

MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

AUGUST 2018



LIFE IS FOR SHARING.

STRATEGY AND MARKET POSITION

OVERVIEW – MAGYAR TELEKOM AT A GLANCE

Overview

- Integrated operations in Hungary and Macedonia*
 - leading telecommunications service provider in both countries
 - leading SI/IT service provider in Hungary
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.3bn market capitalization**
- Stock exchange listings
 - Primary listing on Budapest Stock Exchange
 - Level I ADR program, ADSs traded on the OTC Market

Strategic pillars

TOGETHER. FOR OUR CUSTOMERS

▶ We listen: customer and colleague opinions form an important part of our decision making

INTEGRATED PRODUCTS & NETWORK

▶ As a number 1 integrated service provider we give all our customers the opportunity to connect seamlessly




IT & DIGITAL SERVICES

▶ IT and digital services are important areas of focus for us and will be key drivers of future growth

DIGITAL TELEKOM

▶ Magyar Telekom's transformation into a digital company is part of our efforts to ensure efficiency and customer satisfaction

Main services offered

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

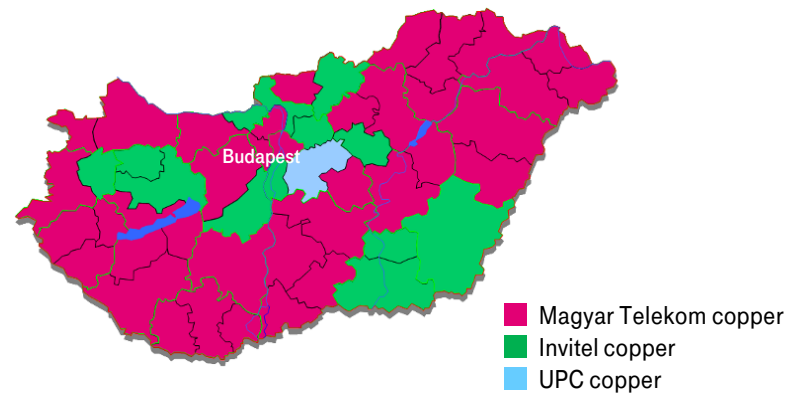


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*As announced on January 10, 2017, Magyar Telekom disposed of its majority stake in Crnogorski Telekom. The transaction closed at the end-January 2017;

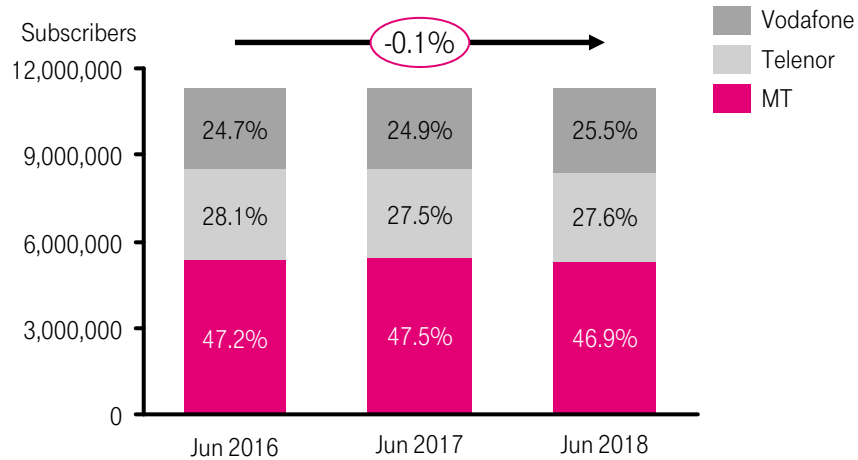
**As of August 21, 2018

Incumbents in Hungary

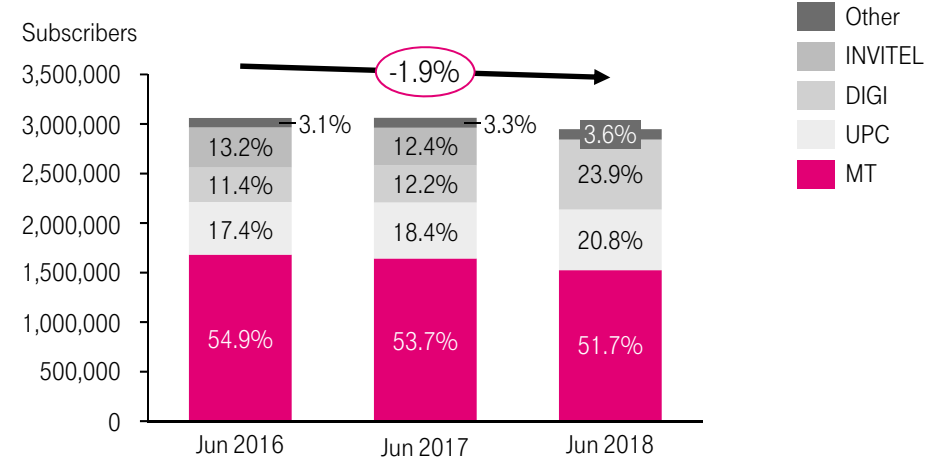


MARKET POSITIONS IN THE HUNGARIAN TELCO MARKET

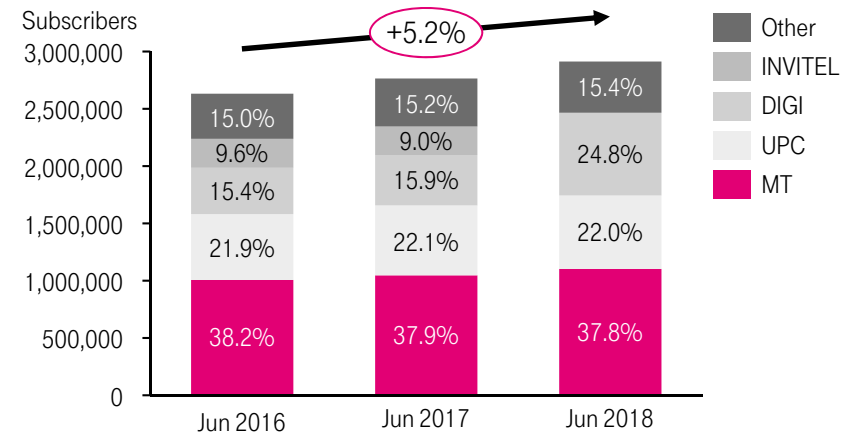
Total mobile market*



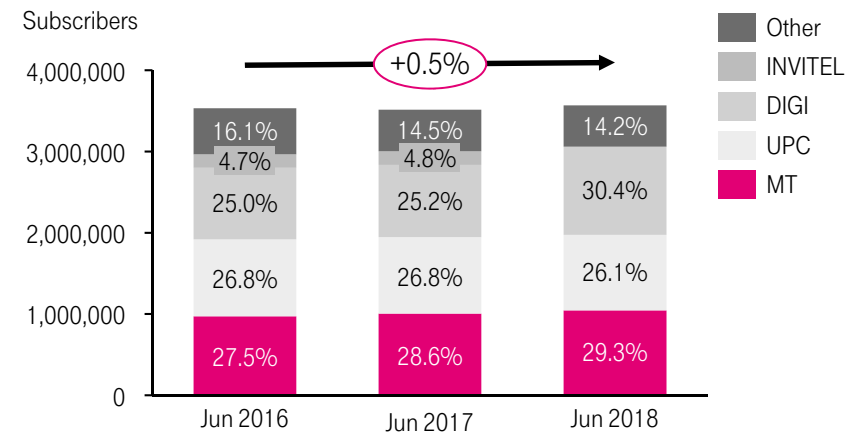
Fixed voice market**



Fixed broadband market**



TV market**



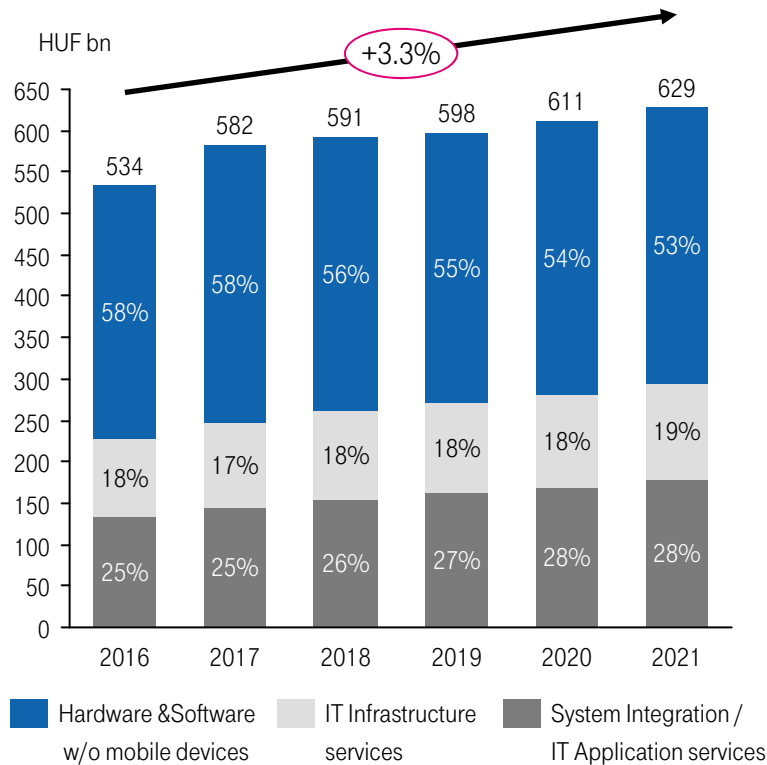
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*Based on internal calculations from Vodafone Group and Telenor Group reports

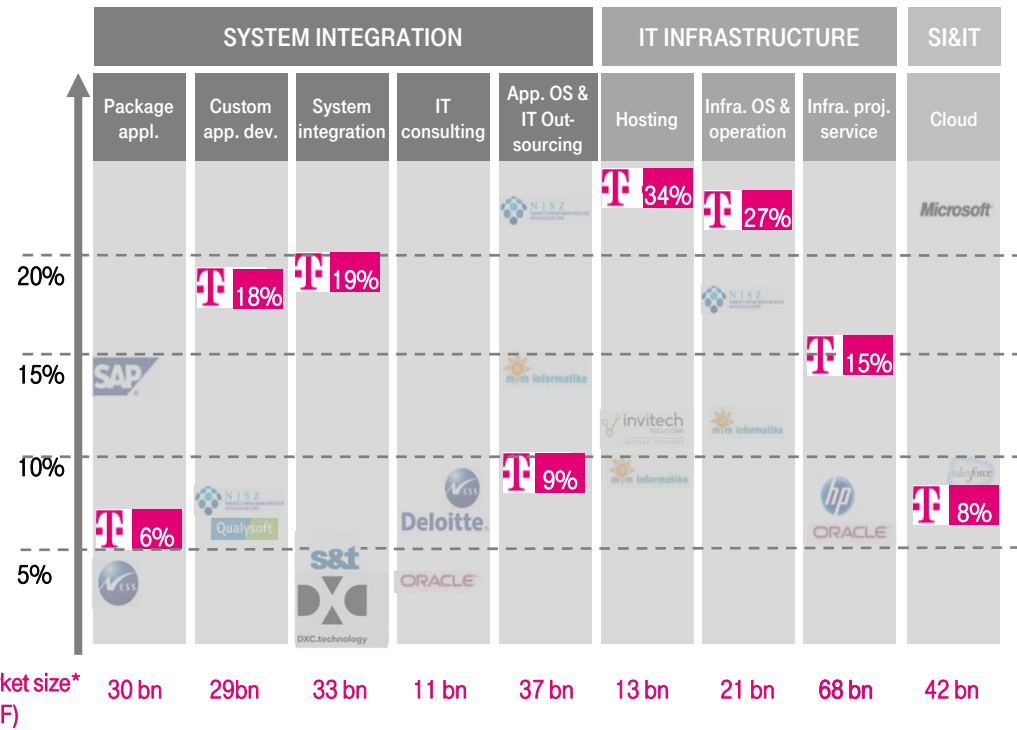
**Based on the total fixed voice channels/BB access/pay TV access market estimated by the National Media and Infocommunications Authority (NMIA)

IT MARKET IN HUNGARY: 2016-2021

Total B2B IT market (HW&SW and IT services)*



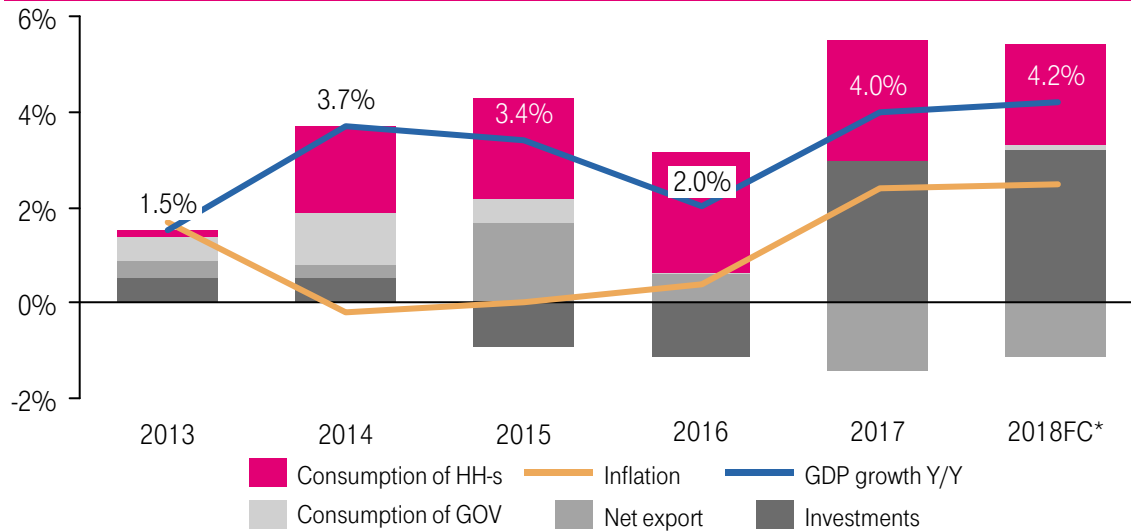
IT Services market shares (by revenue)*



- Magyar Telekom is the only fully integrated ICT company in Hungary
- Total IT market expected to grow by 5,0% over the next 5 years
- Until 2020-21 EU fund inflows are a major driver of IT spending in Hungary
- Magyar Telekom's total revenue based IT market share is ca. 12%*
- IT services market represents ca. 40% of the total IT market
- IT Services market in Hungary very fragmented
- Presence of government owned players (NISZ, MVMI) and major international players, such as HP, IBM, SAP
- Magyar Telekom is the market leader with 15.1% market share in the IT services market (ca. 12% total IT market ie. including HW&SW)

HUNGARIAN ECONOMIC ENVIRONMENT

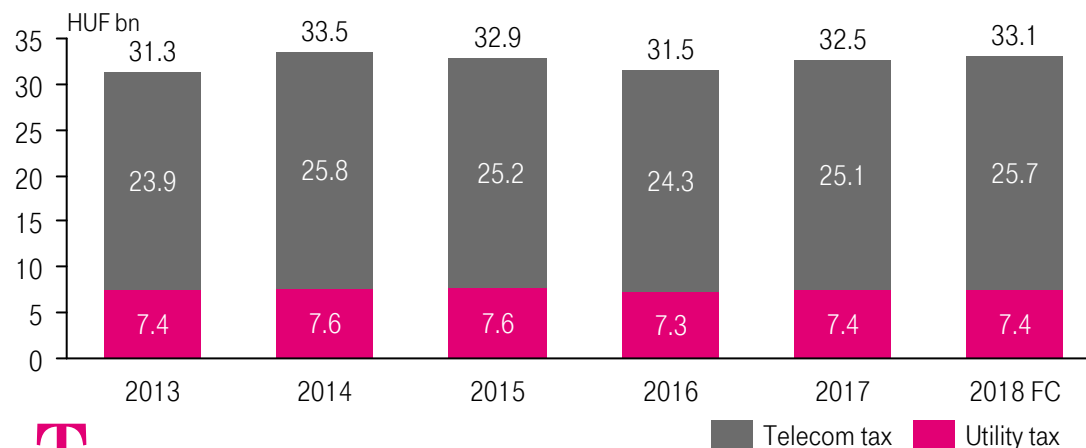
Growth structure



Domestic demand

- Domestic demand to remain strong
- Governmental measures support consumer spending
- Investment levels show volatility due to EU fund cycles
- MT leverages 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, 5-year tax holiday on new networks > 100Mbps since 2016

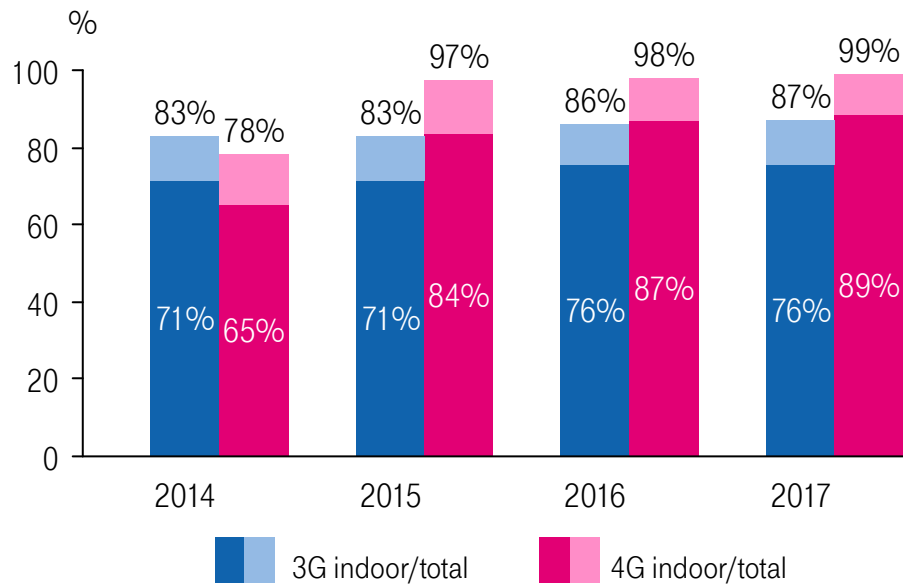


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* Central Bank March 2018 forecasts

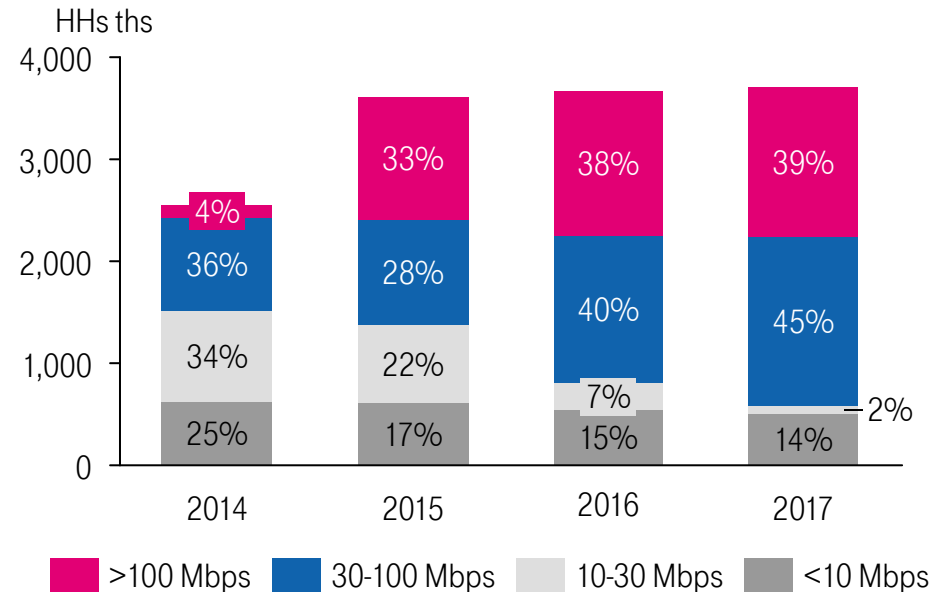
NETWORK DEVELOPMENTS IN HUNGARY

Mobile network coverage (population based)



- Network sharing on 800 MHz with Telenor
- 4G+ coverage, enabling 250Mbps exceeded 30%
- Continuous growth of mobile data subscribers (ca. 15% annually)
- Average data usage increase of 18% CAGR (2014-2017)

Fixed network (Households covered)



- 2.9 million households across the country covered by High Speed Internet (HSI) access
 - FTTx (0.8mn HHs) – ongoing countrywide roll-out
 - ED3 (0.7mn HHs) – participating in market consolidation
 - VDSL (1.4mn HHs) – revitalizing copper, excl. overlaps
- Roll-out is ongoing, aim to reach in another ca. 300,000 access points in 2018 with fiber

HUNGARIAN MOBILE SPECTRUM ALLOCATION

Current spectrum allocation (MHz)



2018 GUIDANCE AND DIVIDEND

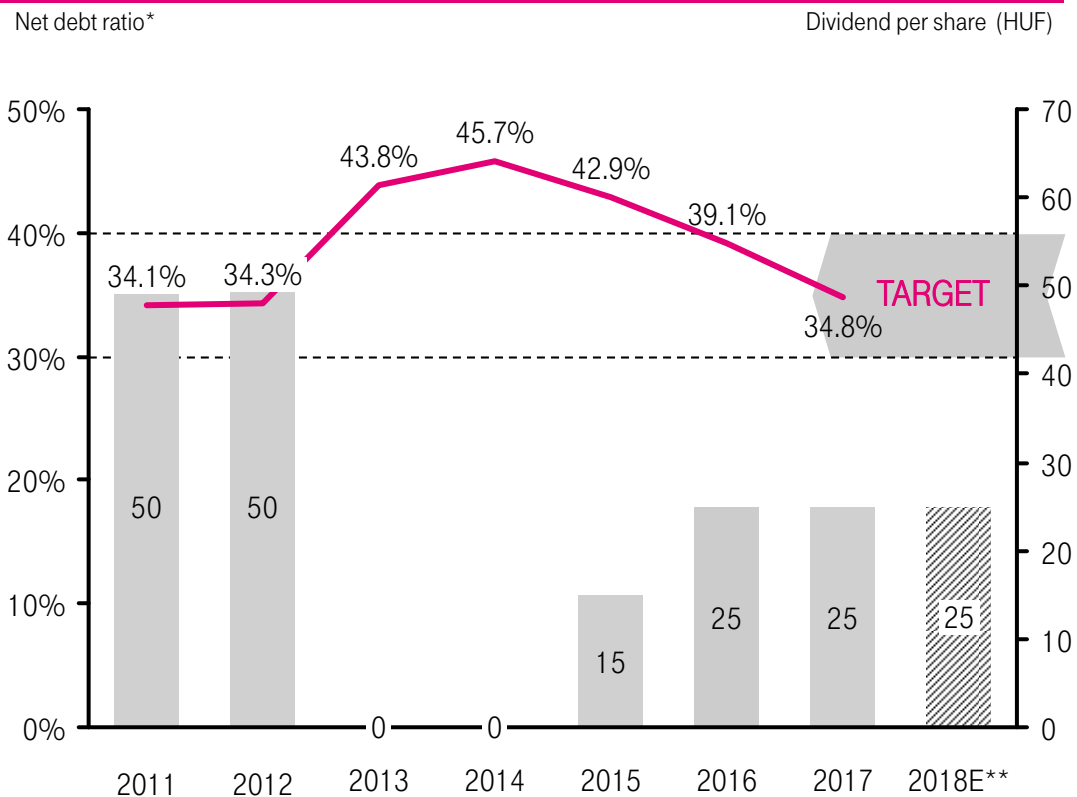
H1 2018 RESULTS AND 2018 FINANCIAL TARGETS

		H1 2018 RESULTS <i>(change y-o-y)</i>	2018 TARGETS
REVENUE	<ul style="list-style-type: none"> Strong growth in SI/IT revenue and equipment sales Improving service revenue trends 	HUF 318.3 bn <i>(+8.2%)</i>	around HUF 630 bn*
EBITDA	<ul style="list-style-type: none"> Higher gross profit driven by increased sales volumes Strong focus on efficiency reflected in indirect cost decline 	HUF 92.8 bn <i>(+7.6%)</i>	around HUF 190 bn
CAPEX	<ul style="list-style-type: none"> Different timing of investments vs H1 2017 Lower spending on 4G rollout and IT 	HUF 30.8 bn <i>(-18.2%)</i>	around HUF 90 bn
FCF	<ul style="list-style-type: none"> Improvement thanks to higher EBITDA and lower investments Higher supplier outpayments vs H1 2017 	HUF 11.6 bn <i>(+8.2%)</i>	around HUF 60 bn

* Changed from around HUF 600 bn

DIVIDEND POLICY

Dividend payment and net debt ratio developments



Highlights

- Aiming to maintain net debt ratio (net debt/total capital) target of 30% - 40%
- AGM approved HUF 25 dividend per share payment based on 2017 results
- We also expect the Company to pay HUF 25 dividend per share in relation to 2018 earnings, maintaining a stable dividend level compared to 2017 earnings**



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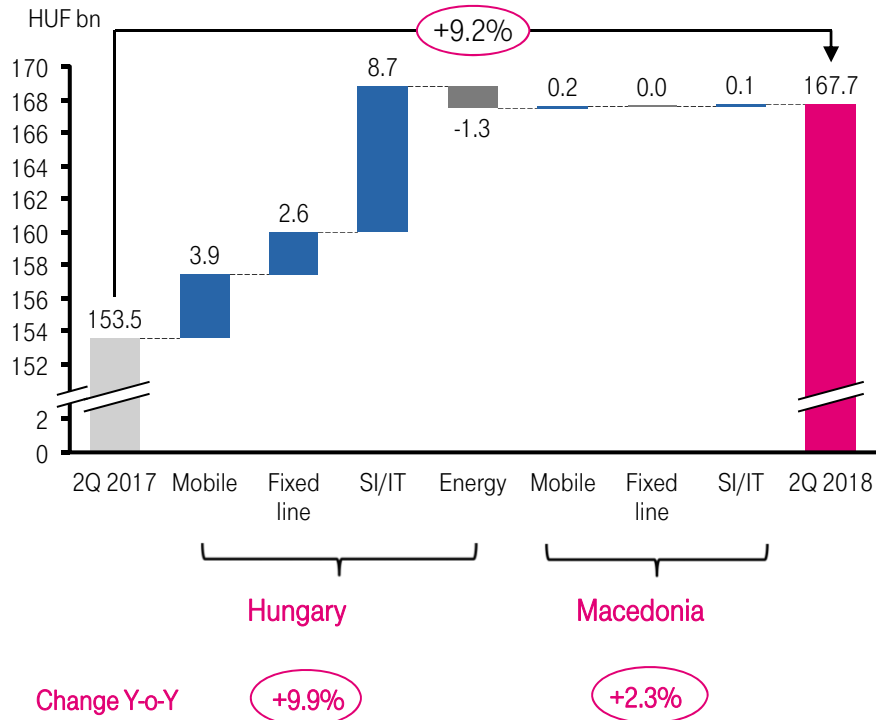
* Defined as net debt / total capital.

** 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

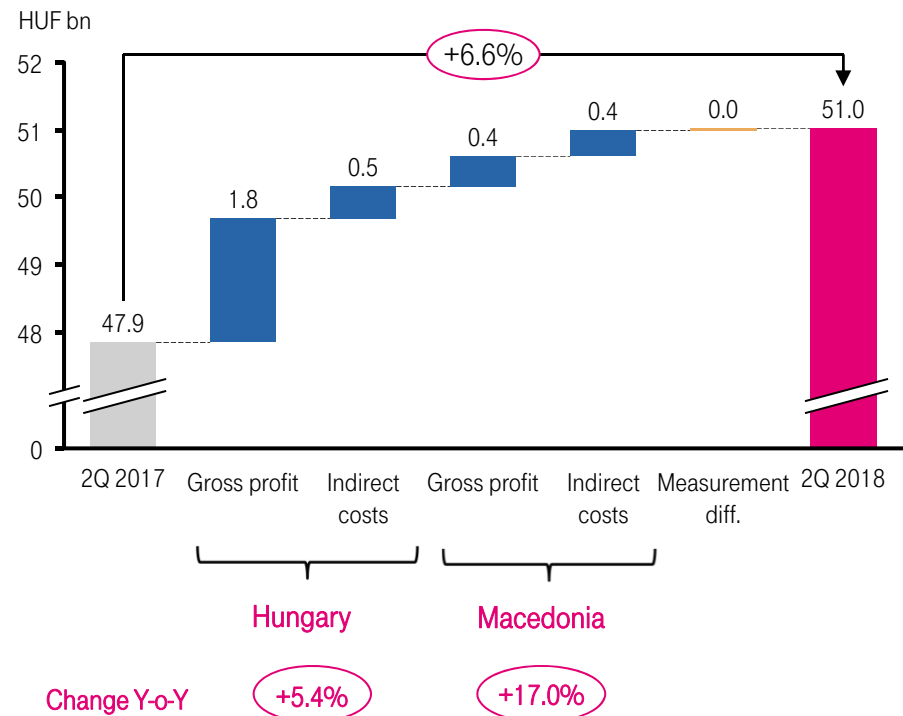
Q2 2018 RESULTS

Q2 2018 GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenues*



Group segmental EBITDA*



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*Excluding Crnogorski Telekom financials and IFRS 9 and 15 impacts

Q2 2018 STRATEGIC HIGHLIGHTS

LAND GRABBING

- Accelerated fibre rollout to increase competitiveness;
- Continuous growth in fixed-mobile convergent households
- Leading position in the IT market strengthened

GROWTH

- Service revenue increase thanks to positive customer developments
- Growth in equipment sales driven by regulatory change and rising demand for high-value products
- SI/IT revenues fueled primarily by public sector projects

EFFICIENCY

- Wide-ranging cost optimization project ongoing
- Digitalization to enhance operating efficiency and customer experience
- Portfolio simplification to improve customer servicing

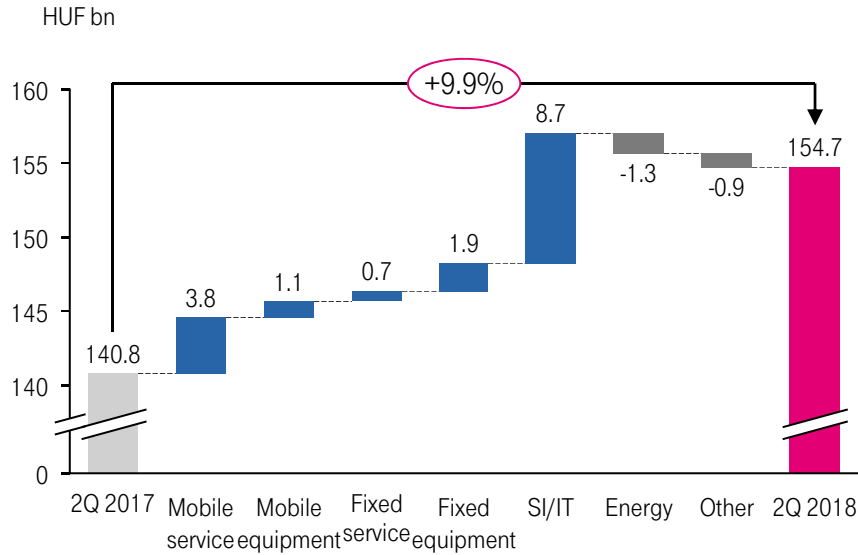
MACEDONIA

- Subscriber growth in post-paid, TV and fixed BB continues
- Positive trend in service revenues
- Indirect cost savings leading to profitability improvements



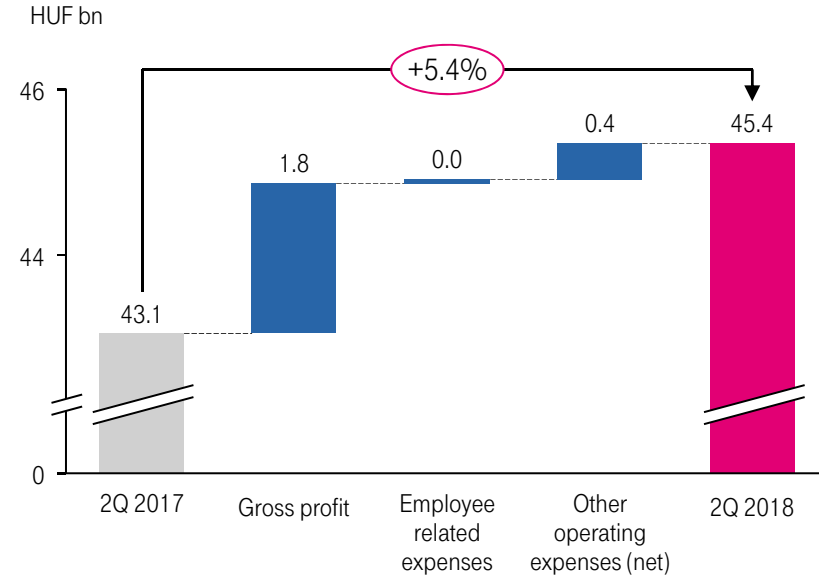
HUNGARY

Revenue*



- Mobile service revenue growth primarily driven by increase in mobile data usage and postpaid customer base
- Fixed service revenue up thanks to higher TV and broadband subscriber bases
- Increase in SI/IT revenue driven by strong demand for HW&SW delivery projects
- Decline in other revenues due to reclassification of handset insurance revenues as mobile content from 2018

EBITDA*



- Gross profit increase driven by strong revenue growth
- Employee related expenses reflect lower headcount
- Savings achieved in marketing, maintenance and HR-related expenses



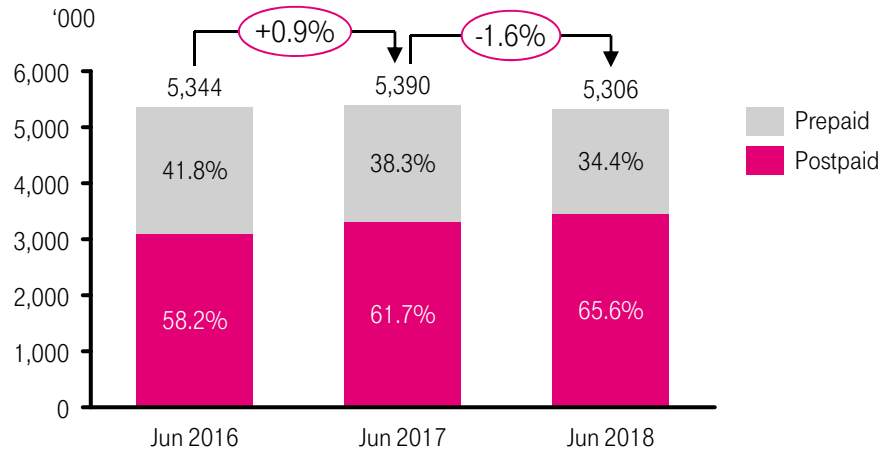
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*Excluding IFRS 9 & 15 effects

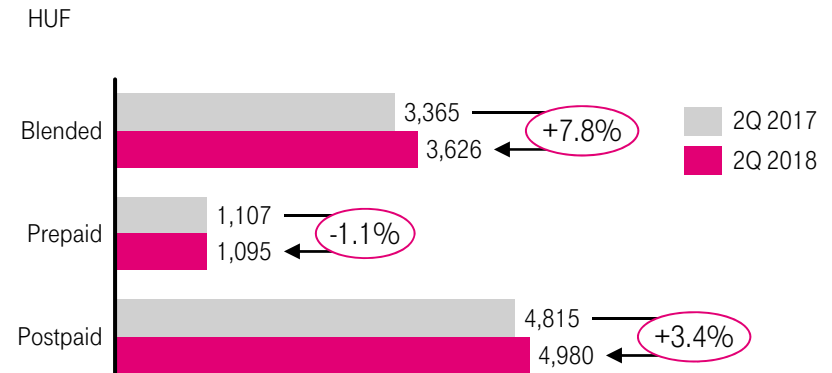
HUNGARY – MOBILE



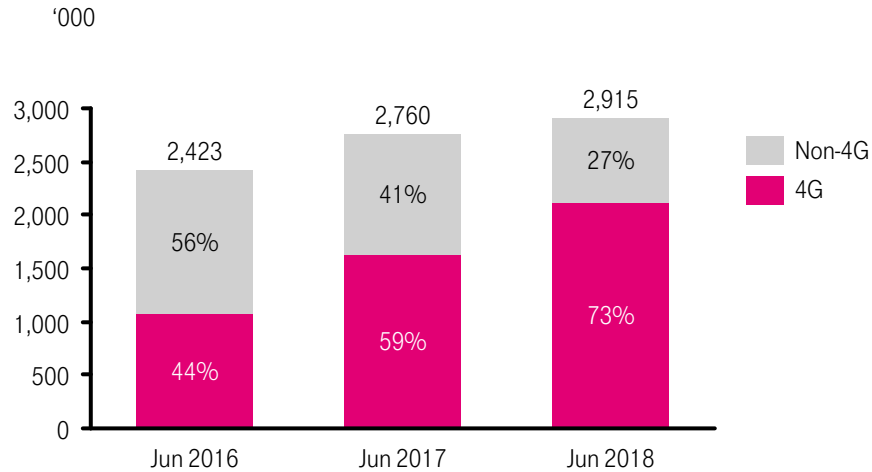
Mobile SIMs



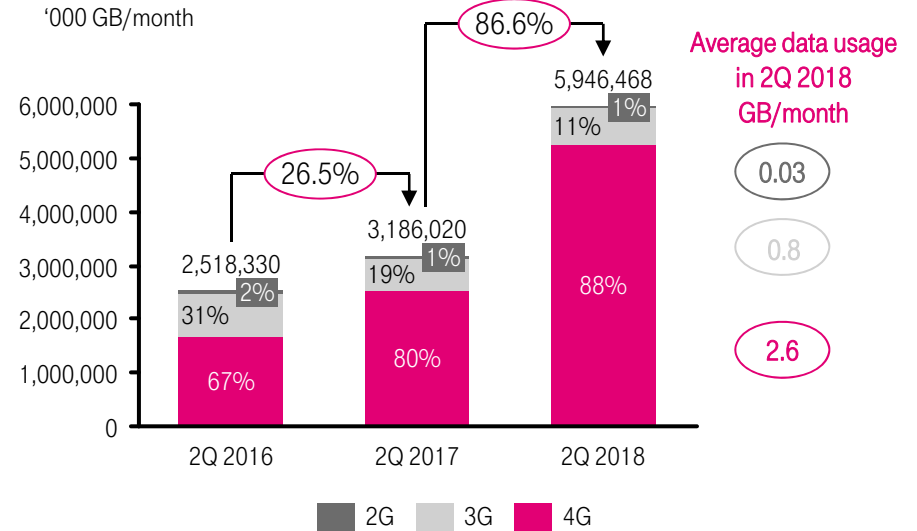
Mobile ARPU*



Total mobile data subscriber development



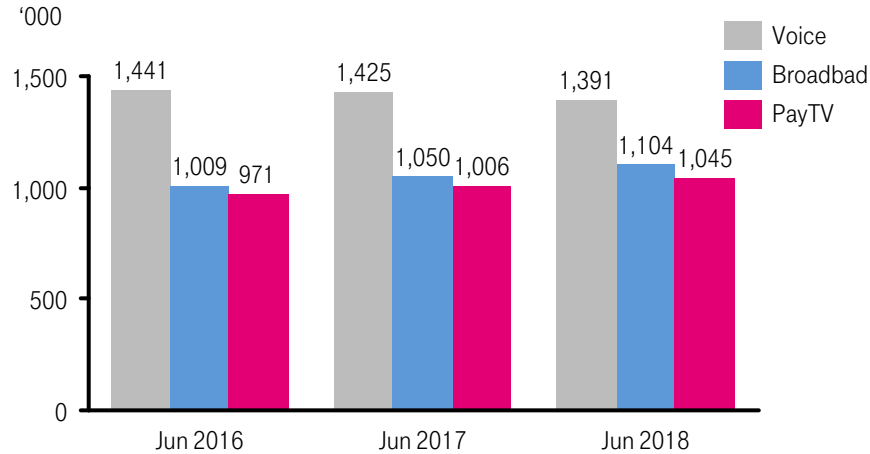
Mobile broadband usage developments



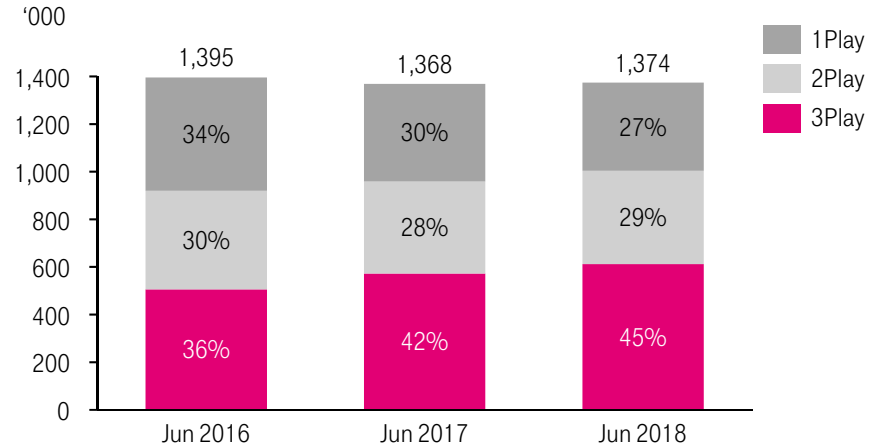
HUNGARY – FIXED VOICE, BROADBAND AND TV



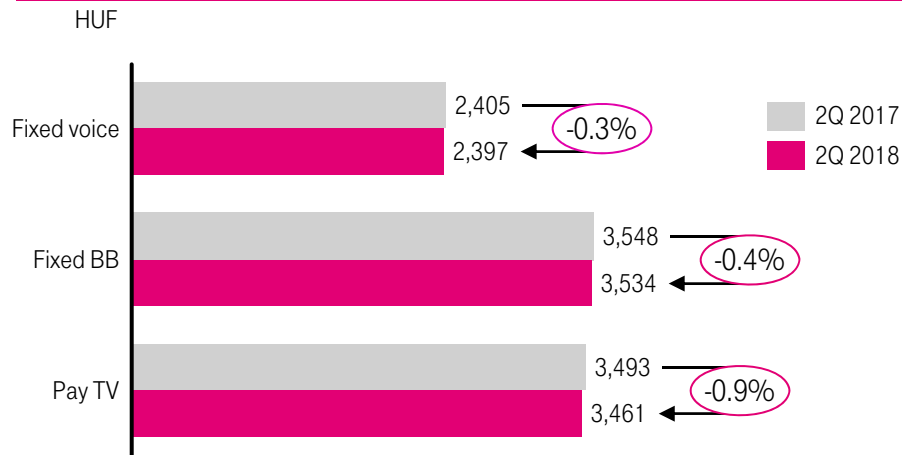
Fixed line customer base



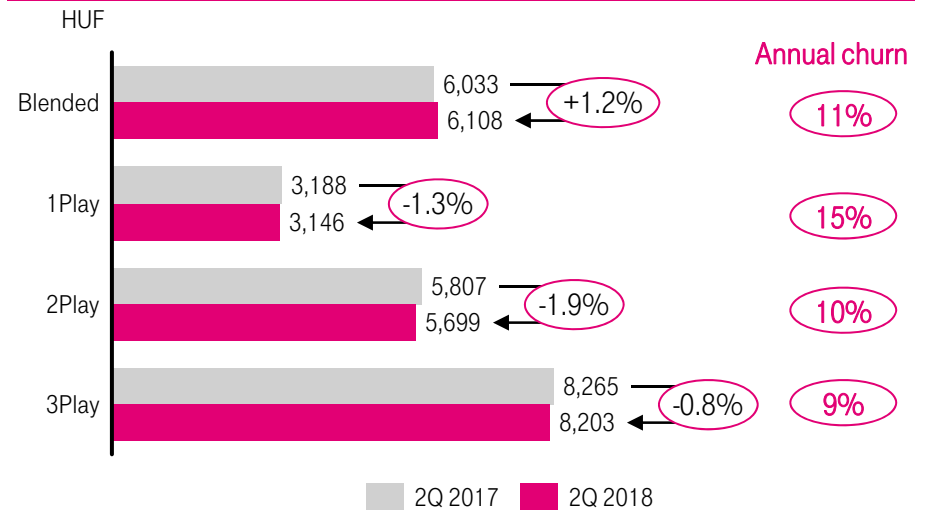
Fixed line multiplay residential subscribers



Fixed Voice, BB and TV ARPU*



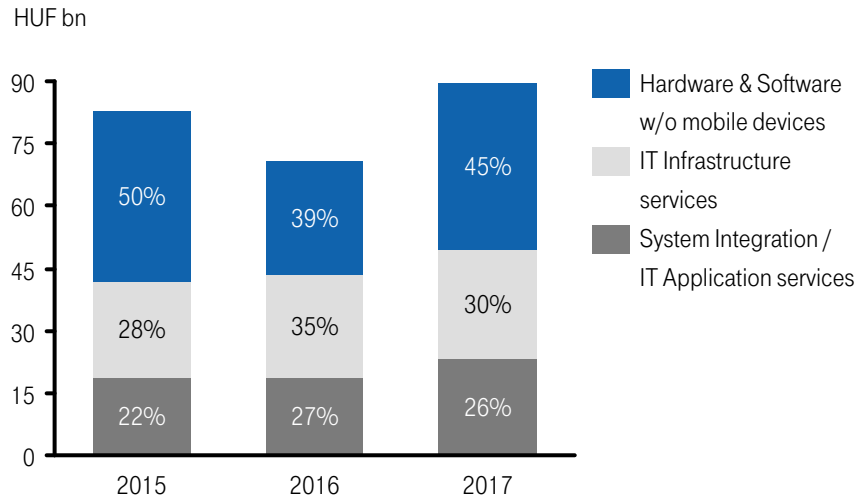
Fixed line multiplay residential ARPU*



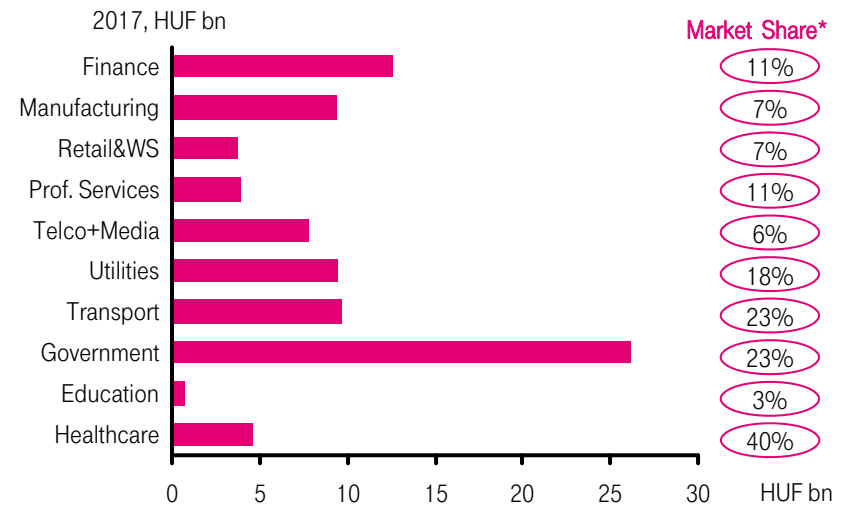
*Excluding IFRS15 effects

HUNGARY – SI/IT

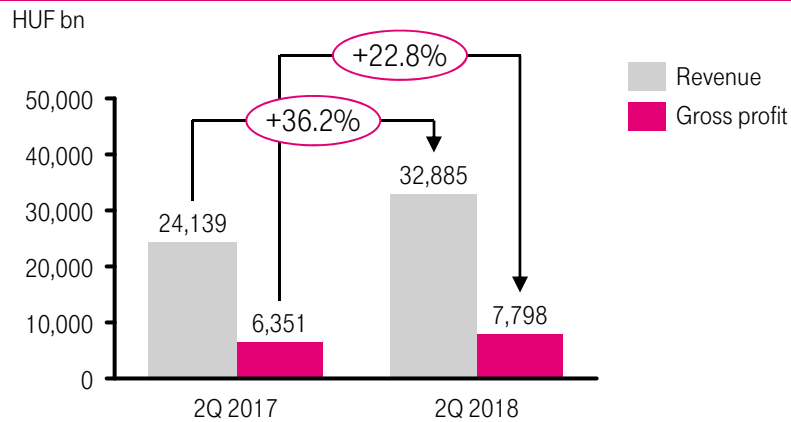
SI/IT revenue developments



SI/IT revenue breakdown by vertical segments*



SI/IT revenue and gross profit of MT-Hungary



Gross margin

26%

24%



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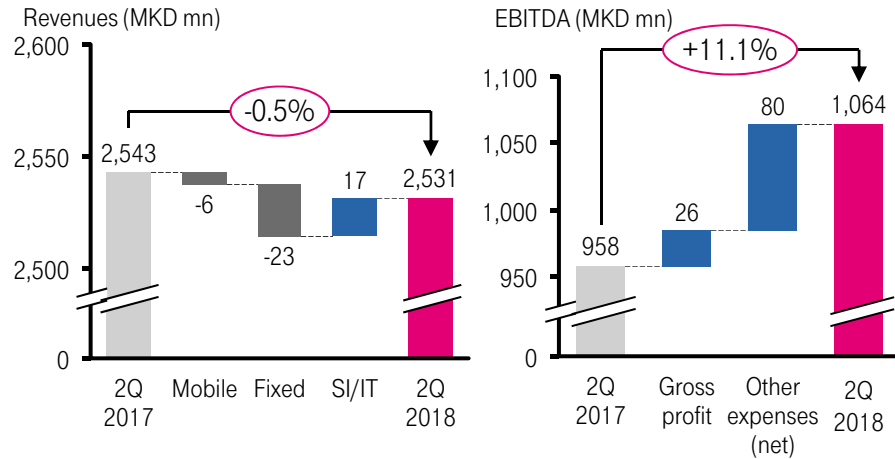
Highlights

- Positive trajectory of SI/IT revenues maintained
- EU funded projects are hardware and software focused and relatively low margin
- Infrastructure delivery projects instrumental in developing long term customer relationships and securing IT service contracts
- Q2 2018 revenue also supported by major PC delivery to the education sector

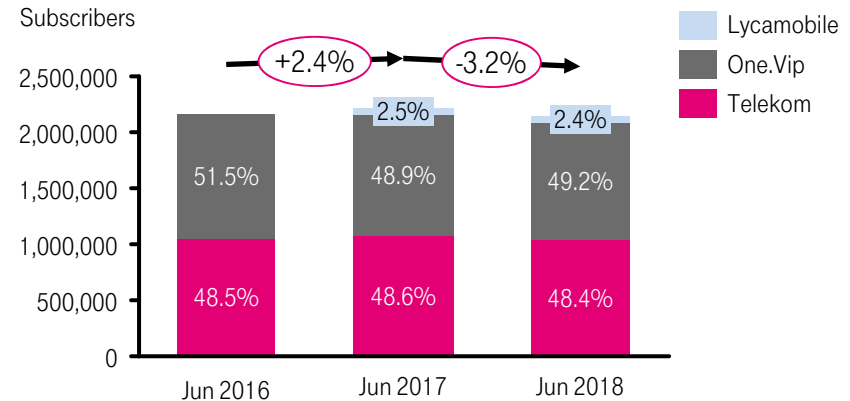
*Based on IDC Research 2018, market shares based on 2017 revenues

MACEDONIA

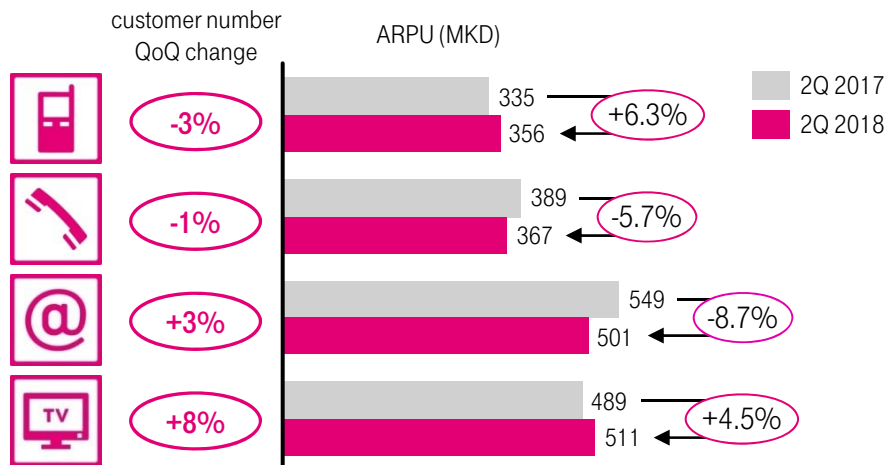
Financials*



Mobile market



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



Highlights

- Market dominated by 3 Play
- Convergent offers gaining popularity
- Strong focus on efficiency enhancement to mitigate top line pressure
- EBITDA improvement attributable to savings in marketing and maintenance costs
- 2.9% weakening in HUF/MKD



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*Excluding IFRS 9 and 15 impacts

For further questions please contact the IR department:

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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, 2017 available on our website at <http://www.telekom.hu>.

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.



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