Magyar Telekom first nine months 2005 results

Balanced segmental performance, consolidation impact of Telekom Montenegro

Magyar Telekom

Agenda

Overview

Regulatory snapshot

Segment analysis

Acquisition and dividend policy

Magyar Telekom Group at a glance

Market leader in all core businesses

Hungarian operations
- fixed line incumbent operator in Hungary
- 100% stake in the leading Hungarian mobile operator

International presence
- full scale telecommunications services in Macedonia and Montenegro

Rebranding from Matáv to Magyar Telekom in May 2005

T··Com· T··Online· T··Mobile· T··Systems· T··Kábel·

- introduction of the full T-brand portfolio
- does not signify any ownership change

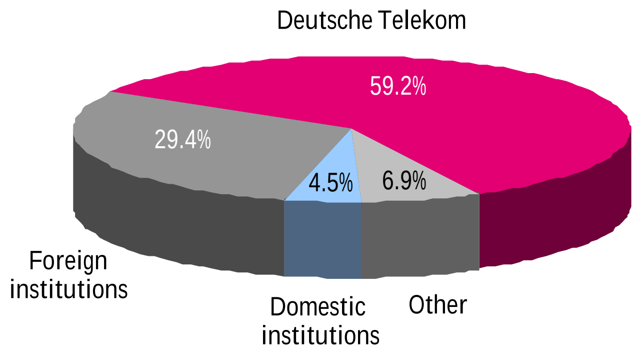
Fixed – mobile integration
- Merger of Magyar Telekom and T-Mobile Hungary
- Further exploiting synergies and financial benefits

Stock information

EUR 4bn market capitalisation

Stock exchange listing
- listed on NYSE and Budapest Stock Exchange
- traded in London

Ownership structure, approximate figures



First nine months 2005 summary

	Revenues		EBITDA		EBITDA margin
Group	HUF 459,404m	+2.2%	HUF 191,436m	+4.7%	41.7%
Fixed-line*	HUF 244,722m	-3.1%	HUF 93,554	+1.3%	38.2%
Hungarian	213,379	-6.5%	78,099	-4.2%	36.6%
International	40,760	+19.2%	15,455	+42.3%	37.9%
Mobile*	HUF 214,682	+8.8%	HUF 97,879	+8.2%	45.6%
Hungarian	201,443	+3.2%	81,460	+5.3%	40.4%
International	31,308	+25.0%	16,419	+25.3%	52.4%

Fixed-line*

Hungarian
- increased competitor activity
- improving workforce efficiency

International
- includes MakTel and TCG
- focus on efficiency and cost control

Mobile*

Hungarian
- strong financials
- stable market leading position

International
- includes MobiMak and Monet
- competition-led price erosion

* segment figures based on external segment revenues

Regulatory snapshot
Hungarian regulation in line with new EU regulatory framework

Fixed-line	Mobile

New Electronic Communications Act in effect since January 2004

Fixed-line:

- geographical number portability since January 2004
- new services, eg. local bitstream access, FRIACO, internet call origination
- carrier selection for local and internet calls

Mobile:

- mobile number portability since May 2004

IC fees close to EU average

Fixed-line:

- last reduction: 19% cut in traffic fees since June 2004
- next calculation model submitted for approval

Mobile:

- in July 2005 NRA decided to cut the average termination fee of T-Mobile Hungary by 10%

Market analysis based on the EU recommendation

Fixed-line:

- aggregate CPI price cap on voice access fees from 2005
- resolution implies“retail minus” price regulation for WS national bitstream access and WS leased line termination

Mobile:

- all three mobile operators identified as SMPs in mobile call termination market
- regulator intends to reduce differences in termination fees between operators to 20%

Hungarian fixed line operations
ADSL program and headcount efficiency in line with targets

Focus on access revenues

Aim to migrate traffic revenues to access

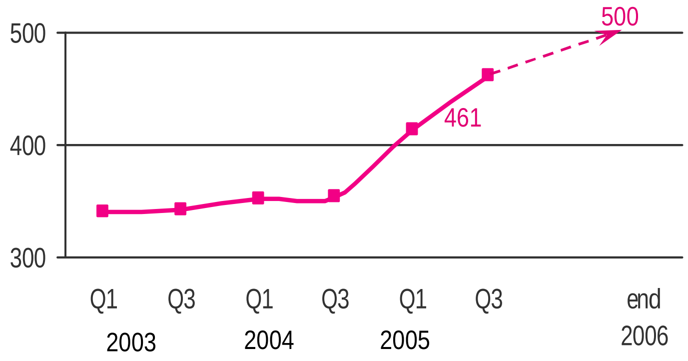
- line and usage erosion due to alternative and cable operators as well as mobile substitution
- new flat-rate packages and integrated offers (e.g. Favorite package) to slow erosion

Increased presence on other LTO areas

- call-by-call and preselection services
- triple play offers through T-Kábel

Restructuring increases efficiency

Fixed-line per employee ratio at parent co.

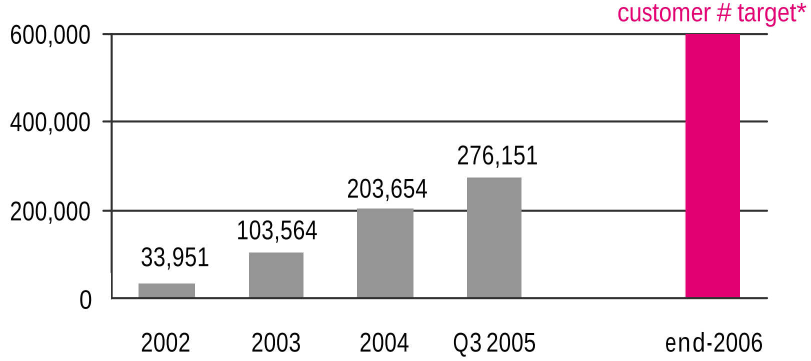


Successful broadband operations

Accelerated broadband roll out to bring new impetus to fixed-line business

- number of broadband customers* exceeded 300,000

ADSL roll out



* including cable broadband, leased line and wireless LAN customers

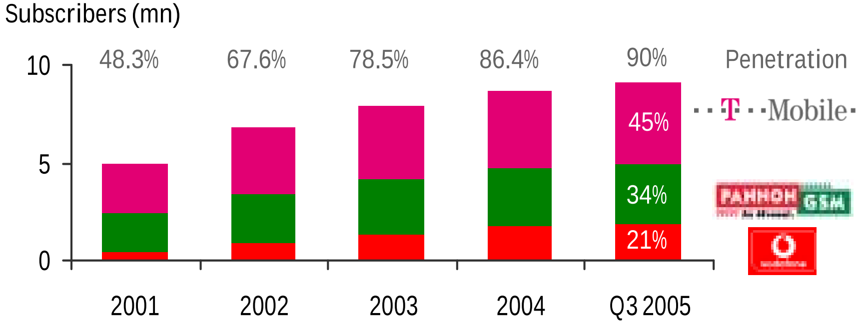
Incentives to encourage usage

- free ADSL access speed upgrade from May 2005
- additional broadband offerings to be launched
- state tax incentives continue

Hungarian mobile operations
Clear market leadership maintained, strong financials

Highly competitive environment

Subscribers, market shares and penetration



Tariff-based competition

- simple flat-rate offers
- more conscious package selection puts pressure on average tariff level

UMTS commercial service started in August

- Network covers central Budapest

Unified Digital Radio Network

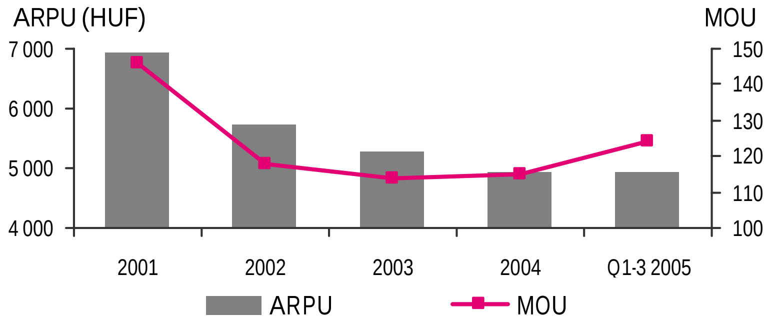
- Rollout of the network in 2006-2007 with a maximum investment need of HUF 25bn
- Government to pay annual service fee of HUF 9bn between 2007 and 2015

Solid operational performance

Tariff erosion boosts usage through price elasticity

- MOU increased by 9% y/y to 124
- ARPU was HUF 4,914 (~EUR 20)
  - postpaid: HUF 11,120; prepaid: HUF 2,281
- continuously improving customer mix
- growing importance of VAS (14% of ARPU)

Usage increase stabilizing ARPU level



Focus shifts from acquisition to retention

- acquisition cost/new RPC fell by 35% y/y to HUF 7,124

Proposed merger of T-Mobile Hungary and Magyar Telekom

Synergies

Enhanced product and client offerings
- bundled fixed-mobile packages
- broadband-based value-added services

Front office / sales / communication
- unified retail shop network & call-center
- unified marketing and communication presence

Back office and support systems
- common billing system
- joint CRM & SAP systems, shared data centers
- integrated real estate and car fleet management

Shared IP platform
- development of an integrated NGN

Benefits

Financial impact
After full implementation we expect significant financial benefits from the following factors:
- Increased revenue
- Improved cost efficiency
- CAPEX savings
- Utilization of tax credit and tax losses

Timetable

6 October 2005	7 November 2005	19/20 December 2005	End of Q1 2006*
Board proposal	EGMs approved the merger	EGMs approved the balance sheets	Merger
EGMs of both companies called	Independent auditor prepares draft balance sheets	Court registers the merger	

* Planned schedule

International fixed line operations
Profitability maintained, consolidation of Telekom Montenegro

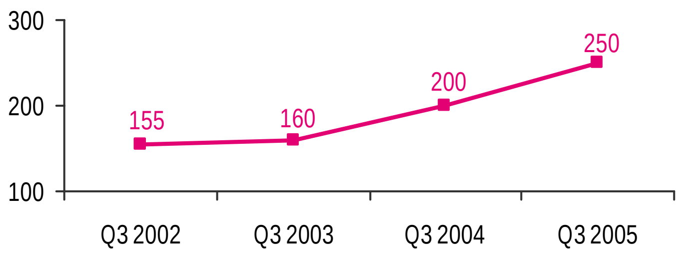
Macedonia

Main drivers of revenue decrease
- weak macro economy limits top-line growth
- decreasing number of RPC
- intensifying mobile substitution
- unfavorable FX movement

Increasing demand for internet services
- leading position in dial-up, successful ADSL take-up

Major restructuring contributes to improving efficiency
- significant headcount reduction from Q3 2004
- continuing strict cost control
- MakTel A.D. Q3 EBITDA margin at 47%

Fixed lines / employee ratio



Montenegro

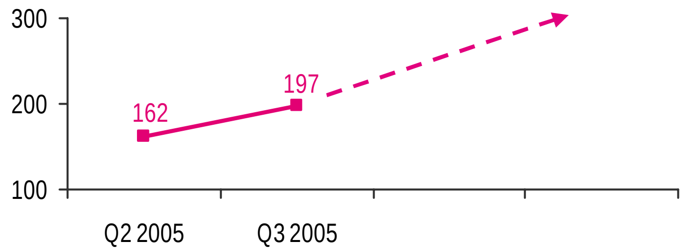
Saturated fixed line market
- fixed line penetration rate at 31%
- focus on retention and usage increase
- launch of ADSL service in Q2 2005

Restructuring improves efficiency
- voluntary headcount reduction program
- HUF 1.2bn severance expense in Q3 reducing headcount by 18% at the parent company
- additional cost cutting initiatives

Integration of fixed and mobile operations
- creates further synergy opportunities
- strengthens position ahead of liberalization

Q3 EBITDA margin was above 34%

Fixed lines / employee ratio



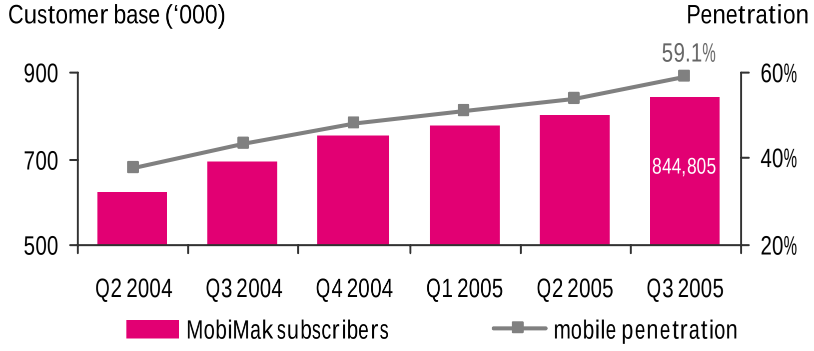
International mobile operations
Impressive profit contributions from both companies

Macedonia

Rapidly growing penetration level

- leadership maintained with 69% market share

MobiMak customers and market penetration



Competition-led price erosion

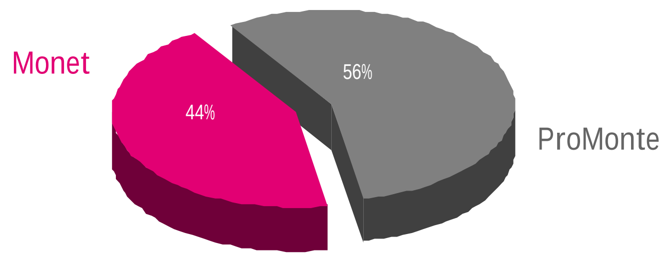
- continued relatively high tariffs and low price elasticity limit usage growth (MOU: 63)
- new additions mainly driven by low ARPU customers
- ARPU: HUF 3,077 (~EUR 12)

Profitability maintained at high level

- Q3 EBITDA margin was close to 54%

Montenegro

RPC-based market shares



Strong seasonality in the mobile market

- higher usage and customer growth in Q2-Q3
- penetration level reached 99% in Q3
- high churn expected in the Q4

Market share increased to 44%

- MOU 131 and ARPU 3,850 (~EUR 16) in Q1-3

State of the art network

- GPRS and EDGE services available
- potential in value added services

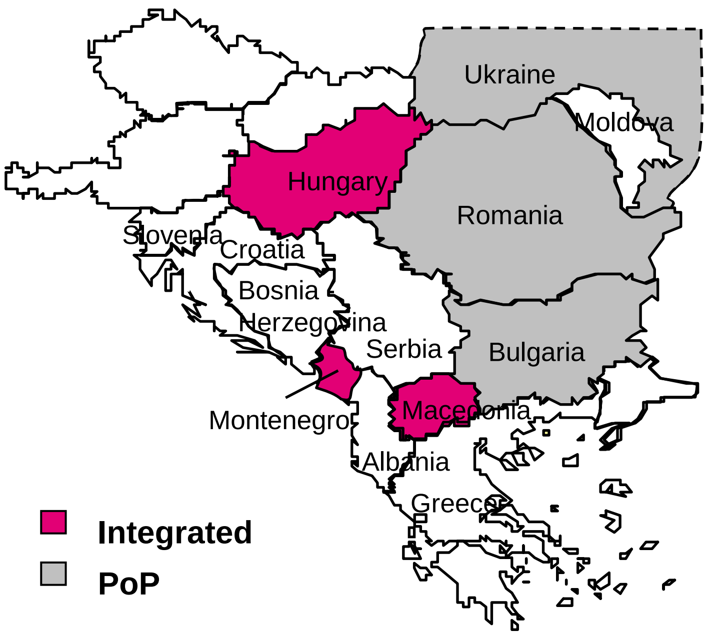
Q3 EBITDA margin was 51%

Acquisition driven growth and dividend policy

Acquisition driven growth

Growth through value-accretive acquisitions remains a priority

- integrated operations in Macedonia and Montenegro
- point of presence in Romania, Bulgaria and Ukraine
- aim to further strengthen the footprint in the South-Eastern European telecommunications market

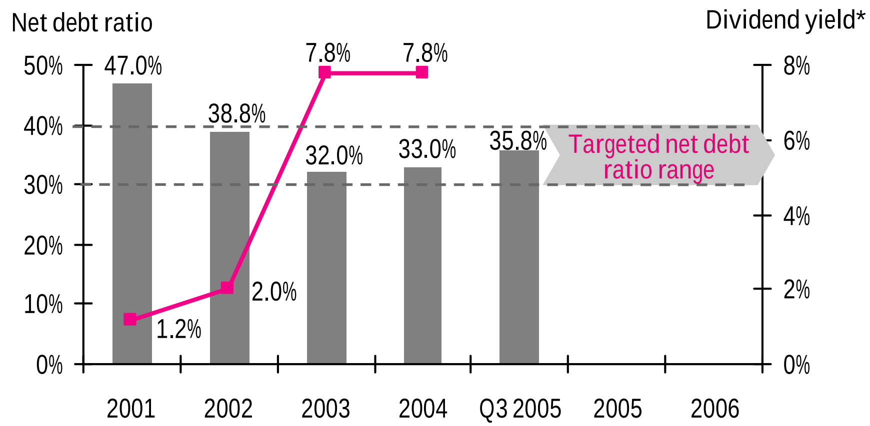


Dividend policy

AGM approved dividend of HUF 70 per share for 2004

- acquisition of TCG majority stake for EUR 140mn
- dividend payment of HUF 73bn

Net debt ratio and dividend yield



* dividend yield calculation based on HUF 900 share price (22 March 2005)