

Third Quarter 2007 Results Conference Call

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Conference call operator introduces call

Chris Mattheisen remarks

Good afternoon, ladies and gentlemen and welcome to Magyar Telekom's third quarter 2007 results conference call. I am Chris Mattheisen, Magyar Telekom's Chairman and Chief Executive Officer and I am hosting today's call together with Thilo Kusch, our CFO and member of the Board.

Before starting with the quarterly results, let me mention some major achievements we have announced in the last months. In September the Board of Directors decided to re-shape the Company's management and organizational structure based on a Group operational model structured around customer segments. The ongoing technological development, changes in customer demand, as well as the convergence experienced throughout the industry required a shift in focus away from technology and towards the demands of individual customer segments. The new segments - Consumer, and Business Services business units - will include both mobile and wireline services each. This will improve customer service and enable product bundling.

The recent integration steps and the change in the organizational model have enabled us to eliminate overlaps, simplify the processes and ensure a leaner management structure. The agreement with the trade unions reached in October allows a 15% reduction in Group-level headcount by the end of 2008 and a 5% decrease in underlying Group-level employee related expenses during the year. In connection with this, we will account HUF 24 bn of severance-related expenses in the fourth quarter of this year.

The headcount reduction will help us maintain margins in the traditional voice business where revenues are declining. On the other hand, revenues from new services, which do have a lower EBITDA margin, will maintain Group level revenues. This change in the revenue mix will cause further dilution of Group level margins. As a result, we expect flat revenues but a slight EBITDA decline next year compared to the 2006 level.

Let me mention the Telekom Slovenije tender. The main objective of our expansion strategy is to search for attractive acquisition opportunities in Hungary and in the region. In line with this strategy, Magyar Telekom has submitted a non-binding bid in the public tender of the Republic of Slovenia for the sale of 49% stake in Telekom Slovenije and has been shortlisted along with 6 other bidders.

Telekom Slovenije is the country's clear market leader in fixed-line, internet and mobile markets. Its operations are supported by a state-of-the-art network infrastructure and it also has a growing international footprint, for example it is building out a GSM network in Kosovo.

I do believe that this transaction has the potential to create value for our shareholders and will keep you informed of developments in due course. In addition to this transaction, Magyar Telekom will continue to seek further value accretive acquisition opportunities.

Continuing with the third quarter financials, **Group** revenues showed a 1% decline compared to the same period of last year as the revenue contribution of the new IT and system integration companies was offset by the lower TETRA revenues. The strong forint also reduced the revenue growth at the international operations. EBITDA, however, showed a 6% increase and EBITDA margin was above 42% thanks to our cost cutting and cost discipline efforts.

Let me start the segmental analysis with the results of **T-Com**. Revenue of the segment decreased by almost 4% due to voice revenue erosion in Hungary and Macedonia, which was partly offset by higher Hungarian broadband revenues and increased revenue contribution of Montenegro.

Hungarian T-Com revenues decreased by 4% in the third quarter, with the decreasing voice revenues partly offset by higher internet revenues.

Voice revenues of the Hungarian T-Com segment decreased by 11% in the third quarter, driven by further traffic decline and declining price levels. There are two drivers behind this continuous decrease in average tariff levels. The first is the increasing ratio of free minutes within the network offered through the flat rate packages. By the end of September, almost 70% of the fixed line domestic traffic was free, while in the same period last year this ratio was still below 50%.

The second driver is the strong mobile substitution. While the mobility premium in the business segment has long disappeared, due to the increasing number of residential customers joining the mobile operators' closed-user groups, average mobile price levels are also close to the fixed line tariffs in the residential segment.

Internet revenues showed a 19% increase which indicates some slowdown compared to the previous quarters. While digital maturity in Hungary is still at a low level and is expanding at a low pace, the austerity package continues to have a negative impact on demand. Naked ADSL introduced in April seems to be somewhat counterbalancing this negative effect thanks to its market broadening impact. By September the number of naked DSL customers stood at 7,000 and the majority of customers are new broadband subscribers. A fifth of these customers chose triple play service.

Let me mention here our IPTV results, as well. The number of internet TV customers is gradually increasing and was around 4,000 at the end of September. However, as a result of our successful marketing efforts, order numbers have started to increase. The need for bundled services has also increased as half of the orders are now Triple Play. More than half of the IPTV customers subscribe to the ADSL service, which has a positive impact on the broadband market. IPTV customers are less price-sensitive as they usually choose the high-end package often with value added services. As a result the average ARPU of IPTV customers was 5,000 forints.

Turning to the EBITDA level, the 2% increase and the above 42% EBITDA margin reflect our successful cost cutting measures in, for example, agent fees, communication expenses and technical services.

Continuing with **Macedonia**, revenues were down by 13% in the third quarter. Besides the negative foreign exchange impact, which explains the revenue decline of close to 9%, mobile substitution and competition from alternative operators are the main drivers for the lower revenues.

Thanks to the liberalisation, around two dozen alternative operators launched services in Macedonia offering international outgoing calls with voice over IP technology. Their market share reached 10% of the total international outgoing traffic in the last quarters.

The market share loss is even more significant in the international incoming traffic. In terms of international termination into the fixed network, alternative operators accounted for a quarter of the traffic, while their market share is above 40% in international traffic terminated to the mobile networks.

To offset the strong decline in voice traffic, MakTel aims to radically increase the number of ADSL customers. With this in mind, the company launched several new packages with lower monthly fees in September. The new campaign has proved successful as the ADSL subscriber base increased by a quarter in just one month.

Negative trends on the revenue side also impacted EBITDA, which decreased by 19% with a margin of 45% in the third quarter.

In **Montenegro**, fixed line revenues were up by 19% as growth in wholesale revenues offset the erosion of voice retail revenues. Within wholesale revenues, growth in domestic incoming traffic was supported by the increasing mobile penetration. Higher international incoming traffic, driven by the reclassification of Serbian traffic from domestic to international following Montenegro's declaration of independence was a further factor here. International outgoing traffic also showed some growth thanks to the increasing number of tourists in the country. EBITDA margin was 40% in the third quarter.

To prepare for the forthcoming EU-compliant telecommunications law, Telekom Crne Gore opted for a tariff rebalancing step and introduced new tariffs from the beginning of September. The rebalancing was necessary to preserve competitiveness and decrease mobile substitution. Fixed-to-mobile and international call rates were reduced, and access fees, local and long distance tariffs were increased. The rebalancing also aligned residential and business tariffs. The new packages introduced within the rebalancing step include bundled minutes within the monthly fee to improve the price perception of T-Com.

The company also strengthened the focus on broadband services and aims to accelerate ADSL sales. Increasing broadband penetration should also pave the way for IPTV services. We plan to introduce IPTV service in the fourth quarter to benefit from the still very low cable penetration.

Let me now hand over to Thilo who will provide further details on T-Systems and T-Mobile segment results.

Thilo Kusch remarks

Thank you, Chris.

Good afternoon ladies and gentlemen!

Let me continue with the results of our corporate segment. **T-Systems** revenues grew by 47% driven by the consolidation impact of the new IT and system integration companies. Although we already see signs of a slowdown in the decline of fixed line revenues, voice revenues were still down by 21% in the third quarter, reflecting the continuous decline of usage and line numbers. EBITDA in the corporate segment was up by 9%.

With the aim of improving our network integration services and customer retention rates, in September we introduced a new digital leased line service called Multiflex with higher bandwidth and lower prices. The new service is more reliable and cost-effective than the previous technology, thus we aim to migrate all customers to Multiflex in the next few years.

As a further achievement, we have built a world-standard IT system for the Bethesda Children's Hospital as part of a joint project with Cisco Hungary. The most up-to-date infocommunication equipment and services were implemented, including IP telephony and related dual-phone solutions, radio frequency identification system, electronic signature and numerous other new systems which all serve to improve patient care and operational efficiency. The payback period of the project will be up to two years. The pilot program will be used as a benchmark for other health institutions in implementing similar projects within the reform of the Hungarian healthcare system.

Continuing with the mobile business, the **T-Mobile** segment showed an above 5% revenue decline, driven by the lower TETRA revenues. In the third quarter last year we accounted close to 10 billion forints of revenues for the sale of TETRA network assets to the government, whereas in the third quarter this year we only had 2 bn forints revenues coming from network asset sales and service revenues.

Revenues at **T-Mobile Hungary** showed a moderate 1% increase in the third quarter as higher voice retail and value added revenues were partly offset by lower wholesale revenues. The 15% cut in mobile termination fees of T-Mobile Hungary from February this year decreased wholesale revenues. On the other hand, the termination fee cut favourably impacted profitability due to the parallel decrease in asymmetry between the mobile termination fees of the three Hungarian mobile operators. Supported also by strong cost control, EBITDA margin in the third quarter was above 44%.

Hungarian mobile market penetration was above 104% by the end of September, with further growth coming from data cards and business-to-business applications. Market shares remained stable in the third quarter, thus T-Mobile Hungary maintained its market share at above 44%.

The cut in mobile termination rates was the main driver for the further erosion in average tariff levels, which the increasing MOU and value added services, as well as the continuously improving customer mix were not able to offset. Consequently, average revenue per user declined by 5% by the end of September.

Competition for new customers in the mobile broadband market accelerated with launches of new offers with lower monthly fees and higher included traffic by the operators. At current price levels, T-Mobile Hungary is offering 5 gigabit downloadable monthly traffic for a 23 euro monthly fee. The number of mobile broadband customers exceeded 120,000 by the end of the third quarter, and again strong growth is expected in the fourth quarter, supported by the new laptop and 3G handset offers for the Christmas period.

As for the roaming regulation, the new EU roaming tariffs have been in effect since September. Although we need more time to draw conclusions, the first month shows encouraging results in terms of price elasticity. The growth rate of both mobile origination and termination traffic of own subscribers in September was higher than the annual average growth rate, indicating an immediate customer reaction to the decreased roaming tariffs. Visitor traffic also showed high usage growth.

Let me also mention the agreement we reached with the regulator on the extension of the GSM 900 license, which was due to expire in November 2008. According to the agreement, the license will be extended for a further 7 and a half years for a fee of 10 billion forints plus VAT, which will be paid in the fourth quarter of this year. As part of the agreement, T-Mobile Hungary is obliged to spend 20 billion forints in the next two years on improving the broadband coverage of underdeveloped regions. This obligation is in line with our aims to further increase mobile broadband coverage in Hungary.

Turning to **Macedonia**, the mobile market development was highly impacted by the entrance of the third mobile operator. Penetration reached 81% and the SIM card based market share of T-Mobile Macedonia decreased to 63%. The third mobile operator owned by Telekom Austria launched its service in September and currently offers prepaid services. Thanks to the low per minute pricing and the bundled minutes, it was able to win 4% market share in the first month. Increased competition forced the other two mobile operators to also significantly decrease prepaid tariff levels. While the new mobile operator started to build out its own network, it has a national roaming agreement with T-Mobile Macedonia for country-wide coverage.

Thanks to the strong increase in the customer base and the improving customer mix, revenues were up by 5%, although increasing competition has already put pressure on the EBITDA margin, which slightly decreased to 57%.

In **Montenegro** both mobile revenues and EBITDA improved by above 37%, driven by the strong growth in the customer base and increased mobile termination rates.

Penetration level in Montenegro reached 185% in September, an above 40 percentage points increase since the end of June. The accelerated penetration growth was the consequence of the entrance of the third mobile operator in July. The subsidiary of Telekom Serbia grabbed 16% market share based on SIM cards by the end of September, decreasing the market share of T-Mobile to 34%. The third entrant is mainly targeting prepaid customers and tourists

with lower entry barriers and more favourable Serbian calling tariffs. As a response, the two existing operators also launched discounts and extended their closed user group offers to retain customers.

To strengthen our market position, we have increased our focus on the postpaid segment and value added services. Our 3G service was launched in June and we will upgrade the loyalty program for postpaid customers and also extend it for the prepaid segment until the year-end.

Chris Mattheisen remarks

Thanks Thilo.

That concludes the formal part of Magyar Telekom's conference call. We are now happy to open the floor for questions. Operator, when you are ready, we will take the first question.

If there are follow-up questions, I encourage you to contact our Investor Relations Department. The telephone number is 36-1-458-0437 or if you want to send an e-mail you can address it to investor.relations@telekom.hu. I would like to inform you that the transcripts of our conference calls will be available on our official website. Thank you again for joining us today, and for your continued interest in Magyar Telekom.