

# Annual General Meeting

April 7, 2010

Report of the Board of Directors on the management of Magyar Telekom Plc., on the business operation, on the business policy and on the financial situation of the company and Magyar Telekom Group in 2009

Christopher Mattheisen

Chairman and CEO



*According to Section 7.4.1.e) of the Articles of Association and Section 10.1.e) of the Rules of Procedures of the Board of Directors, the Board of Directors draws up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.*

# Our strategy

## 3SCREEN COMPANY

- TV, PC, and mobile screens
- Technological leadership – superior 3G mobile network, fiber roll-out, cable upgrade
- Integrated fixed and mobile offers

## ICT LEADER

- Integrated IT-telecommunication offerings
- Application Service Provider (ASP) and IT outsourcing
- Further selective acquisitions in the Hungarian SI/IT market

## SERVICE INNOVATION

- Improved service quality and portfolio
- Focus areas: attractive 3Screen content /service offering and media

## REGIONAL PRESENCE

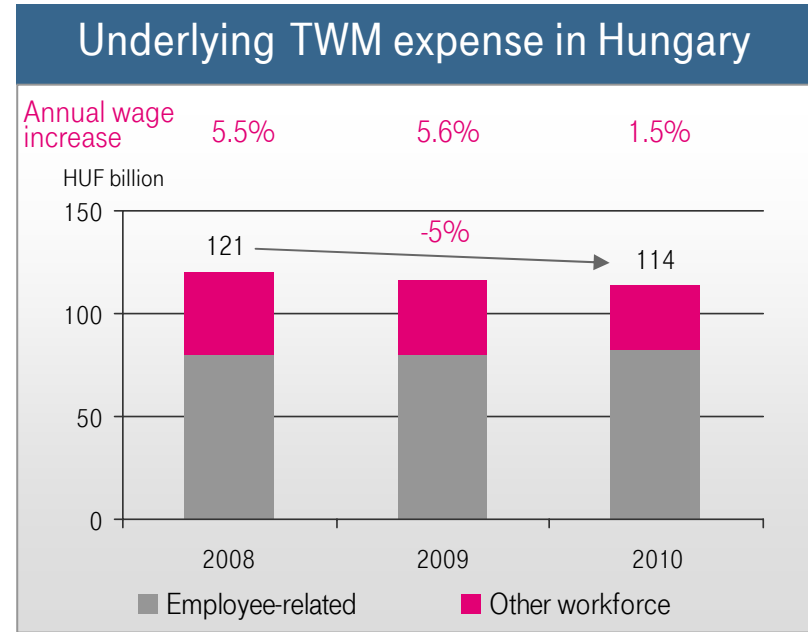
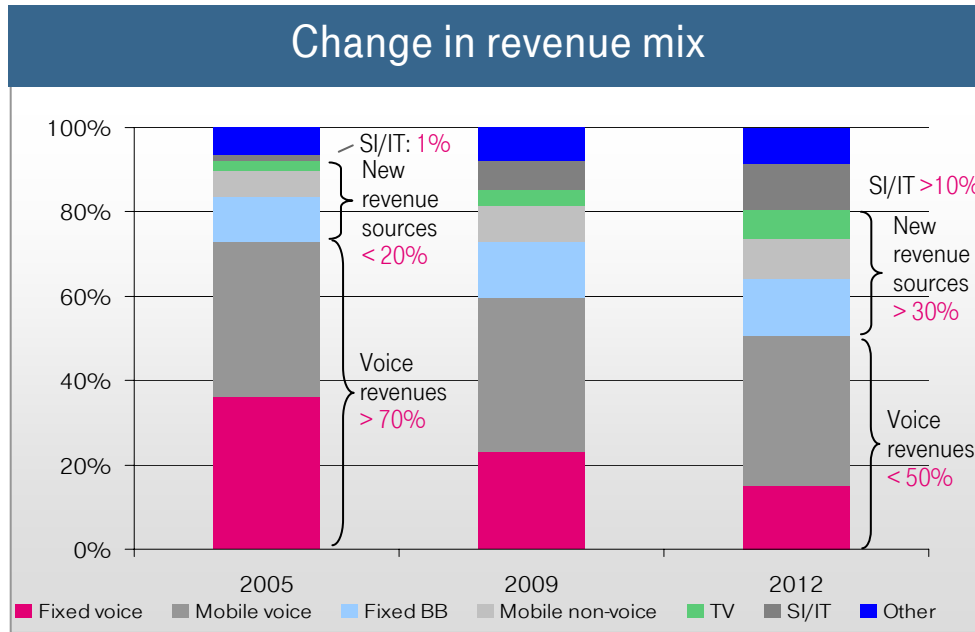
- Utilize synergies within DT group
- Seeking value-creating international acquisitions

## ONE COMPANY

- Leaner organization
- Subsidiary mergers
- Simpler brand structure
- Focus on efficiency enhancement
- Building a unified CRM/billing platform



# Changing trends require continued efficiency improvements



## Dynamic change in revenue mix

- continued decline of voice revenues
- pronounced growth in revenues from non-traditional services such as SI/IT and TV services

## New revenue sources have lower EBITDA margin

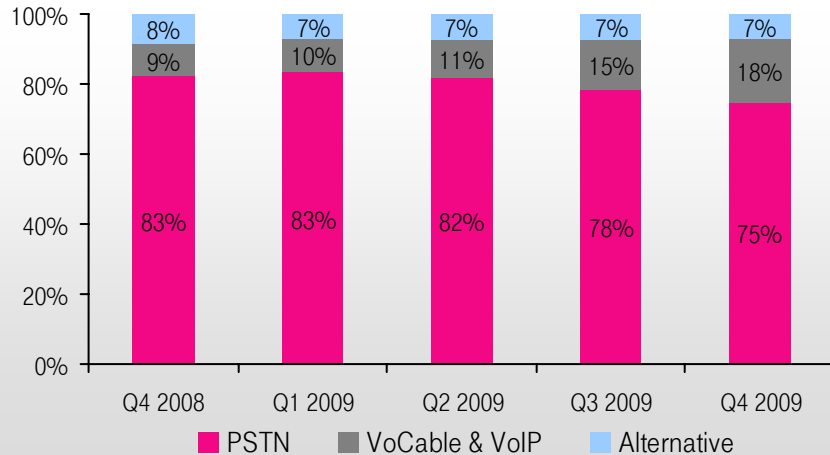
- pressure on profitability eased by efficiency improvement measures

## Headcount reduction in 2010

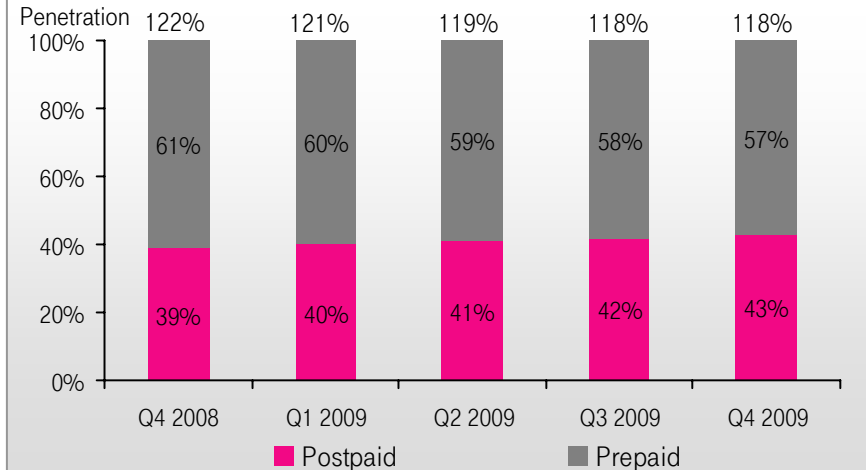
- agreement with trade unions reached in September 2009
- 400+ employee redundancies at the parent company by end-2010
- goal is to reduce underlying TWM-related expenses by HUF 6.5bn in two years despite wage increases
- severance-related expenses amounted to HUF 7bn, accounted for in Q4 2009

# Hungarian market – infrastructure based-competition

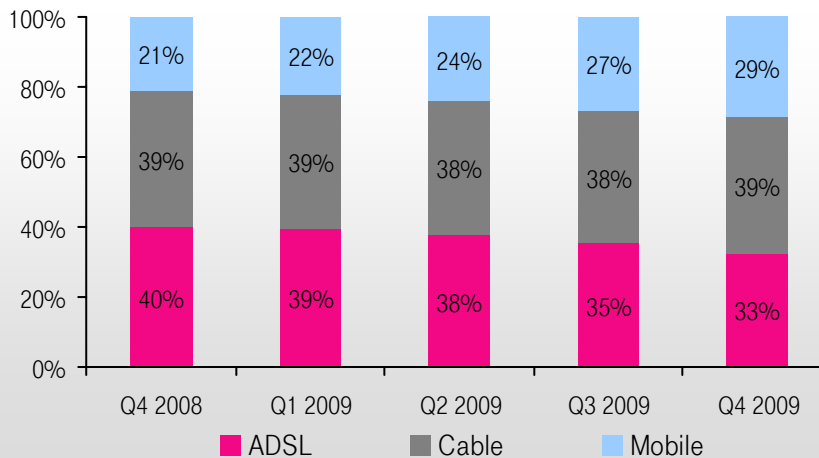
## Wireline voice market trends



## Mobile market trends



## Broadband market trends



## Competing infrastructures

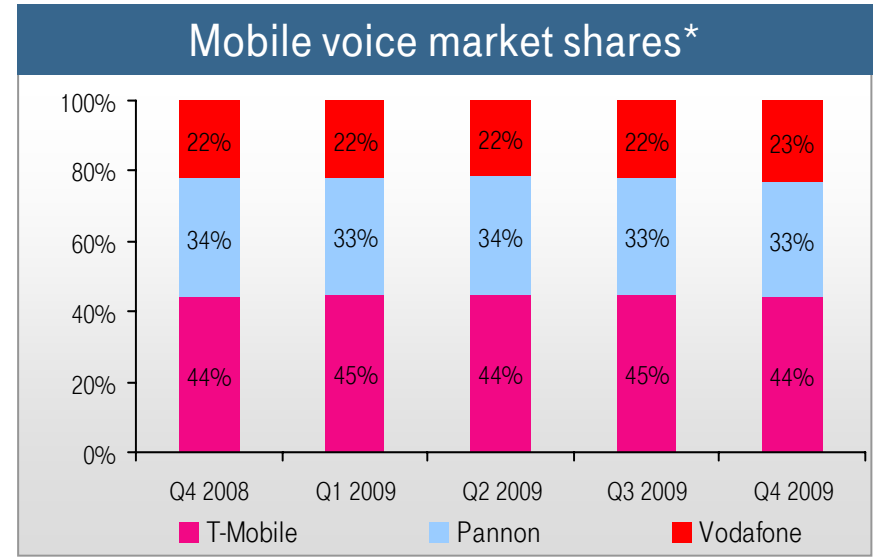
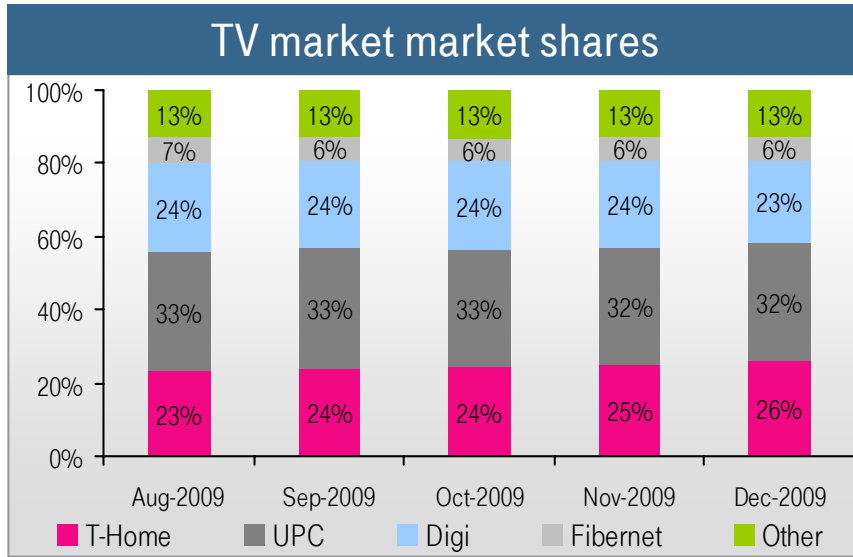
- **Copper network:** LTO structure, 80% of households served by Magyar Telekom
- **Cable network:** above 70% HH coverage, most upgraded to high-speed broadband service
- **Mobile network:** three quality networks with UMTS capability
- **Fiber rollout:** not just LTOs but other start-up/cable companies also rolling out fiber network

Strong infrastructure based competition with triple play services offered on copper, fiber, cable and mobile networks

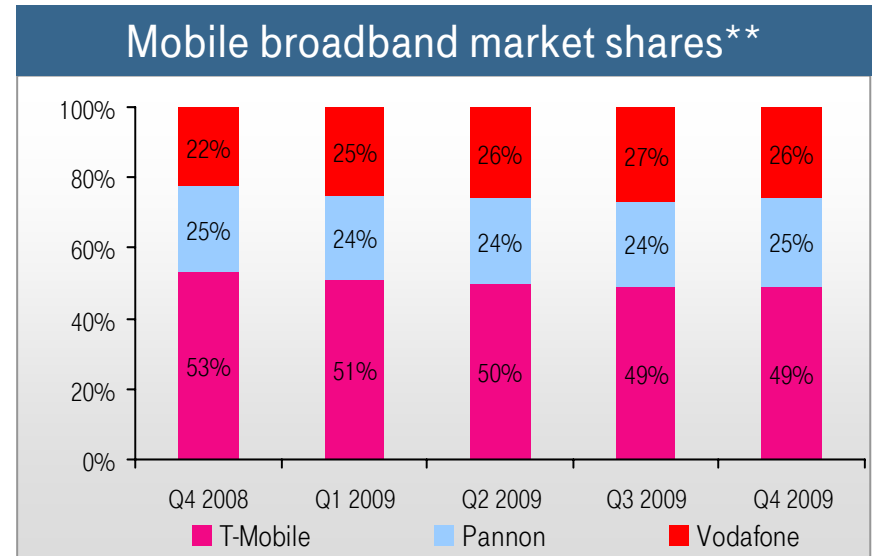
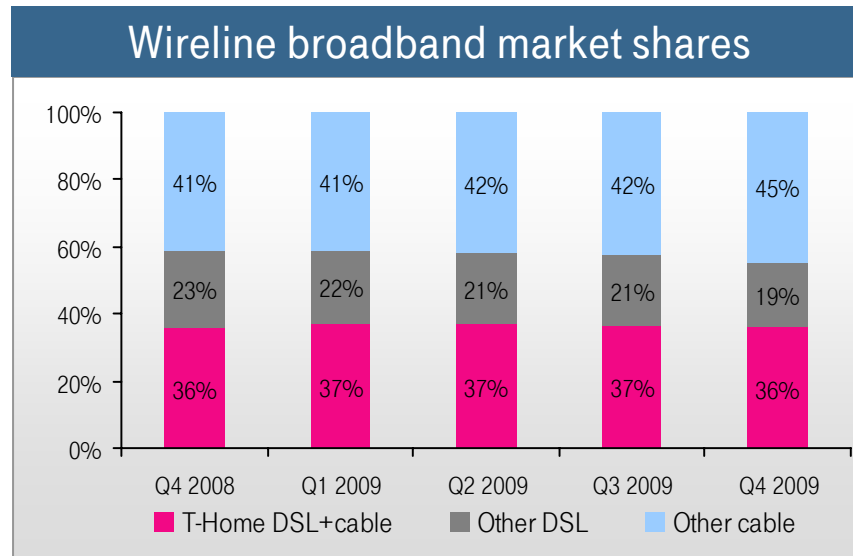
Source: NRA



# Strong positions across all segments of the Hungarian market



\*based on active SIM cards

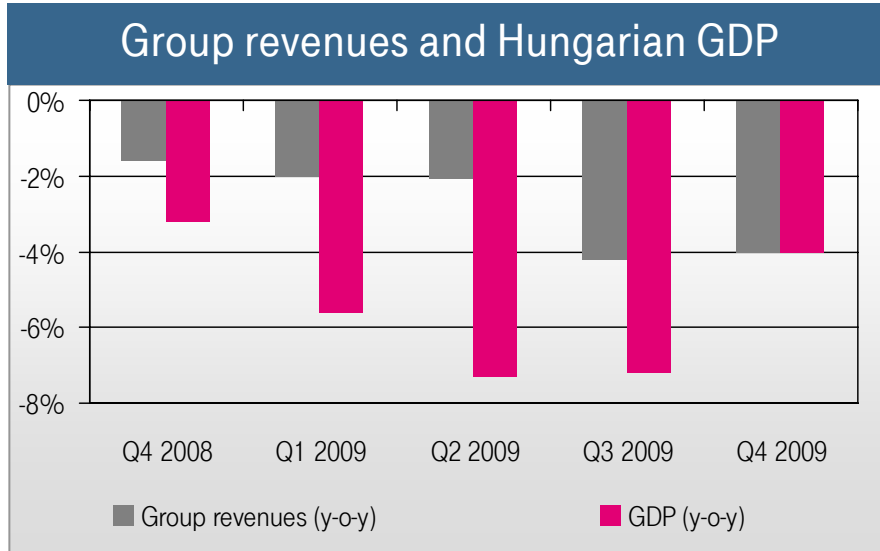


\*\*based on traffic generating subs.

Source: NRA, 2009 year end figures are preliminary data



# Economic environment – still a drag on Magyar Telekom

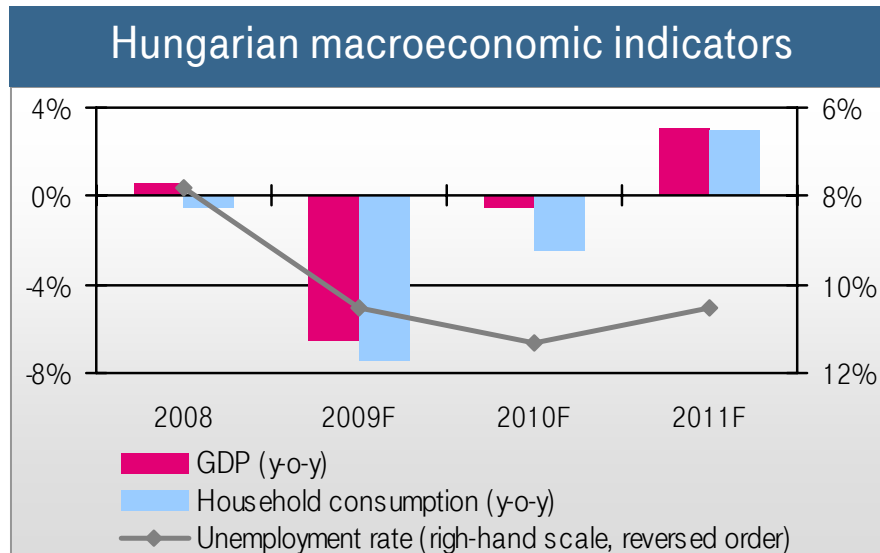


Economic indicators influence telecommunication spending in different ways

- in 2009 all components of economic activity suffered a meaningful decline in Hungary
- telecommunication spending lags GDP trend
- the demand for telecommunication services is more closely correlated with employment, disposable income and household consumption development

Recession is putting significant pressure on business performance

- customers in all sectors are heavily rationalizing their telecommunication spending
- churn rates have increased and usage has decreased both in the residential and business segment



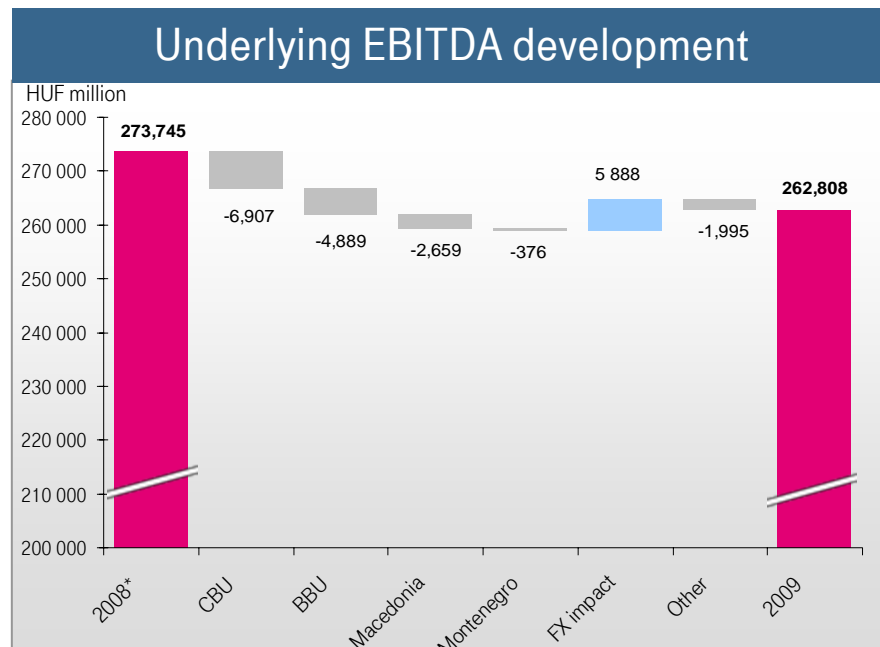
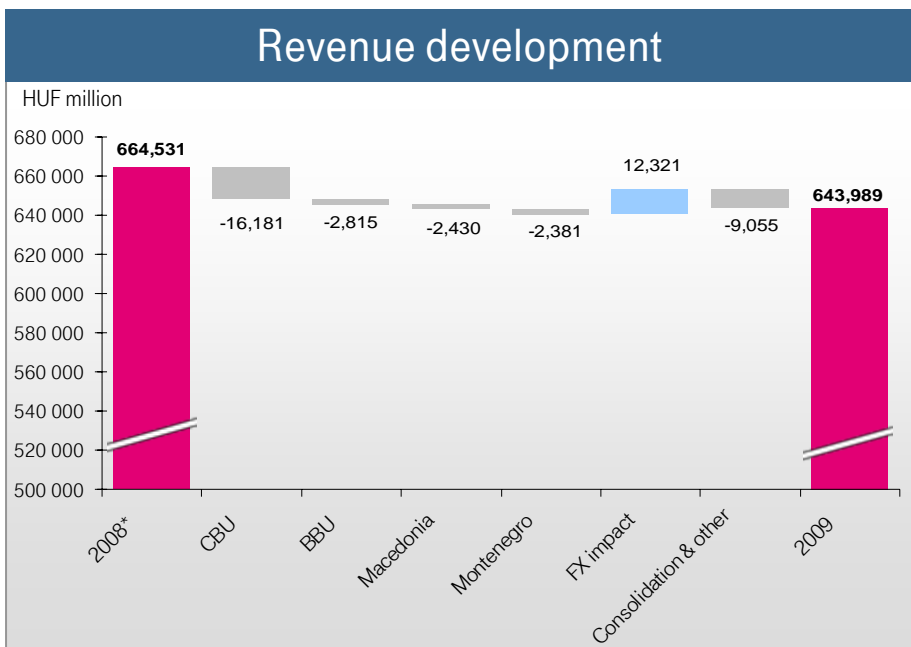
Continued pressure on telecommunication spending expected in 2010

- despite stabilizing GDP, other lagging indicators set to remain weak in 2010
- unemployment likely to peak in H2 2010
- contained wage development
- still relatively tight credit conditions

Source: European Commission Oct-2009 forecasts



# 2009 results – Business Unit analysis



\*excluding special influences and HUF 8.5bn IC traffic related reversal of provisions accounted in 2008 (HUF 3.1bn at CBU and HUF 5.4bn at BBU)

3.1% revenue decline driven by recession, competition and regulation

- CBU revenues declined primarily due to the worsening economic environment with the austerity measures launched in July contracting private consumption further
- BBU revenues down driven by decline in both private and public sector spending
- international revenues increased due to favorable FX translation impact

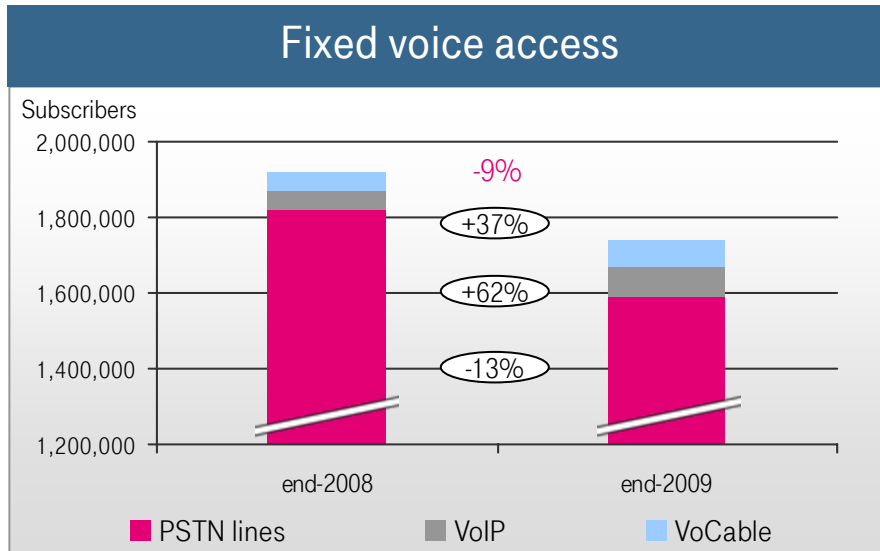
4% underlying EBITDA decline driven by changing revenue mix and economic recession

- business unit results under pressure due to further erosion of traditional voice revenues
- 5.6% wage increase for parent company employees in April 2009
- positive FX impact on result of international subsidiaries
- cost cutting measures to mitigate margin pressure





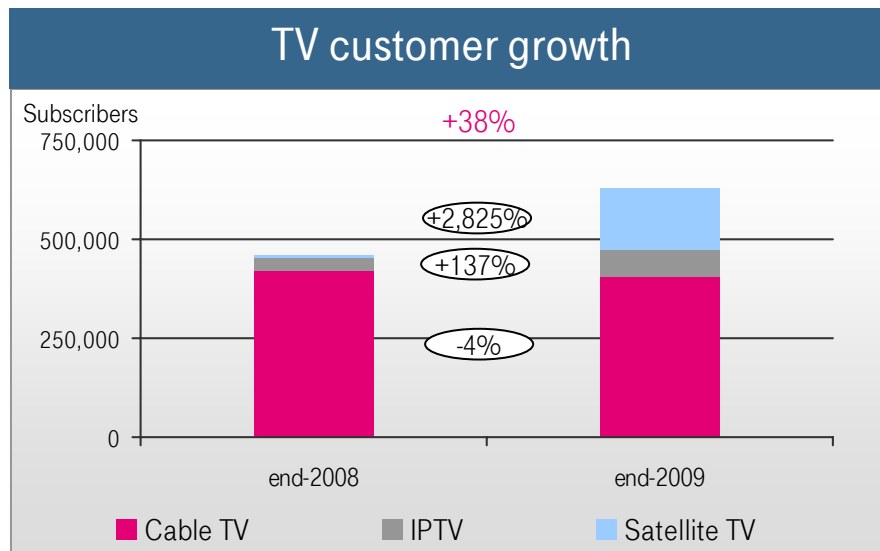
# CBU – fixed operations



3Play as growth engine & retention tool in the residential segment



- new, simple and competitive offers launched under the T-Home brand in September 2008
- the launch of Sat TV enabled country-wide offerings
- new packages include more favorable VoIP solutions
- triple play offers start from HUF 5,040/month
- ratio of xPlay customers ~35%



T-Home Sat TV launch

- service launched in November 2008
- demand exceeding expectations – number of customers over 155,000
- retention benefit: two-thirds of satellite TV customers are part of a 2Play or 3Play package

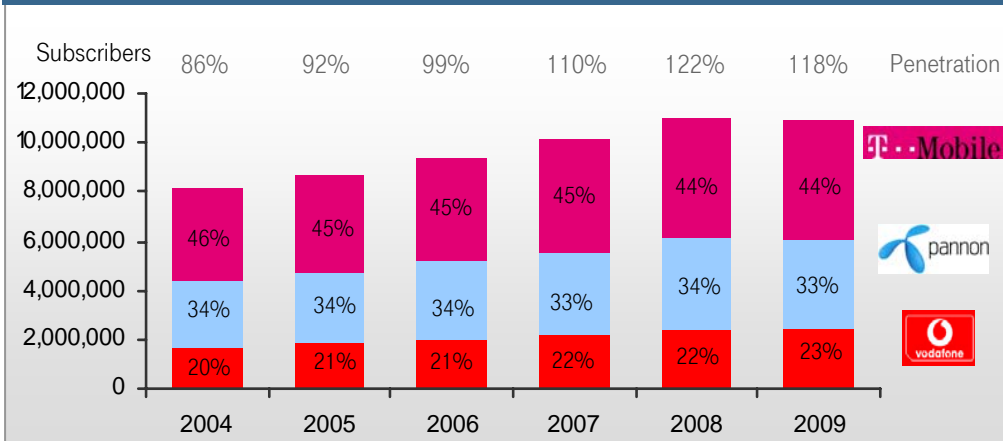
New generation access rollout

- 5-year plan to cover ~30% or 1.2mn of Hungarian households with bandwidth of up to 100 Mbps
- household coverage by end-2009: 170k fiber and 370k Docsis 3.0
- total investment requirement of HUF 40 billion (of which HUF 8 billion spent in 2009)



# CBU – mobile operations

## Subscribers, market shares and penetration



\*Subscribers and market shares are based on active SIM cards reported by NRA

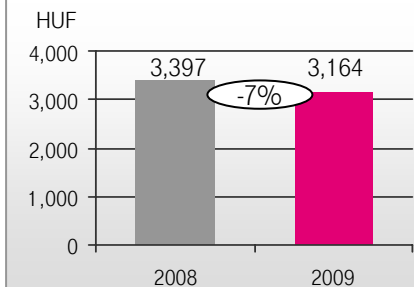
## Recessionary impacts felt in the market

- in 2009 customer numbers declined and penetration decreased
- customers became more cost sensitive
- lower disposable income led to increased churn levels

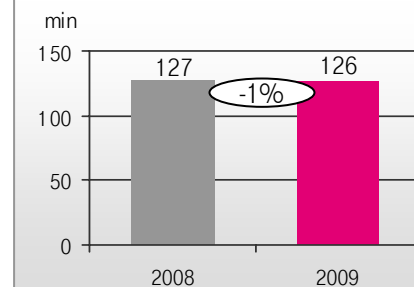
## Tariff erosion

- average voice revenue per minute decline of 9%
- more conscious package selection
- wide use of closed-user-group services
- annual cuts in mobile termination rates
- EU regulated roaming tariffs
- lower ARPU driven by lower usage, declining average tariff levels and MTR cuts

## ARPU



## MOU



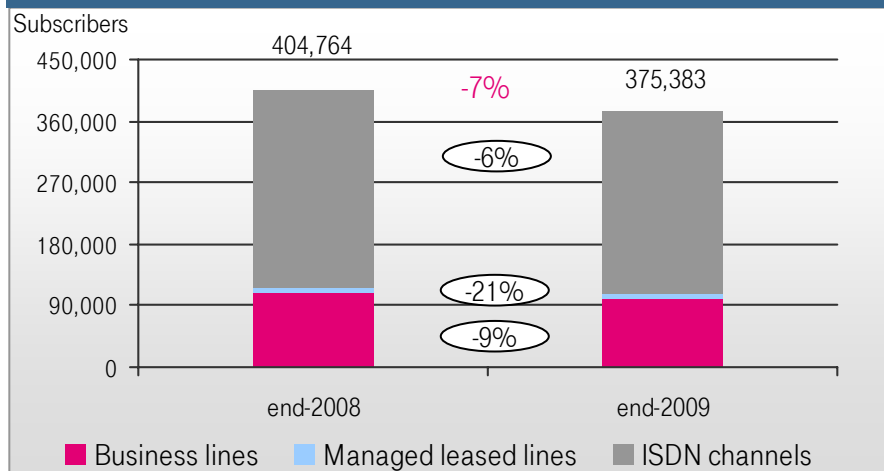
## Mobile internet development

- leading market position with 49% market share
- number of subscribers exceeded 320,000 at end-2009
- 3G/HSDPA network covering ~74% of population



# Business Services Business Unit (BBU)

## Fixed voice access



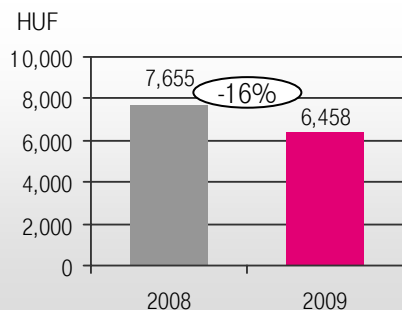
## Falling voice revenues

- rationalization and cost cutting initiatives at our key corporate clients lead to reduction in their telecom spending
- both private and public sector affected by economic recession
- number of fixed voice customers decreasing
- strong pressure on mobile tariffs resulting in lower ARPU level

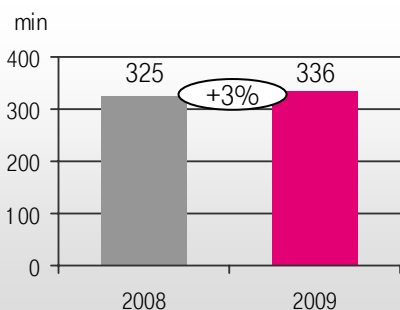
## Growth in mobile internet

- strong demand for mobile internet
- number of customers over 100,000 at end-2009

## Mobile ARPU



## Mobile MOU



## SI/IT revenue growth

- growth in revenues despite the difficult environment
- leading market position strengthened
- acquisition of KFKI Direkt and ISH
- some private and public sector projects delayed/cancelled due to cost restrictions



# International operations

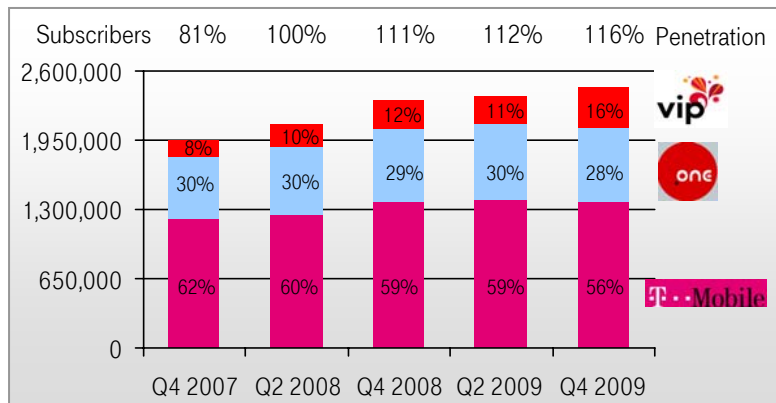
## Macedonia

### Intense competition in the fixed line market

- competition from altnets, cables and mobile operators resulting in decreasing fixed tariff levels and pressure on voice revenues
- positive contribution from revenues related to broadband services
- number of ADSL lines at 128,000 (up 30%)
- successful launch of IPTV and 2Play/3Play offers

### Mobile revenue growth thanks to improved usage trends

- improving customer mix
- MOU up by 8% to 104 minutes
- ARPU rose by 4% to HUF 2,678
- 3G services launched in June 2009



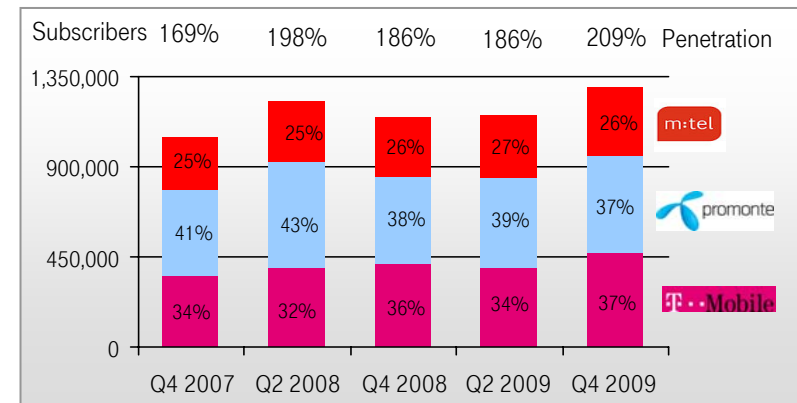
## Montenegro

### Fixed voice revenues under pressure

- deterioration in retail voice revenues driven by high mobile substitution
- growing internet and TV revenues thanks to strong increases in the customer base
- number of DSL access at 55,000 (up 41%)
- close to 70% increase in IPTV customer numbers (30,000 customers by end-2009)

### Mobile revenue erosion driven by strong competition

- very intense competition resulting in lower tariff levels
- fallout in visitor revenues as economic recession negatively affected tourism
- MOU at 96 (down by 9%)
- ARPU of HUF 2,459 (down 15%)

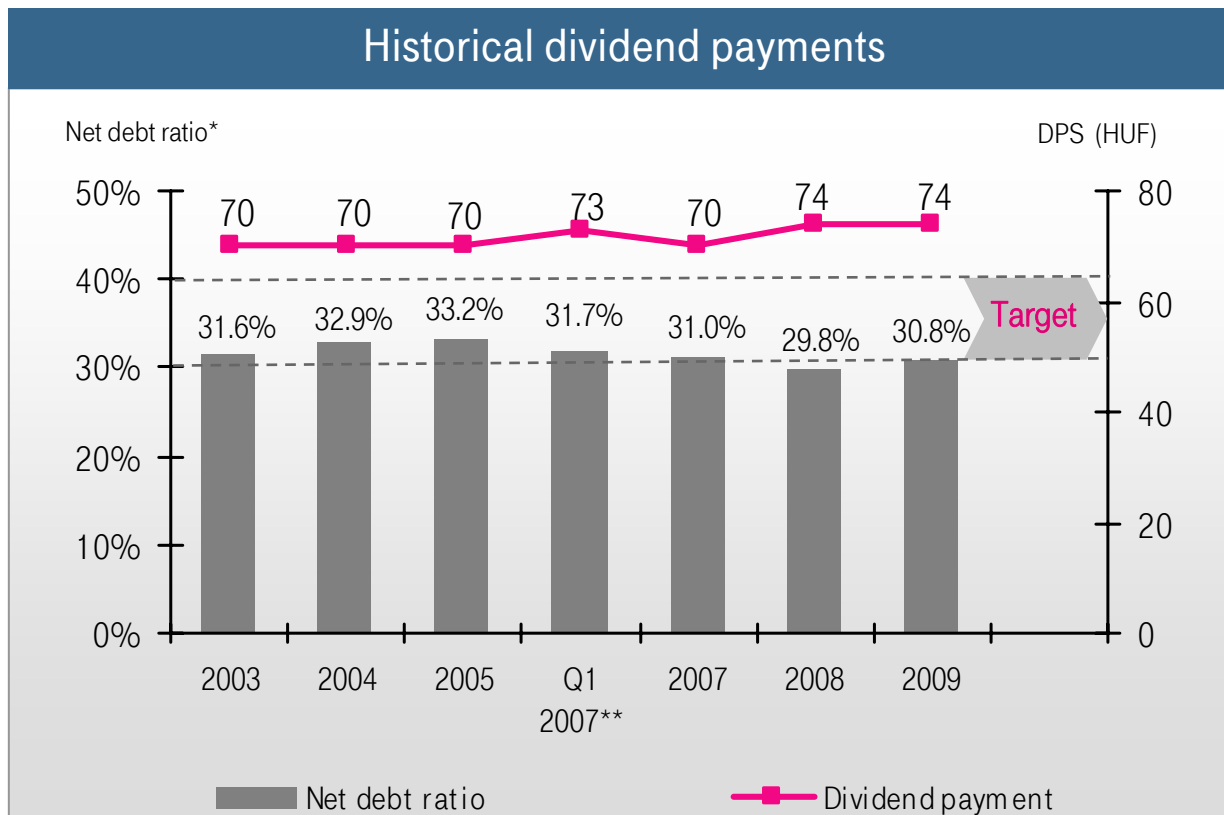


Data based on the active SIM cards published by the Montenegrin Telecom Agency



# Proposal for dividend payment

The Board of Directors proposes HUF 74 dividend per share after 2009 earnings for approval to the Annual General Meeting.



\* net debt / total capital

\*\* 2006 dividend payment (for 2005 financials) was delayed to January 2007



