

MAGYAR TELEKOM GROUP

Q2 2013 RESULTS



LIFE IS FOR SHARING.

HIGHLIGHTS

- Revenue growth maintained
- Market position improved in all key segments of the Hungarian market
- Telekom Hungary fixed voice customer erosion and mobile ARPU decline successfully mitigated with equipment and service bundles
- System Integration/IT project volume increasing further although with lower profit content
- Acquisition of frequency blocks on 800MHz and 1800MHz spectrum in Macedonia; LTE service to be launched by year-end
- Solid performance in Montenegro



PUBLIC TARGETS FOR 2013

Revenue

Increasing

- Upward revision due to higher contribution from equipment sales that also supports customer retention and thus revenue generation in the core business
- Higher generated volume in the SI/IT business
- Strong contribution from energy services

EBITDA

9-12% decline

- Downward revision in June from 4-7% decline driven by higher telecommunication tax burden and deteriorating Macedonian performance
- Changing revenue mix with increasing proportion of sales made up by lower margin services

CAPEX*

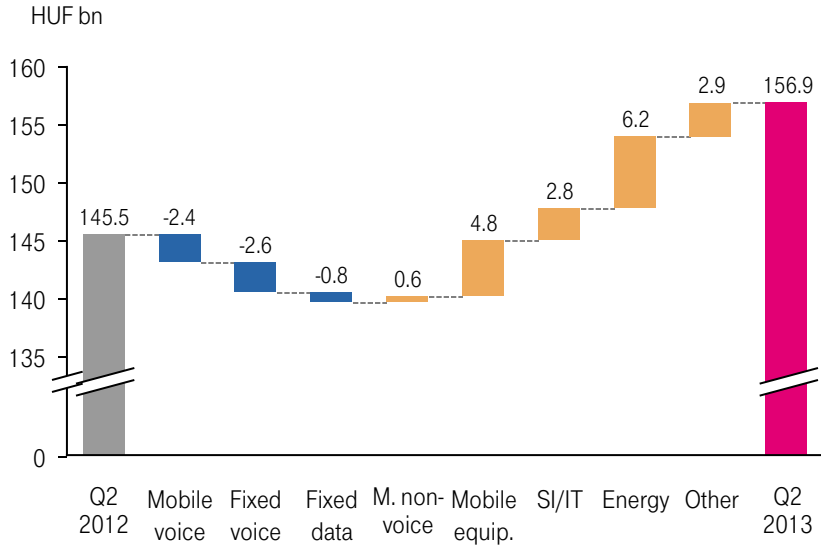
ca. 5% decline

- Network modernization, LTE roll-out
- Internal efficiency programs

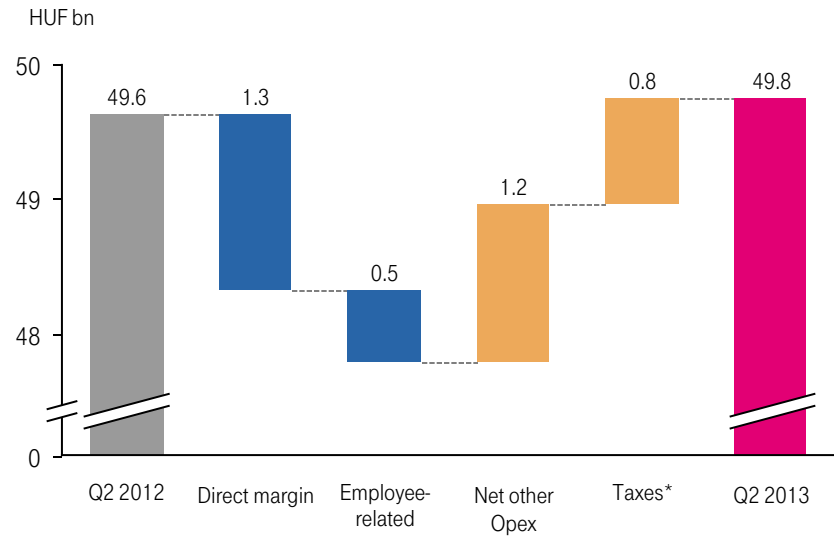
**excluding spectrum license fee*

Q2 2013 GROUP RESULTS – REVENUES AND EBITDA

Group revenues



Group EBITDA



Revenue development

Group revenues up by 7.9% Q2-o-Q2

- strong contribution from energy service revenues
- SI/IT revenue growth fueled by application and infrastructure projects
- increase in contribution from smart-device 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

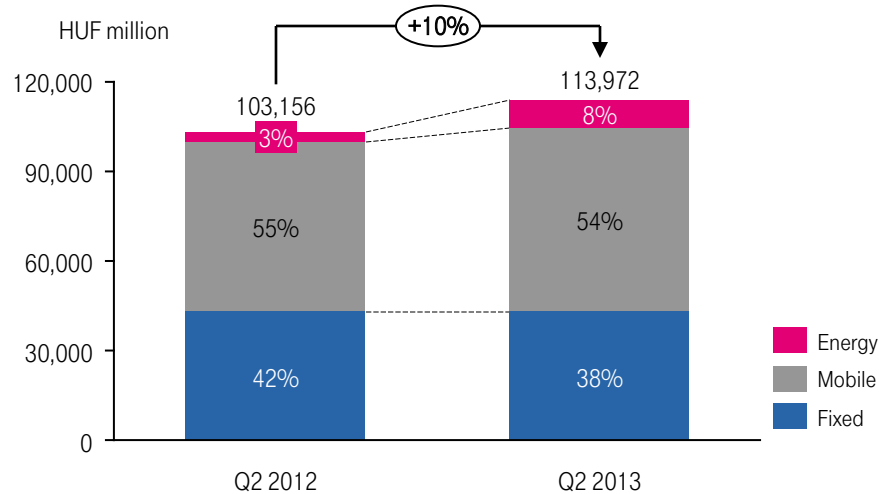
EBITDA development

EBITDA up 0.3% Q2-o-Q2

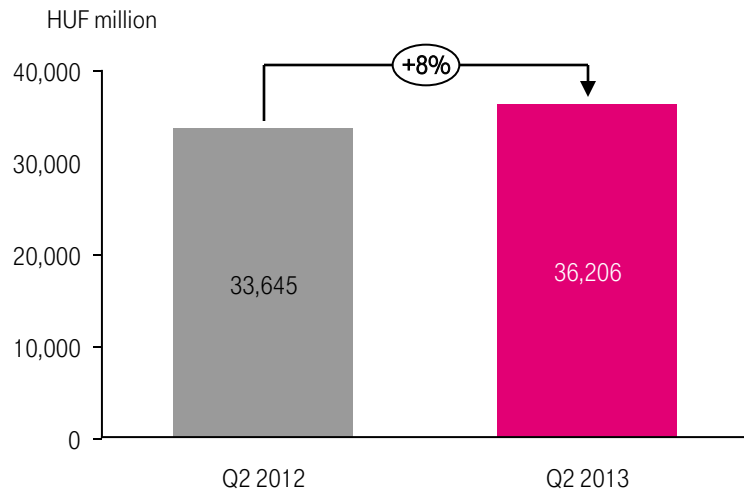
- direct margin erosion driven by:
 - further erosion of traditional voice and data revenues
 - lower direct margin contribution of equipment sales and SI/IT
 - negative margin of energy services due to the 10% cut in regulated energy prices effective from January
- lower operating taxes* and cost cutting measures offset the direct margin erosion

TELEKOM HUNGARY – FINANCIAL PERFORMANCE

Revenues



EBITDA



Telekom Hungary

Fixed line revenues flat

- higher revenues from equipment sales and TV services compensating for voice revenue erosion

Mobile revenues increased by 8%

- higher equipment sales supports retention and usage, which offset the decreasing tariffs and MTR rates

significantly higher energy retail revenues

- increasing number of PODs

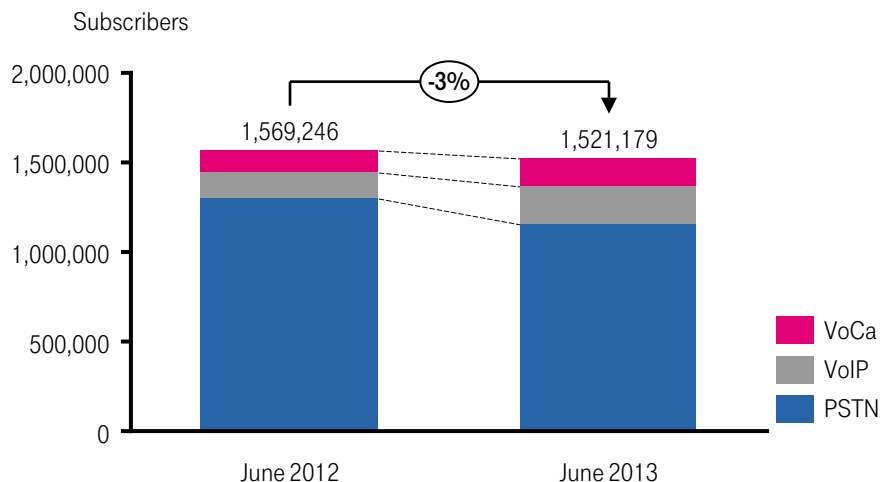
EBITDA up 8%; EBITDA margin at 31.8%

- direct margin increased by 1%
- employee related expenses flat as 4% wage increase was offset by lower headcount
- cost savings in other opex

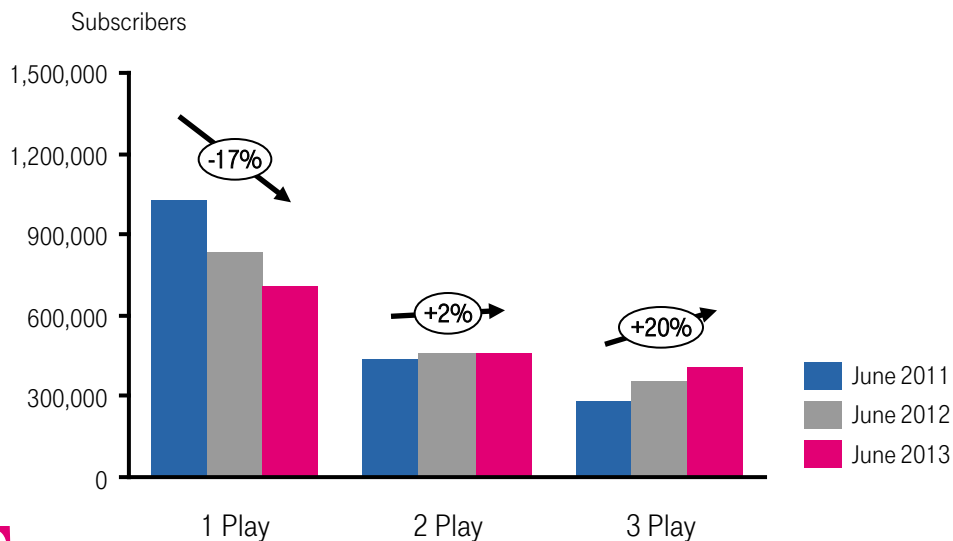
HUNGARY – FIXED VOICE MARKET



Telekom Hungary fixed voice subscribers



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 **45%**

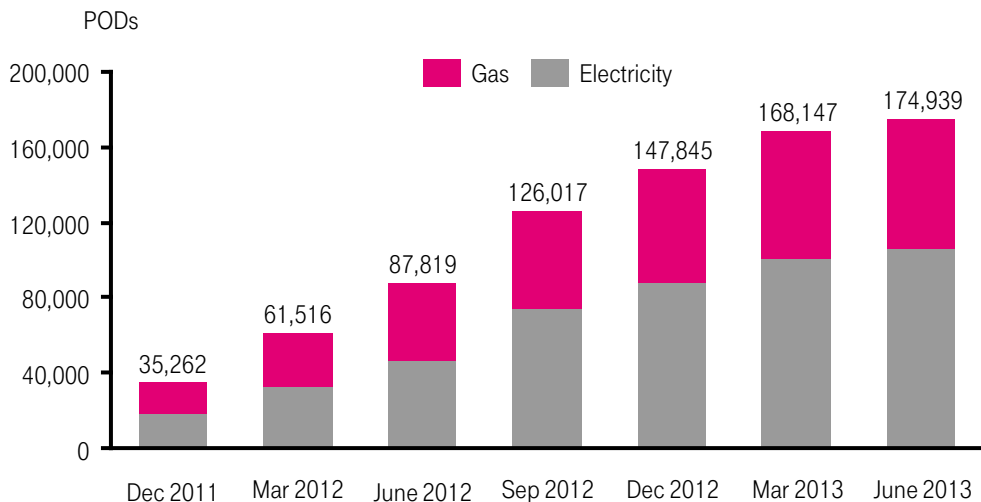
KPIs (changes Q2-o-Q2)

- ARPU: HUF 2,786 (-3%)
- Fixed MOU: 178 (+3%)

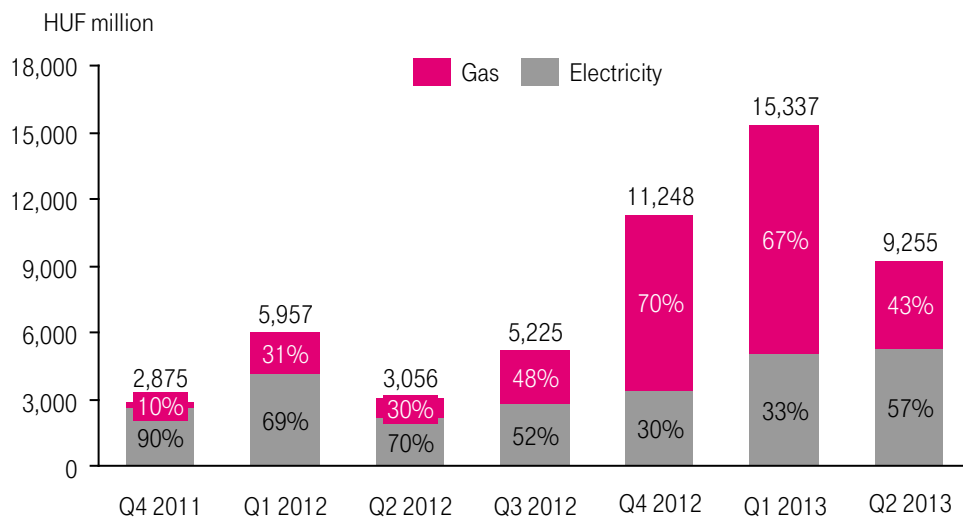
HUNGARY – ENERGY RETAIL



Gas and electricity points of delivery (POD)



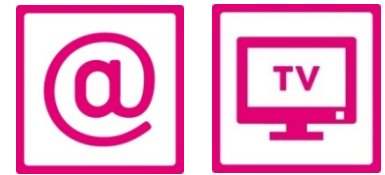
Revenue performance



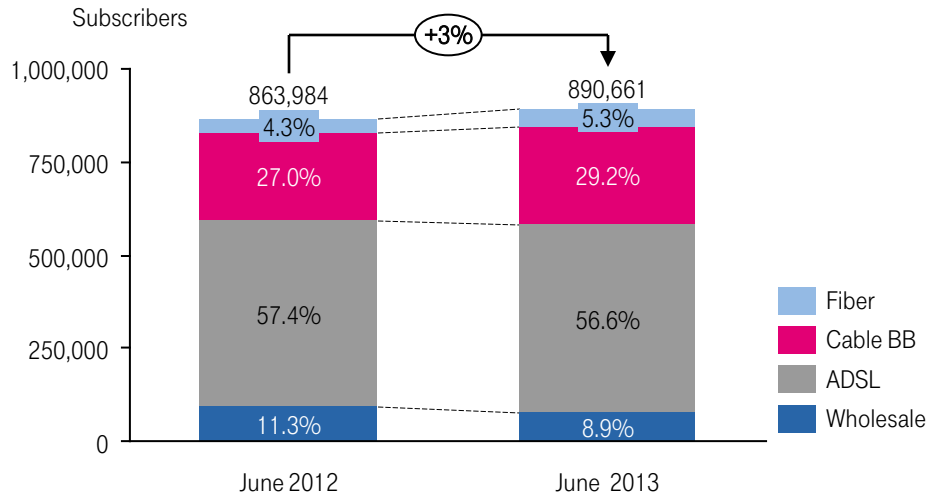
Market trends

- 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
- increasing ratio of energy revenues generated from **competitive segment customers**
- 45% of energy customers subscribe to a 3Play package
- energy market is strongly **seasonal**

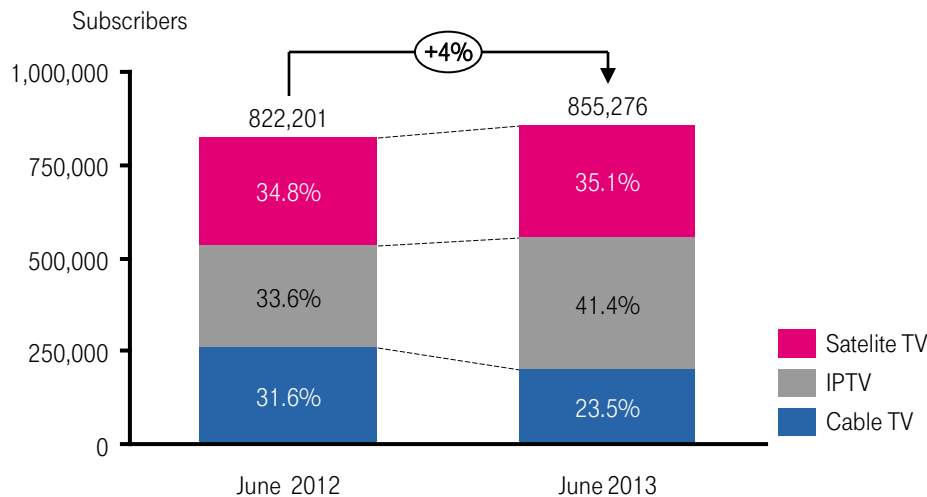
TELEKOM HUNGARY – BROADBAND AND TV MARKET



Fixed broadband subscriber breakdown



TV subscriber breakdown



Market trends

- broadband market **growth driven by cable and fiber**
- 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**
- **3Play offers** from HUF 7,640/month (EUR 26)

KPIs (changes Q2-o-Q2)

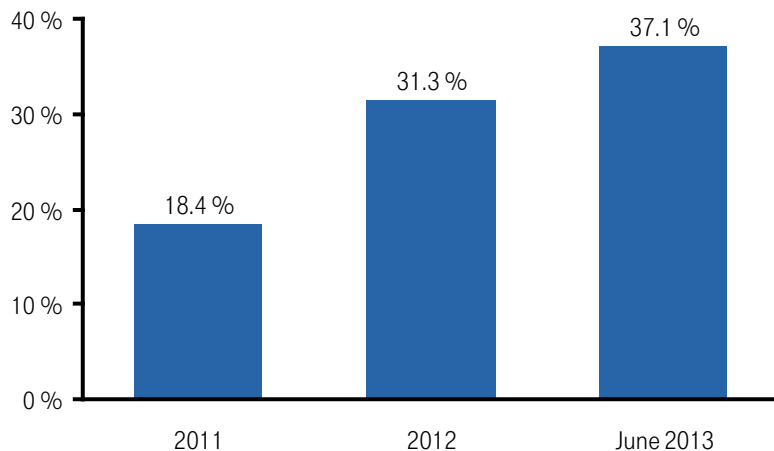
- Broadband ARPU: HUF 3,519 (-8%)
- TV ARPU: HUF 3,102 (+2%)

TELEKOM HUNGARY – MOBILE MARKET



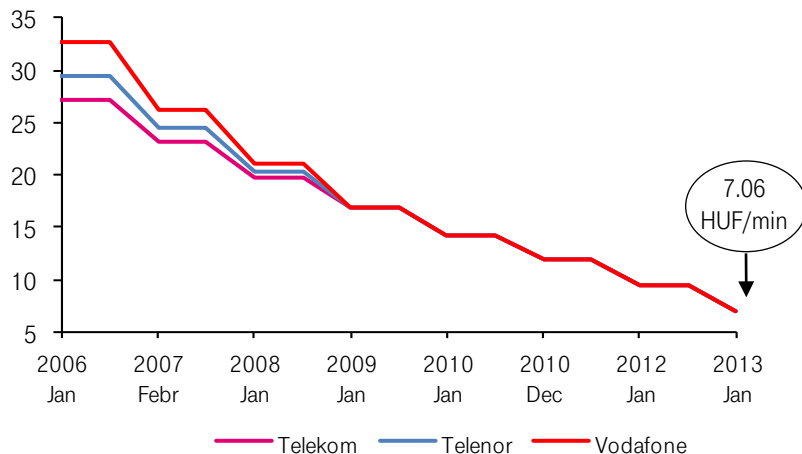
Telekom smartphone penetration

% of total handsets



Mobile termination rate cuts

HUF/min



Market trends

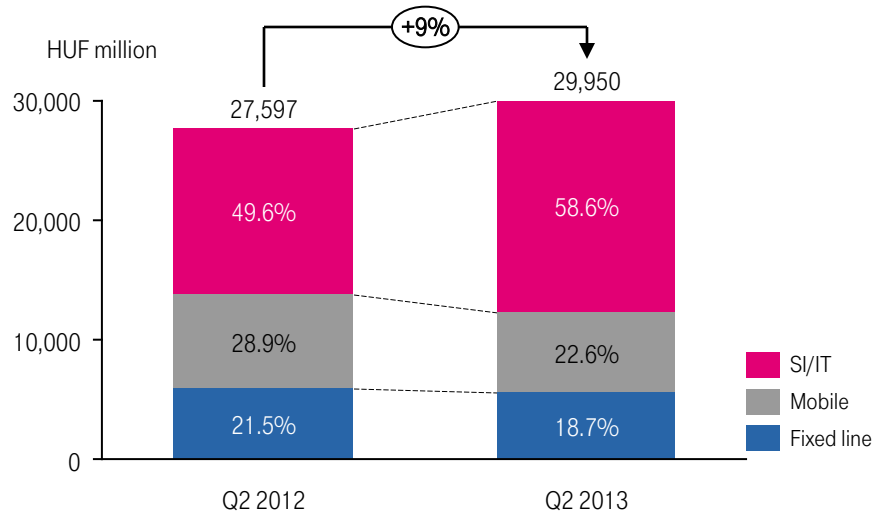
- **improving customer mix:** y-o-y increase in postpaid ratio to 48% from 46.5%
- **smartphone sales reached 67%**
- broadband subscription **attach rate at ca. 84%**
- full **LTE coverage** in Budapest and 37% population based coverage countrywide
- **MTR cut:** 25% from Jan 2013 to 2.4 eurocents

KPIs (changes Q2-o-Q2)

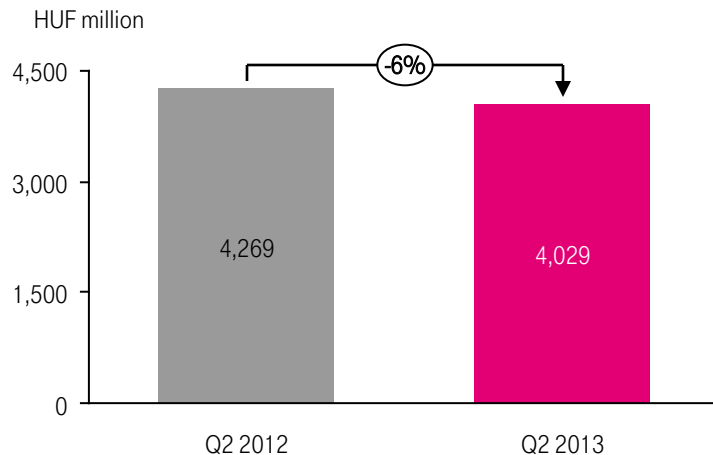
- ARPU: HUF 3,388 (-1%)
- Mobile MOU: 163 (+1%)
- SAC/gross add: HUF 5,376 (-11%)
- SRC/retained customer: HUF 12,193 (-26%)
- VAS within ARPU: HUF 847 (+6%)

T-SYSTEMS HUNGARY – FINANCIAL PERFORMANCE

Revenues



EBITDA



T-Systems Hungary

Fixed revenues down 6%

- lower usage data networks
- continued pressure on tariff levels

Absence of Pro-M revenues

28% increase in SI/IT revenues

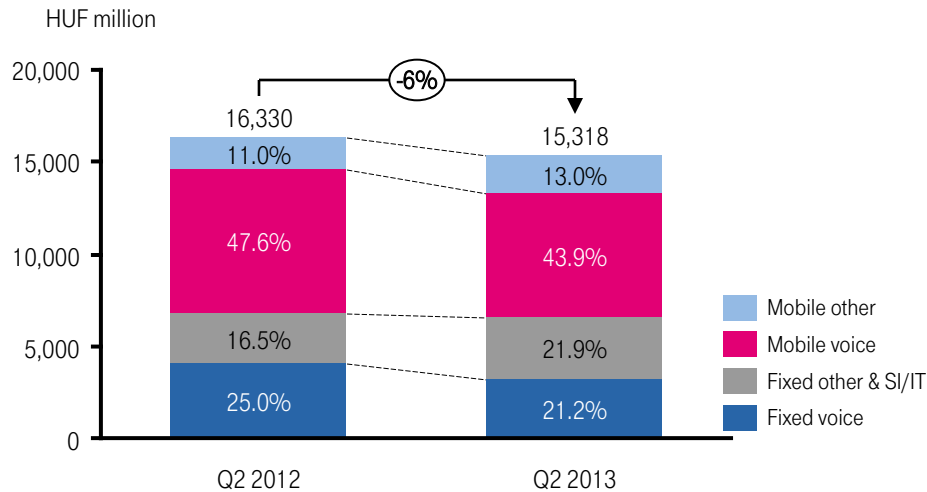
- higher amount of infrastructure and application projects
- leading market position with 17% market share

EBITDA margin at 13.5%

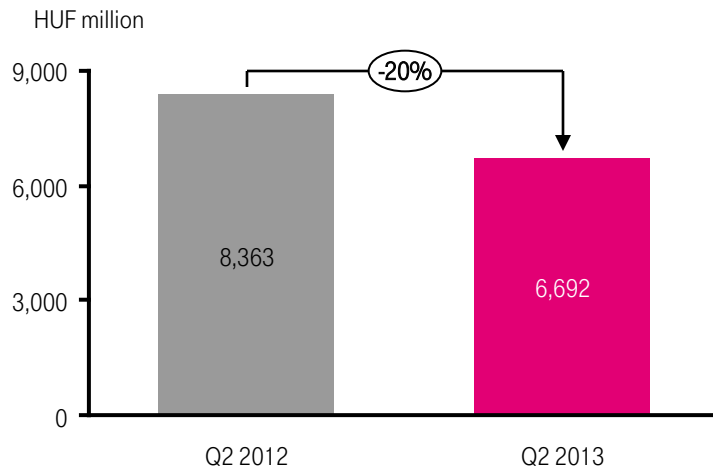
- decline of the higher margin telecommunication revenues
- shift in SI/IT to lower margin projects

MACEDONIA – FINANCIAL PERFORMANCE

Revenues



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 reflects severe price pressure in both fixed and mobile business

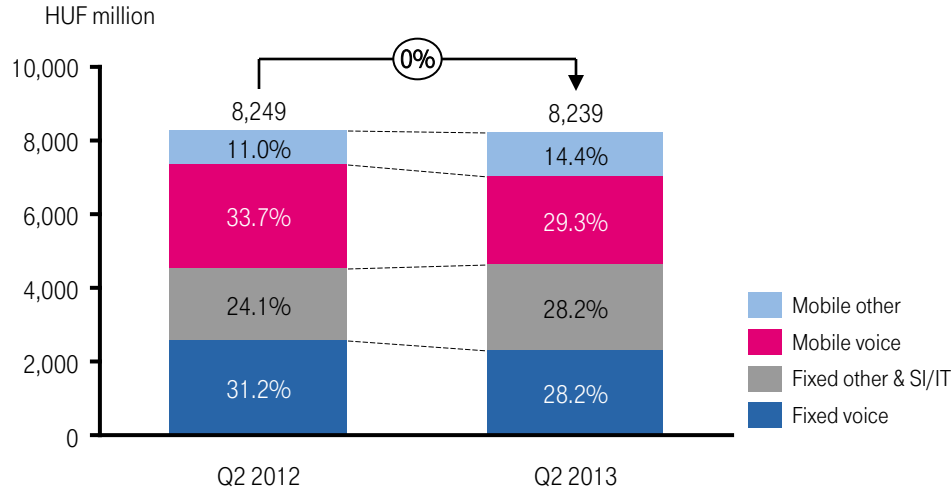
EBITDA margin stood at 43.7%

KPIs (changes Q2-o-Q2)

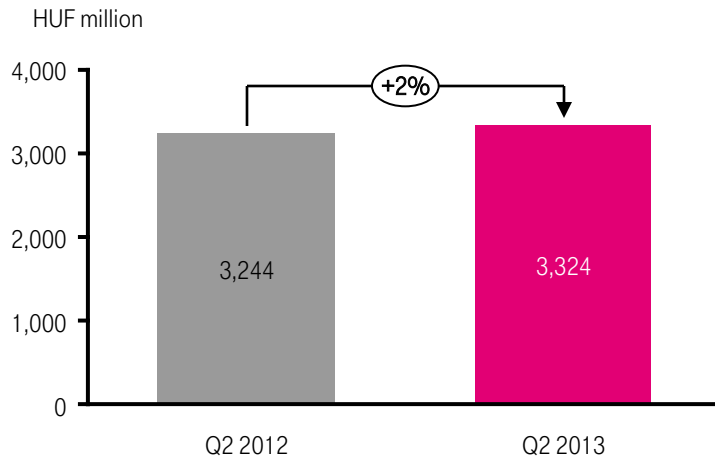
- Fixed churn: 7%
- Fixed outgoing traffic: -21%
- Mobile ARPU: HUF 2,205 (-9%)
- Mobile MOU: 189 (+19%)

MONTENEGRO – FINANCIAL PERFORMANCE

Revenues



EBITDA and margin



Montenegro

Competitive mobile market

- unfavorable economic environment and SIM based tax put pressure on retail voice revenues
- lower wholesale revenues driven by 43% cut in interconnection tariffs in January 2013
- 35% market share on the mobile voice market

Stable performance of the fixed segment

- growing TV revenues
- mobile substitution leading to lower usage

EBITDA margin at 40.3%

KPIs (changes Q2-o-Q2)

- Fixed churn: 2%
- Fixed outgoing traffic: -10%
- Mobile ARPU: HUF 3,024 (-14%)
- Mobile MOU: 174 (+5%)

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	2Q 2012	2Q 2013	Change
Mobile revenues	75 970	78 939	3.9%
Fixed line revenues	54 000	53 522	-0.9%
System Integration/Information Technology revenues	12 436	15 191	22.2%
Revenue from Energy Services	3 056	9 255	202.8%
Revenues	145 462	156 907	7.9%
Direct costs	(42 783)	(55 534)	29.8%
Employee-related expenses	(23 161)	(23 683)	2.3%
Depreciation and amortization	(26 128)	(25 514)	-2.3%
Hungarian telecommunications and other crisis taxes	(6 136)	(5 342)	-12.9%
Other operating expenses	(24 885)	(23 104)	-7.2%
Total operating expenses	(123 093)	(133 177)	8.2%
Other operating income	1 128	507	-55.1%
Operating profit	23 497	24 237	3.1%
Net financial expenses	(7 313)	(6 549)	-10.4%
Share of associates' profits	0	0	n.a.
Profit before income tax	16 184	17 688	9.3%
Income tax	(3 113)	(3 851)	23.7%
Profit for the period	13 071	13 837	5.9%
Non-controlling interests	2 392	1 630	-31.9%
Equity holders of the Company (Net income)	10 679	12 207	14.3%



MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Jun 30, 2012	Jun 30, 2013	Change
Current assets	183,176	195,657	6.8%
Cash and cash equivalents	11,992	15,118	26.1%
Other current financial assets	36,461	31,009	-15.0%
Non current assets	851,077	842,406	-1.0%
Property, plant and equipment - net	512,170	501,989	-2.0%
Intangible assets	313,836	314,211	0.1%
Total assets	1,034,253	1,038,063	0.4%
Equity	501,691	476,226	-5.1%
Current liabilities	199,546	261,224	30.9%
Financial liabilities to related parties	24,609	48,187	95.8%
Other financial liabilities	50,623	68,482	35.3%
Non current liabilities	333,016	300,613	-9.7%
Financial liabilities to related parties	281,365	237,024	-15.8%
Other financial liabilities	16,025	35,014	118.5%
Total equity and liabilities	1,034,253	1,038,063	0.4%



MAGYAR TELEKOM - CONSOLIDATED CASHFLOW STATEMENT

HUF million	Jun 30, 2012	Jun 30, 2013	Change
Net cash generated from operating activities	63,559	41,468	-34.8%
Investments in tangible and intangible assets	(40,181)	(40,620)	1.1%
Adjustments to cash purchases	(13,881)	2,758	-119.9%
Purchase of subsidiaries and business units	(2,173)	(100)	n.a.
Cash acquired through business combinations	108	0	n.a.
Payments for / proceeds from other financial assets - net	22,591	20,765	-8.1%
Proceeds from disposal of subsidiaries	84	0	n.a.
Proceeds from disposal of PPE and intangible assets	435	336	-22.8%
Net cash used in investing activities	(33,017)	(16,861)	-48.9%
Dividends paid to shareholders and minority interest	(65,954)	(65,174)	-1.2%
Net payments of loans and other borrowings	33,459	40,368	20.6%
Net cash used in financing activities	(32,495)	(24,806)	-23.7%
Free cash flow*	7,951	3,842	-51.7%

* 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

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: 297.1 (average Q2 2013)

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, 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.



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