

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

November 2022



# DISCLAIMER

This investor presentation contains 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, 2021 available on our website at <http://www.telekom.hu>.

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA AL, 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 “Financial and operational data set”, which is posted on Magyar Telekom’s Investor Relations webpage at [www.telekom.hu/investor\\_relations](http://www.telekom.hu/investor_relations).






# **STRATEGY AND MARKET POSITION**

# OVERVIEW – MAGYAR TELEKOM AT A GLANCE

## Overview

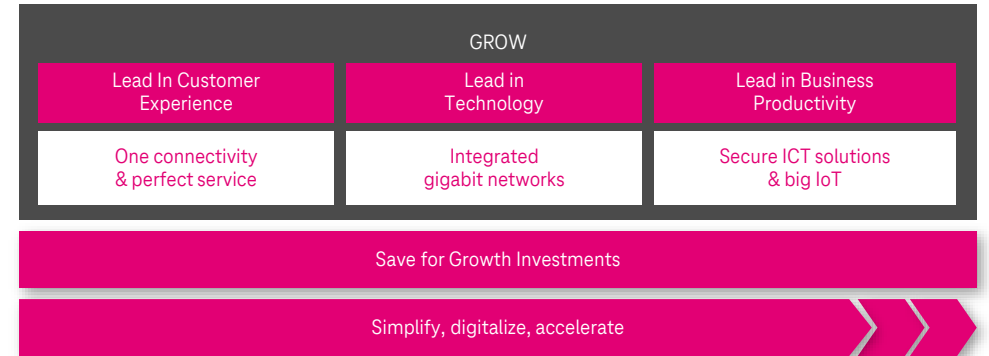
- Integrated operations in Hungary and North Macedonia
  - Leading telecommunications service provider in both countries
  - Leading SI/IT service provider in Hungary
- Majority owned by Deutsche Telekom (61.4%)
- EUR 0.8bn market capitalization<sup>1</sup>
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

## Main services offered

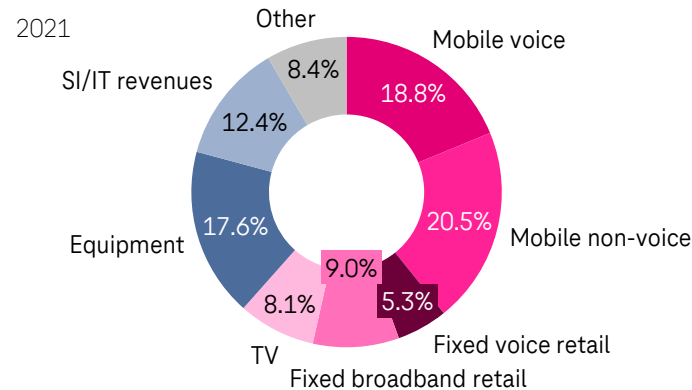
	Mobile	Copper	Coax	Fiber
	✓	✓	✓	✓
	✓	✓	✓	✓
	✓	✓	✓	✓

<sup>1</sup> As of November 14, 2022

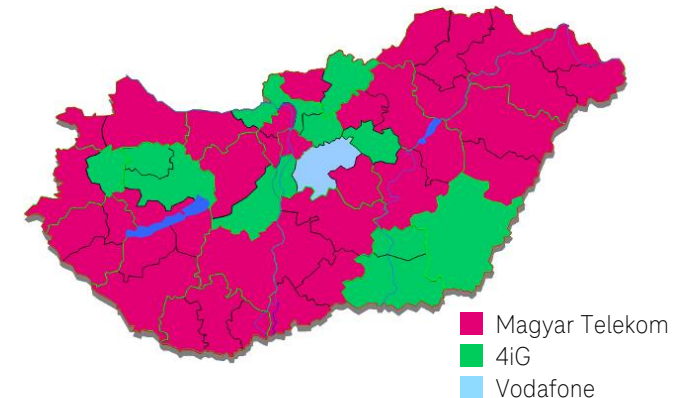
## Pillars of transformation



## Revenue composition



## Incumbents in Hungary



# PROGRESS AGAINST STRATEGIC PRIORITIES

## Network

- Continued fiber rollout to provide seamless connectivity to expanding customer base
- Ongoing RAN modernization supporting growing demand for increased capacity



**75%**

gigabit capable network



**53%**

of the RAN modernization program completed

## Customers

- Continued strong momentum in mobile data and gigabit broadband demand
- Successful monetization of network investments reflected in ARPU trends



**9.8GB**

average monthly mobile data usage in Q3 2022 (up 25% YoY)

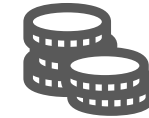


**+5.2%**

Growth in Hungarian fixed broadband ARPU (YoY in Q3 2022)

## Resilience

- Price increases to offset inflationary pressures
- Measures taken to address cost pressure
- External recognition



Other operating expenses under pressure

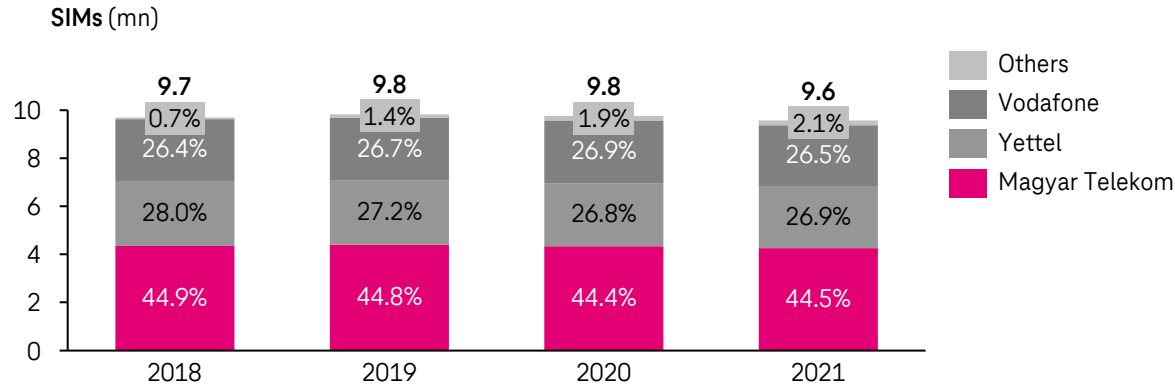
**BBB+**

Corporate credit rating with stable outlook

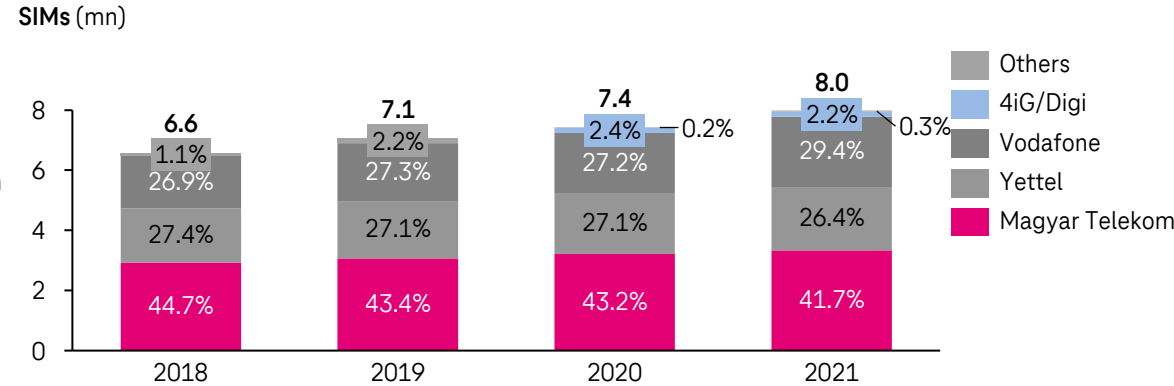


# HUNGARIAN TELCO MARKET POSITIONS

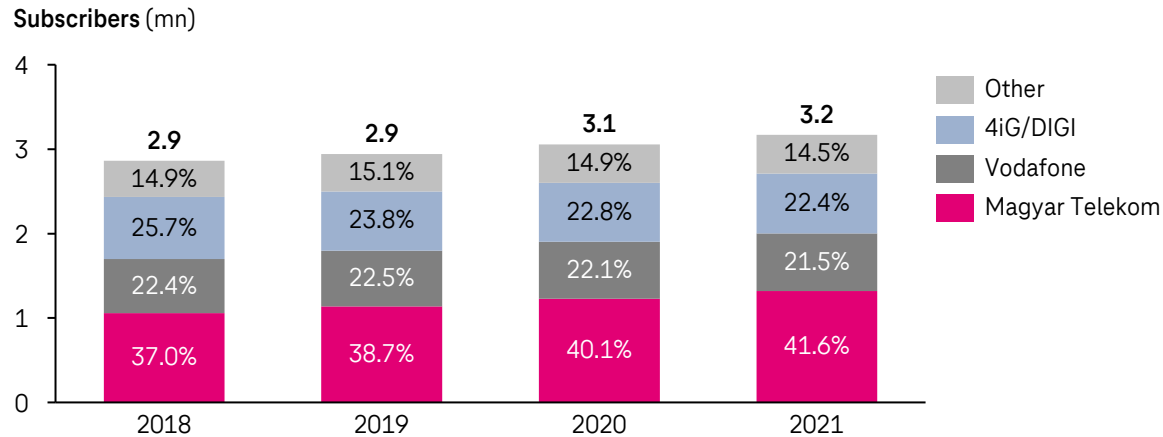
## Mobile voice market<sup>1</sup>



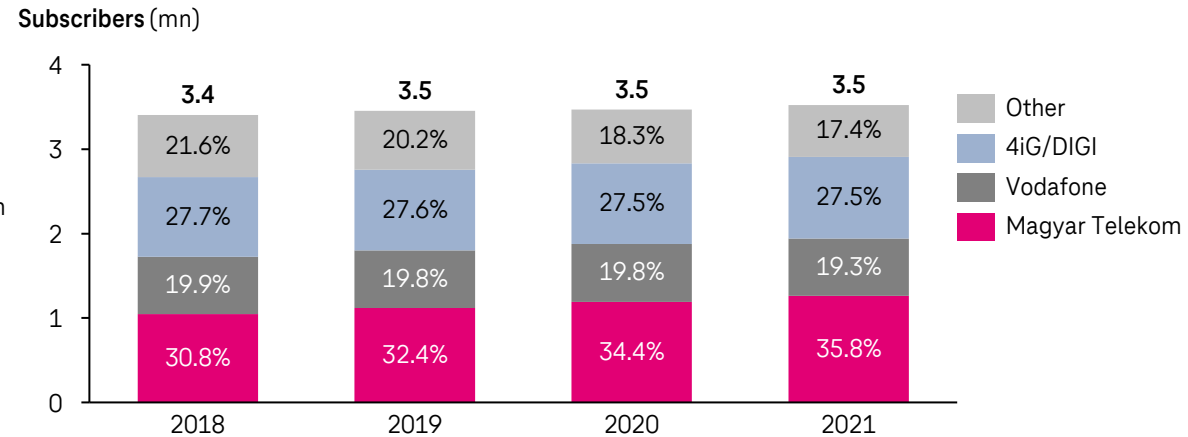
## Mobile data market<sup>1</sup>



## Fixed broadband market<sup>1</sup>



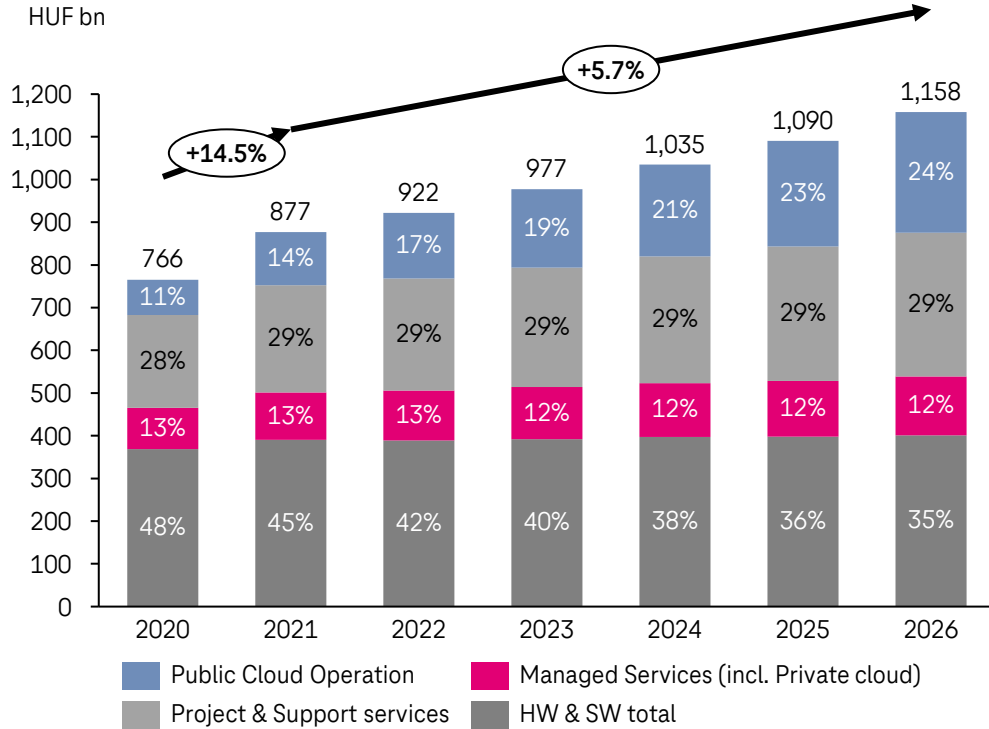
## TV market<sup>1</sup>



<sup>1</sup> Based on the total voice/internet traffic generating SIM cards/ BB access/ pay TV data published by the National Media and Infocommunications Authority (NMA) and internal data and estimates

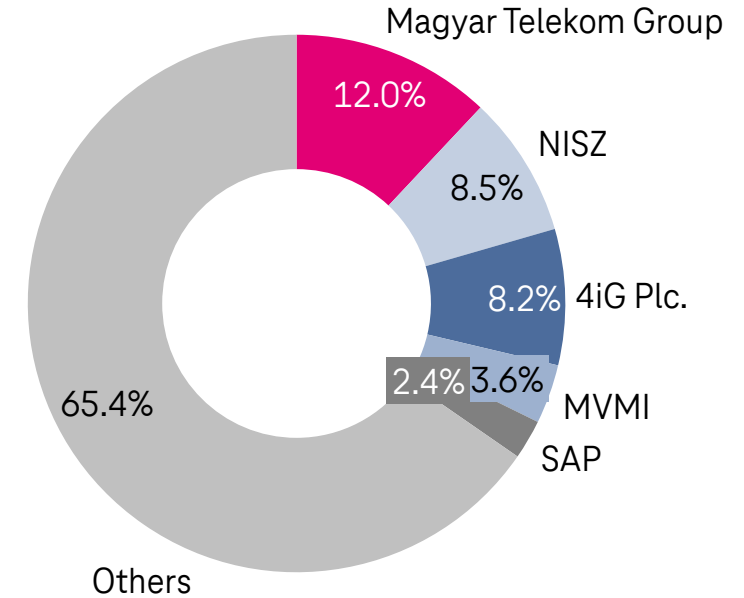
# IT MARKET IN HUNGARY: 2020-2026

## Total B2B IT market <sup>2</sup>



- Magyar Telekom's position as the only fully integrated ICT company in Hungary challenged by 4iG
- Magyar Telekom's total revenue-based IT market share is ca. 9%<sup>2</sup>

## IT Services market shares<sup>1,2</sup>



- IT Services market in Hungary is very fragmented
- Presence of government owned players (NISZ, MVMI) and major international players, such as Microsoft, SAP, HCLTech, Oracle, DXC, S&T
- Strengthening local players, such as: 4iG, Delta, i-Cell
- Magyar Telekom is the market leader with 12% market share in the IT Services market
- Future focus areas: IT Security, Cloud, Managed Services

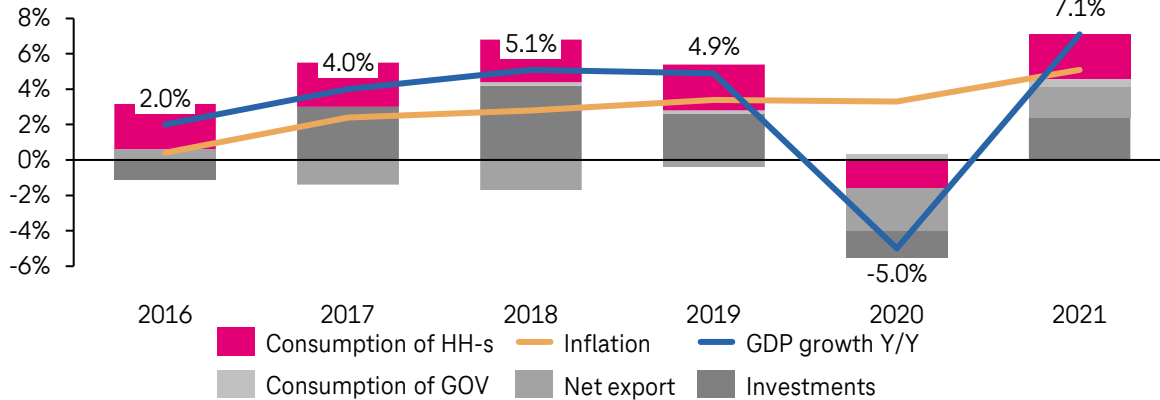


<sup>1</sup> IT market share in B2B segment

<sup>2</sup> Source: IDC 2022 (based on 2021 facts); market size calculated by demand side, while market shares by supply side data

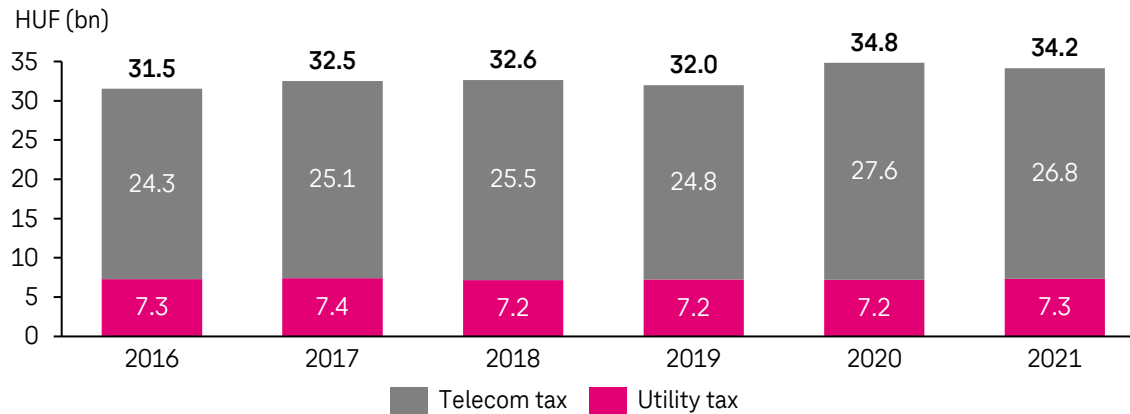
# HUNGARIAN ECONOMIC ENVIRONMENT

## Growth structure & Domestic demand



- Magyar Telekom leveraged positive trends of domestic demand in the past periods
- Investment levels show volatility due to EU fund cycles
- GDP growth is expected to slow down in H2 2022 (H1 2022 GDP was up 7.2% YoY)
- Inflation rose sharply in 2022 (15.6% YoY in August 2022)

## Taxes levied on Magyar Telekom



- 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
- Temporary supplementary telecommunication tax introduced in June 2022, payable for the years 2022 and 2023
- Supplementary telecommunication tax payable by Magyar Telekom Group for the year 2022 is approximately HUF 25 billion





# **GUIDANCE, OUTLOOK AND SHAREHOLDER REMUNERATION 2022-2024**

# 2022 PUBLIC TARGETS AND 2023-2024 OUTLOOK REFLECTS STRONG COMMERCIAL MOMENTUM

	2021 results	2022 guidance	2023 – 2024 outlook
REVENUE	HUF 700.1 bn <sup>1</sup>	ca 5% growth <sup>2</sup>	moderate annual growth
EBITDA AL	HUF 216.3 bn	moderate decline	moderate annual growth
CAPEX AL <sup>3</sup>	HUF 109.3 bn	broadly stable	
FCF <sup>3</sup>	HUF 56.2 bn	moderate decline	moderate annual growth

<sup>1</sup> RESTATED DUE TO ACCOUNTING POLICY CHANGE

<sup>2</sup> UPGRADED FROM 1-3% GROWTH

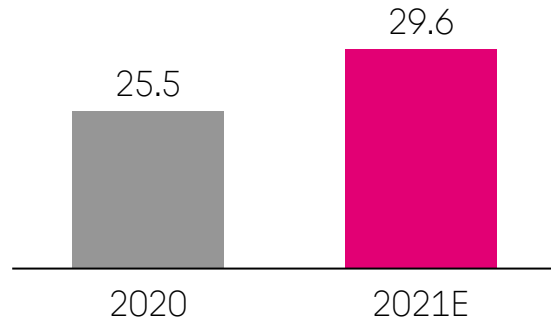
<sup>3</sup> EXCLUDING SPECTRUM LICENSES



# SHAREHOLDER REMUNERATION AFTER 2021 RESULTS AND POLICY FOR 2022-2024

## Shareholder remuneration

HUF bn



- Increase in total shareholder remuneration to up to HUF 29.6 bn reflecting the Company's achievements
- Board of Directors proposes for approval to the AGM a total dividend payment of HUF 15.0 billion for 2021 financial year
- The Board envisages buyback program of up to HUF 14.6 billion, subject to the necessary authorization of the Annual General Meeting

## Shareholder remuneration policy for 2022-2024

- The Board of Directors approved the shareholder remuneration policy for 2022-2024
- Goal is to increase transparency, visibility and reliability of shareholder remuneration
- The policy envisages growth in annual shareholder remuneration as a combination of dividend payments and share buybacks in line with improvements in the Company's financial performance
- Total value of annual shareholder remuneration is expected to be between 60% and 80% of the Company's annual adjusted "profit attributable to the owners of the parent" (adjusted net income)\* generated during the preceding financial year

\*Please see slide 24 for further details

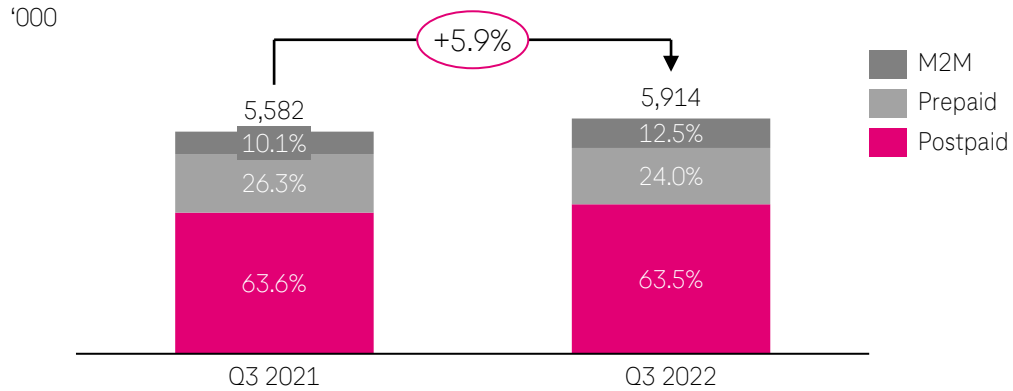




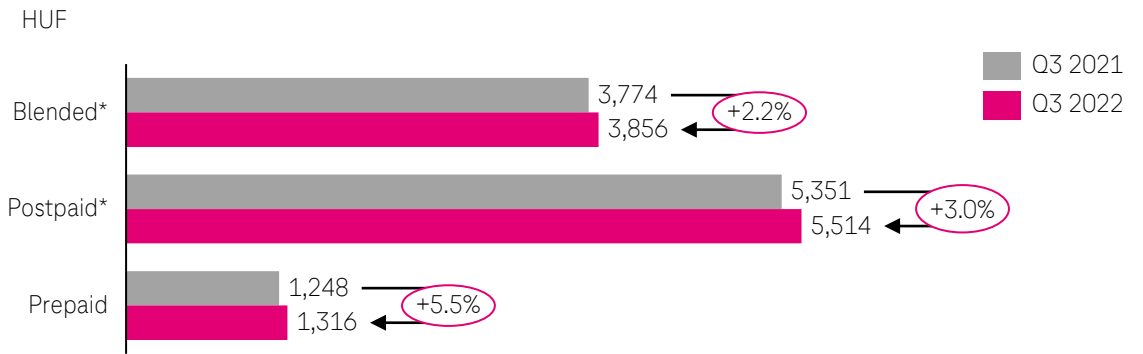
# **Q3 2022 RESULTS**

# ARPU GROWTH IN HUNGARY DRIVEN BY DATA MONETIZATION

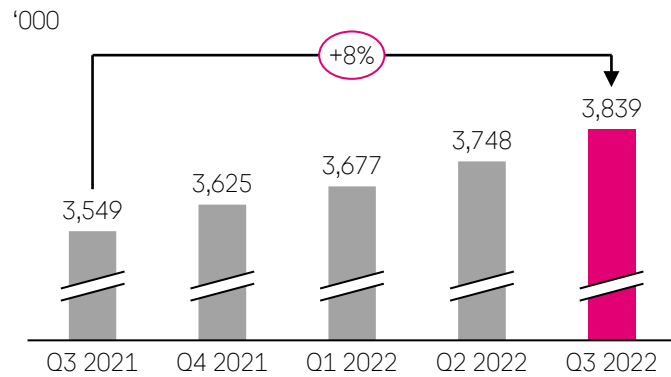
## Mobile SIMs



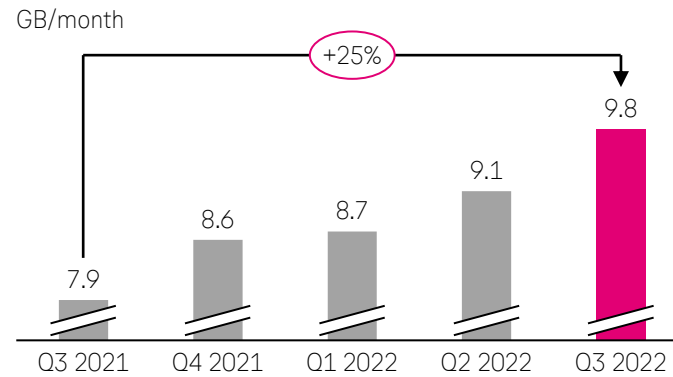
## Mobile ARPU



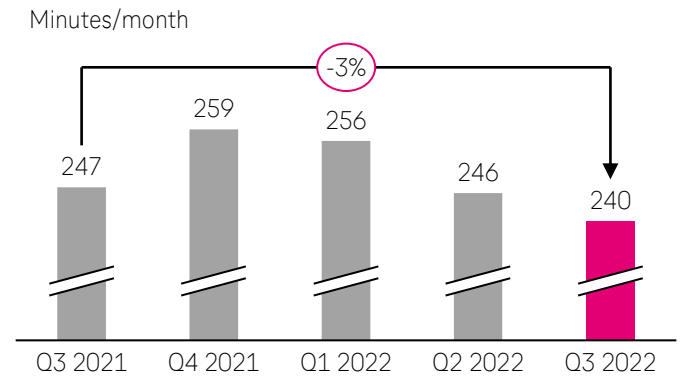
## Mobile data SIMs



## Mobile broadband usage



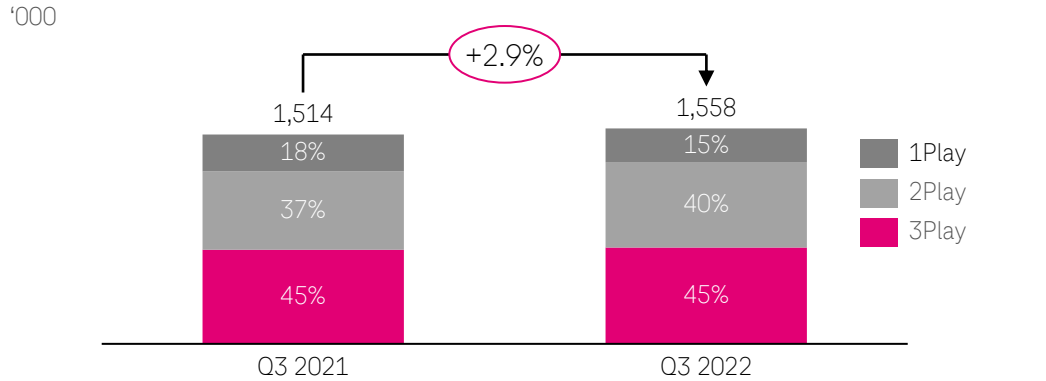
## Mobile voice usage



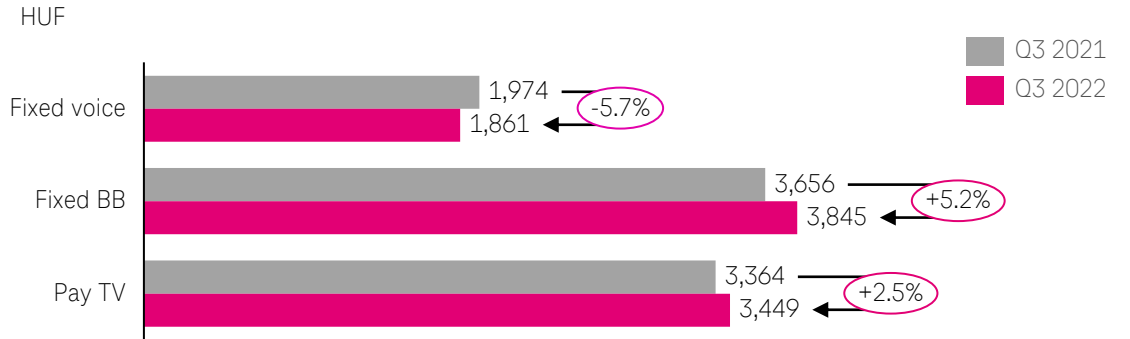
\*2021 values have been restated

# GROWING CUSTOMER BASE COUPLED WITH POSITIVE BB AND TV ARPU DEVELOPMENTS

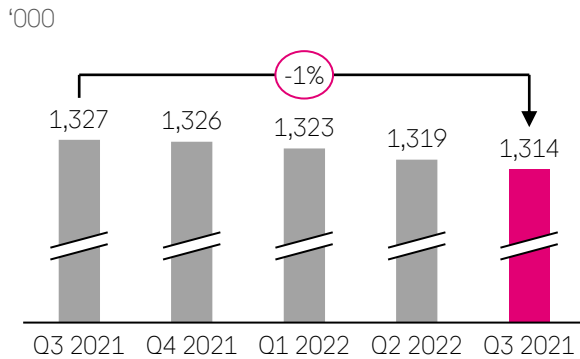
## Fixed line multiplay residential subscribers



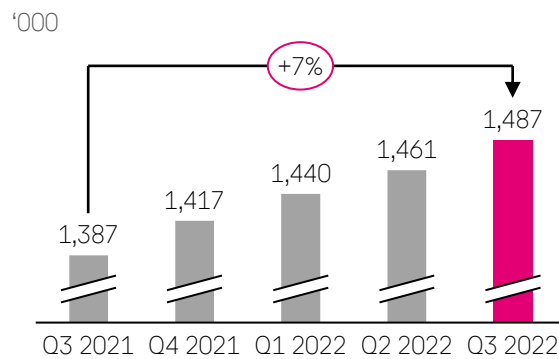
## Fixed Voice, BB and TV ARPU



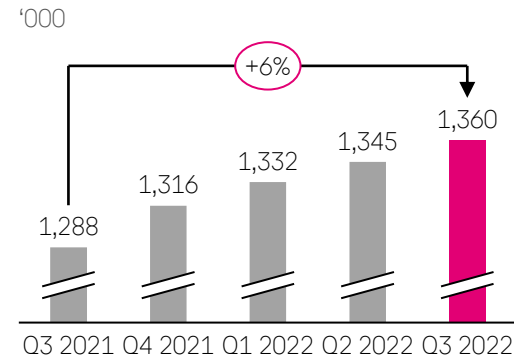
## Fixed voice customers



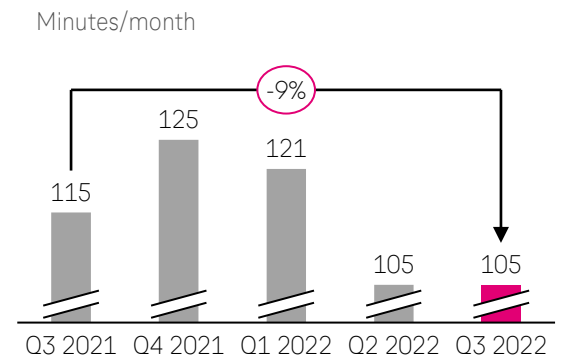
## Fixed broadband customers



## Pay TV customers

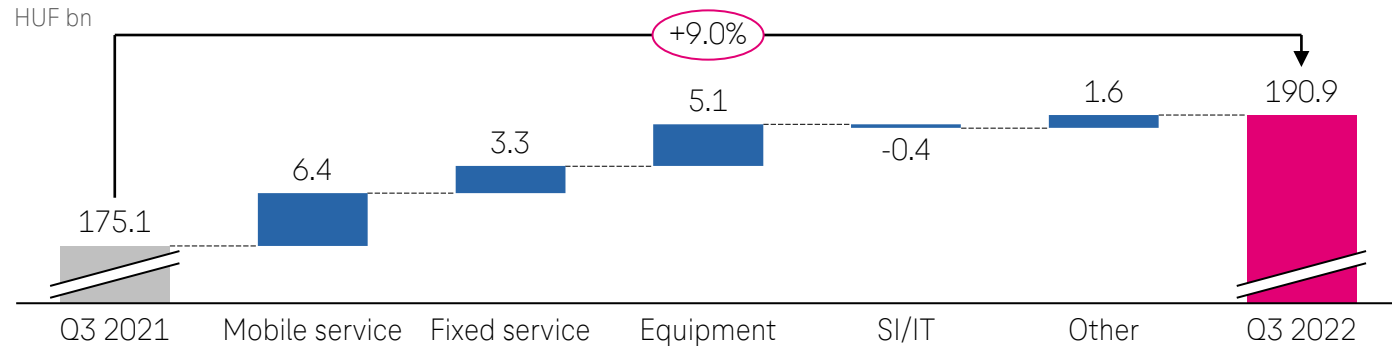


## Fixed voice usage



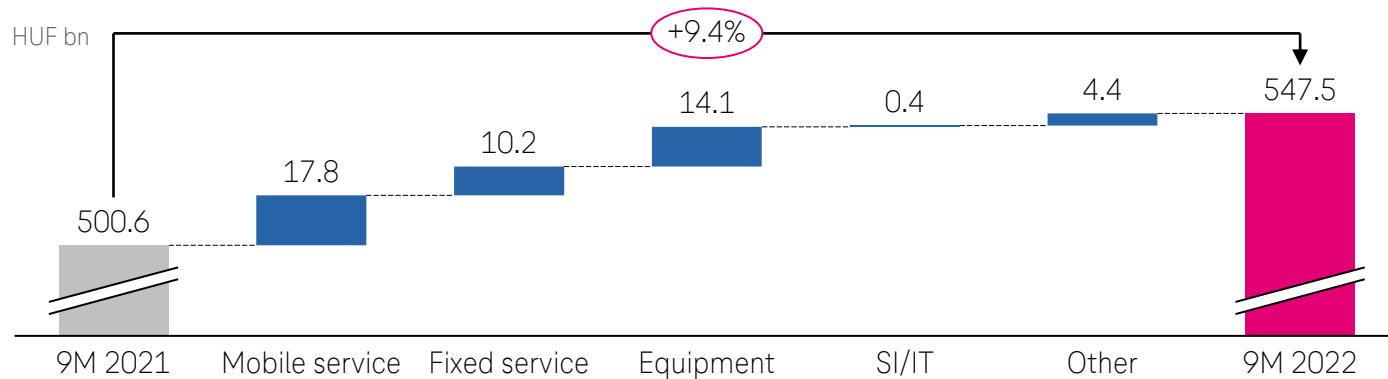
# REVENUE GROWTH DRIVEN BY SUSTAINED COMMERCIAL MOMENTUM

Revenue, Q3 2022 vs Q3 2021\*



- Growth in mobile service revenues driven by strong data demand
- Fixed service growth attributable to strong demand for broadband and TV services
- Increase in equipment sales driven by increased average equipment prices
- SI/IT trends reflect absence of healthcare business unit revenues in Hungary offset by more favorable project dynamic

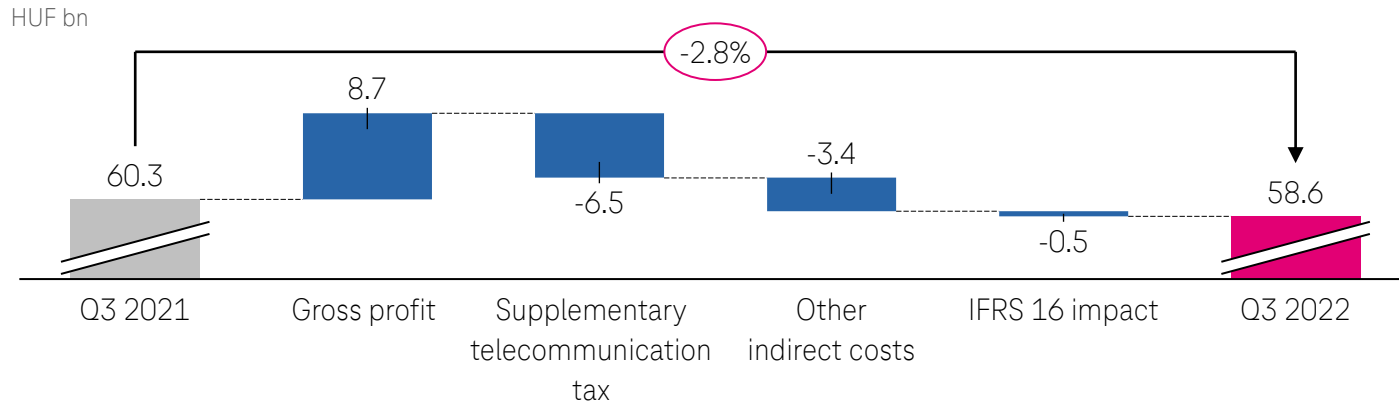
Revenue, 9M 2022 vs 9M 2021\*



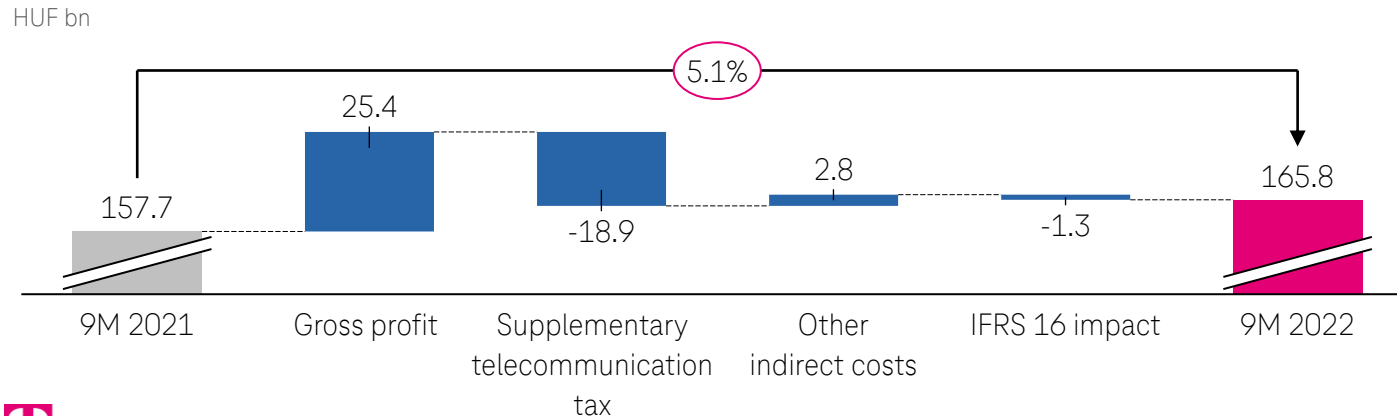
\*2021 values have been restated

# EBITDA AL PERFORMANCE STRONGLY IMPACTED BY NEW SUPPLEMENTARY TELECOMMUNICATION TAX

## EBITDA AL, Q3 2022 vs Q3 2021



## EBITDA AL, 9M 2022 vs 9M 2021

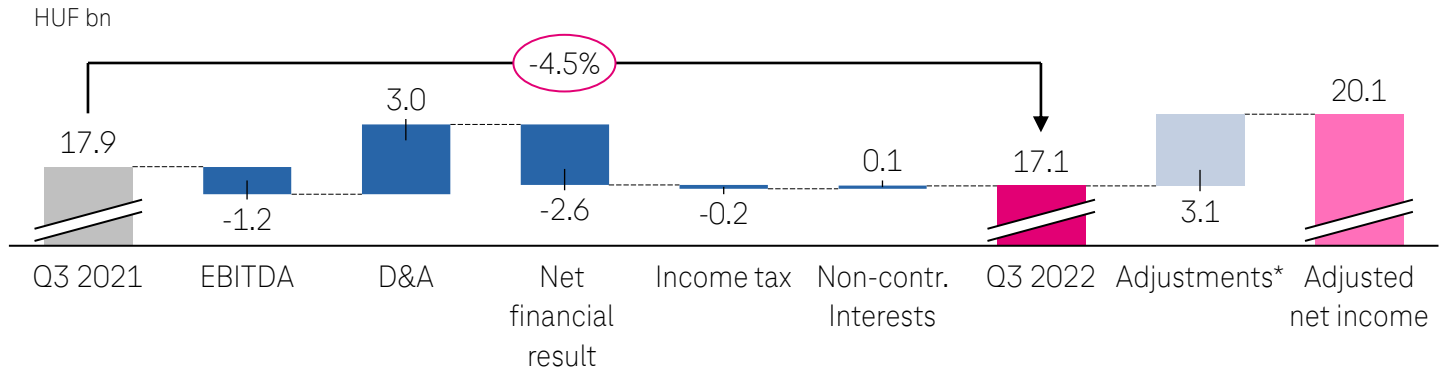


- Increase in gross profit attributable to positive underlying telecommunication service developments
- Recently imposed supplementary telecommunication tax booked in relation to revenue generated during Q3 2022
- Increase in indirect costs mainly driven by higher energy expenses, primarily in North Macedonia
- Increasing IFRS 16 impact reflects growing lease liability base
- 9M 2022 indirect costs positively impacted by HUF 3.3 bn subsidiary sale gain



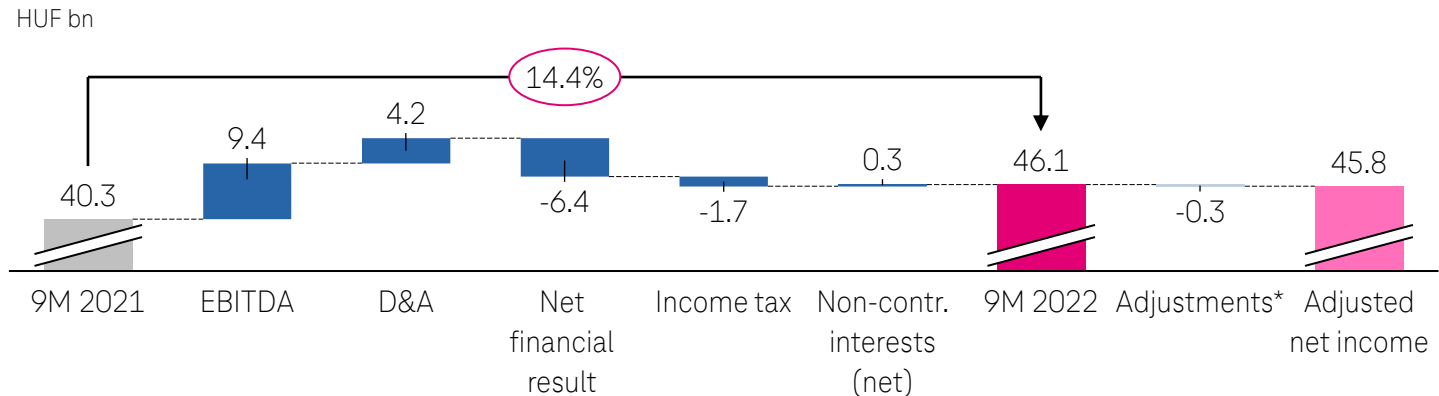
# SUPPLEMENTARY TELECOMMUNICATION TAX AND WEAKENING FORINT WEIGH ON NET PROFIT

## Net income (and adjusted net income), Q3 2022 vs Q3 2021



- Lower D&A reflects copper network retirement, lower SW-related D&A expenses and lower spectrum-related amortization in Hungary
- Net financial result down due to higher interest expense and lower derivative-related gains
- Net income adjustments relate to non-realized gains on measuring derivatives at fair value and non-realized FX loss

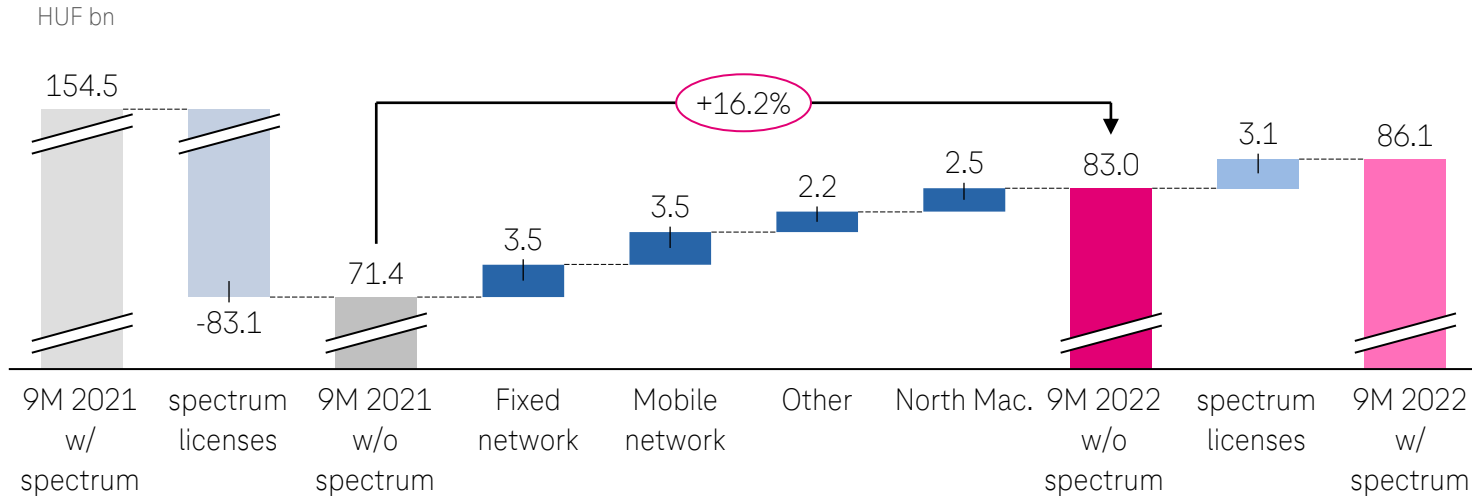
## Net income (and adjusted net income), 9M 2022 vs 9M 2021



\*Unaudited

# CONTINUED FOCUS ON NETWORK DEVELOPMENT

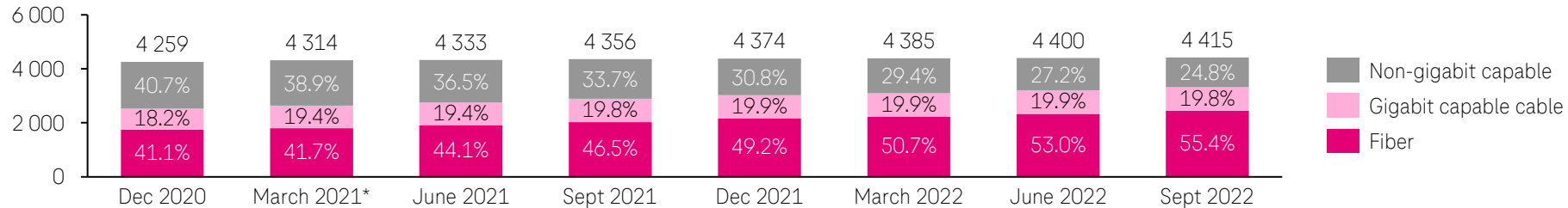
## CAPEX AL, 9M 2022 vs 9M 2021



- Increased investment in fixed network driven by continued fiber rollout efforts
- RAN modernization in Hungary continued
- Increase in other investments led by higher spending on CPEs
- Increased investment in North Macedonia, driven by RAN modernization that is nearing completion

## Gigabit capable fixed network development

# of access points (th)

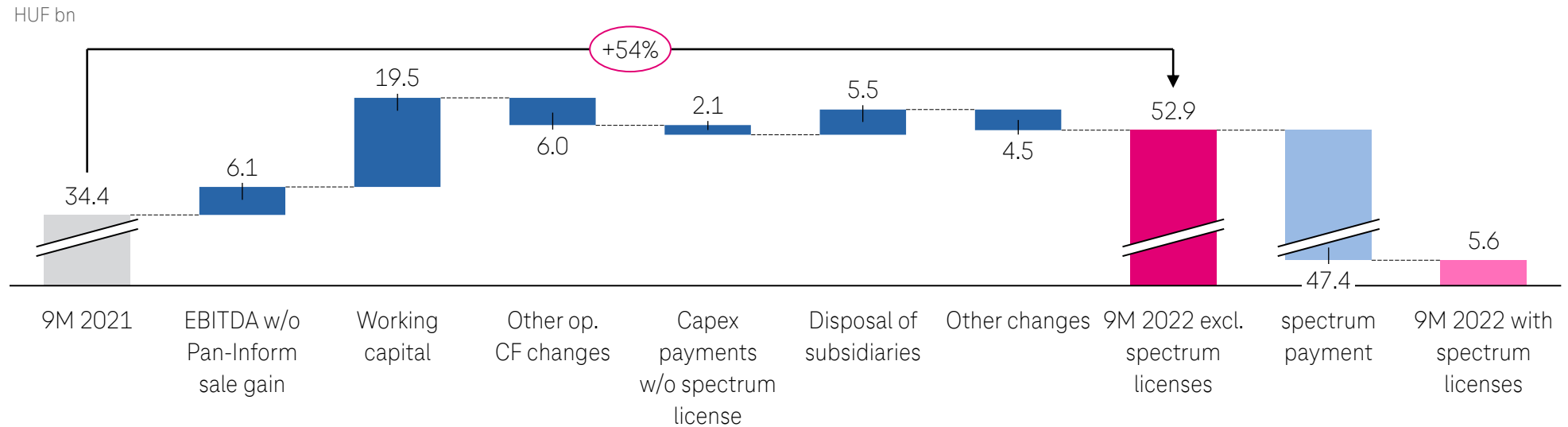


\*Technical adjustment in gigabit capable cable access numbers



# FREE CASHFLOW REFLECTS STRONG UNDERLYING RESULTS; SUPPLEMENTARY TELECOMMUNICATION TAX DUE IN Q4 2022

Free cashflow, 9M 2022 vs 9M 2021



- Underlying improvements attributable to favorable business performance coupled with proceeds from disposal of subsidiary
- Positive change in working capital reflects the booking of supplementary telecommunication tax that is to be paid in Q4 2022
- Other operating CF changes reflect weakening of the forint leading to FX losses in 9M 2022 and higher income tax payments
- Other changes reflect fiber network acquisition related cash outflow in Hungary with a purchase price of HUF 6.95 billion.
- Spectrum payments related to 900MHz and 1800MHz licenses in Hungary and 700MHz and 3.6GHz licenses in North Macedonia



# UPGRADED REVENUE TARGET DUE TO STRONG COMMERCIAL MOMENTUM

	2021 results	2022 targets	9M 2022 results (change YoY)
REVENUE	HUF 692.8 bn <sup>1</sup>	ca. 5% growth <sup>2</sup>	HUF 547.5 bn (+9.4%)
EBITDA AL	HUF 216.3 bn	moderate decline	HUF 165.8 bn (+5.1%)
CAPEX AL <sup>3</sup>	HUF 109.3 bn	broadly stable	HUF 83.0 bn (+16.2%)
FCF <sup>3</sup>	HUF 56.2 bn	moderate decline	HUF 52.9 bn (+53.9%)

<sup>1</sup> RESTATED DUE TO ACCOUNTING POLICY CHANGE

<sup>2</sup> UPGRADED FROM 1-3% GROWTH

<sup>3</sup> EXCLUDING SPECTRUM LICENSES



# Q&A

For further questions please contact the IR department:

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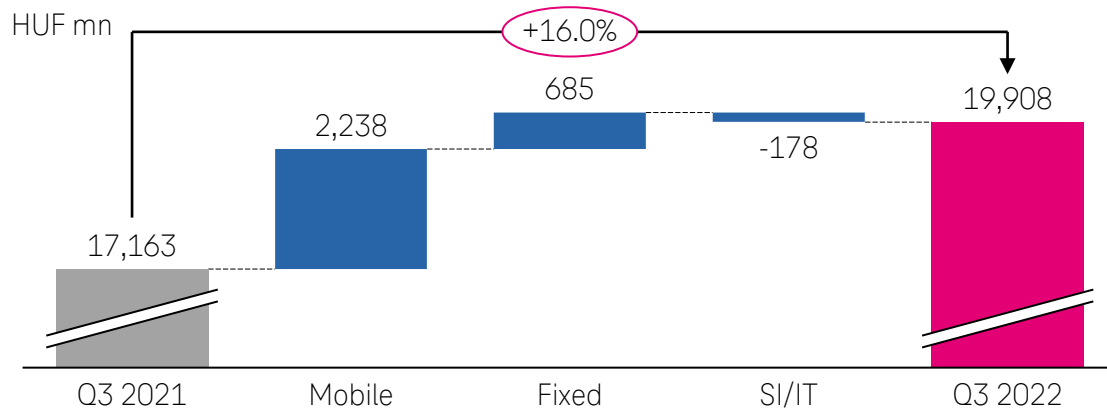
Phone: +36 1 457-6084

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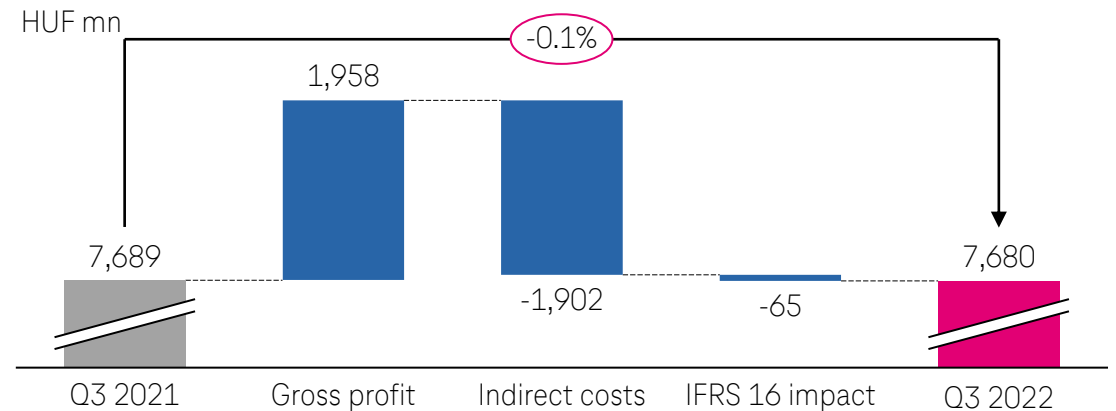


# NORTH MACEDONIA: Q3 AND 9M 2022 RESULTS

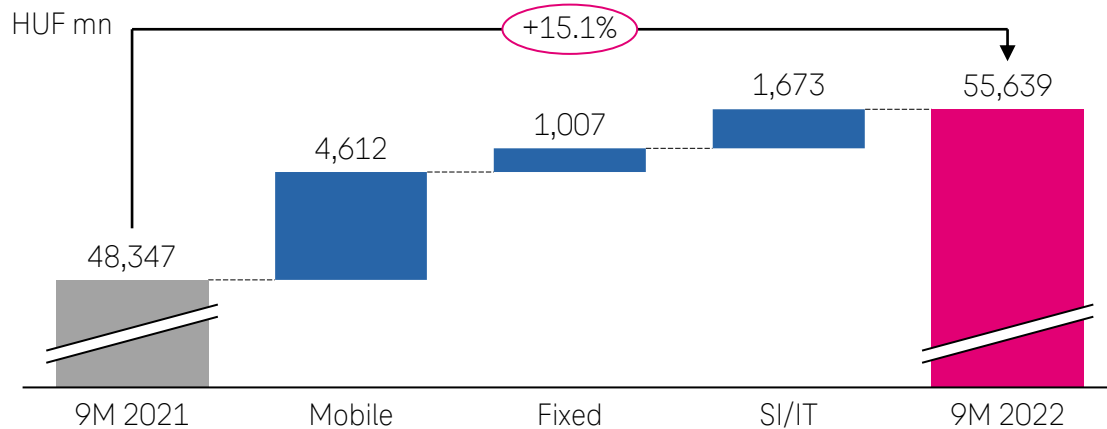
## Revenues, Q3 2022 vs Q3 2021\*



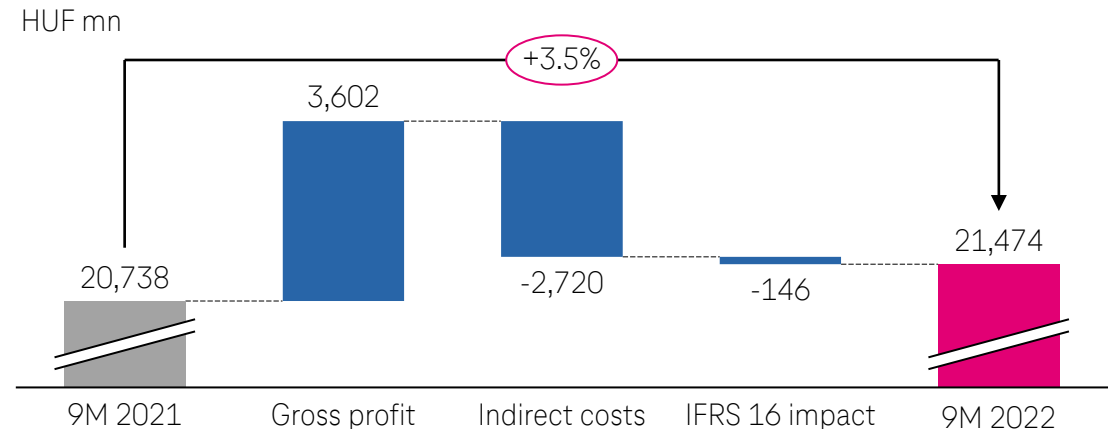
## EBITDA AL, Q3 2022 vs Q3 2021



## Revenues, 9M 2022 vs 9M 2021\*



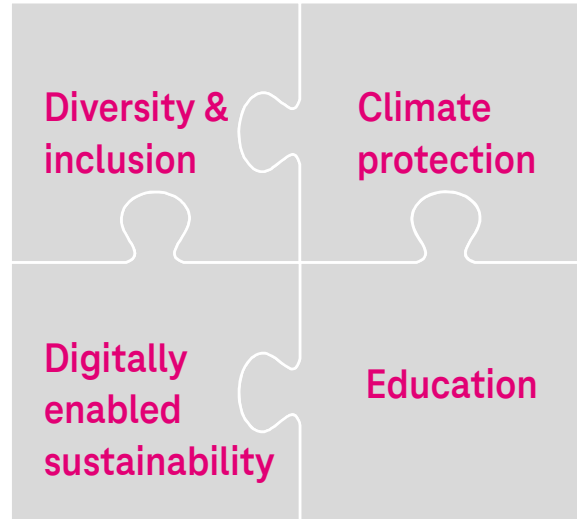
## EBITDA AL, 9M 2022 vs 9M 2021



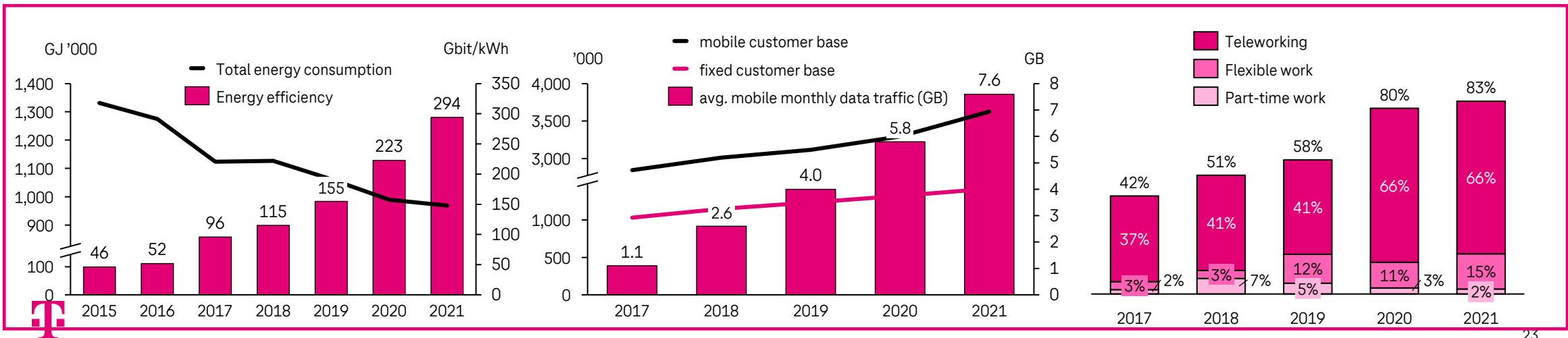
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# SUSTAINABILITY STRATEGY 2016-2021 AND ACHIEVEMENTS

- Diversity: comprehensive targets safeguarding governance, diversity and inclusion, workplace flexibility and others
- Digitally enabled sustainability: promotion of sustainable digital services
  - ✓ 35.6% of revenue from products and services with sustainable features



- Climate protection: decreasing operational emission and offering green products to customers
  - ✓ carbon neutral operation for the 6th year in a row (Scope 1, 2)
  - ✓ Green 1 GB mobile option
- Education: assuming a role in educating the public and our customers by reaching more and more people in Hungary
  - ✓ Over 2.5 million people in Hungary reached with educational programs



# SUSTAINABILITY STRATEGY 2021 - 2025 - 2030

		2025 Target	2030 Target
I. Climate protection	Scope 1 + 2 (direct & indirect emissions)	<ul style="list-style-type: none"> <li>keep at net zero (by an overall 16% decrease in consumption)</li> </ul>	<ul style="list-style-type: none"> <li>keep at net zero (by 84% decrease compared to 2015)</li> </ul>
	Scope 3 (emissions of our suppliers & customers attributable to us)	<ul style="list-style-type: none"> <li>decrease by minimum 20%</li> </ul>	<ul style="list-style-type: none"> <li>decrease by 30%</li> </ul>
II. Digitization	Digitization of Hungary	<ul style="list-style-type: none"> <li>4 million gigabit-ready households</li> <li>67% 5G coverage</li> </ul>	<ul style="list-style-type: none"> <li>gigabit accessibility to 100% of our customers</li> <li>nationwide 5G coverage</li> </ul>
	Digital inclusion & responsibility	<ul style="list-style-type: none"> <li>over 4 million responsible digitally mature people</li> </ul>	<ul style="list-style-type: none"> <li>6 million responsible digitally mature people</li> </ul>
III. Diversity & inclusion	Inclusive workplace	<ul style="list-style-type: none"> <li>100% accessible workplace</li> <li>min. 35% female management ratio</li> </ul>	<ul style="list-style-type: none"> <li>100% accessible services</li> <li>min. 40% female representation in total leadership roles</li> </ul>
	Accessible services	<ul style="list-style-type: none"> <li>100% WCAG compliance</li> </ul>	<ul style="list-style-type: none"> <li>100% accessible services</li> </ul>

Magyar Telekom is dedicated to maintain it's leading role as a sustainable company and ICT provider. We do more and more to achieve the above and enable more and more people to do so, too.



# COMPANY'S ESG EFFORTS CONTINUE TO GAIN EXTERNAL RECOGNITION

## Ratings



- Outstanding MSCI ESG rating of AA maintained for the 3rd year in a row



- „B” Rating with „Prime” status for the 4th year in a row
- Magyar Telekom received top3 telco ranking in 2020



- “B” rating for climate change
- “A” rating for supply chain
- Supplier program addressing climate change ranked amongst top 7% by CDP

## Index inclusion



Magyar Telekom remains a constituent of the FTSE4Good Index Series following a recent index review with a 99-percentile rank in telecommunications

- CECE Socially Responsible Investment index

## Reporting framework

- GRI standard on comprehensive level (with external assurance in accordance with ISAE 3000)
- Further efforts to improve sustainability reporting in line with TCFD and SASB requirements

# OTHER AWARDS AND RECOGNITIONS IN 2021

- Zyntern.com #2 most attractive employer
- PwC Hungary – Most Attractive Workplace (Telecommunication category)
- Randstad Most Attractive Workplace (Telecommunication sector)
- IPRA Golden World Award
- GKI Digital - the biggest turnover online in the mobile phone and tablet segment
- Responsibility, sustainability, responsible corporate governance Award – „BÉT LEGEK”



# FURTHER DETAILS ON ADJUSTMENTS ON NET INCOME

'Adjusted Net Income'\* is to be adjusted for major non-cash below EBITDA one-off items that are not part of the underlying performance

Such as:

- Change in fair value of derivatives
- FX result realized on principal of the CCIR (cross currency interest rate) swap
- Realized result on loan related FX forwards
- Lease non-realized FX result
- Any one-off item in D&A (depreciation & amortization)
- Any tax expense one-off due to external changes in tax calculation

In 2021, such adjustments would have amounted to HUF 7.6 billion leading to Adjusted Net Income of HUF 51.4 billion for 2021



# HUNGARIAN MOBILE SPECTRUM

## Spectrum allocation (MHz)

