

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

JANUARY, 2017



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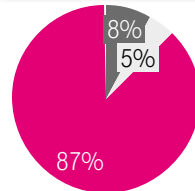
# **STRATEGY AND MARKET POSITION**

# OVERVIEW – MAGYAR TELEKOM AT A GLANCE

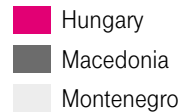
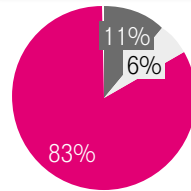
## International presence



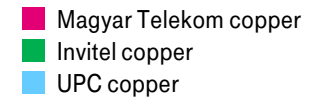
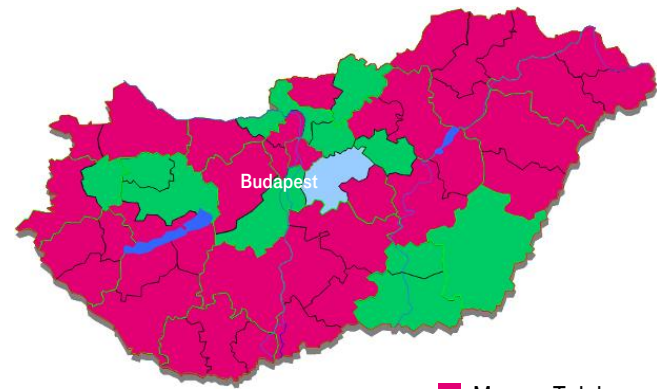
Revenue (FY2015)



EBITDA (FY2015)



## Hungary



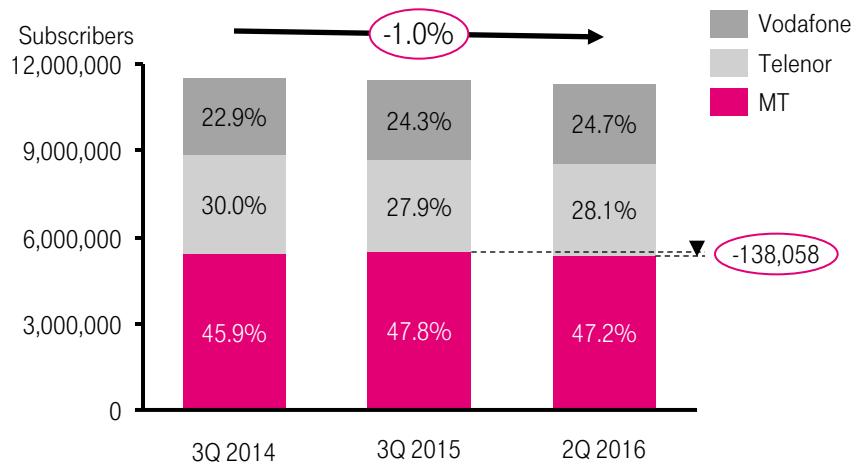
- Leading telecommunications operator in Hungary, Macedonia and Montenegro<sup>1</sup>
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.6bn market capitalization
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

- MT is the incumbent fixed telco provider on ca. 75% of primary copper areas of Hungary
- 2.7 million households covered with High Speed Internet (HSI) access across country
  - FTTx (611k HHs) – ongoing countrywide roll-out
  - ED3 (740k HHs) – participating in market consolidation
  - VDSL (1,389k HHs) – revitalizing copper, excl. overlaps
- 83% outdoor population coverage of 3G
- 98% outdoor population coverage of 4G

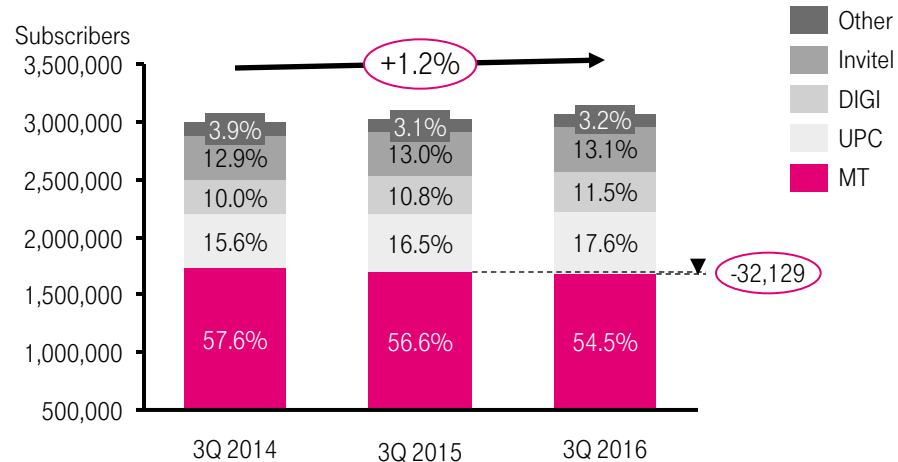
<sup>1</sup> As announced on January 10, 2017, Magyar Telekom disposes of its majority stake in Crnogorski Telekom, closing of the transaction is expected by the end of January, 2017

# MARKET POSITION IN HUNGARY

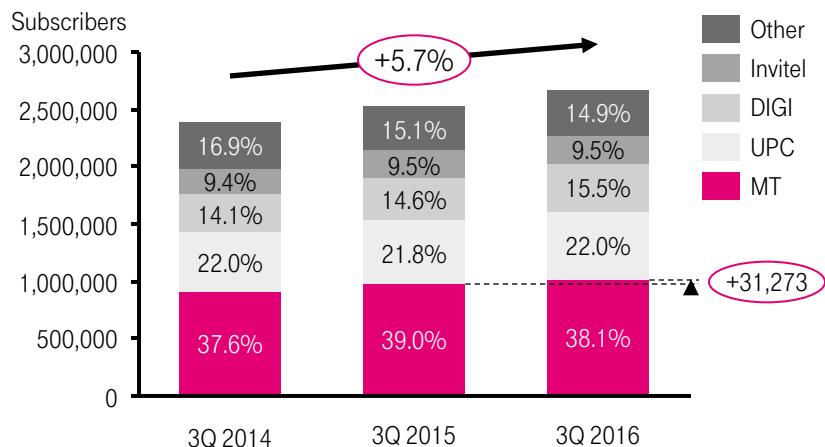
## Total mobile market\*



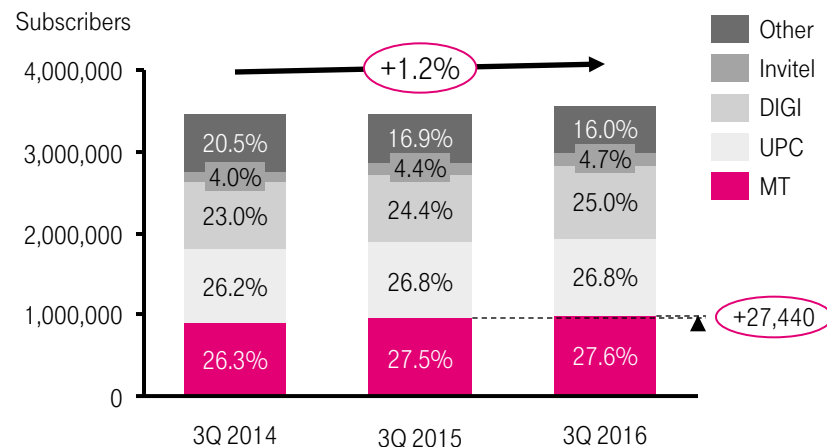
## Fixed voice market\*\*



## Fixed broadband market\*\*



## TV market\*\*



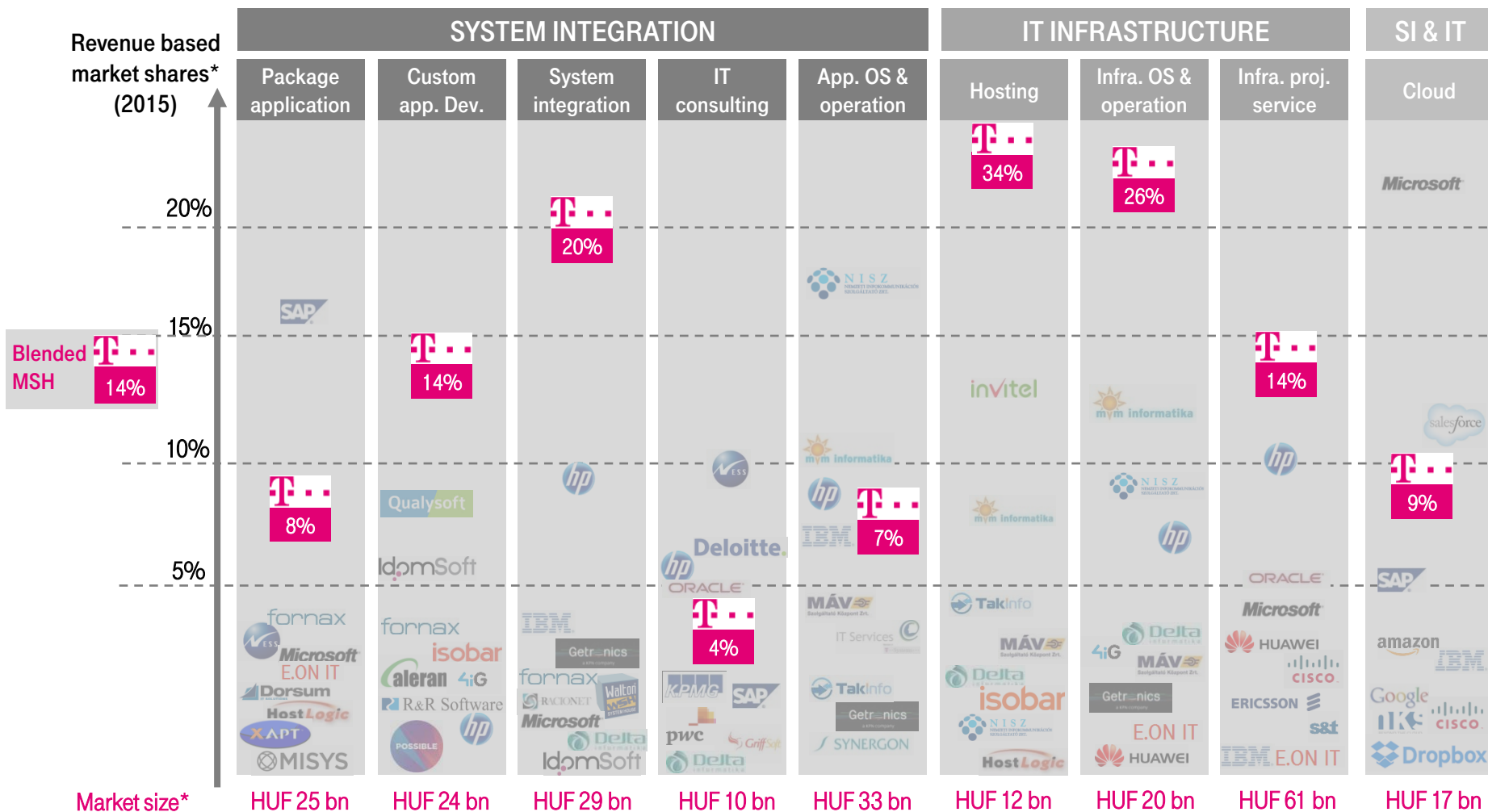
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\* based on internal calculations from Vodafone Group and Telenor Group Reports

\*\* based on the total fixed voice channels / BB access / pay TV access market estimated by the National Media and Infocommunications Authority (NMA)

# MARKET LEADER IN IT SERVICES IN HUNGARY DUE TO WIDE RANGE OF IT SOLUTIONS BOTH IN IT PROJECTS AND IT OUTSOURCING

## Total Hungarian IT services market



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\* Source: IDC 2015; Market size by demand side, while market shares by supply side data

# STRATEGY OVERVIEW: WITH OUR ENGAGED PEOPLE WE ARE BUILDING A GROWING ICT COMPANY SERVING SATISFIED CUSTOMERS

## Strategic pillars

## Strategic goals

## Main KPIs for 2016

1

### TOGETHER. FOR OUR CUSTOMERS

We all listen to our customers and colleagues: we truly listen to them and we consider what they say when making decisions

Improve customer satisfaction

Improve customer service level

Improve employees' engagement

- Cut number of complaints
- Improve customer satisfaction index (TRIM)
- Improve overall satisfaction of all channels (NGICCA)
- Launch Employee Share Program

2

### INTEGRATED PRODUCTS & NETWORK

As a nr. 1 integrated service provider we give all our customers the opportunity to connect in a seamless way

Foster technology leadership

Monetize FMC capabilities

Strengthen integrated ICT brand

- Increase nr of additional HP with HSI with more than half million
- Increase LTE indoor coverage to 87%
- Have additional 100k Magenta1 households
- Increase the awareness of the Telekom brand to over 60%

3

### IT & DIGITAL SERVICES

We believe that IT and digital services mean great opportunity for our customers and are key drivers of our future growth

Grow in IT

Develop digital business

- Grow last year's SI/IT revenues (excl. 2015 Dec one-offs)
- Find new revenue streams in Cloud, M2M, IoT, Big data, Security

4

### DIGITAL TELEKOM

We continue to transform Telekom into a digital company to make it effortless for our customers to do business with us

Push digital transformation

- Increase eBill, eSales, eCare ratios
- Cut nr of non-selling transactions by additional 30%
- Increase remote work ratio to 30%

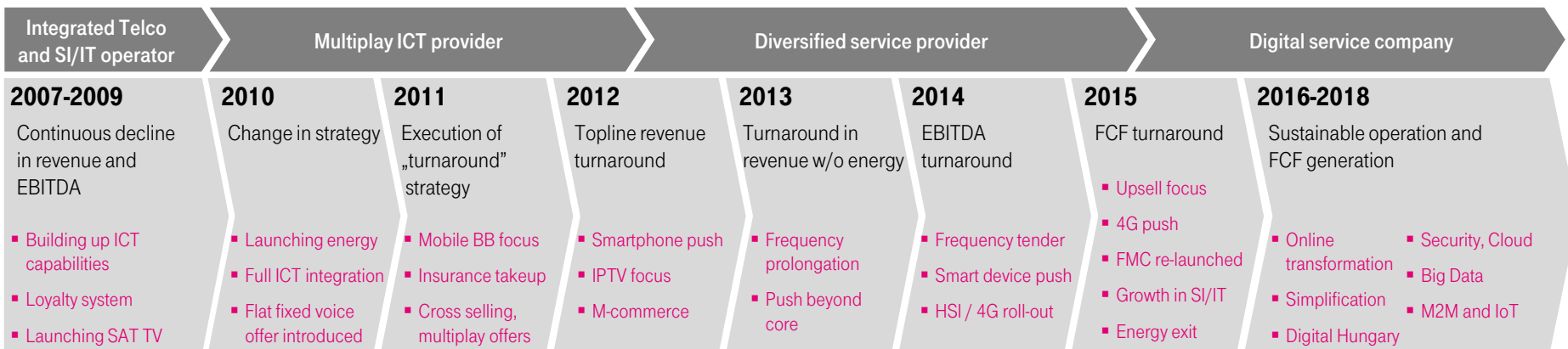


# Q3 2016 STRATEGIC HIGHLIGHTS: HUNGARIAN SEGMENT CONTINUES TO DRIVE GROUP PERFORMANCE

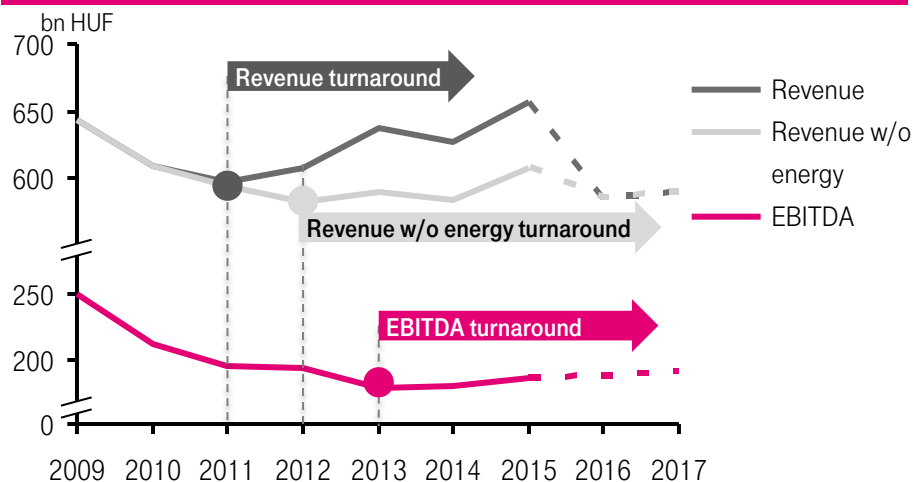
GROUP	REVENUE	<ul style="list-style-type: none"> <li>Decline due to partial exit from energy business and lower SI/IT revenues; excl. energy and SI/IT, revenues up by 1.2% driven by growth in mobile revenues</li> </ul>
	EBITDA	<ul style="list-style-type: none"> <li>EBITDA up by 10.0% as lower employee related and other operating expenses more than offset the slight decline in gross profit</li> </ul>
	FCF	<ul style="list-style-type: none"> <li>Increased FCF reflective of higher EBITDA and one-off gains which offset higher severance costs, loan repayment and higher settlement of capex and capex creditors</li> </ul>
	OPERATIONS	<ul style="list-style-type: none"> <li>Sustained focus on cost efficiency through headcount reduction, process/product simplification and online customer servicing</li> </ul>
HUNGARY	TELCO	<ul style="list-style-type: none"> <li>Continued growth in mobile and TV revenues</li> <li>4Play Magenta 1 offer among key growth drivers</li> </ul>
	SI/IT	<ul style="list-style-type: none"> <li>SI/IT revenue decline due to a slowdown in EU fund inflows</li> <li>Sustained EBITDA turnaround at our enterprise sub-segment</li> </ul>
INT'L	MACEDONIA	<ul style="list-style-type: none"> <li>Strong mobile revenue growth supported by higher mobile broadband customer base</li> <li>Higher EBITDA driven by higher gross margin and efficient operation</li> </ul>
	MONTENEGRO	<ul style="list-style-type: none"> <li>Continued competitive and regulatory pressures on telco margins</li> <li>Strong take up of Magenta 1 offer</li> </ul>

# TURNAROUND STORY OF MAGYAR TELEKOM

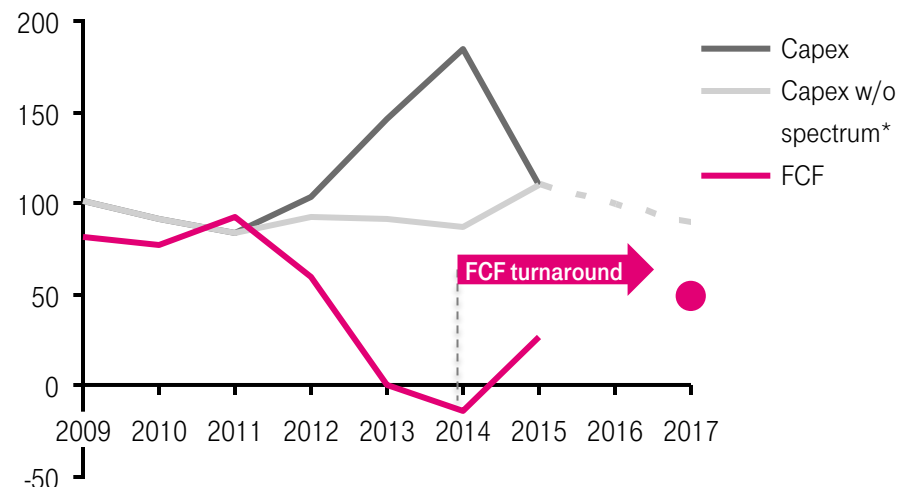
## Major financial and strategic milestones



## Revenue and Ebitda turnaround



## Capex and free cash-flow development





# TELEKOM AS THE LEADING OPERATOR AND BRAND IN HUNGARY

## Our vision

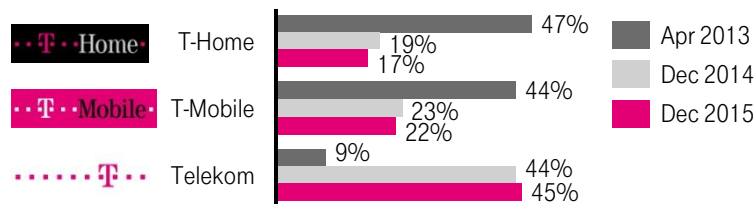
FIRST NOW FIRST FOREVER

## Our mission

OUR MISSION IS TO MAKE THE DIGITAL WORLD MORE UNDERSTANDABLE AND ACCESSIBLE FOR EVERYONE.

WE ENABLE PEOPLE TO HAVE A MORE EFFORTLESS, COLOURFUL AND SUCCESSFUL LIFE.

## Brand awareness\* and brand values



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INNOVATION

SIMPLICITY

COMPETENCE

## Our major awards



EXCELLENCE IN CUSTOMER SERVICE AWARD



FAMILY-FRIENDLY WORKPLACE AWARD



SUSTAINABILITY AWARDS (OEKOM, CEERIUS, DELOITTE)



BICYCLE-FRIENDLY WORKPLACE AWARD



100% CARBON NEUTRAL COMPANY

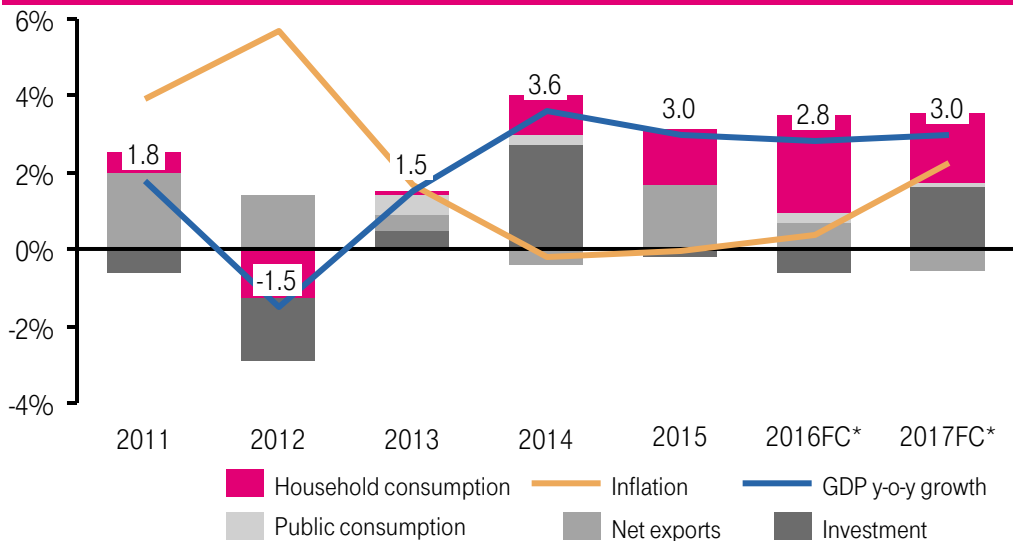


DIVERSE ORGANIZATION AWARD

\* Source: Brand tracking research, TNS, Dec 2014 (Brands identified by the logos)

# HUNGARIAN ECONOMIC ENVIRONMENT

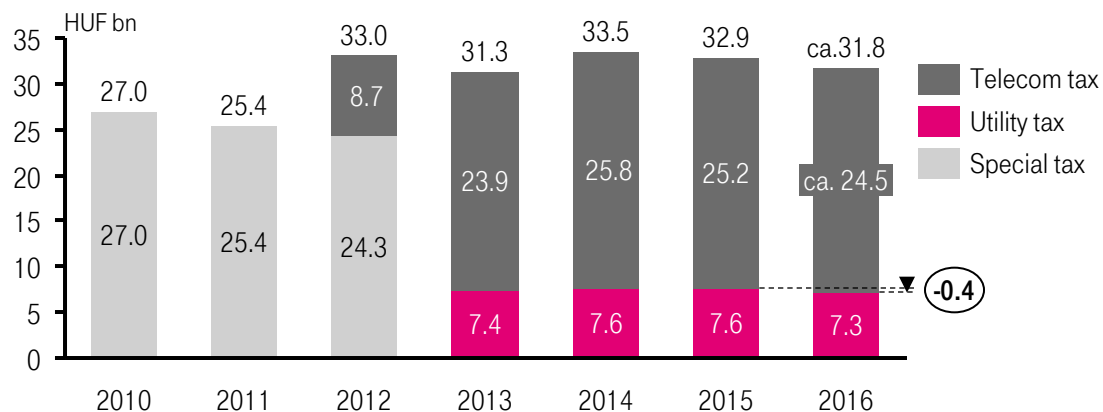
## Growth structure



## Domestic demand

- Domestic demand improved as economy recovers
- Governmental measures support consumer spending
- Investment levels show strong volatility due to EU fund cycles
- MT is expected to benefit from positive trends of domestic demand

## Taxes levied on Magyar Telekom

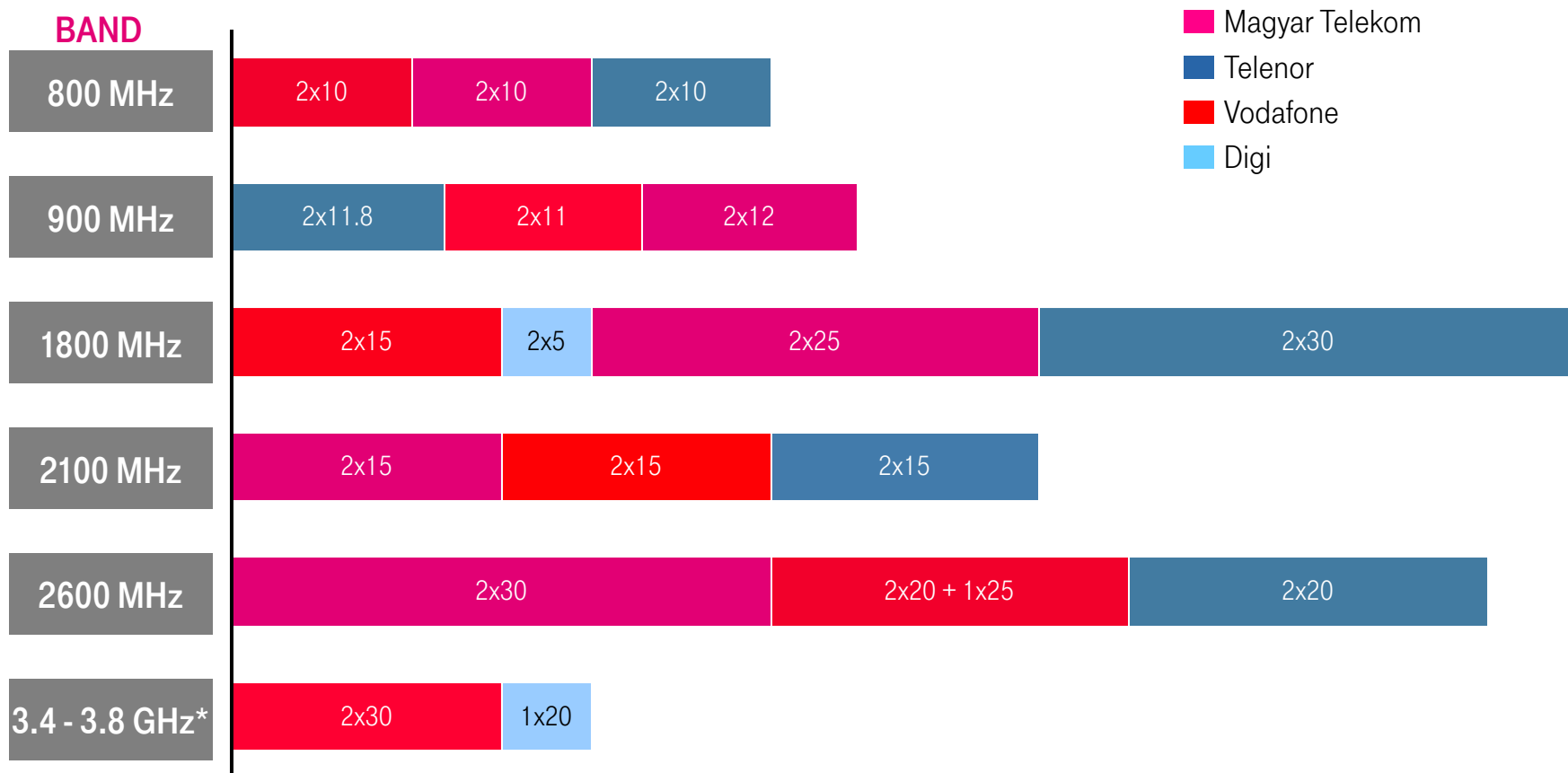


## Tax burdens to reduce budget deficit

- 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 in 2013, but slight decrease in 2016 due to 5-year tax holiday on networks > 100Mbps

# HUNGARIAN MOBILE SPECTRUM SITUATION

## Current spectrum situation (MHz)



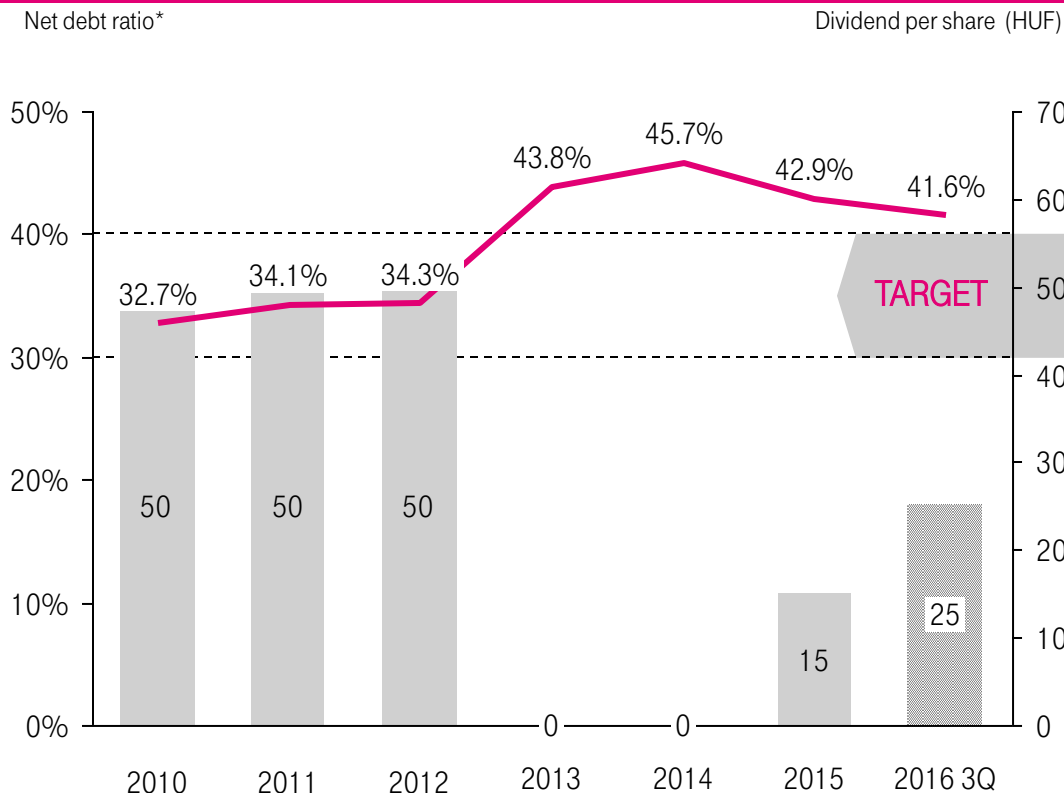
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\* TDD band

# **DIVIDEND AND GUIDANCE**

# DIVIDEND POLICY

## Dividend payment and net debt ratio developments



## Highlights

- Aiming to maintain net debt ratio (net debt/total capital) target of 30% - 40%
- HUF 15 dividend paid on 2015 earnings in May 2016
- Based on the current operating, regulatory and taxation environment and outlook coupled with the anticipated significant improvement in the free cash flow generation, the management of the Company targets to pay HUF 25 dividend per share on 2016 results\*\*



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\* 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

# PUBLIC GUIDANCE

	2015 RESULTS	2016 TARGETS	2017 TARGETS <sup>1</sup>
REVENUE	HUF 656 bn <sup>2</sup> (+4.8%)	around HUF 595 bn	HUF 560 – 570 bn
EBITDA	HUF 187 bn (+3.4%)	around HUF 193 bn	HUF 181 – 185 bn
CAPEX <sup>3</sup>	HUF 110 bn	ca. 10% yoy decline	ca. 15% yoy decline
FCF	HUF 27 bn		surpassing HUF 50bn <sup>4</sup>
DIVIDEND	HUF 15 per share	HUF 25 per share	

<sup>1</sup> modified due to the disposal of Magyar Telekom's majority stake in Crnogorski Telekom

<sup>2</sup> includes HUF 49.3 billion relating to the energy business

<sup>3</sup> excluding spectrum license fees and annual frequency fee capitalization

<sup>4</sup> after minority dividend payments



# 9M 2016 FINANCIAL HIGHLIGHTS AND REVISED TARGETS FOR 2017

## REVENUE

### 9M 2016 RESULTS vs. 9M 2015

HUF 443.8 bn (-6.3%)

- Decline due to partial exit from energy business and lower SI/IT revenues
- Excluding energy and SI/IT, revenues up by 1.2% driven by growth in mobile
- Revenue growth in mobile driven by mobile data and equipment sales due to 4G push

### 2016 TARGETS

around HUF 595 bn

### 2017 TARGETS<sup>1</sup>

HUF 560 – 570 bn

## EBITDA

HUF 153.2 bn (+6.7%)

- EBITDA boosted by one-off gains
- Increased margins in telco and SI/IT
- Improved fixed and mobile broadband performance driven by larger customer base and higher ARPUs
- Lower utility tax due to tax credits granted following HSI development and lower telco tax
- Decrease in employee related expenses driven by lower severance expenses and savings from the 2014/2015 headcount reduction program

around HUF 193 bn

HUF 181 – 185 bn

## CAPEX<sup>2</sup>

HUF 59.3 bn (-1.1%)

ca. 10% yoy decline

ca. 15% yoy decline



<sup>1</sup> modified due to the disposal of Magyar Telekom's majority stake in Crnogorski Telekom

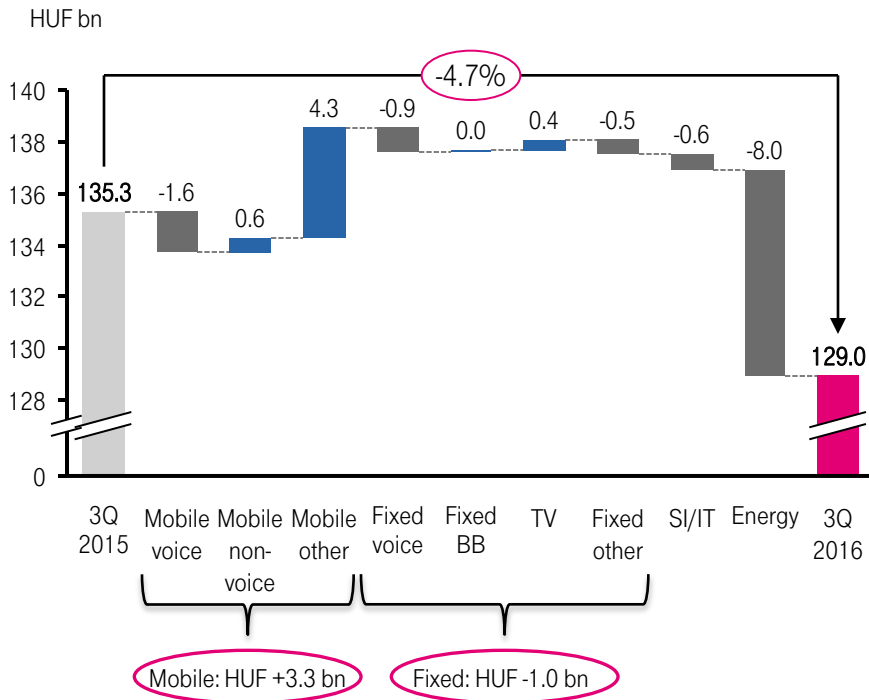
<sup>3</sup> excluding spectrum license fees and annual frequency fee capitalization

# Q3 2016 RESULTS



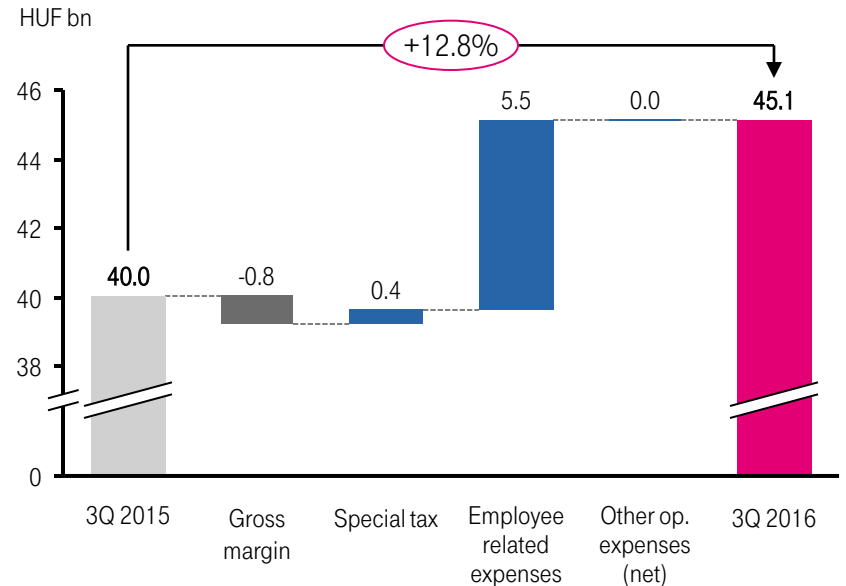
# HUNGARY

## Revenue\*



- Mobile revenues up by 4.9% mainly driven by higher equipment sales
- Mobile broadband growth due to 4G push
- Stable fixed broadband revenues as higher customer numbers offset the slightly decline in ARPU
- Significant increase in fixed TV revenues thanks to growth in the customer base and ARPU
- Decline in SI/IT due to a slowdown in EU fund inflows
- Drop in energy revenues following exit and transfer to JV

## EBITDA



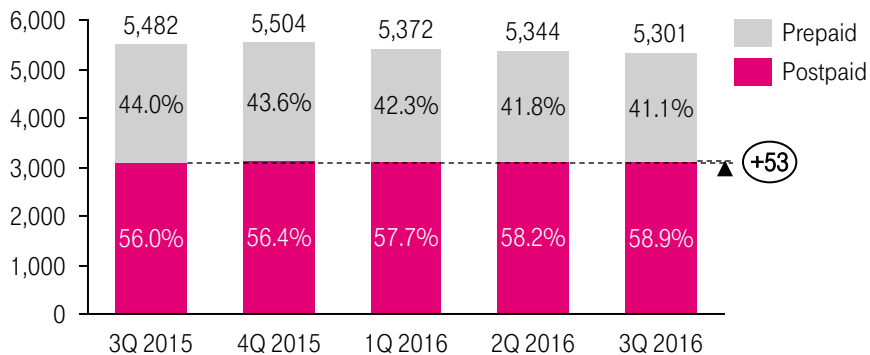
- Improving SI/IT margins and bad debt expenses counterbalanced by higher direct costs due to increased mobile equipment sales leading to gross margin decline
- Lower telco tax due to fewer subs and changing calling habits
- Decrease in employee-related expenses attributable to lower severance expenses and actual savings from headcount
- Other OPEX in line with Q3 2015

# HUNGARY - MOBILE



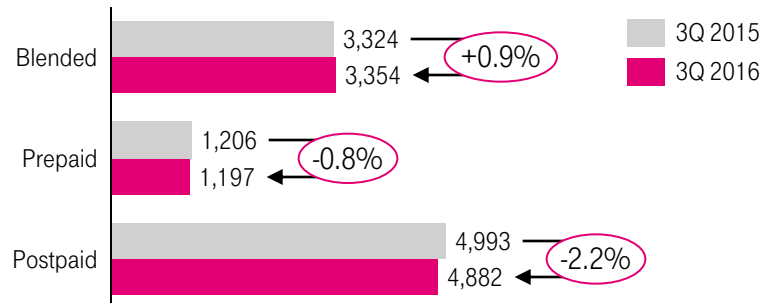
## Mobile SIMs

'000



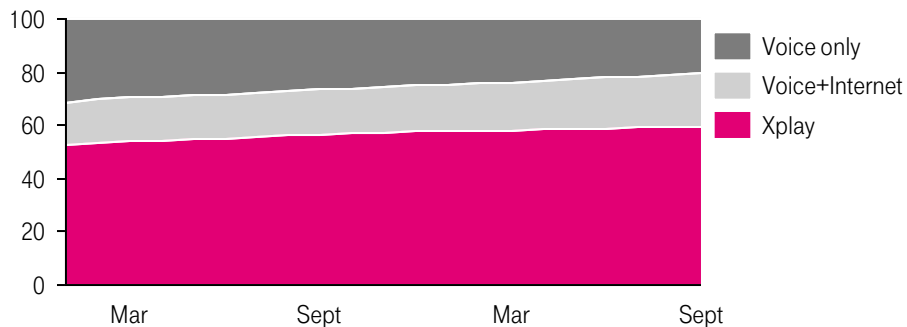
## Mobile ARPU

HUF



## Distribution of postpaid voice SIMs

%



Flat rate ratio

21%

25%

27%

29%



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\* outdoor population coverage

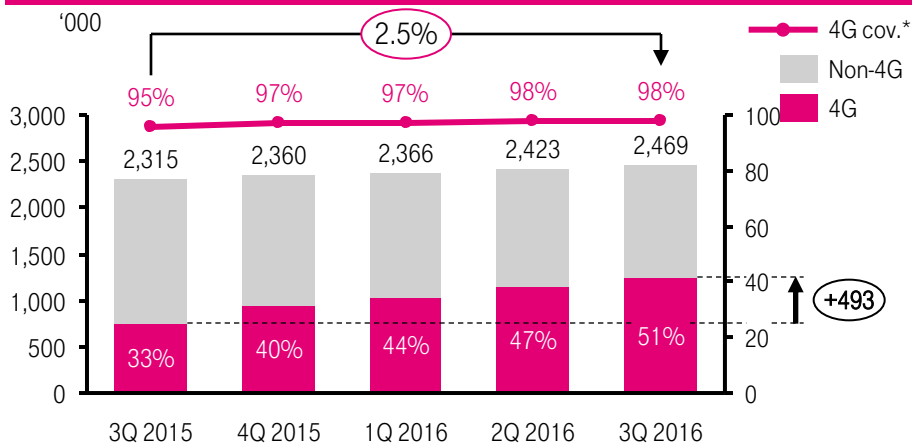
## Highlights

- Customer base decline due to fewer prepaid customers and intense competition for business customers
- 2% (+53k net adds) increase in postpaid RPC driven by strong data demand
- MOU up by 5% due to higher postpaid ratio and growing flat tariff subscriber base
- Growth in ARPU driven by successful prepaid to postpaid migration
- All postpaid voice services bundled with mobile broadband
- Continued increase in flat rate ratio among postpaid customer base

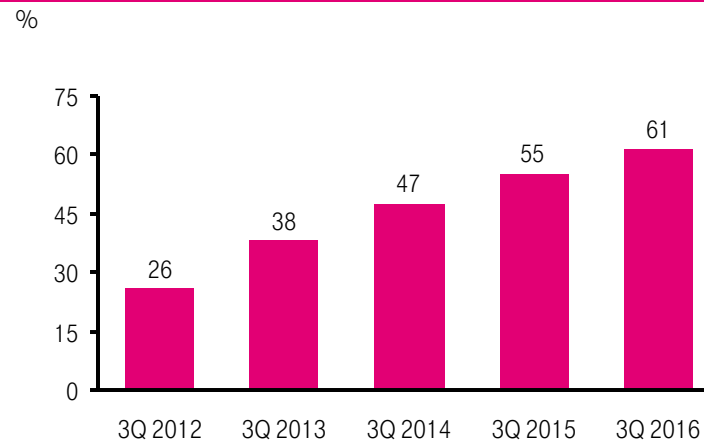
# HUNGARY - MOBILE BROADBAND



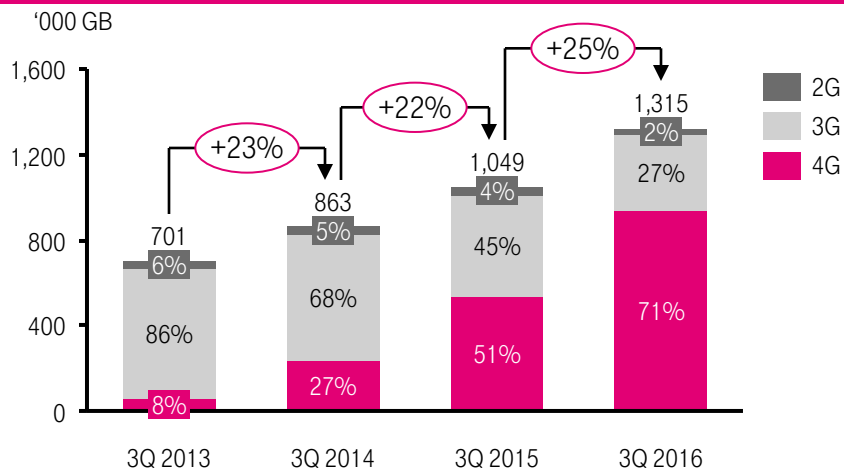
## Mobile broadband development



## Smartphone penetration



## Total mobile data development among all users



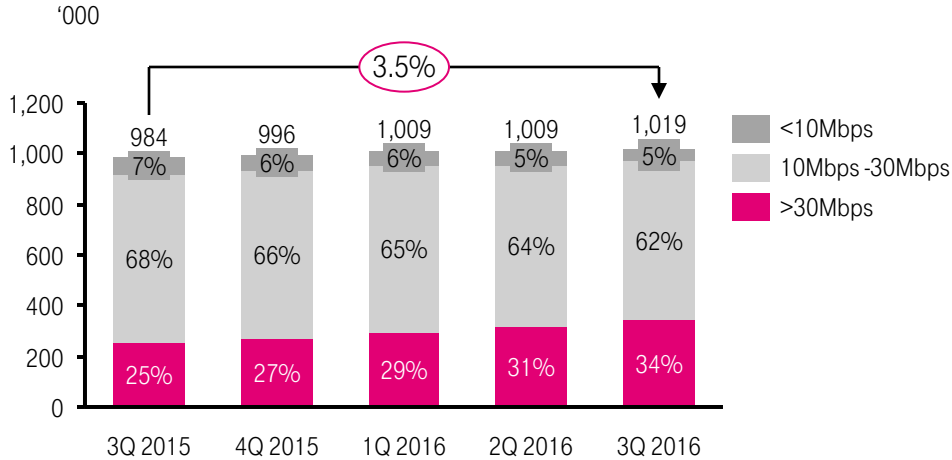
## Highlights

- 4G outdoor population coverage at 98%
- Almost half million yearly netadd in mobile broadband users
- Smartphone sales account for over 90% of postpaid handsets with total SP penetration over 61%
- Significant growth in mobile data usage driven by 4G
- Average 4G usage of 1.7 GB/month

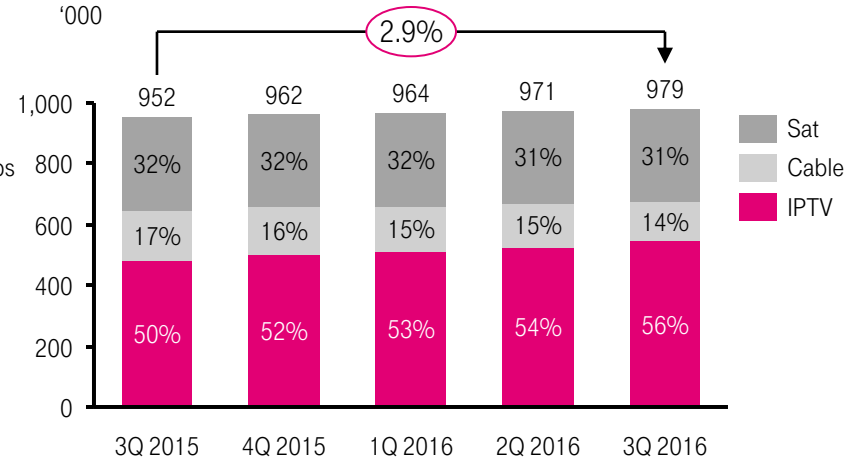
# HUNGARY - FIXED BROADBAND AND TV



## Fixed BB customer number

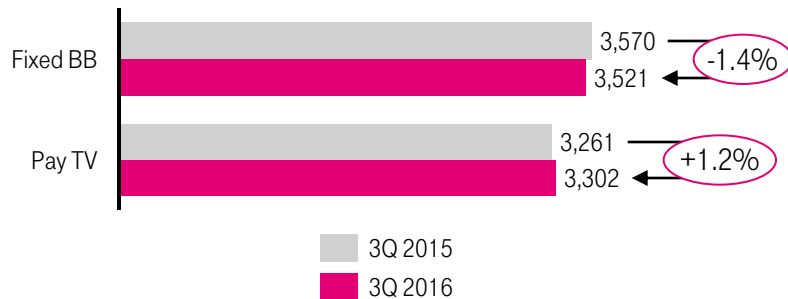


## Pay TV customer number



## Fixed BB and TV ARPU

HUF



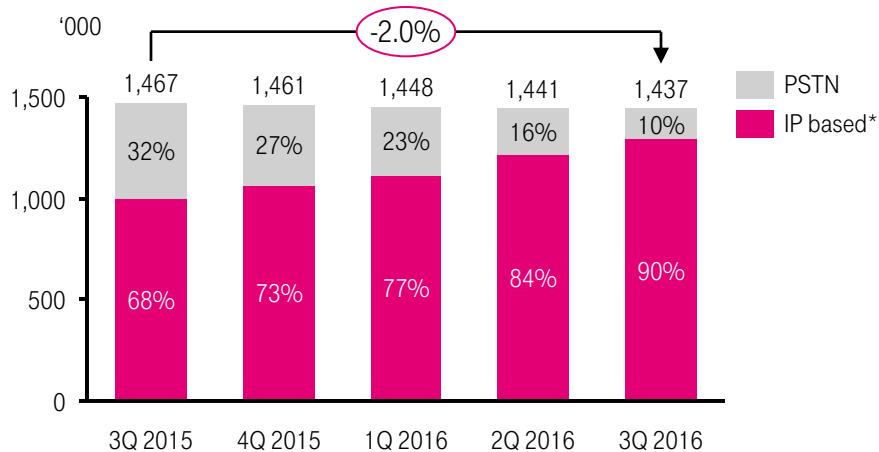
## Highlights

- More than 1 million fixed broadband subscribers thanks to over 30Mbps customer net adds
- Leading market positions reinforced through ca. 35,000 broadband and 27,000 TV net adds
- Increasing ratio of higher bandwidth packages due to upselling activities following network upgrades
- Fixed BB ARPU decline driven by intense local competition
- Focus on IPTV to offer added value to customers, slightly higher TV ARPU driven by upselling and price increases
- Continued intense competition in the business sub-segment

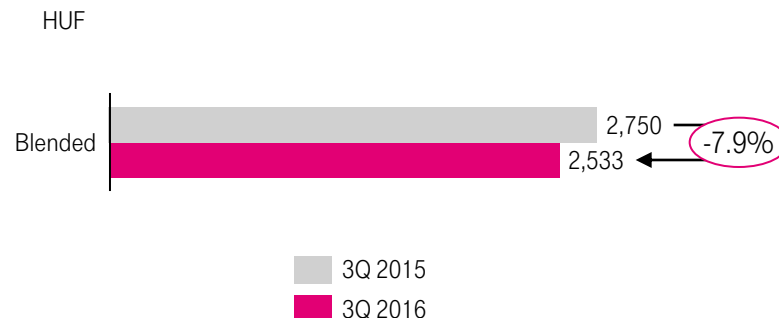
# HUNGARY - FIXED VOICE AND ENERGY



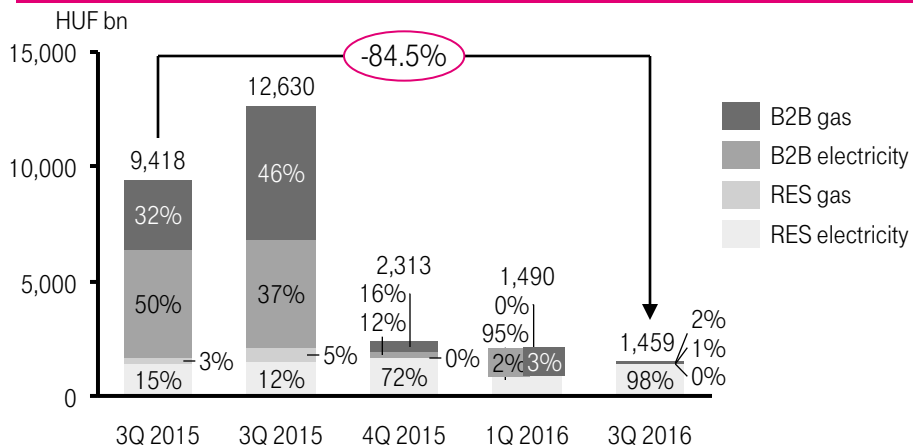
## Fixed voice customer number



## Fixed voice ARPU



## Energy revenues



## Highlights

- Fixed voice churn at 2% due to effective bundling strategy
- Fast IP based migration supports strive for efficiency
- Fixed voice MOU down by 4%, ARPU rate of decline at 8%
- Exited residential gas market as of July 31, 2015
- B2B energy deconsolidation as of Dec 31, 2015\*\*



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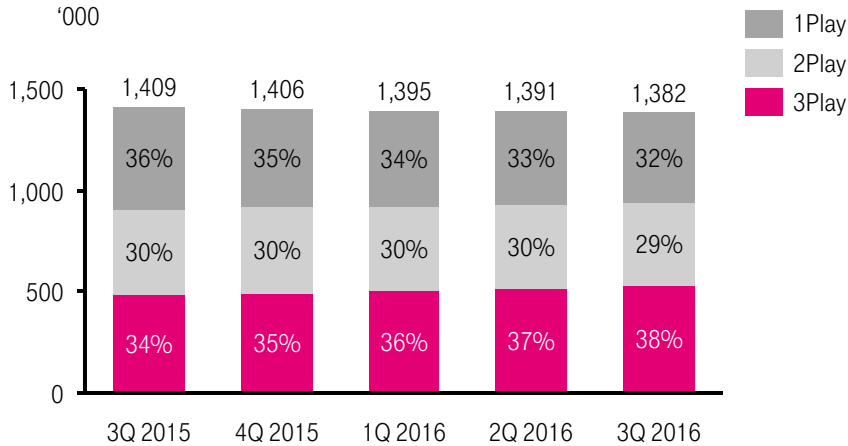
\* IP based RPC equals to VoIP and VoCa RPC

\*\* with the exception of universal business customers in the public sector

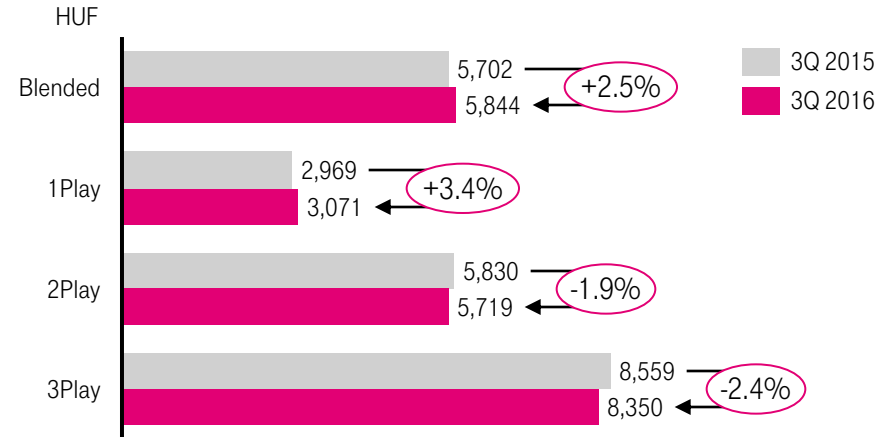
# HUNGARY - MULTIPLAY



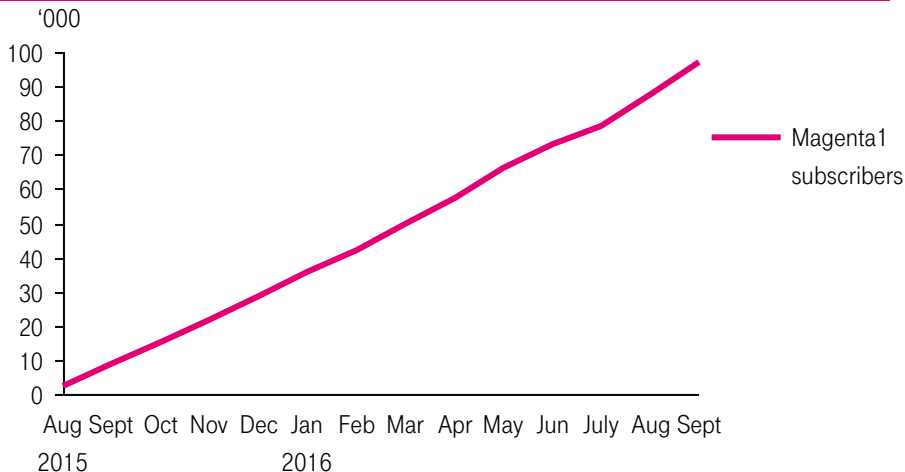
## Fixed line multiplay residential subs. development



## Fixed line multiplay residential ARPU development



## 4Play Magenta1 subscriber development

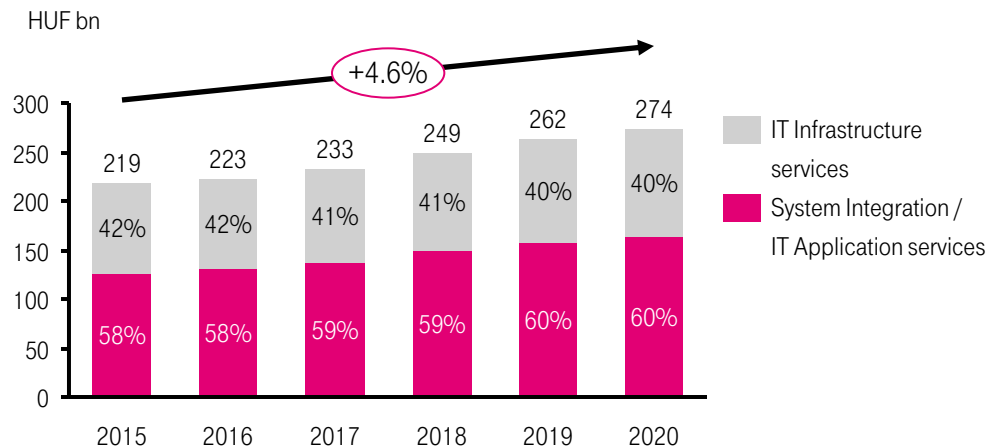


## Highlights

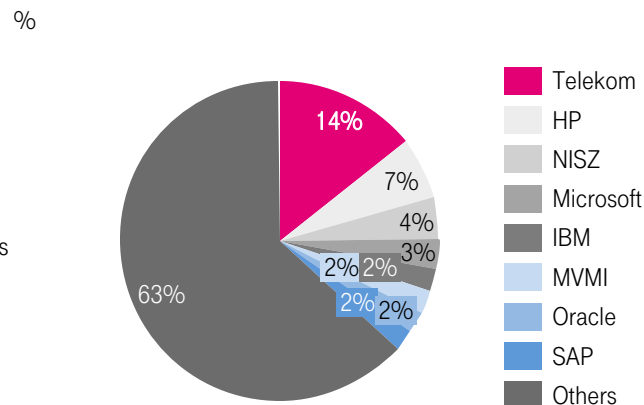
- Continuously increasing 3Play share
- Lower churn among 2/3 Play customers
- Blended fixed line ARPU up by 3%
- Almost 100,000 Magenta1 customers help maximize the telecommunication share of wallet in household spending
- More than half of Magenta1 customers have at least 30Mbps fixed broadband

# HUNGARY - SI/IT

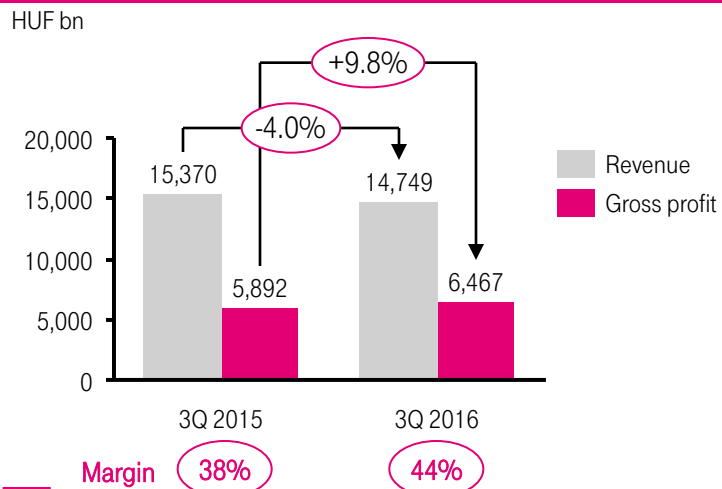
## Total Hungarian IT services market development\*



## Market share\*\*



## SI/IT revenue and gross profit of MT Hungary



## Highlights

- Total SI/IT market expected to grow over the next 5 years due to significant opportunities in application development and integration
- Volatility of incoming EU funds to affect timing of projects
- Total revenue decreased as a result of a slowdown in EU fund inflows
- Major project wins in the financial and utility sectors
- Slight improvement in gross profit with significant margin growth due to successful sales mix shift towards higher added value system integration projects



Margin

38%

44%

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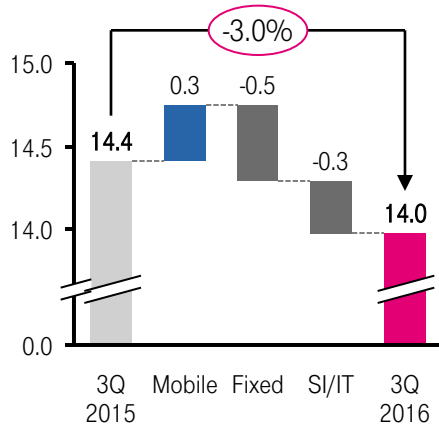
\* hardware and software markets are excluded, IDC Research, 2015

\*\* based on IDC Research

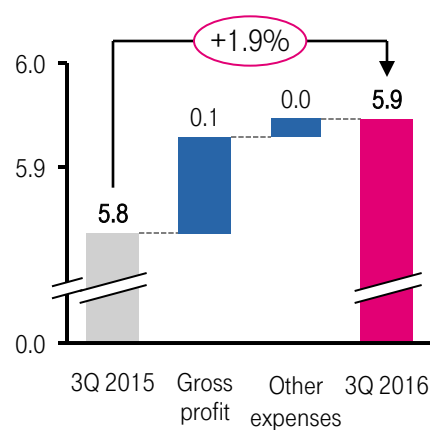
# MACEDONIA

## Financials

Revenues (HUF bn)

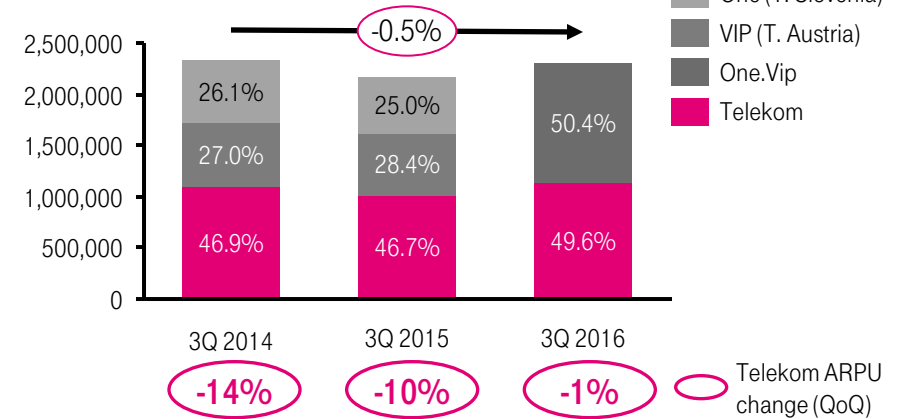


EBITDA (HUF bn)

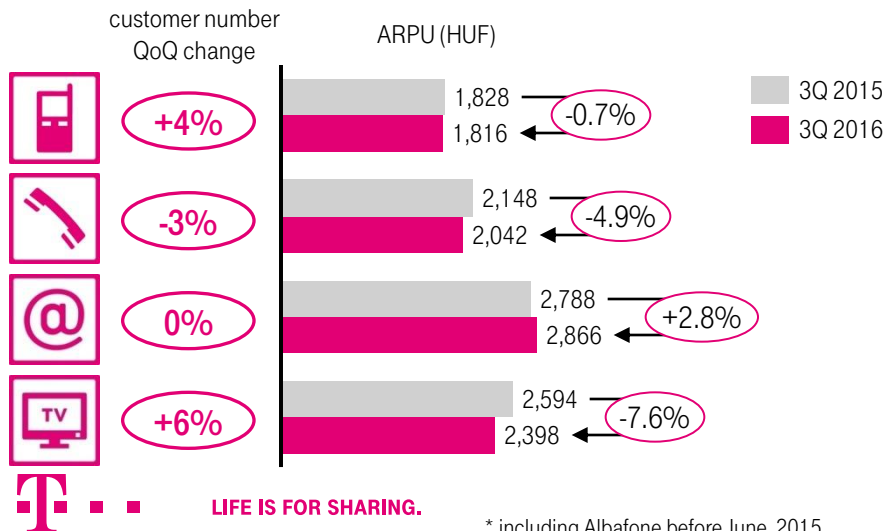


## Mobile KPIs

Subscribers



## KPIs (mobile/fixed voice/fixed BB/TV)



## Highlights

- Successful 4Play Magenta1 sales helped to increase mobile market share
- Mobile revenues increased for the third consecutive quarter due to market stabilization
- VIP/One merger has created a strong integrated competitor which now offers fixed-mobile bundles under the VIP brand
- Robust growth in TV subs and reduced churn in fixed voice
- EBITDA increase for the first time in the last two years thanks to higher gross margin, savings on employee related expenses, as well as an increase in other operating income

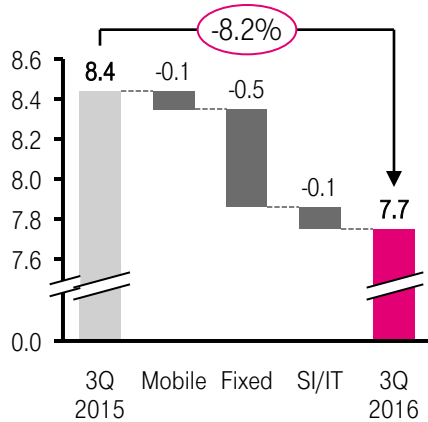
\* including Albafone before June, 2015



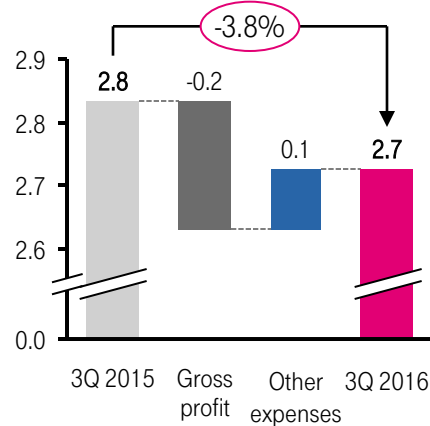
# MONTENEGRO<sup>1</sup>

## Financials

Revenues (HUF bn)

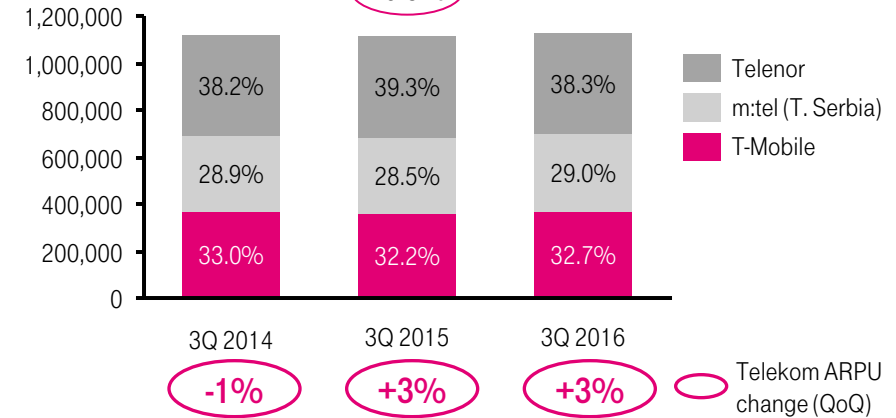


EBITDA (HUF bn)

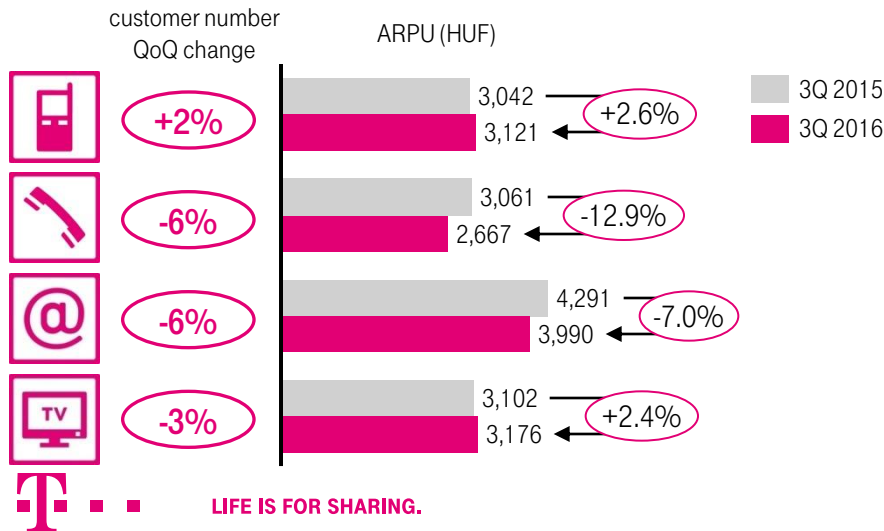


## Mobile KPIs

Subscribers



## KPIs (mobile/fixed voice/fixed BB/TV)



## Highlights

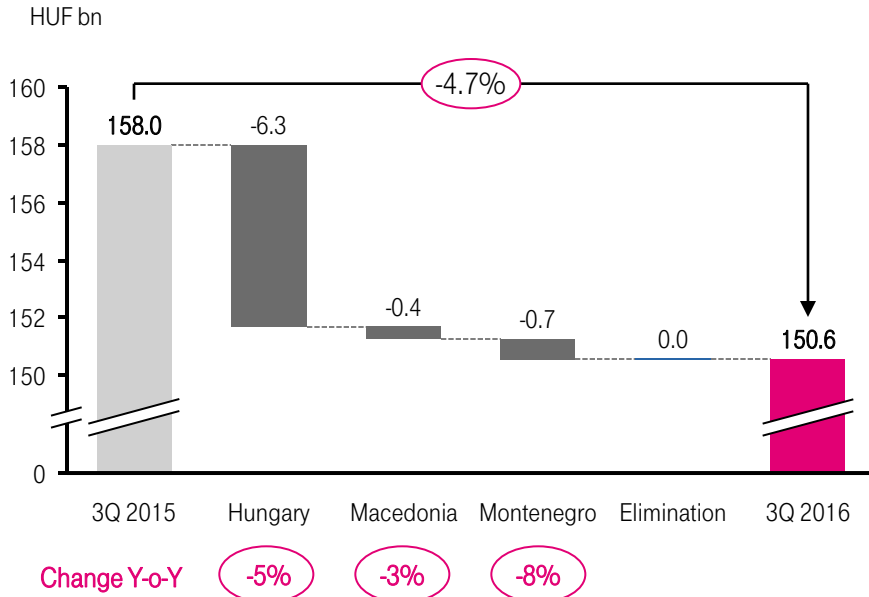
- Revenue decline driven by strong OTT competition, lower Balkan roaming rates and lower SMS revenues
- Postpaid share in the RPC base up by 6ppt to 48.6% due to successful 4Play Magenta 1 sales
- Continued regulatory pressure on fixed voice and broadband businesses
- Decline in fixed line customer base due to competition from cable competitors offering 3Play bundle packages
- EBITDA decline at only 3.8% thanks to focus on cost efficiency

<sup>1</sup> As announced on January 10, 2017, Magyar Telekom disposes of its majority stake in Crnogorski Telekom, closing of the transaction is expected by the end of January, 2017

# APPENDIX

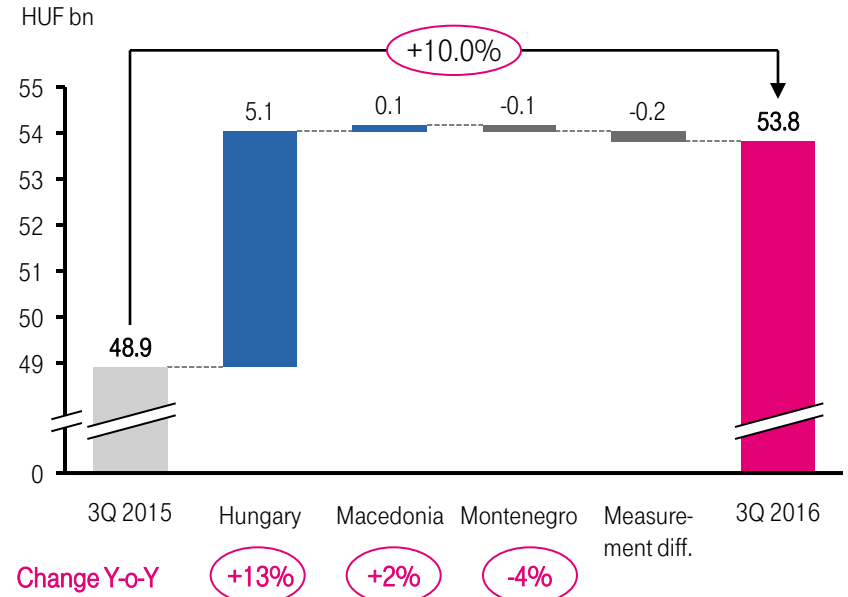
# Q3 2016 GROUP SEGMENTAL REVENUE AND EBITDA

## Group segmental revenues



- **Hungary:** revenue decline primarily a result of exit from the energy business and lower SI/IT revenues, while mobile revenues increased
- **Macedonia:** higher mobile revenues (increased market share) offset by lower voice revenues and equipment sales
- **Montenegro:** decline due to intense competition and OTTs in mobile, and regulatory pressure on fixed line revenues

## Group segmental EBITDA



- **Hungary:** EBITDA up due to lower employee related and other operating expenses, mitigated by slight gross profit decline
- **Macedonia:** increase due to higher gross margin and savings on employee related expenses
- **Montenegro:** decline due to sustained pressure on margins and higher OPEX

# MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q3 2015	Q3 2016	Change
Mobile revenues	79,105	82,659	4.5%
Fixed line revenues	52,702	50,752	-3.7%
System Integration/Information Technology revenues	16,781	15,736	-6.2%
Revenue from energy services	9,418	1,459	-84.5%
<b>Revenues</b>	<b>158,006</b>	<b>150,606</b>	<b>-4.7%</b>
Direct costs	(53,761)	(47,253)	12.1%
Employee-related expenses	(25,293)	(19,695)	22.1%
Depreciation and amortization	(27,667)	(29,896)	-8.1%
Hungarian telecommunications and other crisis taxes	(6,398)	(5,976)	6.6%
Other operating expenses	(25,000)	(24,490)	2.0%
<b>Total operating expenses</b>	<b>(138,119)</b>	<b>(127,310)</b>	<b>-7.8%</b>
Other operating income	1,374	614	-55.3%
<b>Operating profit</b>	<b>21,261</b>	<b>23,910</b>	<b>12.5%</b>
Net financial results	(7,146)	(6,817)	4.6%
Share of associates' profits	0	(32)	n.a.
<b>Profit before income tax</b>	<b>14,115</b>	<b>17,061</b>	<b>20.9%</b>
Income tax expense	(3,522)	(3,420)	2.9%
<b>Profit for the period</b>	<b>10,593</b>	<b>13,641</b>	<b>28.8%</b>
Non-controlling interests	1,257	1,201	-4.5%
<b>Equity holders of the Company (Net income)</b>	<b>9,336</b>	<b>12,440</b>	<b>33.2%</b>



# MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	December 31, 2015	Sept 30, 2016	Change
<b>Current assets</b>	<b>210 178</b>	<b>182 064</b>	<b>-13,4%</b>
Cash and cash equivalents	17 558	8 410	-52,1%
Other current financial assets	11 052	3 663	-66,9%
<b>Non current assets</b>	<b>996 846</b>	<b>966 968</b>	<b>-3,0%</b>
Property, plant and equipment - net	493 204	474 162	-3,9%
Intangible assets	260 909	255 916	-1,9%
<b>Total assets</b>	<b>1 207 024</b>	<b>1 149 032</b>	<b>-4,8%</b>
<b>Equity</b>	<b>544 931</b>	<b>559 829</b>	<b>2,7%</b>
<b>Current liabilities</b>	<b>352 183</b>	<b>253 322</b>	<b>-28,1%</b>
Financial liabilities to related parties	136 906	90 039	-34,2%
Other financial liabilities	26 152	23 021	-12,0%
<b>Non current liabilities</b>	<b>309 910</b>	<b>335 881</b>	<b>8,4%</b>
Financial liabilities to related parties	220 088	245 850	11,7%
Other financial liabilities	54 857	51 821	-5,5%
<b>Total equity and liabilities</b>	<b>1 207 024</b>	<b>1 149 032</b>	<b>-4,8%</b>



# MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	1-9 months 2015	1-9 months 2016	Change
<b>Net cash generated from operating activities</b>	<b>106,993</b>	<b>104,473</b>	<b>-2.4%</b>
Investments in tangible and intangible assets	(59,929)	(67,804)	-13.1%
Adjustments to cash purchases	(3,754)	(13,070)	248.2%
Purchase of subsidiaries and business units	(16,428)	(34)	99.8%
Cash acquired through business combinations	1,815	0	n.a
Payments for / proceeds from other financial assets - net	15,038	7,665	-49.0%
Proceeds from disposal of subsidiaries	0	3,484	n.a
Proceeds from disposal of PPE and intangible assets	1,006	8,931	787.8%
<b>Net cash used in investing activities</b>	<b>(62,252)</b>	<b>(60,828)</b>	<b>2.3%</b>
Dividends paid to shareholders and minority interest	(6,369)	(22,656)	-255.7%
Net payments of loans and other borrowings	(23,012)	(23,317)	-1.3%
Repayment of other financial liabilities	(12,792)	(6,175)	51.7%
Repurchase of treasury shares	0	(559)	n.a.
<b>Net cash used in financing activities</b>	<b>(42,173)</b>	<b>(52,707)</b>	<b>-25.0%</b>
<b>Free cash flow*</b>	<b>16,911</b>	<b>29,805</b>	<b>76.2%</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

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Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, IP: internet protocol, IT: information technology, LTE: long term evolution, MOU: minutes of use, MTR: mobile termination rate, NRA: National Regulatory Authority, POD: points of delivery, R/E: real estate, RPC: revenue producing customer, SAC: subscriber acquisition cost, SRC: subscriber retention cost, SI: system integration, SIM: subscriber identity module, SMB: small and medium businesses, TWM: Total Workforce Management, VAS: value added services, WS: wholesale

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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