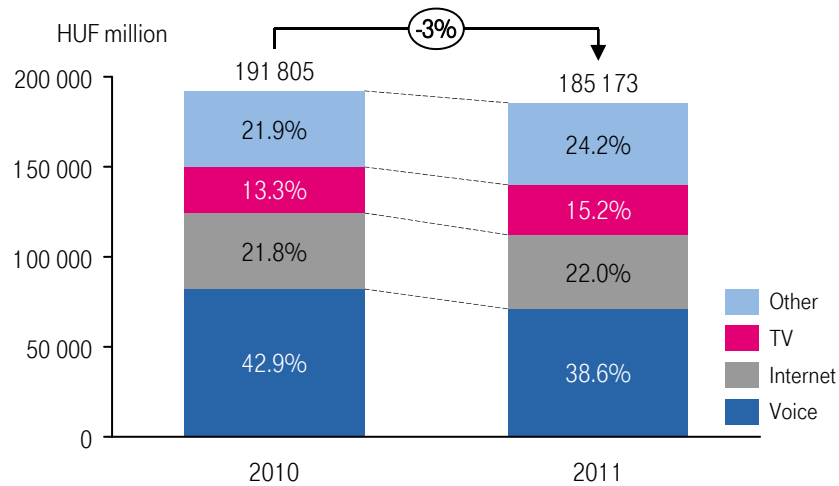
Mobile broadband

- 600 HSPA+ base stations offering 21 Mbps
- LTE service launched in 2012
- significantly increasing smartphone sales
 - the ratio of smartphone sales in the postpaid segment reached 80% in Q4 2011 (ca. 40% a year ago)

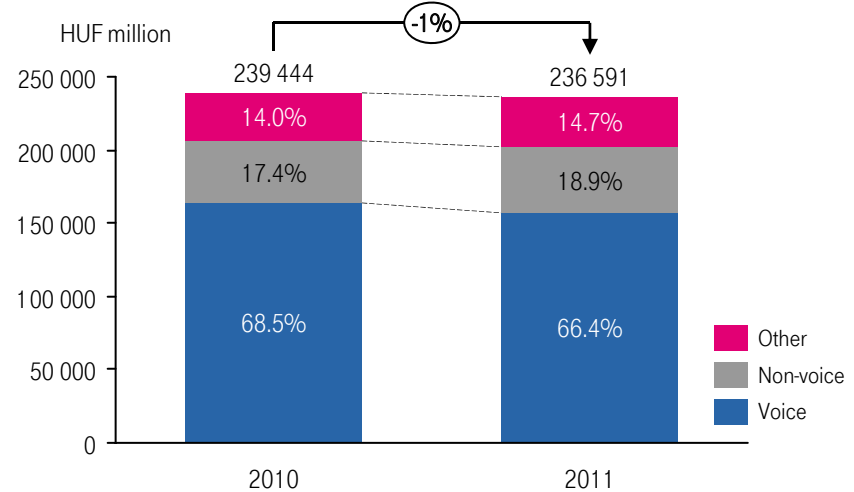


Segment results – Telekom Hungary

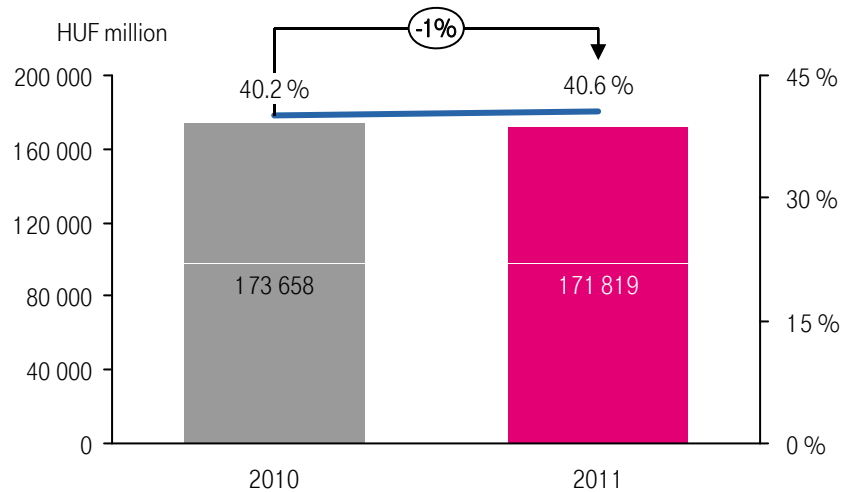
Fixed line revenues



Mobile revenues



Underlying EBITDA and margin



Telekom Hungary

Total revenues down by 2.1%

- declining voice revenues partly offset by higher TV, other fixed and mobile non-voice revenues
- 10% other fixed line revenue increase driven by retail energy offers
- regulatory impacts on mobile revenues

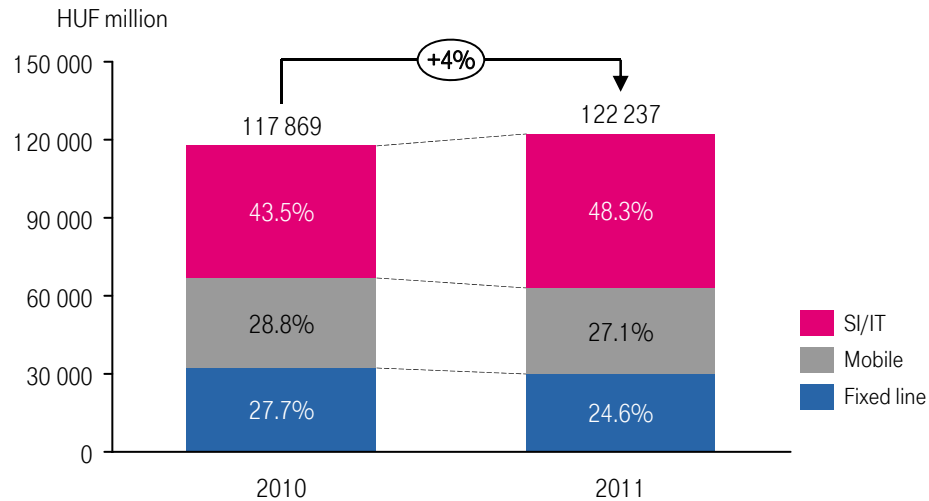
Increase in underlying EBITDA margin by 0.4pp

- reduction in high-margin voice revenues and increased handset subsidies offset by cost efficiency

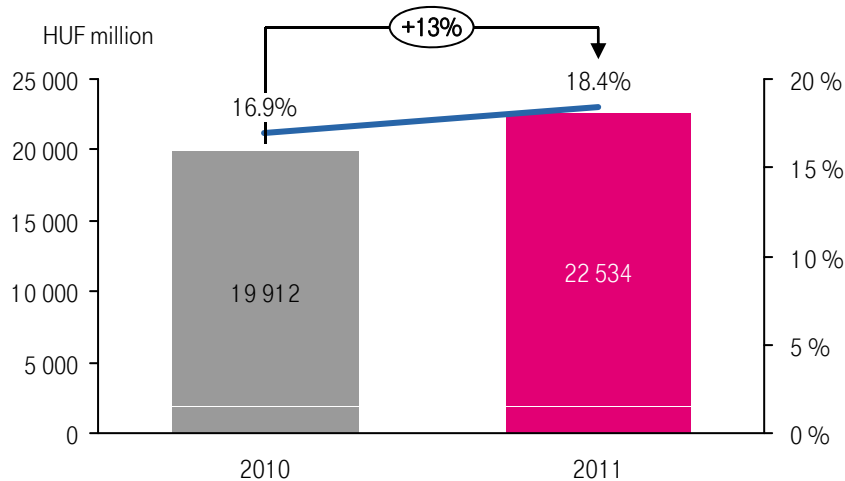


Segment results – T-Systems Hungary

Revenues



Underlying EBITDA and margin



T-Systems Hungary

Falling voice and data revenues

- price pressure both on fixed and mobile voice

Significant growth in SI/IT revenues

- some big infrastructure projects in the corporate segment, public projects still not launched
- leading market position with 15% market share maintained

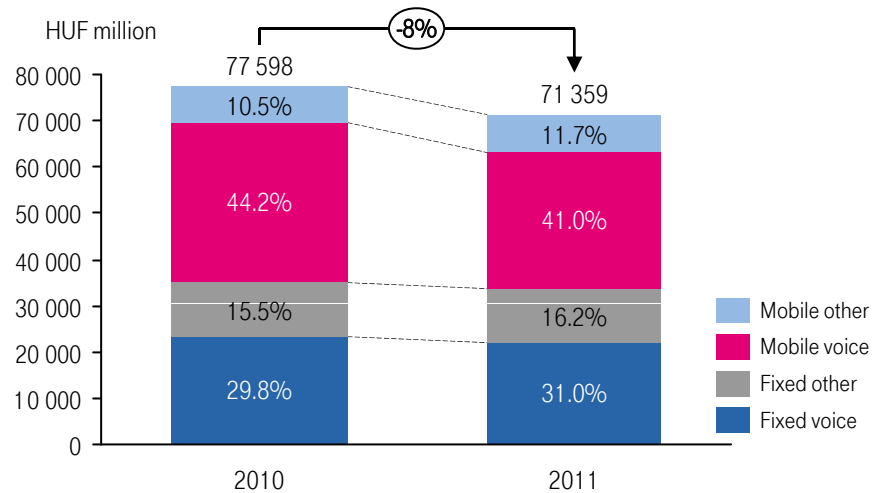
Underlying EBITDA margin improved

- cost efficiency measures

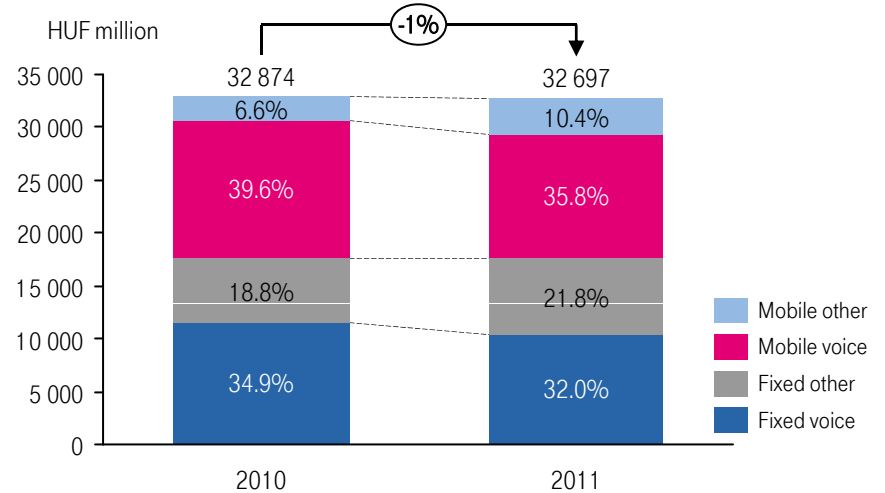


Segment results – International operations

Macedonia revenues



Montenegro revenues



Macedonia

Declining fixed line revenues

- due to cable competition and strong mobile substitution
- positive contribution from broadband and TV revenues

Mobile competition getting fierce

- strong price competition in the business and prepaid segments
- #1 position maintained, 50% market share stabilized

Montenegro

Fixed voice revenues under pressure

- growing internet and TV revenues
- #1 position in the pay-TV market with a 38% market share

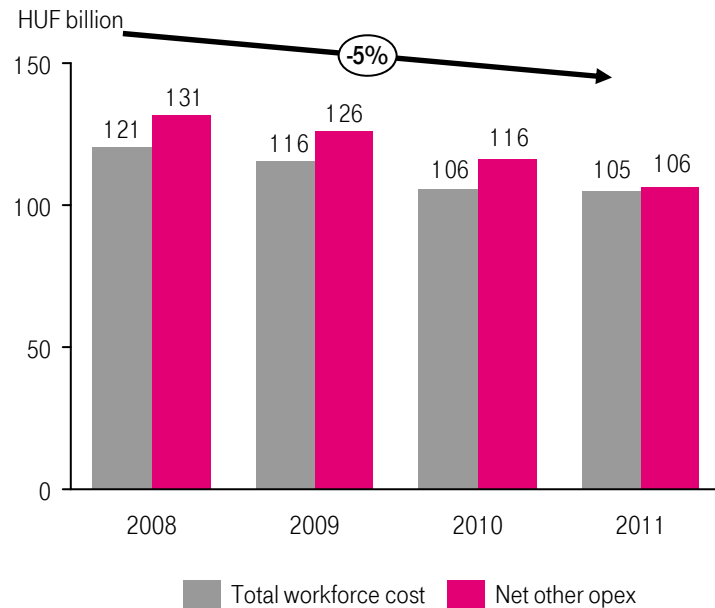
Flat mobile revenues

- #1 position on the postpaid market

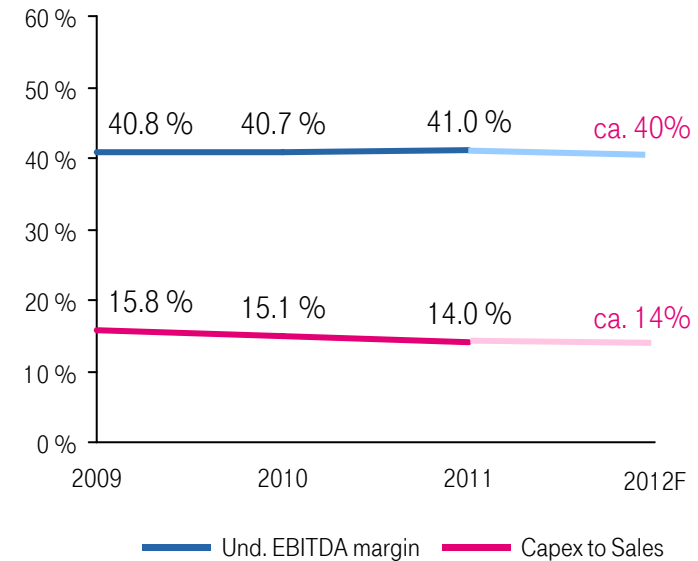


2011 Group results – Continued efficiency improvements

Cost saving



Stable underlying margin and CAPEX spending



Headcount reduction in 2012

- headcount reduction in 2012, TWM saving of HUF 3.4bn in 2012 compared to end 2010
- cost savings reflected in declining other operating expenses

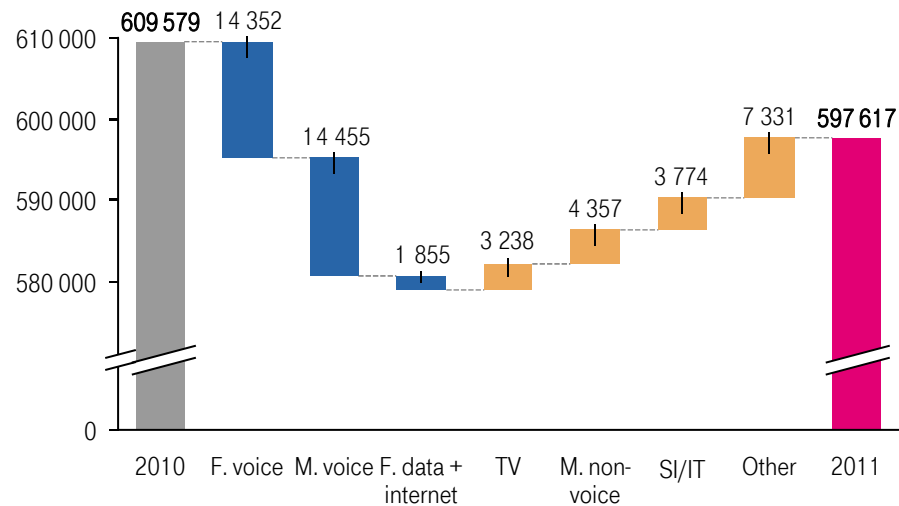
Stable profitability

- despite declining revenues and changing revenue mix, stable underlying margin maintained at above 40%
- Capex spending cuts in line with the revenue decline
- Capex cut by 10% in 2010, by a further 9% in 2011

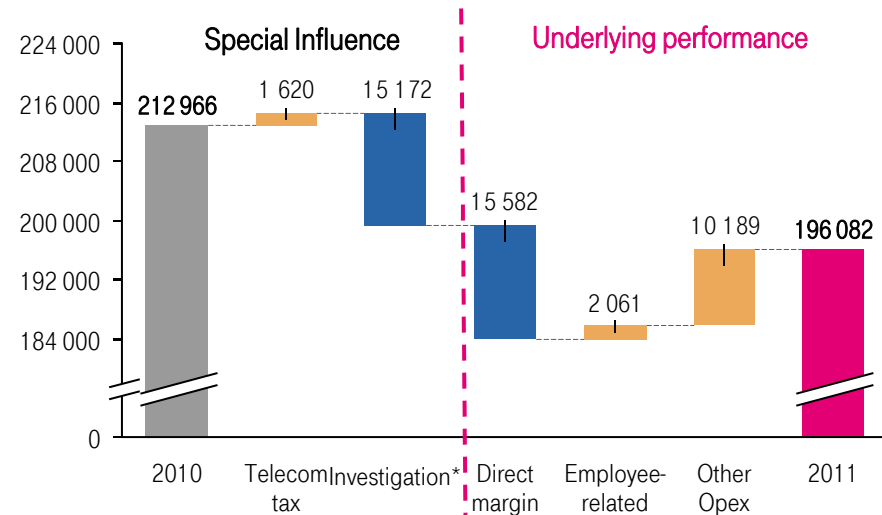


2011 Group results – Revenue and EBITDA

Group revenues



Group EBITDA



* also including the SEC/DOJ related provisions

Revenue development

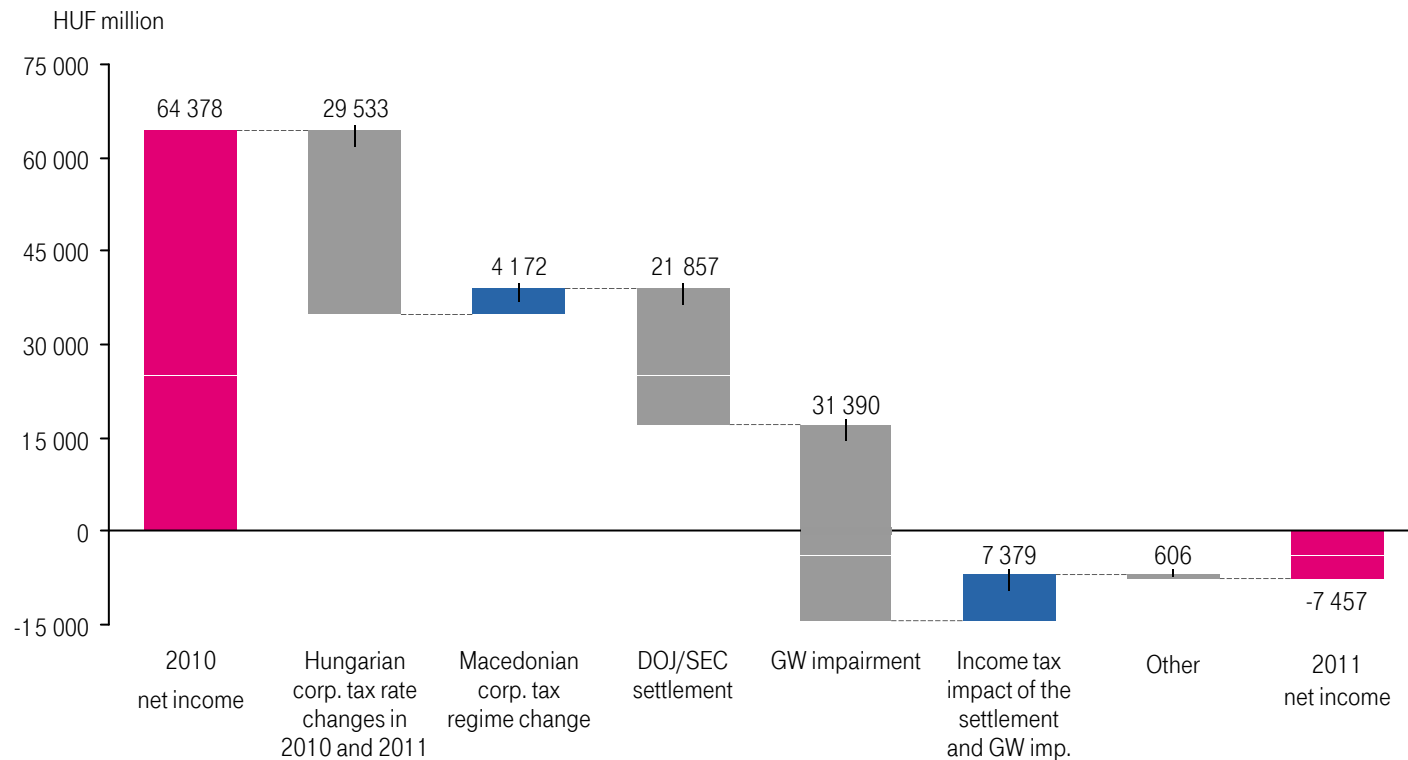
- Group revenues down by 2% y-o-y
- fixed and mobile voice revenues declined primarily due to continuing intense competition, depressed household consumption and MTR cut
- significant SI/IT improvement and mobile BB subscriber and revenue growth
- HUF 4.5bn revenues from retail energy drives other revenues increase

EBITDA development

- underlying EBITDA down by 1.3% y-o-y
- despite declining revenues and changing revenue mix, underlying margin maintained at 41%
- EBITDA margin under pressure due to further erosion of traditional voice revenues
- cost efficiency improvements reflected in declining other operating expenses



2011 Group results – Net income decline



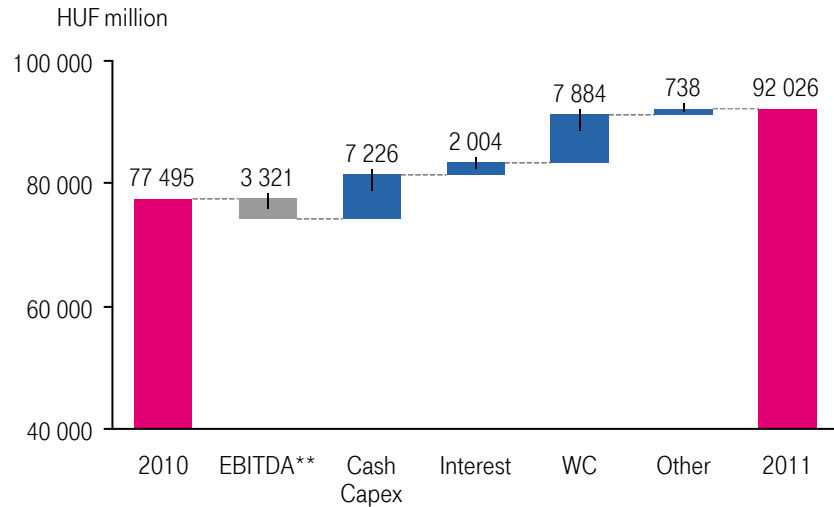
Drivers of the decline in net income (owners of the parent)

- changes in Hungarian corporate tax rate both in 2010 and 2011 (in 2010: universal 10% corporate tax rate from 2013 was enacted resulting in a HUF 14.6bn one-off decrease in income tax expense, vs. in 2011: tax law was changed, 19% remained effective resulting in a HUF 15bn one-off increase in income tax expense)
- goodwill impairment had to be accounted on the Macedonian operation due to worsening outlook
- provision related to the SEC/DOJ settlement



2011 Group results – FCF and dividend policy

Free cash flow* generation



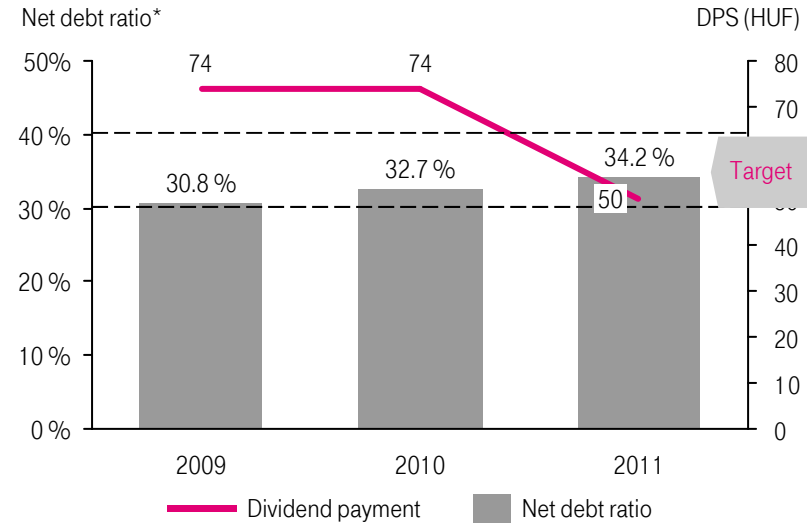
*defined as Operating CF + Investing CF adjusted for proceeds from/payments for other financial assets

**excluding investigation and severance expenses, as well as telecom tax

Strong cash flow generation in 2011

- FCF increased by HUF 15bn
- FCF was helped by:
 - cut in CAPEX (-9% y-o-y)
 - more efficient working capital management

Dividend payment



* net debt to total capital

Dividend policy

- keep net debt ratio within 30-40% range to maintain a flexible balance sheet
- 9% dividend yield (based on the share price of HUF 554 at February 24, 2011)
- the Board of Directors proposes HUF 50 dividend per share after 2011 earnings for approval to the AGM



2011 results and public targets for 2012

	2011 Performance	2012 Public targets
Revenue	2% decline <ul style="list-style-type: none">the target was 3-5% declinestrong SI/IT performanceincreasing revenues from energy resale	Flat to -2% <ul style="list-style-type: none">fears for recession, declining household income strengthenchanging revenue mix and energy resale enable revenue turnaround
Underlying EBITDA <i>Excluding investigation and severance expenses, as well as telecom tax</i>	1.3% decline <ul style="list-style-type: none">the target was 4% declinestrong cost cuttinghigher margin at T-Systems Hungary compared to 2010	4%-6% decline <ul style="list-style-type: none">changing revenue mix with increasing ratio of low margin servicesCRM/billing system replacement to be delivered in 2012
CAPEX	8.7% decline <ul style="list-style-type: none">the target was 5% saving	Flat <ul style="list-style-type: none">internal efficiency projectnetwork modernization, LTE



Magyar Telekom strategic business priorities 2012



Dividend payment details

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

- April 20, 2012 detailed announcement will be published on the order of dividend disbursement on the homepage of the Company and the Budapest Stock Exchange
- May 3, 2012 last day of trading with Magyar Telekom shares entitled to dividend
- May 4, 2012 ex-dividend date
- May 8, 2012 record date
- May 15, 2012 payment date (ordinary shares)

Method of payment: the dividends will be transferred to the client account of the securities accounts kept by the securities account holders of the shareholders



Dividend – tax implication

- Dividends are subject to withholding tax
- Tax will be deducted before payment
- Rates and taxes:
 - domestic private individuals: 16% personal income tax
 - foreign private individuals: 16% personal income tax
 - legal entities with Hungarian domicile: 0%
 - legal entities with foreign domicile: 0%
- Magyar Telekom issues a certificate on the amount of dividend paid, rates and taxes deducted and sends it to its shareholders not later than January 31, 2013.

