



Q3 2021 Results Conference Call

November 10, 2021

Good afternoon everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom. It is my pleasure to welcome you to our third quarter 2021 results conference call.

Please note that today's presentation is also available in the Investor Relations section of our website. This event is being recorded, but the recording will not be redistributed outside Magyar Telekom. 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 open and you can unmute yourself to ask a question.

Before we get started, 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.

With me today is 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.

Let me start on **slide 3** by providing an update on how we have progressed our strategic priorities and the status of our key objectives.



During the third quarter, we continued our flagship investments in Hungary which aim to provide our customers with an outstanding network that they require and appreciate, whether they are at home or on the move. Thanks to our rollout efforts, by the end of September we were able to provide gigabit speed at 2.9 million access points in Hungary, which meant that two-thirds of our fixed infrastructure is now gigabit capable, and over 1 million customers chose to connect via gigabit technology to our fixed network.

We also proceeded with the RAN modernization project, allowing us to maintain our technology leadership. This was once again recognized by the independent body Opensignal, which rated Magyar Telekom's mobile network as the best in Hungary in six out of seven categories, including 4G coverage and download speed experience. It also enables us to meet sharply increasing demand for mobile data. Over the last year, average mobile data usage rose by over 30% as more and more of our subscribers opted for unlimited data plans or chose one of our summer promotions offering unlimited usage for a specific period of time, making the holidays worry-free.

Our efforts to provide not only outstanding infrastructure, but also an excellent service and tailor-made solutions to our customers, are reflected in the continued increase in customer satisfaction, with Magyar Telekom obtaining the highest TRIM index scores among Hungarian telecommunication service providers measured among residential and SOHO customers.

Finally, I would like to highlight that we received further recognition of our efforts and progress by Scope Rating, which has affirmed our BBB+ issuer credit rating with a stable outlook, and specifically emphasized the Company's strong market position and resilient operational structure. In parallel, ISS Corporate Solutions ranked Magyar Telekom among the best performers in the telecom sector globally in terms of the Company's sustainability credentials, awarding Magyar Telekom a 'B' rating which equates to 'Prime' status.



Now, looking at our third quarter operational performance in more detail, let me turn to the key developments on the Hungarian mobile market, summarized on **slide 4**.

The number of total SIM cards increased, driven by continued expansion of our postpaid customer base and also boosted by pre-to-post migration, as well as higher machine-to-machine SIM card numbers. The number of customers choosing to subscribe to one of our data plans continued to increase, demonstrating the appeal of our services and the importance of our network development efforts.

Looking at the development of usage levels, as mentioned earlier, average data usage by our customers rose sharply. To support this trend further, we reshaped our residential mobile data portfolio at the end of the quarter, applying 'more-for-more' approach, by increasing the mobile data allowance of packages by a relatively higher rate than the corresponding price increase. Regarding voice usage, with the easing of pandemic-related social distancing measures, usage levels returned to a normalized trend and are now showing a moderate increase year-on-year.

Postpaid APRU grew by 4%, driven both by the significant rise in mobile data usage as well as the recovery in roaming revenues, thanks to easing of many pandemic related travel restrictions. Prepaid ARPU remained broadly stable year-on-year as lower voice revenues reflecting a moderate decline in usage levels as well as intense price pressure, were fully offset by higher data revenues as customers opted for our promotional packages. Overall, positive subscriber trends, supported by a sharp rise in mobile data usage and recovery in roaming, led to an almost 4% uplift in our blended ARPU.

Turning now to **slide 5**, let us look at the key developments in the fixed market in Hungary. We continued to see substantial growth in double-play customers, driven by the expansion of the broadband and TV customer bases. The decline in the single-play base is due to the erosion of single-play voice subscribers in line with the shrinking of



the voice market and the success of our cross-selling efforts, with a growing ratio of single-play customers choosing additional services from us as well.

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

Due to the appeal of our gigabit network we further increased our market share of both the TV and the fixed broadband markets in Hungary, which currently stand at more than 35% and 42%, respectively. Growth in retail broadband customers, with more and more subscribers opting for gigabit speed packages, provided strong support for revenue growth and ARPUs. We witnessed a 5.8% increase in ARPUs, that could now return to its underlying trend with the expiry of the mandatory broadband monthly fee allowance.

With that I'd like to hand over to Darja to take us through the third quarter financials in more detail.

Darja Dodonova

Thank you, Tibor. Good afternoon everyone.

Let me start with the major drivers of our quarterly revenue performance, shown on **slide 6**. The primary contributor to the over 6% revenue growth we recorded year-on-year in the third quarter was the continued improvement in mobile service revenues. As Tibor highlighted earlier, this was mostly attributable to very strong mobile data revenue growth on the back of both customer and usage growth and more favorable roaming and SMS usage.

Fixed service revenue improvement was once again primarily driven by higher TV and fixed broadband revenues, with the latter showing especially strong acceleration



compared to earlier quarters, when the mandatory broadband monthly fee allowance negatively distorted our results.

With regards to other revenue categories, all were impacted by some seasonal factors, namely equipment revenue decline which was primarily driven by partly pandemic-related high demand in the base period; SI/IT revenue growth was mostly attributable to different in-year project distribution; whereas the increase in other revenues was driven by higher visitor revenues, largely absent last year, due to pandemic-related travel restrictions.

Turning to **slide 7**, let me now touch on profitability, starting with EBITDA after leases. As shown by the charts on this slide, both in the third quarter and in the first nine months of the year, the key driver of the considerable increase was strong growth in gross profit. This increase was largely driven by the significant improvement in service revenues, coupled with a one-off telecommunication tax correction that negatively impacted the base period in Q3 2020. In terms of indirect costs, I am happy to report that despite building inflationary pressure, we managed to keep costs under control. The increase in employee-related expenses was primarily driven by higher performance related bonus expenses and an uplift in severance expense in third quarter 2021 in relation to the voluntary leave program running at the Hungarian operation.

Moving to **slide 8**, let us look at our third quarter and first nine months Net Income and key developments below the EBITDA line. As we have witnessed in the past couple of quarters, depreciation and amortization continued to be slightly higher compared to the base periods, reaching 108.7 billion forints in the firsts nine months of 2021. The increase was driven by the activation of acquired 5G related frequency licenses, coupled with copper retirement related increases. Net financial losses amounted to 5.5 billion forints in the third quarter, representing a 4.3 billion forint decline compared



to the base period, driven on one hand by higher interest expenses, booked in relation to spectrum payment liabilities, and on the other hand, less favorable results relating to recognition of derivatives at fair value, which reflects a different pattern in the yield curve movement compared to the base period. While the third quarter shows a decline, for the first nine months of 2021, net financial results improved by 6.4 billion forints, thanks to more favorable FX impacts compared to the first nine months of 2020. Income tax expenses remained broadly stable compared to the base period during the third quarter. A slight increase in the first nine months of 2021 reflected improved profit before tax.

Profit attributable to non-controlling interests rose by 44.4% year-on-year to HUF 1.6 billion in Q3 2021, thanks to a strong improvement in both revenue and profitability in North Macedonia.

Slide 9 provides further details on Group capital expenditures and information about our Gigabit capable fixed network rollout.

Capital expenditure increased by 6.6% year-on-year in the third quarter, and amounted to 71.4 billion forints for the first nine months, marginally lower compared to the base period. The year-over-year decline in the first nine months was driven primarily by the Hungarian operation, with the temporarily lower spending on the fixed network capacity expansion partially counterbalanced with higher investment into mobile network modernization.

We continued to develop the gigabit fixed line network and, as mentioned earlier, by the end of September 2021, we had reached the 2.9 million access points.

In our North Macedonian operation, we saw higher investment in Q3, driven by content fee related capitalization cost. The segment delivered broadly stable expenditure in the first nine months compared to the base period.



Moving on to cash-flow developments on slide 10, free cash-flow generation amounted to 34.4 billion forints in the first nine months of 2021. The operating cash-flow exceeded the base by 6.8 billion forints, supported by higher EBITDA generation and some positive change in taxes, financial charges and other non-cash items. The latter driven by more significant foreign exchange rate movements leading to FX losses in the base period. These positive impacts were diminished by the working capital development driven by different in-year project development in SI/IT project and less favorable handset balances.

The investment level and positive effect of the corporate income tax settlement of energy efficiency tax credit were partly offset by capex related outpayments, coupled with higher frequency usage fee and lease related payments reflecting the increases in the related liability balances.

And, last but not least, let me say a few words on the 2021 outlook on slide 11. While, the strong momentum across our operations is clearly reflected in our financial performance in the first nine months of 2021, looking ahead we remain cautious due to a number of factors. We expect the macroeconomic environment to remain volatile, driven not only by global developments but also a fourth pandemic wave emerging in Hungary that might result in unforeseen restrictions and potentially unfavorable operational or financial implications. Consequently, with these potential implications in mind, we have decided to keep our 2021 guidance and further outlook unchanged.

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 the transcript of our conference call will shortly be available on our website. If you have any follow up question, please don't hesitate to contact us.