

# **MAGYAR TELEKOM GROUP**

# **Q3 2017 RESULTS PRESENTATION**

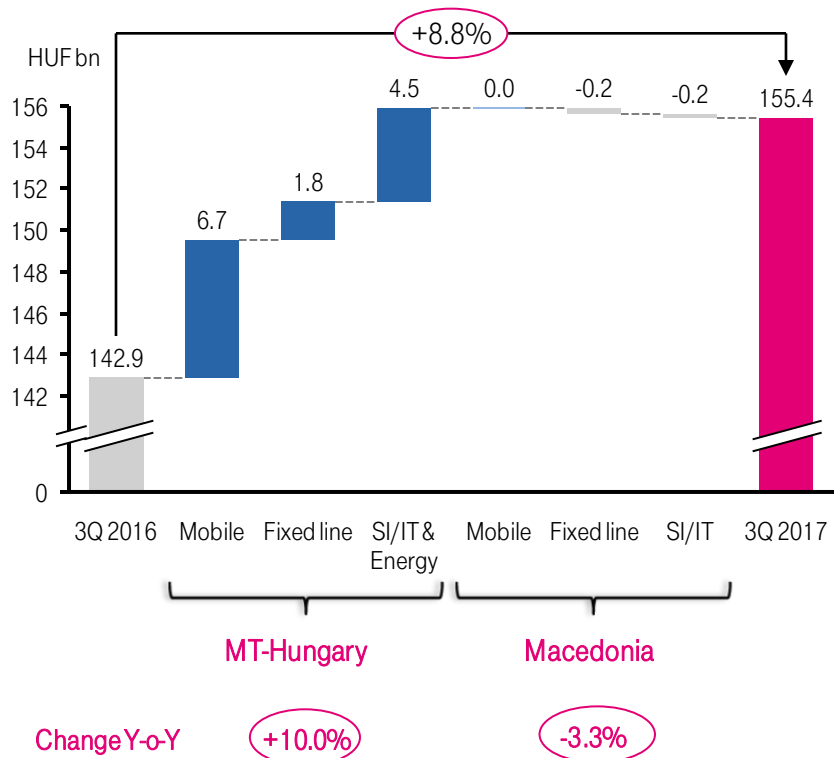
**NOVEMBER 8, 2017**



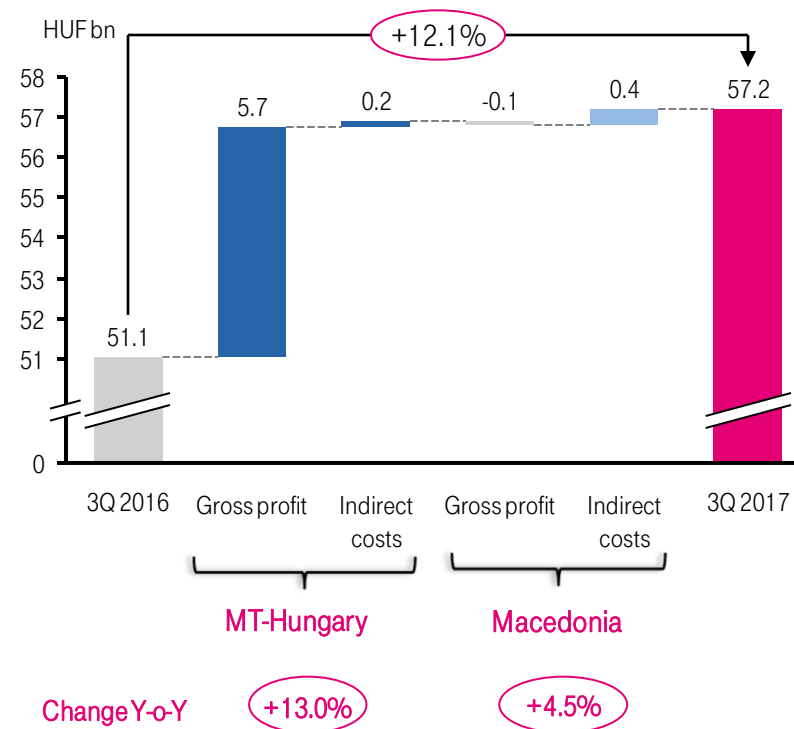
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# Q3 2017 GROUP SEGMENTAL REVENUE AND EBITDA

## Group segmental revenues



## Group segmental EBITDA



# HIGHLIGHTS

## MOBILE

- Launch of new postpaid tariff system in March drove demand for larger data packages
- Introduction of EU Roam Like Home legislation had limited revenue and EBITDA impacts thanks to increase in visitor data usage

## FIXED

- New broadband portfolio with increased download speed offering to enhance competitiveness and better exploit network capabilities
- Already ca. 80 thousand subscribers with 50% opting for packages with speeds of over 100Mbps package

## FMC

- Expanded flagship Magenta 1 offering with the ability to substitute fixed voice for mobile data
- Expansion of active FMC customer base; now stands at 11% of total households

## MACEDONIA

- Decline in revenues driven by intensifying competition and delay in SI/IT projects
- EBITDA improvement due to cost enhancing measures coupled with temporary savings in marketing

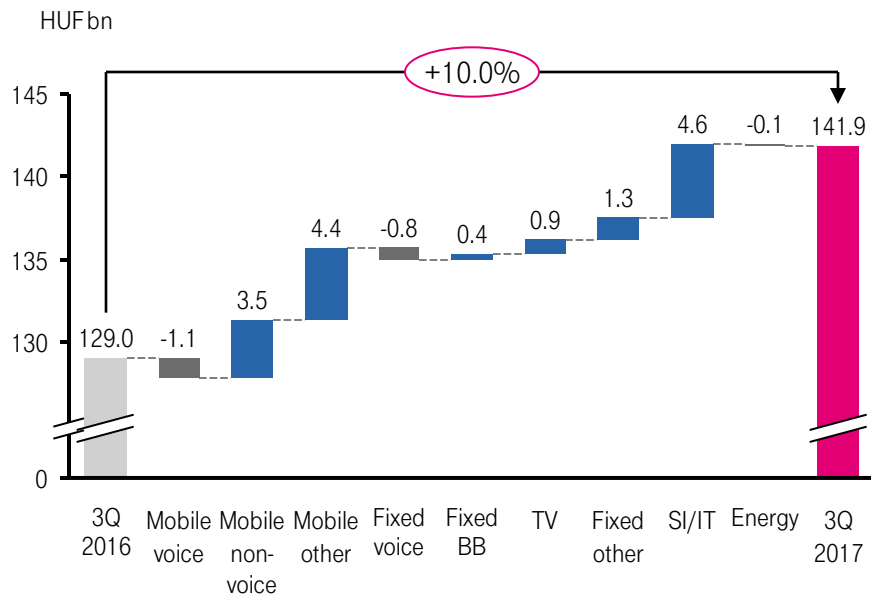
# 9M 2017 FINANCIAL RESULTS AND 2017 TARGETS\*

		9M 2017 RESULTS	2017 TARGETS
<b>REVENUE</b>	<ul style="list-style-type: none"> <li>Continued growth in mobile service revenue</li> <li>Higher Hungarian SI/IT revenues driven by uptick in EU fund inflows</li> <li>One-off project boosted fixed line data revenue</li> </ul>	HUF 449.4 bn	around HUF 580 bn
<b>EBITDA</b>	<ul style="list-style-type: none"> <li>One-off impacts (provision reversal due to ceased loyalty program, real-estate sales, strong visitor revenues) supported Q3 performance</li> <li>Continued focus on cost optimization</li> </ul>	HUF 143.4 bn	around HUF 182 bn
<b>CAPEX</b>	<ul style="list-style-type: none"> <li>Balanced distribution of investments throughout the year</li> <li>Increased spending on fixed customer connections</li> <li>Savings on efficiency projects concluded (e.g. PSTN migration)</li> </ul>	HUF 56.6 bn	around HUF 85 bn
<b>FCF</b>	<ul style="list-style-type: none"> <li>Significant deterioration in assets carried as working capital</li> <li>Cable acquisitions weighed on investing CF performance</li> <li>Absence of one-off profit items (Building and Origo sale in Q1 2016)</li> </ul>	HUF 27.4 bn	around HUF 55 bn



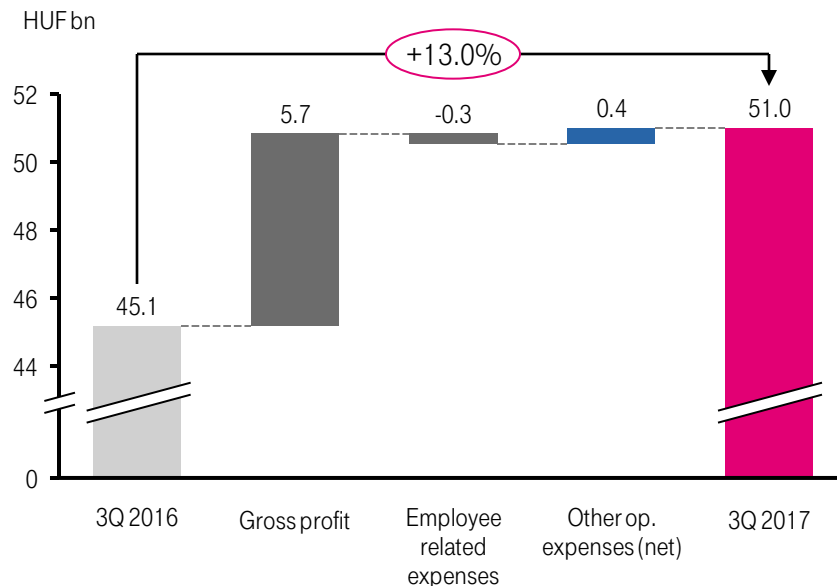
# HUNGARY

## Revenue\*



- Mobile revenue increase driven by growth in mobile data usage, equipment sales and visitor revenues
- Fixed line revenue rose thanks to higher TV and equipment sales and increase in data revenue
- Significant increase in SI/IT revenue driven by EU fund-inflows

## EBITDA

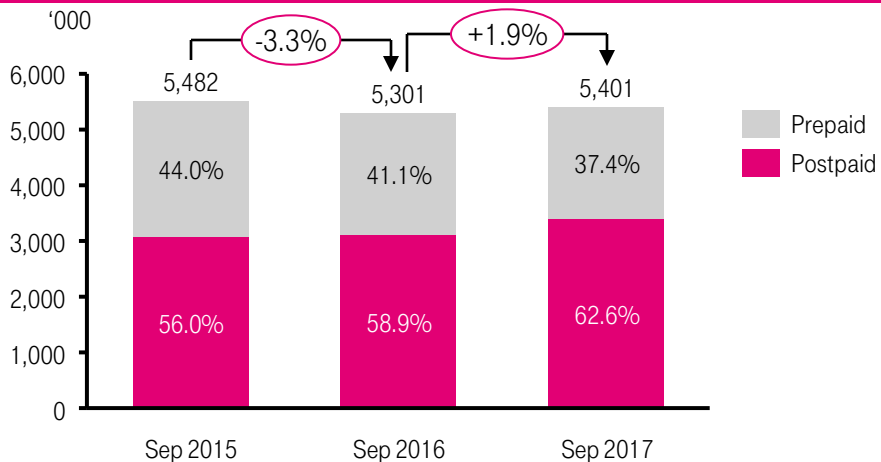


- Gross profit increase due to more balanced revenue structure and one-off provision reversal related to the ceased loyalty program
- Higher employee related expenses due to increased headcount
- Real estate sales led to increased other operating income

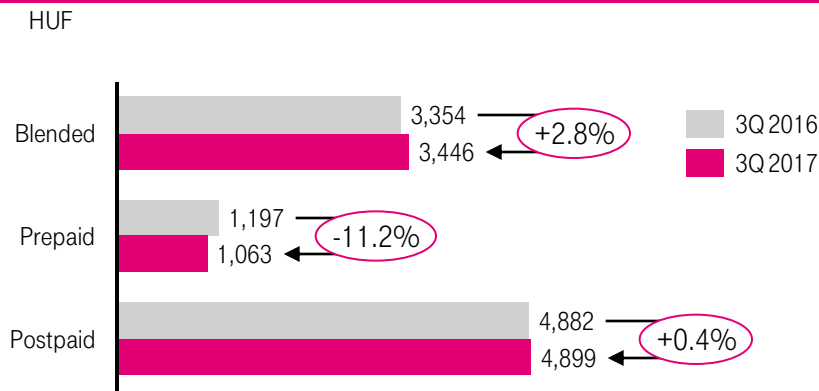
# HUNGARY - MOBILE



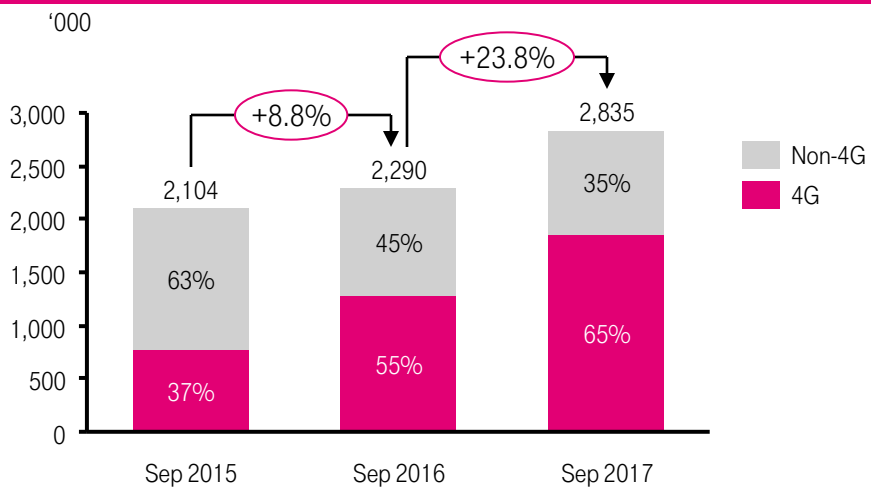
## Mobile SIMs



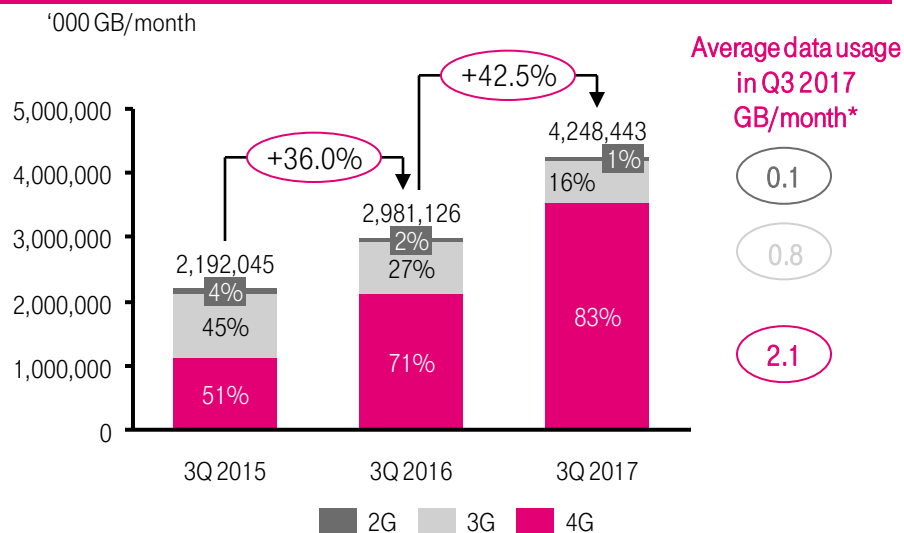
## Mobile ARPU



## Total mobile data subscriber development



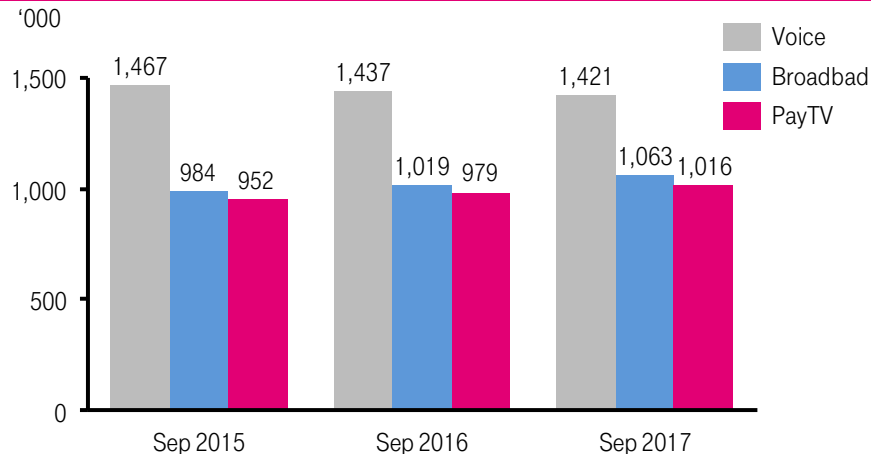
## Mobile broadband usage developments



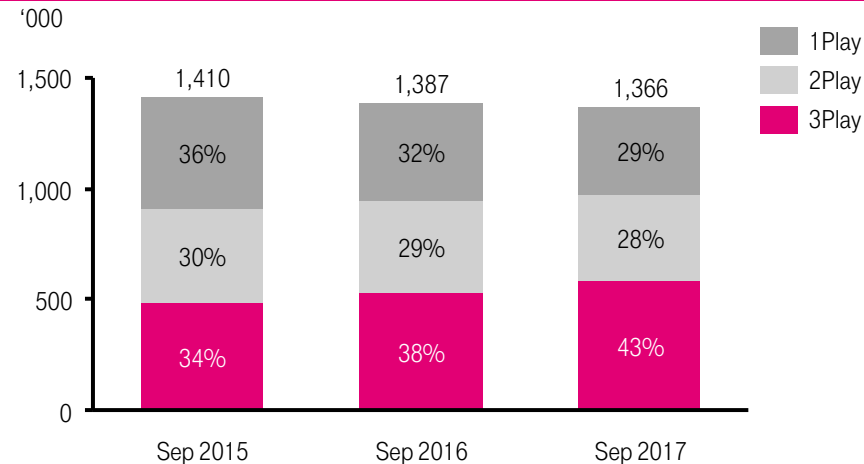
# HUNGARY – FIXED VOICE, BROADBAND AND TV



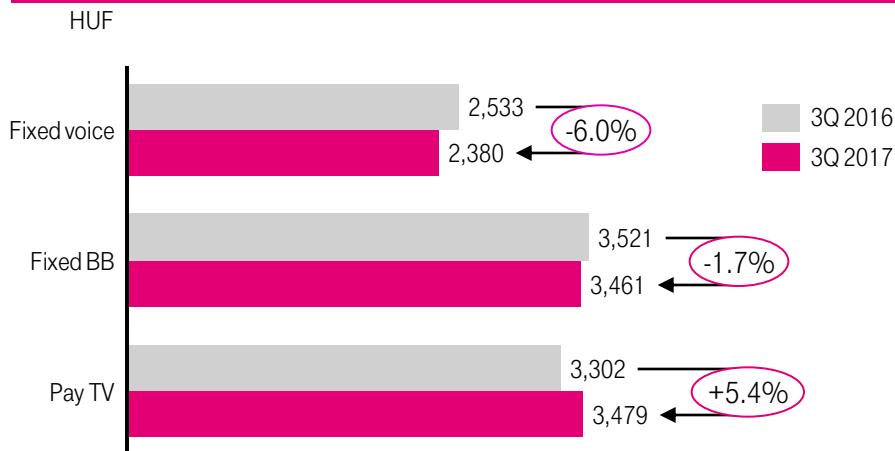
## Fixed line customer number development



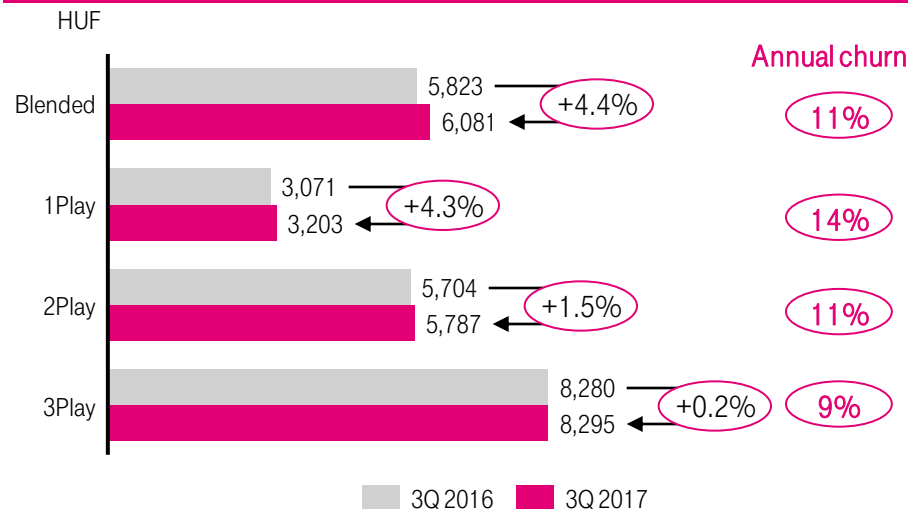
## Fixed line multiplay residential subs. development



## Fixed Voice, BB and TV ARPU developments

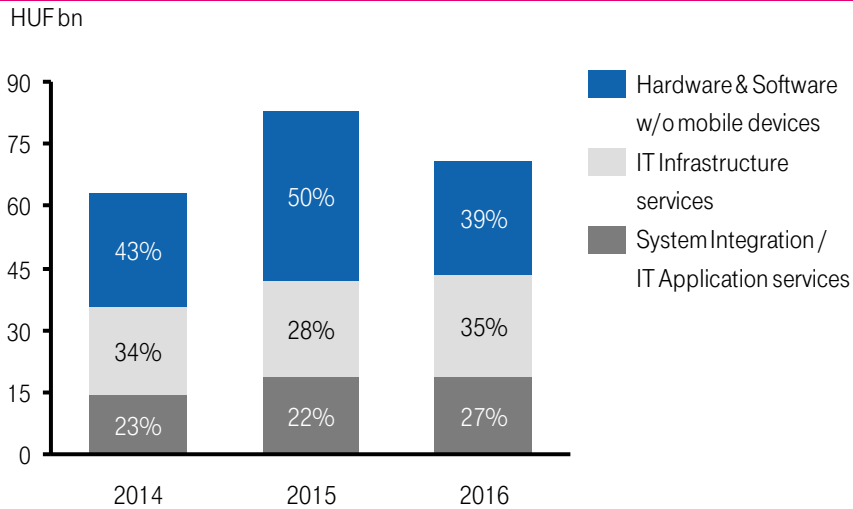


## Fixed line multiplay residential ARPU developments

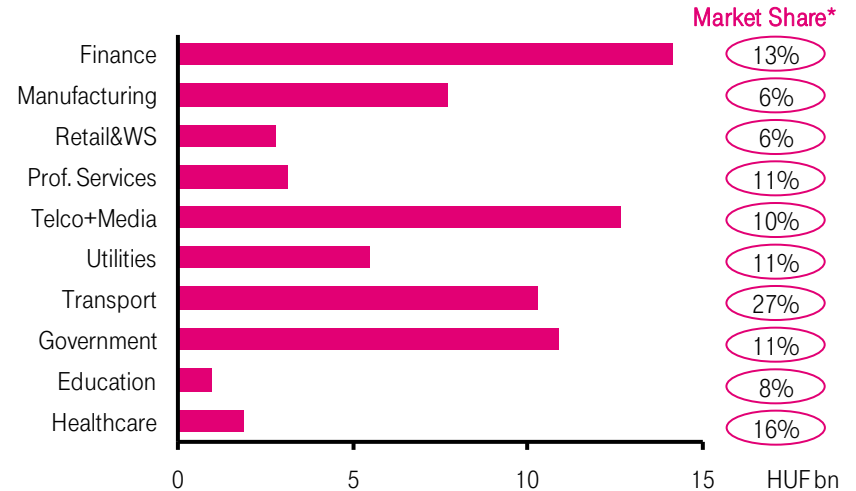


# HUNGARY - SI/IT

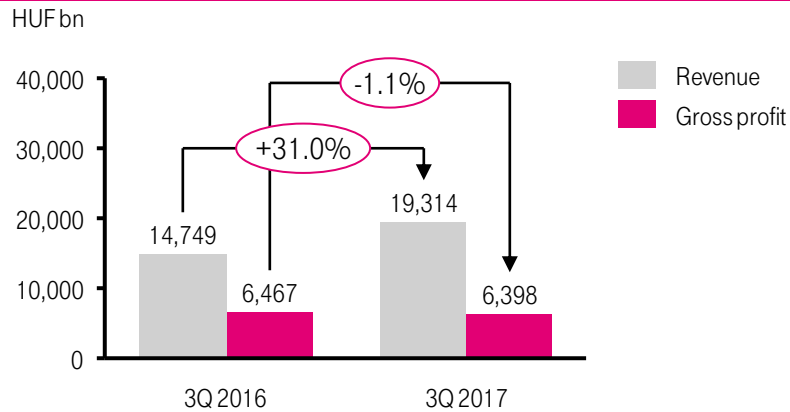
## SI/IT revenue developments



## SI/IT revenue breakdown by vertical segments\*



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



Gross margin 44%

33%

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## Highlights

- Strong increase in SI/IT revenues in 2017 as a result of increased EU fund inflows
- EU funded projects are hardware and software focused and relatively low margin
- Infrastructure delivery projects serve as starting point for developing long term customer relationships and as a foundation for IT service contracts
- Q3 2017 revenue increase driven mainly by public sector infrastructure delivery projects

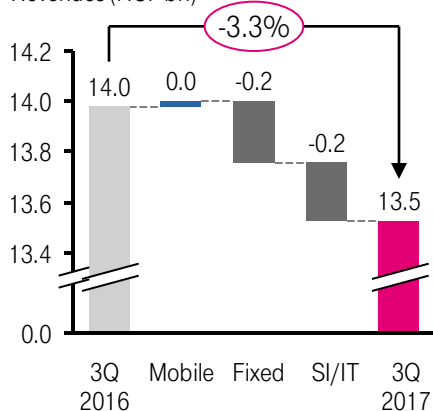
\*Based on IDC Research 2016, market shares based on revenues



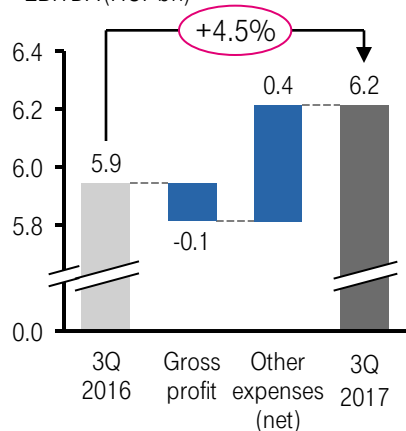
# MACEDONIA

## Financials

Revenues (HUF bn)

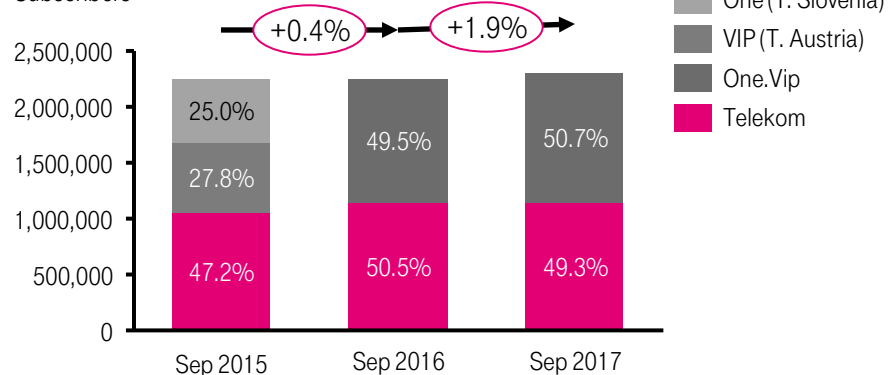


EBITDA (HUF bn)

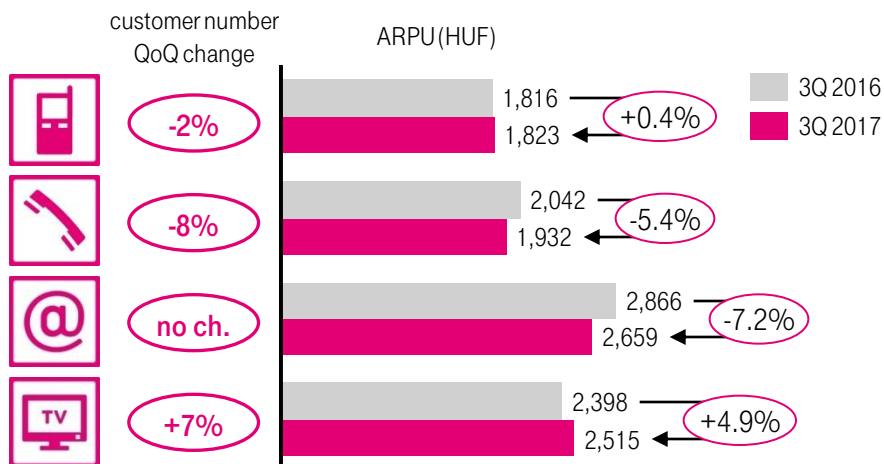


## Mobile market

Subscribers



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



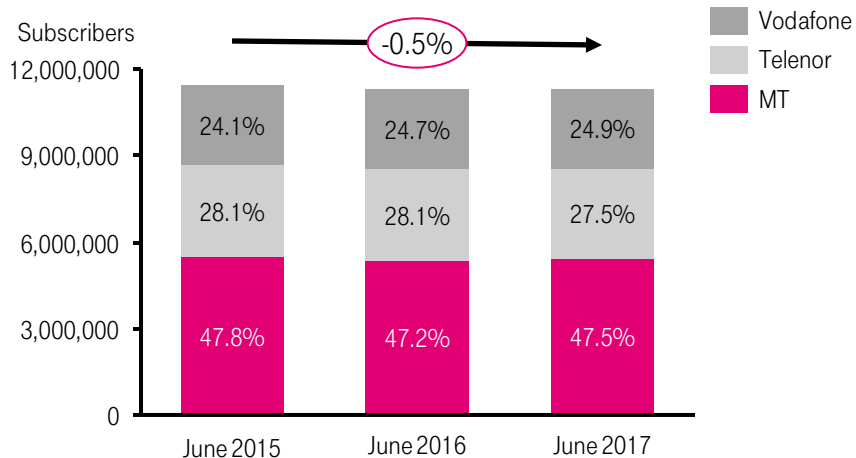
## Highlights

- Increase in mobile data revenues offset by 30% cut in the mobile termination rate, which took effect in December 2016
- Increased competition in the mobile segment put pressure on ARPU levels
- Strong TV revenue growth mitigates competition induced revenue pressure in fixed voice and broadband
- Temporary SI/IT revenue pressure due to delayed projects
- EBITDA improvement due to cost enhancing measures coupled with temporary savings in marketing

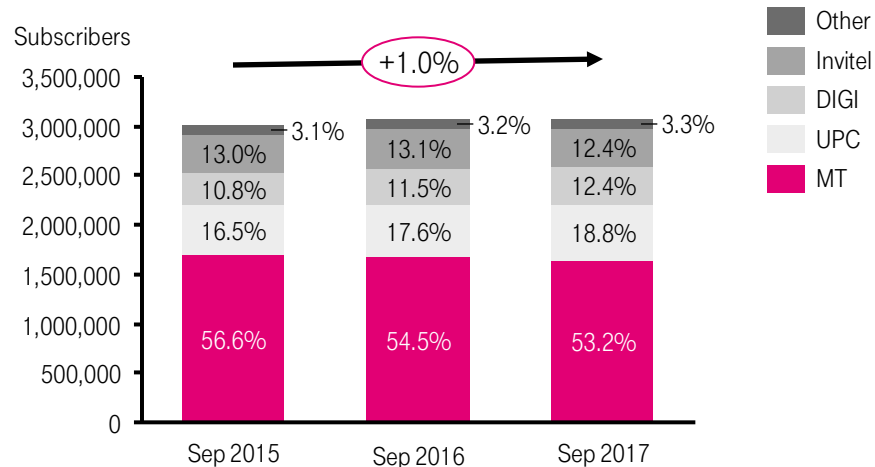
# APPENDIX

# MARKET POSITIONS IN THE HUNGARIAN TELCO MARKET

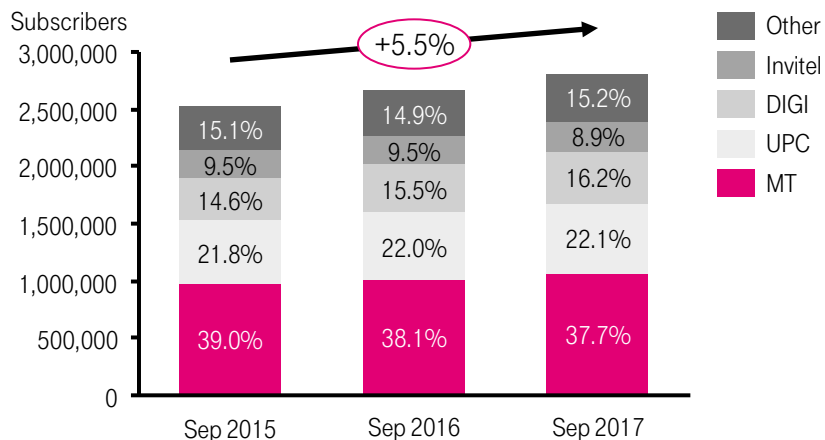
## Total mobile market\*



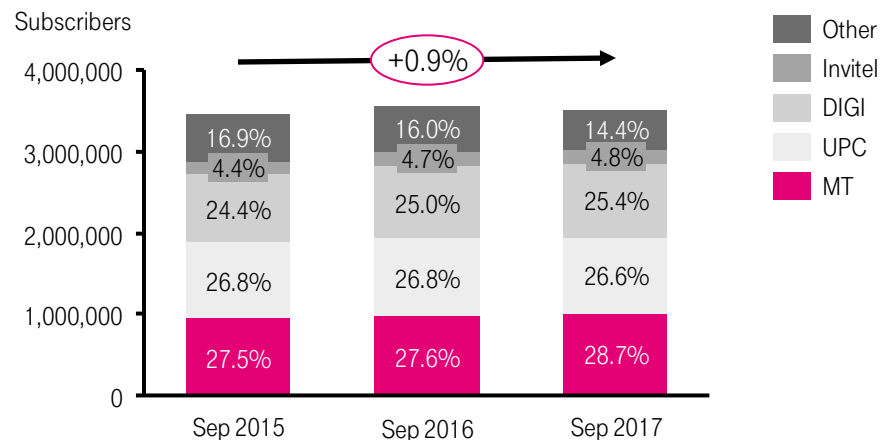
## Fixed voice market\*\*



## 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)

# MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q3 2016	Q3 2017	Change
Mobile revenues	78,810	85,531	8.5%
Fixed line revenues	47,336	48,913	3.3%
System Integration/Information Technology revenues	15,260	19,590	28.4%
Revenue from energy services	1,459	1,347	-7.7%
<b>Revenues</b>	<b>142,865</b>	<b>155,381</b>	<b>8.8%</b>
Direct costs	(51,129)	(58,067)	-13.6%
Employee-related expenses	(18,418)	(18,643)	-1.2%
Utility tax	0	0	n.a.
Depreciation and amortization	(28,320)	(27,041)	4.5%
Other operating expenses	(22,872)	(23,646)	-3.4%
<b>Total operating expenses</b>	<b>(120,739)</b>	<b>(127,397)</b>	<b>-5.5%</b>
Other operating income	611	2,187	257.9%
<b>Operating profit</b>	<b>22,737</b>	<b>30,171</b>	<b>32.7%</b>
Net financial results	(6,829)	(5,396)	21.0%
Share of associates' profits	(32)	(123)	n.m.
<b>Profit before income tax</b>	<b>15,876</b>	<b>24,652</b>	<b>55.3%</b>
Income tax expense	(3,282)	(5,311)	-61.8%
<b>Profit for the period from continuing operations</b>	<b>12,594</b>	<b>19,341</b>	<b>53.6%</b>
Profit from discontinued operation	1,047	0	n.m.
<b>Total profit for the period</b>	<b>13,641</b>	<b>19,341</b>	<b>41.8%</b>



# MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	Dec 31, 2016	Sep 30, 2017	Change
<b>Current assets</b>	<b>193,978</b>	<b>181,670</b>	<b>-6.3%</b>
Cash and cash equivalents	10,805	6,294	-41.7%
Other current financial assets	5,104	2,195	-57.0%
<b>Non current assets</b>	<b>981,551</b>	<b>919,836</b>	<b>-6.3%</b>
Property, plant and equipment - net	483,174	456,532	-5.5%
Intangible assets	260,165	229,544	-11.8%
<b>Total assets</b>	<b>1,175,529</b>	<b>1,101,506</b>	<b>-6.3%</b>
<b>Equity</b>	<b>581,333</b>	<b>575,527</b>	<b>-1.0%</b>
<b>Current liabilities</b>	<b>277,561</b>	<b>209,138</b>	<b>-24.7%</b>
Financial liabilities to related parties	72,589	48,496	-33.2%
Other financial liabilities	22,600	9,036	-60.0%
<b>Non current liabilities</b>	<b>316,635</b>	<b>316,841</b>	<b>0.1%</b>
Financial liabilities to related parties	247,179	247,480	0.1%
Other financial liabilities	50,098	47,202	-5.8%
<b>Total equity and liabilities</b>	<b>1,175,529</b>	<b>1,101,506</b>	<b>-6.3%</b>



# MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	Sep 30, 2016	Sep 30, 2017	Change
<b>Net cash generated from operating activities</b>	<b>100,759</b>	<b>95,536</b>	<b>-5.2%</b>
Investments in tangible and intangible assets	(55,700)	(56,595)	-1.6%
Adjustments to cash purchases	(12,736)	(4,591)	64.0%
Purchase of subsidiaries and business units	(34)	(3,785)	n.m.
Cash acquired through business combinations	0	475	n.a.
Payments for / proceeds from other financial assets - net	446	(23)	n.m.
Proceeds from disposal of subsidiaries	3,484	1	n.m.
Proceeds from disposal of PPE and intangible assets	8,513	2,432	-71.4%
Payments for interests in associates and joint ventures	0	0	n.a.
<b>Net cash used in investing activities</b>	<b>(56,027)</b>	<b>(62,086)</b>	<b>-10.8%</b>
Dividends paid to shareholders and minority interest	(21,351)	(29,375)	-37.6%
Net payments of loans and other borrowings	(23,317)	(39,019)	-67.3%
Repayment of other financial liabilities	(5,742)	(6,052)	-5.4%
Repurchase of treasury shares	(559)	(1,826)	-226.7%
<b>Net cash used in financing activities</b>	<b>(50,969)</b>	<b>(76,272)</b>	<b>-49.6%</b>
<b>Free cash flow from continuing operation</b>	<b>38,544</b>	<b>27,421</b>	<b>-28.9%</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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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, 2016 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](http://www.telekom.hu/investor_relations).



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