



Investor Release

Magyar Telekom

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Magyar Telekom announces near and mid-term outlook

- 2017 EBITDA to surpass 2013 level
- 2017 free cash flow above 2012 level
- Dividend policy maintained

Budapest – September 30, 2013 – The management of Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider announces that its senior management team gave a detailed view on the Company's strategic and financial targets out to 2017 as part of its Investor Day held at its headquarters in Budapest.

Group financial targets

Besides giving an update on corporate strategy including an in-depth look at how the Company is addressing the challenges arising from its operating environment, Magyar Telekom also announced its financial targets for the period 2014 to 2017. Following on from 2012 when the decline in revenues was reversed, a significant achievement in itself, Magyar Telekom forecasts revenues to grow by 2017 by around a 2% compound annual growth rate (CAGR) compared with 2012 levels. Although Group EBITDA is still expected to decline in 2014, equivalent to a compound annual decline rate of 6%-8% compared with 2012, by 2017 the 2013 EBITDA level will be surpassed. These positive developments in EBITDA will not just be down to increases in revenue but also boosted by an average reduction of 2% per annum by 2017 compared to 2012 in indirect costs (excluding the telecommunication and utility taxes, and depreciation and amortization). Magyar Telekom also intends to reduce its capital expenditures (CAPEX) going forward and targets spend of ca. HUF 87 billion in 2014 falling to ca. HUF 80 billion in 2017. Mirroring the turnaround in EBITDA, Magyar Telekom expects its free cash flow to start to improve from 2015 onwards, with the 2012 level expected to be exceeded in 2017. It is then that Magyar Telekom will be judged to have achieved a complete financial performance turnaround.

Diversification strategy

These results will be achieved by continuing on the transformation journey that Magyar Telekom has already embarked on through the integration of activities such as System Integration and IT, insurance, energy and the broadening of its device portfolio. Through this expansion, to include near core and beyond core services to augment its traditional core activities, Magyar Telekom has been able to provide a unique customer experience that has helped to optimise value for both the Company and its subscribers, as illustrated by the current turnaround in revenues and increasing market shares. Through following this strategy whilst anticipating and mastering the new competencies required by changing customer behaviour, technological advances, and new business models, Magyar Telekom will be able to transform into a diversified service provider in the period out to 2017.



In the Hungarian residential segment, with the bundling of core, near core and beyond core products and services, the Company has successfully reduced the churn in its traditional fixed voice business whilst keeping its mobile subscriber base stable in a shrinking market. At the same time, thanks to the attractive positioning of its bundles, both the average service and the average revenue per household have been steadily increasing over the past 3 years. The Company expects to reach an average 3.1 services per household by 2017 compared to the current 2.4. Magyar Telekom strongly believes that it can create value by providing an enhanced customer experience that will lead to greater loyalty and higher levels of spending amongst its customers. Via its bundling strategy, it aims to increase the ratio of those households that subscribe to at least two telecommunication services from its 2012 level of 57% to 74% by 2017, and amongst those, raise the so called 5Play ratio (fixed and mobile voice and internet coupled with a TV package) from 6% to 32% over the same time horizon.

The Company also presented its initiatives in the SoHo/SMB segment, where its primary goals are to preserve its leading telecommunication provider role and, thanks to its integrated offers and IT competencies, increase its market share in the IT market as well. Through these actions, it expects to achieve a turnaround in the revenues generated from this segment in 2015.

T-Systems Hungary, Magyar Telekom's segment that serves the public sector and corporate customers, has grown to become the largest SI/IT provider in Hungary. The main challenges for T-Systems Hungary lie in the unfavourable market trends, especially in the telecommunications segment. By deepening its customer relationships through becoming an integrated transformation partner, and possibly through international expansion, T-Systems expects its declining adjusted margin (ie. direct margin excluding direct delivery expenses) trend to reverse in 2015.

Over the past number of years, Magyar Telekom has been active in expanding into new business areas and aims to continue on this path going forward: by 2017, 18% of revenues are expected to come from beyond core activities as compared to 6% in 2012. This expansion will encompass activities such as insurance, e-commerce or Digital Home offers. In the current legislative environment, the Company also intends to pursue its strategy regarding its energy service and expects that under the current regulatory and market conditions, the energy service will have an overall positive contribution to the Group's financial performance.

Before entering new activities, Magyar Telekom always has and will continue to carry out comprehensive assessments: target industries are not judged just in terms of strategic fit, but also on a risk opportunity basis, including risk sharing methods with potential partners. The Company expects such beyond core activities to have lower EBITDA margins (on average around 10%-20%) than traditional telecommunication services. Conversely, their capital requirements are also expected to be lower (with average CAPEX-to-Sales ratios of around 2%-5%), thus these services are forecast to have a Cash contribution-to-Sales figures of between 8%-12% overall in 2017.

Network developments

Regarding network investments, focus will be paid to increasing high speed internet coverage in those regions where the Company sees demand for these services. In the mobile market, Magyar Telekom intends to increase its population based 4G/LTE coverage to 80% by 2015 in order to meet the demand for speed called for by the significant growth in data. In terms of CAPEX allocation, the Company expects that 2014 will continue to see investment channelled into projects that are geared towards enhancing future levels of efficiency, such as IP migration or the integrated CRM and billing systems. By 2017 however, this level of investment, as well as CAPEX required to sustain the existing business, will have eased off significantly, thereby freeing up more capital to be invested into new technologies and services.



International subsidiaries

The Macedonian subsidiary successfully continues to maintain its leading market positions, whilst its technological leadership is being consolidated through initiatives such as the IP transformation project. Although the challenges faced in the recent periods are expected to prevail going forward, the Company plans to keep its mobile voice market share above 48% and capitalize on the synergy opportunities that will arise from the integration of the fixed and mobile arms.

The Montenegrin subsidiary intends to preserve its revenues above EUR 100 million thanks to initiatives that will improve the traditional core portfolio as well as expansion into near core and beyond core services. At the same time, EBITDA is expected to remain above EUR 40 million out to 2017.

Dividend policy

Magyar Telekom intends to maintain its current dividend policy, targeting a net debt to total capital ratio between 30%-40%.

This investor news may contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore should not have undue reliance placed upon them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Reports for the year ended December 31, 2012 available on our website at <http://www.telekom.hu>.