



1Q 2018 Results Conference Call

May 9, 2018 at 15:00 CET

Good afternoon everyone. I am Péter Bauer, Head of Investor Relations at Magyar Telekom. I would like to welcome you to our first quarter 2018 results conference call. Please note that our presentation can be accessed via the link within the conference call invitation, and is also available in the Investor Relations section of our website.

Before we get started, I would like to draw your attention to the disclaimer on the last slide. 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. Christopher Mattheisen, our CEO, Mr. János Szabó, our CFO and Mr Tibor Rékasi, our Chief Commercial Officer Residential, who will take you through the presentation and answer any questions you may have.

Now, it is my pleasure to turn the call to Chris to open the presentation.

Christopher Mattheisen

Thank you, Peter. Good afternoon everybody.

As you all know, I will be leaving Magyar Telekom at the beginning of July, and as such, this will be my final results call at the company. It has been a great privilege to serve as CEO of Magyar Telekom for the past 12 years. I would like to thank the Board for their support during my tenure, as well as all of the employees whose dedication and hard work has underpinned Magyar Telekom's success during my time with the company.

I am leaving Magyar Telekom in a strong position for future success, in the capable hands of Tibor Rékasi. Tibor has a wealth of experience in the Hungarian telecoms market and has been a valued colleague at Magyar Telekom for over ten years, most recently as Chief



Commercial Officer for Residential Services. Before I start with the review of our performance in the first quarter, I'd like to invite Tibor to say a few words.

Tibor Rékasi

Thank you, Chris.

First, I would like to express my thanks to Chris for his stewardship of the firm over the last 12 years. He has delivered a successful period for the company and it has been a real pleasure to work with him.

I am delighted to be assuming the role of CEO at an exciting time for the telecoms industry and I look forward to navigating the opportunities and challenges that lie ahead. I'm sure I'll be meeting and speaking with many of you over the coming months, and I look forward to getting to know you all and sharing my vision for the company.

Now I'll hand the call back over to Chris to take you through the presentation.

Christopher Mattheisen

Thank you Tibor.

Now, I would like to provide you with an overview of the key financial and operational achievements recorded at the Group level for the first quarter of 2018. Although, as previously stated, we have adopted IFRS 9 and 15 from 1st of January this year, to make the comparison of our results more transparent, I will conduct the analysis excluding the impacts from these accounting changes.

As shown on **Slide 2**, we recorded strong revenue growth in the first quarter, as Group revenues rose by 6.5% year-on-year. This was thanks to the positive trajectory of revenues across all three major services lines in Hungary and was also helped by an increase in Macedonian revenues. Group EBITDA rose 9.4% year-on-year due to an improvement in



gross profit in Hungary, the positive impact of cost saving measures, and an improvement in performance in the Macedonian operation.

Moving on to some operational developments, on Slide 3 you'll see that in the **mobile segment** our number of mobile postpaid customers continued to grow. One of the key drivers in the segment was – once again – mobile data, where we saw continued growth in both customer numbers and the size of data subscriptions. This was accompanied by sustained demand for smartphones, partially thanks to the effect of the regulatory change introduced late last year.

In the **fixed market**, our efforts to make high speed internet available to our customers helped to improve our fixed broadband performance, while the TV subscriber base also continued to grow dynamically in the quarter.

The **SI/IT segment** delivered a strong first quarter, thanks to steady demand for hardware and software projects as well as a significant public sector asset sales. These traditionally low margin deals were coupled with licence sales in the Healthcare Sector.

At our **Macedonian operation**, our efforts to mitigate competitive pressures were successful, resulting in revenue and EBITDA improvements for the quarter.

Moving on to our **financial targets**, which are shown based on IFRS 9 and 15 on Slide 4, I am pleased to report that we are on track to meet our full year guidance. In terms of revenue, we expect some slowdown in the growth dynamics experienced in the first quarter, especially in system integration and IT revenues. EBITDA is expected to be further supported by cost savings, whilst capital expenditures are expected to accelerate in the coming quarters, in line with the more intensive roll-out of our fiber network. Free cashflow in the first quarter was negatively impacted by a temporary increase in payments to vendors, but these are expected to stabilise going forward, allowing us to reach our full year target.



I will now hand over to János to provide you with further detail on the performance of our business segments

Thank you, Chris. Good afternoon.

Starting with **Hungary** on **Slide 5**, overall **revenue increased by 7% in the first quarter**, primarily due to significant growth in System Integration and IT revenues, alongside higher mobile data and equipment revenues.

Mobile service revenues increased, thanks to the continued expansion of our post-paid customer base and higher mobile broadband subscriber numbers. This more than offset the decline in roaming revenues that derived from the EU's roam-like-home regulation. Mobile data revenues were positively impacted by the new classification of mobile handset insurance revenues, now booked under 'mobile data and content', rather than in 'other mobile revenues'. This change also explains the decline in the latter item. Mobile equipment revenues continued to increase, with the mix shifting towards higher priced equipment.

Fixed service revenues improved as a result of growth in fixed broadband and TV that compensated for the erosion of voice revenues. The strong growth in equipment sales reflects the change in loyalty legislation, which obliges operators to sell equipment with any two-year loyalty contract that is concluded with subscribers.

The System Integration and IT segment maintained its momentum from 2017 to deliver strong revenue growth in the first quarter, while energy service revenues declined as a consequence of our exit from the residential electricity market in November 2017.

EBITDA in our Hungarian operations increased by 11% year-on-year, thanks to a rise in gross profit and operating expense improvements. The gross profit increase was supported by a reduction in bad debt expense, alongside an increase in revenue. The reduction in utility tax reflects the tax holiday received for those parts of our network that have been upgraded to a speed above 100 megabits-per-second, during the past year.

Slide 6 shows developments in the **Hungarian mobile market**. First, looking at the overall customer base, the significant upward trend in the post-paid ratio reflects our focus on increasing the ratio of high value customers, as well as the loss of customers who did not register their prepaid SIM cards by the deadline last year. Broadband subscriber growth has continued, with a strong increase in the share of 4G users in the subscriber base. These factors, alongside stronger demand for mobile data and the flexibility offered by our post-paid portfolio, has led to a significant rise in overall usage levels, which averaged almost 2 gigabits per month in the first quarter, compared to 1.2 gigabits per month a year earlier. ARPUs remained under pressure from competitive pricing in the market. Nevertheless our efforts to migrate customers from prepaid to post-paid increased blended ARPU by over 6%.

As you can see on Slide 7, in our **fixed segment** broadband and TV subscriber numbers were both up by more than 5% year-on-year, supporting the expansion of our triple play subscriber base. The restructuring of our broadband offering, promoting migration to higher bandwidth packages, has had a positive impact on broadband ARPU and, in spite of pricing pressure, TV ARPU growth was maintained. A larger customer base and the migration to triple play packages, which now comprise almost half of our fixed customer base, led to a 3% increase in the average fixed revenue per household.

Slide 8 details the developments in the **Hungarian System Integration and IT segment**. In the first quarter, we once again recorded a strong increase in System Integration and IT revenues, primarily attributable to significant public sector asset sales, coupled with license deliveries in the health care sector. Although the gross margin for the period declined year-on-year, these projects create a very important basis for future higher margin opportunities, in the fields of system integration and application development.



Moving on to the performance of our **Macedonian operations, these are** shown on **Slide 9** in the local currency to better reflect underlying performance. Both revenue and EBITDA grew year-on-year in the first quarter of 2018, as a result of our competitive service offerings and continued focus on cost optimization.

In the **mobile segment**, revenue growth was primarily driven by higher data revenues and increased equipment sales, reflecting our continued focus on promoting mobile broadband usage. By the end of March 70% of our mobile customers were using a smartphone, while the number of mobile broadband subscribers increased by 9% versus the prior year. Despite the increasingly competitive environment, with our major competitor launching very attractively priced packages both for the prepaid and postpaid segments, we further expanded our post-paid subscriber base by 5% year-on-year, thanks to our market-leading service quality and brand perception. These factors contributed to a blended ARPU increase of 8%, the strongest improvement recorded in 5 years.

In the **fixed segment**, revenues continued to decline, but at a measurably lower pace, as a result of positive dynamics in the customer base. Thanks to our attractive double-play and triple-play offers, the number of subscribers on these packages grew, further reducing fixed voice erosion and fuelling broadband and TV subscriber growth.

System integration and IT revenues began to recover in the quarter, after last year's temporary decline. We anticipate further growth in this segment in the year ahead, as a result of our initiatives to boost private sector IT spending, along with stronger demand from the public sector.

In terms of profitability, due to an improvement in gross profit and savings in other operating expenses, **EBITDA** grew by 10% year-on-year in the period.



Chris Mattheisen remarks

Thank you very much, János.

That concludes the formal part of Magyar Telekom's conference call. Now, operator, when you are ready, we will take the first question.

(Take questions)

If you have any follow-up questions, please do contact our Investor Relations Department. Please also note that the transcript of our conference call will shortly be available on our website. Thank you again for joining us today and your continued interest in Magyar Telekom.