

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

August 2019



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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, 2018 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 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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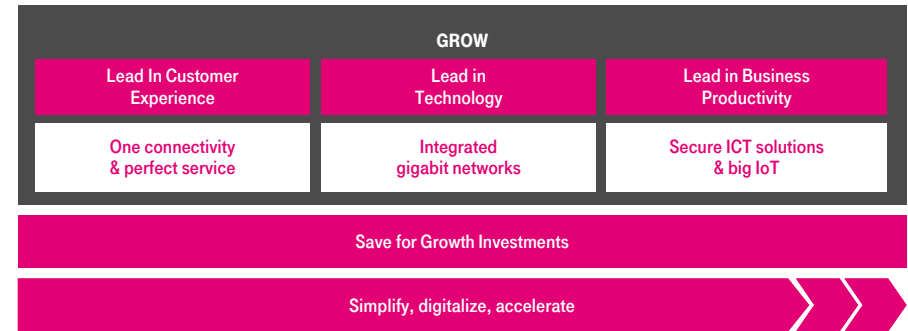
# STRATEGY AND MARKET POSITION

# OVERVIEW – MAGYAR TELEKOM AT A GLANCE

## Overview

- Integrated operations in Hungary and Macedonia<sup>1</sup>
  - Leading telecommunications service provider in both countries
  - Leading SI/IT service provider in Hungary
- Majority owned by Deutsche Telekom (59.2%)
- EUR 1.6bn market capitalization<sup>2</sup>
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

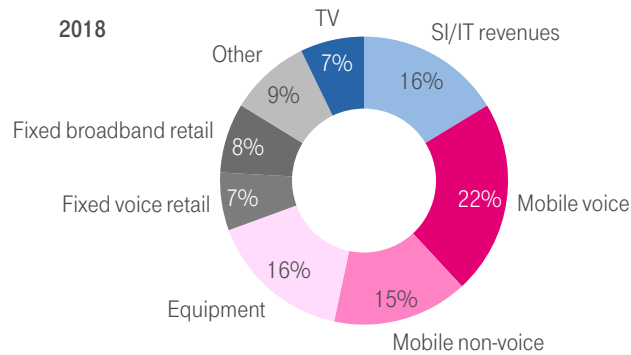
## Pillars of transformation



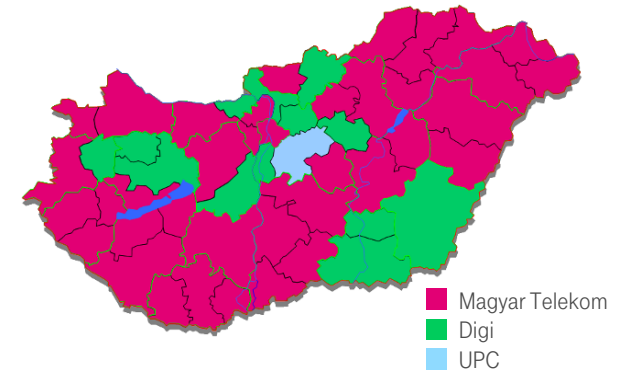
## Main services offered

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

## Revenue composition



## Incumbents in Hungary



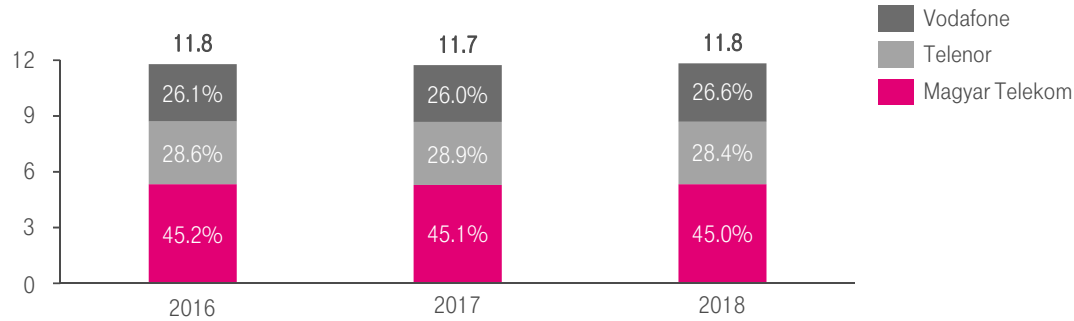
<sup>1</sup> As announced on January 10, 2017, Magyar Telekom disposed of its majority stake in Crnogorski Telekom. The transaction closed at the end-January 2017

<sup>2</sup> As of January 29, 2019

# HUNGARIAN TELCO MARKET POSITIONS

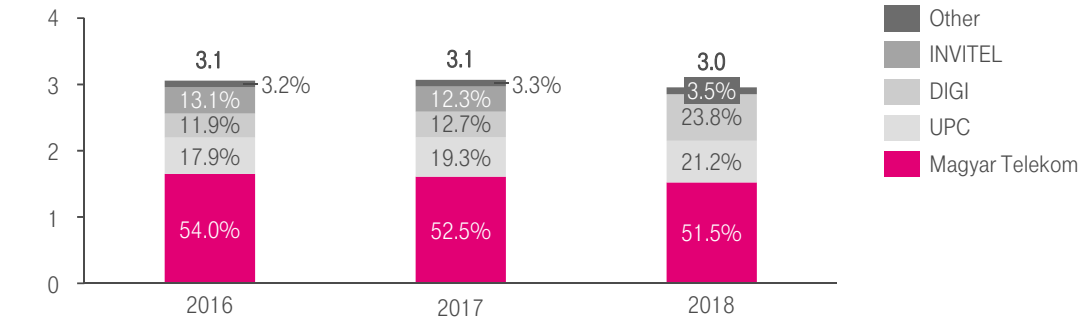
## Total mobile market<sup>1</sup>

Subscribers (mn)



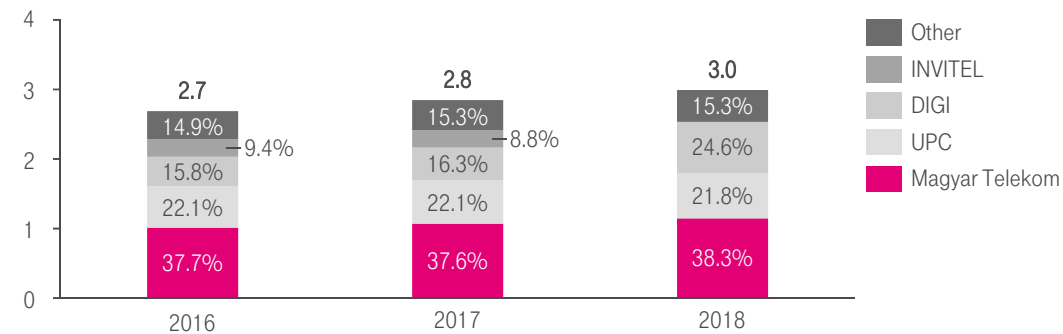
## Fixed voice market<sup>2</sup>

Subscribers (mn)



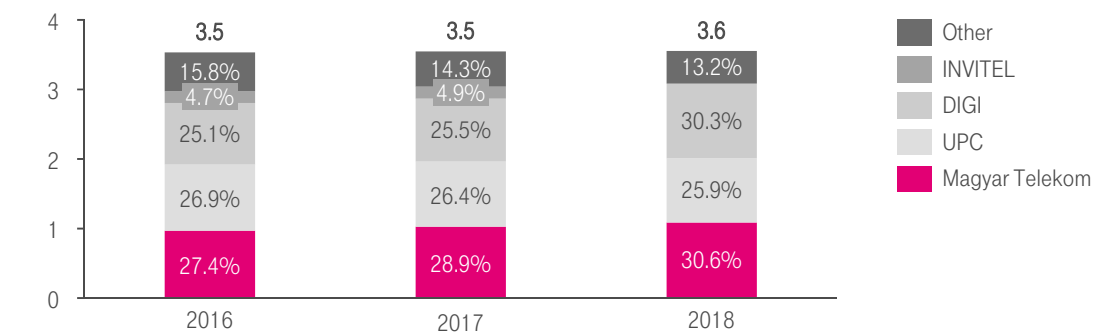
## Fixed broadband market<sup>2</sup>

Subscribers (mn)



## TV market<sup>2</sup>

Subscribers (mn)

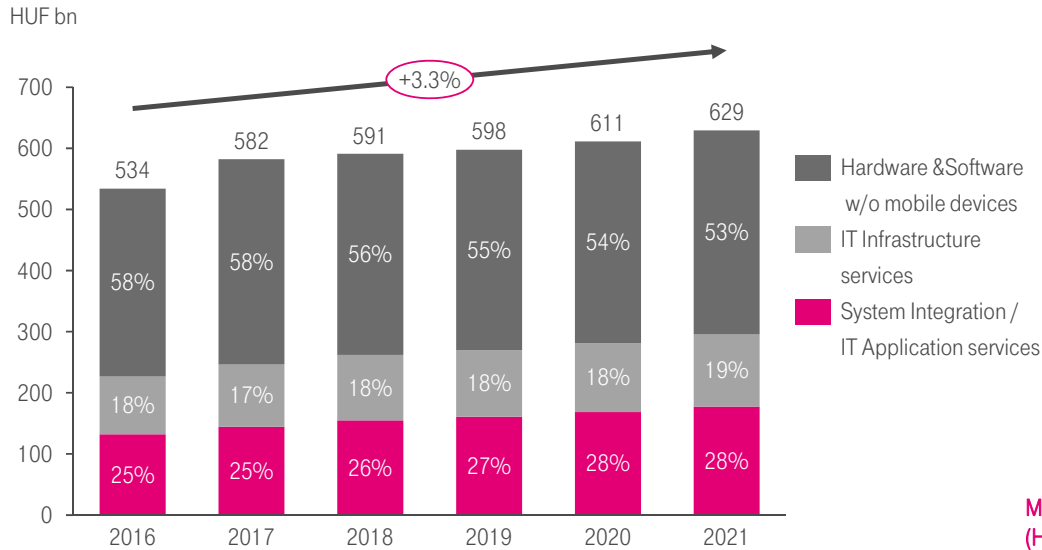


<sup>1</sup> Based on Central Statistical Office data and internal calculations from Vodafone Group and Telenor Group reports

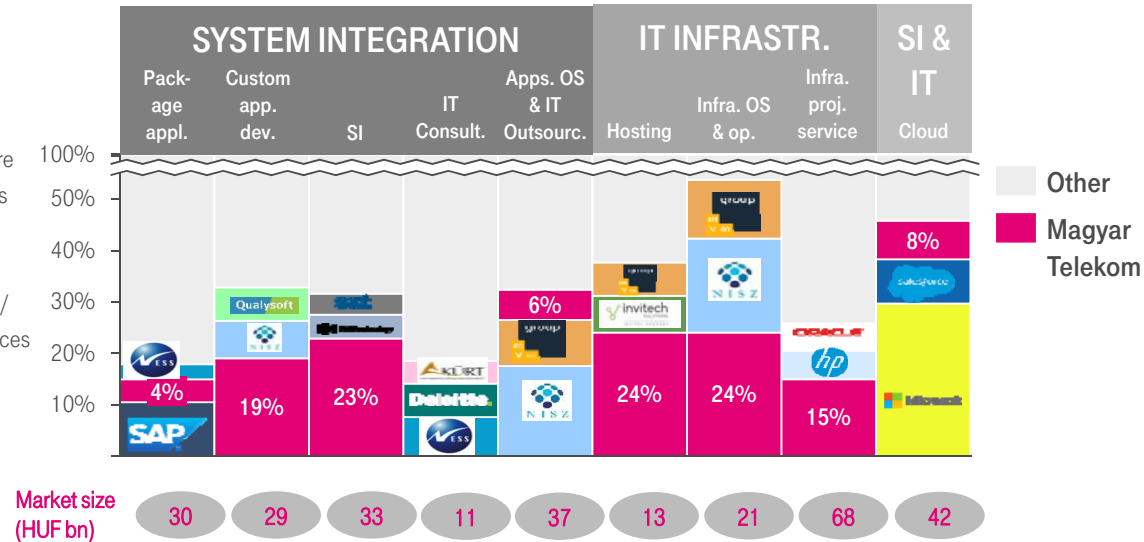
<sup>2</sup> Based on the total fixed voice channels/BB access/pay TV access market estimated by the National Media and Infocommunications Authority (NMIA)

# IT MARKET IN HUNGARY: 2016-2021

## Total B2B IT market (HW&SW and IT services)<sup>1</sup>



## IT Services market shares (by revenue)<sup>3</sup>



- Magyar Telekom is the only fully integrated ICT company in Hungary
- Total IT market expected to grow by 5% 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%<sup>2</sup>

- 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% market share in the IT Services market (ca. 12% total IT market including HW&SW)

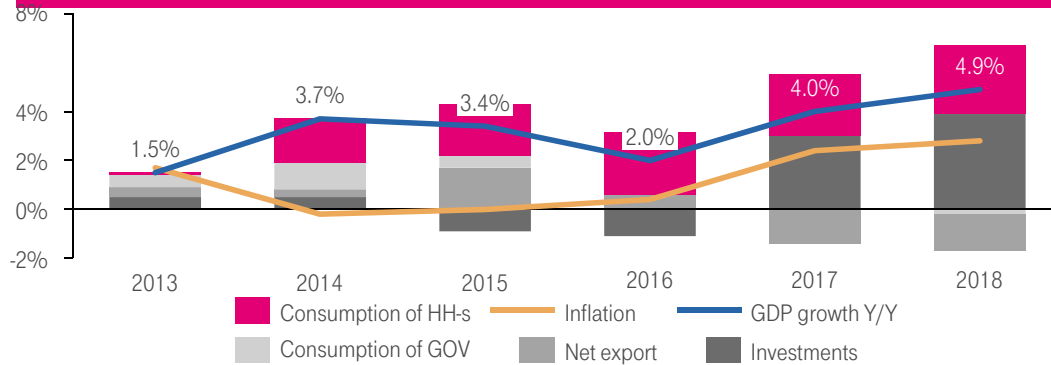
<sup>1</sup> Excluding IFRS 9 & 15 effects

<sup>2</sup> IT market share in B2B segment

<sup>3</sup> Source: IDC 2018 (based on 2018H1 facts); market size calculated by demand side, while market shares by supply side data

# HUNGARIAN ECONOMIC ENVIRONMENT

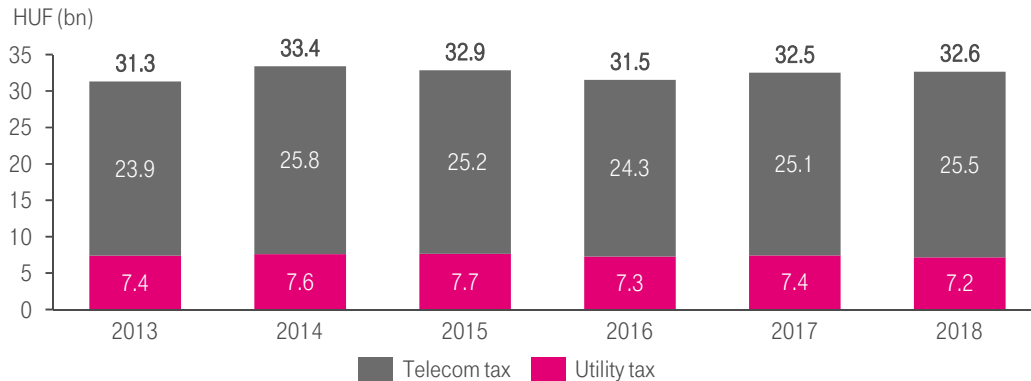
## Growth structure



## Domestic demand

- Domestic demand to remain strong
- Governmental measures support consumer spending
- Investment levels show volatility due to EU fund cycles
- Magyar Telekom leverages positive trends of domestic demand

## Taxes levied on Magyar Telekom



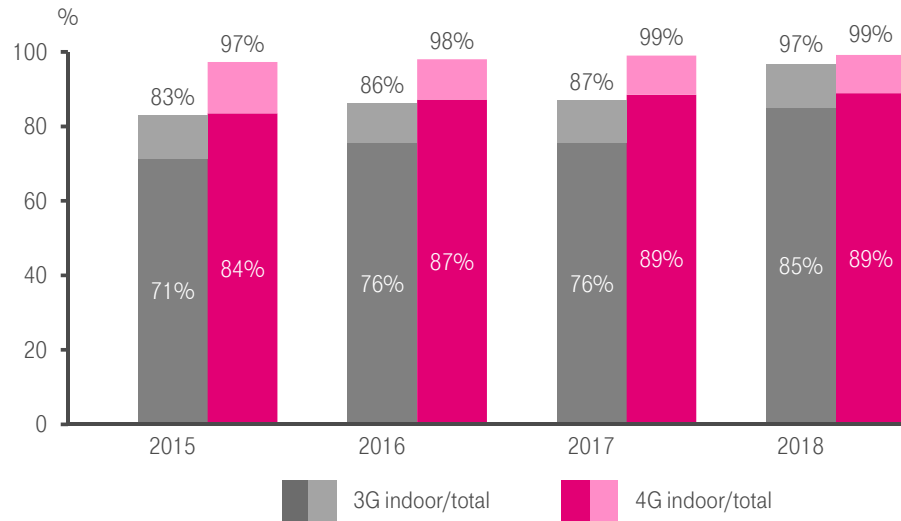
## Tax burdens to reduce budget deficit

- 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



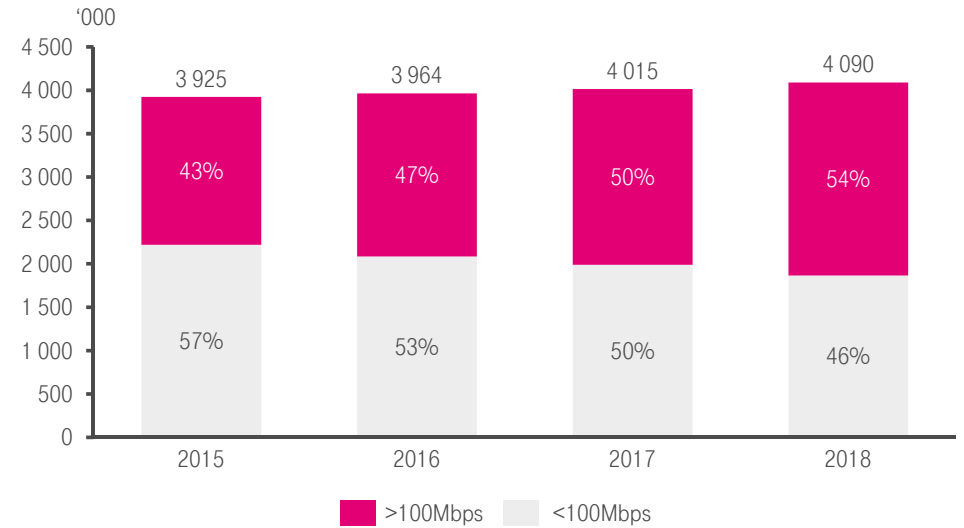
# NETWORK DEVELOPMENTS IN HUNGARY

## 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 over 25% CAGR (2014-2018)

## Fixed network (access points)



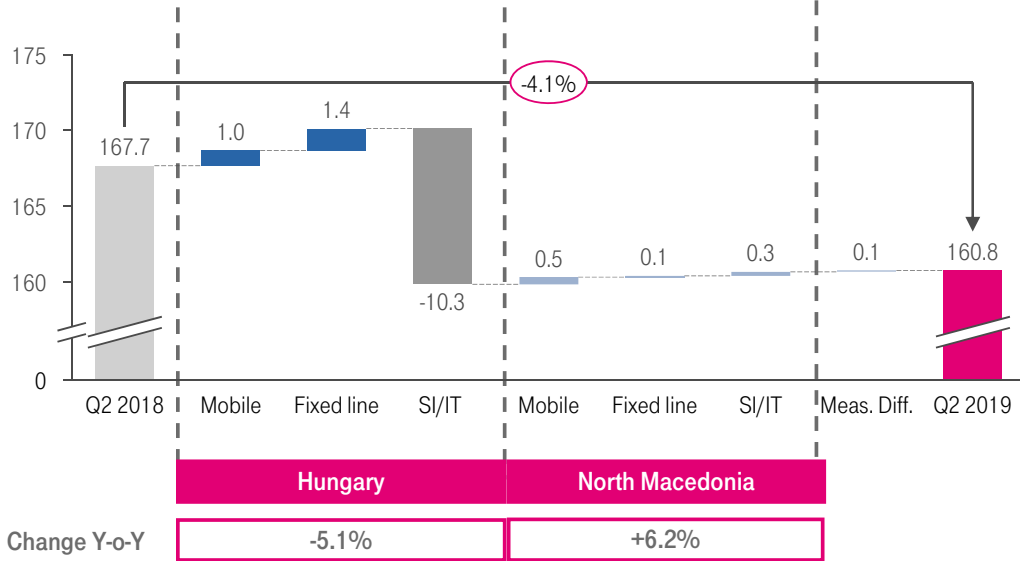
- Roll-out is ongoing, aim to cover the whole country with gigabit capable network
  - FTTx (1 mn) – ongoing countrywide roll-out
  - Cable (ED3) (0.8mn) – participating in market consolidation
  - VDSL (1.6mn) – revitalizing copper, excl. overlaps

# 2019 Q2 RESULTS AND GUIDANCE FOR 2019-2021

# 2019 Q2 GROUP SEGMENTAL REVENUE AND EBITDA

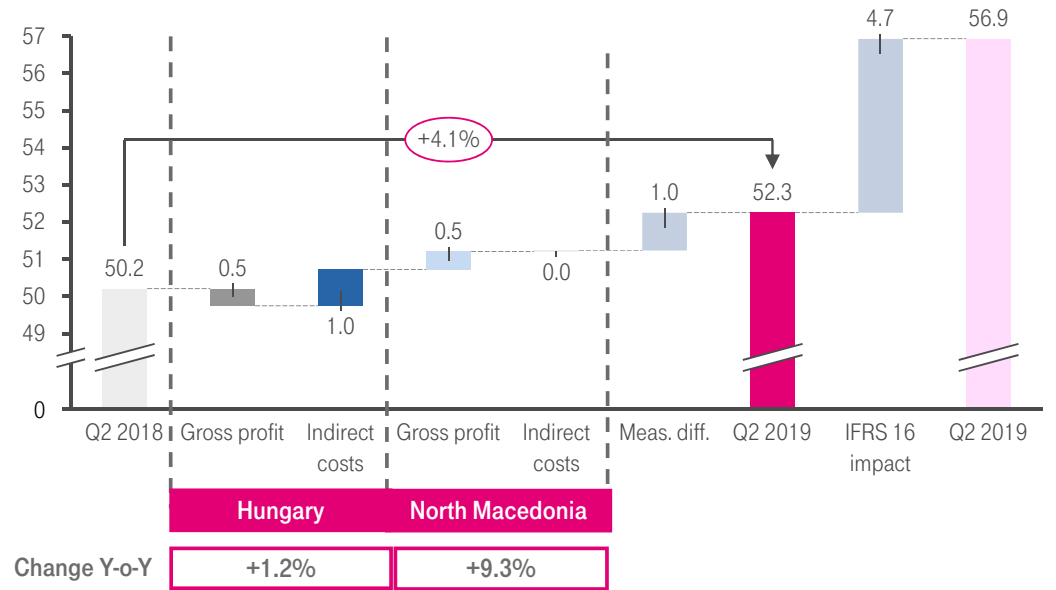
## Group segmental revenues

HUF bn



## Group segmental EBITDA

HUF bn



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# H1 2019 RESULTS AND 2019 FINANCIAL TARGETS <sup>1</sup>

		H1 2019 Results (change y-o-y)	Target 2019
<b>REVENUE</b>	<ul style="list-style-type: none"> <li>▪ Significant decline in SI/IT revenues driven by one-off items and different seasonality vs 2018</li> <li>▪ Growth in fixed broadband and mobile data usage</li> </ul>	HUF 319.7 bn (+0.4%)	Slight decline
<b>EBITDA</b>	<ul style="list-style-type: none"> <li>▪ Higher gross profit attributable to continued improvement in telecommunication service revenues</li> <li>▪ General cost saving measures</li> </ul>	HUF 93.6 bn (+0.9%)	Increase of 1% - 2%
<b>CAPEX <sup>2</sup></b>	<ul style="list-style-type: none"> <li>▪ Higher investments related to fiber rollout</li> <li>▪ Reduced spending on 4G</li> </ul>	HUF 33.8 bn (+9.6%)	Broadly stable
<b>FCF <sup>2</sup></b>	<ul style="list-style-type: none"> <li>▪ Negative changes in working capital due to higher payments to handset suppliers and IT subcontractors</li> <li>▪ Improvement in instalment receivables coupled with higher real estate income</li> </ul>	HUF 4.1bn (n.m)	Ca. 5% growth

<sup>1</sup> excluding the impact of IFRS 16 adoption

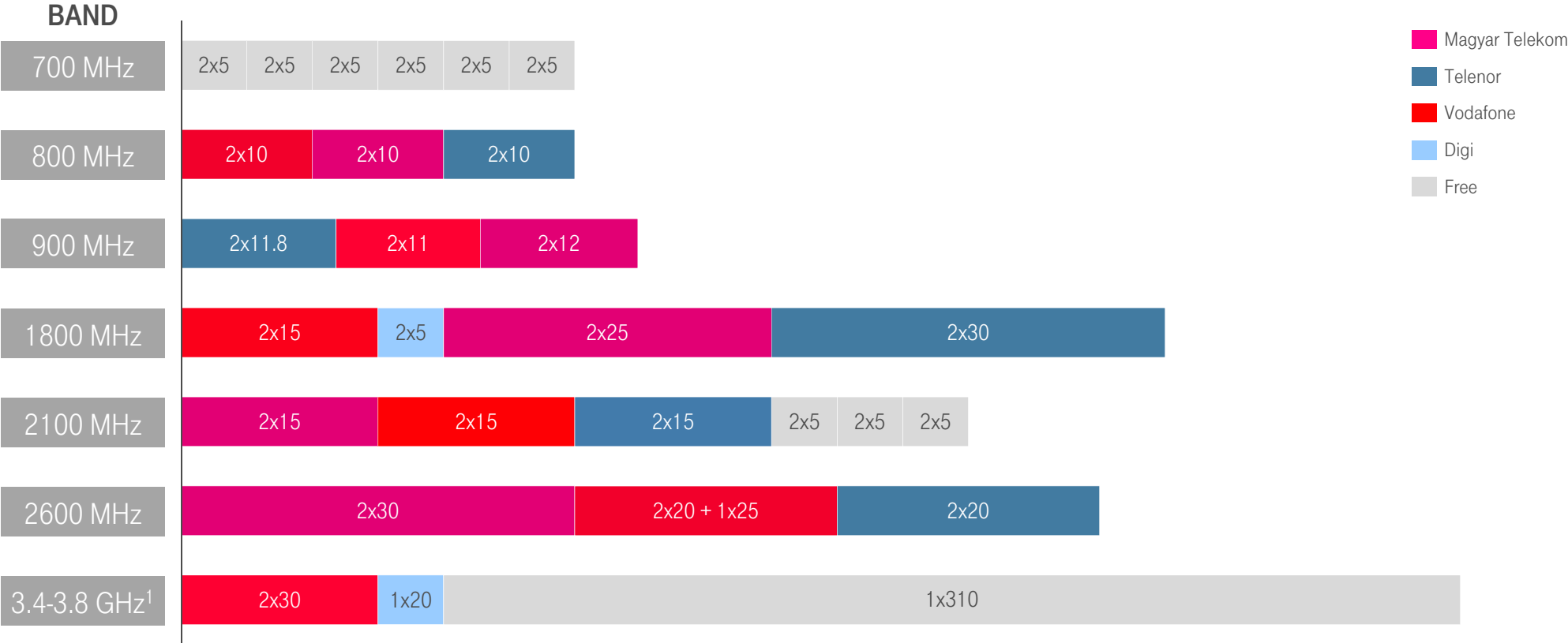
<sup>2</sup> excluding spectrum license fees



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# HUNGARIAN MOBILE SPECTRUM

## Current spectrum allocation (MHz)

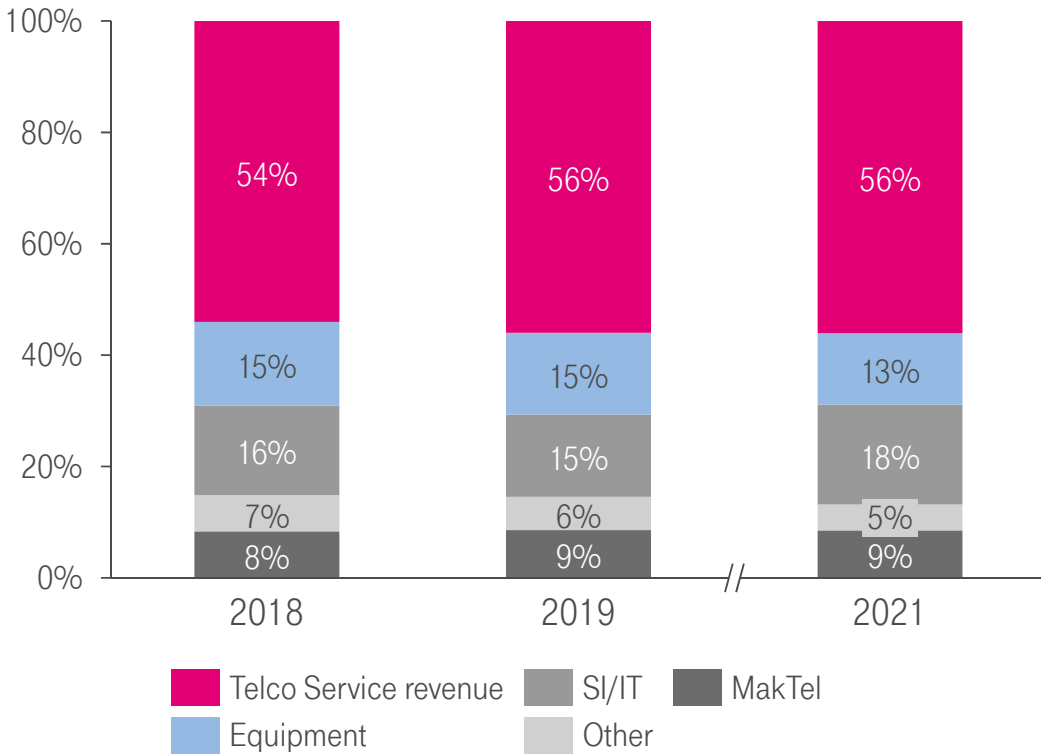


<sup>1</sup> TDD band

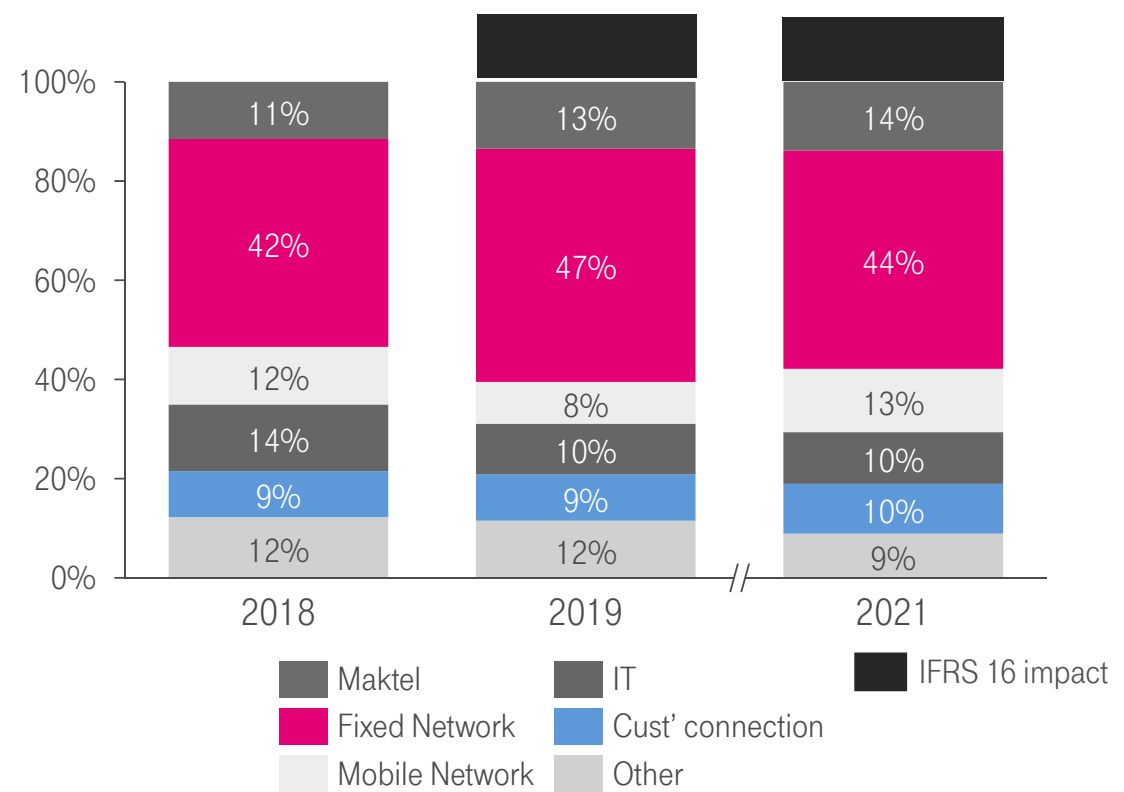


# REVENUE AND CAPEX DEVELOPMENTS

## Revenues



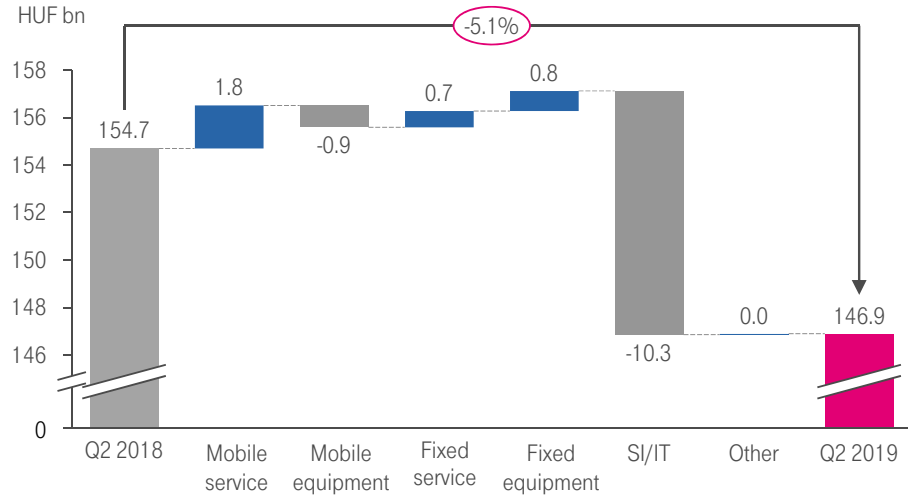
## Capex



# 2019 Q2 RESULTS BY SEGMENT

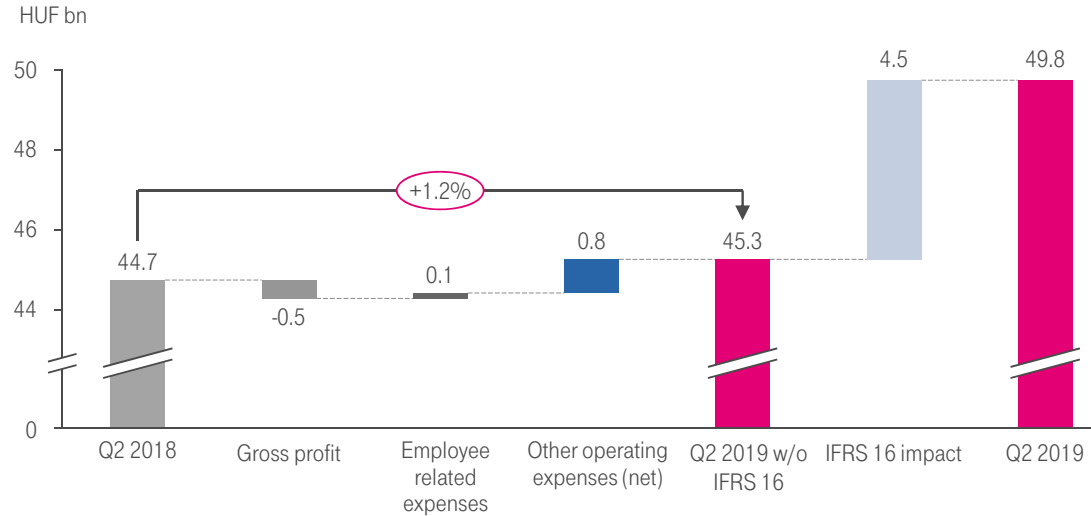
# HUNGARY - TOTAL

## Revenue



- Mobile service revenue growth due to rising data demand for mobile data
- Fixed service revenue improvement attributable to growth in fixed broadband
- Lower equipment sales reflecting a temporary decline in Huawei smartphone sales
- Declining SI/IT revenue owing to high prior year base period and seasonality trends in public sector projects

## EBITDA



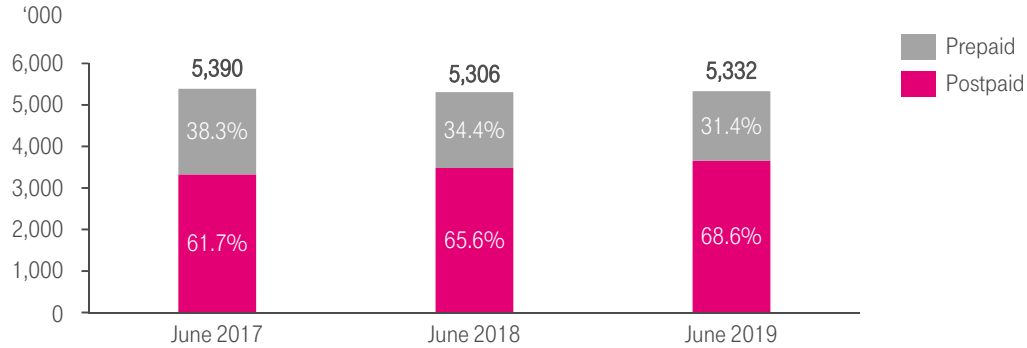
- Gross profit decline driven by lower SI/IT margin, mitigated by higher contribution from telecommunication services
- Lower net operating expense attributable to one-off items



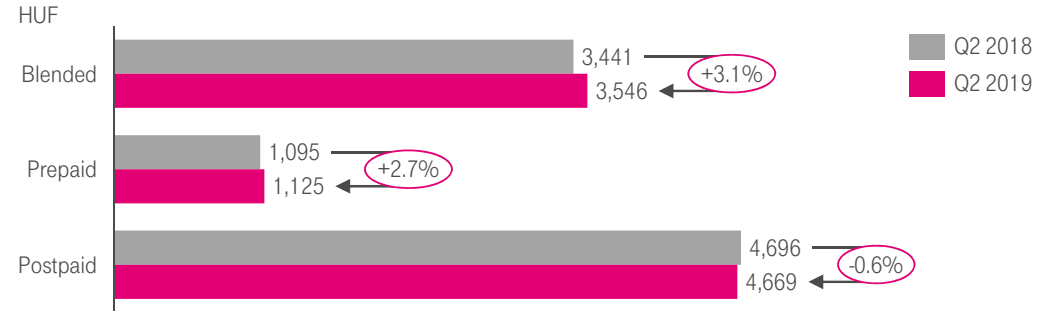
# HUNGARY - MOBILE



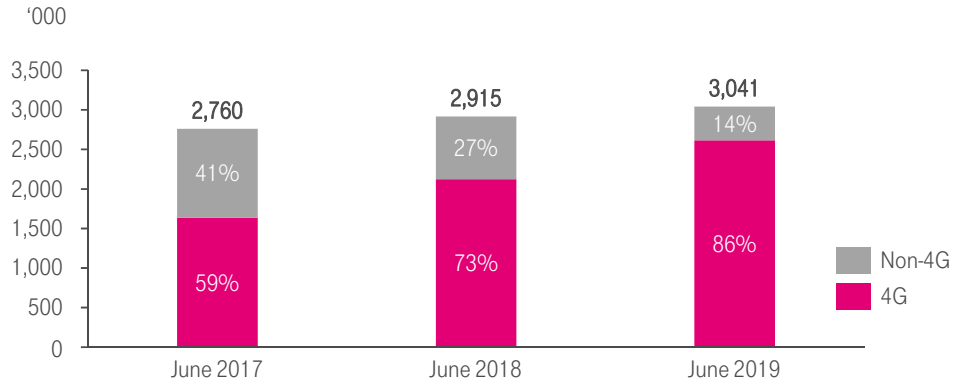
## Mobile SIMs



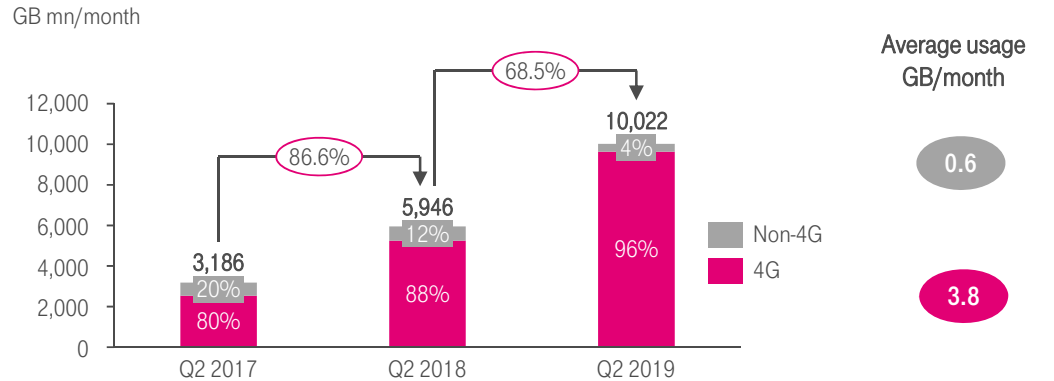
## Mobile ARPU



## Total mobile data subscribers



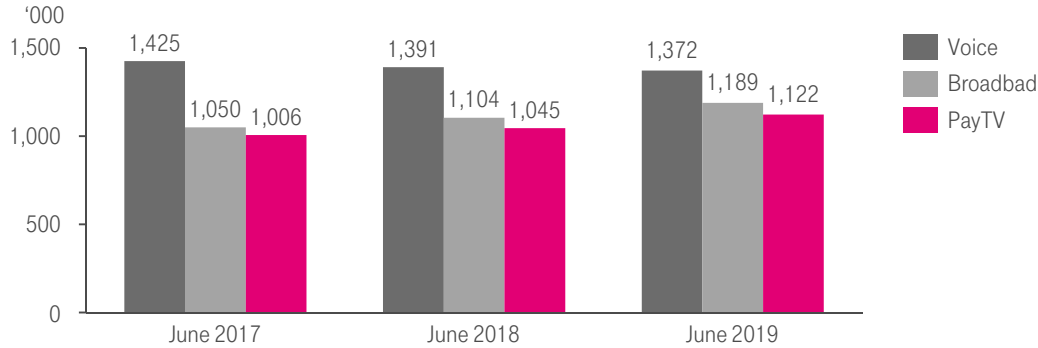
## Mobile broadband usage



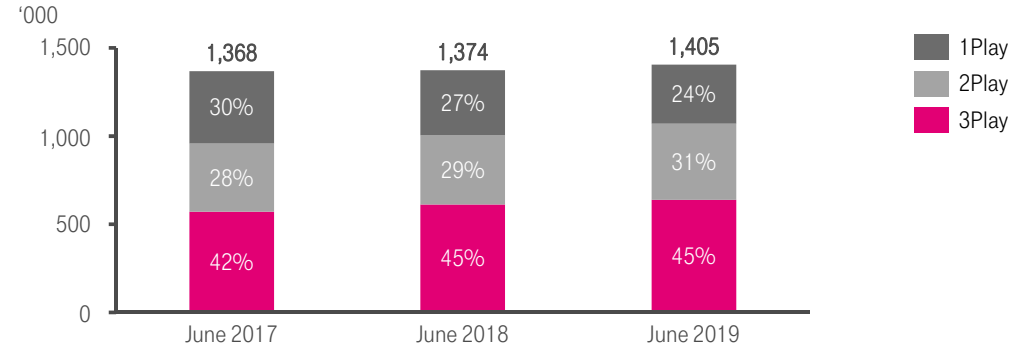
# HUNGARY – FIXED VOICE, BROADBAND AND TV



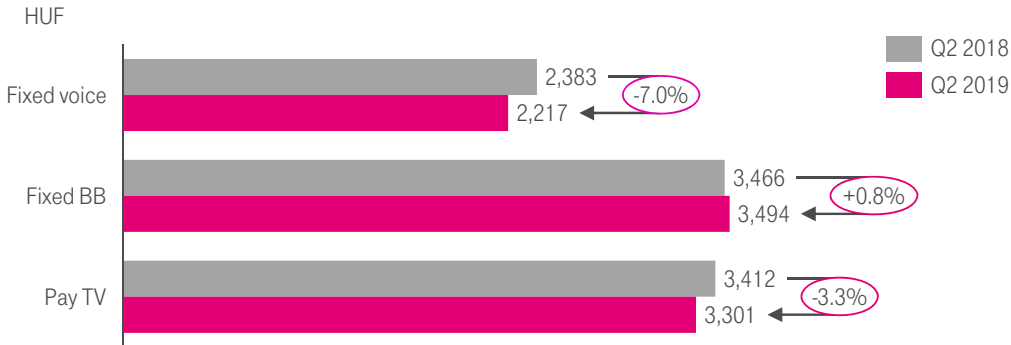
## Fixed line customer base



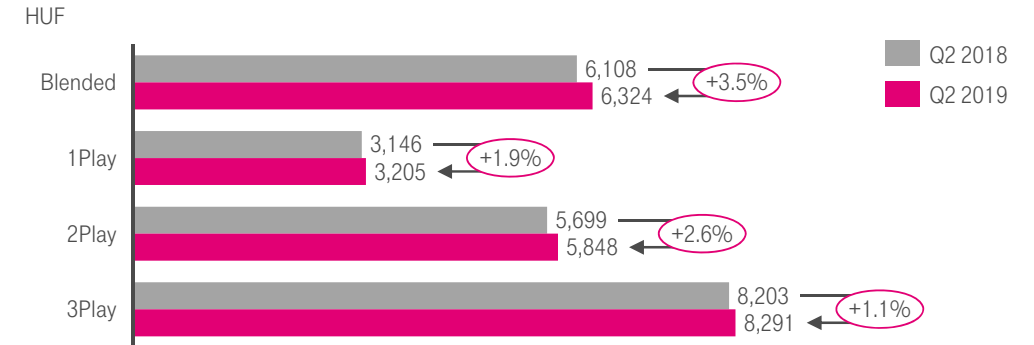
## Fixed line multiplay residential subscribers



## Fixed Voice, BB and TV ARPU



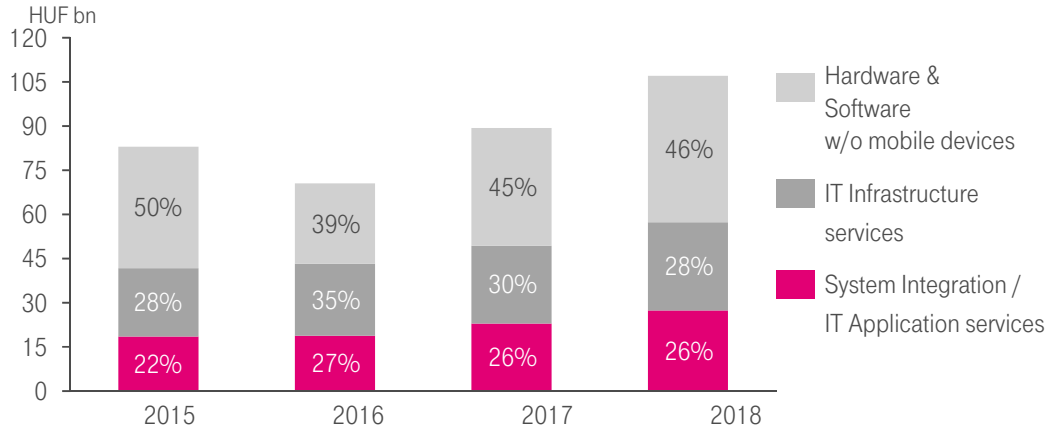
## Fixed line multiplay revenues per households



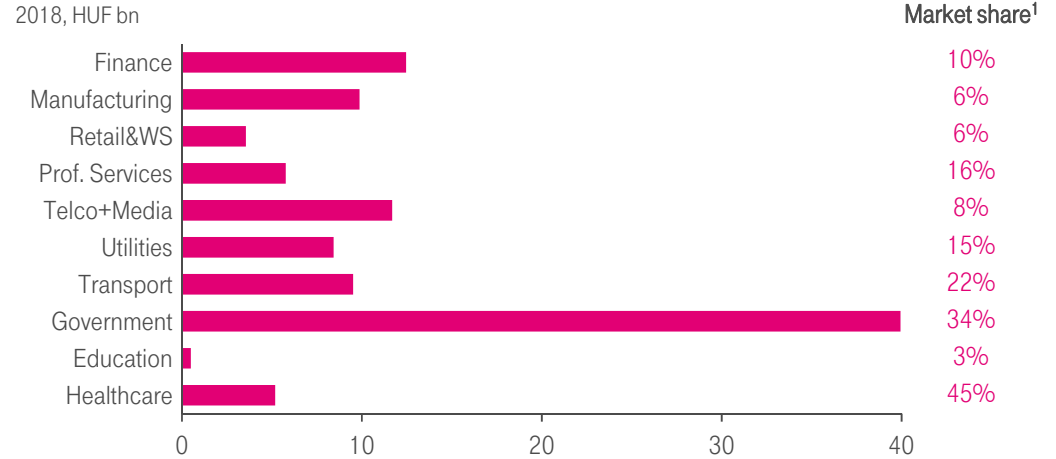
# HUNGARY – SI/IT



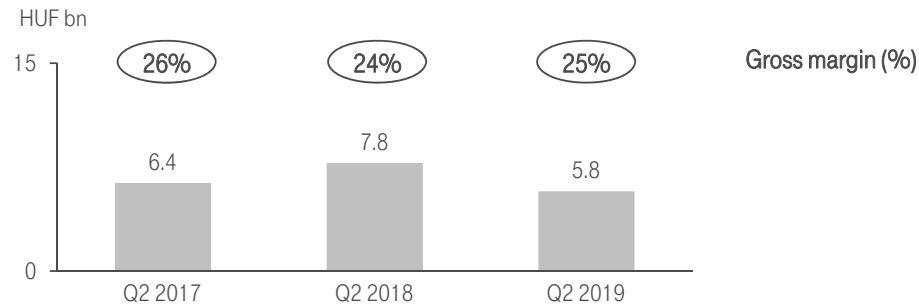
## SI/IT revenue trends



## SI/IT revenue breakdown by vertical segments<sup>1</sup>



## SI/IT gross profit of MT-Hungary



## Highlights

- Temporary year-on-year decline in revenues and gross profit due to:
  - unusually strong prior year base period (Q2 2018)
  - change in seasonality of public sector demand for SI/IT services vs 2018
- Stable gross profit margin

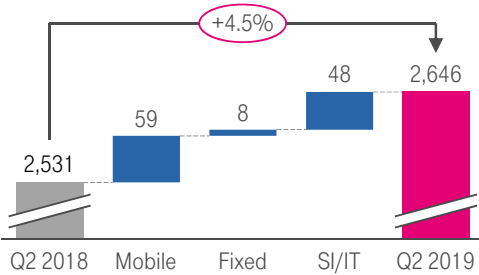


<sup>1</sup> Based on IDC Research 2018, market shares calculated based on 2018 revenues

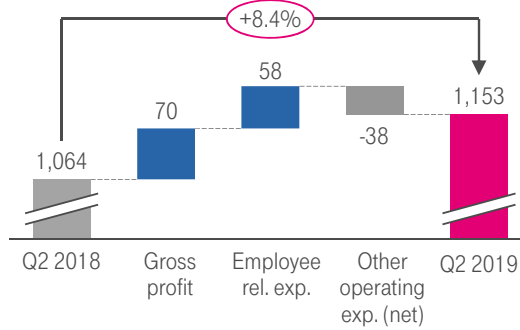
# NORTH MACEDONIA

## Financials

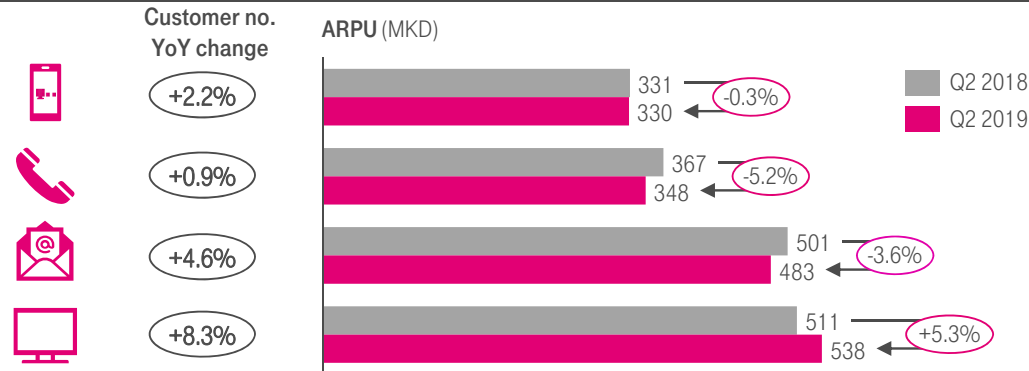
Revenues (MKD mn)



EBITDA excl. IFRS 16 effects (MKD mn)

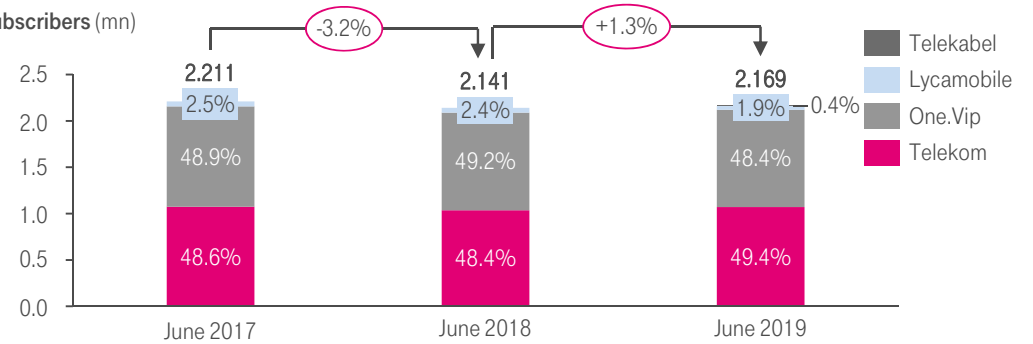


## KPIs (mobile/fixed voice/fixed BB/TV)



## Mobile market

Subscribers (mn)



## Highlights

- Continued growth in customer numbers
- Maintained leading market position
- Improving financial performance attributable to:
  - mobile data revenue growth
  - significant increase in SI/IT revenues
  - employee-related expense savings

## For further questions please contact the IR department:

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