

Q3 2013 Results Conference Call

November 7, 2013 at 15:00 CET

Good afternoon, everybody, and welcome to Magyar Telekom's third quarter 2013 results conference call. I am Chris Mattheisen, Magyar Telekom's Chief Executive Officer, and I will be hosting today's call together with János Szabó, our Chief Financial Officer.

Our revenues for the third quarter grew by more than 5% as near core and beyond core activities showed dynamic growth while the erosion in our core telecommunication businesses was kept at minimal levels. We were able to increase our market positions in a number of markets where we operate, while average revenue per user trends improved in many of our key markets.

Despite recording a lower special tax charge during this quarter, reported EBITDA fell by 8% due to the absence of one-off asset sales that occurred in the third quarter of 2012, such as the sale of Pro-M and the Macedonian real estate transaction. Without the tax impact and these one-offs, EBITDA would have decreased by 5%.

For the full year, we maintain our target of increasing sales and we now estimate that we will be towards the better end of our original EBITDA target range of a 9-12% decrease. Regarding investments, we decided to capitalize the present value of future annual frequency-related fees of the majority of our existing spectrum licenses, which led to a one-time non-cash CAPEX increase of 17 billion forint in the third quarter. The capitalisation was made possible by recent agreements also fixing the annual fees until 2022. We regard this as an item tied intrinsically to spectrum and as such exclude it from our CAPEX target. Thus, we still expect CAPEX to be 5% less than in 2012

excluding spectrum acquisition costs and the above mentioned annual frequency fee capitalization.

Let me now turn to the segment analysis, starting with **Telekom Hungary**, where revenues grew by more than 4% in the third quarter. This was attributable not only to the expansion in near core and beyond core activities such as energy, TV and equipment sales but also to improvement in traditional voice business trends. At the EBITDA level, there was an increase of 1% as a result of the lower operating tax burden more than offsetting a temporary rise in other operating expenses such as marketing costs or other service fees relating to the CRM and billing system consolidation project.

In the mobile market, revenues increased by 2% driven by strong mobile internet and equipment sales but were held back to a degree by the cuts in mobile termination rates as of January, and in roaming tariffs as of July this year. Quarterly mobile ARPU showed a small decline of 2% but our customer base grew by almost 1% over the last year. The sale of smart devices continued to be strong with 80% more smartphones sold in the third quarter of 2013 compared to the same period last year, with almost two-thirds of smartphone buyers subscribing to a data package. Looking forward into the fourth quarter and beyond, we introduced flat rate offers in the residential and SMB segments under our “Next” package. We estimate that the financial impact will be somewhat mixed as the ARPU uplift from upgrades will compensate for some of the losses stemming from customers rationalising their packages.

Turning to the fixed line market, I am pleased to report that in retail fixed voice, we recorded a single-digit decline in revenues with ARPU falling by less than 2% and churn below 3%. Internet sales showed a decline of 3% as a combined result of a sizeable growth in the number of customers and an 8% fall in ARPU relating to multiplay migration. Likewise, our TV revenues also saw significant growth in the customer base

and were also supported by a 3% improvement in ARPU. All these service revenues were complemented by our exceptional device portfolio consisting of TV sets, PC monitors and wifi-only tablets that drove the 11% rise in other fixed line revenues.

In the energy segment, we continued with our cautious approach to customer acquisitions in the third quarter in anticipation of the long-awaited regulatory changes, most of them taking effect from October 2013. Let me reiterate the point we made at our Investor Day: in light of recent legislative changes and in the current business conditions, we intend to remain engaged in the universal energy market, continuing to identify and exploit synergies with our traditional revenue streams. Maintaining this momentum, we now expect a total of around 46 billion forint of revenues from the energy operation as a whole in 2013 as compared to the previously communicated 40 billion forint.

Let me now hand over to János who will provide further details on the results of the T-Systems Hungary segment as well as the international subsidiaries.

János Szabó remarks

Thank you, Chris.

Turning to the performance of **T-Systems Hungary**, revenues increased by 22% in the third quarter of 2013 compared to the same period last year, due to dynamic growth in System Integration and IT sales. The EBITDA of T-Systems Hungary grew by 4% thanks to the improvement in direct profit and the lower operating tax burden offsetting the one-off effect of the sale of Pro-M in the third quarter of 2012.

Mobile revenues fell by 12% year-over-year due mainly to the aforementioned fallout of Pro-M revenues from September 2012. Voice revenues decreased by 10% and non-voice revenues remained flat due to continued strong competition and cuts in regulated termination and roaming tariffs putting pressure on ARPU.

Fixed revenues declined by 8% due to a combined impact of a relatively minor voice ARPU loss and a 3% decrease in the number of customers while other fixed revenues declined due to the termination of some important data contracts with customers from mainly the public and financial sectors.

In System Integration and IT, revenues increased by 55%, driven by a number of EU-funded healthcare- and transportation-related investments and higher levels of corporate IT projects driven by rationalisation efforts.

Regarding our **Macedonian** subsidiary, it should be noted that the forint weakened by 6% compared to the denar year-on-year. Revenues decreased by 8% in denar terms, due mainly to the continued intense competition in the mobile market with flat-priced packages driving ARPU down by more than 11%. The EBITDA loss was 51% in local currency terms, attributable to one-off severance expenses during the quarter and the one-time gain on a real estate transaction in the third quarter of 2012. Excluding these items, the EBITDA would have fallen by 13% in Macedonia at constant exchange rates.

Turning to our **Montenegrin** subsidiary, there was an exchange rate effect of 6% as well due to the weakening of the forint compared to the euro. Total sales fell by 5% in local currency terms but EBITDA remained flat compared to the same period last year as the 43% mobile termination rate cut in January significantly reduced revenues but had a

small positive impact on EBITDA. In Montenegro, we continued to see that growing areas such as mobile internet, TV, fixed line internet, and equipment sales were able to compensate fully for losses we suffered in voice markets both in terms of revenues and EBITDA.

Chris Mattheisen remarks

Thank you very much, János. That concludes the formal part of Magyar Telekom's conference call. Now, operator, when you are ready, we will take the first question.

(Take questions)

I believe we have time for one more question.

(Take final question)

If you have any follow-up questions, please contact our Investor Relations Department. Please also note that the transcript of our conference call will shortly be available on our website. Thank you again for joining us today.