

Conference call operator introduces call

Elek Straub remarks

Good afternoon, ladies and gentlemen and welcome to Magyar Telekom's conference call for the 2005 first quarter results. I am Elek Straub, Magyar Telekom's Chairman and Chief Executive Officer. Dr. Klaus Hartmann, our CFO and member of the Board and Szabolcs Czenthe, Head of Investor Relations are also here with me today.

Let us first update you on the recent developments: Matáv's name change and the acquisition of the majority stake in Telekom Montenegro. We will then give you a summary of Magyar Telekom's performance in the first quarter of 2005 and provide you with details on our individual reporting segments. We will conclude the call with the important dates of the dividend payment.

I am pleased to inform you that the rebranding of the Group started last week. In parallel with the introduction of the new company name, Magyar Telekom Rt., the names of the individual business lines have also been changed and now follow the international T-brand structure: T-Com, T-Systems, T-Online, T-Mobile and T-Kábel. The ticker identifying the company's shares quoted on the Budapest Stock Exchange changed to MTELEKOM from the 10th of May, the ticker used on the New York Stock Exchange will remain unchanged. I am convinced that the rebranding will have a positive impact on our business by helping us to build a new, fresh image supported by the introduction of new, innovative offers.

In line with our strategy of achieving growth through value accretive acquisitions, we have completed the acquisition of the majority stake in Telekom Montenegro, acquiring a 51% share from the local government and 22% from minority shareholders for a total amount of 137 million euros. We have also submitted an offer for the remaining shares at a price of 2.2 euros per share, the results of which will be known soon.

The company's balance sheet is consolidated in our first quarter accounts while the results will be included in the consolidated income statement from the second quarter of 2005. At the General Meeting of Telekom Montenegro on the 6th of April, Magyar Telekom's candidates were elected by the shareholders as members of the Board of Directors. We are now on the way to starting modernisation of the company and exploiting the synergies within the Magyar Telekom Group.

Let me now continue with the performance of the Group. The results of the first quarter of 2005 were impacted by further strengthening competition in both our fixed-line and mobile segments. As a result of this pressure on our profitability, Group EBITDA margin decreased to 41.2%. Consolidated revenues fell slightly as the growth seen in the mobile and broadband businesses was offset by the fall in fixed-line voice revenues. Before we go on, I would like to remind you that Magyar Telekom has modified its segment disclosure. The primary segments are now our business lines thus the fixed line and mobile segments. Our so-called secondary reporting format is based on geographical operations, breaking down both fixed-line and mobile segments into Hungarian and international activities.

First, I would like to take you through the analysis of the performance of the Hungarian fixed-line operations. As expected, we witnessed a drop in revenues, amounting to 6%, as the decrease in traffic revenues, caused both by decreasing usage and lower tariffs due to strong competition in the voice market, was only partially counterbalanced by growing Internet revenues reported at leased line and data transmission. Fixed-line erosion was successfully minimised last year, however, due to the unfavourable changes in the market environment, the number of lines fell by around 33 thousand in the first quarter. Traffic revenues also decreased by almost 22% year-on-year, as a combined effect of a number of factors.

Firstly, intensifying competition in the highly penetrated mobile market has had a negative effect on the fixed segment as well. As mobile premium over fixed-line tariffs practically disappears with rational package selection, mobile substitution increased. Migration to mobile was seen in both the residential and business segments. Residential customers were attracted by mobile operators' lower average tariffs and attractive flat offers with bundled monthly fees while business customers are offered complex mobile office solutions with discounted tariffs and extended free closed-user-group usage.

Residential fixed-line usage was also hit by the increased competitor activity. Tele2, which entered the Hungarian market in April 2004, now offers call-by-call carrier selection services in all call directions. At the same time, the company further intensified its heavy marketing and sales activities and successfully expanded the user base. Additionally, in line with expectations, some cable operators entered the voice telephony market with voice over cable services in September last year, offering free calls within the network and competitive tariffs in off-net directions. According to our estimates, churn due to migration to cable operators may also become a considerable factor in the future. Concerning the business segment, number portability remained the main driver of the churn.

In order to counteract to the changed competitive and regulatory landscape, Magyar Telekom has launched various initiatives with further ones in the pipeline. Customised packages were introduced to fight competitors' offers: following the success of the flat-rate XL and XXL packages, a new package named Teleperc was launched with minute based billing and attractive per minute tariffs. Moreover, in line with our ambitions to expand into areas of other local telephone operators, Magyar Telekom has managed to acquire almost 10% of the users in these service areas since last September with offerings through carrier preselection and call-by-call carrier selection. We are continuously working on further offers to minimise churn and stimulate usage. We are also increasingly focused on customer retention and aim to avoid price-per-minute based competition and

concentrate on stabilising access revenues. In line with this goal, we plan to introduce new, attractive bundled flat-rate packages in the framework of the rebranding campaign. T-Com's new loyalty program will be launched in the second half of the year.

In the broadband business, the rapid roll-out of ADSL lines continued. As a result of this fast growth, data and leased line revenues grew by 22% further increasing the contribution to the total Hungarian fixed-line revenues to over 21% in the first quarter. We are convinced that broadband services can bring a new impetus to the fixed-line business and have therefore decided to accelerate the speed of our broadband program and set a new goal of reaching 600 thousand broadband customers by the end of next year. These customers do not only include ADSL but also cable Internet and other solutions such as leased line and WLAN users. We plan to achieve this ambitious target by launching a number of new offers.

From May, as a first step, T-Com again doubles the maximum speed of broadband accesses at no additional charge to the subscribers, similarly to last year. As part of our strategy, we are also planning a launch of cable voice services in LTO areas and digital cable services by T-Kábel as well as television through broadband and a widening range of on-demand services by T-Online.

Let me conclude the analysis of the segment by touching upon the profitability of our Hungarian fixed-line operations. EBITDA margin was broadly stable at 37% as operating expenses were successfully reduced by 6%, partly compensating the decrease in revenues. Employee related expenses were cut by 5% and, as a result of the successful restructuring program, which the Group launched last year to increase workforce efficiency, lines per employee ratio at the parent company grew to 415 by the end of March 2005 from 352 a year earlier. Let me remind you that our 2006 year-end target is to bring this ratio to 500 and I believe we are on track to achieve this.

(Pause)

Let me now hand over to Klaus who will continue with the analysis of the international fixed-line operations and the mobile segment.

Klaus Hartmann remarks

Thank you, Elek.

Good afternoon!

The Macedonian macroeconomy remains weak, as reflected in the high unemployment, low GDP growth and low disposable income. As a result, MakTel and MobiMak continue to suffer from limited revenue growth potential. In addition, the strengthening of the forint exchange rate compared to the Macedonian denar had a negative impact of around 6% year-on-year on the figures in forint terms. Macedonian fixed-line revenues decreased by 14.5% in forint terms year-on-year due to a combination of several unfavourable factors.

Domestic traffic was hit by a decrease in the number of revenue producing customers, intensifying mobile substitution as well as traffic churn caused by the negative perception of the tariff rebalancing in July 2004. Intensified competition led to decreasing international outgoing traffic due to competing voice-over-IP solutions while international incoming revenues were affected mainly by lower average settlement rates.

Due to the limited success of our continuous efforts and after making several offers to reconnect the disconnected non-paying customers, in the first quarter of 2005 we decided to disassemble over 20 thousand two-way disconnected fixed lines. Although this resulted in a decrease of the subscriber base, these customers have been inactive for a longer time and neither reacted to our favourable debt repayment offers nor used the opportunity to migrate to a special prepaid package. Although we do not expect this step to be just a one-off correction, future disassembling is expected to be more gradual. Going forward, MakTel's main goal is to retain its current customer base through improved customer segmentation and targeted offers.

On the positive side, demand for internet services has increased. MakTel has maintained a strong leading position in the dial-up market, and still remains the country's only ADSL service provider. Data transmission revenues increased by almost 47% mainly driven by the successful take-up of the ADSL program.

Finally, let me also draw your attention to the positive evolution of the profitability of the international fixed-line operations. As a result of our measures to increase workforce efficiency, fixed-line headcount decreased considerably, by almost 24% year-over-year. Continuous cost control led to decreasing operating cost and an improved EBITDA margin at nearly 44%. MakTel will continue to analyse further cost saving opportunities.

As for the regulatory background, the new telecom act came into force on the 5th of March, creating the framework for future competition in the fixed-line segment. New services such as carrier selection, unbundling and number portability are expected to be launched gradually.

Let me now continue the segmental analysis with our Hungarian mobile operations.

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T-Mobile Hungary maintained its leading position in a highly saturated and competitive market. Hungarian mobile revenues grew by 3% as a result of increasing voice traffic and value-added service revenues. However, low penetration growth and competition driven price erosion have continued to put pressure on top-line growth. On the cost side, increased operating expenses counterbalanced the revenue growth, resulting in a lower EBITDA margin.

The Hungarian mobile market has been characterised by tariff-based competition since the second half of last year. All three mobile operators have launched simple, flat-rate packages with low minute rates in the postpaid segment and prepaid customers were also offered periodic discounts. Closed-user-group services originally offered to business customers with free within-group calls and attractive tariffs are now broadly available. While these offers stimulated usage and encouraged mobile substitution, the growth in traffic could not compensate for the significant average tariff decrease. The discounts offered therefore resulted in downward pressure on ARPU. With the introduction of the flat-rate Relax packages, the proportion of postpaid customers continued to increase. However, the high internal migration into these transparent, low minute fee packages further diluted the postpaid ARPU.

The considerable increase in the prepaid churn is mainly due to the fact that the extended validity period of the prepaid refill vouchers technically decreased the prepaid churn in the first half of 2004, this is now back to historical levels. The postpaid churn remained broadly stable at a low level despite number portability and competition. Let me draw your attention to the fact that a significant part of the churn is driven by upgrade transactions, which is also indicated by the growing number of inactive customers.

In a market nearing saturation, with a penetration level of over 87% by the end of March this year, penetration growth slowed down significantly. While in the second half of last year all mobile operators were active in subscriber acquisition, in the first quarter of 2005 market shares and tariff levels broadly stabilised, and now mobile operators are focusing more on customer retention. In line with this, acquisition costs fell strongly as handset subsidies were significantly reduced both in the prepaid and postpaid segments, and operators increased entry barriers. At the same time, retention cost increased as a result of the increasing number of upgrade transactions.

Value added services continued their increasing contribution to Hungarian mobile revenues. Their share within ARPU exceeded 14% and we expect further growth especially due to the further spread of GPRS and MMS enabled handsets. The start-up of 3G services will also support the focus on enhanced services in mobile communication. T-Mobile Hungary has started the pilot operation required for the commercial launch of the 3G service, intended to at least cover downtown Budapest by the end of the year. The first services being tested are video telephony, broadband Internet and video downloading.

Looking ahead, T-Mobile Hungary will continue its balanced focus on maintaining both profitability and its leading market share. Slight growth is expected in revenues from value added services although slowing penetration increase will continue to limit top-line growth. Nevertheless, decreasing acquisition costs and general cost cutting measures are expected to positively contribute to profitability.

As for the international mobile operations, the Macedonian mobile market continued to expand, with penetration exceeding 51% at the end of March, 2005. MobiMak's revenue producing customer based market share stood at almost 74%, revenue-based market share was even higher. Revenues in forint terms fell by almost 3% although this is mainly attributable to a negative foreign exchange impact. MobiMak's revenues in local currency terms still showed some increase as a result of rapid penetration growth. However, competition-led price erosion has put pressure on mobile revenues, as Cosmofon's aggressive marketing presence and price cuts forced MobiMak to decrease its prices. Lower tariffs, unfortunately, did not generate significant usage growth due to relatively low price elasticity and still relatively high mobile tariffs. Therefore, the rapid increase in the number of subscribers did not result in a similar incremental revenue growth. New additions were mainly driven by low ARPU customers due to the growing number of multiple SIM card users as well as a negative change in the customer mix. The proportion of postpaid customers decreased to 16% from 18% a year earlier. As for the future of MobiMak, further expansion of the market is only expected to generate significant top-line growth if the current macroeconomic situation improves and telecom spending increases in line with higher levels of disposable income.

Reflecting the high profitability and cost efficiency of our Macedonian mobile operations, EBITDA margin surpassed 52% in the first quarter of 2005. MobiMak will implement further initiatives including, for example, the centralisation of procurement activities and the realisation of marketing synergies with MakTel fixed-line operations in order to maintain high margins, preserve its strong leadership position and exploit the opportunities provided by the growing market.

(Pause)

Having concluded the analysis of the individual segments, let me now hand over to Elek, who will update you on the dividend payment for the year 2004.

Elek Straub remarks

Thank you, Klaus.

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The Annual General Meeting approved the 70 forint dividend per share for the financial year 2004. The ex-dividend date is the 23rd of May. The payment dates are the 1st of June for ordinary shares and the 8th of June for ADR holders.

(Pause)

That concludes the formal part of Magyar Telekom's conference call. I would like to inform you that the transcripts of our conference calls will be available on our official website.

Now we are happy to open the floor for questions. Operator, when you are ready, we will take the first question.

(Take questions)

I believe we have time for one more question.

(Take final question)

This is all the time we have. 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.

Thank you again for joining us today, and for your continued interest in Magyar Telekom.