

# **MAGYAR TELEKOM GROUP**

# **Q2 2016 RESULTS PRESENTATION**

**AUGUST 4, 2016**



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# Q2 2016 STRATEGIC HIGHLIGHTS: HUNGARIAN SEGMENT CONTINUES TO DRIVE GROUP PERFORMANCE

GROUP	REVENUE	<ul style="list-style-type: none"> <li>Decline due to partial energy exit and lower SI/IT revenues; excl. energy and SI/IT, revenues up by 2.2% driven by growth in mobile and fixed line revenues</li> </ul>
	EBITDA	<ul style="list-style-type: none"> <li>EBITDA down by 2.0% as higher other operating expenses offset gross profit growth and lower employee related expenses</li> </ul>
	FCF	<ul style="list-style-type: none"> <li>Increased FCF reflective of higher EBITDA, improved WC and one-off gains which offset higher severance costs, loan repayment and higher settlement of capex creditors</li> </ul>
	OPERATIONS	<ul style="list-style-type: none"> <li>Sustained focus on cost efficiency through headcount reduction, process/product simplification and online customer servicing</li> </ul>
HUNGARY	TELCO	<ul style="list-style-type: none"> <li>Continued growth in mobile, fixed line BB and TV revenues</li> <li>Magenta 1 quad-play offer among key growth drivers</li> </ul>
	SI/IT	<ul style="list-style-type: none"> <li>SI/IT revenue decline due to a slowdown in EU fund inflows</li> <li>Sustained EBITDA turnaround at our enterprise sub-segment</li> </ul>
INT'L	MACEDONIA	<ul style="list-style-type: none"> <li>Sustained revenue turnaround achieved following 5 years of decline</li> <li>EBITDA decline due to one-offs; excl. severance payments EBITDA down by only 1.3%</li> </ul>
	MONTENEGRO	<ul style="list-style-type: none"> <li>Continued competitive and regulatory pressures on telco margins</li> <li>Strong take up of Magenta 1</li> </ul>

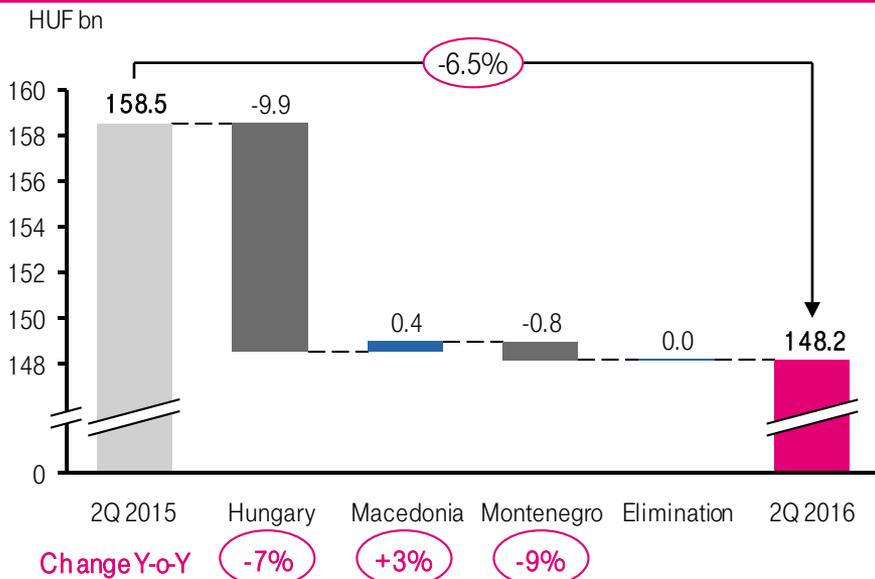
# H1 2016 FINANCIAL HIGHLIGHTS AND TARGETS

	H1 2016 RESULTS vs. H1 2015	2016 TARGETS	2017 TARGETS
<b>REVENUE</b>	HUF 293.2 (-7.0%) <ul style="list-style-type: none"> <li>Decline due to partial energy exit and lower SI/IT revenues; excl. energy and SI/IT, revenues up by 0.9% driven by growth in mobile and fixed line revenues</li> <li>Revenue growth in mobile driven by mobile data and equipment sales due to 4G push</li> <li>Revenue growth from fixed line maintained</li> </ul>	HUF 580 - 590bn	HUF 585 - 595bn
<b>EBITDA</b>	HUF 99.4 bn (+5.0%) <ul style="list-style-type: none"> <li>EBITDA boosted by one-off gains</li> <li>Increased margins in telco and SI/IT</li> <li>Improved fixed and mobile broadband performance driven by higher ARPUs and larger customer base</li> <li>Lower utility tax due to tax credits granted following HSI development and lower telco tax</li> <li>Higher other operating expenses due to higher marketing, sponsorship and advisory fees, increased rental fees, higher network maintenance and IT platform costs</li> </ul>	HUF 187 - 191bn	HUF 189 - 193bn
<b>CAPEX*</b>	HUF 35.3 bn (-0.5%)	ca. 10% yoy decline	ca. 10% yoy decline



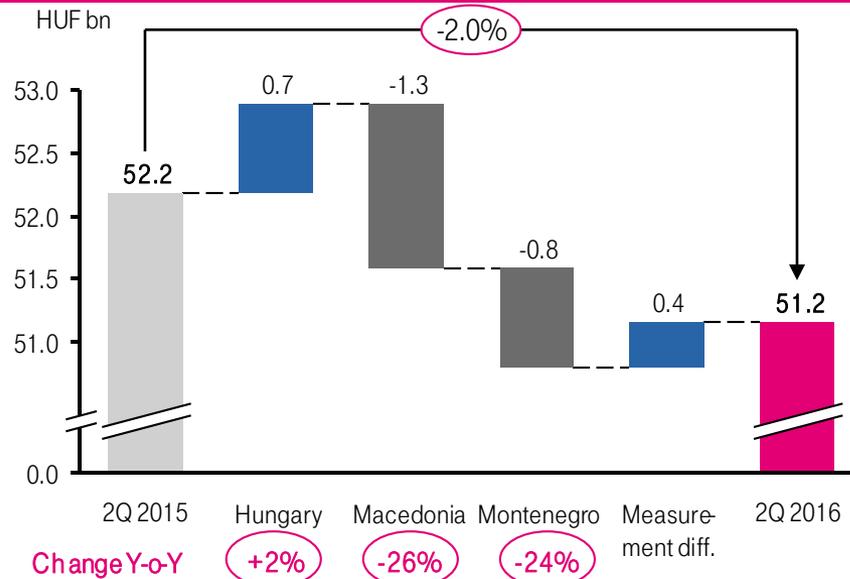
# GROUP SEGMENTAL REVENUE AND EBITDA

## Group segmental revenues



- **Hungary:** revenue decline primarily a result of the exit from the energy business and lower SI/IT revenues, while both mobile and fixed line revenues increased
- **Macedonia:** revenue turnaround sustained thanks to higher mobile (increased market share) and SI/IT revenues
- **Montenegro:** decline due to intense competition and OTTs in mobile, and regulatory pressure on fixed line revenues

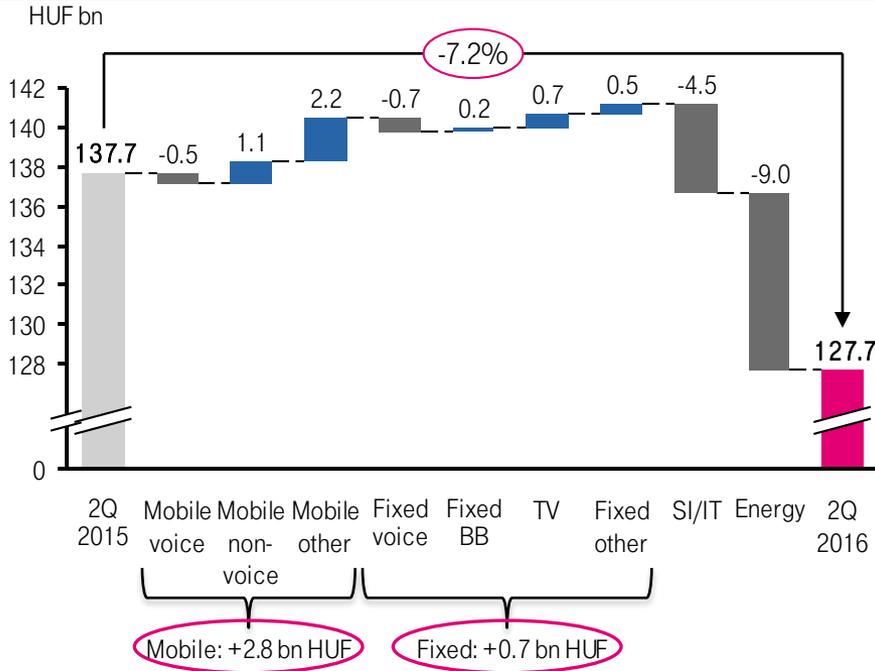
## Group segmental EBITDA



- **Hungary:** EBITDA up by 1.6% due to gross profit growth and lower employee related expenses, mitigated by higher other operating expenses
- **Macedonia:** decline due to one-off employee related expenses following outsourcing deal; excl. severance payments EBITDA down by only 1.4%
- **Montenegro:** decline due to sustained pressure on margins and higher OPEX

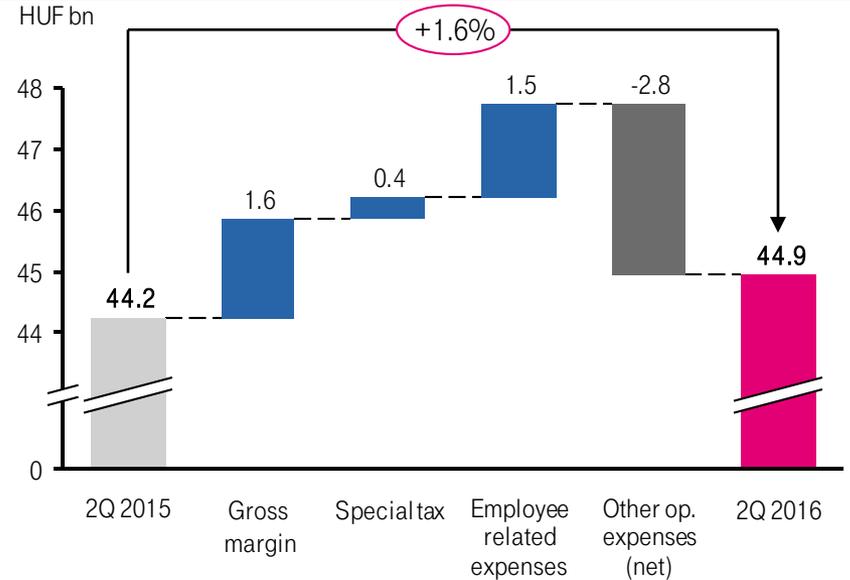
# HUNGARY

## Revenue\*



- Mobile revenue up by 4.2% driven by ARPU uplift
- Strong mobile broadband growth due to 4G push, coupled with higher mobile equipment sales
- Significant increase in both fixed broadband and TV revenues thanks to a growing customer base and ARPU
- Decline in SI/IT due to a slowdown in EU fund inflows
- Drop in energy revenues following exit and transfer to JV

## EBITDA

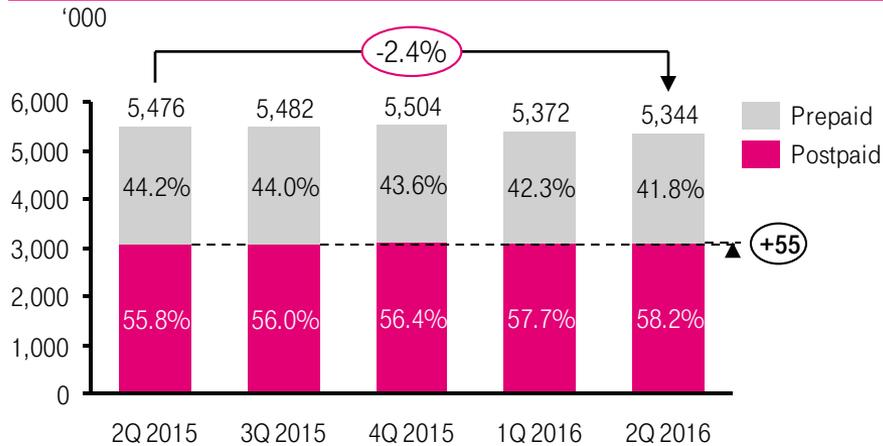


- Improvement in gross profit driven mostly by ARPU growth in mobile, fixed broadband and TV
- Lower telco tax due to fewer subs and changing calling habits
- HUF 2.0 bn of savings resulting from headcount reduction, partly offset by wage and cafeteria benefit increases and lower capitalized employee related costs
- Significantly higher other OPEX due to higher marketing, sponsorship and advisory fees, increased rental fees, higher network maintenance and IT platform costs

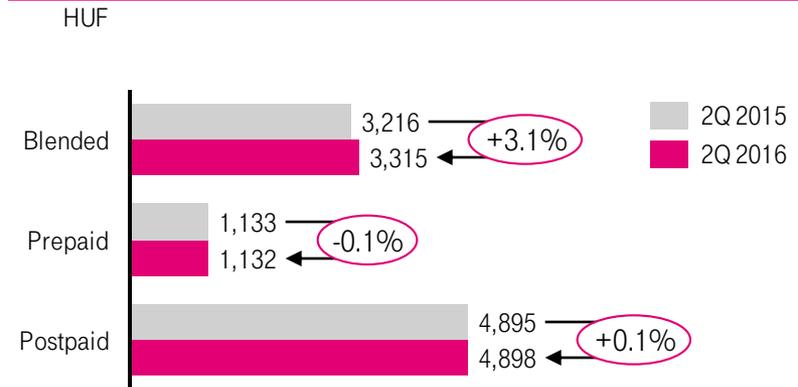
# HUNGARY - MOBILE



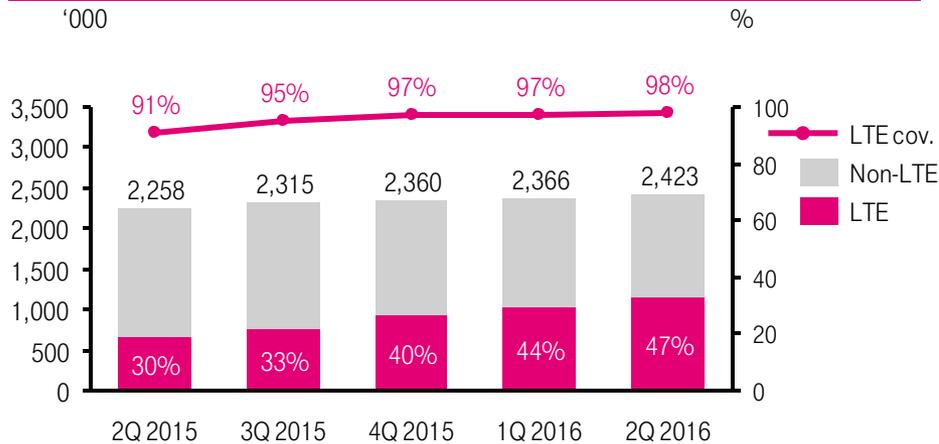
## Mobile SIMs



## Mobile ARPU (HUF)



## Mobile broadband subscriber development



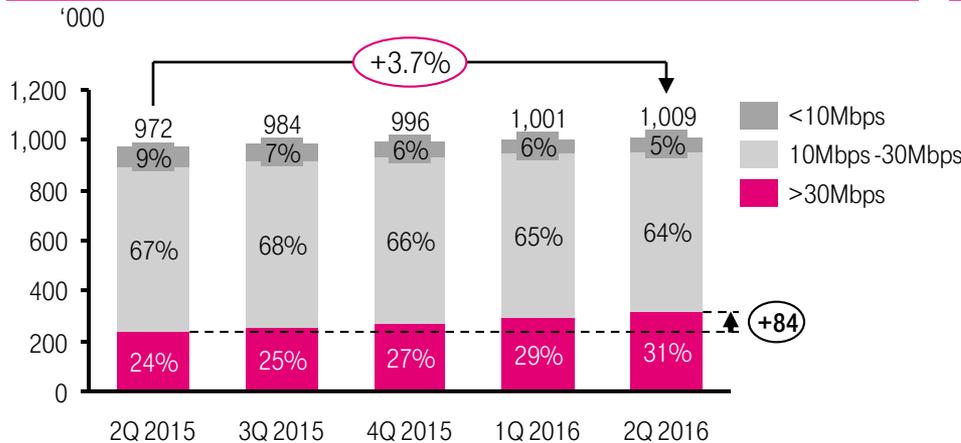
## Highlights

- Customer base decline driven by shift to prepaid and intense competition among business customers; 2% (+55k net adds) increase in postpaid RPC driven by strong data demand
- MOU up by 7% due to higher postpaid ratio and growing flat tariff subscriber base
- Increasing ARPU due to successful prepaid to postpaid migration
- 4G outdoor population coverage above 98%
- Smartphone sales account for over 90% of postpaid handsets with total SP penetration over 60%
- Average 4G usage of 1.6 GB/month

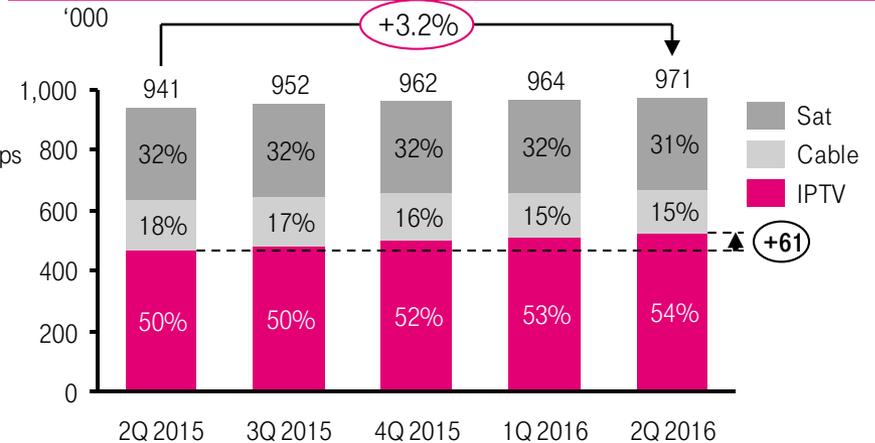
# HUNGARY – FIXED BROADBAND AND TV



## Fixed BB customer number

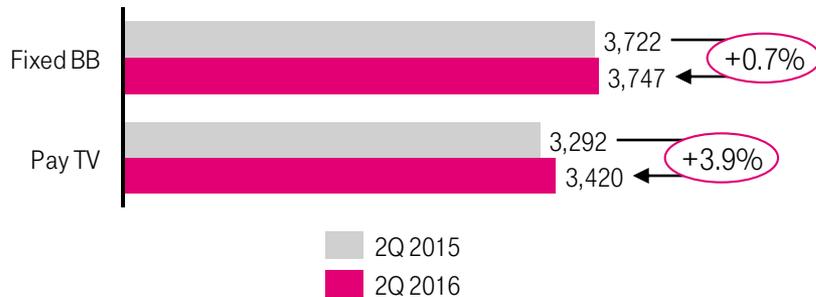


## Pay TV customer number



## Fixed BB and TV ARPU

HUF



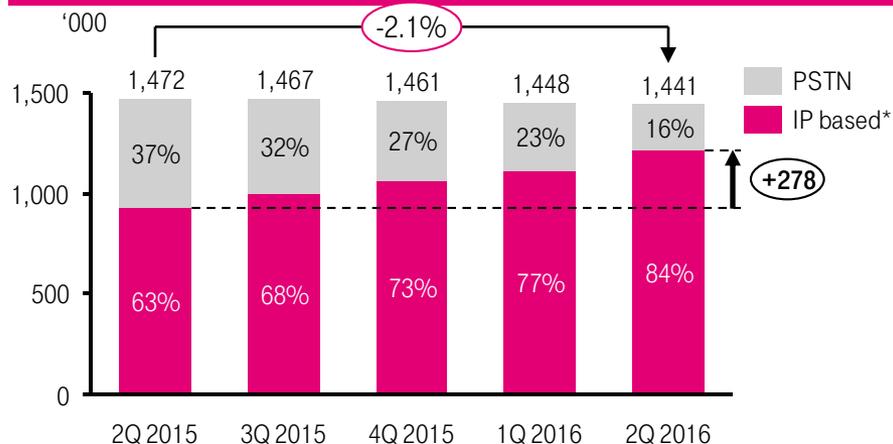
## Highlights

- More than 1 million fixed broadband subscribers thanks to over 30Mbps customer net adds
- Leading market positions reinforced through ca. 36,000 broadband and 30,000 TV net adds
- Increasing ratio of higher bandwidth packages due to upselling activities driven by network upgrades
- Focus on IPTV to offer added value to customers
- Higher ARPUs driven by upselling and price increases
- Continued intense competition in the business sub-segment

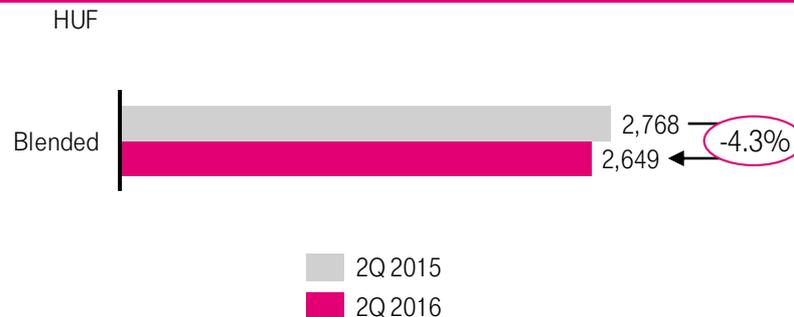
# HUNGARY – FIXED VOICE AND ENERGY



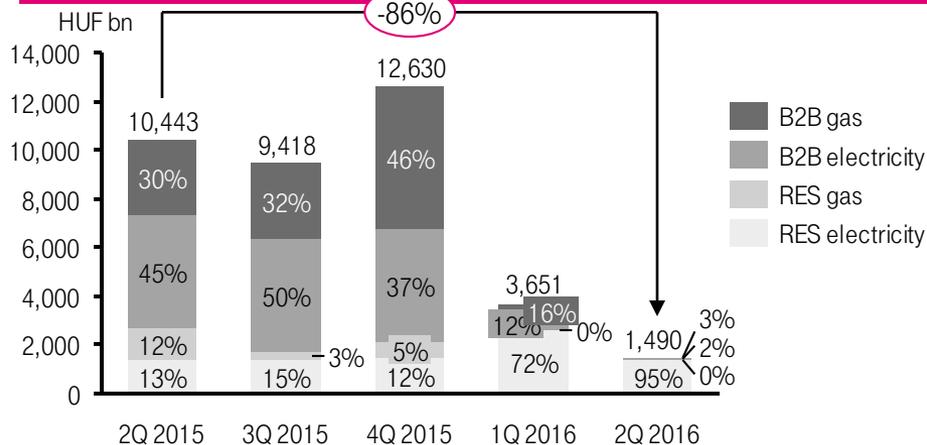
## Fixed voice customer number



## Fixed voice ARPU



## Energy revenues



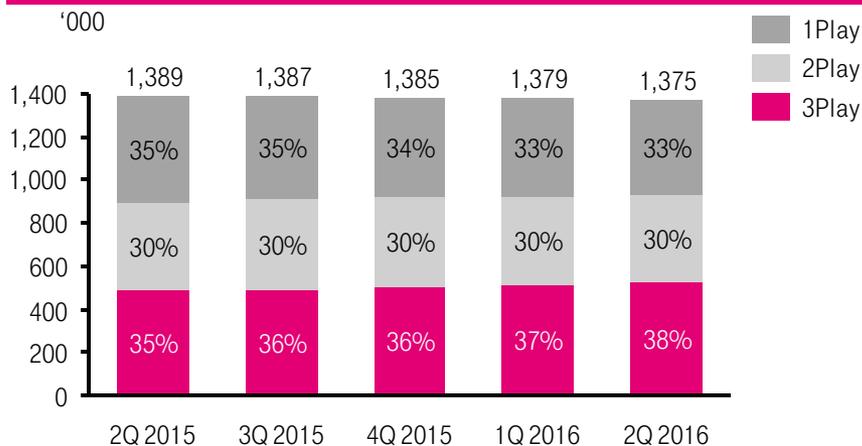
## Highlights

- Fixed voice churn at 2% due to effective bundling strategy
- Fast IP based migration supports strive for efficiency
- Fixed voice MOU down by 1%, ARPU rate of decline at 4%
- Exited residential gas market as of July 31, 2015
- B2B energy deconsolidation as of Dec 31, 2015\*\*

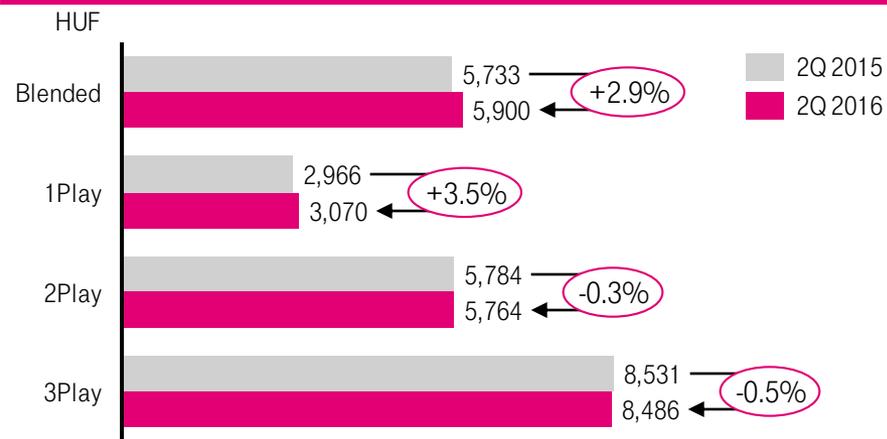
# HUNGARY – MULTIPLAY



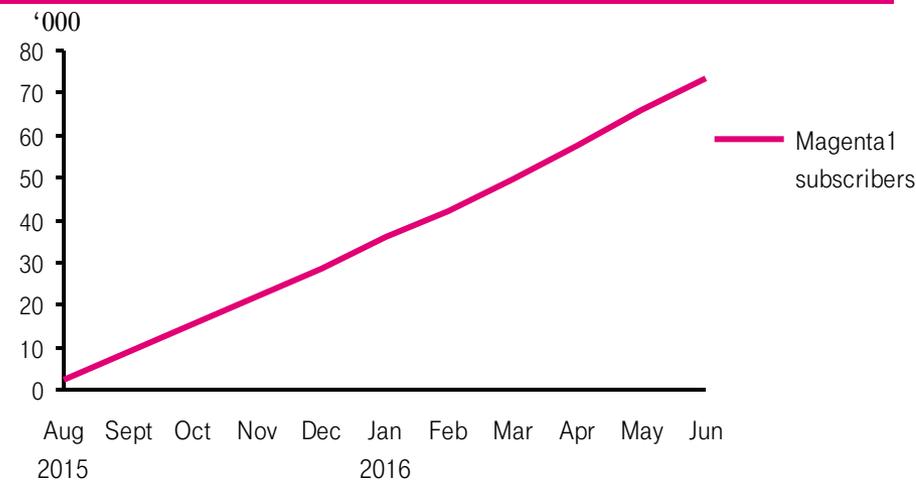
## Fixed line multiplay residential subs. development



## Fixed line multiplay residential ARPU development



## Quad-play Magenta1 subscriber development

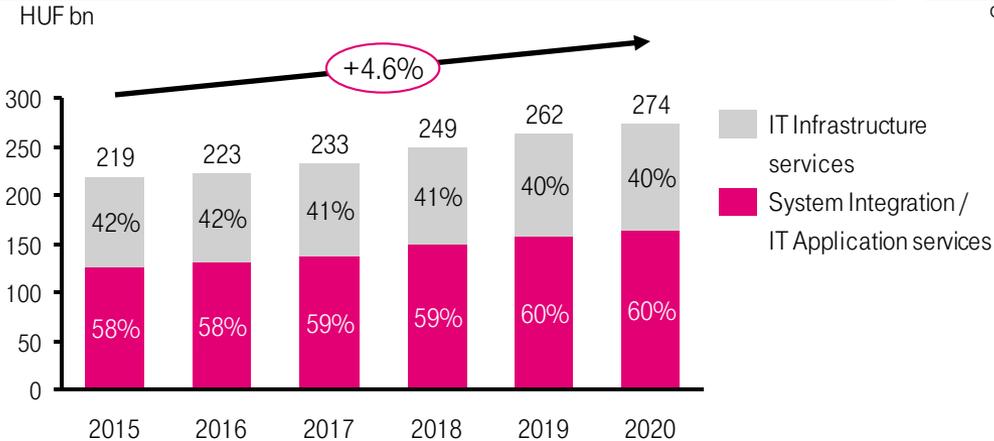


## Highlights

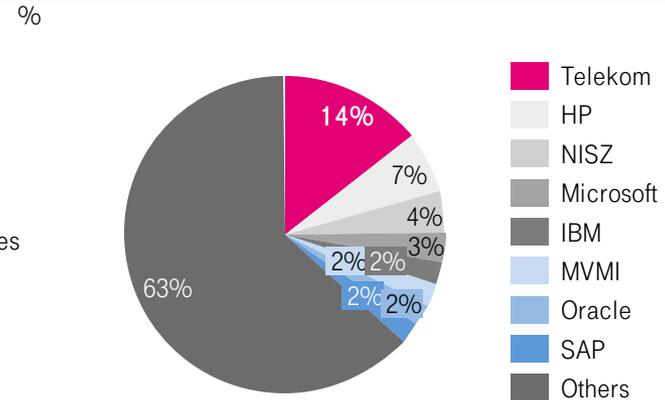
- Stable number of households with at least one Telekom fixed line service; continuously increasing 3Play share
- Lower churn among 2/3 Play customers
- Blended fixed line APRU up by 3%
- Over 73,000 quad-play Magenta1 customers help maximize the telecommunication share of wallet in household spending
- More than half of Magenta1 customers have at least 30Mbps fixed broadband

# HUNGARY - SI/IT

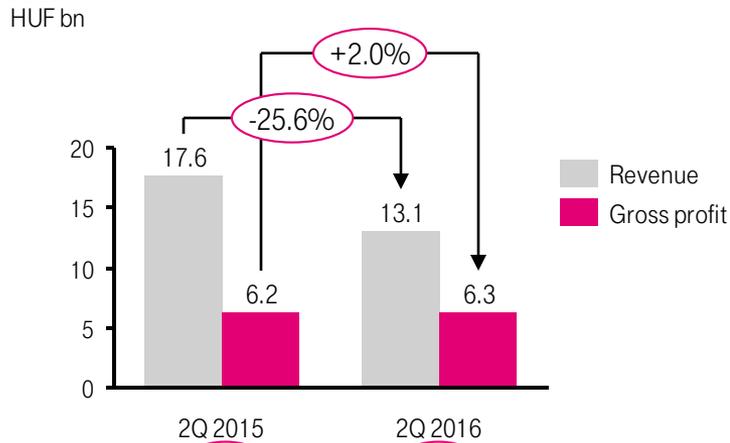
## Total Hungarian IT services market development\*



## Market share\*\*



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



## Highlights

- Total SI/IT market expected to grow over the next 5 years due to significant opportunities in application development and integration
- Volatility of incoming EU funds to affect timing of projects
- Total revenue decreased as a result of a slowdown in EU fund inflows
- Major project wins in the financial and utility sectors
- Slight improvement in gross profit with significant margin growth due to successful sales mix shift towards higher added value system integration projects



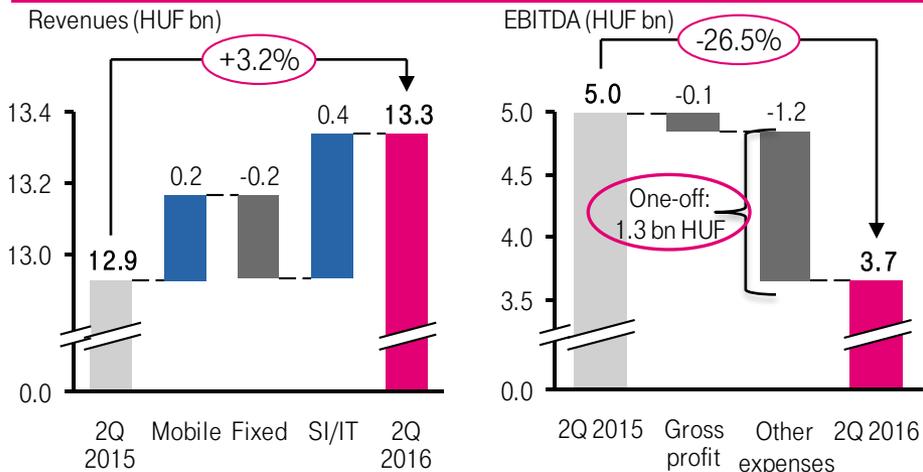
Margin **35%**  
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\* Hardware and software markets are excluded, IDC Research, 2015

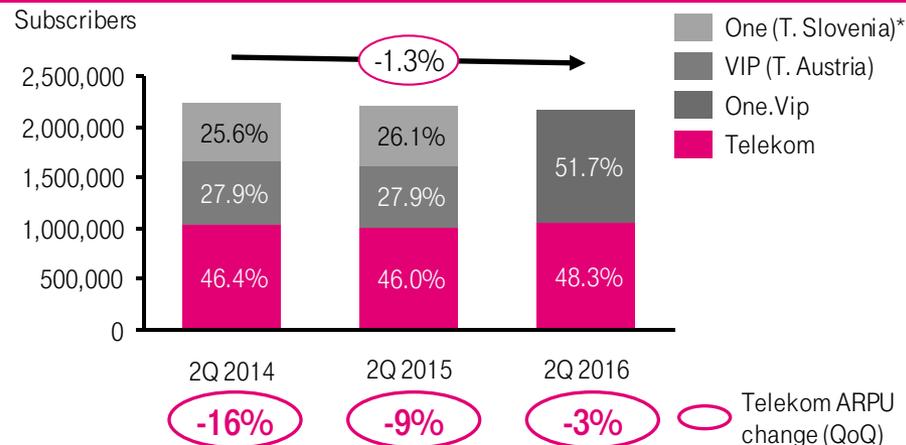
\*\* Based on new methodology leading to higher total market size

# MACEDONIA

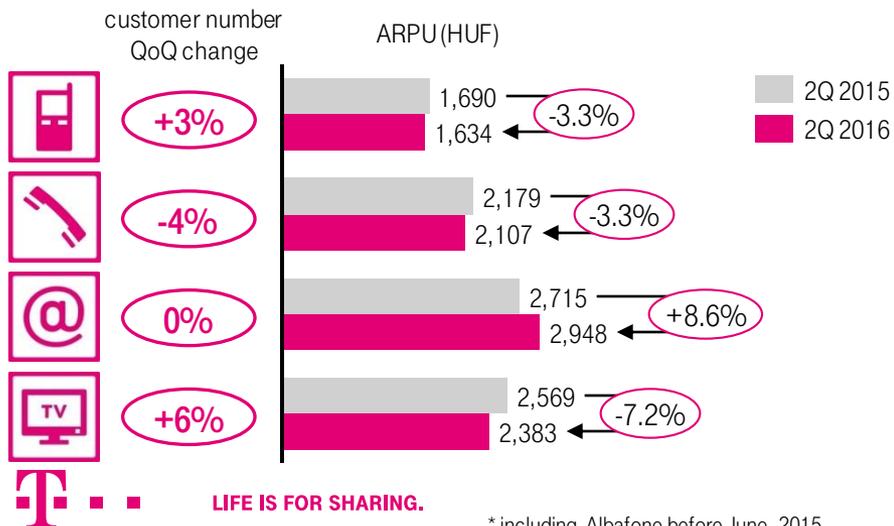
## Financials



## Mobile KPIs



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

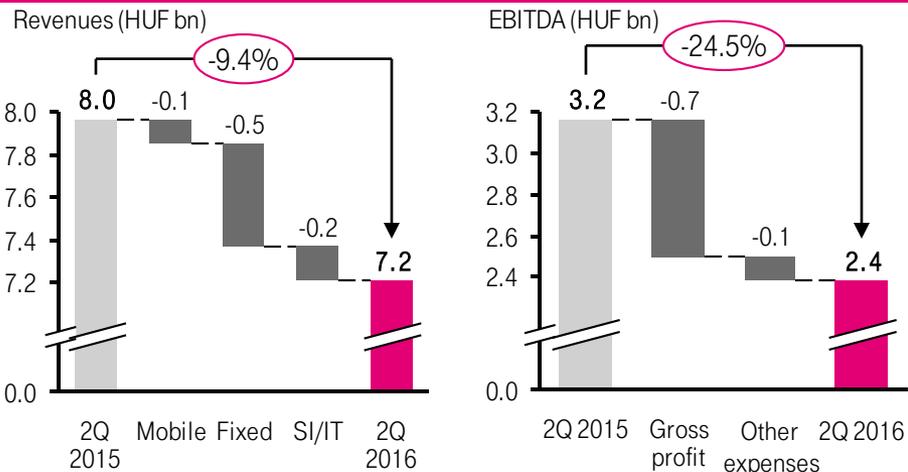


## Highlights

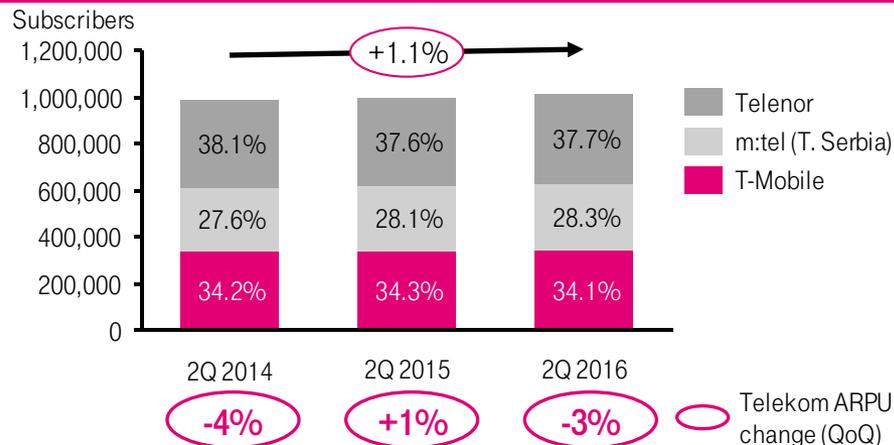
- Sustained revenue turnaround following 5 years of decline
- Successful rebranding campaign to integrated "T" brand and 4play Magenta1 sales helped to increase mobile market share
- Mobile revenues increased by 3% due to market stabilization
- VIP/One merger has created a strong integrated competitor which started to offer fixed-mobile bundles under VIP brand
- Robust growth in TV subs and reduced churn in fixed voice
- EBITDA decline due to one-off in employee related expenses following outsourcing deal impacted app. 20% of total employees; excl. severance EBITDA down only by 1.3%

# MONTENEGRO

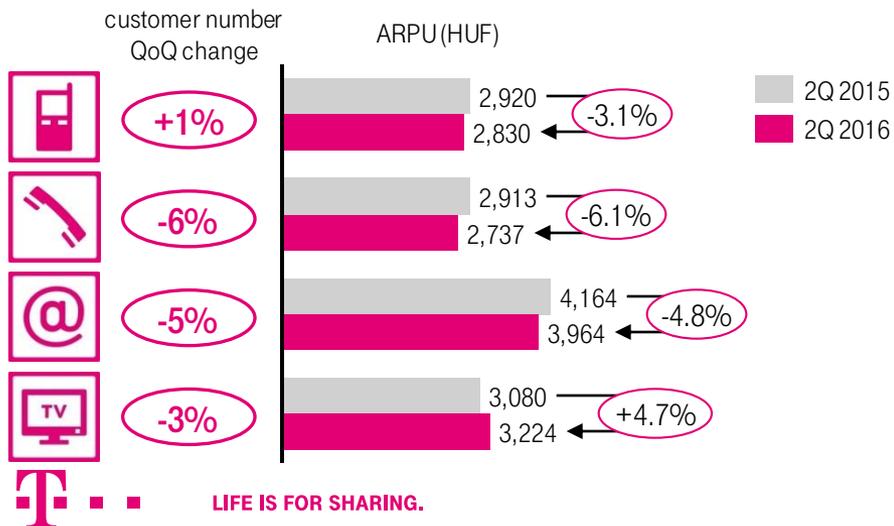
## Financials



## Mobile KPIs



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



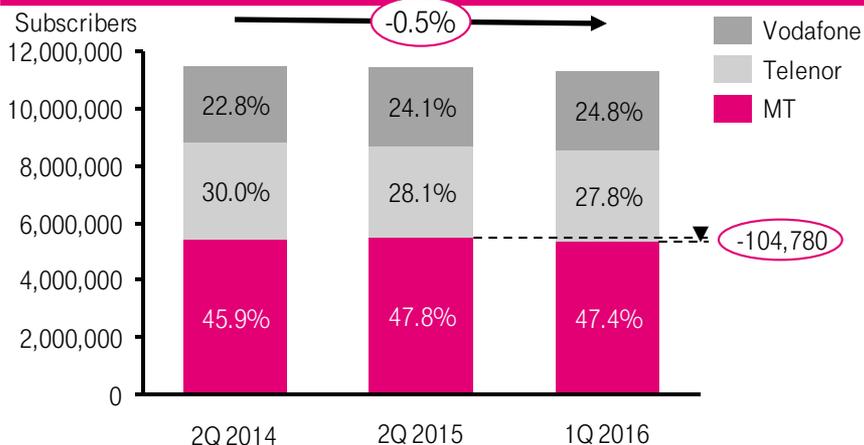
## Highlights

- Revenue decline driven by lower mobile ARPU and lower SMS revenues due to higher OTT penetration, as well as regulatory pressure on fixed voice and broadband businesses
- 16% increase in postpaid customer base due to successful 4Play Magenta 1 sales
- Decline in fixed line customer base due to competition from cable competitors offering 3play bundle packages
- EBITDA decline due to margin pressures and higher other OPEX despite savings in employee related expenses

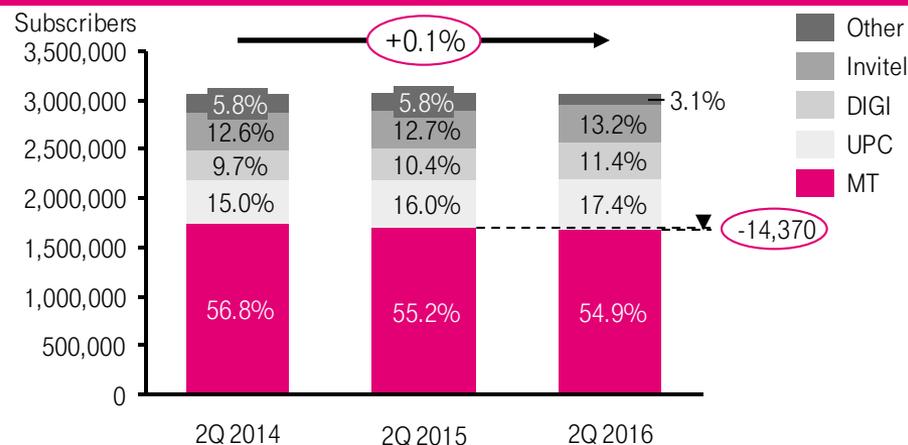
# APPENDIX

# MARKET POSITION IN HUNGARY

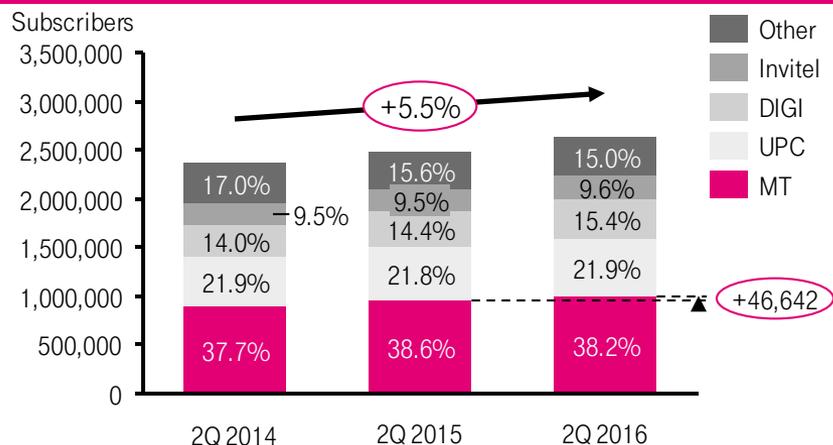
## Total mobile market\*



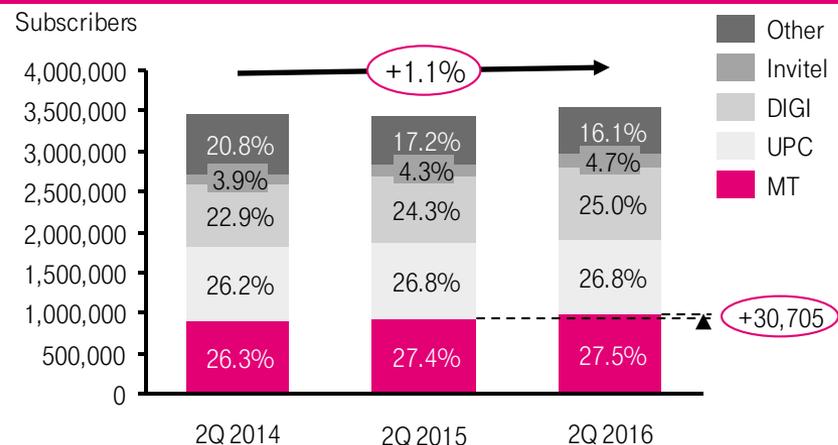
## Fixed voice market\*\*



## 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 (NMA)

# MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q2 2015	Q2 2016	Change
Mobile revenues	76 873	79 761	3,8%
Fixed line revenues	52 645	52 660	0,0%
System Integration/Information Technology revenues	18 534	14 255	-23,1%
Revenue from energy services	10 443	1 490	-85,7%
<b>Revenues</b>	<b>158 495</b>	<b>148 166</b>	<b>-6,5%</b>
Direct costs	(56 082)	(44 942)	19,9%
Employee-related expenses	(22 334)	(21 234)	4,9%
Depreciation and amortization	(26 703)	(28 281)	-5,9%
Hungarian telecommunications and other crisis taxes	(6 486)	(6 112)	5,8%
Other operating expenses	(23 123)	(26 006)	-12,5%
<b>Total operating expenses</b>	<b>(134 728)</b>	<b>(126 575)</b>	<b>-6,1%</b>
Other operating income	1 707	1 282	-24,9%
<b>Operating profit</b>	<b>25 474</b>	<b>22 873</b>	<b>-10,2%</b>
Net financial results	(6 816)	(5 911)	13,3%
Share of associates' profits	0	102	n.a.
<b>Profit before income tax</b>	<b>18 658</b>	<b>17 064</b>	<b>-8,5%</b>
Income tax expense	(5 129)	(5 468)	-6,6%
<b>Profit for the period</b>	<b>13 529</b>	<b>11 596</b>	<b>-14,3%</b>
Non-controlling interests	1 009	226	-77,6%
<b>Equity holders of the Company (Net income)</b>	<b>12 520</b>	<b>11 370</b>	<b>-9,2%</b>



# MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	December 31, 2016	June 30, 2016	Change
<b>Current assets</b>	<b>210 178</b>	<b>197 538</b>	<b>-6,0%</b>
Cash and cash equivalents	17 558	14 028	-20,1%
Other current financial assets	11 052	13 312	20,4%
<b>Non current assets</b>	<b>996 846</b>	<b>967 007</b>	<b>-3,0%</b>
Property, plant and equipment - net	493 204	477 633	-3,2%
Intangible assets	260 909	251 200	-3,7%
<b>Total assets</b>	<b>1 207 024</b>	<b>1 164 545</b>	<b>-3,5%</b>
<b>Equity</b>	<b>544 931</b>	<b>548 803</b>	<b>0,7%</b>
<b>Current liabilities</b>	<b>352 183</b>	<b>327 329</b>	<b>-7,1%</b>
Financial liabilities to related parties	136 906	157 422	15,0%
Other financial liabilities	26 152	23 401	-10,5%
<b>Non current liabilities</b>	<b>309 910</b>	<b>288 413</b>	<b>-6,9%</b>
Financial liabilities to related parties	220 088	198 291	-9,9%
Other financial liabilities	54 857	52 332	-4,6%
<b>Total equity and liabilities</b>	<b>1 207 024</b>	<b>1 164 545</b>	<b>-3,5%</b>



# MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	1-6 months 2015	1-6 months 2016	Change
<b>Net cash generated from operating activities</b>	<b>58 479</b>	<b>62 369</b>	<b>6,7%</b>
Investments in tangible and intangible assets	(35 088)	(35 261)	-0,5%
Adjustments to cash purchases	(6 201)	(15 144)	144,2%
Purchase of subsidiaries and business units	(15 773)	(28)	n.a.
Cash acquired through business combinations	1 815	0	n.a.
Payments for / proceeds from other financial assets - net	17 075	(1 180)	-106,9%
Proceeds from disposal of subsidiaries	0	3 484	n.a.
Proceeds from disposal of PPE and intangible assets	737	8 760	1088,6%
Payments for interests in associates and joint ventures	0	0	n.a.
<b>Net cash used in investing activities</b>	<b>(37 435)</b>	<b>(39 369)</b>	<b>-5,2%</b>
Dividends paid to shareholders and minority interest	(6 158)	(19 224)	-212,2%
Net payments of loans and other borrowings	(11 317)	(3 401)	n.a.
Repayment of other financial liabilities	(5 372)	(4 000)	25,5%
<b>Net cash used in financing activities</b>	<b>(22 847)</b>	<b>(26 625)</b>	<b>-16,5%</b>
<b>Free cash flow*</b>	<b>(1 403)</b>	<b>20 180</b>	<b>n.a.</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

# For further questions please contact the IR department:

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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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