



Q2 2022 Results Conference Call

August 10, 2022

Good afternoon everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom. It is my pleasure to welcome you to our second 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.

Let me start on **slide 3** by providing an update on the progress we have achieved against our strategic priorities and the proactive action that has been taken to tackle some of the key external challenges we have faced.



During the second quarter, we continued with our core investments in Hungary to provide outstanding network quality to our customers. Thanks to network rollout efforts, by the end of June we were able to provide gigabit speed at 3.2 million access points in Hungary. This means that 73% of our fixed infrastructure is now gigabit capable and 45% of our residential fixed broadband customers connected to the gigabit capable network are using gigabit speed packages.

We are also nearly halfway through our mobile network modernization project. With 44% of processes now realized. The RAN modernization is a key initiative enabling us to maintain the quality and reliability of our service despite the strong increase in dataload. In the second quarter of 2022, the average monthly data usage of our customers was up 27% year-on-year to 9.1 GB.

In addition to the progress with RAN modernization, I would like to highlight the retirement of our 3G network. This was an important event in our transition from legacy technology towards more energy efficient infrastructure, allowing the Group to increase throughput capacities by redeploying relevant frequency bands to deliver 4G and 5G services.

The more efficient energy consumption is of particular importance at present due to the sharp rise in global energy prices and we are delighted to have delivered 6% savings in electricity consumption in the first half of the year compared to the same period of 2021.

Turning to our macro environment, we faced significant challenges since the start of the year, including the continuous relative depreciation of the Hungarian forint, rising inflation, increasing energy prices and interest rates, which collectively put extra pressure on our operating expenses. To mitigate the effects of this upward cost pressure, we announced a range of price measures. With the July invoice, we informed our customers that as of September 1, 2022, we will be changing the monthly fees for certain residential fixed and mobile and business mobile contracts. This change will only affect part of our customer base, predominantly impacting our less up-to-date



packages. At the same time, we also communicated that our General Terms and Conditions for both residential and business customers will be supplemented by an inflation-based price correction clause as of 1st of September. With this, we have paved the way for future price adjustment in line with the annual average customer price index published by Central Statistical Office. The fees will be adjusted within 90 days following the official publication of the annual average customer price index.

To ensure uninterrupted energy supply and mitigate the risks associated with energy price volatility, we moved forward with the detailed assessment of our medium-term greener energy initiative. Our aim is to achieve an optimal balance between traditional and renewable energy sources by signing contracts with major Solar Park providers in our markets.

Turning to **slide 4**, let me go into our operational performance in more detail, starting with the Hungarian mobile developments. We maintained positive momentum into the second quarter, with our SIM base growing further, again driven by the continued expansion of our postpaid customer base and further increases in machine-to-machine SIMs. At the same time, our mobile data users continued to grow with an increasing number of prepaid users also opting for regular, fixed monthly data allowances. Voice usage was again lower year-on-year, with more and more voice traffic now conducted via mobile applications. Average monthly data usage also continued to rise strongly, up 27% year-on-year in the second quarter, with an increasing ratio of our customers opting for unlimited data packages, which, coupled with the high penetration of flat-rate or partial flat-rate mobile voice plans, and higher roaming revenues, led to continued positive ARPU development across different customer groups.

Favorable trends also continued in Hungary's fixed market, as shown on **slide 5**. Thanks to our efforts aimed at providing outstanding network quality and customer experience, we managed to maintain the pace of customer growth both in fixed



broadband and TV, leading to further increases in our residential home base, with the share of double-play packages increasing steadily.

We also saw continuing positive trends in service ARPU in the second quarter. Customer migration to higher bandwidth broadband packages, facilitated by the continued expansion of our gigabit fixed network, coupled with the absence of the mandatory monthly allowance for students and teachers, still partially in place in the second quarter of 2021, led to an uplift in the broadband ARPU of close to 10% year-on-year.

TV ARPU also continued to grow, up by 2% year-on-year, reflecting the success of our more-for-more pricing strategy and the targeted price increase measures we introduced in the past year.

Regarding voice usage and ARPU, following the elimination of all the pandemic-related restrictions, we saw a reversal of the temporary increases in voice usage, especially among corporate users. Given that the ratio of flat-rate package subscriptions among residential customers remains high, lower voice usage in this segment has only minor implications for our financial performance. However, the reduction in corporate usage has a more pronounced negative impact on 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.

Let me start with the main drivers of our quarterly revenue performance, as shown on **Slide 6**. The primary contributor to revenue growth in both periods was the strong increase in mobile data revenue, fueled by continued growth in our subscriber base as well as higher usage levels in both Hungary and North Macedonia. This sharp increase



was able to offset the moderate decline in mobile voice and messaging revenue, resulting in an overall increase in mobile service revenues.

As Tibor mentioned earlier, customer base expansion and higher average ARPU both in fixed broadband and Pay TV resulted in fixed service revenue growth across both periods.

With regards to Equipment revenue, both the general increase in handsets prices and the weakening of the forint resulted in a rise in average smartphone prices, which, coupled with higher sales, saw greater revenue generation.

Primarily thanks to a major project in North Macedonia, our SI/IT revenue increased year-over-year. In Hungary, this figure was moderately up year-on-year as the absence of revenues formerly generated by our healthcare business unit including Pan-Inform LLC was offset by favorable in-year project distribution.

Turning to slide 7 and our profitability. We are pleased to report sustained improvement in gross profit thanks to positive underlying telecommunication service developments, with strong demand for data among the key drivers of our performance. Despite this positive trend in our gross profit, the EBITDA after leases declined by 3.5% year-over-year in the second quarter due to the newly introduced supplementary telecommunication tax. Although the decree came into effect from July 1, 2022, the estimated supplementary telecommunication tax payable has been calculated and recorded for the first half of the year, with the negative effect on our profitability in the second quarter amounting to 12.4 billion forint. This offset other indirect costs savings achieved during the quarter. While the impact of the general wage increase was mitigated by a reduction in the headcount, lower severance expenses and different timing of bonus provisions resulted in a saving in employee related expenses. Other operating expenses, excluding the additional supplementary telecommunication tax, improved moderately. The negative impact of inflationary pressure and weakening forint, reflected primarily in subcontractor costs, as well the



higher energy costs in North Macedonia, worked to diminish the cost savings resulting from lower marketing expenses across both operations and a one-off accrual reversal in Hungary.

Slide 8 shows the year-on-year changes in net income both on a quarterly and year-to-date basis. As illustrated by the chart, in the second quarter a decline of 21.7% was recorded as lower EBITDA year-on-year was coupled with a deterioration in net financial results. The latter is the combined result of higher interest expenses related to lease liabilities, and an unfavorable change in other finance expense due to higher losses related to the significant weakening of the forint during the period. These were partly offset by the gains on the recognition of derivatives at fair value caused by the upward shift of the relevant yield curves.

Income tax expenses increased year-on-year in the second quarter, as the increases in local business tax parallel to higher related tax base and different within-year tax expense distribution, offset the savings related to the year-on-year lower level of the profit before tax.

These impacts could only be partially compensated by lower D&A expenses driven by lower depreciation expenses in the Hungarian operation attributable to full copper network retirement in some areas of Hungary and the proportionally lower amortization of the spectrum licenses on 900 and 1800 megahertz, that expired in April 2022 and were reacquired earlier. These declines were partly offset by a D&A increase in North Macedonia due to a shortened useful life of equipment and accelerated depreciation related to RAN modernization.

Looking at the first half results, I am pleased to report that EBITDA improvement driven by the favourable operational performance could fully offset the higher supplementary telecommunication tax and financial and income tax expenses, leading to a 29.5% year-on-year improvement in net income.



Let me also briefly reflect on our recently introduced KPI, adjusted net income, which amounted to 10.1 billion forint in the second quarter and 25.8 billion forint in the first half 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 over both periods.

Turning to **Slide 9**, we present the development of the Group's capital expenditure and an update on the rollout of our gigabit capable fixed network.

In the first half of 2022, capital expenditure after leases, without spectrum licenses, increased by 21.6% year-on-year to 52.6 billion forints, reflecting different timing of investments versus last year. At the Hungarian operation, increases were primarily driven by further strong progress in network modernization and the continued expansion of the fiber network, where connections are also growing rapidly. We expanded the coverage of our fiber network by a further 177 thousand access points in the first six months of 2022, which is more than 10% higher compared to a year earlier, whilst 74 thousand customers chose to connect to the network in the first half, 18% higher year-on-year.

In North Macedonia, capital expenditure after leases, excluding spectrum licenses, rose by 3.9 billion forint year-on-year driven by the rapid progress in RAN modernization, as well as the different timing of TV content activation versus last year. Before I move on, let me also highlight that we successfully secured some new frequencies in the 700 megahertz and 3.6 gigahertz bands in North Macedonia at the beginning of July, enabling us to introduce gigabit speed 5G service in this market.

Slide 10 shows the Group's free cashflow development in the first half of 2022 against the same period in 2021. The underlying improvement in free cashflow is largely attributable to strong operational performance in both Hungary and North Macedonia, which generated over 16 billion forint in gross profit uplift whereas the payment of the



supplementary telecommunication tax which has been accounted for in our first half results will be due only in the fourth quarter of the year. In addition, cashflows from the disposal of Pan-Inform and lower lease liability payments also had favorable impacts on our performance and fully offset the deterioration related to higher tax payments and FX losses.

Overall, free cashflow was also impacted by the payment of the spectrum fees related to the acquisition of 900 and 1800 megahertz spectrum licenses in the amount of 44.3 billion forint, driving free cashflow temporarily into negative territory.

Finally, let me briefly touch on the updates we have made to our public targets to account for the new supplementary telecommunication tax and on how we are delivering against these updated targets, shown on **Slide 11**.

In the first half of 2022, we made strong progress towards achieving our 2022 revenue target, thanks to continued strong commercial momentum, coupled with one-off items such as the absence of certain fixed broadband revenues in 2021. Looking ahead, we expect the second half of the year to bring less favorable developments, with strong inflationary pressure building in the Hungarian economy, affecting household disposable income.

Regarding EBITDA After Leases, we modified our previous 2022 target of a 3 to 5% growth to a moderate decline to account for the supplementary telecommunication tax of approximately 25 billion forint for the year. In the first half of the year, the strong business performance, coupled with the one-off gain on the disposal of Pan-Inform, could fully mitigate the impact of the additional tax levied on the company. Looking ahead, however, the inflationary pressure coupled with the weakening of the forint is expected to put greater pressure on our costs. This, along with potential slowdown in revenue growth, led us to maintain our prudent approach full year outlook.

Regarding Capex After Leases and Free cashflow performance, seasonality differences that impact our performance against the public targets have been seen. In terms of



capex after lease, the year-on-year increase is attributable to more even within-year progress on the projects that produced more balanced spending compared to 2021.

With regards to free cashflow, we earlier modified our original guidance of 70 billion forint for 2022 to a moderate year-on-year decline, again to reflect the additional tax charge. As I mentioned earlier, the difference in the first half performance compared to a year earlier is mostly driven by the better business performance and a temporary boost from the shift in the payment of the supplementary telecommunication tax to the last quarter of the year. Consequently, in addition to the risks we face in our underlying operations, free cashflow outlook also incorporated this significant outpayment, negatively impacting results for the second half of the year.

Moving forward into H2 2022 we aim to maintain the momentum with operating performance improvements while continuing to advance our competitive position. This will be done through continued prudent investment in selective infrastructure projects, in conjunction with the further adoption of appropriate measures to mitigate the economic headwinds that are expected to remain present in the second half.

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 questions, please don't hesitate to contact us.