



Q1 2022 Results Conference Call

May 12, 2022

Good afternoon everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom. It is my pleasure to welcome you to our first quarter 2022 results conference call.

Please note that today's presentation is also available on the Investor Relations section of our website. This event is being recorded, for internal purposes only. By joining the presentation, you give your consent to being recorded.

Throughout the presentation your lines will remain muted and once we have commenced the Q&A session, you will be able to ask a question using the "raise hand" function, after which your microphone will be enabled and you can unmute yourself to ask a question.

Before we start, I would like to draw your attention to the disclaimer on the second page of the presentation. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties.

As usual, with me today are Mr. Tibor Rékasi, our CEO, and Ms. Darja Dodonova, our CFO, who will take you through the presentation and answer any questions you may have.

It is my pleasure to now hand over to Tibor to open the presentation.

Tibor Rékasi

Thank you, Dia. Good afternoon everybody.

I'll start on **slide 3** with a short update on how we have progressed our strategic priorities in the first quarter and how we are tackling some of the key challenges we face in our external environment.



We continued with the rollout of our fiber optic network, making headway towards our goal of providing gigabit capable access to all our customers in Hungary. Thanks to these efforts, we are now able to provide gigabit speeds at 3.1 million access points across our fixed network. These investments are evidently welcomed by our customers - the utilization of these networks is increasing steadily, reaching almost 30% and 50% of the fibre and Eurodocsis cable networks, respectively, with these customers usually opting for higher bandwidth broadband packages. By the end of the first quarter, over 43% of our residential fixed broadband customers who were connected to the gigabit capable network were using gigabit speed packages.

In parallel, we also progressed our mobile network modernization program. This initiative is of vital importance to meet the increased capacity demand of our customers, and one that enables us to maintain the quality and reliability of our services despite the sharp increase in data usage. In the first quarter of 2022, average monthly data usage of our customers was up 30% year-on-year at 8.7 GB.

During the first quarter, we also embarked on a journey to reshape the customer facing operation of the company. Specifically, we are implementing a series of IT developments to further improve customer service and satisfaction levels, while also providing a better experience for our colleagues delivering customer services. The improved servicing efficiency is also expected to further support our cross-selling abilities, increasing the average number of services each customer is registered for. In recent years, we have already made solid progress with our Magenta integrated portfolio, with over a third of households benefitting from this portfolio. We aim to increase this ratio further in the coming period.

We feel that this, along with the favorable operational and financial results, is testament to the success of our strategy.

There are significant challenges present in our external environment, namely rising inflation, exchange rate volatility, and increasing interest rates. To reduce our risk exposure to the rapidly evolving macro environment, we have taken a prudent



approach to spending and continued to hedge FX exposures throughout the first quarter. Furthermore, given rising energy costs, where possible we have fixed energy prices. Our intention for the medium term is to transition towards greener energy resources.

Looking at the key operational drivers of our performance in more detail, let me outline key developments in the Hungarian mobile market, as summarized on **slide 4**.

Throughout the quarter, the total number of SIM cards continued to grow, thanks to an increase in machine-to-machine SIMs and further expansion of the postpaid subscriber base. In parallel, the number of mobile data users continued to rise and average monthly usage was up 30% year-on-year. Voice usage declined versus the prior year period when social distancing measures remained in place which led to a hike in voice usage. Given the high penetration of the semi or full-flat mobile plans, this only had a limited impact on ARPU which continued its positive trajectory thanks to the strong rise in data usage.

Favorable trends also continued in Hungary's fixed market, as shown on **slide 5**. During the first quarter we continued to grow our fixed line household base thanks to our rigorous customer-focused servicing approach and improved reach of the gigabit network. Erosion of the fixed voice customer base was low, while expansion of both the fixed broadband and TV customer bases continued throughout the quarter. Many new subscribers opted for a multi-play package, thus growing the double- and triple-play subscriber base further.

Significant growth in broadband ARPU is driven by strong demand for our high bandwidth broadband packages, amplified by the absence of the mandatory monthly allowance for students and teachers in Hungary introduced during the pandemic.



TV ARPU continued to grow, by almost 2% year-on-year, reflecting the success of our more-for-more pricing strategy.

Regarding voice usage... With the easing of pandemic-related restrictions, temporary increases in voice usage have reversed. While the ratio of flat package subscriptions among residential customers is high - and therefore has only mild implications for our financial performance - a reduction in corporate usage has unfavorably impacted voice ARPU levels.

With that, I'd like to hand over to Darja to take us through the financials results.

Darja Dodonova

Thank you, Tibor. Good afternoon, everyone.

Looking at Magyar Telekom's first quarter financial performance in more detail, let me start with a summary of key revenue trends, as shown on **slide 6**.

As Tibor mentioned, the main driver of revenue growth was the sharp rise in mobile data revenues, fueled by the aforementioned increasing data usage and expanding customer bases in both countries of operation. This, together with stronger SMS revenues in Hungary, offset the decline in mobile voice retail revenues, resulting in an overall rise in mobile service contribution.

Meanwhile, higher fixed service revenues were driven by increases in broadband and TV revenues, compensating for lower voice revenues. This increase was further amplified by the aforementioned absence of the mandatory monthly fee allowance for students and teachers in Hungary.

Higher equipment sales were primarily attributable to higher average handset prices, reflecting general price increases as well as greater demand for higher priced smartphones.



A moderate decline in SI/IT revenues in the first quarter reflects the absence of revenues formerly generated by the disposed Pan-Inform subsidiary, as well as lower revenues from the Hungarian public segment.

Turning to **slide 7** and our profitability. We are pleased to report sustained improvement in gross profit and further savings in indirect costs. Specifically, lower employee-related expenses in Hungary arising from a year-on-year difference in the timing of bonus provisions. While the impact of wage increases was fully offset by a reduction in headcount. At the same time, we successfully kept our other operating costs under control, thanks to continuous optimization of processes, prudent spending, and pre-fixed energy prices we secured last year for the majority of our annual energy consumption in Hungary. In North Macedonia, unfortunately, we do not have such agreements in place, which has led to some increases in the related cost items.

Last but not least, the significant rise in reported figures reflects a one-off gain booked in relation to the disposal of an IT subsidiary at the beginning of the year which has contributed 3.3 billion forint to the increase in EBITDA after leases.

Slide 8 shows the year-on-year changes in net income. As illustrated by the chart, net income increased considerably year-on-year, reflecting significant growth in EBITDA, which was marginally impacted by increases in D&A, the net financial result, and income tax.

Higher D&A was driven by the shortened useful life - and accelerated depreciation - associated with RAN modernization in North Macedonia. However, this was largely offset by lower depreciation expenses at the Hungarian operation thanks to the retirement of the copper network in some areas of Hungary in 2021.



The less favourable net financial result was mainly due to lower gains on measuring derivatives at fair value, which outweighed the decline in interest expenses stemming from lower debt levels and the more favourable average interest rates on our existing debts.

Finally, income tax rose proportionately to Magyar Telekom's profit before tax.

Before we turn to the next slide, let me reflect on our recently introduced KPI, adjusted net income, which amounted to 15.6 billion forint in the first quarter of 2022. Adjustments versus reported net income were mostly related to non-realized gains on measuring derivatives at fair value, stemming from the continued rise in the Hungarian yield curve.

Turning to **Slide 9**, we have further detail on the Group's capital expenditure and information about the rollout of our gigabit capable fixed network.

In the first quarter of 2022, capital expenditure after leases, without spectrum licenses, increased by 14.7% year-on-year to 23 billion forints. Investments at the Hungarian operation remained broadly stable compared with a year earlier, with reduced expenditure on fixed network upgrades and IT investments, and a higher portion related to the RAN modernization and fiber roll-out initiatives. As a result, by the end of the first quarter, we had completed the modernization of around one third of our base stations, allowing us to meet increased capacity and quality needs. Meanwhile, with the advancement of the fiber roll-out, we increased our gigabit reach to over 70% of our network.

At the same time, Capex in North Macedonia increased by 2.5 billion forint year-on-year, driven by the rapid progress made on RAN modernization, as well as different timing of TV content activation versus last year.



Slide 10 sets out the Group's free cashflow developments in the first quarter of 2022 against the same period in 2021. The improvement in free cashflow is largely attributable to strong commercial momentum in both Hungary and North Macedonia, generating approximately 8 billion forint gross profit uplift. Furthermore, the disposal of Pan-Inform contributed a further 5.5 billion forint. With Capex moderately up year-on-year, the somewhat lower Capex-related payments were driven by different timing of the related outpayments. The decline in interest payments reflects the Group's lower debt level, including the absence of a high interest loan which expired a year ago, and temporary lower bank charges.

Finally, let me briefly touch on how we are delivering against our full year financial targets, as shown on **Slide 11**.

In the first quarter, we made strong progress towards achieving our 2022 targets, thanks to continued commercial momentum, coupled with one-off items such as the absence of certain fixed broadband revenues in the base and gains and cash-inflow recorded on the disposal of Pan-Inform.

Looking ahead, while expansion of our customer base in key service lines is expected to give further impetus for the remaining quarters, we have decided to adopt a prudent approach and keep our public targets for 2022 unchanged. This is due to the increased level of uncertainty and deteriorating outlook for our wider economic environment.

That concludes our presentation, I will now hand back to Dia.

Dia Várkonyi

Thank you very much Darja.

We are now happy to take any questions you may have. Please use the "raise hand" function, following which your microphone will be enabled and you can unmute yourself to ask a question.



(Take questions)

Thank you again for joining us today. Please note that a transcript of this conference call will shortly be available on our website. If you have any follow up question, please don't hesitate to contact us.