

Press Release

Does the Hungarian telecommunications market open for new market participants?

Munich/Budapest, 3.8.2007: Within only a few years, the telecommunication services market in Hungary has developed from the administration of a lack of necessities to a competitive environment with Western standards. Foreign investments into a limited number of fixed and mobile service providers contributed to reshaping the partially monopolistic market structures. For potential new market participants, the Hungarian telecommunications market has been a "Closed Shop" to date. In the future, however, competition will increase considerably. This is the result of a recent study of goetzpartners and Consolidus, which has analysed the Hungarian telecommunications market in detail. Driven by stagnating or even falling penetration rates and continuous deregulation, fixed, mobile and even cable service providers are forced to extend their activities beyond their traditional markets and to enter new ones with convergence and substitution products - and further intensify competition in these new segments.

With 10.1 million inhabitants and a gross domestic product of 88.9 billion Euro Hungary ranks among the larger Eastern European markets. In the course of the political reorientation of the country the Hungarian telecommunications market has been subject to a gradual liberalisation and Magyar Telekom (former Matáv Hungarian Telecommunications Company) has been privatised. The liberalization has attracted numerous international investors such as Deutsche Telekom, Telenor, Vodafone, Tele Danmark and UPC, which have invested significantly into the Hungarian telecommunications infrastructure. Nevertheless, prior to entry to the European Union in May 2004, the Hungarian telecommunications market was less open, and it became more dynamic in the past three years. Today penetration and service standards have achieved Western European level with Hungarian households spending 3.8% of their income on telecommunications services.

However, competition is still basically limited to three to four major players in the various market segments. The largest provider among them, Magyar Telekom, has achieved market shares of 79% in the fixed line, 44% in the mobile, 19% in the cable and 43% in the Internet sector.

In the future, however, competition will intensify, as goetzpartners and Consolidus have determined in their joint study. The fixed line market will decrease, the mobile market is moving towards saturation and the growth potential for broadband Internet services is limited, due only to partial PC penetration. In this situation the players in Hungary are looking for new growth potential factors (mobile TV, WiMAX, UMTS), arising in particular as a result of new Internet and mobile technologies. "New mobile technologies will affect existing market structures considerably", says Armin Raffalski, partner at goetzpartners management Consultants. "From 2002 to 2005 the penetration rate in the fixed line area decreased by 10% to 87%. New technologies such as UMTS, EDGE and WiMAX will reinforce

competition considerably, as they offer new business models for established players as well as for new entrants in the mobile market". Established market structures are being reshaped by new players such as Skype, and by new business models such as Triple Play, offered by established players such as UPC or Magyar Telekom. "Magyar Telekom, the prominent incumbent in the Hungarian telecommunications market, has integrated its mobile business into the company and now offers fixed, mobile and Internet solutions from one source. "This restructuring is an example for an explicitly customer-oriented approach, in contrast to the so far technologically driven approach", says Zoltán Zsoldos, Managing Director of Consolidus.

Although the emerging market changes basically offer also potential for new entrants, goetzpartners and Consolidus assume the existing market structures will continue to further solidify. Thus new incumbents can only enter the field if the Hungarian regulation authority enables new business models or one of the established international incumbents exits the market (like Swisscom, which sold its shares in Antenna Hungária).

About goetzpartners (www.goetzpartners.com)

With about 150 employees and offices in Munich, Dusseldorf, Frankfurt, London, Paris, Madrid and Prague as well as co-operations in Budapest, Moscow, Bangalore and Mumbai goetzpartners ranks as one of the leading independent consultancy firms in Europe. By offering profound expertise in the fields of corporate finance (goetzpartners Corporate Finance), management consulting (goetzpartners management Consultants) and interim management (goetzpartners Interim Managers) under one roof, goetzpartners combines deep functional expertise with a unique market approach. goetzpartners stands for innovative consulting approach and tailor-made solutions that are successfully implemented together with their clients.

About Consolidus (www.consolidus.com)

Consolidus Business Consulting Ltd. is a Hungarian management consulting firm, which offers corporate finance and management consulting services. Consolidus offers a broad range of consulting services with main focus on strategy consultation, strategic Due Diligence, cost optimization, organizational development, corporate restructuring as well as procurement and real estate management optimization.

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