One company.
A team pulling together.

Magyar Telekom annual report 2007

Magyar Telekom's operational model from 2008

Group Headquarters and Shared Services

Consumer Services Business Unit

T-Mobile
T-Com
T-Online
T-Kábel

Business Services Business Unit

T-Systems

Alternative Businesses and Corporate Development Business Unit

Magyar Telekom Group: financial highlights

	2006 HUF million	2007 HUF million	Change (%)
Total revenues	671,196	676,661	0.8
EBITDA*	258,640	243,907	(5.7)
Operating profit	136,391	128,312	(5.9)
Net income	75,453	60,155	(20.3)
Number of employees (closing)	12,341,	11,723	(5.0)
Weighted average number of common stock outstanding (millions)	1,040	1,041	0.1
Basic earnings per share (HUF)	72.5	57.8	(20.3)
Total assets	1,131,595	1,135,578	0.4
Long term debt	206,129	309,470	50.1
Total shareholders' equity	526,039	514,998	(2.1)
Net debt to total capital	27.8%	31.0%	n.a.
Purchase of property plant and equipment (PPE) and intangible assets	96,790	103,097	6.5
EBITDA margin	38.5%	36.0%	n.a.
Operating margin	20.3%	19.0%	n.a.
Net income margin	11.2%	8.9%	n.a.
CAPEX to sales	13.5%	15.4%	n.a.
ROA	6.8%	5.3%	n.a.
HUF/EUR (year end)	252.30	253.35	0.4
HUF/EUR (average)	264.27	251.31	(4.9)
HUF/USD (year end)	191.62	172.61	(9.9)
HUF/USD (average)	210.51	183.84	(12.7)

* EBITDA – Earnings before net financial expenses, taxes, depreciation and amortization

Key shareholders as of December 31, 2007

MagyarCom GmbH (owned by Deutsche Telekom AG)	59.21%
Publicly traded	40.65%
Treasury shares	0.14%

Magyar Telekom Group: summary of operating statistics

T-Com segment	December 31, 2006	December 31, 2007	Change (%)
Hungarian fixed line operations			
Fixed line penetration[(1)]	30.6%	28.8%	n.a.
Number of closing lines[(1)]			
Residential	1,901,398	1,778,444	(6.5)
Business	171,866	162,795	(5.3)
Payphone	20,515,	19,458	(5.2)
ISDN channels	315,942	303,998	(3.8)
Total lines	2,409,721	2,264,695	(6.0)
Data products			
ADSL connections	512,810	613,051	19.5
Number of Internet subscribers			
Dial-up	31,401	16,357	(47.9)
Leased line	656,	652	(0.6)
DSL	336,181	398,265	18.5
W-LAN	1,175	598	(49.1)
CATV	57,587	89,853	56.0
Total Internet subscribers	427,000	505,725	18.4
Market share in the dial-up market (estimated)	39%,	33%	n.a.
Cable television customers	414,286	418,517	1.0
Total broadband Internet access	572,228	716,714	25.2
Macedonian fixed line operations			
Macedonian fixed line penetration	23.9%,	22.4%,	n.a.
Number of closing lines			
Residential	430,082	404,925	(5.8)
Business	42,780	40,954	(4.3)
Payphone	2,087	2,015	(3.4)
ISDN channels	42,200	44,482	5.4
Total Macedonian lines	517,149	492,376	(4.8)
Data products			
ADSL connections	16,462	48,214	192.9
Number of Internet subscribers			
Dial-up	109,096	153,535	40.7
Leased line	141	149	5.7
DSL	16,462	48,214	192.9
Total Internet subscribers	125,699	201,898	60.6
Market share in the dial-up market (estimated)	94%	93%	n.a.
Montenegrin fixed line operations			
Montenegrin fixed line penetration	31.4%	30.6%	n.a.,
Number of closing lines			
PSTN lines	173,248	168,062	(3.0)
ISDN channels	21,288	21,906	2.9
Total Montenegrin lines	194,536	189,968	(2.3)
Data products			
ADSL connections	6,639	14,428	117.3
Number of Internet subscribers			
Dial-up	25,669	28,401	10.6
Leased line	121	146	20.7
DSL	6,639	14,428	117.3
Total Internet subscribers	32,429	42,975	32.5
Market share in the dial-up market (estimated)	98%	98%	n.a.

T-Mobile segment	December 31, 2006	December 31, 2007	Change (%)
Hungarian mobile operations			
Mobile penetration	99.0%	109.7%	n.a.
Market share of T-Mobile Hungary	44.5%	44.0%	n.a.
Number of customers (RPC)	4,431,136	4,853,492	9.5
Postpaid share in the RPC base	34.9%	37.0%	n.a.
MOU (Minutes of Usage per User/Month)	142	149	4.9
ARPU (Average Traffic Revenue per User/Month, HUF)	4,800	4,542	(5.4)
Postpaid ARPU (HUF)	9,849	8,635	(12.3)
Prepaid ARPU (HUF)	2,300	2,205	(4.1)
Enhanced services within ARPU (HUF)	667	679	1.8
Average acquisition cost (SAC) per customer (HUF)	6,234	6,554	5.1
Macedonian mobile operations			
Macedonian mobile penetration	68.3%	93.3%	n.a.
Market share of T-Mobile Macedonia	66.5%	62.3%	n.a.
Number of customers (RPC)	944,530	1,212,539,	28.4
Postpaid share in the RPC base	18.8%	23.2%	n.a.
MOU	72	90	25.0
ARPU (HUF)	3,206	3,054	(4.7)
Montenegrin mobile operations			
Montenegrin mobile penetration[(2)]	103.8%	168.7%	n.a.
Market share of T-Mobile Crna Gora[(3)]	42.3%	33.8%	n.a.
Number of customers (RPC)[(3)]	331,616	408,941	23.3
Postpaid share in the RPC base	14.6%	18.0%	n.a.
MOU	127	120	(5.5)
ARPU (HUF)	3,858	3,252	(15.7)

T-Systems segment	December 31, 2006	December 31, 2007	Change (%)
Number of closing lines			
Business	64,768	60,259	(7.0)
Managed leased lines (Flex-Com connections)[(1)]	9,165	7,710	(15.9)
ISDN channels	169,348	166,748	(1.5)
Total lines	243,281	234,717	(3.5)

(1) Magyar Telekom Plc. and Emitel (from October 1, 2007 Emitel merged with Magyar Telekom Plc.)
(2) Data published by the Montenegrin Telecommunications Agency based on the total number of active SIM cards in the previous three months.
(3) In October 2006, prepaid voucher lifecycle was extended from 3 to 11 months in Montenegro, resulting in increase in the number of prepaid RPC.

Our Vision

As the leading services company in the telecommunications and information technology industry, we network society for a better future. With top quality, efficiency and innovation, to the benefit of our customers. In every respect.

Magyar Telekom (www.magyartelekom.hu) is the principal provider of telecom services in Hungary. It provides a broad range of fixed line services including telephony, data transmission, value added, IT and systems integration services, and it is Hungary's largest mobile carrier and leading Internet service provider. Magyar Telekom is the majority owner of MakTel, the leading fixed line operator and its subsidiary T-Mobile Macedonia, the country's leading mobile operator. Magyar Telekom also has a majority stake in Crnogorski Telekom, Montenegro's largest telecom operator which provides fixed line, mobile and Internet services.
Magyar Telekom was incorporated in 1991 (under the name Matáv) and privatized in 1993. Magyar Telekom shares were introduced to national and international stock exchange dealing both in Budapest and New York in 1997. Magyar Telekom's majority shareholder (59.21%) is MagyarCom Holding GmbH, fully owned by Deutsche Telekom AG.
From March 1, 2006 Magyar Telekom's registered company name is Magyar Telekom Telecommunications Public Limited Company, the abbreviated name is Magyar Telekom Plc.

Awards and recognition

March 2007 The University of All Knowledge, also known as Encompass, the joint enterprise of Magyar Telekom and the Hungarian Academy of Sciences, became a finalist (no further order was determined) of the Descartes Award competition, the most prominent scientific award of the European Union, and received a diploma of recognition in Brussels for innovative science communication.

April 2007 An application project of the Technical Directorate of Magyar Telekom's Mobile Services business line received special praise and a diploma at the Innovation Grand Prix competition invited by the Hungarian Innovation Association.

May 2007 T-Mobile was once again placed first in the European Reliable Brands survey conducted by Readers' Digest magazine, as the mobile operator that enjoys the most trust from customers in Hungary.

July 2007 Magyar Telekom received Deutsche Telekom's data security award as the first winner among international subsidiaries of the Deutsche Telekom Group.

August 2007 The Minister of Education and Culture recognized with a certificate Chairman-CEO Christopher Mattheisen for his efforts in protecting and sponsoring Hungary's technology museums and associated facilities, and for his exemplary activity in preserving cultural heritage and making it available to the public.

September 2007 Magyar Telekom was placed first by the Portfolio.hu business portal in a survey which assessed information and reporting consistency and transparency of Hungarian companies listed on the stock exchange.

October 2007 Magyar Telekom was again placed first in the Accountability Rating Hungary survey which assessed how Hungarian companies are addressing social, economic and environmental challenges; the results were published in Figyelő Top 200 for the second time.

October 2007 T-Mobile became a winner of the Hungarian Superbrands 2007 award, granted by an independent panel to brands that reach the best results in their own area.

November 2007 The world's leading capital market, the New York Stock Exchange marked the 10th anniversary of the listing of Magyar Telekom, the first Central European and still the only Hungarian corporate share listed at NYSE; on this occasion, for the first time in Hungary's economy history, the closing bell was rung in honor of our company.

November 2007 In recognition of its efforts to develop a diverse and receptive workplace and of its equal opportunities programs, the International Labor Organization of the United Nations granted Magyar Telekom the "Corporate Ambassador for the Best Practice of Diverse and Receptive Workplace" award.

November 2007 Magyar Telekom was top ranked on the list of Hungary's best corporate websites compiled by Halvarsson&Halvarsson communication consulting firm on the basis of investor, analyst and journalist aspects.

December 2007 Magyar Telekom won the Business Ethics Award of Budapest Club and Piac&Profit magazine in the large enterprise category.

December 2007 Magyar Telekom was a winner of the CSR Best Practice 2006 competition of the Hungarian Public Relations Association which rated case studies in corporate social responsibility.

February 2008 Magyar Telekom's HR team won the Special Prize of Világgazdaság business daily for its outstanding innovation activities in the field of electronic HR development in 2007.

Contents

Letter to our shareholders

Dear Shareholders,

I am happy to announce that Magyar Telekom continued to deliver strong financial performance in 2007 amidst a difficult competitive and macroeconomic environment. Our ability to not just fulfill, but exceed some of our targets for this year is testimony to the success of our strategy aimed at maintaining our leadership position in our key core markets. Group revenues increased by 1%, and more importantly, EBITDA (excluding headcount reduction- and investigation related expenses) rose by 3%, both against flat or stable targets for 2007. As a result, we achieved an underlying EBITDA margin for the full year of 41%. In addition, total additions to tangible and intangible assets to sales ratio – excluding the GSM license extension fee – was below 14%, in line with our target.

Whilst mobile substitution and competition from cable and alternative service providers continued to drive the revenue decline in the Hungarian T-Com segment, the increase in internet and multimedia revenues partly offset the decline in the fixed line voice market. Our broadband customer base increased by 25% to just under 717,000 during the last year. After a slow start, IPTV customer growth gained momentum in the second half of the year. Our online social network, iWiW also saw strong growth and now counts one in three Hungarians and around 85% of internet users as its members, a cumulative five-fold increase since its acquisition by Magyar Telekom in 2006.

Our international fixed line businesses in Macedonia and Montenegro also experienced strong competition in 2007. While revenues in Macedonia were down by 7% mainly due to strong mobile substitution, in Montenegro the decline in voice retail revenues was offset by increasing wholesale and internet revenues. In addition, Montenegrin tariff rebalancing positively affected financial performance with revenue growth of 12% in 2007. In both countries our focus remains on cost cutting and broadband expansion. In 2007 the number of ADSL lines in Macedonia nearly tripled and also more than doubled in Montenegro. In addition, in November we introduced IPTV service in Montenegro with great success, attracting more than 10,000 customers by year-end.

Within T-Systems segment, system integration and IT revenues increased by 76% thanks to the consolidation impact of the newly acquired subsidiaries. Together with KFKI and T-Systems Hungary, we became the leading service provider in the IT and system integration market in Hungary. This is a great achievement considering that three years ago Magyar Telekom had no presence in this market. Our full-scale service offering allowed us to introduce bundled IT-telecommunications products to the market and capitalize on cross-sale opportunities. As a result, revenues from these services were able to compensate for the eroding voice traffic in 2007. During the year, we also decided to significantly reduce the number of subsidiaries within the T-System segment from January 1, 2008 with the aim of increasing efficiency. The new, simplified structure enables us to optimize distribution channels, reduce headcount and cut expenses as well as offering a more focused approach to our customers.

Despite the difficult regulatory and competitive environment, T-Mobile Hungary can look back on a very successful year. Our customer base increased by nearly 10% and we maintained our clear leadership position with a market share – based on active SIM cards – of above 45%, while penetration increased to 110% by the end of the year. Despite the added pressure on our mobile revenues as a result of the cut in mobile termination fees and the EU-level roaming regulation, T-Mobile achieved an increase in revenues and an EBITDA margin of above 42%. In mobile broadband, an important source of growth for Magyar Telekom, the number of customers exceeded 152,000 by the end of the year. Population-based coverage of our HSDPA network reached 53% by the end of December and in the next years we aim to further improve coverage. Our network quality is ahead of our competitors', offering up to 7.2 Mbps download speed in the capital. We believe that focus on mobile broadband and value-added services is essential to maintaining our leadership in service quality and innovation.

Both Macedonia and Montenegro saw an increase in mobile competition due to the entry of third operators in both markets in the second half of the year. In Macedonia, strong customer growth and higher usage counterbalanced the negative impacts of increased competition. As a result, mobile revenues were up by 9% and EBITDA margin was close to 53% in 2007. In Montenegro, successful customer acquisition and an improvement in the customer mix allowed T-Mobile Crna Gora to become the market leader in the postpaid segment. Furthermore, the company was the first in the country to launch mobile broadband services in June 2007.

Despite strong financial results in 2007, we expect to face increasing demands from customers and heightened competitive pressure in the coming years. To ensure Magyar Telekom is in the best possible position to deal with these future challenges, we have started reshaping the company in line with market changes. In 2007 we went through the complex task of defining our new organisational structure, and the new operational model structured around customer segments has been in place since the beginning of 2008. The new business units – Consumer and Business Services –each include both mobile and wireline services. This will improve customer service and enable more focus on bundled products. In addition, the Alternative Businesses and Corporate Development business unit was established, which is responsible for new business development and the coordination of innovative activities.

The recent integration steps and the change in the organizational model have enabled us to eliminate overlaps, simplify processes and ensure a leaner management structure. The agreement with the trade unions reached in October 2007 allows a 15% reduction in Group-level headcount compared to the end of June 2007 level and a 5% decrease in underlying Group-level employee related expenses by the end of 2008.

Looking forward to 2008, headcount reduction will help us maintain margins in the traditional voice business where revenues are declining. Group revenues are expected to remain stable compared to 2007, helped by the revenue contribution of the new system integration and IT services. However, given the lower EBITDA margin of these services, a change in the revenue mix will cause some dilution of Group level margins. Consequently, we target a slight decline in underlying EBITDA (excluding the impacts of headcount-reduction and investigation costs) compared to the 2007 level. Our target for total additions to tangible and intangible assets to revenues ratio is around 15%.

Our strategy going forward will still focus on the following key elements: service excellence through best-in-class customer care, service delivery and customer offering, operational efficiency through improvements in current operations and processes to enhance our competitiveness; and expansion through innovative new business opportunities and value-accretive acquisitions both in Hungary and in our region in the long term. In case of a lack of sizeable acquisition opportunities, our dividend policy will ensure that our shareholders benefit from the strong cash flow generation of Magyar Telekom through an attractive dividend yield. In line with this, the Board of Directors proposed a dividend payment of HUF 74 per share for the financial year 2007 for approval to the Annual General Meeting.

Christopher Mattheisen
Chairman and Chief Executive Officer

The Management Committee of Magyar Telekom

Christopher Mattheisen, Chairman and Chief Executive Officer, Chairman of the Management Committee
Born in 1961. Degrees in economics from Indiana University Bloomington and Columbia University New York. First came to Hungary in 1990 to start consulting company for business analysis and strategic planning. From 1993 to 1996 was the founding Marketing and Sales Director of Westel 900 (later T-Mobile Hungary). From there moved on to Poland to participate in launching Era GSM for US West International as Director of Marketing, Sales and Strategy. From 1997 to 1999 headed up in London US West's (later MediaOne) marketing and sales activities for its European mobile subsidiaries. Subsequently served at BT Cellnet as Business, Marketing and Sales Director. From September 2002 was member of Magyar Telekom's Management Committee and Chief Officer responsible for Residential Services. From January 2005 to June 2006 served as Chief Operating Officer leading the Wireline Services line of business. Appointed Magyar Telekom's Chief Executive Officer and Chairman of the Management Committee as of December 6, 2006 and elected member and Chairman of the Board of Directors on December 21, 2006.

Thilo Kusch, Chief Financial Officer, Deputy Chairman of the Management Committee
Born in 1965. He studied communication engineering and business administration at Technische Universität Berlin. From 1989 to 1992 he successfully established his own company selling PCs and PC networks to residential and small business customers. From 1992 he worked in a leading position in Arthur D. Little's telecoms, IT, media and entertainment practice as a management consultant. From 1998 he was telecommunications equity analyst with Dresdner Kleinwort Wasserstein. He joined Deutsche Telekom Group in 2001 as Senior Director in charge of IPO preparations and investor relations for T-Mobile International. Since April 2002 he was a Senior Executive Vice president of Deutsche Telekom in charge of investor relations. He was appointed Magyar Telekom's Chief Financial Officer and Deputy Chairman of the Managament Committee as of September 20, 2006 and elected member of the Board of Directors on November 6, 2006.

Éva Somorjai, Chief Human Resources Officer
Born in 1966. She completed her studies at the College for Commerce and Catering. From 1989 she worked at Magyar Hitelbank's international directorate, and from 1991 to 1994 she was the administrative and financial manager of a real estate investment company in Melbourne, Australia. After her return she joined Pepsi Cola Hungary, and worked from 1996 in various management positions in the HR area of the company's Central European division. In 1999 she became HR director of the international organization and personnel development area, and in 2000 HR director for Hungary. She joined Magyar Telekom in October 2001. From 2002 she was Group HR Director. She was involved in the elaboration of the group HR strategy, in providing HR support to international and domestic acquisition activities and in the management of the company restructuring and development program. From April 1, 2007 she has been Magyar Telekom's Chief Human Resources Officer and Member of the Management Committee.

János Winkler, Chief Operating Officer Consumer Services Business Unit
Born in 1954. He earned an economics diploma at the Budapest University of Economic Sciences, and in 2000 an MBA degree at Purdue University (USA). He started his career as trade manager with Nikex Foreign Trade Company, then from 1986 to 1991 he served in Beijing at the Commercial Section of the Republic of Hungary as commercial secretary, later deputy counselor. From 1992 he was National Sales Manager, later Deputy Marketing Director at Westel Rádiótelefon, and in 1994 he was appointed Deputy CEO. From February 1996 he has been Chief Marketing and Sales Officer of T-Mobile Hungary (formerly: Westel Mobile). As of January 20, 2006 he was appointed

T-Mobile Hungary's CEO and became member of the Management Committee. From March 1, 2006 he was Chief Operating Officer of Magyar Telekom's Mobile Services. From January 1, 2008 he has been Chief Operating Officer Consumer Services Business Unit.

István Papp, Chief Operating Officer Business Services Business Unit

Born in 1972. He holds a degree in economics and an MBA diploma from Warnborough University, Ireland. He started his career at Integra, Budapest. From 1996 he worked at Anixter Distribution Hungary, first as commerce director and then regional head of sales. In 1999 he joined Cisco Systems Hungary where he held several executive positions as head its large enterprise, services, government, small and medium enterprise as well as partner relations business lines. In August 2005 he was Cisco Systems Director responsible for the Adriatic region and Hungary. From October 16, 2007 he has been Magyar Telekom's Chief Operating Officer Corporate Services and Member of the Management Committee, and from January 1, 2008 Chief Operating Officer Business Services Business Unit.

György Simó, Chief Operating Officer Alternative Businesses and Corporate Development Business Unit

Born in 1967. He graduated in 1997 at ELTE Sociology Department. During his studies he received a scholarship in sociology at the New School for Social Research, New York. In 1991 he founded and acted as host, later as Board of Trustees Chairman of Tilos Radio. From 1996 to 1998 he was Vice-Chairman of AMARC-Europe, the European Association of Community Radio Broadcasters. From 1999 he was Program Director, from April 2000 Chief Officer and Executive Director, then from September Senior Chief Officer of Matávnet (from May 2001 Axelero Internet) responsible for media, strategy and communication. From November 2003 he became CEO of Axelero Internet, from May 2005 CEO of T-Online Hungary, Deputy Head of T-Com and Head of T-Com's Internet Services Division. From September 20, 2006 he was Chief Operating Officer Wireline Services of Magyar Telekom and became member of the Management Committee. From January 1, 2008 he has been Chief Operating Officer of Alternative Businesses and Corporate Development Business Unit.

István Maradi, Chief Technology and IT Officer

Born in 1964. He graduated in 1989 at the Budapest Technical University in communications engineering, specialized in GSM and mobile communication, then in 2000 obtained an MBA degree at the Open University, London. He started his carrier in Magyar Telekom's PKI R&D Institute as mobile telecommunications researcher. Then he participated in the start-up of Westel Rádiótelefon as design engineer, then as radio engineer responsible for network design. From 1992 he was director of network operations. From 1995 he was director of network operations at Westel Mobile (later T-Mobile Hungary), and from 2001 to 2006 Chief Officer and Service Development Director. He played a key role in network construction, development and operations as well as selection of suppliers and introduction of new services, having contributed to achieving and maintaining T-Mobile Hungary's market leadership. From April 1, 2007 he has been Magyar Telekom's Chief Information Officer and Member of the Management Committee, and from January 1, 2008 Chief IT and Technology Officer.

From left to right:
István Maradi Chief Technology and IT Officer, György Simó Chief Operating Officer Alternative Businesses and Corporate Development Business Unit, István Papp Chief Operating Officer Business Services Business Unit, Christopher Mattheisen Chairman and Chief Executive Officer, Chairman of the Management Committee, Éva Somorjai Chief Human Resources Officer, János Winkler Chief Operating Officer Consumer Services Business Unit, Thilo Kusch Chief Financial Officer, Deputy Chairman of the Management Committee

Magyar Telekom's Board of Directors and Supervisory Board

Members of Magyar Telekom's Board of Directors* until May 31, 2010 or the date of the General Meeting that will close business year 2009

Christopher Mattheisen

Born in 1961. Degrees in economics from Indiana University Bloomington and Columbia University New York. First came to Hungary in 1990 to start consulting company for business analysis and strategic planning. From 1993 to 1996 was the founding Marketing and Sales Director of Westel 900 (later T-Mobile Hungary). From there moved on to Poland to participate in launching Era GSM for US West International as Director of Marketing, Sales and Strategy. From 1997 to 1999 headed up in London US West's (later MediaOne) marketing and sales activities for its European mobile subsidiaries. Subsequently served at BT Cellnet as Business, Marketing and Sales Director. From September 2002 was member of Magyar Telekom's Management Committee and Chief Officer responsible for Residential Services. From January 2005 to June 2006 served as Chief Operating Officer Wireline Services. Appointed Magyar Telekom's Chief Executive Officer from December 6, 2006 and elected member and Chairman of the Board of Directors on December 21, 2006.

Dr. István Földesi

Born in 1949. He spent 20 years in diplomatic service in London, Madrid and Washington as Attaché, then Counsellor. Up to 1988, he was Assistant Under-Secretary Science and Technology at Hungary's Ministry of Foreign Affairs, then to 1990 Advisor to the Prime Minister. From 1989 he was Deputy Assistant Under-Secretary International Relations at the Ministry of Foreign Affairs. Since 1992 he has been as international business consultant. From 1993 to 1995 he was Vice-Chairman, Central Europe, then East Coast, of IMPAC Integrated Control Systems, a US management consulting firm. Currently he is President of Inter Access, a business consulting firm. He was Magyar Telekom's Director from December 13, 1994 to April 28, 1999 and Chairman of the Board in 1994–96. Magyar Telekom's Director again since April 25, 2003.

Dr. Mihály Gálik

Born in 1946. He holds a Ph.D in economics and is a senior university lecturer. He spent nearly two decades in the media, working for Hungarian Radio, where he held several senior positions including that of Managing Director. Afterwards, his professional career has been linked to the Budapest University of Economics (currently Corvinus University). For 3 years, he was a senior lecturer, while in the last 7 years he headed several university departments. He is the author of some 70 scientific publications including four textbooks and also a recipient of the Széchenyi Professor Scholarship. He is Director of the Marketing and Media Institute of the Corvinus University and Head of its Media, Marketing Communications and Telecommunications Department. Magyar Telekom's Director since November 6, 2006.

Michael Günther

Born in 1944. He studied business administration at the universities of Berlin and Hamburg. From 1971 he was commercial executive at Philips. From 1987 to 1993 he was Board member of Philips Kommunikations Industrie responsible for controlling, finance and accounting as well as IT. In 1994 he joined DeTeSystems, a Deutsche Telekom subsidiary, as commercial director. In 1996 he became head of financial and controlling division at Deutsche Telekom responsible for business customers. From 1997 he was financial and controlling director of T-Mobile. He became Chief Financial Officer of T-Mobile International in 2000 and since 2001 he is Member of the Board of Management responsible for Joint Venture Management. Magyar Telekom's Director since April 26, 2002.

Horst Hermann

Born in 1955. He joined Deutsche Telekom as operations manager in 1978. In 1990 he joined DT Headquarters, Corporate Strategy and Regulatory Policy. From 1994 he was Assistant Managing Director for Business Development and Finance in DT's regional Headquarters in Singapore. From 1996 he was responsible for Strategic Planning in the Bonn Headquarters again. In 1998 he joined Magyar Telekom in charge of Strategy and Business Development. In 2002 he became Chief Strategy and International Officer, also responsible for Portfolio Management and Magyar Telekom's policy on content and media. In 2003 he was appointed T-Com's Senior Executive Vice President responsible for International Business. Magyar Telekom's Director since April 25, 2003.

Thilo Kusch
Born in 1965. He studied communication engineering and business administration at Technische Universität Berlin. From 1989 he managed his own company selling PCs and PC networks. From 1992 he worked as a leading management consultant in Arthur D. Little's telecoms, IT, media and entertainment practice. From 1998 he was telecommunications equity analyst with Dresdner Kleinwort Wasserstein. He joined Deutsche Telekom Group in 2001 as Senior Director in charge of IPO preparations and investor relations for T-Mobile International. Since April 2002 he was Deutsche Telekom's Senior Executive Vice President for investor relations. He was appointed Chief Financial Officer of Magyar Telekom as of September 20, 2006 and elected member of the Board of Directors on November 6, 2006.

Frank Odzuck
Born in 1959. The top manager obtained an economics degree in 1983 in Budapest. He has been working in Hungary for over 15 years. He was the managing director of the Hungarian operations of Eduscho and Eduscho-Tchibo for 8 years and later the managing director of Nestlé-Schöller Hungary. Since 2003 he has been the CEO of Zwack Unicum, listed on the Budapest Stock Exchange. The company, producing and marketing a genuine "Hungaricum", is one of the best-known international companies in Hungary. He is a successful businessman, a respected member of the German business community in Hungary. Magyar Telekom's Director since November 6, 2006.

Dr. Ralph Rentschler
Born in 1960. After studying economics and gaining a PhD from the University of Hohenheim he worked from 1988 for Robert Bosch GmbH as an expert advisor for controlling principles and methods. He was head of Group Controlling and the Planning and Reporting Departments, also responsible for strategic planning, at Carl Zeiss from 1992. From 1997 he was Commercial Manager of the Brand Optics Division at Carl Zeiss AG where he managed accounting, controlling, data processing and purchasing. He joined Deutsche Telekom in 2001 as head of Group Controlling. From 2002 he has been T-Com's Member of the Management Board responsible for finance. In 2002–2003 he was Magyar Telekom's Supervisory Board Member. Magyar Telekom's Director since April 25, 2003.

* Dr. Klaus Hartmann, who served on the Board since October 27, 2000, has resigned from his Board membership as of June 19, 2007.
* Rudolf Kemler, who served on the Board since April 26, 2007, has resigned from his Board membership as of January 31, 2008.

Members of the Remuneration Committee
Michael Günther, Frank Odzuck, Dr. Ralph Rentschler

Members of Magyar Telekom's Supervisory Board* until May 31, 2010 or the date of the General Meeting that will close business year 2009

Dr. László Pap (Chairman), Jutta Burke, Attila Csizmadia, Dr. Ádám Farkas, Dr. János Illéssy, Gellért Kadlót, Dr. Sándor Kerekes, István Koszorú, Konrad Kreuzer, György Varju, Péter Vermes

Members of the Audit Committee*
Dr. Ádám Farkas (Chairman), Dr. János Illéssy, Dr. Sándor Kerekes, Dr. László Pap

* Dr. György Szapáry has resigned from his Supervisory Board and Audit Committee memberships as of December 10, 2007.

Our strategy

"With integrated services we can strengthen our market positions."
Zsolt Egri, Group Strategy

New targets for the future

For Magyar Telekom 2007 was the year of big changes and the laying of foundations for the future. One of the objectives set by the renewed management is that we have to firmly unite our forces. We have to build a simpler and more efficient organization better adjusted to customer demand, in order to lay the foundations of success in the coming years and maintain the high level performance of Magyar Telekom. We have set three strategic priorities:
Excellence – strengthen customer orientation and significantly improve the quality of our services with focus on broadband products and by developing packages best matching customer demand.
Efficiency increase – improve and simplify the operating processes, leverage synergies between business units, and enhance the integrated operation of business units. As a result, reduce operating costs, improve headcount efficiency and exploit new, integrated revenue opportunities.
Capture growth opportunities – target new business areas and expand in the fields of content services, and in domestic and international markets.

New management and organization structure

On September 25, 2007 Magyar Telekom's Board of Directors took a decision to change the management and organization structure of the Company, in order to raise the standard of services, improve cost efficiency and exploit new, innovative service and business opportunities. The decision to change the organization model is another step towards the development of a more customer-focused and efficient operating structure. Continuous technological development and innovation taking place in telecommunications industry, changing customer requirements, convergence within the industry and market dynamism demand that the focus be shifted from technology to the demands of different customer segments. Consequently, the new management structure of Magyar Telekom determines the operating model of the Group on the basis of customer segments. The new management structure, developed in order to reach the strategic objectives, and based on customer segments, was implemented with effect January 1, 2008. The restructuring is essential for the company to stand its ground in the increasingly intense competition. With these decisions we can assure our long-term competitiveness which serves the interests of our customers, employees and shareholders alike.

Renewed business units and senior management

The implementation of Magyar Telekom's new organization structure is being managed by a senior management that was successfully renewed in 2007. The composition of the Management Committee has been changed for greater efficiency, and it can now face the strategic challenges of the Group as a more united and coordinated team. There has been no change in the number of top positions, the Management Committee which is responsible for the operative direction of the Group still has seven members (chairman-CEO and six chief officers). The changes in force from 2008 affect the organization and activities of business units and the scope of responsibility of senior executives.
The key responsibilites of business units from 2008:

- The Consumer Services Business Unit comprises the entire marketing, sales and customer care activities of both mobile and wireline residential products.
- The Business Services Business Unit provides mobile and wireline telecommunications, infocommunications and systems integration services including marketing, sales and customer care activities to key business partners (large corporate customers) as well as small and medium businesses.
- The Alternative Businesses and Corporate Development Business Unit comprises content, media and other non-access services, and is responsible for the development of new business opportunities and the coordination of innovation activities. The remaining media and content service activities of T-Online Hungary have also been incorporated into this business unit.
- The mobile and wireline network management and development activities have been incorporated into the new Technology and IT Management area.

Steps for integration

In 2007 Magyar Telekom implemented further important integration steps in an effort to simplify and streamline its organization and reduce the number of its subsidiaries. The time has come for us to become indeed ONE COMPANY. The integration steps enable us to eliminate parallel activities and make the processes simpler. In line with the corporate strategy aimed at improving service quality and operating efficiency, in May 2007 the Board of Directors initiated the merger of T-Online

Hungary's Internet access business and Emitel into Magyar Telekom. The merger of the two subsidiaries companies became effective on October 1, 2007. The web and content businesses of T-Online Hungary operate under the name of [origo] as a member company of the Magyar Telekom Group. The integration brings a host of benefits for our residential customers, primarily higher standard customer service and simpler, faster and easier administration. From 2008 we simplified the organization of the Corporate Services Business Unit in an effort to provide better service to customers and increase sales efficiency. We reduced the number of subsidiaries belonging to the business unit from six to two, while retaining the flexibility and customer focus. The principal goal of the integration of the business unit is to exploit the synergies in information technology and enhance the efficiency of the companies pursuing a similar line of business. The former BCN, ICON and KFKI-LNX have merged under the name of KFKI while IQSYS has emerged as a legal successor of Integris, IQSYS and T-Systems Hungary. The legal integration was completed by end of December 2007. With the simplification of its organization, Magyar Telekom's Corporate Services can concentrate more effectively on strengthening its position in the infocommunication services market. In December, Magyar Telekom and Deutsche Telekom agreed to integrate their international voice traffic wholesale activities from January 1, 2008. Under the integration agreement designed to leverage synergies inside the Deutsche Telekom Group, from 2008 Deutsche Telekom has become the exclusive international wholesale voice partner of Magyar Telekom. The lower network, access and personnel costs of the international voice traffic will promote cost efficiency in this area.

A leaner organization, headcount rationalization, operation efficiency

In October 2007 Magyar Telekom reached agreement with the employee representation organizations on headcount reduction for 2008. Headcount rationalization is an important part of our strategy to increase efficiency and simplify Group structure. The headcount reduction is expected to decrease the overall Group's headcount by 15% by the end of 2008, compared to the end of June 2007 level. The majority of the downsizing measures were implemented by the end of 2007. The number of organization units is to decrease by 38%, so the leaner organization will contribute to higher efficiency of operation. The downsizing implemented in the first half of 2007 and the group-level agreement are expected to bring HUF 13 billion savings on Group-level employee related expenses. The agreement with the trade unions also defines a wage increase of 5.5% in March 2008 for the employees who remain at the parent company. As a result of all these measures, Group-level employee related expenses are expected to decrease by 5% in 2008.

Corporate compliance program

Maintenance of our business successes demands compliance with the strictest legal and ethical standards in the field of business activities. In view of the above, in June 2007 the Management Committee launched a corporate compliance program. The aim of the program is to ensure that the Magyar Telekom Group companies and their employees adopt an appropriate business conduct that complies with the regulatory environment of the Group. This includes compliance with the Hungarian and also the United States regulations, since we are listed on the New York Stock Exchange, and with the regulations of those Central and East European countries where the Magyar Telekom Group is present with its services. The corporate compliance program is controlled by the Group compliance director. The compliance director reports directly to the Audit Committee and also directly cooperates with the Board of Directors, the Supervisory Board and the management. The focus of our compliance program is the Code of Business Conduct and Ethics. A compliance culture can be developed if every employee is committed and involved in the implementation of the compliance tasks. In order to be able to be fully involved in the compliance program, we are organizing a comprehensive training program which is compulsory for all employees.

New service areas and innovation

The exploration of new growth opportunities and new service markets is a key element of our strategy. The systems integration and IT subsidiaries integrated in the Group in 2006 and 2007 (KFKI Group, T-Systems Hungary and Dataplex) have made a substantial contribution to the Group's performance and enhanced Magyar Telekom's leadership in several segments of the corporate infocommuniation services market (application development and systems integration, IT infrastructure building and operation). The growth of second generation Internet services, or web 2.0, and the increasing popularity of the social portal sites is a world trend, and Magyar Telekom has entered this market with the acquisition of the iWiW social site. At the end of 2007 the portal had over 3 million registered users. In April 2007 Magyar Telekom launched an innovation workshop called Kitchen Budapest, or KiBu, with the goal to develop infocommunication solutions which could turn into competitive products in the market. KiBu, a unique enterprise in the region, is actually a mobile communications and Internet laboratory in which young researchers selected through competitive applications search for answers to development demands of communications technology.

Powerful steps for the growth of broadband communications

Magyar Telekom is building broadband communications for its customers in all markets where it is present, with wireline and wireless access alike. By the end of 2007 the number of our broadband connections in Hungary grew to 717 thousand. We promoted the spread of broadband communications with a number of important measures in 2007. In the framework of the continuous improvement of service standards, in the first quarter of 2007 we again increased the ADSL Internet bandwidth free of charge; users were given even four times faster Internet access. The benefits of larger bandwidth can be best perceived in multimedia applications such as video and music which are steadily gaining in popularity. In March 2007, as a result of extensive development, we launched wholesale ADSL service without telephone service, available to customers through their Internet service providers. With this service broadband ADSL connection is also available to those who do not have a telephone line. Since August 2007 we have been offering Symmetric DSL service, which provides identical upload and download rates, to small and medium businesses through our Internet service providing partners. In September 2007 broadband infrastructure development projects were launched with the involvement of Magyar Telekom in nine small regions of the country, in the framework of the Economic Competitiveness Operative Program (GVOP) of the Government's National Development Plan. In the first half of 2008 some 120 small localities which did not have broadband Internet infrastructure before will gain access to broadband IT and electronic telecommunications services. Magyar Telekom as the operator of the new networks has also financed a significant part of projects. In November 2007, the Ministry of Economy and Transport extended the mobile concession agreement of Magyar Telekom for the use of the 900 MHz frequency, which expires in November 2008, by another 7.5 years. In 2007 T-Mobile retained its market leading position in the field of mobile broadband (3G/HSDPA) Internet service, with a coverage of 53% of the population, comprising 118 cities.

New services on new generation networks: NGN, VDSL, HDTV

The expansion of services based on Internet technology and broadband has become an integral part of the Magyar Telekom's business strategy. Building a state-of-the-art broadband infrastructure is instrumental for expansion towards new convergent services and new growth markets. As announced in May 2007, Magyar Telekom would be the first to build an IP Next Generation Network in Hungary using innovative Cisco equipment. With the implementation of the IP NGN technology, it will be possible to support other applications beyond the Internet, to upgrade the telecommunications infrastructure and to offer new integrated media and value-added services. Hungary is the first in the region to implement such broadband Internet development. In December 2007 Magyar Telekom announced that its network, as first in Hungary, has been enabled for HDTV broadcasts. We launched a pilot project for the installation and operation of the underlying VDSL2+ technology in Budapest, after we started in the summer of 2007 to build an optical fiber network offering large bandwidth. VDSL2+ technology is a revolutionary development in the field of broadband connections as it enables us to multiply the bandwidth provided to our customers (minimum 25 Mb/s download and 1.5 Mb/s upload rates). HDTV is a high definition digital television service which provides much higher picture quality than the traditional service in addition to numerous comfort functions. The new services are planned to launch in 2008.

We build a simpler and more efficient organization better adjusted to customer demand, in order to lay the foundations of success in the coming years.

Human resources

"We make the company a most attractive and livable workplace."
Judit Reskó, HQ and Alternative Businesses HR Partner

Let us shape the future together!

The restructuring of Magyar Telekom's organization and management structure announced in September 2007 also affected the human resources management activities. By the end of the year a new HR strategy setting new goals was drawn up. Implementation started at full steam in 2008, however, there were tangible results already in 2007, especially in the field of corporate culture development. The key objectives of the new HR strategy include, besides developing a performance-based corporate culture and enhancing employee satisfaction, that Magyar Telekom should become a most attractive employer in the country for fresh graduates. We continue to maintain partnership with the employee representation organizations. We intend to create a livable and loveable place of work for every employee, and one tool for achieving this can be that, as an integrating employer, we support diversity and equal opportunities.

Results of corporate culture development

The corporate culture development program was launched in April 2007 on the initiative of the Management Committee and is run by the chief human resources officer. It gave fresh impetus to the development of corporate culture. Culture development is closely linked with the upgrade of organization and management structure and with the integration processes. The goal of the program is to improve the employees' working conditions at every site, to make the results of culture development perceptible to everyone and ensure that they further improve employee satisfaction. Several of the development goals identified on the basis of an employee survey were successfully achieved in 2007. For example, we introduced new tools in internal communication. The video messages from the senior management and the employee forums provide regular, open and first-hand information about the corporate restructuring processes and their schedule. These messages help understand the new strategy and objectives of the Group. In September Magyar Telekom's renewed company magazine was published under the name 'Enter'. In 2007, the scope of welfare benefits was broadened after we implemented developments responding to demands in this area. We commissioned a new canteen, food vending machines, bicycle stores, renovated dressing rooms and the work-out facilities and decorated the common spaces in our buildings with photos taken by our employees. At each organization employee awareness is being raised to structural changes, achievements of the culture development program and new opportunities by 'change ambassadors' who also help others with orientation and understanding. The ambassadors receive appropriate training and information directly from the senior management.

An agreement for headcount effiency

In 2007 Magyar Telekom implemented several integration steps in an effort to streamline the Group's operating structure, make its organization leaner and simplify processes. In October 2007 Magyar Telekom agreed with the trade unions on the implementation of headcount rationalization and the schedule of the 2008 headcount reduction measures. The downsizing is expected to decrease the Group-level headcount by 15% by the end of 2008, compared to the end of June 2007 level. The majority of headcount reduction was implemented on the last working day of 2007. As a result of the changing the operating model, a more customer-focused and efficient structure has emerged, with 38% fewer organizational units. The agreement with the trade unions contains a 5.5% wage increase by March 2008 for employees who remain at the parent company. As the balance of savings realized through headcount reduction and wage increase, Group-level employee related expenses are expected to decrease by 5% in 2008.

Chance for re-employment offered again

In 2007 and 2008, in the framework of our Chance program for outplacement management, we continue to promote re-employment of employees leaving the company. We opened 4 Chance offices in Budapest and 5 in regional cities. Between October and the end of 2007 labor market trainings were offered to employees registered in Chance offices. Financial consulting was a new and highly successful component of trainings. Services provided by the program include support of active job search, training and retraining to improve the employees' chances in the labor market, personal psychology and labor law consulting and after-care for participants as well as monitoring their new employment. The information package compiled for program participants is designed to give the leaving employees a chance to successfully change careers and to move on to find a suitable new job. Over the years the Chance program has become very popular with participants and their feedback is clearly positive. An indication of the program's success is that between 2003 and 2007, 74% of employees affected used some service of the program package and 52% of participants successfully found a new job.

Among the best integrating employers

In November 2007 Magyar Telekom was awarded by the United Nations' International Labor Organization (ILO) for its efforts in the field of equal opportunities at the workplace. Our integrating policy and practice has earned our company the title "Corporate Ambassador for the Best Practice of Diverse and Receptive Workplace" from the international organization. ILO selected the awardees in an open competition, presenting their strategy and practice in ensuring equal opportunities in a publication entitled "For the receptive and diverse workplace – Good examples of companies in Hungary.". With the award and the publication ILO wished to provide guidance and assistance to the conscious development of a discrimination-free employment practice to those companies which, beyond applying the principle of non-discrimination in practice, are determined to take systematic measures for equal opportunities at the workplace. Simultaneously, Magyar Telekom has joined the Code for Corporate Diversity and Receptiveness initiated by the Hungarian Business Leaders Forum, expressing also this way its commitment to compliance with business ethics.

We intend to create a livable and loveable place of work for our every employee. One tool for achieving this can be that, as an integrating employer, we support diversity and equal opportunities.

New initiatives for equal opportunities

Those unable to attend personally, could follow the events of the Equal Opportunities Film Club also on Intranet from March 2007. The film club launched in 2006 sponsors the screening of documentaries discussing the problems of disadvantaged people. After the screenings the participants discuss the story and also have the opportunity to engage in discussion with the film's creators via online chat. Summer camp programs are highly popular with our employees who have small children. In 2007 hundreds of children benefited from this opportunity. Due to great interest we decided to prolong the initiative and offer another camping opportunity for Telekom children in the autumn school holidays. In August we organized a meeting for stay-at-home Telekom moms as we realized that it is useful to keep young mothers in touch with the company also while away on child-care leave. In the framework of this program young mothers were updated about current changes at the company and also given the opportunity to consult human resources and other experts about the benefits they are entitled to on child-care leave and about their re-integration to work.

Magyar Telekom's efforts for sustainability

A most spectacular sustainability action of the year at Magyar Telekom was the climate protection campaign launched in October 2007. With the program we intend to raise the awareness of employees to this world-wide problem affecting everyone. Beyond raising awareness we also want to achieve that as many employees as possible join the campaign which runs under the slogan "And what do you leave to the future?" The comments on the Intranet discussion forum and the continuous flow of ideas show that many Magyar Telekom employees have understood the gravity of the problem and are keen to act to protect our climate. We involved members of civil groups active in climate protection into organizing the campaign events. The results of the company's sustainability strategy are published in annual sustainability reports. The external perception of our sustainability activities is an important feedback for the company about whether we are going the right way. In 2007, Magyar Telekom earned top ranking in the Accountability Rating Hungary survey for the second time, and the Business Ethics Award, in large enterprise category, also went to Magyar Telekom.

e-HR: human resource management with an electronic background

In February 2008 Magyar Telekom was awarded for its outstanding achievements in 2007 in the field of electronic human resource management, or e-HR. Magyar Telekom earned the special prize of Világgazdaság business daily primarily with its innovative solutions implemented in the HR area. Similarly to Deutsche Telekom, the SAP HR system supports human resource management and administration processes at Magyar Telekom and its subsidiaries. Magyar Telekom employees also enjoy the benefits of e-HR when they access customized employee information on an Intranet surface. The Reflex system, which employees can access with their personal code, offers a wide range of functions and features unique in Hungary. As a result of continuous development the self-service employee information system offers even more interactive features which, in addition providing customized information to users, also enable them to express their opinion or take decision in matters such as composition of their benefit package and questionnaire surveys.

The goal of the culture development program is to improve the employees' working conditions at the company's every site, to make the results of culture development perceptible to everyone and ensure that they further improve employee satisfaction.

Corporate social responsibility

"We often make personal efforts to achieve our noble goals."
Julianna Tóth, Group Communications

First place again in donation and accountability

In October 2007 Figyelő magazine's Top 200 published the Accountability Rating Hungary list for the second time. Magyar Telekom, as in 2006, was once again placed at the top of the list. The survey based on an international methodology rated the Hungay's 40 largest companies. The accountability survey measured the importance managers of leading enterprises attach to efficient management of social, economic and environmental challenges, and how these aspects are integrated in business strategies and corporate governance practices. As in the previous year, in 2007 Magyar Telekom was distinguished as the Hungarian company donating the most. After having made over HUF 1.3 billion worth of donations to civil organizations in 2006, the Corporate Donor of the Year award was granted to Magyar Telekom by the Hungarian Donation Forum that annually rates the donation activity of large enterprises in Hungary. In December 2007 we also won the Business Ethics Award in the large enterprise category. The decision of the Budapest Klub was based on the evaluation of our company's corporate social responsibility.

NetreKész: a program to promote the Internet

The Ministry of Economy and Transport announced the NetreKész ('Ready for the Net') program in October 2007 for civil associations in an effort to promote digital culture and the spread of Internet usage. The government has launched the program financed from public and private sources because the majority of the country's adult population is still digitally illiterate. The state supplements the contribution offered by market players with a matching amount. Magyar Telekom promoted the implementation of NetreKész program with the biggest amount, HUF 64 million. Civil associations can apply for grants under the program for infrastructure development and for projects promoting digital culture and Internet usage.

Supports to people living with disability

For the first time in the world, in Budapest blind and sight-impaired people have the opportunity to try a software that not only reads out electronically written texts but also edits and records them. With the support of T-Online, the Dramatized Electronic Book Editing and Audio Book (DEX) program, a world novelty, has been developed by the Information Technology for the Sight Impaired Foundation utilizing the research of the Budapest University of Technology. DEX, unveiled on the International White Cane Safety Day in October 2007, gives people with sight problems the possibility to listen to documents or even audio books on MP3 audio files downloaded from the Internet, also while on the move. The digital opportunity, which will also be available on the [origo] portal site, makes it much easier for people with disabilities to access information and is also expected to considerably improve their quality of life. In 2007, Magyar Telekom donated almost HUF 20 million for projects designed to promote the integration of disabled people. Outstanding among these supports are the donation worth HUF 2.5 million to For a Full Life foundation of Kaposvár for hearing aids for disadvantaged children and the HUF 5 million donation to the National Association of the Sight Impaired for the training of guide dogs.

Romaster program to create opportunities

The Hungarian Business Leaders Forum (HBLF) announced the Romaster talent fostering program in February 2007. Romaster assists talented Roma youths in secondary school to continue their studies in higher technical, business or legal education institutions. Magyar Telekom has also joined the corporate sponsors of the HBLF's pioneering initiative. The Romaster program rests on three pillars. The first is the provision of grants for the studies of students. The most important is the mentor whom the companies involved in the program appoint not only to coach the participants in matters connected with the chosen profession, but also help them solve their personal and social problems. The third pillar is the possibility to gain hands-on experience at the companies, with the prospect of employment after graduation. The students to benefit from the supports until graduation are selected through application.

Donation Line turns five

The Magyar Telekom Donation Line, or as it is better known to many people, the 1788 helping number, celebrated fifth year of its existence in May 2007. By dialing the Donation Line, our customers can donate HUF 100 to the civil association supported in the given month. The launch of Donation Line was Magyar Telekom's exemplary initiative for Hungary. In the past five years a total of HUF 224 million was collected from the calls, which reached those in need of help through 34 non-profit organizations. The Donation Line service is a simple and transparent form of helping people in need. The initiative is a splendid example of common responsibility, an exceptional alliance of a leading Hungarian company with civil organizations and charitable individuals.

The Cause – because it is good to give!

In June and December 2007 the third and the fourth series of The Cause charitable reality show sponsored by Magyar Telekom were aired. The exclusive media partner of the documentary-reality show is TV2. Viewers could help by donating money on the 1771 telephone line to any of the causes of 4 charitable foundations presented in the program series. All the HUF 200 call fee goes towards the sponsored project. In addition, the foundation that receives the most calls, and thus the most votes, wins the HUF 5 million main prize of Magyar Telekom, and each of the further three organizations presented in the program receives HUF 1 million. In June, the main prize of The Cause, based on viewers' votes, went to With Dog for Man foundation which uses animal-petting in the treatment of sick children, and in December to the Bliss foundation which aims to develop the communication of children incapable of speech. The success of The Cause shows that helping others is important for people, provided they learn about causes they find worthy of support. The Cause so far has channeled almost HUF 100 million to the civil sphere to aid the needy and it continues in 2008.

Telekom Internet Academy: programs for the information society

In August 2007 Magyar Telekom integrated its free Internet education programs, delivered since 2003, under the name Telekom Internet Academy. Designed to enhance computer literacy and usage, the programs help users learn the opportunities offered by the Internet and thus promote the advance of an information society. At the weekly sessions free of charge for beginners and advanced users, old and young, all participants receive an instruction booklet and a CD. The Telekom Internet Academy also offers free Internet courses which local governments, churches and non-profit organizations can win through application. The applicants provide the course venue and also select the participants. The "Learn, Granny" program is designed for people over 55 trying their hands at the Internet, offering them free courses in libraries, culture centers and community houses. For the full length of the course Magyar Telekom provides instructors, teaching material and if necessary also computers, free of charge. In the framework of our Digital Bridge program, in July 2007 we offered free Internet training and use for visitors of the Valley of Arts cultural festival held in the Balaton region. As part of Digital Bridge, Magyar Telekom launched its Egálnet – With Internet for Equal Opportunities program which invited participating organizations to design their own websites and enter them in a competition. The prizes – computer equipment – were distributed in November 2007.

Success of the popular science venture

Even a classical university program ends after the 10h semester. In June 2007, with the last lecture the 10h semester of the University of All Knowledge, or Encompass, came to an end in the form known to television viewers so far. From 2008 the high-standard lectures presenting scientific issues in a popular form will be availbale only through television and the Internet. In the program series of this unique joint venture of Magyar Telekom and the Hungarian Academy of Sciences launched five years ago, over 160 scientists delivered lectures which reached some 300-500 thousand people weekly thanks to the opportunity of having live audiences, the regular television broadcasts and the well-edited Internet site. Adding up the attendance of five years shows a high level of popularity. In Hungary's science history this was the single most successful initiative to make science available to the public at large.

Magyar Telekom for nature and the environment

In 2007, our company donated over HUF 23 million to programs designed to preserve nature and protect physical environment. Outstanding among these projects were the HUF 7 million donation for the white stork protection program of the BirdLife Hungary association, the donation to WWF Hungary for the Hortobágy wild horse reservation project and the HUF 2 million donation to the museum of Miskolc for the conservation of the 8-million-year-old swamp cypress trunks discovered in the Bükk mountains.

Employees' involvement in social responsibility

In 2007, Magyar Telekom employees demonstrated their commitment to the solution of social problems through involvement in some new forms of voluntary work. In fact, this type of volunteerism was not new since our employees have been taking their share of building playgrounds and birdwatching

In an example of common responsibility, our employees demonstrated their commitment to the solution of social problems through participation in new forms of voluntary activities.

stations since 1999. In June 2007 Magyar Telekom's volunteers helped rebuild the birdlife education house of the Ócsa Birdwatching Association, which burnt down in January. Magyar Telekom also donated HUF 4 million to the rebuilding project. Also in June Magyar Telekom employees participated for the first time in another volunteer project which also functioned as a team-building exercise. Organized by Kurt Lewin Foundation, our volunteers did various chores in the Old People's Home of a Balaton resort which the residents found far too strenuous. The dynamism of Telekom's volunteers combined with the experience of elderly residents guaranteed the success of the enterprise. In October, Magyar Telekom managers and employees joined forces to clean the Horváth park in Budapest.

Environment, cityscape and art

Magyar Telekom is also committed to making the Budapest cityscape more colorful. In April 2007 Magyar Telekom, in cooperation with the Lát-Kép city conservation association, invited applications for street art projects, giving young artists an opportunity to redesign and decorate and display several plain gray street switching cabinets operated by T-Com. Also in April 2007 Magyar Telekom and Sparks Gallery invited applications for turning the yellow and green plastic street waste bins into objects of art. The goal of calling people's attention to these useful objects was to raise public awareness to the importance of keeping the environment clean. The waste bins designed by young artists were displayed in Budapest and in the Valley of Arts. As a showcase feature of the popular ARC street poster exhibition sponsored by Magyar Telekom, in August 2007 a singer spent three weeks in a cabin on top of an 8-meter pole, using T-Mobile's mobile Internet as the only communication channel with the outside world. Magyar Telekom traditional raypainting exhibition, a gigantic installation covering a surface of 12,000 square meters titled M.City, was projected on the Hungarian Academy of Sciences Budapest headquarters in December 2007. Magyar Telekom launched the Christmas raypainting project, accompanied by various programs and events, in 2001 and it has become Hungary's biggest event of its kind. In September 2007 Magyar Telekom sponsored the historical Limelight Raypainting project in Pécs, casting colorful lights on the castle walls.

Traditional events attracting masses

In April 2007 the T-Com Vivicitta city protection run had a record number of participants: 11,000 people entered, and participation in Szeged and Kaposvár also broke records. T-Com Children's Island programs held on weekends in June and July also attracted larger audiences than ever before. The choice of programs was ample, ranging from juggling performances to concerts and circus shows. The 28th T-Com Kaláka festival drew thousands of visitors to the Diósgyőr Castle to watch performances by prominent representatives of Hungarian folk music and world music alike. Magyar Telekom was again lead sponsor of the biggest summer arts festival, the Valley of Arts. The concerts on the T-Com World Music Stage and the raypainting exhibition in the quarry of Öcs were among the most successful attractions of the festival. Magyar Telekom operated a free bike rental service in the Valley to help keep its air clean.

T-Mobile: culture and sport sponsoring projects

T-Mobile as one of the sponsors of the Budapest Spring Festival launched in March 2007 a pioneer project under which users could follow leading performances live on their mobile phones through t-zones or web'n'walk portals. T-Mobile also provided regular MMS information on the festival events. On June 30 some 200,000 people could enjoy in Budapest the 11th Connection concert sponsored by T-Mobile, featuring Canadian star Bryan Adams and Hungarian support singer Magdolna Ruzsa. In September Paul Van Dyk, today's number one disc jockey, was the guest of T-Mobile Electronic Beats concerts in Budapest. T-Mobile's electronic beats concert series aims to acquaint people with a special international lifestyle through high-quality electronic music. As lead sponsor of Hungarian competitive and Olympic sports, in May 2007 T-Mobile renewed its sponsoring contract with the Euroleague winner and six times Hungarian champion Domino BHSE waterpolo team, with Domino Honvéd club's kayak-canoe division which boasts Olympic, world and European champions, and with Gábor Balogh, one of the most successful athletes of Hungarian and international pentathlon.

MobilNet: university program for mobile broadband

While Internet has become an indispensable tool of education and learning, mobile Internet helps students access information more easily. Therefore in the 2007–2008 academic year T-Mobile launched the MobilNet mobile broadband program whose aim is to support Hungary's higher education, promote cooperation between the company and higher education institutions and students, and to acquaint them with mobile broadband services. As part of the program in October 2007 T-Mobile invited applications from students of three leading Budapest universities (Hungarian University of Applied Arts, Budapest University of Technology and Economics and Budapest Corvinus University of Economics), with mobile broadband as subject. Nine students, three from each university, won prizes in the form of notebooks and domestic mobile Internet subscriptions. The entries were put on display in a special exhibition. Under the same program T-Mobile also supports the universities with notebooks complete with mobile Internet subscription.

Wireline services

"The next generation is also showing interest in our services."
Gábor Fülöp, Consumer Services

Broadband Internet: continued expansion, higher speed

Promoting the fast growth of broadband access is a key strategic objective of Magyar Telekom. In 2007 again, promoting the widest possible reach of broadband wireline Internet access was a priority goal. At the end of 2007 the number of broadband connections of Magyar Telekom (predominantly ADSL and Kábelnet) reached 717 thousand, a 25% year-on-year increase. ADSL connections increased 19.5% to 613 thousand in 2007. As a result of our 2007 developments, we have broadband Internet subscribers in over 2,000 localities in our service area, which means 88% coverage of the population. Magyar Telekom has been making extensive efforts for years to continuously improve the standard of its Internet service; as part of those efforts, in the first quarter of 2007 we again increased the bandwidth of ADSL connections free of charge, giving our subscribers up to four times higher rates than they had earlier. The benefits of larger bandwidth can be best perceived at multimedia applications such as video and music which are steadily gaining in popularity. In March 2007 we launched the wholesale ADSL service without telephone service, available to customers through their Internet service provider. This service gives broadband Internet access also to customers who do not have a fixed telephone subscription.

Symmetric DSL: broadband solution for businesses

Today, businesses use the Internet not exclusively for downloading. Responding to customer demand, in August 2007 T-Com introduced the Symmetric DSL broadband Internet solution for small and medium-size enterprises. Symmetric DSL, in contrast to ADSL, gives identical upload and download rates at maximum bandwidth and can be used at flat rate which is independent from usage time and Internet traffic; initially, the service was available in Budapest and in 76 other cities countrywide. Magyar Telekom provides this service through its Internet service providing partners. The Symmetric DSL business package is an ideal choice for companies with several sites, where users connect to a central server via the Internet, and it can also be an excellent solution for companies working with large masses of data.

Wireline integration – new customer benefits

Initiated by the Board of Directors in May 2007 and approved by the Extraordinary General Meeting in June, the Internet access business of T-Online Hungary and Emitel, a wireline operator in Southern Hungary, merged with Magyar Telekom as of October 1, 2007. The Internet access business continues to operate within Magyar Telekom by retaining the T-Online brand. The web and content businesses of T-Online Hungary continue as member company of the Magyar Telekom Group under the name of [origo]. The integration carries a number of perceptible benefits for the customers, which they could first experience as the simpler and more comfortable administration of the services. The merger of the companies enables us to offer our customers solutions that fully satisfy their telecommunications requirements from 2008.

New efforts for customer retention

The decline of fixed line penetration in Hungary continued through 2007 and was also reflected in the 6% decrease of T-Com fixed lines. Slowing the line and customer churn continues to be high on T-Com's priority list. In the framework of our customer retention programs, we have been preventing line churns with proactive actions, favorable offers and by making targeted propositions to our customers. In addition, we are promoting our intensive line sales activities with continually changing, extremely favorable discount offers. Customized tariff packages represented 85% of Magyar Telekom's fixed lines at the end of the year. With our continuous customer retention and customer satisfaction raising campaigns we mainly focused on the satisfaction of various customer demands, by elaborating appropriate offers and discounts. As one successful campaign this year, we have offered a special discount to mothers with small children. Under this scheme they are also given discount mobile rates and a set with a baby monitoring feature.

Excellent service and integration in customer relations

Following the establishment of an integrated retail network in 2006, Magyar Telekom has taken further steps to integrate its customer services. The integrated customer care service of T-Mobile, T-Com and T-Online products on the 1430 (T-Mobile) and 1412 (T-Com/T-Online) freephone numbers has been operating since August 2007. In addition to the 1412 residential customer care number, since October 2007 our business customers have the opportunity to do business concerning T-Com and T-Online products, on the 1435 freephone number. In February 2008 we extended the integrated telephone customer service also to former Emitel customers in South Hungary. Through our integrated customer care we serve customers faster, more efficiently and in higher quality. At the same time, in response to customer demand, we have also expanded our personal customer servi-ce option: our T-Pont retail network, which offers integrated service for all Magyar Telekom brands, already counted 47 shops at the end of 2007. As a result of our customer service excellence program, customer satisfaction rates reached considerable improvement by the end of 2007 according to the findings of the relevant research, and the customers perceived definite improvement in Magyar Telekom's wireline telephone and Internet services.

Wireline telecommunications now means more than fixed telephone lines. We develop new solutions to be able to offer our customers useful non-telecommunication services, too, through the fixed network.

Extended residential and business product portfolio

In 2007 we offered our customers the widest ever range of flat-rate fixed packages. Our Lebeszélhető (Call Credit) package launched in May gives customers the option to use the entire monthly subscription fee as call credit. In November, new packages were added to the discount Favorit tariff package range called Favorit Komplex and Favorit Non-Stop Komplex, which give users the option to call mobile and international numbers at 0 HUF minute fee. We also made new offerings for our small and medium-size business partners: from September the users of Grátisz tariff packages also have new discount mobile and international call options, and from October businesses subscribing to our Grátisz 300 discount package get 300 minutes of free calls per month in fixed direction. There was a new addition last year to the range of Ritmus package: the Ritmus Office tariff package, besides low minute rates, also grants special group discount to our business customers. The choice of business packages available with broadband Internet access (ADSL) also expanded further last year: the T-DSL 1000, 4000 and 8000 tariff packages launched in May offer discount ADSL access which can be combined on several lines, and a discount-rate business tariff package.

Combined Internet packages

Wireline telecommunications now means more than a telephone line. Subscribers of the dynamically growing broadband Internet service use fixed telephone service with their Internet connection, and since 2006 our IPTV service, branded T-Home TV, has also been present in the market. The combined tariff packages of T-Online and T-Com launched in April 2007 offer all these, at more favorable price. The Double packages can be customized to contain any combination of the ADSL Internet and the IP telephone services. The Triple packages contain, besides broadband Internet and IP telephone, also T-Home TV subscription, which gives customers the opportunity to choose from two television packages and a host of supplementary services including video-on-demand. The Double and Triple packages help reduce the telephone, Internet and television expenditures of households. T-Online's PC-Net package, which has been offered since December 2007, contains both computer and ADSL or Kábelnet Internet connection, to bring the Net into reach of people who did not have it so far because they did not have a computer.

Special services and business development: beyond telecommunications

Thanks to its successful operation and continuous development, T-Com Superservice launched in 2005 to provide computer troubleshooting and fault repair services has, in two years, become Hungary's leading IT repair service provider. In 2007 we further expanded Superservice which, besides being available non-stop for assistance on the phone, from July also provides field service in the T-Com's entire service area. Since February 2007 the System Operator Service of Superservice also accepts orders for the operation and maintenance of IT equipment of its business partners. From October Superservice offered its customers high-quality notebooks at favorable prices, complete with installation. As part of our business development activity, with the involvement of our partners we keep developing new solutions to be able to offer our customers useful non-telecommunication services available through the wireline telephone. In addition to the Family Insurance service launched in 2006, in 2007 we developed a new special insurance offer together with Union insurance company: customers who take out their compulsory car insurance from Union receive discounts. Since early 2007 our customers have several times received coupons with their telephone bill which give them a discount on the services and products of our partners.

T-Home TV: more than television

Thanks to dynamic expansion, Magyar Telekom's pioneer IPTV service branded T-Home TV and launched in 2006, was already available in 140 cities countrywide in addition to Budapest, and had more than 9 thousand subscribers at the end of 2007. We dedicated 2007 to raising broad public awareness of T-Home TV, to be followed by making it a mass market product. In addition to increasing its area coverage, we are concentrating much of our efforts on content development and expansion of the service's functions by adding more comfort features. Our customers rate time shift and video-on-demand as the most attractive comfort functions. We offer the premium service of T-Home TV in triple play packages which provide broadband Internet and telephone services as well. Since August 2007 T-Com customers who do not have an Internet subscription and only want to use the television service, can also order T-Home TV packages without T-Online ADSL connection. Simultaneously, the T-Home TV interactive portal has also been launched, offering users updated information and entertaining content as well as customized program listings and remote programmable recording function.

VDSL and HDTV from Magyar Telekom

Magyar Telekom started to build its optical fiber broadband VDSL (very high bit rate DSL) network in the summer of 2007. Thanks to the revolutionary VDSL2+ technology, the available bandwidth will multiply, giving our customers faster Internet access. As a result of the development, in addition to our current triple play service (Internet, telephone and T-Home TV), we will be able to launch such innovative products as high definition television, or HDTV, broadcast. In December 2007 Magyar Telekom was the first to launch an experimental HDTV broadcast, which gives viewers much better picture quality than the traditional television.

[origo] portfolio: upgraded content services

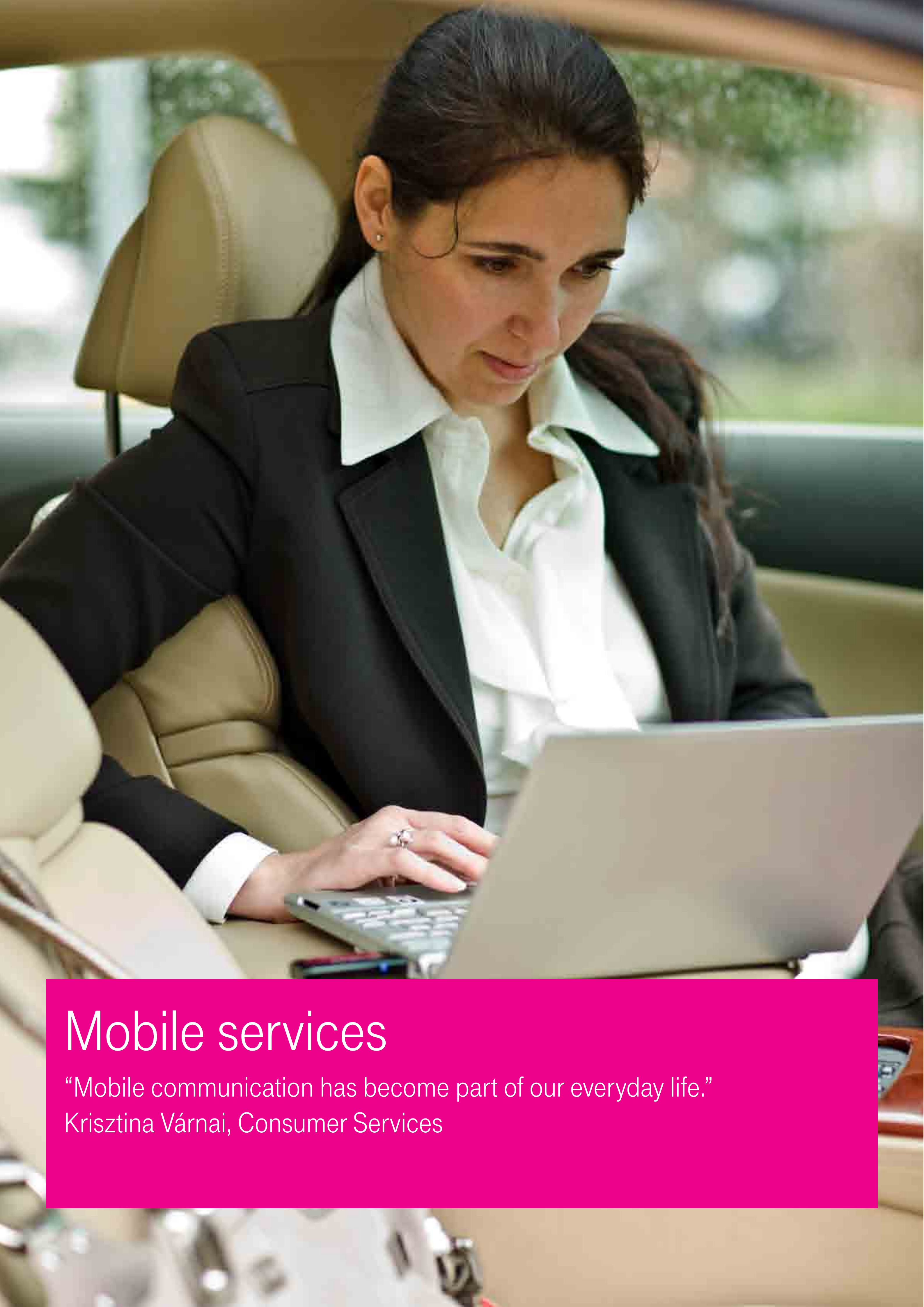
Following the 2006 record of [origo], in February 2007 the iWiW social portal was the second in Hungary to reach 1 million visitors daily. Both portals, earlier managed by T-Online, belong since October 2007 to the content portfolio of [origo]. The iWiW site, which had around 3 million registered users at the end of 2007, was upgraded in November and, in addition to individual users, it became available to businesses and nonprofit organizations as well. This enables users to join groups of their special interest and thus gain access to yet another channel of collecting and sharing information and building social networks. In March both the surface and the content of [freemail], Hungary's largest online mailing system, were upgraded. Users gained access to a larger, 1 Gb storage space and besides several new functions they can use instant messaging (chat) and Internet phone free of charge. The Optimail system, based on 3.3 million registered [freemail] users, has become an efficient and well-plannable marketing tool with which customized targeted e-mail messages can be sent to users consenting to receiving them. On the basis of an agreement between T-Online and Google, since May 2007 the OK.hu search engine of [origo], Hungary's most popular portal site, uses Google technology which makes searching both the Hungarian and international web easier and more efficient.

T-Kábel: increased bandwidth, triple-play and digital offering

At the end of 2007 the Magyar Telekom Group had over 418 thousand cable television subscribers. T-Kábel Hungary retained its position as Hungary's second largest CATV service provider and distributor.
In February 2007, T-Kábel launched its cable telephone service on its networks in the Budapest metropolitan area. This gives customers the opportunity to order television, broadband Internet and fixed line telephone services from the same provider. T-Kábel's cable telephone subscribers can call each other free of charge, and those who join the network can keep their earlier fixed telephone number through number portability. By the end of 2007 the number of broadband Kábelnet Internet users reached 90 thousand. Following the ADSL bandwidth increase by Magyar Telekom in March 2007, both Kábelnet subscribers and T-Online customers outside Magyar Telekom's service area can surf the Net on higher bandwidth. Digital cable television is an outstanding success; it gives premium quality service and extra channels to T-Kábel customers on the company's Budapest and regional networks. The triple play packages containing cable television, cable telephone and cable Internet, or Kábelnet, were launched in October 2007. The latest milestone in digital television was the launch of digital packages in Csongrád and Békés regions in November 2007. As a result of the 2007 developments, the number of subscribers of T-Kábel's digital service saw significant expansion, and over one third of them used more than one service.

International wireline segment

At the end of 2007, MakTel in Macedonia had 492 thousand fixed lines, and the annual churn rate of 4.8% was also significantly lower than in the preceding years. The number of MakTel's Internet subscribers grew more dynamically than earlier, by 61% to 202 thousand, and broadband ADSL users soared by 193%.
In Montenegro, Crnogorski Telekom saw its overall fixed lines decrease by a modest 2.3%, and at the same time, its Internet subscribers increased by 32.5% which exceeded the growth rate of the previous years, while its broadband ADSL Internet user base soared by 117%. In November 2007 Crnogorski Telekom launched its IPTV service branded as Extra TV.



Mobile services

"Mobile communication has become part of our everyday life."
Krisztina Várnai, Consumer Services

Market leading position maintained

T-Mobile firmly retained its leading position in Hungary's mobile market in 2007. The service provider increased the number of its subscribers by 9.5% to 4.9 million, while its market share was 44%. This success is all the more remarkable considering that mobile penetration in Hungary exceeded 100% in April and reached 110% in December 2007. Several factors played a role in the outstanding successes of T-Mobile, including its offers which met with favorable reception at customers, the upgraded tariff packages, the targeted campaigns and customized account management initiatives as well as the dynamically expanding mobile Internet coverage. In addition, the brand has also been renewed partly. To enhance the key T-Mobile brand values of reliability, inspiration and simplicity, in February 2007 we introduced the "Simply closer" slogan, followed by the redesign of visual image elements in order to strengthen the relations of the service provider and its millions of customers. The renewal focused on personal communication and on the decisive role of mobile phones in our life.

Competing for subscribers: successful tariff packages and discounts

The successful new tariff packages greatly contributed to the remarkable results of year 2007, helping to retain existing customers and acquire new ones. It is a sign of the favorable reception of T-Mobile's offers that the percentage of post-paid customers continued to grow and reached 37% by the end of the year. The monthly fee of the Eco tariff package launched in March 2007 can be used in full as call and SMS credit. The MobilOtthon Premium tariff package upgraded in March offers low monthly and fixed direction rates, and the monthly fee can be used in full for sending SMS and MMS messages. The Domino Friends scheme launched in May gives users the opportunity to call five Hungarian T-Mobile customers at 50% discount. In August, we introduced the Családbarát (Family Friend) discount, a novelty in Hungary's mobile market, which extended the zero minute fee call option inside the network to Domino prepaid customers as well. Roaming rates decreased significantly within the European Union during 2007. T-Mobile introduced the new, lower international roaming rates for the EU member countries automatically from the end of August, before the required deadline of end-September. In 2007, about one fifth of our customers used our services also abroad, so the tariff reduction was favorable primarily for them. T-Mobile customers can enjoy the benefits of fast broadband data communication abroad too: at the end of 2007 the 3G mobile Internet was available on 62 networks of 39 countries, and most 3G networks were suitable for video telephone usage as well.

Efficiency in customer acquisition and retention

T-Mobile has some fine achievements in residential and business customer acquisition and retention as well. In 2007 our customers could enjoy the comfort of one-stop shopping in 47 T-Pont shops countrywide, which offer all the telecommunications services of the Magyar Telekom Group. T-Mobile continues to enjoy a significant edge in the corporate segment where its market share is much higher than in the overall Hungarian mobile market. The most outstanding successes of 2007 include the contract won in a tender from the K&H banking group in September under which T-Mobile has become the new mobile provider of the group. In November, Audi Hungaria also opted for T-Mobile as part of a global service agreement between T-Mobile International and the Volkswagen Group.

Mobile broadband: free communication without compromise

Broadband mobile Internet is one of the most important tools for satisfying the powerfully growing demand for free communication available both at home and on the move. The success of mobile broadband has decisive importance for the increase of Internet penetration as well. T-Mobile was the first in 2006 to launch its 3G/HSDPA network, and at the end of 2007 its web'n'walk service offering fast Internet access was already available to 53% of the population in 118 cities. It was also the first among the Hungarian mobile operators to make its network suitable for 7.2 Mbps communication, double the previous rate, in the entire Budapest area by the end of 2007. This puts T-Mobile in a leading position in the Hungarian mobile broadband (3G/HSDPA) market in terms of bandwidth, area coverage and population coverage alike. Thanks to the fast download, mobile Internet no longer involves compromise for T-Mobile customers. The fact that in November 2007 Magyar Telekom prolonged its 900 MHz mobile concession contract, expiring in November 2008, with the Ministry of Economy and Transport by another 7.5 years, also contributes to the dynamic growth of mobile broadband. Under this contract Magyar Telekom will spend, in addition to the projects planned earlier, HUF 20 billion on mobile broadband development in the coming two years in Hungary's six regions. The projects started in early 2008 have to be completed by the end of 2009.

Mobile Internet: favorable offers, wider choice of products

Thanks to the expansion of its broadband network, repeated speed increases and several favorable changes to its tariff packages T-Mobile has earned the leading position also in the market of broadband mobile Internet services. Our mobile broadband Internet customers exceeded 152 thousand by the end of 2007, making T-Mobile a decisive player of Hungary's Internet market. The Net and Mobilinternet packages have been modified several times to give more benefit to users, and new packages were also launched in 2007. The data quantities available in Net 300, Net 1000, Mobilinternet 300 and Mobilinternet 1000 tariff packages were doubled in March, and frequent users could also select the new Net 5000 package. In June we again increased data quantities, e. g. in the case of Net 600 tariff package we more than trebled it. As a consequence, the names of Net 600, Net 2000 and Net 5000 packages were changed to Net 2GB, Net 5GB and Net 15GB to indicate the data traffic available with them. From November, our Internet packages became even more favorable, and two new Golden Partner Card packages were added to the portfolio. The 2 GB mobile internet packages contain 5 GB data from November, while the 5 GB packages changed to 8 GB. T-Mobile also offers four new packages from November. For mobile Internet, post-paid and Domino card customers can select the Net 30 and Net 80 packages in place of the former Net 50. With this we have made the web'n'walk service available to prepaid Domino customers, too. Residential customers holding a Connection Gold or Platinum card may benefit from packages offering uniquely low monthly fees in the Hungarian mobile market: they can choose the Golden Partner Card Mobile Internet 2GB package or the Golden Partner Card Mobile Internet 10 GB package. From December the name of the WAP Start package, which carries no monthly fee, changed to Net Start as it contains both WAP and Internet access, which can be an ideal solution for people who only occasionally use their mobile phone to browse the Net.

Mobile television: focus on the screen

T-Mobile is determined to establish a worthy place for mobile phones in entertainment as well, in addition to communication (phone calls) and information (Internet), right beside the screen of the television set. To reach that goal in 2007 we made several important steps also in the field of mobile television, a feature of growing importance. In April, together with Antenna Hungaria we ran a digital mobile television test based on the DVB-H (Digital Video Broadcasting – Handheld) standard. With the DVB-H technology television broadcasts can be received in excellent quality, and the users also have access to various interactive services like voting, chat, viewing Internet pages and other information on the programs. In the test run viewers could enjoy the programs of four channels with the latest digital sets offering a new television viewing experience. From December, users owning sets suitable for Mobile TV streaming service available since 2002, could watch the programs of already 12 channels. Mobile television services, which are expected to gain in popularity with the expansion of the technological solutions and the broadening of content, carry new business opportunities in the long term for market players.

Mobile video sharing, upgraded WAP, expanding mobile purchase opportunities

As the leading innovative mobile operator, T-Mobile launched several new products in the market in 2007. From May our customers can access the services of vidUP, the first Hungarian mobile video sharing portal. The users of this video sharing and service, developed for mobile contents through the cooperation of T-Mobile and Magyar Telekom Group subsidiary M-Factory, can watch videos on the vidUP site and also upload their own videos or share them. The vidUP site is available from mobile phones at T-Mobile's t-zones and web'n'walk portals. The vidUP TV mobile television comprising 11 channels enables users to continuously view the most interesting videos. In November, t-zones was upgraded in an effort to make it simpler and easier for T-Mobile customers to surf on the WAP portal and search the expanded downloadable content. In 2007 the range of products that can be purchased with mobile phone grew further, so the importance of mobile commerce also increased, in some areas it played a role similar to bank cards. Beside the 4-day motorway sticker which can be bought with mobile phone since 2006, from May 2007 our customers have the opportunity to buy 10-day and 30-day motorway stickers simply by sending an SMS, without any previous registration. Customers also like the mobile lottery service which T-Mobile has been offering since 2005, and from July 2007 several other gambling opportunities are available to them by SMS, also from abroad.

National emergency radio system on land, water and in the air

The emergency radio communication system (EDR) commissioned in January 2007 with national coverage and operated by Pro-M, a Magyar Telekom Group subsidiary, is used by 11 emergency service organizations including the army, the police merged with border guard services, the firefighters, the disaster prevention and recovery service, the customs and finance guard, the motorway police, the ambulance and the law enforcement organizations. With the nationwide rollout of the system, one of Europe's most advanced and extensive emergency radio systems has been implemented. Based on the modern telecommunication infrastructure and in-depth knowledge and experience of Magyar Telekom and T-Mobile, Pro-M has established the emergency system extremely fast even by world standard. The system using the Tetra technology also works in places which were not covered earlier, such as in the underground, in remote areas difficult and also in the air which may be very important in disaster situations. From December 2007 the Hungarian emergency response system also helps ensure the communication of the border guard service of the Schengen area. To be able to fulfill the task Pro-M has built new base stations and also solved the coverage of the Danube crossing points.

International mobile operations

With a dynamic 28% growth the number of T-Mobile customers in Macedonia exceeded 1.2 million by the end of 2007. This has earned the operator a 62% share and continued strong leadership position in the Macedonian mobile market, to which the third player entered in September 2007. The share of post-paid customers of T-Mobile Macedonia grew further and exceeded 23%. At the end of 2007, T-Mobile Crna Gora had 409 thousand customers in the Montenegrin mobile market, where the third player entered in July 2007, and this means 34% market share in terms of active mobile cards. The share of post-paid customers have increased to 18%. T-Mobile Crna Gora was the first in the Montenegrin market to launch mobile broadband services in June 2007, after it has won the 3rd generation, or 3G, mobile services license in March 2007.

Broadband mobile Internet is one of the most important tools for satisfying the powerfully growing demand for free communication available both at home and on the move. Thanks to the fast download, mobile Internet no longer involves compromise for T-Mobile customers.

Corporate services

"Integrated telecommunications and IT for business customers from a single hand."
Gábor Altmann, Business Services

New organization structure, expanded product portfolio

Magyar Telekom is operating as integrated service provider also in the field of corporate services responding to growing demand for integrated infocommunication services due to convergence of technologies. Since January 2008 the Corporate Services business unit, has been operating in a new structure and with an expanded scope of activities unit as a result of organization restructuring. The business unit provides mobile and fixed telecommunications, infocommunication and systems integration services, branded T-Systems, also comprising marketing, sales and customer care activities, for the key business partners (large enterprises) and for the small and medium-size businesses. T-Systems, responsible inside the Magyar Telekom Group for serving the corporate customer segment, continued to strengthen its market position in 2007, gaining considerable edge both in the large and medium-size business and the institutional segments. Our competitive edge is rooted in the fact that Magyar Telekom, and T-Systems within it, has unique competences. T-Systems is the only company in the Hungarian market capable of offering full range of infocommunication, infrastructure and application development solutions. From 2008 the products of T-Mobile and T-Online have also been added to the portfolio. The most perceptible benefit of the new structure for customers is that they will get all our products from a single hand, be they fixed or mobile communications, systems integration or application development solutions. The uniform, consolidated organization offers more flexible and higher standard services than earlier.

Integrated business unit organization for efficiency

In line with Magyar Telekom's strategy to improve service quality and operating efficiency, in 2007 we streamlined the organization of T-Systems. After the 2006 and the 2007 acquisitions, we reduced the subsidiaries belonging to the business unit from six to two. The integration of the IT subsidiaries was successfully closed by the end of December 2007. The activity of KFKI, which has emerged through the merger of the former BCN, ICON and KFKI-LNX companies, embraces the entire range of network and systems integration solutions. IQSYS operates as the legal successor of Integris, IQSYS and T-Systems Hungary, and is Hungary's IT market player offering the widest product and service portfolio in the field of IT application development and integration. KFKI and IQSYS retain their systems integrator role, while T-Systems draws on the competence of its subsidiaries to offer infocommunication (ICT) solutions from a single hand to large, medium-size and small businesses. The customer and product portfolio of the Corporate Services business unit has also expanded in the wake of implementating the Group's new management structure in 2008 and the integration of T-Mobile and T-Online. With its organization simplified and overlaps eliminated, T-Systems can concentrate more effectively on strengthening its leading position in the infocommunication services market. Providing higher standard services for customers and increasing sales efficiency contribute to increasing our competitiveness.

Leading position in public infocommunication services

T-Systems is market leading infocommunication service provider also in public services, and it considers a high priority to provide advanced IT and telecommunication tools for health and education institutions. In 2007 Magyar Telekom T-Systems, in cooperation with Cisco Hungary, donated a world standard hospital information system to Bethesda Children's Hospital in Budapest. The infocommunication equipment of the new system was delivered by Cisco, while seamless implementation and operation are ensured by the competence of T-Systems. With this project the two companies have brought to Hungary the IT background of 21st century medical service. The hospital IT system brings a quality leap in patient care and in operating efficiency. During the project started in February and completed in October, the companies installed state-of-the-art infocommunication tools and services, including wireline and wireless network, IP telephony, clinical software, patient guiding, remote surveillance and security systems. In addition to IT infrastructure, a cooperation model has also emerged documented in an exemplary manner so that it can be uses as reference in future hospital projects. T-Systems contributed HUF 20 million worth of equipment and HUF 30 million worth of services to the project worth a total of HUF 130 million, and will also operate the equipment and provide necessary services for three years.

Integrated product and solution sales

T-Systems further strengthened its market position through the merger of its IT subsidiaries, closed at the end of 2007, and became a market leading provider of infocommunication outsourcing solutions. The expansion of integrated product and solution sales activities of T-Systems continued, and we also concluded new outsourcing contracts. As a basic feature of integrated sales activities we provide for our key business customers Magyar Telekom's all services from a single hand and in as customized form as possible. For its largest customers T-Systems provides one-stop shopping with the involvement of dedicated account managers, while in the medium-size business market we also use distributors and telephone sales in addition to account managers. In 2007 T-Systems implemented an experimental sales project with the involvement of 500 key business customers. The aim of the Top 500 project was to serve our key business partners with T-Systems and T-Mobile products in an integrated manner. The experiment was successful both in terms of service standard improvement and financial results. In 2008 we continue the integration of sales channels and implementation of one-stop shopping. In line with Magyar Telekom's new management structure, T-Systems will implement the uniform management of orders from business customers for T-Mobile, T-Online and T-Systems brands. As a result of integration, Magyar Telekom will be able to introduce to market more competitive and innovative offers and respond faster to market changes.

Innovation in solutions and technology

The expansion of innovative services based on the Internet technology and broadband has become an integral part of Magyar Telekom's business strategy. With our product and network development efforts we are meeting halfway the growing demand for broadband Internet and creating the possibilities of further increase in network capacity, reliability and expanding bandwidth. Magyar Telekom was the first to build next generation IP network in Hungary in May 2007, using Cisco's innovative technology. Cisco's IP Next Generation Network technology (IP NGN) offers the possibility to support other applications beyond the Internet, to upgrade telecommunications infrastructure and to develop and implement services through which customized applications can be provided for customers. The IP NGN structure offers an open platform for service differentiation: through it integrated media services and value-added services (e.g. VoIP, interactive games, digital content including photo library, video-on-demand) will also be available to users. In January 2007 T-Systems launched the Multiflex virtual private network service, offering an integrated solution for the satisfaction of our partners' overall telecommunications demands. By linking the local area networks, or LANs, Multiflex integrates the entire internal data communication of a firm in a single corporate network and it also enables voice communication between company sites. In addition to procuring and operating the necessary IT infrastructure, T-Systems also provides proactive fault clearance, meaning that it detects and repairs faults without the customer's involvement.

Our competitive edge is rooted in the fact that, in Hungary's market, only T-Systems is capable of offering full-scale fixed and mobile communications, infocommunications, systems integration, infrastructure and application development solutions from a single hand.

T-Systems successes in the large enterprise segment

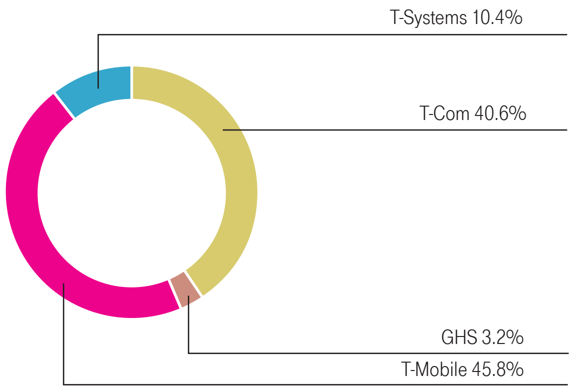
IT systems supporting enterprise business and administrative processes are crucial for all T-Systems customers, especially in the large enterprise segment. In 2007 we achieved considerable success in this segment with our ICT solutions. T-Systems has been operating the SAP Basis System which supports the business activities of the State Motorways Management Company (ÁAK) since December 2006. In May 2007 we prolonged for another three years the successful ICT outsourcing contract concluded with Budapest Bank in 2005, and simultaneously expanded the service portfolio provided. In August, T-Systems won the server consolidation and hosting tender invited by Magyar Cetelem Bank. Under this contract, T-Systems replaces the hardware serving the critical systems of the bank and provides the transaction and other communication lines (leased line, ISDN, Internet). In October, T-Systems signed a cooperation agreement with Bull Hungary for the joint sale and servicing of a virtual PC solution. The Virtual PC Center (VPCC) is the first world's solution which combines rich multimedia possibilities and the benefits of VoIP technology. The solution is ideal for government bodies, public administration and the business sector as every user can access his own working environment at any time and from any place and thus enjoy perfect mobility. In December, T-Systems signed an agreement with the University of West Hungary in Sopron for the implementation and operation of a uniform business information system. In January 2008, as one of the first successes of the Business Services business unit operating in a new structure and taking advantage of our strategic edge, we won the tender of Aegon Insurance, a leading player of Hungary's insurance market, for providing mobile communications services. This contract was preceded by a framework agreement signed between T-Systems and the Aegon Group in 2007.

Through the merger of its IT subsidiaries, with its organization simplified and overlaps eliminated, T-Systems can concentrate more effectively on strengthening its leading position in the infocommunication services market.

Management report for the 2007 financial year

As a result of the change in the management structure of the Group, Magyar Telekom has changed its segment reporting as of January 2007. Under the new system, reporting segments have been brought into line with the four business lines: T-Com, T-Mobile, T-Systems, as well as Group Headquarters and Shared services (GHS). The company's secondary segmental reporting format is by geography. The T-Com segment includes the fixed line operations in Hungary, Macedonia and Montenegro, as well as the alternative and wholesale operations in Romania, Bulgaria and Ukraine. The T-Mobile segment consists of the mobile operations in Hungary, Macedonia and Montenegro; Pro-M's Tetra services are also consolidated here. The T-Systems segment provides fixed line telecommunications services, as well as system integration and information technology related services and products to corporate clients in Hungary. The Group Headquarters and Shared services segment performs strategic and cross-divisional management functions for the Magyar Telekom Group, as well as real estate, marketing, security, procurement, human resources and accounting services, mainly for internal services within the Group.

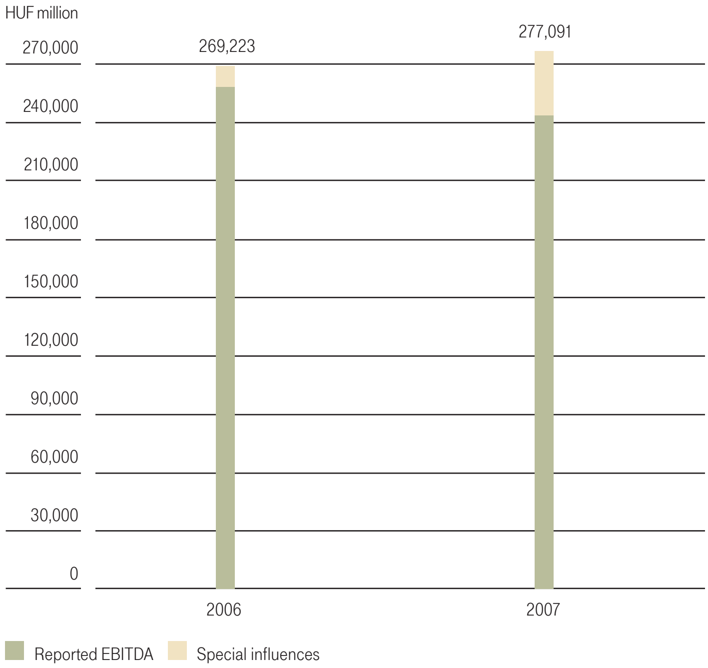
Revenue breakdown before intersegment eliminations



Highlights

- Total revenues of Magyar Telekom Group increased by 0.8% to HUF 676.7 bn in 2007 over 2006. Growth in mobile (excluding Tetra), internet and SI/IT revenues compensated for the lower fixed line voice and Tetra revenues. The consolidated SI/IT companies (KFKI Group, T-Systems Hungary and Dataplex) contributed HUF 27.0 bn to Group revenues in 2007.
- EBITDA was down by 5.7% to HUF 243.9 bn, with an EBITDA margin of 36.0%. Group EBITDA excluding investigation-related costs (HUF 5.7 bn) as well as severance payments and accruals (HUF 27.5 bn) increased by 2.9% to HUF 277.1 bn with an EBITDA margin of 40.9%. In 2006 investigation-related costs amounted to HUF 4.1 bn and severance expenses and provisions reached HUF 6.5 bn.
- Profit attributable to equity holders of the company (net income) decreased by 20.3%, from HUF 75.5 bn to HUF 60.2 bn, driven by the expenses of the headcount reduction program, the higher financial expenses and the introduction of the solidarity tax as of September 2006.
- Total additions to tangible and intangible assets were HUF 103.9 bn. Of this, HUF 39.4 bn related to the T-Com segment, HUF 55.9 bn to T-Mobile (within this, HUF 14.0 bn was spent on mobile broadband investment in Hungary and HUF 10.0 bn on the extension of the GSM license), HUF 3.3 bn to T-Systems and HUF 5.3 bn to Group Headquarters and Shared services.

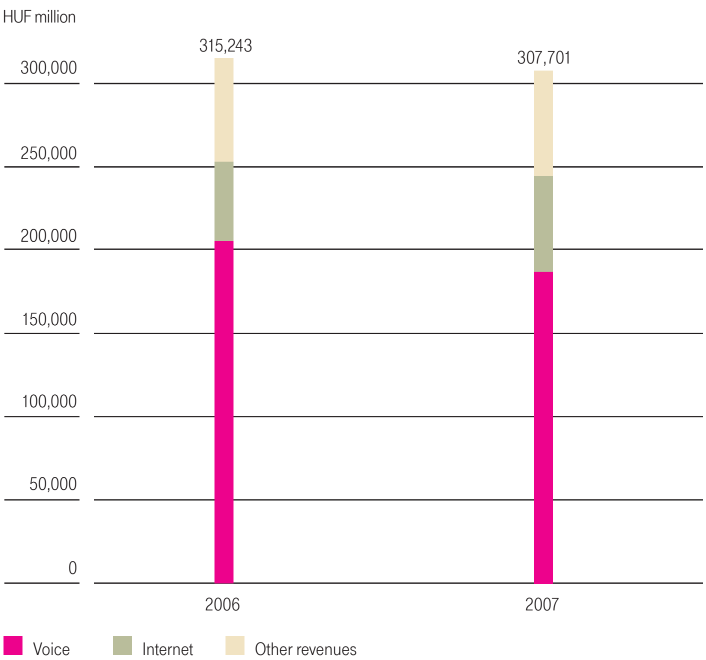
Reported and underlying EBITDA



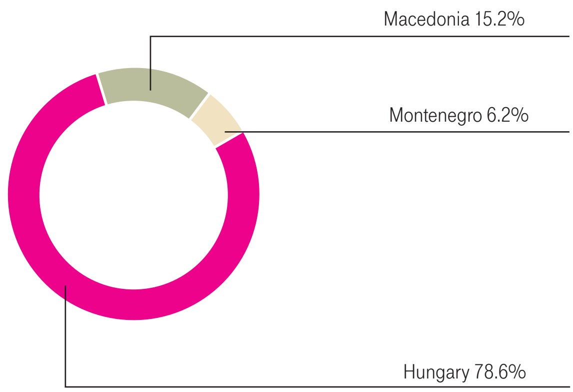
T-Com

Revenues of the T-Com segment decreased by 2.4% to HUF 307.7 bn in 2007 due to increasing competitive pressure in all our markets. Reported EBITDA fell by 9.9% to HUF 111.6 bn due to one-off items, while EBITDA excluding headcount reduction related severance expenses was flat in 2007.

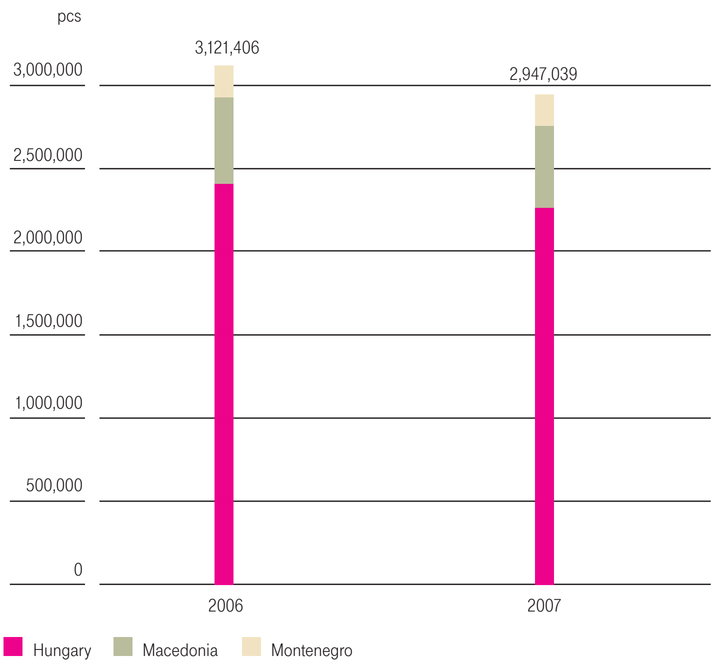
T-Com revenue breakdown



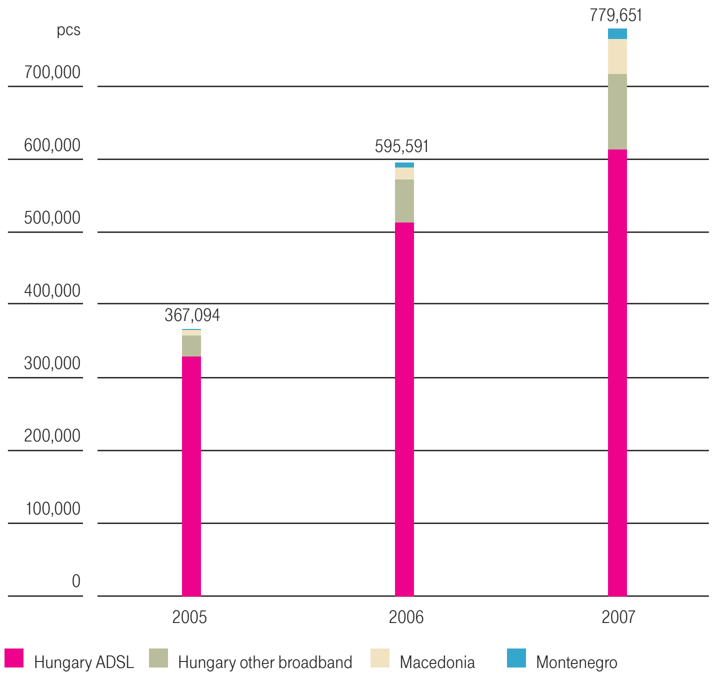
T-Com underlying EBITDA breakdown



Total number of fixed lines



Total number of broadband connections



T-Com Hungary

Hungarian T-Com revenues were down by 2.7% in 2007, driven by decreasing voice revenues, as increasing competition primarily from mobile and cable operators caused a reduction in traffic and average tariff levels. The decreasing voice revenues were partly offset by higher internet, multimedia and equipment sales revenues. Excluding the HUF 15 bn restructuring expenses, EBITDA margin was 41.0% in 2007.

The aforementioned competition resulted in a 6% decline in the total number of fixed lines compared to 2006 and fixed line penetration decreased to 28.8%. Voice revenues were down by 10% in 2007 compared to 2006, driven by further decline in both traffic and tariff levels. The increasing ratio of free minutes within the network offered through the flat rate packages, and strong mobile substitution put pressure on voice revenues. In the broadband market the total number of broadband connections was up by 25% in 2007 and reached almost 717,000 by the end of the year. Although we are facing some slowdown in ADSL penetration growth, increasing demand for cable broadband and naked ADSL could somewhat offset this trend. In 2007 the number of cable broadband customers increased by 56% and by the end of 2007 was close to 90,000, while naked DSL customers numbered around 14,000. Internet revenues were up by 19% as the strong customer growth was somewhat offset by the decreasing prices. Average net retail ARPU of a broadband customer was HUF 6,000 in 2007, a decrease of 16% compared to 2006. Regarding our IPTV product, we are seeing encouraging results following the repositioning of the product. We launched the so-called Cocktail package which offers customers the opportunity to select the channels according to their needs. Our marketing efforts started to bear fruit and internet TV customer growth accelerated in the last quarter, reaching over 9,000 by the end of 2007.

MakTel

In Macedonia, revenues decreased by 6.7% to HUF 41.2 bn as the lower voice revenues could not be counterbalanced by the increased internet and equipment revenues and due to the unfavourable impact of FX movements (the HUF on average strengthened by 4.9% to the MKD). Although employee related expenses and other operating expenses (mainly consultancy and marketing expenses) decreased, these could not offset the increasing competition and the strengthening role of alternative operators. EBITDA decreased by 2.7% to HUF 19.1 bn and EBITDA margin was 46.4% at end-2007.

The total number of MakTel's lines decreased by 4.8% to 492,400 lines in 2007, while fixed line penetration declined to 22.4%. Driven by the entrance of the third mobile operator, mobile substitution accelerated, resulting in lower outgoing traffic in the fixed line. Wholesale traffic is also under pressure from alternative operators, who take away an increasing portion of international traffic. To offset the strong decline in voice traffic, MakTel is focusing on broadband services. Thanks to attractive new offers, ADSL customer growth has accelerated with the number of broadband connections almost tripling to 48,000 by the end of 2007.

T-Com CG

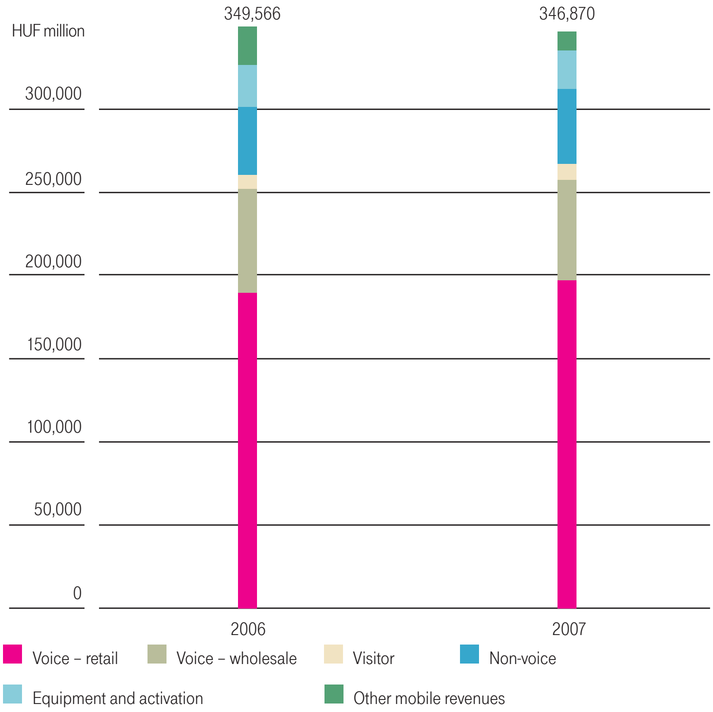
Revenues of T-Com Crna Gora increased by 11.5% to HUF 22.2 bn in 2007. The declining retail voice traffic revenues were offset by a strong increase in wholesale traffic, internet, and data revenues. The increase in international incoming traffic revenues was driven by the reclassification of Serbian traffic from domestic to international following Montenegro's declaration of independence. Subscription fees further supported revenue growth thanks to the rebalancing step in September 2007. EBITDA margin excluding special influences (HUF 0.8 bn restructuring expense) was 35.9% in 2007.

Montenegrin fixed line penetration decreased slightly to 30.6% by the end of 2007 with 190,000 lines installed. Thanks to the strong focus on broadband services, the number of ADSL customers exceeded 14,000 by year-end and continues to increase rapidly. To prepare for the forthcoming increase in competition, Telekom Crna Gora opted for a tariff rebalancing step and introduced new tariffs from the beginning of September 2007. Fixed-to-mobile and international call rates were reduced, and access fees, local and long distance tariffs were increased. The new packages introduced within the rebalancing step include bundled minutes within the monthly fee. To benefit from the continued very low cable coverage in Montenegro, we introduced IPTV service in November 2007.

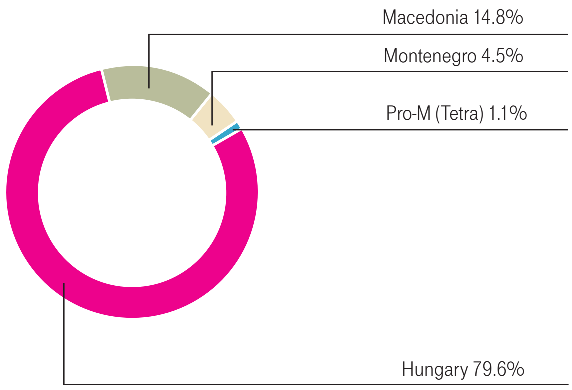
T-Mobile

T-Mobile segment showed a 0.8% revenue decline to HUF 346.9 bn as growing mobile service revenues were offset by the lower Tetra revenues. T-Mobile Hungary maintained its clear market leadership position, and revenue growth in Macedonia and Montenegro was strong despite the increased competitive pressure coming from the new entrants in both countries. T-Mobile segment's EBITDA grew by 6.7% to HUF 149.3 bn and EBITDA margin was 43.0% at the end of 2007.

T-Mobile revenue breakdown



T-Mobile underlying EBITDA breakdown



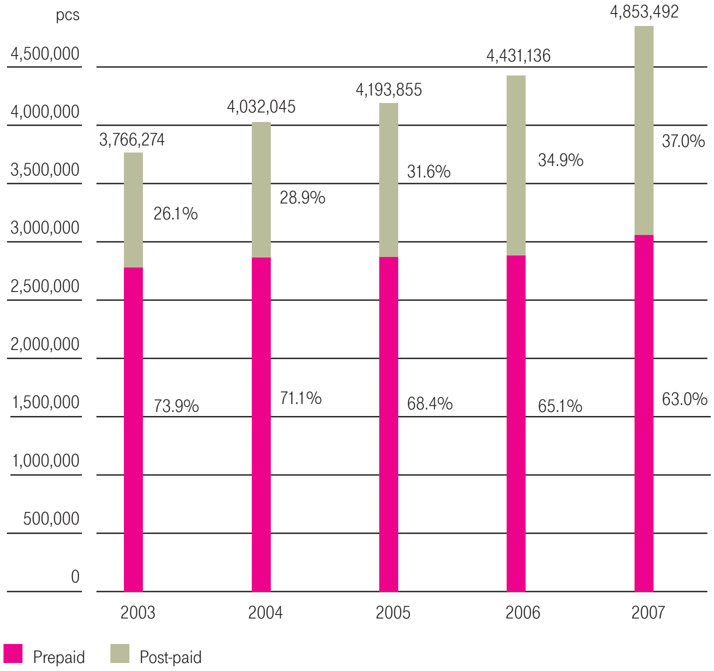
T-Mobile Hungary

T-Mobile Hungary showed a revenue increase of 1.4% to HUF 281.5 bn in 2007 as higher voice retail and non-voice revenues were partly offset by lower wholesale revenues. The 15% cut in mobile termination fees of T-Mobile Hungary from February 2007 decreased wholesale revenues. EBITDA grew by 6.0% and amounted to HUF 118.9 bn, while the EBITDA margin was 42.2% in 2007.

Strong promotions pushed penetration up to 109.7% in Hungary by the end of 2007. T-Mobile Hungary maintained its market share at 44%, while based on active SIM cards its share was above 45%. T-Mobile Hungary's subscriber base increased by 9.5% to 4.9 million.

The cut in mobile termination rates was the main driver for the erosion in average tariff levels, which the increasing MOU and value added services, as well as the continuously improving customer mix were not able to offset. Consequently, average revenue per user declined by 5.4% by the end of 2007. In mobile broadband, which is an important area of growth for Magyar Telekom, the number of customers exceeded 152,000 by the end of 2007. Population-based coverage of our HSDPA network reached 53% by the end of December and we aim to further improve coverage in the next years. This is also in line with the GSM license extension agreement which requires Magyar Telekom to spend HUF 20 bn on increasing mobile broadband coverage over the next two years.

Breakdown of T-Mobile Hungary customer base

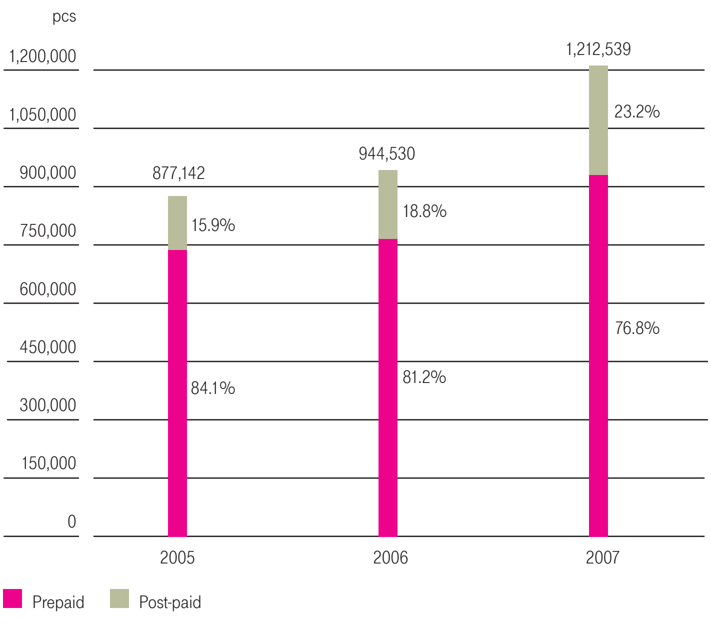


T-Mobile Macedonia

T-Mobile Macedonia reported revenue growth of 9.0% to HUF 42.5 bn thanks to the expanding mobile market. The 28.4% increase in the customer base, higher usage and the improving customer mix could offset the negative impacts of the tariff decline driven by the intensifying competition; as a result voice revenues increased. Value added service and equipment revenues were also up. EBITDA increased by 1.9% to HUF 22.3 bn with an EBITDA margin of 52.5%.

Penetration growth accelerated during 2007 as all service providers were focusing on customer acquisition driven by the entrance of the third player in September. As a result, penetration reached 93.3% by the end of 2007. T-Mobile Macedonia maintained its strong market leadership with a market share of 62.3% based on SIM cards at the end of last year.

Breakdown of T-Mobile Macedonia customer base

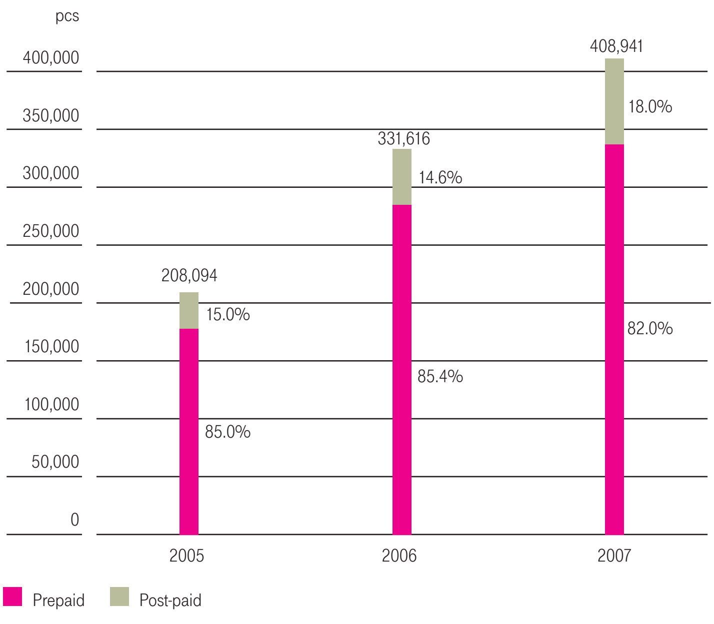


T-Mobile Crna Gora

Revenues of T-Mobile Crna Gora increased by 28.3% to HUF 17.2 bn. The increase was driven by the higher customer base partly offset by lower average usage and decreasing per minute charges. EBITDA increased by 7.9% to HUF 6.5 bn with an EBITDA margin of 37.7%.

The penetration level in Montenegro was 168.7% at the end of December according to the data reported by the Montenegrin Telecommunications Agency. Driven by the entrance of the third mobile operator in July, penetration growth accelerated and tariff competition increased significantly with competitors offering bundled minutes and closed-user-group offers. To strengthen our market position, we have increased our focus on the postpaid segment and value added services. Thanks to our loyalty program and retention efforts, we gained market leadership in the postpaid market with above 46% market share, while our overall market share decreased to 33.8%. T-Mobile Crna Gora was the first in the country to launch mobile broadband services in June 2007.

Breakdown of T-Mobile Crna Gora customer base



Pro-M

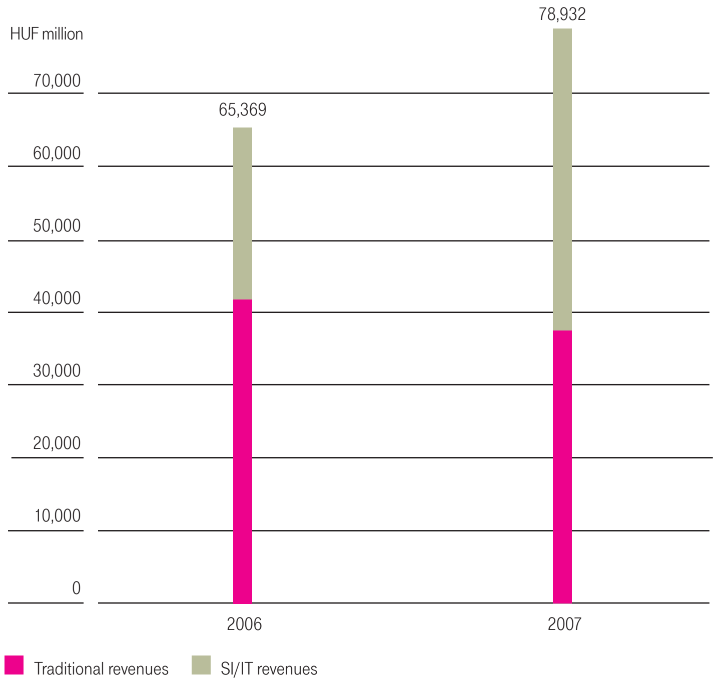
Pro-M, the Tetra service company, reported HUF 7.3 bn revenues in 2007 compared to HUF 20.2 bn in 2006. The revenue decline was a result of the lower sale of network elements, which in 2007 stood at HUF 1.3 bn compared to HUF 18.0 bn in 2006. Service revenues reached HUF 5.8 bn and EBITDA was HUF 1.6 bn in 2007.

T-Systems

Revenues of T-Systems segment increased by 20.7% to HUF 78.9 bn, while the segment's EBITDA decreased by 24.8% to HUF 11.8 bn and EBITDA margin was 15.0% in 2007. EBITDA was hit by several one-off items. Excluding these one-off items (headcount-related and bad debt expenses), the EBITDA margin was 19.2%.

KFKI and T-Systems Hungary have been consolidated into the T-Systems segment since mid-September 2006 and January 2007, respectively. These two subsidiaries added HUF 27.6 bn to the segment's revenues last year. The revenue contribution of our IT and System integration activities is increasing, in 2007 they represented 6.1% of Group revenues. In the traditional voice revenues, T-Systems is facing tough competition and tariff erosion, driven by the increasing traffic migration from the fixed line to the mobile network. To protect our customer base, we are offering bundled fixed-mobile packages to our corporate clients. As part of the fixed-mobile merger, we have integrated customer relationship management for the top 500 corporate clients and are targeting these clients with integrated packages. In addition to contributing to improved customer retention, this also provides cross-sell opportunities for the Group. To further improve efficiency, the structure of T-Systems has been simplified by merging subsidiaries and grouping them into three divisions according to their competences since January 2008.

T-Systems revenue breakdown



Group Headquarters and Shared services segment

Revenues of the Group Headquarters and Shared services segment decreased by 10.1% to HUF 23.7 bn mainly due to less marketing services provided internally within the Group. EBITDA decreased by 38.4% to HUF -28.8 bn mainly due to higher severance expenses and investigation costs.

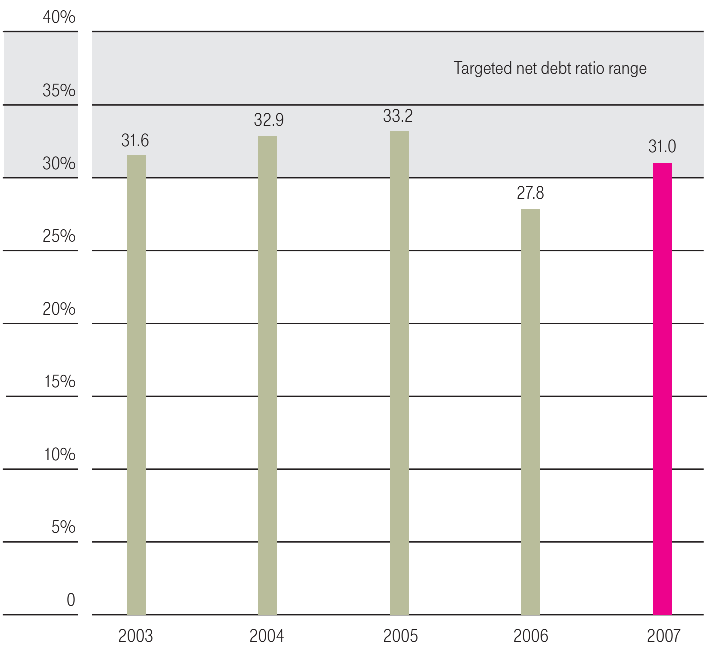
Cash flow generation

Net cash generated from operating activities grew strongly from HUF 207.8 bn to HUF 231.3 bn. The main drivers behind the improvement were the significantly lower working capital requirements (driven mainly by lower tax receivables and higher headcount-reduction related provisions) and reduced tax payment thanks to the utilization of tax benefits. Net cash used in investing activities decreased slightly from HUF 138.3 bn to HUF 134.9 bn, as the lower spending on purchase of subsidiaries and business units was mostly offset by the higher gross additions to tangible and intangible assets (capex) and payments for other financial assets. The increased capex spending is due to the GSM license extension fee paid in 2007, while the higher payments for other financial assets in 2007 reflects an increase in short-term bank deposits at the Macedonian and Montenegrin subsidiaries. Net cash used in financing activities rose significantly, reflecting the dividends paid to shareholders in January and May 2007 for 2005 and 2006 financials, respectively.

Net debt was up from HUF 228.5 bn to HUF 261.6 bn by the end of 2007, reflecting the increase in loans for financing dividend payments. Accordingly, the net debt ratio (net debt to net debt plus total equity) was up from 27.8% at the end of 2006 to 31.0% at end-December 2007.

In line with Magyar Telekom's dividend policy and reflecting the Group's solid financial position and strong cash flow generation in 2007, the Board of Directors proposed a dividend level of HUF 74 per share (par value HUF 100) for the 2007 financial year for approval to the Annual General Meeting.

Net debt to total capital ratio



Consolidated financial statements

Report of independent registered public accounting firm to the Board of Directors and shareholders of Magyar Telekom Plc.

PRICEWATERHOUSECOOPERS

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HUNGARY
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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, for 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

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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

Nick Kós
Partner
PricewaterhouseCoopers Kft.
1077 Budapest, Wesselényi u. 16.
License Number: 001464

Hegedűsné Szűcs Márta
Statutory auditor
Licence number: 006838

CONSOLIDATED BALANCE SHEETS

	Notes	At December 31, 2006 as restated (Note 2.1.5)	2007	2007 (unaudited – Note 2.1)
		(in HUF millions)	(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:

Christopher Mattheisen
Chairman and Chief Executive Officer

Thilo Kusch
Chief Financial Officer

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

CONSOLIDATED INCOME STATEMENTS

	Notes	2005	2006	2007	2007 (unaudited – Note 2.1)
		For the year ended December 31, HUF			USD
		(in HUF millions, except per share amounts)			(million USD)
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)	(203)
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	348
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	348
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.

CONSOLIDATED CASHFLOW STATEMENTS

	Notes	HUF 2005 as restated (Note 2.1.5) (in HUF millions)	HUF 2006 as restated (Note 2.1.5) (in HUF millions)	HUF 2007 (in HUF millions)	USD 2007 (unaudited – Note 2.1) (million USD)
		For the year ended December 31,			
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.

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**
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.

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 T-Systems Hungary (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.

(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.

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

(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.

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.

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.

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.

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.

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 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.

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.

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.

  – 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 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 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)

(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.

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:

Subsidiaries	Group interest in capital as at December 31,			Activity
	2006	2007		
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 provider
Emitel	100.00%	n/a	(a)	Local fixed line telecom service provider
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 Telekomunikacii (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).

Associates / Joint ventures	Group interest in capital as at December 31,			Activity
	2006	2007		
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.

- 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”.
– 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.

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 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:
- Financial liabilities carried at amortized cost,
- 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.

(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 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.

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 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.

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 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.

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 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 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.

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.

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.

(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).

(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**

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.

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.

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	-	-

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).

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 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.

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.

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**
Net assets acquired:	
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

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.

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**	
Net assets acquired:		
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.

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.

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.

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	2007
		(in HUF millions)	
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.

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**

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

(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**

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.

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	2007
	(in HUF millions)		
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	2005	2006	2007
		For the year ended December 31,		
		(in HUF millions)		
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 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.

(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 assets / liabilities	**11,777**	**(9,268)**	**1,419**	**3,928**	**(9,105)**	**3,749**	**(1,428)**
Of which deferred tax liability after netting	**(3,189)**			**(5,647)**			**(2,714)**
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	
business combinations			(1,359)			-	
			1,419			**3,749**	

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 liabilty 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.

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.

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.

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.

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).

13 Intangible assets – net

	Goodwill	Software	Concessions and licenses	Other	Total
			(in HUF millions)		
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.

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.

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 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,	
	2006	**2007**
	(in HUF millions)	
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**	**Magyar RTL**
		(in HUF millions)	
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

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 (in 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**

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:

	Maturity as at December 31,	
	2006	2007
Year	(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	Thereafter	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).

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	At December 31, 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**

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.

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 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 NCA 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 favour of the mobile operators, we believe that the NCA 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 NCA called upon the Company to repay the difference to its universal customers. There are ongoing negotiations with NCA 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).

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 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

	Note	2005	2006	2007
		For the year ended December 31,		
		(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 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.

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 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	2007
		(in HUF millions)	
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	2007
		(in HUF millions)	
Compensation for rebranding (Note 33.1)	7,281	1,435	229
Gain on sale of PPE, Intangible assets and assets held for sale	728	2,140	3,203
Other operating income	-	-	569
	8,009	3,575	4,001

27 Finance expenses

	For the year ended December 31,		
	2005	2006	2007
		(in HUF millions)	
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	2007
		(in HUF millions)	
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	2007
		(in HUF millions)	
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.

30 Purchase of subsidiaries and business units

	For the year ended December 31,		
	2005	2006	2007
		(in HUF millions)	
KFKI	-	9,840	-
Dataplex	-	5,148	-
Orbitel	-	1,982	-
CT	35,927	-	-
T-Systems Hungary	-	-	60
Stonebridge / MakTel	-	16,579	-
Other	-	1,778	650
	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.

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	2007
		(in HUF millions)	
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**

	For the year ended December 31,		
	2005	2006	2007
	(in HUF millions)		
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**

	As at December 31, 2006	As at December 31, 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.

	For the year ended December 31,		
	2005	2006	2007
	(in HUF millions)		
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**

	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:

(in HUF millions)	2006			2007		
	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.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2006 and 2007 are as follows:

(in HUF millions)	2006			2007		
	Present value	Interest component	Minimum lease payment	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.

(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:

	2006			2007		
(in HUF millions)	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease 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).

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.

(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 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	2007
		(in HUF millions)	
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 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, 2005: HUF 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.

	At December 31,		
	2005	2006	2007
	(in HUF millions)		
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. Fifty 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, 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 as at December 31, 2007 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				Carrying amount 2006	Fair value 2006
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
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				Carrying amount 2007	Fair value 2007
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
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**

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		Carrying amount 2006	Fair value 2006
	Measured at amortized cost	Held for trading		
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**

The table below shows the categorization of financial liabilities as at December 31, 2007.

Liabilities (in HUF millions)	Financial liabilities		Carrying amount 2007	Fair value 2007
	Measured at amortized cost	Held for trading		
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.

34.2 Net gain/loss by financial instrument category

The table below shows the net gains and losses by financial instruments in 2006.

(in HUF millions)	From interest	From subsequent measurement			From derecognition	From fee expense	Net gain / loss 2006
		At fair value	Currency translation	Impairment loss			
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 IAS 39)	188	-	-	-	-	-	188

The table below shows the net gains and losses by financial instruments in 2007.

(in HUF millions)	From interest	From subsequent measurement			From derecognition	From fee expense	Net gain / loss 2007
		At fair value	Currency translation	Impairment loss			
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.

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 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.

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.

Financial Calendar 2008

February 14, 2008	Release of 2007 full year results
April 25, 2008	Annual General Meeting
May 8, 2008 *	Release of 2008 1st quarter results
August 7, 2008 *	Release of 2008 1st half results
November 6, 2008 *	Release of 2008 1st nine months results

*planned date

Forward-looking statements

This Annual Report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2006 filed with the U.S. Securities and Exchange Commission.

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Magyar Telekom stock ticker symbol

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New York Stock Exchange (NYSE): MTA.US (Bloomberg); MTA.N (Reuters)

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Magyar Telekom Group: international presence

- Incumbent service providers
- Alternative service providers
- * Point of presence