Magyar Telekom full year 2005 results

Solid Group performance, continued focus on growth through value creative acquisitions

Magyar Telekom

Agenda

Overview and public targets

Regulatory snapshot

Segment analysis

Acquisition strategy and dividend policy

Magyar Telekom Group at a glance

Magyar Telekom

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
- no change in ownership

Fixed – mobile integration

- Merger of Magyar Telekom and T-Mobile Hungary
- Further exploiting synergies and financial benefits

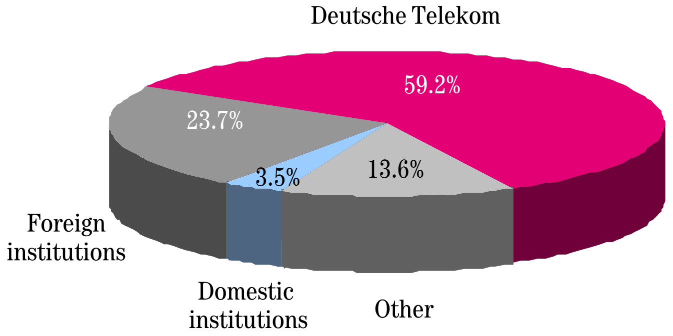
Stock information

EUR 4bn market capitalisation

Stock exchange listing

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

Ownership structure, approximate figures



Full year 2005 summary

	Revenues		EBITDA		EBITDA margin
Group	HUF 620,697m	+3.2%	HUF 249,850m	+12.1%	40.3%
Fixed-line*	HUF 331,062m	-0.9%	HUF 121,905m	+19.8%	36.8%
Hungarian	288,050	-4.5%	102,333	+19.5%	35.5%
International	55,850	+23.6%	19,572	+21.4%	35.0%
Mobile*	HUF 289,635m	+8.4%	HUF 127,944m	+5.6%	44.2%
Hungarian	270,362	+2.8%	106,745	+2.9%	39.5%
International	42,693	+26.6%	21,199	+21.3%	49.7%

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-driven price erosion

* segment figures based on external segment revenues

Public targets for 2006-2007

	2006	2007
Revenue	above 3% growth	
EBITDA new investments and initiatives to show tangible contribution from 2007	maintain 2005 level	growth in HUF terms
Capex / Sales excl. EDR investment of max. HUF 22bn in 2006	below 15%	below 14%
Broadband connections Hungarian fixed line operations incl. ADSL, cable broadband, leased line & wireless	~ 600,000	
Lines / employee (parent co.)	over 500	

Regulatory snapshot
Hungarian regulation in line with new EU regulatory framework

New Electronic Communications Act in effect since January 2004

Fixed-line

- geographic 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

- average termination fee of T-Mobile Hungary cut by 10% by NRA in July 2005
- reduced asymmetry among the 3 players

Market analysis based on 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

Macedonia – fixed line competition emerging in 2006

- reference interconnection offer approved, unbundling offer filed
- number portability from 2007

Hungarian fixed line operations
Strong growth in broadband, improving headcount efficiency

Focus on access revenues

Aim to migrate traffic revenues to access revenues

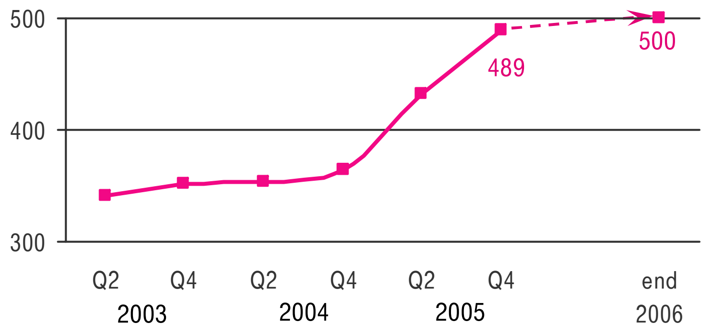
- line and usage erosion due to mobile substitution, alternative and cable operators
- flat-rate packages and integrated offers (e.g. Favorite package) to slow erosion

Increased presence in other LTO areas

- call-by-call and preselection services
- offers through T-Kábel (13,385 voice subscribers at end-2005)

Restructuring increases efficiency

Fixed-line per employee ratio at parent co.

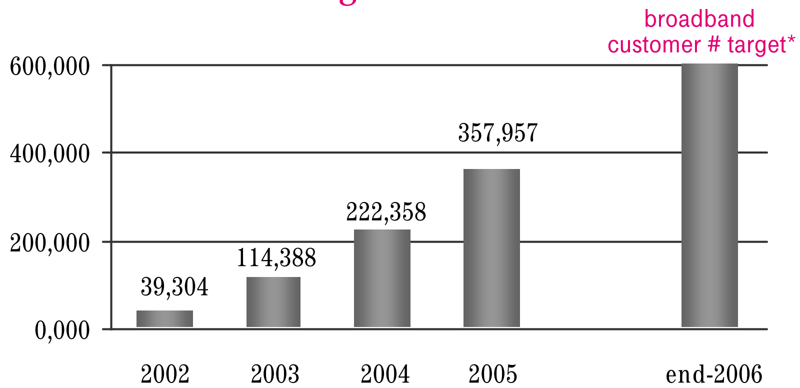


Successful broadband operations

Accelerated broadband rollout to bring new impetus to fixed-line business

- number of broadband customers* exceeded 350,000

Broadband growth: ADSL rollout



* including cable broadband, leased line and wireless LAN customers

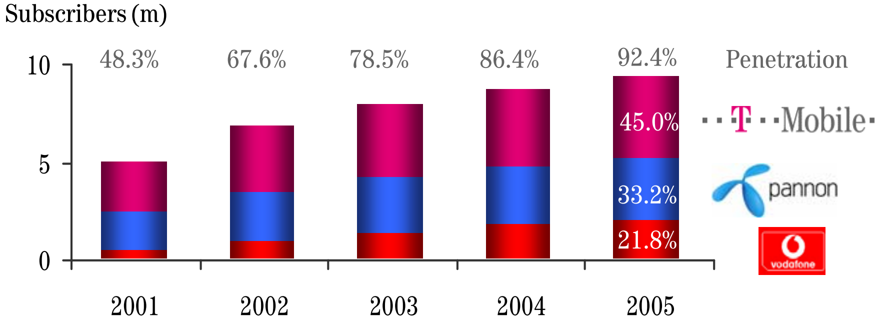
Incentives to encourage usage

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

Hungarian mobile operations
Continued balanced focus on market share and profitability

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

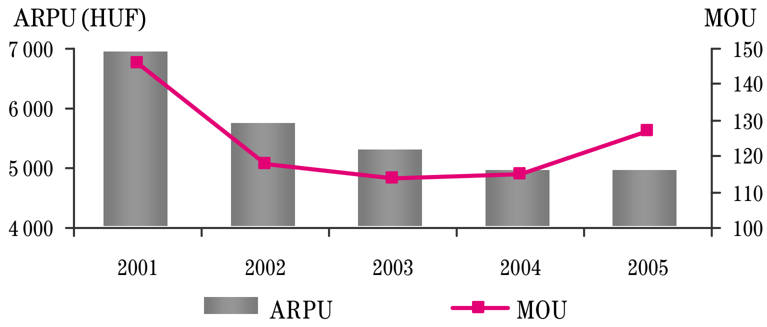
UMTS commercial service launched in August
- Network covers Budapest & central Debrecen

Unified Digital Radio Network
- Rollout of the network in 2006, a maximum investment of HUF 22bn required
- 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 10% y/y to 127
- ARPU was HUF 4,917 (~EUR 20)
  - postpaid: HUF 11,007; prepaid: HUF 2,287
- continuously improving customer mix
- growing importance of VAS (14.4% of ARPU)

Usage increase stabilizing ARPU level



Focus shifts from acquisition to retention
- acquisition cost/new RPC fell by 31% y/y to HUF 7,062

Merger of T-Mobile Hungary and Magyar Telekom

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

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 balance sheets	Merger
EGMs of both companies called	Independent auditor prepares draft balance sheets	Court registers the merger	

* Planned schedule

International fixed line operations
Further headcount reduction aimed at improving efficiency

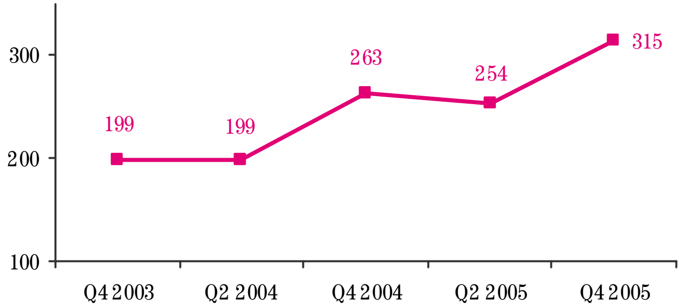
Macedonia

Main drivers of revenue decline
- decreasing number of RPC, penetration rate at 26%
- intensifying mobile substitution
- weak macro economy limits top-line growth

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

Major restructuring driving improvement in efficiency
- 24% headcount reduction from Sept 2005 at a cost of HUF 1.5bn at MakTel A.D. in Q4
- continuing strict cost control
- FY EBITDA margin was 42.3%

Fixed lines / employee ratio



Montenegro

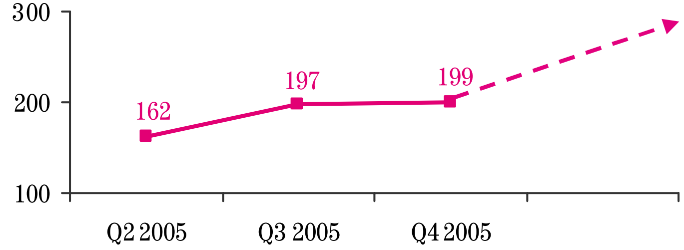
Saturated fixed line market
- fixed line penetration rate at 31%
- launch of ADSL service in Q2 2005

Restructuring improves efficiency
- HUF 1.3bn severance payment for reducing headcount by 18% at the parent company in Q3
- additional cost cutting initiatives

Integration of fixed and mobile operations
- stronger position ahead of liberalization

Q2-4 EBITDA margin was 17%
- incl. HUF 1.3bn severance expense
- margin improvement expected thanks to our initiatives to increase efficiency

Fixed lines / employee ratio



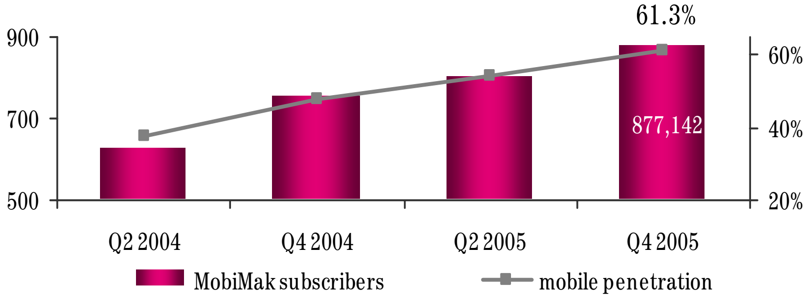
International mobile operations
Impressive profit at Mobimak, consolidation impact of Monet

Macedonia

Rapidly growing penetration level

- leadership maintained with 69% market share

MobiMak customers and market penetration



Competition-driven price erosion

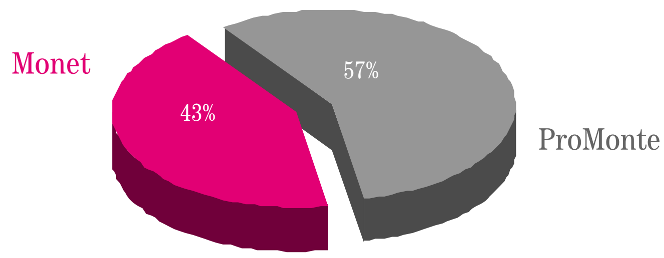
- continued relatively high tariffs and low price elasticity limit usage growth (MOU: 63)
- new additions driven mainly by low ARPU customers
- ARPU: HUF 3,065 (~EUR 12)

Profitability maintained at high level

- 2005 EBITDA margin at nearly 53%

Montenegro

RPC-based market shares



Strong seasonality in the mobile market

- higher usage and customer growth in Q2-Q3
- penetration level decreased to 78.6% in Q4

Market share at 42.7%

- MOU 127 and ARPU 3,745 (~EUR 15) in Q4
- RPC: 208 thousand

State of the art network

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

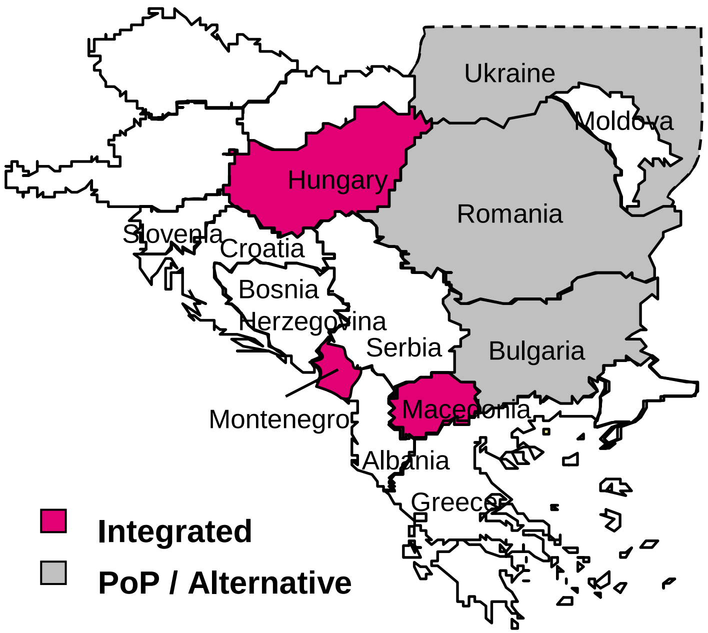
Q2-4 EBITDA margin at 37%

Acquisition driven growth and dividend policy

Acquisition driven growth

Growth through value-accretive acquisitions remains a priority

- integrated operations in Macedonia and Montenegro
- alternative service provider in Romania and Bulgaria, point of presence in the Ukraine
- strengthening position in the IT market – acquisition of Dataplex in Hungary



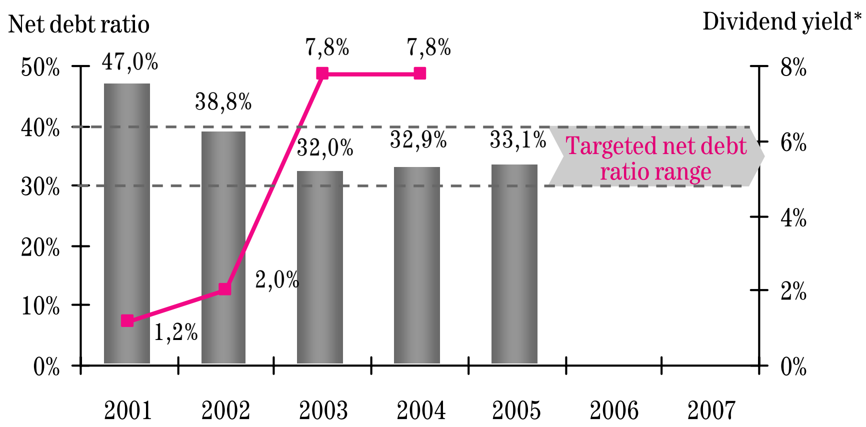
Dividend policy

Board proposal for 2005 dividend payment expected at end-March

Investments affecting 1H 2006 cash flow:

- Dataplex
- Orbitel
- EDR investment

Net debt ratio and dividend yield



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