

# MAGYAR TELEKOM GROUP INVESTOR PRESENTATION

November 2018



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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>.

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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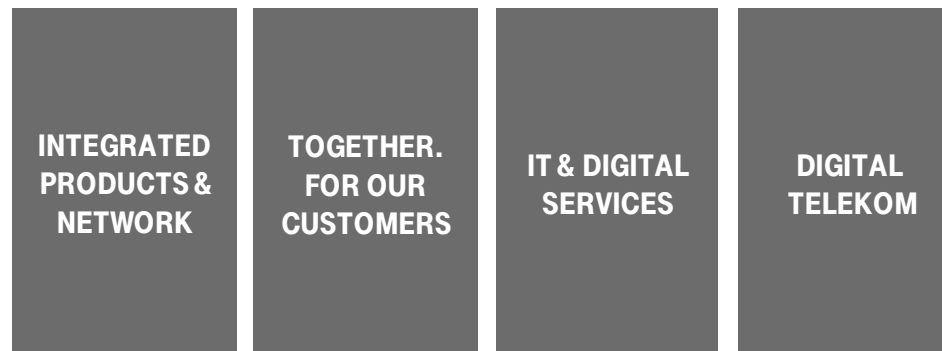
# STRATEGY AND MARKET POSITION

# 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 1.3bn market capitalization<sup>2</sup>
- Stock exchange listings
  - Primary listing on Budapest Stock Exchange
  - Level I ADR program, ADSs traded on the OTC Market

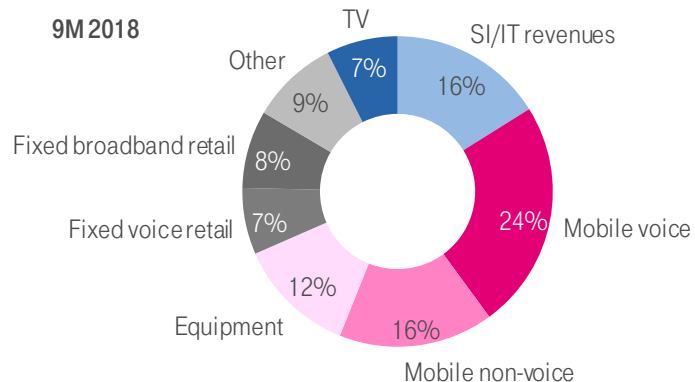
## Strategic pillars



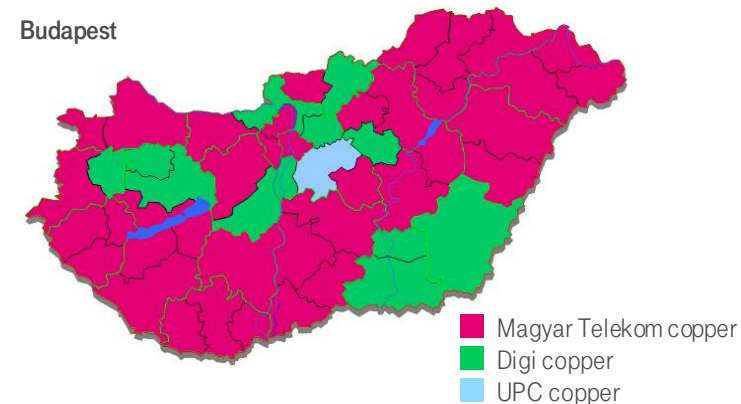
## Main services offered

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

## Revenue composition



## Incumbents in Hungary



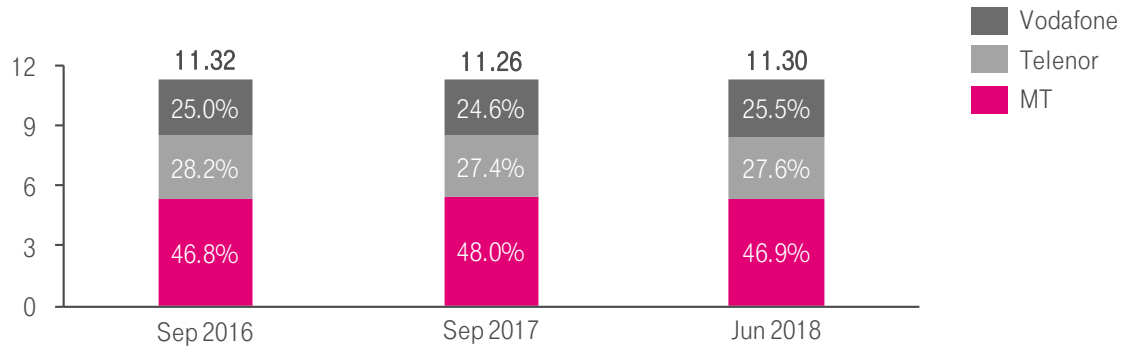
<sup>1</sup> As announced on January 10, 2017, Magyar Telekom disposed of its majority stake in Crnogorski Telekom. The transaction closed at the end-January 2017

<sup>2</sup> As of November 7, 2018

# HUNGARIAN TELCO MARKET POSITIONS

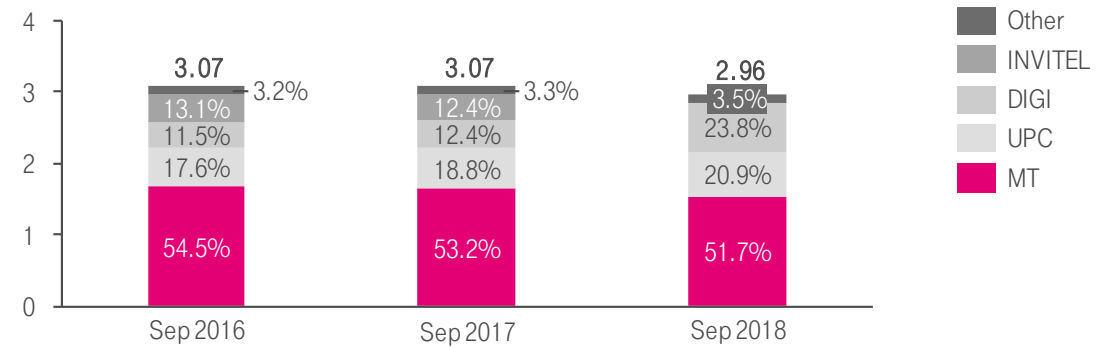
## Total mobile market<sup>1</sup>

Subscribers (mn)



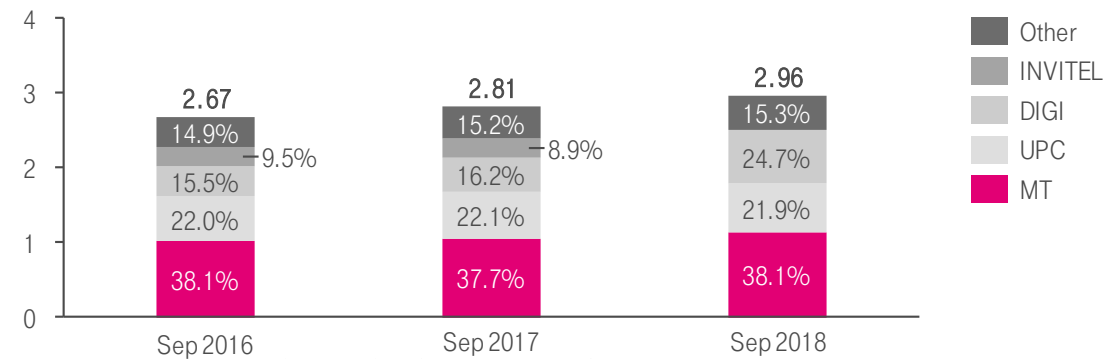
## Fixed voice market<sup>2</sup>

Subscribers (mn)



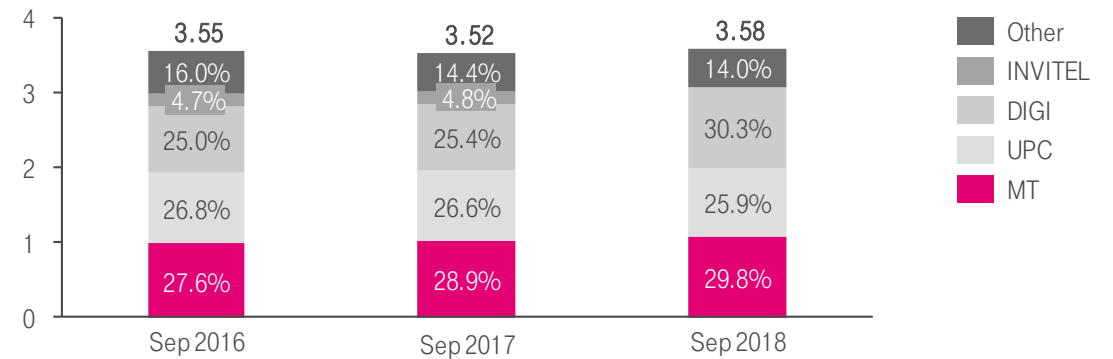
## Fixed broadband market<sup>2</sup>

Subscribers (mn)



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

Subscribers (mn)



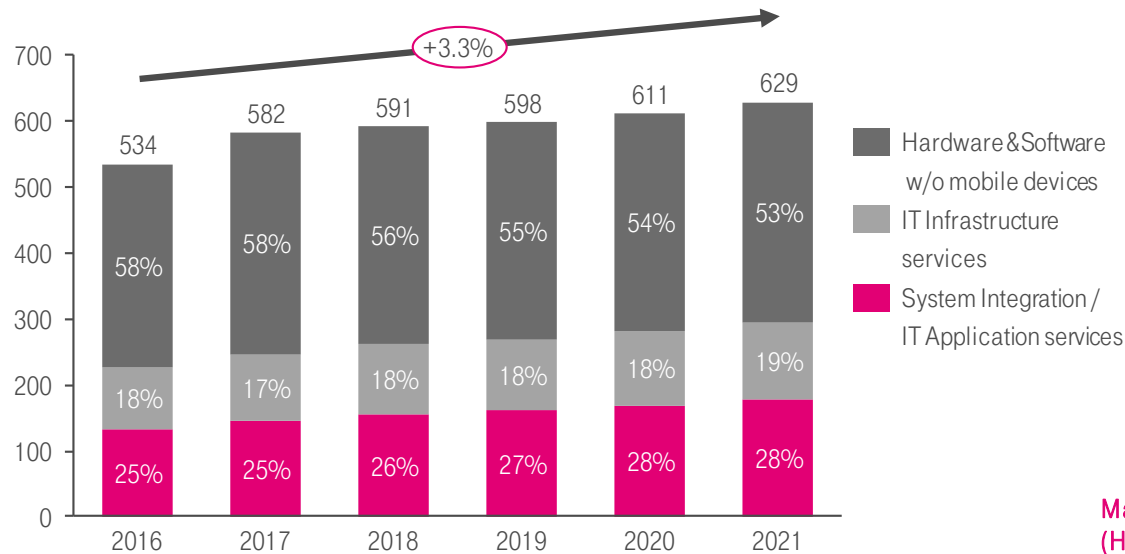
<sup>1</sup> Based on internal calculations from Vodafone Group and Telenor Group reports

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

# IT MARKET IN HUNGARY: 2016-2021

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

HUF bn



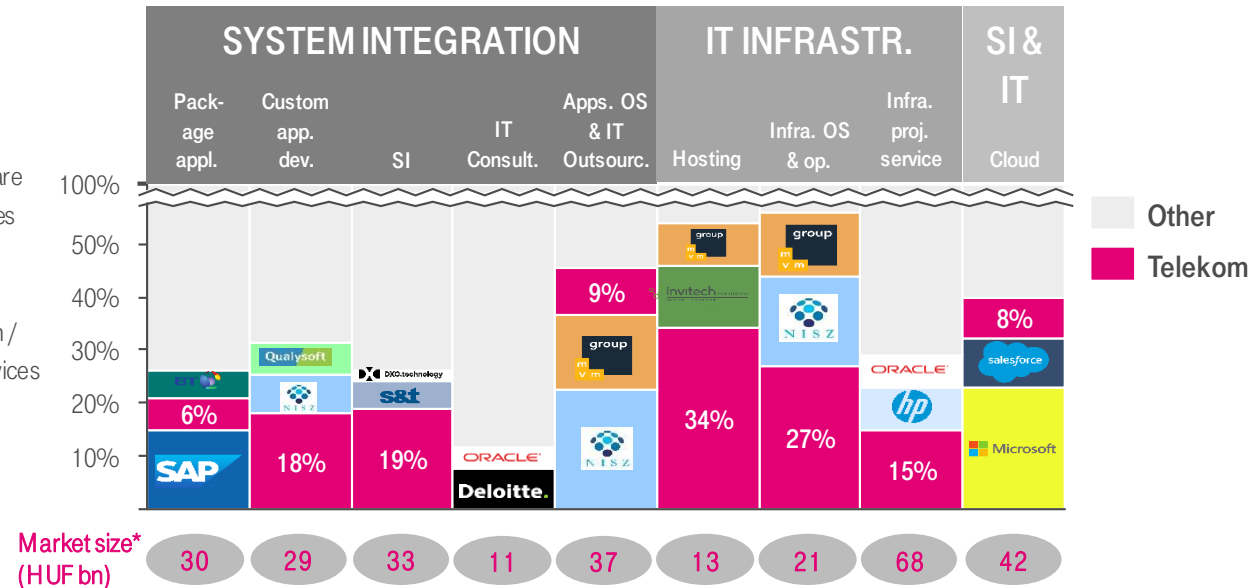
- Magyar Telekom is the only fully integrated ICT company in Hungary
- Total IT market expected to grow by 5,0% over the next 5 years
- Until 2020-21 EU fund inflows are a major driver of IT spending in Hungary
- Magyar Telekom's total revenue based IT market share is ca. 12%<sup>2</sup>

<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 2017 facts); market size calculated by demand side, while market shares by supply side data

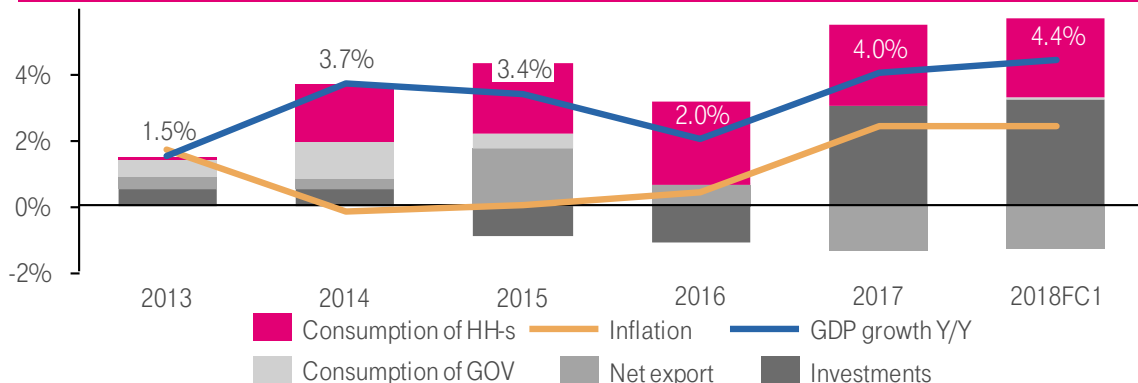
## IT Services market shares (by revenue)<sup>3</sup>



- 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 15.1% market share in the IT Services market (ca. 12% total IT market including HW&SW)

# HUNGARIAN ECONOMIC ENVIRONMENT

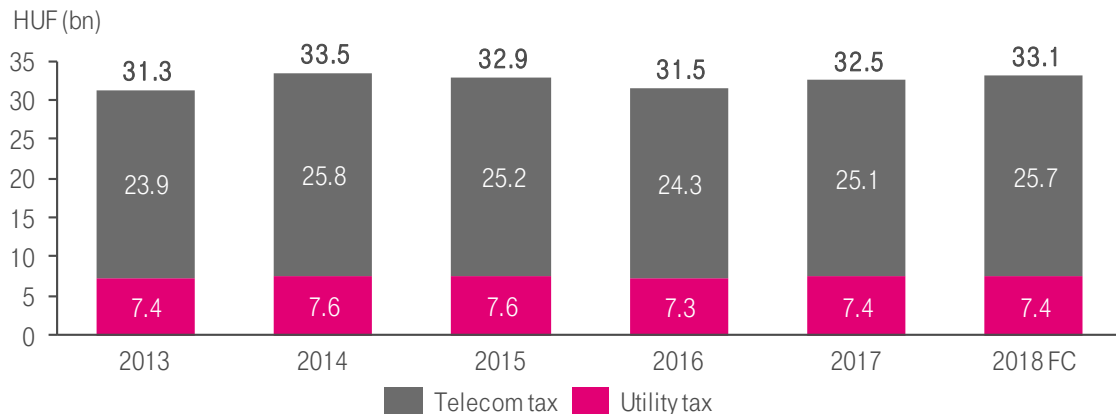
## Growth structure



## 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

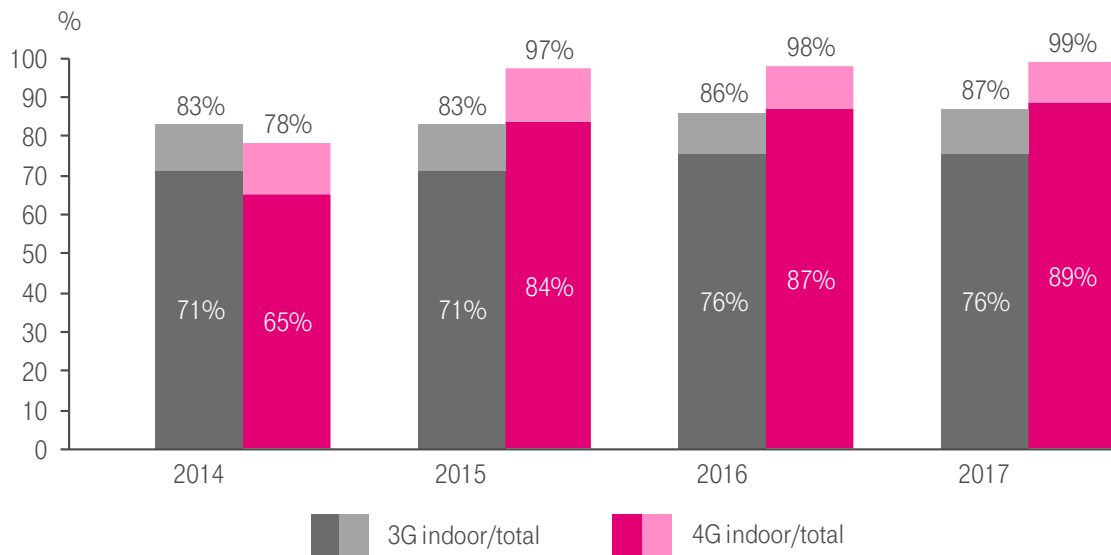
- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012 and increased in August 2013
- Permanent tax on utility and telecom networks levied in 2013, 5-year tax holiday on new networks > 100Mbps since 2016

1 Central Bank September 2018 forecasts



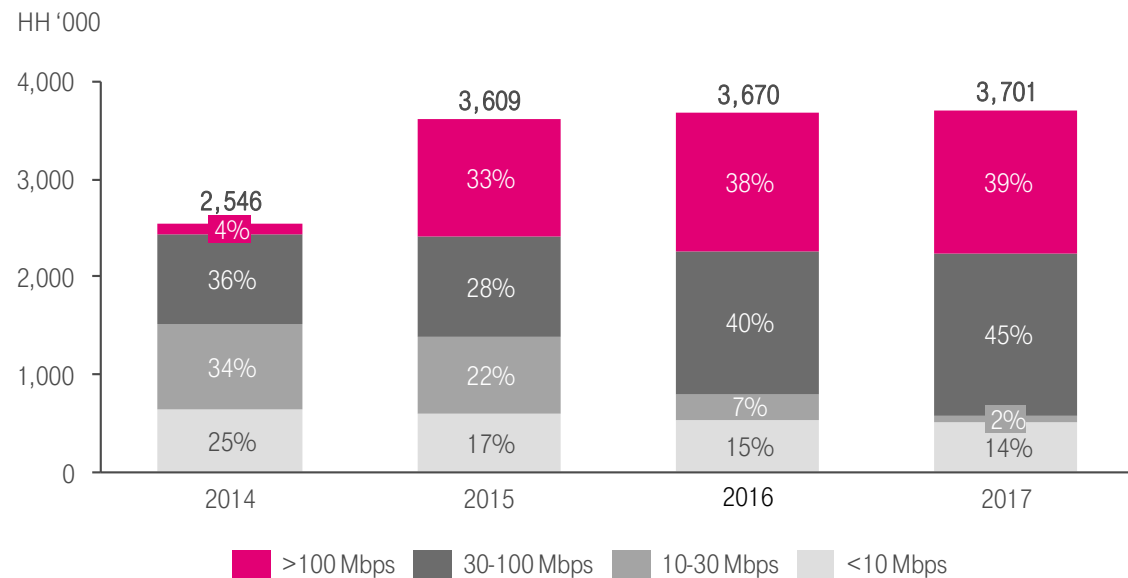
# NETWORK DEVELOPMENTS IN HUNGARY

## 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)

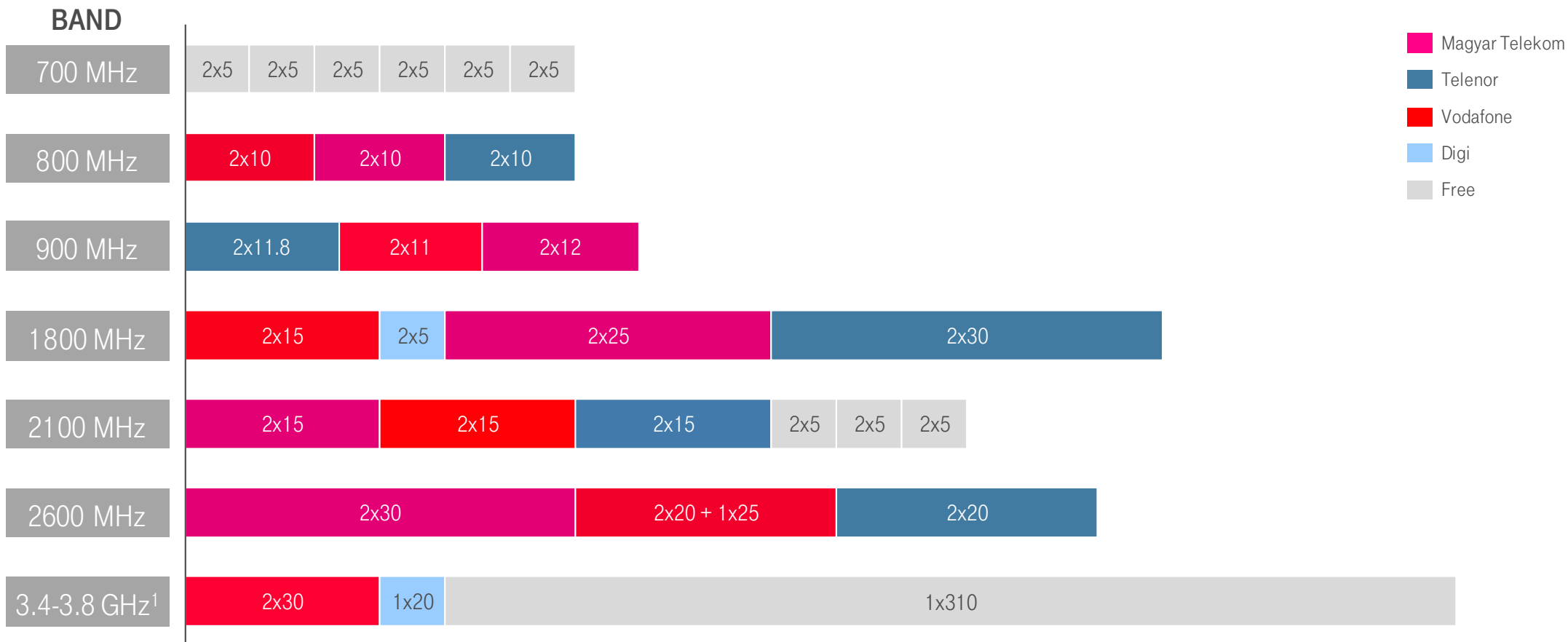
## Fixed network (households covered)



- Ca. 3.0 million households across the country covered by High Speed Internet (HSI) access
  - FTTx (0.8mn HHs) – ongoing countrywide roll-out
  - Cable (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

## Current spectrum allocation (MHz)



<sup>1</sup> TDD band



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# 2018 GUIDANCE AND DIVIDEND

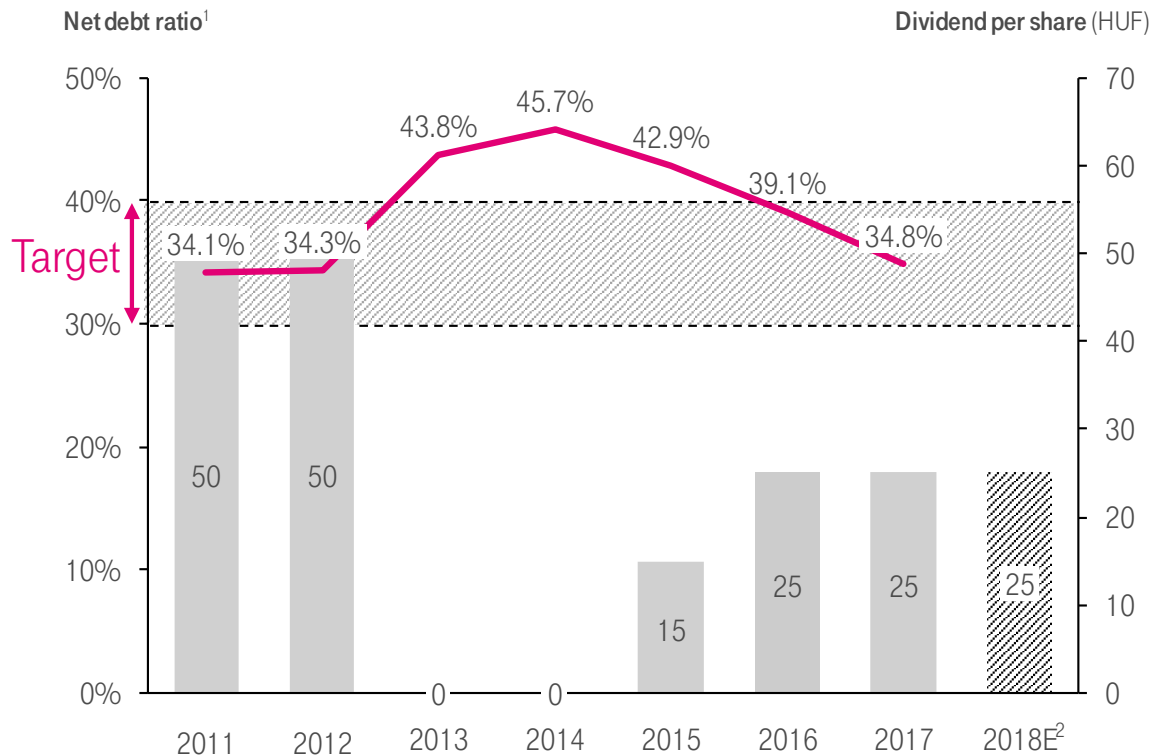
# 9M 2018 RESULTS AND 2018 FINANCIAL TARGETS

		9M 2018 Results <i>(change y-o-y)</i>	Target 2018
<b>REVENUE</b>	<ul style="list-style-type: none"> <li>Strong growth in SI/IT revenue and equipment sales</li> <li>Positive service revenue trends</li> </ul>	HUF 482 bn <i>(+7.2%)</i>	around HUF 630 bn
<b>EBITDA</b>	<ul style="list-style-type: none"> <li>Strong revenue growth outweighs margin dilution from changing revenue mix</li> <li>Improvements in indirect costs driven by optimization measures</li> </ul>	HUF 145.8 bn <i>(+1.7%)</i>	around HUF 190 bn
<b>CAPEX</b>	<ul style="list-style-type: none"> <li>Different timing of investments vs 9M2017</li> <li>Reduced spending on 4G and fiber rollout</li> </ul>	HUF 51.8 bn <i>(-8.8%)</i>	around HUF 90 bn
<b>FCF</b>	<ul style="list-style-type: none"> <li>Improved thanks to higher EBITDA and lower CAPEX</li> <li>Negative changes in working capital due to higher receivable balances and increased supplier outpayments vs 9M 2017</li> </ul>	HUF 28.6 bn <i>(+4.2%)</i>	around HUF 60 bn



# DIVIDEND POLICY

## Dividend payment and net debt ratio developments



## Highlights

- Aiming to maintain net debt ratio (net debt/total capital) 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<sup>2</sup>

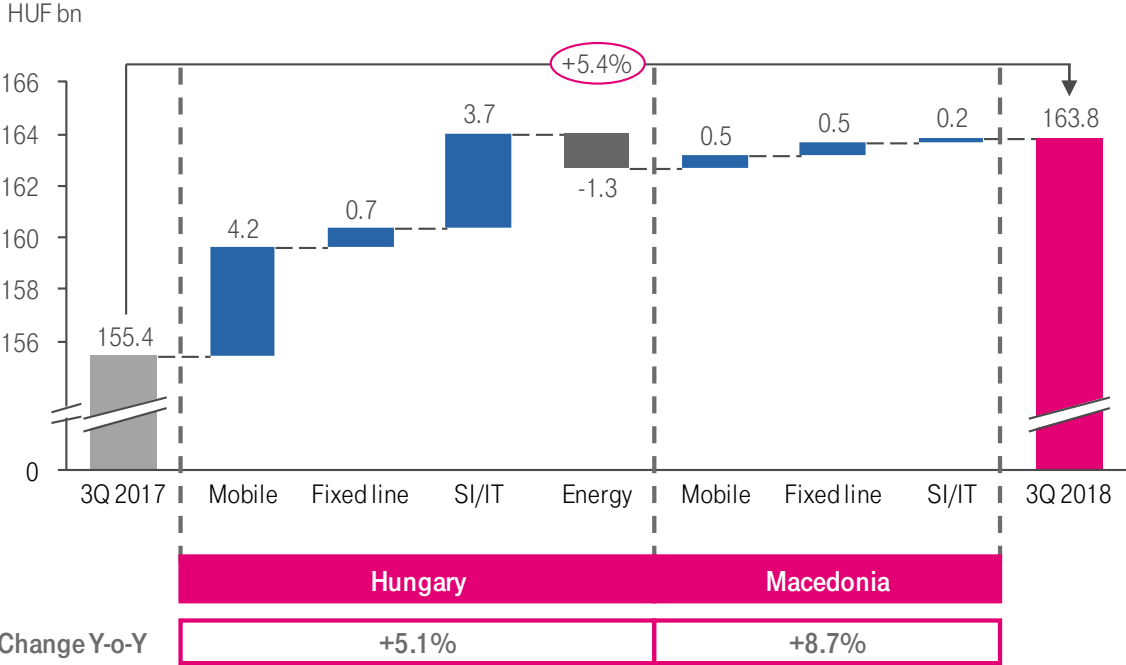
<sup>1</sup> Defined as net debt / total capital.

<sup>2</sup> 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

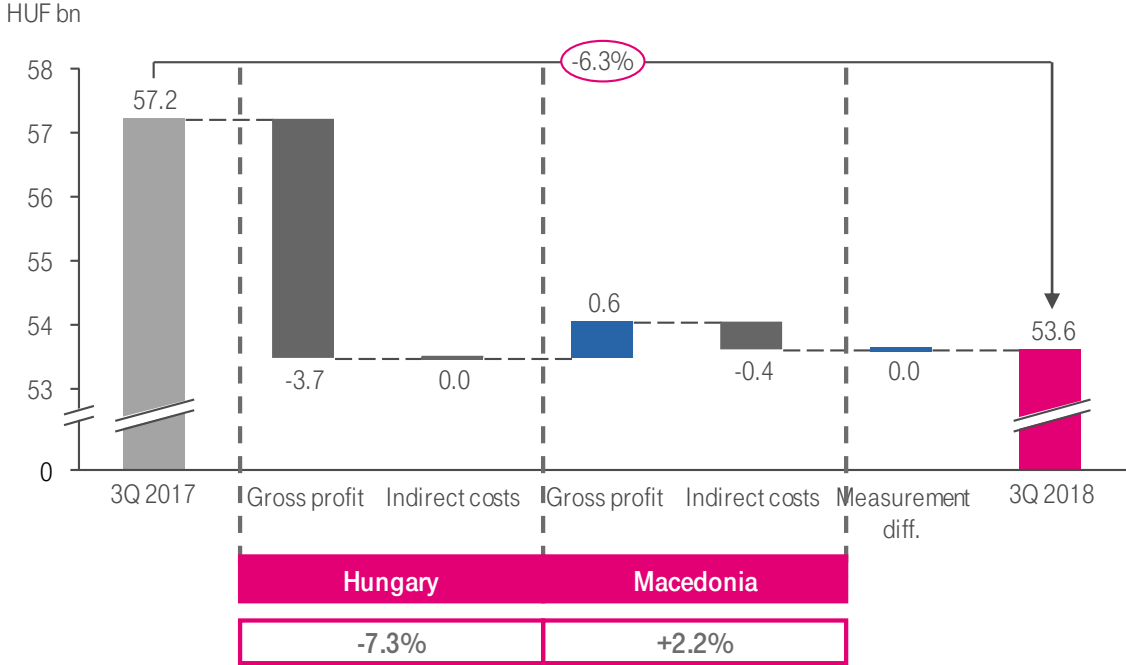
# Q3 2018 RESULTS

# Q3 2018 GROUP SEGMENTAL REVENUE AND EBITDA

## Group segmental revenues<sup>1</sup>



## Group segmental EBITDA<sup>1</sup>



<sup>1</sup> Excluding Crnogorski Telekom financials and IFRS 9 and 15 impacts

# Q3 2018 STRATEGIC HIGHLIGHTS

## Land Grabbing



- Accelerated fiber rollout to increase competitiveness
- Leading position in the IT service market strengthened



**15%**

Market share in IT Services



**40%**

Of homes passed with ≥100 Mbps

## FMC



- Continuous growth in fixed-mobile convergent households
- Magenta 1 relaunch
  - Residential: 30% discount on all related services
  - Business: bonus IT service offered to increase penetration



**13,000**

FMC net adds in August



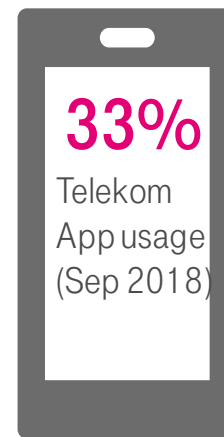
**>20%**

Of served households Magenta1 subscribers

## Digitalization



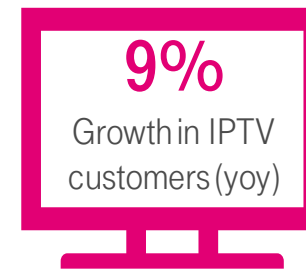
- Digitalization to enhance operating efficiency and customer experience
- Portfolio simplified to improve customer servicing
- Increase in e-sales and Telekom App usage



## Macedonia



- Continued subscriber growth in mobile broadband, fixed broadband and TV
- Positive trends in service and SI/IT revenues
- Double mobile data and option for exclusive TV content in Magenta package



**3.3 ppt.**

Prepaid/postpaid ratio improvement



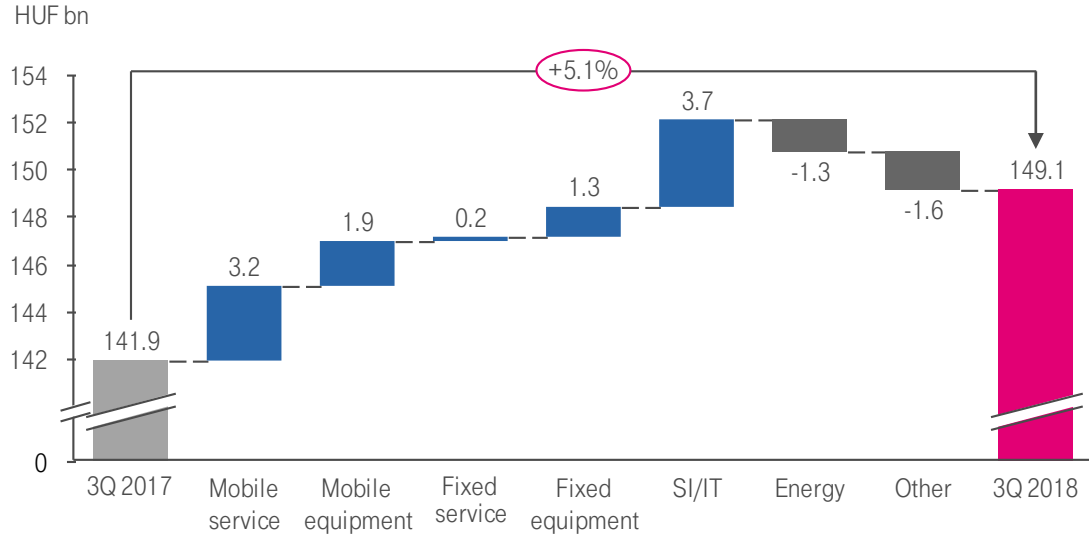
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# Q3 2018 RESULTS BY SEGMENT

# HUNGARY - TOTAL

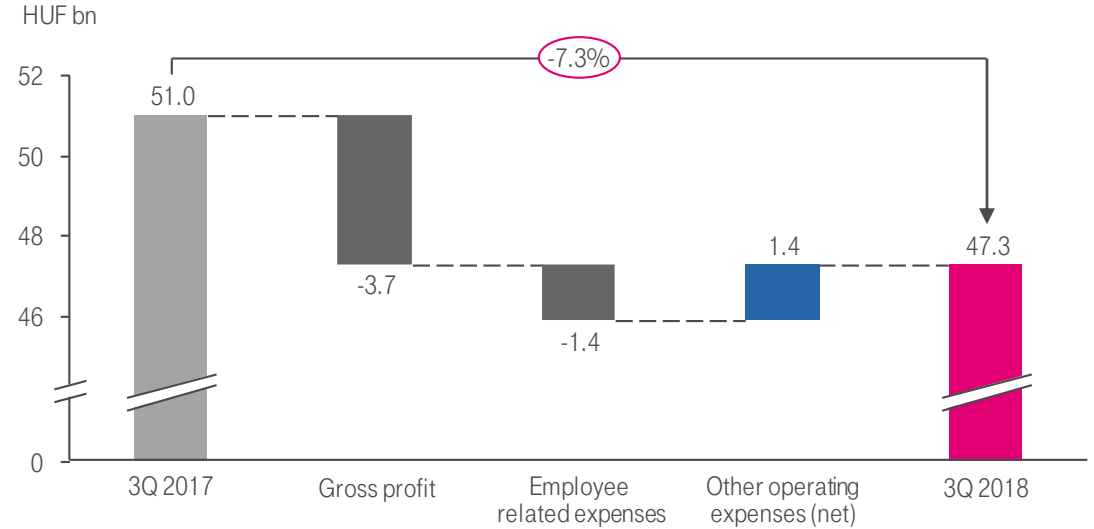
## Revenue<sup>1</sup>



- Mobile service revenue growth thanks to strong data demand
- Rise in fixed service revenue driven by higher TV and broadband subscriber bases
- Increase in SI/IT revenue due to strong demand for HW&SW delivery projects
- Decline in other revenues resulting from reclassification of handset insurance revenues as mobile content from 2018

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

## EBITDA<sup>1</sup>

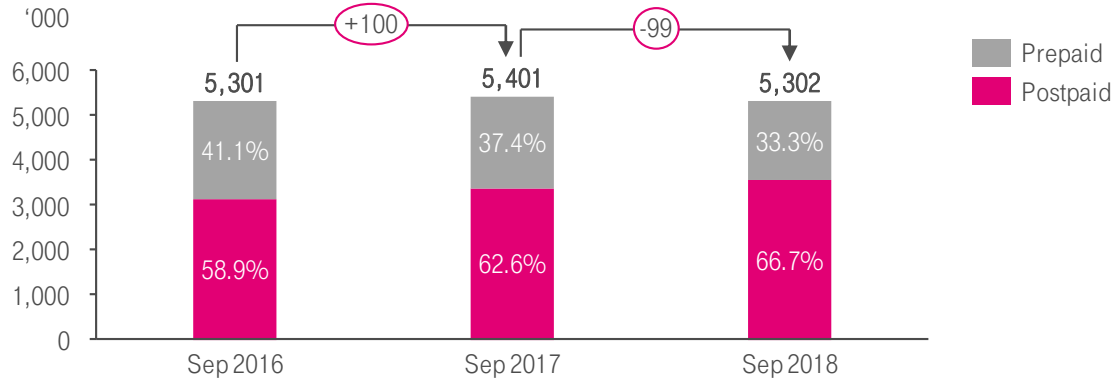


- Decline in gross profit driven by the increasing weight of lower margin services in the sales mix, coupled with one-off effects positively impacting Q3 2017
- Higher employee related expenses due to trainee insourcing, wage increases and higher severance expenses
- Other OPEX savings achieved in energy and maintenance

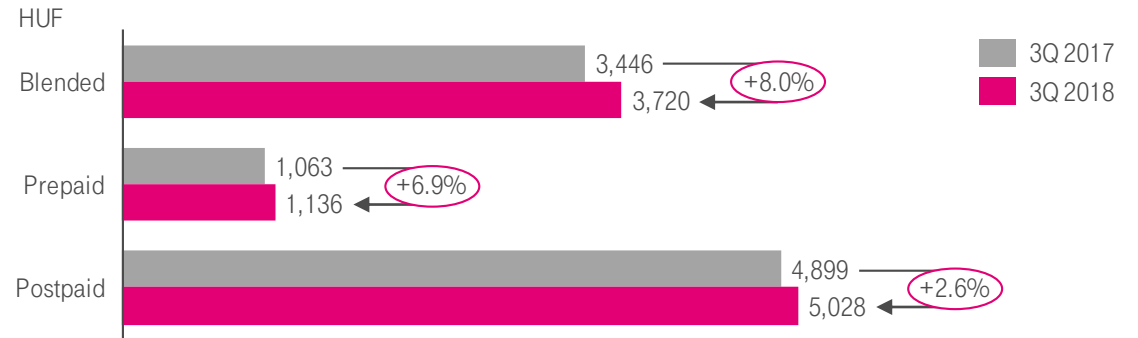
# HUNGARY - MOBILE



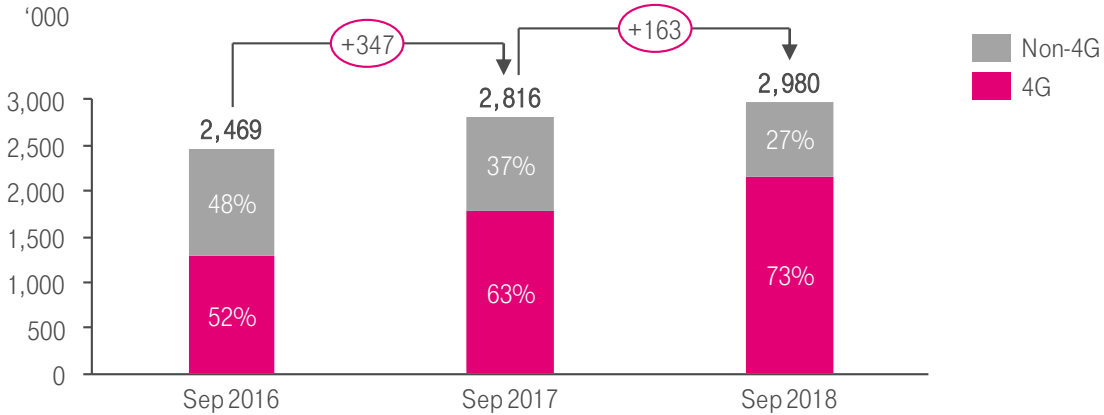
## Mobile SIMs



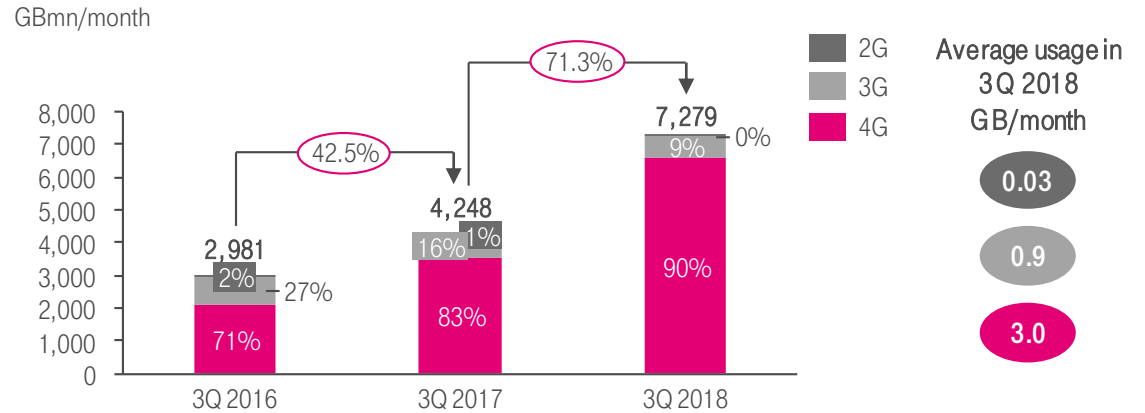
## Mobile ARPU<sup>1</sup>



## Total mobile data subscribers



## Mobile broadband usage

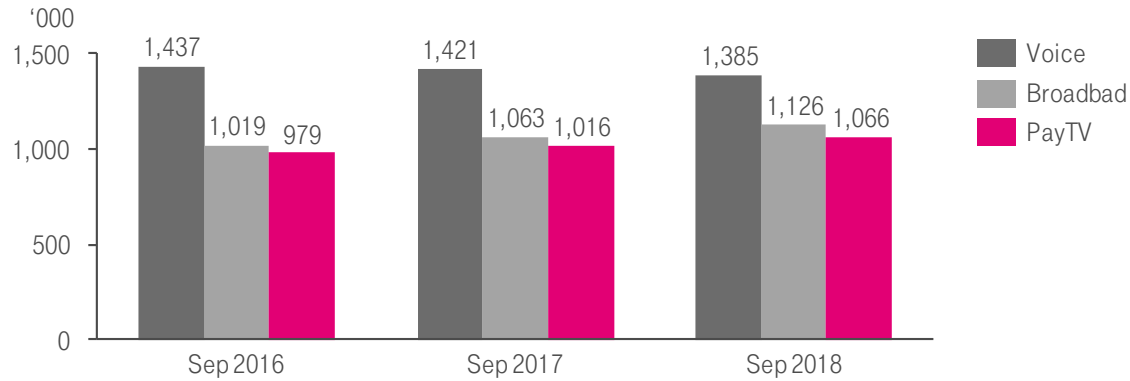


<sup>1</sup> Excluding IFRS15 effects

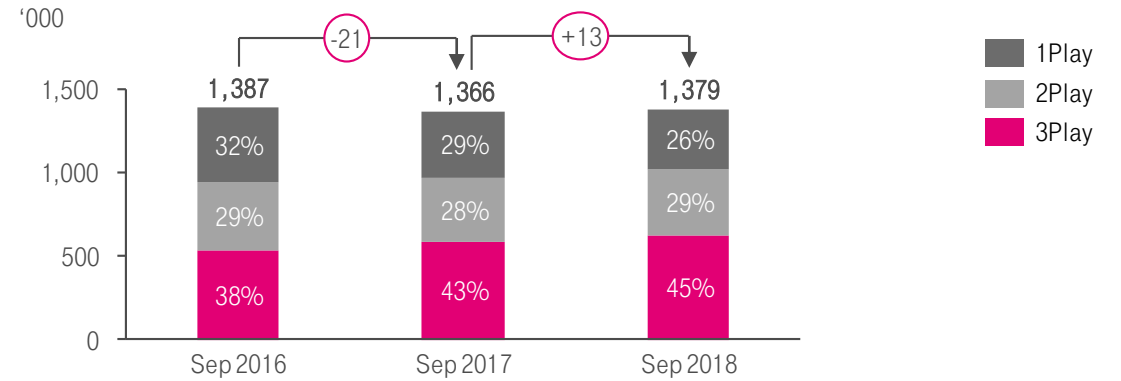
# HUNGARY – FIXED VOICE, BROADBAND AND TV



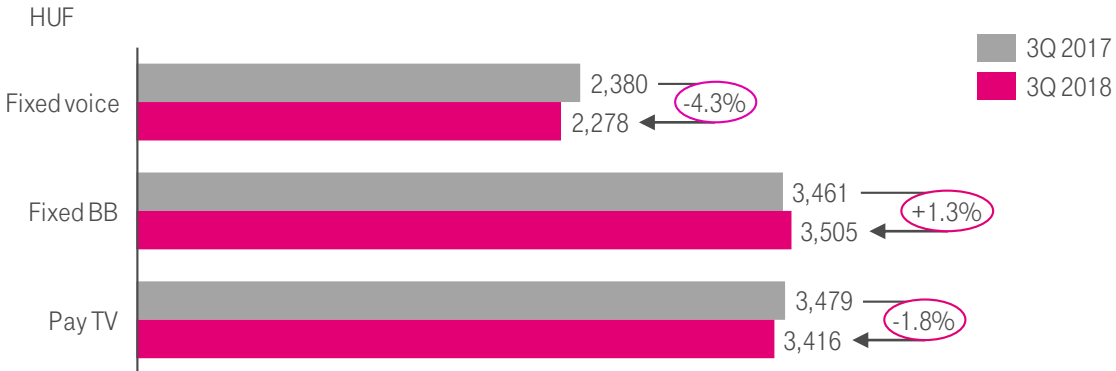
## Fixed line customer base



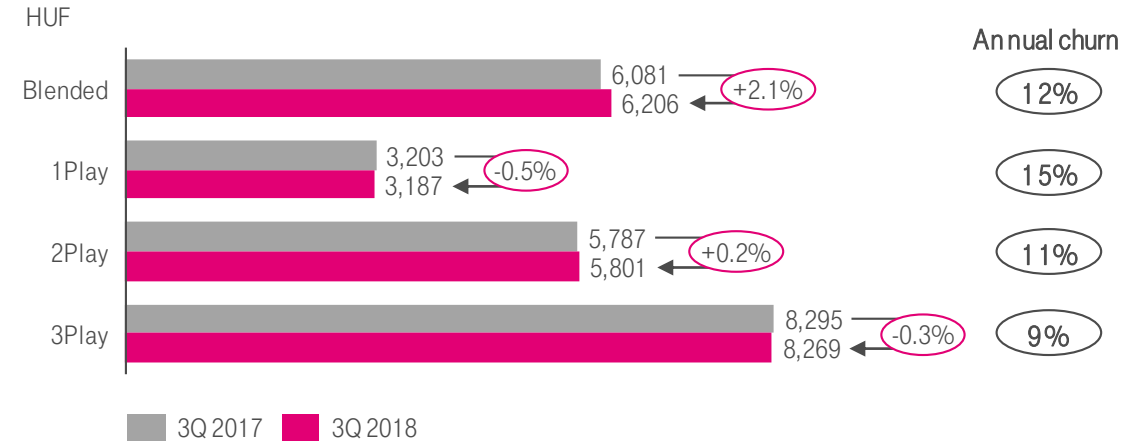
## Fixed line multiplay residential subscribers



## Fixed Voice, BB and TV ARPU<sup>1</sup>



## Fixed line multiplay residential ARPU<sup>1</sup>

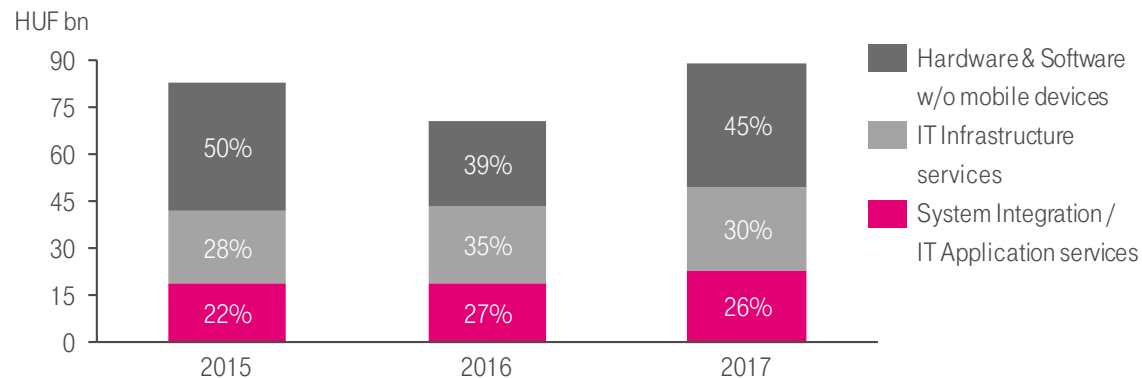


<sup>1</sup> Excluding IFRS15 effects

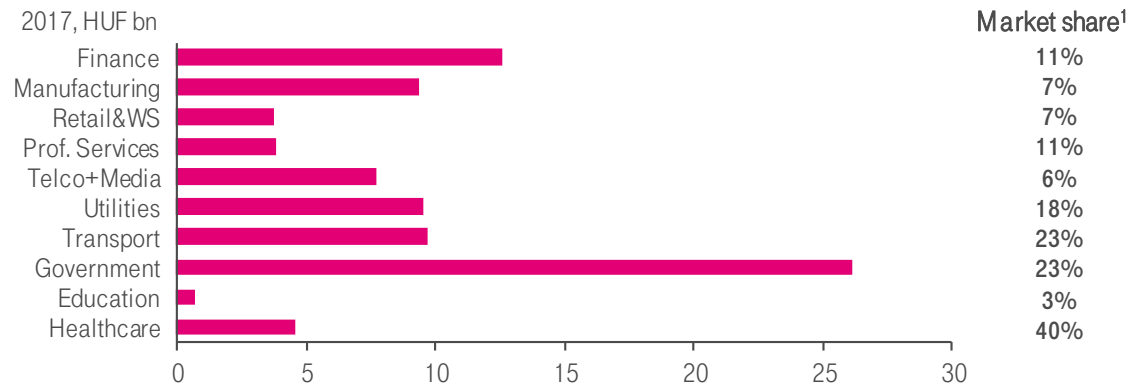
# HUNGARY – SI/IT



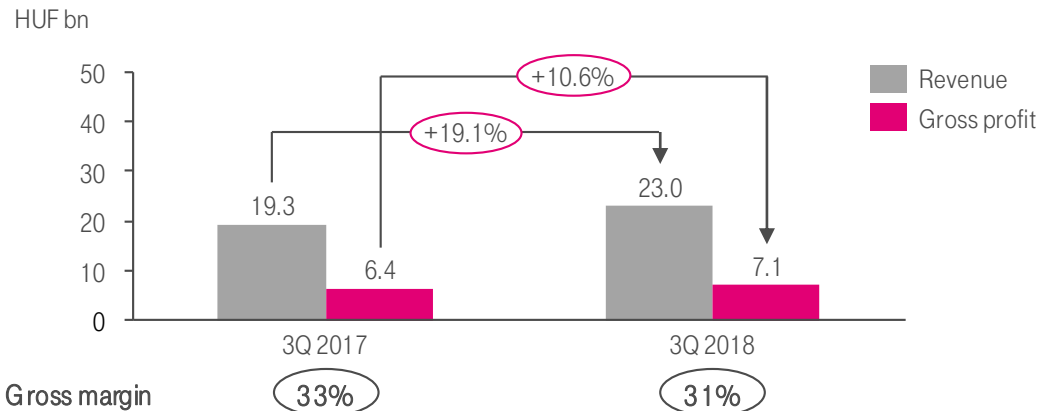
## SI/IT revenue



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



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



## Highlights

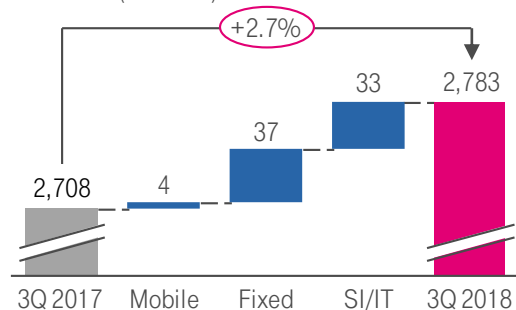
- Positive trajectory of SI/IT revenues maintained
- EU funded projects are hardware and software focused and relatively low margin
- Infrastructure delivery projects instrumental in developing long term customer relationships and securing IT service contracts
- Demand for higher margin SI projects starting to increase

<sup>1</sup> Based on IDC Research 2018, market shares based on 2017 revenues

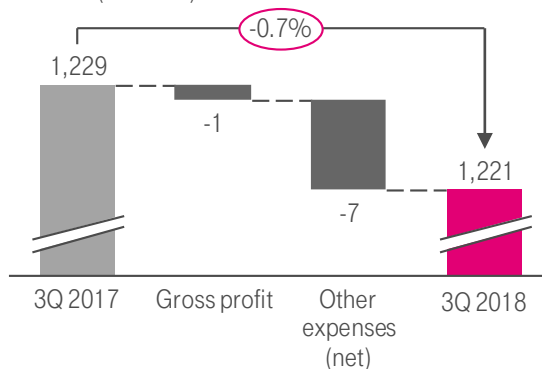
# MACEDONIA

## Financials<sup>1</sup>

Revenues (MKD mn)

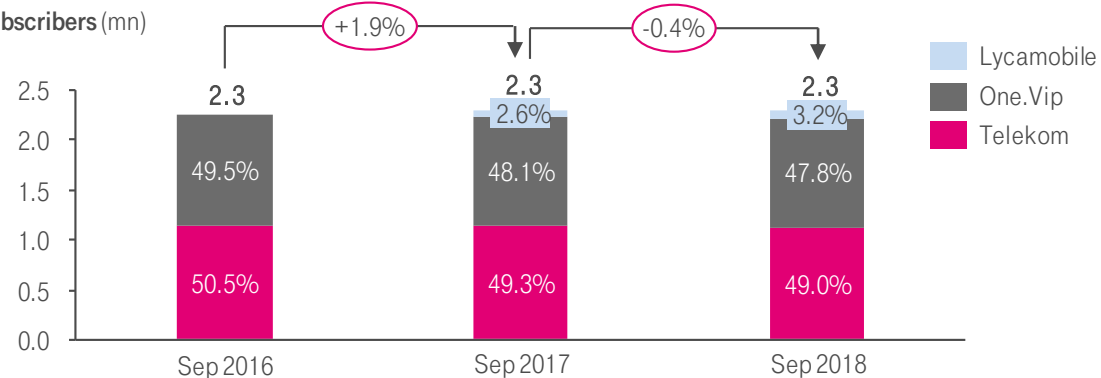


EBITDA (MKD mn)

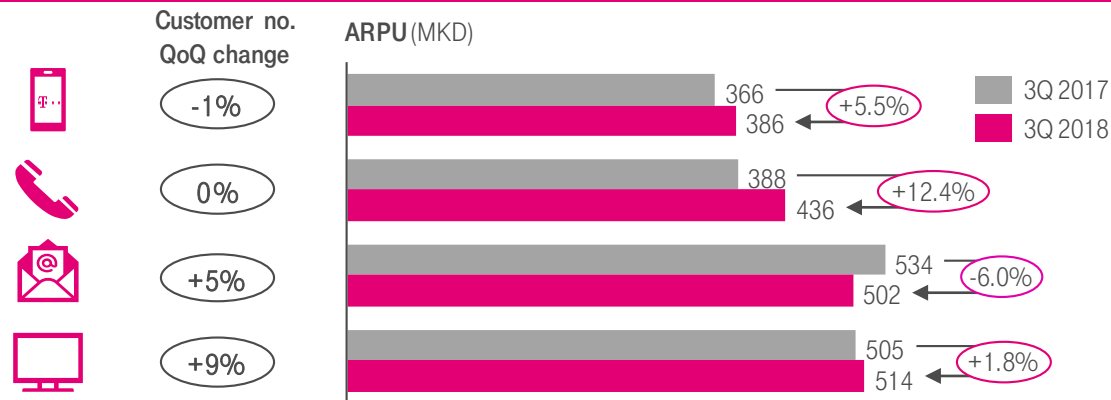


## Mobile market

Subscribers (mn)



## KPIs (mobile/fixed voice/fixed BB/TV)<sup>1</sup>



## Highlights

- Convergent fixed-mobile offers gaining in popularity
- Continued revenue growth primarily driven by SI/IT revenues
- Increase in fixed line revenue due to one-off refund for Universal Service Obligation net costs previously recognized in Q4 2017
- EBITDA decline mainly attributable to temporarily higher indirect costs and an increase in lower-margin activities
- 6.0% weakening in HUF/MKD

<sup>1</sup> Excluding IFRS 9 and 15 impacts

## For further questions please contact the IR department:

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# APPENDIX: Q3 2018 FINANCIAL HIGHLIGHTS

HUF mn, except ratios **IAS 18 & IAS 11, continuing operation**

**IFRS 9 & IFRS 15, continuing operation**

	Q3 2017	Q3 2018	Change (%)	Q3 2018 (IFRS 9/15 effect)	Q3 2018	Change (%)
<b>Total Revenues</b>	155,381	163,797	5.4%	(112)	163,685	5.3%
<b>Gross Profit</b>	97,314	94,150	(3.3%)	(542)	93,608	(3.8%)
<b>EBITDA</b>	57,212	53,596	(6.3%)	(554)	53,042	(7.3%)
<b>Operating Profit</b>	30,171	23,662	(21.6%)	(554)	23,108	(23.4%)
<b>Net income</b>	19,341	15,067	(22.1%)	(554)	14,513	(25.0%)
	9M 2017	9M 2018	Change (%)	9M 2018 (IFRS 9/15 effect)	9M 2018	Change (%)
<b>Free Cash Flow</b>	27,421	28,570	4.2%	n.a.	28,570	4.2%
<b>Net Debt</b>	343,725	309,957	(9.8%)	n.a.	309,957	(9.8%)
<b>Net Debt/ Total Capital</b>	37.4%	33.8%	n.a.	n.a.	33.8%	n.a.



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# APPENDIX: SUSTAINABILITY MEASURES

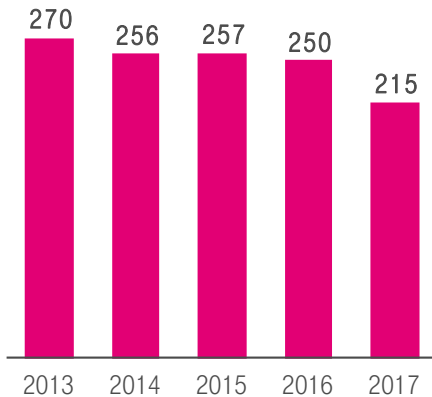


## Environment

Values

- The Earth
- A viable and wholesome environment
- Nature, biological diversity
- Natural resources

Electricity consumption<sup>1</sup> at Magyar Telekom Group (GWh)

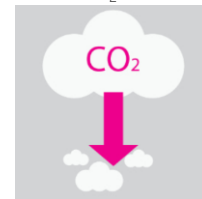


**11,700 kg** reduction in CO<sub>2</sub> emissions



Our colleagues rented TeleBike 37,800 times, travelling 63,000 kms in 2017.

We offset **100%** of our CO<sub>2</sub> emissions



## Society

- Democracy, information society
- Future generations, sustainable society
- Diversity, social solidarity, quality of life
- Partnership, talent, creativity

Working closely with support organizations, we created the **hello holnap!** fleet tariff packages that are available to people living with physical impairments, visual impairments, intellectual disabilities and autism.

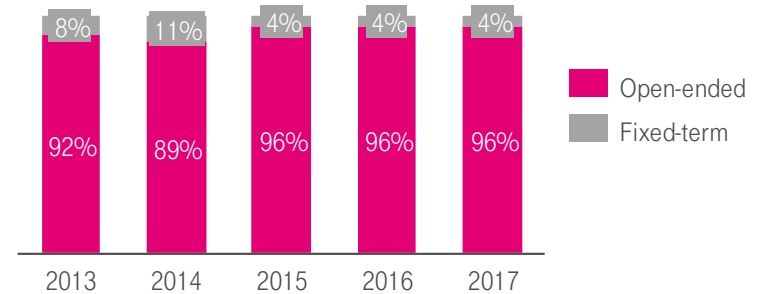
Within the **Digital Bridge** program, more than 5,000 people have attended free internet literacy lectures held by Telekom employee volunteers.

Our **Become an IT expert! – Challenge** campaign was awarded the European Excellence Award, a Silver Effie and Two Gold Prisms.

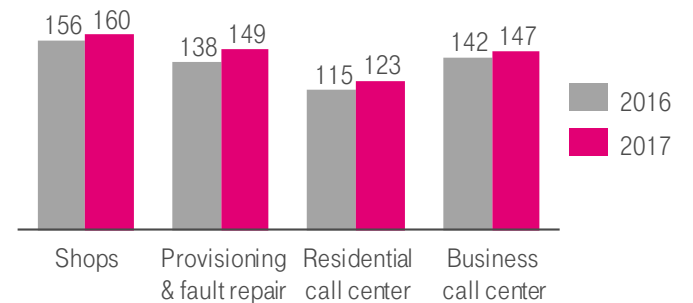
## Economy

- Business venture, integrity, transparency
- Vision, innovation
- Employees, team, dynamism
- Client

Ratio of fixed-term to open-ended employment at Magyar Telekom plc.



Overall customer satisfaction indicator, broken down to channels



<sup>1</sup> Purchased electricity, the own energy production is not included

