Magyar Telekom Plc.
Form 20-F
March 24, 2010

Use these links to rapidly review the document

As filed with the Securities and Exchange Commission on March 24, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission file number 1-14720

MAGYAR TELEKOM TÁVKÖZLÉSI NYILVÁNOSAN MÜKÖDÖ RÉSZVÉNYTÁRSASÁG

(Exact Name of Registrant as Specified in Its Charter)

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

(Translation of Registrant's Name into English)

Hungary

(Jurisdiction of Incorporation or Organization)

Budapest, 1013, Krisztina krt. 55, Hungary

(Address of Principal Executive Offices)

Thomas Stumpf
Chief Accounting Officer
Magyar Telekom
Budapest, 1013, Krisztina krt. 55, Hungary
+36-1-457-4211
tom.stumpf@telekom.hu

(Name, Telephone, Email and/or Facsimile number and Address of the Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing five Ordinary Shares	New York Stock Exchange
Ordinary Shares	New York Stock Exchange* Budapest Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **N/A**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **N/A**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares.....1,042,742,543 nominal value HUF 100 per share (as of December 31, 2009)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board ý Other o

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

* Not for trading, but only in connection with the registration of American Depositary Shares.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Certain Defined Terms and Conventions

In this annual report the terms "Magyar Telekom", the "Group", the "Company", "we", "us" and "our" refer to Magyar Telekom Plc. and, if applicable, its direct and indirect subsidiaries as a group; the term "Magyar Telekom Plc." refers to Magyar Telekom Plc. without its subsidiaries; the term "DT" refers to Deutsche Telekom AG; the term "DT Group" refers to DT and its subsidiaries as a group.

In this annual report, the term "Minister" refers to the Minister of the applicable government ministry then responsible for regulation of the activities of the Company as described below.

Prior to June 1, 2000, the Minister of Transport, Telecommunications and Water Management was in charge of regulating the telecommunications industry. The responsibility was transferred to the Minister heading the Prime Minister Office on June 1, 2000 and to the Minister heading the Ministry of Informatics and Communications on May 27, 2002. On June 1, 2006 the Ministry of Informatics and Communications merged into the Ministry of Economy and Transport. The Ministry of Economy and Transport was divided into two ministries on May 15, 2008, and responsibility for regulating the telecommunications industry was transferred to the Ministry of Transport, Telecommunications and Energy. On December 1, 2008 the Minister heading the Prime Minister Office took over the responsibility for the telecommunications industry in Hungary.

Totals in tables may be affected by rounding. Segment revenue figures included in this annual report do not give effect to intersegment eliminations.

Forward-looking Statements

The Company may from time to time make written or oral forward-looking statements. Written forward-looking statements appear in documents the Company files with the Securities and Exchange Commission, including this annual report, reports to shareholders and other communications. The U.S. Private Securities Litigation Reform Act of 1995 contains a safe harbor for forward-looking statements. Actual results may differ materially from a forward-looking statement made by Magyar Telekom or on its behalf. Readers should also consider the information contained in Item 3, "Key Information Risk Factors" and Item 5, "Operating and Financial Review and Prospects", as well as the information contained in the Company's periodic filings with the Securities and Exchange Commission for further discussion of the risks and uncertainties that may cause such differences to occur. The Company's forward-looking statements speak only as of the date they are made, and the Company does not have an obligation to update or revise them, whether as a result of new information, future events or otherwise.

Table of Contents

Explanation of abbreviations used throughout the report

Abbreviation	Term
2G, 3G, 4G	Second/Third/Fourth-generation mobile technology
2Play, 3Play, 4Play	double-play, triple-play, quadruple-play
3Screen	Three Screen (TV, PC and wireless phone)
ADS	Austrian Digital System
ADSL	Asymmetrical Digital Subscriber Line
ARPA	Average monthly Revenue per Access
ARPU	Average monthly Revenue per User
ASP	Application Service Provider
ATM	Asynchronous Transfer Mode
ATMs	Automatic Teller Machines
AVL	Automatic Vehicle Location
CRM	Customer Relationship Management
CUG	Closed User Group
DOCSIS	Data Over Cable Service Interface Specification
DSLAM	Digital Subscriber Line Access Multiplexer
DVB-C	Digital Video Broadcasting Cable
DVB-S	Digital Video Broadcasting Satellite
DVB-T	Digital Video Broadcasting Terrestrial
DWDM	Dense Wavelength-Division Multiplexing
ED3	EuroDOCSIS 3.0 technology
EDGE	Enhanced Data rates for GSM Evolution
EDR	Hungarian Unified Digital Radio Network/Egységes Digitális Rádiótávközlö Rendszer
EFM	Ethernet in the First Mile
EPG	Electronic Program Guide
ERP	Enterprise Resource Planning

F2M	Fixed to Mobile
FDC	Fully Distributed Costs
FDD	Frequency Division Duplex
FL-LRIC	Forward-Looking Long Run Incremental Costs
FMC	Fixed Mobile Convergence
FTTH	Fiber to the Home

Table of Contents

Abbreviation	Term
FTTx	Fiber to the x
GE	Gigabit Ethernet
GIA	Global Internet Access
GPON	Gigabit Passive Optical Network
GPRS	General Packet Radio Service
GPS	Global Positioning System
GSM	Global System for Mobile communications
HAG	Home Access Gateways
HD	High Definition
HFC	Hybrid Fiber Coax
HIS	High Speed Internet
HSDPA	High Speed Downlink Packet Access
HSLL	High Speed Leased Lines
HSUPA	High Speed Uplink Packet Access
HYTAS	Hybrid Telecommunications Access System
IC	Interconnection
ICT	Information and Communications Technology
ILL	Internet Leased Line
IMS	IP Multimedia Subsystem
IMSI	International Mobile Subscriber Identity
IMT	International Mobile Telecommunications 2000 (global standard for 3G)
IPSec	Internet Protocol Security
IPTV	Internet Protocol-based TV
IP-VPN	Internet Protocol-based Virtual Private Network
ISDN	Integrated Services Digital Network
ISP	Internet Service Provider
IT	Information Technology

IVR	Interactive Voice Response
LRIC	Long Run Incremental Costs
LTE	Long Term Evolution
LTO	Local Telecommunications Operator
MLLNI	Managed Leased Line Network Internet
MMDS	Multichannel Multipoint Distribution Service

Table of Contents

Abbreviation	Term
MMS	Multimedia Message Service
MNO	Mobile Network Operator
MOU	Average monthly Minutes of Use per subscriber
MPLS	Multi Protocol Label Switching
MSAN	Multi Service Access Node
MVNO	Mobile Virtual Network Operator
NAS	Network Attached Storage
NGA	Next Generation Access
NGMN	Next Generation Mobile Networks
NGN	Next Generation Network
NGOSS	Next Generation Operation Support System
NT	Network Technology
PABX	Private Automated Branch Exchange
PATS	Publicly Available Telephone Service
PBX	Private Branch Exchange
PC	Personal Computer
PDH	Plesiochronous Digital Hierarchy
PoP	Point of Presence
POTS	Plain Old Telephone Service
PSTN	Public Switched Telephone Network
QoS	Quality of Service
R4 3GPP	Release 4 Third Generation Partnership Project
RIO	Reference Interconnection Offer
RUO	Reference Unbundling Offer
SaaS	Software as a Service
SAC	Subscriber Acquisition Cost
Sat TV	Satellite TV

SDH	Synchronous Digital Hierarchy
SDR	Special Drawing Rights
SHDSL	Single-Pair High-Speed Digital Subscriber Line
SI	System Integration
SIM	Subscriber Identity Module
SLA	Service Level Agreement

Table of Contents

Abbreviation	Term
SMB	Small and Medium Businesses
SMS	Short Message Service
SOHO	Small Office/Home Office
SPA	Service Provisioning and Activation
TDD	Time Division Duplex
TDM	Time Division Multiplex
TETRA	Terrestrial Trunked Radio
ULL	Unbundled Local Loop
UMTS	Universal Mobile Telecommunications System
VDSL	Very High Bitrate DSL
VoCable	Voice over Cable television
VoIP	Voice over Internet Protocol
VPN	Virtual Private Network
WACC	Weighted Average Cost of Capital
WAP	Wireless Application Protocol
WiFi	Wireless Fidelity
WiMAX	World Interoperability for Microwave Access
WLAN	Wireless Local Area Network
WLR	Wholesale Line Rental

Table of Contents

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

SELECTED FINANCIAL DATA

This selected consolidated financial and statistical information should be read together with the consolidated financial statements, including the accompanying notes, included in this annual report. We derived these financial data from our consolidated financial statements as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 and the accompanying notes, which have been audited by PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. ("PwC"). These consolidated financial data are qualified by reference to our consolidated financial statements and accompanying notes, which we have prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

	Year ended December 31,					
	2005	2006	2007	2008	2009	2009
	HUF	HUF	HUF	HUF	HUF	U.S.$[1]
	(in millions, except per share amounts)					
Consolidated Comprehensive Income Data:						
Amounts in accordance with IFRS						
Revenues	615,054	671,196	676,661	673,056	643,989	3,424
Operating profit	140,874	135,408	128,312	162,258	147,133	782
Profit attributable to the owners of the parent	77,752	74,700	60,155	93,008	77,618	413
Operating profit per share	135.61	130.16	123.25	155.83	141.31	0.75
Basic earnings per share	74.85	71.80	57.78	89.32	74.54	0.40
Diluted earnings per share	74.82	71.78	57.78	89.32	74.54	0.40
Consolidated Financial Position Data:						
Amounts in accordance with IFRS						
Total assets	1,081,086	1,129,282	1,133,265	1,166,543	1,166,377	6,202
Net assets	594,881	589,372	577,898	596,547	605,420	3,220
Common stock	104,281	104,277	104,275	104,275	104,275	554
Total Equity of the owners of the parent	525,002	522,722	511,681	533,946	538,480	2,864

As a result of the internal investigation (as described under Item 8 "Financial Information Other Financial Information Legal proceedings"), the Company has restated its Statements of Financial

Table of Contents

Position for the years ended December 31, 2005, 2006, 2007 and 2008 to reflect the findings of the investigation. See also Note 1.2.2. to the Consolidated Financial Statements included in this annual report.

	Year ended December 31,				
	2005	2006	2007	2008	2009
	(in millions)				
Other data:					
Weighted average number of shares					
Basic	1,039	1,040	1,041	1,041	1,041
Diluted	1,039	1,041	1,041	1,041	1,041

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2009 of U.S. dollar 1.00 = HUF 188.07. These translations are unaudited and presented for convenience purposes only.

Dividends

The following table sets forth the dividend per Magyar Telekom ordinary share for the years 2005, 2006, 2007, 2008 and 2009. The table shows the dividend amounts in Hungarian forints, together with U.S. dollar equivalents, for each of the years indicated.

	Dividend Paid Per Ordinary Share	
	HUF	U.S.$[1]
Year		
2005	73	0.3418
2006	70	0.3653
2007	74	0.4287
2008	74	0.3938
2009 (proposal)	74	0.3935

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2009 of U.S. dollar 1.00 = HUF 188.07; December 31, 2008 of U.S. dollar 1.00 = HUF 187.91, December 31, 2007 of U.S. dollar 1.00 = HUF 172.61, December 31, 2006 of U.S. dollar 1.00 = 191.62 and on December 31, 2005 of U.S. dollar 1.00 = HUF 213.58.

EXCHANGE RATE INFORMATION

As used in this document, "Hungarian forint" or "HUF" mean the lawful currency of Hungary. "EUR", "euro" or "€" mean the single unified currency of the European Union ("EU"). "U.S. dollar," "USD" or "$" mean the lawful currency of the United States.

The National Bank of Hungary ("NBH") quotes and publishes official exchange rates of the Hungarian forint for all major currencies based on prevailing market rates. Unless otherwise stated, conversion of Hungarian forint into U.S. dollars have been made at the rate of USD 1.00 to HUF 188.07, which was the official rate quoted and published on December 31, 2009.

On any given day, the market exchange rate of the Hungarian forint against the euro may vary from the official rate of the NBH. Prior to May 4, 2001, the NBH had a policy of intervening in the foreign exchange market, if the market exchange rate of the Hungarian forint against the euro deviated more than 2.25 percent above or below the official rate. On May 4, 2001, the NBH announced that it had widened this intervention band to 15 percent above and below the official rate. The central parity was set at 282.36 HUF/EUR rate. As of February 26, 2008,

the NBH terminated the intervention band. The floating exchange rate allows the NBH to focus more effectively on the inflation targets.

Table of Contents

The following tables set forth, for the periods and dates indicated, the period-end, average, high and low official rates quoted and published by the NBH for Hungarian forint per U.S. $1.00 and EUR 1.00.

	Exchange Rates (amounts in HUF/U.S.$)			
	Period-End	**Average[1]**	**High**	**Low**
Year				
2005	213.58	199.66	217.54	180.58
2006	191.62	210.51	225.01	191.02
2007	172.61	183.83	199.52	171.13
2008	187.91	171.80	218.76	144.11
2009	188.07	202.26	249.29	176.67
2009				
September	184.79	186.84	194.26	183.18
October	183.71	181.41	185.91	176.67
November	181.00	181.60	190.05	177.17
December	188.07	186.76	193.72	178.00
2010				
January	193.98	188.56	193.98	184.00
February	198.74	198.08	201.19	192.40
March (through March 23, 2010)	195.23	194.98	198.70	190.74

(1) The average of the exchange rates on each business day during the relevant period.

	Exchange Rates (amounts in HUF/EUR)			
	Period-End	**Average[1]**	**High**	**Low**
Year				
2005	252.73	248.05	255.93	241.42
2006	252.30	264.27	282.69	249.55
2007	253.35	251.31	261.17	244.96
2008	264.78	251.25	275.79	229.11
2009	270.84	280.58	316.00	264.17
2009				
September	270.36	272.02	276.32	269.48
October	272.50	268.65	273.83	264.17
November	272.29	270.98	279.13	265.03
December	270.84	273.08	278.35	269.08
2010				
January	270.90	269.33	273.43	266.51
February	270.19	271.19	274.13	269.24
March (through March 23, 2010)	264.01	265.68	269.33	261.60

(1) The average of the exchange rates on each business day during the relevant period.

We will pay any cash dividends in Hungarian forints, and if you are a holder of American Depository Shares ("ADSs") exchange rate fluctuations will affect the U.S. dollar amounts you will receive upon conversion of cash dividends on the shares represented by ADSs. Fluctuations in the exchange rate between the Hungarian forint and the U.S. dollar will also affect the prices of shares and ADSs.

Table of Contents

RISK FACTORS

Prior to making any investment decision, you should carefully consider the risks set forth below in addition to other information contained in this annual report. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities.

The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion at the front of this Annual Report for cautionary information.

Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations.

The Electronic Communications Act of 2003 ("Electronic Communications Act"), which came into force in January 2004, was enacted by the Hungarian Parliament to achieve harmonization of the telecommunications regulatory regime in Hungary with the New Regulatory Framework ("NRF") of the EU for electronic communications adopted in 2002, and to encourage further competition in the market. The NRF has been subject to review by the EU since 2007. The agreed reforms to the NRF accepted in November 2009 are the result of three years of discussions with stakeholders, national regulators and users. See "Item 4 Regulation Legislative Developments in the EU" for a description of the reforms adopted in 2009. Changes to the NRF are required to be implemented by national legislation by May 25, 2011.

Under the Electronic Communications Act, the National Communications Authority ("NCA") was established to regulate the Hungarian telecommunications industry. The primary responsibility of the NCA is to perform market analysis procedures under which it defines "relevant markets," or markets subject to the regulatory framework. The NCA analyzes such markets for the level of competition and, if it finds a lack of sufficient competition in such markets, identifies service providers with significant market power ("SMP"), and imposes appropriate regulatory obligations on such providers to encourage competition.

The NCA carried out a market analysis procedure and reached its final findings on 17 out of 18 relevant markets identified in an applicable decree in 2004. Under these findings, Magyar Telekom was found to have SMP in 13 of the 16 markets (i.e., markets 1-9, 11-13 and 16). By the end of March 2008, the NCA had published new SMP resolutions concerning 17 markets out of the 18 in the second round of market analyses. Out of these 17 markets, Magyar Telekom was identified as an operator with SMP in all but four markets. As a result, the NCA imposed various obligations on Magyar Telekom with respect to these markets. See "Item 4 Regulation and Pricing".

The Recommendation of the European Commission on relevant product and service markets within the electronic communications sector susceptible to *ex ante* regulation in accordance with Directive 2002/21/EC of the European Parliament and of the Council on a common regulatory framework for electronic communication networks and services (2003/311/EC) ("Recommendation"), the regulation on which the market analysis procedure of the NCA is based, was also reviewed by the EU during 2006 and 2007. This new Recommendation entered into force on December 17, 2007. As a result of the EU review, the number of relevant markets decreased from 18 to 7. Magyar Telekom is currently identified as having SMP in all of the 7 remaining markets as well as in all retail markets cancelled from the list of relevant markets. The new Recommendation will become effective in the current round of market analyses by the NCA, which is expected to be completed in 2010. Until now only one resolution with respect to market 7/2007 (voice call termination on individual mobile networks), has been published. The extension of the definition of market 11 (unbundling of the local loops) from copper to optical networks by the NCA makes the extension of the unbundling obligation to Magyar Telekom's new technology (optical) networks easier for the NCA. This is expected to have an adverse impact on our business results.

Table of Contents

In 2008, Magyar Telekom launched a widespread optical network deployment program. In the event the NCA decides to impose regulations on optical networks, it would affect both the wholesale and the retail market. This decision is expected in the first half of 2010.

On February 26, 2010, the Hungarian government published a resolution on the "National Digital Public Utility". This is a homogeneous and integrated optical backbone and regional transmission network to be created by the government to secure access to areas where there is no competition for high speed broadband access. Its financing is planned through the reallocation of EU resources. The network would operate in a self-sustaining, non-profit way based on the principle of open access, generating revenues from the provision of wholesale services. The full or partial implementation of the concept may have direct impact on Magyar Telekom's network solutions and could indirectly affect the Company's operation.

In addition, our businesses in Macedonia and Montenegro are also subject to various regulatory developments. In Montenegro, the market analysis by the Agency for Electronic Communications and Postal Services ("EKIP") will likely result in certain obligations (e.g., reference interconnection offer, carrier selection, accounting separation and cost based pricing) that may have an impact on the profitability of the company. In Macedonia, in particular, the current and possible future SMP status of T-Mobile Macedonia in various markets may lead to lower mobile termination rates and additional obligations in the origination and access market, including regulated national roaming. The activities of the Agency for Electronic Communications ("Agency") related to retail price control will be enhanced. The Agency will open a public consultation on FTTH thus implementation of LRIC bottom-up and new calculation of WACC are expected.

The European Commission has issued a recommendation on mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the national regulatory authorities ("NRAs"). As a result, it is possible that TMH's mobile termination rates will be reduced to a lower level than intended by the NCA by 2012. The regulation of mobile termination rates at the EU level may lead to interventions by the Macedonian and Montenegrin regulator as well.

We cannot fully anticipate the combined impact of these and other regulatory developments on our business and results of operations. Our business and results of operations may be adversely affected by these changes or similar regulatory developments or changes by our regulators.

We are subject to more intense competition due to the liberalization of the telecommunications sector.

The scope of competition and any adverse effect on our results depend on a variety of factors that we cannot assess with precision and are for the most part not within our control. Among such factors are business strategies and capabilities of new competitors, prevailing market conditions, as well as the effectiveness of our efforts to prepare for new market conditions. Specific risks in the fixed line market include continuous downward pressure on tariff levels, loss of customers as a result of unbundled access to the local loop, loss of fixed line customers as a result of introducing "naked" ADSL, competition from alternative operators using new technologies (e.g., VoIP, VoCable) and migration to lower priced Internet price plans as a result of speed upgrades. In addition, the declining prices of mobile telecommunications services also lead to the migration of fixed line customers.

The most significant trend in the fixed line market is the increasing share of 2Play or 3Play offers (bundling voice, Internet and television services into one package) which may result in discounts on purchased services for customers. In Hungary, cable penetration is above the European average. From a competition point of view, the unregulated cable television operators may be able to offer more flexible price structures to customers than the regulated market players, such as Magyar Telekom. In case of increasing price competition, this may narrow our ability to give adequate market responses against the competitors' actions.

Table of Contents

In the mobile communications business, we already face intense competition. As all telecommunications markets have become increasingly saturated, the focus of competition has shifted from customer acquisition to retention. Significant customer defections could have an adverse effect on our results of operations, and customer acquisition and retention expenses are substantial. Due to the increased level of competition and new price plans, prices for mobile telephone services have been declining over the past several years and may continue to decline.

New market models using Internet-based messaging and communication services may adversely affect both of our fixed line and mobile voice and messaging services. Entry by MVNOs into the mobile telecommunications market may intensify the competition in Hungary. MVNOs are mobile operators that do not own their own spectrum or network infrastructure, and instead buy the use of the spectrum and network infrastructure from traditional mobile operators and provide mobile telecommunications services to consumers based on the purchased capacity. MVNOs are likely to target the lower segment of the market and such development will likely increase price-based competition. Currently there is no regulation in Hungary where incumbents would be obliged to provide regulation based access prices for MVNOs. We do not expect changes in this field.

On November 20, 2009, Vodafone, in cooperation with Magyar Posta, launched a branded reseller mobile service, "Postafon", which is offered by Magyar Posta in several post offices. The entry pressure from other interested parties to a 3-player mobile market may increase in the future. If MVNO is hosted by one of our competitors, Magyar Telekom will lose revenue as customers are lost to the MVNO and the tariff level in the Hungarian mobile market may significantly decrease.

The modified GSM Directive UMTS technology to be deployed in the 900 MHz bands was published in the Official Journal of the EU on October 20, 2009, along with the Decision of the European Commission on the technical implementation requirements. The modified Directive entered into force on November 9, 2009 and the Directive is required to be implemented by national legislation by May 9, 2010. There is a possibility for an E-GSM900 spectrum tender in the third quarter of 2010 at the earliest. The tender may further increase the competition in the Hungarian mobile market.

We also face intense competition in the market for Internet services, as well as in the data communications markets from other fixed line, mobile and cable television service providers. The share of Magyar Telekom DSL net additions has declined against competitors' cable Internet offerings. This could adversely affect our further broadband growth prospects and may lead to further tariff erosion.

Competition posed by new entrants in Macedonia and Montenegro may result in a downward pressure on pricing, sales volume and profitability, which would have an adverse effect on our financial condition and results of operations.

Our ability to meet our revenue targets will depend in part on our ability to offset the declining fixed line voice revenues with data, TV, Internet and SI/IT revenues and our ability to acquire telecommunications companies.

We expect the number of our fixed access lines and rates for fixed telephone services to decrease. In addition, the growth rate of the Hungarian broadband market is expected to slow down. To mitigate this decrease in fixed line voice revenues, we are now moving from pure fixed line voice offers to integrated 2Play and 3Play packages, which will allow us to partially substitute declining voice traffic revenues with content, entertainment and bundled access revenues. In mobile operations in Hungary, market penetration is now saturated, and we expect flat development in the following year. We may not be able to sustain our revenue targets, if we are unsuccessful in offsetting the effect of our declining voice and messaging revenues with new services.

Table of Contents

We may be unable to adapt to technological changes in the telecommunications market.

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of various segments of the increasingly global industry. Our future success will largely depend on our ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Technological advances may also affect our level of earnings and financial condition by shortening the useful life of some of our assets.

NGN (IP Multimedia Subsystem based network) is the main stream of technical development that gives the general framework for reaching most of our business strategic goals and for transforming the company. Our NGN strategy focuses on overlay NGN. This approach means that the new technology is built in parallel to the existing network, not in substitution or replacement of existing technology, and we build and use the new technology for introducing new services. In addition, we use the NGN for network transformation by migrating our legacy networks to NGN to change the technology and platform to further provide legacy services and features at a lower operational cost level.

We have planned migration to NGN on the basis of recent trends in the telecommunications industry: as vendors allocate resources to develop NGN, they significantly increase legacy system support fees and development costs, we face increasing risk of failures due to aging technology, which may result in revenue loss and stimulate higher churn. The risk of failing to overlay NGN development is that we miss gaining new revenues from broadband-based services and applications as well as integrated, convergent service offerings (3Play, 4Play), while we lose traditional business.

Our Next Generation Fixed Access strategy is to widely deploy FTTH (optical network) and EuroDocsis3.0 technology for upgrading cable network. Many of our competitors have started to invest in deploying a Next Generation Access network, which might decrease our market share in High Speed Internet (above 20 Mbit/s) market as well as in other markets (voice, TV) through xPlay offers, and therefore be a threat to the value of our existing network.

Further, the economic crisis in 2009 has affected our ability to invest in and deploy new technology. In 2009, we could not fulfill the original FTTH roll-out plan due to combined effect of lower funds available for capital expenditures and the weakening of the Hungarian currency as a result of the economic crisis. In addition, the current economic crisis also affects us from the demand side as customers may not use new products and services developed on our FTTH network to the extent anticipated, which may lead to decline in revenues and have an adverse impact on our results. Management continually assesses and reviews our plans and related capital expenditures with respect to the roll-out of new technology and accordingly, our plans may change as market conditions develop, including amending targets in relation to the FTTH roll-out plan such as the target to connect approximately 780,000 households via optical network solution by the end of 2013.

After merging the mobile and fixed line technology areas of the Company, in order to improve the efficiency of the customer service function, we intend to unify the IT and CRM systems that support daily business, the sale of new products and the management of customers. If these development processes are drawn out over time and if the various systems continue to operate concurrently for a longer period, this could contribute to more significant churn and a faster decline in our revenues.

Due to the accelerated network development of our competitors in the last few years, our services face competition from broadband products of other service providers. The development of this parallel infrastructure affects the price level and the available penetration of our services as well as the return of our investments.

The operation of our mobile businesses depends in part upon the successful deployment of continually evolving mobile communications technologies, which requires significant capital expenditures. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will

Table of Contents

perform according to expectations, or that they will achieve commercial acceptance. We may be required to make more capital expenditures than we currently expect if suppliers fail to meet anticipated schedules, performance of such technologies fall short of expectations, or commercial success is not achieved.

TMH launched 3G-based services in Hungary in 2005 before any of its competitors. TMH is currently upgrading the network infrastructure to better provide the new generation of services. However, new alternative technologies and standards, e.g., WiFi, WiMAX, or VoIP, may keep consumers from choosing 3G-based services. These new technologies, especially VoIP, also endanger our voice business. We are not able to predict at the moment which of these competing technologies will be the most widely accepted platform, however we think that HSDPA and HSUPA enabled 3G network, and later the LTE (4G) standard are the most likely candidates. There is a frequency spectrum allocation risk for LTE, because currently there is no frequency spectrum available, on which the LTE service could be launched without making compromise.

Our subsidiary, Pro-M Professzionális Mobilrádió Zrt. ("Pro-M"), also faces risks resulting from technological changes, since the TETRA technology on which its network is based is evolving according to customer demands. To neutralize this risk, Pro-M needs to keep pace with new developments and apply these to its network, while considering capital expenditure requirements.

The effects of technological changes on our businesses cannot be predicted. In addition, it is impossible to predict with any certainty whether the technology selected by us will be the most economic, efficient or capable of attracting customer usage. There can be no assurance that we will be able to develop new products and services that will enable us to compete effectively.

The future of our current operational model is subject to currently unforeseeable changes in the future business environment.

The telecommunications industry is undergoing a major change globally with an effect on the Hungarian market as well. We have considered these market trends including changes in technology, customer requirements, competition and regulation, and accordingly, we have planned our operational restructuring to be in line with these market trends. Our new operational model effective from 2008 is based on customer segments and also provides a solid basis to capture long-term growth. We have designed our new operational model according to our most current knowledge of market trends and our business needs; however, the future business environment might evolve into currently unforeseen directions that will require us to adjust our operational model.

Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets.

Developments in the technology and telecommunications sectors, including significant declines in stock prices, market capitalization and credit ratings of market participants may result in impairments of our tangible, intangible and financial assets. Future changes in these areas could lead to further impairments at any time. Recognition of impairment of tangible, intangible and financial assets could adversely affect our financial condition and results of operations and might lead to a drop in the trading price of our shares. We review on a regular basis the value of each of our subsidiaries and their assets. The value of goodwill is reviewed annually. In addition to our regular impairment tests, whenever we identify any indication (including changes in the economic, regulatory, business or political environments) that goodwill, intangible assets or fixed assets may have been impaired, we consider the necessity of performing certain valuation tests which may result in an impairment charge.

We depend on a limited number of suppliers for equipment and maintenance services.

In each of our operating divisions, there are a limited number of suppliers for necessary equipment and maintenance services. The failure of these suppliers to meet our equipment and maintenance needs in

Table of Contents

a timely manner could have a significant effect on our revenues and market position. The construction and operation of our networks and the provision of our services and network infrastructure, especially mobile telecommunications services, are dependent on our ability to obtain adequate supplies of a number of key items on a timely and cost-efficient basis. These include handsets and transmission, switching and other network equipment. Significant delays in obtaining such equipment and maintenance services could have a material adverse effect on our business and results of operations.

Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies.

Media reports have suggested that radio frequency emissions from mobile telephones are linked to medical conditions such as cancer. In addition, a number of consumer interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital mobile technologies pose health risks and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on our mobile business or will not lead to additional government regulations. Our ability to install new mobile telecommunications base stations and other infrastructure may also be adversely affected, and related costs may increase, due to regulations or consumer action in response to concerns over health risks and adverse effect on the value of properties adjacent to such facilities. The actual or perceived health risks of mobile communications devices could adversely affect mobile communications service providers, including us, through increased barriers to network development, reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the mobile communications industry.

System failures could result in reduced user traffic and revenue and could harm our reputation.

Our technology infrastructure (including our network infrastructure for fixed network services and mobile telecommunications services) is vulnerable to damage and interruption from information technology failures, power loss, floods, windstorms, fires, intentional wrongdoing and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures or computer viruses could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and revenue and could harm our reputation.

Loss of key personnel could weaken our business.

Our operations are managed by a small number of directors and key executive officers. The loss of directors or key executive officers could significantly impede our financial, marketing and other plans. We believe that the growth and future success of our business will depend in large part on our continuing ability to attract and retain highly skilled and qualified personnel at all levels; however, the competition for qualified personnel in the telecommunications industry is intense. We can give no assurances that we will be able to hire or retain necessary personnel.

Ongoing internal and government investigations into contracts and activities in Montenegro and Macedonia may result in fines, sanctions and changes to our business practices and compliance programs.

In the course of conducting their audit of the Company's 2005 financial statements, PricewaterhouseCoopers, the Company's auditors, identified two contracts the nature and business purposes of which were not readily apparent to them. In February 2006, the Company's Audit Committee retained White & Case, as its independent legal counsel, to conduct an internal investigation into whether the Company had made payments under those, or other contracts, potentially prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act ("FCPA") or internal Company policy. The Company's Audit Committee also informed the United States Department of Justice ("DOJ"), the United

Table of Contents

States Securities and Exchange Commission ("SEC") and the Hungarian Financial Supervisory Authority of the internal investigation.

Based on the documentation and other evidence obtained by it, White & Case preliminarily concluded that there was reason to believe that four consulting contracts entered into in 2005 were entered into to serve improper objectives, and further found that during 2006 certain employees had destroyed evidence that was relevant to the investigation. White & Case also identified several contracts at our Macedonian subsidiary that warranted further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the internal investigation to cover these additional contracts and any related or similarly questionable contracts or payments.

For further information about the internal and governmental investigations, please refer to the Company's quarterly reports for the first, second and third quarters of 2009 furnished under cover of Form 6-K and the Company's annual reports on Form 20-F for the year ended December 31, 2008.

On December 2, 2009, the Audit Committee provided the Company's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated November 30, 2009 (the "Final Report"). The Audit Committee indicated that it considers that, with the preparation of the Final Report based on currently available facts, White & Case has completed its independent internal investigation.

The Final Report includes the following findings and conclusions, based upon the evidence available to the Audit Committee and its counsel:

The information obtained by the Audit Committee and its counsel in the course of the investigation "demonstrates intentional misconduct and a lack of commitment to compliance at the most senior levels of Magyar Telekom, TCG, and Makedonski Telekom during the period under investigation."

As previously disclosed, with respect to Montenegrin contracts, there is "insufficient evidence to establish that the approximately EUR 7 million in expenditures made pursuant to four consultancy contracts ... were made for legitimate business purposes", and there is "affirmative evidence that these expenditures served improper purposes." These contracts were not appropriately recorded in the books and records of the Company and its relevant subsidiaries. As previously disclosed, the Company has already reclassified, in the Company's financial statements, the accounting treatment relating to certain of these contracts to more accurately account for these expenditures.

As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by the Company and its affiliates.

Between 2000 and 2006 a small group of former senior executives at the Company and the Company's Macedonian affiliates, authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between the Company and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."

"The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements."

Table of Contents

In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:

- intentional circumvention of internal controls;
- false and misleading Company documents and records;
- lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption;
- lack of evidence of performance; and
- expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Companies that could only be conferred by government action.

The Final Report states that "the Investigation did not uncover evidence showing receipt of payments by any Macedonian government officials or political party officials." However, the Audit Committee's counsel did not have access to evidence that would allow it to identify the ultimate beneficiaries of these expenditures.

Nothing in the Final Report implicates any current senior executive or Board member of the Company in connection with any wrongdoing.

As previously disclosed, the Company has taken remedial measures to address issues previously identified by the independent investigation. These measures included steps designed to revise and enhance the Company's internal controls as well as the establishment of the Corporate Compliance Program.

Due to these measures, no modifications to the Corporate Compliance Program were viewed as necessary in response to the Final Report. This conclusion has been discussed with the Audit Committee and the Audit Committee has not made recommendations either relating to the Company's compliance program or internal controls.

The Company is continuing to assess the nature and scope of potential legal remedies available to the Company against individuals or entities that may have caused harm to the Company.

As previously announced, the DOJ, the SEC and the Ministry of Interior of the Republic of Macedonia have commenced investigations into certain of the Company's activities that were the subject of the internal investigation. Also, as previously announced, the Hungarian National Bureau of Investigation ("NBI") has begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with the Company's ongoing internal investigation and the possible misuse of personal data of employees in the context of the internal investigation. These governmental investigations are continuing, and the Company continues to cooperate with those investigations. The Company cannot predict what the final outcome of those investigations may be or the impact, if any, they may have on its financial statements or results of operations. Furthermore, government authorities could seek criminal or civil sanctions, including monetary penalties, against the Company or its affiliates as well as additional changes to its business practices and compliance programs.

The lawsuits by our minority shareholders may require us to take other time-consuming and/or expensive corrective actions.

Annual General Meeting ("AGM"), April 2008

As previously disclosed, on May 23, 2008, two of our minority shareholders filed suit against Magyar Telekom Plc., requesting that the resolutions passed by our AGM on April 25, 2008, including the resolution on the payment of dividends, be rendered ineffective. We paid dividends to our shareholders as

Table of Contents

approved by the AGM on April 25, 2008. The Court of Registry entered the changes required by the resolutions passed by the AGM into the company register.

On May 13, 2009, the court of first instance rendered the resolutions (except for one procedural resolution) passed by the AGM on April 25, 2008 ineffective (the "Ruling"). We believed that the Ruling was unfounded and instructed the law firm representing Magyar Telekom to file an appeal. The law firm representing us submitted an appeal against the Ruling, but the appeal was filed after the deadline. The court of second instance refused the law firm's request for acceptance of the late filing in its order dated November 2, 2009, which was received by Magyar Telekom on December 8, 2009. This order was approved by the Supreme Court in its order dated February 16, 2010, which was received by Magyar Telekom on March 22, 2010. No further appeal is allowed in connection with the order of the Supreme Court. We will address the Ruling by proposing that confirmatory shareholders' resolutions be passed by our shareholders at the next annual general meeting, which is April 7, 2010, with respect to the resolutions rendered ineffective.

As the Ruling rendered the shareholders' resolutions in question (including the resolution on the payment of dividends) ineffective from July 7, 2009 (the date as of which the Ruling became final and enforceable as a result of the order of the Supreme Court received by the Company on March 22, 2010), dividend payments for year 2007, which were made to shareholders by July 6, 2009 will continue to qualify as dividends. The Ruling will not result in any obligation of, nor require any action by, the shareholders.

Extraordinary General Meeting ("EGM"), June 2009

As previously disclosed, on July 29, 2009 two minority shareholders filed a law suit against the Company, requesting that the resolutions passed by the EGM on June 29, 2009 be rendered ineffective, and the suspension, as an interlocutory measure, of the implementation of resolutions on the approval of the sum due to the shareholders who did not wish to remain shareholders following the merger of two subsidiaries into the Company decided at the EGM and the resulting opening draft balance sheet and draft merger inventory. On August 31, 2009, the Court of Registry registered the merger of T-Kábel Magyarország Kft. and Dél-Vonal Kft. into Magyar Telekom Nyrt. (with the effective date of September 30, 2009), and all the other changes required by the resolutions passed by the EGM.

Magyar Telekom disagrees with the claim and has been vigorously defending against it. The claimants' request for the interlocutory measure was refused by the court in an order dated September 1, 2009. The lawsuit remains before the court of first instance.

We cannot fully exclude that the Company will be required to take other corporate actions in connection with the shareholders' suits described above. Also, we cannot provide any assurance that these matters would not have other adverse effects on the Company that are not currently foreseen.

Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs.

The Hungarian equity market is relatively small and illiquid compared to major global markets. As a result of the limitations of the Hungarian equity market and the volatility of the telecommunications sector in general, the price of our shares and ADSs may be relatively volatile and you may have difficulty selling your shares in the event of unfavorable market conditions.

The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries.

Our business depends on general economic conditions in Hungary and abroad. There are many factors, which are outside of our control that influence global and regional economies. A cautious or negative business outlook may cause our customers to delay or cancel investment in information

Table of Contents

technology and telecommunications systems and services, which would adversely affect our revenues directly and, in turn, slow down the development of new services and applications that could become future revenue sources.

We are closely monitoring the impact of the financial market crisis on our financial position and business performance. In line with analysts' forecasts we expect economic activity in Hungary to stabilize in 2010, however a weak labor market and restricted wage developments may limit spending on telecommunications, and therefore have an adverse impact on our results of operations and financial conditions.

In 2009, the financial crisis led to declining demand, which resulted in declining prices and higher churn rates, both in our consumer and business segments. The negative trends experienced in 2009 are expected to continue in 2010 as well. We therefore expect further pressure on the demand for telecommunications services both in the fixed and mobile sectors due to lower household disposable income in Hungary as well as fewer orders from business customers and the public sector. An increase in the price level generated by the increase of Value-Added Tax ("VAT") (by 5 percentage points from July 1, 2009) has led to a further decrease in household disposable income, increasing pressure on demand for our products. A long term weakness of the Hungarian currency may also negatively affect our customers' disposable income because of the high rate of indebtedness denominated in foreign currencies. In addition, our businesses in Macedonia and Montenegro are also affected by similar factors. See "Item 5 Management Overview General" for further explanations of effects of the financial crisis on our 2009 performance and "Item 5 Management Overview Outlook" for our expectations for 2010.

A significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries is held in local banks and in connection with these deposits the counterparty risk may be higher, due to the small number of internationally substantial financial institutions in these countries, however, all of our deposits are covered with bank guarantees issued by banks from the European Union. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely change the cashflows from these instruments.

Despite a decreasing trend in the HUF interest rates, we may also experience higher financing costs in the future as higher fluctuations of interest rates seems to be more likely due to the increased volatility in the international capital and money markets after the financial crisis.

At this stage it is quite uncertain for how long the consequences of the financial crisis will last and what its overall effects will be on our results of operations and financial conditions. For additional information about our financial risk management, see Note 3 to the consolidated financial statements.

Fluctuations in the currency exchange rate could have an adverse effect on our results of operations.

We are subject to currency translation risks, mainly relating to the results of our Macedonian and Montenegrin operations. Devaluation of the Macedonian denar or appreciation of the Hungarian forint may have a negative impact on Makedonski Telekom's results when converted into HUF. The conversion of Crnogorski Telekom's results into HUF depends on the value of the HUF against the EUR. This is mainly a reporting risk, but through the dividend payments it has direct financial (cashflow) effects on us as well. The recent financial crisis increased the volatility of exchange rate fluctuations, which affect our purchasing costs of goods and services. While the vast majority of our revenues are denominated in the functional currency of the pertinent Group company, part of our operating expenses and capital expenditures are denominated in EUR and USD.

Table of Contents

We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. The results of those procedures may have a material adverse effect on our results of operations and financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party, or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or could be involved (or settlements thereof), may have a material adverse effect on our results of operations or financial condition. For information concerning material litigation in which we currently are involved, see "Item 8. Financial Information Legal Proceedings." For information concerning our regulatory environment, see "Item 4. Information on the Company Regulation."

Table of Contents

ITEM 4 INFORMATION ON THE COMPANY

ORGANIZATION

Magyar Telekom Távközlési Nyilvánosan Müködö Részvénytársaság (in English, Magyar Telekom Telecommunications Public Limited Company) is a limited liability stock corporation incorporated and operating under the laws of Hungary. We operate under a commercial name, Magyar Telekom Nyrt. or Magyar Telekom Plc. Our shares are listed on the Budapest Stock Exchange, and our ADSs are listed on the New York Stock Exchange. Our headquarters are located at 55 Krisztina krt., 1013 Budapest, Hungary. Our telephone numbers are +36-1-458-0000 and +36-1-458-7000. Our agent for service of process in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011, USA.

HISTORY AND DEVELOPMENT

Prior to 1990, the Hungarian national postal, telephone and telegraph authority, Magyar Posta, provided all public telephone services in Hungary. On January 1, 1990, the Hungarian government split Magyar Posta into three distinct entities based on the nature of their operations: postal services, telecommunications and broadcasting. The Hungarian government made Magyar Távközlési Vállalat responsible for telecommunications operations. This entity was transformed on December 31, 1991 into a stock corporation, Magyar Távközlési Rt. ("Matáv") then wholly owned by the predecessor of Állami Privatizációs és Vagyonkezelö Rt. ("State Privatization and Holding Company" or " ÁPV").

MagyarCom GmbH ("MagyarCom"), a holding company in which Deutsche Telekom and Ameritech Corporation ("Ameritech") each held a 50 percent interest, was selected by the Minister in an international tender and subsequently purchased a 30.1 percent stake in Matáv for approximately U.S.$ 875 million on December 22, 1993. ÁPV contributed U.S.$ 400 million of the purchase price paid by MagyarCom to Matáv to provide it with capital to expand the telephone network.

MagyarCom entered into a concession agreement with the Hungarian government on December 19, 1993. MagyarCom then assigned certain of its rights under the concession agreement to Matáv. On December 22, 1993, Matáv entered into a concession contract (the "Concession Contract") with the Hungarian government, which gave us the exclusive right to provide domestic long distance and international public telephone services throughout Hungary and local public fixed line voice telephone services in 31 of 54 Local Primary Areas for a term of eight years ending on December 22, 2001. On May 24, 1994, we obtained the right to provide telephone services in an additional five Local Primary Areas for a term of eight years ending in May 2002.

On December 22, 1995, MagyarCom acquired from ÁPV an additional 37.2 percent interest for approximately U.S.$ 852 million, raising its stake to 67.3 percent.

In connection with the Company's initial public offering in November 1997, both MagyarCom and ÁPV collectively sold 272,861,367 shares or 26.31 percent of then outstanding shares. In June 1999, ÁPV sold its remaining 5.75 percent stake in Matáv in a secondary offering.

On October 8, 1999, SBC Communications Inc. ("SBC") completed its acquisition of Ameritech and thus gained control over Ameritech's 50 percent interest in MagyarCom.

On July 3, 2000, SBC sold its 50 percent ownership in MagyarCom to Deutsche Telekom, making Deutsche Telekom a 100 percent owner of MagyarCom.

DESCRIPTION OF BUSINESS AND ITS SEGMENTS

We are the principal provider of fixed line telecommunications services in Hungary, with approximately 2.1 million fixed access lines as of December 31, 2009. We are also Hungary's largest mobile telecommunications services provider, with more than 5.1 million mobile subscribers (including users of prepaid cards) as of December 31, 2009.

Table of Contents

Magyar Telekom established its current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's key operating segments in Hungary are: Consumer Services Business Unit, Business Services Business Unit, Group Headquarters and Technology Business Unit. In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments.

The Consumer Services Business Unit ("CBU") operates in Hungary, providing mobile, fixed line telecommunications and TV distribution services (including marketing, sales and customer relations activities) to residential and small business telecommunications customers in Hungary, with several million customers mainly under the T-Mobile and T-Home brands.

The Business Services Business Unit ("BBU") operates in Hungary, providing mobile and fixed line telecommunications, info-communications and system integration services (including marketing, sales and customer relations activities) mainly under the T-Systems and T-Mobile brands to key business partners (large corporate and public sector customers), as well as SMBs.

The Group Headquarters ("Headquarters") is responsible for providing wholesale mobile and fixed line services in Hungary, and also performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. Headquarters is also responsible for the Group's points of presence in Bulgaria, Romania and Ukraine, providing wholesale services to local companies and operators.

The Technology Business Unit ("Technology") is responsible for the operations and development of the mobile, fixed line and cable TV network, as well as IT management in Hungary.

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional reporting segments of the Group. We hold a 100 percent interest in Stonebridge Communications AD, which controls Makedonski Telekom, the leading fixed line telecommunications services provider and, through its subsidiary T-Mobile Macedonia, the leading mobile telecommunications operator in Macedonia. We also hold a 76.53 percent ownership in Crnogorski Telekom, the principal fixed line telecommunications services provider and, through its subsidiary T-Mobile Crna Gora, the second largest mobile telecommunications operator in Montenegro.

In addition to the operating segments described above, we have a Media Business Unit and a few other business operations for internal management purposes that do not qualify as business segments for financial reporting purposes. The results of these operations are reflected in "All other" in our Consolidated Financial Statements.

On June 29, 2009, Magyar Telekom's EGM approved the merger of Magyar Telekom Plc., T-Kábel Magyarország Kft. and Dél-Vonal Kft., two 100 percent subsidiaries of Magyar Telekom Plc. As the merger occurred between the parent company and its 100 percent owned subsidiaries, the transaction did not have any impact on the financial results of the Group.

We have not made any significant acquisitions between 2007 and 2009. For the investments in capital expenditures between 2007 and 2009 by our reportable segments, see Note 31.1.1 to the Consolidated Financial Statements. For the discussion of our major infrastructure developments, see "Item 4. Information on the Company Infrastructure and Technology."

Table of Contents

STRATEGY

Since becoming a listed company in 1997, we have maintained our leading positions in the domestic fixed line, mobile, Internet and data businesses. We have successfully expanded into international operations through selective acquisitions, and continuously produced solid results.

The telecommunications industry is undergoing a major change globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. Key drivers of the long-term trends include changes in technology (i.e., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (i.e., increase in mobile usability of content services and terminal devices, 4Play solutions, growing need for customized content), competition and regulation (i.e., low entry barriers, new business models) as well as convergence in the telecommunications and media broadcast industry.

These worldwide trends are driving towards the concept of an integrated telecommunications, information, media and entertainment market, where market segments are overlapping and market barriers are dissolving.

A traditional telecommunications market will not deliver sizeable revenue growth and all players will feel pressure on revenue and profitability. Overall, the fixed voice market as a major source of revenue and profits is declining; mobile and the growing segments (especially broadband) are no longer able to fully offset the decline in revenue and profits in the fixed line market. The worldwide economic crisis has further accelerated negative market trends primarily affecting fixed, mobile voice and IT services as customers tend to rationalize their telecommunications spending when household incomes are lower. We, like other operators, are experiencing strong price pressure with fierce technology platform-based competition, and also changing dynamics of broadband market growth and structure (DSL vs. Cable / Fixed vs. Mobile). The fixed market is characterized by 3Play bundles, with TV services becoming a driver and core element of service offerings, while the mobile market is driven by fierce competition in broadband. Services beyond core connectivity are needed to improve access base and usage. Continuous cost controls are required to manage profitability.

Several factors drive the competitive landscape locally, while real innovations are coming from global industry players. Factors shaping the competitive environment include customer demand for bundling with discounts; simple administration; regulatory developments opening up market entry opportunities; technology platform based competition; economies of scale through regional business models; market consolidation and anticipated impacts of the economic crises. Also, we see many other changes locally with aggressive own access infrastructure build-out and upgrade, and strong consolidation in the ISP and cable markets.

On a global scale, we see a strong pressure on access providers from device manufacturers (Apple, Nokia, Sony Ericsson) and content service providers (Google, Yahoo, MSN). They attract customers with new services over a commoditized access.

Accordingly, we have redefined the focus areas of our corporate strategies to better exploit our position as an integrated telecommunications operator with a full range of services, as well as to ensure our long-term competitiveness. Our strategies are designed to enable us to exploit and develop our extended customer base, significantly improve efficiency and capture growth opportunities.

Magyar Telekom's strategic value proposition

We need to follow clear strategic guidelines delivering the highest value to our customers (i.e., value for money) with full attention to excellence in customer service, while bringing innovations first to the market with efficient operation and processes behind. Accordingly, we need to have a consciously managed focus on both core and non-core (mainly IT, media) businesses and products, however with consideration of the differing financial characteristics and business models to effectively manage the transition.

Table of Contents

The strategic objective in the short-/mid-term is to fix critical factors within the core business (simplification of core processes, implement access strategy, simplify IT landscape, optimize resource allocation and cost structure, improve customer experience) and to further strengthen our positions in core connectivity segments (mobile, broadband, TV) that will enable us to shift resources and priorities towards further diversification through service/product innovation and expansion.

In order to continue our transformation to become a cost efficient integrated service company in an extended market of telecommunications and connected industries, we have set our strategic priorities as follows:

1. *3Screen Company approach*

   Three screen company strategy (comprehensive strategy across three screens: television, computer, mobile phone) with full service portfolio and improved customer experience in consumer;

   Utilize bundling of fixed and mobile services, leverage an integrated loyalty system based on competitive offerings; and ensure local competitiveness.

2. *ICT leader*

   Having established an integrated customer approach and a real ICT portfolio, focus on new innovative products (e.g., ASP products, IT outsourcing);

   Realign sales segmentation and processes to improve sales performance for ICT focus.

3. *Service Innovation*

   Develop and launch new access supporting services focusing on areas such as smart security, energy, health and finance;

   Focus on appealing 3Screen content, media and interactivity.

4. *Regional Presence*

   Continue to deliver and extend our regional presence, increase economies of scale;

   Utilize synergies in DT Group.

5. *One Company*

   Continuous focus on cost efficiency, improved processes, strengthened execution capabilities.

Our corporate strategy in place fixing the core business and capturing sustainable growth is still valid; execution will be further strengthened through focused corporate initiatives.

Table of Contents

OVERVIEW OF MAGYAR TELEKOM'S REVENUES AND PRINCIPAL ACTIVITIES

For the years ended December 31, 2007, 2008 and 2009, our total revenues by business segment were as follows:

	Year ended December 31,			Year ended December 31,
	2007	2008	2009	2009/2008
	(in HUF millions)			
Revenues				
Total CBU revenues	346,495	341,563	322,336	(5.6)
Less: CBU revenues from other segments	(42,219)	(38,655)	(33,849)	(12.4)
CBU revenues from external customers	304,276	302,908	288,487	(4.8)
Total BBU revenues	172,346	179,174	170,989	(4.6)
Less: BBU revenues from other segments	(14,308)	(16,833)	(18,835)	11.9
BBU revenues from external customers	158,038	162,341	152,154	(6.3)
Total Headquarters revenues	164,428	153,544	135,456	(11.8)
Less: Headquarters revenues from other segments	(75,403)	(69,384)	(59,889)	(13.7)
Headquarters revenues from external customers	89,025	84,160	75,567	(10.2)
Total Technology revenues	9,166	11,370	10,556	(7.2)
Less: Technology revenues from other segments	(7,771)	(7,877)	(7,599)	(3.5)
Technology revenues from external customers	1,395	3,493	2,957	(15.3)
Total Macedonia revenues	74,332	76,097	82,312	8.2
Less: Macedonia revenues from other segments	(111)	(285)	(214)	(24.9)
Macedonia revenues from external customers	74,221	75,812	82,098	8.3
Total Montenegro revenues	35,747	33,148	34,442	3.9
Less: Montenegro revenues from other segments	(241)	(105)	(51)	(51.4)
Montenegro revenues from external customers	35,506	33,043	34,391	4.1
All other (net)	14,200	11,216	8,351	(25.5)
Total consolidated revenue of the segments	676,661	672,973	644,005	(4.3)
Measurement differences to Group revenue		83	(16)	n.m.
Total revenues of the Group	676,661	673,056	643,989	(4.3)

In addition to the segments described above, there are a few small foreign subsidiaries not belonging to any segment for financial reporting purposes and are not reported separately due to their small size. These operations (including the Media Business Unit) are included in "All other" in the reconciliation of the reportable segments' totals to the Group totals.

Our business is not materially affected by seasonal variations.

CONSUMER SERVICES BUSINESS UNIT (CBU)

The operations of CBU consist of fixed line and mobile voice retail services, fixed line and mobile Internet services, data transmission, pay TV, telecommunications equipment sales, as well as other services. CBU provides services for residential and SOHO customers. CBU offers home-related telecommunications services under the T-Home brand and mobile communications services under the T-Mobile brand.

Table of Contents

On September 30, 2009, T-Kábel Magyarország Kft. ("T-Kábel") and Dél-Vonal Kft. ("Dél-Vonal") were merged into Magyar Telekom Plc. Former T-Kábel and Dél-Vonal products became integral parts of a harmonized T-Home portfolio.

Fixed Line Services

Voice Retail Services

Subscribers

The following table sets forth information regarding the key voice operating statistical figures of CBU:

	At December 31,	
	2008	**2009**
Voice services		
Total voice access[(1)]	1,921,486	1,740,619
Payphone	16,274	14,788
Total outgoing traffic (thousand minutes)[(1)]	3,550,076	3,135,892
Blended MOU (outgoing)	151	159
Blended ARPA (HUF)	3,650	3,630

(1) Including PSTN, VoIP and VoCable.

Products and Services

Local, Domestic and International Long Distance Telephone Services. We provide local, domestic and international long distance telephone services for our fixed line subscribers. We send and receive all our international voice and switched transit traffic to and from Deutsche Telekom. The agreement with Deutsche Telekom guarantees us international telephone services revenues and profits and allows for cost reductions due to this synergy with the parent company.

Directory Assistance. We offer directory inquiry services. The domestic directory assistance database includes all fixed line and postpaid mobile subscribers' data in Hungary. We offer a call completion option to subscribers, whereby calls may be connected automatically.

Fees and Charges

We charge fixed line subscribers a one-time connection fee, monthly subscription charges and call charges based on usage. A call charge contains two elements: a call set-up charge and a traffic charge. Traffic charge is either measured in seconds based on the call's duration, or in minutes, depending on price plans.

Our one-time connection fee and monthly subscription charges are different for residential and business customers. There are different price plans for residential and business customers as well.

Residential price plans

Our new T-Home brand (introduced in September 2008) offers fixed line voice, Internet and pay television services independently of underlying technology. 3Play (when the three services, such as fixed line voice, Internet and TV, are bundled and offered in a single package) is the focus of the portfolio and of the communication, but the elements can also be purchased separately or in any combination with certain limitations. The more services to which a customer subscribes, the more T-Home discounts are available. If two or three basic services are used, the customer is granted the "T-Home Double Discount" or the "T-Home Triple Discount," respectively.

Table of Contents

In April 2009, we modified our voice portfolio to offer the same plans at the same price on all platforms (PSTN, VoIP and VoCable). T-Home Double Discount or T-Home Triple Discount is offered to customers in all of our residential price plans. We continue to offer flat rate price plans. Flat rate price plans are transparent and easy to budget, and are designed to reduce the erosion of our fixed line business. Customers of flat rate price plans can use our network for local calls in off-peak periods for a fixed monthly fee. For customers with flat rate price plans, we also offer complementary packages for flat peak-time calls as well as for domestic long distance, fixed to mobile and international calls.

Small business price plans

The T-Home discount structure, introduced in 2008, is also available for SOHO customers. The T-Home SOHO discount includes flat rate voice price plans designed for business customers, aiming to further increase our flat price plan penetration.

Internet Services

The following table sets forth information regarding Internet products of CBU:

	At December 31,	
	2008	**2009**
Internet products		
Retail DSL market share (estimated) (%)[1]	54	58
Cable broadband market share (estimated) (%)[1]	18	19
Number of retail DSL customers	404,878	435,558
Number of cable broadband customers	127,683	152,878
Number of fiber optic connections	0	7,247
Total retail broadband customers	532,561	595,683
Blended broadband ARPU (HUF)	5,103	4,427

(1) Data relates to Magyar Telekom Plc. The figures are our estimates and are based on the number of subscribers.

T-Home provides broadband Internet services for residential and SOHO customers through three different technologies such as copper (ADSL, VDSL), cable (Cable Internet) and GPON (Optical Internet). The prices and bandwidths of these services are harmonized as far as possible.

The prices of Internet services depend on the bandwidth (and traffic limit) and the number of other T-Home services (telephone and TV) subscribed (T-Home Double or Triple Discount). There are different Internet packages for residential and SOHO customers.

ADSL. ADSL is a continuous, high-speed Internet access service based on the Asymmetric DSL technology. The service offers cost-efficient broadband Internet access over existing copper wires. In addition, we offer Naked ADSL, an ADSL service over existing copper wires without a telephony service. To enhance the competitiveness of our ADSL portfolio and to improve the sales of new ADSL connections, in September 2009 we introduced new download bandwidths of up to 5 and 15 Mbit/s, replacing the former 2 and 8 Mbit/s bandwidth, without increasing prices.

VDSL. In October 2008, we introduced VDSL service by developing copper network in four districts of Budapest and in six other cities. We have enhanced the VDSL coverage in 2009 and we can reach 84,000 households with this network. We offer two special services on this technology besides normal ADSL services: up to 25 Mbit/s Internet access and HD channels on IPTV.

Cable Internet. We also provide cable Internet by using cable television infrastructure. After the development of our cable network, we introduced ED3 technology in April 2009. We offer a cable Internet

Table of Contents

package with 25 Mbit/s maximum download speed and since September 2009, we also offer 50 and 80 Mbit/s maximum download speeds. At the end of 2009, ED3 services were available in approximately 370,000 households. Similar to our ADSL portfolio, in September 2009 we introduced new bandwidths of up to 5 and 15 Mbit/s, replacing the former 2 and 8 Mbit/s, without any price increases.

Optical Internet. In April 2009, we introduced our new optical Internet portfolio on GPON network and offer optical Internet packages with 5/15/25/50 Mbit/s maximum download speeds. In September 2009, we introduced 80 Mbit/s maximum download speeds aligned with our ED3 portfolio. GPON services are available in approximately 170,000 households.

T-Home HSI portfolio. Through VDSL, ED3 and GPON technologies, we were able to provide HSI packages with 25/50/80 Mbit/s maximum download bandwidth in about 624,000 households by the end of 2009.

TV

The following table sets forth information regarding the key TV operational statistical figures of CBU:

	At December 31,	
	2008	**2009**
TV services		
Number of cable TV customers	422,936	406,841
Number of satellite TV customers	5,338	156,142
Number of IPTV customers	28,496	67,430
Total TV customers	456,770	630,413
Blended TV ARPU (HUF)	3,537	3,280

T-Home offers pay TV services on three different TV platforms: on cable (T-Home analogue and digital cable TV), on IP (IPTV) and on satellite (Sat TV). The prices of cable TV and IPTV have been harmonized, while Sat TV is available for a lower monthly fee. The prices of TV services depend on the number of channels (package type) and the number of T-Home services subscribed by the customer (T-Home Double or Triple Discount).

IPTV. IPTV service was introduced in 2006. Since the launch of the T-Home brand in September 2008, the sale of IPTV services has been dynamically increasing and the number of IPTV connections reached more than 67,000 by end of 2009. IPTV allows broadcasts to be seen on a television set with a set-top-box over copper or fiber network. The product line offers various interactive contents, such as time-shift function, EPG on screen, recording onto the hard disc built in the set-top-box, web EPG service, video on demand service and picture-in-picture. In 2009, we continued to increase the coverage of this service by developing a fiber network. T-Home IPTV is now available in more than 700 settlements in Hungary.

Cable TV. With the integration of T-Kábel, analogue and digital cable TV products have become an integral part of a harmonized T-Home TV portfolio. The growth in the number of cable TV subscribers slowed down in 2008 and the number of customers began to decrease in 2009, as a result of growing competition and also due to the saturation and development of the market.

Sat TV. We launched satellite TV service (T-Home Sat TV) on November 24, 2008. By entering the Sat TV market we became a nation-wide TV service provider. The sale of our Sat TV service increased rapidly. With the introduction of the DVB-S service, we are able to provide 3Play bundled services (TV, Internet, voice) in 78 percent of the country.

Table of Contents

Our main strategic objective is to become the number one 3Play service provider in Hungary under the T-Home brand, which strengthens and broadens our customer base (less churn sensitivity). We also target to increase our market share through acquisitions.

Fixed Line Telecommunications Equipment Sales

We distribute an extensive range of telecommunications equipment, from individual telephone sets to modems, HAGs, set-top-boxes and complete network systems, through a network of customer service centers and CBU's technical unit. In addition to stand-alone telephone-set sales, we offer various packages combining voice, Internet and TV services together with a wide range of device portfolio supporting service packages. We also continually research new device solutions (e.g., NAS, media center) in order to offer and to build a high-level Digital Home for our customers.

We do not manufacture telecommunications equipment but resell and lease equipment manufactured by other companies.

The telecommunications equipment sector is highly competitive and characterized by rapid technological innovation. We believe that the supply and service of telecommunications equipment are integral elements of a full service telecommunications provider and are necessary for the expansion of our customer base. In addition, these activities allow us to ensure that technologically advanced equipment required for new services is available in Hungary.

Other Revenues

Other fixed line revenues include construction, maintenance, rental, customer care services and other miscellaneous revenues.

Table of Contents

Mobile Services

Subscribers

The table below sets forth information concerning the key mobile operating statistical figures of CBU at the dates indicated:

	At December 31,	
	2008	**2009**
Mobile penetration (%)[1]	121.8	117.7
Mobile SIM market share (%)[2]	43.9	43.4
Number of customers	4,648,323	4,343,672
Postpaid share in the customer base (%)	29.1	35.2
MOU	127	126
ARPU (HUF)	3,397	3,164
Postpaid	7,265	6,454
Prepaid	1,862	1,670
Overall churn rate (%)	16.9	27.5
Postpaid (%)	12.1	15.1
Prepaid (%)	18.8	33.1
Ratio of non-voice revenues in ARPU (%)	15.2	16.7
Average SAC per gross add (HUF)	6,813	7,680
Number of mobile broadband subscriptions	182,687	326,384
Mobile broadband market share (%)[2]	53.4	45.9
Population-based indoor 3G coverage[2]	n.a.	65.4

(1) Data relates to the mobile penetration in Hungary, including customers of all three service providers.

(2) Data relates to Magyar Telekom Plc., figures published by NCA.

As of December 31, 2009, we accounted for an estimated 43.4 percent of the total Hungarian mobile market in terms of subscribers based on the number of active SIM cards and 44.4 percent in terms of total number of active SIM cards generating traffic in the previous three months as published by NCA.

We were the first mobile operator to launch HSDPA service in Hungary in 2006. The outdoor mobile broadband coverage based on population reached about 74.0 percent by the end of 2009. We have managed to maintain our market leader position in the mobile Internet market. At the end of 2009, we had a market share of 45.9 percent based on the number of subscriptions and 48.6 percent based on the number of subscriptions with data transfers according to information published by NCA.

The decrease in the number of our mobile subscribers is attributable to two main factors: the impact of the economic crisis and the decline in the number of our inactive SIM cards. Despite the difficult economic circumstances in 2009, we were able to increase the number of our postpaid subscribers by 13.0 percent. The number of mobile broadband subscriptions increased and at the end of December 2009, we had 326,384 subscribers representing a 78.7 percent increase in comparison with the previous year.

Churn policy. Generally, a contract customer is churned either after voluntary termination upon the lapse of his contracted loyalty period or after forced contract termination due to the customer's failure to fulfill payment obligations. In the absence of re-charging, a prepay customer is churned after a period of 12 to 16 months depending on the amount charged on the prepaid card.

24

Table of Contents

Traffic. The average monthly traffic per CBU mobile subscriber was 126 minutes in 2009. Notwithstanding the decreasing average tariff in 2009, usage decreased as a consequence of the economic crisis.

Mobile voice services

Voice postpaid services

Since January 1998, mobile subscriber rates have been deregulated, and carriers have had the freedom to set the level of fee components (i.e., connection fee, subscription fee and traffic charges).

We charge subscribers a one-time connection fee, monthly subscription charges, event charges and time-based traffic charges. We do not charge subscribers for incoming calls, other than calls received while roaming. We receive payments from other telecommunications service providers for terminating calls on our network. We maintained a wide range of price plans and successfully introduced additional plans in 2009 to acquire new subscribers and develop loyalty.

In May 2009, new MediaMania postpaid price plans were launched with bundled SMS, data and mobile TV in one monthly fee. The plans offer competitive prices from mid to high volume segments. There are special smart phone offers to the MediaMania plans with tariff loyalty contracts.

For the small enterprise segment (SOHO customers), CBU offers several price plans providing favorable calls within the user group and other specific services. Customers can manage their user groups and connecting services via web-based application called Telematrix.

Customized employee discounts are gaining considerable market share in the Hungarian mobile market, concentrating mainly on large multinational companies and the government segment. Since the bills of these subscriptions are paid by individuals (and not their employers), this group of customers belongs to the CBU customer base.

Voice prepaid services

Customers using prepaid cards do not pay monthly subscription charges, but certain price plans do include monthly recurring fees.

Electronic top-up services are available at many ATMs, petrol stations, Internet banks, Telebanks, Mobilbanks, on public Internet sites, in post offices, newsagent network, T-Mobile franchise and wholesale partners. The estimated share of electronic top-up in our total top-up remained stable at 90 percent by the end of 2009.

Roaming services

International roaming services are available both for our prepaid and postpaid subscribers. The number of networks and countries where they can make and receive voice calls, send and receive data or SMS is increasing continuously. Since 2007, EU roaming regulations have been in place for roaming voice tariffs for retail customers. The regulation was extended for further three years to retail voice and SMS tariffs as well in 2009.

Mobile non-voice services

In 2009, we continued to enhance our non-voice services portfolio, introduced several new products, increased the penetration and usage of existing products and extended access to some of our domestic products abroad:

New data packages were launched in July 2009. The new RelaxNet structure offers customers maximum available data speeds for a fixed monthly recurring fee based on the size of the purchased

Table of Contents

package. In case the traffic limit included in the package is exceeded, we decrease the downloading speed to 128 Kbit/s, but no further fees (e.g., run-on-rate) will be charged.

The increase in the usage of our mobile Internet services played an important role in 2009. The number of subscribers for this service rose by 78.7 percent by the end of 2009 compared to a year earlier.

We provide premium-rate SMS, premium voice traffic, MMS and videophone. Due to the growth in the number of MMS Interworking partners, the international MMS traffic volumes were almost 32 percent higher in 2009 in case of both outbound and inbound directions, compared to 2008. By the end of 2009, our retail subscribers were able to send/receive MMS to/from about 85 international mobile networks.

We launched, together with handset manufacturer Sony Ericsson, the subscription based PlayNow™ plus music download service in 2009. The service allows users with appropriate handsets to download an unlimited number of tracks to their mobile phones and PCs from a catalog comprising several million tracks, including all major recording labels' offerings. In order to cater to gamers, we launched the Electronic Arts game club, which allows users to get download two Electronic Arts games for a fixed monthly fee. We launched Nokia Messaging service, which allows users to automatically download their e-mails from a wide range of websites (e.g., gmail, hotmail) to their appropriate Nokia handsets.

In December 2007, we launched our Mobil TV streaming service which can be accessed on both t-zones and web'n'walk portals. In 2009, we launched the pay-per-day version of the service, extended channel offerings and integrated the service with the MediaMania price plan, which helped to increase the number of subscribers and active users substantially.

Purchases via mobile phones continued to grow in 2009; transaction figures grew by 65 percent and revenues by 39 percent. The main driver of growth in 2009 was the inclusion of new major cities into the parking service (i.e., when parking tickets can be purchased via mobile phones). Services can be bought in a more convenient way with the use of IVR or SMS. Our other most popular products purchased by mobile phones continued to be lottery tickets and highway fees, but further smaller partners were also included in the service (e.g., movie ticket purchases). In the future, we see potential for the purchase of public and rail transportation by mobile phone.

Mobile equipment and activation

We distribute an extensive range of mobile device products, such as terminals, accessories, notebooks, netbooks, data products, SIM cards and vouchers.

We focus on both acquisition and retention, offering several favorable packages to our customers, such as the interest-free installment option for almost all mobile handsets and notebooks, or in case of our existing customers, the popular loyalty offers with more favorable prices and conditions.

We offer combined mobile service (voice, Internet and TV) and device offers to our customers, finely-tuning the eventualities of existing mobile services, together with supportive devices.

The best example of this is the successful introduction of iPhone 3G in 2008 and iPhone 3GS in 2009 for the Hungarian market exclusively by T-Mobile. iPhone can also be bought bundled with iPhone-specific price plans (ikon 200, ikon 400 and ikon 600), which help to fully exploit iPhone's multimedia capabilities.

We sell mobile equipment manufactured by other companies.

Table of Contents

T-Home and T-Mobile integrated offers

Since we are the only integrated (fixed-mobile) telecommunications service provider in the Hungarian market we continue to leverage the opportunity of FMC.

T-Home/T-Mobile integrated broadband offer. This offer provides unlimited fixed line and mobile Internet together at a discounted price. The purpose of the promotion is to retain fixed line and mobile customers with a competitive offer and to sell mobile Internet as a complementary service for them.

FamilyFriend Option. In October 2009, we introduced a new fixed-mobile voice integrated offer called FamilyFriend. It offers flat rate voice traffic to those customers who subscribed to the FamilyFriend Option between their T-Home fixed and T-Mobile postpaid and prepaid numbers.

The Connection Program. The joint loyalty program of T-Home and T-Mobile was launched on July 1, 2009, offering customers the opportunity to collect loyalty points for use of fixed line and mobile services, as well as several favorable discounts.

BUSINESS SERVICES BUSINESS UNIT (BBU)

The operations of BBU consist of fixed line and mobile voice retail services, Internet services, data transmission, SI/IT services, TV, telecommunications equipment sales, as well as other services.

Fixed line services

Voice Retail Services

Subscribers

The following table sets forth information regarding the key voice operating statistical figures of BBU:

	At December 31,	
	2008	**2009**
Voice services		
Business	110,389	100,172
Managed leased lines (Flex-Com connections)	6,037	4,745
ISDN channels	288,338	270,466
Total lines	404,764	375,383
Total outgoing traffic (thousand minutes)	798,157	656,372
MOU (outgoing)	191	178
ARPU (HUF)	5,457	5,162

The Hungarian government, through its various institutions and departments, constitutes our largest customer group. We develop separate service packages for each of these institutions and departments, as each of them generally has its own annual budget, particular telecommunications needs and responsibilities. From a strategic perspective, however, we consider the Hungarian government a single customer. We offer most of our largest customers, including the government, discounts for services we provide.

Fees and Charges

We charge fixed line subscribers a one-time connection fee, monthly subscription charges and call charges based on usage. A call charge contains two elements: a call set-up charge and a traffic charge. Traffic charge is either measured in seconds based on the call's duration, or in minutes, depending on call plans.

Table of Contents

Business price plans

We target business customers with flat rate price plans, which are transparent and easy to budget. These are designed to reduce the erosion of our fixed line business, and to provide an opportunity for the reacquisition of traffic that we have lost due to pre-selection. Customers of flat rate price plans can use our network for local and domestic long distance calls for a fixed monthly fee. We also offer flat rate price plans with options for mobile and international calls.

Beginning 2009, we also offer flat rate price plans to our largest key customers. To prevent customer churn, we intend to use these price plans as a retention tool for our fixed line and mobile voice services customers.

For SMBs, we extended the existing business flat rate portfolio and launched a fixed-mobile CUG bundled product to retain fixed line traffic in the business segment.

Services

Local, Domestic and International Long Distance Telephone Services. We provide local, domestic and international long distance telephone services to our fixed line subscribers.

IP-based Voice Services. We provide integrated voice, Internet and corporate data packages at very attractive prices for our SMB segment within fixed line portfolio.

Shared Cost/Toll Free Numbers. The reverse charged numbers ("blue" and "green") are primarily used by business customers leveraging the service benefits in the course of their business operations. The customer base and the usage volume of this service are stable. In line with international regulations, we ensure the international availability of reverse charged numbers both from fixed line and mobile networks.

PBX Services. We offer virtual PBX services via VoIP providing internal voice and data integrated business networks for the small and medium business segment.

Internet Services

The following table sets forth information regarding the Internet customers of BBU:

	At December 31,	
	2008	**2009**
Internet services		
Number of leased line Internet subscribers	617	558
Number of retail DSL customers	31,805	32,358
Retail DSL ARPU (HUF)	13,743	12,712

We offer our business customers Internet services based on ADSL technology as well as access through cable, WLAN and leased lines. BBU provides ADSL service on PSTN lines named BDSL. Packages without traffic limits are available with four different download speeds: 5, 10, 15 and 25 Mbit/s.

Bundled ADSL ("T-DSL"). BBU also offers voice and Internet bundles (T-DSL) targeting primarily small and medium business customers. In 2009, we have reshaped our T-DSL portfolio with new bandwidth packages (5, 10, 15 and 25 Mbit/s download speeds) and more value added services. T-DSL price plans contain telephone line services with voice and Internet access and value added services such as virus protection, and domain name.

T-HotSpot. HotSpot is a WiFi technology-based wireless broadband Internet solution for public site Internet services (i.e., hotels, conference centers, restaurants). By the end of 2008, former T-Com and

Table of Contents

T-Mobile HotSpots have been consolidated; therefore the whole T-HotSpot network can be now used under the same terms and conditions.

MLLN Internet Access. MLLNI provides transport and access facilities to IP traffic and it is offered mainly to our largest business customers. The product includes domestic and international peering and leased line access, by which the domestic end-point of the customer is connected to our IP network with symmetrical upload and download link. With the growing penetration of xDSL based broadband access technology and the aggressive pricing in the customer segment, we will derive less revenue from our MLLNI services.

Data Transmission and Related Services

Leased line service establishes a permanent connection for transmission of voice and data traffic between two geographically separate points (point-to-point connection) or between a point and several other points (point-to-multipoint connection). These points can be either all within Hungary or some in Hungary and others abroad.

We offer a broad variety of standard analogue and digital lines for lease, including two-wire and four-wire analogue lines and digital lines with capacities from 64 Kbit/s to 10 Gbit/s. We also offer high capacity customized digital lines to other telecommunications providers.

Our leased line customers pay a one-time connection fee based on the type of line leased. Monthly subscription charges vary with the type and length of lines leased and, in some cases, with the term of the lease. With the exception of leased lines required for connection with other networks, leased line charges are not subject to regulation, although the difference between the retail and wholesale prices is set by the regulators. As part of the overall rebalancing of our rates, we have reduced our leased line charges in real terms over the last few years in response to competition, which partly offset the revenue increase generated by volume and bandwidth increases of the leased line services.

Flex-Com. We offer Flex-Com, domestic and international digital leased lines with managed back-up systems that are dedicated to data transmission. The number of Flex-Com connections has been decreasing as customers choose leased line services based on the high speed FTTx technologies within 100 Mbit/s and 10 Gbit/s speed ranges (e.g., Gigalink) or choose network facilities with higher values from our product portfolio (e.g., IP Complex Plus, MultiFlex).

Magyar Telekom DataLink. In 2004, we launched a data transmission product that offers technology-independent data transmission between business customers' locations. The customer only needs to define three main parameters: bandwidth, SLA and interface. This service provides data connection below 2 Mbit/s, with X.21 or Ethernet interfaces. With the introduction of this service, we can better utilize our spare data transmission capacity and also offer other high-value network facilities to our customers (e.g., IP Complex Plus, MultiFlex).

MultiFlex. In 2007, Magyar Telekom launched a new MultiFlex service. It is an Ethernet-level virtual private network service on the Magyar Telekom Ethernet-aggregation and MPLS-backbone network, where access may be provided through multiplicating copper pairs, optical fiber, or, micro, which enables connections to our customers with a speed up to 1 Gbit/s. Magyar Telekom provides proactive fault repair and SLA report, and our partners can access the report via our VIP portal website. In 2009, Magyar Telekom launched a few new service options, such as Redundancy and Measurement-based SLA options. By the end of 2009, Magyar Telekom had more than 190 contracted customers.

Datex-P. We offer Datex-P, a packet-switched data transmission service based on the X.25 (e.g., X.1, X.28, X.32) protocol. The service provides low speed (up to 128 Kbit/s) domestic switched data communications services with international connectivity to business customers. As a result of the proliferation of new technologies, growth in the number of subscribers has stopped. Between 2003 and

Table of Contents

2005, our major objectives were to extend the lifecycle of the product, maintain profitability, optimize the network and reduce costs. In 2005, we assessed and commenced migration of customers to other data transmission services, which is still ongoing. The churned customers can choose up-to-date and high-value network facilities from our product portfolio (e.g., IP Complex Plus, MultiFlex).

IP Complex Plus. IP Complex Plus is an IP-VPN service. IP Complex Plus service is offered to retail and wholesale customers having multiple remote sites. This service enables them to establish secure data traffic between sites without the need of setting up "point-to-point" connections between two sites. The development of supplementary services, such as ISDN back-up, integrated voice/data, ADSL/SHDSL access and dial-up access to IP-VPNs make this product more attractive to a growing number of business customers. In addition to the current function of integrated voice/data service, we provide number portability for our IP Complex Plus customers. Using this new service, customers can use their existing phone numbers within their private network as well. In 2007, we extended our portfolio with new access technologies based on Ethernet network, which enable our customers to connect to the IP network with a speed up to 1 Gbit/s. In 2009, Magyar Telekom launched the HSDPA mobile backup option to improve the reliability of data transmission. Furthermore, Magyar Telekom allows wired connections to the domestic customer VPN from Romania and Bulgaria.

Telepresence. Telepresence is an entirely new generation of video conferencing services that is offered by Magyar Telekom to its corporate customers. It creates a unique live, face-to-face communication experience over the network. Telepresence uses powerful integrations to the IP Complex Plus network of Magyar Telekom enabling highest quality (1080p, low latency, spatial audio) video and audio connections, which provide users with simplicity in call scheduling and launching, as well as reliability. It manages real time applications such as voice and video at the lowest possible bandwidth. This allows customers to keep costs down, and use their network investments to maximum advantage. We also use Telepresence for our own company purposes with several sites in Hungary, which are connected by IP-VPN with other Deutsche Telekom subsidiaries in Skopje, Podgorica and Frankfurt.

Távszámla. In 2005, we launched our electronic bill presentment and payment product (Távszámla). Távszámla provides certified invoices in PDF format with electronic signatures and time stamps complying with relevant legal regulations. This service is perfectly suitable for public utilities to reduce paper based bills and significantly reduce their billing costs. In addition to our own services, the bills of various public utilities (e.g., gas, electricity) are also available through Távszámla. At the end of 2009, the registered users of Távszámla exceeded 92 thousand.

System Integration and Information Technology

BBU has a prominent competitive advantage in providing complex ICT services in the Hungarian market, since it also owns the necessary telecommunications infrastructure. As a result of our clear strategy to dominate the Hungarian ICT services market and the acquisitions completed between 2006 and 2009, our company became the market leader providing combined IT and telecommunications services. In spring 2009, we acquired ISH, an IT services vendor with a significant client base in the healthcare sector.

Outsourcing services

ICT Outsourcing

Our ICT Outsourcing services offer transfer of assets, customized hardware configuration, customized SLA and processes for mainly large enterprise companies and public institutions. We select the billing and settlement solutions that best suit the goals of our partners (e.g. solutions based on users, infrastructure elements, service tickets and combinations of these factors).

Table of Contents

Managed Services

Our managed services represent complex IT infrastructure services including both the necessary network equipment and the related services for a monthly service charge. As a managed infrastructure service, we provide Managed LAN, Managed Voice, Managed Desktop, Managed Security, and Managed Printer services for our mid-market business customers.

Managed LAN. With the Managed LAN Service, we offer construction, continuous operation and management of companies' computer networks (LAN). The service includes continuous monitoring of active devices in local networks and proactive fault repair. With this service we offer our customers a one-stop service provision for a foreseeable transparent monthly service charge.

Managed Voice. Our Managed Voice Service offers the construction and operation of a complete integrated voice and data communication system. In addition to all functions of conventional telephone systems the Managed Voice Service includes an IP-based voice transmission (telephone) system with numerous comfort features. The system is fully based on and is integrated into the data network of the company's headquarters and its sites so there is no need for an additional internal telephone network neither at the headquarters, nor at the sites.

Managed Desktop. Our Managed Desktop Service is a solution for companies to outsource their IT infrastructure operations. With this service, we assume the overall management (including continuous monitoring) of client workstations (computers) and connected devices, i.e., printers and other peripherals. The service also includes professional consulting, procurement of the necessary PC and notebook configurations, installation of the necessary software environment and, when requested, its modification.

Managed Security. Our Managed Security Service offers protection of the IT infrastructure through local or centralized monitoring, construction and operation of an IT protection system.

Managed Printer. Our Managed Printer Service includes design, installation and operation of companies' entire printer pool, the devices needed for printer operations, their replacement and continuous monitoring.

Compleo

BBU offers to SMBs office communications infrastructure services in one package, containing modern IT and telecommunications tools. Components of the T-Systems Compleo service package include:

- Telecommunications access and usage, i.e., integrated broadband, voice and Internet service for each site;
- IT network (LAN) and equipment, i.e., telephone sets and PABX functionality;
- Internet security;
- Service Desk and monitoring service; and
- Secure above-Internet (IPSec-VPN-based) data communication options between the sites.

This service package can be tailored to the very needs of the SMBs' business.

Infrastructure-hosting & co-location services

We provide hosting and co-location services, which offer full-scale solutions for data storage and at the same time allow clients to monitor servers during any period of the day, and take immediate action if necessary. Our hosting and co-location services include all the functions associated with servers, starting from locality- or server-based co-location through server leases to the provision of replacement computers, and provision of value added services.

Table of Contents

ASP, SaaS services

We provide ASP/SaaS services to local governments, middle sized companies and SMBs. These services enable us to bundle telecommunications and IT services. We developed the Virtualoso product to enter the SMB market with standardized ASP Services, while we plan to provide from 2010 customized ASP solutions for local governments and ERP/CRM applications in SaaS model for mid-market customers. We provide the following types of Virtualoso services:

Virtualoso eMail (Microsoft Exchange functions);

Virtualoso Meeting (teleconference, virtual meeting room and joint online work);

Virtualoso Server (rent of server capacity); and

Virtualoso WorkPlace (online application for storing and sharing documents).

Application Development and Operation

Our subsidiary, IQSYS provides IT application development, management and system integration services mainly for large enterprises and public institutions. In addition to these traditional markets, IQSYS has an increasing focus on the SMB sector as well. We deliver complex, custom-tailored solutions covering the full application lifecycle. Our services range from business and IT consulting, through the implementation of application packages (ERP, CRM, other sector specific applications, business intelligence solutions), custom application development and system integration to the delivery of the required tools and the operation of the applications. Our offering is complete with application services as well as outsourced IT and business workflow services.

Infrastructure

Our subsidiary, KFKI provides large enterprises and public institutions with various infrastructure solutions and IT operation services. Beside these large business partners, KFKI also handles customers from the SMB sector. KFKI implements, supports and operates unified communication solutions, intelligent building solutions, network integration solutions, IT security infrastructure, IT service management and system administration solutions as well as computer systems. KFKI also provides consulting services in the areas of IT security, IT operation and IT investments. We outsource not only IT equipment, but human resources ("HR") as well. Our IT operation services range from operation by our expert delegated to the client on a long-term basis to installation, repair, maintenance, planning, consulting, operation and upgrading in any part of the country.

Mobile operations

Subscribers

The table below sets forth information concerning the key mobile operating statistical figures of BBU at the dates indicated:

	At December 31,	
	2008	**2009**
Mobile operations		
Number of customers	713,469	775,912
Overall churn rate (%)	5.8	8.0
MOU	325	336
ARPU (HUF)	7,655	6,458
Number of mobile broadband subscriptions	81,339	102,161
Ratio of non-voice revenues in ARPU (%)	20.2	23.6
Average SAC per gross add (HUF)	9,092	8,280

Table of Contents

Mobile voice services

We provide the same voice retail services to our corporate customers that we offer to our residential market.

Mobile non-voice services

In addition to the services we offer to our residential customers, we developed the following products for our corporate clients:

Telematrix. Telematrix is a web-based tool available for our customers to manage their entire mobile fleet (cost and asset management, service activation and deactivation) on their own. We continuously develop the Telematrix platform, which we consider a major competitive advantage enabling us to maintain our market leader position in the corporate mobile market.

Corporate Internet and Intranet Service (APNCA). APNCA is a Virtual Private Network service with optional Internet access based on mobile network. APNCA service is offered to corporate customers having multiple mobile endpoints. This service enables them to establish secure data traffic between the mobile end point and the customer's main office.

Bulk SMS. Bulk SMS service enables corporate customers to contact a large number of customers, employees or business partners in a simple way. The service provides easy and fast sending, receiving and management of SMSs in bulk and is a new way to acquire or retain customers and send advertisements.

BlackBerry Enterprise services. Using a special mobile device, the BlackBerry Enterprise Service enables users to access their corporate mailing systems. The service provides comprehensive on-line access to various functions, including incoming electronic mails, calendar, corporate address book and tasks.

Fleet management. Fleet management is a position tracking service based on GSM/GPS systems.

Our subsidiary, Pro-M provides TETRA services for public safety and security agencies in Hungary.

Due to continuous network developments, the outdoor mobile radio coverage of EDR is more than 99 percent, based on a countrywide average. New EDR services have been made available for public safety and security agencies, like e-learning with 5,000 users planned in 2010, an AVL system that serves police action control, or new mobile units extending TETRA services.

Providing EDR services for a new range of users is a new possibility for Pro-M after negotiating the related processes with the Minister.

Pro-M realizes service revenues from providing EDR telecommunications services for various public safety (emergency) and law enforcement bodies based on the EDR contract. The agreement is valid until 2015.

HEADQUARTERS

Headquarters is responsible for:

(i) wholesale services;

(ii) headquarters functions (management and support);

(iii) shared services (back-office and non-core shared services within the company);

(iv) our PoPs in South-Eastern Europe;

(v) media unit and new business developments.

33

Table of Contents

Wholesale services

Our wholesale unit represents a separate line of business operating independently from our retail businesses. The wholesale activities focus on three strategic objectives:

(i) enabling retail activities;

(ii) complement retail activities; and

(iii) strengthen our regional presence.

To enable our retail businesses, we have bilateral interconnection and roaming agreements with national and international network operators. Furthermore, we purchase services from other telecommunications operators ensuring nationwide coverage for our retail services.

In the domestic telecommunications market, we face strong competition in both the retail and wholesale levels. In most service markets, the parallel use of wholesale and retail sales channels in a complementary way can ensure reaching the optimum financial results. In addition, our wholesale business increases utilization of the existing network capacities.

In order to offset the decreasing revenue potential of the traditional domestic wholesale markets, we are looking for opportunities to expand our regional presence especially in South-Eastern Europe. We intend to strengthen our market position in this region through our regional subsidiaries (PoPs).

Customers

Alternative domestic fixed network and service providers

ISPs, ASPs and cable TV operators belong to this wholesale partner group, consisting of approximately 200 partners in 2009. Most ISP and cable TV service providers are expanding their traditional service portfolios with other service elements like broadband Internet, VoIP and IPTV. In response to this demand, we provide commercial based and regulated wholesale solutions to these partners enabling them to sell 2Play or 3Play packages. We offer to this segment end-user access (xDSL, unbundled local loop and leased lines), backbone capacity (low and high speed leased lines on several technologies), infrastructure-based services (duct rental), interconnection and network access services (transit) as well as complex network and service platform solutions (IPTV and VoIP). The market demands are shifting to all IP-based technologies regarding both the backbone capacity and the end-user access. Due to the increase in the infrastructure-based competition the market is undergoing significant market consolidation.

MNOs

We have two partners belonging to this wholesale segment. Typical services sold to these partners include interconnection-based services, network access-based services (e.g., international and domestic transit, value-added services) and capacity sales (TDM and IP-based leased lines). Their demands particularly focus on interconnection services, however we make efforts to increase the portion of commercial agreements. Through acquisitions, the MNOs are entering into the market for fixed line networks and services.

International telecommunications providers

We sell international low and high speed leased lines, transit circuits, IP/Internet connections, other managed data communication services and backbone capacity to approximately 50 international wholesale partners and purchase such services from approximately 40 international partners for our retail activities. We also terminate international incoming traffic on our network. Our international partners, which are typically simultaneous buyers and suppliers, are significant wholesalers in Europe, including Deutsche Telekom, Telekom Austria, Interoute and T-Systems International. We expect that the dynamic growth of

Table of Contents

the IP-based services will be able to offset the decline of the low-speed data communications services in the future.

Premium rate segment (Third party wholesale market)

In the third party wholesale market, we have 76 contracted content provider partners, the largest of which also act as aggregators. Dominant partners have leading roles in media and mobile marketing market support (e.g., suppliers of commercial TV channels, mobile marketing campaign organizers). Due to the characteristics of the market we offer premium and normal rate interactive services and solutions, allowing content providers to access mobile and fixed line customers.

Roaming partners

International roaming service was available for our subscribers on 426 networks in 187 countries as of December 31, 2009, of which 236 networks in 123 countries were available for prepaid customers. As of December 31, 2009, customers could use 242 GPRS networks in 116 countries. Since January 1, 2008, Magyar Telekom sends and receives all its international voice traffic to and from Deutsche Telekom as Deutsche Telekom offers more favorable prices and better quality than other international carrier service providers.

Wholesale product lines

Regulated services

Regulated, domestic traffic services primarily consist of call origination and termination services. In the call origination and termination market, we are an SMP service provider and therefore obliged to submit RIO. We have 18 bilateral interconnection agreements for providing regulated services. We are also obliged to provide number portability for fixed line numbers based on RIO as well as local loop unbundling based on RUO.

Broadband services

We sell wholesale ADSL service to ISPs, which enable them to offer integrated broadband Internet services combining access and IP transport to their retail customers under their own brands. At the end of 2009, we had contractual relationships with 24 ISPs. Due to the strong competition caused by alternative broadband technologies (mobile broadband and cablenet), the number of wholesale ADSL connections decreased to 161,270 at the end of 2009 from 196,776 at the end of 2008. We expect further decreases in the number of wholesale ADSL connections in 2010.

TV services

As one of the first providers in Europe, we launched a wholesale IPTV product in the middle of 2009 enabling ISPs to provide own branded IPTV service to their ADSL customers. We had six wholesale IPTV partners at the end of 2009. The number of wholesale IPTV subscribers reached 296 at the end of 2009. The Hungarian TV market is highly competitive driven by different technologies such as analogue broadcasting, analogue cable TV, DVB-T, DVB-S, DVB-C.

Data and IP service

We offer an extended data and IP service portfolio to wholesale partners. It consists of managed leased lines on different technologies (TDM, Ethernet, ATM, SDH). These connections are available on access and backbone network levels as well. BBU is responsible for product management of most of these products and our Headquarters unit sells them to wholesale partners. We are responsible for the development and life-cycle management of two services within the wholesale data and IP service portfolio.

Table of Contents

Our Symmetrical Internet, which combines IP transport, Internet peering and leased line access, was designed especially for ISPs. This product was introduced in 2003 to maintain our competitive position in the Internet leased line market. In 2009, we extended the domestic Symmetrical Internet portfolio to the international market involving Magyar Telekom's, Deutsche Telekom's and Telekom Austria's IP MPLS platforms. We expect steady growth in sales in this market in 2010.

Our HSLL service also plays a significant role in wholesale sales providing high speed (from 2 Mbit/s to 2.5 Gbit/s), high reliability leased line connections between service access points.

Infrastructure service

We share our physical infrastructure (ducts, poles, equipment housing) on a commercial basis. Our partners are mostly cable TV companies. We had 31 partners at the end of 2009. We have to face competition in this market particularly within major cities and regarding backbone relations.

Interactive mobile service

There are two major lines of interactive services: premium and normal rate. Both service groups are available on the following service channels: voice, SMS, MMS and video. Due to the evolution of business models and technologies, the premium rate services are operated in a harmonized market among the mobile operators (except premium voice), contrary to the normal rate competitive market. Harmonization in premium rate services is necessary to ensure countrywide access required by the characteristics of the market. In case of normal rate services and premium rate voice there is a heavy competition among mobile operators for increasing market share (especially from mobile marketing revenues). Appearance of new alternative solutions (e.g., mobile payment, IPTV) and the direction of media and mobile marketing development strongly influence the opportunities in this market. We expect the demand for such services to increase in the future.

Headquarters functions

General

Headquarters performs strategic and cross-divisional management functions for the Group. Headquarters functions include those performed by many of our central departments, such as legal, regulatory, strategy, HR, communication, investor relations, treasury, security, internal audit and compliance.

Principal Activities

Our strategy area is responsible for determination of new lines of business, to scout new products, technologies and services, to acquire access to them on our behalf and to handle the portfolio of our international subsidiaries.

Our treasury team is primarily responsible for cash management, investments in securities, leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credit arrangements. Furthermore, this unit is responsible for the issuance of debt in the international capital markets, the handling of payments and clearing transactions, foreign exchange and hedging, as well as merge and acquisition ("M&A") activities.

Our legal department represents us in legal disputes, creates and approves our contracts and regulations and performs due diligence activities with our treasury team on potential acquisition targets.

Table of Contents

Shared services

General

Operating functions not directly related to the core businesses of our operating segments are considered shared services functions. Shared services include, among others, the management and servicing of our real estate portfolio, fleet management, procurement, HR administration and accounting.

Principal Activities

The real estate unit, based on revenues, is the largest shared service within Headquarters. The real estate unit is responsible for managing our real estate portfolio, renting commercial real estate and providing facility management services for the Group, primarily in Hungary. In addition, this unit is also responsible for the operation, management and servicing of our radio transmission sites, such as our radio towers and transmitter masts in Hungary (primarily used in mobile, radio and satellite communications, as well as for television broadcasting).

Our real estate operations are conducted partly through STRABAG Property and Facility Services Zrt. and partly by our own property organization.

Our fleet management is conducted through MKB Eurolízing Zrt., which provides fleet management and mobility services, with approximately 2,800 vehicles provided to the Group companies and affiliates within Hungary.

Central procurement handles purchasing activities, calls for tenders, signs and controls contracts and it is responsible for all related procurement procedures.

Our Points of Presence in South-Eastern Europe

The Headquarters segment also includes the activities of Magyar Telekom in certain countries in South-Eastern Europe. Magyar Telekom provides international network and carrier services in South-Eastern Europe through PoPs. We entered the Romanian market in July 2004, the Bulgarian market in September 2004, and the Ukrainian market in August 2005 to offer various wholesale services. Capitalizing on our experience in these markets, we have entered the retail market segment in Romania with a full service portfolio.

Media unit and new business developments

The Headquarters segment also comprises content, media and other non-access services; it is also responsible for new business developments and the coordination of innovative activities.

In line with our strategy of capturing new revenue sources in business areas in which we can build on our existing capabilities, we have decided to enter the retail energy market, via the resale of natural gas and electricity, leveraging off the extensive sales networks that we already have in place. It is anticipated that participation in the retail electricity and gas market will enable us to retain existing, and win new, telecommunications customers with attractive energy offers. We expect that such electricity and gas offers will help support additional sales and services provided to existing customers, as well as possible upgrades to existing services.

The liberalization of the Hungarian electricity and gas market was completed in July 2009, enabling us to enter into agreements with a wholesale provider for the supply of sufficient electricity and gas volumes. We intend to start reselling electricity and gas to our existing customer base as a bundled product supplementing the telecommunication services offered.

Initially, we plan to launch electricity and gas retail offers for a targeted segment of residential and business customers from among our existing customers from April 2010 to test customer perception and

Table of Contents

acceptance. After this initial phase, we will assess the potential for further penetration of the energy market in the second half of 2010.

TECHNOLOGY

Technology is a central supporting unit for the business units of the Company. It is responsible for the development and operations of the mobile and fixed networks as well as IT.

Technology derives its revenues mainly from:

(i) internal services to other segments of the Company regarding NTs, service development and IT;

(ii) network maintenance and consulting services to subsidiaries; and

(iii) network construction and maintenance services to external parties.

Technology in its current form was established on January 1, 2008 with approximately 2,200 employees. It became a central technology unit serving the Company's business units as internal clients. On the IT side, two directorates (IT Architecture and Development, and IT Operations) were established after a merger of the IT organizational units of former T-Mobile, T-Com and T-Online. On the network technology side, mobile and fixed network areas were initially kept separate because processes differed significantly.

In 2009, two main organizational changes took place in Technology. First, the technology units of T-Kábel were merged into Technology. Second, preparation has been made to merge the mobile and fixed network technology areas. This merger, referred to as "TU 2.0", provides opportunities for exploiting synergy effects:

fully integrate fixed and mobile network technology areas;

consolidate processes, eliminate functional redundancies;

clarify functional responsibilities, between and within IT and NT; and

centralize all service development tasks and organizations.

The first phase of the TU 2.0 project ended at January 1, 2010, when the new organizational structure was established. During the second phase in the first half 2010, we will start the harmonization and merger of fixed line and mobile processes, make minor modifications to adjust operations to the new organizational structure and develop the detailed rules of operations.

According to the new organizational structure, in effect as of January 1, 2010, all network development-related functions are consolidated in the NT Plan and Build unit. Also, all operations related tasks, both fixed and mobile, are consolidated in the NT Operations unit. A substantial change is that all technology-related service development tasks are centralized in one Service Development unit. These three NT areas work under the leadership of the NT Chief Technical Officer.

Besides the NT and IT directorates, a separate unit is responsible for setting strategic goals and objectives for Technology and ensuring the strategic harmonization with the rest of the Company. In addition, it also manages centrally all financial activities for Technology, covering financial planning, financial controlling, capital expenditures management and asset management tasks. This organization is also responsible for operational management of Technology as a whole, including reporting, process and risk management.

Technology maintains direct relationships with the respective technology units of DT. DT maintains supervision of major strategic activities. DT's impact on Technology has intensified since the summer 2009 when DT established its Southern and Eastern Europe ("SEE") region and defined common regional strategic goals for both NT and IT areas. Regional collaborations focus on standardization to exploit

Table of Contents

volume effect of technology procurements and cost savings derived from maintenance. As an example, procurement and testing of new GPON releases will be coordinated among the SEE Group affiliates.

Technology also performs extensive Research and Development ("R&D") activities. Particularly in co-operation with Hungarian universities, 37 research projects have been completed in 2009 to identify future opportunities of telecommunications services and technology innovations.

In 2009, the most important NT developments included the following:

- Started the fiber roll out according to the Company's fixed-access strategy: designed and deployed FTTH (based on GPON technology) covering 170,000 homes in 2009. In addition, Technology covered 370,000 homes with DOCSIS 3.0, enabling high-speed Internet connection on cable TV infrastructure.

- Continued the roll-out of mobile broadband connectivity. By end of 2009, 74 percent of the population was covered by 3G. Data traffic on our mobile network roughly doubled in 2009, which capacity was assured by network development.

- Migrated to R4 3GPP architecture. We continued designing NGMN focusing on access domain (including pilots of LTE) and core network elements.

- Planned the replacement of legacy PSTN (ADS) switches that had reached the end of their life-cycle in order to reduce maintenance costs at telephone central offices. This replacement project is in the implementation phase.

- Developed a long-term voice strategy (for both fixed and mobile), together with marketing areas. We identified the next steps of implementation, e.g., designing an all-IP pilot.

As for the IT strategy, we successfully completed many substantial developments in 2009, including:

- Consolidated data warehouse, mediation systems, fixed and mobile interconnect systems.

- Started the strategic CRM & Billing IT landscape consolidation program to simplify processes, reduce parallel developments, reduce time-to-market, and decrease IT cost. Two rival consortia were offered the task of developing detailed design plans. The implementation will continue in 2010 and 2011.

- Implemented a new SPA system and processes for Internet, high-speed Internet, IPTV and VoIP services, provided either on copper or fiber networks.

- Increased the service quality and efficiency of IT operations. Unified former T-Mobile, T-Com and T-Online office environments and outsourced desktop support in a consolidated contract.

- Introduced a new Service Manager system, by which unified incident handling and problem management have been implemented.

MACEDONIA

Fixed line services

We fully own a Macedonian holding company, Stonebridge, which owns a 51 percent interest in Makedonski Telekom. Magyar Telekom has commenced a liquidation procedure of Stonebridge in accordance with the relevant Macedonian laws. Once the process is complete, Magyar Telekom will directly own its shares in Makedonski Telekom, thus simplifying the ownership structure.

Makedonski Telekom is the primary fixed line service provider in Macedonia. Makedonski Telekom provides traditional fixed line telecommunications services and content services within the scope of the fixed line network, broadband services and integrated solutions, including IPTV. In addition, the product

Table of Contents

portfolio of Makedonski Telekom includes IP based services, data transmission, sale and lease of equipment and system integration services.

In May 2008, Makedonski Telekom introduced the T-Home brand.

The following table sets forth information regarding the fixed line operation of Makedonski Telekom:

	At December 31,		
	2007	2008	2009
Number of revenue generating fixed lines			
Residential lines	386,369	356,082	305,806
Business lines	35,143	34,864	31,443
Payphone	2,015	1,692	1,218
Total	423,527	392,638	338,467
ISDN channels	37,602	38,598	34,766
Total	461,129	431,236	373,233
Number of retail DSL customers	40,221	81,858	109,617
Number of wholesale DSL access	7,993	17,008	18,751
Total DSL access	48,214	98,866	128,368
Retail DSL market share (estimated) (%)	83	81	83
Number of dial-up customers	18,459	5,910	1,813
Number of leased line customers	149	129	228
Number of IPTV customers	0	1,952	14,150

Beginning in June 2008, Makedonski Telekom also offers VoIP based services (Call Comfort, Office Comfort and Office Comfort+ packages). VoIP product portfolio was extended in September 2008 when Call & Surf packages were launched on the market for the residential segment.

Makedonski Telekom launched IPTV in November 2008 and offers TV sets as well in its sales network. In March 2009, the 'Call & Surf Start' 2Play package, and in April 2009, the '3 Max Start' 3Play package were introduced in the Macedonian fixed line market.

Makedonski Telekom offers end-to-end solutions for its business customers, including a complete portfolio of fixed line products and services, as well as SI solutions.

Mobile services

T-Mobile Macedonia is the leading provider of mobile telecommunications services in Macedonia. The principal activities of T-Mobile Macedonia's operations are digital mobile telephone services and non-voice services such as SMS, MMS and GPRS based on GSM and UMTS technology.

T-Mobile Macedonia expanded its customer base from 1,379,191 at the end of 2008 to 1,381,094 by the end of 2009, which represents an estimated market share of 56.4 percent in the Macedonian mobile telecommunications market as opposed to 59.4 percent at December 31, 2008 (based on the number of total SIM cards). The mobile market penetration in Macedonia is over 116 percent, which shows the trend of individuals owning multiple SIM cards. As a result of the market saturation, we especially focus on retaining customers to protect our market share. The Agency has published a new market share calculation method based on the total number of active SIM cards which were used in the previous three months.

Table of Contents

The table below sets forth information concerning the key operational statistical figures of T-Mobile Macedonia at the dates indicated:

	At December 31,		
	2007	2008	2009
Number of subscribers			
Postpaid subscribers	280,707	360,706	419,148
Prepaid subscribers	931,832	1,018,485	961,946
Total subscribers	1,212,539	1,379,191	1,381,094
MOU	90	96	104
ARPU (HUF)	3,054	2,586	2,678
Mobile penetration in Macedonia (%)	93.3	110.5	116.1
T-Mobile Macedonia's market share (estimated) (%)	62.3	59.4	56.4

The increase in the number of T-Mobile Macedonia subscribers in 2008 and 2009 is attributable to a number of factors, including the success of community offers and campaigns with attractive handset prices. The churn rates of customers are quite high in Macedonia, but they were not significantly affected by the introduction of mobile number portability from September 1, 2008.

The Macedonian mobile market was characterized by highly competitive and aggressive pricing in 2009. This was especially the case for the business segment, while different types of promotions were available for the consumer segment as well. Due to the increased competitiveness and in order to prevent churn and encourage usage, T-Mobile Macedonia launched various campaigns and price plans specially designed to meet subscribers' needs. A new top-up concept was introduced to increase revenue in the prepaid segment, whereby customers would receive free traffic or price discounts upon recharge. Customer segment based pricing was introduced via community offers addressing particular social groups (e.g. pensioners, students).

T-Mobile Macedonia was awarded a 3G license on December 17, 2008 and started its 3G commercial operations in June 2009. T-Mobile Macedonia is continuously working on creating market demand for mobile Internet and stimulating mobile data usage via device/data price plans.

T-Mobile Macedonia introduced its first bundled product, Family+, which is a joint offer containing fixed line and mobile telephony as well as high speed ADSL Internet for one monthly subscription.

MONTENEGRO

Fixed line services

We have a 76.53 percent interest in Crnogorski Telekom. Crnogorski Telekom is the principal fixed line service provider in Montenegro. Its exclusive rights in fixed line telecommunications services expired in December 2003. Crnogorski Telekom provides a wide range of retail and wholesale telecommunications services at domestic and international level (e.g., voice services, broadband access, IPTV services, leased line circuits, data transmission).

Table of Contents

The following table sets forth information regarding the fixed line operation of Crnogorski Telekom:

	At December 31,		
	2007	2008	2009
Number of revenue generating fixed lines			
Residential lines	148,111	144,897	140,591
Business lines	19,193	18,532	18,241
Total	167,304	163,429	158,832
ISDN channels	18,896	18,806	18,058
Total	186,200	182,235	176,890
Number of retail DSL customers	16,106	38,956	54,983
Number of dial-up customers	28,401	17,455	5,184
Number of leased line customers	146	188	191
Number of IPTV customers	2,397	17,531	29,612

Crnogorski Telekom is the sole provider of ADSL in Montenegro, although competitors started to offer broadband access through WiMAX access. Internet access is provided via the public switched telephone network, leased lines and ADSL. We experienced strong dial-up to ADSL substitution during the last three years.

Similarly to other fixed line service providers before privatization, Crnogorski Telekom maintained relatively low domestic charges and high charges for international calls. In September 2007, Crnogorski Telekom rebalanced the fixed line voice tariffs adopted by EKIP. International charges have decreased both in residential and in business segment, while local charges and subscription fees have increased in residential segment.

Crnogorski Telekom introduced its IPTV service, called Extra TV on November 30, 2007. In 2008, the IPTV system was upgraded to support an increased number of customers and to improve service quality.

In 2009, the main focus of our sales activities in Montenegro was to increase Extra TV (IPTV) and ADSL sales. In May 2009, several Extra TV and ADSL promotions have been implemented and significant sales results were achieved. In September 2009, Crnogorski Telekom introduced its 3Play offer with a great success.

Mobile services

T-Mobile Crna Gora is the second largest mobile operator in Montenegro with 36.7 percent mobile market share according to the data published by EKIP. Since its inception in 2000, it offers innovative and advanced services to the Montenegrin market and has been experiencing dynamic growth.

The main activities of T-Mobile Crna Gora's operations are digital mobile telephone services and non-voice services, such as SMS, MMS based on the GSM, UMTS, GPRS, EDGE and HSDPA technologies. T-Mobile Crna Gora actively employs various promotions and incentives to encourage use of its services. In addition to a variety of service packages, T-Mobile Crna Gora offers WAP, MMS, content SMS and premium-rate SMS services. In 2007, T-Mobile Crna Gora started the development of a new 3G network, and extended its service portfolio with web'n'walk and mobile Internet, in order to meet the growing needs of mobile customers in an increasingly demanding and competitive Montenegrin mobile market.

Table of Contents

The table below summarizes the key operational statistical figures of T-Mobile Crna Gora:

	At December 31,		
	2007	2008	2009
Number of subscribers			
Postpaid subscribers	73,675	89,070	104,095
Prepaid subscribers[1]	335,266	417,449	427,362
Total subscribers	408,941	506,519	531,457
MOU	120	105	96
ARPU (HUF)	3,252	2,886	2,459
Mobile penetration in Montenegro (%)[2]	168.7	185.6	208.7
T-Mobile Crna Gora's market share (%)[2]	33.8	36.1	36.7

(1) In October 2006, the prepaid voucher lifecycle was extended from 3 to 11 months in Montenegro, resulting in an increase in the number of prepaid subscribers.

(2) Data published by EKIP based on the total number of active subscribers in the previous three months.

T-Mobile Crna Gora's operations, customer base and revenues are significantly affected by seasonal factors. In 2007, the entrance of a third mobile operator, Mtel, significantly increased the competition in the Montenegrin mobile market.

In May 2009, new prepaid mobile offers were introduced for the youth segment which significantly contributed to the increase in the number of prepaid customers. On the other hand, the increase was also attributable to higher prepaid and postpaid sales due to special offers during the tourist season.

Table of Contents

DISTRIBUTION AND SALES

CBU

Magyar Telekom had 47 direct shops (T-Points) at the end of 2009. All shops provide full scale of sales and customer care related services in the entire T-Home and T-Mobile consumer product portfolio. Besides sales activity, cross-selling, up-selling and customer retention are the main activities in focus at T-Points. In 2010, the major challenge is to further enhance the service level within our sales channel in order to better meet customer expectations and to dedicate more time to the customer.

In Magyar Telekom's distribution, the exclusive indirect partner network plays an important role with its 205 shops. In 2009, one of the most important goals was to further increase sales efficiency, therefore nine shops were closed during the year. In 2009, 12 shops were integrated resulting in a total of 122 shops selling the T-Mobile and T-Home product portfolio.

We have a strong focus on mobile and fixed line broadband sales thus we further developed cooperation with Internet and IT equipment retailers. With two new retail partners, the number of outlets selling our broadband services increased to 34 in 2009.

We also sell our prepaid products (e.g., prepaid SIM packages, plastic top-up cards, on-line top-up) through major Hungarian retail channels.

We have reorganized our door to door agent network to fully align it with our strategic goals in order to leverage the potential of high speed Internet technologies. The number of agents has been continuously increasing with focus on quality and sales capabilities. Telesales channels are also transformed to fully support both acquisition and retention objectives primarily regarding T-Home services.

BBU

Enterprise

We deliver high service level to our Enterprise customers with full dedication to not only client management, but also technical support and service desk level. In 2009, approximately 70 key account managers handled approximately 2,800 large enterprises in governmental accounts, industrial accounts, commercial accounts, utility and media accounts and financial accounts split. The largest multinational companies are being served at the DT Group level by a separate team in order to assure utmost attention to their trans-border needs.

In 2008, we launched the "Top30" project, in the framework of which we handle top customers of BBU and our subsidiaries KFKI and IQSYS in an integrated way. As BBU offers traditional telecommunications (fixed and mobile data and voice) services as well as IT services to its customers, a special team is dedicated to handle companywide info-communications, managed services and outsourcing projects both in the sales and implementation phases.

SMB

In 2008, we established dedicated customer services within the SMB segment, i.e., all of the approximately 46,000 SMB customers are managed by dedicated T-Systems sales managers. Our SMB account managers are responsible for 25 percent of our customer base in terms of account and sales targets, while the other part is being managed through our indirect partners. Our own account managers and our indirect partners offer the whole T-Systems and T-Mobile portfolio, which includes IT, voice, data and complex services as well. In our sales activity, both our own account managers and our indirect network play an important role, where the indirect network has exclusivity with Magyar Telekom.

Table of Contents

In 2008, the main focus was on integrated offers, selling at least two different types of services to customers at the same time. In 2009, we focused to grow further in IT and application services within our SMB customer base.

Changes in the sales structure from January 1, 2010

In line with Magyar Telekom's long term ICT strategy and based on our 18 months experience of the new operational model introduced in January 1, 2008, we decided to take further steps to change our service and sales culture and to achieve an even more simplified operation in order to further improve our customers' experience. The basis for the new sales model was the re-segmentation of our customer group. We have segmented our customers based on their joint IT and telecommunications potential and their service expectations. At the same time, we harmonized and re-consolidated our front- and back office service structure, our supporting IT and other processes. As a consequence of all these arrangements, we serve our business customers according to the following structure as of January 1, 2010.

Enterprise. We have established a joint ICT sales force in KFKI and will move all enterprise sales and presales tasks there. 60 account managers will serve 400 groups of customers, which include approximately 2,000 very large and large enterprises invariably in governmental accounts, industrial accounts, commercial accounts, utility and media accounts and financial accounts. There will be no change compared to previous years' practice for large multinational companies who are being served at the DT Group level by a separate team.

Mid Market. Approximately 3,350 medium size business entities (including public institutions and governmental sector) will be handled by approximately 50 account managers within BBU.

SMB/Indirect channel. Approximately 25,600 small businesses will be served by our approximately 90 contracted indirect partners countrywide.

Furthermore we handed approximately 12,000 very small and micro businesses to CBU where SOHO companies have been handled both in terms of service and customer care.

Macedonia

Makedonski Telekom and T-Mobile Macedonia have developed different sales channels in order to serve customers from different segments. These channels include direct sales channels, such as their own retail network, direct agents and key account managers, indirect sales channel based on indirect master dealers with their network of own shops, partner shops and free lancers, on-line sales channel and call centre which performs telesales.

The main sales channel is the Makedonski Telekom and T-Mobile Macedonia shop network. There are seven T-Home shops, 13 T-Mobile shops and 22 joint shops. The T-Home and T-Mobile shops offer the complete product portfolio of their respective brand and a limited range of products of the other brand, while the joint shops offer the complete T-Home and T-Mobile product portfolio. A new joint shop introducing a new concept (café and shop) was opened on January 23, 2009. By the end of November 2009, one of the shops had been transformed according to the new DT shop design.

Another channel of the distribution network of Makedonski Telekom and T-Mobile Macedonia is the dealers' cooperation. Currently the network consists of 13 master dealers (including one direct contractor) with 115 shops as T-Mobile Macedonia partners and 12 master dealers with 116 shops as Makedonski Telekom partners. The majority of the master dealers' shops are joint shops, offering the full portfolio of sales activities, except for cash collection. Prepaid packages of T-Mobile Macedonia (with or without handsets) are also available in the dealers' shops and in more than 6,500 kiosks, which sell prepaid vouchers.

Table of Contents

A part of the Makedonski Telekom product portfolio (e.g., telephone sets, photo equipment, computers, printers, network equipment) is available to the customers using installments payment through their telephone bill.

Direct agents serving the SMB segment put strong emphasis on sale of customized ICT solutions and data services in 2009.

Montenegro

Crnogorski Telekom has developed different sales channels in order to provide the best services for residential and business customers. Business customers are served by key account managers taking care of the top 400 clients and SMB coordinators who are in charge of the SMB and SOHO segments. Top clients are divided by branches (e.g., banks, hotels, large manufacturers, government) and small companies are divided by regions.

There are 14 own T-Centers accompanied by a network of 14 exclusive partner shops which use a similar design to the own shops. Both types of outlets provide a permanent portfolio of handsets and the full range of services for new and existing customers.

Other sales channels include web sales, 'door-to- door' sales and telesales. In Extra TV and ADSL campaigns, 'door to door' and telesales channels represented over 30 percent within total sales in 2009.

COMPETITION

CBU

Fixed line services

We face strong competition in all areas of our fixed line operations including voice, Internet and broadcasting services. Competitors include other LTOs, mobile telecommunications providers, Internet service providers, alternative service providers and broadcasting service providers.

There is a continuous concentration in the telecommunications market in Hungary. Externet and Enternet (two significant companies in the ISP market) signed an agreement about a merger. This merger has not been completed, but Externet is continuously seeking partnerships. Digi bought 30 percent of TvNetwork's shares (TvNetwork is also a DSL and cable TV service provider). Many small cable companies were also acquired or merged.

Voice

In 2009, the main reasons for fixed line churn were mobile substitution and cable competition.

In our service areas, a number of carriers (Invitel, GTS Datanet, Interware and UPC) offer pre-selection and call-by-call services and were able to attract some of our customers. However, we respond to this challenge with attractive price plans, and successfully retain our customers. We also offer similar price plans in order to attract new customers from LTO areas, however with only moderate success so far.

The value of fixed voice service continued to decrease in the eyes of customers as cable competitors started to offer VoIP services at a very low price level. Cable operators are providing voice services as an add-on to their pay TV offers especially if they are bundled with fixed Internet and/or pay TV service. There is a clear trend of customer demand for 3Play bundles for discounted prices. Our largest competitors are UPC and Digi but we also have to face fierce local competition by mid-sized and small cable operators.

Table of Contents

Internet

Cable operators (e.g., UPC, Fibernet, Digi), alternative service providers based on ULL (e.g., GTS Datanet, EnterNet), mobile service providers and other ISPs are our competitors in the fixed Internet market. In 2009, we kept our leading position with the continuous increase in the number of Internet subscribers.

Technology shift from ADSL to cable Internet and mobile broadband may be experienced in the broadband market because, in the case of cable Internet, higher bandwidth is available at lower prices. Mobile Internet plays an increasingly important role, representing approximately 35 percent of total Internet subscriptions in 2009, however the majority of customers use mobile Internet as a complimentary service along with fixed line technologies.

ULL services have only marginal shares in the broadband market.

TV

In 2009, the growth of pay TV penetration and the trend of digitalization continued in the television market.

The number of DVB-S subscribers has been growing due to offerings by T-Home and Digi, but UPC plays an important role as well. Cable operators are migrating their customers from analogue to digital cable platforms (DVB-C). In addition, smaller operators also launched digital cable services. In the pay TV market, several ISPs and alternative telecommunications service providers (e.g., Invitel, EnterNet) started to offer IPTV services. DVB-T television service offered by Antenna Hungária Zrt. is available from December 2008. Its network coverage based on population exceeded 80 percent by the end of 2009. Antenna Hungária Zrt. offers a few channels for a very low subscription fee under the brand MindigTV.

Mobile Services

In 2009, the Hungarian mobile telecommunications market was characterized by intense competition, driven by new broadband services and decreasing prices. Mobile penetration has decreased from 121.8 percent at December 31, 2008 to 117.7 percent by the end of 2009. The decrease in mobile penetration was mainly caused by the decrease in the total number of inactive SIM cards.

We continued to focus on customer retention and the development of mobile broadband services and increased our emphasis on fixed-mobile integrated services. Despite the intense competition, as of December 31, 2009, we accounted for 43.4 percent share of the total Hungarian mobile market in terms of subscribers based on the number of active SIM cards and 44.4 percent in terms of total number of active SIM cards generating traffic in the previous three months according to data published by NCA.

The direct competitors of TMH are Pannon and Vodafone. Vodafone, the third mobile network operator in Hungary, continued to focus on customer acquisitions (especially in the field of mobile broadband) supported by aggressive flat tariff offers and marketing campaigns. Vodafone's SIM market share slightly increased to 22.1 percent by the end of 2009 based on the data published by NCA. In November 2009, Vodafone together with Hungarian Post Office ("Magyar Posta Zrt.") launched a branded reseller mobile service, "Postafone", which is offered by Magyar Posta Zrt. in approximately 720 post offices. Pannon kept a clear retention and community focus, and maintained its second position in the market. By the end of 2009, its SIM market share slightly decreased to 34.5 percent based on the data published by NCA driven mainly by the considerable decrease of its inactive subscriber base.

Mobile Internet penetration grew by 4.4 percentage points and reached 9.3 percent at the end of December 2009. The number of active mobile Internet users has been growing constantly. Despite intense mobile Internet competition driven mainly by unlimited offers, we are market leaders considering both

Table of Contents

total and active customer numbers with 45.9 percent and 48.6 percent market share, respectively, according to data published by NCA.

BBU

In 2009, our main competitors in the telecommunications market were Invitel, GTS Datanet, Pannon and Vodafone. In order to minimize the effect of the economical downturn in 2009, BBU focused on cross selling activities by providing integrated, managed network services, systems integration and outsourcing services. Focusing on complex customers' needs, BBU provided consulting surveys for its large projects. With its wide range of telecommunications and IT services, BBU positioned itself as general ICT solution provider for the corporate segment.

We divide the IT market into two segments according to the type of services: IT Infrastructure and IT Applications. Nevertheless, due to the economic crisis, IT Outsourcing services (as a new business model for the customers to improve the efficiency in their IT spending) became the most required service type both in the infrastructure and the application solutions. Hosting services became more and more popular among SMBs in 2009.

Our main competitors in the IT Infrastructure services segment are Getronics, Synergon, HP-EDS, S&T Unitis and IBM. Our main competitors in the IT Application Development services segment are SAP, NESS, IDOM2000, Oracle and Alerant, while in the IT Application Integration services Synergon, IBM, HP-EDS and Accenture. In case of infrastructure hosting services, our main competitors are Invitel, Interware and HP-EDS; while in the application hosting, our main competitors are Hostlogic, Unisys and Nexon. Our goal in this highly competitive market is to keep our leading position in the IT services market by achieving a larger growth rate than the average, to win significant projects and to use a new business model in the small and medium business sector: standardized products via economies of scale.

Headquarters

We face increasing competition regarding most of our non- or semi-regulated wholesale services. Our main competitors already have their own backbone telecommunications infrastructures with spare capacities, which enable them to provide services in the market of long-distance data-transmission connections at favorable prices, causing a continuous migration towards the more cost-effective IP based solutions.

The dynamically improving alternative mobile and cable broadband networks and services challenge Magyar Telekom's fixed broadband market position (infrastructure based competition), especially our copper network based wholesale solutions (wholesale ADSL, IPTV, voice). Furthermore, our competitors are driving the roll-out of NGA networks, which provide them a technological advantage in offering 2Play and 3Play retail services against the ISPs' retail services based on Magyar Telekom's wholesale products.

Our main competitors in the domestic wholesale markets are UPC, Digi, Invitel and Fibernet.

There is also intense competition in the market for international wholesale services. The world-wide development of alternative, cost-efficient technologies is also characteristic in our region. As a consequence, the leased line market share of the less than 2 Mbit/s bandwidth MLLN product is continuously decreasing, while that of high-speed leased lines is increasing. The preference for integrated solutions and new technologies generate IP and Ethernet network demand.

Those providers that possess a global network have a competitive edge in the market of international connections because they can keep the prices relatively low.

Our main competitors in the international wholesale markets are Interroute, Invitel, Telekom Austria, GTS, TeliaSonera and British Telecom.

Table of Contents

Macedonia

Fixed line services

Voice

Makedonski Telekom faces competition from other fixed line and mobile service providers.

The nature of fixed line competition has shifted from offering cheap outgoing calls (through carrier selection and VoIP) towards offering complete fixed line services.

The major fixed line competitors of Makedonski Telekom are ONE and the cable operators.

Cosmofon launched fixed line voice services in June 2008 over its GSM network, and in August 2008 it started to offer services based on 3G technology. In March 2009, Telekom Slovenije purchased 100 percent shares of Cosmofon and became owner of two major competitors, Cosmofon and OnNet. They launched their first joint offer in July 2009, consisting of fixed line voice and Internet broadband service. In November 2009, they were re-branded as ONE.

Both major cable TV operators, CableTel and Telekabel, as well as several smaller cable TV operators offer fixed line voice services since the last quarter of 2008.

Internet

In the Internet broadband market, there are three major service providers in addition to Makedonski Telekom: ONE, CableTel and Telekabel. Makedonski Telekom had an estimated 48 percent market share based on the number of retail subscribers as of December 31, 2009. It faces competition mainly from cable TV operators' cable broadband Internet, offered to the cable TV customers through their own networks and from broadband services through Makedonski Telekom's wholesale ADSL offer. Cosmofon (now ONE) also started to offer mobile broadband Internet access, through its 3G network, from September 2008.

TV

In November 2008, Makedonski Telekom entered the TV market by offering 3Play services: TV, Internet and voice bundles. Cable providers also offer similar services. On April 25, 2009, the Agency granted radiofrequencies for digital TV services through DVB-T to Telekom Slovenije, and its commercial operations started in November 2009, under the new brand ONE.

In December 2009, ONE has introduced a new bundled offer in the market for 3Play packages containing fixed line, fixed broadband Internet and digital TV.

Mobile Services

The Macedonian mobile communications market currently has two GSM operators with UMTS licenses (T-Mobile Macedonia and ONE) and one only GSM operator (VIP).

According to our estimates, as at December 31, 2009, T-Mobile Macedonia had a customer market share of approximately 56.4 percent, ONE 28.2 percent, and VIP 15.4 percent. The mobile penetration rate increased to 116.1 percent by the end of 2009 due to strong and intense competition on the basis of prices, subscription options, subsidized handsets, range of services offered, innovation and quality of service.

Montenegro

Crnogorski Telekom faces competition mainly from mobile service providers, and, to a lesser extent, from other fixed line services providers.

Table of Contents

In 2007, a new mobile and fixed line operator entered the Montenegrin telecommunications market: Mtel, the third mobile operator and one of the licensed operators for development and exploitation of WiMAX-based network.

Until end of 2009, ten licenses for VoIP operators were issued as well. They are able to offer outgoing call services to our customers through carrier selection and freephone service.

Nine MMDS and cable TV licenses were awarded at the beginning of 2007. Some of the cable operators have declared their intention to provide Internet and telephony services. MMDS and satellite operators, who were able to start first with service provisioning and who are not dependant on our infrastructure, are currently market leaders in cable TV segment.

Strong competition is developing in the wholesale segment as well. It is expected that significant players like Telekom Serbia, National Broadcasting Company and Electricity Company will enter the Internet and data wholesale business after significant investments in their communications infrastructure have been realized during 2008 and 2009.

In the Montenegrin mobile market, T-Mobile Crna Gora had a market share of 36.7 percent, Promonte had a market share of 37.1 percent, while Mtel a market share of had 26.2 percent in terms of number of active subscribers at the end of 2009 according to the data published by EKIP. T-Mobile Crna Gora is the market leader in the postpaid segment.

In November 2006, EKIP issued a tender for two 3G licenses as well as a tender for a mixed 2G-3G license for a third mobile operator. In the first quarter of 2007, T-Mobile Crna Gora and Promonte were awarded with one 3G license each and Mtel won the combined 2G-3G license. T-Mobile Crna Gora launched 3G services in June 2007. Promonte and Mtel offer 3G services as well.

As in other countries, competition in mobile services is intense and driven by pricing, subscription options, subsidized handsets, coverage, as well as quality and portfolio of services offered. Our competitors' marketing and advertising activities are aggressive.

DEPENDENCE ON PATENTS, LICENSES, CUSTOMERS, INDUSTRIAL, COMMERCIAL AND FINANCIAL CONTRACTS

We do not believe that we are dependent on any patent or other intellectual property right, on any individual third party customer or on any industrial, commercial or financial contract. Similar to other fixed line and mobile operators, we require telecommunications licenses from, and/or register our services at the governments of Hungary, Macedonia, Montenegro, Romania, Bulgaria and the Ukraine, the countries in which we provide telecommunications services.

Table of Contents

REGULATION

Overview

Our operations, as well as those of our subsidiaries and affiliates, are subject to sector-specific telecommunications regulations and general competition law, as well as a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with the conduct of traditional fixed-line telephony services usually being subject to the most extensive regulation. Regulations can have a very direct and material effect on our overall business, particularly in jurisdictions that favor regulatory intervention.

The EU Regulatory Framework

In 2002, the European Union adopted several legislative measures, which included a general framework directive and four specific directives regarding the following topics (collectively constituting the "EU Framework"):

- access to and interconnection of electronic communications networks;
- mandatory minimum service standards for all users ("universal service") and users' rights;
- authorization and licensing regimes;
- data protection and privacy;
- data retention; and
- decision on a regulatory framework for radio spectrum policy in the EU.

The NRF, in particular:

- sets out the rights, responsibilities, decision-making powers and procedures of the NRAs and the European Commission;
- identifies specific policy objectives that NRAs must achieve in carrying out their responsibilities; and
- provides that operators with SMP in relevant communications markets can be subject to obligations set out in the directives on universal service and access.

Since Hungary joined the European Union on May 1, 2004, our operations have been subject to the EU Framework on telecommunications regulation. EU Member States are required to enact EU legislation in their domestic law and to take EU legislation into account when applying domestic law. Hungary fully implemented the NRF with the enactment of the Electronic Communications Act and fully implemented decrees in 2004.

In each EU Member State, an NRA is responsible for enforcing the national telecommunications laws that are based on the EU Framework. NRAs generally have significant powers under their relevant telecommunications acts, including the authority to impose network access and interconnection obligations, and to approve or review the charges and general business terms and conditions of providers with SMP. In general, a company can be considered to have SMP if its share of a particular market exceeds 40 percent. Market share is determined based on revenue,

number of subscribers, usage volume figures or a combination of these depending on the particular market. NRAs also have the authority to assign wireless spectrum and supervise frequencies.

The European Commission supervises the NRAs and formally and informally influences their decisions in order to ensure the harmonized application of the EU Framework throughout the European Union. Companies can challenge decisions of the relevant NRA before national courts. Such legal

Table of Contents

proceedings can lead to a decision by the European Court of Justice, which is the ultimate authority on the correct application of EU legislation.

Special Requirements Applicable to Providers with SMP

The most significant impact on our business stems from the EU Framework's special requirements applicable to providers with SMP. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication, and non-discrimination, can be imposed on those operators that are designated by the relevant NRA as having SMP in an electronic communications market. Such determinations are based on EU guidelines and EU competition case law.

In particular, the NRA may subject providers with SMP, and their affiliates, to the following rules and obligations:

The prior approval or retroactive review of charges, insofar as such charges and conditions relate to a market in which the provider holds SMP.

The obligation to offer other companies unbundled special network access (including interconnection) as well as access to certain services and facilities on a non-discriminatory basis.

In addition, providers with SMP can be obliged to maintain separated accounting systems with regard to access services. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent, among other things, the cross-subsidization of services. In this regard, the NRA may specify the structure of a provider's internal accounting for particular telecommunications services, which can increase costs of compliance.

Under the EU Framework, the European Commission periodically issues a market recommendation, which is a list of telecommunications markets that it considers susceptible to sector-specific regulation. NRAs must take this list of markets into account when defining the markets that are to be analyzed for the existence of competitive restraints. If an NRA finds that a market is not competitive, it establishes which providers have SMP in this market and may impose certain measures prescribed by statute.

In February 2003, the European Commission issued its first recommendation, which related to the retail markets for fixed line public telephone service and leased lines, as well as the wholesale markets for the ULL, fixed network interconnection, leased lines, broadband access, mobile voice call termination, mobile access and call origination, international roaming, and broadcasting transmission services. Current and future market analyses by NRAs have to consider a new recommendation of the European Commission effective as of December 17, 2007. This new version reduced the number of markets to be reviewed from 18 to 7. In particular, most retail markets have been removed from the list of markets that are susceptible to telecommunications regulation. However, the most important retail market relating to the retail access of the fixed telephone network remains subject to such regulation. Further, some wholesale markets are now described in a broader manner (e.g., market for local loop unbundling is no longer restricted to metallic loops). At the moment it is difficult to predict whether these broader definitions lead to an expansion or a reduction of regulation. The new market recommendation also relates to wholesale markets for call origination of fixed telephone networks, call termination of individual fixed networks, broadband access, terminating segments of leased lines and voice call termination on individual mobile networks. However, it will be possible for NRAs to analyze and regulate further markets, if (a) high and non-transitory entry barriers are present in this market, (b) a market structure does not tend towards effective competition within the relevant time horizon taking into account the state of competition behind the barriers of entry, or (c) competition law alone is insufficient to adequately address the market failures concerned. All NRA market analyses are subject to the supervision of the European Commission and can be challenged if the European Commission does not agree with the NRA's findings.

In addition to the European Commission's recommendation, there is a separate EU regulation on unbundled access to the local loop, which became effective in January 2001. It contains the obligations to

Table of Contents

provide full unbundled access to copper-paired wire lines, as well as unbundled access to the high-frequency spectrum of those lines (line-sharing). Since each member state has specifically addressed local loop unbundling by individual regulatory measures under the framework, the new EU proposals to amend the regulatory framework as described below provide for the termination of the separate EU regulation on local loop unbundling.

On May 7, 2009 the European Commission introduced a recommendation on fixed and mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the NRAs. EU members are required to implement the recommendation and develop mobile and fixed termination rate cost models by December 31, 2012, as described in the recommendation in details. As a result of the costing methodology that imposes the use of a pure FL-LRIC model, the EU hopes to reduce termination rates by 70 percent within three years. The recommendation shall be reviewed after four years, i.e. in May 2013.

Roaming

On February 20, 2006, the European Commission announced that, in light of the inability of NRAs to impose regulatory remedies, it had begun to work on a regulation on international voice roaming charges. On June 30, 2007, an EU regulation entered into force which regulates international roaming tariffs for wholesale and retail customers on the basis of a capped pricing system. After a review of roaming prices development, the European Commission published the stricter Roaming Regulation II on June 29, 2009. See "Item 4 Pricing Roaming Agreements and Tariffs".

Legislative Developments in the EU

New Regulatory Framework. The entire NRF has been subject to a review since 2007 by the EU. The European Commission issued proposals to amend the current framework, which had to be accepted by the European Parliament and the Council of Ministers before becoming legislation. These proposals did not include any deregulation efforts.

The amendments to the NRF were adopted on November 24, 2009; changes to the framework have to be implemented by national law by May 25, 2011.

The main changes introduced by the amendments to the NRF are the following:

The main objective of the new framework is to promote investments in new infrastructure based on the following measures:

Risk sharing ('risk-diversification') to allow sharing investment risk between investor and access seeker;

Regulatory measures to allow regional segmentation of national markets;

NRAs have the authority to apply the "common and symmetrical use of passive infrastructure" obligation to all operators, who have the right to install facilities on, over or under public or private property; and

New remedy of functional separation available for national regulators only under exceptional circumstances and as last resort.

Establishment of a Body of European Regulators for Electronic Communications ("BEREC"): BEREC is supported by a small administrative office and it will replace the existing European Regulators Group ("ERG").

New procedure to harmonize remedies: NRAs have to notify a draft decision on remedial measures to the EU Commission, other NRAs and BEREC. The opinion of BEREC has also been taken into account when adopting a final decision. The new

harmonization rules enable the Commission to

Table of Contents

adopt further harmonization measures in the form of recommendations or binding decisions when differences in the regulatory approaches of NRAs are found.

Consumer protection: extension of consumer protection rules, such as transparency of consumer contracts (provision of information), consumer contracts must not exceed 24 months, personal data protection, number portability deadlines.

Universal service obligation:

- Universal service obligation for providing network access has been separated from the universal service obligation to provide (broadband) services, the member states can decide what constitutes a "functional Internet access";
- Member states shall designate one or more company to provide "equivalent" services for disabled people;
- Member states shall empower NRAs to require service providers to provide tariff information on premium rate services immediately prior to a call.

Spectrum management

- Technology- and service neutrality principles;
- NRAs should make secondary spectrum trading and leasing possible, but they should take action against possible market distortion;
- Harmonized use of digital dividends (frequencies that became free as a result of transition to digital television) in the EU based on 2007 World Radio-communications Conference results;
- More emphasis on general licenses than on individual ones.

Net neutrality

- NRA can set minimum QoS levels for network transmission to promote net neutrality;
- Consumers should be informed of traffic management techniques, impact on QoS and any other limitations; however no requirement imposed on ISP to monitor content;
- Procedural safeguards on restriction of Internet users' access in case of copyright infringement.

NGA Recommendation. On June 12, 2009 the European Commission published for public consultation its revised draft recommendation on regulated access to NGA networks to achieve a common regulatory framework for NGA in order to foster timely investment in very high speed networks while ensuring that the competitive structure of the market is maintained. The approach proposed by the European Commission aims at driving infrastructure-based competition where it is possible and efficient, while ensuring a seamless migration from copper to fiber-based networks.

The EU proposes extended regulation on NGA which means that full set of passive (e.g., facility and infrastructure sharing or access like duct sharing) and active (e.g., wholesale broadband access) remedies can be introduced at the same time to provide the possibility for alternative operators to choose and to enter at any level of the SMP's network. Possible obligations to be imposed only on SMP operators include bitstream access, dark fiber, duct sharing, cost-based prices and reference offers. Introduction of risk premium for unbundling and in-house wiring services is possible in case of FTTH networks. Geographic segmentation is also possible but introduction is not obligatory for NRAs.

The recommendation focuses on FTTx technologies including cable TV's ED3, however, ED3 is not mentioned with respect to remedies (e.g., access obligations, infrastructure sharing and transparency with cost orientation in wholesale pricing). Wireless and mobile technologies are not included in the scope.

Table of Contents

The consultation was closed on July 24, 2009, however adoption of the final version has been postponed to spring 2010.

Amendment of the GSM Directive. On October 20, 2009 the Council Directive 2009/114/EC amending the Council Directive 87/372/EEC ("GSM Directive") and removing the restriction on use of the 900 MHz spectrum exclusively for GSM services; and the complementary Commission Decision setting out the technical parameters that enable the co-existence of GSM and UMTS systems in the 900 MHz and 1800 MHz bands were published in the Official Journal of the European Union. The new rules will enable the use of the 900/1800 MHz frequencies for UMTS and more advanced wireless technologies alongside today's GSM services.

Member States are required to implement the amended GSM directive through national law by May 9, 2010. The same implementation deadline is set for opening up the 900 MHz and the 1800 MHz bands for UMTS services. Member States are also required to review the existing spectrum assignments in these bands in order to avoid competition distortions.

Consultation on universal service principles in e-communications. The second revision of the universal service principles is to be held in 2010, on which the Commission will run a public consultation until May 7, 2010. Current EU rules on universal service obligations for telecommunication service providers date from 2002 and guarantee that Europeans have access to public telephone networks and to services like basic Internet access. The consultation aims to review if these rules and definitions on universal services need to be updated for the digital age, and in particular if they should be extended to cover broadband access.

Competition Law

The European Union's competition rules have the force of law in all EU Member States. The main principles of the EU competition rules are set forth in Articles 101 and 102 of the Treaty on the Functioning of the European Union ("TFEU") and in the EU Merger Regulation (the "Merger Regulation"). In general, the TFEU prohibits "concerted practices" and all agreements that may affect trade between Member States and which restrict, or are intended to restrict, competition within the EU, and prohibits any abuse of a dominant position within the common market of the EU, or any substantial part of it, that may affect trade between Member States. The European Commission enforces these rules in cooperation with the national competition authorities, which may also directly enforce the competition rules of the TFEU. In addition, the national courts have jurisdiction over alleged violations of EU competition law.

The Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds are to be submitted to the European Commission for review, rather than to the national competition authorities. Under the amended Merger Regulation, concentrations will be prohibited if they significantly impede effective competition in the common European market, or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.

In addition, all EU Member States (and other jurisdictions in which we operate) have legislation in place, which is substantially similar to the EU competition rules. Thus, in markets where we are dominant, our ability to practice business freely and to establish our own prices can be restricted. Moreover, our opportunities to cooperate with other companies, or to enhance our business by fully or partially acquiring other businesses, can also be limited.

The Telecommunications Regulatory Regime in Hungary

The telecommunications industry has been governed by:

Act C of 2003 on Electronic Communications (the "Electronic Communications Act");

Table of Contents

Act LXXXVII of 1990 on Pricing (the "Pricing Act"); and

Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practice (the "Competition Act").

The Electronic Communications Act and the Contract on Universal Service Provision

The Electronic Communications Act came into effect on January 1, 2004. Under the Act, the NCA, the supreme supervisory body, and the Permanent Court of Arbitration for Communications ("CAC") were established.

Set forth below is a brief summary of certain provisions of the Electronic Communications Act.

Universal Service. The Electronic Communications Act provides that universal services are basic communications services that should be available to all at an affordable price. Universal services include access to fixed line voice telephone services of certain quality enabling access to Internet services, a regulated density of public payphones, a public directory of telephone users, national domestic inquiry service as well as free call-blocks and emergency calls. Access to voice services at an affordable price is affected by designation of universal service providers (the Minister shall appoint the most efficient service provider).

We were designated as a universal service provider and entered into a universal service contract with the Minister. The contract was valid until December 31, 2008 and could have been extended for an additional four years. However, the negotiations started with the Minister on the future terms of the contract have not led to an agreement. Therefore the Minister issued a decree on December 31, 2008 imposing an obligation on Magyar Telekom (and the other two operators) to provide universal services in 2009 without being designated as a universal service provider and without having concluded a universal services contract. Our interpretation of the legal status is that the Act on Electronic Communication provides that (i) the obligation to provide universal services may only be imposed on operators designated as universal service providers and (ii) the terms of such obligations need to be agreed in a contract between the designated operator and the Minister. In the absence of such a designation and without having concluded such a contract, we have no obligation to provide universal services from January 1, 2009. However, discussions are ongoing between the responsible Minister and the earlier universal service providers on a future possible universal service contract and on the modifications of the underlying regulation in line with the changed market situation. The necessary modifications of the telecommunications law already entered into force as of January 1, 2010 and the modification of the concerning government and ministerial decrees is ongoing as well. The new legislation is expected to provide much more favorable conditions in line with market changes than the earlier regime. Based on these discussions, Magyar Telekom signed a "pre-contract" with the Ministry on December 30, 2009, which includes future conditions for providing universal services and an agreement to sign a final contract with the same conditions.

Subscriber Contracts. Service providers must establish General Terms of Contracts for providing publicly available electronic communication services. The subscriber contract consists of the General Terms of Contracts and the individual subscriber contract. The Electronic Communications Act provides general rules of agreements between subscribers and telecommunications services providers for telecommunications services. The ministerial Decree 16/2003 (XII.27.) on "Telecommunications Subscriber Contract" contains other important rules relating to subscriber contracts. In subscriber contracts, parties can deviate from the provisions of the Electronic Communications Act and the General Terms of Contracts only if they are more favorable to the subscribers.

The general terms and conditions of subscriber contracts must contain, among other things, the procedure for terminating and amending subscriber contracts, the quality of the telecommunications

Table of Contents

service, conditions for restriction of the service, the fault-repair service and the method for handling subscriber complaints. The individual subscriber contract must contain personal data of the subscriber.

Local Loop and Bit-stream Unbundling. According to the Electronic Communications Act and Government Decree 277/2003, (XII.24.) on "The detailed rules of procedures related to the reference offers and networking contracts", operators with SMP providing unbundled access or broadband access are obliged to unbundle local loops and prepare reference offers for unbundled local loops (whether fully or partially unbundled) and bit-stream access and to provide these services when there is a request for them by other telecommunications service providers. Currently these rules apply only for copper pair local loops; optical fiber access networks are not included.

Providers with SMP may refuse the request for unbundling only if:

there are technical barriers or the unbundling would put an unfair burden on the obliged service provider; and

providing access to the local loop or bit-stream access would endanger the unity of the provider's network.

Unbundling has not become significant in the Hungarian market so far mostly due to the already existing infrastructure-based competition. As a result, unbundling has only led to a moderate loss of our market share to date.

Interconnection. According to the Electronic Communications Act and Government Decree 277/2003 (XII. 24.), providers with SMP are obliged to prepare reference offers for interconnection and to provide these services upon the reference offer when there is a request for them by other telecommunications service providers.

According to the Government Decree 277/2003 (XII. 24.), providers with SMP are obliged to enter into agreements for access to their networks when requested by another service provider. If the provider is obliged to prepare a reference interconnection offer, this offer must be in line with the legal regulations about the reference offer. The NCA has authority to arbitrate in disputed cases and may establish provisional arrangements. The reference offer of the providers with SMP must be approved by the NCA.

Carrier Selection. According to the Electronic Communications Act, our fixed voice telephone customers have the right to select different service providers for each call directions. The implementing regulation was released in Government Decree 73/2004 (IV.15.) in April 2004. Consecutive market analysis decisions have confirmed this obligation.

Number Portability. Fixed line telecommunications service providers are required to provide number portability on their networks, and to allow subscribers to change service providers without changing their telephone numbers in the same geographic location. In May 2004, non-geographic and mobile number portability were also implemented.

Licensing and Allocation of Frequencies. With the exception of radio receiver device, radio equipment, radio stations and radio communication networks may be operated on the basis of a general or exclusive radio license. A radio license may be issued exclusively on the basis of a valid frequency assignment license, with certain exceptions. Radio equipment, radio stations, radio networks and radio communications systems may be installed with a frequency assignment license, with certain exceptions. Payment of fees is required for reservation and usage of frequencies assigned for civil purposes, reservation of identifiers and use of the assigned identifiers. In the case of terrestrial public mobile communications there is no frequency reservation fee, only frequency usage fee.

Frequency assignments must conform to the National Table of Frequency Allocations, which lays out the entire spectrum and the purpose and availability of frequency bands.

Table of Contents

Rights of Way. According to the Electronic Communications Act, communications service providers are entitled with prior notice to enter private property where communications facilities (equipment, cables, antennas) are located for maintenance and repair. The public telecommunications service provider must enter into a contract with the property owner setting forth conditions for the common use of the property. The property owners are also obliged to remove obstructions to public telecommunications networks.

Data Retention. The Data Retention Directive of the European Union was implemented in Hungary by an amendment to the Electronic Communications Act that entered into force on March 15, 2008. According to the law, Magyar Telekom has to retain data on the following:

- unsuccessful calls, call forwarding and call routing data location identifying on fixed phone;
- call forwarding and call routing data, unsuccessful calls, mobile Internet and other data (e.g., IMSI, location identifying, cell identifier) on mobile phone;
- user ID, IP-address, e-mail and Internet telephony on Internet services.

Data retention period was reduced from three years to one year (in case of criminal data requests) and to six months (in case of unsuccessful calls).

SMP Regulation

On April 24, 2004 the Minister issued Decree No. 16/2004 (IV.24.) on the basic principles of market definition, market analysis and identification of service providers having significant market power. The Decree implemented the recommendation of the European Commission (2003/311/EC) and accordingly listed the following 18 relevant product and service markets within the electronic telecommunications sector susceptible to ex ante regulation:

Retail level:

1. Access to the public telephone network at a fixed location for residential customers.
2. Access to the public telephone network at a fixed location for non-residential customers.
3. Publicly available local and/or national telephone services provided at a fixed location for residential customers.
4. Publicly available international telephone services provided at a fixed location for residential customers.
5. Publicly available local and/or national telephone services provided at a fixed location for non-residential customers.
6. Publicly available international telephone services provided at a fixed location for non-residential customers.
7. The minimum set of leased lines.

Wholesale level:

8. Call origination on the public telephone network provided at a fixed location.
9.

Call termination on individual public telephone networks provided at a fixed location.

10. Transit services in the fixed public telephone network.

11. Wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services.

12. Wholesale broadband access.

Table of Contents

13. Wholesale terminating segments of leased lines.

14. Wholesale trunk segments of leased lines.

15. Access and call origination on public mobile telephone networks.

16. Voice call termination on individual mobile networks.

17. The wholesale national market for international roaming on public mobile networks.

18. Broadcasting transmission services, to deliver broadcast content to end users.

The NCA has accomplished two rounds of market analysis. In the second round, obligations were only slightly modified as compared to those imposed in the first round, by having more detailed rules apply to our provision of services. The results of the analysis on fixed line retail markets identified Magyar Telekom as having SMP and imposed a price cap on retail access market services (market 1 and 2) for residential and non-residential customers. In addition, it required Magyar Telekom to allow fixed line residential and non-residential customers to select other service providers for local and/or national and international calls (markets 3-6) and obliged Magyar Telekom to provide the minimum set of leased lines (market 7). On the wholesale markets, the NCA imposed the obligations of transparency (markets 8-9, 11-13), accounting separation (markets 8-9, 11-13), access and interconnection obligations (markets 8-9, 11-13), various obligations regarding cost-based prices and price control (markets 8-9, 11-13) and non-discrimination (markets 12-13). It also imposed an obligation to offer wholesale naked ADSL at regulated prices. The market analysis procedure identified TMH as having SMP in the mobile termination market (market 16) and imposed the obligations of transparency, accounting separation, access/interconnection and cost-based prices and price control.

The third round of analysis of the 18 relevant product and service markets started in 2008. So far, only the decision on the mobile termination market (market 7 in accordance with the new EU Recommendation on relevant markets) has been adopted. The NCA maintained the obligations of transparency, accounting separation, access/interconnection, cost-based prices and price control, as well as extended the so-called 'Glide Path' regulation (i.e., gradual decreases in termination rates) until the end of 2010.

The aforementioned Minister Decree No. 16/2004 (IV.24.) was amended in October 2009 and implemented the revised recommendation of the EU that entered into force on December 17, 2007. As a result, retail call markets (market 3-6) and the minimum set of leased lines became deregulated as well as wholesale markets for transit services in the fixed telephone network, wholesale trunk segments of leased lines, access and call origination on public mobile telephone networks and broadcasting transmission services to deliver broadcast content to end users. The new Decree (8/2009 MeHVM) has become effective already in the current (third) round of market analysis by the NCA. Current relevant product and service markets are:

1. Access to the public telephone network at a fixed location for residential and non-residential customers;

2. Call origination on the public telephone network provided at a fixed location;

3. Call termination on individual public telephone networks provided at a fixed location;

4. Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location;

5. Wholesale broadband access;

6. Wholesale terminating segments of leased lines; and

7. Voice call termination on individual mobile networks.

In the course of the third round market analysis of the relevant markets, new SMP resolutions are expected in 2010.

Table of Contents

Mobile Concession Contracts

Under the 900 MHz Concession Contract, dated November 4, 1993, between the Minister and TMH, TMH was granted the right to provide public GSM 900 mobile telephone services for 15 years, with a possibility of 7.5 years license duration prolongation without a tender.

On October 7, 1999, an amended and integrated GSM 900/DCS 1800 MHz Concession Contract was signed, allowing TMH to start public mobile telephone service in the 1800 MHz band for 15 years beginning November 26, 2000. By virtue of the integrated Concession Contract in 1999, by the end of 2003, the three digital mobile telecommunications service providers had the same spectrum resources assigned to them both on the 900 and the 1800 MHz bands. The DCS 1800 license of TMH will expire in 2014, but may be prolonged without a tender for a 7.5 year period. TMH pays an annual concession fee of USD 1 million.

On November 8, 2007, TMH signed the renewed 900/1800 MHz Concession Contract along with the Cooperation Agreement with the Minister. The new Concession Contract prolonged the duration of the TMH's 900 MHz frequency usage right until May 4, 2016. TMH paid HUF 10 billion for the 900 MHz license prolongation and committed to a HUF 20 billion additional mobile broadband investment obligation in the underdeveloped regions of the country in the timeframe of 2008-2009. By the end of 2009, TMH met his investment obligation set in the Cooperation Agreement.

Licenses for exclusive frequency usage rights

On December 7, 2004, the NCA awarded TMH the exclusive right to use the frequency blocks of 1920-1935/2110-2125 MHz FDD and 1915-1920 MHz TDD for deployment and operation of IMT 2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until 2019) with an option to extend for another seven and a half years. The right to use the frequencies vested upon payment of the first installment of the license fee on December 27, 2004.

TMH was obliged by the term of the license decree to start commercial IMT-2000/UMTS service in the inner city of Budapest within 12 months after the license had entered into force. This obligation was met. TMH was also obliged to expand the coverage to 30 percent of the Hungarian population within 36 months after the license came into effect. In December 2006, Magyar Telekom fulfilled the population coverage target of the IMT-2000/UMTS license.

The license fee for IMT-2000/UMTS was HUF 17,000 million plus reclaimable VAT, payable by the end of 2005. In addition to the license fee, TMH capitalized expenses incurred in connection with the acquisition process of the license. The total amount capitalized was HUF 17,073 million. The IMT-2000/UMTS license right is amortized on a straight-line basis over 15 years from the time of the commencement of the commercial service on August 26, 2005 to the end of the initial license period.

On April 30, 2009, Magyar Telekom won the spectrum tender for the 26 GHz "D" spectrum block. On May 18, 2009, Magyar Telekom asked for the frequency assignment decision from the NCA, which was received on July 10, 2009.

The Company is also subject to various regulatory requirements with respect to the fees it may charge for its services, as well as fees it is required to pay to the applicable regulators in relation to the services it provides. See "Item 5 Tabular disclosure of contractual obligations".

Legislative developments in Hungary

Implementation of the revised NRF. EU Member States are required to implement the new telecommunications framework within 18 months upon its publication in the Official Journal of the European Union. The new telecommunications framework was published in December 18, 2009 in the Official Journal of the EU. The Regulation establishing BEREC need not be implemented; it will enter into force throughout the EU upon its publication. Whether the regulatory framework will increase or

Table of Contents

decrease the regulatory burden on us will depend on the manner in which revised directives are implemented in the EU Member States and the way the revised regulatory framework will be applied by the respective NRA.

Universal Service Contract. Discussions are ongoing between the Minister and the earlier universal service providers on the future provision of universal services, including necessary modifications of the regulation due to changes in market conditions and a possible agreement on the provision of universal services. As a result, universal services are expected to be provided on much more favorable conditions, in particular in respect of access and public payphone obligations.

Electronic Communications Act. On December 14, 2009 the Hungarian Parliament voted for the modification of the communication law. According to the accepted modifications, the universal service includes a so-called 'last resort' access to fixed line voice telephone services of certain quality enabling access to Internet services and slighter obligation on the density of public payphones.

Spectrum. In conjunction with the implementation of the modified GSM Directive, a "public consultation-like" process started on November 24, 2009, organized by the Minister. Although, official decisions have not been made yet, a new competitive bidding for the E-GSM900 spectrum blocks is expected to take place in 2010.

It is likely that in the process of implementing 2008/477/EC Decision, a comparative or competitive bidding process for the 2.6 GHz spectrum blocks will take place next year. The 2.6 GHz band is the core frequency band in Europe for LTE, which meets the NGMN.

NGA. The Hungarian NRA has started the analysis of market 4 (infrastructure access) and market 5 (wholesale broadband access). Draft decision is expected in the first half of 2010. The details are not known yet, but probably emphasis will be put on passive infrastructure access and wholesale broadband access to fiber.

Implementation of EU Recommendation on termination rates. We assume that the NCA will implement the Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in Hungary in 2010. As Magyar Telekom's fixed and mobile IC models calculate with a much higher cost base than it is allowed in the Recommendation, the implementation would result in a strong decrease in fixed and mobile termination rates over a three-year glide path. However, since MT Group has nearly symmetric IC traffic, the effect of the Recommendation on our (fixed and mobile) net IC balance (IC outpayments and IC revenues) is expected to be near to neutral.

Competition Law Restrictions

The Electronic Communications Act and the Competition Act prohibit us from the abuse of our dominant position in the markets where we are in a dominant position.

Under the Competition Act, a market participant is considered to be in a dominant position if, among other things, it is able to pursue economic activities substantially independent of other market participants, i.e., without the need to consider the market behavior of its competitors, suppliers, customers and other business partners.

Under the Electronic Communications Act and the Competition Act, service providers with SMP are required to provide services to other telecommunications service providers on the same commercial terms, and these terms may not be less favorable than those offered to other service providers controlled by it or controlling it.

Broadcasting and Transmission

Radio and television broadcasting in Hungary are governed by Act I of 1996 on Radio and Television Broadcasting ("Media Act"), according to which national television and radio frequencies are awarded to

Table of Contents

winners of the tenders issued by the National Radio and Television Board ("NRTB"). Other broadcasters, whose programs are distributed only by way of a program distribution system, are only required to notify NRTB at least 30 days before the commencement of their broadcasting activity, which notification is registered or refused by the NRTB. Several drafts of amendment to the Media Act were published in 2009, but none of them were submitted to the Parliament as a bill. In 2010, an amendment to the Media Act or a new Media Act is expected to be submitted to the Parliament in order to fulfill Hungary's obligation to implement the Audiovisual Media Services Directive of the EU.

Program distribution activities are governed by the rules of Act LXXIV of 2007 on Program Distribution and Digital Switchover ("Program Distribution Act") and Electronic Communications Act. The NCA accepts and reviews the notifications received for the provision of services, including program distribution and transmission services, in compliance with legal requirements, registers the services and service providers under its supervisory authority, and determines the obligatory technical and operational conditions in order to preserve integrity of the communications network. Entities registered as program distributors are permitted to transmit broadcasts by third parties to subscribers through a cable transmission network or via any other means (e.g., satellite, IPTV).

The Telecommunications Regulatory Regime in Macedonia

For a description of the telecommunications regulatory regime in Macedonia, see Notes 1.3.2. and 1.3.5. to the Consolidated Financial Statements.

The Telecommunications Regulatory Regime in Montenegro

For a description of the telecommunications regulatory regime in Montenegro, see Notes 1.3.3. and 1.3.6. to the Consolidated Financial Statements.

PRICING

Fixed Line Subscription Fees and Usage Charges

Under the Pricing Act, as modified by the Electronic Communications Act, the Minister is responsible for establishing the maximum rates for universal services. Tariff regulation in Hungary is based on a price cap method for universal services. Since February 1, 2002, fixed line rates and connection fees have been regulated by Decree 3/2002 (I.21.) MeHVM on "Charges for Voice Telephone Services Provided by Companies with SMP and Price Plans Related to Universal Services" ("the 2002 Fixed Line Tariff Decree"). This decree has been modified to limit its scope of price regulation to universal services. The 2002 Fixed Line Tariff Decree established the price cap formula, under which our annual price increase cap was set as the forward-looking Consumer Price Index ("CPI") less a three percent productivity factor. Since our universal service contract expired on December 31, 2008 (See " Regulation, The Electronic Communications Act and the Contract on Universal Service Provision, Universal Service") we believe that the above price regulations do not apply to us from January 1, 2009. However, negotiations are ongoing between the Minister and the former universal service providers on a possible future universal service contract. As a result, less strict price regulations for universal services expected in the future.

According to the SMP resolutions concerning residential and business access markets, a price cap should apply to subscription fees of various price plans. The SMP resolutions concerning residential and business access markets extend the applicability of price caps to all subscription fees and not just those of universal services. The resolutions provide that the maximum aggregate price increase of the subscription fees business and residential separately cannot be higher than the CPI for the current year. This implies that a price check can only be carried out after the year the price cap relates to has ended.

We have not significantly increased our subscription or traffic fees in 2008 or 2009, either in the residential or in the corporate market.

Table of Contents

Leased Line Fees

In 2005, we were identified as the only operator with SMP in Hungary on the retail market of a minimum set of leased lines (defined as analogue lines in standard and special quality and digital lines between 64 Kbit/s and 2,048 Kbit/s) and were obliged to provide the minimum set of leased lines. The new resolution published on January 31, 2008 did not change our obligation.

"Price Squeeze" (Predatory Pricing) Issues

Under the Electronic Communications Act, service providers with SMP are prohibited from pricing retail network services below their wholesale prices. When service providers reduce their end user prices and it causes a "price squeeze", they are obliged to proportionally reduce their wholesale prices in their reference offers. This provision only applies if the price reduction affects more than ten percent of subscribers for the service, or the impact of the price reduction exceeds five percent of net sales of the service.

If the regulatory authority identifies a price squeeze, the NCA examines whether the price of the network service is in line with the incurred costs. If the network prices are cost-based, the NCA refers the case to the Competition Authority. If the network prices are not cost-based, the NCA determines the minimum mandatory margin between the price of the network service and the end user service and/or orders the service provider to modify the reference offer. In practice, however, only the National Competition Authority has carried out price squeeze tests so far.

Fixed Line Regulated Wholesale Prices

In the first round of market analysis, we have been identified as an operator with SMP in the voice termination and origination market and the wholesale market on unbundling of copper loops, along with all other LTOs. These SMP resolutions included obligations to submit RIO and RUO to the NCA. The NCA also adopted cost-based pricing rules, based on LRIC for the RIO and FDC for the RUO. Revised SMP resolutions for the voice termination and origination markets, as well as the wholesale market of unbundling of copper loops were published at the end of 2007. The major change in the revised resolution on the wholesale market of unbundling of copper loops is that the tariffs for RUO should be determined by LRIC method as opposed to the FDC method used before. As ordered by the new SMP resolutions, new RIO and RUO were submitted in February 2008. They were approved in July and September 2008, respectively, with a retroactive effect from April 26, 2008. On July 2, 2008, we submitted the joint RIO and RUO with Emitel as a consequence of the merger of Emitel and Magyar Telekom Plc. in October 2007. These recent reference offers were approved on March 26, 2009.

Similar to all other LTOs, in the first round of market analysis we were also identified as an operator with SMP in the wholesale broadband market. The SMP resolution adopted a "retail-minus" pricing rule for the wholesale broadband market of nationwide bit-stream access service. Pricing for the local bit-stream access service is currently regulated on a cost-based rule under the RUO. A new SMP resolution dealing with the broadband market was published in January 2008. It introduced a new obligation according to which SMP operators have to offer wholesale naked ADSL at regulated prices. The expected retail margin is determined in a fixed amount instead of a percentage commonly used internationally.

The wholesale leased line termination market consists of (i) the wholesale leased line access market and (ii) the wholesale market of terminating segment of the leased lines. In 2005, we were identified as the only operator with SMP in Hungary in the wholesale market of terminating segments of leased lines. For the wholesale leased line termination market, the SMP resolution has adopted the "retail minus" pricing rule, requiring us to provide all wholesale leased line access services at prices approximately 33 percent lower than the listed retail prices. We are also required to provide all services identified in the resolution on a national basis. We have complied with this new regulation by reducing our wholesale leased line

Table of Contents

access prices by the set amount. A regulation published on January 31, 2008 provides for regulation of leased lines up to and including the bandwidth of 2 Mbit/s, as opposed to only those below 2 Mbit/s, and that the "retail minus" pricing rule set at 33 percent in the prior resolution is now 29 percent up to 128 Kbit/s and 28 percent thereafter. The "retail minus" pricing rule is not set in the SMP resolution, but is determined after the NCA examined the data submitted by us as a result of the obligation in the SMP resolution.

New SMP resolutions are expected to be published in the first half of 2010 for several markets. As a result of the EU review, the number of relevant markets decreased from 18 to 7. Magyar Telekom is currently identified as having SMP in all of the 7 remaining markets.

Fixed Line Other Wholesale Prices

The Electronic Communications Act provides that network access fees are to be set based on a number of objective criteria, with transparency and without discrimination.

Network Access and Interconnection Agreements between Magyar Telekom and ISPs

We enter into network access agreements with ISPs to secure access to services provided by ISPs for our subscribers. In addition to the network access agreements, we may enter into interconnection agreements with ISPs. The terms and conditions for the network access agreements must be in line with the terms and conditions of the existing subscriber contracts.

Mobile Market Assessment, SMP Designation Process and Interconnection

Upon request for interconnection (to provide either network access or network interconnection) from another telecommunications operator, TMH is required under the Electronic Communications Act and a related decree to provide such services, if such request is reasonable on both technical and economic grounds and provision of such services is not impossible due to the limitation of resources.

Mobile Retail fees

Fees and Charges. TMH's subscriber charges are not subject to regulation under the Pricing Act or any other regulation.

Mobile Wholesale fees

Termination fees. In the first round of market analysis, the NCA identified all three mobile operators as having SMP on the voice call termination of individual mobile networks and set asymmetrical termination rates for them. TMH, being the operator with the highest market share, was obliged to apply the lowest rate. In the second round of market analysis, the NCA set a glide-path for the following three years that envisaged gradual reductions in termination rates as a result of which asymmetrical termination rates became symmetrical on January 1, 2009. The revised resolution published in December 2008 confirmed the charging of symmetrical termination rates by the three mobile network operators and set a new glide-path envisaging further reductions until December 2010. The harmonization of termination rates introduced on January 1, 2009 in accordance with the NCA's decision has had and continues to have a positive effect on our company even though, as a result of the new EU recommendation of May 7, 2009 on termination rates, it is possible that TMH termination rates will be reduced to a lower level than intended by the NRA by 2012.

Roaming Agreements and Tariffs. TMH may sign roaming agreements with other public mobile telecommunications service operators outside Hungary in accordance with the rules of the GSM Association, an association of GSM operators and associated members. The Roaming Regulation (of the European Parliament and of the Council No. 717/2007/EC) applied specific caps on wholesale and retail international roaming voice charges and set transparency requirements for the provision of roaming tariffs

Table of Contents

to end users. Text messaging and data communications were not covered immediately but are subject to regulatory monitoring. The regulation came into effect on June 30, 2007 but new retail charges (Eurotariff) were applicable from September 30, 2007. As a consequence, our mobile operations in the European Union had to lower their wholesale and retail roaming tariffs, which negatively affected our revenues. On the basis of a price schedule mandated by this EU regulation, further reductions of wholesale and retail roaming prices took place in mid-2008 and in mid-2009. Furthermore, the EU regulation mandated the introduction of additional transparency measures requiring us to make additional investments.

In 2008 and 2009, the European Commission reviewed the development of roaming prices. As a result, voice telephony roaming price caps have been extended for a further two years until the end of June 2012. Roaming Regulation II mandates per second billing after the first 30 seconds of a call, regulates SMS wholesale and retail prices as well as wholesale data roaming prices and has prescribed further transparency rules including a cut-off limit system to be introduced on March 1, 2010. This system requires us to limit data roaming traffic (unless further usage is explicitly allowed by the customer) in order to avoid unexpectedly high invoices. The amended Regulation was published on June 29, 2009. As a consequence, our mobile operations in the European Union had to lower their wholesale and retail roaming SMS tariffs, which have negatively affected our revenues. However, since roaming data services constitute an emerging market, revenues from this segment continue to increase despite regulation.

ORGANIZATIONAL STRUCTURE

MagyarCom, which is fully owned by Deutsche Telekom, owns 59.21 percent of the outstanding ordinary shares of Magyar Telekom.

For a list of principal operating subsidiaries and associates of the Company as of December 31, 2009, see Note 2.2 to the consolidated financial statements.

PROPERTY, PLANTS AND EQUIPMENT

The real estate portfolio of the Company had a book value of HUF 105,197 million at December 31, 2009. Approximately 80 percent of this amount relates to properties of Magyar Telekom Plc.

We have one of the largest real estate holdings in Hungary. We use substantially all of these properties for telecommunications installations, offices, warehouses, garages and shops. Our equipment and machinery primarily consist of switches, communication towers and other telecommunications equipment.

The number of sites used by Magyar Telekom Plc. is approximately 2,500, out of which approximately 21 percent are owned by the Company, 40 percent jointly owned and 39 percent leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have 3,415 base stations, of which five percent is owned by Magyar Telekom Plc. and 95 percent is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2009 was approximately 634,000 m^2. The majority of sites used in our operations are smaller than 100 m^2. Approximately 38 percent of the total area is used to house telecommunications equipment and other technical devices. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m^2.

In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties. For more details on property, plant and equipment, see Note 12 to the consolidated financial statements.

Table of Contents

INFRASTRUCTURE AND TECHNOLOGY

Hungary

The following table provides information on the length of the copper and fiber optic cables contained in Magyar Telekom Plc.'s access, backbone and rural area networks in Hungary at December 31, 2009, and each of the two prior years in kilometers (not including the network of T-Kábel):

	At December 31,		
	2007	2008	2009
	(in kilometers)		
Copper cable	161,457	162,737	166,408
Fiber optic cable	15,454	16,547*	16,092
Fiber optic cable (broadband access)	0	0	2,095

* Including GPON pilot (fiber optic cable for broadband access).

The number of households with access to cable TV in the T-Kábel network increased from 619,754 at the end of 2008 to 655,294 by December 31, 2009, as a result of own development and acquisition.

Expansion of Access Networks. We offer broadband Internet access services, based on ADSL with ATM technologies since 2000. In 2004, we selected Ethernet-based DSLAMs to provide a more cost effective ADSL solution together with the ATM technology already in use. The ADSL transmission system provides high-speed digital access to any data network over existing copper wires without interruption of POTS and ISDN2 services with the data speed of 1, 4, 5, 8 10, 15 and 18 Mbit/s. In 2009, we continued the roll-out of the ADSL technology nationwide. At the end of 2009, more than 629,000 customers were using ADSL lines for connection to the Internet. By the end of 2009, our infrastructure allowed up to two million of our analogue and ISDN2 subscribers to have access to the ADSL service. This represents coverage of over 1,300 towns and cities (potentially approximately 2,870,000 households) in our service area. In 2008, we introduced the VDSL2 technology to provide high-speed data access with data speed of 25 Mbit/s.

We used fiber optic cables (HYTAS access and direct business access network) for our fixed line local loop networks for approximately 125,300 customers at the end of 2009. We installed a substantial amount of local network fiber optic cable in Budapest, where segments of the old cable network were in poor condition and where we believe the demand for high capacity and high quality transmission will be the greatest (e.g., shopping malls, industrial parks).

In accordance with our Next Generation Fix Access Strategy, in 2009 we started to implement a country-wide FTTH (GPON) optical network to cover new business demands in existing areas. As a result, we can fulfill the current and expected customer needs practically without limitation. In Budapest and the surrounding areas, we have started to carry out the DOCSIS 3.0 upgrade of our HFC networks as well.

By the end of 2009, we reached approximately 170,000 households covered by optical network and 370,000 households covered by HFC network with the capability of high speed Internet and IPTV.

We introduced new, attractive services, independent from the two underlying technologies (e.g., HD IPTV). These steps allow us to enter the competition in a very effective way, obtain new customers and increase the market share in the area of broadband services.

We plan to extend our local fiber optic network both inside and outside Budapest to cover new business demands in existing areas, mainly to provide broadband services through optical access as well. In 2010, we plan to increase the coverage of our FTTH access network to more than 240,000 households. We plan to cover 1.2 million households with Next Generation Access Network by the end of 2013, more than 700,000 households of them will be covered by FTTH network.

In 2010, we intend to increase our cable TV coverage through further acquisitions.

Table of Contents

In addition to fixed cable television developments, on November 24, 2008, Magyar Telekom launched its DVB-S service with a high number of channels, covering the whole country, by using the AMOS 3 satellite. On the current platform, in addition to the 80 small-definition television programs, 4 HD TV channels and 3 public radio stations are broadcasting. The T-Home Sat TV became a very popular service in 2009.

Backbone Network. We have a digital fiber optic national long distance network that connects local primary area networks. We have implemented the DWDM technology and SDH systems in both the national long distance and Budapest networks. The countrywide DWDM backbone network provides 24 times 10 Gbit/s capacity in the most important areas of Hungary, as well as in international directions. Between 2001 and 2007, we carried out capacity and geographical extensions of the DWDM network. In the first half of 2008, we established a nationwide Next Generation DWDM express layer network. It provides high capacity (80 times 10 Gbit/s), and a very flexible usability and cost effectiveness solutions (e.g., optical switching, Optical Transport Network functions, L2 (Layer 2) Ethernet functions, 40 Gbit/s channels). Optical cables were installed in TMH's main transmission networks to serve 3G and the core network. In addition to cost advantages, SDH systems provide a flexible transmission infrastructure with automatic transmission paths. We use a new generation of the SDH system that, besides increasing network availability and transmission capacity, enables new services, such as data transmission (e.g., Ethernet). Since we currently have a robust optical backbone network, we have no immediate plans for expansion.

IP/MPLS. Since 2000, we have been providing Internet access and IP-VPN services on the same IP/MPLS platform. The network is built-up of GE and 10 GE connections. The network has several access options (dial-up, leased line, broadband DSL, cable TV, Ethernet) with PoPs in each primary area in Hungary. Available services include L2 VPN, IP-VPN (scalable interconnection for corporate sites with integrated voice and data option), IPSec and xDSL to VPNs, Virtual Private Dial-up Network and wholesale Internet services for ISPs. The connectivity network that concentrates xDSL traffic towards the IP core is based mainly on Ethernet technology, and to a lesser extent, on ATM. In 2007, we developed a carrier-grade IP core network to be able to ensure high availability, demanded quality of service, scalability and security for 3Play, VoIP and broadband data communication services, and also for the common T-Home and T-Mobile IP platform.

In 2008, significant capacity, quality and functional upgrades have been performed, including the development of the countrywide 10 Gbit/s core network, installation of new GE and 10 GE connections, duplications of devices to increase redundancies, and changes of old devices. In addition, QoS was introduced into the IP network in order to efficiently serve the IPTV offerings. Other high-availability features were also installed in order to increase network capacity according to traffic demand, to install new network functions and to develop connectivity and integrity with different communication networks to become an appropriate transport platform for NGN and 3Play services. In 2009, further network capacity upgrades have been performed including new connections and new equipments for PoP redundancy developments and for serving the increasing traffic demands. At the end of 2009, a half-year public testing of the IPv6 protocol has been started involving residential and corporate customers of Magyar Telekom.

The IP core and access network was developed to provide broadband digital video transmission to utilize multicast technology alongside QoS as a wholesale product.

Development of our traditional (such as PSTN/ISDN) networks has been limited to maintenance and legal compliance purposes. The key focus has instead been on development of technologies and networks compatible with or forming a part of NGN, such as VoIP. Voice-over cable TV, Integrated Voice and Data service ("IP Complex Plus") and Voice-over Internet ("KLIP") have been introduced in recent years. An IMS was also installed, which is considered to be the base for future multimedia services to be provided on broadband. The first service on the platform was the geographical number-based PATS. In 2009, we continued to deploy a carrier-grade multi-service NGN, upgraded the IMS, and implemented PSTN

Table of Contents

Emulation on it. The ADS type PSTN switches are replaced by this IMS-based solution. We launched the commercial IPTV service at the end of 2006 and in 2009 it represented coverage of 716 towns with over 67,000 customers. The PSTN replacement with MSAN and IMS has been started in 2009.

Information Technology. We have dedicated a significant amount of resources to improve our information technology systems. We believe that the continuing development of these systems is essential to improving customer service and the efficiency and productivity of our employees.

Our nationwide operational support system integrates the following elements:

- CRM;
- billing, e-billing;
- automated call collection;
- network traffic management;
- workforce and workflow management;
- element, network and service management (configuration, alarm management, SLA management); and
- process controlled technical inventories.

This operational support system environment permits us to focus on our customers' needs, to offer more personalized services, itemized billing, to bundle products and services in price plans and to generate a single bill for customers with multiple locations. We have created the basics of the centralized alarm supervision and the support systems for IPTV, VoIP and XPlay services have been developed and initiated using the legacy systems. We also introduced an automatic trouble shooting support system along the NGOSS conception. We have been operating an automatic establishment support system of NGN services.

2G Network. At December 31, 2009, our GSM network consisted of 2,470 base station sites providing 99.9 percent population coverage. Our EDGE Packet Switched Data Service population coverage reached 87 percent.

UMTS and HS(D/U)PA. The 3G network enables besides rapid data transmission and video-telephone more comprehensive and interesting content than before, including, in addition to image and text, fast transmission of high quality multimedia materials. In August 2005, TMH launched commercial UMTS service, first in Hungary. On May 17, 2006, commercial HSDPA service was launched in the internal districts of Budapest, also as a first operator in Hungary. For the time being, each 3G cell is capable of HSDPA, therefore the UMTS/HSDPA population coverage reached 74 percent by the end of 2009, serving 435 settlements in Hungary. The network allows 7.2 Mbit/s nominal downlink speed and HSUPA is provided with 1.44 Mbit/s as well.

ARCchart prepared a study about Worldwide Mobile Broadband Performance. They found T-Mobile Hungary the best performing mobile broadband network with the highest average download throughput. The study is based on over two million individual test readings, from 268 wireless networks in 103 different countries worldwide. The measurements were performed from August 2008 until June 2009 by iPhone, Android and Blackberry user equipment. The study confirms Magyar Telekom's innovations and efforts spent to 3G/HSDPA network development.

Macedonia

Makedonski Telekom endeavors to maintain its network at a high technological level in order to support strong growth of broadband services.

Table of Contents

The PSTN/ISDN network in the Republic of Macedonia has been fully digitalized since the end of 2003. The liberalization of the telecommunications market required Makedonski Telekom to perform a substantial upgrade of the PSTN/ISDN platform. With the upgrade, switching systems are able to support carrier selection and pre-selection functions. Implementation of the new IMS platform is planned for 2010.

Makedonski Telekom's primary area networks are connected to the fiber optic national long distance network. The SDH technology has been implemented in the backbone network, in the transmission networks in Skopje and other cities in the country. For connection of Remote Subscriber Units, PDH equipment is used as well. DWDM backbone and metropolitan network in Skopje was implemented in 2008. In 2009, extension of interfaces was made in order to support increased traffic demands.

The existing copper-wire network is used as the basis for providing broadband services based on DSL technologies. Starting from 2008, in order to support higher speed of Internet packages and introduction of IPTV, ADSL2+ technology is used. In 2009, the ADSL Central Office equipment was extended in terms of capacities and coverage according to the forecasted number of customers. In addition, capacities of aggregation links that are considered as a bottleneck in the network are upgraded.

For connection of business customers, Metro Ethernet equipment is used. Key business customers are connected to the network with optical cables. In 2009, a new project was established to start migrating TDM-based ILLs and VPNs towards IP based solutions. The migration is done using existing copper infrastructure with implementation of EFM modems as well as using optical infrastructure via Ethernet aggregation switches and Ethernet optical demarcation devices.

In 2008, IP/MPLS backbone network was redesigned and in 2009, it was extended.

Makedonski Telekom launched 3Play offers in November 2008. In order to achieve this, during 2008, new equipment (e.g., Head-end, IPTV platform) was installed and necessary configuration of the existing access and transport network was made. During 2009, Head end equipment was extended for additional number of channels and new applications were developed.

In order to prepare the network for prospective high bandwidth services, and to provide a solid basis against competition, Makedonski Telekom started the implementation of FTTH in 2009. We installed GPON equipment and built fiber optic infrastructure in few areas in Skopje.

T-Mobile Macedonia has built a high quality and high capacity network that meets the requirements and needs of its growing subscriber base. In 2009, 3G access technology was introduced in the network.

At the end of 2009, the 2G radio access network consisted of 710 base stations providing 99.9 percent population coverage.

In 2009, we performed a technological and functional upgrade on our rating and billing platforms as well as on our customer service systems to provide a solid basis for implementing tailor made services and integrated fixed and mobile offers.

T-Mobile Macedonia has the capability to host the third mobile entrant in the local market, with the national roaming arrangement, and is offering convergent fixed and mobile services through the whole process from providing services to invoicing for these services, while simultaneously enforcing its capabilities for even more business processes automation, as well as data security and availability.

In addition, T-Mobile Macedonia has developed infrastructure to enable number portability in the local market complying with the local regulation.

Table of Contents

ENVIRONMENT PROTECTION

The management committee of Magyar Telekom adopted the Sustainability Strategy of the Company in January 2005 to strengthen our commitment to sustainable development.

As a part of our commitment to sustainability, we developed a sustainability section for Magyar Telekom's website (http://www.telekom.hu/society_and_environment/sustainability_reports). This section includes our reports and news relating to sustainability and discusses our philosophy and approach to sustainability.

ITEM 4A UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read together with the consolidated financial statements, including the accompanying notes, included in this annual report. The consolidated financial statements, the accompanying notes as well as the discussion of results presented below have been prepared in accordance with IFRS. Revenues and operating expenses discussed under " Results of Operations By Segment" do not reflect intersegment eliminations.

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to "Forward-Looking Statements" and "Item 3. Key Information Risk Factors" for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this annual report.

MANAGEMENT OVERVIEW

General

In 2009, our business operations suffered significant adverse effects throughout the year due to the continued economic and financial crisis which led to a decline in the demand for telecommunications services. This trend was reflected in declining prices and higher churn rates, both in our consumer and business segments. In addition, competition in our core markets remained very strong. Nevertheless, due to strategic initiatives introduced in 2008 and over the course of 2009, we were able to mitigate some of these adverse effects.

Our efforts to position Magyar Telekom as a truly integrated 3Play service provider both on the fixed line and mobile networks have allowed us maintain, and in some cases, increase our core market positions in 2009. In line with our 'One Company' approach, we have also made further significant steps to streamline our organization and increase efficiency and have implemented several cost control measures in order to preserve our profitability during the crisis. However, we remain committed to our strategic investments, such as the new generation access network and the 3G mobile network rollout, given the importance of these initiatives to ensuring long-term competitiveness of our business.

Despite our efforts, however, we were not able to completely counterbalance the general decline in economic activity. The difficult macroeconomic environment and intense competition in our markets led to a 3.1 percent decline in our revenues in 2009 compared to 2008 (excluding the reversal of a HUF 8.5 billion provision booked on F2M termination fees in 2008 as described under "Operations Review Group Revenues Fixed Line Revenues Voice-retail revenues" below), which was somewhat greater than targeted. However, due to cost control measures implemented during 2009, both Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") excluding special influences (i.e., investigation-related costs and severance expenses) and the one-off item related to the F2M provision reversal and our capital expenditure ("capex") figure were slightly better than targeted.

In 2009, we introduced a new reporting structure to reflect the shift in our organizational structure towards customer-focused segments. Our Consumer Services Business Unit (CBU) offers both fixed line and mobile voice and data and broadcasting services to residential customers. The business unit reported a six percent revenue decline in 2009 as customers continued to rationalize their telecommunications spending. In addition, the crisis accelerated the fixed line business transformation from a standalone service providing fixed line voice to one focused on broadcasting, content and bundled offerings.

Following the 2008 rebranding of our fixed line business to T-Home and the launch of our nationwide satellite TV service, we strengthened our focus on the bundled products, which were well received by customers. As a result, we have significantly improved our position in the TV market, becoming the number two Hungarian pay TV provider by the end of 2009. Meanwhile, we maintained our leading position in the broadband Internet market and migrated a considerable number of voice-only customers to 2Play and 3Play packages, mitigating the revenue and profit loss from traditional voice services. We will maintain this strategy going forward and are confident that Magyar Telekom is well placed to maintain its position as Hungary's leading 3Play telecommunications service provider. This strategy will also be supported by our intention to remain a strong competitor in the TV market, which we believe is achievable through continuous fiber network rollout, cable network upgrades and new content provided via our own TV channels.

Our CBU mobile business has also faced a challenging 2009. The economic crisis caused customer churn rates to increase significantly while market penetration and usage declined. As a result, the voice business came under pressure, though dynamic growth in the mobile Internet business continued. Our high quality 3G network ensured that the number of mobile Internet subscribers increased significantly in 2009, bringing Magyar Telekom's market share at the end of the year to 46 percent. The SIM based market penetration declined to 117.7 percent. T-Mobile was able to maintain its position as market leader. 2009

also saw an increased focus on bundled services in the mobile business. We introduced several new bundled voice, SMS, mobile broadband Internet and mobile TV packages, which were well received by our customers despite the negative external environment.

Our Business Services Business Unit provides integrated information and telecommunications services, voice, data, Internet, system integration and information technology to business customers. This business unit was also negatively affected by lower demand caused by the economic recession. As a result, revenues declined by five percent, driven by significant erosion of traditional voice service revenues, while mobile voice service revenues also came under pressure. In response to the negative economic environment, BBU continued to execute its strategy of simplifying its organizational structure in order to support the convergence process between SI/IT and traditional telecommunications services. We also introduced a new virtual service portfolio which enables customers to use IT services (such as hosted mail, voice conference, desktop sharing or remote server) on a monthly rental fee basis, without having to commit any investment. As a measure aimed at strengthening our market leading SI/IT presence, we completed two acquisitions in 2009. These acquisitions will enable us to capitalize further on up- and cross-selling opportunities and enter new markets, such as integrated healthcare IT services.

Our organizational changes also extended to our media business in 2009. Our aim here is to focus our attention on media, content and new businesses by merging our strategy and corporate development functions. In line with our strategy to provide broadband access at home and on the move, we intend to provide attractive content to support telecommunications access services. Consequently, we launched two new thematic TV channels in 2009 and intend to build on our market leading webpage, [origo], and the largest Hungarian social network, iWiW. In addition, we are striving to improve and develop new content for mobile subscribers to enhance customer experience.

In terms of technology, we are continuously improving our existing networks and rolling out state of the art, new networks, both in the fixed line and mobile segments. As a result of our efforts, T-Mobile Hungary now has the best global 3G mobile network, according to independent research in 2009. We are progressing with our 5-year new generation access network rollout program in the fixed line business. By the end of 2009, we had already covered 170,000 households with our fiber-to-the-home network and completed the hybrid-fiber-coax network upgrade covering close to 370,000 households.

2009 was not an easy year for our international subsidiaries either. Not only did the macroeconomic environment deteriorate significantly, but competition remained strong and in some cases intensified. In Macedonia, fixed line market liberalization created stronger competition which directly affected our business performance. The effect of alternative operators and one of the mobile operators' fixed line offers are pronounced in Macedonia and have resulted in significant pressure on our revenues. In Montenegro, mobile substitution was the primary driver behind the decline in usage and revenue pressure in the fixed line segment. However, broadband sales registered impressive growth rates in both countries and our subsidiaries started to focus on bundling fixed line voice services with IPTV and broadband Internet to mitigate to negative economic impacts on traditional voice revenues. In response to the negative external environment, both subsidiaries launched several cost cutting initiatives to improve profitability.

Our international mobile revenues showed some increase despite the recession; however, the rate of increase slowed down and effective per minute prices dropped significantly. Our financial performance came under pressure, especially in Montenegro, where tourism suffered due to the economic crisis. Nevertheless, in Macedonia T-Mobile preserved its market leading position, whilst in Montenegro total market share and postpaid leadership were maintained despite the very intense competition in this segment. In addition to voice services, in both countries T-Mobile now offers a 3G mobile broadband Internet service. As network rollout progresses, we expect the number of customers to grow considerably.

Dividend

The Board of Directors proposed a HUF 74 per ordinary share dividend distribution to be approved by the Annual General Meeting of the Company on April 7, 2010.

Basis of presentation

The Consolidated Financial Statements of Magyar Telekom have been prepared in accordance with IFRS as issued by IASB.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

As a result of the findings of the Investigation (See Item 3 Risk Factors), we identified three consultancy contracts, the payments of which were erroneously capitalized as part of the goodwill arising on the original acquisition of Makedonski Telekom in 2001 and the goodwill arising on Makedonski Telekom's repurchase of ten percent of its shares in 2006. These amounts are now corrected and accounted for as though these payments had been expensed in 2001 and 2006 rather than capitalized as part of goodwill as originally reported.

In addition to the above, the other contracts that were identified by the Final Report, for which the available evidence does not establish that the contracts under which these expenditures were made were legitimate, were expensed in 2001-2006, which require no restatements on their own. However, depending on further analysis, these contracts will probably qualify as non-deductible expenses for tax purposes. As the timing and the amount of the potential tax impacts and any penalties related to these taxes are uncertain, these were provided for retrospectively as at December 31, 2006, which also had an impact on the balance of Non-controlling interests.

The Group adopted IFRS 8 in 2009, which resulted in a significant restructuring of the Group's segment disclosure. In 2008, the Group restructured the way the chief operating decision makers decide on the allocation of resources, which is different from the primary segments of the Group reported as per IAS 14 in previous years. See further descriptions of our segment policies in Notes 2.1.1, Note 2.20 and Note 31 to the Consolidated Financial Statements.

We established our current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's operating segments in Hungary are: Consumer Services Business Unit, Business Services Business Unit, Media Business Unit, Group Headquarters and Technology Business Unit. In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments. Of these segments, Media Business Unit has not qualified as a reportable segment, therefore, it is included in "All other" in the reconciliations of the reportable segments' totals.

The movement of HUF against the Macedonian Denar ("MKD") and EUR can significantly affect all revenue and expense lines at our Macedonian and Montenegrin subsidiaries.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. Reported financial conditions and results of our operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements.

Critical accounting estimates are defined as accounting estimates and assumptions where:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

We base our estimates on historical experience and on various other assumptions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements.

For a list of our critical accounting estimates and judgments, see Note 4 to the consolidated financial statements.

Recent Accounting Pronouncements

We have reviewed the new standards, amendments and interpretations to existing standards that have been published but which are not yet effective and have not been adopted by the Group prior to their effectiveness. For a list of recent IFRS accounting pronouncements, see Note 2.1.3 to the consolidated financial statements.

Outlook

The telecommunications industry is undergoing a major change globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. Key drivers of the long-term trends include changes in technology (i.e., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (i.e., increase in mobile usability of content services and terminal devices, 4Play solutions, growing need for customized content), competition and regulation (i.e., low entry barriers, new business models, telecommunications and media broadcast industry convergence).

To adapt to these changes in the market, we have redefined the focus areas of our corporate strategies to better exploit our position as an integrated telecommunications operator with a full range of services, as well as to ensure our long-term competitiveness. Our strategies are designed to enable us to exploit and develop our extended customer base, significantly improve efficiency and capture growth opportunities.

Magyar Telekom's current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless the behavior of our competitors cannot completely be predicted. Therefore a stronger than assumed impact of alternative operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

We should emphasize that each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. The peak of the global economic crisis has passed, but the recovery is expected to be slow, particularly in Hungary. After the 7 percent GDP decline in 2009, analyst and government forecasts do not show growth for 2010. The unemployment rate remains very high, above 10 percent.

In order to secure the balance of the budget, the government implemented several measures and planning to decrease the deficit to 3.8 percent to the GDP in 2010. The most negative effect of these measures on our business was the 5 percentage point increase of VAT, effective from July 2009. The

business sector was also hit by the heavy spending cuts in every governmental sector. Regarding the generation of cash flows, despite the restrictive government measures and negative business environment, we expect that our core business units will be able to offset the EBITDA decline by savings in capex and other cash flow elements, e.g., working capital, and generate cash flows close to 2009 levels.

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in "Item 3 Risk Factors".

Revenues

The following reflects our current expectations with respect to our plans and initiatives:

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution. The weakening demand as a result of restrictive government measures (especially the VAT increase) is expected to increase churn rates, as more customers currently holding both fixed and mobile subscriptions give up their fixed lines entirely. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from pure voice offers to integrated 2Play and 3Play plans, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Fixed line interconnection tariffs are expected to be further reduced in 2010 and in the years after, which will have an additional negative impact on our fixed line revenue stream.

As the leading broadband provider in Hungary, we are committed to accelerating growth in country-wide broadband penetration by applying a multi-access cost-efficient approach.

We aim to move further toward content and media services to support traditional access services, build new revenue streams and exploit new revenue sources. We are combining our product portfolio in order to provide all services for every customer demand on every platform (3Screen approach), where all customer screens (computer, mobile, TV) are provided by Magyar Telekom.

From the above mentioned three platforms, TV remains the key driver of the fixed market. We have the technical capabilities (cable, IP, DVB-S) to reach every potential customer. In 2009, we significantly increased Revenue Producing Customers ("RPC") above the market, as a result, we gained additional market share. We are targeting further growth in 2010; however margins are under pressure due to heavy competition. To strengthen our position in the TV market, we launched two channels ("green" channel and lifestyle) in 2009, and are planning to add more channels in 2010 depending on market conditions.

In mobile operations in Hungary, market penetration is now saturated, and we expect flat development in the following year. We expect further growth in mobile broadband and the future growth potential of value-added and data services, which is supported by the continuing roll-out of UMTS and HSDPA services.

In December 2008, the NCA required a decrease in mobile termination fees for the networks of all three Hungarian mobile operators in three steps, starting from January 2009 until December 2010, by approximately 40 percent compared to rates applied in 2008.

To maintain sustainable competitiveness in the corporate sector, we have committed to further developing our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing through consultant services to corporate customers. Expanding our business operation to these new areas with lower profitability has a dilutive effect on the company's profitability both on fixed line segment and Magyar Telekom Group level.

In Macedonia, competition is increasing both in the fixed line and mobile segment. Main competitors in the fixed line segment, Telekom Slovenia and two major cable TV operators (Telekabel and CableTel), are targeting the retail voice market with 3Play offers, aggressive pricing and marketing communication.

Our fast growth in fixed broadband, the roll-out of new platforms (FTTx) and combined fixed-mobile products can only partially offset the decline in fixed voice revenues.

We also expect more intensive regulatory measures in Macedonia in the future. Beside currently existing obligations (RIO, RUO, Naked DSL, Number portability, Cost-based pricing, Accounting separation, Access to specific network elements, WLR, Wholesale digital leased line, Minimal set of leased lines, Bitstream access), new regulations will take effect in the following areas: asymmetric termination, control of retail price. Further decline in wholesale fees (e.g., IC, leased lines, WLR) are also expected.

In the mobile segment the competition is also very strong with three players in the Macedonian market. Mobile voice revenues are also expected to be under pressure due to this competition. Fast growth of mobile broadband is expected based on the new 3G technology. The government is still trying to increase further competition, although the tender for a third 3G license in 2009 failed due to lack of interest.

In Crnogorski Telekom, we are also expecting difficulties due to competition and regulation in the near future. The fixed wholesale revenues have been the most impacted by regulatory actions (reducing international termination rates to national level), while mobile revenue is also expected to decline due to gradual termination fee cuts. Growth in fixed and mobile broadband cannot entirely compensate the losses in the voice market. Competitors are also putting pressure on prices with 2Play and 3Play offers.

In the Montenegrin market, the new cost-based wholesale pricing model will be introduced in 2010. As a result, fixed, mobile and international termination fees are expected to decline.

Expenses

We are entirely committed to improving internal operational efficiency in all business segments. To accomplish our goals despite the intensifying competitive environment, the decreasing revenue potential will be compensated with strict cost control. In 2009, a new group-wide efficiency project was launched: Save for Service ("S4S"). This multi-year project yielded substantial savings already in 2009, and will be continued in the coming years.

We also would like to exploit the synergies coming from integrated fixed and mobile operation. In 2010, we are planning synergy projects in several areas with the main goal to further unify the activities and increase efficiency.

We have reached an agreement with trade unions on wage development, headcount reduction and decreases in additional employee allowances at the parent company level for 2010. The key elements of the agreement are the following: reduction of headcount by 400 in addition to executive termination and retirement, no wage increase but 1.5 percent bonus budget set (significantly below inflation) and gradual reduction of surplus severance payments in the Collective Agreement. These measures will reduce our Total Workforce Management ("TWM") related costs.

In line with world market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices, above the inflation level. We expect energy prices to remain high in 2010, impacting us negatively.

Total investments in tangible and intangible assets

Compared to 2009, the key priorities of capex spending have not changed for 2010. Investments in new products and platforms (DVB-S, FTTx) remain our key strategic goals although the overall investment level is decreasing. We will also continue the roll-out of the UMTS and HSDPA infrastructure by building new base stations, but the total investment will decrease in that area.

We will increase investments in the IT area to reach our goals to become ICT leader in Hungary, while expansion into new segments will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority for 2010 and beyond is the successful implementation of new CRM system. We are targeting the complete overhaul of the current customer management of the Company. The goals of the project include not just the replacement of the outdated billing systems but to bring a new approach to the entire customer management process by integrating fixed and mobile portfolios.

According to our strategic directions, we are committed to further strengthening and leveraging our presence in the South-East European region. Therefore, we are continuously seeking further value-creating acquisition and investment targets.

Revenue and EBITDA targets

Our revenues, excluding the F2M provision reversal in 2008, declined by 3 percent in 2009, somewhat greater than what was originally targeted. At the same time, however, thanks to cost control measures which we implemented during 2009, both EBITDA excluding special influences and one-off items, with a decrease of 4 percent, and capex of HUF 102 billion were slightly better than targeted.

Looking ahead to 2010, we expect continued pressure on consumer spending due to high unemployment and restricted wage growth. At the same time, unfavorable trends in the corporate segment are likely to continue this year, putting pressure on our top-line performance. In addition, a stronger forint compared to average 2009 exchange rates may have an adverse impact on our results by negatively affecting contributions from our international subsidiaries. As a consequence, we are targeting a revenue and an underlying EBITDA decline of 5-7 percent for 2010, with the latter reflecting our changing revenue structure. Whilst in 2010 we are aiming to achieve further efficiency improvements across the Group, the positive impacts on EBITDA might be offset by the accelerated decline of the high margin voice revenues and parallel increase of revenues with lower EBITDA margin content. However, the higher portion of SI/IT revenues in the overall mix should allow us to reduce our capex, with 2010 levels expected to be approximately 5 percent lower compared to 2009 spending. We are continuously monitoring the economic environment and its impact on our business and we will communicate to the market any changes to our previously announced targets if and when our assessment of our outlook changes due to developments in the economic environment.

Table of Contents

OPERATIONS REVIEW GROUP

Revenues

The following table sets forth information regarding our revenues:

	Year ended December 31,			Year ended December 31,	
	2007	2008	2009	2008/2007	2009/2008
	(in HUF millions)			(% change)	
Fixed line revenues	309,333	299,895	274,080	(3.1)	(8.6)
Mobile revenues	325,767	331,765	325,996	1.8	(1.7)
SI/IT revenues	41,561	41,396	43,913	(0.4)	6.1
Total revenues	676,661	673,056	643,989	(0.5)	(4.3)

Fixed Line Revenues

The following table sets forth information regarding our fixed line revenues:

	Year ended December 31,			Year ended December 31,	
	2007	2008	2009	2008/2007	2009/2008
	(in HUF millions)			(% change)	
Voice-retail	159,772	151,033	128,133	(5.5)	(15.2)
Voice-wholesale	30,319	21,494	21,322	(29.1)	(0.8)
Internet	57,796	59,823	55,089	3.5	(7.9)
Data	27,440	28,839	30,762	5.1	6.7
TV	18,102	18,830	23,753	4.0	26.1
Equipment	5,395	7,058	4,745	30.8	(32.8)
Other fixed line revenues	10,509	12,818	10,276	22.0	(19.8)
Total fixed line revenues	309,333	299,895	274,080	(3.1)	(8.6)

Table of Contents

The table below sets forth information regarding total revenue generating fixed access lines in Hungary, Macedonia and Montenegro:

	Year ended December 31,			Year ended December 31,	
	2007	2008	2009	2008/2007	2009/2008
				(% change)	
Number of fixed lines at Magyar Telekom Plc. (including Emitel)					
Residential	1,779,039	1,595,517	1,387,609	(10.3)	(13.0)
Business	217,030	204,839	190,248	(5.6)	(7.1)
Payphone	19,466	16,284	14,801	(16.3)	(9.1)
Total	2,015,535	1,816,640	1,592,658	(9.9)	(12.3)
ISDN channels	436,442	419,754	383,952	(3.8)	(8.5)
Total	2,451,977	2,236,394	1,976,610	(8.8)	(11.6)
Number of fixed lines at Makedonski Telekom					
Residential	386,369	356,082	305,806	(7.8)	(14.1)
Business	35,143	34,864	31,443	(0.8)	(9.8)
Payphone	2,015	1,692	1,218	(16.0)	(28.0)
Total	423,527	392,638	338,467	(7.3)	(13.8)
ISDN channels	37,602	38,598	34,766	2.6	(9.9)
Total	461,129	431,236	373,233	(6.5)	(13.5)
Number of fixed lines at Crnogorski Telekom					
Residential	148,111	144,897	140,591	(2.2)	(3.0)
Business	19,193	18,532	18,241	(3.4)	(1.6)
Total	167,304	163,429	158,832	(2.3)	(2.8)
ISDN channels	18,896	18,806	18,058	(0.5)	(4.0)
Total	186,200	182,235	176,890	(2.1)	(2.9)

Voice-retail revenues

Voice-retail revenues consist of revenues from subscriptions, domestic and international outgoing traffic revenues as well as value-added and other services revenues.

Fixed line voice-retail revenues decreased both in 2008 and 2009, mainly driven by lower subscription fees and outgoing traffic revenues at Magyar Telekom Plc. due to a decreased customer base and lower usage resulting mainly from mobile substitution and wider use of flat-rate price plans.

Subscriptions. Revenues from subscriptions consist of revenues from monthly subscription fees for price plans. Revenues from subscriptions are principally a function of the number and mix of residential, business and ISDN access lines and corresponding charges. The decrease in subscription revenues in 2008 and in 2009 was mainly due to lower revenues in the Hungarian fixed line operations driven by lower average number of fixed line subscribers. Lower subscription revenues at Makedonski Telekom were also driven by declining average PSTN customer base.

Domestic outgoing traffic revenues. Domestic outgoing traffic revenues consist of traffic charges for local, domestic long distance and fixed line to mobile calls placed by our subscribers. Domestic outgoing traffic revenues are a function of rates, the total number of telephone calls, the distribution of call duration, the time of day and the mix between more costly domestic long distance or fixed line to mobile calls and less expensive local calls.

Table of Contents

The following table sets forth the total minutes of domestic telephone traffic that our fixed line subscribers generated, including calls from the fixed line network to mobile subscribers:

	Year ended December 31,			December 31,	
	2007	2008	2009	2008/2007	2009/2008
	(in thousands of minutes)			(% change)	
Magyar Telekom Plc. (including Emitel)	4,518,428	4,020,941	3,520,251	(11.0)	(12.5)
Makedonski Telekom	1,377,659	1,194,717	876,761	(13.3)	(26.6)
Crnogorski Telekom	379,341	324,603	300,902	(14.4)	(7.3)

Domestic outgoing fixed line traffic revenues remained at the same level in 2008 as compared to 2007 since the increase in F2M outgoing traffic revenues due to the reversal of HUF 8.5 billion provision booked on F2M termination fees in June 2008 (described below) was offset by lower local and long distance outgoing traffic revenues.

Pursuant to a decree, we had the obligation to decrease the F2M tariffs of the universal services subscribers by the amount of the decrease in the F2M termination rates. We did not fulfill this obligation because the mobile operators referring to their lawsuits against the NCA resolutions did not, from a legal point of view, decrease the F2M termination rates, in their interconnection agreements with us.

The NCA called upon us to repay the difference to our universal customers regardless of the status of the above legal cases. In August 2008, the negotiations with NCA resulted in a positive conclusion, whereby the NCA accepted our arguments that albeit other forms of compensation, we had already passed on the required discounts to the customers. Even though the NCA conclusion was limited to the year 2005, based on the NCA's reasoning for the relief, we believe that we passed on the required discounts to our customers in the subsequent years of 2006-2008 as well. As a result of the above, we believed that the recognition of the provision was no longer necessary, and released to revenues the total amount of the HUF 8.5 billion provision recorded in prior years.

This increase in the F2M outgoing traffic revenues was offset by lower average per minute fees, lower usage and loss of fixed line customers mainly due to mobile substitution.

The decrease in domestic outgoing fixed line traffic revenues in 2009 reflects primarily the previously mentioned reversal of the provision booked on F2M termination fees in June 2008. In addition, further declines in the number of revenue producing PSTN lines and decreasing traffic led to lower domestic outgoing traffic revenues in Hungary. We offered several price discounts to customers choosing different price plans. The proportion of flat-rate price plans was 27.9 percent within the total PSTN customer base of Magyar Telekom Plc. at December 31, 2009.

Domestic outgoing traffic revenues decreased also at Makedonski Telekom and Crnogorski Telekom throughout the period primarily due to lower usage and price discounts as a consequence of increasing mobile substitution. In 2009, the significant weakening of the HUF against the MKD and the EUR on average partly mitigated these decreases.

International outgoing traffic revenues. International outgoing traffic revenues are a function of rates and the number, duration and mix of calls placed by our fixed line subscribers to destinations outside Hungary in the case of Magyar Telekom Plc., outside Macedonia in the case of Makedonski Telekom and outside Montenegro in the case of Crnogorski Telekom.

Table of Contents

The following table sets forth information concerning outgoing international traffic[(1)]:

	Year ended December 31,			Year ended December 31,	
	2007	2008	2009	2008/2007	2009/2008
	(in thousands of minutes)			(% change)	
Magyar Telekom Plc. (including Emitel)	85,270	73,746	64,946	(13.5)	(11.9)
Makedonski Telekom	24,726	22,481	18,527	(9.1)	(17.6)
Crnogorski Telekom	66,759	53,202	47,386	(20.3)	(10.9)

(1) Excludes minutes from calls placed by subscribers of other local telephone operators and mobile service providers. Our revenues relating to these calls are included in revenues from domestic incoming traffic.

International outgoing fixed line traffic revenues decreased both in 2008 and 2009 at Magyar Telekom Plc. and also at our foreign subsidiaries resulting from lower volume of minutes and loss of lines.

Value-added and other services. Revenues from value-added and other services consist of fees for digifon services and directory assistance.

Value-added and other services revenues declined both in 2008 and 2009 primarily driven by lower revenues at Magyar Telekom Plc. due to lower usage of value-added services (e.g., directory assistance, premium rate numbers).

Voice-wholesale revenues

Voice-wholesale revenues consist of domestic and international incoming traffic revenues.

Fixed line voice-wholesale revenues decreased by 29.1 percent in 2008 compared to 2007 driven by significant decreases both in domestic and international incoming traffic revenues. Domestic incoming traffic revenues declined mainly at Crnogorski Telekom, due to lower revenues from Promonte (the largest mobile service provider in the Montenegrin mobile market) as from the end of January 2008 Promonte has had its own direct network connected to Telekom Serbia. Traffic revenues from mobile and fixed line operators decreased also at Magyar Telekom Plc. mainly due to lower traffic and lower tariffs. International incoming revenues decreased in 2008 compared to 2007 primarily at Magyar Telekom Plc. driven by the change in how wholesale transit traffic is settled. From January 1, 2008 Deutsche Telekom became the sole international voice partner of Magyar Telekom and consequently, Magyar Telekom does not have international wholesale transit revenues from other foreign carriers any more. Lower international incoming traffic revenues at Makedonski Telekom resulted mainly from decreased incoming international traffic. The decrease in international incoming traffic revenues at Crnogorski Telekom was driven by the ceasing of transit traffic from Serbia as from the end of January 2008 Promonte has had a direct link with Telekom Serbia.

Fixed line voice-wholesale revenues remained almost at the same level in 2009 compared to 2008.

Internet revenues

Internet revenues of the fixed line operations grew in 2008 as compared to 2007 mainly due to the strong increase in the number of ADSL connections at our Macedonian and Montenegrin subsidiaries.

In 2009, Internet revenues declined primarily in Hungary as the broadband volume increase could not fully compensate the effect of lower prices as a result of fierce competition. Since the rebranding in September 2008, as a result of increased competition, there has been a strong trend towards consolidation of services into 2Play and 3Play plans at lower price levels. Lower narrowband Internet revenues were driven by a decreased narrowband subscriber base and the decline in dial-up traffic. Lower advertisement revenues as a result of the economic crisis also contributed to the decrease in Internet revenues in 2009.

Table of Contents

These decreases were slightly offset by an increase in the number of ADSL connections at our foreign subsidiaries.

The following table sets forth information concerning broadband customer figures in Hungary, Macedonia and Montenegro:

Year ended December 31,	Year ended December 31,