

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

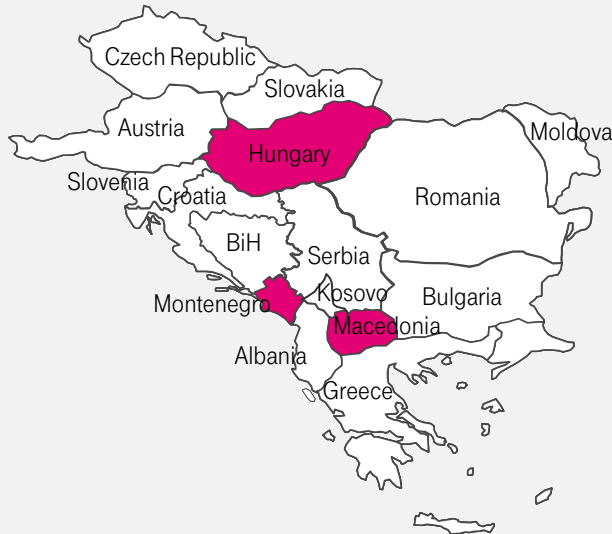


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# **STRATEGY, OUTLOOK AND GUIDANCE**

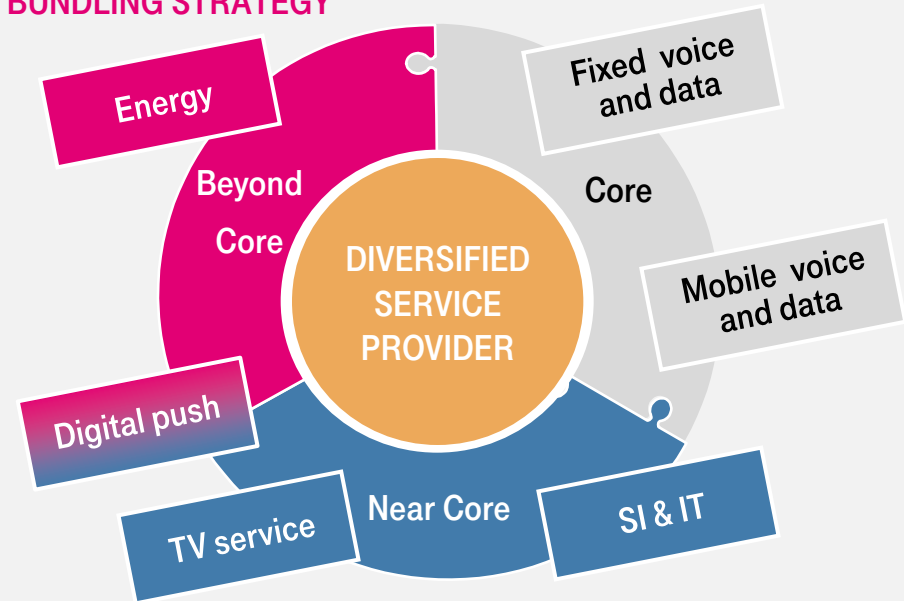
# OVERVIEW – MAGYAR TELEKOM GROUP AT A GLANCE

## INTERNATIONAL PRESENCE



- Leading telecommunications operator in Hungary, Macedonia and Montenegro
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.1 bn market capitalization
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

## BUNDLING STRATEGY

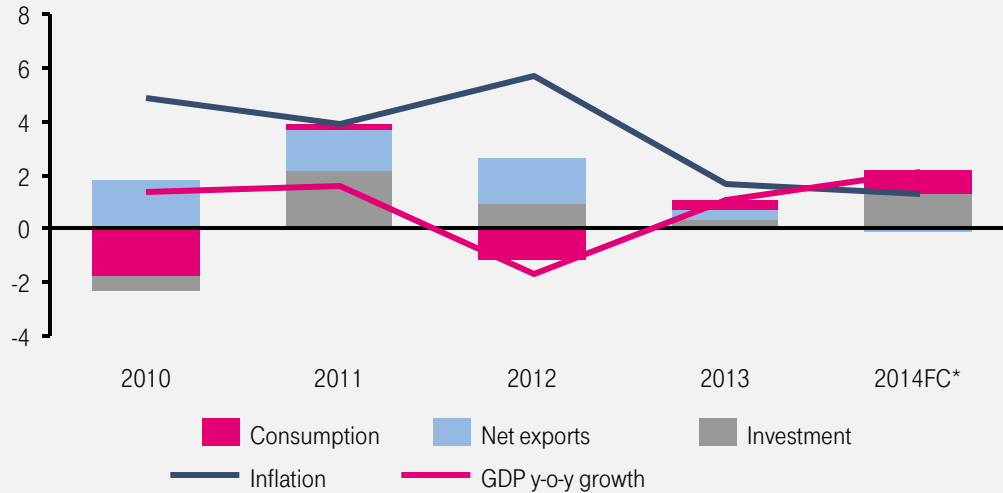


- Strategy of bundling core, near-core, and beyond core services since 2007
- Customer value enhanced through bundling of products and services
- Core portfolio optimization also supported by bundling strategy
- Turnaround of financial performance has commenced

# HUNGARIAN ECONOMIC ENVIRONMENT

## GROWTH STRUCTURE

Contribution to  
GDP growth (%)



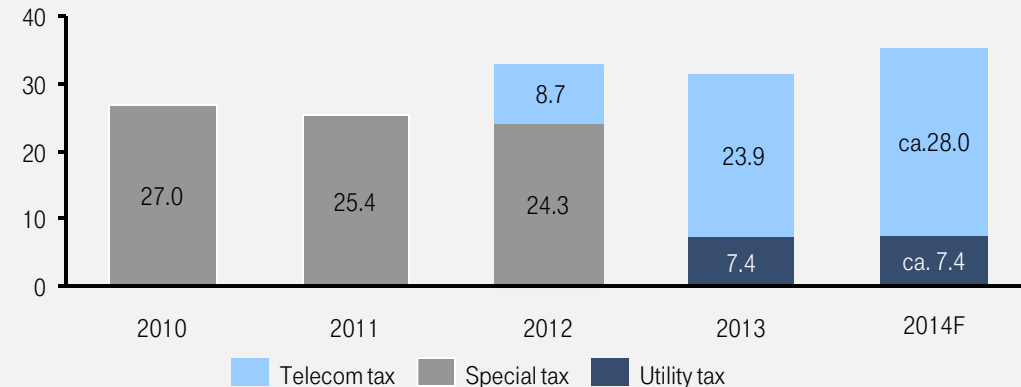
\* Central Bank December 2013 forecasts

## 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

## ADDITIONAL TAXES LEVIED ON MAGYAR TELEKOM

HUF bn

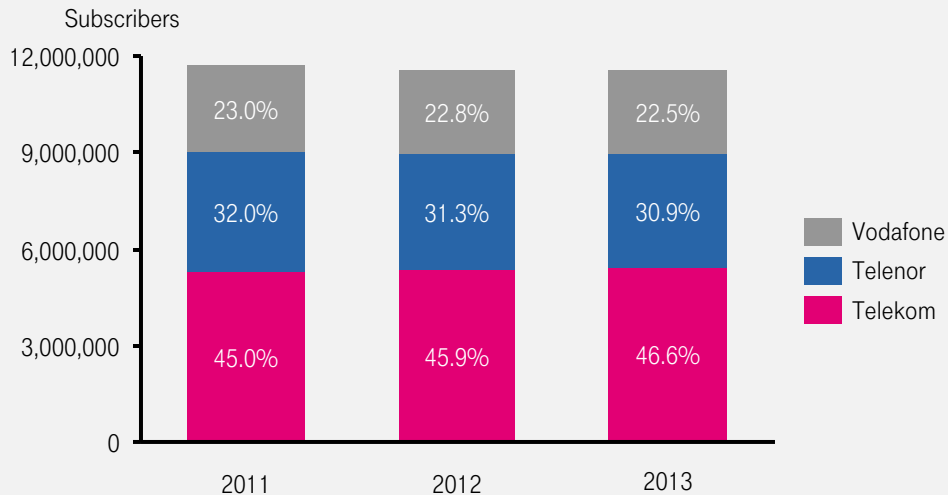


## TAX BURDENS INTRODUCED TO REDUCE BUDGET DEFICIT

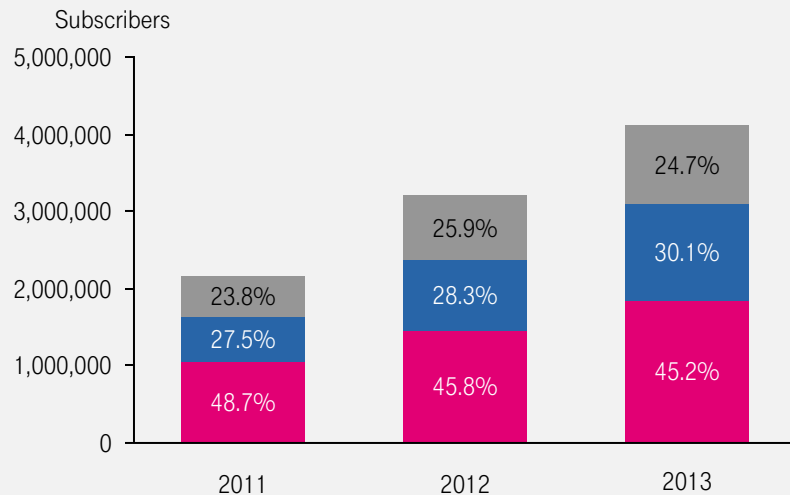
- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied from 2013

# MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET

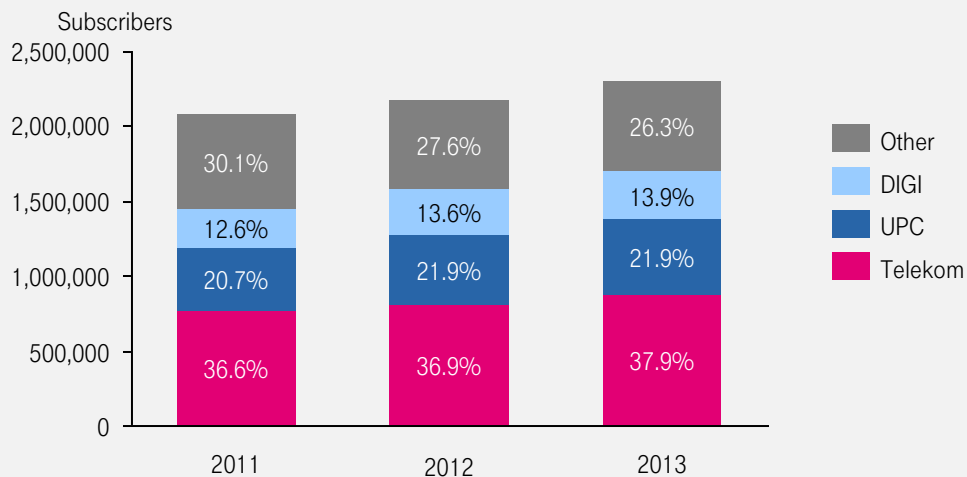
## MOBILE VOICE MARKET SHARES (TOTAL SIM BASED)



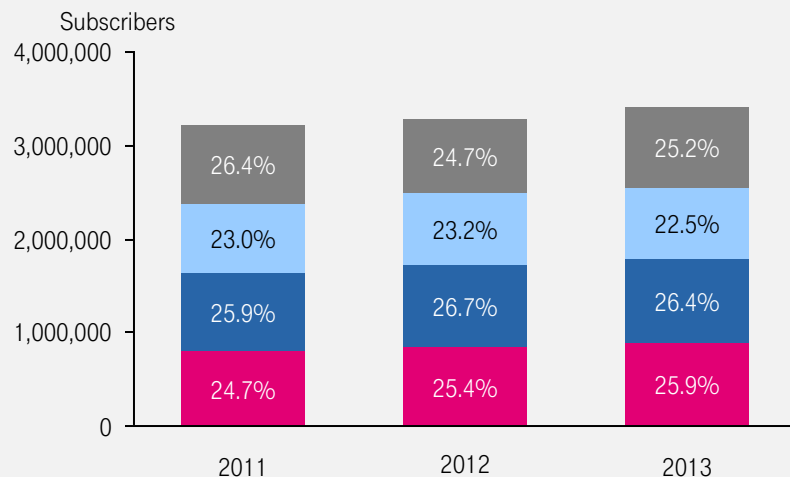
## MOBILE BROADBAND MARKET SHARES (TOTAL SIM BASED)



## FIXED BROADBAND MARKET SHARES\*



## TV MARKET SHARES\*



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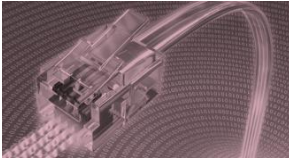




\*based on the total fixed BB/TV market estimated by the National Media and Infocommunications Authority

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

## CONNECTIVITY

40% 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

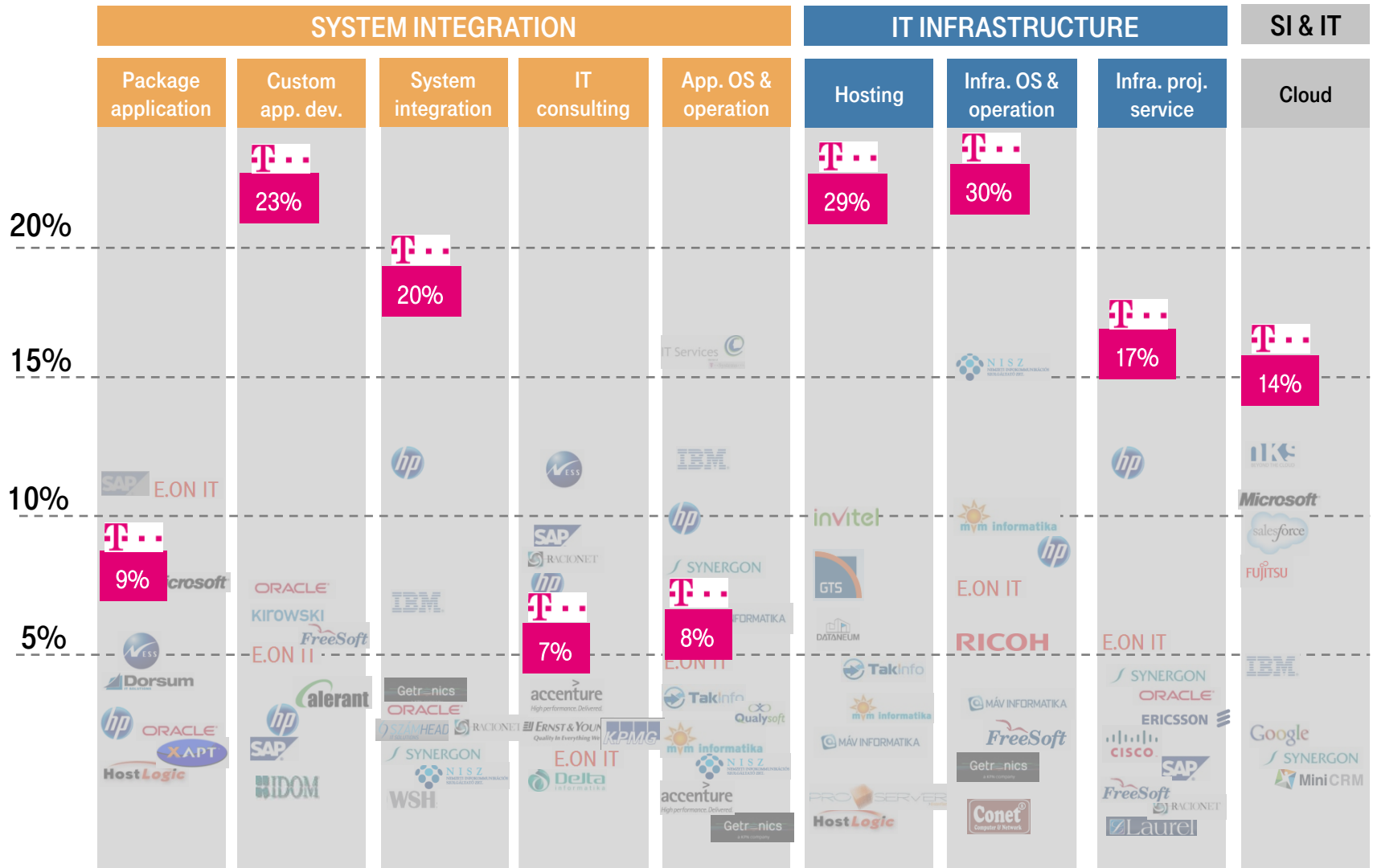
43% of total revenue

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

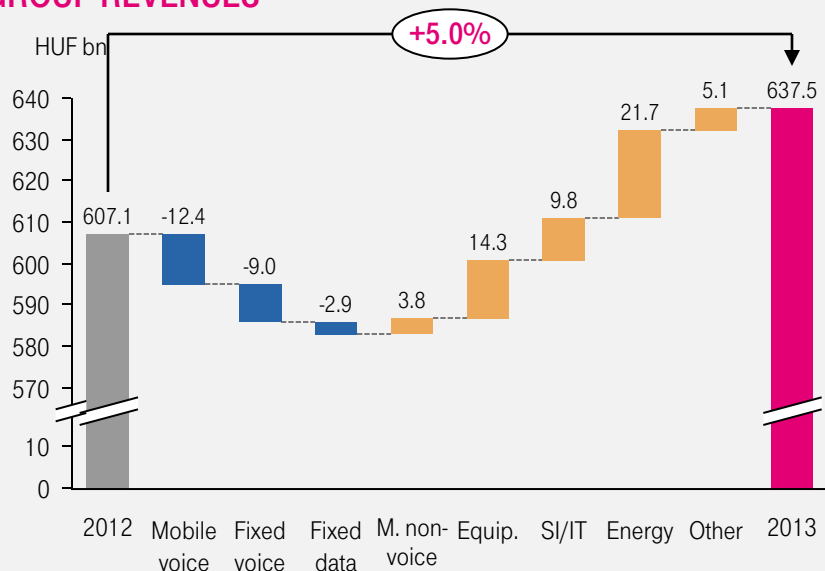


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Revenue based market share in 2013H1

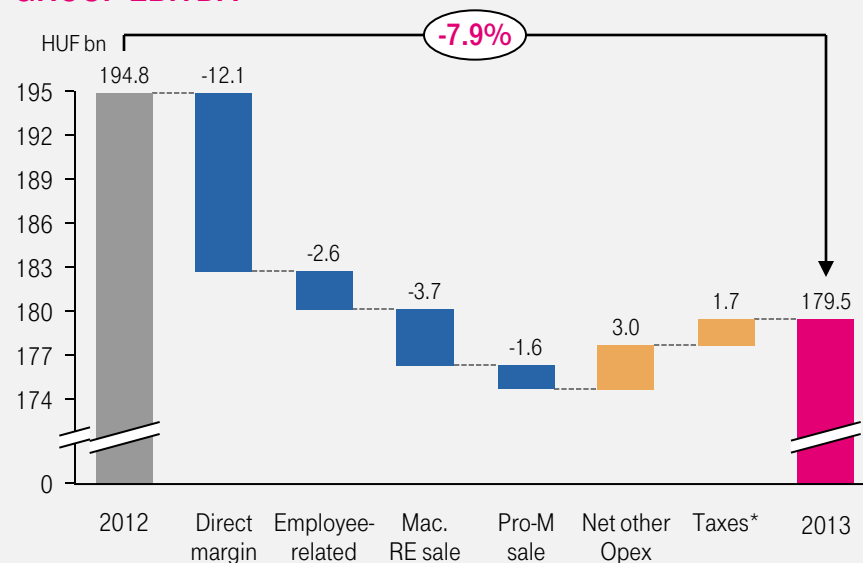
# 2013 GROUP RESULTS – REVENUES AND EBITDA

## GROUP REVENUES



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

## GROUP EBITDA

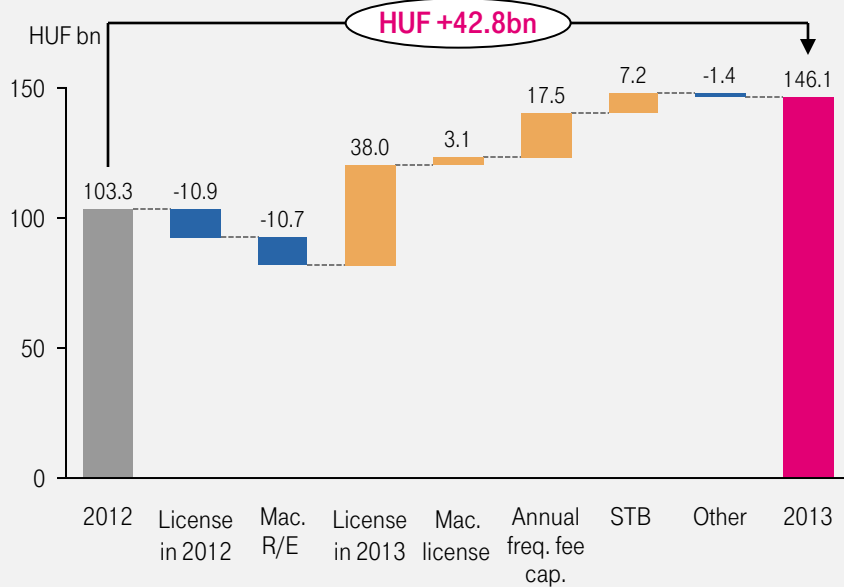


- Direct margin erosion due to:
  - further erosion of traditional voice revenues
  - lower direct margin contribution of equipment sales and SI/IT
  - negative margin of energy services due to the 10% and 11% cuts in regulated energy prices effective from January and November respectively
- Lower operating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



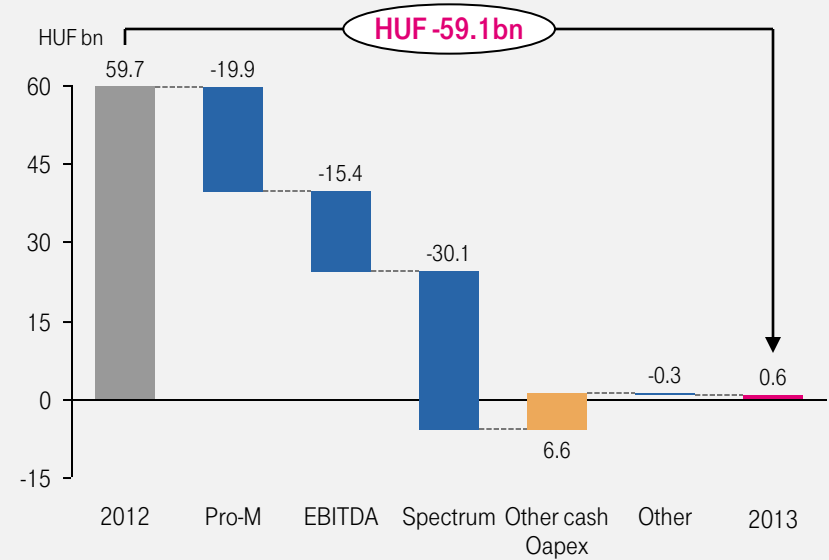
# 2013 GROUP RESULTS – CAPEX AND FCF

## GROUP CAPEX



- Spectrum license fee of HUF 10.9bn booked in 2012 in relation to the 900MHz spectrum
- Macedonian real estate exchange transaction resulting in book Capex of HUF 10.7bn in 2012
- HUF 38.0bn Capex relating to the Hungarian spectrum license extension in 2013
- HUF 3.1bn 4G spectrum license fee in Macedonia
- Hungarian annual frequency fees were capitalized resulting in HUF 17.5bn increase in book Capex
- Change in the accounting treatment of set top boxes

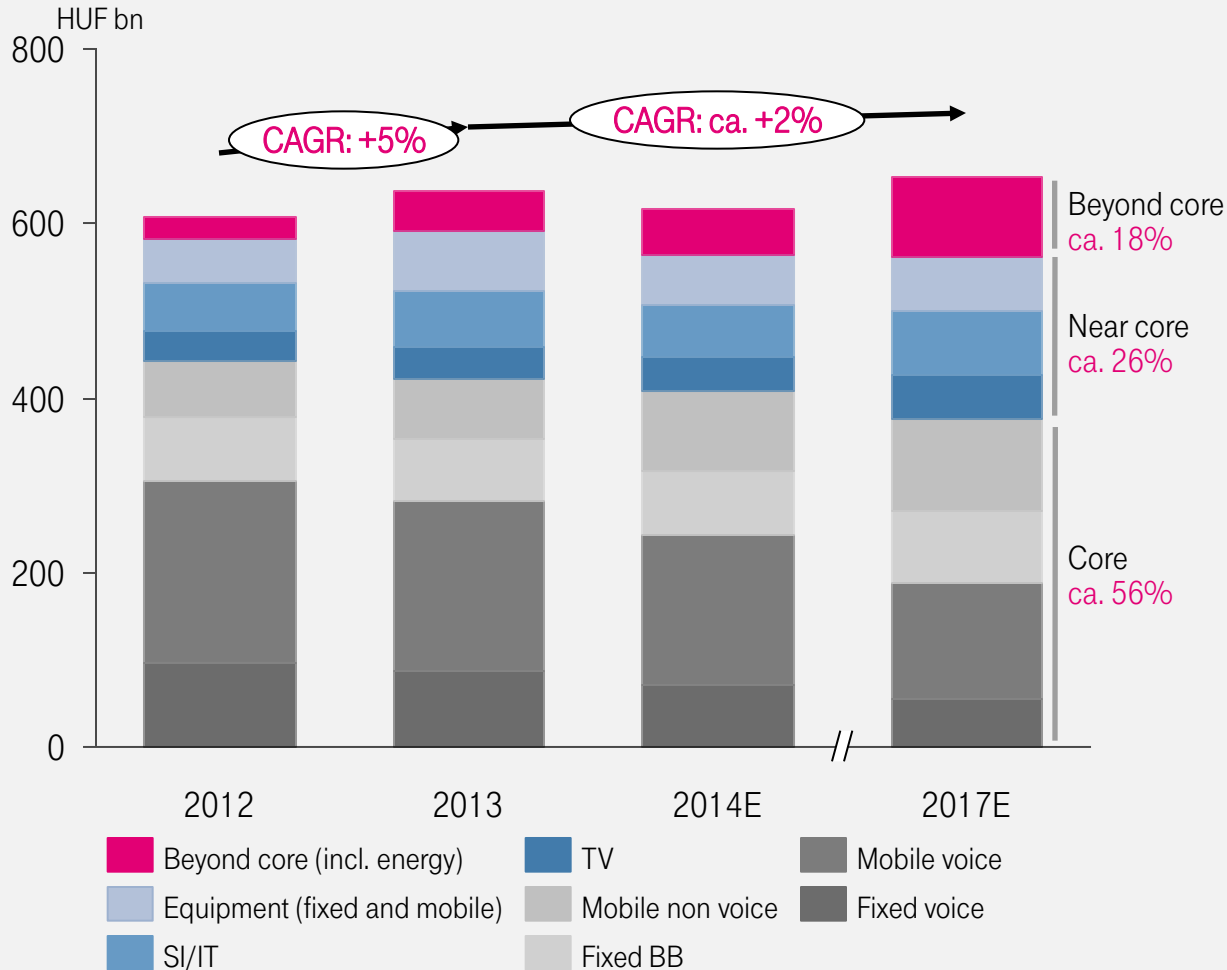
## GROUP FCF\*



- Sale of Pro-M supported 2012 results
- Higher spectrum related payments in 2013
- Other includes:
  - deterioration in working capital offset by improvement in other operating CF (reverse factoring)
  - higher net financial charges
  - lower amount spent on acquisitions

# GROUP REVENUE DEVELOPMENTS

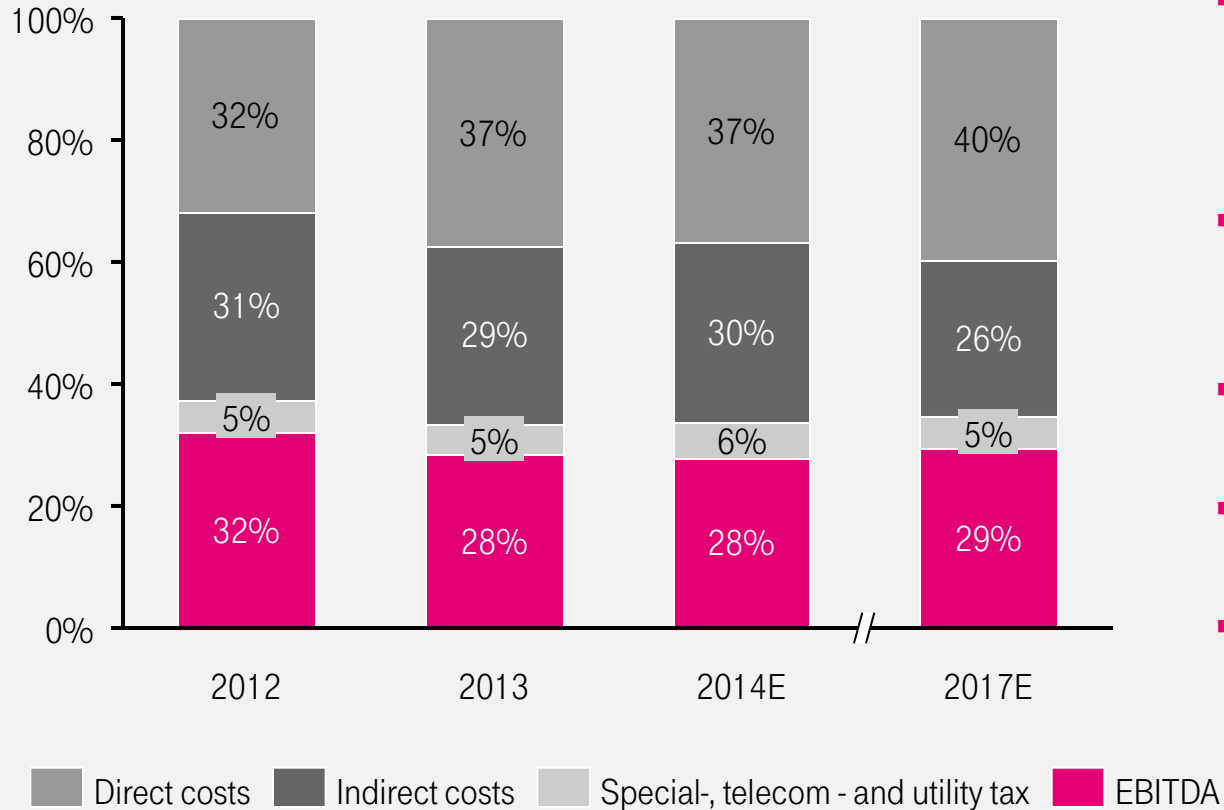
## SIGNIFICANT REVENUE POTENTIAL FROM NON-CORE ACTIVITIES



- 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

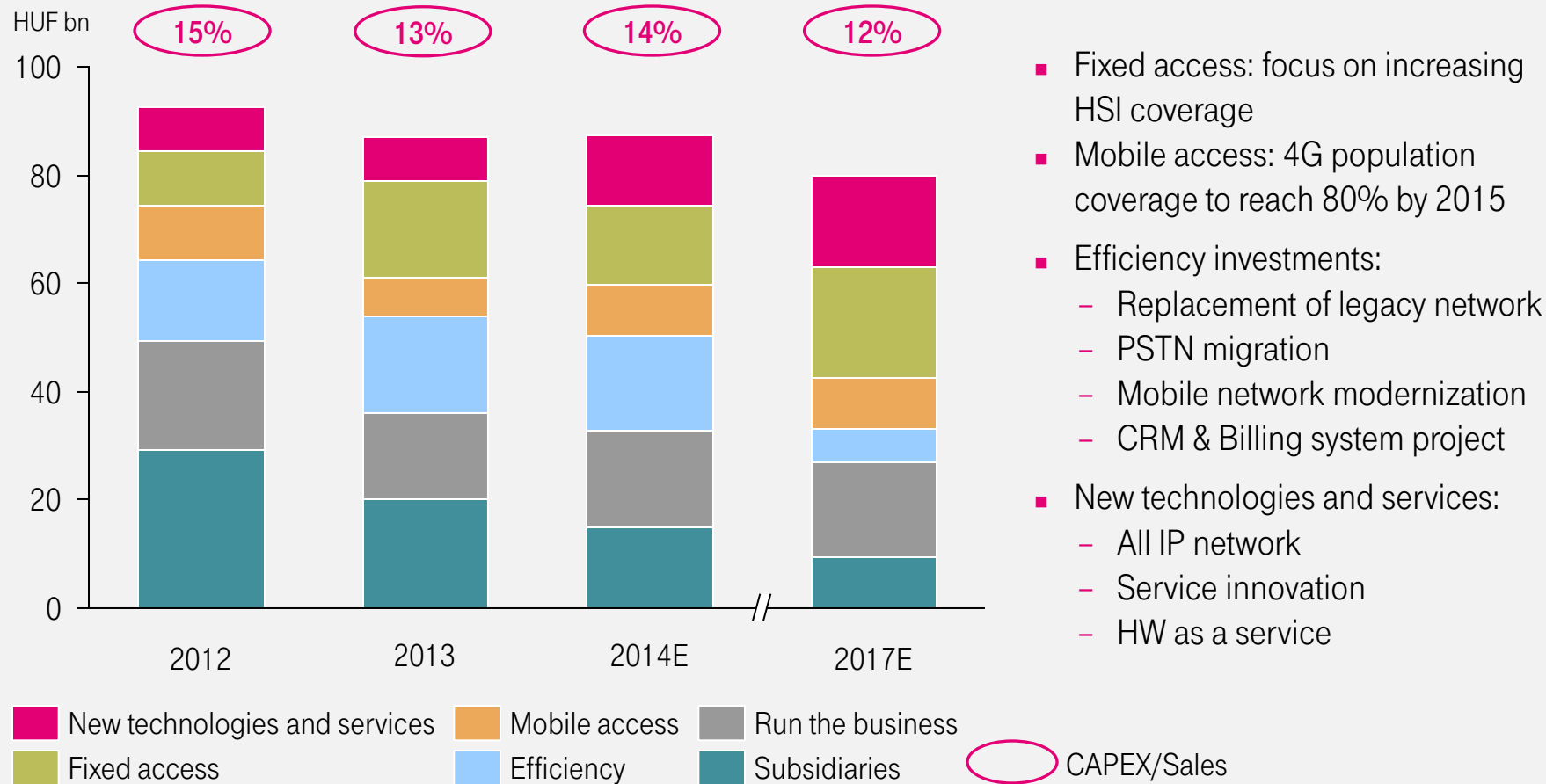
## EBITDA AND COST DEVELOPMENTS (RELATIVE TO REVENUES)



- 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

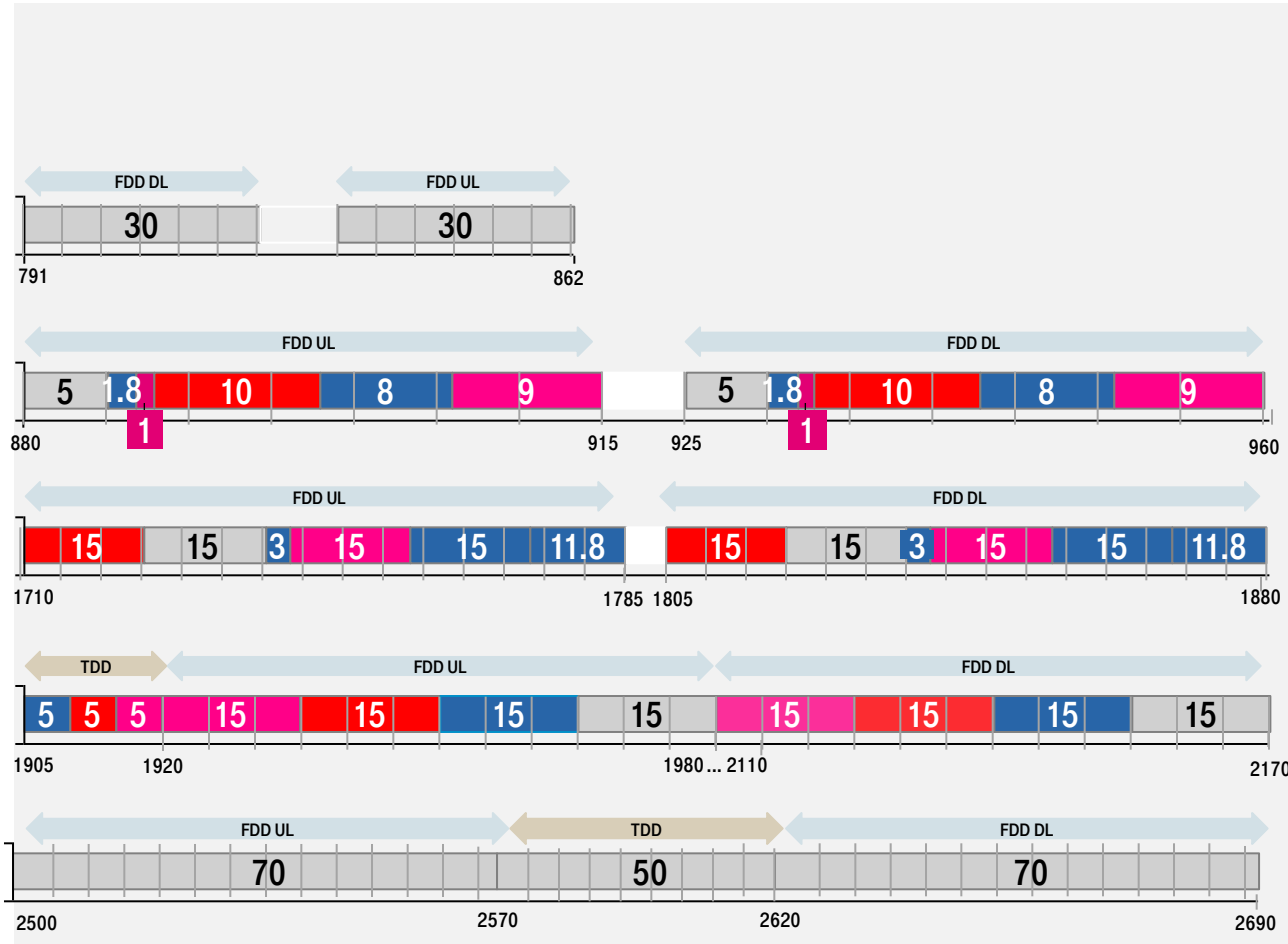
800 MHz

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

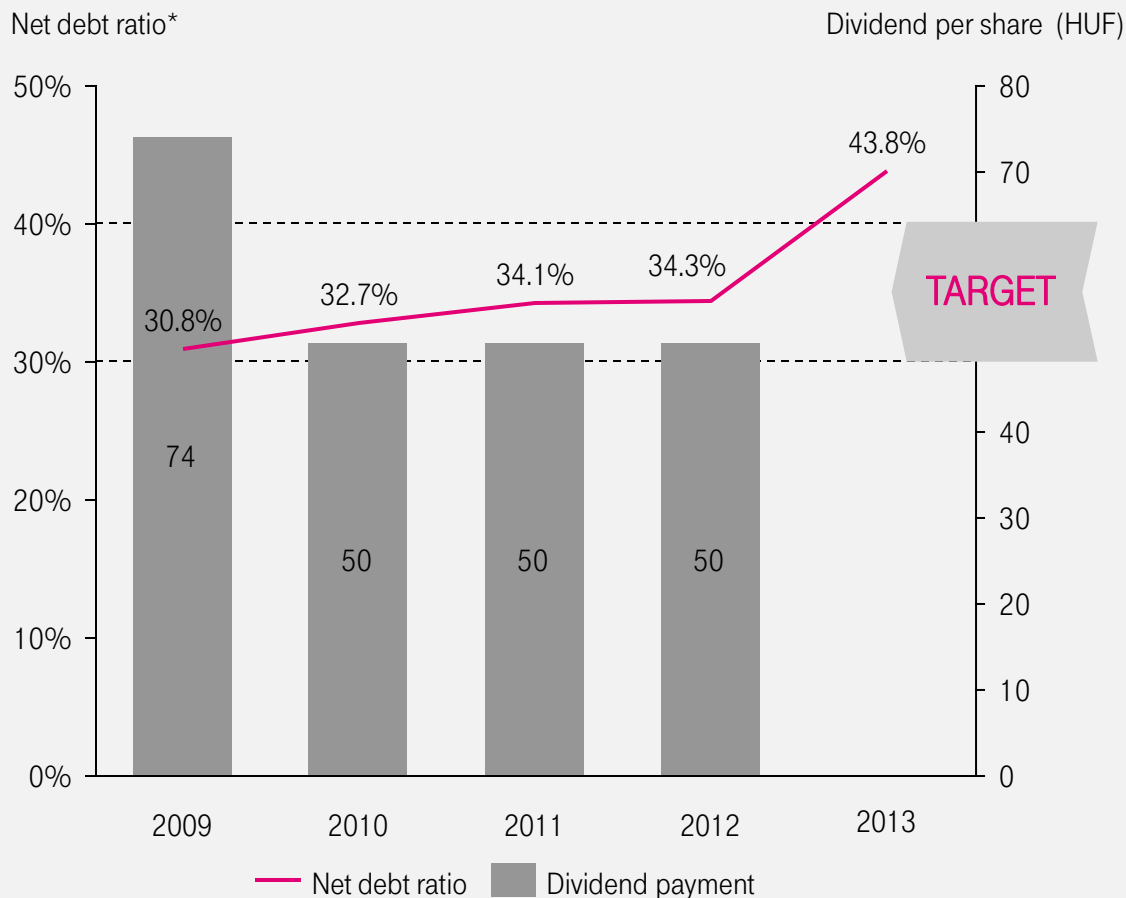
Magyar Telekom Vodafone Telenor Unused



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

\*defined as net debt / total capital

# FINANCIAL OUTLOOK

	2013 RESULTS	2014 TARGETS	2017 TARGETS
REVENUE	+5.0%	flat to - 3% decline	increasing at a CAGR of ca. 2% compared to 2012
EBITDA	-7.9%	3%-6% decline	surpassing 2013 level
CAPEX*	HUF 87.4bn	around HUF 87bn	around HUF 80bn
FCF		bottoming out in 2014	surpassing 2012 level

\*excluding spectrum license fees and annual frequency fee capitalization



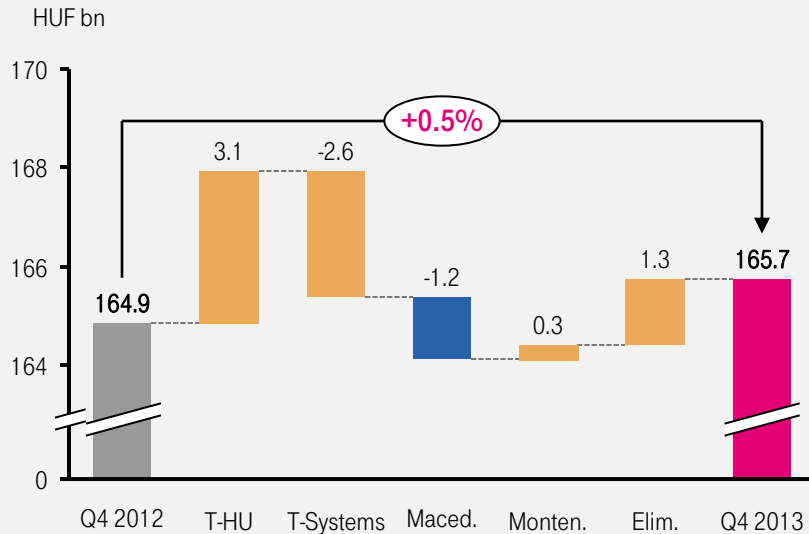
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# Q4 2013 RESULTS



# Q4 2013 SEGMENT RESULTS – REVENUES AND EBITDA

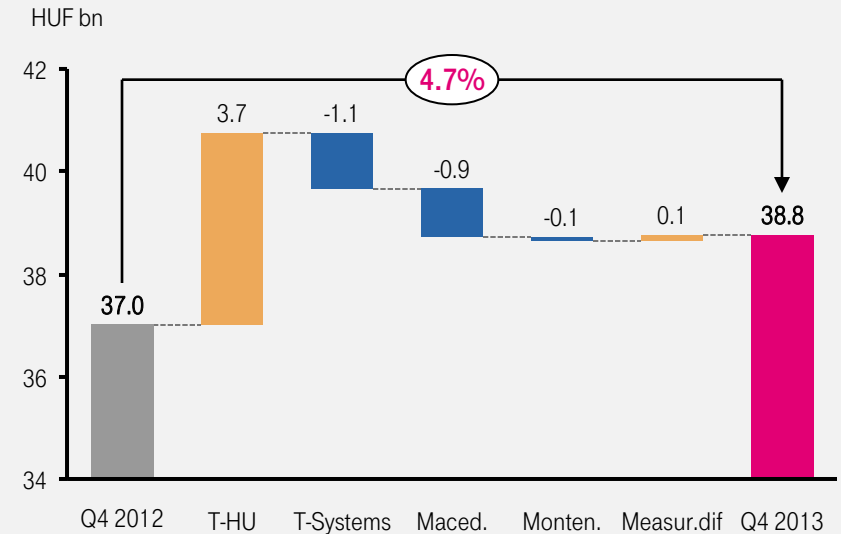
## SEGMENTS' REVENUE DEVELOPMENTS



Change Y-o-Y **+3%** **-7%** **-8%** **+4%**

- **T-Hungary:** higher revenues from energy, equipment sales and mobile BB coupled with limited voice revenue decline
- **T-Systems:** stabilizing telco revenues but lower volume of application revenues
- **Macedonia:** mobile voice revenue decline driven by fierce competitive pressures
- **Montenegro:** TV and internet growth mitigated mobile voice revenue decline

## SEGMENTS' EBITDA DEVELOPMENT



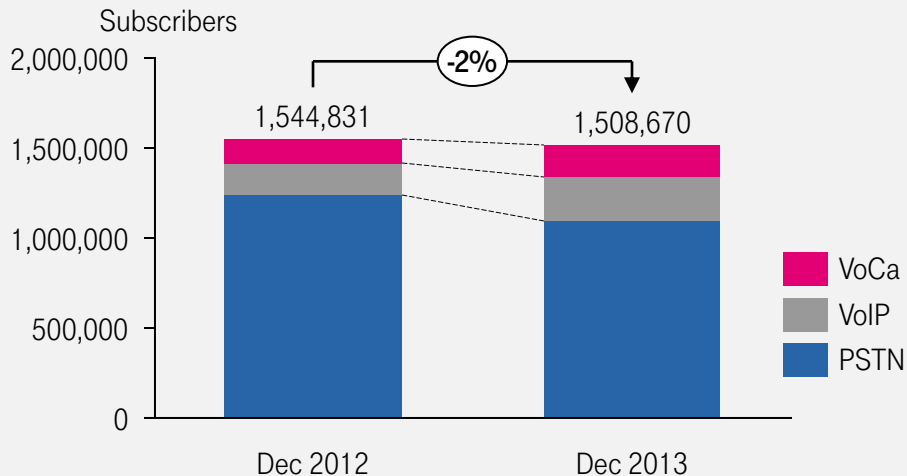
Change Y-o-Y **+15%** **-35%** **-14%** **-3%**

- **T-Hungary:** lower taxes coupled with lower net opex (service fees, fees and levies and marketing expenses)
- **T-Systems:** stable direct margin but one-off booking of non-deductable VAT
- **Macedonia:** competition driven margin pressure; EBITDA margin down 2.8ppt to 39.2%
- **Montenegro:** slightly higher severance expense leading to moderate decline; EBITDA margin at 29%

# HUNGARY – FIXED VOICE MARKET



## TELEKOM HUNGARY FIXED VOICE SUBSCRIBERS



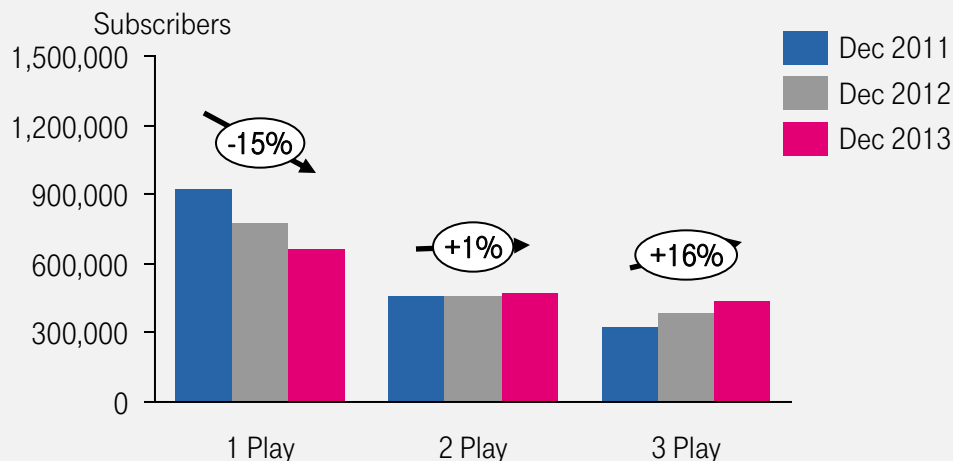
- Significant reduction in fixed voice churn due to the retention effect of:
  - Hoppá package
  - 2Play/3Play offers
  - Retail energy bundling

- Decline in 1Play customer base to 42%

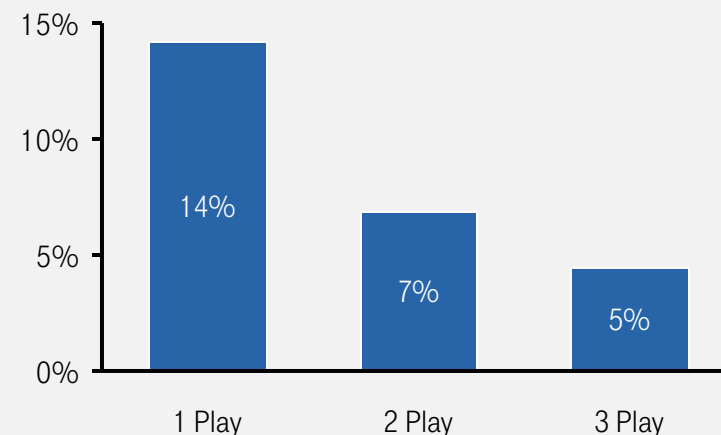
### KPIs (Q4-o-Q4):

- ARPU: HUF 2,727 (-3%)
- MOU: 178 (-5%)

## MULTI-PLAY DEVELOPMENTS



## AVERAGE ANNUAL CHURN LEVEL

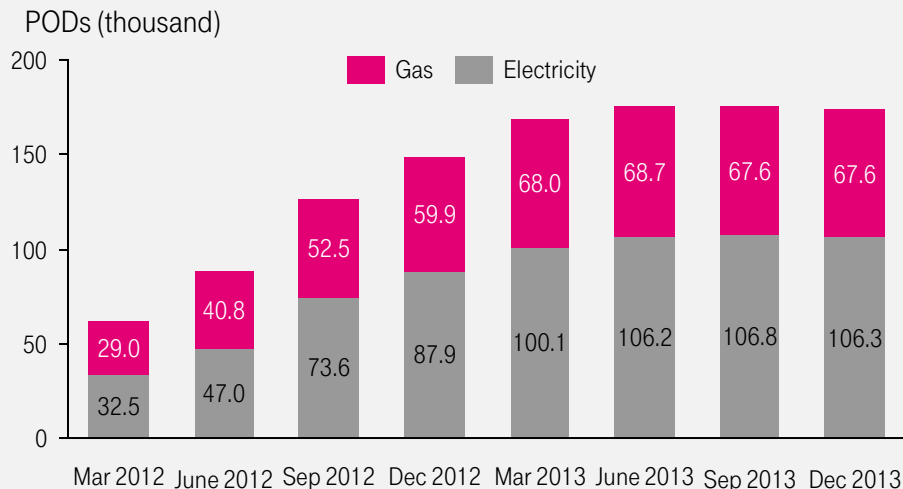


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# HUNGARY – ENERGY RETAIL



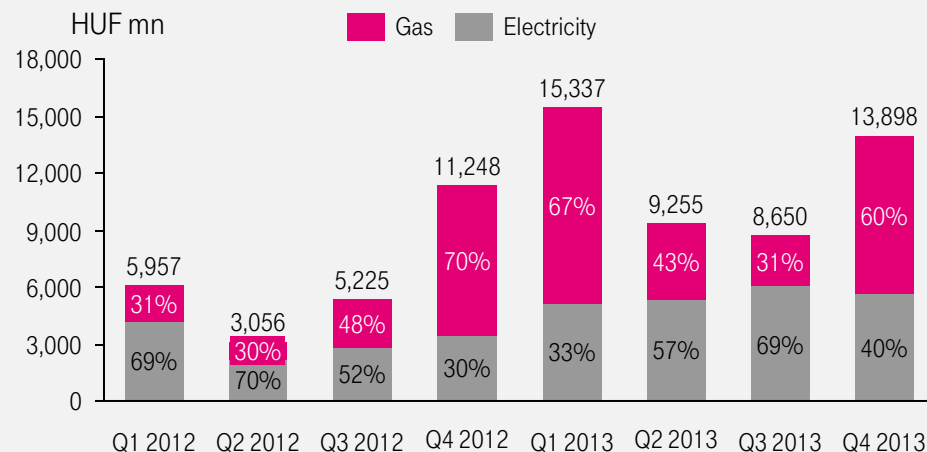
## GAS AND ELECTRICITY POINTS OF DELIVERY (POD)



## 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



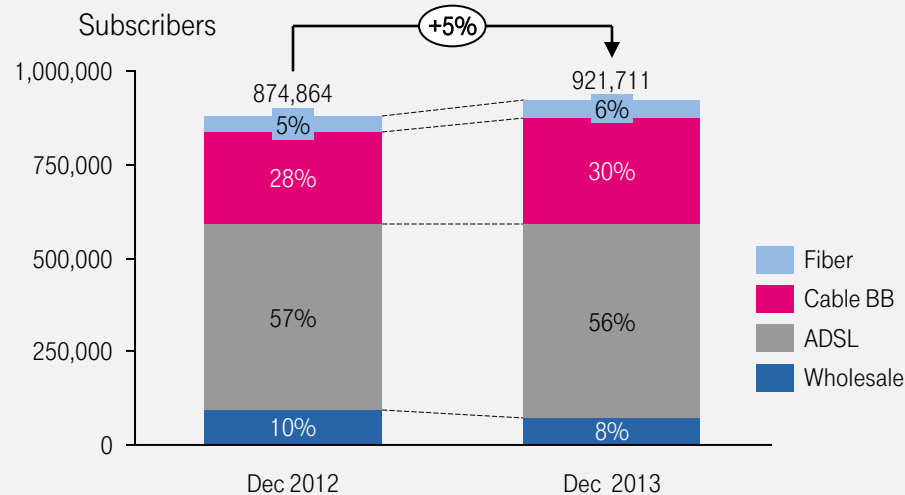
## REGULATORY DEVELOPMENTS

- 10% and 11% retail price reduction since January and November 2013 respectively
- Further 6.5% gas and 5.7% electricity price reduction approved, effective from April and September 2014 respectively

# TELEKOM HUNGARY – BROADBAND AND TV MARKET

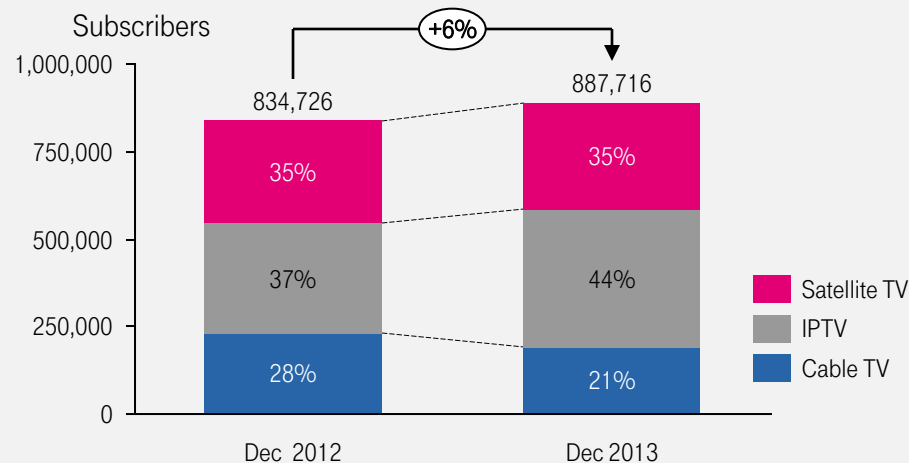


## FIXED BROADBAND SUBSCRIBER BREAKDOWN



- Growth in broadband market driven by cable and fiber
- Significant ARPU pressure from multiplay migration and local pricing
- Broadband ARPU: HUF 3,442 (-10% Q4-o-Q4)

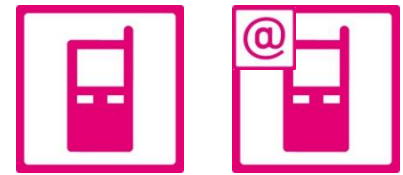
## TV SUBSCRIBER BREAKDOWN



- 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 3,139 (+1% Q4-o-Q4)

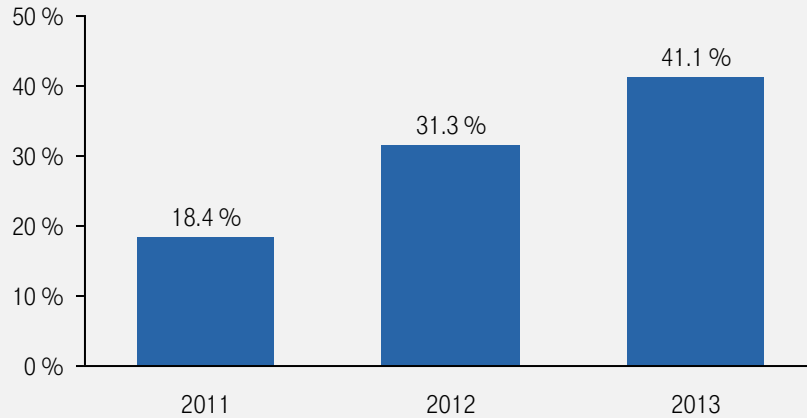


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## TELEKOM SMARTPHONE PENETRATION

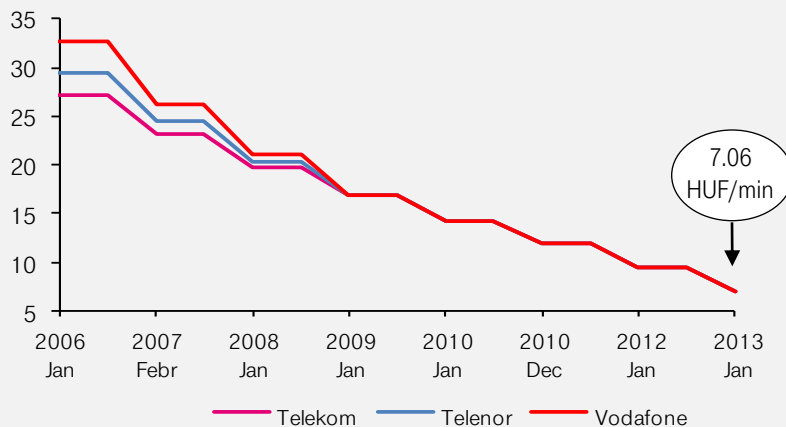
% of total handsets



- Improving customer mix: y-o-y increase in postpaid ratio from 47.3% to 48.5%
- Smartphone sales reached 67% of total handsets
- Broadband subscription attach rate at ca. 85%
- Full LTE coverage in Budapest and 40% population-based coverage countrywide
- MTR cut: no further glide path is announced yet

## MOBILE TERMINATION RATE CUTS

HUF/min

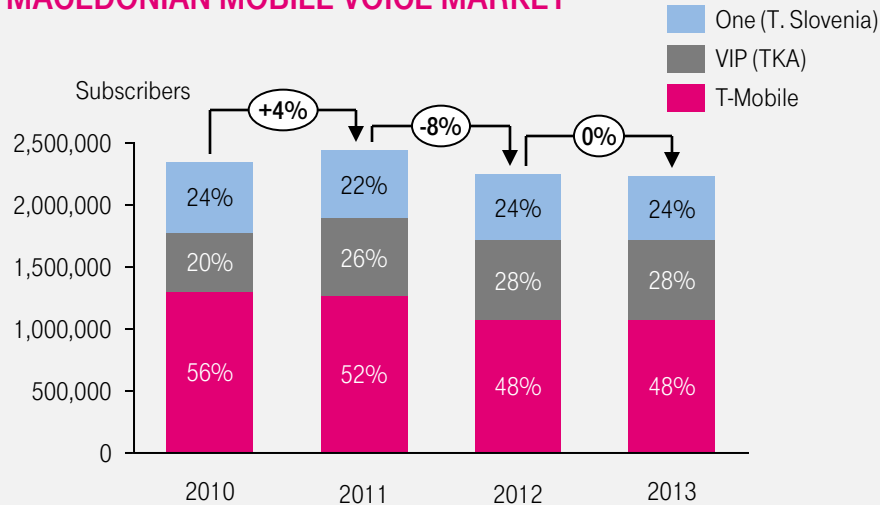


## KPIs (Q4-o-Q4):

- ARPU: HUF 3,429 (-2%)
- Mobile MOU: 162 (+1%)
- SAC/gross add: HUF 7,760 (+28%)
- SRC/retained customer: HUF 19,204 (+39%)
- VAS within ARPU: HUF 898 (+6%)

# MACEDONIA AND MONTENEGRO

## MACEDONIAN MOBILE VOICE MARKET

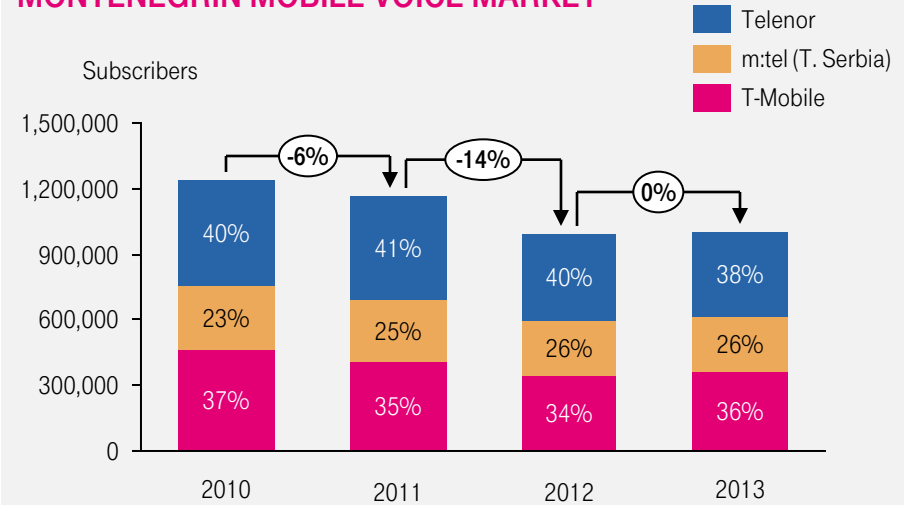


- Leading fixed line operation with 69% voice, 53% internet and 21% TV market shares
- Intense competition from cable operators on the fixed market
- Declining mobile revenues due to strong price competition

### KPIs (Q4-o-Q4):

- Fixed voice churn: 9%
- Fixed outgoing traffic: -13%
- Mobile ARPU: HUF 1,951 (-14%)
- Mobile MOU: 197 (+10%)

## 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 (Q4-o-Q4):

- Fixed voice churn: 2%
- Fixed outgoing traffic: -11%
- Mobile ARPU: HUF 2,532 (-20%)
- Mobile MOU: 160 (-2%)

# FINANCIALS

# MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	2012	2013	Change
Mobile revenues	309 286	310 945	0,5%
Fixed line revenues	218 100	215 382	-1,2%
System Integration/Information Technology revenues	54 256	64 054	18,1%
Revenue from Energy Services	25 486	47 140	85,0%
<b>Revenues</b>	<b>607 128</b>	<b>637 521</b>	<b>5,0%</b>
Direct costs	(193 978)	(236 470)	21,9%
Employee-related expenses	(94 084)	(96 691)	2,8%
Depreciation and amortization	(106 897)	(104 741)	-2,0%
Hungarian telecommunications and other crisis taxes	(33 092)	(31 387)	-5,2%
Other operating expenses	(101 326)	(96 700)	-4,6%
<b>Total operating expenses</b>	<b>(529 377)</b>	<b>(565 989)</b>	<b>6,9%</b>
Other operating income	10 170	3 189	-68,6%
<b>Operating profit</b>	<b>87 921</b>	<b>74 721</b>	<b>-15,0%</b>
Net financial results	(28 598)	(31 560)	10,4%
Share of associates' profits	0	0	n.a.
<b>Profit before income tax</b>	<b>59 323</b>	<b>43 161</b>	<b>-27,2%</b>
Income tax expense	(13 468)	(14 306)	6,2%
<b>Profit for the period</b>	<b>45 855</b>	<b>28 855</b>	<b>-37,1%</b>
Non-controlling interests	8 996	5 395	-40,0%
<b>Equity holders of the Company (Net income)</b>	<b>36 859</b>	<b>23 460</b>	<b>-36,4%</b>





# MAGYAR TELEKOM - CONSOLIDATED BALANCE SHEET

HUF million	Dec 31, 2012	Dec 31, 2013	Change
<b>Current assets</b>	<b>215 923</b>	<b>193 941</b>	<b>-10,2%</b>
Cash and cash equivalents	15 211	14 633	-3,8%
Other current financial assets	53 966	28 615	-47,0%
<b>Non current assets</b>	<b>841 921</b>	<b>897 307</b>	<b>6,6%</b>
Property, plant and equipment - net	510 962	493 619	-3,4%
Intangible assets	311 066	381 199	22,5%
<b>Total assets</b>	<b>1 057 844</b>	<b>1 091 248</b>	<b>3,2%</b>
<b>Equity</b>	<b>522 083</b>	<b>489 576</b>	<b>-6,2%</b>
<b>Current liabilities</b>	<b>234 907</b>	<b>307 223</b>	<b>30,8%</b>
Financial liabilities to related parties	35 344	58 682	66,0%
Other financial liabilities	40 341	100 060	148,0%
<b>Non current liabilities</b>	<b>300 854</b>	<b>294 449</b>	<b>-2,1%</b>
Financial liabilities to related parties	261 126	239 522	-8,3%
Other financial liabilities	5 498	26 214	376,8%
<b>Total equity and liabilities</b>	<b>1 057 844</b>	<b>1 091 248</b>	<b>3,2%</b>



# MAGYAR TELEKOM - CONSOLIDATED CASH FLOW STATEMENT

HUF million	Dec 31, 2012	Dec 31, 2013	Change
<b>Net cash generated from operating activities</b>	<b>145 227</b>	<b>131 612</b>	<b>-9,4%</b>
Investments in tangible and intangible assets	(103 315)	(146 122)	41,4%
Adjustments to cash purchases	6 701	25 984	n.a.
Purchase of subsidiaries and business units	(2 388)	(871)	-63,5%
Cash acquired through business combinations	48	0	n.a.
Payments for / proceeds from other financial assets - net	10 645	13 772	29,4%
Proceeds from disposal of subsidiaries	14 388	0	n.a.
Proceeds from disposal of PPE and intangible assets	1 046	1 188	13,6%
<b>Net cash used in investing activities</b>	<b>(72 875)</b>	<b>(106 049)</b>	<b>45,5%</b>
Dividends paid to shareholders and minority interest	(66 104)	(65 405)	-1,1%
Net payments of loans and other borrowings	(2 922)	50 244	-1819,5%
Repayment of other financial liabilities	(2 036)	(11 157)	448,0%
<b>Net cash used in financing activities</b>	<b>(71 062)</b>	<b>(26 318)</b>	<b>-63,0%</b>
<b>Free cash flow*</b>	<b>59 671</b>	<b>634</b>	<b>-98,9%</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 and Repayment of other financial liabilities

# 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: 297.7 (average Q4 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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