The new Magyar Telekom. An experience of community.

Magyar Telekom annual report 2009

Life is for sharing.

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Magyar Telekom Group: financial highlights

	2008 (HUF million)	2009 (HUF million)	Change (%)
Total revenues	673,056	643,989	(4.3)
EBITDA*	268,378	249,053	(7.2)
Operating profit	162,258	147,133	(9.3)
Profit attributable to the owners of the Company	93,008	77,618	(16.5)
Number of employees (closing full equivalent)	10,439	10,828	3.7
Weighted average number of common stock outstanding (million)	1,041	1,041	0.0
Basic earnings per share (HUF)	89.32	74.54	(16.5)
Total assets	1,166,543	1,166,377	0.0
Non current financial liabilities	266,136	293,219	10.2
Total Equity of the owners of the parent	533,946	538,480	0.8
Net debt	254,332	269,429	5.9
Net debt / net debt + total capital	29.9%	30.8%	n.a.
Total investments in Property, Plant and Equipment (PPE) and intangible assets	107,949	101,864	(5.6)
EBITDA margin	39.9%	38.7%	n.a.
Operating margin	24.1%	22.8%	n.a.
Net income margin	13.8%	12.1%	n.a.
Capex to Sales	16.0%	15.8%	n.a.
ROA	8.1%	6.7%	n.a.
ROE	17.8%	14.5%	n.a.
HUF/EUR (year-end)	264.78	270.84	2.3
HUF/EUR (average)	251.25	280.58	11.7
HUF/USD (year-end)	187.91	188.07	0.1
HUF/USD (average)	171.80	202.26	17.7

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

Key shareholders as of December 31, 2009

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

Magyar Telekom Group: summary of operating statistics

Consumer Services Business Unit (CBU)	December 31, 2008.	December 31, 2009.	Change (%)
Fixed line operations			
Voice services			
Total voice access [1]	1,921,486	1,740,619	(9.4)
Payphone	16,274	14,788	(9.1)
Total outgoing traffic (thousand minutes) [1]	3,550,076	3,135,892	(11.7)
Blended MOU (outgoing)	151	159	5.3
Blended ARPA (HUF)	3,650	3,630	(0.5)
Data products			
Retail DSL market share (estimated) [2]	54%	58%	n.a.
Cable broadband market share (estimated) [2]	18%	19%	n.a.
Number of retail DSL customers	404,878	435,558	7.6
Number of cable broadband customers	127,683	152,878	19.7
Number of fiber optic connections	0	7,247	n.a.
Total retail broadband customers	532,561	595,683	11.9
Blended broadband ARPU (HUF)	5,103	4,427	(13.2)
TV services			
Number of cable TV customers	422,936	406,841	(3.8)
Number of satellite TV customers	5,338	156,142	2,825.1
Number of IPTV customers	28,496	67,430	136.6
Total TV customers	456,770	630,413	38.0
Blended TV ARPU (HUF)	3,537	3,280	(7.3)
Mobile operations			
Mobile penetration [3]	121.8%	117.7%	n.a.
Mobile SIM market share [2]	43.9%	43.4%	n.a.
Number of customers (RPC)	4,648,323	4,343,672	(6.6)
Postpaid share in the RPC base	29.1%	35.2%	n.a.
MOU	127	126	(0.8)
ARPU (HUF)	3,397	3,164	(6.9)
Postpaid	7,265	6,454	(11.2)
Prepaid	1,862	1,670	(10.3)
Overall churn rate	16.9%	27.5%	n.a.
Postpaid	12.1%	15.1%	n.a.
Prepaid	18.8%	33.1%	n.a.
Ratio of non-voice revenues in ARPU	15.2%	16.7%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6,813	7,680	12.7
Number of mobile broadband subscriptions	182,687	326,384	78.7
Mobile broadband market share [2]	53.4%	45.9%	n.a.
Population-based indoor 3G coverage [2]	n.a.	65.4%	n.a.

Business Services Business Unit (BBU)	December 31, 2008.	December 31, 2009.	Change (%)
Fixed line operations			
Voice services			
Business	110,389	100,172	(9.3)
Managed leased lines (Flex-Com connections)	6,037	4,745	(21.4)
ISDN channels	288,338	270,466	(6.2)
Total lines	404,764	375,383	(7.3)
Total outgoing traffic (thousand minutes)	798,157	656,372	(17.8)
MOU (outgoing)	191	178	(6.8)
ARPU (HUF)	5,457	5,162	(5.4)
Data products			
Number of leased line Internet subscribers	617	558	(9.6)
Number of retail DSL customers	31,805	32,358	1.7
Number of wholesale DSL access	196,776	161,270	(18.0)
Number of total DSL access	228,581	193,628	(15.3)
Retail DSL ARPU (HUF)	13,743	12,712	(7.5)
Mobile operations			
Number of customers (RPC)	713,469	775,912	8.8
Overall churn rate	5.8%	8.0%	n.a.
MOU	325	336	3.4
ARPU (HUF)	7,655	6,458	(15.6)
Number of mobile broadband subscriptions	81,339	102,161	25.6
Ratio of non-voice revenues in ARPU	20.2%	23.6%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	9,092	8,280	(8.9)

Macedonia	December 31, 2008.	December 31, 2009.	Change (%)
Fixed line operations			
Voice services			
Fixed line penetration	20.9%	18.5%	n.a.
Total voice access	429,544	372,015	(13.4)
Payphone	1,692	1,218	(28.0)
Total outgoing traffic (thousand minutes)	1,258,294	969,538	(22.9)
Data and TV services			
Retail DSL market share (estimated)	81%	83%	n.a.
Number of retail DSL customers	81,858	109,617	33.9
Number of wholesale DSL access	17,008	18,751	10.2
Number of total DSL access	98,866	128,368	29.8
Number of dial-up customers	5,910	1,813	(69.3)
Number of leased line customers	129	228	76.7
Number of IPTV customers	1,952	14,150	624.9
Mobile operations			
Mobile penetration	110.5%	116.1%	n.a.
Market share of T-Mobile Macedonia	59.4%	56.4%	n.a.
Number of customers (RPC)	1,379,191	1,381,094	0.1
Postpaid share in the RPC base	26.2%	30.3%	n.a.
MOU	96	104	8.3
ARPU (HUF)	2,586	2,678	3.6

Montenegro	December 31, 2008.	December 31, 2009.	Change (%)
Fixed line operations			
Voice services			
Fixed line penetration	28.0%	26.3%	n.a.
Total voice access	182,235	176,890	(2.9)
Total outgoing traffic (thousand minutes)	563,139	424,544	(24.6)
Data and TV services			
Number of retail DSL customers	38,956	54,983	41.1
Number of wholesale DSL access	0	0	n.a.
Number of total DSL access	38,956	54,983	41.1
Number of dial-up customers	17,455	5,184	(70.3)
Number of leased line customers	188	191	1.6
Number of IPTV customers	17,531	29,612	68.9
Mobile operations			
Mobile penetration [4]	185.6%	208.7%	n.a.
Market share of T-Mobile Crna Gora [4]	36.1%	36.7%	n.a.
Number of customers (RPC)	506,519	531,457	4.9
Postpaid share in the RPC base	17.6%	19.6%	n.a.
MOU	105	96	(8.6)
ARPU (HUF)	2,886	2,459	(14.8)

(1) Including VoIP and VoCable.
(2) Data relates to Magyar Telekom Plc.
(3) Data relates to mobile penetration in Hungary, including customers of all three service providers.
(4) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP) based on the total number of active SIM cards in the previous 3 months.

Magyar Telekom Group: international presence

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

Our Mission

As the market leader, we uniquely bring together the needs of our customers with the latest in technology, whether in communications, information or entertainment.
Everything we do starts with the customer. Our goal is to turn modern communications into experience which makes a difference in people's lives.
We are here to make Magyar Telekom everybody's favorite service provider.

Best Employer
Világgazdaság - Hewitt Study 2009

ISO 9001:2008 SGS ISO 14001:2004 SGS ISO/IEC 27001 SGS

T-Home T-Mobile T-Systems

Life is for sharing.

Awards and recognition

February 2009 Magyar Telekom was the only Hungarian and Central European company included in the Silver Class of the 2009 Sustainability Yearbook published by Sustainable Asset Management, the professional assessor of Dow Jones Sustainability Index.

February 2009 Magyar Telekom won the Family-Friendly Workplace award in the large enterprise category in the competition of the Ministry of Social Affairs and Labour.

March 2009 Magyar Telekom was included in Dow Jones STOXX EU Enlarged Select Dividend 15 leading European stock index, in which 15 companies paying the highest dividends in the new EU member states ar included.

April 2009 Magyar Telekom share became a recommended investment with a Prime rating on the basis of Oekom Research investor rating due to its sustainability, environmental and social performance.

May 2009 Magyar Telekom supported secondary telecommunications school Puskás Tivadar was awarded the Excellent GCE Test Place as the only secondary school in Budapest.

July 2009 Magyar Telekom won the Heart-Friendly Workplace award in the large enterprise category, as ranked among the Top 3 in the competition of the Hungary's Health Promotion Institute.

July 2009 Magyar Telekom was placed first in the international social responsibility top list of Braun & Partners Network, which ranks the top 100 companies of Central and Eastern Europe based on their CSR performance.

July 2009 Magyar Telekom Group member company IQSYS won Oracle Hungary's award Application Partner of the Year.

July 2009 T-Systems was recognized as Managed Services Partner of the Year and Most Innovative CEE Partner by Cisco.

July 2009 Magyar Telekom won the Investor Relations Magazine's award as a Hungarian Firm Operating the Best Investor Relations, and the head of the IR Department won in the Hungarian Manager Managing the Best Investor Relations category.

July 2009 Professional head of the innovation laboratory Kitchen Budapest, Ádám Somlai-Fischer, won the World Technology Awards prize granted in cooperation by the Time, Fortune and Science magazines in recognition of his innovative artistic activity.

September 2009 T-Systems product package Virtualoso won the Leadership Award of IT-Business magazine. Virtualoso and Compleo services were granted innovation awards also by Sun, Alcatel-Lucent and Cisco.

September 2009 The company's Sustainability Day organized for the second time won the Green Festival title of the Environmental and Water Management Ministry.

September 2009 Magyar Telekom's employer brand film „Gyula" won the Silver Award in the virus film category in the Eger advertising conference.

September 2009 Magyar Telekom won a Top 3 placement for the third time (1st in 2007, 3rd in 2008 and 2nd in 2009) in the rating of Portfolio.hu on transparency of Hungarian stock exchange listed companies.

October 2009 T-Mobile Hungary's mobile broadband network was the world's best according to the survey of research institute ARCchart London, having surveyed 268 carriers of 103 countries.

October 2009 Magyar Telekom's Sustainability Report came out second in the competition announced for the Central European Environmental Report („Green Frog") prize. Our company won the recognition for the fifth time.

November 2009 Magyar Telekom won the Best Workplace prize in the large enterprise category in the result of the Hewitt-Világgazdaság survey assessing employee satisfaction.

November 2009 Magyar Telekom's two senior executives, Chairman-CEO Christopher Mattheisen and Chief IT and Technology Officer István Maradi were awarded the 60th anniversary Jubilee Medal of the Communications and IT Scientific Association.

November 2009 Magyar Telekom Group member company KFKI won the Most Dynamically Developing Partner of the Year prize of Sun Microsystems Hungary.

November 2009 Magyar Telekom Group member company Dataplex won nomination for the Pegazus prize as a most dynamically developing ICT market leader medium enterprise.

December 2009 Magyar Telekom won for the third time the Corporate Donor of the Year prize of Hungary's Donors Forum as the large enterprise having distributed the highest amount in donations.

December 2009 Magyar Telekom won the Healthy Workplace prize in the large enterprise category in the competition of the American Chamber of Commerce in Hungary.

December 2009 Magyar Telekom's T-Mobile and T-Home as well as Origo and iWiW brands were all rated as Superbrands 2009 and received the accompanying prize.

December 2009 Chief IT and Technology Officer István Maradi was awarded the Kozma László Medal by the Electric Engineering and IT Faculty of the Budapest Technical University.

December 2009 Magyar Telekom was included in the CEERIUS Central and East European sustainability stock exchange index of the Vienna Stock Exchange in which the best performing companies of 8 countries in terms of sustainability are included.

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Dear Shareholders,

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

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

Despite our efforts, however, we were not able to completely counterbalance the general decline in economic activity. Due to the difficult macroeconomic environment and intense competition in our markets our revenues excluding one-off items declined by 3.1% in 2009 compared to 2008, which was somewhat greater than targeted. However, due to cost control measures implemented during 2009, both underlying EBITDA excluding special influences and one-off items (down 4%) and our Capex figure (HUF 101.9 billion) were slightly better than targeted.

In 2009, we introduced a new reporting structure to reflect the shift in our organizational structure towards customer-focused segments. Our Consumer Services Business Unit (CBU) offers both fixed line and mobile voice and data and broadcasting services to residential customers. The business unit reported a 6% revenue decline in 2009 as customers continued to rationalize their telecommunications spending. In addition, the crisis accelerated the fixed line business transformation from a standalone service providing fixed line voice to one focused on broadcasting, content and bundled offerings.

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

Our CBU mobile business has also faced a challenging 2009. The economic crisis caused customer churn rates to increase significantly while market penetration and usage declined. As a result, the voice business came under pressure, though dynamic growth in the mobile Internet business continued. Our high quality 3G network ensured that the number of mobile Internet subscribers increased by more than 60% in 2009, bringing T-Mobile Hungary's mobile Internet market share at the end of the year to 46%, while SIM based market penetration remained at around 120%. T-Mobile was able to maintain its position as market leader. 2009 also saw an increased focus on bundled services in the mobile business. We introduced several new bundled voice, SMS, mobile broadband Internet and mobile TV packages, which were well received by our customers despite the negative external environment.

Our Business Services Business Unit (BBU) provides integrated information and telecommunications services, voice, data, Internet, system integration and information technology (SI/IT) to business customers. This business unit was also negatively affected by lower demand caused by the economic recession. As a result, revenues declined by 5%, driven by significant erosion of traditional voice service revenues, while mobile voice service revenues also came under pressure. In response to the negative economic environment, BBU continued to execute its strategy of simplifying its organizational structure in order to support the convergence process between SI/IT and traditional telecommunications services. We also introduced a new virtual service portfolio which enables customers to use IT services, such as hosted mail, voice conference, desktop sharing or remote server on a monthly rental fee basis, without having to commit any investment. As a measure aimed at strengthening our market leading SI/IT presence, we completed two acquisitions in 2009. These acquisitions will enable us to capitalize further on up- and cross-selling opportunities and enter new markets, such as integrated healthcare IT services.

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

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

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

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

Looking forward, we expect 2010 to be another challenging year as the macroeconomic and competitive landscape are unlikely to show significant improvement in the short term. We will, however, continue with the execution of our strategy aimed at positioning Magyar Telekom as the 'three screen' company among residential customers and strengthening our ICT leadership through strong emphasis on integrated IT–telecommunications products aimed at business customers. We believe that our 2009 results and the initiatives we have taken to improve our market positions have significantly enhanced our ability to maintain our leading positions in our core market. However, despite our continued efforts in this respect, due to external headwinds we expect our business performance to remain under pressure in the short term. A stronger forint compared to average 2009 exchange rates could also adversely impact our results by negatively affecting contributions from our international subsidiaries. Consequently, we are targeting a revenue and underlying EBITDA decline of 5-7% in 2010. However, the higher portion of SI/IT revenues overall allows us to reduce our Capex and 2010 levels are expected to be approximately 5% lower compared with 2009.

We believe that the 2009 results highlight the fact that Magyar Telekom is well positioned to face the challenges of the current demanding macroeconomic and competitive environment, as well as to exploit potential market opportunities. We are strongly committed to both our current operations, as well as to the search for future value-accretive acquisition opportunities. At the same time, we plan to make sure that our dividend policy provides attractive remuneration for our shareholders. In line with this, the Board of Directors has proposed a dividend payment of HUF 74 per share for the financial year 2009 for approval at 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 a 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 of 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 and directed its large enterprise, service provider, government, small and medium enterprise as well as partner relations business lines. In August 2005 he was appointed Cisco Systems Director responsible for the Adriatic region and Hungary. From October 16, 2007 he has been Magyar Telekom's Chief Operating Officer of Corporate Services and Member of the Management Committee, and from January 1, 2008 Chief Operating Officer of Business Services Business Unit.

Róbert Pataki, Chief Strategy and Corporate Development Officer

Born in 1971. He graduated as an economist from the Budapest University of Economics, then completed studies in finances and marketing management at the Erasmus University of Rotterdam. From 1995 he worked as investment analyst for Project Finance International in the Hague, then as financial analyst for Nutricia Netherlands in Rotterdam. From 1996 he was senior manager, later strategic consultant responsible for telecommunications and e-commerce at Accenture's Strategic Services. From 2001 he worked for A.T. Kearney as account manager providing consultancy to telco companies, later as senior manager of its European telecom team. From September 2006 as Magyar Telekom's Chief Strategist he had an outstanding role in creating the company's new organizational structure and in elaborating its growth strategy. As of April 1, 2009 he was appointed Magyar Telekom's Chief Operating Officer heading the Alternative Businesses and Corporate Development Business Unit, by keeping his earlier tasks as well, and he became Member of the Management Committee. He works as Chief Strategy and Corporate Development Officer from September 1, 2009.

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 communications, 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 Technology and IT Officer.

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

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 a 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 of 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 D.C. 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 working 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 from 1994 to 1996. Magyar Telekom's Director again since April 25, 2003.

Dr. Mihály Gálik

Born in 1946. He holds a PhD 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 12 years he headed several university departments. He is the author of some 90 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.

Wolfgang Hetlinger

Born in 1960. He has more than 20 years of professional experience in the ICT industry and a proven record in similar functions as managing director at global acting companies. He started his career in US companies and worked some years in UK and Switzerland. His last positions have been Area Manager CEE/Middle East Olicom (Olivetti Communication), General Manager 3COM, Area Manager CEE/Middle East EMC. He joined T-Systems in 2003 as Executive Vice President Worldwide Telecommunication Sales, heading the international telco team. In 2008 he joined International Operations and Services as Vice President Central Eastern Europe where he successfully set up the region's team. Magyar Telekom's Director since April 2, 2009.

Guido Kerkhoff

Born in 1967. He holds a degree in business administration from Bielefeld/Saarbrücken, Germany. He started his career in 1995 as a corporate balance sheet and taxation specialist at VEW in Dortmund. From there he moved in 1996 to Bertelsmann in Gütersloh, heading the Group accounting and controlling department from 1998. In 2002 he joined Deutsche Telekom Headquaters in Bonn in the finance area. His positions developed over several leading positions to the head of Group accounting and controlling. Since March 1, 2009 he serves as a member of the Board of Management of Deutsche Telekom to manage the subsidiaries in South Eastern Europe. Magyar Telekom's Director since April 2, 2009.

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 telecoms 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.

Mechthilde Maier

Born in 1956. She graduated from business and administrative management at the University for Applied Sciences, Rosenheim and at the Government University for Applied Sciences, Dieburg. She joined Deutsche Telekom in Freiburg in 1989 as official in charge of labour law, compensation and benefits and later in various positions. From 1999 she was Vice Director and Management Board Member of the Regional Office Business Customers in München. From 2001 she was Managing Director and Board of Directors Member at T-Systems International, Serviceline Computing Desktop Service and Director Personnel T-Systems CDS, and from 2004 Senior Vice President of Human Resources, Enterprise Services. From August 2008 she is Senior Vice President of Corporate Diversity Management at Deutsche Telekom. Magyar Telekom's Director since April 2, 2009.

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. Steffen Roehn

Born in 1964. He graduated in physics at the Universities of Kaiserslautern, Karlsruhe and Mainz. In 1991, he achieved a PhD degree at the European research facility CERN, Geneva, and the Imperial College, London. He acted as consultant for Gemini Consulting, advising the telecommunications and consumer goods industry branches. Subsequently, he was quality manager at Credit Suisse. From 1996 he worked for Diebold Management Consulting, where he became Partner and Board Member. In 2000 he was appointed CEO of the Diebold Group. He became Member of the Board of T-Mobile Deutschland for IT in November 2000, and a member of the Executive Committee of T-Mobile International AG. He was responsible for IT of T-Mobile Group in Europe from 2007. As member of the Deutsche Telekom Group's CIO Board he is responsible for IT of the integrated German mass market approach. Magyar Telekom's Director since April 2, 2009.

Members of the Remuneration Committee

Guido Kerkhoff, 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), Attila Csizmadia, Dr. János Illéssy, Dr. Sándor Kerekes, Konrad Kreuzer, Martin Meffert, Mrs. Zsolt Varga, György Varju

*Employee representative Éva Őz has resigned from her Supervisory Board membership as of July 30, 2009.
Dr. Ádám Farkas has resigned from his Supervisory Board membership as of July 30, 2009.
Supervisory Board membership of István Koszorú was terminated as of March, 2010 due to his death.

Members of the Audit Committee**

Dr. János Illéssy (Chairman), Dr. Sándor Kerekes, Dr. László Pap

**Dr. Ádám Farkas has resigned from his Audit Committe membership as of July 30, 2009.

Enhancing core business, building new capabilities

In addition to the retention of our existing customer base, which is the company's key asset, we are also tapping into new revenue sources through entering new markets and deploying new business solutions.

Strategy and corporate development

Building a new Magyar Telekom

Our corporate strategy is designed to enable the utilization of advantages deriving from our broad customer base and prevailing competencies and to support considerable efficiency improvements along with the exploitation of growth potentials. Accordingly, Magyar Telekom switched to a new customer-focused operational model from early 2008, establishing a new management and brand structure simultaneously with the integration of fixed line and mobile business units. From September 2009, as a follow-up step in the integration process, the activities of the former Alternative Businesses and Corporate Development Business Unit and Group Strategy Directorate were integrated under a new management unit headed by the Chief Strategic and Business Development Officer, leading to a closer relation of strategy and business development. The integration process at Magyar Telekom Group supports the improvement of service quality standards and efficiency as a result of the synergies of consolidated operation. In addition to the retention of our existing customer base, which is the company's key asset, we are also tapping into new revenue sources through entering into new markets and deploying new business solutions. Our mid-term target is to enhance core business and build new capabilities in traditional fields of telecommunications, while strengthening our existing competencies and market presence in new types of mass markets. We are building a new Magyar Telekom to establish the company's mid- and long-term competitiveness amidst a more challenging market environment, in response to the negative impacts of the economic downturn in 2009. In an unfavorable economic environment the company's profitability and the sustainability of operational efficiency and revenue generation potential are of particular importance to Magyar Telekom.

Three-screen service provider

The convergence of three screens (TV, computer and mobile phone) ever present in our lives created new business opportunities that we successfully exploited in 2009 with the expansion of our unique product proposition. With our innovative, multiplatform-based product portfolio we are Hungary's single three-screen service provider as Magyar Telekom is the only operator to provide TV, Internet and telephone service ("double triple-play") at home or on the move on its fixed and mobile network via its T-Home and T-Mobile brand. T-Mobile was first on the domestic mobile market to introduce 3Play tariff packages from May 2009, offering a combination of telephone, Internet, and mobile TV services. In June 2009, we launched our unique integrated 'Kapcsolat' (Connection) loyalty program offering fixed-mobile discounts. In September 2009, T-Kábel Hungary and Dél-Vonal were merged into Magyar Telekom in line with the resolution of the Extraordinary General Meeting held in June 2009. The number of Magyar Telekom TV subscribers reached 630 thousand by end of 2009, owing to the success of T-Home Cable TV, IPTV and Sat TV. Our IPTV services are available to customers of our wholesale partners since June 2009. The launch of Origo TV channels in October have made the TV service one of the key elements of the three-screen strategy. Concerning all TV services, Magyar Telekom Group increased its market share to 25.8% by the end of the year. This is another step, in line with the strategic objectives of the three-screen company, leading to our market leader position in all fields of the domestic telecommunications market, including the television services.

Broadband and ICT: market expansion and leadership

At the end of 2009 nearly three-quarters (74%) of the population could reach our mobile broadband services, making T-Mobile with its 46% share the market leader in the most dynamically growing market segment: mobile broadband Internet. There are further development opportunities in the wireless infrastructure following Magyar Telekom's winning of the 26 GHz frequency usage rights for 10 years in April 2009 in a public tender; this could contribute to significant growth in the country's mobile broadband coverage. Magyar Telekom fulfilled its investment and development obligations by the end of 2009 concerning the 900 MHz (GSM) frequency, undertaken in the concession contract prolonged in 2008. In the framework of our access strategy for 2009–2013 we have reached 170 thousand households with our broadband fiber optic (FTTH) and 370 thousand homes with new generation cable (ED3) network by the end of 2009 which will enable the high-speed download of music, multimedia, and HD quality contents at home. Internet usage is also supported by the fact that PC and Internet usage provided by the employers will remain untaxed fringe benefit in 2010 also. T-Home at the end of the year held a strong market leader position with a 58% share in the retail fixed broadband Internet market. In the ICT market, T-Systems' 13.5% market leader position was reinforced through successful acquisitions in 2009 which contributed to the expansion of our IT portfolio. In February 2009, Magyar Telekom acquired system integration and infrastructure support service provider KFKI Direkt, and in May 100% share in International System House (ISH), a market leader in the health IT services segment. KFKI Direkt and ISH are fully consolidated subsidiaries of the Magyar Telekom Group from June 30 and November 30, respectively.

New markets, innovative services

In 2009, based on our know-how and assets we also entered into new business segments that are not closely linked to telecommunications. New business areas include the insurance market, where we sold more than 70 thousand accident and health insurance packages to our customers, and health and energy market services where our innovative business development projects can ensure balanced and continuous growth for the Group. In January 2010, we entered a new market with the launch of T-Home's Otthonőrző remote home monitoring and alarm security service. The number of partners offering the innovative, cash-saving Mobile Payment also increased in 2009. With our mobile phones we can not only pay, but transfer and receive money with the mobile utility bill and mobile top-up features. In collaboration with partner operators, the Mobile Parking service was launched in March 2009 enabling the purchase of parking tickets without cash and pre-registration, available in 24 cities already. The range of products available via Mobile Shopping expanded further in 2009; customers may select from several payment options and can check their balance at any time. Magyar Telekom's innovation laboratory Kitchen Budapest (KIBU) introduced a new presentation tool Prezi in March 2009, developed from its experimental project, which also proved competitive on the international market. From November 2009, Magyar Telekom made available the new IPv6 technology based Internet service in a 6 month pilot phase; market launch is scheduled in 2010.

T-City – city of the future

T-City, launched in May 2009, is a long-term joint innovation and development program of Magyar Telekom and Szolnok city to develop an intelligent city. It enables access to all our products and services and the city's residents, institutions and businesses will be the first in the country to test our latest developments aimed for future rollout. As a result, Magyar Telekom's new infocommunications services can be better adjusted to consumer needs and generate positive changes in their living standards, focusing on the following key areas: health, education, security, and entertainment. In collaboration with citizens the testing of 4 new services was launched in autumn 2009. In the live test environment of the T-City HomeLab we were provisioning the Otthonőrző security service, the Panic Button medical dispatch service, IP camera-based online broadcasting, and RFID (radio frequency) based intelligent school access. Selection of further applications and services is ongoing. The new generation fiber optic network is the key element of the T-City core infrastructure.

Multiplatform content services

At the end of September 2009, Magyar Telekom expanded its media portfolio with innovative, multiplatform content services. Our subsidiary Origo launched two thematic television channels that fill a thematic gap on the TV market. LifeNetwork offers programs on lifestyle, family, and health preservation, and OzoneNetwork delivers to viewers interested in sustainable development, environmental protection, and climate change issues. The channels are also available in T-Home's TV service offer and the networks of other digital and analog cable operators. The new TV channels' websites and mobile applications have been launched simultaneously. As a result of innovative developments the two new channels are part of the new multiplatform-based content service that enables the availability of own content on three screens, tailored to the specific requirements of the particular viewing platform. Launch of the new content service type is in line with Magyar Telekom's mid-term strategy of its unique three-screen service provider proposition. With this, our customers can use television, Internet, and mobile phones more conveniently with access provided by Magyar Telekom.

Online and mobile content services

Origo's Internet content services maintained market leadership in Hungary in 2009: the markets's highest user numbers were registered at [origo] portal, iWiW community website, and [freemail] e-mail system. Significant developments have been carried out in 2009 in all three services. The news and entertainment portal [origo] was revamped in September with an even more user-friendly main page.
The community portal iWiW, counting approximately 4.3 million registered users and average 1.2 million daily visitors, was redesigned in March and upgraded in April with numerous useful and entertaining features (among them the winners of the successful development competition), and a new activity-feed function was added which also supports information sharing since October. The free email system [freemail] was visually revamped in December and upgraded with new functions. M Factory, a key player of the domestic mobile marketing market, redesigned the optimized version of [origo] for mobile phones in 2009, and the mobile phone version of [freemail] was also launched. As a result of M Factory's developments, T-Mobile's music product offers multiplied, customers can play online poker on their mobiles, and betting is made possible via the mobile lottery. Pursuant to the agreement between Magyar Telekom and IKO Productions in 2008, following the conclusion of the transaction, as of June 2009 Magyar Telekom became 100% owner of Telekom New Media and Telekom Content&Rights through Telekom Media Holding Zrt. which holds leading position in the interactive content services market.

International markets

The Magyar Telekom Group with its international subsidiaries supports the exploitation of synergies along a joint strategy, thus contributing to the accomplishment of our long-term business goals. At our international subsidiaries operating as integrated service providers we launched projects in 2009 aimed at closer cooperation of fixed and mobile businesses, sharing Magyar Telekom's relevant experiences. As a result in Montenegro T-Mobile Crna Gora and Internet Crna Gora were integrated into Crnogorski Telekom in May 2009, and the project in Macedonia is expected to be concluded in 2010. T-Home broadband ADSL connections in Macedonia increased by nearly 30% to 128 thousand. The number of T-Mobile customers was 1.38 million at the end of 2009, securing a strong leading position for the operator on the Macedonian mobile market with a share exceeding 56%. In Montenegro, Crnogorski Telekom continued to expand broadband ADSL connections rapidly with a 41% increase. T-Mobile increased its market share to 36.7%, and its subscribers increased by 5% in 2009. Magyar Telekom sold its Bulgarian subsidiary Orbitel to Spectrum Net AD in November 2009. Orbitel as a Magyar Telekom subsidiary commissioned its national backbone network in 2008 which has been overtaken by our existing Bulgarian subsidiary Novatel Bulgaria for wholesale business purposes.

A responsible employer, committed employees

Our professional work is aimed at establishing a lovable and liveable workplace. Magyar Telekom spearheads initiatives that may result in improving the broader economic and social environment.

Human resources

Performance culture and employee satisfaction

Magyar Telekom's Human Resources (HR) management is promoting a performance culture where it is the actually achieved performance that matters. Every employee has individual performance targets set in a manner that can be readily measured and assessed. Our aim is to have our employees' satisfaction remarkably high as satisfied employees perform better. Magyar Telekom won the Best Workplace Award in November 2009 in the large company category, in the employee satisfaction survey of Hewitt-Világgazdaság. This recognition is a reflection of our employees' commitment and provides further motivation in our professional work aimed at establishing a lovable and liveable workplace. Magyar Telekom spearheads initiatives that may result in improving the broader economic and social environment. We have been organising a series of lectures for years on the topic of work-life balance and we attach importance to introducing atypical forms of employment, focusing especially on three categories. Employees working in flexible arrangements may determine, within certain limits, the time they start or finish work. Part-time work facilitates a gradual returning back to the workplace for young mothers and we strive to have our managers increasingly receptive of this form of employment. We continue to implement partial teleworking and establish tele-workplaces. About 13% of our employees work in these forms of atypical employment which also constitutes a considerable source of cost saving.

Responsibility for the health of employees

As an employer responsible for the health of its employees, Magyar Telekom supports health retention, healthy way of life and prevention which has been recognised by the American Chamber of Commerce in Hungary through awarding the Healthy Workplace title in December 2009. As part of our healthy workplace program we provide occupational health care for all employees. As the most important element of this program, our employees have the possibility to undertake a full health screening each year. Employees can finance sports activities, purchase sports equipment and recreational holidays from the health fund contributions extended in the framework of fringe benefits the amount of which is far in excess of the average granted in Hungary. We operate sports clubs and workout rooms, and training facilities and bicycle storing places are set up at an increasing number of our sites, at the largest ones of which we have placed 15 defibrillators. We were placed Top 3 in the Heart-Friendly Workplace competition of the National Institute for Health Development in July 2009 in recognition of our measures taken to overcome workplace stress and establish a suitable work environment. After the outbreak of the new influenza we provided free vaccination for our volunteering employees starting from October 2009. In the framework of the Health Bridge Partner Chain campaign we organised free breast cancer screening for our 100 employees and took part in the awareness raising walk across Chain Bridge called „Together against breast cancer".

Family-friendly workplace

By granting the Family-Friendly Workplace prize in February 2009 the Ministry of Welfare and Labor recognized our achievements in creating balance between family and workplace, family and career. In the framework of our kindergarten and nursery home program we provide accommodation for our employees' children for discount prices and we also operate our own kindergarten with the help of an external partner. It is for years now that we have been organizing summer camps for telecom parents' children and we ensure subsidised holiday making for families in Magyar Telekom's holiday homes. Providing support at the start of the school year and in other forms we try to help our employees cope with their family's life situations. In May 2009, in the spirit of our One Company Strategy, we organized a Group level Family Day for the first time. The aim of our young mothers' program is to keep mothers who stay at home with their children in the loop of our employees so that they can maintain an active dialogue with the company. In November 2009, we organized for the third time a whole day's program when young mothers could meet each other and apart from informing them about current company issues they could also attend a workshop for employees raising children at home, in which experts answered questions related to career planning and to returning to the workplace. To enable family-work balance we facilitate atypical forms of employment mainly through flexible and part time hours and telework.

Culture development

In the framework of our company's culture development program we continued to build our new employer brand in our external and internal communication in 2009. Our recognition systems were also renewed and we recognized in January 2009, at the company's kick-off meeting, our highly performing colleagues and their exemplary cooperation in a new structure, awarding Employee of the Year and Team of the Year prizes. Our colleagues voted for the first time for the best individuals and teams in the Innovation and Customer Focus categories. Another successful program of ours is Abigél through which employees may seek help in their personal or private problems. From the beginning of 2009 we improved our workplace environment by implementing over 30 ideas of our employees. Using the tips collected through a competition we converted offices, set up recreational corners and flower gardens at several company sites all over the country. We managed to prove in 2009 that we were also able to cope with other than business life challenges. In March, our employees volunteered at 14 locations in the country to render the city and the natural environment nicer and more liveable and, in October, they also beautified our Budapest training centre.

Career management

Since 2009, one of the key tasks of the HR area has been to strengthen performance-based culture. Our employees have all the developmental possibilities in their career for which they can do a lot, as performance requirements are accompanied by an open company culture. In March 2009, yet another milestone in creating the performance-based culture was the launch of the career management system. From September 2009, the new career management system built on a universal set of requirements has been expanded to all employees of Magyar Telekom. Our leadership development program contains successful training courses that facilitate the renewal of leadership culture. In April 2009 an interactive and online e-career office was launched, which provides support to our colleagues in planning their career, in improving self-awareness and in designing individual development plans. Experts in a virtual office provide answers to the emerging questions that are of concern for many, whereas the blog provides a forum for exchanging opinions. In the framework of our international rotation programs our employees may test their skills abroad at companies of Deutsche Telekom Group and Magyar Telekom also hosts colleagues from abroad.

Agreement with employee representations

In September 2009, Magyar Telekom agreed with representative employee organizations about wage increase and downsizing in 2010. The company will grant the employees an annual target bonus budget amounting to a 1.5% wage increase in 2010. As a result of the Total Workforce Management system implemented in 2009, the level of human resources related costs has been declining irrespective of annual wage increases. In the form of fringe benefits the company continues to grant significantly more than the average in Hungary's labor market. Our package resting on three pillars and having been expanded and renewed since 2009 is one of the market's most favorable and competitive systems. 400 employees were involved in downsizing, which does not include managers and retirement. Affected employees, depending on their years of service at the company, are eligible to a considerable amount of extra severance pay and are free to choose among several modes of employment termination. The stand-by pool status for employees over 50 years of age facilitates that they remain in employment for additional 4 years and they are supplied from the benefits they are entitled to due to employment termination. Using the benefits ensured we have managed to extend the exemption period for until 1 year. Our Chance program provides help for our leaving employees in finding a new job, retraining and development, including various forms of consulting. The outplacement program looks back on a tradition of several years at Magyar Telekom and, enriched by innovative elements, it has grown into a uniquely complex package in both its size and content in Hungary.

Trainee program renewed

The renewal of our 13-year old trainee program was completed in 2009. Adapted to the Bologna Process we look for our expertise supply not so much among graduates but among those who are well performing students and join our company during their professional practice. The best of them may continue their trainee program and, after graduation, they can find their place at the company as our full time employees. Since 2009, we launch our 5-month trainee programs in every semester, i.e. twice in a year. Our highly successful Everyday Heroes employer campaign continued in spring 2009 as part of which we appeared at even more places with our trainee program and placement offers, among them university job fairs and online surfaces. In 2009, we organised Telekom Days at 4 universities, where students were given an interactive glimpse into the daily activities of our company. Magyar Telekom introduced itself as a liveable and lovable workplace which offers uniquely attractive possibilities in the labor market.

Dialogue and cooperation with higher education

Conceptual approach, live relations, harmonization of the company's perspectives and those of higher education – with all these in mind Hungary's Higher Education Dialogue was organized in November 2009 at Magyar Telekom initiative. The company's management and experts, representatives of Hungary's major universities and colleges, education and student organizations and officials of the Ministry of Education and Culture took part in the event. Magyar Telekom's partnership strategy with higher education was also introduced during the program, based on which continued harmonization is underway between Magyar Telekom and universities, colleges and the Ministry. The short-term target is the definition of the basic guidelines and pillars, to continue in the medium-term with specific plans of cooperation. A good example is the three-year cooperation between Magyar Telekom and the ELTE University of Budapest, the first result of which has been the „adoption" of the Artificial Intelligence Lab of the IT Faculty, including a support of HUF 10 million.

Partnerships for a sustainable world

In line with our sustainability and corporate citizenship strategy we achieved outstanding results in the sponsorship of health care and prevention, culture, education and knowledge sharing as well as in the field of sustainability.

Corporate citizenship

International and national top ranking

In 2009, Magyar Telekom strengthened its leading position in corporate citizenship that was confirmed by prestigious awards granted through external assessment. In July 2009, we were placed first in the Braun & Partners Network international corporate social responsibility (CSR) top list that ranks the biggest 100 companies of the Central and Eastern European region according to their CSR performance. Magyar Telekom was placed first both in Hungary and in the region. In December, Magyar Telekom was granted the Corporate Donor of the Year award for the third time as the principal enterprise donor, having spent HUF 1.1 billion on this purpose in 2008. In line with our business targets and on the basis of our sustainability and corporate citizenship strategy we achieved outstanding results in our strategic sponsorship areas – health care and prevention, culture, education and knowledge sharing as well as sustainability.

Civil strategic partnership

In July 2009, as an innovative initiative of Magyar Telekom's corporate citizenship strategy, we announced a strategic partnership project for non-profit organizations. We selected three organizations with which we will cooperate in the following three years. The strategic partnership grants an annual financial support of HUF 10 million for three years, giving a firm financial basis for the winner organizations to realize their programs and strengthen Magyar Telekom's leadership in corporate citizenship and sustainability. In January 2009, the company as the main sponsor of the donation portal www.adhat.hu gave 250 computers to civil organizations to support the efficiency of their activities. In December, we participated again at the Civil Auction where civil organizations offered their expertise and services. We commissioned a foundation that will help our company to establish an accessible working environment for our visually impaired employees.

Messages on murals

Magyar Telekom, realizing the responsibility of large companies, enhances the acknowledgement of community values with the use of city murals. It is important for us that younger generations be aware of the importance of environment protection and sustainability. In May 2009, Magyar Telekom announced the Gyerek ARC+ environmental drawing competition for children. The children had to draw what world they would like to see in thirty years. The drawings were shown at an open exhibition in Budapest in June, then the six best drawings were prepared as city murals in busy streets of Budapest, Pécs, Szombathely, Sopron and Miskolc and revealed to the public in the summer months. The Telekom Donation Line mural was prepared in October in Szeged and draws the attention of pedestrians to the 1788 „human number" and the importance of donation.

Donations with telephone calls

Within the frame of the Magyar Telekom Contributes program more than HUF 118 million was granted to programs that help to solve the problems of children, education, healthcare and sustainability. The six non-profit organizations, winning our support in 2009 through a public competition, could raise funds through the Telekom Donation Line. Magyar Telekom finds it important to support telephone help lines operating in Hungary and grants free calls to their numbers. In 2009, we have donated nearly HUF 24 million to help line organizations. From December 2009, the National Helpline can be called at 1752 from the T-Home and T-Mobile network and each call donates HUF 250 to those in need through charity organizations and the National Civil Protection Directorate. After four years of broadcast, the Cause charity documentary series on TV2 come to an end with its two closing episodes in May and December 2009. Viewers could help with the donation of HUF 200 with each telephone call that was transferred to non-profit organizations presented in the TV programs. In addition, HUF 5 million was donated to each of the two organizations that collected the most votes and HUF 1-1 million to six other organizations.

Health care and prevention

The Board of Trustees of the Magyar Telekom Contributes program pays special attention to supporting health care and prevention. In May, 2009 we helped the Samaritan Ambulance Service with HUF 800 thousand to buy a portable EKG device. The organization transports ill and disabled children for free. The Mentor Foundation received more than HUF 1.5 million for the summer camp of disabled and disadvantaged children. In July we helped Jahn Ferenc hospital in Budapest with almost HUF 2 million to buy life-saving equipment. The sports club of the visually impaired was donated HUF 1.5 million so that its team could participate the Vienna–Bratislava–Budapest super-marathon run. The hospital in Szombathely received HUF 1.5 million to procure medical equipment for children's cardiology. In September, we donated HUF 2.4 million to the International Pető Institute to support sport programs of disabled children and we also sponsored the establishment of children's and youth department of the Diabetes Center in Eger with more than HUF 1.1 million. Within the frame of Magyar Telekom's equal opportunity actions, we opened an exhibition of paintings by children with Down syndrome in our Headquarters in April. The paintings were auctioned and the collected sum was transferred to the new development center of the children.

Culture sponsorship

In 2009–2010, Magyar Telekom is the strategic partner of Hungary's leading cultural institute, the Budapest Palace of Arts that, like our company, represents outstanding quality. From December the Magyar Telekom Symphonic Orchestra has been operating in a new, sustainable model, under the name Concerto Budapest and its main sponsor is our company. In the summer of 2009, T-Mobile sponsored the traditional Connection Concert with Simply Red as well as the VOLT, Balaton Sound and Campus festivals where young people could win our awards for preparing video films on the advantages of mobile communication. The season was closed in August with Hungary's most popular one-day event, the T-Mobile Bonus Electronic Music Festival. In February 2009, T-Mobile sponsored the Cinema Total film event series during the Berlinale in the Hungarian Cultural Institute in Berlin. Google Earth's Virtual Budapest Project, launched in May, prepares the models of Budapest buildings available online with the support of T-Mobile. In March, a kinetic-electronic installation developed by Kitchen Budapest, the innovation lab of Magyar Telekom, was placed in an Indian monastery where the Hungarian orientalist Sándor Kőrösi Csoma lived in the 19th century. In October, T-Home prepared an innovative 3D pavement painting in the center of Budapest to popularize the uses of fiber optic network.

Knowledge sharing and digital inclusion

It is a high priority objective of Magyar Telekom's sustainability strategy to support the development of an information society, to close the digital gap and to support the use of the Internet. The Telekom Internet Academy free training program series was continued in the first half of 2009 in Budapest and other cities and in October the first lecture of the T-City Internet Academy was delivered in Szolnok. The Digital Bridge in Small Localities program, launched in 2004, introduced a new series of events in May in Baranya and in December in Szabolcs-Szatmár-Bereg county, the Digital Bridge Fest. The Digital Bridge reached 132 localities by the end of 2009. In 2009, almost 2,000 disadvantaged families in 120 small localities were given Internet access through the WiFi Village equal opportunities program that is supported by Magyar Telekom. Higher Education Dialogue, Magyar Telekom's initiative to support future professionals and the competitiveness of Hungary, was launched in November 2009. Our Company „adopted" and sponsored the ELTE University Artificial Intelligence Lab with HUF 10 million. The KFKI Academy was launched in October by experts of this Magyar Telekom Group member company who give free lectures at the Budapest Technical University for IT and electronic engineering students.

Sports and healthy lifestyle

T-Mobile, committed to active, healthy lifestyle and sustainable growth, is the main sponsor of the Hungarian Kayaking and Canoeing Association and the Domino Honvéd Kayak and Canoe Sports Club. The brand was also a main sponsor of the Orienteering World Championship held in Miskolc in August 2009. In addition to professional sports, T-Mobile also supports Hungary's amateur cyclists. Four T-Mobile Mountain Bike Top Marathon races were organized between May and August 2009 where a free bike service was also provided for the racers. The T-Mobile Water Sports Festival was organized for the second time at the Velencei lake and the T-Mobile Vienna–Budapest kayak-canoe and rowing tour took place in August. A record number of runners participated the T-Home Vivicittá City Run in Szeged, Kaposvár and Budapest in April. In June, the traditional T-Home Children's Island entertained also disadvantaged children who were transported from remote towns by buses provided by T-Home. Toys were collected for them during the event and distributed by civil organizations.

Outstanding sustainability performance

Magyar Telekom as a responsible company is committed to sustainable growth and environment protection. The sustainability report of the company has been the first and only report in Hungary since 2008 that was awarded the highest, A+ standard according to the Global Reporting Initiative (GRI) guidelines. In June 2009, we granted the Dolphin award for the second time to our suppliers best committed to sustainable growth. In December, awarded prizes to the winners of our Egálnet equal opportunities website programming competition. In September, Magyar Telekom organized the second Sustainability Day where we presented the importance of a responsible and sustainable lifestyle and gave practical solutions to participants. We also invited a competition connected to this „green festival" to create films, music and other pieces of art. Based on our sustainability performance and an independent assessment, at the end of 2009 Magyar Telekom was listed in the international CEERIUS sustainability stock market index that includes the best performing Central and Eastern European companies from a sustainability point of view.

Environment and climate protection

Climate protection is a key element of Magyar Telekom' sustainability strategy. It is our strategic goal to least possibly burden our environment and to protect its resources. We plan to reduce CO_2 emission from our operations by 10% within two years until 2011. Almost 20% of our vehicle pool is comprised of environment friendly hybrid cars. In March 2009 Magyar Telekom joined again the Earth's Hour international action: for one hour our electric advertisements and lights in T-Pont shops and office buildings were switched off. In June, on the International Environment Protection Day, at the Rendezvous with the Earth event Magyar Telekom presented Luc Besson's film Home on the future of the blue planet. Within the frame of climate protection investment, after a year's successful pilot operation of the first PEM cell operated base station in Hungary, T-Mobile deployed 5 base stations built with the use of this environment friendly technology from October 2009. The PEM energy cell uses hydrogen to generate electric power thus the energy consumption is entirely „green", i.e. CO_2 free.

Communication, information, entertainment at home and on the move

In Hungary's market, Magyar Telekom is the only three-screen operator, offering TV, Internet and phone through the T-Home and T-Mobile brands on fixed line and mobile networks alike, at home or on the move.

Consumer services

Three screens accompanying our lives, i.e. television, computer and mobile phone, define the demand of access to information, services and entertaining content at home and on the move. In Hungary's market, Magyar Telekom is the only three-screen operator, offering TV, Internet and phone on fixed line and mobile networks alike, at home or on the move. Our unique service portfolio as well as the opportunities extended through our integrated service offering has significantly contributed to our market successes.

Dynamic growth in the TV market

2009, the first full year since the introduction of the T-Home brand in September 2008, has proven to become a success story. Customers welcomed the renewed range of fixed line television, Internet and phone services, available in different combinations. The aided awareness of T-Home as a 3Play provider increased to 67% by the end of 2009. The first year of the Sat TV satellite service was a huge success, as it had 156 thousand customers by the end of 2009. Thanks to its service quality, an overwhelming majority of its customers also subscribe to other fixed line services offered by us. IPTV subscribers' number has already exceeded 67 thousand, thus, including cable television subscriber numbers, Magyar Telekom had 630 thousand TV subscribers at the end of 2009, which makes it the second largest player of the TV broadcasting market. The success of our 2Play and 3Play packages is proven by the fact that more than a third of our fixed line phone customers subscribe to T-Home's package offers. T-Home retained its market leader position on the fixed line broadband market in 2009, too: its consumer broadband connections increased to 596 thousand, which corresponds to 58% market share.

Expanding TV portfolio

As a result of dynamic growth in 2009, the number of T-Home television subscribers exceeded 500 thousand in November. The increased demand for IPTV, which drastically changes viewing patterns, as it offers interactivity, is triggered by new features like the ability to pause and replay live programs, the video-on-demand store that offers more than 500 movies, the electronic program guide and the child lock function. The positive market reactions to Sat TV are largely due to the digital sound and video quality, the wide choice of channels and the HD channels.

New generation network development

In the framework of the new generation access strategy, T-Home was the first to extend fiber optic network to households (FTTH, fiber-to-the-home) as of May 2009. By the end of 2009, the fiber network has become available in 170 thousand households in Budapest and at 23 other cities of larger scale. The new generation ED3 (EuroDOCSIS 3.0) technology, enabling high-speed Internet, introduced on T-Home's cable network in April, has reached 370 thousand homes by the end of the year. In addition to its nationwide developments, T-Home put special emphasis on broadband penetration in rural regions in 2009. As a result of the investment project completed by July in the framework of ECOP (the National Development Plan's Economic Competitiveness Operational Program), at 70 settlements of Baranya County, more than 90 thousand residents can be provided with broadband Internet. In course of 2008–2009, Magyar Telekom expanded its cable network by the acquisition of a total of 16 networks, by means of which T-Home's cable television, cablenet and cable phone services became available at an additional 62 settlements, for close to 47 thousand households, and the coverage of the company's high-speed fixed line network further increased.

Innovative services

T-Home continuously renews its product portfolio, introduces innovative products, integrated telecommunications and entertainment services, and improves service quality. Customers can place orders for television, broadband Internet packages and phones one by one or together, in different combinations. As of September 2009, T-Home offers an increased bandwidth of even 80 Mbit/sec maximum download speed, too, due to which extremely quick download of music and multimedia content can become everyday practice, along with HD-quality IPTV service available at multiple television sets simultaneously. As of October, the thematic channels of Magyar Telekom and Origo, Lifenetwork and OzoneNetwork are available through T-Home's Cable TV, IPTV, Sat TV services and T-Mobile's Mobile TV offer. With the help of the Media store (NAS) introduced in November 2009, photos, music, videos and multimedia documents can be stored in a secure location and viewed through the Internet from remote locations, too, or be shared via television or mobile phones equipped for such usage.

Stable mobile market leadership

T-Mobile defined the market in 2009, by means of its mobile Internet product campaigns, the introduction of the first mobile 3Play tariff package in Hungary and its new and renewed products. As the strongest brand on Hungary's telecommunications market, and due to its competitive propositions, unique range of devices to choose from, high-quality customer service and the loyalty program ran jointly with T-Home, T-Mobile has strong customer retention power. With a 43.4% share it preserved its strong market leadership on the mobile market in 2009, and increased its market share based on active SIM cards generating traffic to 44.4%. On the broadband mobile Internet market, we had a strong position in 2009, too, with 45.9%, and in the context of revenue producing SIM cards, our share was even higher, 48.6%. T-Mobile's share was even more than that, 51.5%, in the market of data packages exceeding 1 GB. Among our residential consumers, the ratio of prepaid cards continued to decline, thus the ratio of monthly subscriptions exceeded 35%.

Top quality mobile broadband

At the end of 2009, T-Mobile's broadband mobile Internet service was available in 435 cities, meaning 74% coverage of the population, which is the largest on Hungary's mobile market. As it dynamically increased further, the number of our mobile Internet subscribers exceeded 429 thousand in 2009. By the end of 2009, Magyar Telekom fulfilled its investment and development obligations regarding the 900 MHz (GSM) frequency, defined by the concession contract prolonged in 2008. In April 2009, Magyar Telekom won the public tender of the National Communication Authority for 26 GHz frequency usage for 10 years, with which it can contribute to significantly increasing the country's mobile broadband coverage. As to service quality, a survey published in October by ARCchart, a London-based mobile communication research institute, found T-Mobile Hungary's 3rd generation (3G-UMTS) mobile broadband network the world's best from the aspect of download speed. In course of the survey, 268 providers were examined in 103 countries, summarizing the comments of tens of thousands of users.

Focusing on mobile Internet

Responding to the changing customer demand, T-Mobile introduced 3Play packages, being the first to do so on Hungary's market in May 2009, which include phone, Internet and mobile television services. Using the MediaMania packages, customers can access 14 channels of T-Mobile's Mobile TV, browse the Internet and the wap, as well as send and receive emails. Photos, videos shot by mobile phones can be shared with others through the Internet. T-Mobile as the Hungarian dealer of iPhone 3G expanded the range of the tariff packages designed for this device by the ikon 200 package in May 2009. Our position on the dynamically growing mobile Internet market was strengthened by the fact that we renewed our mobile Internet subscription and Domino packages, which now offer even more data traffic at favorable prices. As of July, users can transmit larger data volumes through the Internet or send and receive emails through their mobiles, using the Net 100 MB or Net 500 MB packages, designed especially for mobile Internet access, or the RelaxNet package customized for Internet access by computer.

Mobile content and innovation

T-Mobile subscribers can watch numerous television channels by using TV-capable mobile phones on broadband and EDGE networks. In September 2009, the TV offer of T-Mobile Mobile TV, unique in Hungary, was renewed and expended: customers have a choice of 4 different packages. As of October, Origo's two new thematic channels, OzoneNetwork and LifeNetwork are also available. From November, our customers can access the Nokia Messaging push e-mail service, which supports all leading international and Hungarian e-mail solutions, including [freemail], too. In 2009, the cash-free Mobile Purchase and Mobile Payment services have been extended to include several new features. The Mobile Parking service, introduced in March 2009, was a quick success nationwide and was available in 24 cities by the end of the year. Mobile customers had paid parking fees through Mobile Parking in one million instances by December. As of February, the Mobile Payment service has been extended, too: using the Mobile Money Order function, you can debit your utility bills to your Mobile Payment bank account, even without an Internet access. In cooperation with its partners, T-Mobile introduced the mobile code function, also known as QR (quick response) code, in Hungary. By taking a photo by the mobile phone's camera of the two-dimensional graphic code, information can be accessed directly or users are put through to a website containing further details. Recognizing the benefits of new forms of communication and the opportunity of direct dialogue with customers, T-Mobile was one of the first leading brands in Hungary to appear on largest community sites, e.g. iWiW, Facebook and Twitter.

Unique mobile devices

T-Mobile's customer acquisition and retention capability is supported by its outstanding choice of devices, as well as the market introduction of unique and exclusive products. The iPhone, sold exclusively by T-Mobile, which is the first mobile phone that is not voice and text, but rather Internet focused, has become a key element of our three-screen strategy. This real multimedia screen phone has changed usage patters: more than 90% of iPhone users browse the Internet, too. In July 2009, the most powerful version so far, iPhone 3GS, became available for our customers. In October, T-Mobile started to sell Pulse and T-Mobile G2 Touch exclusive smart phones, equipped with larger screens and a multifunction, customizable Android operating system designed specifically for Internet access. Uniquely on Hungary's market, our shops offer a variety of notebooks to our mobile Internet subscribers, and the high-quality Apple computers are also available only at T-Mobile.

T-Home and T-Mobile integrated offers

One of the key elements of our three-screen service strategy, which provides us a significant competitive edge, is that we make television, Internet and telephony accessible at home or on the move. Our customers mostly meet this strategy in the form of the benefits offered by our integrated propositions. The first fixed-mobile integrated packages were already available for our customers in 2009. With the Duplanet discount scheme, fixed and mobile Internet services are offered together, at a lower price. The Friends and Family discount scheme was renewed and extended to apply now to T-Home fixed line numbers, too, enabling family members to call each other free of charge, on mobile or fixed line phones alike. As a unique initiative on the market, T-Home and T-Mobile launched a joint loyalty program in July 2009, by means of which customers can collect loyalty points and enjoy bonus discounts by using fixed line and mobile services. The loyalty points can be used to buy fixed line or mobile devices, Internet or mobile content as well as discount vouchers, for example. T-Home and T-Mobile were the first in Hungary to introduce in December 2009 one of the success products of the upcoming years, the e-book, which, due to its paper-like screen, is easily readable. To the Hanvon N516 e-book device, capable to store up to 1,000 digital books, Hungarian and foreign-language digital books are available from numerous sources to download, and Magyar Telekom plans to establish its own e-book store to offer new books for purchase electronically.

Flexibility, adaptability, systems integration

With our future-oriented solutions and services we extend the possibility of successful market operations for our business customers through fixed line and mobile broadband communication and IT as well as ICT, relying on the convergence of these fields.

Business services

Market leader ICT operator

Magyar Telekom's Business Services Business Unit offers, in addition to traditional fixed line and mobile telecommunications services, innovative solutions under the T-Systems brand, which are developed for the latest network technologies and are cost effective and reliable IT applications leveraging Group synergies. The demand of business players increased strongly in 2009 for a greater degree of resilience, adaptability and sustainable growth, in which the economic downturn also played a role. This trend has resulted in changes in the infocommunication (ICT) services market as well. In response to this challenge, the Business Services Business Unit is turning from telecommunications and IT services provider into an ICT systems integrator. The business unit extends the possibility of successful market operations for its customers through fixed line and mobile broadband communication, IT, and the future-oriented solutions and services of T-Mobile, T-Systems and the subsidiary companies that rely on the convergence of all these fields. Our trained staff, unique infrastructure and integrated and end-to-end product portfolio all contribute to our customers' competitive edge. A key task of T-Systems is a widespread rollout of ICT solutions and making them available for small, medium, large companies and governmental customers along with innovative and investment-free services. The business unit is involved in providing ICT development of the public sector: its hospital, library and e-government projects ensure the installation of competitive and cost efficient IT systems, which support transparent and economic operation. In 2009, we managed, irrespective of the less favorable conditions, to increase our IT services market share to 13.5%, thus strengthening Magyar Telekom's leading position in this business area as well.

Integrated ICT skills

The wide ICT portfolio of the Business Services Business Unit becomes full-scale through subsidiaries that possess professional skills. KFKI Systems Integration possesses in-depth knowledge of the solutions necessary to install and operate an IT infrastructure and its security. Its portfolio holds all elements of convergent communication such as video conferencing, telephony, systems support and intelligent building surveillance. A great significance belongs to network solutions reinforced by IT security infrastructure and systems control. A special skill is represented by IQSYS, which ensures high level integrated operation of tailor-made business IT systems, corporate governance, customer care and IT systems related to business intelligence. Dataplex, the leading collocation service provider of ICT infrastructure, increased the number of its customers in 2009 as well, with international carriers among them. Pro-M continuously improves its TETRA-based digital radio-communication system EDR, which provides safe communication for already 11 emergency organizations. EDR added new services to its portfolio in 2009, among them the vehicle tracking system with mobile on-board units. As a part of our growth strategy we expand the scope of our ICT services also through acquisitions. By acquiring KFKI Direct in 2009, we strengthened our position in the IT infrastructure services market as the company has special skills in systems integration and infrastructure support, especially in server services. ISH has domestic and international experience in development, installation and operation of integrated health ICT systems. With the ISH acquisition in 2009, a unique product and service portfolio emerged at T-Systems, which turns Magyar Telekom into a key player of the health ICT market.

IP-based managed services

T-Systems offers voice, data and Internet services from one hand to small and medium sized companies through IP-based technology. Our IPsound+ and Compleo services can be tailored to our customers' individual needs. IP-PBX, IT security and WLAN (Wireless Local Area Network) functions can be offered along with solutions through devices installed for this purpose. With this, cost-efficient and continuously managed telephone and Internet services are available in a monthly fee scheme, without any investment need. Voice and data traffic flows over a shared network with devices supplied by T-Systems. Downloading and uploading speed is the same in Internet access. Data communication between sites is independent from Internet access, thus the company's mailing system, company governance system and file service may smoothly operate continuously and on a guaranteed bandwidth. These services provide a solution for data traffic needs of small and medium companies operating in single or several premises. The solutions that provide for large bandwidth and cost efficient operation, facilitate the implementation of additional ICT technologies for our customers, further increasing their competitive edge and efficiency.

IT application services

In IT application service provision (ASP) the operator provides access through the Internet for its customers to the IT applications they need, for which customers pay usually a monthly fee. Customers do not need to purchase the services as they are operated by the service provider on its own infrastructure (hosted services), guaranteeing a much higher degree of security for users than would otherwise be possible. Users can place orders for and modify the services they need via the Internet. T-Systems expands the range of its product offers through innovation, customer focus, ability to react quickly, cost efficiency, team work and collaboration. Tailor-made and complex ICT solutions and applications are indispensable for business flexibility and efficiency. Virtualoso, our innovative ASP solution designed for small and medium business customers, is one of the strategic product families of T-Systems.

Virtualoso services

Virtualoso services, which T-Systems launched in May 2009, guarantee the use through the Internet of useful IT applications without the need of investment, for favorable monthly fee inside and outside the office, in a reliable and safe environment, with legally clean software. Virtualoso services enable innovative applications, methods and functions with the help of which users can focus on their own core activities more efficiently and at favorable costs. Through the Hosted mailing service users may use their communication system more efficiently through a professional mailing system, a shared calendar and an address list, which employees can access from their computers and mobile phones. In the framework of the Meeting service distant users may set up a virtual meeting room using teleconference tools and online shared work, so they can work concurrently within the same document while continuously on the phone. The Shared storing and distribution of documents service enables users to render remote documents accessible and possible to edit for authorized staff, partners or customers. Businesses taking advantage of the Server service do not have to buy or operate their own server. The virtual server that can be remotely operated offers outstanding security, state-of-the art data storage and interruption free operation, and its capacity can be continuously expanded. Our Customer calls managing system helps answer quickly and efficiently customer and partner calls through Internet access, with a telephone voice response system that can be tailored to the user's needs.

Mobile services

Small, medium and large corporate and government customers are equally served by the Business Services Business Unit with mobile voice and data communication in outstanding quality with nationwide coverage. In response to the significantly increased infocommunication mobility requirements of or customers, we offer assistance for them through our innovative solutions in the various business situations they are confronted with. In the area of corporate applications, data communication is becoming increasingly prevalent and work is no longer confined to offices. The development of mobile broadband as well as new generation devices ensures the conditions of connected work outside the office and access to business solutions. The prevalence of Internet usage is increasingly typical of the businesses: the number of SIM cards using mobile Internet increased by 21% in 2009. The development of mobile data communication is affecting not only IP based solutions. Subscriptions used only for data traffic have become increasingly valued. The advance of telemetry based on remote access, the expansion of machine-to-machine (M2M) applications as well as stand-alone industrial GSM equipment open up new prospects in this area as does the accessibility of office applications through mobile devices. Accordingly, mobile e-mail drew increased attention in 2009.

„Green ICT" for sustainability

Magyar Telekom is committed to sustainable development and T-Systems promotes its customers' sustainable operation through offering its „green", i.e. environment friendly ICT solutions. In 2009, we successfully installed and launched the central video conference system of the e-government backbone network and we implemented various video conference services also for other customers. Telepresence, representing a new generation of video conference solutions, was efficiently operated in 2009 in contacts with our international companies (Macedonia, Montenegro) and, by establishing a contact with Germany, 10 locations abroad became accessible through this solution. Magyar Telekom's travel costs and harmful gas emission have been considerably reduced by using Telepresence. We offer this video conference solution, creating the experience of personal presence, improving productivity and replacing costly business travels to enterprises with a regional presence. Businesses using our hosting services may operate their servers in a stable and highly safe environment and can rent storing places on servers located at T-Systems data parks, saving energy and operating their IT equipment more efficiently and in an environment friendly way. Our Távszámla electronic bill payment solution replaced at several service providers the use of a large amounts of paper and ink, reducing operating costs. Using Távszámla fees can be comfortably settled via the Internet from any part of the world. The number of service providers using this service is constantly growing and registered customers may settle also their Elmű/Émász electricity bills since November 2009 in this environment and cost saving way in addition to Magyar Telekom, E.ON and Tigáz bills. In e-procurement, T-System's Internet-based e-auction service is the market leader. E-auction is an electronic bidding that can enhance the efficiency of procurement processes while time, energy and cost spending can be reduced.

Synergy program for efficiency

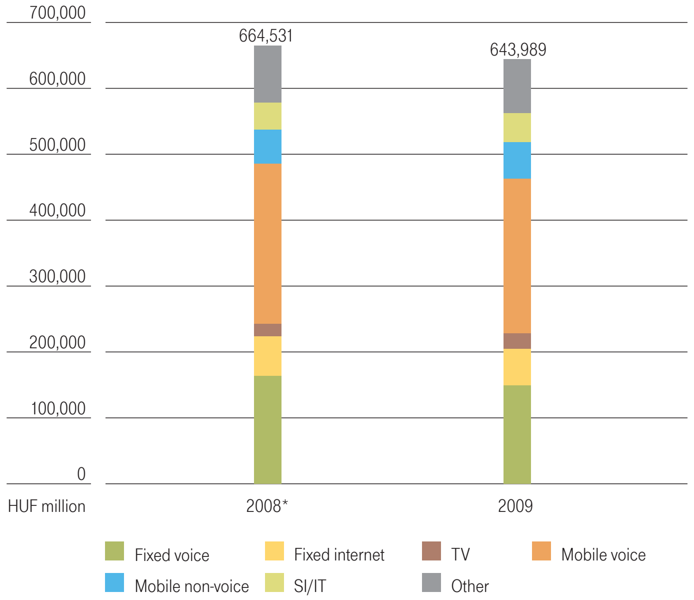
As a result of the synergy program of T-Systems launched in the fall of 2009, a more flexible and cost efficient model of operation emerged on the basis of integrated IT and telecommunications portfolio and standardized processes, in customers service as well as in sales. Beginning from early 2010 T-Systems has been implementing an integrated sales channel for its key business customers in Magyar Telekom's full scope of telecommunications and IT products. In the new model fixed line and mobile voice and data communication as well as IT systems solutions – from data centers through computerized networks to office applications – are provided by T-Systems in the form of one-stop solutions for its enterprise and governmental customers. The unified large enterprise sales activity has been accommodated in Magyar Telekom's fully owned subsidiary, KFKI, uniting in this way the flexibility of systems integration processes with the stability of telecommunications services. KFKI, acting as a dealer, contracts with customers on behalf of Magyar Telekom. This step falls in line with the changes in telecommunications and IT technology and the markets, enables more efficient and successful customer service and accelerates the innovation cycle of new products.

Management report for the 2009 financial year

Highlights

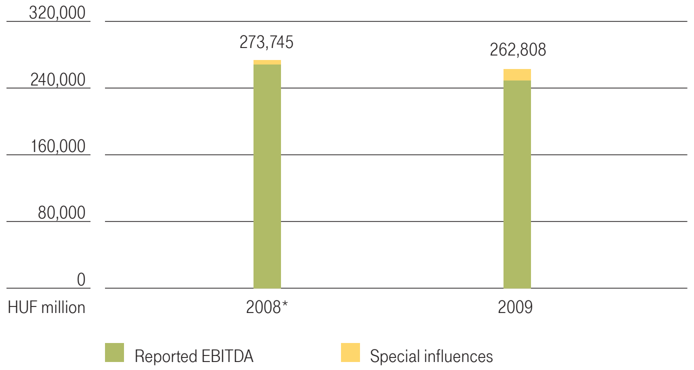
- Revenues were down by 4.3% to HUF 644.0 bn in 2009 compared to 2008. The revenue decline reflects the reversal of provisions related to fixed to mobile traffic revenues booked in the amount of HUF 8.5 bn in the second quarter of 2008. Excluding the provision reversal, revenues were down by 3.1% as a result of declining fixed line and mobile voice revenues in Hungary. These declines could not be fully offset by the growth in the Hungarian SI/IT and TV revenues and the higher revenue contribution of the international subsidiaries which were driven by the translation impact of the weaker forint.
- EBITDA declined by 7.2% to HUF 249.1 bn, with an EBITDA margin of 38.7% in 2009. Underlying EBITDA (EBITDA excluding investigation-related costs, severance payments and accruals, and related provision reversals) decreased by 6.9% to HUF 262.8 bn with an underlying EBITDA margin of 40.8%. Excluding the reversal of provisions related to fixed to mobile traffic revenues booked in 2008, underlying EBITDA was down by 4.0% in 2009.
- Profit attributable to owners of the parent company (net income) decreased by 16.5%, from HUF 93.0 bn to HUF 77.6 bn in 2009. The decline was primarily driven by lower EBITDA which was partly offset by lower depreciation and amortization expenses, and lower income tax. Depreciation expenses decreased due to the extension of the useful life of a number of assets during 2008 and 2009. Income taxes declined as a result of the change in the Macedonian tax regime, under which no current and deferred taxes should be accounted for until the dividend has been paid out of net income.
- Investments in tangible and intangible assets (CAPEX) decreased by HUF 6.1 bn to HUF 101.9 bn in 2009 compared to 2008. The CAPEX decline also reflects the HUF 2.5 bn Macedonian 3G license fee and HUF 1.8 bn of non-cash items related to inventory reallocation accounted for in 2008. Excluding these items, CAPEX decreased by HUF 1.8 bn in 2009. Of the total CAPEX, HUF 23.8 bn is related to the Consumer Services Business Unit, HUF 2.9 bn to the Business Services Business Unit, HUF 4.5 bn to Group Headquarters, HUF 49.0 bn to the Technology Business Unit, while in Macedonia and Montenegro the CAPEX spending was HUF 15.3 bn and HUF 4.9 bn, respectively.

Revenue breakdown



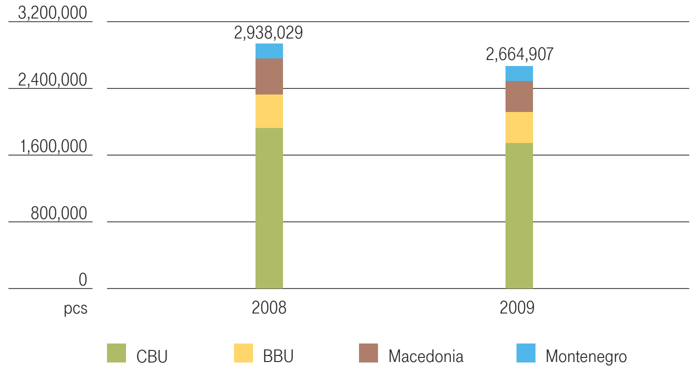
*Excluding HUF 8.5 bn F2M termination fee related reversal of provisions accounted for in 2008.

Reported and underlying EBITDA

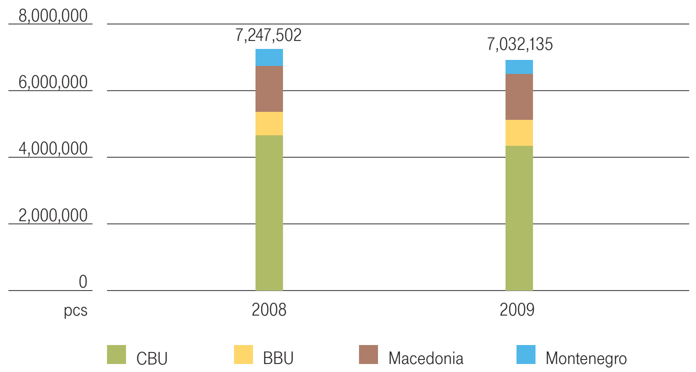


*Excluding HUF 8.5 bn F2M termination fee related reversal of provisions accounted for in 2008.

Total fixed voice access



Mobile customers



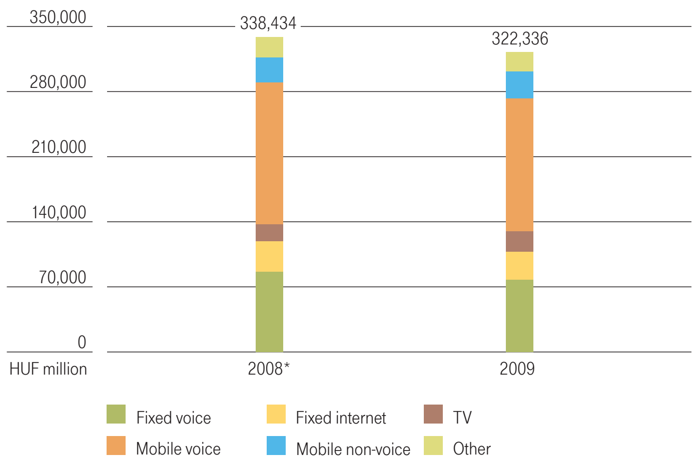
A new reporting structure has been introduced, with effect from the beginning of 2009, and reflects the new management structure that Magyar Telekom has been operating since 2008. The new business units in Hungary are organized along customer segments, thus we have Consumer and Business Services Business Units, containing all the services we offer to our residential or corporate clients. The Group Headquarters now also includes the wholesale business, while the Technology Business Unit is responsible for the operations and development of both the fixed and mobile networks as well as IT management. We are now reporting the international business on an individual country basis, disclosing group-level results for both subsidiaries. Due to the ongoing fixed-mobile integration process at both subsidiaries, separate fixed and mobile margins are starting to become less relevant and so disclosure has been discontinued, although we still show separate results at the revenue level.

Consumer Services Business Unit (CBU)

CBU provides voice, broadband and TV services both on fixed line and mobile networks for residential customers and the SOHO segment in Hungary. Revenues of CBU decreased by 5.6% to HUF 322.3 bn in 2009 mainly driven by the unfavorable economic environment in Hungary and the intense competition. Reported EBITDA declined by 5.9% to HUF 181.9. Excluding the provision reversal related to fixed to mobile traffic revenues of HUF 3.1 bn in 2008, underlying revenues declined by 4.8%; whilst underlying EBITDA (i.e. excluding the provision reversal and headcount reduction-related severance expenses) declined by 3.9%, resulting in an underlying EBITDA margin of 57.1%.

In the fixed line market, the recession, mobile substitution and cable competition put pressure on the traditional voice business. Excluding the provision reversal related to the F2M termination fees, fixed voice revenues were down by 9.6% in 2009 compared to 2008, driven by higher churn and further declines in both traffic and average tariff levels. Despite our efforts to mitigate the decline of the traditional fixed voice segment with retention offers, the total number of fixed voice access at CBU declined by 9.4% compared to end-2008. PSTN voice service is losing market share to mobile services and different forms of IP-based voice communication. With the recession accelerating this structural change in the voice market, Magyar Telekom is now focused on product bundling, intentionally migrating voice to IP and capitalizing on the TV portfolio, as TV represents the most attractive offer for Hungarian customers. Thanks to the TV-focused strategy, television revenues in 2009 increased by 19.4% compared to 2008, mirroring the 38% growth in the subscriber base, which exceeded 630,000 by the end of 2009. In addition to the strong demand for the satellite TV offering, which was introduced at the end of 2008, the number of IPTV subscribers more than doubled over the year. Another remarkable success is that more than 65% of the satellite customers subscribe for at least one more Magyar Telekom fixed line telecommunications service, which is important for customer retention. Magyar Telekom considerably increased its market share on the TV market in 2009 and became the second largest TV provider in Hungary.

CBU revenues breakdown



*Excluding HUF 3.1 bn F2M termination fee related reversal of provisions accounted for in 2008.

The lower priced packages introduced with the rebranding in the third quarter of 2008 put pressure on Internet revenues. Although the number of broadband customers continued to increase, exceeding 595,000 by the end of 2009, Internet revenues decreased by 7.8% reflecting the declining prices and the increasing migration towards lower priced packages. In 2009, the number of cable broadband customers increased by 19.7% and by the end of 2009 was close to 153,000, while the number of retail DSL customers grew by 7.6% exceeding 435,000.

Besides focusing on the TV market, Magyar Telekom intends to reinforce its technological leadership on the broadband market. By end-2009, 170,000 households had access to the fiber-to-the-home network, while superfast broadband is available to an additional 370,000 cable households using the upgraded ED3 technology. Around HUF 8 bn was invested in the rollout and upgrade of these new generation access networks in 2009. Magyar Telekom continues with the rollout of the fiber network and the cable upgrade, aiming to reach an additional 50,000 households with fiber and a further 220,000 with the upgraded cable network by end-2010. Besides increasing the coverage, Magyar Telekom plans to widen the product portfolio by offering IPTV via cable. Accordingly, the planned investment for 2010 will be around HUF 5 bn, while the total Capex plan of HUF 40 bn for the 5-year project targeting 1.2 million households is maintained.

Hungarian residential mobile revenues were significantly impacted by the recessionary environment and regulatory developments. Mobile revenues declined by 4.4% to HUF 189.3 bn as lower voice revenues were only partly offset by higher non-voice revenues in 2009. The 15% cut in mobile termination fees in January 2009 decreased wholesale revenues, while EU regulation in respect of roaming put pressure on our roaming revenues. Driven by the recession, both prepaid and postpaid churn rates increased in 2009, while the growth in usage slowed down with MOU broadly stable compared to 2008. Magyar Telekom experienced rationalization among customers with double or triple SIM cards. In addition, all mobile operators have been cleaning up their customer portfolios by not refilling inactive prepaid cards and not distributing free SIM cards. As a result of these processes, penetration on the Hungarian market declined to 117.7% by the end of 2009. Although T-Mobile's residential customer base and market share of total SIM cards decreased compared to the end of 2008 due to the above-mentioned trends, the market share among active customers increased during the year to 44.4%. The cut in mobile termination rates and the widening use of closed user group discounts were the main drivers for the erosion in average tariff levels. Consequently, average revenue per user declined by 6.9% by the end of 2009.

Competition in the mobile broadband market continued, as all three operators maintained their focus on this area. The number of T-Mobile Hungary's mobile Internet subscribers increased by more than 60% in 2009, reaching close to 430,000 by the year-end. Non-voice mobile revenues at CBU were up by 4.2% as the increase in Internet revenues was partly offset by the decreasing data revenues driven by the lower number of SMS and MMS. Our market share of the mobile broadband market based on traffic generating subscribers was 46% at the end of 2009. The population-based outdoor coverage of our HSDPA network reached 74% by the end of the year.

Business Services Business Unit (BBU)

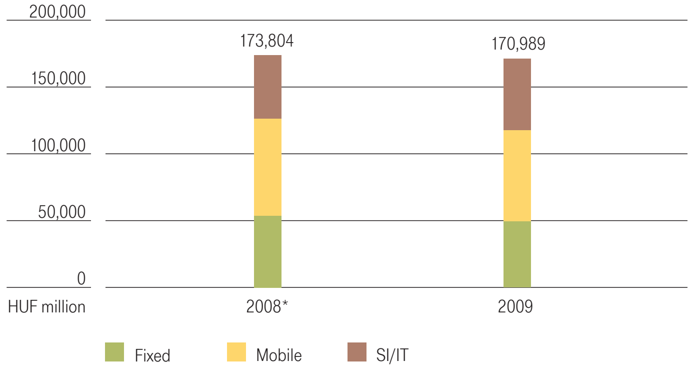
BBU offers not only fixed line services including fixed voice, data, system integration and IT, but also mobile services for corporate customers, small and medium-sized businesses, as well as for the public sector. BBU offers its integrated services to almost 2,800 large corporates and 46,000 small and medium-sized enterprises.

Excluding the provision reversal of HUF 5.4 bn in 2008, relating to F2M termination fees, revenues at BBU were down by 1.6% to HUF 171.0 bn. This was driven by falling fixed voice and mobile voice revenues that were partly offset by higher SI/IT revenues. Excluding the impact of the above-mentioned provision reversal, underlying EBITDA was down by 5.8% to HUF 81.9 bn. Consequently, the underlying EBITDA margin declined from 50.0% to 47.9%.

The depressed macroeconomic environment put significant pressure on this business unit, mainly impacting voice revenues. The reduction in the overall number of businesses in Hungary was coupled with rationalization and cost-cutting at the remaining companies, leading to a contraction in their telecommunications spending. Rationalization was especially pronounced among small and medium-sized businesses where the effects of the economic backdrop have been particularly felt. The hardest hit segment has been the traditional fixed line services business, followed by mobile voice services. In the fixed market, we experienced higher churn, lower usage and continuously declining tariffs coupled with lower voice and Internet customer numbers; as a result, fixed revenues, excluding the provision reversal related to F2M termination fees, declined by 8.0% to HUF 49.3 bn.

Mobile revenues decreased by 5.6% to HUF 68.3 bn as the above-mentioned recessionary impacts had a similar effect on the mobile spending of our corporate clients. Churn was high whilst average tariff levels declined in 2009. Although non-voice revenues are continuing to grow on account of the increasing mobile broadband usage (non-voice revenues represents 23.6% of corporate client ARPU), total ARPU was down by 15.6% in 2009, also negatively impacted by the cut in mobile termination rate with effect from January 2009.

BBU revenue breakdown



*Excluding HUF 5.4 bn F2M termination fee related reversal of provisions accounted for in 2008.

The unfavorable impacts of the economic environment were somewhat offset by higher SI/IT revenues which exceeded HUF 53.3 bn by the end of 2009, an increase of 11.6% compared to 2008. The importance of SI/IT services is growing rapidly with their share of total business unit revenues in 2009 reaching 31%. The changing market and the increasing demand for ICT solutions confirms that we have chosen the right strategy and should continue to focus on maintaining our strong SI/IT market positions. Nevertheless, SI/IT revenues have lower EBITDA margins, thereby putting pressure on profitability; as such, we also have to focus on improving efficiency at the same time. In 2009, we launched a new virtual service portfolio enabling customers to use IT services, such as hosted mail, voice conference, desktop sharing or a remote server for a monthly rental fee without needing to make a capital investment. Despite project delays and cancellations driven by the unfavorable economic environment, several major SI/IT deals were signed during the year, which gives us grounds for optimism.

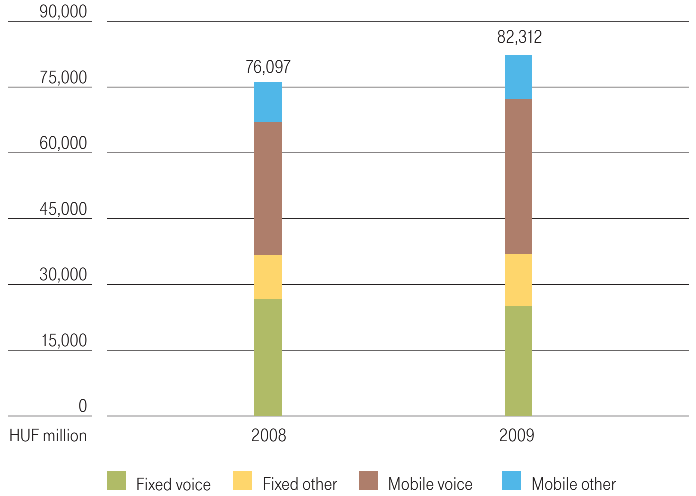
Macedonia

The financials of our international subsidiaries were significantly helped by the weakening of the forint. In Macedonia, revenues increased by 8.2% to HUF 82.3 bn compared to 2008, with underlying EBITDA increasing by 4.5%. Consequently, underlying EBITDA margin was down to 52.3%, compared to 54.1% a year earlier. In local currency terms, revenue declined by 3.2% and underlying EBITDA was down by 6.5% (reflecting the weakening of the forint by 11.7% compared to the Macedonian denar in 2009 against 2008).

Fixed line revenues declined by 10.3% in local currency terms, driven by intense competition from alternative operators and mobile substitution. These, coupled with the unfavorable economic environment, resulted in an elevated annual churn rate and a decline in outgoing traffic volumes. The total number of fixed voice access in Macedonia decreased by 13.4% to 372,000 by the end of 2009, with fixed line penetration declining to 18.5%. The voice revenue decline was partly offset by growing Internet and IPTV revenues, driven by the expanding customer base. The number of ADSL customers increased by 29.8% to 128,000 by the end of 2009, while the number of IPTV subscribers exceeded 14,000. Besides focusing on the broadband and IPTV products, Makedonski Telekom put great emphasis on the 2Play and 3Play offers, which proved successful. These initiatives helped to partly offset the decline in fixed voice revenues.

Mobile revenues in Macedonia increased by 3.1% in local currency terms. The competition-driven tariff reductions putting pressure on ARPU levels were more than offset by higher average usage and improved customer mix. At the same time, customer growth slowed down to 0.1% driven by the intensifying competition. Penetration rate reached 116.1% while T-Mobile Macedonia maintained its clear market leader position with a 56.4% market share. T-Mobile Macedonia started offering mobile broadband services and iPhones; with demand increasing for these products, the company continued to expand its 3G coverage, reaching 53% of the population by the end of 2009.

Macedonia revenue breakdown



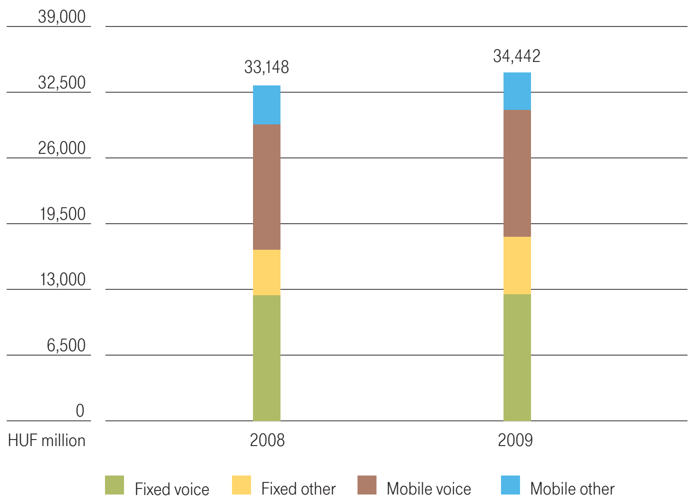
Montenegro

Revenues of the Montenegrin subsidiary were up by 3.9% in 2009 compared to 2008 driven by the forint weakening against the euro (the forint weakened on average by 11.9% to the euro in 2009). Underlying EBITDA was up by 8.4% and underlying EBITDA margin improved from 35.6% to 37.1%. However, in local currency terms, revenues declined by 7.2%, while underlying EBITDA was down by 3.2%.

Montenegrin fixed line penetration decreased to 26.3% by the end of 2009 with 177,000 lines installed. Thanks to the strong focus on broadband services, the number of ADSL customers increased by 41.1%, reaching almost 55,000 by year-end, and we expect this to increase further. There is growing demand for our IPTV product with the number of subscribers reaching 30,000, a 68.9% increase compared to end-2008. In September 2009, we have also launched bundled 3Play products in order to further strengthen the loyalty amongst standalone fixed line voice subscribers. The first sales results are very encouraging. Fixed line revenues in total declined by 3.7% in local currency terms.

Mobile revenues in Montenegro declined by 10.7% in local currency terms compared to 2008. Despite growth in the mobile customer base, retail voice revenues declined due to a considerable decrease in tariff levels driven by strong competition. These trends were somewhat offset by the increase in non-voice revenues, supported by the growing number of mobile Internet users. The penetration level in Montenegro was 208.7% at the end of December 2009 according to data reported by the Montenegrin Telecommunications Agency. Driven by the intense competition on the Montenegrin mobile market, penetration growth accelerated and tariff pressure further intensified in 2009. We maintained our focus on the postpaid segment, where T-Mobile Crna Gora was able to retain its market leading position, whilst even increased its overall market share by the end of 2009 to 36.7%.

Montenegro revenue breakdown



Technology Business Unit

Technology Business Unit is a cost centre responsible for the operations and development of the mobile and fixed networks as well as IT management. Network- and IT-related investments are also generated by this Business Unit.

Revenues at the Technology Business Unit declined by 7.2% to HUF 10.6 bn and underlying EBITDA losses narrowed by 6.4% to HUF -44.9 bn.

Headquarters

The Group Headquarters is responsible for wholesale services and performs strategic and cross-divisional management and support functions.

Revenues before intersegment elimination were down by 11.8% to HUF 135.5 bn. The revenue decline was mainly driven by lower wholesale revenues, especially within mobile revenues, reflecting the 15% cut in mobile termination rates since the beginning of 2009. Underlying EBITDA losses widened to HUF -14.5 bn, reflecting both the revenue decline and increased provisions for overdue receivables.

Cash flow generation, dividend payment

Net cash generated from operating activities decreased from HUF 210.3 bn to HUF 193.8 bn. The lower EBITDA was coupled with some deterioration in the working capital and higher interest and other financial charges. These drivers were partly offset by the lower level of income tax paid. Deterioration in working capital was primarily driven by the increase in provisions for overdue receivables.

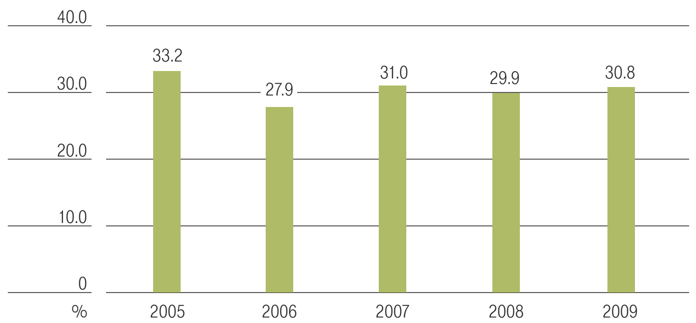
Net debt increased from HUF 254.3 bn to HUF 269.4 bn by the end of 2009 compared to the end-2008 level. The net debt ratio (net debt to total capital) was 30.8% as at the end of 2009.

The Board of Directors proposed a dividend payment of HUF 74 per ordinary share for the 2009 financial year for approval to the Annual General Meeting. The proposed dividend level is in line with Magyar Telekom's dividend policy of maintaining its net debt ratio (net debt to total capital) within the targeted range of 30–40%. At the same time, it reflects the Group's solid financial position and cash flow generation in 2009, despite the unfavorable operating environment.

Outlook

Looking ahead to 2010, we expect continued pressure on consumer spending due to high unemployment and restricted growth in household disposable income. At the same time, unfavorable trends in the corporate segment are likely to continue this year, putting pressure on our top-line performance. In addition, a stronger forint compared to average 2009 exchange rates may have an adverse translational impact on our results by negatively affecting contributions from our international subsidiaries. As a consequence, we are targeting a revenue and an underlying EBITDA decline of 5-7% for 2010, with the latter reflecting our changing revenue structure. However, the greater weighting of SI/IT revenues in the overall mix will allow us to reduce our CAPEX spend with 2010 levels expected to be approximately 5% lower than in 2009.

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.

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INDEPENDENT AUDITOR'S REPORT

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 statement of financial position as of 31 December 2009 (in which total of statement of financial position is HUF 1,166,377 million and the profit attributable to owners of the parent is HUF 77,618 million) the consolidated statements of comprehensive income, consolidated statements of changes in equity, and the consolidated statements of cash flows, 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 as adopted by the EU. 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

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entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Magyar Telekom Nyrt. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2009, 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, March 11, 2010

Manfred Krawietz
Partner
PricewaterhouseCoopers Kft.
1077 Budapest, Wesselényi u. 16.
License Number: 001464

Hegedűsné Szűcs Márta
Statutory auditor
Licence number: 006838

Note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As restated (Notes 1.2.2 and 2.1.5)

	Note	At December 31, 2006	2007	2008	2009	2009 (unaudited – Note 2.1)
		(in HUF millions)				(million USD)
ASSETS						
Current assets						
Cash and cash equivalents	6	60,207	47,666	66,680	34,270	182
Trade and other receivables	7	102,390	103,576	101,895	110,353	587
Other current financial assets	8.1	21,064	63,431	68,498	87,611	466
Current income tax receivable	9.1	6,735	1,857	2,676	4,075	22
Inventories	10	10,460	10,652	13,291	9,788	52
Non current assets held for sale	11	6,825	4,393	1,775	3,269	17
Total current assets		**207,681**	**231,575**	**254,815**	**249,366**	**1,326**
Non current assets						
Property, plant and equipment	12	550,900	534,731	543,689	550,745	2,928
Intangible assets	13	329,427	334,914	335,379	335,615	1,785
Investments in associates and joint ventures	14	5,771	4,936	4,136	186	1
Deferred tax assets	9.4	9,575	1,286	1,590	1,890	10
Other non current financial assets	8.2	23,786	24,977	26,094	27,682	147
Other non current assets	15	2,142	846	840	893	5
Total non current assets		**921,601**	**901,690**	**911,728**	**917,011**	**4,876**
Total assets		**1,129,282**	**1,133,265**	**1,166,543**	**1,166,377**	**6,202**
LIABILITIES						
Current liabilities						
Financial liabilities to related parties	16	77,756	25,210	96,331	70,573	375
Other financial liabilities	17	29,903	44,666	37,134	36,332	193
Trade payables	18	81,392	86,046	92,340	85,874	457
Current income tax payable	9.1	1,736	2,365	1,697	624	3
Provisions	19	12,370	20,060	15,842	12,692	68
Other current liabilities	20	111,232	44,671	38,092	32,228	171
Total current liabilities		**314,389**	**223,018**	**281,436**	**238,323**	**1,267**
Non current liabilities						
Financial liabilities to related parties	16	185,432	254,432	243,097	266,998	1,420
Other financial liabilities	17	20,697	55,038	23,039	26,221	139
Deferred tax liabilities	9.4	5,647	2,714	11,071	18,594	99
Provisions	19	3,614	12,665	10,049	9,721	51
Other non current liabilities	21	10,131	7,500	1,304	1,100	6
Total non current liabilities		**225,521**	**332,349**	**288,560**	**322,634**	**1,715**
Total liabilities		**539,910**	**555,367**	**569,996**	**560,957**	**2,982**
EQUITY						
Equity of the owners of the parent						
Common stock		104,277	104,275	104,275	104,275	554
Additional paid in capital		27,380	27,379	27,379	27,379	146
Treasury stock		(1,504)	(1,179)	(1,179)	(1,179)	(6)
Retained earnings		393,994	381,727	397,684	398,250	2,118
Other components of equity		(1,425)	(521)	5,787	9,755	52
Total Equity of the owners of the parent		**522,722**	**511,681**	**533,946**	**538,480**	**2,864**
Non-controlling interests		**66,650**	**66,217**	**62,601**	**66,940**	**356**
Total equity		**589,372**	**577,898**	**596,547**	**605,420**	**3,220**
Total liabilities and equity		**1,129,282**	**1,133,265**	**1,166,543**	**1,166,377**	**6,202**

These consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2010 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 STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2007	2008	2009	2009 (unaudited – Note 2.1)
		(in HUF millions, except per share amounts)			(million USD)
Revenue	22	676,661	673,056	643,989	3,424
Expenses directly related to revenues	23	(177,265)	(167,558)	(160,576)	(854)
Employee related expenses	24	(120,176)	(100,320)	(101,918)	(542)
Depreciation and amortization		(115,595)	(106,120)	(101,920)	(542)
Other operating expenses	25	(139,314)	(141,049)	(135,305)	(719)
Operating expenses		**(552,350)**	**(515,047)**	**(499,719)**	**(2,657)**
Other operating income	26	4,001	4,249	2,863	15
Operating profit		**128,312**	**162,258**	**147,133**	**782**
Finance expenses	27	(35,186)	(37,199)	(37,533)	(199)
Finance income	28	5,217	6,891	4,720	25
Share of associates' and joint ventures' profits / (losses)	14	934	1,341	(109)	(1)
Profit before income tax		**99,277**	**133,291**	**114,211**	**607**
Income tax expense	9.2	(26,221)	(27,698),	(20,958)	(111)
Profit for the year		**73,056**	**105,593**	**93,253**	**496**
Exchange differences on translating foreign operations		861	8,851	6,159	33
Revaluation of available-for-sale financial assets – before tax		233	(348)	(6)	-
Revaluation of available-for-sale financial assets – tax effect		(23)	35	-	-
Other comprehensive income for the year, net of tax		**1,071**	**8,538**	**6,153**	**33**
Total comprehensive income for the year		**74,127**	**114,131**	**99,406**	**529**
Profit attributable to:					
Owners of the parent		60,155	93,008	77,618	413
Non-controlling interests		12,901	12,585	15,635	83
		73,056	**105,593**	**93,253**	**496**
Total comprehensive income attributable to:					
Owners of the parent		61,059	99,316	81,586	434
Non-controlling interests		13,068	14,815	17,820	95
		74,127	**114,131**	**99,406**	**529**
Earnings per share (EPS) information:					
Profit attributable to the owners of the Company		60,155	93,008	77,618	413
Weighted average number of common stock outstanding (thousands) used for basic and diluted EPS		1,041,070	1,041,242	1,041,241	1,041,241
Basic and diluted earnings per share (HUF and USD)		57.78	89.32	74.54	0.40

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2007	2008	2009	2009 (unaudited – Note 2.1)
		For the year ended December 31,			
		(in HUF millions)			(million USD)
Cashflows from operating activities					
Profit for the year		73,056	105,593	93,253	493
Depreciation and amortization		115,595	106,120	101,920	542
Income tax expense		26,221	27,698	20,958	114
Finance expenses		35,186	37,199	37,533	199
Finance income		(5,217)	(6,891)	(4,720)	(25)
Share of associates' and joint ventures' profits / (losses)		(934)	(1,341)	109	1
Change in assets carried as working capital		6,897	1,481	(1,427)	(7)
Change in provisions		16 997	(10,265)	(3,918)	(21)
Change in liabilities carried as working capital		8,595	1,886	(4,231)	(23)
Income tax paid		(12,343)	(20,768)	(16,053)	(85)
Dividend received		72	127	2,149	11
Interest and other financial charges paid		(32,528)	(34,119)	(38,627)	(205)
Interest received		5,742	7,923	8,453	45
Other cashflows from operations		(5,999)	(4,354)	(1,604)	(9)
Net cash generated from operating activities		**231,340**	**210,289**	**193,795**	**1,030**
Cashflows from investing activities					
Purchase of property plant and equipment (PPE) and intangible assets	29	(103,097)	(116,039)	(110,228)	(586)
Purchase of subsidiaries and business units	30	(710)	(762)	(5,193)	(28)
Cash acquired through business combinations		485	-	460	2
Cash spun-off through demerger		(1,173)	-	-	-
Payments for other financial assets – net		(39,491)	(4,075)	(18,547)	(99)
Proceeds from disposal of subsidiaries and associates	5.5	-	1,233	2,074	11
Proceeds from disposal of PPE and intangible assets		9,105	6,194	1,135	6
Net cash used in investing activities		**(134,881)**	**(113,449)**	**(130,299)**	**(692)**
Cashflows from financing activities					
Dividends paid to shareholders and Non-controlling interest		(162,558)	(95,343)	(93,640)	(498)
Proceeds from loans and other borrowings		283,184	143,014	190,617	1,014
Repayment of loans and other borrowings		(230,238)	(126,901)	(193,537)	(1,029)
Proceeds from sale of treasury stock		391	-	-	-
Net cash used in financing activities		**(109,221)**	**(79,230)**	**(96,560)**	**(513)**
Exchange gains on cash and cash equivalents		221	1,404	654	3
Change in cash and cash equivalents		**(12,541)**	**19,014**	**(32,410)**	**(172)**
Cash and cash equivalents, beginning of year		60,207	47,666	66,680	354
Cash and cash equivalents, end of year	6	**47,666**	**66,680**	**34,270**	**182**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As restated (Note 1.2.2)

	Pieces	In HUF millions									
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Treasury stock (c)	Retained earnings (d)	Cumulative translation adjustment (e)	Revaluation reserve for AFS financial assets – net of tax (f)	Reserve for equity settled share based transactions (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2006 – as restated	**1,042,768,215**	**104,277**	**27,380**	**(1,504)**	**393,994**	**(1,474)**	**-**	**49**	**522,722**	**66,650**	**589,372**
Dividend (i)					(72,729)				(72,729)	-	(72,729)
Dividend declared to Non-controlling interests (j)									-	(13,729)	(13,729)
Elimination of the "B" share (a)	100								-	-	-
Share options exercised by managers (k)				325	66				391	-	391
Excess related to the acquisition of TSH (l)					3				3	1,540	1,543
TSH demerger (l)					243				243	(1,312)	(1,069)
Reduction in capital as a result of merger with T-Online and Emitel (m)	(22,700)	(2)	(1)		(5)				(8)	-	(8)
Total comprehensive income for the year					60,155	786	118		61,059	13,068	74,127
Balance at December 31, 2007 – as restated	**1,042,745,615**	**104,275**	**27,379**	**(1,179)**	**381,727**	**(688)**	**118**	**49**	**511,681**	**66,217**	**577,898**
Dividend (i)					(77,051)				(77,051)	-	(77,051)
Dividend declared to Non-controlling interests (j)									-	(18,431)	(18,431)
Total comprehensive income for the year					93,008	6,485	(177)		99,316	14,815	114,131
Balance at December 31, 2008 – as restated	**1,042,745,615**	**104,275**	**27,379**	**(1,179)**	**397,684**	**5,797**	**(59)**	**49**	**533,946**	**62,601**	**596,547**
Dividend (i)					(77,052)				(77,052)	-	(77,052)
Dividend declared to Non-controlling interests (j)									-	(13,481)	(13,481)
Reduction in capital as a result of merger with T-Kábel and Dél-Vonal (n)	(3,072)								-	-	-
Total comprehensive income for the year					77,618	3,971	(3)		81,586	17,820	99,406
Balance at December 31, 2009	**1,042,742,543**	**104,275**	**27,379**	**(1,179)**	**398,250**	**9,768**	**(62)**	**49**	**538,480**	**66,940**	**605,420**
Of which treasury stock	(1,503,541)										
Shares of common stock outstanding at December 31, 2009	**1,041,239,002**										

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

Notes to the consolidated statements of changes in equity

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2009. 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, 2009 is 1,042,742,543.

(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. Of the Treasury shares as at December 31, 2009, 103,530 can be used by the ex-CEO for his share options still outstanding (Note 24.1.3).

(d) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2009 amounted to approximately HUF 266,149 million (HUF 270,869 million at December 31, 2008).

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

(f) Revaluation reserve for available-for-sale (AFS) financial assets includes the unrealized gains and losses net of tax on available-for-sale financial assets.

(g) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The balance of this reserve of HUF 49 million in the reported periods represents the amount reserved for the 103,530 options (granted in 2000) Magyar Telekom's ex-CEO still has open (Note 24.1.3).

(h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries, in which the Group has less than 100% ownership.

(i) In 2009 Magyar Telekom Plc. declared HUF 74 dividend per share (HUF 74 in 2008, HUF 70 in 2007).

(j) The amount of dividends declared to Non-controlling owners includes predominantly the dividends declared to the Non-controlling owners of Makedonski Telekom (MKT) and Crnogorski Telekom (CT), the Group's subsidiaries.

(k) In 2007 managers exercised share 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 24.1.2.

(l) 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 Retained earnings (Note 5.3.2). 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. 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 Retained earnings.

(m) 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 Common stock, Additional paid in capital and Retained earnings, and the merged Company was registered with 22,700 less shares as of September 30, 2007.

(n) In 2009 Magyar Telekom Plc. merged with T-Kábel and Dél-Vonal, its 100% subsidiaries. During the merger, the owners of 3,072 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 Common stock, Additional paid in capital and Retained earnings. These amounts did not exceed HUF 1 million. The merged Company was registered with 3,072 less shares as of September 30, 2009.

Together with the approval of these financial statements for issue, the Board of the Company proposes a HUF 74 per share dividend distribution (in total HUF 77,052 million) to be approved by the Annual General Meeting of the Company in April 2010.

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, has the right to require amendments before acceptance. As the controlling shareholders 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 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.

On June 29, 2009, Magyar Telekom's Extraordinary General Meeting approved the merger of Magyar Telekom Plc., T-Kábel Kft. and Dél-Vonal Kft., two 100% subsidiaries of Magyar Telekom Plc. 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, 2009.

1.2 Investigation into certain consultancy contracts

1.2.1 Summary of the Investigations

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

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

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

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

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

- The information obtained by the Audit Committee and its counsel in the course of the investigation "demonstrates intentional misconduct and a lack of commitment to compliance at the most senior levels of Magyar Telekom, TCG, and MakTel during the period under investigation."
- As previously disclosed, with respect to Montenegrin contracts, there is "insufficient evidence to establish that the approximately EUR 7 million in expenditures made pursuant to four consultancy contracts ... were made for legitimate business purposes", and there is "affirmative evidence that these expenditures served improper purposes." These contracts were not appropriately recorded in the books and records of the Company and its relevant subsidiaries. As previously disclosed, the Company has already reclassified, in the Company's financial statements, the accounting treatment relating to certain of these contracts to more accurately account for these expenditures.
- As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by the Company and its affiliates.
- Between 2000 and 2006 a small group of former senior executives at the Company and the Company's Macedonian affiliates, authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between the Company and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."
- "The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements."
- In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:
  - intentional circumvention of internal controls;
  - false and misleading Company documents and records;
  - lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption;
  - lack of evidence of performance; and
  - expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Companies that could only be conferred by government action.

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

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

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

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

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

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

1.2.2 Accounting implications of the findings of the Investigation

As a result of the findings of the Investigation (Note 1.2.1), we identified three consultancy contracts, the payments of which were erroneously capitalized as part of the goodwill arising on the original acquisition of Makedonski Telekom in 2001 and the goodwill arising on Makedonski Telekom's repurchase of 10% of its shares in 2006. These amounts are now corrected and accounted for as though these payments had been expensed in 2001 and 2006 rather than capitalized as part of goodwill as originally reported.

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

The table below shows the impacts of these restatements on the Statements of financial position.

In HUF millions	2006	2007	2008
Intangible assets			
As reported	331,740	337,227	337,692
Change due to restatement	(2,313)	(2,313)	(2,313)
As restated	**329,427**	**334,914**	**335,379**
Provisions – non current			
As reported	3,533	12,886	9,417
Change in presentation (Note 2.1.5)	(1,401)	(1,703)	(850)
After change in presentation	**2,132**	**11,183**	**8,567**
Change due to restatement	1,482	1,482	1,482
As restated	**3,614**	**12,665**	**10,049**
Retained earnings			
As reported	397,311	385,044	401,001
Change	(3,317)	(3,317),	(3,317),
As restated	**393,994**	**381,727**	**397,684**
Non-controlling interests			
As reported	67,128	66,695	63,079
Change	(478)	(478)	(478)
As restated	**66,650**	**66,217**	**62,601**

The restatements had no impact on the Statements of comprehensive income or the Statements of cash flows.

1.3 Public service concession and license arrangements

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary, Macedonia and Montenegro. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee, which is capitalized and amortized over the original duration of license or concession, and also requires annual payments, which are recognized as Other operating expenses (included in Fees and levies) in the year the payment obligation refers to.

The most important features of the regulations of these services are described below.

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 of Hungary (NCAH) is the supreme supervisory body.

Magyar Telekom Plc. has been a Universal Service Operator (USO) since 2002. According to the Act on Electronic Communications, universal services are basic communications services that should be available to all customers at an affordable price. The last effective USO contract was signed in 2004 and expired at the end of 2008; no new contract has been concluded since. The Ministry's intention is to preserve the universal service and for that reason through the amendment of a decree in December 2008 orders the operators formerly in universal service provider status – amongst them Magyar Telekom Plc. – to continue the provisioning of universal service under unchanged terms and conditions. Currently the Company does not consider itself a universal service provider due to lack of an effective universal service contract. However, discussions are ongoing between the responsible Minister and the earlier universal service providers on a future possible universal service contract and on the modifications of the underlying regulation in line with the changed market situation. The necessary modifications of the telecommunications law already entered into force as of January 1, 2010 and the modification of the concerning government and ministerial decrees is ongoing as well. However a new universal service contract – based on these conditions - has not yet come into effect.

In the field of electronic communications Magyar Telekom was designated as an SMP (an operator with significant market power) in 12 fixed line markets out of the 18 relevant markets stipulated by the EU in 2004 and 2005. These 12 markets include all retail and wholesale telephony services, the market of wholesale leased line termination, the market of minimum set of leased lines and the wholesale broadband market. As a result of the market analysis conducted at the end of 2006 the Company was designated as SMP on the same markets as in the first round analysis in 2004 with basically no changes in the corresponding obligations. In 2008 the NCAH commenced the third round of market analysis. To date only the mobile termination wholesale market analysis resolution was published in this round of analysis. SMP resolutions concerning all other markets subject to analysis are expected to be published in Q2, 2010.

Currently in Hungary, retail 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 there is a prohibition of price squeeze in effect for SMP operators and, in accordance with the Act on Unfair and Restrictive Market Practices, retail prices should be set in accordance with wholesale tariffs providing an acceptable level of retail margins (i.e. no price squeeze).

Magyar Telekom is Hungary's leading fixed line broadband service provider in the wholesale and one of the leading ones in the retail market. In 2005 the NCAH designated the Company as an SMP operator on the wholesale broadband access market. In accordance with the effective resolution, all retail products shall be 'reproducible' by competitors based on the wholesale service. Consequently, the full retail portfolio shall have a wholesale equivalent compliant to the pricing regulations (retail minus methodology) set forth by the NCAH. The Company has a non-discrimination obligation, which means that the same terms and conditions shall be granted in terms of wholesale services to competitors under identical circumstances.

According to the Act on Electronic Communications, designated SMP operators are obliged to prepare reference offers for unbundled local loops (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NCAH. The pricing of these services has to be cost based and calculated – according to the NCAH resolution on 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 SMP operators may refuse the offer for unbundling if there are technical or economic barriers or if the provision of access to the local loop or its broadband network access would endanger the integrity of the SMPs' network.

SMPs are also obliged to prepare reference offers for interconnection (RIO), containing applicable fees, 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 NCAH, and prices have to be based on LRIC. Fees in the currently effective reference offers are applicable from April 1, 2009.

According to the Act on Electronic Communications, designated SMP operators are obliged to enable carrier selection to their subscribers. Consequently, 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 RIO based 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 fixed telephone numbers within the same geographical area.

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, Makedonski Telekom (MKT). MKT 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. With the latest changes of the ECL published on August 4, 2008, the existing Concession Contract of MKT is no longer valid as of September 4, 2008. On September 5, 2008 the Agency for Electronic Communications (the Agency), ex officio, has issued a notification to MKT for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contract. Radiofrequency licenses were issued to the operators for the bands granted with the Concession Contracts in a form prescribed by the ECL.

On December 27, 2007 the Agency brought a decision to publish a public tender for the universal provider of electronic communications services in the Republic of Macedonia. The opening of the qualified bids was on February 18, 2008, and on February 22, 2008 based on the decision of the Agency, MKT was selected as one of the candidates for universal service provider in the prequalification. Written invitation which should have been submitted by the Agency to selected candidates from the first phase, in order to submit offer for selection of universal service provider, has not been received yet.

The regulatory framework for the retail tariff regulation for MKT until August 2008 was provided in the Concession Contract. With the latest changes of the ECL in August 2008 and the published bylaw for retail price regulation in September 2008, the Agency may prescribe one of the following ways of retail regulation of fixed telephony services: price cap, individual price approval, cost based prices or benchmarks. On December 17, 2009, the Agency published the draft analysis for the relevant markets 1-6 related to fixed voice retail services for public debate. Based on the draft analysis, the Agency is planning to impose retail price regulation on MKT as well as to equal the fixed voice access prices for residential and business segment.

On October 28, 2009 the Agency published guideline for price squeeze, for which MKT sent comments, and currently public debate is ongoing after which the final guidelines will be enacted.

Under the ECL, MKT 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. MKT had a cost based price obligation for the Regulated wholesale services, using fully distributed costs (FDC) methodology until July 2007 and using Long Run Incremental Costs methodology (LRIC) subsequently. A proposal for interconnection fees with LRIC was submitted by MKT in July 2007 and for unbundling fees in December 2007. On May 23, 2008, the Agency issued approval for the new decreased interconnection and unbundling fees, based on the audit report on MKT's costing accounting system issued by an independent auditor. On December 31, 2008 the Agency approved the new unbundling fees which entered in force from January 2009. The Agency engaged expert consultancy services for LRIC bottom-up model development for which the result is expected in 2010. Based on several enacted bylaws published in second half of 2008 MKT has prepared several additional regulated wholesale products, Wholesale Line Rental, Wholesale Leased Line and Local Bit stream access. MKT 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, MKT signed the first RIO (Reference Interconnection Offer) based Interconnection Agreement with an alternative fixed network operator. On April 16, 2007, MKT signed the first RUO (Reference Unbundling Offer) based Unbundling Agreement with an alternative fixed network operator. MKT implemented number portability starting from September 1, 2008.

1.3.3 Montenegrin Fixed line

The Group's Montenegrin subsidiary, Crnogorski Telekom (CT) is registered to provide fixed line telecommunications services in Montenegro as well as to provide domestic voice and data services as well as VOIP, leased line, public payphone, and cable television, value added, etc. services. The telecommunications sector in Montenegro is regulated by the Law on Electronic Communications that came into force in August 2008. The Law is based on the 2002 regulatory framework of the EU. All regulations that are contrary to the law became automatically invalid and new ones have been issued or will have to be issued.

In Montenegro, for the time being there is no obligation to introduce local loop unbundling, bit stream access or accounting separation. CT implemented Carrier selection in 2008. It can be expected that CT will have to implement some or all of the obligations above in the coming years. Accordingly, number portability will be introduced by August 2011.The new Law defined Crnogorski Telekom as an operator with significant market power in the markets of fixed voice telephony network and services, including the market of access to network for data transfer and leased lines as well as the termination of calls within its network, however, the Law did not prescribe the remedies CT should introduce as a consequence. RIO rates are based on benchmarks as there is no approved cost accounting methodology prescribed by the regulator in Montenegro. The Agency for Electronic Communications and Postal Services has started the market analysis process and identified the relevant telecommunication markets in Montenegro identical to those in the EC recommendation 2007/879/EC. It can be expected that within a few years cost oriented RIO prices will have to be implemented in the country.

Montenegro signed a Stabilization and Association Agreement with the EU and a transitory Agreement is in force since January 1, 2008. The agreement is requiring the harmonization of the telecommunications regulations with the regulatory framework of the EU within three years of the ratification of the Agreement.

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 was 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 till October 7, 2014. The duration of the concession regarding the DCS 1800 public mobile radio telephone service is 15 years starting from the execution of the new concession agreement (October 7, 1999 to October 7, 2014). As stipulated 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 invitation of a tender. On November 8, 2007, the Company signed the renewed Concession Contract along with the Cooperation Agreement with the Minister that is 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, applicable only in case of other mobile operators.

In January 2005 and October 2006 the NCAH designated T-Mobile HU as having significant market power in the mobile wholesale call termination market, and it is currently subject to regulatory obligations regarding the termination charge of calls into its network. In December 2008 the NCAH designated T-Mobile HU as an SMP for the third time in a row and in its resolution reinforced the symmetric mobile termination fees applicable from

January 1, 2009, and set out further reduction of tariffs until December 2010 based on a new 'glide path'. The Company had appealed in court against the resolution.

Since June 30, 2007, an EU regulation has been regulating international roaming tariffs for wholesale and retail customers on the basis of a price cap system. The Regulation prescribed a glide-path that mandates further annual reductions of wholesale and retail prices in the forthcoming years. As of July 2009 the EU introduced regulated tariffs for SMS and data roaming similarly to the regulation of voice roaming.

The National Table of Frequency Allocations and the Radio Application Table was modified in October 2008 enabling the invitation of bidders for the usage rights of 450 MHz (block "B") and 26 GHz (blocks "C-G") spectrum.

In the tender for the fourth mobile license a combined IMT-2000/UMTS/ DCS 1800/E-GSM900 spectrum package (so called 'A' block) was offered for new entrant candidates. Incumbent mobile operators were excluded from the bid. It was stipulated that the frequency usage rights could be transferred wholly (though not to existing mobile operators), and in the case of E-GSM900 band there was a possibility of transferring maximum 16 channels to incumbent mobile operator(s). Four companies submitted bids. On March 16, 2009, the tender for the 4th mobile license was cancelled, and on April 24, the NCAH dismissed the appeals of 3 bidders. One of the bidders, DreamCom appealed at the Municipal Court asking for the review of the second instance decision of the NCAH, but the court upheld the NCAH's decision. Now, the 4th GSM/UMTS spectrum package is available for a new tender. It is expected that the new tender will be executed in the course of the implementation of the modified GSM Directive (2009/114/EC Directive, on the frequency bands to be reserved for the coordinated introduction of public pan-European cellular digital land-based mobile communications) in 2010. Member States have 6 months to transpose the modified GSM Directive into their national legislation until May 9, 2010.

Only one license was offered on the 450 MHz tender, for digital cellular system having wider bandwidth. Incumbent mobile operators and 3.5 GHz FWA license holders were excluded from the bid. Two companies submitted bids. The NCAH declared the tender for the 450 MHz spectrum block's usage right ("B" block) unsuccessful on April 30, 2009.

Five licenses were offered in the 26 GHz bid; 2 licenses for 112 MHz wide blocks, 1 license for a 84 MHz wide block and 2 licenses for 56 MHz wide frequency block. Incumbent mobile operators could bid for the 84 MHz wide block only. It was stipulated that the frequencies could be used for publicly available electronic communication services and for the operation of electronic communications networks (mobile backhaul). T-Mobile HU submitted its bid document solely for the 26 GHz 'D' block and won the spectrum usage right license on April 30, 2009. Two companies submitted bids for the 'E' block, which were granted to Antenna Hungária, the leading Hungarian land and satellite broadcasting and distribution company. The tender for 2 pieces of 112 MHz and one 56 MHz block was unsuccessful.

The National Table of Frequency Allocations and the Radio Application Table was modified on November 27, 2009 changing the status of 2.6 GHz spectrum blocks from „planned" to assignable.

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), Magyar Telekom's subsidiary, is the leading mobile service provider in Macedonia. With the changes of the Electronic Communications Law published on August 4, 2008, the existing Concession Contract of T-Mobile MK ceased to be valid as of August 5, 2008. On September 5, 2008 the Agency for Electronic Communications, ex officio, issued a notification to T-Mobile MK for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile MK with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until September 5, 2018, which can be renewed up to additional 20 years in accordance with the ECL. 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 (competitor of T-Mobile MK, rebranded to One in November 2009) were designated with SMP status on Market 16 (Call termination services in public mobile communication networks) 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). T-Mobile MK published a RIO with regulated termination rate effective from August 1, 2008. T-Mobile MK was obliged to submit financial reports for 2008 based on accounting separation by May 31, 2009 and submitted them on June 1, 2009. Second round analysis of Market 16 is ongoing and includes the third mobile operator VIP Operator (subsidiary of Mobilkom Austria). The Agency is also conducting market analysis on relevant markets defined in the Decision on relevant market determination of August 17, 2005. The Agency has engaged expert consultancy services for calculation of WACC for SMP designated operators (fixed and mobile). In September 2009, the Agency requested data for calculation of WACC to SMP operators (T-Mobile MK, Cosmofon and Makedonski Telekom). It has also engaged expert consultancy services for LRIC bottom-up model development as means for price control of SMP operators.

On June 30, 2009 the Agency brought a Decision for setting the maximum amount of the one-time fee for number portability service. Prior to the decision the price was established individually by the operators. T-Mobile MK initiated a procedure before the Administrative Court to dispute the decision of the Agency. The administrative procedure has not started yet.

One won the public tender for a license for 3G radiofrequencies utilization in November 2007 and started the 3G commercial operations from August 12, 2008. On September 2, 2008 a decision for granting three 3G licenses was published. T-Mobile MK started commercial operations of the 3G services on June 11, 2009. The validity of the license is 10 years i.e. December 17, 2018 , with a possibility for extension for 20 years in accordance with the ECL.

Since the beginning of 2009 three attempts have been made to award additional two licences for 3G radiofrequencies. On January 27, 2009 a public tender for granting two licences for 3G radiofrequencies was published. No bids were received and no license was awarded. On July 16, 2009 the tender was repeated under the same conditions and experienced the same outcome in August 2009. On December 21, 2009 the tender was published again under the same conditions. Its outcome is expected in 2010.

On January 10, 2009 a public tender for awarding two licences for 2G radiofrequencies in the 1800 MHz band was published. T-Mobile MK was awarded one license on June 9, 2009. The validity period is 10 years, with a possibility for extension for 20 years in accordance with the ECL. Also, on January 10, 2009 a tender for one license in the 1800–1805 MHz for broadband wireless access on the whole territory of republic of Macedonia was published. On May 5, 2009 the Agency brought a Decision pronouncing Mobik Telekomunikacii the best bidder on the tender. Commercial start defined by the tender conditions is 6 months from awarding of the license.

In July 2009, the Agency put several secondary electronic communication legislation acts on public debate. So far, only modified Rulebook of number portability was enacted presenting further stimulation of number portability service. The enactment of these regulations will improve the regulatory framework.

1.3.6 Montenegrin Mobile

Crnogorski Telekom, the Group's Montenegrin subsidiary is also providing mobile services under the T-Mobile brand (T-Mobile CG). CT is registered as one of three GSM/UMTS providers in Montenegro. T-Mobile CG, as the second mobile operator, was launched on July 1, 2000. The third mobile operator entered the market in 2007. T-Mobile CG started 3G operations in 2007.

According to the Law on Electronic Communications (Note 1.3.3), T-Mobile CG is an SMP in the market of termination of voice calls in its own network however no specific remedy was introduced by the Law. Accordingly, number portability will be introduced by August 2011 also in the mobile the sector. Interconnect rates have been approved by the Regulator based on benchmarks. It can be expected that cost oriented termination prices will be implemented in the coming years.

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 endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) effective at the time of preparing the consolidated financial statements and applicable to Magyar Telekom have been endorsed by the EU. Therefore the consolidated financial statements currently also comply with IFRS as issued by the IASB and also comply with the Hungarian Accounting Law on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The consolidated financial statements are presented in millions of HUF. For the convenience of the reader, the consolidated Statement of financial position, Statement of comprehensive income and Statement of cash flows for the year 2009 are also presented in millions of U.S. dollars (USD) translated at a rate of HUF 188.07 to USD 1 (the official rate of the National Bank of Hungary at December 31, 2009). 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 2009

– IAS 1 (revised) – Presentation of Financial statements. Revised IAS 1 introduced overall requirements for the presentation of financial statements, guideline for their structure and minimum requirements for their contents. The Group applied the requirements of the revised Standard from January 1, 2009. The most significant change in the presentation of the financial statements is the extension of the Income statement with Other comprehensive income, and that the Income statement's name changed to Statement of comprehensive income. This also had an effect on the Statement of changes in equity, whereby a number of changes during the year previously disclosed in separate lines are now included in Total comprehensive income for the year. Also, the term of Balance sheet changed to Statement of financial position, and the term Minority interest changed to Non-controlling interest. Further, as previous years' statements of financial position were restated according to note 1.2.2 and 2.5, we disclosed four Statements of financial position.

– IAS 23 (revised) Borrowing Costs. Under the revised IAS 23 an entity must 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 applied IAS 23 as of January 1, 2009, which did not have any impact on the financial statements as it had already been the Group's accounting policy to capitalize eligible borrowing costs on qualifying assets.

– IFRS 2 (amended) 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 Group applied IFRS 2 as of January 1, 2009, which had no impact on the accounts as the Group has no significant share based compensations.

– IFRS 7 (amended) Financial Instruments: Disclosures (Improving Disclosures about Financial Instruments). The amendments are in response to calls from constituents for enhanced disclosures about fair value measurements and liquidity risk in the wake of the recent financial crisis. The revised disclosure requirements are applicable for annual periods beginning on or after January 1, 2009. The Group applied the amended standard from January 1, 2009, which did not cause significant changes in the presentation of the Group's financial statements.

– 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 adopted IFRS 8 as of January 1, 2009. The adoption resulted in a significant restructuring of the Group's segment disclosure. The Group restructured the way chief operating decision makers decide on allocation of resources in 2008, which was different from the reportable segments of the Group as per IAS 14. In the new structure concluded during 2008, the primary focus is on the customer segmentation (consumer / business) rather than on the technology serving the customers (fixed line / mobile). Comparative information has been restated accordingly. See also Note 2.20 and Note 31. The Group early adopted the IFRS 8 amendment removing the requirement of segment asset disclosures if the CODM does not monitor those.

– 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 applied this Interpretation as of January 1, 2009. As for measurement, IFRIC 13 did not cause any change in the Group's accounts as the loyalty programs had been accounted for in substantially the same way as included in the recently issued IFRIC 13. As for presentation, however, there was a change as the previously recognized liability for the undelivered elements was included in Provisions, which was changed to Deferred revenue as a result of the application of IFRIC 13. The comparative Statements of financial position of the Group were restated accordingly. See also Note 2.1.5.

– IFRIC 15 Agreements for the Construction of Real Estate. IFRIC 15 refers to the issue of how to account for revenue and associated expenses by entities that undertake the construction of real estate and sell these items before construction is completed. The interpretation defines criteria for the accounting in accordance with either IAS 11 or with IAS 18. IFRIC 15 shall be applied for annual periods beginning on or after January 1, 2009. The adoption of IFRIC 15 had no impact on the accounts as these are not typical transactions of the Group.

2.1.2 Standards, amendments and interpretations effective in 2009 but not relevant for the Group

– IAS 32 (amended) Financial Instruments: Presentation. The IASB amended IAS 32 with respect to the Statement of financial position 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. As the Group does not have such instruments that would be affected by the amendments, the amendments to the standard did not have any impact on the Group's financial statements.

– IFRS 1 First-time Adoption of IFRS (revised). As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revisions to that are relevant for the Group.

– IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 refers to the application of Net Investment Hedges. Mainly, the interpretation states which risk can be defined as the hedged risk and where within the group the hedging instrument can be held. Hedge Accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency. A derivative or a non-derivative instrument may be designated as a hedging instrument. The hedging instrument(s) may be held by any entity or entities within the group (except the foreign operation that itself is being hedged), as long as the designation, documentation and effectiveness requirements of IAS 39.88 that relate to an net investment hedge are satisfied. IFRIC 16 shall be applied for annual periods beginning on or after October 1, 2008. As Magyar Telekom does not apply such hedges and does not apply hedge accounting, IFRIC 16 has no impact on the Group's accounts.

– IFRIC 9 and IAS 39

In March 2009 the IASB published amendments to IFRIC 9 (Reassessment Embedded Derivatives) and IAS 39 (Financial Instruments: Recognition and Measurement). As a result, entities are required to:
- assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category
- make such an assessment on the basis of the circumstances that existed when the entity first became a party to the contract, or, if later, when there was a change in the contract that significantly modified the cash flows determine whether the fair value of the separated embedded derivative can be measured reliably; if not, the entire hybrid (combined) financial asset must remain in the fair value through profit or loss category

When an entity performs the assessment as required by the amendments it does not apply paragraph (c) of IAS 39, which states that separation of an embedded derivative from the host contract is required only if the hybrid (combined) instrument is not measured at fair value through profit or loss. The amendments are applicable for annual periods ending on or after June 30, 2009. The Group has no hybrid financial assets, therefore, the amended standard and interpretation did not have any effect on the Group's financial statements.

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

– IAS 24 (revised). In November 2009, the IASB issued a revised version of IAS 24 Related Party Disclosures. Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. Furthermore the IASB has simplified the definition of related party and removed inconsistencies. The revised standard shall be applied retrospectively for annual periods beginning on or after January 1, 2011. Earlier application is permitted. Governments have no ownership in Magyar Telekom Plc., therefore, the revised standard will not have a significant impact on the disclosures in the Group's financial statements. The European Union has not yet endorsed the revised standard.

– IAS 27, IFRS 3 (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 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 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. We believe that that the amended standards will not have a significant impact on the Group's Statement of comprehensive income or Statement of financial position when applied from January 1, 2010. The European Union has endorsed both amended standards.

– IFRS 2 (amended) Share-based Payment. The amendments related to Group Cash-settled Share-based Payment Transactions were published in June 2009. Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements. 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 from January 1, 2010. Amendments to IFRS 2 shall be applied retrospectively for annual periods beginning on or after January 1, 2010. The amendments also incorporate the guidance contained in IFRIC 8 (Scope of IFRS 2) and in IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions). As a result, the Board withdrew IFRIC 8 and IFRIC 11. The European Union has not yet endorsed the amended standard.

– IFRS 9 Financial Instruments. The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets. The remaining phases of this project, dealing with the classification and measurement of financial liabilities, impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress. The IASB expects to have completed the replacement of IAS 39 by end of 2010.

At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

- IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) the objective of an entity´s business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

- Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

An entity shall apply IFRS 9 for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before January 1, 2012 the IFRS provides transition relief from restating comparative information. The adoption of the new standard will probably result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has not yet endorsed the standard.

– IFRIC 18 Transfers of Assets from Customers. The Interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to be used explicitly for the acquisition of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The Interpretation is effective for annual periods beginning on or after July 1, 2009 and applies prospectively. However, limited retrospective application is permitted. The Group's applicable transactions are not material, therefore, we do not expect the amended standard to have a significant effect on the Group when applied from January 1, 2010. The European Union has also endorsed this interpretation.

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

– IAS 32 (amended) – The IASB published an amendment to IAS 32 Financial Instruments: Presentation in October 2009. The amendment clarifies the classification of rights issues as equity or liabilities for rights issues that are denominated in a currency other than the functional currency of the issuer. These rights issues are recorded as derivative liabilities before the amendment. The amendment requires that such right issues offered pro rate to all of an entity's existing shareholders are classified as equity. The classification is independent of the currency in which the exercise price is denominated. The application of the amendment is required for annual periods beginning on or after February 1, 2010. An earlier application is permitted. The amendment will have no impact on the Group's financial statements as Magyar Telekom has no such instruments. The European Union has also endorsed the amended standard.

– IAS 39 (amended) – The IASB published an amendment in August 2008 to IAS 39 with respect to hedge accounting. The amendment "Eligible Hedged Items" allows to designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. The amendment of IAS 39 shall be applied retrospectively for annual periods beginning on or after July 1, 2009. The amendment will not have any impact on Magyar Telekom's accounts as the Group does not apply hedge accounting. The European Union has also endorsed the amended standard.

– IFRS 1 Additional Exemptions for First-time Adopters. The IASB amended IFRS 1 in July 2009 and in January 2010. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Group. The European Union has not yet endorsed the revised standard.

– IFRIC 14 (amended) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. In November 2009, the IASB issued an amendment to IFRIC 14, which corrects an unintended consequence of IFRIC 14. Without the amendments, in some circumstances entities are not permitted to recognize some voluntary prepayments for minimum funding contributions as an asset. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendments are effective for annual periods beginning January 1, 2011. The amendments must be applied retrospectively to the earliest comparative period presented. The amended interpretation is not applicable to Magyar Telekom as the Group has no funded defined post-retirement benefit schemes. The European Union has not yet endorsed the amended interpretation.

– IFRIC 17 Distributions of Non-cash Assets to Owners. This interpretation issued in November 2008 refers to the issue when to recognize liabilities accounted for non-cash dividends payable (e.g. property, plant, and equipment) and how to measure them. In addition, the interpretation refers to the issue how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. As the Group does not distribute non-cash dividends, IFRIC 17 will have no impact on the Group's financial statements. The European Union has also endorsed the interpretation.

– IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation issued in November 2009 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application permitted. The interpretation shall be applied retrospectively. The interpretation is not applicable to Magyar Telekom as the Group does not extinguish any of its financial liabilities with equity instruments. The European Union has not yet endorsed this interpretation.

– IFRS for Small and Medium-sized Entities.
In July 2009 the IASB issued its IFRS for Small and Medium-sized Entities, which is not relevant for Magyar Telekom.

2.1.5 Changes in presentation

Reclassifications between liabilities and provisions

IFRIC 13 – Customer Loyalty programs 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 applied IFRIC 13 from January 1, 2009, which resulted in no change in the measurement of such customer credits, but before the application of IFRIC 13, the Group had recognized these liabilities as provisions. As a result of the application, we have reclassified these items from provisions to liabilities (deferred revenue), and restated the Group's comparative Statements of financial position accordingly. The table below shows the impact of the above change in our presentation.

In HUF millions	2006	2007	2008
Provisions – current			
As reported	13,004	20,811	17,235
Change	(634)	(751)	(1,393)
As restated	**12,370**	**20,060**	**15,842**
Other current liabilities			
As reported	110,598	43,920	37,210
Change	634	751	1,393
As restated	**111,232**	**44,671**	**38,603**
Provisions – non current			
As reported	3,533	12,886	9,417
Change	(1,401)	(1,703)	(850)
After change in presentation (before impact of investigation – Note 1.2)	**2,132**	**11,183**	**8,567**
Other non current liabilities			
As reported	8,730	5,797	583
Change	1,401	1,703	850
As restated	**10,131**	**7,500**	**1,433**

2.2 Consolidation

2.2.1 Consolidation

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 Profit for the year (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 Non-controlling interests are treated as third party transactions. Gains or losses arising on disposals to Non-controlling interests are recorded in the Profit for the year. Purchases from Non-controlling interests result in goodwill (or other income), being the difference between any consideration transferred 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 reflecting 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 arising on acquisitions, and 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 Profit for the year (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 company, 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 company. 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, 2009 and 2008 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
	2008	2009		
Incorporated in Hungary:				
T-Kábel	100%	-	(a)	Cable TV operator
Dataplex	100%	100%		IT hardware co-location service provider
Origo	100%	100%		Internet and TV content provider
KFKI	100%	100%		System integration and IT services
IQSYS	100%	100%		System integration and IT services
Pro-M	100%	100%		Professional Mobile Radio (PMR) network operator
ISH	-	100%		Integrated healthcare IT services
Telekom New Media	-	100%		Interactive service provider of telecommunications applications
Incorporated in Macedonia:				
Makedonski Telekom (MKT)	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%	100%		Holding company
Incorporated in Montenegro:				
Crnogorski Telekom (CT)	76.53%	76.53%	(b)	Telecom service provider
T-Mobile Crna Gora (T-Mobile CG)	76.53%	-	(b)	Cellular telecom service provider
Internet Crna Gora (ICG)	76.53%	-	(b)	Internet service and content provider
Incorporated in Romania:				
Combridge	100%	100%		Wholesale telecommunications service provider
Incorporated in Bulgaria:				
Orbitel	100%	100%		Alternative telecommunications and internet service provider
Novatel BG	100%	100%		Wholesale telecommunications service provider
Incorporated in the Ukraine:				
Novatel UA	100%	100%		Alternative telecommunications and internet service provider

(a) T-Kábel merged into Magyar Telekom Plc. as of September 30, 2009.

(b) T-Mobile Crna Gora and Internet Crna Gora merged into Crnogorski Telekom as of May 1, 2009.

Associates / Joint ventures	Group interest in capital as at December 31,			Activity
	2008	2009		
Incorporated in Hungary:				
Hunsat	50%	50%		Satellite telecommunications
Magyar RTL (M-RTL)	25%	-	(a)	Television broadcast company
IKO-Telekom Media Holding	50%	-	(a)	Media holding company

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

(a) Magyar Telekom signed a strategic co-operation agreement with IKO Production Kft, the other 50% owner of IKO-Telekom Média Holding (ITMH) in 2008 to split the investments of ITMH and gain full control of ITMH's two 100% owned subsidiaries, IKO New Media (IKO NM) and IKO Content & Rights (IKO CR). According to the co-operation agreement, the properties of ITMH were split between the owners by way of a demerger; as a result of which Magyar Telekom gained 100% ownership over IKO NM and IKO CR as of May 31, 2009, while ITMH including the 31% stake in M-RTL remained with IKO Production.

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, as the Group's presentation currency is the Hungarian Forint.

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 Profit for the year (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.

- Assets and liabilities for each Statement of financial position presented are translated at the closing rate at the date of that Statement of financial position.

- Statements of comprehensive income are translated at cumulated 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 Profit for the year as part of the gain or loss on sale.

2.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets of the Group include cash and cash equivalents, equity instruments of another entity (available-for-sale) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity (derivatives).

Financial liabilities of the Group include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives); or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity (derivatives).

Financial liabilities, in particular, include liabilities to banks and related parties, finance lease payables, trade payables and derivative financial liabilities.

Finance lease receivables and liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases. See Note 2.17.

The fair value of traded financial instruments is determined by reference to their market prices at the end of the reporting period. This typically applies to AFS financial instruments.

The fair value of financial instruments that are not traded in an active market (e.g. 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 end of the reporting period.

The fair value of other financial instruments is also determined by using discounted cash flow valuation technique. The expected quarterly cash inflows or outflows are discounted by market based interest rates interpolated from the official Budapest and EUR Interest Rate Swap.

The fair value of long term fixed-rate financial liabilities (Financial liabilities to related parties, Bank loans and Nonconvertible bonds and debentures) is also determined by using discounted cash flow valuation technique. The cash flows of the liabilities are discounted by interest rates, which are reasonable to the Group for similar financial instruments. The carrying amount of floating-rate financial liabilities or expiring within one year approximate the fair values at the end of the reporting period.

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Group's financial instruments are provided in Note 3.

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:
- at fair value through profit or loss
- loans and receivables
- available-for-sale (AFS)
- held-to-maturity

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 Profit for the year.

The Group assesses at each financial statement 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.

Impairment losses of financial assets are recognized in the Profit for the year against allowance accounts to reduce the carrying amount until the derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the Statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds form disposal and the (net) carrying amount derecognized.

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.

2.4.1.1 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".

Assets in this category are classified as current assets (Other financial assets). No reclassification between categories have been made in the past and no reclassifications are expected in the future.

Assets in this category are initially recognized and subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized in the Profit for the year (Other financial income) in the period in which they arise. The Group only classifies derivative financial instruments in this category.

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 financial statement dates. Magyar Telekom does not apply hedge accounting for its financial instruments, therefore all gains and losses are recognized in the Profit for the year (Finance income).

2.4.1.2 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 financial statement 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.

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

The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

(a) 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.

(b) 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 Profit for the year (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 is also performed in special circumstances, if there is an overdue receivable from any designated customer with different credit risk attributes.

When a trade receivable is established to be uncollectible, it is written off against Other operating expenses in the Profit for the year (Bad debt expense) with a parallel release of cumulated impairment. Subsequent recoveries of amounts previously written off are credited against the same line of the Statement of comprehensive income.

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 the 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 Profit for the year as a reduction to Other operating expenses (Bad debt expense).

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).

(c) Employee loans

Employee loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment loss.

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.

2.4.1.3 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 financial statement 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 consolidated nor included using the equity method in the consolidated financial statements;
- unlisted equity instruments that are neither consolidated nor included using the equity method in the consolidated financial statements;
- debt instruments.

AFS financial assets are initially recognized and also subsequently carried at fair value. The unrealized changes in the fair value of available-for-sale financial assets are recognized in equity (Revaluation reserve for AFS financial assets).

Interest on available-for-sale debt securities calculated using the effective interest method is recognized in the Profit for the year (Finance income). Dividends on available-for-sale equity instruments are recognized in the Profit for the year (Finance income) when the Group's right to receive payments is established.

The Group assesses at each financial statement 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 that can be reliably estimated. If any such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Finance income). Impairment losses recognized on equity instruments are not reversed through the Profit for the year, while impairment losses recognized on debt instruments are reversed through the Profit for the year.

When AFS financial assets are sold or redeemed, therefore derecognized, the fair value adjustments accumulated in equity are reclassified from Other comprehensive income to Profit for the year (Finance income).

2.4.1.4 Held-to-maturity investments

This 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. The Group does not classify any of its financial instruments in this category.

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.

No reclassification between categories has been made in the past and no reclassifications are expected in the future. Both types of financial liabilities are initially recognized at fair value, while subsequent measurements are different (see below). We remove a financial liability (or a part of a financial liability) from the Statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expired.

2.4.2.1 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".

(a) 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 Profit for the year (Finance expenses) over the period of the borrowings.

(b) 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.

2.4.2.2 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 only derivative financial instruments are assigned to this category.

The Group does not designate any derivatives as hedging instruments, therefore, all 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 financial statement dates. Magyar Telekom does not apply hedge accounting for its financial instruments, therefore all gains and losses are recognized in the Profit for the year (Finance income).

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 commonly 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 basis. The cost of inventories comprises all costs of purchase, cost of construction and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

2.6 Non current assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Group, and has been identified for sale, which is highly probable and 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 Profit for the year (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 Profit for the year 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 that meets the recognition criteria to be recognized as an asset or an addition to an asset 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 Profit for the year 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 Profit for the year (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. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 12. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

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 generally 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 or business 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 or business include the carrying amount of goodwill relating to the entity or business sold.

Amortization 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 for consistency with current development and replacement plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 13. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

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 cash flows (cash-generating units – CGUs).

The fair values of the individual tangible and intangible assets of the Group in most cases can not be determined as individual assets do not generate cash flows. Instead, the Group determines CGUs to which the individual assets are allocated and the fair values can only be determined at CGU level, primarily by using discounted cash flow analyses. See also Note 4.3. Corporate assets which have the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs when conducting impairment tests.

Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred. When conducting the impairment tests, Magyar Telekom allocates goodwill to its operating segments. Operating segments may include one clearly identifiable company or a group of companies, or components of one company and other companies as well.

For the subsidiaries included in the operating segments the Group establishes the subsidiaries' recoverable amounts by determining their fair value less cost to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow 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 of any goodwill allocated to the operating segments. See also Note 4.2. If the calculated fair value less cost to sell is lower than the carrying amount of the operating segment, goodwill is impaired.

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 financial statement date.

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

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 transferred including any attributable incremental external costs are deducted from the Equity of the owners of the parent 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

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.

Customers of the Group are granted loyalty awards (credit points) based on their usage of the Group's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. call credits, handset discounts, etc.) from the operators of the Group. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). See also Note 2.1.5. On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer collected (or waived) the undelivered element of the deemed bundle.

Revenues from operating leases are recognized on a straight line basis over the period the services are provided. Operating lease revenues are primarily included in the System integration and IT 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.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group 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 for each of the elements. 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.

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. 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 they relate to.

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled 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 premium rate services (Voice and non-voice) are recognized on a gross basis when the delivery of the service over Magyar Telekom's network is the responsibility of the Group, the Group establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Customers may also purchase prepaid mobile, public phone and internet credits ("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 cards are recognized when used by the customers or when the credits expire 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 included in Voice and Non-voice (Data and Internet) 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 applicable. The revenues and costs of these transit calls are stated gross in the 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 described in Note 2.17.

Revenue from system 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 percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. 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 and software sales or sales-type leases is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

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 Statement of financial position as Trade receivables. If the total actual and estimated expenses exceed revenues for a particular contract, the loss is recognized immediately.

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.

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.

2.13.2 Share based compensation

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. 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 financial statement 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 Profit for the year at their time-proportioned fair value (Note 24.1) against an accumulating balance in Provisions.

2.13.3 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. Research costs are not material, while marketing expenses are disclosed in Note 25.

2.15 Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. Borrowing costs include interest and other costs that the Group incurs in connection with the borrowing of funds. The borrowing costs eligible for capitalization are capitalized applying the weighted average of the borrowing costs applicable to the general borrowings of the Group that are outstanding during the period. A qualifying asset is an asset that necessarily takes a substantial period of time, in general over 12 months, to get ready for its intended use.

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 financial statement 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 Statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognized as revenue 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 unguaranteed 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. 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 Profit for the year 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 against a finance lease payable. 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 Statement of financial position (Other financial liabilities). The interest element of the lease payments is charged to the Profit for the year (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 Profit for the year 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 Profit for the year (Other operating income) at the time of the sale as the sales price reflects the fair value of the asset, while the lease payments are recognized in the Profit for the year (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 owners 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 (if any) in addition to the number of common stocks outstanding.

2.19 Dividends

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

2.20 Segments

The Group adopted IFRS 8 in 2009, which resulted in a significant restructuring of the Group's segment disclosure. In 2008, the Group restructured the way the chief operating decision makers decide on the allocation of resources, which is different from the primary segments of the Group reported as per IAS 14 in previous years.

In the Financial statements, the Group's segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, the members of the Management Committee (MC) of Magyar Telekom Plc. The MC is responsible for allocating resources to, and assessing the performance of, the operating segments on a monthly basis. The accounting policies and measurement principles of the operating segments are very similar to those applied for the Group described in the previous sub-notes of the Summary of significant accounting policies. The differences primarily originate from the fact that the operating segments' annual results are determined and closed at an earlier stage, around January 10–12 each year, than these Financial statements. Any items discovered and requiring adjustment between the closing date of the segment results and the approval date of the Financial statements are reflected in the next year's segment results.

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from other segments for telecommunications and, to a lesser extent, from inter-segment support services. In order to concentrate on real performance achieved on third party transactions, the number of inter-segment cross-charges applied within the organizations of Magyar Telekom Plc. operating in different segments is fairly limited. These cross-charges are not meant to allocate all the actual costs to the operating segment which are in fact incurred for the operation of the particular segment. Consequently, regardless of the costs incurred for the operation of another segment, the supporting organizations of the operating segments do not charge revenues for the services delivered within Magyar Telekom Plc., the largest legal entity of the Group.

The operating segments' results are monitored by the MC to EBITDA (Earnings before interest, tax, depreciation and amortization), which is defined by the Group as Operating profit without Depreciation and amortization expense.

The MC does not monitor the assets and liabilities at segment level.

Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the gross additions to PPE and Intangible assets, excluding those due to business combinations.

2.21 Comparative information

In order to maintain consistency with the current year presentation, certain items may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant notes.

3 Financial risk management

3.1 Financial risk factors

Magyar Telekom is primarily exposed to credit risks related to its financial assets. In addition, the Group is also exposed to risks from movements in exchange rates, interest rates that affect the fair value and/or the cash flows arising from financial 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. Magyar Telekom only hedges the risks that affect the Group's cash flows, no hedges are concluded to hedge fair values. 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 Deutsche Telekom or leading Hungarian financial institutions. Nevertheless, hedge accounting is not applied to such transactions, considering that not all the criteria in IAS 39 are met.

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. These sensitivity analyses calculate with reasonably possible changes in the relevant risk variables and their impact on profit before tax. The impacts disclosed below are subject to an average effective income tax rate of approximately 20% in the Group, i.e. the impact on Profit for the year would be approximately 80% of the before tax amount. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

There were no major changes in these risks compared to the previous reporting period.

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.

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 fulfillment annually. At the end of 2008 and 2009 Magyar Telekom fulfilled both criteria, Total Debt to EBITDA ratio of 1.61 in 2009 (2008: 1.49), the allowed maximum of which would be 2.5 and EBITDA to Interest Expense ratio of 7.59 in 2009, (2008: 8.86), the allowed minimum of which would be 3.0. The Group's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group Treasurer continuously.

Magyar Telekom is exposed to interest and foreign exchange (FX) rate risk associated with its interest bearing assets and liabilities 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. Consequently, Magyar Telekom's objective is to minimize the level of its financial risk in HUF terms.

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2009) and the preceding reporting period (2008). The balances at the end of the reporting period are usually representative for the year as a whole, therefore the impacts are calculated using the year end balances as though the balances had been constant throughout the reporting period. As the global economic situation has not changed significantly compared to the end of the previous reporting period, the methods and assumptions used in the sensitivity calculations did not change. As a result of the still rather volatile international capital and securities markets, a higher fluctuations of the FX and interest rates are also possible.

3.1.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in FX rates. Currency risks primarily arise on financial instruments being denominated in a currency that is not the functional currency of the given operating segment of the Group. Differences resulting from the translation of the foreign subsidiaries 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.

Due to the free-float of the HUF introduced in 2008, the Group is exposed to FX risk in case of FX denominated financial instruments of the Hungarian entities to a higher degree than before. In order to mitigate this risk, Magyar Telekom minimized its foreign currency borrowings in the past years, or covered it with derivative instruments to substantially reduce FX risk.

(a) FX risks arising on loans from DTIF and related swaps with DT AG

In the past few years, all related party loans payable of Magyar Telekom were denominated in HUF. In agreement with Deutsche Telekom, the related party loans taken from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) from June 2009 are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG to fix the actual cash flows of Magyar Telekom in HUF for the whole nominal amount and interest payments of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has no significant (net) impact on Profit before tax related to the hedged loans and the swaps together.

(b) FX risks arising on third party loans and related swaps

Magyar Telekom also has third party loans denominated in EUR, for the majority of which we also concluded cross-currency interest rate swap agreements with one of the substantial Hungarian banks to eliminate FX risk in connection with these loans and hedge the whole foreign currency denominated cash flows of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has no significant (net) impact on Profit before tax related to the hedged loans and the swaps together.

(c) Other FX exposure

The remaining FX 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. In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated assets (primarily held by the Group's foreign subsidiaries), however, exceed the Group's foreign currency denominated liabilities (other than the above described loans), therefore changes of the functional currencies' exchange rates would have significant impact on the profit of the Group. Compared to the spot FX rates as of December 31, 2009, a 20% weaker functional currency (HUF and MKD) against the EUR and USD would have caused HUF 4.1 billion unrealized gain on this net balance (2008: HUF 6.6 billion gain). The same amount of loss would have been caused by a 20% stronger functional currency against the EUR and USD.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The fair value of the open short term forward positions was HUF -502 million (liability) as of December 31, 2009, while the Group had no open forward deals at the end of 2008. These positions were opened to hedge the FX risks of future FX payments exceeding FX incomes and to cover the FX risk of a short term EUR denominated loan taken from DTAG. Compared to the spot FX rates as of December 31, 2009, a 20% weaker functional currency HUF against the EUR would have caused HUF 6.2 billion unrealized gain on this net balance. Approximately the same amount of loss would have been caused by a 20% stronger HUF against the EUR.

Due to the global financial crisis, even a more than 20% fluctuation of the functional currencies against the EUR is possible as extraordinary market conditions may cause extreme volatility on FX markets.

3.1.1.2 Interest rate risk

Magyar Telekom is also exposed to interest rate fluctuations. This is due to the fact that changing interest rates affect the fair value of the fixed rate instruments and also affect the cash flows through the floating rate instruments.

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. On the other hand, all financial instruments with fixed interest rates (which 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).

Changes in market interest rates affect the interest income or expense of non-derivative floating-interest financial instruments for which no cash flow hedges are in place.

(a) Financial assets

Excess cash of the Group's Hungarian operations is primarily used to repay loans, however, significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries are held in local banks. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely change the cash flows from these instruments.

The Group's HUF denominated bank deposits amounted to HUF 6.5 billion at the end of 2009 (2008: HUF 29.5 billion). A 4 percentage point higher interest rate throughout 2009 (assuming the year-end 2009 balance throughout 2009) would have resulted in HUF 0.3 billion higher interest income in 2009 (2008: HUF 1.2 billion). The interest income would be lower by the same amount in case of 4 percentage point lower interest rate.

The Group's MKD denominated bank deposits amounted to HUF 32.7 billion at the end of 2009 (2008: HUF 29.8 billion). A 2 percentage point higher interest rate throughout 2009 (assuming the year-end 2009 balance throughout 2009) would have resulted in HUF 0.7 billion higher interest income in 2009 (2008: HUF 0.6 billion). The interest income would be lower by the same amount in case of 2 percentage point lower interest rate.

The Group's EUR denominated bank deposits amounted to HUF 37.0 billion at the end of 2009 (2008: HUF 52.1 billion). A 2 percentage point higher interest rate throughout 2009 (assuming the year-end 2009 balance throughout 2009) would have resulted in HUF 0.7 billion higher interest income in 2009 (2008: HUF 1.0 billion). The interest income would be lower by a smaller amount as interest rates are usually smaller than 2%.

The Group's USD denominated bank deposits amounted to HUF 2.0 billion at the end of 2008, while the Group had no significant amount of such deposits at the end of 2009. A 1 percentage point higher interest rate throughout 2008 (assuming the year-end 2008 balance throughout 2008) would have resulted in less than HUF 0.1 billion higher interest income in 2008. The interest income would be lower by a smaller amount as interest rates are usually smaller than 1%.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible, the exposure to which is mitigated by the balanced portfolio of fixed and floating interest rate borrowings (see above). Sensitivities have been disclosed for a movement of 4 percentage points for HUF, 2 percentage points for MKD and EUR, and 1 percentage point for USD, but extraordinary market conditions may cause extreme volatility on money markets, which can result in even higher percentage point change in interest rates.

(b) Financial liabilities

Financial liabilities exposed to interest rate risk are primarily the related party (DTIF) and third party loans and the related swap agreements in place. These loans are almost exclusively taken by the Company as the financing of the Group is managed centrally. The analysis below describes the Group's net exposure to the net interest rate risks related to the loans and the related swap agreements.

As the vast majority of debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 56% of the Group's total debt as of December 31, 2009 (2008: 53%).

In addition, some of the Group's loan agreements with Deutsche Telekom include a fixed interest rate that in fact may change in case of downgrading the credit rating of Deutsche Telekom by specific international rating agencies below the level of credit rating BBB+. Such rating downgrades from the current grade would have caused additional annual interest payments of approximately HUF 0.2 billion (assuming the year-end 2009 balance and rating throughout 2009) on top of the pre-fixed amount of interest (2008: HUF 0.6 billion). On the other hand, such rating upgrades above the level of the credit rating A would have caused HUF 0.3 billion lower interest expense for 2009 (2008: HUF 0.3 billion).

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 44% of the Group's total debt as of December 31, 2009 (2008: 47%). A 4 percentage point higher interest rate throughout 2009 (assuming the year-end 2009 balance throughout 2009) would have resulted in HUF 6.7 billion higher interest expense in 2009, while the same decrease of interest rates would cause the same decrease in interest payments (2008: HUF 7.3 billion).

3.1.1.3 Other price risk

As of the end of the reporting periods, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices, therefore, the Group's exposure to such price changes are very limited. See also Note 8.2.

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 as at the financial statement dates are represented by the carrying amounts of the financial assets in the Statement of financial position. Guarantee agreements reducing the maximum exposure to credit risk as at the end of the reporting period are described later in this section.

The following table represents Magyar Telekom's maximum exposure to credit risk as at December 31, 2008 and 2009.

In HUF millions	At December 31, 2008	At December 31, 2009
Cash and cash equivalents	66,680	34,270
Bank deposits with original maturities over 3 months	59,300	50,660
Trade receivables	93,201	100,524
Loans to Deutsche Telekom Group companies	-	29,587
Finance lease receivables	23,082	23,531
Employee loans	4,383	4,870
Dividend receivable from associates	2,033	-
Derivative financial instruments	1,011	1,285
Trade receivables over one year	414	1,487
Loans to third parties	779	580
Financial assets available for sale	282	276
RDC receivables	952	839
Other current	2,186	1,626
Other non-current	170	552
	254,473	**250,087**

The vast majority of credit risks may arise in respect of Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables, and to a lesser extent, of Finance lease receivables. Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables have short term maturities, which represent the vast majority of the Group's financial assets.

According to the Group's risk management policy Magyar Telekom Group companies deposit the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar Telekom prefers to deposit in banks which grants loans for Magyar Telekom to make possible the compensation of debts and loans in case of the default of the bank.

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Hungary are primarily denominated in HUF and concentrations of credit risk are limited as Magyar Telekom places its cash in Hungary with substantial credit institutions. Further, excess HUF cash is also used for repayment of the HUF denominated loans and borrowings, or is deposited at partner banks which grant loans for Magyar Telekom, therefore, the credit risk related to cash held in HUF is very limited.

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Macedonia are primarily denominated in MKD and EUR, while the Cash and cash equivalents and Bank deposits with maturities over 3 months held in Montenegro are primarily denominated in EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in these countries run higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. The bank deposits in Montenegro of HUF 12.2 billion as at December 31, 2009 (2008: HUF 19.8 billion) and those in Macedonia of HUF 57.5 billion as at December 31, 2009 (2008: HUF 13.2) are fully covered with bank guarantees issued by international financial institutions rated at BBB+ or above, or Magyar Telekom has the right to net the deposits with loans taken from the guarantor, in case of default of the bank. Credit risk related to bank deposits is further limited by the diversification of the deposits among several independent credit institutions determinant on the local market.

Finance lease receivables, in most cases, are legally embedded in service contracts also requiring to provide assets related to the services, which are legally in the Group's ownership. Should the partners fail to pay their bills, we are entitled to discontinue the services and take the assets back to the Group's locations. As these assets are rarely customer specific, we can utilize these assets in other ways as well, therefore, the credit risk related to finance leases is in fact rather limited.

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

No financial assets other than trade and other receivables had to be impaired in the reported years, as they are neither past due nor are there any signs of impairment.

The following table contains the carrying amount of trade receivables broken down by reportable segment (note 31).

In HUF millions	At December 31,	
	2008	2009
CBU	31,923	38,133
BBU	25,740	27,221
Headquarters	15,422	15,554
Macedonia	12,017	12,061
Montenegro	5,853	4,763
Technology	843	859
All other	1,403	1,933
	93,201	**100,524**

The amounts in the table above are shown net of provisions for impairment losses of HUF 29.7 billion as at December 31, 2009 (2008: HUF 26.3 billion). The annual bad debt expense of the Group had historically been under 1% of the consolidated revenues, except in 2009 (1.4%). Changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.4 billion in 2009 (2008: HUF 6.7 billion).

CBU, BBU and Headquarters (Hungary)

Consumer Services Business Unit (CBU) provides fixed and mobile telecommunications and TV distribution services to residential customers, while the Business Services Business Unit (BBU) has primarily large corporate customers. There's no significant difference between the recoverability of the segments' receivables.

There are varying credit checking practices applied across the members of the Group. The majority of customers are located in Hungary. For these customers the Company follows the practice described below.

Credit checking for CBU customers at the time of the service request is carried out automatically by the credit checking application of the Sales Department. A variety of checks including checking the SOS list of faulty IDs, the bankruptcy list, the internal database of risky installation locations, the collection history of the past 6 months, the outstanding debt and the joint database of debtors of the Hungarian mobile operators are performed depending on the service to be used. As of January 1, 2009, the Fraud Detecting System was implemented, which is used to monitor extreme usage and fraudulent behavior of customers not only for mobile but also for fixed-line and Internet services.

In case of BBU, customer managers call a hotline of the Business Customer Care group to check if the customer has outstanding debts.

Dunning procedures for both CBU, BBU and Headquarters are run automatically by the billing systems including SMS, telephone calls, reminder letters, pseudo disconnections, termination letters and disconnections. Over a minimum overdue amount we apply varying and customized reminder procedures to the different customer groups in which varying deadlines are applied. After the termination of the contract and depending on the expected success of the process, we combine the different collection steps of involving external partners, selling the outstanding debt or initiating legal proceedings. All parts of the process are regulated by internal directives.

Macedonia

The process of managing the credit risk from operating activities includes preventive measures such as credibility checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process, court proceedings, involvement of the executive unit and factoring. The overdue payments are monitored through a debt escalation procedure based on customer type, credit class and amount of debt. The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customers credit worthiness and through preventive barring – which determines the credit limit based on the usual level of the customer's consumption. There's no concentration of risk in Macedonia either with any single customer or group of customers with similar characteristics. The procedures in Macedonia ensure on a permanent basis that sales are made to customers with an appropriate credit history and that an acceptable level of credit exposure is not exceeded.

Montenegro

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account past experience in collection and other factors. In Montenegro the Group uses a system of reminders leading to discontinuance of the service as the main tool to collect overdue receivables. Also, according to the balance and number of outstanding bills, the Group uses instruments of litigation of customers. However, customers may be affected by the lower liquidity situation due to the recent volatility in the global and Montenegrin financial markets, which could in turn impact their ability to repay the amounts owed. To the extent that information is available, management revised estimates of expected future cash flows in their impairment assessments.

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 and cash equivalents and Bank 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 undrawn credit lines amounted to 50.5 billion as at December 31, 2009 (2008: HUF 44.8 billion), and the Company also had uncommitted credit lines from several Hungarian Banks as at December 31, 2009. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2011. Despite the fact that this has not been formulized in a contract, it can be considered as a "quasi shelf facility".

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2009 and 2008. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would be meaningless, therefore, is not included in the tables below.

	Total	within 1 year	1 to 5 years	after 5 years
December 31, 2009 (in HUF millions)				
Trade payables	85,874	85,874	-	-
Dividend payable	303	303	-	-
Financial liabilities to related parties	403,771	87,380	216,987	99,404
Bank loans	63,430	37,466	25,964	-
Finance lease liabilities	5,686	1,360	2,847	1,479
Nonconvertible bonds and debentures	191	70	121	-
Other financial liabilities	1,495	1,371	123	1
Total other financial liabilities	**70,802**	**40,267**	**29,055**	**1,480**
Total cash flows	**560,750**	**213,824**	**246,042**	**100,884**
Open swap positions' cash flows				
Gross cash inflow in EUR million	308	21	119	168
Gross cash inflow in HUF million (at spot rate)	83,499	5,808	32,190	45,501
Gross cash outflow in HUF million	100,298	7,276	44,355	48,667
Net cash outflow in HUF million	**16,799**	**1,468**	**12,165**	**3,166**
Open forward positions' cash flows				
Gross cash inflow in EUR million	123	123	-	-
Gross cash inflow in HUF million (at spot rate)	33,313	33,313	-	-
Gross cash outflow in HUF million	33,993	33,993	-	-
Net cash outflow in HUF million	**680**	**680**	**-**	**-**
December 31, 2008 (in HUF millions)				
Trade payables	92,340	92,340	-	-
Dividend payable	290	290	-	-
Financial liabilities to related parties	434,404	126,703	248,606	59,095
Bank loans	59,379	37,227	22,152	-
Finance lease liabilities	7,148	1,721	3,534	1,893
Nonconvertible bonds and debentures	193	71	-	122
Other financial liabilities	5,812	5,270	541	1
Total other financial liabilities	**72,532**	**44,289**	**26,227**	**2,016**
Total cash flows	**599,566**	**263,622**	**274,833**	**61,111**
Open swap positions' cash flows				
Gross cash inflow in EUR million	(43)	(23)	(20)	-
Gross cash inflow in HUF million (at spot rate)	(11,386)	(6,090)	(5,296)	-
Gross cash outflow in HUF million	11,275	6,191	5,084	-
Net cash outflow (inflow) in HUF million	**(111)**	**101**	**(212)**	**-**

The average maturity of Magyar Telekom's debt portfolio was 2.59 years as at December 31, 2009 (2008: 2.58 years), 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 floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2009 and 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.

The Company's management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be effectuated primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares. 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 Non-controlling interest) and Net debt. Net debt is calculated as follows:

- 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 2008 and 2009, the Group's strategy as approved by the Board was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2009 was 30.8% (2008: 29.9%).

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company's Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. The Company is in compliance with this regulation, and no such statutory regulation exists for consolidated equity.

The equity capital, which the Group manages, amounted to HUF 606 billion on December 31, 2009 (2008: HUF 598 billion).

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 this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can 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 10 billion (2008: HUF 11 billion). See Notes 12 and 13 for the changes made to useful lives in 2009.

The Group constantly introduces a number of new services or platforms including, but not limited to, the UMTS based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the old platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the older platforms usually do not require shortening.

4.2 Estimated impairment of goodwill

Goodwill is no longer amortized, but tested for impairment annually or more frequently. The recoverable amounts of the operating segments are calculated based on fair value less cost to sell determined by the discounted projected cash flows of the operating segments over the next ten years with a terminal value. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts 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 cash flow projection on reasonable and supportable assumptions that present the management's best estimate on market participants' assumptions and expectations.

When conducting the goodwill impairment tests, goodwill is allocated to the cash generating operating segments of the Group, CBU, BBU, MBU, Macedonia fixed line, Macedonia mobile, Montenegro mobile. No goodwill was allocated to Montenegro fixed line.

In order to determine the recoverable amounts of the operating segments, the Group calculates the operating segments' fair values less cost to sell. In the calculations, Magyar Telekom uses a range of weighted average cost of capital (WACC) before tax and estimated perpetual growth rate (PGR) depending on the country of operations and the characteristics of the markets the Group's segments operate in. The WACCs are determined based on CAPM (capital asset pricing model) using the average betas of the peer group, 10 year zero coupon yields and a debt ratio in line with the usual indebtedness of listed peer telecommunications companies, while the PGRs used are in line with the long-term average growth rate for the particular telecommunications sector.

The Headquarters and Technology operating segments of the Group primarily include support functions, therefore the carrying values and the future cash flows of these operating segments are allocated to the other, cash generating operating segments based on the cash generating operating segments' unlevered free cash flows (determined as EBITDA reduced by capital expenditures and charge in net working capital), also considering the relative use of the central services by the cash generating operating segments.

The table below shows the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2009. The table below also includes sensitivity analyses that show how much impairment should have been recognized as at December 31, 2009 for the goodwill allocated to the operating segments if we had changed the WACCs used in the calculations to reasonably possible levels. The possible changes in the WACCs would be the result of the reasonably possible changes in the risk free interest rates we disclosed in Note 3.1.1.2. In case of the cash flow projections and the PGRs used in the sensitivity calculations, we disclose the first round decimal rate in case of the PGR and the first round decimal change to the cash flow projections that would result in impairment.

2009	CBU	BBU	MBU	Macedonia fixed line	Macedonia mobile	Montenegro mobile
WACC						
Used in the calculation	13.76%	13.68%	14.17%	8.55%	10.71%	10.65%
if changed to	18.49%	18.39%	18.88%	10.68%	12.86%	12.77%
Potential impairment (HUF million)	-	-	180	-	-	-
PGR						
Used in the calculation	2.0%	0.5%	2.0%	1.0%	1.0%	1.0%
if changed to	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Potential impairment (HUF million)	-	-	-	630	-	-
Cash flows						
if changed by	-27%	-27%	-27%	-27%	-27%	-27%
Potential impairment (HUF million)	-	-	-	699	-	-

The table below shows the rates we used when we performed the goodwill impairment testing on the new segments for comparative purposes. No sensitivity analysis is provided to the comparative amounts as the original goodwill impairment testing for year-end 2008 was performed on the old segments that were compliant with IAS 14, but are not compliant with IFRS 8.

2008	CBU	BBU	MBU	Macedonia fixed line	Macedonia mobile	Montenegro mobile
WACC	13.22%	13.11%	14.40%	10.80%	11.14%	11.07%
PGR	2.0%	0.5%	2.0%	0.0%	2.0%	0.5%

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 of 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 a 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 receivable 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 accounts receivable balance and our historical write-off experience, customer credit-worthiness and recent and expected 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. See also Note 3.1.2.

4.5 Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than fifty percent, the Group fully provides for the total amount of the estimated liability (see also Note 2.10). The assessment of the probability is highly judgmental, as – for example – in Hungary there are very few cases where the appealed NCAH decisions have been finally concluded by the Supreme Court. Further, in Macedonia, there is also a lack of sufficient history for CPC or Agency decisions appealed against at the Administrative Court. In order to determine the probabilities of an adverse outcome, the Group uses internal and external legal counsels.

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 also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the incremental acquisition costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. Among these, net losses on equipment sales of the Group amounted to HUF 17.4 billion in 2009 (2008: HUF 19.2 billion), while agent fees amounted to HUF 9.2 billion in 2009 (2008: HUF 8.8 billion). The Group's marketing costs amounted to HUF 16.2 billion in 2009 (2008: HUF 22.1 billion).

5 Business combinations

5.1 Acquisitions in 2009

5.1.1 IKO New Media, IKO Content & Rights and IKO-Telekom Media Holding

Magyar Telekom signed a strategic co-operation agreement with IKO Production Kft., the other 50% owner of IKO-Telekom Media Holding (ITMH) in 2008 to split the investments of ITMH and gain full control of ITMH's two 100% owned subsidiaries, IKO New Media (IKO NM) and IKO Content & Rights (IKO CR). According to the co-operation agreement, the properties of ITMH were split between the owners by way of a demerger; as a result of which Magyar Telekom gained 100% ownership over the part demerging from the original holding company under the name Telekom Media Holding (TMH), IKO NM and IKO CR as of May 31, 2009, while the remaining part of the Holding (IKO Media Holding) including the 31% stake in M-RTL remained with IKO Production. M-RTL had been included in the consolidated financial statements as a 25% associate. As part of the above transaction, we have accounted for the sale of this investment in M-RTL and ITMH, and a business combination with TMH, IKO NM and IKO CR. The gain on the disposal of M-RTL was accounted for as "Other income" in the Profit for the year.

IKO NM is one of the leading companies in the Hungarian interactive service market, and is the service provider of telecommunications applications for M-RTL. In addition, IKO NM produces TV shows and is one of the largest aggregators of premium rate telecommunications services in Hungary. IKO CR is an aggregator in the content outsourcing market.

Following the business combinations, the newly acquired subsidiaries were renamed to Telekom New Media (TNM) and Telekom Content & Rights (TCR) respectively.

The carrying values as well as the fair values of assets and liabilities acquired through these business combinations as well as the considerations transferred are disclosed in the table below in aggregate amounts.

In HUF millions	Fair values	Carrying values
Fair value of 25% share in M-RTL	4,728	
Consideration transferred	**4,728**	
Net assets acquired	3,040	
Goodwill	**1,688**	
Net assets acquired:		
Cash and cash equivalents	2,074	2,074
Trade and other receivables	598	598
Income tax receivable	57	57
Property, plant and equipment	22	22
Intangible assets	1,436	111
Less: Investment in ITMH as a joint venture	(382)	(382)
Trade and other payables	(513)	(513)
Net deferred tax liability	(252)	-
	3,040	**1,967**

As the transaction did not require any cash outflow from the Group, the cash balances of the acquired companies are disclosed as Proceeds from disposal of subsidiaries and associates in the 2009 Statement of cash flows.

TMH, TNM and TCR have been consolidated in the MBU operating segment of the Group since May 31, 2009.

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer contract 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 expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

5.1.2 ISH

In May 2009, Magyar Telekom signed a share purchase agreement to acquire a 100% equity stake in International System House Kft. (ISH). The agreed enterprise value was HUF 2.9 billion, to which the value of the net cash was added at the closing of the transaction. Depending on 2009 and 2010 financial performance, further earn-out payments could also be made. ISH specializes in developing, installing and operating integrated healthcare IT services. With market leadership in its segment, ISH achieved nearly HUF 2.9 billion of revenues in 2008 and EBITDA of HUF 1 billion. The transaction was closed on November 30, 2009, since when ISH has been a consolidated subsidiary of the Group, included in the BBU operating segment.

As the purchase price allocation has not been completed yet, the fair values of assets and liabilities acquired at the time acquisition, are preliminary amounts, disclosed in the table below. Further, as there were no reliable IFRS compliant carrying values available at the time of acquisition, these values are not disclosed in the table below.

In HUF millions	Provisional fair values
Purchase price of ownership acquired	3,101
Additional estimated purchase price	12
Additional costs directly attributable to the business combination	45
Consideration transferred	**3,158**
Net assets acquired	2,831
Goodwill	**327**
Net assets acquired:	
Cash and cash equivalents	345
Trade and other receivables	1,285
Income tax receivable	124
Inventories	67
Property, plant and equipment	31
Intangible assets	935
Other non current financial assets	929
Other financial liabilities	(198)
Trade and other payables	(468)
Net deferred tax liability	(219)
	2,831

The initial purchase price and a part of the additional costs were paid in cash in 2009, while the remaining estimated HUF 27 million is payable in 2010.

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separable asset. Further, the customer contract value recognized as an intangible asset 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 expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

5.1.3 Cable TV networks

In 2009 Magyar Telekom acquired a number of cable TV networks for HUF 1,745 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the CBU operating segment of the Group. The purchase price of these networks in most cases included connected customers, while in the remaining few cases the network was fully completed with immediate capability of connecting customers to them. The purchase prices paid for these networks also included goodwill representing the networks' potential of acquiring additional customers and conveying additional services.

The fair values of assets acquired through these individually insignificant business combinations at the time acquisition as well as the considerations transferred, are disclosed in the table below in aggregate amounts. As there were no reliable IFRS compliant carrying values available at the time of acquisition, these values are not disclosed in the table below.

In HUF millions	Fair values
Purchase price of ownership acquired	1,745
Additional costs directly attributable to the business combination	-
Consideration transferred	**1,745**
Net assets acquired	(1,324)
Goodwill	**421**
Net assets acquired:	
Property, plant and equipment	938
Intangible assets	386
	1,324

The total purchase price was paid in cash in 2009.

5.1.4 KFKI Direkt

Magyar Telekom signed a share purchase agreement to acquire 100% of KFKI Direkt Kft. in February 2009. The purchase price was HUF 300 million plus an earn-out payment depending on the 2009 financial performance of up to a maximum of HUF 100 million. KFKI Direkt is a systems integration and infrastructure support company with specialist expertise in these areas. KFKI Direkt achieved approximately HUF 1.5 billion revenues and exceeded HUF 200 million EBITDA in 2008. KFKI Direkt de-merged from KFKI in 1995, while the remainder of the KFKI Group was acquired by Magyar Telekom in 2006. The transaction was closed on June 30, 2009, since when KFKI Direkt has been a consolidated subsidiary of the Group, included in the BBU operating segment.

The carrying values and the fair values of assets and liabilities acquired as well as the considerations transferred are disclosed in the table below.

In HUF millions	Fair values	Carrying values
Purchase price of ownership acquired	300	
Additional estimated purchase price	10	
Additional costs directly attributable to the business combination	17	
Consideration transferred	**327**	
Net assets acquired	304	187
Goodwill	**23**	
Net assets acquired:		
Cash and cash equivalents	115	115
Trade and other receivables	106	106
Income tax receivable	10	10
Property, plant and equipment	17	17
Intangible assets	144	-
Trade and other payables	(61)	(61)
Net deferred tax liability	(27)	-
	304	**187**

The initial purchase price and the additional costs were paid in cash in 2009, while the additional purchase price is expected to be paid in 2010.

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separate asset. Further, the customer contract 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 expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

5.2 Acquisitions in 2008

5.2.1 Cable TV networks

In 2008 Magyar Telekom acquired a number of cable TV networks for HUF 687 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the CBU operating segment of the Group. The purchase price of these networks in most cases included connected customers, while in the remaining few cases the network was fully completed with immediate capability of connecting customers to them. The purchase prices paid for these networks also included goodwill representing the networks' potential of acquiring additional customers and conveying additional services.

The fair values of assets and liabilities acquired through these individually insignificant business combinations at the time acquisition as well as the considerations transferred, are disclosed in the table below in aggregate amounts.

As there were no reliable IFRS compliant carrying values available at the time of acquisition, these values are not disclosed in the table below.

In HUF millions	Fair values
Purchase price of ownership acquired	687
Additional costs directly attributable to the business combination	-
Consideration transferred	**687**
Net assets acquired	555
Goodwill	**132**
Net assets acquired:	
Trade and other receivables	4
Property, plant and equipment	522
Intangible assets	104
Income taxes payable	(30)
Trade and other payables	(14)
Net deferred tax liability	(31)
	555

The total purchase price was paid in cash in 2008.

5.3 Acquisitions in 2007

5.3.1 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 MBU operating segment of the Group. 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 transferred 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 / Fair values
Purchase price of ownership acquired	600
Additional purchase price	50
Consideration transferred	**650**
Net assets acquired	93
Goodwill	**557**
Net assets acquired:	
Cash	64
Trade and other receivables	266
Non current assets	56
Trade and other payables	(285)
Other financial liabilities	(2)
Non current liabilities	(6)
	93

The total purchase price was paid in cash in 2007.

The goodwill arising on this acquisition partly represents the assembled workforce that can not be recognized as a separate asset. The majority of the goodwill represents the value of, and the future expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

5.3.2 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 transferred are disclosed in the table below. TSH has been a consolidated subsidiary of the Group since January 1, 2007 included in the BBU operating 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 transferred	**1,749**
Net assets acquired	1,752
Excess (recognized in equity)	**3**
Net assets acquired:	
Cash	421
Trade and other receivables	6,356
Inventory	146
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: Non-controlling interest	(1,539)
Associate goodwill transferred to goodwill	149
	1,752

The purchase price of HUF 60 million was paid in cash in 2007.

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 from 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 in the year of acquisition.

In HUF millions	2007	2008	2009
Revenues			
Reported	676,661	673,056	643,989
Pro forma – if consolidated from beginning of year	676,661	673,145	647,652
Current year contribution since date of business combination in the year of acquisition	4,969	53	1,185
Profit for the year			
Reported	73,056	105,593	93,253
Pro forma – if consolidated from beginning of year	73,056	105,604	93,724
Current year contribution since date of business combination in the year of acquisition	(1 812)	7	110

5.5 Disposals of subsidiaries

In November 2009, the Company signed a sale-purchase agreement for the total of its 100% investment in Orbitel, which was subject to the approval of the Bulgarian competition office, which was received in January 2010. Consequently, the deal was not closed in 2009, therefore Orbitel was continued to be consolidated in 2009. See also Note 36.

In 2008 the Group sold its 100% investment in MontMak. In 2007 the Group sold the total of its 51% ownership in Montenegrocard. The results of the above transactions have been recognized as Other operating income in the years of disposal (Note 26).

All the above subsidiaries sold conducted non-core operations and were insignificant to the Group, therefore they did not constitute discontinued operations.

6 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. These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. No impairment had to be recognized for any of these balances in the reported years.

In HUF millions	At December 31, 2008	2009
Cash on hand	112	175
Cash in bank (demand deposits)	11,088	7,396
Bank deposits with original maturities within 3 months	55,480	26,699
	66,680	**34,270**

Cash and cash equivalents by country of location In HUF millions	At December 31, 2008	2009
Hungary	38,257	12,302
Macedonia	22,308	20,313
Montenegro	4,699	986
Other countries	1,416	669
Group	**66,680**	**34,270**

7 Trade and other receivables

7.1 Trade and other receivables – carrying amounts

In HUF millions		At December 31, 2008	2009
Trade receivables from third parties		87,092	95,032
Trade receivables from Deutsche Telekom Group companies		5,903	5,492
Trade receivables from associates and joint ventures		206	-
Total trade receivables	(b)	**93,201**	**100,524**
Prepayments and advance payments		6,902	4,998
Advance dividend paid to Non-controlling interests	(a)	-	3,166
Other taxes receivable		744	358
Other		1,048	1,307
Total other receivables		**8,694**	**9,829**
		101,895	**110,353**

(a) Advance dividend paid to Non-controlling interests

This item includes the advance dividend paid by Crnogorski Telekom to its minority shareholders during the year, as approved by an Extraordinary General Meeting. There are legal uncertainties around the status of an advance dividend paid in Montenegro, therefore, we disclose these amounts paid as an advance as we would have the rights to reclaim these payments should the General Meeting of Crnogorski Telekom decide on a lower final dividend to be declared or use this payment to offset the final dividend liability to be approved by the Annual General Meeting of Crnogorski Telekom closing the 2009 financial year in 2010.

(b) Age profile of Trade receivables

The following tables show the age profile of the Group's trade receivables by reportable segment by days outstanding (past due). The carrying amounts of past due receivables are shown net of impairment losses charged as of the financial statement dates.

In HUF millions	Carrying amount as of Dec 31, 2009	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
CBU	38,133	27,952	5,393	1,221	542	950	1,071	1,004
BBU	27,221	22,753	2,428	756	315	533	375	61
Headquarters	15,554	12,432	2,858	221	2	-	-	41
Macedonia	12,061	8,699	2,073	496	124	446	162	61
Montenegro	4,763	3,263	644	224	143	255	183	51
Technology	859	816	24	2	3	12	2	-
All others	1,933	1,534	260	80	4	38	17	-
Total	**100,524**	**77,449**	**13,680**	**3,000**	**1,133**	**2,234**	**1,810**	**1,218**

In HUF millions	Carrying amount as of Dec 31, 2008	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
CBU	31,923	22,620	5,873	947	498	859	876	250
BBU	25,740	21,134	3,107	559	308	422	153	57
Headquarters	15,422	11,845	2,262	487	374	251	179	24
Macedonia	12,017	9,402	1,397	447	177	351	188	55
Montenegro	5,853	3,813	1,243	244	156	247	75	75
Technology	843	733	105	2	1	-	2	-
All others	1,403	1,003	160	102	9	80	12	37
Total	**93,201**	**70,550**	**14,147**	**2,788**	**1,523**	**2,210**	**1,485**	**498**

The vast majority of past due trade receivables are partly or fully impaired depending on the period of delay of payments. Only insignificant amounts of past due trade receivables are not impaired based on past experience of payment behavior of certain business customers. As these amounts are not significant, these are not disclosed separately.

Non past due receivables are not assessed collectively for impairment, but in case of bankruptcy of the customer non past due receivables may have to be partly or fully impaired, the amount of which is not significant, therefore, not disclosed separately. The non past due trade receivables represent approximately 1.4 months of revenue. As disclosed in Note 3.1.2, the annual bad debt expense of the Group is approximately 1.4 percent of the annual revenue, therefore, we can estimate that approximately 1-2 percent of the non past due portion of trade receivables will not be collected, i.e. will have to be impaired in future periods, but are not impaired at the end of the reporting period.

The Group has no collaterals related to its trade receivables.

7.2 Impairment losses of financial assets

Impairment losses are recognized for Trade and other receivables from third parties and one finance lease receivable in 2007. The table below shows the impairment loss and changes therein for 2008 and 2009.

In HUF millions	At December 31, 2008	2009
Impairment loss, beginning of period	30,263	26,312
Charged to expense - net (included in Other operating expenses)	4,353	9,072
Translation difference	592	404
Utilized	(8,896)	(6,123)
Impairment loss, end of period	**26,312**	**29,665**

The closing balance as at December 31, 2007 included the impairment charged for a finance lease receivable (disclosed in Note 8) in an amount of HUF 1,500 million. This impairment loss was reversed in 2008 as the negotiations with the customer resulted in an agreed schedule of the termination of the contract and the recovery of the finance lease receivable was ensured. The reversal was recognized as a reduction to the Bad debt expense in 2008.

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 table below includes the impairment losses and the changes therein in 2009 for the reportable segments of the Group.

In HUF millions	At December 31, 2008	Charged to expense	Translation difference	Utilized	At December 31, 2009
Macedonia	8,858	910	240	(693)	9,315
CBU	8,454	5,244	-	(2,558)	11,140
Montenegro	5,188	453	161	(1,836)	3,966
BBU	2,464	1,000	-	(661)	2,803
Headquarters	1,160	1,324	2	(283)	2,203
Technology	17	69	-	-	86
All others	171	72	1	(92)	152
Group	**26,312**	**9,072**	**404**	**(6,123)**	**29,665**

8 Other financial assets

Other financial assets include receivables due within 12 months from the financial statement date (current) and due after 12 months from the financial statement date (non current). These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. Other than a finance lease receivable (Note 7.2) none of these financial assets had to be impaired in any of the reported years.

8.1 Other current financial assets

In HUF millions	Note	At December 31, 2008	2009
Bank deposits with original maturities over 3 months	(a)	59,300	50,660
Finance lease receivable	(b)	3,718	3,797
Loans and receivables from employees	(c)	798	419
RDC receivable	(d)	189	193
Derivative financial instruments contracted with related parties	(e)	-	662
Derivative financial instruments contracted with third parties	(f)	1,011	623
Dividend receivable from joint ventures	(g)	2,033	-
Loans to Deutsche Telekom Group companies	(h)	-	29,587
Other		1,449	1,670
		68,498	**87,611**

(a) The table below shows the Bank deposits with original maturities over 3 months by countries.

In HUF millions	At December 31, 2008	2009
Macedonia	42,809	38,418
Montenegro	16,455	12,242
Hungary	36	-
	59,300	**50,660**

8.2. Other non current financial assets

In HUF millions	Note	At December 31, 2008	2009
Finance lease receivable	(b)	19,364	19,734
Loans and receivables from employees	(c)	4,018	4,492
RDC receivable	(d)	763	646
Trade receivables over one year	(i)	414	1,487
Financial assets available for sale	(j)	282	276
Other		1,253	1,047
		26,094	**27,682**

(b) See Note 32.3 for more information on Finance lease receivable.

(c) 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.

(d) 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 (RDC) entered into in 2004.

(e) Derivative financial instruments contracted with related parties include the fair value of open currency forwards and cross-currency interest rate swaps.

(f) Derivative financial instruments contracted with third parties include the fair value of open currency forwards and cross-currency interest rate swaps.

(g) Dividend receivable from joint ventures as of December 31, 2008 included the amount of dividend due from ITMH, which was fully paid in 2009.

(h) Loans to Deutsche Telekom Group companies represent the short-term loans given to DT AG and the related accrued interest receivables. The balance as at December 31, 2009 includes two HUF denominated deposits placed with DT AG in December 2009, both maturing in January 2010, and the accumulated interest receivable up to December 31, 2009. These deposits were made to fund the repayments of the loans payable to DT Group falling due in January 2010 (Note 16).The interest rate on the HUF 20,000 million deposit is a fixed 6.6%, while the interest rate on the HUF 9,500 million deposit is a fixed 6.4%. The remaining HUF 87 million is the accrued interest as of December 31, 2009.

(i) Trade receivables over one year includes receivables from customers paying over 1-2 years in installments for telecommunications equipment sold, as well as installment payments on software and hardware implementation services.

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

9 Income tax

9.1 Current income tax receivable and payable

Current income tax receivable and payable in the Statement of financial position 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.

9.2 Income tax expense

The table below shows the tax expenses charged in the 3-year period presented in the Profit for the year.

In HUF millions	For the year ended December 31, 2007	2008	2009
Corporate income tax	7,795	9,941	5,914
Other income taxes	9,321	9,462	7,929
Deferred income taxes	9,105	8,295	7,115
Total income tax expense	**26,221**	**27,698**	**20,958**

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:

In HUF millions	Note	For the year ended December 31, 2007	2008	2009
IFRS profit before income tax		**99,277**	**133,291**	**114,211**
Tax at 16%		(15,884)	(21,327)	(18,274)
Impact of different tax rates	(a)	(4,088)	(1,512)	3,730
Tax on items not subject to tax	(b)	1,650	2,278	1,807
Tax on non deductible items	(c)	(1,107)	(2,134)	(1,251)
Other income taxes	(d)	(9,321)	(9,462)	(7,929)
Impact of tax deductibility of other income taxes	(e)	2,873	2,883	2,559
Withholding tax	(f)	(1,684)	(1,111)	(1,128)
(De)/recognized deferred tax on tax losses	(g)	73	1,436	-
Broadband tax credit accretion	(h)	1,267	1,251	1,476
Changes in the Macedonian tax regime	(i)	-	-	417
Change in tax rate	(j)	-	-	(2,365)
Income tax expense		**(26,221)**	**(27,698)**	**(20,958)**
Effective tax rate		**26.4%**	**20.8%**	**18.4%**

(a) Impact of different tax rates

The corporate tax rate in Hungary was 16% in the reported periods. 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, therefore included in the corporate tax expense, with fewer adjusting items from accounting profit before tax to arrive at the tax base. The tax rate reconciliation for all 3 years includes 16%, while the difference arising due to the introduction of the Solidarity tax is included in this line of the reconciliation.

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.

The Group is also present in foreign countries where the tax rate is generally lower than in Hungary. The tax rate in Macedonia was 12% in 2007, 10% in 2008 and 0% in 2009 in respect of the undistributed profit before tax. Deferred tax balances have been recalculated before 2007 when the decrease was enacted in advance and also in 2009 when new changes regarding the year 2009 were enacted. The corporate tax rate is 9% in Montenegro, 16% in Romania, 10% in Bulgaria, and 25% in the Ukraine in all the reported years.

(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' profits or losses 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) 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 with substantially lower tax rates. 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 income tax expenses for the Hungarian entities of the Group, included in this line of the reconciliation.

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

The above described Hungarian other income taxes are deductible expenses for corporate tax purposes. In addition, 100% of the local business tax paid was deductible further from the corporate tax base in the presented three years.

(f) Withholding tax

Macedonia and Montenegro levy 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.

(g) (De)/recognized deferred tax on tax losses

Deferred tax asset is recognized 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/de-recognized. On the other hand, when the recoverability of the previously un/derecognized tax losses becomes probable, these deferred tax assets are recognized.

(h) Broadband investment tax credit accretion

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

(i) Changes in the Macedonian tax regime

Due to the changes in the Macedonian corporate tax law we reversed the year-end 2008 deferred tax liability of our Macedonian subsidiaries, and further no deferred tax liability is accounted for during 2009.

(j) Change in tax rate

The new tax law enacted in Hungary in 2009 eliminated the solidarity tax of 4% introduced in 2006 and at the same time increased the corporate income tax rate to 19% as of January 1, 2010. Deferred tax balances have been recalculated accordingly, the impact of which is included in this line of the reconciliation.

9.4 Deferred taxes

Magyar Telekom's deferred tax balances are as follows:

In HUF millions	Balance at Dec. 31, 2007	Effect on profit	Other move-ments	Balance at Dec. 31, 2008	Effect on profit	Other move-ments	Balance at Dec. 31, 2009
Deferred tax assets and (liabilities)							
Investment tax credits	13,588	1,873	350	15,811	547	428	16,786
Net operating loss carry-forward	541	741	-	1,282	507	-	1,789
Investments in subsidiaries	(1,413)	(12)	-	(1,425)	99	-	(1,326)
Withholding tax	(3,640)	402	-	(3,238)	139	-	(3,099)
Other financial assets	(8)	(208)	35	(181)	529	-	348
Impairment of receivables, inventory	2,562	(1,604)	-	958	1,105	-	2,063
Property, plant and equipment and intangible assets	(9,471)	(9,464)	(143)	(19,078)	(8,080)	(536)	(27,694)
Goodwill	(7,091)	(1,198)	-	(8,289)	(1,563)	-	(9,852)
Trade and other payables	(418)	546	-	128	(8)	-	120
Loans and other borrowings	123	439	-	562	(205)	-	357
Deferred revenue	293	531	-	824	(954)	-	(130)
Provisions for liabilities and charges	3,506	(341)	-	3,165	769	-	3,934
Total net deferred tax asset / (liability)	**(1,428)**	**(8,295)**	**242**	**(9,481)**	**(7,115)**	**(108)**	**(16,704)**
Of which deferred tax liability after netting	**(2,714)**			**(11,071)**			**(18,594)**
Of which deferred tax asset after netting	**1,286**			**1,590**			**1,890**
Items included in other movements							
Investment tax credit recognized against cost of PPE			350			428	
AFS financial assets – valuation differences recognized in equity			35			-	
Currency translation adjustment arising on consolidation			(112)			(38)	
Arising on business combinations			(31)			(498)	
			242			**(108)**	

The Group consists of a number of legal entities, most of which have deferred tax assets and liabilities. The assets and liabilities are netted by legal entity so that one legal entity has either a deferred tax asset or a liability and the consolidated Statement of financial position includes these items accordingly.

The Group's net deferred tax liability balance is HUF 16,704 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 6,428 million net deferred tax is expected to reverse in 2010 (deferred tax asset of HUF 6,653 million and deferred tax liability of HUF 225 million). The above items exclude deferred tax items expected to arise in 2010.

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 in Other comprehensive income is also recognized in Other comprehensive income.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 8,716 million at December 31, 2009 (2008: net liability of HUF 3,211 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 2,191 million withholding tax, and deferred tax liability in the same amount is recognized as at December 31, 2009. If the Group's Montenegrin subsidiary distributed all its distributable reserves in the form of a dividend, the Group would have to pay HUF 908 million withholding tax, and deferred tax liability in the same amount is recognized as at December 31, 2009. 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 2007–2009) 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. There is no tax loss expiring in 2010 for which a deferred tax asset has been recognized. As of December 31, 2009, the balance of recognized tax losses is HUF 10,702 million of which HUF 9,475 million is not subject to statutory limitations (2008: HUF 9,978 million of which HUF 8,088 million was not subject to statutory limitations). For tax losses in an amount of HUF 1,285 million no deferred tax asset was recognized as at December 31, 2009 (2008: HUF 1,984 million).

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 government 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 qualifying broadband investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2009
2003	6,194	2,592	1,132	(3,724)	-
2004	6,968	3,027	1,517	(1,693)	2,851
2005	13,991	5,765	1,296	(2,203)	4,858
2006	15,184	4,423	1,150	(473)	5,100
2007	11,343	3,036	527	(87)	3,476
2008	2,215	461	40	-	501
2009	-	-	-	-	-
Total	**55,895**	**19,304**	**5,662**	**(8,180)**	**16,786**
			Expires in year	2015	7,709
				2016	5,100
				2017	3,476
				2018	501
					16,786

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, other than certain minor items already provided for.

9.7 Dividends paid by Magyar Telekom Plc.

The dividends paid and payable by Magyar Telekom Plc. to its owners may be subject to withholding or income taxes of the owners, which do not have an impact on the amount of the dividend declared or on the Company's tax expense as these taxes – if any – are levied on the owners.

10 Inventories

In HUF millions	At December 31, 2008	At December 31, 2009
Cables, wires and other materials, work-in-progress and advances	2,964	2,492
Inventory for resale	10,703	7,619
Subtotal	**13,667**	**10,111**
Less allowances for obsolete inventory	(376)	(323)
	13,291	**9,788**

The Inventory for resale balance as at December 31, 2008 included hardware and software assets in an amount of HUF 1,851 million which had been sold in a finance lease contract to a major business customer in and after 2001, which terminated the contract for the assets and the related services as of December 31, 2008. In December 2008 the Group concluded a contract for the sale of these assets in a finance lease transaction effective from January 2009. The Group disclosed these assets as inventory as at December 31, 2008 as the assets were neither leased to the old customer any more, nor sold to the new customer yet.

11 Non current assets held for sale

Non current assets held for sale include primarily 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. In addition, the December 31, 2009 balance also includes the non current assets of Orbitel, the Group's consolidated subsidiary, for which the Company signed a sale-purchase agreement in November 2009.

12 Property, plant and equipment

In HUF millions	Land and related rights	Buildings	Telecom. equipment	Other equipment	Total
At January 1, 2008					
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
Carrying amount – January 1, 2008	4,768	99,025	413,512	21,819	539,124
Exchange differences	49	725	2,660	320	3,754
Additions due to business combinations	-	-	522	-	522
Additions due to asset retirement obligations	-	2,303	1,111	-	3,414
Investments	257	6,880	67,337	11,015	85,489
Disposals	-	(2,683)	(867)	(416)	(3,966)
Depreciation charge	-	(4,357)	(70,588)	(7,928)	(82,873)
Reclassifications	294	(294)	-	-	-
Carrying amount – December 31, 2008	**5,368**	**101,599**	**413,687**	**24,810**	**545,464**
At December 31, 2008					
Cost	7,276	133,605	1,109,442	102,775	1,353,098
Accumulated depreciation	(1,908)	(32,006)	(695,755)	(77,965)	(807,634)
Carrying amount	**5,368**	**101,599**	**413,687**	**24,810**	**545,464**
Of which held for sale					(1,775)
					543,689
Carrying amount – January 1, 2009	5,368	101,599	413,687	24,810	545,464
Exchange differences	29	472	1,760	119	2,380
Additions due to business combinations	-	-	965	43	1,008
Additions due to and revisions of asset retirement obligations	-	468	(235)	-	233
Investments	-	1,533	74,165	6,088	81,786
Disposals	(9)	(152)	(66)	(421)	(648)
Depreciation charge	(109)	(4,002)	(64,661)	(7,916)	(76,688)
Reclassifications	288	(288)	-	-	-
Carrying amount – December 31, 2009	**5,567**	**99,630**	**425,615**	**22,723**	**553,535**
At December 31, 2009					
Cost	7,333	135,732	1,171,086	102,550	1,416,701
Accumulated depreciation	(1,766)	(36,102)	(745,471)	(79,827)	(863,166)
Carrying amount	**5,567**	**99,630**	**425,615**	**22,723**	**553,535**
Of which held for sale					(2,790)
					550,745

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 30,664 million as at December 31, 2009 (2008: HUF 32,601 million). In the table above the assets in course of construction are shown in the categories where the capitalization is expected.

Additions due to business combinations include the fair value of the assets acquired by Magyar Telekom through business combinations in the reported years.

Additions due to and revisions of asset retirement obligations represent the amounts recognized as part of the carrying amounts of the constructed assets against a provision for asset retirement obligation in the reported year (Note 19.5).

Investments represent the regular investing activity in PPE assets. These additions are shown net of the investment tax credit related to broadband investments. For more details, see Note 9.4.

No impairment was identified in 2009 and 2008.

The reclassifications between asset categories or their impact on depreciation expense was not material.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2009 the gross book value of the leased back assets is HUF 2,706 million (2008: HUF 2,739 million) and the net book value is HUF 1,172 million (2008: HUF 1,450 million).

Included mainly in buildings and telecom equipment are assets leased under finance lease conditions (other than sale and lease back). At December 31, 2009 the gross book value of the finance leased assets is HUF 2,150 million (2008: HUF 2,646) and the net book value is HUF 1,237 million (2008: HUF 1,813 million).

Included in telecommunications equipment at December 31, 2009 are assets leased under operating lease contracts to customers with a gross book value of HUF 1,698 million (2008: HUF 1,759 million) and net book value of HUF 155 million (2008: HUF 1,122 million). Depreciation for the year of these assets amounted to HUF 1,543 million (2008: HUF 469 million). The future minimum lease payments receivable under these contracts are disclosed in Note 32.4.

HUF 2,409 million of PPE has restricted titles as at December 31, 2009 (2008: HUF 3,263 million), which are included in our assets as finance leases.

The reviews of the useful lives of property, plant and equipment during 2009 affected the lives of a large number of assets including primarily IT hardware, antennas, antenna towers and vehicles. The revisions primarily resulted in the extension of the useful lives as a result of later expected replacement of the affected assets than originally estimated. The revision results in the following change in the original trend of depreciation in the current and future years.

In HUF millions	2009	2010	2011	2012	After 2012
Increase / (decrease) in depreciation	(2,017)	(3,426)	(165)	157	5,451

The useful lives assigned to different types of property, plant and equipment are as follows:

	Years
Buildings	5–50
Duct, cable and other outside plant	3–38
Other telecommunications equipment	2–25
Other equipment	2–12

13 Intangible assets

In HUF millions	Goodwill (as restated)	Software	Concessions and licenses	Other	Total
At January 1, 2008					
Cost	243,999	135,990	54,262	23,243	457,494
Accumulated amortization	-	(94,821)	(17,257)	(10,502)	(122,580)
Carrying amount	**243,999**	**41,169**	**37,005**	**12,741**	**334,914**
Carrying amount – January 1, 2008	243,999	41,169	37,005	12,741	334,914
Exchange differences	346	357	298	250	1,251
Additions due to business combinations	132	-	-	104	236
Investments	-	19,680	2,525	255	22,460
Disposals	-	-	-	(235)	(235)
Amortization charge	-	(16,263)	(3,464)	(3,520)	(23,247)
Carrying amount – December 31, 2008	**244,477**	**44,943**	**36,364**	**9,595**	**335,379**
At December 31, 2008					
Cost	244,477	155,513	50,096	22,663	472,749
Accumulated amortization	-	(110,570)	(13,732)	(13,068)	(137,370)
Carrying amount	**244,477**	**44,943**	**36,364**	**9,595**	**335,379**
Carrying amount – January 1, 2009	244,477	44,943	36,364	9,595	335,379
Exchange differences	173	328	147	19	667
Additions due to business combinations	2,459	410	-	2,491	5,360
Investments	-	17,355	1,421	1,304	20,080
Disposals	-	(124)	(22)	(14)	(160)
Impairment	(969)	-	-	-	(969)
Amortization charge	-	(16,302)	(4,065)	(3,896)	(24,263)
Carrying amount – December 31, 2009	**246,140**	**46,610**	**33,845**	**9,499**	**336,094**
At December 31, 2009					
Cost	246,140	164,668	52,134	25,906	488,848
Accumulated amortization	-	(118,058)	(18,289)	(16,407)	(152,754)
Carrying amount	**246,140**	**46,610**	**33,845**	**9,499**	**336,094**
Of which held for sale					(479)
					335,615

As a result of the findings of the Investigation (Note 1.2), we identified three consultancy contracts, the payments of which were erroneously capitalized as part of the goodwill arising on the original acquisition of Makedonski Telekom in 2001 and the goodwill arising on Makedonski Telekom's repurchase of 10% of its shares in 2006. These amounts have been retrospectively derecognized from goodwill.

Additions due to business combinations include the fair value of assets acquired by Magyar Telekom through business combinations in the reported years and the goodwill arising on these business combinations.

Investments represent the regular investing activity in intangible assets.

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 Statement of comprehensive income.

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	2–8
Concessions and licenses	3–25
Other intangible assets	3–10

The reviews of the useful lives of intangible assets during 2009 affected the lives of a large number of assets including primarily IT and operation support systems and software. The revisions primarily resulted in the extension of the useful lives as a result of later expected replacement of the affected assets than originally estimated. The revision results in the following change in the original trend of amortization in the current and future years.

In HUF millions	2009	2010	2011	2012	After 2012
Increase / (decrease) in amortization	(722)	(1,367)	1,160	764	164

The most significant intangible assets of the Group are the goodwill arising on business combinations. For the goodwill impairment tests, the total amount of goodwill was allocated to the operating segments of the Group as follows.

In HUF millions	As at December 31, 2008	2009
CBU	139,326	139,743
BBU	44,871	45,220
Macedonia mobile	38,804	38,837
Macedonia fixed line	12,506	12,506
Montenegro mobile	5,487	5,612
Other segments	3,483	4,222
Total goodwill	**244,477**	**246,140**

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. We established in 2007 and 2008 that the carrying amount of goodwill did not suffer impairment. In 2009 Magyar Telekom decided to sell its 100% stake in Orbitel, as a result of which we carried out an interim impairment test on the Orbitel goodwill. The offered purchase price was known at the time of the interim impairment test, which was lower than the carrying amount of Orbitel's net assets, which resulted in a partial impairment of goodwill in an amount of HUF 969 million during 2009. During the annual impairment test conducted in the last quarter of 2009 no additional goodwill impairment was established for any goodwill of the Group.

14 Investments in associates and joint ventures

In HUF millions	For the year ended December 31, 2008	2009
Opening balance	4,936	4,136
Dividends	(2,141)	(102)
Share of associates' and joint ventures' profits / (losses)	1,341	(109)
Disposal of ITMH (Note 5.1.1)	-	(382)
Disposal of M-RTL (Note 5.1.1)	-	(3,357)
Closing balance	**4,136**	**186**

The following table shows the total assets and liabilities as at December 31, 2008 and 2009, and revenues and profit for the year ended December 31, 2008 and 2009 of Hunsat, the single remaining significant joint venture of the Group.

In HUF millions	Hunsat 2008	Hunsat 2009
Current assets	1,285	1,017
Non current assets	3	2
Current liabilities	(1,001)	(728)
Non current liabilities	-	-
Revenues	3,387	3,448
Profit for the year	186	291

There are no material contingent liabilities of our associates and joint ventures as of December 31, 2008 or 2009. Neither does the Group have any contingent liabilities or commitments to our associates or joint ventures as at the end of the reporting periods.

15 Other non current assets

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

16 Financial liabilities to related parties

Financial liabilities to related parties include loans taken from DTIF, predominantly denominated in HUF. For the whole nominal amount and interest payment of loans denominated in EUR granted by DTIF we have cross-currency interest rate swap agreements in place so that Magyar Telekom's exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis. These loans are primarily taken for significant acquisitions and dividend payments. Some of these loans, when expiring, are also refinanced by DTIF, depending on the actual cash position of the Group.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2009 and 2008.

December 31, 2009	Carrying amount in HUF millions	Currency	Interest rate (%)	Fixed / floating	Repayable
	20,313	EUR	1.35	floating	Jan 2010
	9,486	HUF	8.86	floating	Jan 2010
	10,016	HUF	8.17	fixed	Jul 2010
	20,033	HUF	8.18	fixed	Jul 2010
Due within 1 year	**59,848**				
Accrued interest	7,675				
Derivatives	3,050				
Total current	**70,573**				
	9,486	HUF	8.86	floating	Jan 2011
	25,000	HUF	7.73	floating	Apr 2011
	34,232	HUF	7.75	fixed	Jul 2011
	9,486	HUF	8.86	floating	Jan 2012
	40,000	HUF	7.22	floating	May 2012
	9,486	HUF	7.07	floating	Jan 2013
	25,000	HUF	7.26	fixed	Oct 2013
	20,871	EUR	4.45	fixed	Jun 2014
	42,912	EUR	4.08	fixed	Jan 2015
	50,525	HUF	8.30	fixed	May 2015
Total non current	**266,998**				

December 31, 2008	Carrying amount in HUF millions	Currency	Interest rate (%)	Fixed / floating	Repayable
	9,486	HUF	12.35	floating	Jan 2009
	5,000	HUF	9.68	fixed	Sep 2009
	25,000	HUF	9.61	fixed	Oct 2009
	28,000	HUF	9.15	floating	Oct 2009
	20,000	HUF	7.55	fixed	Oct 2009
Due within 1 year	**87,486**				
Accrued interest	8,845				
Total current	**96,331**				
	9,486	HUF	12.35	floating	Jan 2010
	10,060	HUF	8.17	fixed	Jul 2010
	20,121	HUF	8.18	fixed	Jul 2010
	9,486	HUF	12.35	floating	Jan 2011
	25,000	HUF	9.30	floating	Apr 2011
	34,384	HUF	7.75	fixed	Jul 2011
	9,487	HUF	12.35	floating	Jan 2012
	40,000	HUF	11.93	floating	May 2012
	9,487	HUF	12.35	floating	Jan 2013
	25,000	HUF	7.26	fixed	Oct 2013
	50,586	HUF	8.30	fixed	May 2015
Total non current	**243,097**				

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

In HUF millions	At December 31,			
	2008		2009	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	190,151	194,861	160,677	169,877
At floating rate	140,432	140,432	102,944	102,945
	330,583	**335,293**	**263,621**	**272,822**
EUR denominated loans				
At fixed rate	-	-	42,912	47,157
At floating rate	-	-	20,313	20,313
	-	**-**	**63,225**	**67,470**
Accrued interest	8,845	8,845	7,675	7,675
Swaps	-	-	3,050	3,050
Total related party financial liabilities	**339,428**	**344,138**	**337,571**	**351,017**

The weighted average interest rate on related party loans was 6.75% in 2009 (9.39% in 2008, 7.95% in 2007). The fixed interest rate loans 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 fixed interest liabilities.

Accrued interest include the nominal interest earned that is paid quarterly, semi-annually or annually.

Derivatives contracted with related parties include cross-currency interest rate swaps and FX forwards concluded with DT AG to change the Group's exposure to HUF in case of the EUR denominated loans.

There were no defaults and breaches in connection with the financial liabilities to related parties.

17 Other financial liabilities

In HUF millions		At December 31, 2008	2009
Bank loans	(a)	33,246	32,810
Finance lease payable (Note 32.1)		1,018	763
Accrued interest		1,246	1,139
Third party derivatives	(b)	-	179
Other		1,624	1,441
Total other financial liabilities – current		**37,134**	**36,332**
Bank loans	(a)	19,313	23,316
Finance lease payable (Note 32.1)		3,474	2,660
Other		252	245
Total other financial liabilities – non current		**23,039**	**26,221**

(a) Bank loans

In HUF millions	As at December 31, 2008	2009
Current bank loans	33,246	32,810
Non current bank loans (within 1–5 years)	19,313	23,316
Total bank loans	**52,559**	**56,126**

Loans totaling HUF 9,997 million at December 31, 2009 are revolving loans (2008: HUF 2,277 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The weighted average interest rate on bank loans was 7.92% in 2009 (8.54% in 2008, 7.41% in 2007).

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

In HUF millions	At December 31,			
	2008		2009	
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	11,000	11,768	11,000	12,090
At floating rate	28,515	28,515	38,215	38,215
	39,515	**40,283**	**49,215**	**50,305**
EUR denominated bank loans				
At fixed rate	10,767	11,069	5,164	5,316
At floating rate	2,277	2,277	1,747	1,747
	13,044	**13,346**	**6,911**	**7,063**
Total bank loans	**52,559**	**53,629**	**56,126**	**57,368**

Floating 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 floating interest rates, which are exposed to cash flow risks. If interest rates are rising, it results in higher cash outflows through interest payments.

There were no defaults and breaches in connection with other financial liabilities.

(b) Third party derivatives

Third party derivatives included FX forward deals in a total fair value of HUF 179 million (unrealized loss) as of December 31, 2009. There were no such derivatives of a liability nature as at December 31, 2008.

(c) Credit facilities

At December 31, 2009, Magyar Telekom had un-drawn committed credit facilities of HUF 50,479 million (2008: HUF 44,833 million). These credit facilities, should they be drawn down, are subject to an interest rate of EURIBOR, BUBOR and commercial floating bank prime rates plus a margin depending on the currency and institution providing the facilities.

18 Trade payables

In HUF millions	At December 31, 2008	At December 31, 2009
Payable to DT Group companies	5,850	5,169
Payable to associates and joint ventures	7	7
Other trade payables	86,483	80,698
	92,340	**85,874**

19 Provisions

In HUF millions	Severance	Legal cases	MTIP	Fixed to mobile IC fees	ARO	Other (as restated)	Total
January 1, 2008	14,722	5,652	55	6,984	1,244	4,068	32,725
Amounts utilized	(10,988)	(199)	(175)	-	(72)	(558)	(11,992)
Amounts reversed	(62)	(1,469)	-	(8,499)	-	(1,464)	(11,494)
Exchange rate difference	31	246	-	-	-	14	291
Accretion	-	-	-	-	70	-	70
Additions	6,061	2,683	356	1,515	3,414	2,262	16,291
December 31, 2008	**9,764**	**6,913**	**236**	**-**	**4,656**	**4,322**	**25,891**
Amounts utilized	(7,832)	(1,887)	(277)	-	(63)	(2,519)	(12,578)
Amounts reversed	(1,532)	(1,298)	-	-	(26)	-	(2,856)
Exchange rate difference	43	189	-	-	-	11	243
Accretion	-	-	-	-	184	-	184
Additions	8,304	1,733	397	-	259	836	11,529
December 31, 2009	**8,747**	**5,650**	**356**	**-**	**5,010**	**2,650**	**22,413**
Of which current	**8,295**	**3,471**	**-**	**-**	**175**	**751**	**12,692**
Of which non current	**452**	**2,179**	**356**	**-**	**4,835**	**1,899**	**9,721**

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

Provisions recognized for customer loyalty programs in previous years have been retrospectively reclassified as other liabilities (current and non current). See more information in Note 2.1.5.

19.1 Severance

The majority of the provision for severance as at December 31, 2009 relates to the stand-by-pool and the employee terminations in 2010 in relation to the further organizational changes in Magyar Telekom Plc. The stand-by-pool of employees include people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them for maximum 4 years. This is a way of severance that is not paid in one lump sum but in maximum 48 installments following the discontinuation of services. The provision for severance as at December 31, 2008 mostly related to the major restructuring of Magyar Telekom Plc.'s operations from January 1, 2009, and impacted all functions of the Company.

961 employees were dismissed in 2009 (2008: 1,910) at Group level, related to which severance payments were made. The balance of provision as at December 31, 2009 relates to 569 employees and former employees in the stand-by-pool (2008: 738) working in various functions of the Group.

The total payments made in relation to employee termination in 2009 amounted to HUF 8,700 million, of which HUF 7,832 million was charged against the provision as at December 31, 2008, while the rest was recognized as employee related expense in 2009. The relatively high amount of the reversal of provision in 2009 is the result of the different actual mix of employees severed compared to the originally estimated mix (length of service years, choice of immediate leave versus stand-by pool etc.).

The total payments made in relation to employee termination in 2008 amounted to HUF 13,468 million, of which HUF 10,988 million was charged against the provision as at December 31, 2007, while the rest was recognized as employee related expense in 2008.

19.2 Legal cases

Provisions for legal cases mainly include amounts expected to be paid to regulatory and competition authorities as well as to ex-employees and trading partners as a result of legal disputes. There are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed. Further, the disclosure of any individual legal case could hurt the Group defending its position at various courts.

19.3 MTIP

For more details on the Mid-term Incentive Plan see Note 24.1.1.

19.4 Fixed to mobile (F2M) interconnect fees

The amount provided for in this category in prior years included amounts collected from Magyar Telekom Plc.'s customers, which were estimated as probably repayable to universal customers related to the reduced fixed to mobile termination charges, which was accounted for as a reduction of revenues.

Pursuant to a decree, the Company had 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 did not fulfill this obligation because the mobile operators – referring to their lawsuits against the NCAH resolutions – did not, from a legal point of view, decrease the F2M termination rates, in their interconnection agreements with the Company.

The NCAH called upon the Company to repay the difference to its universal customers regardless of the status of the above legal cases. In August 2008, the negotiations with NCAH resulted in a positive conclusion, whereby the NCAH accepted the Company's arguments that in other forms of compensation the Company had already passed on the required discounts to the customers. Even though the NCAH conclusion was limited to the year 2005, based on the NCAH's reasoning for the relief, management believes that the Company passed on the required discounts to its customers in the subsequent years of 2006–2009 as well. As a result of the above, management believed that the recognition of the provision was no longer necessary, and in 2008 released to revenues the total amount of the provision accumulated in prior years.

19.5 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties.

In 2009, the Group conducted a revision of the required provisions, primarily as a result of the increased discount rates, and recognized the difference as a change in estimate in an amount of HUF 233 million against the carrying amounts of the related assets.

In 2008, the Group conducted a revision of the probabilities of having to dismantle the constructed assets and having to remediate the landlords' and public premises after dismantling, and revised the projected cash outflows expected to be incurred to settle these obligations at the end of the useful life of the assets. As a result of the revision, the Group recognized an additional HUF 3,344 million provision in 2008 against an increase in the carrying amounts of the related assets.

19.6 Other provisions

Other provisions include guarantee obligations and further other individually small items as well as provisions for onerous contracts. The December 31, 2006 balance of Other provisions has been restated to also include the provisions for the potential tax implications of the contracts identified by the Investigation (Note 1.2.2).

20 Other current liabilities

In HUF millions	Note	At December 31, 2008	2009
Deferred revenue and advances received	(a)	14,495	12,131
Other taxes and social security		9,925	8,838
Salaries and wages		8,136	8,652
EKG payable	(b)	3,476	-
Dividend payable to Non-controlling interests		290	303
Other liabilities		1,770	2,304
		38,092	**32,228**

(a) Deferred revenue and advances received

Deferred revenue and advances received include amounts already collected but not yet earned. Included in these are also the accruals recognized for customer loyalty programs in previous years that have been retrospectively reclassified from provisions and are now disclosed in this caption. See more information in Note 2.1.5.

(b) EKG payable

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 it back to the government at the end of the term free of charge. During the term of the agreement, the Company had 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. The contract expired in 2009, with the last payments made in 2009.

21 Other non current liabilities

In HUF millions	At December 31, 2008	2009
Deferred revenue (Note 20)	908	1,089
EKG payable (Note 20)	385	-
Other	11	11
	1,304	**1,100**

22 Revenue

In HUF millions	For the year ended December 31, 2007	2008	2009
Fixed line revenues			
Voice retail	159,772	151,033	128,133
Voice wholesale	30,319	21,494	21,322
Internet	57,796	59,823	55,089
Data	27,440	28,839	30,762
TV	18,102	18,830	23,753
Equipment	5,395	7,058	4,745
Other fixed line revenues	10,509	12,818	10,276
Total Fixed line revenue	**309,333**	**299,895**	**274,080**
Mobile revenues			
Voice retail	195,718	196,983	192,704
Voice wholesale	46,244	46,241	41,563
Voice visitor	6,632	5,995	4,959
Non voice	45,068	50,936	56,188
Equipment	23,121	21,169	21,320
Other mobile revenues	8,984	10,441	9,262
Total Mobile revenue	**325,767**	**331,765**	**325,996**
System integration and IT revenue	**41,561**	**41,396**	**43,913**
Total revenue	**676,661**	**673,056**	**643,989**

None of the Group's customers represent a significant source of revenue. Revenues from transactions with a single external customer (or group of entities that – knowingly to us – are under common control of a third party or government) do not exceed 10 per cent of the Group's revenues.

23 Expenses directly related to revenues

In HUF millions	For the year ended December 31, 2007	2008	2009
Voice, data and internet related payments	86,244	79,076	71,583
Material cost of equipment sold	41,957	45,061	44,011
Payments to agents and other subcontractors	49,064	43,421	44,982
	177,265	**167,558**	**160,576**

24 Employee related expenses

In HUF millions	Note	For the year ended December 31, 2007	2008	2009
Short term benefits		99,459	96,407	100,425
Share based payments	24.1	(134)	356	397
Termination benefits	19.1	25,332	8,510	7,640
Total before capitalization		**124,657**	**105,273**	**108,462**
Expenses capitalized		(4,481)	(4,953)	(6,544)
		120,176	**100,320**	**101,918**
Total costs expensed in relation to defined contribution plans (including social security)		28,791	23,376	23,690
Closing number of employees		11,723	10,438	10,828

24.1 Share-based compensation

24.1.1 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior 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 was planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years. In 2009, Magyar Telekom decided on prolonging the original program by one additional year, with the same concept. 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. Depending on the achievement of the targets, 0, 50 or 100% of the bonus is paid if neither, one or both of the targets are met, respectively.

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. 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 are included in the table below. When determining the Group's liability, 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.

Tranche	Vesting period	MT Share price at the beginning of the vesting period	Fulfilment
1	January 1, 2004 – December 31, 2006	755	Only absolute target met
2	January 1, 2005 – December 31, 2007	843	Neither targets met
3	January 1, 2006 – December 31, 2008	949	Only relative target met
4	January 1, 2007 – December 31, 2009	1,013	Only relative target met
5	January 1, 2008 – December 31, 2010	912	-
6	January 1, 2009 – December 31, 2011	561	-

The provision for the payments in relation to the MTIP program and the movements thereof are disclosed in Note 19.

24.1.2 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 un-exercised options were 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 (2006: HUF 1,060).

24.1.3 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.

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, 2009	**103**	**-**	**-**	**-**	**-**	**103**
Exercisable (thousand) at December 31, 2009	103	-	-	-	-	103
Exercise price in USD	7.36	2.93	3.48	3.62	3.87	
Remaining contractual life at December 31, 2009 (years)	0.5	-	-	-	-	

25 Other operating expenses

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Materials, maintenance and service fees	69,034	72,858	71,650
Marketing	20,152	22,065	16,180
Fees and levies	15,640	16,000	14,712
Consulting, audit and other expert fees	12,818	10,960	11,230
Rental and operating lease	9,304	9,947	11,153
Bad debt expense	5,136	4,353	9,072
Other expenses	7,230	4,866	1,308
	139,314	**141,049**	**135,305**

Consulting, audit and other expert fees among others include expenses incurred in relation to the audit of the standalone and consolidated financial statements of the Company by PricewaterhouseCoopers (PwC) as follows.

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Audit of the financial statements	765	500	593
Other audit related fees	176	108	205
Tax advisory fees	12	-	-
Other non audit related fees	-	-	4
Total expenses payable to PwC	**953**	**608**	**802**

Audit of the financial statements in the above table are the aggregate fees of PwC in connection with the audit of our annual financial statements, reviews of quarterly reports and services performed in relation to legal obligations and submissions required by regulatory provisions.

Other audit-related fees in the above table are the aggregate fees of PwC for services which are normally performed by the external auditor in connection with the auditing of the annual financial statements, e.g. advice on issues of accounting and reporting, which were not classified as audit services, and support with the interpretation of new accounting and reporting standards. Audit-related fees in 2009 also included HUF 205 million (2008: HUF 108 million) incurred relating to the ongoing investigation (Note 1.2).

Tax advisory fees in the above table are fees of PwC for services relating to issues of domestic and international taxation (adherence to tax law, tax planning and tax consulting). Furthermore, services were commissioned for the assistance with tax audits and appeals, evaluations for taxation purposes, as well as assistance to tax law.

Other non audit related fees in the above table are fees of PwC primarily related to services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC.

26 Other operating income

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Compensation for renaming (Note 33.1)	229	676	-
Gain on sale of PPE, Intangible assets and assets held for sale	3,203	2,126	326
Gain on sale of subsidiaries and associates (Notes 5.1 and 5.5)	-	1,233	1,371
Other operating income	569	214	1,166
	4,001	**4,249**	**2,863**

27 Finance expenses

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Interest expense	31,147	32,798	33,479
Other finance expenses (Fee expense)	4,039	4,659	4,780
less: interest capitalized	-	(258)	(726)
	35,186	**37,199**	**37,533**

Other finance expenses mainly include bank charges.

Interest expense is shown net of interest capitalized using an average borrowing rate of 8.25% (2008: 8.3%).

28 Finance income

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Gains / (losses) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with related parties	-	-	(2,387)
Gains / (losses) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with third parties	(139)	789	(568)
Gains / (losses) on the derecognition of financial instruments at fair value through profit and loss contracted with related parties	-	-	(141)
Gains / (losses) on the derecognition of financial instruments at fair value through profit and loss contracted with third parties	828	(477)	(441)
Gains / (losses) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)	-	-	-
Net foreign exchange losses	(1,481)	(648)	(269)
Finance lease interest income	1,675	1,340	1,390
Interest and other finance income	4,334	5,887	7,136
	5,217	**6,891**	**4,720**

29 Purchase of property, plant and equipment and intangible assets

In HUF millions	For the year ended December 31,		
	2007	2008	2009
Investments in property, plant and equipment (Note 12)	75,825	85,489	81,786
Investments in intangible assets (Note 13)	28,010	22,460	20,078
Total investments in PPE and intangible assets	**103,835**	**107,949**	**101,864**
Recognition of investment tax credit (Note 9.4)	3,561	350	428
Change in payables relating to capital expenditures	(4,299)	7,740	7,936
	103,097	**116,039**	**110,228**

The Group had no significant non cash transactions in any of the reported years.

30 Purchase of subsidiaries and business units

In HUF millions	For the year ended December 31, 2007	2008	2009
ISH	-	-	3,131
Cable TV networks	-	687	1,745
KFKI Direkt	-	-	317
M-Factory – contingent consideration	-	75	-
Mobilpress	650	-	-
T-Systems Hungary	60	-	-
Total purchase of subsidiaries and business units	**710**	**762**	**5,193**

See Note 5 for further details of business combinations.

31 Reportable segments and information about geographical areas

31.1 Reportable segments

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

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

The Business Services Business Unit (BBU) operates in Hungary providing, mobile and fixed line telecommunications, info-communications and system integration services (including marketing, sales and customer relations activities) mainly under the T-Systems and T-Mobile brands to key business partners (large corporate and public sector customers) as well as small and medium businesses (SMB). BBU's customer portfolio includes approximately 3,000 key business partners and over 40,000 SMB customers.

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

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

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro which represent two additional reporting segments of the Group. From 2009, similarly to the Hungarian operations, in these countries also less emphasis is put on the segregation by technology (fixed line or mobile services), but up until the end of 2009, the Group's operations in Macedonia and Montenegro were reviewed separately for the fixed line and mobile operations, therefore, these were two separate operating segments by country.

In addition to the operating segments described above, there are a few operations, which do not qualify as operating or reportable segments. These operations (including MBU as well) are grouped in "All other" included in the reconciliations of the reportable segments' totals to the Group totals.

Comparative information has been provided for 2008, including minimum level of estimates as the new structure was gradually introduced in 2008. We have also provided comparative figures for 2007, which include more management estimate (except in case of Macedonia and Montenegro) as the Group operated in the old structure in 2007, which was completely different from the current structure of operations, it was not a simple regrouping of organizations. These numbers have never been reviewed or evaluated by the MC.

31.1.1 Information regularly provided to the MC

The following tables present the segment information by reportable segment regularly provided to the Management Committee of the Group, reconciled to the corresponding Group numbers.

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

In HUF millions	For the year ended December 31, 2007	2008	2009
Segment results (EBITDA)			
CBU	188,304	193,314	181,920
BBU	82,694	90,816	80,307
Headquarters	(26,507)	(15,899)	(22,209)
Technology	(56,839)	(49,059)	(47,485)
Macedonia	42,018	39,132	42,861
Montenegro	13,732	10,815	13,736
All other	505	(191)	(414)
Total EBITDA of the segments	**243,907**	**268,928**	**248,716**
Measurement differences to Group EBITDA	-	(550)	337
Total EBITDA of the Group	**243,907**	**268,378**	**249,053**
Depreciation and amortization of the Group	(115,595)	(106,120)	(101,920)
Total Operating profit of the Group	**128,312**	**162,258**	**147,133**

In HUF millions	For the year ended December 31, 2007	2008	2009
Capital expenditure (Capex) on PPE and Intangible assets			
CBU	11,983	13,540	23,774
BBU	2,997	7,493	2,905
Headquarters	8,665	8,507	4,520
Technology	61,617	58,716	48,989
Macedonia	9,880	15,709	15,320
Montenegro	6,936	3,751	4,913
All other	2,603	710	1,433
Total capital expenditure of the segments	**104,681**	**108,426**	**101,854**
Measurement differences to capital expenditure of the Group	(846)	(477)	10
Total investments of the Group in PPE and Intangible assets	**103,835**	**107,949**	**101,864**

Total investments of the Group in PPE and Intangible assets correspond to the "Investments" lines disclosed in Notes 12, 13 and 29.

31.2 Information about geographical areas

The table below shows the revenues generated from external customers in the countries where the Group operates, using the same measurement principles as for the corresponding Group numbers.

In HUF millions	For the year ended December 31, 2007	2008	2009
Revenues			
Hungary	562,276	554,747	520,584
Macedonia	73,807	75,956	82,098
Montenegro	35,256	33,043	34,391
Romania	2,729	5,244	3,636
Bulgaria	2,530	3,933	3,151
Ukraine	63	133	129
Total revenue of the Group	**676,661**	**673,056**	**643,989**

None of the Group's external customers represent a significant source of revenue.

The table below shows the Non current assets of the Group located in the countries of operations (including goodwill allocated to these countries) and the reconciliation to the total Non current assets of the Group, using the same measurement principles as for the corresponding Group numbers.

In HUF millions	As at December 31, 2008	2009
Non current assets		
Hungary	707,271	709,576
Macedonia	126,062	130,046
Montenegro	43,051	42,480
Bulgaria	5,012	3,124
Romania	2,632	2,532
Ukraine	16	19
Total excluding Other non current financial assets and Deferred tax assets	**884,044**	**887,777**
Other non current financial assets (Note 8.2)	26,094	27,528
Deferred tax assets (Note 9.4)	1,590	1,890
Total Non current assets of the Group	**911,728**	**917,195**

32 Leases and other commitments

32.1 Finance lease – Group as lessee

Finance leases in 2008 and 2009 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contracts are denominated in EUR, the term of the leases is 5–10 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, 2008 and 2009 are as follows:

In HUF millions	At December 31, 2008			At December 31, 2009		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	265	438	703	291	389	680
1–5 years	1,154	1,211	2,365	1,067	1,012	2,079
After 5 years	699	331	1,030	505	172	677
Total	**2,118**	**1,980**	**4,098**	**1,863**	**1,573**	**3,436**

Finance leases other than sale and lease back in 2008 and 2009 mainly relate to vehicles and IT equipment. In most cases the contract term of the leases is 3-5 years with renewal and purchase options.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2008 and 2009 are as follows:

In HUF millions	At December 31, 2008			At December 31, 2009		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	753	265	1,018	472	208	680
1–5 years	864	305	1,169	473	295	768
After 5 years	757	106	863	615	187	802
Total	**2,374**	**676**	**3,050**	**1,560**	**690**	**2,250**

The Group has no contingent rents related to its finance leases. The Group does not sub-lease any of the assets leased in a finance lease contract.

32.2 Operating lease – Group as lessee

Operating lease commitments are mainly in respect of the rental of mobile cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities.

In HUF millions	At December 31, 2008	2009
Within 1 year	6,741	7,541
1–5 years	17,798	20,897
After 5 years	14,945	16,131
Total	**39,484**	**44,569**

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, but no purchase options.

32.3 Finance lease – Group as lessor

Finance leases primarily include the private mobile Tetra network constructed for the exclusive use of the Hungarian State, and to a lesser extent equipment provided to business customers as part of our outsourcing contracts where the Group is the service provider.

Future lease receivables under finance leases at December 31, 2008 and 2009 are as follows:

In HUF millions	At December 31, 2008			At December 31, 2009		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	3,718	1,606	5,324	3,797	1,641	5,438
1–5 years	12,853	4,104	16,957	15,270	3,810	19,080
After 5 years	6,511	605	7,116	4,464	286	4,750
Total	**23,082**	**6,315**	**29,397**	**23,531**	**5,737**	**29,268**

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 Profit for the year (Finance income).

The unguaranteed residual values accruing to the benefit of the Group are insignificant.

32.4 Operating lease – Group as lessor

The following table includes the future minimum lease payments receivable by the Group for the operating leases of towers and PBX (private business exchange) equipment where Magyar Telekom is the lessor.

In HUF millions	At December 31,	
	2008	2009
Within 1 year	2,394	1,210
1–5 years	2,524	1,943
After 5 years	728	1,115
Total	**5,646**	**4,268**

32.5 Purchase commitments for tangible and intangible assets

The table below summarizes Magyar Telekom's contractual purchase commitments for tangible and intangible assets with the majority falling due within one year.

In HUF millions	At December 31,	
	2008	2009
Property, plant and equipment	2,797	4,407
Intangible assets	2,701	1,788
Total	**5,498**	**6,195**

32.6 Commitments related to the extended GSM license of T-Mobile HU

The Company renewed its mobile concession contract for the use of the 900 MHz frequency band that expired 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 2008 and 2009 on further increasing mobile broadband coverage in Hungary. This agreement includes that 25% of the unfulfilled obligation would have to be paid as a penalty to the Government at the end of 2009 if Magyar Telekom had not increased the coverage as agreed. Management believes that the Company fulfilled the obligation by the end of 2009, and therefore no fine can be expected.

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, mobile and IT service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

The Company is directly owned by MagyarCom GmbH, which is a holding subsidiary of DTAG. Magyar Telekom pays dividends annually to its owners including MagyarCom GmbH.

Deutsche Telekom International Finance (DTIF) is the treasury center of DT Group, which typically provides loan financing across the DT Group including Magyar Telekom.

The Company's Hungarian operations were renamed in 2004 and 2005. The renaming continued in 2006 in Macedonia (T-Mobile) and in Montenegro (T-Home and T-Mobile) in 2007, and was completed in 2008 in Macedonia (T-Home). 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 Profit for the year (Other operating income).

The table below summarizes the above related party transactions with DT Group.

In HUF millions	2007	2008	2009
Revenues from telecom services provided to DT Group	6,729	16,035	22,059
Costs of services provided by DT Group	(11,881)	(20,759)	(16,819)
Other income from DTAG	229	676	-
Interest expense to DTIF	(23,301)	(26,986)	(27,530)
Dividend paid to MagyarCom GmbH	(88,296)	(45,690)	(45,690)
Accounts receivable from DT Group companies	6,878	5,903	5,492
Accounts payable to DT Group companies	(7,524)	(5,850)	(5,169)
Loans receivable from DTAG	-	-	29,587
Accrued interests payable to DT Group companies	(5,210)	(8,845)	(7,675)
Loans payable to DT Group companies	(274,432)	(330,583)	(329,896)
Fair value of swap agreements with DTAG – net	-	-	(2,388)

Deutsche Telekom has pledged its support for Magyar Telekom's financing needs through to June 30, 2011.

33.2 Associates and joint ventures

Hunsat is a joint venture founded by the Company (50%) and Antenna Hungária (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 93 million in 2009 (2008: HUF 89 million, 2007: HUF 72 million).

M-RTL was an associate of Magyar Telekom Group until May 2009 (Note 5.1.1). 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, but these inter-company services are not material. M-RTL declared dividends to Magyar Telekom directly and indirectly in an amount of HUF 825 million in 2008 (2007: HUF 750 million).

IKO-Telekom Media Holding (ITMH) was a joint venture holding company of Magyar Telekom and IKO Production Kft., with a 50-50% ownership (Note 5.1.1). The operating transactions between the Group and ITMH were insignificant. Dividends declared by ITMH to the Company amounted to HUF 2,033 million in 2008, primarily representing the indirect dividends from M-RTL.

33.3 Board and supervisory board members

The remuneration of the members of the Company's Board of Directors amounted to HUF 13 million in 2009 (2008: HUF 13 million, 2007: HUF 11 million). The remuneration of the members of the Company's Supervisory Board amounted to HUF 42 million in 2009 (2008: HUF 46 million, 2007: HUF 42 million).

33.4 Key management

Key management has been identified as the members of the Group's Management Committee, which is the chief operating 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.

In HUF millions	At December 31,		
	2007	2008	2009
Salaries and other short-term employee benefits	978	1,063	1,377
Contractual termination expense	1,129	-	248
Share based compensation (Note 24.1)	(123)	80	131
	1,984	**1,143**	**1,756**

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 after the end of a vesting period of three years. All options are vested as of December 31, 2009. 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, and no expenses or liabilities have been recognized in the presented years as these options are not in the scope of IFRS 2 and IFRIC 11 according to the transitional rules.

Further, the Company's CFO is also a participant of the 2004, 2005 and 2006 MTIP programs of DT, which are very similar to those of Magyar Telekom as described in Note 24.1.1, the difference being that the targets of the programs are tied to the performance of the DT shares. As of December 31, 2008, one performance target of the 2006 program of DT had been achieved. Consequently, the MTIP reward earned EUR 66,000 (HUF 18 million) was paid out by Magyar Telekom, as agreed with DT.

Some members of the Key management are participants of the 2006, 2007 MTIP programs of Magyar Telekom; and all of them are participants in the 2008 and 2009 MTIP program of Magyar Telekom. Some members of the former Key management were also participants of the 2006 MTIP program of Magyar Telekom. One performance target of the 2007 MTIP program of Magyar Telekom had been achieved. Consequently, 50% of the MTIP reward (HUF 104 million in total) will be paid out by Magyar Telekom in 2010 to the present and former members of Key management. As of December 31, 2008, one performance target of the 2006 MTIP program of Magyar Telekom had been achieved. Consequently, 50% of the MTIP reward (HUF 55 million in total) was paid out in 2009 by Magyar Telekom to the present and former members of Key management. See also note 24.1.1.

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, 2009 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 Additional disclosures on financial instruments

34.1 Financial assets and liabilities

The tables below include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2009 and 2008.

34.1.1 Financial assets – Carrying amounts and fair values

December 31, 2009 In HUF millions	Carrying amount				Total	Fair value
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
Cash and cash equivalents	34,270	-	-	-	34,270	34,270
Bank deposits with original maturities over 3 months	50,660	-	-	-	50,660	50,660
Trade receivables	100,524	-	-	-	100,524	100,524
Trade receivables over one year	1,487	-	-	-	1,487	1,486
Employee loans	4,870	-	-	-	4,870	4,228
Derivative financial instruments contracted with related parties	-	-	-	662	662	662
Derivative financial instruments contracted with third parties	-	-	-	623	623	623
Loans to Deutsche Telekom Group companies	29,587	-	-	-	29,587	29,587
Loans to third parties	580	-	-	-	580	580
RDC receivables	839	-	-	-	839	795
Dividend rec. from joint ventures	-	-	-	-	-	-
Financial assets AFS	-	-	276	-	276	276
Other current	1,626	-	-	-	1,626	1,626
Other non current	552	-	-	-	552	552
Total	**224,995**	**-**	**276**	**1,285**	**226,556**	**225,869**

December 31, 2008 In HUF millions	Carrying amount				Total	Fair value
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
Cash and cash equivalents	66,680	-	-	-	66,680	66,680
Bank deposits with original maturities over 3 months	59,300	-	-	-	59,300	59,300
Trade receivables	93,201	-	-	-	93,201	93,201
Trade receivables over one year	414	-	-	-	414	396
Employee loans	4,383	-	-	-	4,383	4,148
Derivative financial instruments contracted with third parties	-	-	-	1,011	1,011	1,011
Loans to third parties	779	-	-	-	779	779
RDC receivables	952	-	-	-	952	876
Dividend rec. from joint ventures	2,033	-	-	-	2,033	2,033
Financial assets AFS	-	-	282	-	282	282
Other current	2,186	-	-	-	2,186	2,186
Other non current	170	-	-	-	170	170
Total	**230,098**	**-**	**282**	**1,011**	**231,391**	**231,062**

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

Cash and cash equivalents, trade receivables, dividend receivable from joint ventures, loans to Deutsche Telekom Group companies and other current financial assets mainly have short times to maturity. For this reason, their carrying amounts at the end of the reporting period approximate their fair values.

Financial assets available for sale include investment in equity instruments, all measured at fair value.

Finance lease receivables (2009: HUF 23,531 million, 2008: HUF 23,082 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 32.3.

34.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2009 In HUF millions	Carrying amount Measured at amortized cost	Carrying amount Held for trading	Total	Fair value
Financial liabilities to related parties (including accrued interest)	334,521	3,050	337,571	351,017
Bank loans (including accrued interest)	57,265	-	57,265	58,507
Trade payables	85,874	-	85,874	85,874
Dividend payable	303	-	303	303
Nonconvertible bonds and debentures	191	-	191	160
Derivative financial instruments contracted with third parties	-	179	179	179
Other current	1,279	-	1,279	1,279
Total	**479,433**	**3,229**	**482,662**	**497,319**

December 31, 2008 In HUF millions	Carrying amount Measured at amortized cost	Carrying amount Held for trading	Total	Fair value
Financial liabilities to related parties (including accrued interest)	339,428	-	339,428	344,138
Bank loans (including accrued interest)	53,805	-	53,805	54,875
Trade payables	92,340	-	92,340	92,340
Dividend payable	290	-	290	290
Nonconvertible bonds and debentures	193	-	193	193
Other current	4,988	-	4,988	4,988
Other non current	386	-	386	345
Total	**491,430**	**-**	**491,430**	**497,169**

Derivatives are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the financial liabilities is provided in Notes 16 and 17.

Trade payables, dividend payable and other current financial liabilities generally have short times to maturity, therefore the carrying values approximate the fair values.

Finance lease liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 32.1.

34.2 Items of income, expense, gains and losses arising on financial instruments

The tables below include income, expense, gains and losses arising on financial instruments in 2009 and 2008.

2009 In HUF millions	From interest	From subsequent measurement At fair value	From subsequent measurement Currency translation	From subsequent measurement Impairment loss	From subsequent measurement Recalculation	From derecog-nition	From fee expense	Net gain/loss
Loans and receivables	7,048	-	(82)	(9,071)	-	-	(4,056)	(6,161)
Held-to-maturity investments	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	(6)	-	-	-	-	-	(6)
Financial instruments held for trading	-	(2,955)	-	-	-	(582)	-	(3,537)
Financial liabilities measured at amortized cost	(32,569	-	358	-	-	-	(14)	(32,225)
Net gain/loss of financial instruments under the scope of IAS 39	**(25,521)**	**(2,961)**	**276**	**(9,071)**	**-**	**(582)**	**(4,070)**	**(41,929)**
Net gain/loss related to finance lease (out of scope of IAS39)	**678**	**-**	**(66)**	**-**	**-**	**-**	**-**	**612**

2008 In HUF millions	From interest	From subsequent measurement At fair value	From subsequent measurement Currency translation	From subsequent measurement Impairment loss	From subsequent measurement Recalculation	From derecog-nition	From fee expense	Net gain/loss
Loans and receivables	6,611	-	1,190	(5,866)	-	-	(3,554)	(1,619)
Held-to-maturity investments	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	(348)	-	-	-	-	-	(348)
Financial instruments held for trading	-	789	-	-	-	(477)	-	312
Financial liabilities measured at amortized cost	(32,728)	-	(1,753)	-	(743)	-	(96)	(35,320)
Net gain/loss of financial instruments under the scope of IAS 39	**(26,117)**	**441**	**(563)**	**(5,866)**	**(743)**	**(477)**	**(3,650)**	**(36,975)**
Net gain/loss related to finance lease (out of scope of IAS39)	**692**	**-**	**(85)**	**1,500**	**-**	**-**	**-**	**2,107**

Impairment losses on Loans and receivables includes all expenses incurred or expected to be incurred in relation to the default of our customers. Before writing off or factoring, we impair the receivables to their recoverable amounts through the use of an impairment provision account, as a result of which the actual write-off or factoring of these receivables results in no derecognition gains or losses.

34.3 Other disclosures about financial instruments

Magyar Telekom Plc. is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 16.4 billion as at December 31, 2009 (2008: HUF 17.0 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. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future.

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 does not have compound financial instruments with multiple embedded derivatives.

35 Contingent assets and liabilities

35.1 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. The Group has no such contingencies where the inflow of economic benefits would be probable and material.

35.2 Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group.

35.2.1 Macedonia

35.2.1.1 Compensation for termination of a service contract by T-Mobile MK

In January 2002, T-Mobile MK signed an agreement with a subcontractor, including a 3-month trial period, for the collection of T-Mobile MK's overdue receivables. After the expiration of the 3-month trial period, T-Mobile MK terminated this contract in April 2002 due to breaches of the contractual obligations by the subcontractor. The subcontractor initiated a lawsuit in April 2003 requesting damage compensation for foregone profit and compensation for services already rendered. Management estimates it unlikely that the subcontractor would win the court case against T-Mobile MK. The potential loss from the claim is approximately HUF 4.3 billion. The first instance decision will be made by a primary court of Macedonia, the timing of which is uncertain.

35.2.1.2 T-Mobile MK's dispute with the Agency on frequency fees

T-Mobile MK paid the invoices issued by the Agency for the 2004 and 2005 radio frequency fees, however, the Agency issued further invoices for the same periods in May 2007, which T-Mobile MK is disputing as the management believes that there is no valid legal base for invoicing additional fees. The potential exposure is about HUF 0.8 billion.

35.2.1.3 MKT's dispute on fixed-to-mobile termination fees

In 2005, MKT changed the retail prices for the traffic from fixed to mobile network. According to the interconnection agreements with the mobile operators the change in retail prices automatically decreased the interconnection fees for termination in the mobile networks. In February 2006, one of the Macedonian mobile operators, Cosmofon, submitted to the 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 lawsuit at the Administrative Court of Macedonia. The potential loss from the claim is approximately HUF 0.4 billion, but the management estimates it unlikely that this would result in any material cash outflows. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

35.2.1.4 Prices offered at a Government bid for fixed line telephony services in Macedonia

Based on the Law on Electronic Communications and upon Cosmofon's request, the Agency made an inspection at Makedonski Telekom regarding the Government's tender for procuring fixed line telephone services on September 24, 2009. In its request Cosmofon stated that Makedonski Telekom had submitted an offer with prices that are predatory and not published in its official pricelist. In its written answer, Makedonski Telekom pointed out that the official pricelist contains only the standard prices excluding the special discounts and tariff models. We believe that Makedonski Telekom offered these prices in accordance with the conditions of the relevant bid, taking care that those are not predatory, i.e. the allegations are groundless. The Agency has not responded yet. Should Makedonski Telekom be found in breach of the Law, the potential fine can be as high as 7% of the total annual revenue of Makedonski Telekom for 2008, i.e. the maximum amount of the fine may reach HUF 3.0 billion.

35.2.2 Montenegro

35.2.2.1 Employee salary dispute in Montenegro

405 employees initiated a legal proceeding against CT and T-Mobile CG, requesting the payment of compensation for not increasing salaries from 2005 until June 2008. The plaintiffs are referring to the regulation of this matter by the Collective Bargaining Agreement (CBA). Management's view is that automatic salary increase is not established in the CBA, therefore management believes that the Group will not be subject to any compensations payable. The maximum exposure is approximately HUF 0.4 billion.

35.2.3 Hungary

35.2.3.1 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees for which see more details in Note 34.3.

35.2.3.2 Investigation

Please see Note 1.2

36 Events after the reporting period

36.1 Sale of Orbitel

In January 2010 the Company closed the sale of Orbitel (Note 5.5). The final sale price was EUR 3,628,000, received in January 2010. As the expected sales price was lower than the original carrying value of Orbitel, an impairment was charged in 2009 on the goodwill arising on the original acquisition of Orbitel, consequently, there will be no additional gains or losses to be recognized in 2010, when the sale was concluded.

Financial Calendar 2010

February 25, 2010	Release of 2009 full year results
April 7, 2010	Annual General Meeting
May 12, 2010 *	Release of 2010 1st quarter results
August 5, 2010 *	Release of 2010 1st half results
November 4, 2010 *	Release of 2010 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, 2009 filed with the U.S. Securities and Exchange Commission.

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Magyar Telekom stock ticker symbol

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

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