Magyar Telekom Plc.
Form 6-K
March 18, 2010

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

Report on Form 6-K dated March 18, 2010

Magyar Telekom Plc.

(Translation of registrant s name into English)

Budapest, 1013, Krisztina krt. 55, Hungary

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and those of Magyar Telekom Group prepared in accordance with IFRS, included in this Form 6-K are in the draft form submitted to the shareholders of the Company in advance of the Annual General Meeting to be held on April 7, 2010 for their review and approval at the Annual General Meeting. The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and those of Magyar Telekom Group prepared in accordance with IFRS will be published in accordance with applicable Hungarian laws and stock exchange requirements following the Annual General Meeting.

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Information to the Annual General Meeting of Magyar Telekom Plc. to be held on April 7, 2010 in accordance with Section 304 (1) of the Companies Act and Section 5.1. of the Articles of Association

1. Summary to Agenda Item 1 (Decisions regarding the resolutions adopted by the April 25, 2008 Annual General Meeting of the Company that have been rendered ineffective by the Metropolitan Court)

Concerning the resolutions adopted by the April 25, 2008 Annual General Meeting of the Company that have been rendered ineffective by the Metropolitan Court, if the given resolutions must remain effective and enforceable in the future, they have to be adopted again. Certain resolutions will not have a legal effect in the future, however, the actions taken on the basis of these resolutions have to be confirmed and approved so that the Company excludes or minimizes the possibility of any further legal disputes.

The financial results of the Company and the Group in the 2007 fiscal year are as follows:

	in million HUF	
	Magyar Telekom Plc. (HAR)	**Magyar Telekom Group (IFRS)**
Total Assets	942,877	1,135,578
Long-term Assets	842,584	903,991
Short term Assets	68,160	231,587
Common Stock	104,275	104,275
Total shareholders equity	412,697	514,998
Long-term Liabilities	309,062	330,867
Short-term Liabilities	147,453	223,018
Sales Revenues	499,909	676,661
Profit for the year (IFRS)		73,056
Balance sheet profit (HAR) (before the proposed dividends)	35,634	
Balance sheet result (HAR) (after the proposed dividends)	0	

The Board of Directors proposes that the General Meeting should repeatedly approve the 2007 Annual Report of Magyar Telekom Plc. prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 942,877 million, and HUF 35,634 million After-tax Net Income.

The Board of Directors proposes that the General Meeting should repeatedly approve the 2007 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS), including Balance Sheet Total Assets of HUF 1,135,578 million and Profit after tax for year 2007 HUF 73,056 million (before the deduction of HUF 12,901 million attributable to minority interests).

Key data of the report of the Supervisory Board:

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

Based on its findings in the course of the continuous monitoring of the business operations of the Company and the Magyar Telekom Group the Supervisory Board recommends that the General Meeting should:

- approve the Y2007 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR) with the Balance Sheet Total Assets and After-tax Net Income as proposed by the Board of Directors,

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- approve the Y2007 Consolidated Financial Statements of the Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) with the Balance Sheet Total Assets and Profit after tax as proposed by the Board of Directors,

- accept the proposal of the Board of Directors on the dividend payment,

- approve the Corporate Governance Report for 2007.

Resolution proposals:

The General Meeting repeatedly approves the 2007 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards, with a Balance Sheet Total of HUF 1,135,578 million and Profit after tax for year 2007 HUF 73,056 million (before the deduction of HUF 12,901 million attributable to minority interests).

The General Meeting repeatedly approves the 2007 Annual Financial Statements of the Company prepared according to the Hungarian Accounting Regulations (HAR), with a Balance Sheet Total of HUF 942,877 million and After-tax Net Income of HUF 35,634 million.

The General Meeting has reviewed and repeatedly approves the Corporate Governance and Management Report of the Board of Directors of Magyar Telekom on the financial year of 2007.

(Extract: the Corporate Governance and Management Report contains among others: (i) brief presentation of the operation of the Board of Directors, and a description of the division of responsibility and duties between the Board and the executive management, (ii) introduction of the members of the Board of Directors, the Supervisory Board and the executive management, description of the structure of committees, (iii) number of meetings held in the relevant period by the Board of Directors, Supervisory Board and committees, (iv) presentation of viewpoints considered when evaluating the work of the Board of Directors, the Supervisory Board, the executive management, (v) report on the operation of different committees, (vi) presentation of the system of internal controls and the evaluation of the activity in the relevant period, report on the efficiency and effectiveness of risk management procedures, (vii) information on whether the auditor has carried out any activities not related to auditing, (viii) synoptic presentation of the company s disclosure policy, and its policy on trading by insiders, (ix) synoptic demonstration of the methods of exercising shareholders rights, (x) brief presentation of rules on the conducting of the General Meeting, (xi) remuneration statement and, (xii) declaration of the Company on compliance with the Corporate Governance Recommendations.)

The General Meeting, having evaluated the work of the Board members of the Company, repeatedly decides on granting the relief from liability for the Board members of the Company with respect to the 2007 business year in accordance with Section 30 (5) of Act IV. of 2006 on Business Associations. The evaluation and the relief from liability granted by this resolution shall not apply to the liability of the Board members arising from their gross negligence or willful misconduct.

A dividend of HUF 74 per ordinary share (with a face value of HUF 100) shall be paid to the shareholders from the profit of 2007.

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

The General Meeting confirms and approves that according to the assignment given by the Company the commencement of dividend payment by KELER Zrt. as of May 27, 2008 and the usage of HUF 35,633,509,239 from the net income according to HAR and HUF 41,418,404,237 from the profit reserve by the Company to pay the total sum of HUF 77,051,913,476 for dividends.

The General Meeting acknowledges that on May 5, 2008 the Board of Directors of Magyar Telekom Plc. published a detailed announcement on the order of dividend disbursement in the following newspapers: Magyar Hírlap, Népszava and Világgazdaság, as well as on the homepage of the Company and the Budapest Stock Exchange.

The General Meeting repeatedly approves the amendment of Section 1.4. of the Articles of Association in line with the submission.

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

The General Meeting repeatedly approves the amendment of Section 1.6. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 1.8. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 4.5. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 5.1., 6.2. (i), 7.4.1. (b) and 8.3. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 7.6. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 8.4.5. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 8.7. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amendment of Section 15.2. of the Articles of Association in line with the submission.

The General Meeting repeatedly approves the amended and restated Rules of Procedure of the Supervisory Board with the modifications set out in the submission. (Amended Sections: 1., 2., 3., 4., 5., 6., 7., 8., 9., 10., and 11.)

The General Meeting confirms and approves that Mr. Gregor Stücheli acted as the member of the Board of Directors between April 25, 2008 and April 2, 2009.

The General Meeting confirms and approves that Mr. Lothar Alexander Harings acted as the member of the Board of Directors between April 25, 2008 and April 2, 2009.

The General Meeting confirms and approves that Zsoltné Varga acted as the member of the Supervisory Board from April 25, 2008 until this date.

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The General Meeting confirms and approves that PricewaterhouseCoopers Kft. (1077 Budapest, Wesselényi u. 16.; auditor s registration no: 001464), personally Márta Hegedűsné Szűcs as registered auditor (chamber membership number: 006838; address: 2071 Páty, Várhegyi u. 6.; mother s maiden name: Julianna Hliva) acted until April 2, 2009 for year 2008 as the auditor of the Company. The General Meeting confirms and approves that if Márta Hegedűsné Szűcs was incapacitated Margit Gyurikné Sós (chamber membership number: 003662, mother s maiden name: Margit Varró, address: 1041 Budapest, Bercsényi u. 11.) acted as the responsible auditor of the Company.

The General Meeting confirms and approves that HUF 72,000,000 + VAT + max 5% related costs + VAT (excluding the audit of internal controls as required by the Sarbanes-Oxley Act of 2002), to be the Auditor s annual compensation for the year 2008, covering the audit of the annual financial statements of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the annual consolidated financial statements of the Magyar Telekom Group prepared in accordance with International Financial Reporting Standards (IFRS).

2. Summary to Agenda Item 2 (Report of the Board of Directors on the management of Magyar Telekom Plc., on the business operation, on the business policy and on the financial situation of the company and Magyar Telekom Group in 2009)

The financial results of the Company and the Group in the 2009 fiscal year are as follows:

	in million HUF	
	Magyar Telekom Plc. (HAR)	**Magyar Telekom Group (IFRS)**
Total Assets	968,412	1,166,377
Non current Assets	835,103	917,011
Current Assets	100,098	249,366
Common Stock	104,274	104,275
Total shareholders equity	432,054	
Total equity of owners of the parent		538,480
Non current Liabilities	291,056	322,634
Current Liabilities	177,538	238,323
Revenues	475,269	643,989
Profit for the year (IFRS)		93,253
Balance sheet net income (HAR) (before the proposed dividends)	74,227	
Balance sheet net income (HAR) (after the proposed dividends)	0	

Key data of the report of the Board of Directors

- The changing trends require continued efficiency improvements agreement with trade unions in September 2009 about 400+ redundancies at the parent company by the end of 2010.

- Strong infrastructure based competition; 3Play services are available through copper, fiber, cable, and mobile networks.

- Strong positions across all segments of the Hungarian market.

- Continued pressure on telecommunications spending expected in 2010.

- 2009 results: 3.1% revenue decline driven by recession, regulation and competition; 4% underlying EBITDA decline driven by changing revenue mix and economic recession.

- Consumer Services Business Unit fixed operations: 3Play as growth engine and retention tool in the residential segment: 5-year new generation access roll out plan to cover ~30% or ~1,2 million households with bandwidth up to 100 Mbit/s.

- Consumer Services Business Unit mobile operations: recessionary impacts felt in the market, the consequences of which are decline in customer numbers and tariff erosion.

- Business Services Business Unit: characterized by falling voice revenues and growth in SI/IT revenues.

- There is intense competition in the telecommunications market in Macedonia and Montenegro, which has negative effect on the revenues.

- The Board of Directors proposes HUF 74 dividend per share after 2009 earnings for approval to the Annual General Meeting; based on the proposal, May 7th, 2010 shall be the first day of dividend disbursement.

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

Key data of the report of the Supervisory Board:

According to its report the Supervisory Board recommends to the General Meeting to:

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

- approve the Y2009 Consolidated Financial Statements of the Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) with the Balance Sheet Total Assets and Profit after tax as proposed by the Board of Directors and the Audit Committee,

- approve the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR) with the Balance Sheet Total Assets and After-tax Net Income as proposed by the Board of Directors and the Audit Committee,

- accept the proposal of the Board of Directors on the dividend payment,

- approve the Corporate Governance Report for 2009.

3. Summary to Agenda Item 3 (Decision on the approval of the 2009 consolidated annual financial statements of the Company prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS); presentation of the relevant report of the Supervisory Board, the Audit Committee and the Auditor)

According to Section 302. § e) of the Act on Business Associations (hereinafter: Gt.) and Section 6.2. (i) of the Articles of Association it is the exclusive competence of the General Meeting to approve the financial statements of the Company prepared according to the Accounting Act.

Resolution proposal:

The General Meeting approves the 2009 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS), as endorsed by the EU including Balance Sheet Total Assets of HUF 1,166,377 million and Profit for the year of HUF 93,253 million.

4. Summary to Agenda Item 4 (Decision on the approval of the 2009 annual stand alone financial statements of the Company prepared in accordance with requirements of the Accounting Act (HAR); presentation of the relevant report of the Supervisory Board, the Audit Committee and the Auditor)

According to Section 302. § e) of the Gt. and 6.2. (i) of the Articles of Association it is the exclusive competence of the General Meeting to approve the report of the Company prepared according to the Accounting Act.

Resolution proposal:

The General Meeting approves the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 968,412 million and After-tax Net Income of HUF 74,227 million.

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

5. Summary to Agenda Item 5 (Proposal of the Board of Directors for the use of the profit after tax earned in 2009; presentation of the relevant report of the Supervisory Board, the Audit Committee and the Auditor; decision on the use of the profit after tax earned in 2009)

According to Section 220. (3) of the Gt. and 6.2. (i) of the Articles it is the exclusive competence of the General Meeting to decide on the use of the profit after tax.

Resolution proposal:

A dividend of HUF 74 per ordinary share (with a face value of HUF 100) shall be paid to the shareholders from the profit of 2009.

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The HUF 77,051,686,148 to be disbursed as dividends shall be paid from the after-tax profits of HUF 74,227,074,181 based on HAR figures and the remaining amount of HUF 2,824,611,967 shall be paid from retained earnings.

May 7th, 2010 shall be the first day of dividend disbursement. The record date shall be April 30th, 2010.

On April 21st, 2010, the Board of Directors of Magyar Telekom Plc. shall publish a detailed announcement on the order of dividend disbursement on the homepage of the Company and the Budapest Stock Exchange.

In compliance with Magyar Telekom s assignment, KELER Ltd. shall disburse dividends.

6. Summary to Agenda Item 6 (Authorization of the Board of Directors to purchase ordinary Magyar Telekom shares)

The Board of Directors proposes to the General Meeting giving the authorization for purchasing treasury shares.

Resolution proposal:

The General Meeting authorizes the Board of Directors to purchase a total of up to 104,274,254 ordinary shares (with a face value of HUF 100 each) of Magyar Telekom Plc. The purpose of the authorization is to be able to supplement Magyar Telekom s current shareholder remuneration policy to be more in line with international practice. At the same time the Board of Directors believes dividend should remain the main method for shareholder remuneration.

The authorization will be valid for 18 months starting from the date of approval of this General Meeting resolution. The shares to be purchased on the basis of this authorization may not at any time account for more than 10% of the share capital of Magyar Telekom Plc.

The shares can be purchased through the stock exchange. The equivalent value per share paid by Magyar Telekom Plc. may not be more than 5% above the market price of the share determined by the opening auction on the trading day at the Budapest Stock Exchange. The minimum value to be paid for one share is HUF 1.

The authorization may be exercised in full or in part, and the purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume has been reached.

7. Summary to Agenda Item 7 (Decision on the approval of the Corporate Governance and Management Report)

The annual reports of Magyar Telekom Plc. prepared in accordance with Hungarian Accounting Rules (HAR), and t

According to Section 312 of the Gt. if the shares of the Company are listed in the Budapest Stock Exchange the Board of Directors, together with the report prepared according to the Accounting Act, shall submit the corporate governance report to the General Meeting.

(Extract: the Corporate Governance and Management Report contains among others: (i) brief presentation of the operation of the Board of Directors, and a description of the division of responsibility and duties between the Board and the executive management, (ii) introduction of the members of the Board of Directors, the Supervisory Board and the executive management, description of the structure of committees, (iii) number of meetings held in the relevant period by the Board of Directors, Supervisory Board and committees, (iv) presentation of viewpoints considered when evaluating the work of the Board of Directors, the Supervisory Board, the executive management, (v) report on the operation of different committees, (vi) presentation of the system of internal controls and the evaluation of the activity in the relevant period, report on the efficiency and effectiveness of risk management procedures, (vii) information on whether the auditor has carried out any activities not related to auditing, (viii) synoptic presentation of the company s disclosure policy, and its policy on trading by insiders, (ix) synoptic demonstration of the methods of exercising shareholders rights, (x) brief presentation of the rules on the conducting of the General Meeting, (xi) remuneration statement and, (xii) declaration of the Company on compliance with the Corporate Governance Recommendations.)

Resolution proposal:

The General Meeting has reviewed and approves the Corporate Governance and Management Report Y2009 of the Company.

8. Summary to Agenda Item 8 (Decision on granting relief from liability to the members of the Board of Directors)

According to Section 6.2. (r) of the Articles it is the exclusive competence of the General Meeting to decide on the grant of relief.

Resolution proposal:

The General Meeting of Magyar Telekom Plc. - having evaluated the work in the previous financial year of the Board members of the Company - hereby decides to grant the relief from liability for the members of the Board of the Company with respect to the 2009 business year in accordance with Section 30 (5) of the Companies Act. By granting this relief, the General Meeting confirms that the members of the Board have performed their work in 2009 by giving priority to the interests of the Company. The relief from liability granted by this resolution shall be cancelled in the event of a subsequent binding court ruling declaring the information based on which the relief of liability was granted was false or insufficient.

9. Summary to Agenda Item 9 (Decision on the amendments of the Articles of Association of Magyar Telekom Plc.: 1.4 Sites and Branch Offices of the Company; 1.6.2. Other activities; 1.8. Legal Succession (1.8.4. and 1.8.5.); 2.4. Transfer of Shares (b), (c); 5.1. Mandatory Dissemination of Information; 6.2. Matters within the Exclusive scope of Authority of the General Meeting (l); 6.3. Passing Resolutions; 6.6. Occurrence and Agenda of a General Meeting; 6.8. Notice of General Meetings; 6.9. Supplements of the agenda of a General Meeting; 6.11. Quorum; 6.12. Opening the General Meeting; 6.14. Election of the Officials of the General Meeting; 6.18. Passing Resolutions; 6.19. Minutes of the General Meeting (6.19.1.); 7.2. Members of the Board of Directors; 7.4.1.: The Board of Directors (l); 8.2. Members of the Supervisory Board (8.2.1.); and 15.5. Miscellaneous)

According to Section 231 (2) of the Companies Act and 6.2 (a) of the Articles of the Association it is the exclusive competence of the General Meeting to decide on the amendment of the Articles of Association.

Resolution proposals:

The General Meeting approves the amendment of Section 1.4. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 1.6.2. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 1.8.4. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 1.8.5. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 2.4. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 5.1. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.2. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.3. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.6. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.8 of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.9. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.11. of the Articles of Association according to the submission.

The General Meeting approves the amendment of 6.12. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.14. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.18. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 6.19.1. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 7.2. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 7.4.1.(l) of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 8.2.1. of the Articles of Association according to the submission.

The General Meeting approves the amendment of Section 15.5. of the Articles of Association according to the submission.

10. Summary to Agenda Item 10 (Decision on the modification of the Rules of Procedure of the Supervisory Board)

The Supervisory Board establishes its own Rules of Procedure that is approved by the General Meeting. (Amended Sections on the basis of the modification of Gt.: 5.4. and 5.5.)

Resolution proposal:

The General Meeting approves the amended and restated Rules of Procedure of the Supervisory Board with the modifications set out in the submission.

11. Summary to Agenda Item 11 (Election of Members of the Board of Directors and determination of their remuneration)

The General Meeting shall elect a new Board of Directors, as the mandate of Magyar Telekom Plc. s Board of Directors terminates on the day of the AGM, April 7, 2010 in accordance with Sections 7.2. and 7.3. of the Articles of Association.

Resolution proposals:

The General Meeting elects dr. Ferri Abolhassan to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. István Földesi to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Dietmar Frings to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Mihály Gálik to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Guido Kerkhoff to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Thilo Kusch to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the

General Meeting.

The General Meeting elects Mr. Christopher Mattheisen to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Klaus Nitschke to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Frank Odzuck to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Ralph Rentschler to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Steffen Roehn to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting determines the remuneration of the members of the Board Directors as follows:

Chairman of the Board Directors:	HUF 546,000 /month
Members of the Board Directors:	HUF 364,000 /month

12. Summary to Agenda Item 12 (Election of Members of the Supervisory Board and determination of their remuneration)

The General Meeting shall elect a new Supervisory Board, as the mandate of Magyar Telekom Plc. s Supervisory Board members terminates on the day of the AGM, April 7, 2010 in accordance with Sections 8.2.1. and 8.2.5. of the Articles of Association.

Resolution proposals:

The General Meeting elects dr. János Bitó to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Attila Bujdosó to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. János Illéssy to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Sándor Kerekes to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Konrad Kreuzer to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Tamás Lichnovszky to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Martin Meffert to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. László Pap to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Károly Salamon to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mrs. Zsoltné Varga to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. György Varju to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting determines the remuneration of the members of the Supervisory Board as follows:

Chairman of the Supervisory Board:	HUF 448,000 /month
Members of the Supervisory Board:	HUF 294,000 /month

13. Summary to Agenda Item 13 (Election of Members of the Audit Committee and determination of their remuneration)

The General Meeting shall elect a new Audit Committee, as the mandate of Magyar Telekom Plc. s Audit Committee members terminates on the day of the AGM, April 7, 2010 in accordance with Sections 8.2.1. and 8.7.1. of the Articles of Association.

<u>Resolution proposals:</u>

The General Meeting elects dr. János Bitó to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. János Illéssy to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Sándor Kerekes to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. László Pap to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Károly Salamon to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting determines the remuneration of the members of the Audit Committee as follows:

Chairman of the Audit Committee:	HUF 440,000 /month
Members of the Audit Committee:	HUF 220,000 /month

14. Summary to Agenda Item 14 (Election of the Company s Auditor and determination of its remuneration. Designation of the Auditor who will be personally responsible for the audit of the Company and designation of the deputy auditor.)

With respect to the election of the Company s independent external Auditor and determination of its remuneration, the designation of the Auditor who will be personally responsible for the audit of the Company and the designation of the deputy auditor, the Audit Committee proposes to pass the following resolution.

<u>Resolution proposals:</u>

The General Meeting elects as auditor of Magyar Telekom Plc. (the Company)

PricewaterhouseCoopers Ltd. (1077 Budapest, Wesselényi u. 16; company registration number: 01-09-063022; registration number: 001464)

personally Márta Hegedűsné Szűcs as registered auditor

Chamber membership number: 006838

Address: 2071 Páty, Várhegyi u. 6.

Mother s maiden name: Julianna Hliva

to perform audit services for the year 2010, i.e. for the period ending May 31st 2011 or if the Annual General Meeting closing the 2010 fiscal year will be held prior to May 31st 2011 then on the date thereof.

In the event that Márta Hegedűsné Szűcs is incapacitated, the General Meeting elects Nikoletta Róka (chamber membership number: 005608, mother s maiden name: Györgyi Soós, address: 1163 Budapest, Gutenberg u. 17.) to act as responsible auditor.

The General Meeting approves HUF 89,700,000 + VAT + max 5% related costs + VAT (excluding the audit of internal controls as required by the Sarbanes-Oxley Act of 2002), be the Auditor s annual compensation, covering the audit of the annual financial statements of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the annual consolidated financial statements of the Magyar Telekom Group prepared in accordance with International Financial Reporting Standards (IFRS).

Summary of the shares and voting rights existing at the time of convening the Annual General Meeting:

Magyar Telekom A series ordinary shares: 1,042,742,543

Voting rights: 1,042,742,543 (including 1,503,541 non voting treasury shares)

Magyar Telekom Plc.

Magyar Telekom Telecommunications Public Limited Company

Submissions and resolution proposals

to the General Meeting of Magyar Telekom Plc.

Subject: Decisions regarding the resolutions adopted by the April 25, 2008 Annual General Meeting of the Company that have been rendered ineffective by the Metropolitan Court

Budapest, April 7, 2010

The decree of the Metropolitan Court No. 11.G.40794/2008/16 declared on May 13, 2009, that rendered ineffective the resolutions No. 2-22/2008 (IV.25.) of the Annual General Meeting held on April 25, 2008 is not binding and enforceable, at the time of adopting the submission by the Board of Directors, because there is an ongoing legal remedy procedure in connection with the excuse submitted as a result of the rejection of the belated appeal.

The rendered ineffective resolutions are valid and effective till the date of the decree is becoming binding and enforceable. However, from the date of becoming binding and enforceable further rights are not attached anymore to these resolutions.

A.) In the light of the above facts, the General Meeting has to make resolutions repeatedly concerning the following agenda items of the Annual General Meeting of April 25, 2008 (AGM Y2008). (The numbering hereby is in line with the agenda of AGM Y2008.)

1. Report of the Board of Directors on the management of the Company, the business policy of Magyar Telekom Group and report on the business operations and the financial situation of Magyar Telekom Group in 2007 according to the requirements of the Accounting Act (Resolution No. 4/2008 (IV.25.)

3. Decision on the approval of the 2007 financial statements of the Company, the company governance and management report and on the relief from liability of the members of the Board of Directors (Resolution No. 5-7/2008 (IV.25.)

4. Proposal of the Board of Directors for the use of the profit after tax earned in 2007 (Resolution No. 8/2008 (IV.25.)

5. Modification of the Articles of Association of Magyar Telekom Plc. (Resolution No. 9-17/2008 (IV.25.)

6. Modification of the Rules of Procedure of the Supervisory Board (Resolution No. 18/2008 (IV.25.)

7. Election of Members of the Board of Directors (Resolution No. 19-20/2008 (IV.25.)

8. Election of Member of the Supervisory Board (Resolution No. 21/2008 (IV.25.)

10. Election of the Company s Auditor and determination of its remuneration. Designation of the Auditor who will be personally responsible for the audit of the Company and designation of the deputy auditor (Resolution No. 22/2008 (IV.25.)

B.) No remedial action has to be made concerning the following resolutions due to the following reasons:

Resolution No. 1/2008 (IV.25.): No remedial action is necessary (technical resolution, the court did not render it ineffective).

Resolution No. 2/2008 (IV.25.): No remedial action is necessary (technical resolution: election of minute keeper and authenticator).

Resolution No. 3/2008 (IV.25.): No remedial action is necessary (technical resolution, approval of the agenda).

C.) No resolution was made under agenda item No. 2. (Report of the Board of Directors on the business operations of the Company in 2007, presentation of the report of the Supervisory Board and the Auditor), No. 9. (Election of a Member of the Audit Committee) and No. 11. (Miscellaneous) at the AGM Y2008.

General information to Shareholders regarding the resolutions adopted by the April 25, 2008 Annual General Meeting.

As the Company earlier disclosed two minority shareholders filed a lawsuit against Magyar Telekom Nyrt. on May 23, 2008, requesting the Court to render ineffective the resolution adopted at the April 25, 2008 Annual General Meeting, including the resolution regarding the payment of dividend. In line with the April 25, 2008 resolution the Company duly paid the dividend to its Shareholders. The Metropolitan Court, acting as Court of Registration, entered the changes adopted by way of the resolutions to the company register.

On May 13, 2009 the first instance court rendered ineffective the resolutions adopted at the April 25, 2008 General Meeting (except for one procedural type of resolution) with reference that the announcement on the General Meeting of the Company was not published in the place of announcement of the Company, i.e. the Magyar Tőkepiac that was already ceased to be published in a printed format at the date of the publication of the announcement. The law office, representing Magyar Telekom, filed the appeal against the claim after the expiry of the relevant deadline. The Company submitted an excuse with respect to the belatedness of the appeal. The Company submitted an appeal against the court order rejecting the excuse, the consideration of which is still pending before the Supreme Court. With respect to the above, we take the view that the judgment is not yet final and enforceable.

The Company analyzed the evolved legal situation with the involvement of legal advisors and took the view that on the basis of the relevant provisions of law, court decisions and the relevant literature the resolutions were rendered ineffective with *ex nunc* effect, i.e. they are not effective form the first instance ruling becoming final and binding (from July 7, 2009). In light of the above, if the given resolutions must remain effective and enforceable in the future, they have to be adopted again. Certain resolutions will not have a legal effect in the future, however, the actions taken on the basis of these resolutions have to be confirmed and approved so that the Company excludes or minimizes the possibility of any further legal disputes.

Submission and resolution proposal for the repeated adoption of the resolution no. 4/2008 (IV.25.) rendered ineffective:

According to Section 302. § e) of the Act on Business Associations (hereinafter: Gt.) and Section 6.2. (i) of the Articles of Association it is the exclusive competence of the General Meeting to approve the financial statements of the Company prepared according to the Accounting Act.

Resolution proposal:

The General Meeting repeatedly approves the 2007 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards, with a Balance Sheet Total of HUF 1,135,578 million and Profit after tax for year 2007 HUF 73,056 million (before the deduction of HUF 12,901 million attributable to minority interests).

Annex:

- *Consolidated annual financial statements for the year ending on December 31, 2007 prepared according to the International Financial Reporting Standards (IFRS)*
- *Report of the Supervisory Board of Magyar Telekom Nyrt. for the General Meeting of the Company on the Y2007 operation of the Company and the Group*
- *Independent auditor s report*

Submission and resolution proposal for the repeated adoption of the resolution no. 5/2008 (IV.25.) rendered ineffective:

According to Section 302. § e) of the Gt. and 6.2. (i) of the Articles of Association it is the exclusive competence of the General Meeting to approve the report of the Company prepared according to the Accounting Act.

Resolution proposal:

The General Meeting repeatedly approves the 2007 Annual Financial Statements of the Company prepared according to the Hungarian Accounting Regulations (HAR), with a Balance Sheet Total of HUF 942,877 million and After-tax Net Income of HUF 35,634 million.

Annex:

- *Y2007 Annual Financial Statements of the Company prepared according to the Hungarian Accounting Regulations (HAR)*
- *Report of the Supervisory Board of Magyar Telekom Nyrt. for the General Meeting of the Company on the Y2007 operation of the Company and the Group*
- *Independent auditor s report*

Submission and resolution proposal for the repeated adoption of the resolution no. 6/2008 (IV.25.) rendered ineffective:

According to Section 312. § of the Gt. if the shares of the Company are listed in the Budapest Stock Exchange the Board of Directors, together with the report prepared according to the Accounting Act, shall submit the corporate governance report to the General Meeting. In the report the Board summarizes the responsible corporate governance activities in the given year and presents the deviations from the recommendations of the Corporate Governance Recommendations of the Budapest Stock Exchange.

According to the above referred Section of the Gt. and 6.2. (i) of the Articles of Association it is the exclusive competence of the General Meeting to approve the report.

According to Section 312. § of the Gt. the Supervisory Board preliminarily approved the Corporate Governance and Management Report of the Company on 2007 with resolution no. 1/7 (2008.03.26.).

Resolution proposal:

The General Meeting has reviewed and repeatedly approves the Corporate Governance and Management Report of the Board of Directors of Magyar Telekom on the financial year of 2007.

Annex:

- *Corporate Governance and Management Report of the Board of Directors of Magyar Telekom on the financial year of 2007*
- *Resolution no. 1/7 (2008.03.26.) on the preliminary approval of the Supervisory Board*

Submission and resolution proposal for the repeated adoption of the resolution no. 7/2008 (IV.25.) rendered ineffective:

According to Section 30. of the Gt. the Articles of the Company provides for the relief that can be granted to the senior managers. Through granting the relief the supreme body certifies that the senior managers worked in the assessed period with giving priority to the interest of the business association.

According to Section 6.2. (r) of the Articles it is the exclusive competence of the General Meeting to evaluate the work of Board members in the previous year and to decide on the grant of relief.

Resolution proposal:

The General Meeting, having evaluated the work of the Board members of the Company, repeatedly decides on granting the relief from liability for the Board members of the Company with respect to the 2007 business year in accordance with Section 30 (5) of Act IV. of 2006 on Business Associations. The evaluation and the relief from liability granted by this resolution shall not apply to the liability of the Board members arising from their gross negligence or willful misconduct.

Submission and resolution proposal for the repeated adoption of the resolution no. 8/2008 (IV.25.) rendered ineffective:

According to Section 220. § (3) of the Gt. and 6.2. (i) of the Articles it is the exclusive competence of the General Meeting to decide on the use of the profit after tax.

Resolution proposal:

A dividend of HUF 74 per ordinary share (with a face value of HUF 100) shall be paid to the shareholders from the profit of 2007.

The General Meeting confirms and approves that according to the assignment given by the Company the commencement of dividend payment by KELER Zrt. as of May 27, 2008 and the usage of HUF 35,633,509,239 from the net income according to HAR and HUF 41,418,404,237 from the profit reserve by the Company to pay the total sum of HUF 77,051,913,476 for dividends.

The General Meeting acknowledges that on May 5, 2008 the Board of Directors of Magyar Telekom Plc. published a detailed announcement on the order of dividend disbursement in the following newspapers: Magyar Hírlap, Népszava and Világgazdaság, as well as on the homepage of the Company and the Budapest Stock Exchange.

Annex:

- *Resolution no. 2/5 (2008.04.09.) on the preliminary approval of the Supervisory Board*
- *Opinion of the independent auditor*

Submission and resolution proposal for the repeated adoption of the resolution no. 9-17/2008 (IV.25.) rendered ineffective:

According to Section 231. § (2) (a) of the Gt. and Section 6.2. (a) of the Articles of Association it is the exclusive competence of the General Meeting to decide on the amendment of the Articles of Association.

The Board of Directors proposes the amendment of the Articles of Association due to the below reasons, that are fundamentally identical with the reasons of the amendment of the Articles of Association submitted to the April 25, 2008 General Meeting:

1. Due to the change of the location of the sites of the Company some sites have to be deleted whereas others have to be included into Section 1.4. of the Articles.

2. The Statistical Classification of Economic Activities (Hungarian abbreviation: TEÁOR) was amended from January 1, 2008. Some of the new TEÁOR classification categories correspond to the former classification system and can be automatically reclassified without formal legal measures. In other cases the individual companies must make the relevant decisions and request the incorporation of the changes from the Company Court at the date when they first amend their registered company data but at the latest by July 1, 2008 (Section 1.6. of the Articles). Due to the fact that according to the new classification system the main activity of the Company registered in the company registry before April 25, 2008 is broken down to further sub-categories it is necessary to specify the main activity in accordance with the new classification also. Depending on the decision of the General Meeting the current main activity Telecommunications (6420 03) - can be replaced by the below classes of the new classification system: Wired telecommunications activities (6110 08), Wireless telecommunications activities (6120 08), Satellite telecommunications activities (6130 08), Other telecommunications activities (61.90 08) or Television programming and broadcasting activities (6020 08). All the above listed activities will be inserted in the list of activities and one of them must be specified as the main activity. The Board of Directors of the Company discussed the issue at its March 18, 2008 meeting and proposed that the main activity of the Company should be Wired telecommunications activities (6110 08).

3. Section 1.8. of the Articles sets out the legal succession procedures due to earlier transformations of the Company. In order to complete the descriptions it is necessary to include the date of the merger of the merging companies in the text.

4. Based on the position of the Budapest Stock Exchange, Section 4.5. of the Articles has to be specified and this requirement is met by the Company with the below amendment of the text.

5. The expression management report in Section 5.1., 6.2. (i), 7.4.1 (b) and 8.3. of the Articles has to be replaced by the expression contained in the Company Act and the Budapest Stock Exchange Recommendations : company governance and management report .

6. Section 7.6. of the Articles sets out the rules of keeping the minutes of Board meetings. Due to the fact that the operation of the Board is regulated by a detailed and public Rules of Procedure it is sufficient to refer to the Rules of Procedure in the Articles without specifying the detailed rules of minute keeping.

10

7. Section 8.4.5. of the Articles is amended for the reasons as described above concerning the Supervisory Board.

8. The Rules of Procedure of the Audit Committee was amended on February 15, 2008 and the respective provisions of the Articles (Section 8.7.) have to be harmonized with the new Rules of Procedure of the Audit Committee.

9. The national periodical that was referred to as the place of disclosure of the Company, named Magyar Tőkepiac , was last published in printed format before the April 25, 2008 Annual General Meeting on February 15, 2008 therefore the respective part of the Articles (Section 15.2.) has to be deleted. The Company, in order to exclude or minimalize the risks of legal disputes due to legal uncertainties, published the announcement on the convocation of the General Meeting in the newly published copy of Magyar Tőkepiac. However, the future publication of the invitation to the General Meeting in the occasionally published Magyar Tőkepiac would expectedly not contribute at all to the notification of the shareholders on the convocation of the General Meeting or its agenda, therefore the occasional publication of the invitation in Magyar Tőkepiac would incur unnecessary costs at the Company. The deletion is further justified by the fact that the necessity of publication in the printed media is not contained in the Gt.

Due to the above and the fact that the Company amended Section 1.4 of the Articles of Association at its Annual General Meeting of April 2, 2009 and the Company amended Sections 1.4., 1.8., 15.2. of the Articles of Association at the June 29, 2009 Extraordinary General Meeting, the Board of Directors proposes that the General Meeting establishes the below specified sections of the Articles of the Company as follows.

1)

1.4. Sites and Branch Offices of the Company

(a) Sites of the Company:

1117 Budapest, Gábor Dénes u. 2.

1013 Budapest, Krisztina krt. 32.

1107 Budapest, Bihari u.6.

1117 Budapest, Magyar tudósok krt.9.

1073 Budapest, Dob u. 76-78.

1051 Budapest, Petőfi Sándor u. 17-19.

1117 Budapest, Kaposvár u. 5-7

1117 Budapest, Budafoki u. 103-107

1107 Budapest, Száva u. 3-5.

1089 Budapest, Baross u. 133.

1133 Budapest, Kórház u. 6-12.

1152 Budapest, Szilaspark u. 10.

1182 Budapest, Üllői út 661.

1148 Budapest, Örs vezér tere 48.

1033 Budapest, Vöröskereszt u. 11.

(b) Branch Offices of the Company:

4026 Debrecen, Bethlen u. 1.

3525 Miskolc Régiposta u. 9.

9400 Sopron, Széchenyi tér 7-10.

7601 Pécs, Rákóczi út 19.

8174 Balatonkenese, Parti sétány 51.

6722 Szeged, Tisza Lajos krt. 41.

5600 Békéscsaba, Andrássy u. 44.

5600 Békéscsaba, Andrássy u. 51.

6721 Szeged, Csongrádi sgt. 12.

6723 Szeged, Etelka sor 1.

2030 Érd, Bajcsy Zsilinszky u. 158.

2500 Esztergom, Aradi vértanúk tere 2.

2)

1.6. The Scope of Activities of the Company

1.6.1. Main activity:

61.10 08	Wired telecommunications activities

1.6.2. Other activities:

18.13 08	Pre-press and pre-media services
18.14 08	Binding and related services
18.20 08	Reproduction of recorded media
26.30 08	Manufacture of communication equipment
33.20 08	Installation of industrial machinery and equipment
35.11 08	Production of electricity
35.30 08	Steam and air conditioning supply
41.10 08	Development of building projects
41.20 08	Construction of residential and non-residential buildings
42.21 08	Construction of utility projects for fluids
42.22 08	Construction of utility projects for electricity and telecommunications
42.99 08	Construction of other civil engineering projects n.e.c.
43.11 08	Demolition
43.12 08	Site preparation
43.21 08	Electrical installation
43.22 08	Plumbing, heat and air-conditioning installation
43.29 08	Other construction installation
43.99 08	Other specialised construction activities n.e.c.
45.11 08	Sale of cars and light motor vehicles

45.19 08	Sale of other motor vehicles
46.14 08	Agents involved in the sale of machinery, industrial equipment, ships and aircraft
46.43 08	Wholesale of electrical household appliances
46.49 08	Wholesale of other household goods
46.52 08	Wholesale of electronic and telecommunications equipment and parts
46.69 08	Wholesale of other machinery and equipment
46.90 08	Non-specialised wholesale trade
47.19 08	Other retail sale in non-specialised stores
47.41 08	Retail sale of computers, peripheral units and software in specialised stores
47.42 08	Retail sale of telecommunications equipment in specialised stores
47.43 08	Retail sale of audio and video equipment in specialised stores
47.54 08	Retail sale of electrical household appliances in specialised stores
47.59 08	Retail sale of furniture, lighting equipment and other household articles in specialised stores
47.61 08	Retail sale of books in specialised stores
47.62 08	Retail sale of newspapers and stationery in specialised stores
47.63 08	Retail sale of music and video recordings in specialised stores
47.65 08	Retail sale of games and toys in specialised stores
47.78 08	Other retail sale of new goods in specialised stores

47.91 08	Retail sale via mail order houses or via Internet
47.99 08	Other retail sale not in stores, stalls or markets
52.10 08	Warehousing and storage
55.10 08	Hotels and similar accommodation
55.20 08	Holiday and other short-stay accommodation
55.90 08	Other accommodation
56.10 08	Restaurants and mobile food service activities
56.21 08	Event catering activities
56.29 08	Other food service activities
58.11 08	Book publishing
58.12 08	Publishing of directories and mailing lists
58.13 08	Publishing of newspapers
58.14 08	Publishing of journals and periodicals
58.19 08	Other publishing activities
58.21 08	Publishing of computer games
58.29 08	Other software publishing
59.20 08	Sound recording and music publishing activities
60.10 08	Radio broadcasting
60.20 08	Television programming and broadcasting activities
61.20 08	Wireless telecommunications activities
61.30 08	Satellite telecommunications activities
61.90 08	Other telecommunications activities
62.01 08	Computer programming activities
62.02 08	Computer consultancy activities
62.03 08	Computer facilities management activities
62.09 08	Other information technology and computer service activities
63.11 08	Data processing, hosting and related activities
63.12 08	Web portals
63.99 08	Other information service activities n.e.c.
64.20 08	Activities of holding companies
68.20 08	Renting and operating of own or leased real estate
68.31 08	Real estate agencies
68.32 08	Management of real estate on a fee or contract basis
69.20 08	Accounting, bookkeeping and auditing activities; tax consultancy
70.21 08	Public relations and communication activities
70.22 08	Business and other management consultancy activities
71.11 08	Architectural activities
71.12 08	Engineering activities and related technical consultancy
71.20 08	Technical testing and analysis
72.19 08	Other research and experimental development on natural sciences and engineering
72.20 08	Research and experimental development on social sciences and humanities
73.11 08	Advertising agencies
73.12 08	Media representation
74.30 08	Translation and interpretation activities
74.90 08	Other professional, scientific and technical activities n.e.c.
77.11 08	Renting and leasing of cars and light motor vehicles
77.12 08	Renting and leasing of trucks
77.21 08	Renting and leasing of recreational and sports goods
77.22 08	Renting of video tapes and disks
77.29 08	Renting and leasing of other personal and household goods
77.33 08	Renting and leasing of office machinery and equipment (including computers)

1.6.2. Other activities:

77.39 08	Renting and leasing of other machinery, equipment and tangible goods n.e.c.
79.11 08	Travel agency activities
79.12 08	Tour operator activities
79.90 08	Other reservation service and related activities
80.20 08	Security systems service activities

81.10 08	Combined facilities support activities
82.11 08	Combined office administrative service activities
82.19 08	Photocopying, document preparation and other specialised office support activities
82.20 08	Activities of call centres
82.30 08	Organisation of conventions and trade shows
82.91 08	Activities of collection agencies and credit bureaus
82.99 08	Other business support service activities n.e.c.
85.32 08	Technical and vocational secondary education
85.51 08	Sports and recreation education
85.59 08	Other education n.e.c.
85.60 08	Educational support activities
95.11 08	Repair of computers and peripheral equipment
95.12 08	Repair of communication equipment

3)

1.8 Legal Succession

1.8.1. Magyar Telekom Telecommunications Public Limited Company is the general legal successor of T-Mobile Hungary Telecommunications Company Limited by Shares (1117 Budapest, Kaposvár u. 5-7.; Corporate Registry No.: 01-10-042361) that was merged into the Company on February 28, 2006.

1.8.2. Magyar Telekom Telecommunications Public Limited Company is the general legal successor in respect of the demerged corporate assets of T-Online Hungary Internet Service Provider Private Company Limited (registered seat: 1117 Budapest, Neumann J. u 1/b.; Corporate Registry No.: 01-10-044389) that was merged into the Company on September 30, 2007.

1.8.3. Magyar Telekom Public Limited Company is the general legal successor of EMITEL Telecommunications Company Limited (registered seat: 6722 Szeged, Tisza Lajos krt. 41., Corporate Registry No.: 06-10-000154) that was merged into the Company on September 30, 2007.

1.8.4. Magyar Telekom Távközlési Nyilvánosan Működő Részvénytársaság shall be the general legal successor of T-Kábel Magyarország Kábeltelevíziós Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 133., Cg. 01-09-674638).

1.8.5. Magyar Telekom Távközlési Nyilvánosan Működő Részvénytársaság shall be the general legal successor of Dél-Vonal Informatikai Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 133., Cg. 01-09-908030).

4)

4.5. Payment of Dividends

If the Annual General Meeting establishes that the company has made profit and determines that dividends should be paid, only those shareholders or shareholder representatives shall be entitled to such dividends who are owners with respect to the record date of identification of beneficial owner and the statutory required data of which are available for the payment of dividends. The record date of identification of beneficial owner shall not be earlier than the fifth stock market trade day subsequent to the date of the General Meeting.

The Company pays the dividends to the shareholders from the date specified by the relevant resolution of the GM via wire transfer. The dividend payment period commences at the date specified by the resolution of the GM that decides on the approval of the report according to the Accounting Act and the use of the profit after tax, however, at least 10 working days must lapse between the first publication of the GM resolution regarding the commencement date of the dividend payment and the first day of paying the dividends.

Shareholders may claim dividends during the lapse period specified in the Civil Code (5 years). After that time their claim for dividends will lapse. Dividends not claimed by the shareholders shall be added to the capital reserve of the Company.

An interim dividend may be disbursed between the approval of two consecutive reports under the Accounting Act, if

- on the basis of the interim balance it can be stated that the Company possesses sufficient coverage to pay the interim dividend and that the sum to be paid does not exceed the profit generated since closing the books according to the last business year s annual report under the Accounting Act plus the unused profit reserve, and subsequent to the said outpayment the own capital of the share company adjusted according to the Accounting Act must not fall under the registered capital, and

- Shareholders undertake to return the interim dividend if later, according to the report under the Accounting Act - and pursuant to Section 223 (1) of the Act on Business Associations the law would not allow the outpayment of such dividend.

No dividend shall be paid the Company for its own shares, at specifying the amount due to the shareholders entitled to dividends the Company does not take the dividend of own shares into account.

5)

5.1. Mandatory Dissemination of Information

In accordance with the rules of these Articles governing the publication of notices the report prepared according to the Accounting Act, the summaries of the Board and Supervisory Board reports, the summary of the submissions regarding the agenda items, the resolution proposals and the extract of the company governance and management report shall be published at least 15 days prior to the date of the GM.

6.2. (i) to approve the report pursuant to the Act on Accounting, including the company governance and management report and to decide on the utilisation of after-tax earnings;

7.4.1 (b) cause a report including the balance sheet and the profit and loss statement of the Company to be prepared pursuant to the Act on Accounting together with the responsible company governance and management report and submit such reports to the General Meeting with a proposal on the utilisation of after-tax earnings;

8.3. Duties

The Supervisory Board shall examine every material report of business policy that is on the agenda of the General Meeting and every submission on issues within the exclusive sphere of authority of the General Meeting. The General Meeting may pass a resolution on a report pursuant to the Accounting Act and the use of the profit after income tax only upon receipt of the written report of the SB. The proposal of the Board of Directors on the payment of dividend and on the company governance and management report can only be submitted to the GM upon the receipt of the prior approval of the SB. The Chairman (Deputy Chairman), in his absence, a member of the Supervisory Board presents the report of the Supervisory Board during the discussion of the given agenda item.

6)

7.6. Minutes

(a) Minutes shall be kept of each meeting of the Board of Directors, in accordance with the provisions of the Rules of Procedure of the Board of Directors.

(b) The minutes shall be signed by the Chairman of the meeting of the Board of Directors as well as the keeper of the minutes. The minutes shall be certified by another participating Director. The minutes of each meeting shall be distributed to the members of the Board of Directors and the Chairman of the Supervisory Board irrespective of whether or not they attended the meeting.

7)

8.4.5. Minutes shall be kept of each meeting of the Supervisory Board, in accordance with the provisions of the Rules of Procedure of the Supervisory Board.

8)

8.7. Audit Committee

8.7.1. The General Meeting elects a 3-5 member Audit Committee (AC) from the independent members of the Supervisory Board (SB) for the same period as the membership of the relevant members in the SB. The Audit Committee shall act independently within its scope of authorities provided in the Companies Act and these Articles and in compliance with the rules and regulations of the Budapest Stock Exchange and the New York Stock Exchange (NYSE) and the US Securities and Exchange Commission (SEC) as well as the provisions and rules of the US Securities Exchange Act of 1934 (the Exchange Act).

8.7.2. The purpose of the Audit Committee is, inter alia, to oversee (1) the integrity of the Company s financial statements, (2) the Company s compliance with legal and regulatory requirements falling within the scope of authorities and responsibilities of the Audit Committee, as set forth in detail in Section 8.7.5 below, (3) the qualifications and independence of the Company s independent external auditor (the Auditor) and (4) the performance of the Company s internal audit function and independent auditors.

8.7.3. Only such SB member can be elected to be an AC member who complies with the independency rules and regulations of the SEC and the NYSE, the Companies Act, the Exchange Act and the Act CXX of 2001 on the Capital Market. At least one member must comply with the SEC requirements on being a financial expert and at least one Audit Committee member must have a qualification in accountancy and/or be a qualified auditor. The Chairman and the financial expert of the Audit Committee is elected by the members of the Audit Committee.

8.7.4. If the number of the AC members falls below three the Board shall convene the GM to restore the proper operation of the body. The Audit Committee shall establish its own Rules of Procedure and its Pre-approval Policy. The Audit Committee s secretarial tasks shall be performed by its own Secretariat. The Audit Committee shall inform the Supervisory Board about its activity periodically in accordance with its Rules of Procedure.

8.7.5. The Audit Committee shall, in particular, in addition to the scope of competence set forth in Section 311 (2) of the Companies Act:

- Be directly responsible for the oversight of the work of the Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
- Make recommendations directly to the General Meeting of shareholders with respect to the appointment, compensation and recall of the Auditor;
- Pre-approve the audit and non-audit related services provided by the Auditor to the Company and the related fees, with the exception of fees within the exclusive scope of authority of the General Meeting, to ensure that the Auditor s independence from the Company is maintained;
- Monitor the reasonableness of audit fees and quality of work performed by the Auditor (e.g. staffing, experience of auditing personnel, man hours expected, timeliness);
- Monitor enforcement of the Auditor s professional requirements and the Auditor s compliance with the rules regarding conflict of interest, cooperate with the Auditor and, if necessary, propose measures to be taken by the Supervisory Board, the Board of Directors or the

General Meeting regarding the Auditor;

- At least annually, and every time before making a proposal with respect to the election of an Auditor, obtain and review a written report from the Auditor describing (a) the internal quality-control procedures of the Auditor s firm, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the Auditor s firm, or by any inquiry or investigation by government or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Auditor s firm, and any steps taken to deal with any such issues, and (c) all relationships between the Auditor, any of the individuals appointed to undertake audit work for the Company or any of its affiliates on behalf of the Auditor or any of the partners in the Auditor s firm or any of their close relatives (as defined in the Hungarian Civil Code) and (i) the Company or any of its affiliates, or (ii) any member of the Board of Directors, the Supervisory Board or the Management Committee of the Company or any of its affiliates;

- Review with the Auditor any problems or difficulties regarding the Company s audit, and the response of the Company s management to any such problems raised by the Auditor;

- Facilitate the resolution of any disagreement between the Company s management and the Auditor with respect to financial reporting;

- Determine the circumstances in which, and conditions subject to which, employees and former employees of the Auditor may be hired by the Company or its affiliates;

- Review and evaluate (a) financial reports prepared according to the Accounting Act and (b) proposals regarding the acceptance of such reports and the use of after-tax profits prior to their submission to the Supervisory Board;

- Review and evaluate the financial reports prepared according to International Financial Reporting Standards (IFRS) and the Auditor s audit report, especially in connection with changes to accounting guidelines or practice of the IFRS, accounting adjustments, profitability preconditions, etc.;

- Meet with the Auditor and the Company s management to discuss and comment upon the reports referred to in the previous two points;

- Review and evaluate the Management Letter;

- Review and evaluate reports to be submitted to the stock exchanges, the SEC and other financial authorities;

- Discuss the Company s earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;

- Review and evaluate the internal audit environment, the internal control environment influencing the preparation of financial reports and the processes applied during the preparation of financial reports and, if necessary, propose measures to be taken by the Supervisory Board or the Board of Directors regarding the preparation of financial reports;

- Review and evaluate the effectiveness of the internal audit function;

- Review and evaluate the internal audit workplan;

- Review and evaluate the report on the activity of the internal audit function;

- Review and evaluate the first priority (A) internal audit reports on financial subjects;

- Review, evaluate and, if appropriate, consent to proposals submitted to the Audit Committee by the Board of Directors or the management of the Company in relation to the appointment, compensation and recall of the Group Compliance Director, and oversee the work of the Group Compliance Director in accordance with the scope described in the Group Compliance Manual and the related directives and policies.

- Review, discuss and comment upon the Company s policies with respect to risk assessment and risk management;

- Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;

- If necessary, conduct an independent internal investigation into (a) agreements of, and/or payments made by, the Company, (b) matters that relate to the accuracy and reliability of the books and records of the Company, (c) matters and suspects identified by the Auditor, the Group Compliance Director and/or the internal audit function, and/or (d) matters that relate to the potential liability of the Company and/or any of its employees or officers under the US Foreign Corrupt Practices Act, Sections 258/B to 258/F of the Hungarian Criminal Code, the Exchange Act, the US Sarbanes-Oxley Act of 2002, or (e) any similar legislation in any other relevant jurisdiction;

- Within the scope of such investigation, (a) inspect, subject to applicable data privacy laws, the books, records, contracts and documents of the Company (including documents in printed and electronic form, including all emails, documents and other data found on the systems and devices of the Company), and (b) interview employees, officers and directors of the Company, or any other third parties, who may have information relevant to the investigation;

- If necessary, report, subject to applicable data privacy laws, the facts and circumstances giving rise to, and the findings of, such investigation to the Auditor and to competent law enforcement and regulatory authorities (including, without limitation, the Hungarian Financial Supervisory Authority, the SEC, the US Department of Justice and any other authority to whom reporting is necessary under applicable law or otherwise in the interests of the Company);

- Depending on the findings of such investigation (a) forward remedial actions proposed by management, outside counsel and/or the Audit Committee to the Board of Directors, (b) review and evaluate the implementation of such remedial actions, (c) report its findings with respect to the implementation of such remedial actions to competent law enforcement and regulatory authorities and (d) report its findings to the Auditor.

8.7.6. The Audit Committee may, if it deems necessary for the fulfillment of its duties, engage external advisor(s). Specifically, the Audit Committee may engage outside counsel and other advisors to conduct independent investigations referred to in Section 8.7.5 above, and to represent the Audit Committee before the authorities.

8.7.7. The Company shall provide appropriate funding for the following purposes: (a) fees payable to the independent external auditor responsible for preparing and issuing the audit report, performing other audit, review or attest services for the Company, (b) remuneration of external advisors engaged by the Audit Committee and (c) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee shall determine the fees and costs identified in (b) and (c) above at its own discretion, and shall provide the General Meeting with a recommendation with respect to the fees and costs identified in (a) above and within the exclusive scope of authority of the General Meeting.

9)

15.2. Notices

Notices and advertisements of the Company shall be published on the home page of the Company (**www.telekom.hu**) and in the official publication space of the Budapest Stock Exchange Closed Limited Company (i.e. home page of the Stock Exchange) and the Official Gazette (Cégközlöny) in cases required by applicable law.

Resolution proposals:

1. The General Meeting repeatedly approves the amendment of Section 1.4. of the Articles of Association in line with the submission.

2. The General Meeting repeatedly approves the amendment of Section 1.6. of the Articles of Association in line with the submission.

3. The General Meeting repeatedly approves the amendment of Section 1.8. of the Articles of Association in line with the submission.

4. The General Meeting repeatedly approves the amendment of Section 4.5. of the Articles of Association in line with the submission.

5. The General Meeting repeatedly approves the amendment of Section 5.1., 6.2. (i), 7.4.1. (b) and 8.3. of the Articles of Association in line with the submission.

6. The General Meeting repeatedly approves the amendment of Section 7.6. of the Articles of Association in line with the submission.

7. The General Meeting repeatedly approves the amendment of Section 8.4.5. of the Articles of Association in line with the submission.

8. The General Meeting repeatedly approves the amendment of Section 8.7. of the Articles of Association in line with the submission.

9. The General Meeting repeatedly approves the amendment of Section 15.2. of the Articles of Association in line with the submission.

Submission and resolution proposal for the repeated adoption of resolution 18/2008 (IV.25.) rendered ineffective:

According to Section 34 § (4) of the Gt. the Supervisory Board establishes its own Rules of Procedure that is approved by the supreme body of the company.

Certain references to laws were incorporated in the Rules of Procedure of the Supervisory Board based on which the Supervisory Board can carry out its supervisory duties as the Supervisory Board is committed to increase its efficiency and compliance of the Company with the rules of the Stock Exchange. References to the golden share were deleted form the text.

Resolution proposal:

The General Meeting repeatedly approves the amended and restated Rules of Procedure of the Supervisory Board with the modifications set out in the submission.

Annex:

- *Restated and amended text of the Rules of Procedure of the Supervisory Board (the changes are marked with backline)*

Submission and resolution proposal on the confirmation and approval of acting as the member of the Board on the basis of resolution no. 19-20/2008 (IV.25.) rendered ineffective:

Mr. Gregor Stücheli and Mr. Lothar Alexander Harings were elected to the Board of Directors by the General Meeting held on April 25, 2008. Though resolutions 19-20/2008 (IV.25.) regarding their election were rendered ineffective, the Board membership of Mr. Gregor Stücheli and Lothar Alexander Harings was terminated on April 2, 2009 therefore their re-election is not necessary. However, Mr. Gregor Stücheli and Mr. Lothar Alexander Harings acted as the members of the Board between April 25, 2008 and April 2, 2009, therefore the Company must confirm and approve that Mr. Gregor Stücheli and Mr. Lothar Alexander Harings acted as the members of the Board between April 25, 2008 and April 2, 2009.

Resolution proposal:

The General Meeting confirms and approves that Mr. Gregor Stücheli acted as the member of the Board of Directors between April 25, 2008 and April 2, 2009.

The General Meeting confirms and approves that Mr. Lothar Alexander Harings acted as the member of the Board of Directors between April 25, 2008 and April 2, 2009.

Submission and resolution proposal on the confirmation and approval of acting as the member of the Supervisory Board on the basis of resolution no. 21/2008 (IV.25.) rendered ineffective:

Zsoltné Varga, as an employee representative, was elected to the Supervisory Board (until May 31, 2010) by the General Meeting held on April 25, 2008. Resolution 21/2008 (IV.25.) regarding the election of Zsoltné Varga was rendered ineffective, however, she acted as the member of the Supervisory Board from April 25, 2008 until this day, therefore the Company must confirm and approve that Zsoltné Varga acted as the member of the Supervisory Board from April 25, 2008 until this date.

Resolution proposal:

The General Meeting confirms and approves that Zsoltné Varga acted as the member of the Supervisory Board from April 25, 2008 until this date.

Submission and resolution proposal on the confirmation and approval that the auditor acted as an auditor and its fee for Y2008 on the basis of resolution no. 22/2008 (IV.25.) rendered ineffective:

The April 25, 2008 General Meeting elected PricewaterhouseCoopers Kft (1077 Budapest, Wesselényi u. 16.; auditor s registration no: 001464), personally Márta Hegedűsné Szűcs as registered auditor (Chamber membership number: 006838, address: 2071 Páty, Várhegyi u. 6.; mother s maiden name: Julianna Hliva), and in case she is incapacitated Margit Gyurikné Sós (chamber membership number: 003662, mother s maiden name: Margit Varró, address: 1041 Budapest, Bercsényi u. 11.) to carry out the audit activities until the general meeting that closes the business year of 2008. Besides, the General Meeting approved HUF 72,000,000 + VAT + max 5% related costs + VAT (excluding the audit of internal controls as required by the Sarbanes-Oxley Act of 2002), to be the Auditor s annual compensation for the year 2008, covering the audit of the annual financial statements of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the annual consolidated financial statements of the Magyar Telekom Group prepared in accordance with International Financial Reporting Standards (IFRS).

Due to the fact that the assignment of the auditor was terminated on April 2, 2009 due to having performed the relevant duties it is not necessary to re-elect the auditor. Due to the fact that PricewaterhouseCoopers Kft. and Márta Hegedűsné Szűcs (or if she was incapacitated Margit Gyurikné Sós) as the personally responsible auditor acted as the auditor of the Company until April 2, 2009 with regard to Y2008, in order to exclude or minimalize any further problems regarding the resolution the Company must confirm and approve that PricewaterhouseCoopers Kft. and Márta Hegedűsné Szűcs (or if she was incapacitated Margit Gyurikné Sós) as the personally responsible auditor acted as the auditor of the Company until April 2, 2009 with regard to Y2008 for the above fee.

Resolution proposal:

The General Meeting confirms and approves that PricewaterhouseCoopers Kft. (1077 Budapest, Wesselényi u. 16.; auditor s registration no: 001464), personally Márta Hegedűsné Szűcs as registered auditor (chamber membership number: 006838; address: 2071 Páty, Várhegyi u. 6.; mother s maiden name: Julianna Hliva) acted until April 2, 2009 for year 2008 as the auditor of the Company. The General Meeting confirms and approves that if Márta Hegedűsné Szűcs was incapacitated Margit Gyurikné Sós (chamber membership number: 003662, mother s maiden name: Margit Varró, address: 1041 Budapest, Bercsényi u. 11.) acted as the responsible auditor of the Company.

The General Meeting confirms and approves that HUF 72,000,000 + VAT + max 5% related costs + VAT (excluding the audit of internal controls as required by the Sarbanes-Oxley Act of 2002), to be the Auditor s annual compensation for the year 2008, covering the audit of the annual financial statements of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the annual consolidated financial statements of the Magyar Telekom Group prepared in accordance with International Financial Reporting Standards (IFRS).

Magyar Telekom Telecommunications Public Limited Company

Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2007

Prepared in accordance with International Financial Reporting Standards (IFRS)

MAGYAR TELEKOM

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAGYAR TELEKOM

CONSOLIDATED BALANCE SHEETS

		At December 31,		
		HUF		USD
	Notes	2006 as restated (Note 2.1.5)	2007	2007 (unaudited Note 2.1)
		(In HUF millions)		(million USD)
ASSETS				
Current assets				
Cash and cash equivalents	6	60,207	47,666	276
Trade and other receivables	7	102,390	103,576	600
Other current financial assets	8.1	21,064	63,443	368
Current income tax receivable	9.2	6,735	1,857	11
Inventories	10	10,460	10,652	62
Non current assets held for sale	11	6,825	4,393	25
Total current assets		207,681	231,587	1,342
Non current assets				
Property, plant and equipment net	12	550,900	534,731	3,097
Intangible assets net	13	331,740	337,227	1,954
Investments in associates and joint ventures	14	5,771	4,936	29
Deferred tax assets	9.4	9,575	1,286	7
Other non current financial assets	8.2	23,786	24,965	145
Other non current assets	15	2,142	846	5
Total non current assets		923,914	903,991	5,237
Total assets		1,131,595	1,135,578	6,579
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	16	77,756	25,210	146
Other financial liabilities	17	29,903	44,666	259
Trade payables	18	81,392	87,989	509
Current income tax payable	9.2	1,736	2,365	14
Provisions	19	13,004	20,811	121
Other current liabilities	20	110,598	41,977	243
Total current liabilities		314,389	223,018	1,292
Non current liabilities				
Financial liabilities to related parties	16	185,432	254,432	1,473
Other financial liabilities	17	20,697	55,038	319
Deferred tax liabilities	9.4	5,647	2,714	16
Provisions	19	3,533	12,886	75
Other non current liabilities	21	8,730	5,797	34
Total non current liabilities		224,039	330,867	1,917
Total liabilities		538,428	553,885	3,209
EQUITY				
Shareholders equity				
Common stock		104,277	104,275	604
Additional paid in capital		27,380	27,379	159

Treasury stock	(1,504)	(1,179)	(7)
Cumulative translation adjustment	(1,474)	(688)	(4)
Revaluation reserve for available for sale financial assets net of tax		118	1
Reserve for equity settled share based transactions	49	49	
Retained earnings	397,311	385,044	2,231
Total shareholders equity	526,039	514,998	2,984
Minority interests	67,128	66,695	386
Total equity	593,167	581,693	3,370
Total liabilities and equity	1,131,595	1,135,578	6,579

These consolidated financial statements were authorized for issue by the Board of Directors on March 18, 2008 and signed on their behalf by:

/s/ Christopher Mattheisen
Christopher Mattheisen
Chairman and Chief Executive Officer

/s/ Thilo Kusch
Thilo Kusch
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED INCOME STATEMENTS

	Notes	**2005**	**2006**	**2007**	**USD 2007 (unaudited Note 2.1) (million USD)**
		For the year ended December 31, HUF (in HUF millions, except per share amounts)			
Revenue	22	615,054	671,196	676,661	3,920
Expenses directly related to revenues	23	(145,608)	(183,553)	(181,185)	(1,050)
Employee related expenses	24	(92,783)	(95,253)	(120,176)	(696)
Depreciation and amortization		(114,686)	(122,249)	(115,595)	(670)
Other operating expenses	25	(128,232)	(137,325)	(135,394)	(784)
Operating expenses		(481,309)	(538,380)	(552,350)	(3,200)
Other operating income	26	8,009	3,575	4,001	23
Operating profit		141,754	136,391	128,312	743
Finance expenses	27	(34,497)	(30,102)	(35,186)	(204)
Finance income	28	2,996	4,692	5,217	30
Share of associates and joint ventures profits	14	330	703	934	5
Profit before income tax		110,583	111,684	99,277	575
Income tax expense	9.1	(21,858)	(24,220)	(26,221)	(152)
Profit for the year		88,725	87,464	73,056	423
Attributable to:					
Equity holders of the Company (Net income)		78,415	75,453	60,155	349
Minority interests		10,310	12,011	12,901	75
		88,725	87,464	73,056	423
Earnings per share (EPS) information:					
Profit attributable to the equity holders of the Company		78,415	75,453	60,155	349
Weighted average number of common stock outstanding (thousands) used for basic EPS		1,038,803	1,040,321	1,041,070	1,041,070
Average number of dilutive share options (thousands)		417	290		
Weighted average number of common stock outstanding (thousands) used for diluted EPS		1,039,220	1,040,611	1,041,070	1,041,070
Basic earnings per share (HUF and USD)		75.49	72.53	57.78	0.33
Diluted earnings per share (HUF and USD)		75.46	72.51	57.78	0.33

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED CASHFLOW STATEMENTS

	Notes	2005 as restated (Note 2.1.5)	2006 as restated (Note 2.1.5)	2007	USD 2007 (unaudited Note 2.1)
		For the year ended December 31, HUF (in HUF millions)			(million USD)
Cashflows from operating activities					
Profit for the year		88,725	87,464	73,056	423
Depreciation and amortization		114,686	122,249	115,595	670
Income tax expense		21,858	24,220	26,221	152
Finance expenses		34,497	30,102	35,186	204
Finance income		(2,996)	(4,692)	(5,217)	(30)
Share of associates and joint ventures profits		(330)	(703)	(934)	(5)
Change in assets carried as working capital		(9,800)	(2,245)	6,897	40
Change in liabilities carried as working capital		8,212	8,913	25,592	148
Income tax paid		(11,479)	(19,388)	(12,343)	(72)
Dividend received		1,729	157	72	
Interest and other financial charges paid		(34,235)	(33,480)	(32,528)	(188)
Interest received		2,195	2,002	5,742	33
Other cashflows from operations		(7,802)	(6,797)	(5,999)	(35)
Net cash generated from operating activities		205,260	207,802	231,340	1,340
Cashflows from investing activities					
Purchase of property plant and equipment (PPE) and intangible assets	29	(103,587)	(96,790)	(103,097)	(597)
Purchase of subsidiaries and business units	30	(35,927)	(35,327)	(710)	(4)
Cash acquired through business combinations	5	1,866	379	485	3
Cash spun-off through demerger	2.2.2			(1,173)	(7)
Proceeds from / (payments for) other financial assets net		(22,121)	(13,495)	(39,491)	(229)
Proceeds from disposal of subsidiaries	5.5		115		
Proceeds from disposal of PPE and intangible assets		2,529	6,798	9,105	53
Net cash used in investing activities		(157,240)	(138,320)	(134,881)	(781)
Cashflows from financing activities					
Dividends paid to shareholders and minority interest		(84,551)	(77)	(162,558)	(942)
Proceeds from loans and other borrowings		263,329	183,051	283,184	1,641
Repayment of loans and other borrowings		(242,595)	(218,619)	(230,238)	(1,334)
Proceeds from sale of treasury stock		1,969	491	391	2
Net cash used in financing activities		(61,848)	(35,154)	(109,221)	(633)
Exchange gains / (losses) on cash and cash equivalents		1,259	1,569	221	1

Change in cash and cash equivalents		(12,569)	35,897	(12,541)	(73)
Cash and cash equivalents, beginning of year		36,879	24,310	60,207	349
Cash and cash equivalents, end of year	6	24,310	60,207	47,666	276

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Treasury stock (c)	Cumulative translation adjustment (d)	Revaluation reserve for AFS financial assets net of tax (e)	Reserve for equity settled share based transactions (f)	Retained earnings (g)	Shareholders equity	Minority interests (h)	Equity
Balance at December 31, 2004	1,042,811,600	104,281	27,382	(3,842)	(3,026)		178	390,861	515,834	60,097	575,931
Dividend (i)								(72,654)	(72,654)		(72,654)
Dividend declared to minority interests (j)										(11,913)	(11,913)
Business combinations (k)										9,447	9,447
Sale of Telit								495	495		495
Capital injection in TSH								669	669		669
Share options exercised by managers (m)				1,916				196	2,112		2,112
Share options exercised by CEO (m)							(143)		(143)		(143)
Share based payments (Note 24)							84		84		84
Change in reserve for AFS financial assets (e)						149			149	45	194
Cumulative Translation Adjustment					2,606				2,606	2,141	4,747
Profit for the year								78,415	78,415	10,310	88,725
Balance at December 31, 2005	1,042,811,600	104,281	27,382	(1,926)	(420)	149	119	397,982	527,567	70,127	597,694
Reduction in capital as a result of merger with T-Mobile H (n)	(43,385)	(4)	(2)					(12)	(18)		(18)
Dividend (i)								(76,122)	(76,122)		(76,122)

Dividend declared to minority interests (j)										(43)	(43)
Sale of Cardnet (o)										(71)	(71)
MakTel s purchase of its own shares (p)										(14,856)	(14,856)
Result of TSH s sale of a business unit (l)								205	205		205
Share based payments (Note 24)							36		36		36
Share options exercised by CEO (q)							(106)	(282)	(388)		(388)
Share options exercised by managers (m)				422				87	509		509
Change in reserve for AFS financial assets (e)						(149)			(149)	(45)	(194)
Cumulative Translation Adjustment					(1,054)				(1,054)	5	(1,049)
Profit for the year								75,453	75,453	12,011	87,464
Balance at December 31, 2006	1,042,768,215	104,277	27,380	(1,504)	(1,474)		49	397,311	526,039	67,128	593,167

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Treasury stock (c)	Cumulative translation adjustment (d)	Revaluation reserve for AFS financial assets net of tax (e)	Reserve for equity settled share based transactions (f)	Retained earnings (g)	Shareholders equity	Minority interests (h)	Equity
Balance at January 1, 2007	1,042,768,215	104,277	27,380	(1,504)	(1,474)		49	397,311	526,039	67,128	593,167
Dividend (i)								(72,729)	(72,729)		(72,729)
Dividend declared to minority interests (j)										(13,729)	(13,729)
Elimination of the B share (a)	100										
Share options exercised by managers (m)				325				66	391		391
Excess related to the acquisition of TSH (r)								3	3	1,540	1,543
TSH demerger (r)								243	243	(1,312)	(1,069)
Reduction in capital as a result of merger with T-Online and Emitel (t)	(22,700)	(2)	(1)					(5)	(8)		(8)
Change in reserve for AFS financial assets (e)						118			118	92	210
Cumulative Translation Adjustment					786				786	75	861
Profit for the year								60,155	60,155	12,901	73,056
Balance at December 31, 2007	1,042,745,615	104,275	27,379	(1,179)	(688)	118	49	385,044	514,998	66,695	581,693

Of which treasury stock	(1,503,541)
Shares of common stock outstanding at December 31, 2007	1,041,242,074

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (notes)

(a) The total amount of issued shares of common stock of 1,042,745,615 (each with a nominal value of HUF 100) is fully paid as at December 31, 2007. In addition to these shares, total shareholders equity included one Series B preference share at the nominal value of HUF 10,000 until September 30, 2007. This Series B share was held by the Ministry of Economics and Transport, and bestowed certain rights on its owner, including access to information, and the appointment of a Director. This share could only be held by the Government or its nominee. In order to comply with EU regulations, a new Hungarian regulation in 2007 required the Company to eliminate the B share and the special rights attached to it, consequently, the B share was transformed into 100 ordinary shares. The number of authorized ordinary shares on December 31, 2007 is 1,042,745,615.

(b) Additional paid in capital represents the amount above the nominal value of the shares that was received by the Company during capital increases.

(c) Treasury stock represents the cost of the Company s own shares repurchased.

(d) Cumulative translation adjustment represents the foreign exchange differences arising on the consolidation of foreign subsidiaries.

(e) Revaluation reserve for available for sale financial assets includes the unrealized gains and losses net of tax on available for sale financial assets. Any realized gains or losses are taken out of this reserve and recognized in the income statement.

(f) Reserve for equity settled share based transactions includes the compensation expenses accrued in equity related to share settled compensation programs. When equity instruments are issued or treasury shares are utilized as part of the program, the accumulated balance related to the particular program and employees is utilized, and is taken out of the reserve (Note 24).

(g) Retained earnings include the accumulated and undistributed net income of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2007 amounted to approximately HUF 248,000 million (HUF 294,000 million at December 31, 2006).

(h) Minority interests represent the minority shareholders share of the net assets of subsidiaries, in which the Group has less than 100% ownership.

(i) In 2007 Magyar Telekom Plc. declared HUF 70 dividend per share (HUF 73 in 2006, HUF 70 in 2005).

(j) The dividend declared to minority interests in 2005 almost entirely reflects the dividend declared by MakTel, Magyar Telekom s Macedonian subsidiary, to its minority shareholders. In 2006 MakTel did not declare dividends. The amount of dividend declared in 2006 to minorities includes the amount declared to the minority owners of smaller subsidiaries. The amount of dividend declared in 2007 to minorities includes predominantly the amount declared to the minority owners of Maktel and Crnogorski Telekom (CT).

(k) The increase in minority interests due to the business combinations in 2005 is the result of the acquisition of CT, in which the Group acquired a 76.53% share of ownership (Note 5.3.1).

(l) In 2006 TSH sold one of its business units to another member of Deutsche Telekom group. TSH s gain on the transaction (HUF 418 million) resulted in an increase of TSH s net assets, the Group s share of which (HUF 205 million) was recognized directly in retained earnings.

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (notes - continued)

(m) In 2005 Magyar Telekom s CEO and other managers exercised a portion of their share options, and the Company used its treasury shares reserved for the option programs. As a result of these transactions, the Company sold 2,443,341 of its treasury shares to the CEO and other managers at the fixed option prices. On the sale of the treasury shares the Company recognized a gain of HUF 53 million (HUF -143 million recognized against the Reserve for equity settled share based payments and HUF 196 million recognized in Retained earnings). In 2006 managers exercised further options, for which the Company used its treasury shares. As a result of these transactions, the Company sold 538,835 of its treasury shares to the managers at the fixed option prices. On the sale of the treasury shares the Company recognized a gain of HUF 87 million, which was recognized in Retained earnings. In 2007, managers exercised further options, for which the Company used its treasury shares. As a result of these transactions, the Company sold 414,283 of its treasury shares to the managers at the fixed option prices. On the sale of the treasury shares the Company recognized a gain of HUF 66 million, which was recognized in Retained earnings. For more details on the programs see Note 24.

(n) In 2006 Magyar Telekom Plc. merged with T-Mobile Hungary, its 100% subsidiary. During the merger, the owners of 43,385 shares expressed their intention not to participate as owners in the merged Company. Consequently, the Company withdrew these shares and paid off these owners with a corresponding decrease in Share capital, Additional paid in capital and Retained earnings, and the merged Company was registered with 43,385 less shares.

(o) In 2006 the Company sold the total of its 72% ownership in Cardnet, which resulted in the reduction of Minority interests (Note 5.5).

(p) In 2006 MakTel bought 10% of its own shares from the Government of Macedonia during a public tender issued for the sale of the Government shares. As a result of this transaction, Magyar Telekom s share of ownership increased from 51% to 56.67% resulting in a decrease in the minority interest in MakTel (Note 5.2.5).

(q) On December 5, 2006, Mr. Elek Straub, the former CEO and Chairman of the Company resigned. As part of the resignation agreement, Mr. Straub exercised 1,181,178 of his share options, of which 487,465 would only have vested on July 1, 2007, which was accelerated. The whole transaction was settled in cash instead of shares as intended by the original agreement. By December 31, 2006 the Company had accumulated HUF 155 million (including HUF 7 million for pre-mature vesting) in a Reserve for equity settled share based transactions, of which HUF 106 million was released. The closing balance of this reserve of HUF 49 million at the end of 2006 and 2007 represents the amount reserved for the 103,530 options (granted in 2000) Mr. Straub still has open (Note 24).

(r) As of January 1, 2007 Magyar Telekom acquired an additional 2% ownership in T-Systems Hungary (TSH) for a cost of HUF 60 million. The acquisition was accounted for at cost as the transaction took place between entities under common control, and resulted in an excess of HUF 3 million recognized in equity (Note 5.1.2).

(s) As of August 31, 2007 TSH had a legal split (spin-off), as a result of which the net assets and the equity of TSH were divided between the owners, after which Magyar Telekom became a 100% owner of the net assets and equity retained in TSH (Note 5.1.2). As the transaction took place between entities under common control, the spin-off was accounted for at cost, and resulted in an excess of HUF 243 million recognized in equity.

(t) In 2007 Magyar Telekom Plc. merged with T-Online Hungary s access business line and Emitel, its 100% subsidiaries. During the merger, the owners of 22,700 shares expressed their intention not to participate as owners in the merged Company. Consequently, the Company withdrew these shares and paid off these owners with a corresponding decrease in Share capital, Additional paid in capital and Retained earnings, and the merged Company was registered with 22,700 less shares.

Together with the approval of these financial statements for issue, the Board of the Company proposes a HUF 74 per share dividend distribution to be approved by the Annual General Meeting of the Company in April 2008.

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

Magyar Telekom Plc., (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal supplier of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria, Romania and in the Ukraine. These services are subject to various telecommunications regulations depending on the countries of operations (Note 1.3).

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company s registered address is Krisztina körút 55, 1013 Budapest, Hungary.

Magyar Telekom Plc. is listed on the Budapest and New York stock exchanges, its shares are traded on the Budapest Stock Exchange, while Magyar Telekom s American Depository Shares (ADSs) each representing five ordinary shares are traded on the New York Stock Exchange.

The immediate controlling shareholder of the Company is MagyarCom GmbH owning 59.21% of the issued shares, while the ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG).

The consolidated financial statements are prepared and presented in millions of Hungarian Forints (HUF), unless stated otherwise.

These financial statements of the Company were approved for issue by the Company s Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, have the right to require amendments before acceptance. As the owners are represented in the Board of the Company that approved these financial statements for issuance, the probability of any potential change required by the AGM is extremely remote, and has never happened in the past.

On February 22, 2005, the Extraordinary General Meeting approved the renaming of Magyar Távközlési Rt. (Matáv) to Magyar Telekom Rt. and the rebranding of its products, which was completed by December 2005. As agreed, DTAG supported the renaming and the product rebranding. The impact of renaming and product rebranding on the consolidated financial statements as of December 31, 2005 included HUF 7,281 million of expenditures accounted for in the operating expenses and a compensation by DTAG of HUF 7,281 million disclosed separately in Note 33

On December 20, 2005, Magyar Telekom s Extraordinary General Meeting approved the merger of Magyar Telekom Rt. and T-Mobile Magyarország Rt. (T-Mobile Hungary), a 100% subsidiary of Magyar Telekom Rt. As the merger occurred between the parent company and its 100% owned subsidiary, the transaction did not have any impact on the consolidated financial position of the Group or its operating segments, other than as disclosed in the notes to the Consolidated statements of changes in equity. The merger was registered by the Hungarian Court of Registration on February 28, 2006, from which date the two companies continued as one legal entity, Magyar Telekom Plc.

On June 29, 2007, Magyar Telekom s Extraordinary General Meeting approved the merger of Magyar Telekom Plc., Emitel Zrt. and the internet access business line of T-Online Magyarország Zrt. (T-Online), both of which were 100% subsidiaries of Magyar Telekom Plc. The remaining business lines of T-Online continued as a separate legal entity under the company name [origo] Zrt. . As the merger occurred between the parent company and its 100% owned subsidiaries, the transaction did not have any impact on the consolidated financial position of the Group or its operating segments other than as disclosed in the notes to the Consolidated statements of changes in equity. The merger was registered by the Hungarian Court of Registration as of September 30, 2007.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.2 Investigation into certain consultancy contracts

As previously disclosed, in the course of conducting their audit of our 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. identified two contracts the nature and business purposes of which were not readily apparent. In February 2006, our Audit Committee initiated an independent investigation into this matter. In the course of the investigation, two further contracts entered into by Magyar Telekom Plc. raised concerns. To date, the independent investigators have been unable to find sufficient evidence to show that any of the four contracts under investigation resulted in the provision of services to us or to our subsidiaries under those contracts of a value commensurate with the payments we made under those contracts. The independent investigators have been unable to determine definitively the purpose of the contracts, and it is possible that the purpose may have been improper. The independent investigators further identified several contracts at our Macedonian subsidiaries that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions. We have approved and have been implementing certain remedial measures designed to enhance our internal controls to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements.

As previously reported, the investigation delayed the finalization of our 2005 financial statements, and as a result we and some of our subsidiaries have failed and may fail to meet certain deadlines prescribed by U.S., Hungarian and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. To date we have been fined HUF 13 million as a consequence of these delays.

The Hungarian Financial Supervisory Authority, the Hungarian National Bureau of Investigation, the U.S. Securities and Exchange Commission and the U.S. Department of Justice have been informed of the investigation. The Company is in regular contact with these authorities regarding the investigation and are also responding to inquiries raised by and the investigations being conducted by these authorities under U.S. and Hungarian law. The U.S. Department of Justice has recently expanded the scope of its investigation to include the actions taken by the Company in response to the findings of and issues raised by the Company s internal investigation and a related subpoena and further document requests have been issued.

MAGYAR TELEKOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3 Public service concession and license arrangements

1.3.1 Hungarian Fixed line

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. Act C of 2003 on Electronic Communications, the latest act on the telecommunications sector, came into effect on January 1, 2004. The National Communications Authority (NCA) is the supreme supervisory body. Magyar Telekom Plc. and its former subsidiary, Emitel have been designated as universal service providers in their former concession areas. (Since Emitel merged legally into Magyar Telekom Plc., Magyar Telekom Plc. as the legal successor became the universal service provider in Emitel s former concession areas as well.)

According to the Act on Electronic Communications, universal services are basic communications services that should be available to all customers at an affordable price. Universal service providers are entitled to compensation for their net avoidable costs, except for the costs incurred from discount pricing plans offered to residential subscribers. In practice, Magyar Telekom Plc. has not received compensation since 2004.

The NCA assigned 18 relevant markets in the area of electronic communications in 2004. In 2004 and 2005 Magyar Telekom was designated as an SMP (an operator with significant market power) in 12 markets. These included all retail and wholesale voice markets, the market of wholesale leased line and termination, the market of minimum set of leased lines and the wholesale broadband market. At the end of 2006 the analysis of the 18 relevant markets was started again by the NCA. So far the analysis of 13 of these markets has been completed and 4 more are expected to be finalized in the near future. Magyar Telekom s SMP status has been confirmed on each analyzed markets and the same obligations have been imposed with minor modifications resulting in more detailed rules applying to service provision.

Currently in Hungary, retail voice tariffs are regulated in two ways. Price cap methodology is applicable for universal services and - based on SMP resolutions on residential and business access markets there is another formula used for subscription fees. In addition according to the law, retail prices should be set in accordance with wholesale tariffs providing an acceptable level of retail margins.

According to the Act on Electronic Communications, designated SMP operators like Magyar Telekom are obliged to prepare reference offers for unbundled local loops and bit-stream access (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP must be approved by the NCA. The price of these services has to be cost based and calculated according to the NCA resolution about the market of wholesale unbundled access to metallic loops published at the end of 2007 - by Long Run Incremental Costs (LRIC) method as opposed to using Fully Distributed Costs based on a 2003 Ministerial Decree.

The SMPs may refuse the offer for unbundling if there are technical barriers and providing access to the local loop or bit-stream access would endanger the integrity of the SMPs network. SMPs are also obliged to prepare reference offers for interconnection (RIO) and to provide these services in accordance with the reference offer when there is a request for them by other telecommunications service providers. The reference offers of the SMPs must be approved by the NCA, and prices have to be based on Long Run Incremental Costs (LRIC).

According to the Act on Electronic Communications, voice telephony customers have the right to select different service providers for each call directions including Internet calls by dialing a pre-selected number or by using a call-by-call pre-fixed number. The requirements for carrier selection are set out in the interconnection agreements between the affected service providers.

Fixed line telecommunications service providers are obliged under the law to provide number portability on their networks starting January 1, 2004. This means that service providers must enable subscribers to change service provider without changing their telephone numbers within the same numbering area.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, MakTel. MakTel is the largest fixed line service provider in Macedonia. The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL), enacted in March 2005. MakTel has a concession contract (under the old Telecommunications Act) to provide services until December 31, 2018. Further, MakTel had been granted the exclusive rights in (a) fixed voice telephony services, leased line services and (b) to construct, lease, own, develop, maintain and operate fixed public telecommunications networks until December 31, 2004. These exclusive rights included local, national and international long distance public fixed voice services independently of the technology used, including voice over Internet Protocol services.

During the exclusivity period MakTel was obliged to provide universal services. On December 27, 2007 the Commission of Agency for Electronic Communications (Agency) brought decision to publish public tender for the universal provider of electronic communications services in the Republic of Macedonia.

The regulatory framework for the tariff regulation for MakTel is provided in the currently valid Concession Contract. With the enactment of the ECL, the Agency may regulate retail prices of fixed telephony services. MakTel has cost based price obligation for the Regulated wholesale services, fully distributed costs (FDC) methodology until July 2007 and Long Run Incremental Costs methodology (LRIC) subsequently. Proposal for interconnection fees with LRIC were submitted by the Company in July 2007, Agency approval is expected in the forthcoming period.

Harmonization of the Concession Contracts with the provisions of the ECL is ongoing. Draft version of the Contract for harmonization of the provisions of the existing Concession Contracts with the provisions of ECL was prepared and agreed between the operators (MakTel, T-Mobile Macedonia and Cosmofon) and the Ministry of Transport and Communications. The above mentioned Contract is waiting approval from the representatives of European Commission in order to be signed.

Under the ECL, MakTel has been designated as an SMP in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines. MakTel as an SMP operator has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with officially signed interconnection contract. On November 15, 2006, MakTel signed the first RIO based Interconnection Agreement with an alternative fixed network operator. The launch of the competitors offers for long-distance, fixed to mobile and international calls started at the end of first quarter of 2007. Number portability was scheduled to be fully implemented by July 1, 2007, however, the implementation of number portability was technically infeasible within the given timeframe. The technical description of interfaces and Central Database (CDB) were issued in March 2007. The agency announced a public tender on April 30, 2007 for the provider of the CDB. The tender was cancelled until further notice. MakTel s estimation is that number portability will be implemented in the company network in the third quarter of 2008.

1.3.3 Montenegrin Fixed line

The Group s Montenegrin subsidiary, Crnogorski Telekom (CT) is the holder of one of the licenses issued for fixed line telecommunications services in Montenegro. The license allows CT to provide domestic voice and data services as well as VOIP, leased line, public payphone, and cable television, value added, etc. services. A separate license allows CT to provide international telecommunication services. In order not to endanger the launch of its IPTV services, CT applied for and received in 2007 a license to distribute television programs via its network from the Broadcasting Agency, although CT s fixed license from the Telecommunication Agency already allows this activity to be performed.

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The telecommunications sector in Montenegro is regulated by the 2000 Law. The 2000 Law established the Telecommunications Agency with broad authority and instituted a licensing regime whereby all telecommunications activity must be licensed by the Telecommunications Agency. Although a Competition Law came into force in 2006, a competition agency has not yet been instituted. A Customer Protection Law adopted in 2007 is in implementation phase as well.

Prices of CT must be approved by the Telecommunications Agency. The rebalancing of prices was successfully implemented on September 1, 2007.

Although the 2000 Law defines universal service, no legislation covering universal service has been enacted to date.

CT has an obligation to enter into interconnection agreements in a transparent and non-discriminatory way with operators requesting access to CT s network. The 2000 Law requires CT to publish a reference interconnection offer (RIO) however CT has the freedom to agree with operators on terms different from those set in the RIO.

There is no obligation for number portability, local loop unbundling, bit stream access or accounting separation in Montenegro yet. Carrier selection has not been implemented by CT as the imposing legislation was issued by the Agency without legal authority to do so.

In 2007 cable television and WiMax based fixed wireless access operations commenced in Montenegro based on licenses distributed during the year. CT successfully launched its Extra TV IPTV service.

Montenegro signed a Stabilization and Association Agreement with the EU and a transitory Agreement is in force since 1 January, 2008. The agreement is very similar to the agreements signed with Croatia and Macedonia requiring the harmonization of the telecommunications regulations with the regulatory framework of the EU. In the case of Montenegro, the expected amendment of the 2000 Law will achieve most of that goal.

1.3.4 Hungarian Mobile

The Company is also the market leader in the Hungarian mobile market through the brand T-Mobile (T-Mobile HU).

The initial duration of the concession regarding the GSM 900 public mobile radio telephone service is a period of 15 years starting from the execution of the concession agreement (November 4, 1993 to November 4, 2008). On October 7, 1999 an amended concession contract was signed between the Ministry of Transport, Communications and Water Management and T-Mobile HU extending T-Mobile HU s rights and obligations to also provide service in the 1800 MHz band in Hungary to October 7, 2014. As included in the concession contracts, the Minister is entitled to extend the concession period for both services upon their expiration for another 7.5 years without the issuance of a tender invitation. On November 8, 2007, the Company signed the renewed Concession Contract along with the Cooperation Agreement with the Minister that will be effective from November 2008. The new Concession Contract prolonged the duration of the 900 MHz frequency usage right till May 4, 2016.

On December 7, 2004, T-Mobile HU obtained the exclusive right of use of certain frequency blocks for the deployment and operation of an IMT2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until December 7, 2019) with an option to extend it for another 7.5 years. T-Mobile HU was obliged by the term of the license decree to start commercial 3G service within 12 months after the acquisition of the license within the inner city of Budapest, which was completed. We were

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

also obliged to reach a population-wide coverage of 30% within 36 months of license acquisition which was also completed in December 2006. On August 26, 2005 T-Mobile HU started to provide 3G service and has been operating it in compliance with the license conditions.

T-Mobile HU is subject to number portability regulation since May 2004.

In January 2005 and October 2006 the NCA designated T-Mobile HU as having significant market power in the mobile voice call termination market, and it is currently subject to regulatory obligations regarding the termination charge of calls into its network.

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), Magyar Telekom s subsidiary, is the leading mobile service provider in Macedonia, which has a concession contract (concluded under the old Telecommunications Act) to provide public mobile telephony services and public mobile telecommunication networks until December 31, 2018, which can be renewed for additional 20 years without a tender. According to the concession agreement, T-Mobile MK has the authorization to provide public mobile telephony services and to construct, lease, own, develop, maintain and operate mobile public telecommunications networks throughout the entire territory of the Republic of Macedonia and between locations within Macedonia and places outside of Macedonia. T-Mobile MK is also registered to provide a public network for data transmission and radio transmission, with the corresponding data transmission and radio communications services, according to the ECL.

After the analysis of the market Call termination services in public mobile communication networks the Agency on November 26, 2007 brought a decision by which T-Mobile MK and Cosmofon were designated with SMP status and several obligations were imposed (interconnection and access, transparency in interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting).

Under the Concession Agreement, T-Mobile MK has the exclusive license to use bandwidth of 25 MHz in the GSM 900 band. T-Mobile MK s use of these frequencies is subject to terms and conditions set forth in the Concession Agreement.

1.3.6 Montenegrin Mobile

T-Mobile Crna Gora (T-Mobile CG), Magyar Telekom s subsidiary, is the holder of one of three GSM/UMTS licenses issued in Montenegro. T-Mobile CG was launched on July 1, 2000. It arrived as the second mobile telecommunications operator in Montenegro four years after the first one. The third mobile operator entered the market in 2007. T-Mobile started 3G operations in 2007.

The telecommunications sector in Montenegro is regulated by the Telecommunications Law that, however, has no specific prescriptions for mobile operators.

T-Mobile CG has to inform the Telecommunications Agency about planned changes in its tariffs, however, the Agency has no right to interfere with the pricing policy of the company.

No obligation for number portability is in force.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements also comply with §10 of the Hungarian Accounting Law. All IFRSs issued by the IASB, effective at the time of preparing the consolidated financial statements and applied by Magyar Telekom, have been adopted for use in the European Union (EU) by the European Commission. Therefore the consolidated financial statements also comply with IFRS as adopted by the EU.

The consolidated financial statements are shown in millions of HUF. For the convenience of the reader, the consolidated balance sheet, income statement and cashflow statement for the year 2007 are also presented in millions of U.S. dollars (USD) translated at a rate of HUF 172.61 to USD 1 (the official rate of the National Bank of Hungary at December 31, 2007). These translations are un-audited supplementary information, and are not in compliance with IFRS.

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.

2.1.1 Standards, amendments and interpretations effective and adopted by the Group in 2007

- IFRS 7 Financial Instruments: Disclosures, and the complementary Amendment to IAS 1 - Presentation of Financial Statements Capital Disclosures. IFRS 7 introduced new disclosures relating to financial instruments. The Group included the additional disclosures required by IFRS 7 in the financial statements.
- IFRIC 8 Scope of IFRS 2. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 had no impact on the Group s financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cashflows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 had no impact on the Group s financial statements as the Group has an insignificant amount of contracts, which may have separable embedded derivatives in them.
- IFRIC 10

Interim Financial Reporting and Impairment. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. IFRIC 10 has no effect on annual financial statements, therefore, it had no impact on the Group s present financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1.2 Standards, amendments and interpretations effective in 2007 but not relevant for the Group

- IFRIC 7 Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period.

2.1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

- IFRS 8 Operating Segments. Under IFRS 8, segments are components of an entity regularly reviewed by an entity s chief operating decision-maker. Items are reported based on the internal reporting. IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group will adopt IFRS 8 in 2009, which will result in a significant restructuring of the Group s segment disclosure. The Group restructured the way chief operating decision makers will decide on allocation of resources as of January 1, 2008, which is significantly different from the reportable segments of the Group. From 2008, the Group s segments are measured at different earnings level, which is not accepted by IAS 14, the current standard on segment reporting. As no comparatives will be available next to 2008, the Group will not early adopt IFRS 8 in 2008.

- IFRS 2 (amended). In January 2008 the IASB published the amended Standard IFRS 2 - Share-based Payment. Main changes and clarifications include references to vesting conditions and cancellations. The changes to IFRS 2 must be applied in periods beginning on or after January 1, 2009. The European Union has not yet endorsed the standard. The Group has no significant share based compensations, therefore, we do not expect the amended standard to have a significant effect on the Group when applied.

- IFRS 3, IAS 27 (amended). In January 2008 the IASB published the amended Standards IFRS 3 - Business Combinations and IAS 27 - Consolidated and Separate Financial Statements. The major changes compared to the current version of the standards are summarized below:

  - With respect to accounting for non-controlling interest (new term for minority interest) an option is added to IFRS 3 to permit an entity to recognize 100% of the goodwill of the acquired entity, not just the acquiring entity s portion of the goodwill (full goodwill option) or to measure non-controlling interest at its fair value. This option may be elected on a transaction-by-transaction basis.

  - In a step acquisition, the fair values of the acquired entity s assets and liabilities, including goodwill, are measured on the date when control is obtained. Accordingly, goodwill will be measured as the difference at the acquisition date between the fair value of any investment the business held before the acquisition, the consideration transferred and the net asset acquired.

  - A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and gain or loss is not recognized.

- A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss.

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- Acquisition related costs will be accounted for separately from the business combination, and therefore, recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it will be recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill.

- The revised standards require an entity to attribute their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

- Effects resulting from an effective settlement of pre-existing relationships (relationships between acquirer and acquiree before the business combination) must not be included in the determination of the consideration.

- In contrast to current IFRS 3, the amended version of this standard provides rules for rights that have been granted to the acquiree (e.g. to use its intellectual property) before the business combination and are re-acquired with the business combination.

- The revised IFRS 3 brings into scope business combinations involving only mutual entities and business combinations achieved by contracts alone.

- The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

The amended version of IFRS 3 has to be applied for Business Combinations with effective dates in annual periods beginning on or after July 1, 2009. Early application is allowed but restricted on annual periods beginning on or after June 30, 2007. The changes to IAS 27 must be applied in periods beginning on or after July 1, 2009. Early application is allowed. Early application of any of the two standards requires early application of the other standard, respectively. The European Union has not yet endorsed these standards (amended). The Group is currently analyzing the impact the revised standards will have on the financial statements of the Group.

- IAS 23 Borrowing Costs (Revised March 2007). Under the revised IAS 23 an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group will adopt IAS

23 in 2008, but does not expect IAS 23 (revised) to have material impact on Group s accounting policies as it is already the Group s accounting policy to capitalize eligible borrowing costs on qualifying assets.

• IFRIC 11 Interpretation to IFRS 2 - Group and Treasury shares transactions. Under IFRS 2 it was not defined exactly how it should be calculated where the employees of a subsidiary received the shares of a parent. IFRIC 11 clarifies that certain types of transactions are accounted for as equity-settled or cash-settled transactions under IFRS 2. It also addresses the accounting for

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share-based payment transactions involving two or more entities within one group. The Group will apply this Interpretation from January 1, 2008. We do not expect IFRIC 11 to have material impact on the Group s accounts.

• IFRIC 12 Service Concession Agreements. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. The Group will apply this Interpretation from January 1, 2008. We do not expect IFRIC 12 to have material impact on the Group s accounts.

• IFRIC 13 Customer Loyalty programs. This Interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The Group will apply this Interpretation from January 1, 2009. We do not expect that IFRIC 13 may cause material changes in the Group s accounting treatments (see Note 19.2).

• IAS 1 (revised) - Presentation of Financial statements. Revised IAS 1 introduces overall requirements for the presentation of financial statements, guideline for their structure and minimum requirements for their contents. The Group will apply this Interpretation from January 1, 2009. The Group is currently analyzing the potential changes revised IAS 1 may cause in the presentation of the Group s financial statements.

2.1.4 Standards, amendments and interpretations that are not yet effective and not relevant for the Group s operations

• IAS 32 (amended). In February 2008, the IASB amended IAS 32 with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity. The amendments have detailed criteria for identifying such instruments. The amendments of IAS 32 are applicable for annual periods beginning on or after January 1, 2009, but are not yet endorsed by the EU. As the Group currently does not have such instruments that would be affected by the amendments, the amendments to the standard are not expected to have any impact on the Group s financial statements.

• IFRIC 14 Interpretation on IAS 19 - The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction. IFRIC 14 provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This Interpretation is not applicable to the Group as the Group has no funded defined post-retirement benefit schemes.

2.1.5 Changes in disclosures

(a) Cash and cash equivalents

In the 2007 financial statements of Magyar Telekom, the bank balances with original maturities over 3 months have been reclassified and now are shown as financial investments as opposed to the disclosure in prior years, when these were disclosed as cash and cash equivalents, which was not in line with the disclosed policies of the Group. Prior year disclosures have been restated accordingly. The reclassification had no impact on

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equity, net income or EPS.

The table below shows the impact of the above change in disclosure.

	2005	2006
	in HUF millions	
Cash		
As reported	46,060	77,840
Change	(21,750)	(17,633)
As restated	24,310	60,207
Other financial assets current		
As reported	1,817	2,692
Change	21,750	17,633
As restated	23,567	20,325
Investing cashflows		
As reported	(131,566)	(122,259)
Change	(21,750)	4,117
As restated	(153,316)	(118,142)

(b) Reclassifications in the Cashflow statement

From 2007, the Group has changed the classification of certain items in the Cashflow statement. The classification in the 2005 and 2006 Cashflow statements have been amended to provide comparable information with the 2007 disclosure. The changes affected the following lines:

- Dividend received: Previously included in investing cashflow, included in operating cashflow from 2007
- Interest received: Previously included in investing cashflow, included in operating cashflow from 2007
- Change in finance lease receivable: Previously included in operating cashflow (change in receivables), included in investing cashflow from 2007 (Proceeds from / (payments for) other financial assets net)

IAS 7 Cash Flow Statements allows the disclosure of these items in both the operating and the investing section. The Group decided to change its past practice as we believe that proceeds from interest and dividend are closely related to the income generated by the Group, which the operating cashflow mostly reflects. We believe that it also helps the users of the financial statements to determine the ability of the Group to pay dividends out of operating cashflows. On the other hand, investments in finance leases closely related to the telecommunications operations of the Group, are more similar to regular investments in PPE that are disclosed in the investing section of Cashflow statement than regular receivables that are part of working capital.

The table below shows the amounts that were reclassified between the operating and the investing cashflows in prior years.

	2005	2006
	in HUF millions	
Dividend received	1,729	157
Interest received	2,195	2,002
Change in investment in finance leases		(18,019)

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(c) Reclassifications between liabilities and provisions

See Note 19.5 for the details.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies as to obtain benefit from its activities, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are also considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are no longer consolidated from the date control ceases. The purchase method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (Other income).

In case of acquisitions where the transaction takes place between companies under common control (i.e. with other Deutsche Telekom group companies), the transaction is recorded at the carrying amounts as recorded in the predecessor s accounts, and any gains, losses or differences between the carrying amount and the sale-purchase price are recognized in retained earnings.

Inter-company transactions, balances and unrealized gains on transactions between the Magyar Telekom Group companies are eliminated. Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Transactions with minority interests are treated as third party transactions. Gains or losses arising on disposals to minority interests are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary.

2.2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally embodying in a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities in which the Group has an ownership of 50% with and equivalent external partner holding the other 50% of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group s investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group s share of its associates and joint ventures post-acquisition profits or losses is recognized in the income statement (Share of associates and joint ventures profits). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group s share of losses in an associate or joint venture equals or exceeds its interest in the entity, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group s interest in the entity. Accounting policies of associates and joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

At December 31, 2007 and 2006 the principal operating subsidiaries and associates and joint ventures of the Group were as follows:

	Group interest in capital as at December 31,		
Subsidiaries	**2006**	**2007**	**Activity**
Incorporated in Hungary:			
T-Kábel	100.00%	100.00%	Cable TV operator
Dataplex	100.00%	100.00%	IT hardware co-location service provider
T-Online / [origo]	100.00%	100.00%(a)	Internet service and content provide
Emitel	100.00%	n/a(a)	Local fixed line telecom service provide
BCN Rendszerház (BCNR)	100.00%	100.00%	System integration and IT services
KFKI-LNX (KFKI)	100.00%	100.00%	System integration and IT services
T-Systems Hungary (TSH)	49.00%	100.00%(b)	System integration and IT services
Pro-M	100.00%	100.00%	Professional Mobile Radio (PMR) network operator (Note 22 (a))
Incorporated in Macedonia:			
Makedonski Telekommunikacii (MakTel)	56.67%	56.67%	Fixed line telecom service provider
T-Mobile Macedonia (T-Mobile MK)	56.67%	56.67%	Cellular telecom service provider
Stonebridge	100.00%	100.00%	Holding company
Incorporated in Montenegro:			
Crnogorski Telekom (CT)	76.53%	76.53%	Fixed line telecom service provider
T-Mobile Crna Gora (T-Mobile CG)	76.53%	76.53%	Cellular telecom service provider
Internet Crna Gora (ICG)	76.53%	76.53%	Internet service and content provider
Incorporated in Romania:			
Combridge	100.00%	100.00%	Alternative telecommunications service provider
Incorporated in Bulgaria:			
Orbitel	100.00%	100.00%	Alternative telecommunications and internet service provider

(a) In 2007, Magyar Telekom s Extraordinary General Meeting approved the merger of Magyar Telekom Plc., Emitel Zrt. and the internet access business line of T-Online Magyarország Zrt. (T-Online), both of which were 100% subsidiaries of Magyar Telekom Plc. The remaining business lines of T-Online continued as a separate legal entity under the company name [origo] Zrt. .

(b) T-Systems Hungary was an associate of the Group until January 2007, when Magyar Telekom acquired an additional 2% share in TSH. In August 2007, TSH had a legal split (spin-off), as a result of which the net assets and the equity of TSH were divided between the owners, after which Magyar Telekom became a 100% owner of the net assets and equity retained in TSH (Note 5.1.2).

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	Group interest in capital as at December 31,		
Associates / Joint ventures	**2006**	**2007**	**Activity**
Incorporated in Hungary:			
Magyar RTL (M-RTL)	25%	25%	Television broadcast company
IKO-Telekom Media Holding (ITMH)	50%	50%	Media holding company
Hunsat	50%	50%	Satellite telecommunications
T-Systems Hungary (TSH)	49%	n/a(a)	System integration and IT services

(a) T-Systems Hungary (TSH) became a consolidated subsidiary of the Group in January 2007, when Magyar Telekom acquired an additional 2% share in TSH (Note 5.1.2).

The Group s interest in the capital of the above subsidiaries, associates and joint ventures equals the voting rights therein.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in millions of HUF, which is the Company s functional and presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement (Finance income).

2.3.3 Group companies

The results and financial position of all of the Group s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- For the initial consolidation of foreign subsidiaries acquired, their assets and liabilities at the acquisition date are incorporated into the consolidated financial statements after translating the balances into HUF using the exchange rate prevailing at the date of acquisition. The fair value adjustments resulting from the purchase price allocation and goodwill are accounted for in HUF for acquisitions before March 31, 2004, after which date these adjustments arising on consolidation are accounted for in the functional currency of the subsidiary as required by IAS 21 The Effects of Changes in Foreign Exchange Rates.

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- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

- Income statements are translated at average exchange rates.

- All resulting exchange differences are recognized directly in the consolidated equity (Cumulative translation adjustment). When a foreign operation is fully or partially disposed of, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

2.4 Financial instruments

Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, derivatives and other non-derivative financial assets.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks and related parties, finance lease payables and derivative financial liabilities.

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:

(a) at fair value through profit or loss

(b) loans and receivables

(c) available-for-sale (AFS)

(d) held-to-maturity

Finance lease receivables and liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 Leases.

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at their initial recognition.

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss measurement category includes the following financial assets:

- Financial assets that are designated as at fair value through profit or loss using the fair value option as per IAS 39.
- Financial assets incurred for the purpose of selling immediately or in the near term and thus classified as held for trading .

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- Derivative financial assets are classified as held for trading. For details please refer to Note 2.4.2./b

Assets in this category are classified as current assets (Other financial assets).

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognized in the income statement (Other financial income) in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are included in current assets, except those with maturities over 12 months after the balance sheet date. These are classified as non-current assets.

The following items are assigned to the loans and receivables measurement category.

- cash and cash equivalents
- receivables and loans to third parties
- trade receivables
- employee loans
- other receivables (e.g. interest receivables)

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement (Other operating expenses Bad debt expense).

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, Magyar Telekom includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

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The Group s benchmark policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

Individual valuation is carried out for customers under litigation; bankruptcy proceedings and for the total receivables of customers with overdue receivables. Itemized valuation should also be performed in special circumstances, if there is an overdue receivable from any designated customer with different credit risk attributes.

Receivables from associates and joint ventures and other related parties are not to be impaired.

When a trade receivable is established to be uncollectible, it is written off against the income statement (Bad debt expense). Subsequent recoveries of amounts previously written off are credited against the same line of the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor s credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the income statement.

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as interconnection receivables and payables).

Employee loans

Employee loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits. Interest income on the loan granted calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Employee related expenses evenly over the term of the loan.

(c) Available-for-sale financial assets (AFS)

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in other non current financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date. In this latter case they are included in current assets (Other financial assets).

The available-for-sale financial assets measurement category includes:

- listed equity instruments that are neither fully consolidated nor included using the equity method in the consolidated financial statements
- unlisted equity instruments that are neither fully consolidated nor included using the equity method in the consolidated financial statements
- debt instruments

AFS financial assets are initially recognized at fair value and also subsequently carried at fair value. The unrealized changes in the fair value of monetary and non-monetary securities classified as available-for-sale

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financial assets are recognized in equity (Revaluation reserve for AFS financial assets).

When securities classified as available-for-sale are sold, the fair value adjustments accumulated in equity are recognized in the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement (Finance income).

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If any such evidence exists for AFS financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(d) Held-to-maturity investments

Held-to-maturity measurement category includes non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

A typical example of a held-to-maturity investment is a fixed-income security that the Group has acquired with the positive intent and ability to hold to maturity.

2.4.2 Financial liabilities

There are two measurement categories for financial liabilities used by the Group:

(a) Financial liabilities carried at amortized cost

(b) Financial liabilities at fair value through profit or loss

(a) Financial liabilities carried at amortized cost

The measurement category for financial liabilities measured at amortized cost includes all financial liabilities not classified as at fair value through profit or loss .

Loans and other borrowings

Borrowings are recognized initially at fair value less transaction costs, and subsequently measured at amortized costs using the effective interest rate method. The effective interest is recognized in the income statement (Finance expenses) over the period of the borrowings.

Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The carrying values of trade and other payables approximate their fair values due to their short maturity.

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(b) Financial liabilities at fair value through profit or loss

Since the Group currently has no intention of measuring non-derivative financial liabilities at fair value, generally derivative financial instruments are assigned to this category.

The Group does not designate any financial derivatives as hedging instruments. Therefore all financial derivatives are classified as held for trading .

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and their fair values are re-measured at subsequent balance sheet dates. Magyar Telekom does not apply hedge accounting for its financial instruments, therefore all gains and losses are recognized in the income statement (Finance income).

The fair value of derivative financial instruments is included in financial assets or financial liabilities (current or non current).

According to IAS 39 the Group considers only those contracts as a separable host contract and an embedded derivative, which are denominated neither in the functional currency of either of the contracting parties nor in a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place (e.g. a relatively stable and liquid currency that is commonly used in local business transactions or external trade). The Group has identified EUR and USD (except Montenegro) as currencies widely used in the Group s operating area.

2.5 Inventories

Inventories are stated at the lower of cost or net realizable value using the historical cost method of accounting, and are valued on a weighted average or FIFO basis.

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods (Note 4.6). Such loss on the sale of equipment is only recorded when the sale occurs if the cost of the phone sets is lower than the normal resale value.

2.6 Non current assets held for sale

Assets held for sale include real estate that is no longer needed for the future operations of the Group, and has been identified for sale, which is expected to take place within 12 months. These assets are accounted for at the lower of carrying value or fair value less cost to sell. Depreciation is discontinued from the date of designation to the held for sale status. When an asset is designated for sale, and the fair value is determined to be lower than the carrying amount, the difference is recognized in the income statement (Depreciation and amortization) as an impairment loss.

2.7 Property, plant and equipment (PPE)

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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is also included in the costs if the obligation incurred can be recognized as a provision according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Government grants relating to the purchase of PPE are deducted from the original cost of the items and are recognized in the income statement through the reduced amount of depreciation of the related assets over their useful lives. Investment tax credits relating to qualifying investment projects (Note 9.5) are also recognized in this manner.

Cost in the case of telecommunications equipment comprises of all expenditures including the cabling within customers premises and interest on related loans.

Subsequent expenditure on an asset that extends the asset s useful life or functionality is capitalized, while maintenance and repairs are charged to expense when incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the income statement as depreciation expense.

When assets are sold, the cost and accumulated depreciation are removed from the accounts and any related gain or loss is recognized in the income statement (Other operating income).

Depreciation is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives and residual values for consistency with current development plans and advances in technology.

The useful lives assigned are as follows:

	Years
Buildings	10 - 50
Duct, cable and other outside plant	25 - 38
Other telecommunications equipment	6 - 15
Other equipment	3 - 12

2.8 Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use. These costs are amortized over the estimated useful life of the software. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee related costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives. As these assets represent an immaterial portion of all software, these are not disclosed separately.

Costs associated with the acquisition of long term frequency licenses are capitalized including any related borrowing costs. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life.

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Goodwill represents the excess of the cost of an acquisition over the fair value of the Group s share of the net assets and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Impairment testing is carried out on an annual basis for all goodwill in the last quarter of the year based on the carrying values as at September 30 of the year. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other than goodwill, the Group has no intangible assets with indefinite useful life. Intangible assets other than goodwill are amortized over their respective economic useful lives, as indicated below.

	Years
Software	3 - 5
Concessions and licenses	8 - 25
Other intangible assets	3 - 10

In determining whether an asset that incorporates both intangible and tangible elements should be treated under IAS 16 - Property, Plant and Equipment or as an intangible asset under IAS 38 Intangible Assets, management uses judgment to assess which element is more significant and recognizes the assets accordingly.

2.9 Impairment of PPE and intangible assets

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows (cash-generating units - CGUs).

Goodwill is allocated to cash generating units. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Magyar Telekom allocates goodwill to its primary business segments, and conducts the impairment testing at this level, which is the lowest level at which management monitors goodwill. Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred.

The fair values of investments in subsidiaries listed on active stock exchanges are based on current bid prices. If the market for the shares of subsidiaries is not active or the subsidiaries are not listed and for 100% owned subsidiaries the Group establishes fair value by using valuation techniques. These include the use of recent arm s length transactions, reference to other instruments that are substantially the same, discounted cashflow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair values determined as described above are used as a basis when establishing the need for an impairment on the goodwill allocated to the cash generating units of the segments. See also Note 4.

Corporate assets which have the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs based on the ratio of carrying amounts of CGUs.

2.10 Provisions and contingent liabilities

Provisions are recognized when Magyar Telekom has a present legal or constructive obligation as a result of

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past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Provisions for obligations expected to fall due after 12 months are recognized at their present value and are accreted until utilization or reversal against Finance expense.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.11 Treasury stock

When the Company or its subsidiaries purchase the Company s equity shares, the consideration paid including any attributable incremental external costs are deducted from the Shareholders equity as Treasury stock until they are re-sold or cancelled. When such shares are subsequently sold, the treasury share balance decreases by the original cost of the shares, thereby increasing the equity, while any gains or losses are also recognized in equity (Retained earnings). Treasury stock transactions are recorded on the transaction date.

2.12 Revenues

2.12.1 Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to Magyar Telekom s customer subscribers and other third parties using Magyar Telekom s telecommunications network, and equipment sales. Revenues for all services and equipment sales (Note 22) are shown net of VAT, discounts and excluding sales within the Group. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group and all other specific recognition criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Group s services and sale of goods described below.

Customer subscriber arrangements typically include an activation fee, equipment sale, subscription fee and monthly charge for the actual airtime used. The Company considers the various elements of these arrangements to be separate earnings processes and classifies the revenue for each of the deliverables into the categories as disclosed in Note 22 using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Group recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the balance sheet item as Trade receivables. If the total actual and estimated expenses exceed revenues for a particular contract, the loss is recognized immediately.

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The Group provides customers with narrow and broadband access to its fixed and mobile network. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period it relates to.

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer s final acceptance of the arrangement.

Advertising revenues are recognized in the period that the advertisements are exhibited.

Revenues from operating leases are recognized on a straight line basis over the period the services are provided.

Revenues from mobile roaming customers of the Group and other service providers are recognized at the time of the usage, and presented on a gross basis.

Value added services mostly include SMS, MMS, WAP as well as directory assistance and similar services. Value added services, where the Group does not act as a principal in the transaction, are included in this category on a net basis. Revenues from premium rate services are also included in this category, recognized on a gross basis when the delivery of the service over Magyar Telekom s network is the responsibility of the Group and the Group also bears substantial risks of these services, otherwise presented on a net basis.

Customers may also purchase public phone cards, prepaid mobile and internet cards which allow those customers to use Magyar Telekom s telecommunications network for a selected amount of time. Customers must pay for such services at the date when the card is purchased. Revenues from the sale of public phone cards, prepaid mobile cards and prepaid internet cards are recognized when used by the customers or when the cards expired with unused traffic.

Third parties using Magyar Telekom s telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on Magyar Telekom s network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where appropriate. The revenues and costs of these transit calls are stated gross in these consolidated financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and recognized in the period of related usage.

2.12.2 System integration and IT revenues

Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of 2-3 years. Revenues for voice and data services are recognized under such contracts when used by the customer.

Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. The contracts are analyzed based on the requirements of IFRIC 4 - Determining whether an Arrangement contains a Lease, and if they include embedded lease elements, the revenues attributable to these are recognized according to IAS 17 - Leases as disclosed in Note 2.17.

Revenue from systems integration contracts requiring the delivery of customized products and/or services is generally covered by one of the following types of contracts: fixed-price or time and material-based. For fixed-price contracts, revenue is generally recognized based on proportional performance. In the case of contracts

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billed on the basis of time and material, revenue is recognized as the services are rendered.

Revenue from maintenance services (generally fixed fee per month) is recognized over the contractual period or as the services are provided. Revenue from repairs, which are not part of the maintenance contract, billed on the basis of time and material used is recognized as the services are provided.

Revenue from hardware sales or sales-type leases is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled company obligations that affect the customer s final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

2.13 Employee benefits

2.13.1 Short term employee benefits

Short term employee benefits are recognized as a current expense in the period when employees render their services. These include wages, social security contributions, bonuses, paid holidays, discounted telephone bills, meal and holiday contributions and other fringe benefits and the tax charges thereon.

2.13.2 Pensions

Payments to defined contribution pension and other welfare plans are recognized as an expense in the period in which they are earned by the employees.

Magyar Telekom does not have significant post-employment defined benefit schemes.

2.13.3 Share based compensation

Magyar Telekom adopted IFRS 2 Share-based Payment as of January 1, 2005 with retrospective application for those share options that were granted on or after November 7, 2002. The standard requires the Group to reflect in its income statement and balance sheet the effects of share based payment transactions, including expenses associated with transactions in which share options are granted to employees. Accordingly, Magyar Telekom recognizes the costs of services received from its employees in a share based payment transaction when services are received. Magyar Telekom recognizes a corresponding increase in its equity reserves (Reserve for equity settled share based transactions) if the services are received in an equity-settled share based payment transaction. Before the adoption of IFRS 2, the Group did not recognize employee expenses in relation to share based compensations.

If the services are received in a cash-settled share based payment transaction, the Group recognizes the expense against a liability, re-measured at each balance sheet date.

Fair values are determined using option pricing models (such as Black-Scholes and Monte Carlo simulation) and other relevant techniques. As Magyar Telekom Plc. is listed and actively traded on the Budapest and New York Stock Exchanges, the share price and its history is readily available as a basis for fair value calculations.

Bonuses tied to the long term performance of the Magyar Telekom share are recognized in the income statement at their time-proportioned fair value (Note 24) against an accumulating balance in Provisions.

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2.13.4 Termination benefits

Termination benefits are payable whenever an employee s employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.14 Research and Marketing expenses

Research as well as marketing costs are expensed as incurred.

2.15 Borrowing costs

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

2.16 Income taxes

2.16.1 Corporate income taxes

Corporate income taxes are payable to the central tax authorities of the countries in which the Group s consolidated entities operate. The basis of the tax is the taxable entities accounting profit adjusted for non-deductible and non-taxable items. The nominal tax rates and the determination of the tax base vary among the countries in which the Group operates.

2.16.2 Other income taxes

Other income taxes include certain local and central taxes levied in Hungary on the companies net margins, determined at a substantially higher level than the corporate tax base, but applying a significantly lower tax rate. These other income taxes are deductible from the corporate tax base.

2.16.3 Deferred taxes

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing

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deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax is also provided on taxable temporary differences arising on investments in subsidiaries and associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Leases

2.17.1 Operating lease Group as lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

2.17.2 Finance lease Group as lessor

Leases of assets where Magyar Telekom transfers substantially all the benefits and risks of ownership are recognized and disclosed as revenue against a finance lease receivable. The revenue equals the estimated present value of the future minimum lease payments receivable and any un-guaranteed residual value (net investment in the lease). The cost of the asset sold in a finance lease transaction is recognized at the inception of the lease. If the Group retains continuing involvement in the asset transferred, any gains are deferred and recognized over the period of the lease, while losses are recognized immediately. Each lease receipt is then allocated between the receivable and finance income so as to achieve a constant rate of return on the finance receivable balance outstanding. The interest element of the lease receipt is recognized as Finance income.

2.17.3 Operating lease Group as lessee

Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

2.17.4 Finance lease Group as lessee

Leases of property, plant and equipment where Magyar Telekom assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the fair value of the asset or if lower, at the estimated present value of the future minimum lease payments. Each lease payment is allocated between the finance liability and finance charges so as to achieve a constant rate of interest on the outstanding finance balance payable. The finance lease obligations, net of finance charges, are included in the balance sheet (Other financial liabilities). The interest element of the lease payments is charged to the income statement (Finance expense) over the lease period. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the lease term or the useful life of the asset.

2.17.5 Sale and leaseback transactions

Sale and leaseback transactions involve the sale of an asset by Magyar Telekom and the leasing of the same asset or part of it back to Magyar Telekom. When sale and leaseback transactions qualify as finance leases any gain on the sale is deferred and recognized in the income statement over the lease term through lower depreciation expense. If the leaseback qualifies as an operating lease, any gains or losses on the sale are

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recognized in the income statement at the time of the sale (Other operating income), while the lease payments are recognized in the income statement (Other operating expenses) on a straight line basis over the period of the lease.

2.18 Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the Company for the period by the weighted average number of common stocks outstanding. Diluted earnings per share is calculated considering the weighted average number of diluting share options in addition to the number of common stocks outstanding.

2.19 Dividends

Dividends payable to the Company s shareholders and to minority shareholders of the subsidiaries are recorded as a liability and debited against equity (Retained earnings or Minority interests) in the Group s financial statements in the period in which the dividends are approved by the shareholders.

2.20 Segment reporting

Magyar Telekom determines segments primarily based on products and services that are subject to risks and returns that are different from those of other businesses. The primary segments are based on the business lines of the Group. Before 2007, Magyar Telekom had two business segments, Fixed line and Mobile. From January 1, 2007, Magyar Telekom split up its fixed line segment to T-Com, T-Systems and Group Headquarters and Shared services. Prior period comparative information was restated accordingly. The Mobile segment remained substantially unchanged.

The Company s secondary format for reporting segment information is geographical.

2.21 Comparative information

In order to maintain consistency with the current year presentation, certain items have been reclassified for comparative purposes, including the structure of the financial statements.

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Magyar Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets and liabilities. Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. However, Magyar Telekom only hedges the risks that affect the Group s cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with leading Hungarian financial institutions. Nevertheless, hedge accounting is not applied to such transactions, considering that the criteria in IAS 39 are not met.

The fundamentals of Magyar Telekom s financing strategy are established each year by the Board of Directors. The Group s policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfilment annually. At the end of 2006 and 2007 Magyar Telekom fulfilled both criteria, with Total Debt to EBITDA ratio of 1.21 in 2006, 1.56 in 2007 (max 2.5) and EBITDA to Interest Expense ratio of 10.18 in 2006, 8.14 in 2007 (min 3.0) . The Board of Directors approves further limits in order to decrease risk exposures, these limits are monitored by the Chief Financial Officer monthly. The Group Treasury is responsible for implementing the finance policy and for ongoing risk management. The details of FX, liquidity and counterparty risk management guidelines are determined and monitored by the Group Treasurer continuously.

3.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Magyar Telekom is exposed to interest and foreign exchange rate risk associated with its debt and anticipated transactions. As the vast majority of the revenues and expenses of the Hungarian entities arise in HUF, the functional currency of Magyar Telekom is HUF, and as a result, Magyar Telekom s objective is to minimize the level of its financial risk in HUF terms.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the balance sheet date. The balance at the balance sheet date is representative for the year as a whole.

(a) Foreign currency risk

The National Bank of Hungary lifted the devaluation of the Hungarian Forint against the Euro in October 2001, after widening the intervention band from +/-2.25% to +/-15% as of May 4, 2001. The introduction of this foreign exchange regulation increased the foreign exchange risk of the Group significantly. In order to mitigate this increased risk, Magyar Telekom minimized its foreign currency borrowings in 2002 and 2003. From 2004, Magyar Telekom is having insignificant amount of foreign currency denominated debts.

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Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risks arise on account of financial instruments being denominated in a currency that is not the functional currency; differences resulting from the translation of financial statements into the Group s presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Magyar Telekom has financial instruments.

The foreign exchange exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

The currency sensitivity analysis is based on the following assumptions (at spot rate):

At the Company, major non-derivative monetary financial instruments (liquid assets, receivables, debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or in line with currency hedging policy the effects of exchange rate moves offset each other. Exchange rate fluctuations therefore have no significant effects on profit or loss, or shareholders equity.

In line with currency hedging policy, Magyar Telekom holds significant amounts of EUR and USD on its bank accounts. The necessary amount is determined by the balance of trade payables and trade receivables in order to hedge the currency risk arising in connection with those liabilities. Exchange rate fluctuations therefore have no significant effect on profit or loss, or equity.

The Group s Macedonian subsidiaries accumulated cash is partially deposited in EUR and USD linked deposits. The amount of accumulated cash in MKD, EUR and USD in the Macedonian subsidiaries is higher than the trade payables in MKD, EUR and USD of these companies. Compared to the spot FX rate as of December 31, 2006, a 1% weakening of HUF against MKD, EUR and USD would have caused (ceteris paribus) approx. HUF 261 million gain in this net balance. This gain would have amounted to HUF 501 million in 2007. In both years the same respective amount of loss would have been caused in case of a 1% HUF strengthening against MKD, EUR and USD.

Magyar Telekom occasionally enters into derivative contracts for risk reduction purposes. These foreign currency forward contracts are taken to reduce the exchange rate risk related to the foreign exchange denominated payment obligations or receivables.

The fair value of the open short term forward positions was HUF 378 million as of December 31, 2006, while HUF -106 million as of December 31, 2007. These positions were opened to hedge the FX risks of the dividend to be received from Macedonia.

Compared to the FX rate as of December 31, 2006, a 1% weakening of HUF against EUR would have caused (ceteris paribus) approx. HUF 121 million loss in fair value of the open short forward position. Such a loss would have amounted to HUF 174 million in 2007. In both years same respective amount of gain would have been caused in case of a 1% HUF strengthening against EUR.

As a result of the recently (in 2008) introduced free-float of the HUF, more than one percent fluctuation of the HUF against the EUR, and due also to the volatile fluctuation of the EUR against the USD, more than one percent even a 5% fluctuation is possible according to management s estimations.

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(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Magyar Telekom is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing HUF interest rates affect the fair value of fixed rate debts and also affect the cash outflow through the variable rate debts. By the end of 2003, Magyar Telekom managed to convert almost its entire remaining foreign exchange debt portfolio to HUF, thereby the debt portfolio is only exposed to HUF interest rate fluctuations. To control interest rate risk, a combination of fixed and floating rate debt is used within the HUF portfolio. The fixed rate HUF debt to total HUF debt ratio was 60.52% as of December 31, 2006 and 58.88% as of December 31, 2007.

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to cash flow interest rate risk.

Changes in the market interest rate of interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect financial income or expense (net gain/ loss from re-measurement of the financial assets to fair value) and are therefore taken into consideration in the income-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. Given, that Magyar Telekom had HUF 121 billion floating rate debt as of December 31, 2006, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest payment to increase by approx. HUF 1.2 billion annually, while a similar decrease would cause the same decrease in interest payments. As the floating rate debt as of December 31, 2007 amounted to HUF 150 billion, in 2007, the interest payment increase would be HUF 1.5 billion annually.

Macedonian subsidiaries of Magyar Telekom had a HUF 57.1 billion deposit as of December 31, 2006, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 571 million annually, while similar decrease would have caused the same decrease in interest received. The amount of deposits is HUF 75.8 billion as of December 31, 2007, therefore a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 758 million annually.

Montenegrin subsidiaries of Magyar Telekom had HUF 14 billion deposit as of December 31, 2006, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 140 million annually, while similar decrease would have caused the same decrease in interest received. The amount of deposits is HUF 19 billion as of December 31, 2007, therefore a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 190 million annually.

The Group has insignificant amounts of HUF deposits, therefore, the change in interest rates would have a very minimum impact on the Group s financial statements.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible according to management s estimations, the exposure to which is mitigated by the balanced portfolio of fixed and variable interest rate borrowings (see above).

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(c) Other price risk

As of December 31, 2006 and 2007, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

3.1.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the balance sheet. No significant agreements reducing the maximum exposure to credit risk had been concluded as of the reporting date.

Cash and cash equivalents held by the Hungarian members of the Group are primarily denominated in HUF and concentrations of credit risk are limited as Magyar Telekom places its cash with substantial credit institutions. Further, excess HUF cash is used for repayment of the HUF denominated loans and borrowings, therefore, the credit risk related to HUF cash is very limited.

Cash and cash equivalents held by the Macedonian subsidiaries are denominated in MKD, EUR and in USD, while the Montenegrin subsidiaries possess cash, cash equivalents and term deposits primarily denominated in EUR. Cash and cash equivalents deposited in these countries runs higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. However part of the investments in Montenegro (EUR 7.5 million as at December 31, 2007) is covered with bank guarantees issued by international financial institutions. Significant further guarantees were obtained in 2008 (in an amount of EUR 52.2 million). Credit risk related to bank deposits is limited by the diversification of the cash balances among several independent credit institutions determinant on the local market.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising Magyar Telekom s customer base and their dispersion across many different industries and geographic areas.

The following table represents Magyar Telekom s exposure to credit risk in 2006 and 2007.

	At December 31,	
	2006	**2007**

	(in HUF millions)	
Bank deposits	77,840	105,719
Trade receivables	89,149	95,478
Trade receivables over one year	586	619
Employee loans	5,014	4,610
Derivative financial instruments	378	57
Loans to third parties		1,334
Financial assets available for sale	458	690
Other current financial assets	482	636
Other non-current financial asset	2,280	841
	176,187	209,984

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The following table contains the amount of trade receivables broken down by segments.

Trade receivables

	At December 31, 2006	2007
	(in HUF millions)	
T-Com	35,145	33,399
T-Mobile	41,999	49,172
T-Systems	11,965	12,194
Headquarters	40	713
	89,149	95,478

T-Systems has primarily large business customers, while T-Com and T-Mobile have a combination of business and residential customers. There s no significant difference between the recoverability of the segments receivables.

There are varying credibility check / rating practices applied across the members of the Group. The majority of the customers are located in Hungary and served by the Company. For these customers the Company follows the following practice. Credibility check / rating for T-Com and T-Systems customers at the time of the service request is carried out by the Debt Management Office based on the internal database of risky installation locations regulated by an internal directive. Dunning procedures are run automatically by the billing systems including reminder letters, telephone calls, pseudo disconnections, termination letters and disconnections. We apply varying reminder procedures to the different customer groups in which varying deadlines and minimum overdue amounts are applied. After the termination of the contract internal tools, legal proceedings and external partners are involved in the collection procedure. For T-Mobile customers, at service request an internal rating is conducted by the sales representative involving a customer check in the common database of debtors of the Hungarian mobile operators. Reminder procedures run automatically by the billing system including reminder letters, SMSs, telephone calls and disconnections. After disconnection, legal proceedings and external partners are involved in the collection procedure regulated by an internal directive.

In addition, Magyar Telekom is exposed to an additional risk that arises from the possible drawdown of guarantees in a nominal amount of HUF 16.4 billion (2006: HUF 15.7 billion). These guarantees were issued by Hungarian banks on behalf of Magyar Telekom as collaterals to secure the fulfillment of the Group s certain contractual obligations.

3.1.3 Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

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Prudent liquidity risk management implies maintaining sufficient cash, cash equivalents and term deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury s management aims at maintaining flexibility in funding by keeping committed credit lines available. The available free credit line amounted to HUF 90.4 billion (in 2006) and HUF 48.4 billion (in 2007), and the Company also had in 2006 HUF 13.2 billion and in 2007 HUF 14.4 billion uncommitted credit lines from several Hungarian Banks. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group s budgeted financing needs until the end of June 2009. Despite the fact that this has not been formulized in a contract, it can be considered as a quasi shelf facility .

The average maturity of Magyar Telekom s debt portfolio was 2.45 years in 2006, while 2.58 years in 2007, both of which are in line with the predefined liquidity management limit range of keeping the average maturity of the debt portfolio between 2 and 3 years.

The following two tables summarize the maturity structure of Magyar Telekom s financial liabilities as of December 31, 2006 and 2007.

December 31, 2006 **(in HUF millions)**	**Total**	**within** **1 year**	**1 to 5** **years**	**after 5** **years**
Trade payables	81,392	81,392		
Dividend payable	76,165	76,165		
Financial liabilities to related parties	306,714	92,128	153,915	60,671
Bank loans	54,567	31,986	22,581	
Finance lease liabilities	4,312	785	2,662	865
Nonconvertible bonds and debentures	194	71		123
Other current financial liabilities	1,776	1,776		
Other non current financial liabilities	6,405		6,405	
Other financial liabilities	67,254	34,618	31,648	988
Financial liabilities	531,525	284,303	185,563	61,659
Open forward positions gross cash flows				
Gross cash outflow in HUF million	12,514	12,514		
Gross cash inflow in EUR million	48	48		

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December 31, 2007 (in HUF millions)	**Total**	**within 1 year**	**1 to 5 years**	**after 5 years**
Trade payables	87,989	87,989		
Dividend payable	151	151		
Financial liabilities to related parties	343,997	41,290	266,219	36,488
Bank loans	101,253	43,292	57,865	96
Finance lease liabilities	5,269	1,146	3,149	974
Nonconvertible bonds and debentures	194	71		123
Other current financial liabilities	1,532	1,532		
Other non current financial liabilities	3,827		3,827	
Other financial liabilities	112,075	46,041	64,841	1,193
Financial liabilities	544,212	175,471	331,060	37,681
Open forward positions gross cash flows				
Gross cash outflow in HUF million	17,500	17,500		
Gross cash inflow in EUR million	69	69		

The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before finalization of this disclosure (February 26, 2008).

3.2 Capital risk management

The Group s objectives when managing capital are to safeguard the Group s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by Equity (including Minority interest) and net debt. Net debt is calculated as:

- Current and non current financial liabilities to related parties (without accrued interest) Note 16
- plus Other current and non current financial liabilities (without accrued interest) Note 17
- less Cash and cash equivalents Note 6
- less Other current financial assets Note 8.1.

During 2007, the Group s strategy, which was unchanged from 2006, was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2007 was 31.0% (2006: 27.9%). The increase in the gearing ratio during 2007 resulted from the delay of dividend payments after 2005 financials (paid only in 2007 instead of 2006) as a result of the delay of the approval of the 2005 financial statements due to the on-going investigation (Note 1.2).

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if Magyar Telekom was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately HUF 12 billion.

4.2 Estimated impairment of goodwill

Goodwill is no longer amortized, but tested for impairment annually or more frequently. As all of our subsidiaries are either not listed on stock exchanges or there is no active market for their shares, the recoverable amounts of the business units and reportable segments are calculated based on fair value determined by the discounted projected cashflows of these units over the next ten years with a terminal value. This is highly judgmental, which carries the inherent risk of arriving at materially different fair values if estimates used in the calculations would prove to be inappropriate. The Group has an implemented policy to make the impairment test based on a 10-year cashflow projection on reasonable and supportable assumptions that present the management s best estimate on market participants assumptions and expectations considering recent similar transactions and industry benchmarks. In the 2007 calculations, Magyar Telekom used a weighted average cost of capital before tax (WACC before tax) of 10.41% to 13.41% depending on the country of operations and the sub-sector of telecommunications. Perpetual growth rate estimates range between -1% and +2% also depending on the country of operations and the sub-sector of telecommunications. The WACC was determined based on CAPM (capital asset pricing model) using the average betas of the peer group, 10 year zero coupon yields and the debt ratio between 24.56% and 35.78%, which is in line with the usual indebtedness of listed peer telecommunications companies, while the perpetual growth rates used are in line with the long-term average growth rate for the telecommunications sector.

For the T-Com segment CGU (including T-Com Hungary, MakTel Company and Crnogorski Telekom, etc.), we used a WACC before tax of 11.50% and perpetual growth rate of 0.8%. For the T-Systems CGU (including the T-Systems business line of the Company, KFKI group, BCN group, etc.), WACC before tax of 13.41% and perpetual growth rate of 1.0% were applied. For the T-Mobile segment (including T-Mobile Hungary, Pro-M, T-Mobile Macedonia, T-Mobile Crna Gora), we used a WACC before tax of 12.44% and perpetual growth rate of 1.9%.

If Magyar Telekom had used a WACC of 16% (an increase of 4.5%) and an unchanged perpetual growth rate compared to the current calculations after the ten year projected period in the same CGU, it would have resulted in an impairment charge of approximately HUF 4,594 million. Any further increase in the WACC or a

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negative growth rate applied would have resulted in further amounts of impairment, initially related to goodwill allocated to the T-COM segment.

4.3 Estimated impairment of property, plant and equipment, and intangibles

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment in value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations.

4.4 Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make required payments. For the largest customers and other telecommunications service providers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and changes in our customer payment terms. These factors are reviewed periodically, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile, internet, cable TV, etc.) and the environment in which the Group s entities operate in the various markets. The estimates also involve assumptions about future customer behavior and the resulting future cash collections. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far.

4.5 Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability is evaluated to be more than fifty percent, the Group fully provides for the total amount of the estimated liability. The assessment of the probability is highly judgmental, as for example in Hungary there are very few cases where the appealed NCA decisions have been finally concluded by the Supreme Court. Further, in Macedonia, there is also a lack of sufficient history for CPC decisions appealed against at the Administrative Court.

4.6 Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers. The Group s agents spend a portion of their agent fees for marketing the Group s products. A part of the Group s marketing costs could also be considered as subscriber acquisition cost. The up-front fees collected from customers for activation or connection are marginal compared to the costs. These revenues, costs and losses are recognized when the customer is connected to the Group s fixed or mobile networks. No such costs or revenues are deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs and there is no guarantee of recovering these subsidies from the future revenue generated from the customers. Among these costs, net equipment losses of the Group amounted to HUF 15,932 million, while agent fees amounted to HUF 8,399 million in 2007.

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5 BUSINESS COMBINATIONS

5.1 Acquisitions in 2007

5.1.1 MobilPress

In December 2006, Magyar Telekom agreed to acquire a 100% stake in MobilPress for HUF 600 million plus the dividend to be declared for 2006 (max. HUF 50 million). The transaction was subject to the approval of the Hungarian Competition Authority. The transaction was closed on January 25, 2007, and MobilPress has been consolidated since that date, included in the T-Com segment, while the goodwill is disclosed in the T-Mobile segment. MobilPress is one of the major Hungarian mobile content providers and manages, among others, the t-zones portal, with revenues of approx. HUF 1.5 billion in 2006.

The carrying values of MobilPress s net assets at acquisition as well as the consideration paid are disclosed in the table below. The Group has estimated the fair values of the net assets acquired to equal their carrying values.

In HUF millions	**Carrying values**
Purchase price of ownership acquired	600
Additional purchase price	50
Consideration paid	650
Net assets acquired	93
Goodwill	557
Net assets acquired:	
Cash	64
Receivables	266
Non current assets	56
Trade and other payables	(285)
Short term borrowings	(2)
Non current liabilities	(6)
	93

The total purchase price was paid in 2007.

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5.1.2 T-Systems Hungary (TSH)

In December 2006, the Company signed a sale-purchase agreement to acquire an additional 2% ownership in TSH effective from January 1, 2007 for a purchase price of HUF 60 million. TSH had been an associate of the Group since September 2004, with the majority owner being another Deutsche Telekom Group member. As the transaction took place between entities under common control, the acquisition was accounted for at cost. The carrying values of TSH s net assets at acquisition as well as the consideration paid are disclosed in the table below. TSH has been a consolidated subsidiary of the Group since January 1, 2007 included in the T-Systems segment.

In HUF millions	**Carrying values**
Purchase price of ownership acquired	60
Carrying value of TSH as an associate	1,540
Associate goodwill	149
Consideration paid	1,749
Net assets acquired	1,752
Excess (recognized in equity)	3
<u>Net assets acquired:</u>	
Cash	421
Trade receivables	5,888
Inventory	146
Other assets	468
Property, plant and equipment	925
Intangible assets	3,202
Trade payables	(3,471)
Other financial liabilities	(4,258)
Provisions	(179)
Total net assets	3,142
Less: Minority interest	(1,539)
Associate goodwill transferred to goodwill	149
	1,752

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5.2 Acquisitions in 2006

5.2.1 Orbitel

On November 29, 2005 Magyar Telekom concluded an agreement to acquire a 100% stake in Orbitel for EUR 7.85 million (HUF 1,944 million). Orbitel is a Bulgarian alternative telecommunications and internet service provider offering countrywide voice and data services to the business community utilizing IP technology. In 2005, the company generated revenues of EUR 11.5 million. Orbitel has been consolidated from the date of the financial closing, February 3, 2006, and is included in the T-Com segment.

The carrying values and the fair values of Orbitel s net assets at acquisition as well as the consideration paid are disclosed in the table below.

In HUF millions	**Fair values**	**Carrying values**
Purchase price of ownership acquired	1,944	
Additional costs directly attributable to the business combination	38	
Consideration paid	1,982	
Net assets acquired	1,013	
Goodwill	969	
Net assets acquired:		
Cash	22	22
Other financial assets	6	6
Receivables	335	335
Income tax receivable	7	7
Inventory	12	12
Property, plant and equipment	524	381
Intangible assets	812	221
Other non current assets	3	3
Trade and other payables	(384)	(384)
Loans and other borrowings	(190)	(190)
Net deferred tax liability	(134)	(24)
	1,013	389

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer value recognized only represents the customers and services rendered to them existing on the acquisition date, while the majority of the goodwill represents the value of, and the future revenues from, customers to be acquired from the acquisition date or the planned extension of services.

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5.2.2 Dataplex

On December 12, 2005 Magyar Telekom agreed to acquire a 100% stake in Dataplex Kft. for HUF 5.1 billion. Dataplex is a major player in the Hungarian IT hardware co-location market with revenues of around HUF 1.3 billion in 2005. The financial closing of the transaction took place following the approval by the Hungarian Competition Authority, on April 5, 2006, from which date Dataplex has been consolidated in the T-Com segment of the Group.

The carrying values and the fair values of Dataplex s net assets at acquisition as well as the consideration paid are disclosed in the table below.

In HUF millions	**Fair values**	**Carrying values**
Purchase price of ownership acquired	5,113	
Additional costs directly attributable to the business combination	35	
Consideration paid	5,148	
Net assets acquired	1,100	
Goodwill	4,048	
<u>Net assets acquired:</u>		
Cash	1	1
Receivables	148	148
Inventory	6	12
Property, plant and equipment	811	801
Intangible assets	933	1
Trade and other payables	(556)	(556)
Loans and other borrowings	(56)	(56)
Net deferred tax liability	(187)	
	1,100	351

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer value recognized only represents the customers existing on the acquisition date, while the majority of the goodwill represents the value of, and future revenues from, customers to be acquired from the acquisition date.

5.2.3 KFKI Group

In June 2006 Magyar Telekom signed a share purchase agreement to acquire the 100% ownership of KFKI-LNX Zrt., one of the leading Hungarian IT companies for a purchase price of HUF 8.2 billion plus an optional earn-out payment of HUF 1.5 billion dependent on the 2006 financial performance. The acquisition was closed on September 15, 2006, from which date KFKI Group has been consolidated in the T-Systems segment of the Group. In 2005, KFKI Group s revenues amounted to approximately HUF 17 billion. KFKI-LNX has two 100% owned subsidiaries, ICON and IQSYS.

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The carrying values and the fair values of KFKI Group s net assets at acquisition as well as the consideration paid are disclosed in the table below.

In HUF millions	Fair values	Carrying values
Purchase price of ownership acquired	8,170	
Additional purchase price contingent upon results	1,500	
Additional costs directly attributable to the business combination	170	
Consideration paid	9,840	
Net assets acquired	5,372	
Goodwill	4,468	
Net assets acquired:		
Cash	344	344
Receivables	2,629	2,629
Income tax receivable	33	33
Inventory	656	656
Property, plant and equipment	663	632
Intangible assets	5,514	233
Trade and other payables	(2,687)	(2,687)
Loans and other borrowings	(587)	(587)
Provisions	(154)	(154)
Net deferred tax liability	(1,039)	23
	5,372	1,122

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer value recognized only represents the customers existing on the acquisition date, while the majority of the goodwill represents the value of, and future revenues from, customers to be acquired from the acquisition date.

The HUF 1,500 million additional purchase price conditional upon the 2006 results was deposited in 2006 and paid in 2007.

5.2.4 iWiW, Adnetwork, MFactory

In April 2006, Magyar Telekom acquired the 100% ownership of iWiW Kft, the leading Hungarian online social network, for a purchase price of HUF 1.1 billion. iWiW (who is who) operates the only online social network for existing friendships and relationships with more than half a million registered members at the time of the acquisition, which made it the fourth most visited web page in Hungary. In 2005 iWiW generated revenues of HUF 5 million.

In May 2006, Magyar Telekom acquired the 100% ownership of Adnetwork Kft, the leading Hungarian online advertisement network for an initial purchase price of HUF 168 million and additional price of HUF 10 million. Adnetwork was established in 2005 and generated revenues of HUF 28 million in 2005.

The above companies have been consolidated in the T-Com segment of the Group from the dates control was taken over by the Group.

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In December 2006, Magyar Telekom acquired a 75.05% stake in MFactory, one of the leading Hungarian mobile content producers and aggregators for HUF 469 million. In addition, the Company also has an option to increase its stake in MFactory to 100% from 2009, while MFactory s minority owners have a put option for their shares. The Group considers this combination of the options to be of a liability nature (in an amount of HUF 166 million), therefore MFactory is consolidated as a 100% subsidiary in the T-Com segment of the Group, while the initial goodwill arising on the business combination is allocated to the T-Mobile segment. MFactory s revenues amounted to HUF 190 million in 2006.

The fair values of the net assets of iWiW equal their carrying values. Due their immaterial size, the fair values of Adnetwork s and MFactory s net assets were estimated to equal their fair values. The carrying values of the net assets of the above companies acquired in individually immaterial business combinations are disclosed in their aggregate amounts in the table below.

In HUF millions	**Carrying values**
Purchase price of ownership acquired	1,767
Further purchase price payable for the remaining shares in MFactory	166
Additional purchase price and costs directly attributable to the business combination	11
Consideration paid	1,944
Net assets acquired	83
Goodwill	1,861
Net assets acquired:	
Cash	12
Receivables	73
Intangible assets	53
Income tax payable	(5)
Trade and other payables	(50)
	83

5.2.5 MakTel own shares

In June 2006, MakTel acquired 10% of its own shares at a public auction held by the Macedonian Government (the minority owner) for EUR 60.9 million (HUF 16,579 million including additional costs). Following the share repurchase transaction, Magyar Telekom s voting rights in MakTel increased from 51.0% to 56.7%, while the Macedonian Government s share of ownership fell to 36.8%, with the rest of the shares owned by smaller minority shareholders. The difference between the purchase price of the shares and the decrease in the minority interests was recognized as goodwill in an amount of HUF 1,724 million, all allocated to the T-Mobile segment.

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5.3 Acquisitions in 2005

5.3.1 Crnogorski Telekom (CT)

In 2005, the Company acquired a 76.53% stake in CT in the course of the privatization tender. The purchase price of the stake was EUR 140.5 million. From this purchase price, Magyar Telekom paid EUR 114.0 million for a stake of 51.12% to the Government of Montenegro and EUR 22.9 million for a stake of 21.92% to minority shareholders. For the remaining 3.49% Magyar Telekom paid EUR 3.6 million through a public offering. CT owns 100% of the share capital of T-Mobile CG, the second Montenegrin mobile company, 100% of the share capital of Internet Crna Gora, and 51% of the share capital of Montenegrocard. The total cost of the acquisition was HUF 35,927 million including directly related expenses.

CT and its subsidiaries have been consolidated since March 31, 2005.

The fair value of the net assets acquired and the consideration paid for the acquisition is disclosed in the table below.

In HUF millions	Total	Net assets included in the T-Com segment on first consolidation	Net assets included in the T-Mobile segment on first consolidation
Purchase price of ownership acquired	34,954		
Additional costs directly attributable to the business combination	973		
Consideration paid	35,927		
Fair value of net assets acquired	30,805		
Goodwill	5,122		5,122
Fair value of net assets acquired:			
Cash	1,866		
Receivables	7,678	6,442	1,236
Income tax receivable	339		
Inventory	609	426	183
Property, plant and equipment	28,687	22,495	6,192
Intangible assets	9,958	3,700	6,258
Other non current assets	1,080	1,080	
Trade and other payables	(3,917)	(3,148)	(769)

Loans and other borrowings	(3,290)		
Provisions	(1,951)	(1,914)	(37)
Net deferred tax liability	(807)		
	40,252	29,081	13,063
Minority interests	(9,447)		
Total	30,805		

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer values recognized only represent the customers existing on the acquisition date, while the majority of the goodwill represents the value of customers to be acquired from the acquisition date.

5.4 Pro forma information on business combinations

The following pro forma information shows the most important financial data of the Group, including the subsidiaries acquired as if they had been consolidated at the beginning of the financial year in which the acquisition was made, and also how much the business combinations contributed to the reported figures since the acquisition date.

	2005	2006 (in HUF millions)	2007
Revenues			
Reported	615,054	671,196	676,661
Pro forma if consolidated from beginning of year	620,376	684,099	676,661
Current year contribution since date of business combination in the year of acquisition	20,521	12,465	4,969
Net income			
Reported	78,415	75,453	60,155
Pro forma if consolidated from beginning of year	78,049	76,267	60,155
Current year contribution since date of business combination in the year of acquisition	1,364	191	(1,812)

5.5 Disposals of subsidiaries

In 2007 the Group sold the total of its 51% ownership in Montenegrocard. In 2006 the Company sold the total of its 72% ownership in Cardnet.

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6 Cash and cash equivalents

	At December 31, 2006	2007
	(in HUF millions)	
Cash on hand	1,556	1,487
Cash in banks and other cash equivalents	58,651	46,179
	60,207	47,666

See also note 2.1.5.

7 Trade and other receivables

	At December 31, 2006	2007
	(in HUF millions)	
Trade receivables from third parties	80,387	88,588
Receivables from Deutsche Telekom Group companies	7,991	6,878
Receivables from associates and joint ventures	771	12
Trade receivables	89,149	95,478
Prepayments and advance payments	4,329	4,674
Other taxes receivable	3,318	1,204
Other	5,594	2,220
Other receivables	13,241	8,098
	102,390	103,576

The table below shows the impairment loss and changes therein related to Trade and other receivables for 2006 and 2007. No impairment had to be recognized for receivables from related parties. The closing balance as at December 31, 2007 also includes the impairment charged for finance lease receivables (disclosed in Note 8) in an amount of HUF 1,500 million (Note 36.2):

	At December 31, 2006	2007
	(in HUF millions)	
Impairment loss, beginning of period	29,991	28,781
Charged to expense (included in Other operating expenses)	5,066	5,775

Impairment losses of acquired companies on acquisition	116	
Utilized and translation differences	(6,392)	(4,293)
Impairment loss, end of period	28,781	30,263

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Analysis of the age of trade receivables that are past due as at the reporting date but not impaired:

Trade receivables (in HUF millions)	Carrying amount as of Dec. 31, 2006	of which: neither impaired nor past due on the reporting date	of which: not impaired on the reporting date and past due in the following periods less than 30 days	30 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	over 360 days
Trade receivables	89,149	67,453	12,941	2,373	1,655	2,093	1,759	875
	Carrying amount as of Dec. 31, 2007							
Trade receivables	95,478	73,977	14,066	2,762	1,425	2,026	853	369

The tables below show trade receivables by segments with analysis of the age of trade receivables that are past due as at the reporting date but not impaired:

Trade receivables (in HUF millions)	Carrying amount as of Dec 31, 2006	of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods less than 30 days	30 60 days	61 90 days	91 180 days	181 360 days	over 360 days
T-Com	35,145	24,835	6,345	964	915	1,008	642	436
T-Systems	11,965	9,973	1,190	266	170	153	58	155
T-Mobile	41,999	32,612	5,406	1,143	563	932	1,059	284
Headquarters	40	33			7			
Total	89,149	67,453	12,941	2,373	1,655	2,093	1,759	875

Trade receivables (in HUF millions)	Carrying amount as of Dec 31, 2007	of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods less than 30 days	30 60 days	61 90 days	91 180 days	181 360 days	over 360 days
T-Com	33,399	24,035	5,498	1,304	794	1,165	360	243
T-Systems	12,194	9,940	1,715	237	111	129	35	27
T-Mobile	49,172	39,373	6,818	1,202	501	726	453	99
Headquarters	713	629	35	19	19	6	5	-

Total	95,478	73,977	14,066	2,762	1,425	2,026	853	369

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8 Other financial assets

8.1 Other current financial assets

		At December 31, 2006	2007
		(in HUF millions)	
Bank deposits with original maturities over 3 months		17,633	58,053
Finance lease receivable	(a)	1,856	4,011
Loans and receivables from employees	(b)	1,040	861
RDC receivable	(c)	151	152
Derivative financial instruments	(d)	378	57
Other		6	309
		21,064	63,443

See also note 2.1.5.

8.2 Other non current financial assets

		At December 31, 2006	2007
		(in HUF millions)	
Finance lease receivable	(a)	16,163	17,558
Loans and receivables from employees	(b)	4,305	4,233
RDC receivable	(c)	992	841
Trade receivables over one year	(e)	586	619
Financial assets available-for-sale	(f)	452	678
Other		1,288	1,036
		23,786	24,965

(a) See Note 32.3 for more information on Finance lease receivable. Other than the impairment charged on one of the receivables (Note 7), the rest of the receivables is considered fully recoverable.

(b) Loans and receivables from employees primarily represent the housing loans provided to the employees of the Group. There are no past due employee receivables, and the loans are pledged with mortgage.

(c) RDC receivable represents Crnogorski Telekom s receivable from the Government of Montenegro originating from the Share Transfer Agreement on the sale of ownership in the Radio Difuzni Centar D.O.O., Podgorica (RDC) entered into on December 10, 2004.

(d) Derivative financial instruments as at December 31, 2006 include the fair value of open currency forwards, while the December 31, 2007 balance also includes the fair value of cross-currency interest rate swaps.

(e) Trade receivables over one year mainly includes receivables from customers paying over 1-2 years in installments for telecommunications equipment sold.

(f) Financial assets available for sale include insignificant investments in equity securities.

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9 Income tax

9.1 Income tax expense

The table below shows the tax expenses charged in the 3-year period presented in the income statement.

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Corporate income tax	11,686	6,423	6,088
Other income taxes	8,366	8,529	11,028
Deferred income taxes	1,806	9,268	9,105
Total income tax expense	21,858	24,220	26,221

9.2 Current income tax receivable and payable

Current income tax receivable and payable in the balance sheet represent the amount of corporate and other income taxes receivable from, and payable to, the tax authorities of the countries in which the Group operates.

9.3 Tax rate reconciliation

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

	Note	For the year ended December 31, 2005	2006 (in HUF millions)	2007
IFRS profit before income tax		110,583	111,684	99,277
Tax at 16%		(17,693)	(17,869)	(15,884)
Impact of different tax rates	(a)	435	(323)	(2,381)
Tax on items not subject to tax	(b)	1,394	2,405	1,651

Tax on non deductible items	(c)	(1,093)	(1,955)	(1,107)
Impact of tax incentives	(d)	897	778	
Other income taxes	(e)	(8,366)	(8,529)	(11,028)
Impact of tax deductibility of other income taxes	(f)	2,008	2,701	2,873
Withholding tax	(g)		(2,034)	(1,684)
Un/Derecognized deferred tax on tax losses	(h)		(255)	73
Broadband tax credit accretion	(i)	560	861	1,267
Income tax expense		(21,858)	(24,220)	(26,221)

(a) Impact of different tax rates

The corporate tax rate in Hungary was 16% in 2005 and in the first 8 months of 2006. As of September 1, 2006 a so called Solidarity tax was introduced in Hungary, which is an extra 4% tax on a base very similar to the

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corporate tax base, with fewer adjusting items from accounting profit before tax to arrive at the tax base. The tax rate reconciliation for 2007 also includes 16%, while the difference arising due to the introduction of the Solidarity tax is included in this line of the reconciliation.

The Group is also present in foreign countries where the tax rate is generally lower than in Hungary. The tax rate in Macedonia was 15% in 2005 and 2006, while the enacted tax rate for 2007 is 12%, while from 2008 this is reduced further, to 10%. Deferred tax balances have been recalculated accordingly.

The corporate tax rate is 9% in Montenegro, 16% in Romania, 15% in Bulgaria, and 25% in the Ukraine.

This line of the reconciliation also includes the tax impacts of the different tax rates of the foreign countries where the Group is also present through its subsidiaries.

(b) Tax on items not subject to tax

Items not subject to income tax consist primarily of donation for non-profit organizations and R&D cost deductible from corporate income tax base, as well as the share of associates and joint ventures profit as it is included net of tax in the Profit before income tax. This line of the reconciliation includes the tax impact of the above items.

(c) Tax on non deductible items

This line of the reconciliation shows the tax impact of the non deductible expenses, including premature receivable write-downs, certain impairment losses and entertainment expenses.

(d) Tax incentives

Tax incentives included the tax impact of qualifying investments in property, plant and equipment in Macedonia, which can be utilized as a reducing item in the calculation of the corporate tax base.

(e) Other income taxes

Other income taxes include certain local and central taxes levied in Hungary on the companies net margins, determined at a substantially higher level than the corporate tax base. As the first line of the reconciliation calculates theoretical tax expense calculated using the corporate tax rate, the Hungarian local business tax and the innovation fee impose additional tax expenses for the Hungarian entities of the Group.

(f) Deductibility of other income taxes from the corporate tax base

These Hungarian other income taxes are deductible expenses for corporate tax purposes. In addition, a certain percentage of the local business tax paid is deductible further from the corporate tax base (50% in 2005 and 100% in 2006 and 2007).

(g) Withholding tax

The Group is present through its subsidiaries in Macedonia, which introduced withholding tax of 5% on dividend distribution to Hungary as of January 1, 2006. Montenegro also levies a 5% withholding tax on dividend distribution to Hungary. The reconciliation includes the amount of deferred tax calculated and recognized on the undistributed profits of these subsidiaries that are expected to be subject to withholding tax in case of dividend distributions.

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(h) Un/Derecognized deferred tax on tax losses

Deferred tax asset is created on tax losses only to the extent that the realization of the related tax benefit is probable. Deferred tax assets on tax losses that will probably not be recovered are un/derecognized.

(i) Broadband investment tax credit accretion

Broadband investment tax credit accretion shows the increase of net present value of the investment tax credit deriving from the utilization of the tax credits in year(s) following the year of recognition.

9.4 Deferred taxes

Magyar Telekom s deferred tax balances are as follows:

	Balance at Dec. 31, 2005	Income statement effect	Other movements	Balance at Dec. 31, 2006	Income statement effect	Other movements	Balance at Dec. 31, 2007
				(in HUF millions)			
Deferred tax assets and (liabilities)							
Investment tax credits	10,656	856	2,788	14,300	(4,273)	3,561	13,588
Net operating loss carry forward	6,076	(4,859)		1,217	(676)		541
Investments in subsidiaries	(900)	(300)		(1,200)	(213)		(1,413)
Withholding tax		(2,034)		(2,034)	(1,606)		(3,640)
Other financial assets	24	(350)	19	(307)	322	(23)	(8)
Impairment of receivables, inventory	3,728	(678)		3,050	(488)		2,562
Property, plant and equipment and intangible assets	(7,565)	(88)	(1,388)	(9,041)	(641)	211	(9,471)
Goodwill	(1,864)	(2,262)		(4,126)	(2,965)		(7,091)
Trade and other payables	104	259		363	(781)		(418)
Loans and other borrowings	156	123		279	(156)		123
Deferred revenue	157	(157)			293		293
Provisions for liabilities and charges	1,205	222		1,427	2,079		3,506
Total net deferred tax asset / (liability)	11,777	(9,268)	1,419	3,928	(9,105)	3,749	(1,428)
	(3,189)			(5,647)			(2,714)

Of which deferred tax liability after netting					
Of which deferred tax asset after netting	14,966		9,575		1,286
Items included in other movements					
Investment tax credit recognized against cost of PPE		3,109		3,561	
Utilization of investment tax credit		(321)			
AFS financial assets valuation differences recognized in equity		19		(23)	
Currency translation adjustment arising on consolidation		(29)		211	
Arising on business combinations		(1,359)			
		1,419		3,749	

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Deferred tax assets and liabilities are determined by the legal entities of the Group and disclosed as assets or liabilities accordingly in the balance sheet.

The Group s net deferred tax liability balance is HUF 1,428 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 13,738 million deferred tax asset is expected to reverse in 2008, while a deferred tax liability of approximately HUF 4,607 million is expected to reverse in 2008. The above items exclude deferred tax items expected to arise in 2008.

Deferred tax arising on investment tax credits are recognized against the cost of the related investment.

Deferred tax arising on the revaluation of available-for-sale financial assets recognized directly in equity is also recognized directly in equity.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized amounts to HUF 13,295 million at December 31, 2007 (2006: HUF 4,602 million).

If the Group s Macedonian subsidiaries distributed all their distributable reserves in the form of a dividend, the Group would have to pay HUF 3,045 million withholding tax, and deferred tax liability with the same amount is recognized as at December 31, 2007. If the Group s Montenegrin subsidiaries distributed all their distributable reserves in the form of a dividend, the Group would have to pay HUF 1,219 million withholding tax in addition to the amount for which a deferred tax liability is recognized as at December 31, 2007 (HUF 595 million). As the Group can control the timing and the form of the dividends, deferred tax liabilities have only been recognized to the extent of the planned dividend distributions of the subsidiaries retained earnings (undistributed results of 2005, 2006 and 2007) in the foreseeable future.

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. Tax losses for which a deferred tax asset has been recognized amounting to HUF 496 million will expire in 2008, while the remaining balance of tax losses of 2,889 million is not subject to statutory limitations. For tax losses in an amount of HUF 4,883 million no deferred tax asset was recognized as at December 31, 2007. Most of these can be utilized without time limitation.

9.5 Investment tax credits

In order to increase broadband internet penetration in Hungary, companies investing over HUF 100 million in a year in broadband assets (e.g. DSL lines, UMTS assets) from 2003 can apply for a corporate tax reduction. The potential reduction of the corporate tax charge is defined as a percentage of the companies capital investment in broadband assets. As these investment tax credits are of a governmental grant nature, Magyar

Telekom recognized the deferred tax asset against the cost of the related investment. If the tax credits are not utilized in the year when earned, the amount of tax credits carried forward can be utilized at a higher amount as outstanding amounts can be accreted. This accretion is recognized as an increase in the deferred tax asset against a reduction in the deferred tax expense.

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The following table shows the details of the tax credits in HUF millions:

Earned in year	Amount of broadband investment	Amount of tax credit earned	Tax credit utilized	Accretion recognized in tax expense to date	Tax credit carried forward at December 31, 2007
2003	6,208	2,633	(3,763)	1,130	
2004	6,913	3,067	(1,759)	823	2,131
2005	14,606	5,739	(2,161)	748	4,327
2006	15,564	4,272	(154)	353	4,471
2007	12,362	3,014	(355)		2,659
Total	55,653	18,725	(8,192)	3,054	13,588
			Expires in	2015	6,458
				2016	4,471
				2017	2,659
					13,588

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group s entities, they have to comply with strict requirements as set out in the relevant tax regulations. Management believes that the Group has complied and will be able to comply with the requirements to recognize these as deferred tax assets.

9.6 Tax reviews

The tax authorities may at any time inspect the books and records within five years from the end of the year when tax declarations were submitted and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

10 Inventories

	At December 31, 2006	2007
	(in HUF millions)	
Cables, wires and other materials, work-in-progress and advances	3,745	3,125
Inventory for resale	7,904	8,454
Subtotal	11,649	11,579
Less allowances for obsolete inventory	(1,189)	(927)

	10,460	10,652

11 Non current assets held for sale

Non current assets held for sale include land and buildings identified for sale, which is expected within 12 months, as a result of the continuing improvement of utilization of properties and headcount reductions.

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12 Property, plant and equipment - net

	Land and related rights	Buildings	Telecom. equipment	Other equipment	Total
			in HUF millions		
At January 1, 2006					
Cost	6,743	124,636	931,111	143,832	1,206,322
Accumulated depreciation	(1,808)	(23,467)	(493,159)	(104,850)	(623,284)
Carrying amount	4,935	101,169	437,952	38,982	583,038
Of which held for sale					(2,302)
					580,736
Carrying amount - January 1, 2006	4,935	101,169	437,952	38,982	583,038
Exchange differences	2	(14)	194	37	219
Acquisitions		134	518	1,321	1,973
Additions	123	4 217	57,070	13,005	74,415
Disposals	(187)	(3,254)	(701)	(394)	(4,536)
Impairment charge	(85)	(174)	(1,404)	(64)	(1,727)
Depreciation charge	(172)	(3,400)	(78,151)	(13,934)	(95,657)
Carrying amount - December 31, 2006	4,616	98,678	415,478	38,953	557,725
At December 31, 2006					
Cost	6,654	124,145	972,654	154,113	1,257,566
Accumulated depreciation	(2,038)	(25,467)	(557,176)	(115,160)	(699,841)
Carrying amount	4,616	98,678	415,478	38,953	557,725
Of which held for sale					(6,825)
					550,900
Carrying amount - January 1, 2007	4,616	98,678	415,478	38,953	557,725
Exchange differences	4	74	180	750	1,008
Acquisitions		2	366	123	491
Additions	24	13,560	51,380	10,944	75,908
Disposals		(3,229)	(454)	(1,705)	(5,388)
Impairment charge		(94)	(32)		(126)
Depreciation charge	(143)	(2,286)	(79,147)	(8,918)	(90,494)
Reclassifications	267	(7,680)	25,741	(18,328)	
Carrying amount - December 31, 2007	4,768	99,025	413,512	21,819	539,124
At December 31, 2007					
Cost	6,687	127,522	1,057,554	98,645	1,290,408
Accumulated depreciation	(1,919)	(28,497)	(644,042)	(76,826)	(751,284)
Carrying amount	4,768	99,025	413,512	21,819	539,124
Of which held for sale					(4,393)
					534,731

The closing balance of Property, plant and equipment includes assets in the course of construction in an amount of HUF 27,633 million as at December 31, 2007 (2006: HUF 19,232 million). In the table above the assets in course of construction are shown in the categories where the capitalization is expected.

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Acquisitions include the fair value of the assets of the companies that were acquired by Magyar Telekom in the reported years.

Additions to property, plant and equipment are shown net of the investment tax credit related to broadband investments of HUF 3,561 million in 2007 (2006: HUF 3,109 million). For more details, see Note 9.5.

Impairment losses charged in 2007 relate to the WLAN assets deployed in rural areas of Hungary. It was established that the recoverable amount of these assets based on the value in use calculations was lower than the carrying amount. Value in use was determined using discounted cashflow analyses. The discount rates used were 11.6% to 12.0%.

Impairment losses charged in 2006 relate to various assets, the recoverable amounts of which were defined based on the respective assets values in use as these were found higher than their fair value less cost to sell. Value in use was determined using discounted cashflow analyses. The discount rates used were in the range of 11.49 -11.86% in 2006.

Reclassifications between PPE categories are the result of the unification of disclosure of PPE of the fixed line and mobile business from January 1, 2007, after the merger of the Company and T-Mobile HU. A large number of various assets were reclassified to ensure consistent disclosures between the business units.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2007 the gross book value of the leased back assets is HUF 2,460 million (2006: HUF 1,134 million) and the net book value is HUF 1,407 million (2006: HUF 903 million).

Included mainly in buildings and telecom equipment are assets leased under finance lease conditions (other than sale and lease back). At December 31, 2007 the gross book value of the leased assets is HUF 2,593 million (2006: HUF 1,142) and the net book value is HUF 1,828 million (2006: HUF 1,057 million).

Included in telecommunications equipment at December 31, 2007 are assets leased under operating lease contracts to customers with a gross book value of HUF 7,029 million (2006: HUF 7,744 million) and net book value of HUF 2,514 million (2006: HUF 2,125 million). Depreciation for the year of these assets amounted to HUF 808 million (2006: HUF 876 million). The future minimum lease payments receivable under these contracts are disclosed in Note 32.4.

As a result of the annual review of the useful life of the Group s assets, the lives of certain assets were changed as of January 1, 2007 due to technical obsolescence. These assets mainly included software, and the change in life resulted in HUF 132 million higher depreciation expense in 2007.

HUF 1,859 million of PPE has restricted titles as at December 31, 2007 (2006: HUF 2,369 million), which serve as pledges for loans or other borrowings (mainly finance leases).

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13 Intangible assets - net

	Goodwill	Software	Concessions and licenses in HUF millions	Other	Total
At January 1, 2006					
Cost	232,157	110,038	40,139	18,502	400,836
Accumulated amortization		(65,893)	(10,361)	(4,785)	(81,039)
Carrying amount	232,157	44,145	29,778	13,717	319,797
Carrying amount - January 1, 2006	232,157	44,145	29,778	13,717	319,797
Exchange differences	(78)	84	4	98	108
Acquisitions	13,070	391	177	6,726	20,364
Additions		16,379	7	72	16,458
Disposals		(122)			(122)
Impairment				(1,346)	(1,346)
Amortization charge		(17,659)	(2,741)	(3,119)	(23,519)
Carrying amount - December 31, 2006	245,149	43,218	27,225	16,148	331,740
At December 31, 2006					
Cost	245,149	121,675	40,705	21,917	429,446
Accumulated amortization		(78,457)	(13,480)	(5,769)	(97,706)
Carrying amount	245,149	43,218	27,225	16,148	331,740
Carrying amount - January 1, 2007	245,149	43,218	27,225	16,148	331,740
Exchange differences	185	51	1,629	(1)	1,864
Acquisitions	520	384	1,214	21	2,139
Additions		15,441	11,564	1,005	28,010
Disposals		(216)	(1,606)	(46)	(1,437)
Impairment					
Amortization charge		(18,583)	(3,020)	(3,372)	(24,975)
Reclassifications	458	2,931	(1)	(3,502)	(115)
Carrying amount - December 31, 2007	246,312	43,657	37,005	10,253	337,227
At December 31, 2007					
Cost	246,312	139,415	54,262	19,818	459,807
Accumulated amortization		(95,758)	(17,257)	(9,565)	(122,580)
Carrying amount	246,312	43,657	37,005	10,253	337,227

Acquisitions include the assets of the companies that were acquired by Magyar Telekom in the reported years and the goodwill arising on these acquisitions.

The amortization expense as well as the impairment losses of intangible assets including goodwill is accounted for in the depreciation and amortization line of the income statement.

Reclassifications between intangible asset categories are mainly the result of the unification of disclosure of Intangible assets of the fixed line and mobile business from January 1, 2007, after the merger of the Company and T-Mobile HU. A large number of various assets were reclassified to ensure consistent disclosures between the business units.

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. We established in all cases that the carrying amount of goodwill allocated to the cash generating units did not suffer impairment as the recoverable amounts of the CGUs based on fair values determined using discounted projected cashflows proved to be higher than the carrying values. Consequently, no goodwill impairment was charged in

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any of the reported years. The cashflows attributable to the national CGUs were projected for the coming ten years with terminal values determined.

The most significant amounts of goodwill are allocated to the T-Mobile segment. Beyond the 10-year planning period, the perpetual growth rates applied in the T-Mobile segment calculations were determined from 0.5% to 2.0% depending on the country of operations. The weighted average cost of capital was determined at 12.66% for T-Mobile HU, 11.61% for T-Mobile MK and 11.33% for T-Mobile CG.

The most significant individual intangible assets as of December 31, 2007 are listed in the table below.

Description	Carrying amount in HUF millions	Remaining useful life (years)
Goodwill T-Mobile segment	208,275	
Goodwill - T-Com segment	33,174	
Goodwill - T-Systems segment	4,863	
T-Mobile HU UMTS licence	14,272	12
T-Mobile HU GSM licence (Note 1.3.4)	10,358	9
T-Mobile HU DCS 1800 licence	6,468	7
Other intangible assets	59,817	7
	337,227	

14 Investments in associates and joint ventures

	For the year ended December 31, (in HUF millions) 2006	2007
Opening balance	5,020	5,771
TSH becomes a subsidiary		(1,689)
Capital injection to TSH	205	
Share of associates and joint ventures profits	703	934
Dividends	(157)	(72)
Sale of T-Systems RIC		(11)
Additions		3
Closing balance	5,771	4,936

The following table shows the total assets and liabilities as at December 31, 2007, and revenues and profit for the year ended December 31, 2007 of the major associates and joint ventures of the Group.

	Hunsat	IKO Telekom Média Holding (in HUF millions)	Magyar RTL
Total assets	1,247	6,267	30,198
Total liabilities	1,333	1	17,361
Revenues	3,289		33,086
Profit for the year	177	1,497	3,888

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15 Other non current assets

Other non current assets mainly include long-term prepaid employee benefits.

16 Financial liabilities to related parties

Related party loans are taken from Deutsche Telekom International Finance (DTIF), the treasury vehicle of Deutsche Telekom Group, and are denominated in HUF.

The table below shows the details of the loans outstanding as at December 31, 2007 and the related accrued interest.

	Carrying amount (HUF millions)	Interest rate (%)	Fixed / variable	Repayable
Due within 1 year	20,000	8.21	fixed	May 2008
Accrued interest	5,210			
	25,210			
	9,487	7.56	variable	Jan 2009
	5,000	9.68	fixed	Sep 2009
	25,000	9.61	fixed	Oct 2009
	28,000	7.69	variable	Oct 2009
	20,000	7.53	fixed	Oct 2009
	9,487	7.56	variable	Jan 2010
	30,000	7.66	fixed	Jul 2010
	9,486	7.56	variable	Jan 2011
	34,000	7.21	fixed	Jul 2011
	9,486	7.56	variable	Jan 2012
	40,000	8.71	fixed	May 2012
	9,486	7.56	variable	Jan 2013
	25,000	7.26	fixed	Oct 2013
Due after 1 year	254,432			
	279,642			

The table below shows the carrying amounts and fair values of the related party loans

	At December 31,			
	2006		2007	
	(in HUF millions)			
	Book value	Fair value	Book value	Fair value
At fixed rate	184,000	188,914	199,000	206,958
At variable rate	75,432	75,432	75,432	75,432
Total related party loans	259,432	264,346	274,432	282,390

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The weighted average interest rate on related party loans was 7.95% in 2007 (8.45% in 2006, 8.45% in 2005).

The majority of the Group s related party loans is subject to fixed interest rates that are exposed to fair value risk as it is stated in the table above. Any decrease of market interest rates will result in an increase of the fair value of the liabilities.

17 Other financial liabilities

		At December 31, 2006	2007
		(in HUF millions)	
Bank loans	(a)	28,846	40,506
Finance lease payable (Note 32.1)		412	659
Accrued interest		298	1,474
Other		347	2,027
Total other financial liabilities current		29,903	44,666
Bank loans	(a)	18,250	52,204
Finance lease payable (Note 32.1)		2,324	2,711
Other		123	123
Total other financial liabilities non current		20,697	55,038

(a) Bank loans

		As at December 31, 2006	2007
		(in HUF millions)	
Current bank loans		28,846	40,506
Non current bank loans		18,250	52,204
Total bank loans	(a)	47,096	92,710
Bank loans analyzed by currency are as follows:			
HUF		47,096	81,130
EUR			11,484
Other			96
		47,096	92,710

Principal repayments of bank loans fall due:

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Year	Maturity as at December 31, 2006	2007
	(in HUF millions)	
Within 1 year	28,846	40,506
1-5 years	18,250	52,108
After 5 years		96
	47,096	92,710

Loans totaling HUF 30,136 million at December 31, 2007 are revolving loans (2006: HUF 17,708 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The following table shows the weighted average interest rates of bank loans as at December 31, 2007.

	Maturities						
	2008	2009	2010	2011	2012	There-after	Total
	(in HUF millions, except percentages)						
Bank loans (HUF denominated)							
At variable rate	37,128	28,014	4,565	423			70,130
Average interest rate	7.70	7.79	7.88	8.23			7.75
At fixed rate				11,000			11,000
Average interest rate				7.83			7.83
Total	37,128	28,014	4,565	11,423			81,130
Bank loans (EUR denominated)							
At variable rate			3,040				3,040
Average interest rate			4.94				4.94
At fixed rate	3,378	3,378	1,688				8,444
Average interest rate	4.95	4.95	4.95				4.95
Total	3,378	3,378	4,728				11,484
Bank loans (other currencies - BGN)							
At variable rate							
Average interest rate							
At fixed rate						96	96
Average interest rate						5.52	5.52
Total						96	96
Total bank loans	40,506	31,392	9,293	11,423		96	92,710

The weighted average interest rate on bank loans was 7.41% in 2007 (7.86% in 2006, 6.53% in 2005).

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The following table compares the carrying values and the fair values of the Group s bank loans.

	At December 31,			
	2006		2007	
	(in HUF millions)			
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	3,372	3,372	11,000	12,067
At variable rate	43,724	43,724	70,130	70,130
	47,096	47,096	81,130	82,197
EUR denominated bank loans				
At fixed rate			8,444	8,617
At variable rate			3,040	3,040
			11,484	11,657
Bank loans denominated in other currencies (BGN)				
At fixed rate				
At variable rate			96	96
			96	96
Total bank loans	47,096	47,096	92,710	93,950

Variable interest rate loans are subject to interests calculated based on mostly BUBOR (Budapest Inter-Bank Offered Rate) and EURIBOR (Euro Inter-Bank Offered Rate) plus a margin interest formula.

The majority of the Group s third party loans and borrowings are subject to variable interest rates, which are exposed to cashflow risks. If interest rates are rising, it results in higher cash outflows through interest payments.

(b) Credit facilities

At December 31, 2007, Magyar Telekom had un-drawn committed credit facilities of HUF 48,352 million. These credit facilities, should they be drawn down, are subject to an interest rate of LIBOR, BUBOR and commercial floating bank prime rates plus a margin depending on the currency and institution providing the facilities.

18 Trade payables

At December 31,

	2006	2007
	(in HUF millions)	
Payable to DT Group companies	6,207	7,524
Payable to associates and joint ventures	1,287	9
Other trade payables	73,898	80,456
	81,392	87,989

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19 Provision

In HUF millions	Severance	Customer loyalty programs	Legal cases	MTIP	Fixed to mobile IC fees	Other	Total
January 1, 2006	3,629	1,907	2,645	256	2,950	1,777	13,164
Acquired through business combinations						154	154
Amounts utilized / retired	(2,639)	(1,837)	(2,455)	(199)		(1,145)	(8,275)
Additions	3,063	1,965	2,462	132	1,640	2,232	11,494
December 31, 2006	4,053	2,035	2,652	189	4,590	3,018	16,537
Acquired through business combinations						179	179
Amounts utilized / retired	(3,589)	(645)	(542)	(158)		(2,328)	(7,262)
Additions	14,258	1,064	3,542	40	2,394	2,945	24,243
December 31, 2007	14,722	2,454	5,652	71	6,984	3,814	33,697
Of which current	13,703	751	4,422	13		1,922	20,811
Of which non current	1,019	1,703	1,230	58	6,984	1,892	12,886

Magyar Telekom does not expect any reimbursement with regards the provisions recognized, therefore, no related assets have been recognized in the financial statements.

19.1 Severance

The provision for severance as at December 31, 2007 mostly relates to the major restructuring of Magyar Telekom Plc s operations from January 1, 2008, and impact all functions of the Company. The provision for severance as at December 31, 2006 mostly related to the employee terminations in 2007 in Macedonia and Montenegro.

1,704 employees were dismissed in 2007 (2006: 771), related to which severance payments were made. The balance of provision as at December 31, 2007 relates to 813 employees (2006: 499) working in all functions of the Group.

The total payments made in relation to employee termination in 2007 amounted to HUF 14,652 million (2006: HUF 6,099 million), of which HUF 3,589 million was charged against the provision as at December 31, 2006, while the rest was recognized as employee related expense in 2007. The total payments made in relation to employee termination in 2006 amounted to HUF 6,099 million, of which HUF 2,639 million was charged against the provision as at December 31, 2005, while the rest was recognized as employee related expense in 2006.

19.2 Customer loyalty

Provision for customer loyalty programs includes the fair value of discount credits earned by customers that have not been utilized. The provision is recognized against revenues.

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19.3 Legal cases

Provisions for legal cases mainly include amounts expected to be paid to tax, regulatory and competition authorities as well as to ex-employees and trading partners as a result of legal disputes. The balance also includes amounts expected to be paid as compensation for loss of value to owners of real estates, allegedly caused by cellular base stations installed on neighboring sites. There are numerous legal cases for which provisions were recognized, of which the significant ones are described below.

19.3.1 Alleged abuse of dominant market position in Macedonia

In February 2007, a procedure was initiated against MakTel, by the Commission for protection of competition (CPC), upon request from UNET, a local Internet Service Provider, for abusing dominant position on the market for access to digital leased lines (DLL). In September 2007, the CPC brought a decision determining that MakTel had a dominant position on the leased lines market and that it abuses its dominant position. Executing the decision, MakTel submitted description of the wholesale DLL offer to the CPC, which is still under CPC s scrutiny. No misdemeanor procedure has so far been initiated by the CPC. Given the provisions of the Law for protection of the competition regarding the penalty in case of misdemeanor procedure a provision of HUF 418 million was recognized in 2007.

T-Mobile MK is alleged to have been misusing its dominant market position by the CPC regarding its service Maily (which is the trade name for the voice mail service (VMS)) and based on its findings, the same authority started a misdemeanor procedure against T-Mobile MK. Management believes that the probability for payment of certain regulatory penalties is rather high and the amount of the penalty is estimated up to the revenue earned from the Maily service for the period of the alleged misdemeanor duration (as of the start of the service until the procedure has been initiated), in an amount of HUF 752 million, which was provided for in 2007.

19.3.2 Employee termination disputes in Montenegro

In 2005, CT offered a voluntary lay-off program with beneficial terms for employees accepting the offer. In 2006, CT announced another voluntary redundancy which had even more beneficial terms. After the announcement of the 2006 program, employees laid off in 2005 believe that they had been misled about the conditions of the lay-off. These former employees have announced that unless CT indemnifies them for the difference in the terms between the 2006 and 2005 programs, they would sue for being mislead in 2005. In 2007, 236 former employees of CT started misdemeanor procedures against CT in an amount of EUR 3.5 million arguing that CT had misled them while they accepted the voluntary termination program in 2005. Even though management is questioning the amount of the claims, it is more likely than not, that the claimants approach will be accepted than that it will be rejected. Accordingly, a provision of HUF 887 million was recognized in 2007.

19.4 MTIP

For more details on the Mid-term Incentive Plan see Note 24.1.3.

19.5 Fixed to mobile IC fees

The amount provided for in this category includes amounts collected from Magyar Telekom Plc s customers, which will probably be repayable to universal customers related to the reduced fixed to mobile termination charges, which has been accounted for as a reduction of revenues. The Company has reassessed the

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classification of the liability as compared to December 31, 2006 considering the uncertainty about the exact timing and amount of the liability, and as a result, the liability in 2007 is disclosed as a provision as opposed to December 31, 2006, when it was disclosed as a Trade and other payables in the financial statements. Comparative amounts have been amended accordingly. The reclassification had no impact on equity, net income or EPS.

Pursuant to a decree, the Company has the obligation to decrease the F2M tariffs of the universal services subscribers by the amount of the decrease in the F2M termination rates. The Company has not fulfilled this obligation so far because the mobile operators - referring to their lawsuits against the NHH resolutions - did not, from a legal point of view, decrease the F2M termination rates, in their interconnection agreements with the Company. It is difficult to predict the final decision of the Court with regard to these cases. Nevertheless, even if the lawsuits are decided in favor of the mobile operators, we believe that the NHH will be required to perform a new procedure to determine the mobile termination prices, which is expected to result in the same or very similar, reduced F2M termination fees.

Even though the lawsuits initiated by the mobile operators have not been concluded, the NHH called upon the Company to repay the difference to its universal customers. There are ongoing negotiations with NHH to determine the form of settlement of the difference with the Company s universal customers, the conclusion of which can have a significant impact on the final amount and timing of the liability. Magyar Telekom has set up a provision based on management s best estimate, considering the early stage of such negotiations.

19.6 Other provisions

Other provisions as at December 31, 2007 include asset retirement and guarantee obligations and further other individually small items.

20 Other current liabilities

	At December 31,	
	2006	2007
	(in HUF millions)	
Deferred revenue and advances received	11,779	13,939
Other taxes and social security	13,162	13,327
Salaries and wages	7,033	9,500
Dividend payable to MagyarCom GmbH	45,074	
Dividend payable to others	31,091	151
Other liabilities	2,459	5,060
	110,598	41,977

Dividend payable decreased significantly as the General Meeting of Magyar Telekom Plc. approved the 2005 financial statements only in December 2006, therefore, the dividend was paid in January 2007. The delay in 2006 was a result of the investigation (Note 1.2).

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21 Other non current liabilities

		At December 31, 2006	2007
		(in HUF millions)	
EKG payable	(a)	5,117	3,293
Other		3,613	2,504
		8,730	5,797

(a) During 2005 the Company concluded an agreement with the Hungarian government for taking over the operation of the existing Electronic Governmental Backbone Network (EKG) for a period of 50 months. During the term of the agreement the Company committed to significant upgrades of the network and transferring these back to the government at the end of the term free of charge. During the term of the agreement, the Company has exclusivity in providing telecommunication services to the government institutions connected to the network. As the substance of the agreement is of a nature similar to a concession, the Company recognized an intangible asset (right) and a corresponding liability.

22 Revenue

		For the year ended December 31, 2005	2006	2007
		(in HUF millions)		
Fixed line revenues				
Voice retail		197,679	182,280	159,772
Voice wholesale		25,579	28,691	30,319
Internet		39,783	49,733	57,796
Data		26,792	27,121	27,440
Multimedia		15,037	17,506	18,102
Equipment		5,205	4,249	5,395
Other fixed line revenues		10,108	9,607	10,509
Total Fixed line revenue		320,183	319,187	309,333
Mobile revenues				
Voice		225,003	240,285	248,594
Non voice		36,539	40,258	45,068
Equipment and activation		23,472	25,280	23,121
Other mobile revenues	(a)	834	21,507	8,984
Total Mobile revenue		285,848	327,330	325,767
System integration and IT				
System integration		7,354	11,494	19,715
IT		1,669	13,185	21,846
Total System integration and IT revenue		9,023	24,679	41,561

Total revenue	615,054	671,196	676,661

(a) Other mobile revenues mainly include the revenues of Pro-M. In November 2005 the Company concluded an agreement to build a wireless network (using TETRA technology) for the exclusive use of certain

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organizations (e.g. police, ambulance, etc.). The agreement has a 10 year term and the Company committed to build the network by January 31, 2007 and provide operation and maintenance services throughout the term for a fixed annual fee. The Company founded a subsidiary (Pro-M), which will be responsible for providing the services. During 2006 the Group evaluated the impact of this agreement considering also the requirements of IFRIC 4 and concluded that the agreement included a lease element which was determined to be of a finance lease nature. The service is provided to one buyer, the Hungarian Government, and required the construction of a customer specific asset, the Group accounts separately for the sale type lease (mainly in 2006) and the continuous telecommunications services provided on the network.

23 Expenses directly related to revenues

	For the year ended December 31,		
	2005	2006	2007
		(in HUF millions)	
Voice, data and internet related payments	86,794	91,102	86,244
Material cost of telecommunications equipment sold	37,221	59,714	41,957
Payments to other subcontractors and agents	21,593	32,737	52,984
	145,608	183,553	181,185

24 Employee related expenses

		For the year ended December 31,		
	Note	2005	2006	2007
			(in HUF millions)	
Short term benefits		90,605	92,638	99,459
Share based payments	24.1	270	281	(134)
Termination benefits		5,142	6,523	25,332
Total before capitalization		96,017	99,442	124,657
Expenses capitalized		(3,234)	(4,189)	(4,481)
		92,783	95,253	120,176
Total costs expensed in relation to defined contribution plans (including social security)		21,797	21,737	28,791
Closing number of employees		11,919	12,341	11,723

24.1 Share-based compensation

24.1.1 Management share option plan

On April 26, 2002, the annual Shareholders Meeting approved the introduction of a new management share option plan and authorized the Company s Board of Directors to purchase 17 million A series registered ordinary shares, each having a nominal value of HUF 100 as treasury shares. Consequently, the Company issued 4,900,000 shares on July 1, 2002, which were repurchased immediately as treasury shares.

On July 1, 2002, the Company granted 3,964,600 options to participants of the stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third

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tranches (exercisable in 2004 and 2005). As the Company s share price as quoted on the Budapest Stock Exchange on the grant date was HUF 833 per share, there was no intrinsic value to the options. The options had a life of five years from the grant date, meaning that the options are forfeited without replacement or compensation on June 30, 2007.

The option with respect to a maximum of one-third of the shares that could be purchased under the first tranche was exercisable from July 1, 2003 until the end of the term. The option with respect to a maximum of a further one-third of the shares that could be purchased under the second tranche was exercisable from July 1, 2004 until the end of the term. The option with respect to the rest of the shares that could be purchased under the third tranche was exercisable from July 1, 2005 until the end of the term.

As the management share option plan did not fall into the scope of IFRS 2 Share based Payments, the Group did not recognize compensation expense in any of the periods.

The table below shows the movements in the number of management stock options in thousands.

	2005	2006	2007	Average exercise price (HUF)
Opening number of share options	3,207	1,929	1,307	944
Number of share options exercised	(991)	(539)	(414)	944
Forfeited share options	(287)	(83)	(893)	944
Closing number of share options	1,929	1,307		
Number of exercisable options at end of year	1,929	1,307		

The average share price on the exercise dates in 2007 was HUF 985 (HUF 1,060 in 2006).

24.1.2 The former CEO s share option plan

The former CEO of Magyar Telekom was granted share options in 2000, 2001, 2002, 2003 and 2004. The exercise price of the options was determined in US dollars and the options had no intrinsic values on the grant dates in 2000, 2001, 2002 and 2003, while those granted in 2004 had an intrinsic value of HUF 63 million. One third of the options granted vested after one year, another one third vested two years after the grant date, while the last third vested after three years. The options are exercisable for ten years after the grant date. The Group recognized compensation expense in an amount of HUF 36 million in 2006 (2005: HUF 84 million) among employee related expenses against equity (Reserve for equity settled share based transactions).

In 2006, the former CEO resigned and exercised his remaining options from 2003 and 2004. Although the last third of the 2004 grant would not have been exercisable, the resignation agreement concluded between the Company and the CEO allowed the early exercising of these 487 thousand options. Further, the settlement was concluded in cash even though the plan was originally intended as equity settled. The options granted in 2000 remain exercisable with the original conditions. The closing share price on the exercise date was HUF 1,060.

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The table below shows the details of the CEO s share options.

	Options granted in year					
	2000	**2001**	**2002**	**2003**	**2004**	**Total**
Number of options granted (thousand)	103	250	303	619	1,462	2,737
Exercised (thousand) in 2005		(250)	(303)	(413)	(487)	(1,453)
Exercised (thousand) in 2006				(206)	(975)	(1,181)
Outstanding (thousand) at December 31, 2007	103					103
Exercisable (thousand) at December 31, 2007	103					103
Exercise price in USD	7.36	2.93	3.48	3.62	3.87	
Remaining contractual life at December 31, 2007 (years)	2.5					

24.1.3 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP is a cash settled long term incentive instrument which is planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years.

The first tranche of the program spanned the period between January 1, 2004 and December 31, 2006. The second tranche of the program spanned the period between January 1, 2005 and December 31, 2007, the third tranche of the program spans the period between January 1, 2006 and December 31, 2008, while the fourth tranche of the program spans the period between January 1, 2007 and December 31, 2009. Participants include top and senior managers of the Group.

At the beginning of the plan each participant has an offered bonus. This bonus will be paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target.

The absolute performance target is achieved when the Magyar Telekom share price, adjusted for dividends paid during the tenure, is more than 35 percent higher at the end of the lock up period than at the beginning of the plan. The basis of the calculation is the un-weighted average closing price of the Magyar Telekom share at the Budapest Stock Exchange during the last 20 trading days before the beginning and the end of the plan. The share price calculated according to the above was HUF 755 at the grant date of the first tranche, HUF 843 at the grant date of the second tranche, HUF 949 at the grant date of the third tranche and HUF 1,012 at the grant date of the fourth tranche.

The relative performance target is linked to the Total Return of the Magyar Telekom share compared to the performance of the Dow Jones Euro STOXX Total Return Index during the vesting period, each at the last 20 trading days. Measurement is the un-weighted average Magyar Telekom share price plus dividend payments.

These target figures are weighted with the fair value factors of achieving these targets. The fair value factors are calculated using the Monte Carlo technique. The target figures are multiplied by the relevant fair value

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factors and these amounts are then accrued for the given tranche period. This technique aims to determine the fair values of the share options granted and present it in accordance with the accruals concept.

The 2004 program ended on December 31, 2006. The absolute performance target was met, while the relative target was not. The 2005 program ended on December 31, 2007. Neither of the targets was met.

The provision for the payments in relation to the MTIP program and the movements thereof are disclosed in Note 19.4.

25 Other operating expenses

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Materials, maintenance and service fees	60,696	71,586	69,034
Marketing	24,888	21,868	20,152
Fees and levies	13,455	14,919	15,640
Consulting	7,571	11,301	12,818
Rental and operating lease	9,039	9,977	9,304
Bad debt expense	6,266	5,066	5,136
Other expenses	6,317	2,608	3,310
	128,232	137,325	135,394

Other expenses in 2005 include HUF 2,059 million paid under four consulting contracts entered into by the Group, as to which the Company has not been able to obtain sufficient evidence that Company or its subsidiaries received adequate value. See Note 1.2 for more details.

26 Other operating income

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Compensation for rebranding (Note 33.1)	7,281	1,435	229
Gain on sale of PP&E, Intangible assets and assets held for sale	728	2,140	3,203
Other operating income			569
	8,009	3,575	4,001

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27 Finance expenses

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Interest expense	31,340	27,325	31,147
Other finance expenses	3,157	2,831	4,039
Less: Interest capitalized		(54)	
	34,497	30,102	35,186

Other finance expenses mainly include bank charges.

The capitalization rate used in 2006 to determine the amount of borrowing costs eligible for capitalization is 3 month BUBOR + 0.17525%.

28 Finance income

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Gain on sale of financial instruments		1,190	828
Gains / (losses) on the valuation of derivative financial instruments		377	(139)
Net foreign exchange gains / (losses)	1,014	(659)	(1,481)
Finance lease interest income		480	1,675
Interest and other finance income	1,982	3,304	4,334
	2,996	4,692	5,217

29 Purchase of property, plant and equipment and intangible assets

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Additions to property, plant and equipment	75,705	74,415	75,908
Additions to intangible assets	23,669	16,458	28,010
Total additions to tangible and intangible assets	99,374	90,873	103,918

Recognition of investment tax credit (Note 9.4)	5,373	3,109	3,561
Change in payables relating to capital expenditures	(1,160)	2,808	(4,382)
	103,587	96,790	103,097

The Group had no significant non cash transactions in any of the reported years.

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30 Purchase of subsidiaries and business units

	For the year ended December 31, 2005	2006 (in HUF millions)	2007
KFKI		9,840	
Dataplex		5,148	
Orbitel		1,982	
CT	35,927		
T-Systems Hungary			60
Stonebridge / MakTel		16,579	
Other		1,778	650
Total purchase of subsidiaries and business units	35,927	35,327	710

Other items include the consideration paid for smaller business combinations and for additional shares of ownership in subsidiaries already consolidated.

31 Segment information

In 2007, Magyar Telekom has changed its management structure, whereby instead of the past two operating segments (Fixed line and Mobile) the Group is now managed along four segments. This practically means the further split of the old Fixed line segment into three segments (T-Com, T-Systems and Group headquarters and Shared services). The comparative information has been restated accordingly. The mobile segment s new name is T-Mobile.

The T-Com segment is the primary fixed line telecommunications service provider in Hungary, Macedonia and Montenegro. To a lesser extent, T-Com is also present in Romania, Bulgaria and Ukraine, providing alternative telecommunications services.

The T-Mobile segment provides digital services in various frequency bandwidths in Hungary, Macedonia and Montenegro and also includes the professional mobile services provided by Pro-M in Hungary.

The T-Systems segment provides fixed line telecommunications services in Hungary to the largest 3,200 customers of Magyar Telekom Plc. Further, T-Systems also provides system integration and information technology related services and products to business clients in Hungary.

The Group headquarters and Shared services (GHS) segment includes the activities of the Magyar Telekom headquarters, including the Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal audit and similar shared services and other central functions of the Group s management. GHS is disclosed voluntarily as a segment regardless of its size and activities.

The segments revenues include revenues from external clients as well as the internal revenues generated from other segments for telecommunications as well as support services.

The segments depreciation, amortization and impairment expenses include the aforementioned expenses related to the intangible assets and PPE allocated to the segments.

The segments results are monitored to Operating profit. The financial results, the share of associates and joint ventures profits and tax expenses as well as the minority interests are not allocated to the segments, as these items are managed at Group level.

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Assets allocated to the segments exclude Cash and cash equivalents, Other current financial assets and Non current financial assets and Current and Deferred tax assets, which are managed at Group level. All other assets are allocated to the segments.

Liabilities allocated to the segments exclude Financial liabilities and Current and Deferred tax liabilities, which are managed at Group level. All other liabilities are allocated to the segments.

31.1 Primary reporting format

The following tables present a summary of operating results of the Group by business segment. The segments presented below are substantially consistent with the format used by the Company s Management Committee.

	For the year ended December 31,		
	2005	2006 (in HUF millions)	2007
Revenues			
T-Com revenues from external customers	275,016	272,822	273,275
T-Com revenues from other segments	30,340	42,421	34,426
Total revenues of T-Com	305,356	315,243	307,701
T-Mobile revenues from external customers	285,848	327,330	325,724
T-Mobile revenues from other segments	23,035	22,236	21,146
Total revenues of T-Mobile	308,883	349,566	346,870
T-Systems revenues from external customers	50,803	63,423	75,034
T-Systems revenues from other segments	6,198	1,946	3,898
Total revenues of T-Systems	57,001	65,369	78,932
GHS revenues from external customers	3,387	7,621	2,628
GHS revenues from other segments	18,628	18,776	21,109
Total revenues of GHS	22,015	26,397	23,737
Less: Inter-segment revenue	(78,201)	(85,379)	(80,579)
Total revenue of the Group	615,054	671,196	676,661

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	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Depreciation and amortization			
Impairment of tangible and intangible assets	316	2,457	
Other depreciation and amortization	58,684	65,004	57,473
T-Com	59,000	67,461	57,473
Impairment of tangible and intangible assets	75	616	126
Other depreciation and amortization	42,716	46,559	47,323
T-Mobile	42,791	47,175	47,449
Impairment of tangible and intangible assets			
Other depreciation and amortization	1,962	3,611	5,867
T-Systems	1,962	3,611	5,867
Impairment of tangible and intangible assets			
Other depreciation and amortization	10,933	4,002	4,806
GHS	10,933	4,002	4,806
Total depreciation and amortization of the Group	114,686	122,249	115,595
Segment results (Operating profit)			
T-Com	66,162	56,300	54,096
T-Mobile	87,524	92,772	101,855
T-Systems	20,823	12,134	5,966
GHS	(32,755)	(24,815)	(33,605)
Total operating profit of the Group	141,754	136,391	128,312
Additions to PPE and Intangible assets			
Additions to Goodwill		6,317	
Other additions due to business combinations	26,195	3,090	50
Purchases of tangible and intangible assets	43,158	38,574	39,433
T-Com	69,353	47,981	39,483
Additions to Goodwill	5,122	2,285	507
Other additions due to business combinations	12,450		
Purchases of tangible and intangible assets	46,322	40,236	55,903
T-Mobile	63,894	42,521	56,410
Additions to Goodwill		4,468	13
Other additions due to business combinations		6,177	2,060
Purchases of tangible and intangible assets	5,078	5,853	3,316
T-Systems	5,078	16,498	5,389
Purchases of tangible and intangible assets	4,816	6,210	5,266
GHS	4,816	6,210	5,266

Total Group	143,141	113,210	106,548

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	As at December 31, 2006	2007
	(in HUF millions)	
Assets		
Goodwill	32,710	33,174
Associates and joint ventures	4,071	4,933
Assets held for sale	1,878	636
Other assets	413,041	390,481
T-Com	451,700	429,224
Goodwill	207,738	208,275
Assets held for sale	888	
Other assets	248,328	260,796
T-Mobile	456,954	469,071
Goodwill	4,701	4,863
Associates and joint ventures	1,700	
Assets held for sale	739	739
Other assets	31,512	32,550
T-Systems	38,652	38,152
Assets held for sale	3,320	3,018
Other assets	62,487	62,418
GHS	65,807	65,436
Inter-segment elimination	(17,911)	(5,987)
Total segment assets	995,202	995,896
Unallocated assets	136,393	139,682
Total assets of the Group	1,131,595	1,135,578
Liabilities		
T-Com	54,595	65,274
T-Mobile	49,153	58,348
T-Systems	9,307	20,127
GHS	104,437	34,829
Inter-segment elimination	(17,911)	(5,987)
Total segment liabilities	199,581	172,591
Unallocated liabilities	338,847	381,294
Total liabilities of the Group	538,428	553,885

31.2 Secondary reporting format

Magyar Telekom s segments primarily operate in Hungary, Macedonia and Montenegro. The Group also has Fixed line operations in Romania, Bulgaria and Ukraine, which are shown in one amount in the table below. The geographical segment reporting information is included in the tables below.

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	For the year ended December 31, 2005	2006 (in HUF millions)	2007
Revenues			
Revenue generated in Hungary	526,947	565,770	565,750
Less: inter-segment revenue	(1,020)	(2,254)	(3,474)
Revenue from external customers Hungary	525,927	563,516	562,276
Revenue generated in Macedonia	67,547	74,056	74,332
Less: inter-segment revenue	(311)	(760)	(525)
Revenue from external customers Macedonia	67,236	73,296	73,807
Revenue generated in Montenegro	20,521	30,683	35,747
Less: inter-segment revenue	(62)	(229)	(491)
Revenue from external customers Montenegro	20,459	30,454	35,256
Revenue generated in other countries	2,133	4,784	6,489
Less: inter-segment revenues	(701)	(854)	(1,167)
Revenue from external customers other countries	1,432	3,930	5,322
Total revenue of the Group	615,054	671,196	676,661
Additions to PPE and Intangible assets			
Additions to Goodwill		10,377	520
Other additions due to business combinations		9,138	2,110
Purchases of tangible and intangible assets	84,764	77,875	83,538
Hungary	84,764	97,390	86,168
Additions to Goodwill		1,724	
Other additions due to business combinations			
Purchases of tangible and intangible assets	9,052	7,340	9,880
Macedonia	9,052	9,064	9,880
Additions to Goodwill	5,122		
Other additions due to business combinations	38,645		
Purchases of tangible and intangible assets	4,278	3,541	6,974
Montenegro	48,045	3,541	6,974
Additions to Goodwill		969	
Other additions due to business combinations		129	
Purchases of tangible and intangible assets	1,280	2,117	3,526
Other countries	1,280	3,215	3,526
Total Group	143,141	113,210	106,548

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	As at December 31, 2006	2007
	(in HUF millions)	
Assets		
Hungary	803,422	812,311
Macedonia	138,879	135,623
Montenegro	47,558	49,909
Other countries	6,690	8,352
Total	996,549	1,006,195
Inter-segment elimination	(1,347)	(10,299)
Total segment assets	995,202	995,896
Unallocated assets	136,393	139,682
Total assets of the Group	1,131,595	1,135,578

32 Commitments

32.1 Finance lease Group as lessee

Finance leases in 2006 and 2007 relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. The average contract term of these leases is 10 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2006 and 2007 are as follows:

	2006			2007		
Amounts in HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	124	274	398	222	324	546
1-5 years	668	794	1,462	872	866	1,738
After 5 years	585	280	865	561	247	808
Total	1,377	1,348	2,725	1,655	1,437	3,092

Finance leases other than sale and lease back in 2007 mainly relate to vehicles and IT equipment. The average contract term of the leases is 3-5 years.

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Future lease payments under finance leases other than sale and lease back transactions at December 31, 2006 and 2007 are as follows:

Amounts in HUF millions	At December 31, 2006 Present value	Interest component	Minimum lease payment	At December 31, 2007 Present value	Interest component	Minimum lease payment
Within 1 year	288	99	387	437	163	600
1-5 years	1,071	129	1,200	1,131	280	1,411
After 5 years				147	19	166
Total	1,359	228	1,587	1,715	462	2,177

32.2 Operating lease Group as lessee

Operating lease commitments are mainly in respect of the rental of cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities.

Amounts in HUF millions	At December 31, 2006	2007
Within 1 year	6,869	7,360
1-5 years	18,813	19,801
After 5 years	17,667	15,668
Total	43,349	42,829

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 3 to 20 years with renewal options in most cases.

32.3 Finance lease Group as lessor

Future lease receivables under finance leases at December 31, 2006 and 2007 are as follows:

Amounts in HUF millions	At December 31, 2006 Present value	Interest component	Minimum lease	At December 31, 2007 Present value	Interest component	Minimum lease receipt

			receipt			
Within 1 year	1,856	1,330	3,186	4,011	1,617	5,628
1-5 years	8,907	4,690	13,597	9,742	3,928	13,668
After 5 years	7,256	902	8,158	7,816	5,971	8,787
Total	18,019	6,922	24,941	21,569	6,514	28,083

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Other non current financial assets. The finance income accruing to the Group over the lease term is recognized in the income statement (Finance income).

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32.4 Operating lease Group as lessor

The following table sets forth the future minimum lease payments receivable by the Group for the operating leases of PBX equipment where Magyar Telekom is the lessor.

Amounts in HUF millions	**At December 31, 2007 Minimum lease receipt**
Within 1 year	2,738
1-5 years	2,446
After 5 years	12
Total	5,196

32.5 Purchase commitments for tangible assets

As of December 31, 2007, Magyar Telekom had contractual commitments for capital expenditures of HUF 12,6 billion (HUF 6.3 billion in 2006, HUF 3.2 billion in 2005) with the majority falling due within one year.

32.6 Commitments related to the extended GSM license of T-Mobile HU

The Company renewed its mobile concession contract for use of the 900 MHz frequency band that expires on November 4, 2008 for an additional term of seven and a half years, as agreed with the Hungarian Government. At the same time, the Company agreed to carry out large-scale investment projects to further increase mobile broadband coverage. In addition to the payment of the HUF 10 billion concession fee, Magyar Telekom agreed with the Government to spend at least HUF 20 billion in the following two years (2008 and 2009) on further increasing mobile broadband coverage in Hungary.

33 Related party transactions

33.1 Deutsche Telekom Group

Deutsche Telekom AG is the ultimate controlling owner of Magyar Telekom Plc. holding 59.21% of the issued shares. Deutsche Telekom (DT) Group has a number of fixed line and mobile telecom service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

The Company is directly owned by MagyarCom GmbH, which is a holding company of DTAG. Magyar Telekom pays dividends annually to its owners including MagyarCom GmbH.

MagyarCom Services Kft., a Hungarian company owned by Deutsche Telekom, provides Magyar Telekom with management and consulting services.

Deutsche Telekom International Finance (DTIF) is the treasury vehicle of DT Group, which provides loan financing across the DT Group including Magyar Telekom.

The Company s Hungarian mobile subsidiary, Westel was renamed as T-Mobile Hungary during 2004, while other Hungarian companies were renamed in 2005. The renaming continued in 2006 in Macedonia and Montenegro. The expenditures incurred in connection with the launch and promotion of the new brands and the

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loss of value caused by discontinuing the old brands were compensated in value by Deutsche Telekom AG. The compensation received was recognized in the income statement (Other operating income).

The table below summarizes the above related party transactions with DT group.

	2005	2006 (in HUF millions)	2007
Revenues from telecom services provided to DT Group	8,056	7,127	6,729
Costs of services provided by DT Group	(11,303)	(13,016)	(11,881)
Other income from DTAG	7,281	1,435	229
Interest expense to DTIF	(24,518)	(21,389)	(23,301)
Dividend paid to MagyarCom GmbH	(43,222)		(88,296)
Dividend payable to MagyarCom GmbH		(45,074)	
Accounts receivable from DT Group	3,711	7,991	6,878
Accounts payable to MagyarCom Services Kft	(313)	(163)	(268)
Accounts payable to other DT Group companies	(3,254)	(6,044)	(7,256)
Accrued interests payable to DTIF	(6,198)	(3,756)	(5,210)
Loans payable to DTIF	(286,648)	(259,432)	(274,432)

Deutsche Telekom has pledged its support for Magyar Telekom s financing needs through to June 30, 2009.

33.2 Governments

Magyar Telekom provides services to Government departments and businesses in Hungary, Macedonia and Montenegro, but individually none of these customers represent a significant source of revenue.

33.3 Associates and joint ventures

Hunsat is a joint venture founded by the Company (50%) and Antenna Hungária Rt. (50%). The revenues of Hunsat include commissions received from Hungarian telecommunications companies for the use of services of international satellite agencies. The operational transactions and balances with Hunsat are insignificant. Dividends received from Hunsat amounted to HUF 72 million in 2007 (2006: HUF 157 million, 2005: HUF 1,376 million).

IKO-Telekom Média Holding (ITMH) is a joint venture holding company of Magyar Telekom and IKO Production Kft., with a 50-50% ownership. The transactions between the Group and ITMH are insignificant.

M-RTL is an associate of Magyar Telekom. M-RTL is a television broadcast company that sells airtime through media agencies to Magyar Telekom, and Magyar Telekom provides telecom services to M-RTL mainly through an interactive service provider. Consequently, the direct operating transactions between M-RTL and the Group were insignificant. M-RTL declared dividends to Magyar Telekom directly and indirectly in an amount of

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HUF 750 million in 2007 (2006: HUF 605 million, 2005: HUF 550 million).

33.4 Board and supervisory board members

The remuneration of the members of the Company s Board of Directors amounted to HUF 11 million in 2007 (2006: HUF 8 million, 2005HUF 10 million). The remuneration of the members of the Company s Supervisory Board amounted to HUF 42 million in 2007 (2006: HUF 17 million, 2005: HUF 14 million).

33.5 Key management

Key management has been identified as the members of the Group s Management Committee, which is the main operational decision making body of Magyar Telekom.

The table below shows in total the compensation expenses (including social security and other payroll related taxes) incurred by the Group in relation to the key management.

	2005	At December 31, 2006 (in HUF millions)	2007
Salaries and other short-term employee benefits	670	647	978
Contractual termination expense	350	432	1,129
Share based compensation (Note 24.1)	130	112	(123)
	1,150	1,191	1,984

The Group does not provide loans to its key management.

In 2001, DT s shareholders approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in 2001 and 2002. 50 percent of the options granted to each beneficiary may only be exercised following the end of a vesting period of two years. The remaining 50 percent of the options granted to each beneficiary may be exercised at the end of a vesting period of three years. All options are vested as December 31, 2007. The exercise price of the 2001 option is EUR 30.00, the term of the options runs until August 12, 2011. The exercise price of the 2002 option is EUR 12.36, the term of the options runs until July 14, 2012. At the time they were granted, the options of the 2001 and 2002 tranches had no intrinsic value, but a fair value of EUR 4.87 and EUR 3.79 respectively. The Company s Chief Financial Officer (CFO), who was a senior manager of DT at the time of the stock option, is a participant of the 2002 tranche, having 6,510 share options. Magyar

Telekom does not have any potential obligation deriving from the CFO s share options.

Further, the Company s CFO is also a participant of the 2004, 2005 and 2006 MTIP programs of DT, which are very similar to those of Magyar Telekom as described in Note 24.1.3, the difference being that the targets of the programs are tied to the performance of the DT shares. Magyar Telekom does not have any potential obligation deriving from the CFO s participation in DT s MTIP program.

In 2001 and 2002, Deutsche Telekom granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options. Magyar Telekom employees only participated in the 2001 program. Each individual SAR entitles the plan participant to receive an amount in cash subject to these terms and conditions. Magyar Telekom does not have any potential obligation deriving from that contract, since Deutsche Telekom will pay the compensation, if any, to the participants, and further, the fair value of the SARs

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as at December 31, 20007 is estimated to be zero. No member of the current key management is a participant of the SAR program, but former members of the key management were participants of the 2001 SAR program.

34.Disclosures on financial instruments

34.1 Categories of financial assets and liabilities

34.1.1 Financial assets

The table below shows the categorization of financial assets as at December 31, 2006.

Assets in HUF millions	Financial assets Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading	Carrying amount 2006	Fair value 2006
Cash and cash equivalents	60,207				60,207	60,207
Bank deposits with original maturities over 3 months	17,633				17,633	17,633
Trade receivables	89,149				89,149	89,149
Trade receivables over one year	586				586	567
Employee loans	5,014				5,014	4,940
Derivative financial instruments				378	378	378
Other current financial assets	482				482	482
Financial assets available for sale			458		458	458
Other non current financial asset	2,280				2,280	2,269
Total	175,351		458	378	176,187	176,083

The table below shows the categorization of financial assets as at December 31, 2007.

Assets in HUF millions	Financial assets Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading	Carrying amount 2007	Fair value 2007
Cash and cash equivalents	47,666				47,666	47,666
Bank deposits with original maturities over 3 months	58,053				58,053	58,053
Trade receivables	95,478				95,478	95,478

Trade receivables over one year	619			619	595
Employee loans	4,610			4,610	4,879
Derivative financial instruments			57	57	57
Loans to third parties	1,334			1,334	1,334
Other current financial assets	636			636	636
Financial assets available for sale		690		690	690
Other non current financial asset	841			841	897
Total	209,237	690	57	209,984	210,285

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All financial instruments are recognized initially at fair value. More details are provided on subsequent measurement of financial instruments in Note 2.4.

Cash and cash equivalents, trade receivables, other current financial assets and loans to third parties mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values.

The fair value of employee loans, trade receivables over one year and other non-current financial assets are determined by using discounted cash-flow valuation technique. The quarterly cash inflows from the employees are discounted by market based interest rates interpolated from the official Budapest and EUR Interest Rate Swap.

The fair value of financial instruments that are not traded in an active market (derivative financial instruments) is determined by using discounted cash-flow valuation technique. The fair value of forward foreign exchange contracts is determined using quoted spot exchange rates and appropriate interest rates at the balance sheet date.

Financial assets available for sale include investment in equity instruments that are measured at fair value.

Finance lease receivables (2007: HUF 21,568 million, 2006: HUF 18,019 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 Leases.

34.1.2 Financial liabilities

The table below shows the categorization of financial liabilities as at December 31, 2006.

Liabilities in HUF millions	Financial liabilities Measured at amortized cost	Financial liabilities Held for trading	Carrying amount 2006	Fair value 2006
Financial liabilities to related parties	263,188		263,188	268,102
Bank loans	47,394		47,394	47,394
Trade payables	81,392		81,392	81,392
Dividend payable	76,165		76,165	76,165
Nonconvertible bonds and debentures	194		194	142
Other current financial liabilities	1,776		1,776	1,776
Other non current financial liabilities	6,405		6,405	5,978

Total	476,514	476,514	480,949

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The table below shows the categorization of financial liabilities as at December 31, 2007.

Liabilities in HUF millions	Financial liabilities Measured at amortized cost	Held for trading	Carrying amount 2007	Fair value 2007
Financial liabilities to related parties	279,642		279,642	287,600
Bank loans	94,184		94,184	95,424
Trade payables	87,989		87,989	87,989
Dividend payable	151		151	151
Nonconvertible bonds and debentures	194		194	146
Other current financial liabilities	1,532		1,532	1,532
Other non current financial liabilities	3,827		3,827	3,566
Total	467,519		467,519	476,408

The fair value of long term fixed-rate financial liabilities of a monetary nature (Financial liabilities to related parties, Bank loans and Nonconvertible bonds and debentures) is determined by using discounted cash-flow valuation technique. The cash flows of the liabilities are discounted by interest rates, which is reasonable to the Group for similar financial instruments. The carrying amount of floating-rate financial liabilities of monetary nature or expiring within one year, approximate the fair values at the reporting date, therefore these are not revalued.

Fair value information on the financial liabilities is provided Notes 16 and 17.

Trade payables and other current financial liabilities generally have short times to maturity, therefore the values reported approximate the fair values. As dividend payable is also a short-term liability, the carrying amount is a reasonable approximation of fair value.

There is an item in other non current financial liabilities, the carrying amount of which is a reasonable approximation of fair value at December 31, 2006, as the liability was recognized in September 2006 and there were no significant changes in market interest rates in Q3 2006. The fair value of other items in other non current liabilities is determined by using discounted cash-flow valuation technique.

Finance lease liabilities (2007: HUF 3,370 million, 2006: HUF 2,736 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 Leases.

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34.2 Net gain/loss by financial instrument category

The table below shows the net gains and losses by financial instruments in 2006.

		From subsequent measurement					Net
in HUF millions	**From interest**	**At fair value**	**Currency translation**	**Impairment loss**	**From derecognition**	**From fee expense**	**gain / loss 2006**
Loans and receivables	3,304		(2,457)	(5,066)		(2,726)	(6,945)
Held-to-maturity investments							0
Available-for-sale financial assets					1,190		1,190
Financial instruments held for trading		377					377
Financial liabilities measured at amortized cost	(26,979)		1,798			(105)	(25,286)
Net gain/loss of financial instruments under the scope of IAS 39	(23,675)	377	(659)	(5,066)	1,190	(2,831)	(30,664)
Finance lease net interest income (out of scope of IAS39)	188						188

The table below shows the net gains and losses by financial instruments in 2007.

		From subsequent measurement					Net
in HUF millions	**From interest**	**At fair value**	**Currency translation**	**Impairment loss**	**From derecognition**	**From fee expense**	**gain / loss 2007**
Loans and receivables	4,334		(799)	(3,193)		(3,120)	(2,804)
Held-to-maturity investments							
Available-for-sale financial assets		233					233
Financial instruments held for trading		(321)			828		507
Financial liabilities measured at amortized cost	(31,147)		(457)			(427)	(32,005)
Net gain/loss of financial instruments under the scope of IAS 39	(26,813)	(88)	(1,256)	(3,193)	828	(3,514)	(34,069)
Finance lease net interest income (out of scope of IAS 39)	1,183						1,183

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

The Group has pledged no financial assets as collateral for liabilities or contingent liabilities.

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The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not material therefore no separate disclosure is provided on those.

The amount of receivables that are individually determined to be impaired is not material, therefore, these are not disclosed separately.

The Group does not have compound financial instruments with multiple embedded derivatives.

There were no defaults and breaches in connection with loans payable.

35. Contingent liabilities

The most significant contingent liabilities of Group are described below. No provisions have been recognized for any of these cases as the management estimates that it is unlikely that these would result in economic outflows from the Group.

35.1 Compensation for unjustified termination of a contract by T-Mobile MK

In January 2002, T-Mobile MK and Newsphone signed an agreement, including a 3-month trial period, for the collection of T-Mobile MK s overdue receivables. After the expiration of the 3-months trial period, T-Mobile MK terminated this contract in April 2002 due to breaches of the contractual obligations by Newsphone. Newsphone initiated a lawsuit in April 2003 requesting damage compensation for foregone profit and compensation for services already rendered. Expertise ordered by the court to review the figures and results of the cooperation between the parties during the trial period concluded on their review mostly in favor of T-Mobile MK. Management estimates it unlikely that Newsphone would win the court case against T-Mobile MK. The potential loss from the claim is approximately HUF 1,200 million. The first instance decision will be made by a primary court of Macedonia, the timing of which is uncertain.

35.2 Alleged abuse of dominant position by Maktel on wholesale ADSL market

In September 2007, the CPC stated that Maktel had been abusing its dominant position as it did not offer wholesale ADSL service for its competitors, while it started its own ADSL service and it also did not make 3rd party billing possible for other providers. Management estimates it unlikely that the CPC would win the court case against Maktel. The potential loss from the claim is approximately HUF 600 million. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

Maktel s competitors have sued Maktel for damage compensation based on the above decision of the CPC. Management estimates it unlikely that the competitors would win the court cases against Maktel. The potential loss from the claim is approximately HUF 1,100 million. The first instance decisions will be made by a primary court of Macedonia, the timing of which is uncertain.

35.3 Alleged abuse of dominant position by Maktel by charging administrative fee

In February 2006, the CPC initiated procedure against MakTel for abusing dominant position by charging an administrative fee to the customers in an amount of 2% of the subscribers bill. Starting from June, 2006 MakTel stopped charging 2% administrative fee and implemented a fixed charge for covering the costs for preparation of the bill in fixed amount. In January 2007, the CPC established that MakTel abused its dominant position by

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charging the fixed fee and officially prohibited MakTel from charging the fixed amount or any additional amount for covering of the expenses for preparation of the bills. MakTel stopped charging the administrative fee from March 2007 showing the intention to comply with the CPC decisions. In June 2007, the CPC imposed a fine of approximately HUF 600 million for the misdemeanor Maktel had committed before discontinuing charging these fees. MakTel appealed against the above CPC resolutions, which will be decided by the Administrative Court of Macedonia. Management estimates it unlikely that the CPC would win these court cases against Maktel. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

35.4 Dispute around MakTel s Reference Interconnection Offer (MATERIO)

In December 2006 the Macedonian Commission of Agency for Electronic Communications (the Agency) brought a decision requesting MakTel to change its MATERIO fees. MakTel appealed against the decision, which was rejected by the Agency. Subsequent to the rejection, MakTel submitted its adjusted MATERIO fees (calculated in accordance with the existing regulation for interconnections fees determination) to the Agency for final approval, which the Agency refused. The Agency initiated a misdemeanor procedure at a Macedonian primary court accusing MakTel of committing misdemeanor by not adjusting its MATERIO prices as per their request. Management believes that MakTel s action can not be prescribed as misdemeanor at the time, and no misdemeanor sanction can be applied according to the general legal clauses that one cannot be convicted of misdemeanor if its action is not prescribed as misdemeanor by the law, and consequently there is no sanction prescribed for the action by law. Therefore, management estimates it unlikely that the Agency would win the court case against Maktel. The potential loss from the claim is approximately HUF 4.4 billion, as a theoretical maximum of 10% of MakTel s annual revenue. The first instance decisions will be made by the primary court of Macedonia, the timing of which is uncertain.

35.5 Maktel s dispute on fixed-to-mobile termination fees

In 2005, MakTel changed the retail prices for the traffic from fixed to mobile network. According to the interconnection agreements with mobile operators the change in retail prices automatically decreased interconnection fees for termination in the mobile networks. In February 2006, one of the Macedonian mobile operators, Cosmofon, submitted to the Commission of Agency for Electronic Communications (Agency) a request for dispute resolution with reference to the termination prices. The Agency rejected the requests of Cosmofon as ungrounded . This decision of the Agency was appealed by Cosmofon by filing a law suit at the Administrative Court of Macedonia. The potential loss from the claim is approximately HUF 370 million, but the management estimates it unlikely that this would result in any loss. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

36 Events after the balance sheet date

36.1 Privatization tender for Telekom Slovenia

Following the completion of due diligence Magyar Telekom filed a binding bid in the public tender of the Republic of Slovenia for the sale of an equity participation in Telekom Slovenije d.d. on January 4, 2007. Later in January it was announced that the Company had not been selected to proceed to the next stage in the public tender process.

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36.2 Termination of a significant T-Systems contract

Pursuant to the decree of the Metropolitan Court in October 2007, a liquidation procedure was ordered to start against T-Systems Hungary (TSH) due to its debts (HUF 19 million) towards a creditor. The date of the publication in the Companies Gazette and the starting date of the insolvency / liquidation process was January 3, 2008.

TSH merged into IQSYS, which had been registered by the Court of Registry on December 31, 2007. At the same time TSH was deleted from the Companies Registry on December 31, 2007. The debt was paid to the creditor by the legal successor company (IQSYS). Consequently, the Metropolitan Court dated January 15, 2008 withdrew its decree which stated the insolvency of and ordered the insolvency / liquidation proceeding against TSH, and terminated the insolvency / liquidation proceeding. According to this decree, as of the starting date of the insolvency / liquidation proceeding (i.e. on January 3, 2008), T-Systems Hungary Kft. did not exist, because it had been deleted from the Companies Registry by the Metropolitan Court acting as Court of Registry dated December 31, 2007.

On January 18, 2008, a large T-Systems customer sent a termination letter with immediate effect regarding the long term contract entered into in September 2001, as the customer considered that the Court ordered the liquidation in 2007 was a cause for termination with immediate effect under a provision of the said contract. The customer also found injurious that TSH did not duly fulfill its obligation to provide information on the liquidation process. On January 21, 2008 IQSYS indicated in its response that it does not accept the termination with immediate effect, taking into consideration that the company is not insolvent, and the Metropolitan Court has terminated the insolvency / liquidation proceeding and has withdrawn its decree on ordering the insolvency / liquidation proceeding.

The agreement guaranteed the right for the customer to terminate the contract with immediate effect, because the underlying cause had occurred. However, the starting date of the insolvency / liquidation proceeding is January 3, 2008, and on this date TSH did not exist. On the date of the termination letter with immediate effect (January 18, 2008) the service provider (IQSYS, the legal successor of TSH) was not insolvent. The parties are in negotiations in connection with the above. The value of the dispute is not more than HUF 2.5 billion. Should the negotiations end unsuccessfully, a lawsuit could possibly be initiated due to the termination with immediate effect. We have recognized an impairment loss of HUF 1,500 million of the finance lease receivable from the customer as at December 31, 2007.

The Company is currently investigating the deficiencies in internal controls which led to the legal situation, triggering the early termination of the contract.

36.3 Sale of a subsidiary

MakTel signed an agreement in February 2008 to sell its subsidiary, Montmak for a consideration of EUR 5 million. Montmak owns and operates a beach hotel facility on Montenegro s Adriatic coast. The Group will realize a gain of approximately HUF 1 billion on the sale, which will be recognized in 2008.

MAGYAR TELEKOM GROUP

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC

LIMITED COMPANY

Business Report of 2007

March 2008

Introduction

The consolidated annual report of the Magyar Telekom Telecommunications Public Limited Company (Magyar Telekom Plc. or the Company) has been prepared pursuant to the International Financial Reporting Standards. Magyar Telekom Group (Magyar Telekom or the Group) is composed of Magyar Telekom Plc. and 44 business enterprises (of which 34 enterprises are direct and 10 are indirect investments).

Magyar Telekom classified its investments in line with the International Financial Reporting Standards, and as of December 31, 2007 the Company declared 31 direct and 8 indirect investments as subsidiaries subject to consolidation.

There are three companies involved in consolidation as associated enterprises, in which Magyar Telekom as the parent company has a stake of between 20 and 50 percent.

As of December 31, 2007 Magyar Telekom classified two of its investments as jointly managed enterprise.

Magyar Telekom is the principal provider of fixed line telecommunications services in Hungary, with approximately 2.5 million fixed access lines at December 31, 2007. The Group is also Hungary s largest mobile telecommunications service provider, with approximately 4.9 million mobile subscribers (including users of prepaid cards) at December 31, 2007.

Magyar Telekom Plc. is listed in the Budapest and the New York Stock Exchanges.

Organizational changes

On September 25, 2007, Board of Directors decided to re-shape the Company s management and organizational structure in order to enhance service quality and improve cost efficiency, as well as exploit new, innovative service and business opportunities. The decision reflects the significant structural changes that are underway in the telecommunications industry, driven by long-term industry trends. The ongoing technological development and innovation, changes in customer demand, as well as the changing market dynamics and convergence experienced throughout the industry, have resulted in a shift of focus away from technology and towards the demands of individual customer segments. As a consequence, Magyar Telekom s operational structure in telecommunications services must be aligned with this development, to allow the company to continue to cope successfully with intensifying market competition.

Accordingly, Magyar Telekom s executive management has devised a new management structure, based on a Group operational model structured around customer segments. The new structure, which supports the Group s achievement of its strategic goals, was introduced on January 1, 2008, as approved by the Board of Directors. Both the organizational framework and scope of activity of individual business units, and the responsibility spheres of senior management will be affected. The main changes are as follows:

- *The Consumer Services Business Unit* comprises comprehensive marketing, sales and customer relations activities of both mobile and wireline consumer products and brands (T-Mobile, T-Com, T-Online, T-Kábel).

- The *Business Services Business Unit* provides mobile and wireline telecommunications, infocommunications and system integration services (including marketing, sales and customer relations activities) under the T-Systems brand to key business partners (large corporate customers) as well as small and medium businesses.

- An *Alternative Businesses and Corporate Development Business Unit* has been established comprising content, media and other non-access services; it is also responsible for new business development and the coordination of innovative activities. Accordingly, media and content service activities, which has been separated from T-Online Hungary from October 2007 has been be incorporated into this business unit.

• The mobile and wireline network management and development activities were transferred to the current IT Management area, which took responsibility for Technology and IT Management.

Share Capital

As of December 31, 2007, the share capital of Magyar Telekom Plc. was HUF 104,274,561,500, consisting of 1,042,745,615 Series A ordinary shares. All Series A ordinary shares have a nominal value of HUF 100.

Shareholder	Number of shares	Percentage of share capital
MagyarCom	617,438,581	59.21
Publicly traded (1)	423,803,493	40.65
Treasury shares	1,503,541	0.14
	1,042,745,615	100.00

(1) Of our publicly traded shares, JP Morgan Chase Bank had 9,505,784 ADRs, evidencing 47,528,920 shares on its accounts as of December 31, 2007, for registered holders, such amount representing 4.6 percent of the total shares outstanding. We do not know whether this percentage may be indicative of the percentage of our ordinary shares held by U.S. persons.

SBC Communications Inc (SBC) and Deutsche Telekom AG (DT) jointly managed and operated MagyarCom until SBC s 50 percent ownership in MagyarCom was transferred to DT in June 2000. DT now controls Magyar Telekom indirectly.

Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or their nominees registered in the shareholders register six business days prior to a general meeting may cast a vote. Any decision overriding a resolution of the Board of Directors, require a three-quarter majority of votes cast by the shareholders present or represented at the general meeting. All other matters submitted to a general meeting require only a simple majority vote. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares.

Transfer of Shares

The shareholders holding at least a simple majority of the shares must generally approve a transfer of shares that would result in a person or group of persons gaining directly or indirectly ten percent or more of the outstanding voting stock of the Company.

When registering a transfer of shares, the registrar may request evidence that the shares were transferred in accordance with the Articles of Association. If the Company establishes that the transfer occurred in violation of the Articles of Association or if the transferee refuses to produce the necessary evidence, the Company may refuse to register the transfer. The Board of Directors may invalidate registrations based on untrue, false or misleading statements.

Limitation of the Rights of Shareholders

Shareholders whose names have not been entered into the Shareholders Register and shareholders who acquired their shares in violation of the restrictions in the Articles of Association pertaining to the transfer and the acquisition of shares shall not be allowed to exercise their rights attached to such shares vis-á-vis the Company.

Amendment of the Articles of Association

The general meeting of the shareholders has the sole right to approve and amend the Articles of Association unless otherwise provided by law.

Board of Directors

Pursuant to our amended Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected at the annual general meeting of the shareholders for a term of three years. One of the current directors was nominated by the former holder of the Series B Share, five of the current directors were nominated by MagyarCom and two of the current directors were elected upon proposal by other shareholders of the Company.

On December 31, 2007, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

Name	Age	Principal Occupation	Member since
Christopher Mattheisen	46	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. István Földesi	58	International business advisor	2003
Dr. Mihály Gálik	61	Professor and Head of the Marketing and Media Department of the Corvinus University	2006
Michael Günther	63	Member of the Management Board of T-Mobile International, responsible for Joint Venture Management	2002
Horst Hermann	53	Senior Executive Vice President of DT, responsible for Affiliate Management in Central and Eastern Europe	2003
Thilo Kusch	43	Chief Financial Officer of Magyar Telekom Plc.	2006
Rudolf Kemler(1)	52	Generaldirektor of HP Austria	2007
Frank Odzuck	48	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	47	Member of the Management Board of T-Com	2003

(1) Resigned from his position on January 31, 2008.

Management Committee

Pursuant to our amended Articles of Association and the amended Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000, which is empowered to carry out the day-to-day operations in accordance with the annual business plan.

On December 31, 2007, the Management Committee consisted of seven chief officers of Magyar Telekom. The members were as follows:

Name	Age	Position	Member since
Christopher Mattheisen	46	Chairman and Chief Executive Officer	2006
Thilo Kusch	43	Chief Financial Officer	2006
Éva Somorjai	41	Chief Human Resources Officer	2007
György Simó	41	Chief Officer, Alternative Business and Corporate Development BU	2006
István Papp	36	Chief Officer, Business Services BU	2007
János Winkler	53	Chief Officer, Consumer Services BU	2006
István Maradi	43	Chief Technology and IT Officer	2007

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the shareholders for a term of three years. The Works Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board require a quorum of eight members.

On December 31, 2007, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Age	Principal Occupation	Member since
István Koszorú	57	Chairman of the Workers Council at Network Management Directorate	2007
Attila Csizmadia	58	Ministry of Finance, Chief Counsellor	2003
Dr. Ádám Farkas	40	CEO of Allianz Bank Zrt.	2005
Dr. János Illéssy	45		2006
Gellért Kadlót	59	Member of the Workers Council of the sales field	2002
Dr. Sándor Kerekes	59	Director of Institute of Environmental Sciences Corvinus University Budapest	2006
Jutta Burke	43	Corporate Country Manager, responsible for Hungary, Macedonia and Montenegro	2007
Konrad Kreuzer	59	Chairman of the Board of Directors of E.ON Hungária Zrt.	2006
Dr. László Pap	64	Budapest University of Technology, Professor and Head of Telecommunication Department	1998
György Varju	61	Chairman of the Workers Council at Technical Services	2005

Péter Vermes	61	Chairman of Magyar Telekom s Central Workers Council	1995

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Compensation of Directors, Officers and Employees

Half of the Management Committee members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In the case of an employment contract for a fixed duration the notice period is normally six months, and severance is 16 months. Employment contracts with our management employees contain special provisions providing for entitlements after termination of employment; therefore, the amount of severance is higher than the amount required by the applicable provisions of the Labor Code.

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszervezet, MATÁSZ). Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee.

Investigation into certain consultancy contracts

In the course of conducting their audit of our 2005 financial statements, PwC identified two contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit Committee and advised them to retain independent counsel to conduct an investigation into these contracts. In February 2006, our Audit Committee retained White & Case, as its independent legal counsel, to conduct the investigation, with the additional assistance of a financial advisory firm and a digital forensics firm. In December 2006, the investigators delivered an Initial Report of Investigation. We cannot predict when the investigation will be concluded or what the final findings will be.

PwC initially raised concerns regarding two consultancy contracts entered into in 2005 by our Montenegrin subsidiaries Crnogorski Telekom and T-Mobile Crna Gora. The initial scope of the independent investigation was a complete review of these two contracts, including a review of all related documents and interviews with our, and Crnogorski Telekom and T-Mobile Crna Gora, employees and third parties with knowledge of the contracts. The financial advisory firm assisting the investigation also reviewed a sampling of our and our Montenegrin subsidiaries account and transactional data, equaling 72 percent of the value of all transactions and 90 percent of the value of all contracts with third party vendors. For each of these test items, all available supporting documentation was reviewed. Early in the investigation, two additional consultancy contracts entered into by Magyar Telekom Plc. in 2005, were also called into question by the investigators, and our Audit Committee expanded the scope of the investigation to cover these contracts. The total value of these four contracts under investigation is approximately HUF 2 billion.

During the course of the investigation, it became evident that certain of Magyar Telekom, Crnogorski Telekom and T-Mobile Crna Gora employees had obstructed the investigation by destroying or tampering with electronic documents. Specifically, the digital forensics firm assisting the investigation found that ten computers assigned to seven employees showed evidence that documents had been deleted from the hard drives and wiping software had been used to make those documents permanently unrecoverable. Investigators determined that the deleted electronic documents included a number of documents related to the contracts under investigation. This deletion and wiping activity took place after our management had issued document retention memos requiring that all documents related to these contracts be retained. As a result of this deliberate destruction of documents, the investigators have been unable to review certain documents that could have been relevant to the investigation.

To date, the independent investigators have been unable to find sufficient evidence to show that any of the four contracts under investigation resulted in the provision of services to us or to our subsidiaries under those contracts of a value commensurate with the payments we made under those contracts. It is unclear who the true counterparties are to the contracts, and certain of the contracts are vague as to the actual services that are to be provided. The independent investigators have been unable to determine definitively the purpose of the contracts, and it is possible that the purpose may have been improper.

In our 2005 preliminary results announcement, we had capitalized the HUF 1.12 billion payment related to two of these contracts. As a result of the interim findings of the investigation, we have expensed the total amount of the HUF 2 billion paid under these four contracts and disclosed these expenses under the caption Other operating expenses net in our 2005 Form 20-F report. This has resulted in a commensurate effect on, among other items, taxes, minority interest and net income when compared to the corresponding items reported in our 2005 preliminary results announcement.

As a consequence of the investigation, we have suspended a number of employees who have since resigned. The suspended employees included senior members of our Strategy Group and a senior executive of Crnogorski Telekom. The Crnogorski Telekom Board of Directors has also been replaced.

The independent investigators Initial Report of Investigation further identified several contracts at our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions.

The investigation has revealed certain weaknesses in the design and operation of our internal controls and procedures. Accordingly, we have approved and have implemented certain remedial measures designed to enhance our internal controls and to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements. First, the position of Magyar Telekom Group Compliance Director has been created, reporting directly to the Audit Committee and with direct access to the Supervisory Board, Board of Directors, the Company Chief Executive Officer, the Company Chief Financial Officer, and other members of senior management. We note that, as required by Hungarian labor law, the employer s rights vis-à-vis the Group Compliance Director are exercised by a representative of the Company (the CFO). The most significant of the employer s rights, including any substantial amendment to the Compliance Director s employment contract, shall be exercised in consultation with the Audit Committee. In conjunction with this new position, we have reviewed, with the assistance of U.S. counsel, our compliance and corporate governance policies and have established a comprehensive compliance-training program, with a focus on our code of ethics, insider trading policy, document retention policy, regulatory matters, and compliance with U.S. securities laws and the U.S. Foreign Corrupt Practices Act. Our Board has already approved and implemented a Magyar Telekom Group Corporate Compliance Program Manual, a Group Financial Code of Ethics to Treasury and Financial Managers applicable as a Code of Ethics for Senior Financial Officers, a Group Code of Business Conduct and Ethics, a Group Anti Fraud Policy, a Group Document Management Directive, a Group Directive on Compliance with Anti-Corruption Laws and the U.S. Foreign Corrupt Practices Act, a Group Insider Trading Directive, a Group Procurement Directive, a Group Directive on Compliance with U.S. Sanctions and Export Control Laws, a Group M&A Policy, and a new Disclosure Committee Charter. These policies are being further improved based on the experience from the implementation and comments from our Audit Committee and its independent legal counsel. Second, we have revised our internal controls relating to procurement, including centralized access to all SAP systems of subsidiaries and a requirement that all contract approvals pass through uniform rules and procedures. Third, we have revised our mergers and acquisitions process, including dividing accountability for M&A between the Strategy Group, which remains responsible for business development, and the area of the Chief Financial Officer, which is responsible for execution of M&A transactions. All M&A activity requires Board approval and will be reported to the Audit Committee on a semi-annual basis. Fourth, we are reviewing, and modifying where necessary, all other significant procurement, compliance, governance, M&A, and disclosure-related Group directives. Fifth, we have undertook a significant compliance and governance assessment of our Hungarian and non-Hungarian subsidiaries. This assessment included a review of all significant governance and compliance-related policies and the implementation of the new and revised Group-level policies and directives. Sixth, we have developed a comprehensive compliance training program, which covers all aspects of our compliance regime and will be effected through a combination of in person, Web-based and other forms of training depending on the category of employee and the compliance topic. In-person training has been carried out for the members of our top management, including Hungarian and international subsidiaries, as well as members of our Board of Directors, Supervisory Board and Audit Committee. Training will extend to all employees throughout the Magyar Telekom Group. Finally, our Board may make further decisions or recommendations in connection

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with the involvement of any senior management in the four contracts under investigation.

As previously reported, the investigation has delayed the finalization of our 2005 financial statements, and as a result we and some of our subsidiaries have failed and may fail to meet certain deadlines prescribed by U.S., Hungarian and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. We have to date been fined HUF 13 million as a consequence of these delays. We have notified the Hungarian Financial Supervisory Authority, the U.S. Securities and Exchange Commission and the U.S. Department of Justice of the investigation, are in contact with these authorities regarding the investigation and are responding to inquiries raised by these authorities.

Analysis of results

Total Revenues

Our total revenues grew by 0.8 percent from HUF 671,196 million in 2006 to HUF 676,661 million in 2007. Increase in revenues was mainly due to higher system integration and IT revenues, which grew by 68.4 percent from 2006 to 2007, driven mainly by the consolidation of KFKI Group revenues from September 15, 2006, T-Systems Hungary from January 1, 2007 and the inclusion of Dataplex from April 1, 2006. The increase was also due to higher system integration outsourcing revenues at MT Plc. T-System. The higher mobile service revenues (excluding TETRA related revenues) as well as higher Internet revenues also contributed to the growth, which was almost completely offset by lower revenues from TETRA services at Pro-M and decreased voice retail traffic in the fixed line telecommunications services.

Total Operating Expenses

Our total operating expenses increased by 2.5 percent from 2006 to 2007. Operating expenses amounted to HUF 534,805 million in 2006 and HUF 548,349 million in 2007. Our total operating expenses as a percentage of total revenues increased from 79.7 percent in 2006 to 81.0 percent in 2007 mainly as a result of higher severance expenses and increased cost of the ongoing investigation.

The details on our analysis of the consolidated financial statements for the year ended December 31, 2007 are available in our annual flash report; see Financial Reports section of Magyar Telekom s website.

Overview of Magyar Telekom s Services

Fixed Line Telecommunications Services - Hungary

Domestic Services

Products and Services

Public Switched Telephone Network (PSTN). Due to the fierce competition and mobile substitution, the number of our PSTN lines decreased from 2,158,547 as of December 31, 2006 to 2,020,956 as of December 31, 2007.

Integrated Services Digital Network (ISDN). ISDN allows a single access line to be used simultaneously for a number of purposes, including voice, data, facsimile and video transmission. We offer both basic ISDN access lines with two channels and multiplex ISDN access lines with 30 channels. As of December 31, 2007, we had 166,058 ISDN access lines with two channels and 4,621 ISDN access lines with 30 channels, amounting to the total of 470,746 ISDN channels. We intend to extend the life cycle of the ISDN product in the business segment by offering various discounts to our customers.

Digifon Services. Our network is 100 percent digitalized, which enable us to provide value added services in our entire service area. We provide a number of value added services, such as call forwarding, call waiting, call conference and caller number identity to a significant number of our fixed line subscribers. These services help increase fixed line usage as they make busy signals and unanswered calls less common. We also offer bundled packages of digifon services, as well as bundled ones in the ADSL complex package. The most popular of these packages is the Összhang, which contains five services at a discount price. Összhang package had approximately 228,000 customers by the end of 2007.

Voice-mail. We offer a voice-mail service including call return and call capture. We also offer voice-mail Short Message Service (SMS), which provides an SMS alert to the mobile handset of the customer each time he or she receives a voice-mail message. These services allow better usage of the network, provide convenience to our customers and decrease the ratio of uncompleted calls.

Private Branch Exchange (PBX) Services. We also offer PBX services. The vast majority of the leased equipment is digital and meets the demands of developing technologies such as IP, ISDN and digitally enhanced cordless telecommunications.

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. We also offer increasingly popular Directory Assistance-Plus (DA-Plus) service. DA-Plus offers a wide range of information including Yellow Pages, residential classified advertisements, encyclopedia- and dictionary-based information, recipes, poems, as well as telephone numbers, postal, e-mail and website addresses without any quantity restrictions. The requested information may be provided verbally, by SMS, by e-mail or by fax. The fees for the service are based on per minute usage. We also offer a call completion option to the subscribers of DA-Plus.

Subscribers

The following table sets forth information regarding total fixed access lines and penetration rates in our service areas:

	At December 31,		
	2005	**2006**	**2007**
Lines in service in Magyar Telekom Plc. s and Emitel s service areas			
Residential lines	1,981,876	1,902,011	1,779,039
Business lines	248,955	236,019	222,451
Public payphones	22,112	20,517	19,466
Total	2,252,943	2,158,547	2,020,956
ISDN channels	500,696	485,290	470,746
Total	2,753,639	2,643,837	2,491,702
Lines installed per 100 inhabitants in Magyar Telekom Plc. s service areas	35.6	34.2	33.7

Our domestic fixed line telephony subscribers can be classified into two categories: residential customers and business customers, which include our customers in the public sector. As of December 31, 2007, 74 percent of our access lines were utilized by our residential customers and 25 percent by our business customers. The remaining one percent of access lines was used for public payphones.

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 measured in seconds based on the call s duration.

In 2005, we introduced flat rate tariff packages (Favorit family) that offer free unlimited calls to customers during a certain period of the day for an additional monthly fee. In 2006 and 2007, we introduced various tariff packages with a monthly fee that can be fully offset by call charges. By the end of 2007, our flat rate offers attracted the highest customer base.

In 2007, we increased the number of tariff packages to allow customers in different market segments to choose packages that best suit their calling patterns. These tariff packages also serve as a tool to maintain our customer base in the fully liberalized market as those customers who select us as the operator for every traffic direction (local, long distance, fixed-to-mobile and international) receive the highest discounts. During 2007, the fixed-to-mobile bundled offers proved to be successful customer retention tools.

International Voice Telephone Services

International voice telephone services consist of outgoing and incoming international calls, including voice and switched transit traffic through Hungary. Since January 1, 2008, Magyar Telekom sends and receives all its international voice and switched transit traffic to and from Deutsche Telekom.

We provide international calling access to our fixed line subscribers and to subscribers of other local telephone operators and mobile service providers. Our Hungary Direct and Country Direct services permit customers to charge calls made from 50 foreign countries to their home phone numbers in Hungary.

Fees and Charges

The call charge for an international call contains two elements: a call set-up charge and a traffic charge measured in seconds based on the call s duration. Although the published prices of our international rates did not change in 2007, the average per minute rates decreased as a result of discounts given in various optional tariff packages.

International Telecommunications Hub

We believe that Hungary is geographically well positioned to serve as a telecommunications gateway between Eastern and Western Europe. We have two state-of-the-art international gateways as well as fiber optic cable connections serving 25 border crossings. These fiber optic cable connections use synchronous digital hierarchy transmission facilities and we have launched our own Dense Wavelength-Division Multiplexing (DWDM) backbone network. To increase the utilization of our transmission network, we offer attractive price schedules for dedicated transit services through Hungary. We are DT s partner in Delivery of Advanced Network Technology to Europe (DANTE), which provides transmission paths interconnecting Bucharest (2x622 Mbit/s) and Sofia (2x155 Mbit/s) to the European research and educational network, GEANT through their Budapest node.

We have X.25 links, which are used for packet switched data transmission with 83 international networks.

To seize the opportunities presented by the liberalization of the telecommunications market in Romania, we established interconnection arrangements with major Romanian network service providers to offer transit services to Western Europe. We provide Internet transit service to several Romanian and Bulgarian ISPs on our three IP PoPs in Romania and high-capacity international Internet transit service on our IP PoPs in Hungary to ISPs of Macedonia.

According to a new agreement with Deutsche Telekom, Magyar Telekom stopped buying and selling international voice services from and to other foreign carriers as of January 1, 2008. Since that time, Deutsche Telekom became the sole international voice partner. The agreement allows cost reductions due to synergy with the parent company.

Internet Services

We offer Internet services based on dial-up, ADSL technology as well as access through cable television, Wireless Local Area Network (WLAN) and leased lines to provide residential and business customers with narrowband or broadband Internet services at affordable prices.

We increased our subscriber base to 505,725 from 427,000 as of December 31, 2006 in Hungary. We are the largest Internet service provider in Hungary with an estimated 62.2 percent market share based on the number of DSL broadband subscribers and 17.1 percent market share based on the number of cable net subscribers. Our broadband (ADSL, cable television, WLAN and leased line) customers reached 489,368 as of December 31, 2007 compared to 395,599 a year earlier.

In 2006, we introduced an IPTV service. IPTV allows broadcasts to be seen on a television set with a set-top-box over ADSL connection. The new product line offers various interactive contents, such as time-shift function, electronic program guide (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. The total customer base of IPTV reached 9,224 as of December 31, 2007 compared to 650 a year earlier.

Klip offers VoIP services via broadband access. Users of Klip can initiate and receive calls for free via the Internet, to both fixed line and mobile networks. Klip users can also be called from T-Com s fixed network. The product was launched at the end of 2005 and had more than 48,000 registered users at the end of 2007.

Magyar Telekom 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. We provide these services on a wholesale basis to ISPs, which in turn resell the services to residential and small business customers. At the end of 2007, we had contractual relationships with 25 ISPs. In 2007, this service saw a significant growth with the number of ADSL connections reaching 613,051 by December 31, 2007 from 512,810 at December 31, 2006.

Data Transmission and Related Services

Magyar Telekom is the principal provider of leased lines in Hungary.

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 lease lines to other local telephone operators and mobile service providers, who use such lines as part of their networks. We also lease lines to providers of data services. In addition, we lease lines to multi-site business customers who use leased lines to transmit internal voice and data traffic.

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 decreased from 9,165 as of December 31, 2006 to 7,710 lines as of December 31, 2007.

High Speed Leased Line (HSLL). The HSLL service provides permanent, digital, transparent, point-to-point leased line service between service access points (SAPs). The connections are established by a service provider according to the needs of its customers.

Datex-P. We offer Datex-P, a packet-switched data transmission service based on the X.25 protocol. The service provides low to medium speed 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.

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. 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.

Data transmission and related services consist primarily of data transmission and network services for business customers, such as financial institutions and insurance companies, and, to a lesser extent, residential customers. The market for data transmission and related services in Hungary is highly competitive. We are the leading supplier of data transmission and related services in Hungary.

Our revenues from data transmission have slightly grown as a result of both the development of the Hungarian economy and our increasingly sophisticated services. We expect the market for these services to grow with the proliferation of personal computers and increasing consumer demand. We believe that the ability to offer new data products and services will be critical to competing effectively in the future, particularly with respect to business customers.

International data products. We provide signaling links for mobile operators to facilitate international roaming. We also sell international leased lines, including international managed leased lines, international ISDN, X.400, X.25 and telegraph services. The sales of international leased lines are steadily growing, partly due to the introduction of one-stop-shopping agreements, whereby customers can order from and pay for the service at one end-point of the connection, which eliminate the need to deal with multiple service providers.

MultiFlex. In 2007, Magyar Telekom launched this new data transmission product that offers a standard solution for serving our partners complex telecommunications demand, allowing the entire internal data communications to be realized in one single corporate network. This is a technology independent service and it realizes the interconnection of local networks (LANs) with point to point or multi point to multi point structure.

System Integration and Information Technology

Following the expansion of the T-Systems segment s service portfolio, particularly through the acquisitions of KFKI Group and T-Systems Hungary, the Company has reviewed the organizational structure of the segment. Since January 1, 2007 the T-Systems segment has consisted of three divisions Infocom, IT Infrastructure and IT Applications. The latter two encompassed the activities of the six subsidiaries, divided according to their profiles and competencies. In order to increase the segment s transparency and improve sales efficiency, the number of subsidiaries were reduced via legal integration into the two respective divisions, thus forming two individual legal entities (KFKI System Integration Co. Ltd. and IQSYS IT and Consulting Co. Ltd). The legal procedures were completed by January 1, 2008. This move will enable the Company to focus more efficiently on strengthening our market leadership in the ICT service market as well as repositioning its corporate market approach as a true IT/TC provider. Operational efficiency will also be improved through the elimination of overlapping activities.

The operational activities are divided as follows: the traditional service portfolio, including voice services and data WAN solutions, as well as the outsourcing activities, is managed under the Infocom division. The IT Infrastructure division covers network and system integration, network operation, and IT consultancy services. KFKI-LNX is therefore also included here. The IT Applications division, which also includes T-Systems Hungary, is responsible for on-site support and operations as well as for application development and operation.

In 2007, the Strategic ICT outsourcing projects we contracted for in 2006 reached their realization phase. With these projects we demonstrated outstanding performance in competency areas, which helped us stabilize the position of Magyar Telekom in the ICT outsourcing market.

In 2007, within the framework of the Allianz strategic ICT outsourcing program we launched the regional Outsourcing Service Portal for seven participating countries. On the web platform of the portal the current values of the service parameters, the content of fault tickets, and the level of processing faults can be monitored, which allows us to carry out electronic customer satisfaction surveys. With this solution we established regional level outsourcing competence, which we can utilize also at other customers.

Based on our outsourcing project experiences gained among strategic accounts, we started the Managed Services (Custom MenX) for medium size enterprises, and concluded long term contracts in this segment. We also extended the range of Managed Services. In addition to Managed Voice, Managed LAN and Managed Security in 2006, we also added Managed Desktop and Managed Print to the portfolio in 2007.

Multimedia

Our CATV group consists of two entities providing various cable television services in Hungary. The larger entity is T-Kábel Hungary, which began providing cable television services on January 1, 1999.

Through network development and acquisitions, our CATV group significantly increased its number of cable television customers during the past years. We are the second largest cable television provider in Hungary. The growth of subscribers has slowed down in the past two years, because of the stronger competition and the saturation of the market. The CATV group had approximately 419,000 CATV subscribers as of December 31, 2007 compared to approximately 414,000 a year earlier.

Fixed Line Telecommunications Equipment Sales

Magyar Telekom distributes an extensive range of telecommunications equipment, from individual telephone sets to facsimile terminals, PBXs and complete network systems, through a network of customer service centers. In addition to stand-alone phoneset sales, Magyar Telekom offers various packages combining telephone sets with telephone lines and tariff packages.

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

Other Revenues

Other revenues include construction and maintenance, rental, wholesale infrastructure services and other miscellaneous revenues.

We construct fixed telecommunications networks and offer network maintenance services to other telecommunications operators in Hungary. These construction and maintenance services are ancillary to the construction and maintenance of our networks.

Mobile Telecommunications Services - Hungary

We provided mobile telecommunications services in Hungary through our wholly-owned subsidiary, T-Mobile Hungary (TMH) prior to the merger of Magyar Telekom and TMH. TMH continues its operations within Magyar Telekom under an independent brand and as an independent business segment.

As of December 31, 2007, TMH accounted for an estimated 44.0 percent of the total Hungarian mobile market in terms of subscribers. The penetration rate of mobile telephone services in Hungary increased from 99.0 percent at December 31, 2006 to 109.7 percent at December 31, 2007.

Since 2006, when TMH was the first mobile operator to launch HSDPA service in Hungary, the company increased its HSDPA coverage based on population from 30 to 53 percent. In 2007, TMH made HSDPA with download speed up to 7.2 Mbit/s available in its network and at the same time launched HSUPA service in

Hungary also as the first among local mobile service providers. In 2007 not only downloads but also uploads became faster in TMH s network, offering the customers a highly stable, reliable service with the best quality all over Hungary.

In 2007, TMH continued to enhance its non-voice service portfolio, introduced several new products, increased the penetration and usage of the existing products and extended the access of some of its domestic products abroad.

Subscribers

The number of TMH subscribers has been growing over the past three years. The table below sets forth information concerning the number of TMH subscribers at the dates indicated:

	At December 31,		
	2005	**2006**	**2007**
Number of subscribers			
Postpaid subscribers	1,323,814	1,545,115	1,793,620
Prepaid subscribers	2,870,041	2,886,021	3,059,872
Total subscribers	4,193,855	4,431,136	4,853,492
Average monthly Minutes of Use (MOU) per subscriber	127	142	149
Churn ratio (%)			
Postpaid subscribers	10.4	9.9	10.0
Prepaid subscribers	22.0	21.9	21.1
Total subscribers	18.5	17.9	17.1
Average monthly Revenue per User in HUF			
Postpaid subscribers	10,838	9,849	8,635
Prepaid subscribers	2,239	2,300	2,205
Total subscribers	4,832	4,800	4,542
Mobile penetration in Hungary (%)	92.4	99.0	109.7
TMH s market share (%)	45.0	44.5	44.0

Though the Hungarian mobile market is reaching a saturation level with penetration nearly 110 percent in 2007, total growth rate exceeded previous year s average due to the significant increase of inactive subscribers driven largely by Pannon s inactivity results. The increase in the number of TMH subscribers since December 31, 2006 is attributable to a number of factors, including the expansion of mobile broadband services and the success of community offers.

Traffic. TMH s average traffic per subscriber is comparable to other European countries and was at a blended level of 149 minutes in 2007. Average traffic per subscriber has increased over 2006 as a result of successful tariff packages targeting both postpaid and prepaid segment.

Rates. 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 charge and traffic charges).

TMH charges subscribers a one-time connection fee, monthly subscription charges, event charges and time-based traffic charges. Customers using prepaid cards do not pay monthly subscription charges (but in case of some tariff packages monthly recurring fees do exist). TMH does not charge subscribers for incoming calls, other than calls received while roaming. TMH receives payments from other telecommunications service providers for terminating calls on its network. TMH maintained the widest range of tariff packages and successfully introduced additional packages in 2007 to acquire new subscribers and develop loyalty.

TMH faced intense price-based competition in 2007. Competitors waged various campaigns, including introduction of new tariff packages with minute, money bundle (purchasing a certain amount of minutes or a predefined monetary amount that can be applied toward usage) and community offers and products (such as family package), to win over TMH s subscribers. TMH responded to the competitors with its own new tariff initiatives across all of the subscriber segments. In 2007, mobile Internet was one of the key development directions on the market where all operators introduced several offers. TMH is leading in both coverage and in the introduction of high speed technology (3G/HSDPA 7.2 Mbit/s, HSUPA).

International subsidiaries

Maktel has been a consolidated subsidiary of the Group from 2001.

Maktel is the primary fixed line service provider and the leading mobile service provider in Macedonia. Its exclusive rights in fixed line telecommunications services expired in December 2004. Maktel had 447,894 PSTN fixed lines and 44,482 ISDN channels as of December 31, 2007 and fixed line penetration reached 22.4 percent in Macedonia.

Mobile telephony was a significant growth driver in 2007 at Maktel. T-Mobile Macedonia is the digital mobile service provider of Maktel, which became a fully owned subsidiary of Maktel on June 4, 2001. The number of mobile subscribers increased by 28.4 percent to 1,212,539 by the end of 2007. The mobile penetration rate also grew significantly to 93.3 percent at the end of 2007 compared to 68.3 percent a year earlier. T-Mobile Macedonia offers value-added services, such as call waiting, call forwarding, conference call, SMS, voice mail, international roaming and itemized bill.

Maktel has a 93 percent market share in the Macedonian Internet market. The number of Internet subscribers and the time they spend on the Internet are gradually increasing. Maktel provides Internet access via the public switched telephone network, leased lines and ADSL. By the end of 2007, Maktel had 201,898 Internet customers, including 48,214 ADSL connections compared to 125,699 Internet customers, including 16,462 ADSL connections at the end of 2006.

Crnogorski Telekom has been a consolidated subsidiary of the Group from March 31, 2005.

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 local, national and international services, in addition to a wide range of telecommunication services involving leased line circuits, data networks, telex and telegraph services.

Crnogorski Telekom had 168,062 analog fixed lines and 21,906 ISDN channels as of December 31, 2007.

Crnogorski Telekom s subsidiary, T-Mobile Crna Gora, is the second largest mobile operator in Montenegro with 33.8 percent mobile market share. Since its inception in 2000, it has dedicated itself to offering innovative and advanced services to the Montenegrin market and has been experiencing dynamic growth.

At the end of 2007, T-Mobile Crna Gora counted 408,941 subscribers. The main activities of T-Mobile Crna Gora s operations are digital mobile telephony services based on the GSM technology and non-voice services such SMS, MMS and GPRS. T-Mobile Crna Gora is actively developing market offers with various promotions and incentives to encourage use of services. In 2007, T-Mobile Crna Gora built up a new 3G network in order to extend service portfolio and meet the growing needs of mobile customers in an increasingly competitive Montenegrin mobile market.

Research and development

Magyar Telekom Plc. has a department dedicated to performance of research and development (R&D) projects to meet the demands of the rapidly changing market, such as development of our telecommunications networks and service platforms. The R&D department works in close cooperation with educational institutions (including the Budapest University of Technical and Economic Sciences and the Technical College of Budapest), strategic investors, suppliers and domestic and international development organizations. Following our accession to the European Union, several funds aimed encouraging research and development activities became available to us as well; this encouraged us to deepen our involvement in national and international consortiums engaged in R&D.

The harmonization projects among DT Group members (Maktel, Slovak Telekom, Croatian Telekom and T-Systems International) play an important role. The joint development themes enable us to utilize group-level synergies, pursue efficient financial and human resource management and use the same third party contractors for our R&D projects.

In the last few years, to maintain or expand the competitive positions we developed the technical platform through the R&D activities for the introduction of new VoIP and multimedia-based services, based on the next generation (NGN) IP/Ethernet-based core and broadband fixed (ADSL, xDSL) and wireless (WLAN, WiFi) accesses.

Significant resources are devoted to the upgrading of our digital backbone network. The DWDM technology was introduced to satisfy the additional demands on the backbone network that arose in connection with broadband services, such as fast Internet access and broadband IP-VPN.

We are continuously developing our data communications and IP network and services to meet demands for broadband services. We developed the concept of a national, high-speed IP network built on DWDM and Gigabit Ethernet. Under this program, the components of our IPv6 protocol pilot network were identified.

In the last few years, we rolled out a wide range of broadband access technologies (e.g., ADSL, cable television, optical access network and managed leased line technologies) to satisfy demands for higher bandwidth. After introducing triple-play solutions, we started a field trial to provide IP High Definition TV (HDTV). We intend to offer HDTV as a commercial service from 2008. We also deployed a complex measurement system to measure the streamed quality of IPTV and to monitor the overall service quality in an end-to-end manner. Home Media Sharing is under investigation in order to provide value added features.

In 2007, we focused on the potential Next Generation, IP Multimedia Subsystem (IMS)-based applications. We conducted an internal test to evaluate the usability of the IP Centrex features. Based on IMS, we developed the Click-to-dial application, which is considered to be the basis for the forthcoming service improvements. In 2008, we intend to continue this project towards more complex services.

We developed a pilot system for the automated measure of the acoustic and electronic parameters of the analogue CPEs. This project is planned to be continued towards a completely automatic CPE testing framework.

Peer-to-peer communication services (p2p file sharing, p2p voice and video transmission, etc.) are intensively utilizing our IP infrastructure. To estimate and measure this traffic a pilot measuring system was elaborated.

The possibility to introduce EuroDOCSIS 3.0 technology is being considered. This technology has the potential to offer value added services and higher bandwidth data transmission.

We have developed a test system for hearing-impaired users, which transforms the speech signals into moving images, so users can recognize the speech by lip-reading. As an application, TV programs were used to measure the understanding factor by a test group of disabled people. Based on the results, a product development can be started for commercial launch.

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. This section includes our reports and news relating to sustainability and discusses our philosophy and approach to sustainability.

Real estate

Our headquarters are located at 55 Krisztina krt., 1013 Budapest, Hungary.

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

Due to the consolidation of various operations, the conversion to digital switches and ongoing staff reductions, we anticipate that a substantial portion of our owned and leased properties will not be necessary for our core business in the future. We intend to sell or rent our surplus properties.

Based on a five-year contract, we outsourced our real estate operations from February 1, 2005, thus real estate development, investment, operations and management activities are now provided by DeTe Immobilien-Hungary Zrt. for Magyar Telekom Plc. In order to exercise strategic management and control, we established the Real Estate Management Office. Maktel outsourced its real estate management operations to a third party starting from April 1, 2006.

Real estate holdings have the following functions:

- Technical building
- Warehouse
- Garage
- Holiday resort
- Tower

- Office
- Other social building
- Preferential office
- Apartment
- Land

According to our proprietary needs, the aim of the Real Estate Management Office is to optimize the utilization of the real estate portfolio, while selling or otherwise making use of the surplus properties on favorable terms.

Financial risk management

Magyar Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets and liabilities. Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. However, Magyar Telekom only hedges the risks that affect the Group s cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with leading Hungarian financial institutions.

The fundamentals of Magyar Telekom s financing strategy are established each year by the Board of Directors. The Group s policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfilment annually. The Board of Directors approves further limits in order to decrease risk exposures, these limits are monitored by the Chief Financial Officer monthly. The Group Treasury is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group Treasurer continuously.

1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

Magyar Telekom is exposed to interest and foreign exchange rate risk associated with its debt and anticipated transactions. As the vast majority of the revenues and expenses of the Hungarian entities arise in HUF, the functional currency of Magyar Telekom is HUF, and as a result, Magyar Telekom s objective is to minimize the level of its financial risk in HUF terms.

(a) Foreign currency risk

In order to mitigate the foreign currency risk, Magyar Telekom minimized its foreign currency borrowings in 2002 and 2003. From 2004, Magyar Telekom is having insignificant amount of foreign currency denominated debts.

The foreign exchange exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

At the Company, major non-derivative monetary financial instruments (liquid assets, receivables, debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or in line with currency hedging policy the effects of exchange rate moves offset each other. Exchange rate fluctuations therefore have no significant effects on profit or loss, or shareholders equity.

In line with currency hedging policy, Magyar Telekom holds significant amounts of EUR and USD on its bank accounts. The necessary amount is determined by the balance of trade payables and trade receivables in order to hedge the currency risk arising in connection with those liabilities. Exchange rate fluctuations therefore have no significant effect on profit or loss, or equity.

The Group s Macedonian subsidiaries accumulated cash is partially deposited in EUR and USD linked deposits. The amount of accumulated cash in MKD, EUR and USD in the Macedonian subsidiaries is higher than the trade payables in MKD, EUR and USD of these companies.

Compared to the spot FX rate as of December 31, 2007, a 1% weakening of HUF against MKD, EUR and USD would have caused (ceteris paribus) approximately HUF 501 million net gain in 2007 or the same amount of loss in case of a 1% HUF strengthening against MKD, EUR and USD.

Magyar Telekom occasionally enters into derivative contracts for risk reduction purposes. These foreign currency forward contracts are taken to reduce the exchange rate risk related to the foreign exchange denominated payment obligations or receivables.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Magyar Telekom is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing HUF interest rates affect the fair value of fixed rate debts and also affect the cash outflow through the variable rate debts. By the end of 2003, Magyar Telekom managed to convert almost its entire remaining foreign exchange debt portfolio to HUF, thereby the debt portfolio is only exposed to HUF interest rate fluctuations. To control interest rate risk, a combination of fixed and floating rate debt is used within the HUF portfolio. The fixed rate HUF debt to total HUF debt ratio was 58.88% as of December 31, 2007.

Given, that Magyar Telekom had HUF 150 billion floating rate debt as of December 31, 2007, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest payment to increase by approx. HUF 1.5 billion annually, while a similar decrease would cause the same decrease in interest payments.

Macedonian subsidiaries of Magyar Telekom had a HUF 75.8 billion deposit as of December 31, 2007, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 758 million annually, while similar decrease would have caused the same decrease in interest received.

Montenegrin subsidiaries of Magyar Telekom had HUF 19 billion deposit as of December 31, 2007, a one percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase by approx. HUF 190 million annually, while similar decrease would have caused the same decrease in interest received.

The Group has insignificant amounts of HUF deposits, therefore, the change in interest rates would have a very minimum impact on the Group s financial statements.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible according to management s estimations, the exposure to which is mitigated by the balanced portfolio of fixed and variable interest rate borrowings (see above).

(c) Other price risk

As of December 31, 2006 and 2007, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

2. Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash, cash equivalents and term deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury s management aims at maintaining flexibility in funding by keeping committed credit lines available. The available free credit line amounted to HUF 48.4 billion in 2007, and the Company also had in 2007 HUF 14.4 billion uncommitted credit lines from several Hungarian Banks. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group s budgeted financing needs until the end of June 2009. Despite the fact that this has not been formulized in a contract, it can be considered as a quasi shelf facility .

The average maturity of Magyar Telekom s debt portfolio was 2.58 years in 2007, which is in line with the predefined liquidity management limit range of keeping the average maturity of the debt portfolio between 2 and 3 years.

3. Capital risk

The Group s objectives when managing capital are to safeguard the Group s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by Equity (including Minority interest) and net debt.

During 2007, the Group s strategy was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2007 was 31.0%.

Risk management policies

It is our policy that all disclosures made by us to our security holders and the investment community be accurate and complete, and fairly present our financial condition and results of operations in all material respects. Such disclosures should be made on a timely basis as required by applicable laws, rules and regulations, including by-laws of the Budapest Stock Exchange and rules adopted by the U.S. Securities and Exchange Commission (SEC). To achieve these objectives, we formed the Disclosure Committee and developed and have continuously enhanced our risk management policies.

Our risk management includes identification, assessment and evaluation of risks, development of necessary action plans, and monitoring of performance and results. For risk management to be effective, we must ensure that management take business decisions with full understanding of all relevant risks.

In 1999, we established a formal risk management system. This system was integrated into the risk management system of Deutsche Telekom in 2002.

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and a Chief Executive Officer (CEO) directive on risk management were published in 2003. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly throughout the Group. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the Audit Committee and to DT.

Following the enactment of the Sarbanes-Oxley Act, we decided to enhance our risk management procedures. As this new law requires prompt disclosure of all risk items influencing investors decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is monitored daily by the risk management department, and the Chief Financial Officer (CFO) is notified when a new material risk or information is identified.

A CEO directive has been issued to define responsibilities of each employee in risk monitoring and management. In addition, an e-learning course was introduced to train our employees on requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures. Completion of this course has been made compulsory for all of our employees.

We established the Disclosure Committee on July 31, 2003. The Disclosure Committee acts both in plenary meetings and through its members acting individually. It supports CEO and CFO in fulfilling their responsibility to oversee processes designed to ensure accuracy and timeliness of our disclosures.

Human policy

Professional and committed employees, who are able to act on their own initiative, are the most important success factor of the business effectiveness of Magyar Telekom this is the HR vision the Group has articulated in line with its mission and strategy. The most important goal is to achieve that our company possesses the most professional human resources organization in Hungary and in international terms as well, regarded by its clients as their internal partner and consultant, which other firms also approach with confidence whenever they need to obtain experience.

Magyar Telekom s human resources strategy for the years 2003-2007 is grouped around five focal points in line with Deutsche Telekom s HR strategy. The focal points are as follows:

- Managing diversity: we endeavour to leverage group level synergies in order to achieve highest best business returns.

- Management of personnel expenses: our aim is to achieve a cost effective personnel management based on market information and best international practice.

- Total compensation: our aim is to ensure performance-based and market-competitive compensation.

- Management of skills and competences: we focus on identifying and managing knowledge and skill, and on promoting talent.

- HR efficiency and quality: our aim is to deliver high-level human resource services meeting the needs of our business partners.

Out of the nine core elements of SA8000 (Social Accountability) standard, our human resources strategy highlights the one dealing with the absence of discrimination. As far as other core elements are concerned, our company s practice is adapted to Hungarian legislative norms (among others the Constitution of the Hungarian Republic, provisions set out in the Labour Code, as well as the Universal Declaration of Human Rights). The principles of justice and equal opportunities are set out in the basic standards articulated in our Code of Ethics published in 1997, which complies with the S-OX (Sarbanes-Oxley) act. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the practical implementation of equal opportunities.

Magyar Telekom Plc. continuously cooperates with trade unions and the Workers Council to represent employees interests: wage and compensation elements are reviewed once a year and their upward correction is set out in a contract along with headcount efficiency measures.

The Group s wage tariff system regulated by way of the Collective Agreement complies with Article 23 of the Universal Declaration of Human Rights, which says: Everybody is entitled to equal wage for equal work without any kind of discrimination.

Magyar Telekom s welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature, the basis of which is the employees collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

Both in its selection processes and during the career of its employees at the company, Magyar Telekom is committed to ensure for its employees equal opportunities independently from age, gender, ethnicity, religious or political conviction, and sexual orientation. In hiring labour a special attention is paid to granting possibilities to its own employees in the first place, through either horizontal or vertical advancement: this is the FreeJob system (a data base of vacant positions accessible only to Magyar Telekom Plc. employees) accompanied by a regulation for 30 days being reserved for an exclusively internal search. The company operates an Induction Program to effectively help the accommodation of colleagues selected for the position.

Magyar Telekom Plc. pays special attention to young graduates through the Starting-Block trainee program, which grants employment and training to 15-20 graduates each year.

The company introduced in 1997 and has continuously developed since then its knowledge management system, which is being used for the measurement of competence and knowledge, for the definition of development areas and the review of individual tasks. Development needs are identified with the help of the Personnel Round Table for middle and top management. Development is available in the following forms:

- traditional classroom training within the company and outside,
- skills development training (individual and group programs administered by trainers, e.g. team building, self-awareness training)
- e-learning, i.e. distant training through an individual training net (e.g. media training).

Both management succession and development of professionals are key aims in the area of advancement and talent management, for which Magyar Telekom operates several, target-specific talent management programs.

Magyar Telekom is committed to excellence: the results of regular surveys among employees and customers are used as a basis for the improvement of our internal operation. In addition, the company takes advantage of the possibilities rendered by modern technologies to achieve excellence: through the enhancement and use of advanced IT systems it improves operating efficiency.

The HR area operates its web-based IT services and, through eHR solutions, it continuously broadens the range of its cost saving, efficiency improving and customer friendly services.

Magyar Telekom pays special attention to the high level of the employees occupational safety and provides them the conditions of safe work and a working environment, which does not harm health. A special organizational unit is engaged in occupational health and safety of work issues, and develops the company s safety of work strategy and set of objectives.

Magyar Telekom puts a major emphasis on taking care of departing employees: several solutions have been developed to provide for benevolent outplacement and to reduce the number of one-sided terminations. Using the wealth of alternative forms of employment is accompanied by an outplacement system called Chance program to help departing employees find a new employment. The program provides training and helps departing employees reintegration in the labour market.

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., mobility and ease of use, triple-play solutions), competition and regulation (i.e., low entry barriers, new business models).

Magyar Telekom s current plans and outlook are based on our current best knowledge and expected circumstances. Nevertheless the behavior of our competitors can hardly be completely predicted. Therefore a stronger than assumed impact of alternative operators, new market entrants and new solutions in any country where Magyar Telekom is present could influence our business performance negatively.

We should emphasize that each segment is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, changes in competition, the unforeseeable effects of the announced stabilization package of the Hungarian government and changes in the foreign exchange rates just to mention the most important ones.

We expect that our core business units will be able to continue to generate strong free cash flow. However, there are some significant elements that can have negative effects on the free cash flow, for example, the roll-out of EDR infrastructure and potential acquisitions. Despite these effects we expect to generate solid positive free cash flow in 2008 as well.

Revenues

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

In the fixed line operations, we expect continued gradual decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from VoIP or VoCATV providers. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from the traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Fixed line inter-connection tariffs are expected to be reduced gradually further in 2008 and in the years after, having additional negative impact on our fixed line revenue streams.

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 towards content and media businesses to support traditional access services and build new revenue streams and exploit new revenue sources. We are seeking new revenue sources by entering new non-traditional telecommunication markets such as transactional services and commerce to generate new revenue streams in case a potential business opportunity arises to capture potential growth opportunities on new converged market areas. Recent years acquisitions, together with the T-Online capabilities, enable us to achieve success in that segment. On the other hand, we experienced a slow-down of the growth-rate of the broadband market in the second half of 2007. If the weak demand continues in 2008, it could impact negatively the growth of the segment.

In Macedonia, increasing competition has already begun in the fixed segment, with the competition in international incoming and outgoing, fixed-to-mobile and long distance calls. Further competition is expected from the entrance of the third Macedonian mobile operator VIP in September 2007 and from Macedonian CaTV operators, which expected to provide internet and fixed voice on the same platform.

Crnogorski Telekom s improvement was significant in 2007 despite the increasing competition (international termination, CATV launch). Promonte, the Montenegrin market leader in mobile telephony has acquired a license for international voice traffic valid from January 1, 2007, however they continued to use Crnogorski Telekom s network during 2007. This expected to change in 2008. The Montenegrin Telecommunication Agency awarded licenses of cable television services to 10 companies. These new providers expected to enter traditional telecommunications markets in 2008, and will increase competition. The launch of the third mobile operator also imposes pressure on the fixed market.

To maintain sustainable competitiveness in the corporate sector, we have committed to further developing our IT competencies by focusing on complex service offering via managed services, system integration and outsourcing through consultancy-based selling to corporate customers. Expanding our business operation to these new areas with lower EBITDA margins results in a dilutive effect on the EBITDA margin both on fixed segment and Magyar Telekom Group level.

In the mobile operations, market penetration in Hungary is now almost saturated, and we expect lower growth rates due to a smaller number of potential new subscribers. This trend is partly offset by the migration of prepaid customers to postpaid packages and the future growth potential of value added and data services, which is supported by the continuing roll-out of UMTS and HSDPA services. Accordingly, leveraging on our newly built HSDPA capacities and market leadership in 3G coverage and quality is one of T-Mobile Hungary s primary strategic priorities on the fast growing wireless broadband market.

The expected growth driven by customer base and mobile data is off-set by regulatory measures. Adopting EU regulations on roaming coupled with continuation of gradual cuts of mobile termination fees are expected to decrease revenues significantly. As a result, we expect stable net revenue generation in the Hungarian mobile segment in 2008.

Magyar Telekom renewed its mobile concession contract for use of the 900 MHz frequency that expires on November 4, 2008 for an additional term of seven and half years according to an agreement with the Ministry of Economy and Transport. In addition to payment of the HUF 10 billion concession fee Magyar Telekom has undertaken to spend at least HUF 20 billion in the following two years on further increase of mobile broadband coverage in Hungary.

The government of Macedonia has approved Austrian Mobilkom s bid to become the country s third mobile operator at the beginning of 2007. In line with the license rules, the new operator VIP launched services in September 2007. The entrance of VIP resulted in increased competition on Macedonian mobile market. As a result of intensified competition, we do not expect growth in the mobile revenues in Macedonia.

In the Montenegrin market, subscriber growth continued in 2007 and drove the net revenue growth. For 2008, we expect a slowdown of subscriber growth as the markets come to saturation. The new entrant - Telekom Serbia (MTS) - started a rush expansion, and we expect the very sharp competition to continue in 2008. The Telecommunication Agency has also awarded three licenses for providing 3G mobile services. Despite intensifying competition we expect further growth in mobile revenues in Montenegro.

Expenses

In line with our strategy, we plan to improve our internal operational efficiency in all segments. We announced a headcount reduction plan in October 2007. The measures are expected to decrease the Group-level headcount by 15 percent by the end of 2008 compared to end of June 2007. The majority of the headcount reduction was implemented at the end of 2007; rest will be implemented gradually in 2008. The headcount reduction includes our Macedonian and Montenegrin fixed line service providers as well. We are determined to bring their performance in line with industry best practice and our management is committed to further simplification and improvement of processes and connected systems. In addition to organizational measures and process improvement, we seek cost savings by leveraging our group-wide synergies in procurement and by gradual integration of support systems.

Though adopted EU roaming regulations and decreasing termination fees result in lower interconnection revenues, this effect is partially offset by decreasing outpayment costs.

In line with world market developments and the Hungarian energy market liberalization, we experience rapid growth in energy prices, highly above the inflation level. We expect the trend will continue in 2008, impacting us negatively. We also expect growing expenses in mobile site rental costs as a result of the increasing coverage of 3G services and higher IT costs driven by value added products.

We plan to reshuffle our brand portfolio in 2008, similarly to our parent company Deutsche Telekom. We intend to introduce a new brand, T-Home , and current fixed line brands (T-Com, T-Online and T-Kábel) will be pulled off from the market. This move will simplify the company s market presence from customer point of view, but may cause marketing cost increase in 2008.

Gross additions to tangible and intangible assets

We aimed to reduce the gross additions to tangible and intangible assets to sales ratio to below 14 percent in 2007 and succeeded in meeting this target (without the fees for mobile license). Excluding potential acquisitions, we expect this ratio to increase in 2008, mostly because of our mobile license contract that includes HUF 20 billion investment obligations for the next two years to increase mobile coverage. We expect an increasing proportion of gross additions to relate to high-growth areas in the fixed line segment, such as Internet, broadband and data transmissions, while our mobile segment will continue the roll-out of the UMTS and HSDPA infrastructure.

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 for further value-creating acquisition and investment targets with even larger scale.

Revenue and EBITDA targets

The increasing revenue contribution of new services, such as IT and systems integration, will help to maintain revenue levels. However, as these are lower margin services, we expect a slight decline in EBITDA in 2008 compared to the 2007 level.

Events after the balance sheet date

1. Privatization tender for Telekom Slovenia

Following the completion of due diligence Magyar Telekom filed a binding bid in the public tender of the Republic of Slovenia for the sale of an equity participation in Telekom Slovenije d.d. on January 4, 2007. Later in January it was announced that the Company had not been selected to proceed to the next stage in the public tender process.

2. Termination of a significant T-Systems contract

Pursuant to the decree of the Metropolitan Court in October 2007, a liquidation procedure was ordered to start against T-Systems Hungary (TSH) due to its debts (HUF 19 million) towards a creditor. The date of the publication in the Companies Gazette and the starting date of the insolvency / liquidation process was January 3, 2008.

TSH merged into IQSYS, which had been registered by the Court of Registry on December 31, 2007. At the same time TSH was deleted from the Companies Registry on December 31, 2007. The debt was paid to the creditor by the legal successor company (IQSYS). Consequently, the Metropolitan Court dated January 15, 2008 withdrew its decree which stated the insolvency of and ordered the insolvency / liquidation proceeding against TSH, and terminated the insolvency / liquidation proceeding. According to this decree, as of the starting date of the insolvency / liquidation proceeding (i.e. on January 3, 2008), T-Systems Hungary Kft. did not exist, because it had been deleted from the Companies Registry by the Metropolitan Court acting as Court of Registry dated December 31, 2007.

On January 18, 2008, a large T-Systems customer sent a termination letter with immediate effect regarding the long term contract entered into in September 2001, as the customer considered that the Court ordered the liquidation in 2007 was a cause for termination with immediate effect under a provision of the said contract. The customer also found injurious that TSH did not duly fulfill its obligation to provide information on the liquidation process. On January 21, 2008 IQSYS indicated in its response that it does not accept the termination with immediate effect, taking into consideration that the company is not insolvent, and the Metropolitan Court has terminated the insolvency / liquidation proceeding and has withdrawn its decree on ordering the insolvency / liquidation proceeding.

The agreement guaranteed the right for the customer to terminate the contract with immediate effect, because the underlying cause had occurred. However, the starting date of the insolvency / liquidation proceeding is January 3, 2008, and on this date TSH did not exist. On the date of the termination letter with immediate effect (January 18, 2008) the service provider (IQSYS, the legal successor of TSH) was not insolvent. The parties are in negotiations in connection with the above. The value of the dispute is not more than HUF 2.5 billion. Should the negotiations end unsuccessfully, a lawsuit could possibly be initiated due to the termination with immediate effect. We have recognized an impairment loss of HUF 1,500 million of the finance lease receivable from the customer as at December 31, 2007.

The Company is currently investigating the deficiencies in internal controls which led to the legal situation, triggering the early termination of the contract.

3. Sale of a subsidiary

MakTel signed an agreement in February 2008 to sell its subsidiary, Montmak for a consideration of EUR 5 million. Montmak owns and operates a beach hotel facility on Montenegro s Adriatic coast. The Group will realize a gain of approximately HUF 1 billion on the sale, which will be recognized in 2008.

Budapest, March 18, 2008.

Christopher Mattheisen Chairman and Chief Executive Officer	Thilo Kusch Chief Financial Officer

Report of the Supervisory Board

of Magyar Telekom Plc.

to the General Meeting

on the Y2007 operation of the Company and the Group

The Supervisory Board has reviewed the Reports of the Company s Board of Directors in respect of the performance, financial status and business prospects of the Company and the Group in the Y2007.

The Supervisory Board focused on the following priorities:

1. the compliance of the operation of the Company with the legal expectations and requirements,

2. the compliance of the applied accounting practices with the Hungarian Accounting Regulations (HAR) and with the International Financial Reporting Standards (IFRS),

3. whether the operation and decisions of the Board of Directors served the best interest of the shareholders.

The Supervisory Board summarizes its position as follows:

I. The business operations of the Company and the Group met the expectations of the shareholders in the 2007 business year; the main business lines could keep the leading position in the strong competitive environment on the market.

II. The Supervisory Board hereby states that the After-tax Net Income of the Company for the 2007 business year is HUF 35,634 million (say: thirty-five billion, six hundred and thirty-four million Forints) and the Balance Sheet Total Assets of the Company for the 2007 business year are HUF 942,877 million (say: nine hundred and forty-two billion, eight hundred and seventy-seven million Forints). The Annual Report of the Company has been prepared according to the Hungarian Accounting Regulations (HAR).

The consolidated Profit after tax of the Magyar Telekom Group for the 2007 business year (before the deduction of HUF 12,901 million attributable to minority interests) is HUF 73,056 million (say: seventy-three billion, fifty-six million Forints) and the consolidated Balance Sheet Total Assets of the Magyar Telekom Group are HUF 1,135,578 million (say: one trillion, one hundred and thirty-five billion, five hundred and seventy-eight million Forints). The Consolidated Financial Statements of the Magyar Telekom Group have been prepared according to the International Financial Reporting Standards (IFRS).

The Supervisory Board acknowledges that the dividend payable to the shareholders is established at HUF 77,051,913,476 (say: seventy-seven billion, fifty-one million, nine hundred and thirteen thousand, four hundred and seventy-six Forints).

III. The Supervisory Board monitored the Management s decisions; discussed the Management reports: the Group financial reports, the Group Strategy, the reports on the Group acquisition activities, restructuring of the Company.

IV. The Supervisory Board approved the Annual Audit Plan of the independent Internal Audit organization for the year 2007. The Supervisory Board requested and received regular reports about each and every audit finding, recommended audit measures and about the status of the implementation of these measures. The Director of the Internal Audit is a permanent invitee of the Supervisory Board Meetings where he regularly responded to the further issues raised in connection with certain audits.

V. The Supervisory Board paid special attention in the year 2007 to the following audit topics: compliance with SOX 404 requirements, integrity of the financial statements, procurement processes, security of IT systems, integration processes, CRM, business solutions.

VI. In line with the provisions of the Directive on Procedures for treatments of complains/comments regarding accounting matters the Supervisory Board had all the reports known by the Internal Audit investigated and reports were made about them. The Group has made the necessary measures in all cases to prevent repeated occurrence.

VII. The Supervisory Board monitored the progress of the Corporate Compliance Program.

VIII. The Supervisory Board also reviewed the reports on the activities of the Audit Committee.

Based on its findings in the course of the continuous monitoring of the business operations of the Company and the Magyar Telekom Group the Supervisory Board recommends that the General Meeting should:

- approve the Y2007 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR) with the Balance Sheet Total Assets and After-tax Net Income as proposed by the Board of Directors,

- approve the Y2007 Consolidated Financial Statements of the Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) with the Balance Sheet Total Assets and Profit after tax as proposed by the Board of Directors,

- accept the Auditor s reports,

- accept the proposal of the Board of Directors on the dividend payment,

- approve the Corporate Governance Report for 2007.

April 9, 2008

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INDEPENDENT AUDITOR S REPORT
(Free translation)

To the Shareholders and Board of Directors of Magyar Telekom Nyrt.

We have audited the accompanying consolidated financial statements of Magyar Telekom Nyrt. (the Company), which comprise the consolidated balance sheet as of 31 December 2007 (in which the balance sheet total is HUF 1,135,578 million and the profit attributable to the equity holders of the Company is HUF 60,155 million) the consolidated income statement, consolidated statement of changes in equity, and the consolidated cash flow statement, tor the year then ended and the notes to the financial statements including a summary of the main accounting policies as well as other disclosures.

Management s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the consolidated financial statements. We conducted our audit in accordance with Hungarian and International Standards on Auditing and with applicable laws and regulations in force in Hungary. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Magyar Telekom Nyrt. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2007, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The business report is consistent with the disclosures in the financial statements.

Budapest, April 10, 2008

/s/ Nick KÓs
Nick KÓs
Partner
PricewaterhouseCoopers Kft.
1077 Budapest, Wesselényi u. 16.
License Number: 001464

/s/ Hegedüsné Szücs Márta
Hegedüsné Szücs Márta:
Statutory auditor
Licence number: 006838

Magyar Telekom Plc.

**MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY**

**BALANCE SHEET AND PROFIT AND LOSS STATEMENT
TO THE 2007 ANNUAL REPORT**

Magyar Telekom Plc.

BALANCE SHEET AS OF DECEMBER 31, 2007

(All amounts in millions of HUF)

ASSETS

	Note	December 31, 2006	Self-revision	December 31, 2007
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		859 509	2	842 584
I. Intangible assets	5	223 598	-4	224 100
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		39 783	-4	62 531
Intellectual property		19 935	0	3 502
Goodwill		163 880	0	158 067
Advance payments on intangible assets		0	0	0
II. Tangible assets	6	436 866	-5	427 065
Land and buildings and related rights		232 976	590	236 254
-Land		*2 691*	*2*	*2 661*
-Buildings		*68 198*	*258*	*64 175*
-Telecommunication network		*153 203*	*151*	*157 188*
-Other properties		*7 804*	*179*	*11 148*
-Real estate related rights		*1 080*	*0*	*1 082*
Technical equipment, machinery and vehicles		174 220	2 585	157 754
-Telecommunication equipment and machinery		*173 152*	*2 416*	*156 164*
-Other technical equipment, machinery and vehicles		*1 068*	*169*	*1 590*
Other equipment and vehicles		15 434	315	12 871
Construction-in-progress		13 762	-3 495	20 185
Advance payments on construction-in-progress		474	0	1
III. Financial investments		199 045	11	191 419
Non current investments in related parties	7	177 838	10	164 290
Non current loans granted to related parties	8	14 672	0	21 641
Other investments		0	0	0
Other non current loans granted	9	6 535	1	5 488
Non current bonds and other securities		0	0	0
B. CURRENT ASSETS		76 591	742	68 160
I. Inventories	10	7 501	-18	7 161
Raw materials		1 397	0	606
Work in progress and semi-finished products		0	0	32
Finished products		0	0	0
Goods resale		6 054	-19	6 523
Advance payments on inventories		50	0	0

II. Receivables		64 404	761	55 908
Accounts receivable	11	35 506	328	39 052
Receivables from subsidiaries	12	16 754	352	10 511
Bills receivable		0	0	0
Receivables from other related companies		2	86	0
Other receivables	13	12 142	-5	6 345
III. Securities	14	1 504	0	1 179
Investments in related parties		0	0	0
Other investments		0	0	0
Treasury stock, quotas		1 504	0	1 179
Marketable securities		0	0	0
IV. Liquid assets		3 182	0	3 912
Cash and cheques		67	0	88
Bank deposits		3 115	0	3 824
C. PREPAYMENTS	15	29 762	-59	32 133
Accrued income		28 341	-59	31 080
Prepayments for costs and expenses		1 421	0	1 053
Deferred expenses		0	0	0
TOTAL ASSETS		965 862	885	942 877

Budapest, March 18, 2008

/s/ Christopher Mattheisen
Christopher Mattheisen
Chairman and Chief Executive Officer,
Chairman of the Board

/s/ Thilo Kusch
Thilo Kusch
Chief Financial Officer,
Board Member

The supplement forms an integral part of these financial statements.

Magyar Telekom Plc.

BALANCE SHEET AS OF DECEMBER 31, 2007

(All amounts in millions of HUF)

LIABILITIES AND SHAREHOLDER S EQUITY

	Note	December 31, 2006	Self-revision	December 31, 2007
D. SHAREHOLDER S EQUITY	16	381 638	975	412 697
I.Common stock		104 277	0	104 275
- of this treasury stock at par value		*246*	*0*	*150*
II.Unpaid share capital (-)		0	0	0
III.Capital reserves		54 932	0	58 289
IV.Retained earnings		205 520	265	212 943
V.Restricted reserves		1 504	0	1 556
VI.Valuation reserves		0	0	0
VII.Net income		15 405	710	35 634
E. PROVISIONS	17	7 977	0	22 049
Provision for expected obligations		7 783	0	20 598
Provision for expected expenses		166	0	1 311
Other provisions		28	0	140
F. LIABILITIES		533 211	-278	456 515
I. Subordinated liabilities		0	0	0
II. Non current liabilities		212 001	0	309 062
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		123	0	123
Investment and development loans	18	18 250	0	0
Other non current loans	19	0	0	50 557
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	20	185 432	0	254 432
Other non current liabilities		8 196	0	3 950
III. Liabilities		321 210	-278	147 453
Current borrowings		71	0	71
-of this convertible bonds		*0*	*0*	*0*
Current loans	21	27 374	0	39 942
Advances received		343	0	529
Accounts payable		28 704	-6	34 805
Bills of exchange payable		0	0	0
Current liabilities to related parties	22	22 441	-1	24 540

Current liabilities to other related parties	23	74 089	0	20 000
Other current liabilities	24	168 188	-271	27 566
-of this dividends payable		*72 994*	*0*	*0*
G. ACCRUED EXPENSES	25	43 036	-12	51 616
Deferred income		7 619	0	6 319
Accrued expenses		34 646	-12	44 854
Other deferred revenue		771	0	443
TOTAL LIABLITIES AND SHAREHOLDER S EQUITY		965 862	685	942 877

Budapest, March 18, 2008

/s/ Christopher Mattheisen Christopher Mattheisen Chairman and Chief Executive Officer, Chairman of the Board	/s/ Thilo Kusch Thilo Kusch Chief Financial Officer, Board Member

The supplement loans an integral part of these financial statements.

Magyar Telekom Plc.

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER, 2007

(All amounts in millions of HUF)

	Note	2006	Self-revision	2007
1. Domestic sales	26	450 016	217	478 105
2. Export sales	27	20 735	113	21 804
I. Sales revenues		470 751	330	499 909
3. Change in self-manufactured inventories		0	0	12
4. Capitalised value of self-manufactured assets		14 339	3	22 743
II. Own work capitalized		14 339	3	22 755
III. Other revenues	28	22 290	0	20 763
of which: reversal of impairment		170	0	0
5. Costs of raw material		19 939	3	31 220
6. Costs of services	29	97 843	-79	97 487
7. Costs of other services		9 473	25	12 711
8. Cost of goods sold		34 415	-2	34 276
9. Costs of services sold (intermediated)	31	84 872	50	85 780
IV. Material-type expenses		246 542	-3	261 474
10. Salaries and wages	32	42 522	1	46 342
11. Other payroll related costs	32	10 900	5	15 930
12. Payroll related contributions		15 948	24	18 695
V. Payroll and related expenses		69 370	30	80 967
VI. Depreciation		93 408	47	97 230
VII. Other expanses	34	30 034	-1	41 800
of which: impairment		2 814	0	1 220
A. PROFIT FROM OPERATING ACTIVITIES		68 026	260	61 956
13. Dividends and profit sharing (received or due)		50 174	353	5 531
of which: received from related parties		*50 174*	*353*	*5 531*
14. Foreign exchange gains on sale of investments		260	0	11
of which: received from related parties		*0*	*0*	*0*
15. Interest income and gains on financial investments		1 517	0	1 828
of which: received from related parties		*1 508*	*0*	*18 28*
16. Other interest income received		873	1	783
of which: received from related parties		*710*	*0*	*547*
17. Other revenues from financial activities		2 860	0	2 161
VIII. Revenues from financial transactions		55 684	354	10 314
18. Loss on the sale of financial investments		0	0	0
of which: related to related parties		*0*	*0*	*0*
19. Interest expense		27 084	0	31 815
of which: related to related parties		*939*	*0*	*1 134*
related to other related party		*21 396*	*0*	*23 301*
20. Impairment of investments, securities and bank deposits		1 872	-2	17
21. Other expenses refinancial activities		3 235	-10	1 178

IX. Expenses from financial transactions	32 191