

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

DECEMBER 2013

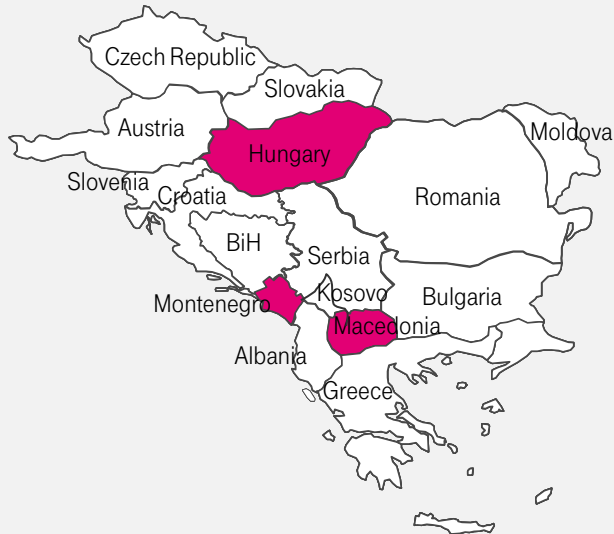


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# **STRATEGY, OUTLOOK AND GUIDANCE**

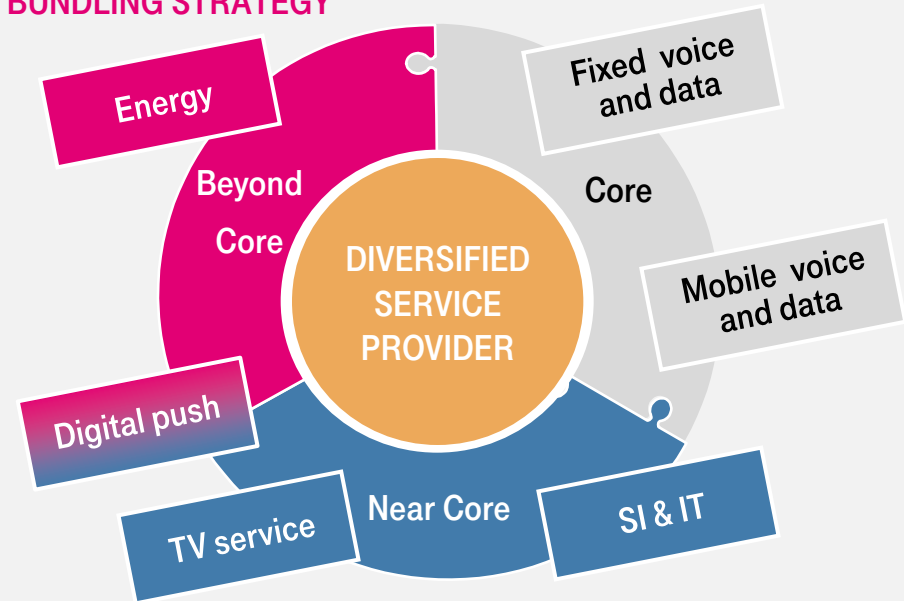
# OVERVIEW – MAGYAR TELEKOM GROUP AT A GLANCE

## INTERNATIONAL PRESENCE



- Leading telecommunications operator in Hungary, Macedonia and Montenegro
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.0bn market capitalization as at December 2013
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

## BUNDLING STRATEGY

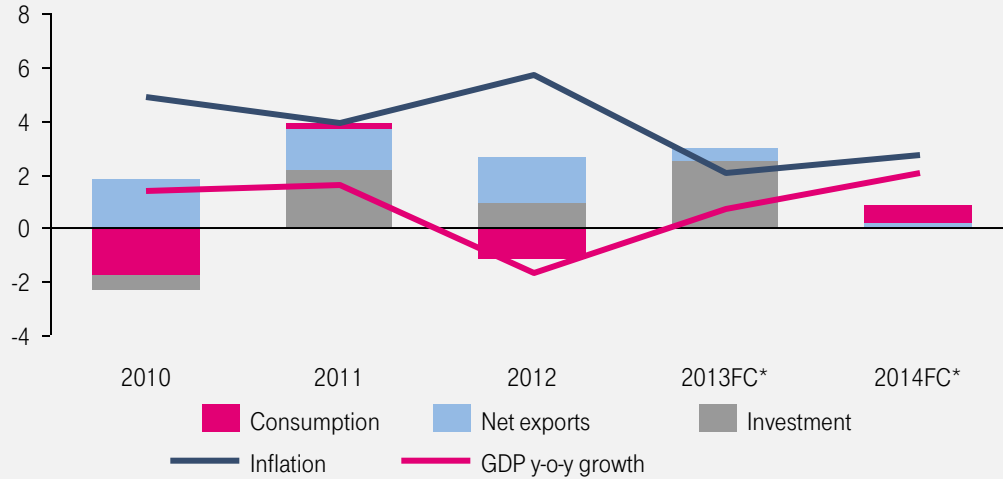


- Strategy of bundling core, near-core, and beyond core services since 2007
- Customer value enhanced through bundling of products and services
- Core portfolio optimization also supported by bundling strategy
- Turnaround of financial performance has commenced

# HUNGARIAN ECONOMIC ENVIRONMENT

## GROWTH STRUCTURE AND WAGES

Contribution to GDP growth (%)



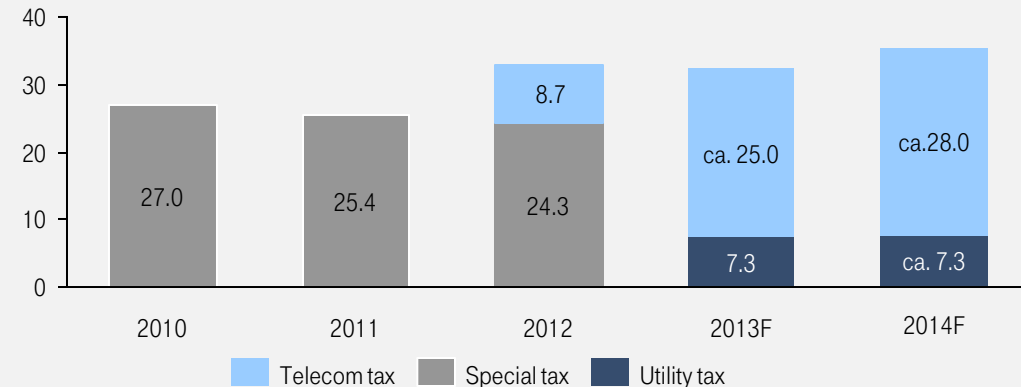
\* Central Bank September 2013 forecasts

## CONTINUED DELEVERAGING KEEPS DOMESTIC DEMAND LOW

- GDP performance dependent on export dynamics
- Consumer spending affected by the weakening HUF and high unemployment
- MT financials strongly correlate to trends in domestic demand

## ADDITIONAL TAXES LEVIED ON MAGYAR TELEKOM

HUF bn

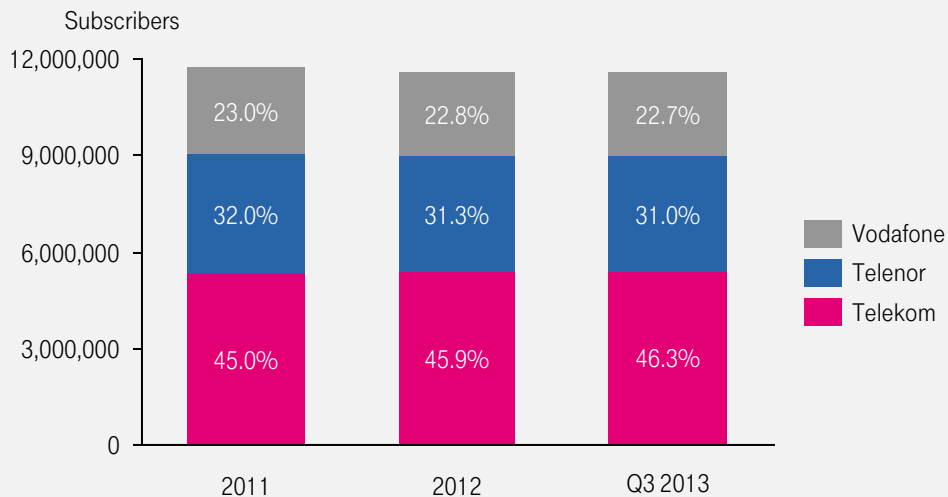


## TAX BURDENS INTRODUCED TO REDUCE BUDGET DEFICIT

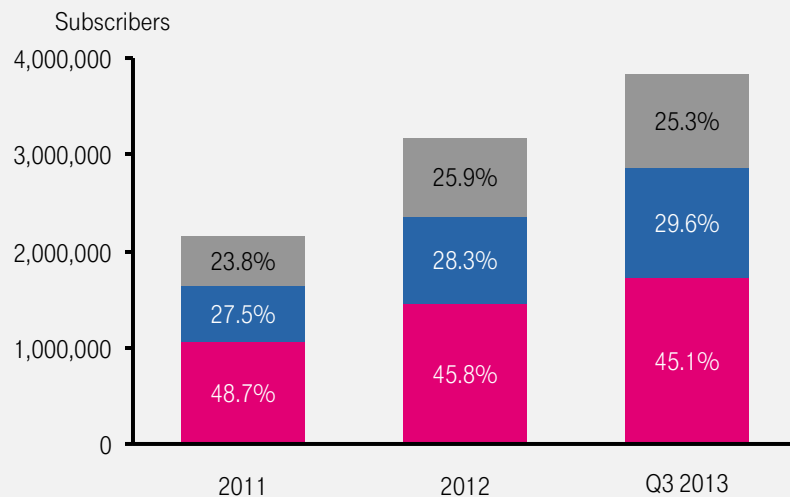
- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied from 2013

# MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET

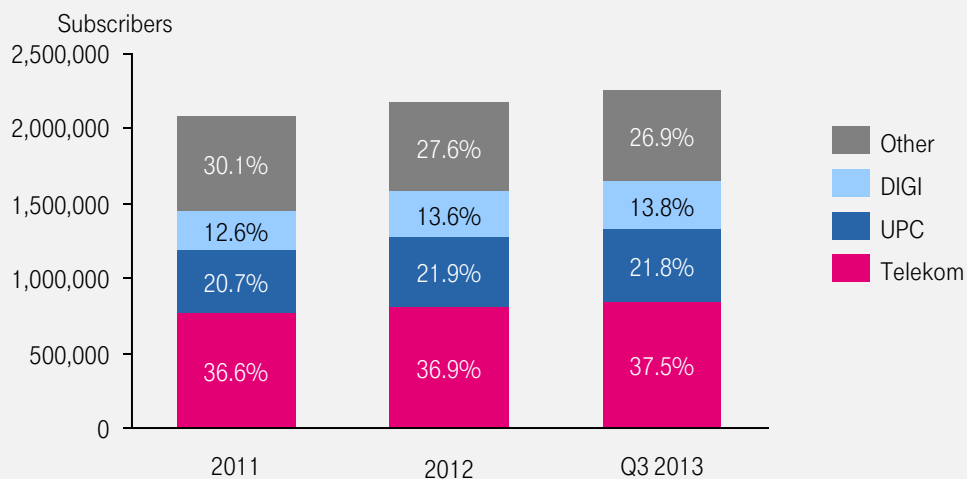
## MOBILE VOICE MARKET SHARES (TOTAL SIM BASED)



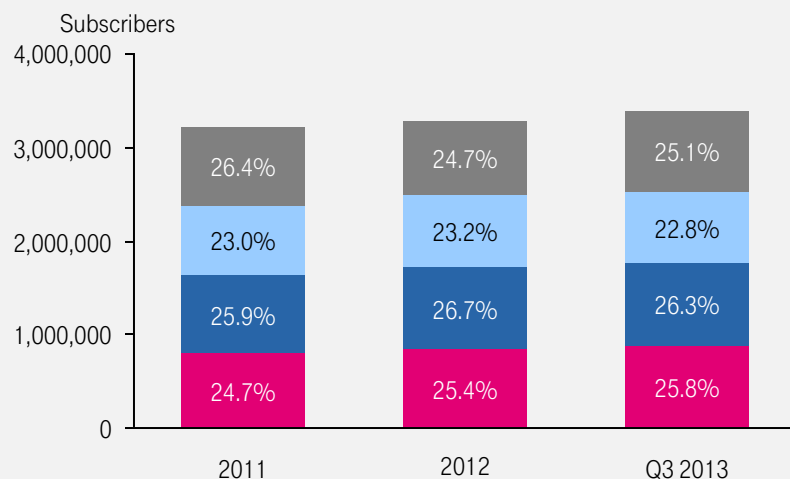
## MOBILE BROADBAND MARKET SHARES (TOTAL SIM BASED)



## FIXED BROADBAND MARKET SHARES\*



## TV MARKET SHARES\*



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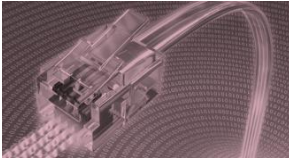




\*based on the total fixed BB/TV market estimated by the National Media and Infocommunications Authority

# WIDE RANGE OF TELECOM SERVICES, SYSTEM INTEGRATION AND IT INFRASTRUCTURE COMPETENCES

## CONNECTIVITY

42% of total revenue

64 % of total margin\*

Fixed voice	Fixed data	Fixed internet	Mobile voice	Mobile internet	Mobile data
					

## SYSTEM INTEGRATION

17% of total revenue

10% of total margin\*

Business Intelligence	Integration & Developm.	ERP & CRM	Transport	Billing & Cloud	E- Health
					

## IT INFRASTRUCTURE

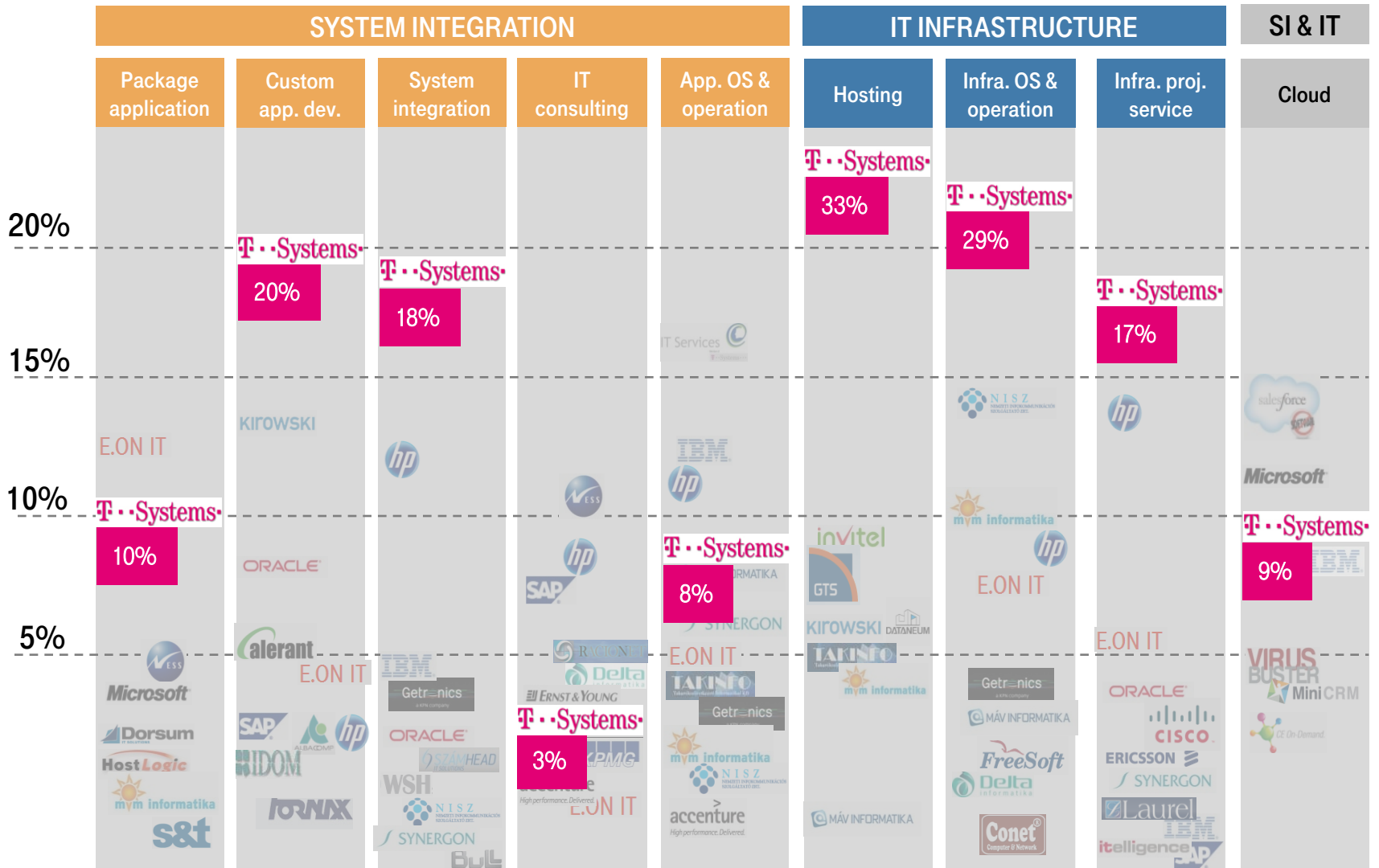
41% of total revenue

26% of total margin\*

Computer systems	Network solutions	Communication	IT service & systems management	IT Security	Datacenter services
					

\*Margin= Adjusted margin = Direct margin – Direct Delivery expenses

# MARKET LEADER IN IT SERVICES



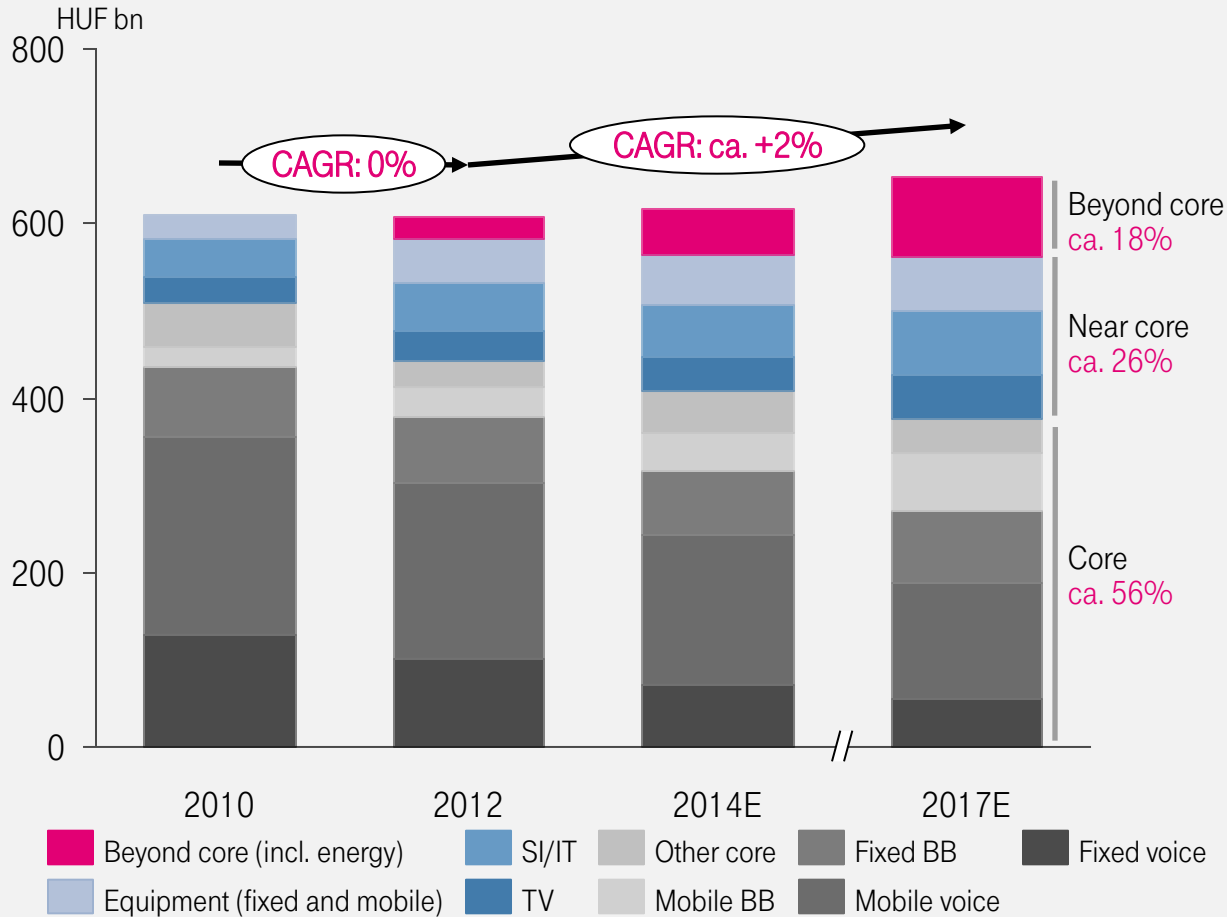
Revenue based market share in 2012



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# GROUP REVENUE DEVELOPMENTS

## SIGNIFICANT REVENUE POTENTIAL FROM NON-CORE ACTIVITIES

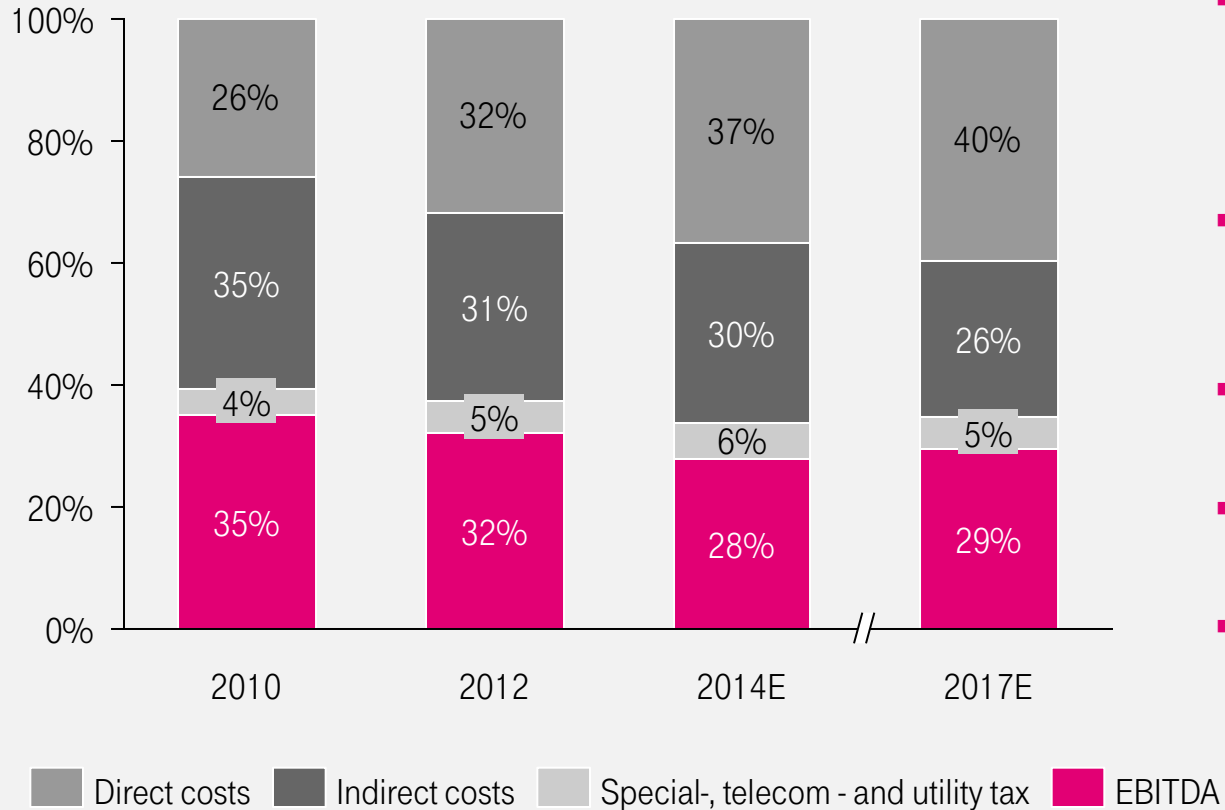


- Mobile broadband growth only partially compensates for decline in voice revenue
- Further growth in near-core revenues expected
- Increasing demand for energy service
- Plans to launch additional new services



# DISCIPLINED COST MANAGEMENT

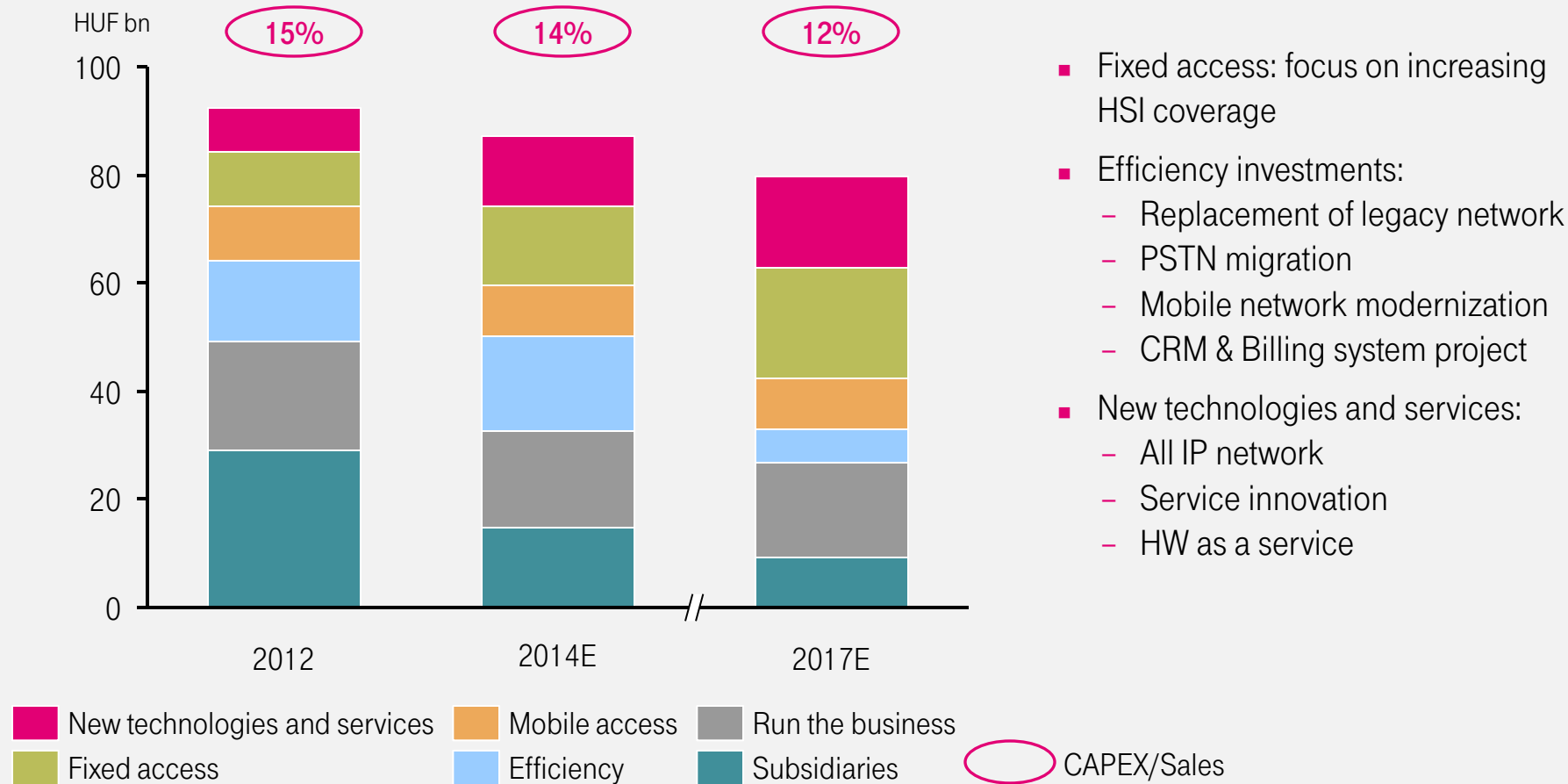
## EBITDA AND COST DEVELOPMENTS (RELATIVE TO REVENUES)



- Direct costs expected to rise in parallel with increase in revenues and change in product mix
- Indirect costs to decline by CAGR ca. 2% by 2017 vs. 2012
- Constant operating taxes assumed
- EBITDA to decline by CAGR 6%-8% in 2014 vs. 2012
- 2017 EBITDA expected to surpass 2013 level

# EFFICIENCY INVESTMENTS FREE UP CAPEX FOR NEW TECHNOLOGIES AND SERVICES

## CAPEX DEVELOPMENTS\*



\*CAPEX excluding spectrum license fees and annual frequency fee capitalization

# CURRENT SPECTRUM SITUATION

## BAND

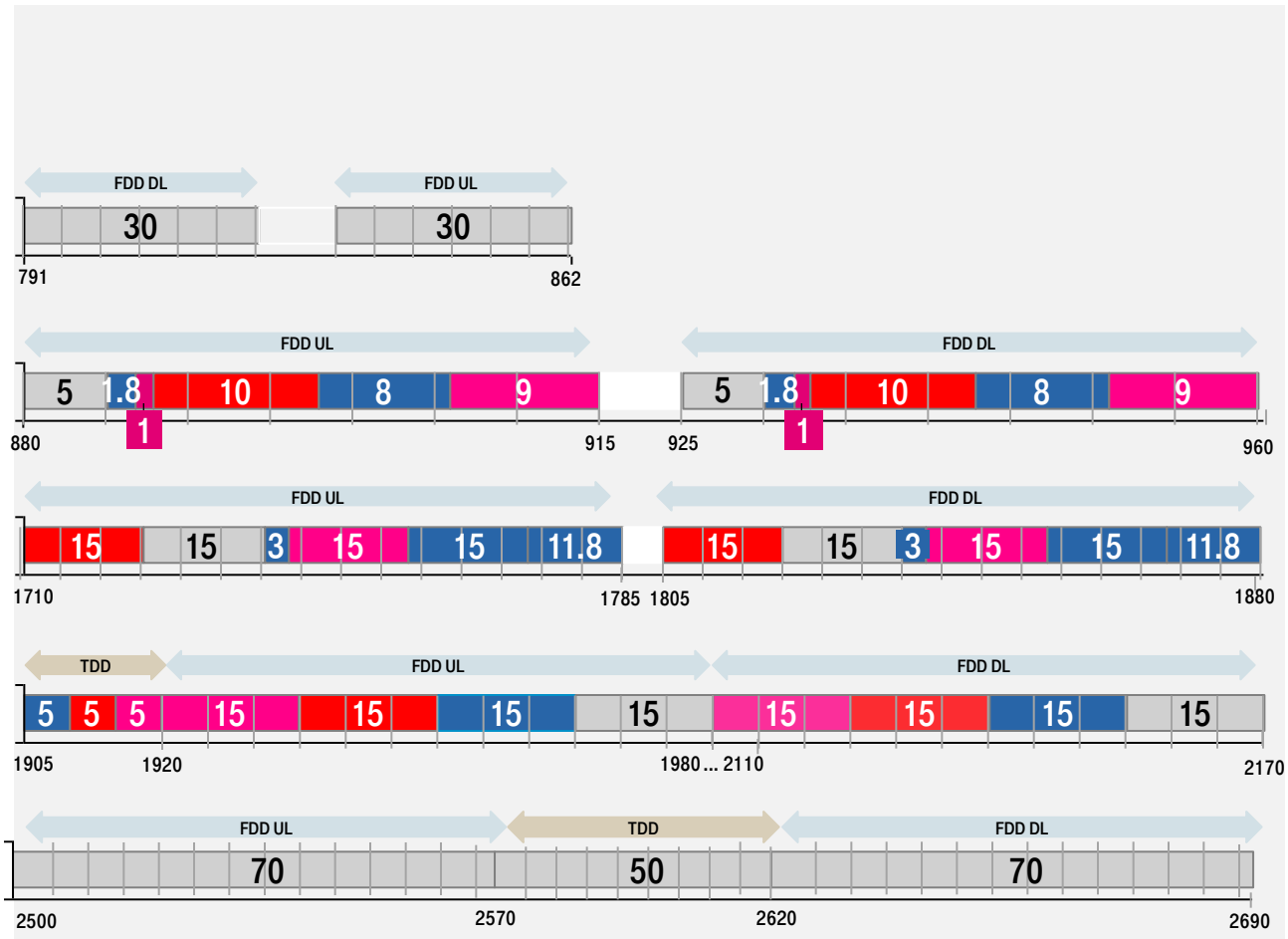
800 MHz

900 MHz

1800 MHz

2100 MHz

2600 MHz



## UNUSED FREQUENCIES

2 × 30 MHz

2 × 5 MHz

2 × 15 MHz

2 × 15 MHz

2 × 70 MHz FDD  
50 MHz TDD

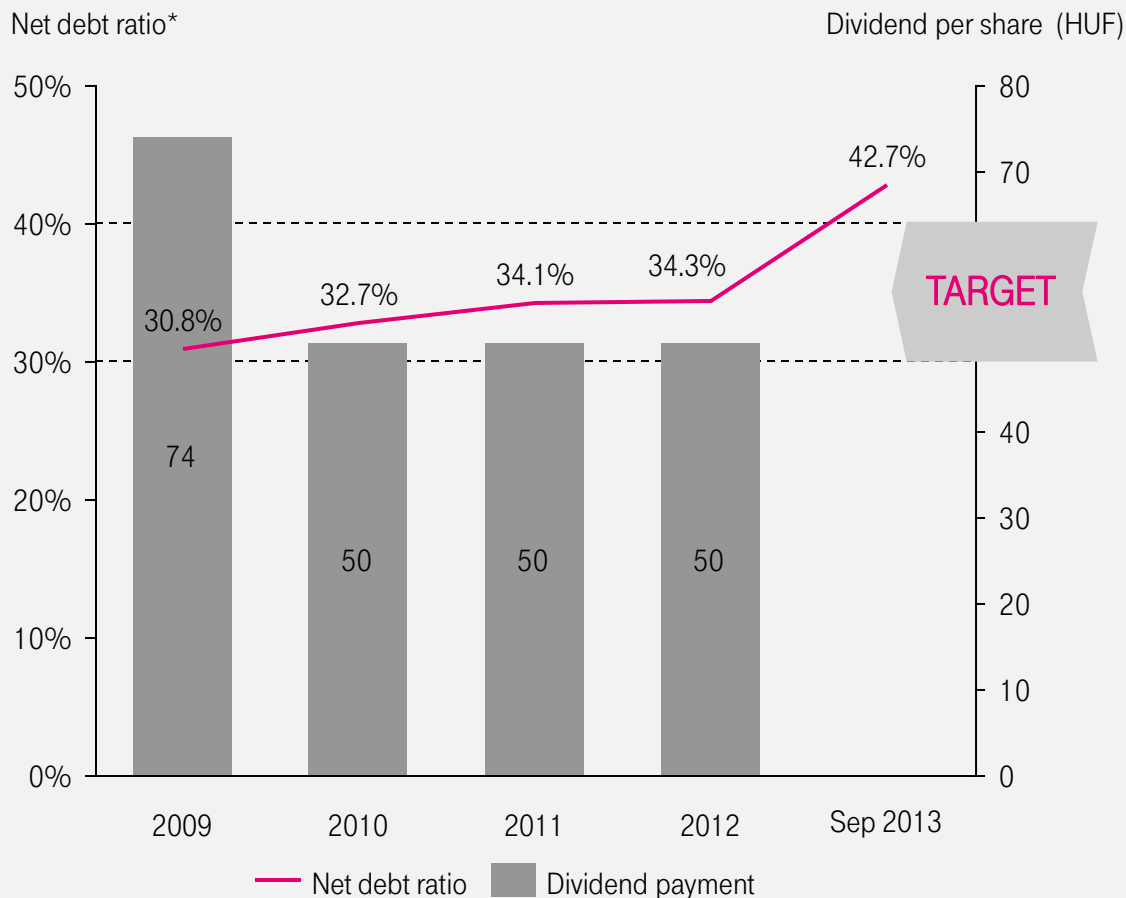
Magyar Telekom Vodafone Telenor Unused



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# DIVIDEND POLICY

## DIVIDEND PAYMENT



- Maintain net debt ratio (net debt/total capital) target of 30% - 40% reflecting the current unpredictable environment
- Based on the dividend policy, the Group's financial position and the current operating and business environment, the Company believes that it will not be in a position to pay a dividend after 2013 results\*\*

\*defined as net debt / total capital

\*\*subject to the Board of Directors' future proposal to the General Meeting, which will be made in due course, when all necessary information is available and all prerequisites to making such proposal are met.

# FINANCIAL OUTLOOK

	2013 GUIDANCE	2014 TARGETS	2017 TARGETS
REVENUE	increasing	increasing at a CAGR of ca. 2% compared to 2012	
EBITDA	9-12% decline	declining at a CAGR of 6%-8% compared to 2012	surpassing 2013 level
CAPEX*	absolute CAPEX to decline by ca. 5%	around HUF 87bn	around HUF 80bn
FCF	FCF bottoming out in 2014 and surpassing 2012 level by 2017		

\*excluding spectrum license fees and annual frequency fee capitalization

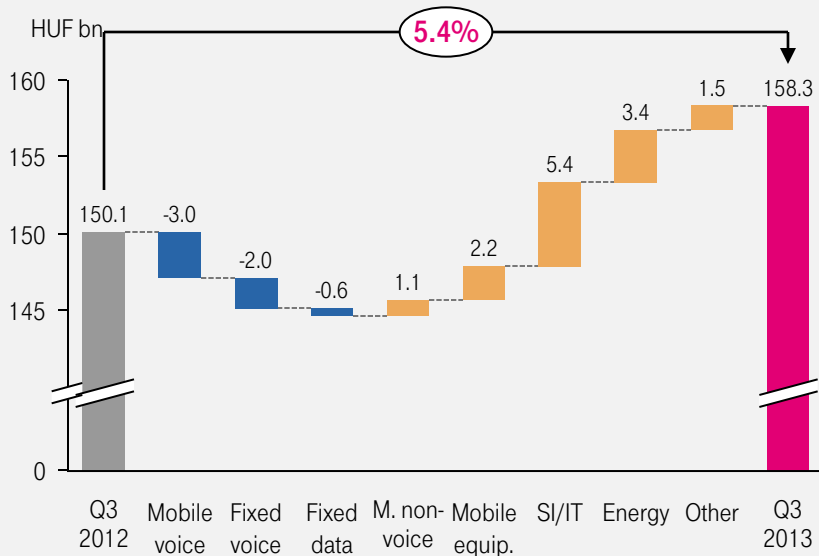


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# Q3 2013 RESULTS

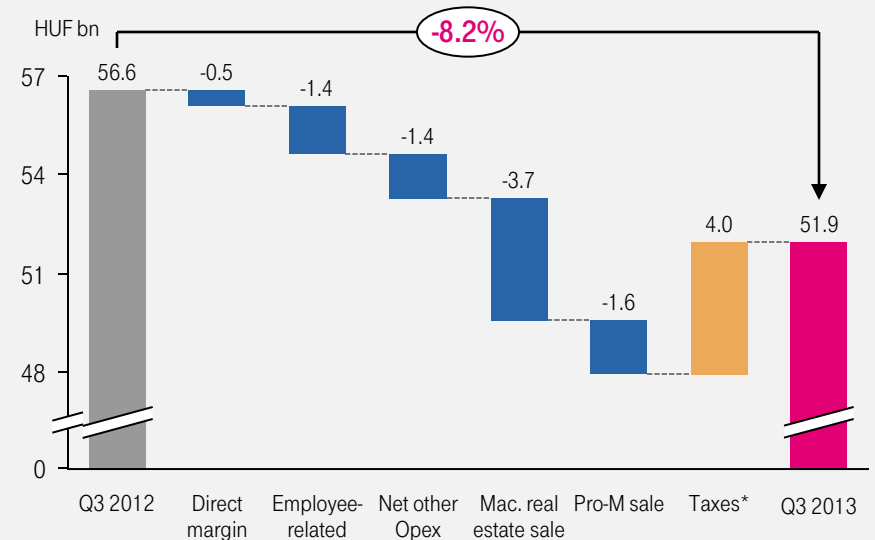
# Q3 2013 GROUP RESULTS – REVENUES AND EBITDA

## 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
- Decline in fixed and mobile voice revenues reflects the lower contribution from Macedonian operation and MTR cuts
- Decrease in fixed data revenues primarily due to public sector insourcing

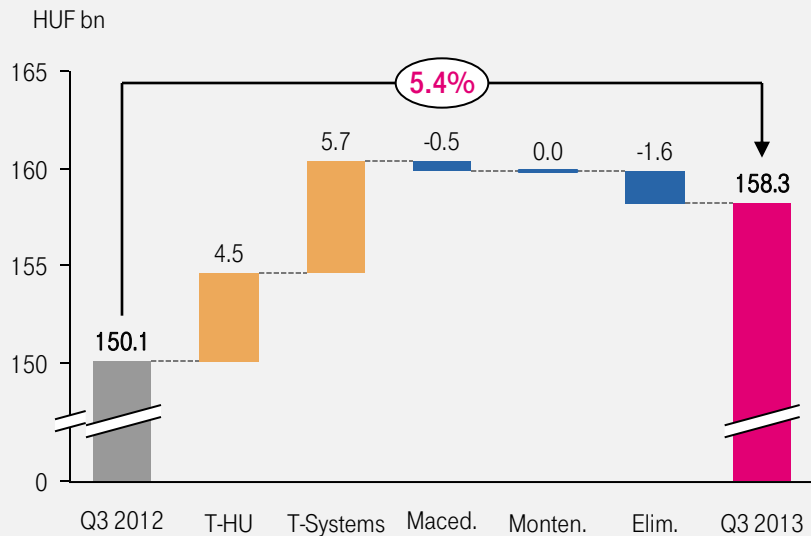
## GROUP EBITDA



- Direct margin erosion was successfully limited by:
  - Erosion of traditional voice revenues at minimal level
  - Improving direct margin contribution of energy sales and SI/IT
- Higher employee related expenses due to Macedonian severance of HUF 1.3bn
- Lower operating taxes\* could not fully offset the impact of the sale of Pro-M and the Macedonian real estate transaction in Q3 2012

# Q3 2013 SEGMENT RESULTS – REVENUES AND EBITDA

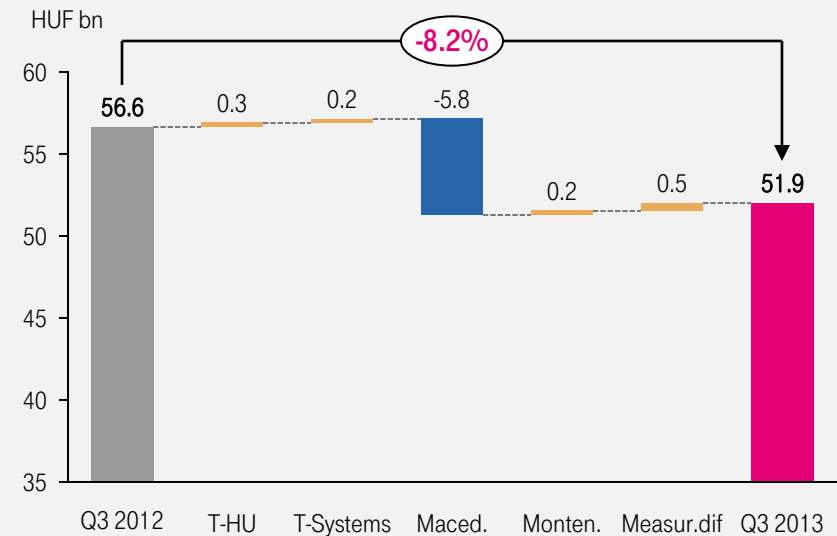
## SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y **+4%** **+22%** **-3%** **0%**

- **T-Hungary:** strong revenues from energy and equipment sales coupled with only limited voice revenue decline
- **T-Systems:** SI/IT revenue growth compensates for lower fixed revenues and Pro-M revenue fallout
- **Macedonia:** fixed and mobile voice revenue decline driven by fierce competitive pressures
- **Montenegro:** fixed and mobile internet growth mitigated retail voice revenue decline driven by the unfavorable economic environment

## SEGMENTS' EBITDA DEVELOPMENT



Change Y-o-Y **+1%** **+4%** **-48%** **+6%**

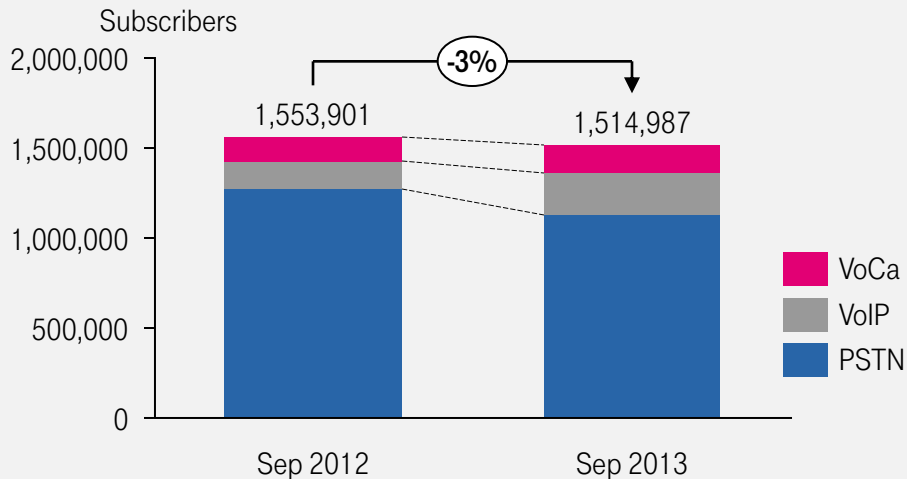
- **T-Hungary:** lower taxes offset higher net opex (higher service fees, marketing expenses and distorting impact of Pro-M sale)
- **T-Systems:** higher profit contribution from the increased volume of SI/IT projects
- **Macedonia:** R/E sale impact and severance expense distorts comparison; EBITDA w/o these declined by HUF 0.8bn
- **Montenegro:** improved performance reflects one-time VAT charge in Q3 2012; EBITDA margin at 41%



# HUNGARY – FIXED VOICE MARKET



## TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS



Significant reduction in fixed voice churn due to the retention effect of:

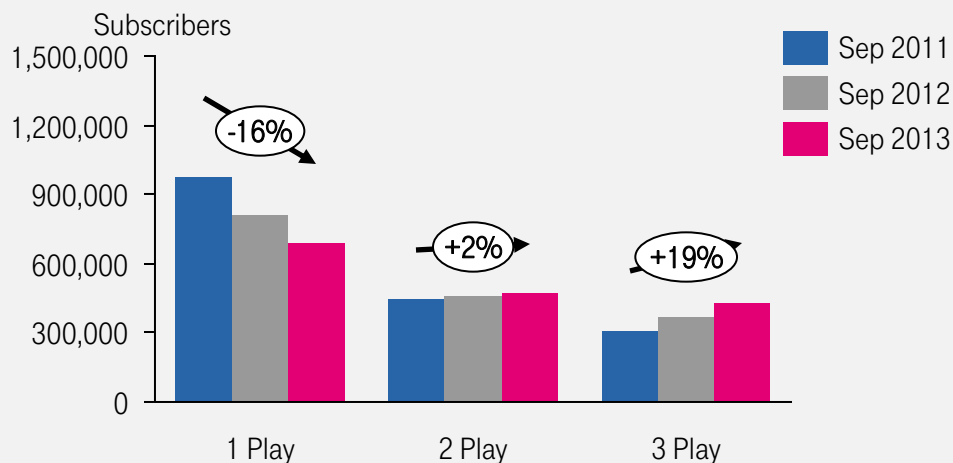
- Hoppá package
- 2Play/3Play offers
- Retail energy bundling

Decline in 1 Play customer base below 45%

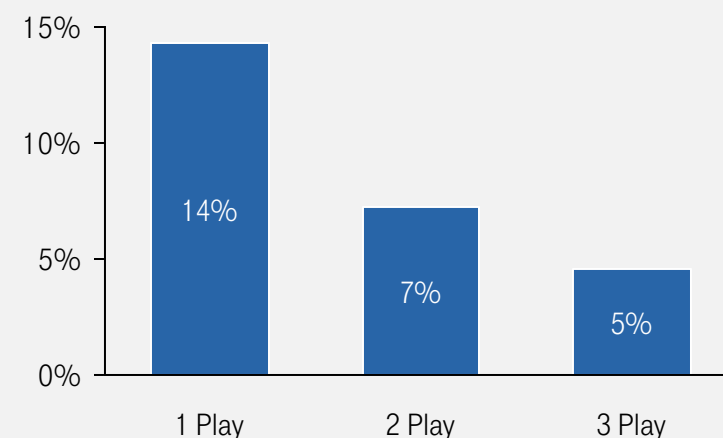
### KPIs (Q3-o-Q3):

- ARPU: HUF 2,764 (-1%)
- MOU: 171 (-1%)

## MULTI-PLAY DEVELOPMENTS

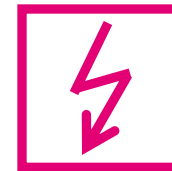


## AVERAGE ANNUAL CHURN LEVEL



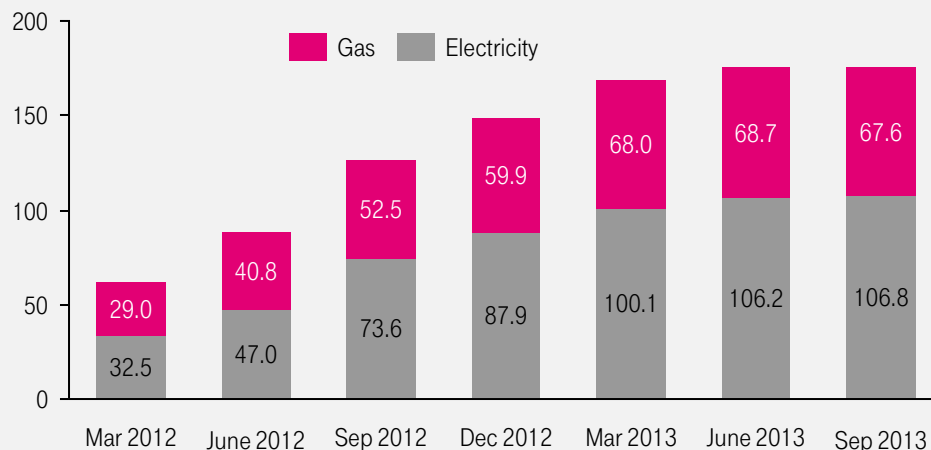
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# HUNGARY – ENERGY RETAIL



## GAS AND ELECTRICITY POINTS OF DELIVERY (POD)

PODs (thousand)

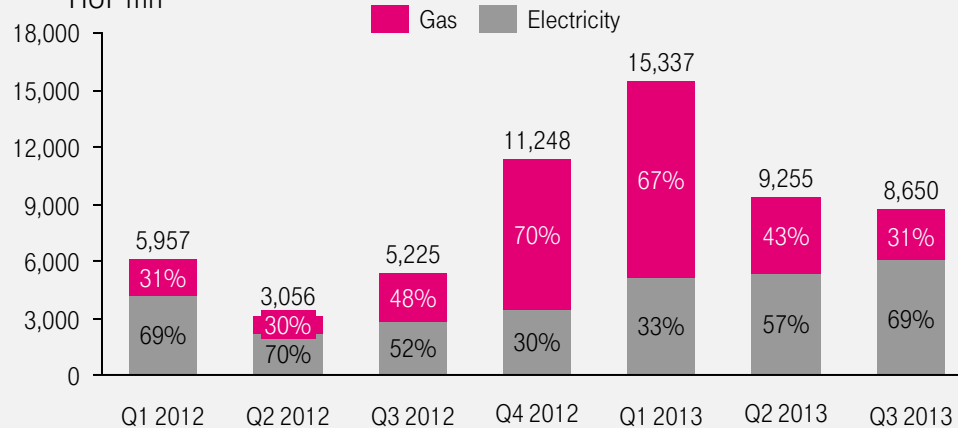


## RETAIL ENERGY BUSINESS

- Soft launch in 2010, nationwide since April 2012
- Residential customers receive a 3-8% discount to regulated universal service prices on their energy bill depending on the number of fixed line services they subscribe to
- Significant retention and upsell impact
- Increasing ratio of energy revenues generated from competitive segment customers
- Energy market is strongly seasonal

## REVENUE PERFORMANCE

HUF mn

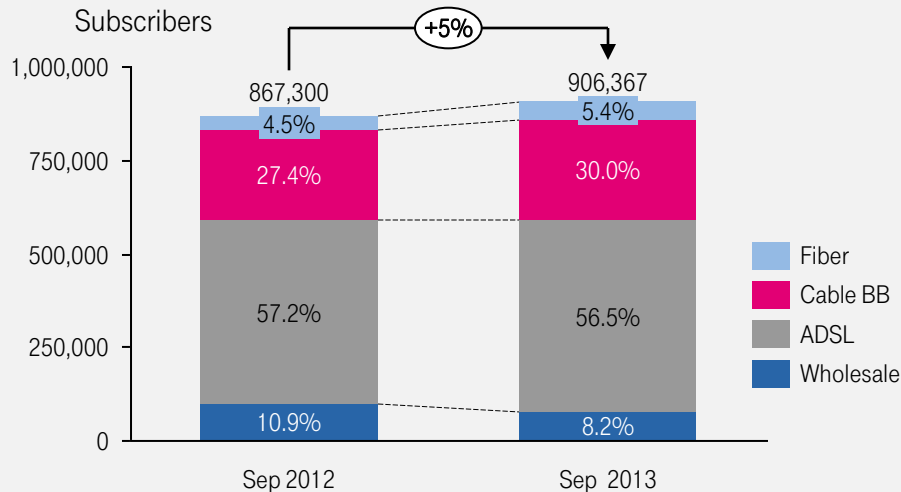


## REGULATORY DEVELOPMENTS

- 10% retail price reduction since January 1, 2013 and further 11.1% from November 1, 2013
- Sustainable solution to serve universal customers:
  - Access to gas sources as offered to universal service providers from July 1, 2014
  - Exemption from membership fee to the Hungarian Hydrocarbon Stockpiling Association from October 1, 2013
  - Exemption from obligation to take over of "green" electricity from October 1, 2013

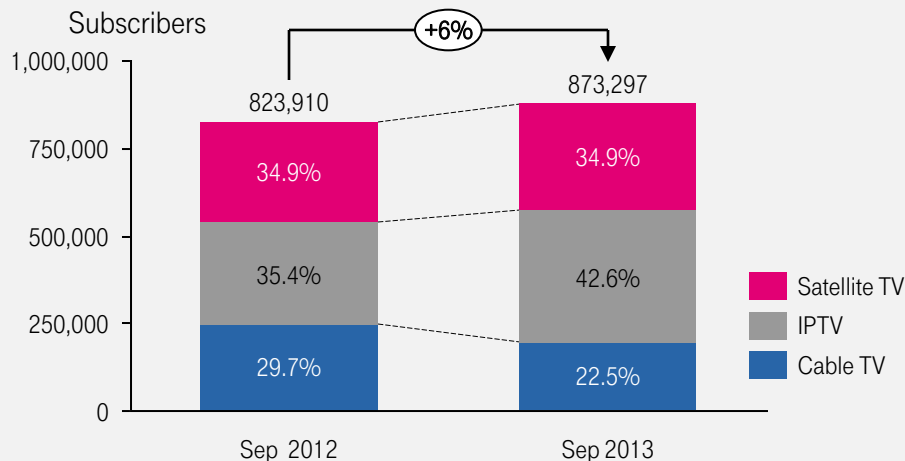


## FIXED BROADBAND SUBSCRIBER BREAKDOWN

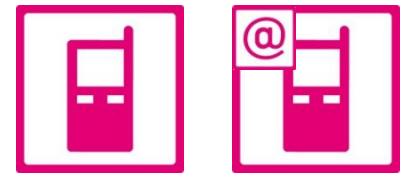


- Growth in broadband market driven by cable and fiber
- Internet service portfolio restructured to support fixed broadband subscriber acquisitions
- Broadband ARPU: HUF 3,465 (-8% Q3-o-Q3)

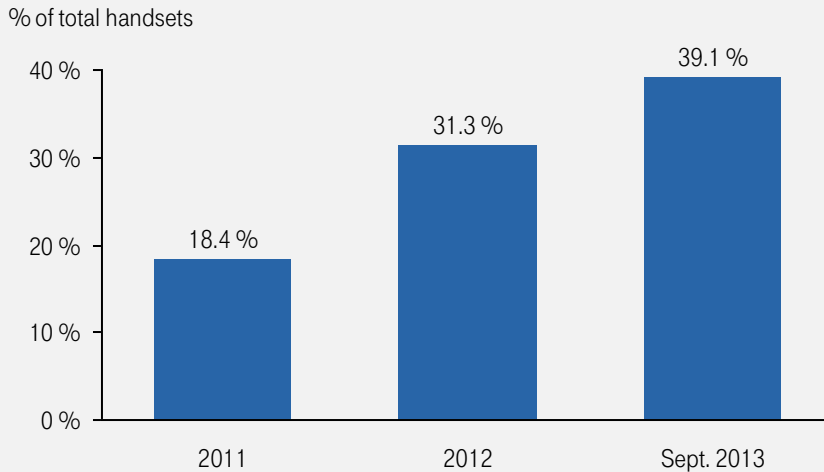
## TV SUBSCRIBER BREAKDOWN



- TV ARPU supported by increasing number of interactive IPTV customers
- Significant migration from cable to IPTV
- 3Play offers from HUF 4,550/month (EUR 15)
- TV ARPU: HUF 3,120 (+3% Q3-o-Q3)

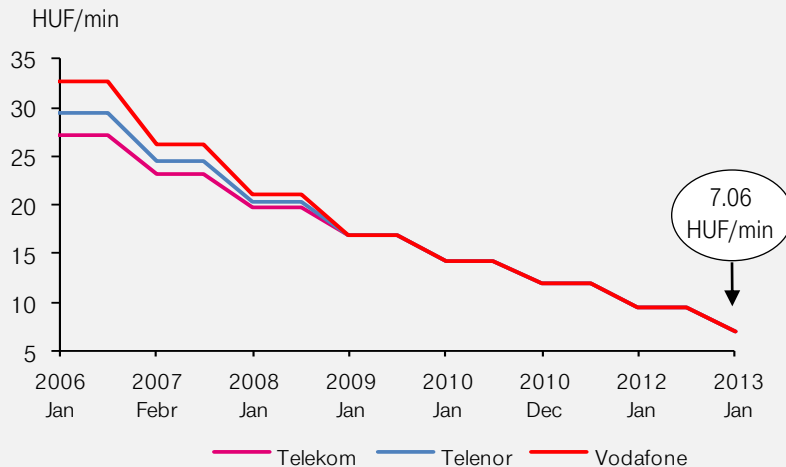


## TELEKOM SMARTPHONE PENETRATION



- Improving customer mix: y-o-y increase in postpaid ratio from 46.5% to 48%
- Smartphone sales reached 67% of total handsets
- 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

## MOBILE TERMINATION RATE CUTS

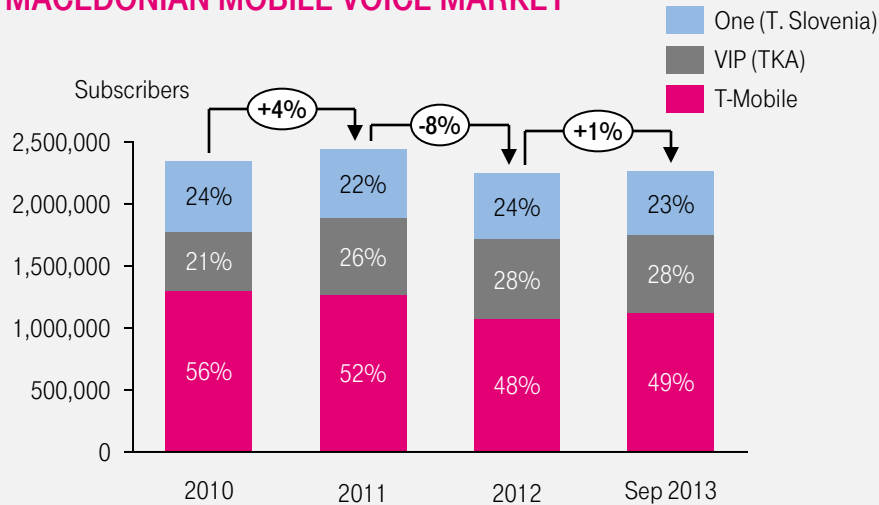


## KPIs (Q3-o-Q3):

- ARPU: HUF 3,474 (-2%)
- Mobile MOU: 162 (+2%)
- SAC/gross add: HUF 6,444 (+52%)
- SRC/retained customer: HUF 13,504 (+36%)
- VAS within ARPU: HUF 878 (+7%)

# MACEDONIA AND MONTENEGRO

## MACEDONIAN MOBILE VOICE MARKET

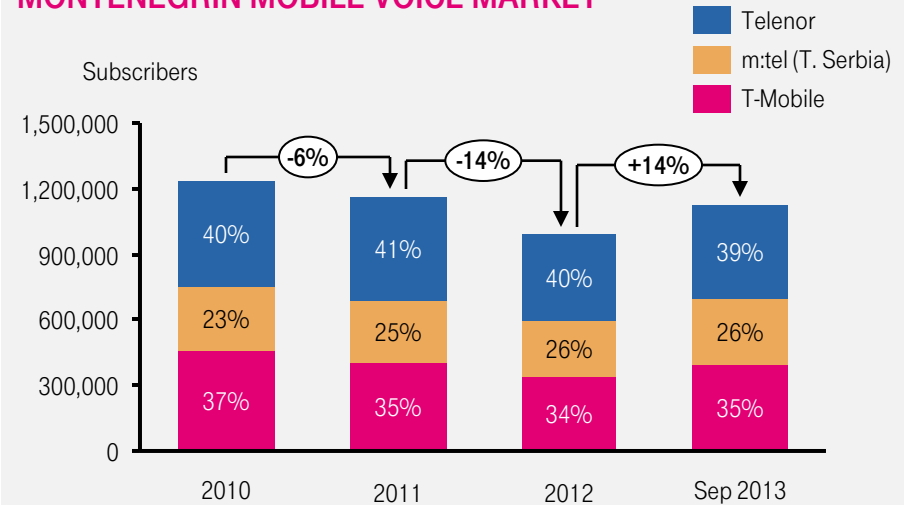


- Leading fixed line operation with 70% voice, 53% internet and 20% TV market shares
- Intense competition from cable operators on the fixed market
- Declining mobile revenues due to strong price competition

### KPIs (Q3-o-Q3):

- Fixed churn: 8%
- Fixed outgoing traffic: -19%
- Mobile ARPU: HUF 2,357 (-7%)
- Mobile MOU: 197 (+18%)

## MONTENEGRIN MOBILE VOICE MARKET



- Leading fixed line operation with 98% voice, 82% internet and 42% TV market shares
- Strong seasonality on the mobile market driven by tourism
- Economic environment put limitation on performance

### KPIs (Q3-o-Q3):

- Fixed churn: 2%
- Fixed outgoing traffic: -11%
- Mobile ARPU: HUF 2,968 (-17%)
- Mobile MOU: 168 (+2%)

# FINANCIALS

# MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	3Q 2012	3Q 2013	Change
Mobile revenues	80,021	80,040	0.0%
Fixed line revenues	53,662	52,946	-1.3%
System Integration/Information Technology revenues	11,237	16,628	48.0%
Revenue from Energy Services	5,225	8,650	65.6%
<b>Revenues</b>	<b>150,145</b>	<b>158,264</b>	<b>5.4%</b>
Direct costs	(45,067)	(53,704)	19.2%
Employee-related expenses	(21,628)	(23,061)	6.6%
Depreciation and amortization	(26,474)	(27,442)	3.7%
Hungarian telecommunications and other crisis taxes	(10,504)	(6,529)	-37.8%
Other operating expenses	(22,827)	(23,355)	2.3%
<b>Total operating expenses</b>	<b>(126,500)</b>	<b>(134,091)</b>	<b>6.0%</b>
Other operating income	6,475	316	-95.1%
<b>Operating profit</b>	<b>30,120</b>	<b>24,489</b>	<b>-18.7%</b>
Net financial results	(5,243)	(9,240)	76.2%
Share of associates' profits	0	0	n.a.
<b>Profit before income tax</b>	<b>24,877</b>	<b>15,249</b>	<b>-38.7%</b>
Income tax expense	(5,860)	(4,405)	-24.8%
<b>Profit for the period</b>	<b>19,017</b>	<b>10,844</b>	<b>-43.0%</b>
Non-controlling interests	4,242	1,539	-63.7%
<b>Equity holders of the Company (Net income)</b>	<b>14,775</b>	<b>9,305</b>	<b>-37.0%</b>



# MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Sep 30, 2012	Sep 30, 2013	Change
<b>Current assets</b>	<b>179,666</b>	<b>198,502</b>	<b>10.5%</b>
Cash and cash equivalents	13,867	15,922	14.8%
Other current financial assets	40,038	24,354	-39.2%
<b>Non current assets</b>	<b>845,175</b>	<b>898,065</b>	<b>6.3%</b>
Property, plant and equipment - net	512,645	496,251	-3.2%
Intangible assets	316,269	377,986	19.5%
<b>Total assets</b>	<b>1,024,841</b>	<b>1,096,567</b>	<b>7.0%</b>
<b>Equity</b>	<b>517,613</b>	<b>489,211</b>	<b>-5.5%</b>
<b>Current liabilities</b>	<b>182,238</b>	<b>312,620</b>	<b>71.5%</b>
Financial liabilities to related parties	24,703	49,853	101.8%
Other financial liabilities	36,800	89,704	143.8%
<b>Non current liabilities</b>	<b>324,990</b>	<b>294,736</b>	<b>-9.3%</b>
Financial liabilities to related parties	281,849	237,248	-15.8%
Other financial liabilities	7,372	28,745	289.9%
<b>Total equity and liabilities</b>	<b>1,024,841</b>	<b>1,096,567</b>	<b>7.0%</b>



# MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Sep 30, 2012	Sep 30, 2013	Change
<b>Net cash generated from operating activities</b>	<b>105,441</b>	<b>75,256</b>	<b>-28.6%</b>
Investments in tangible and intangible assets	(70,891)	(117,445)	65.7%
Adjustments to cash purchases	(1,658)	51,018	n.a.
Purchase of subsidiaries and business units	(2,388)	(494)	-79.3%
Cash acquired through business combinations	48	0	n.a.
Payments for / proceeds from other financial assets - net	15,567	18,264	17.3%
Proceeds from disposal of subsidiaries	13,421	0	n.a.
Proceeds from disposal of PPE and intangible assets	777	548	-29.5%
<b>Net cash used in investing activities</b>	<b>(45,124)</b>	<b>(48,109)</b>	<b>6.6%</b>
Dividends paid to shareholders and minority interest	(66,063)	(65,361)	-1.1%
Net payments of loans and other borrowings	5,819	38,715	565.3%
<b>Net cash used in financing activities</b>	<b>(60,244)</b>	<b>(26,646)</b>	<b>-55.8%</b>
<b>Free cash flow*</b>	<b>44,750</b>	<b>8,883</b>	<b>-80.1%</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:

## Investor Relations

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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](http://www.telekom.hu/investor_relations).



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