



2Q 2018 Results Conference Call

August 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 second 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. Tibor Rékasi, our CEO and Mr. János Szabó, our CFO, who will take you through the presentation and answer any questions you may have.

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

Tibor Rékasi

Thank you, Péter. Good afternoon everybody.

First, I would like to provide you with an overview of the key financial and operational achievements recorded at the Group level for the second quarter of 2018 and give an update on where we stand against our public targets, while János will lead you through the segment results.

As shown on Slide 2, in the second quarter of 2018, we recorded a strong performance across all our business lines in Hungary, with positive trends in our Macedonian results amplified by the weakening of the forint against the denar. We delivered a 9% year-on-year increase in Group revenues, with growth in System Integration and IT revenues playing a particularly important role. This growth was also supported by strong service revenue performance in both countries of operation. This reflects the success of our ongoing efforts to expand our customer base and



stabilize ARPUs by delivering price – value propositions and equipment offerings. Group EBITDA rose by 7% due to the higher gross profit and the positive impact of cost saving measures across the Group.

Looking at the **performance in the first half of the year**, based on IFRS 9 and 15 as shown on **Slide 3**, revenues increased by over 8% year-on-year, while EBITDA also rose by a similar magnitude, driven by the aforementioned factors. Meanwhile, Capex spending was at a lower level compared to the prior year, but this was purely due to different dynamics within each year. Free cashflow performance has started to improve in recent months, reflecting higher EBITDA, lower investment levels and some favourable working capital developments.

Looking ahead to the rest of the year, based on the higher than anticipated revenue growth seen in the second quarter, we expect full year revenue to reach around 630 billion forints, exceeding our original guidance. All other elements of our original guidance remain unchanged as the increase in revenue is largely attributable to revenue streams such as equipment sales and IT projects that are lower margin, but help to secure our customer base and market positioning for future growth.

Moving on to our **strategic priorities** on **Slide 4**. During the quarter, we progressed the rollout of our high-speed internet network which now reaches almost 3 million Hungarian households, while continuing to acquire smaller cable assets, adding a further 9000 homes to our network. The benefits are also reflected in our growing number of fixed Triple Play and fixed-mobile convergent households. By the end of June this year, 45% of our fixed households had signed up for a Triple Play package, while over 30% of our residential customer subscriptions were part of an FMC package. This customer growth, along with increased demand for higher bandwidth from fixed broadband customers and higher monthly data allowances in mobile data contracts, led to further increases in service revenues in the second quarter.



As part of our strategy to service growing segments of the ICT market, we continued to participate in high volume infrastructure projects during the period, leading to record quarterly revenues in the System Integration and IT segment. Whilst these projects make a comparatively smaller contribution to profitability, they nevertheless allow us to reinforce our relationships with a wide range of customers and secure longer term contracts.

We intend to continue **leveraging our competitive advantage in these markets**, as the only operator in Hungary that is currently able to meet households' and businesses' entire IT and telecommunications needs.

Parallel to our initiatives to expand our customer base and increase revenues, we have been focused on **enhancing our operational and service efficiency**. We have initiated a wide-ranging cost optimization program, and also identified some imminent priorities. We strongly believe that as a market leading ICT company we should be a forerunner in digitalizing our operations to successfully meet the challenges of the future. Additionally, based on the very positive reception to the mobile postpaid portfolio we launched last spring, we intend to simplify our service portfolio further to increase its appeal to customers and ensure our competitiveness going forward.

These initiatives are also delivering results in our **Macedonian operation**. Customer numbers are improving, supporting service revenue growth, while cost reductions have led to a strong improvement in EBITDA.

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

Thank you, Tibor. Good afternoon.



Starting with **Hungary** on **Slide 5**, overall **revenue increased by 10% in the second quarter**, primarily due to significant growth in System Integration and IT revenues, alongside higher equipment sales revenues.

Mobile service revenues increased, thanks to the continued expansion of our post-paid customer base and higher mobile broadband subscriber numbers. Mobile data revenues were positively impacted by new data plans, customer upgrades to larger data packages and the significant rise in SMS revenues in the quarter. Mobile equipment revenues continued to increase as a result of the higher ratio of high-end handsets in the sales mix.

Fixed service revenues improved due to moderate growth in fixed broadband and TV as the percentage of customers with fiber optic connections opting for higher bandwidth increased. The strong growth in equipment sales reflects the regulatory change which came into effect at the start of the year.

The System Integration and IT segment delivered strong growth in the second quarter of 2018, mainly attributable to high demand for hardware and software projects. These projects however, typically have lower profit margins and hence a dilutive effect on the gross margin.

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 5% year-on-year, thanks to a rise in gross profit and lower indirect costs. The decrease in operating expenses was supported by a decline in marketing, maintenance and HR related expenses, while savings in employee related expenses reflect the lower headcount versus the same period last year.

Slide 6 shows the key 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 our ongoing efforts in the pre-to-post paid migration of our customers. These efforts are also evident in our blended ARPU which



increased by 8% year-on-year. Broadband subscriber growth has continued, with a strong increase in the share of 4G users in the subscriber base. The growth of our 4G subscribers is reflected in our usage - almost 90% of our mobile internet traffic was conducted via 4G networks. It is also worth noting that overall mobile usage this quarter is up by over 86% year-on-year, while the average usage of a 4G customer has reached 2.6 gigabits per month compared to just 0.8 gigabits per month for the 3G users.

As you can see on **Slide 7**, in our **fixed segment** broadband and TV subscriber numbers were both up, supporting the expansion of our triple play subscriber base. Consequently, despite general pricing pressure visible in the decline in the overall fixed ARPUs, fixed blended household ARPU increased year-on-year as we have managed to grow the ratio of 3Play customers in our portfolio.

Slide 8 details the developments in the **Hungarian System Integration and IT segment**. In the second quarter, we achieved the highest revenue per quarter in recent years, mainly thanks to the large number and volume of hardware and software deliveries in the public sector. In addition to public sector spending, we also observed growth in the corporate sector, particularly within the financial services industry, where regulatory changes have triggered significant IT investments. Our goal is to secure long-term service based contracts with these customers to ensure ongoing revenue generation within this segment. Although most of our revenue growth in the second quarter derived from hardware deals, we were able to grow our gross profit for the period.

Turning to the performance of our **Macedonian operations**, these are shown on **Slide 9** in the local currency to better reflect underlying performance. In local currency we recorded a



moderate decrease in revenues, mostly driven by declines in the fixed segment. However, at the EBITDA level, this was more than offset by the gains from efficiency improvements, resulting in a year-on-year increase in the second quarter of 2018.

In the **mobile segment**, revenue declined slightly as higher data revenues and increased equipment sales could not fully offset the decrease in voice revenues. This decline was equally attributable to lower international termination revenues, lower average prices and the reduction of the total customer base. However, thanks to our attractive service offerings, our postpaid subscriber base continued to increase, growing 6% year-on-year, leading to further improvements in customer mix and blended ARPU. By the end of June, half of our customers were using one of our postpaid plans, including mobile data services, driving a 6% year-on-year increase in blended ARPU.

In the **fixed segment**, revenue erosion slowed further, with service revenues increasing in the second quarter of 2018 compared to the prior year. Our efforts to increase the ratio of bundled fixed and fixed-mobile convergent households helped sustain positive trends in our customer dynamics that should mitigate some of the pressure arising from intense price competition. By the end of the quarter, over one third of our serviced households had signed up for one of our FMC products.

System integration and IT revenues grew dynamically after last year's temporary decline. The increase was partially driven by a major project in network equipment and another in license deliveries, while demand for lower volume customized solution projects also picked-up.

In terms of profitability, **EBITDA** increased significantly, reflecting our commitment to enhancing the operational efficiency of the company.



Tibor Rékasi 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.