

# Magyar Telekom Telecommunications Public Limited Company

## Submission for Magyar Telekom Plc.'s General Meeting

<b>Subject:</b>	Submission and resolution proposal on the approval of the 2008 annual stand alone financial statements of the Magyar Telekom Plc. prepared in accordance with requirements of the Accounting Act (HAR)
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According to Section 302 e) of the Companies Act and Section 6.2. (i) of the Articles of Association, approving the report pursuant to the Accounting Act belongs to the exclusive competence of the General Meeting.

**Resolution proposal:**

**The General Meeting approves the Y2008 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 965,252 million and After-tax Net Income of HUF 98,625 million.**

**INDEPENDENT AUDITOR'S REPORT  
(Free translation)**

**To the Shareholders and Board of Directors of Magyar Telekom Nyrt.**

We have audited the accompanying financial statements of Magyar Telekom Nyrt. ("the Company") which comprise the balance sheet as of 31 December 2008 (in which the balance sheet total is HUF 965,252 million, the profit per balance sheet is HUF 98,625 million, the related profit and loss account for the year then ended, and the notes to the financial statement 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 the financial statements in accordance with the provisions of the Accounting Act and accounting principles generally accepted in Hungary. 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work in respect of the business report was limited to checking it in 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 financial statements of Magyar Telekom Nyrt. in accordance with the Hungarian and International Standards on auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provision of the accounting law and with accounting principles generally accepted in Hungary. 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 2008, and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the financial statements.

Without qualifying our opinion we draw your attention to the fact that the attached financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and, as such, do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Budapest, March 17, 2009

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

Hegedűsné Szűcs Márta  
Statutory auditor  
Licence number: 006838

*Translation note:*

*The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.*

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

BALANCE SHEET AND PROFIT AND LOSS STATEMENT  
TO THE 2008 ANNUAL REPORT

## ASSETS

	Note	December 31, 2007	Self-revision	December 31, 2008
<b>A. FIXED ASSETS AND FINANCIAL INVESTMENTS</b>		<b>842 584</b>	<b>-308</b>	<b>827 970</b>
<b>I. Intangible assets</b>	5	<b>224 100</b>	<b>-54</b>	<b>212 582</b>
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		62 531	-54	60 561
Intellectual property		3 502	0	3 600
Goodwill		158 067	0	148 421
Advance payments on intangible assets		0	0	0
<b>II. Tangible assets</b>	6	<b>427 065</b>	<b>-254</b>	<b>421 738</b>
Land and buildings and related rights		236 254	1 204	228 367
- Land		2 661	20	2 437
- Buildings		64 175	507	63 793
- Telecommunication network		157 188	477	151 134
- Other properties		11 148	175	9 761
- Real estate related rights		1 082	25	1 242
Technical equipment, machinery and vehicles		157 754	3 552	155 165
- Telecommunication equipment and machinery		156 164	3 332	153 230
- Other technical equipment, machinery and vehicles		1 590	220	1 935
Other equipment and vehicles		12 871	1 636	12 720
Construction-in-progress		20 185	-6 646	25 486
Advance payments on construction-in-progress		1	0	0
<b>III. Financial investments</b>		<b>191 419</b>	<b>0</b>	<b>193 650</b>
Non current investments in related parties	7	164 290	0	173 211
Non current loans granted to related parties	8	21 641	0	15 798
Other investments		0	0	0
Other non current loans granted	9	5 488	0	4 641
Non current bonds and other securities		0	0	0
<b>B. CURRENT ASSETS</b>		<b>68 160</b>	<b>-295</b>	<b>108 069</b>
<b>I. Inventories</b>	10	<b>7 161</b>	<b>-44</b>	<b>8 267</b>
Raw materials		606	-2	882
Work in progress and semi-finished products		32	0	149
Finished products		0	0	0
Goods resale		6 523	-42	7 236
Advance payments on inventories		0	0	0
<b>II. Receivables</b>		<b>55 908</b>	<b>-259</b>	<b>61 995</b>
Accounts receivable	11	39 052	300	36 596
Receivables from subsidiaries	12	10 511	-23	18 123
Bills receivable		0	0	0
Receivables from other related companies		0	0	0
Other receivables	13	6 345	-536	7 276
<b>III. Securities</b>	14	<b>1 179</b>	<b>0</b>	<b>1 179</b>
Investments in related parties		0	0	0
Other investments		0	0	0
Treasury stock, quotas		1 179	0	1 179
Marketable securities		0	0	0
<b>IV. Liquid assets</b>		<b>3 912</b>	<b>8</b>	<b>36 628</b>
Cash and cheques		88	0	96
Bank deposits		3 824	8	36 532
<b>C. PREPAYMENTS</b>	15	<b>32 133</b>	<b>-81</b>	<b>29 213</b>
Accrued income		31 080	-74	28 133
Prepayments for costs and expenses		1 053	-7	1 080
Deferred expenses		0	0	0

## TOTAL ASSETS

942 877

-684

965 252

Budapest, February 24, 2009

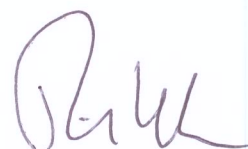

Christopher Mattheisen  
Chairman and Chief Executive Officer,  
Chairman of the Board

Thilo Kusch  
Chief Financial Officer,  
Board member

BALANCE SHEET AS OF DECEMBER 31, 2008  
(All amounts in millions of HUF)LIABILITIES AND SHAREHOLDER'S EQUITY

	Note	December 31, 2007	Self-revision	December 31, 2008
<b>D. <u>SHAREHOLDER'S EQUITY</u></b>	16	<b>335 645</b>	<b>1 347</b>	<b>435 489</b>
I. Common stock		104 275	0	104 275
- of this treasury stock at par value		150	0	150
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		58 289	0	58 289
IV. Retained earnings		171 525	0	172 244
V. Restricted reserves		1 556	0	2 056
VI. Valuation reserves		0	0	0
VII. Net income		0	1 347	98 625
<b>E. <u>PROVISIONS</u></b>	17	<b>22 049</b>	<b>-512</b>	<b>20 082</b>
Provision for expected obligations		20 598	-512	18 948
Provision for expected expenses		1 311	0	988
Other provisions		140	0	146
<b>F. <u>LIABILITIES</u></b>		<b>533 567</b>	<b>-174</b>	<b>459 720</b>
I. Subordinated liabilities		0	0	0
II. Non current liabilities		<b>309 062</b>	<b>0</b>	<b>262 481</b>
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		123	0	122
Investment and development loans		0	0	0
Other non current loans	18	50 557	0	18 326
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	19	254 432	0	242 531
Other non current liabilities		3 950	0	1 502
III. Liabilities		<b>224 505</b>	<b>-174</b>	<b>197 239</b>
Current borrowings		71	0	71
- of this convertible bonds		0	0	0
Current loans	20	39 942	0	32 541
Advances received		529	46	274
Accounts payable		34 805	-282	32 555
Bills of exchange payable		0	0	0
Current liabilities to related parties	21	24 540	0	29 279
Current liabilities to other related parties	22	20 000	0	87 486
Other current liabilities	23	104 618	62	15 033
- of this dividends payable		77 052	0	
<b>G. <u>ACCRUED EXPENSES</u></b>	24	<b>51 616</b>	<b>-1 345</b>	<b>49 961</b>
Deferred income		6 319	-17	4 259
Accrued expenses		44 854	-1 328	45 367
Other deferred revenue		443	0	335
<b><u>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</u></b>		<b>942 877</b>	<b>-684</b>	<b>965 252</b>

Budapest, February 24, 2009


Christopher Mattheisen  
Chairman and Chief Executive Officer,  
Chairman of the Board

Thilo Kusch  
Chief Financial Officer,  
Board member

	Note	2007	Self-revision	2008
1. Domestic sales	25	478 105	51	482 529
2. Export sales	26	21 804	139	18 275
<b>I. Sales revenues</b>		<b>499 909</b>	<b>190</b>	<b>500 804</b>
3. Change in self-manufactured inventories		12	0	117
4. Capitalised value of self-manufactured assets		22 743	187	21 413
<b>II. Own work capitalized</b>		<b>22 755</b>	<b>187</b>	<b>21 530</b>
<b>III. Other revenues</b>	27	<b>20 763</b>	<b>-17</b>	<b>26 698</b>
of which: reversal of impairment		0	0	0
5. Costs of raw material		31 220	-94	30 000
6. Costs of services	28	97 487	-930	99 065
7. Costs of other services		12 711	-5	13 782
8. Cost of goods sold		34 276	-16	34 605
9. Costs of services sold (intermediated)	30	85 780	-83	79 138
<b>IV. Material-type expenses</b>		<b>261 474</b>	<b>-1 128</b>	<b>256 590</b>
10. Salaries and wages	31	46 342	-48	45 070
11. Other payroll related costs	31	15 930	67	13 266
12. Payroll related contributions		18 695	2	17 794
<b>V. Payroll and related expenses</b>		<b>80 967</b>	<b>21</b>	<b>76 130</b>
<b>VI. Depreciation</b>		<b>97 230</b>	<b>276</b>	<b>87 828</b>
<b>VII. Other expenses</b>	33	<b>41 800</b>	<b>-47</b>	<b>34 805</b>
of which: impairment		1 220	27	1 714
<b>A. PROFIT FROM OPERATING ACTIVITIES</b>		<b>61 956</b>	<b>1 238</b>	<b>93 679</b>
13. Dividends and profit sharing (received or due)		5 531	0	37 476
of which: received from related parties		5 531	0	37 476
14. Foreign exchange gains on sale of investments		11	0	0
of which: received from related parties		0	0	0
15. Interest income and gains on financial investments		1 828	0	1 689
of which: received from related parties		1 828	0	1 689
16. Other interest income received		783	0	1 788
of which: received from related parties		547	0	895
17. Other revenues from financial activities		2 161	8	8 648
<b>VIII. Revenues from financial transactions</b>		<b>10 314</b>	<b>8</b>	<b>49 601</b>
18. Loss on the sale of financial investments		0	0	3
of which: related to related parties		0	0	0
19. Interest expense		31 815	-8	33 256
of which: related to related parties		1 134	0	891
related to other related party		23 301	0	26 684
20. Impairment of investments, securities and bank deposits		17	0	196
21. Other expenses refinancial activities		1 178	0	4 121
<b>IX. Expenses from financial transactions</b>		<b>33 010</b>	<b>-8</b>	<b>37 576</b>
<b>B. FINANCIAL RESULTS</b>	34	<b>-22 696</b>	<b>16</b>	<b>12 025</b>
<b>C. PROFIT FROM ORDINARY ACTIVITIES</b>		<b>39 260</b>	<b>1 254</b>	<b>105 704</b>
X. Extraordinary revenues	35	4 818	14	5 233
XI. Extraordinary expenses	36	7 087	0	9 504
<b>D. PROFIT FROM EXTRAORDINARY ACTIVITIES</b>		<b>-2 269</b>	<b>14</b>	<b>-4 271</b>
<b>E. PROFIT BEFORE TAXES</b>		<b>36 991</b>	<b>1 268</b>	<b>101 433</b>
XII. Corporate income tax	38	1 357	-79	2 808
<b>F. NET INCOME</b>		<b>35 634</b>	<b>1 347</b>	<b>98 625</b>
22. Use of retained earnings for dividends		41 418	0	
23. Dividend paid (approved)	39	77 052	0	
<b>G. BALANCE SHEET NET INCOME</b>		<b>0</b>	<b>1 347</b>	<b>98 625</b>

Budapest, February 24, 2009



Christopher Mattheisen  
Chairman and Chief Executive Officer,  
Chairman of the Board



Thilo Kusch  
Chief Financial Officer,  
Board member



Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

NOTES  
TO THE 2008 ANNUAL REPORT

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008  
(All amounts in millions of HUF, unless otherwise indicated)

**0. Note Added For Translation**

This annual report for December 31, 2008 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C/2000 on accounting and with generally accepted accounting principles in Hungary.

These principles may be different from International Financial Reporting Standards or accounting principles of any other country. No adjustments have been made to conform the annual report with any accounting principles other than Hungarian.

The auditors' report is a translation of the auditors' report issued in Hungarian language on the Hungarian annual report as outlined above.

In the event of any discrepancy, whether in the auditors' report or in the annual report, the Hungarian original version prevails.

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008  
(All amounts in millions of HUF, unless otherwise indicated)

### 1. Background and General Information

Official name of the Company: Magyar Telekom Telecommunications Public Limited Company

Short name of the Company: Magyar Telekom Plc.

Headquarter of the Company: 1013 Budapest, Krisztina krt. 55.

The Company's main activity is telecommunication.

The Hungarian Telecommunications Company ("Matáv Rt."), the legal predecessor of Magyar Telekom Telecommunications Public Limited Company ("Magyar Telekom Plc." or the "Company") was founded by the Ministry of Transport, Communications and Construction on January 1, 1990. The Company was transformed by the Board of directors of State Asset Holding Ltd. into a wholly owned company limited by shares as of December 31, 1991.

The Company was privatized on December 22, 1993, when the MagyarCom consortium acquired a 30.1 per cent stake in the Company. At the second stage of the privatization, which took place in December 1995, MagyarCom became the majority owner.

On November 14, 1997 the Company was the first in the Central-Eastern European region to be listed on both the Budapest and the New York Stock Exchanges.

In June 1999, the State Privatization and Holding Company sold its remaining stake (5.75 per cent) through a secondary offering. After this transaction, the proportion of publicly traded shares increased to 40.47 per cent. Share of MagyarCom Holding GmbH (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) in the Company decreased to 59.53 per cent.

In 2000, the Company increased its common stock through issuing new shares in the amount of HUF 63 million, which were held mainly within the Magyar Telekom Group. As a result of this transaction, the proportion of publicly traded shares increased to 40.51 per cent and MagyarCom's ownership changed to 59.49 per cent.

In 2002, the Company carried out an additional increase in common stock in the amount of HUF 490 million, which shares were repurchased. As a result of this transaction, the proportion of publicly traded shares changed to 40.32 per cent, the proportion of repurchased treasury stock to 0.47 per cent and MagyarCom's ownership decreased to 59.21 per cent. MagyarCom is 100 per cent owned by Deutsche Telekom A.G.

The Extraordinary General Meeting of the Company held on February 22, 2005 approved the decision of the Board of Directors to change the official name of Magyar Telecommunications Company Ltd. into Magyar Telekom Telecommunications Company Ltd., with short name of Magyar Telekom Rt. The change was registered by the Court of Registry on May 6, 2005.

On February 28, 2006 the name of Magyar Telekom Telecommunications Company Ltd. changed to Magyar Telekom Telecommunications Public Limited Company, with short name of Magyar Telekom Plc. ("Magyar Telekom Plc." or the "Company"). The change was registered by the Court of Registry on February 28, 2006.

Persons authorised to sign the annual report:

Christopher Mattheisen - Chairman and Chief Executive Officer and Board member (residence: Budapest)

Thilo Kusch - Chief Financial Officer and Board member (residence: Budapest)

The Company's bookkeeping services are provided by EurAccount Pénzügyi és Számviteli Szolgáltató Kft. (its register number is 01-09-737269, its taxation number is 13477541-2-42).

The accounting services provided by EurAccount Kft. are supervised by Beáta Bálintné Pál Executive Director (her certificate number: 132224. Area of speciality: entrepreneurial activity. State: registered. Residence: Budapest).

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Ltd. (its register number is 01-09-063022, its taxation number is 10256121-2-44). The person authorized to represent the auditor is Márta Hegedűsné Szűcs (her certificate number: 007125, legal status: full-time. Residence: Páty).

Magyar Telekom Plc.'s homepage address: [www.magyartelekom.hu](http://www.magyartelekom.hu)

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008  
(All amounts in millions of HUF, unless otherwise indicated)

*Investigation into certain consultancy contracts*

As previously disclosed, in the course of conducting their audit of Magyar Telekom's 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. ("PWC") 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 (the "independent investigators"), 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 Foreign Corrupt Practices Act ("FCPA"), or internal Company policy. The Company's Audit Committee also informed the U.S. Department of Justice ("DOJ") and the U.S. Securities and Exchange Commission ("SEC"), and the Hungarian Supervisory Financial 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 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 could warrant 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. In May 2008, the independent investigators provided us with a "Status Report on the Macedonian Phase of the Independent Investigation." In the Status Report, White & Case stated, among other things, that "there is affirmative evidence of illegitimacy in the formation and/or performance" of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between us and/or various of our affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which we and/or our affiliates paid a total of over EUR 6.7 million. The internal investigation is continuing into these and other contracts identified by the independent investigators.

In 2007 the Supreme State Prosecutor of the Republic of Montenegro informed the Board of Directors of Crnogorski Telekom, our Montenegrin subsidiary, of her conclusion that the contracts subject to the internal investigation in Montenegro included no elements of any type of criminal act for which prosecution would be initiated in Montenegro.

Hungarian authorities also commenced their own investigations into the Company's activities in Montenegro. The Hungarian National Bureau of Investigation has informed us that it closed its investigation as of May 20, 2008 without identifying any criminal activity.

United States authorities commenced their own investigations concerning the transactions which are the subject of our internal investigation, to determine whether there have been violations of U.S. law. The Ministry of Interior of the Republic of Macedonia has also issued requests to our Macedonian subsidiaries, requesting information and documents concerning certain of our subsidiaries' procurement and dividend payment activities in that country (together with U.S. investigations, the "Government investigations"). During 2007, the U.S. authorities expanded the scope of their investigations to include an inquiry into our actions taken in connection with the internal investigation and our public disclosures regarding the internal investigation.

According to an extract of a press conference published on the official web site of the Macedonian Ministry of Interior on December 10, 2008, the Organized Crime Department of the Ministry submitted files to the Basic Public Prosecution Office of Organized Crime and Corruption in Macedonia, with a proposal to bring criminal charges against four individuals, including three former MT Group employees. According to that public information, these individuals are alleged to have committed an act of "abuse of office and authorizations" in their position in Makedonski Telekom by concluding five consultancy contracts with Chaptex Holdings Ltd in the period 2005-2006 for which there was allegedly no intention nor need for any services in return.

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008

(All amounts in millions of HUF, unless otherwise indicated)

We cannot predict when the internal investigation or the ongoing Government investigations will be concluded, what the final outcome of those investigations may be, or the impact, if any, they may have on our financial statements or results of operations. Government authorities could seek criminal or civil sanctions, including monetary penalties, against us or our affiliates, as well as additional changes to our business practices and compliance programs.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008  
(All amounts in millions of HUF, unless otherwise indicated)

**2. Effects of mergers on the comparability of figures in 2007**

The access business line of T-Online Magyarország Zrt. and Emitel Távközlési Zrt. merged into Magyar Telekom Plc. with effect from September 30, 2007. Magyar Telekom Plc. managed the takeover of assets and liabilities (including provisions and accrued expenses as well) and the resulting shareholder's equity being the difference, with continuous bookkeeping. Due to the merger, Magyar Telekom Plc.'s income statement as of 2007 contains the revenues and expenses of the activities taken over for only three months (period started October 1, 2007 ended on December 31, 2007), while the income statement as of 2008 contains these items for the whole business year.

**3. Accounting policies**

The accounting policies of Magyar Telekom Plc. include basic accounting principles, measurement methods and procedures as well as methods and tools used for enforcing the provisions of the Hungarian Accounting Regulations.

Magyar Telekom Plc. maintains its records both in accordance with the Hungarian Accounting Regulations (HAR) and International Financial Reporting Standards (IFRS). The differences between the two reports are solely due to differences in the respective accounting principles.

The closing day in the Company's business year is December 31. In 2007 the balance sheet preparation date was the 1st working day of the following year, in 2008 it is the first day of the following year. The change of the balance sheet preparation date has no significant impact on the balance sheet total.

Magyar Telekom Plc. uses version "A" of the balance sheet and version "A" of the income statement (total cost method) when preparing its annual report in accordance with the Hungarian Accounting Regulations. Amounts in the annual report are stated in HUF millions. The currency of accounting is the Hungarian Forint (HUF).

The Hungarian Act on Accounting allows for certain captions in the balance sheet to be broken-down or omitted, what is adopted by the Company both in case of the balance sheet and the income statement.

Since January 1, 2005 the Company has complied with its obligation to prepare consolidated annual report in such a way that it prepares its consolidated annual report in accordance with the International Financial Reporting Standards. Based on the above, in contrast to previous practice, information regarding the consolidation level of related parties – for the year 2005 and for comparative periods as well – is no longer provided either in the income statement or in the balance sheet, only in the Notes.

Deutsche Telekom Group's consolidated annual report prepared by Deutsche Telekom AG (DT) (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) includes Magyar Telekom Plc. as a subsidiary of Deutsche Telekom AG.

*Definition of the accounting principles, guidelines and methods*

Classification of accounting matters:

Magyar Telekom Plc. applies the materiality and significance guidelines for limits set forth in the Hungarian Accounting Regulations in preparing its annual report.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2008  
(All amounts in millions of HUF, unless otherwise indicated)

Material error

An error revealed must be treated as a material error in every case it results in at least 20 per cent change in prior year's shareholder's equity.

Significant error

Items must be considered as significant in every case if in the year the error was discovered the cumulative absolute amount of the errors and their effects on net income and shareholder's equity exceeds the lower of 2 per cent of total assets of the year they relate to or HUF 500 million.

If the Company reveals a significant error through self-revision, then modifications relating to prior years are presented next to the prior years' figures for each balance sheet and income statement item.

The Company has set up regulations for valuation of assets and liabilities, scrapping, cost calculation, stocktaking, cash management, and system of documentation as required by the Hungarian Accounting Regulations.

Until further decision, the Company does not use the allowed alternative treatment in the Hungarian Accounting Regulations for the valuation of fixed assets as market value and valuation of certain financial instruments as fair value.

The Company qualifies every unrealized foreign exchange rate difference resulting from foreign exchange translation as significant, therefore all unrealized foreign exchange gains and losses are recorded in the subledger as well as in the general ledger.

*Valuation methods used for the preparation of the Balance Sheet*

**ASSETS**

Recognition and measurement of non current assets

*Intangible and tangible fixed assets*

Magyar Telekom Plc. carries intangible and tangible fixed assets at historical cost less accumulated depreciation. Property, plant and equipment includes the capitalized value of improvements and refurbishment that extend the useful life of the asset, increase its capacity and/or modify its functionality.

Costs connected directly to loans taken for acquisition or production of the asset are capitalized.

*Depreciation policy*

The depreciation of tangible fixed assets is determined using the straight-line method on the basis of the useful life of the assets, taking into consideration their residual value. The Company determines residual values for those groups of assets where the residual values are considered to be significant. Residual value is considered to be significant if the expected realizable value exceeds the expected scrap value when the asset is taken out of service.

The Company determines residual value for buildings and vehicles. Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets.

The Company applies residual values only for assets capitalized after January 1, 2001. No residual value is calculated for additional capitalization on assets purchased before January 1, 2001.

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Applied residual value:

- Buildings: Determined individually based on the location of the building as well as the expected future useful life and usage of the building.
- Vehicles: Since January 1, 2005 personal cars for personal use: 40 per cent of the acquisition cost  
(In cases of assets capitalized before 2005 and in Mobile Services Line of Business: 30 per cent)  
passenger cars for business use: 30 per cent of the acquisition cost  
trucks under 3.5 tons: 30 per cent of the acquisition cost  
trucks above 3.5 tons: 20 per cent of the acquisition cost  
transport vehicles: 10 per cent of the acquisition cost.

Useful lives are determined based on generally accepted international telecommunication industry practices and development potentials. Magyar Telekom Plc. regularly reviews the useful lives of fixed assets and modifies them if necessary. The Company records the value of all tangible fixed assets below HUF 50,000 immediately as depreciation expense, except for those that are serving the operation of the telecom network directly; are part of the subscriber network and those installed telecom software operating solely on telecom hardware.

The Company records extraordinary depreciation in cases where the value of the assets permanently decreased due to the fact that it is no longer needed, spoiled or destroyed, or if the book value is permanently and significantly in excess of the market value. In the absence of other reliable estimates the market value of the asset is determined using expected discounted cashflow analysis.

In case the market value of the individual asset that has been impaired before significantly exceeds its carrying value, the Company records a reversal of extraordinary depreciation and classifies the related income as other revenue.

### *Capitalized value of foundation and restructuring*

The Company does not capitalize foundation and restructuring costs.

### *Capitalized value of research and development*

The Company does not capitalize research and development costs.

### *Goodwill*

That part of the cost of an acquisition of a subsidiary with qualified majority (at least 75 per cent ownership) which is calculated as the difference between the fair value of the acquired assets less the assumed liabilities (valued according to the Hungarian Act on Accounting) and the acquisition cost is recorded as goodwill if the acquisition cost is higher.

The Company does not record amortization on goodwill recognized after January 1, 2005 unless impairment is required. The Company applies the straight-line amortization method for goodwill recognized earlier.

### *Intellectual property*

Since 2005 only those assets have been recorded as intellectual property which are in the ownership of the Company. The useful life of intellectual property is generally 5 years.

Those intellectual properties where the Company has only the rights of use are recorded as Rights. Their useful life are those of intellectual property.



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### *Own work capitalized*

Direct costs incurred in the construction of property, plant and equipment manufactured by the Company are capitalized. The Company records materials provided to subcontractors at delivery as construction in progress.

### *Financial investments*

Long term investments in subsidiaries are recorded at cost when established or at original purchase price less goodwill when acquired. At the end of the financial year, the Company's investments are impaired if the market value of the equity investment is permanently and significantly lower than its book value. The impairment review is carried out on an individual basis.

Loans granted include loans to subsidiaries, associated companies and other companies as well as long term loans given to employees for housing purposes.

### Recognition and measurement of current assets

#### *Inventories*

Goods are valued at cost using standard price method and raw materials using the weighted average cost formula. Inventories include materials and assets whose future usage can not be determined at the time of purchase (i.e. whether they will be used for an investment project or maintenance). Inventories also include advance payments on inventories and assets held for sale reclassified from tangible fixed assets.

Tangible fixed assets reclassified to inventories are valued on an individual basis. Besides these assets Magyar Telekom Plc. considers its inventories as low value items. Impairments of inventories purchased within a year are determined by a so-called Price Trend Report. If the current average price is higher by 20 per cent than the last month average price invoiced then the article has to be impaired to the average price of the last month.

Inventories purchased over a year ago are impaired in proportion to a percentage of their book value.

Measure of impairment on new materials:

- inventories from 12 to 24 months 35 per cent impairment
- inventories from 24 months 60 per cent impairment

Measure of impairment on used or repaired materials:

- inventories from 6 to 12 months 5 per cent impairment
- inventories from 12 to 24 months 50 per cent impairment
- inventories from 24 months 100 per cent impairment

#### *Trade receivables and other receivables*

The balance of trade receivables reflects invoiced amounts accepted by the customers and does not include any unrecoverable and unaccepted receivables.

Impairment of trade receivables is assessed on two levels. Trade receivables that are individually significant and the ones that are not individually significant are separated. Magyar Telekom Plc. decided to consider items above HUF 200 million to be individually significant for the purposes of assessing accounts receivables for impairment.

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In case of items that are individually not significant it is also assessed individually whether objective evidence of impairment exists. These items have to be assessed individually and amount of impairment have to be calculated on them.

Magyar Telekom Plc. considers the following items to be included in this category:

- receivables from domestic and international fixed line service providers
- receivables from domestic and international mobile service providers (roaming, interconnect, interworking)
- receivables under liquidation, bankruptcy proceedings
- other (non trade) receivables

Based on the Section 55. (2) of Act C/2000 on accounting the amount of loss in value may also be established as a percentage of the amount of such receivables registered in the books (collective assessment of impairment). Magyar Telekom Plc. evaluates the telecommunications customers - concerning their high volume - with the method of collective assessment (ageing) and the impairment is set out in percentages.

The Company set up the impairment categories according to customer groups with similar credit risk exposure. These rates are the following:

Categories	T-Com	T-Mobile	T-Systems &HQ
1 - 30 day	5%	5%	5%
31-60 day	20%	15%	5%
61 - 90 day	40%	30%	5%
91 - 180 day	50%	40%	10%
181 - 360 day	70%	50%	40%
361 - 720 day	90%	70%	90%
More than 720 days	100%	90%	100%

In case of invoices with instalments the ageing above and the amount of impairment is based on due dates of each instalment.

Rates of impairment for overdue receivables in 2007 were the following:

Days	Magyar Telekom Plc. excl. Mobile LoB		Magyar Telekom Plc. Mobile LoB		
	Receivables excl. NER*	NER* net receivables (international settlement)	Mobile phone receivables	Other trade receivables	Roaming receivables
1-60					
61-90			30%		
91-180	30%	Based on individual LoB decision	50%	30%	5%
181-360	70%		70%	70%	25%
360 <	100%		99,9%	100%	50%

\* NER: System for international settlements

The change in method of estimation has a negligible impact on the amount of impairment (see Note 11).

The Company does not impair receivables from related parties and non current loans granted to related parties.

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Accounts receivable and payable related to international telecommunications traffic are stated at gross value, even though the financial settlement of the balance is performed on a net basis.

Magyar Telekom Plc. measures its foreign currency receivables at year-end at the official exchange rate of the Hungarian National Bank ("MNB") as of December 31.

### *Securities*

Securities in current assets include the original cost of bonds, shares, other securities held for sale and the repurchase value of treasury stock.

## LIABILITIES AND SHAREHOLDER'S EQUITY

### *Valuation reserve*

Until further decision, Magyar Telekom Plc. does not apply the allowed alternative treatment in the Hungarian Accounting Regulations for the recognition of the valuation reserve.

### *Restricted reserve*

Magyar Telekom Plc. records restricted amounts from capital reserves and retained earnings as restricted reserve. The repurchase value (acquisition cost) of the repurchased treasury stock is recorded in restricted reserve.

### *Provisions*

Main items include:

- early retirement payment liabilities
- severance payment liabilities
- contingent and other liabilities
- environmental liabilities
- guarantee liabilities determined by law

### *Valuation of liabilities in foreign currencies*

Liabilities denominated in foreign currencies are valued at the official exchange rate of MNB on December 31.

### *Measurement principles applied in the preparation of the Income Statement*

Based on the Section 74. (2) of Act C/2000 on accounting the exports sales revenue includes the value of sales and services supplied to non-resident customer regardless of the location of the services provided, except the customer is non-residential in the territory of Hungarian Republic and has not officially informed Magyar Telekom Plc. (e.g. non-resident customer - whose registered office, place of abode or permanent residence is situated abroad - buys phone sets in a T-Pont).

Revenues and expenses are recognized in line with the accrual concept of accounting. Non-realized exchange rate differences are recognized as follows:

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- if the net balance of non-realized foreign exchange gain and loss is a gain, it is recorded as other revenue from financial transactions,
- if the net balance is a loss, it is recorded as other expenses from financial transactions.

The Company recognizes dividends approved by the General Meeting of the subsidiaries and associates in the year following the one they relate to. Interim dividends paid by the subsidiaries and associates are recorded as liability until final approval.

The fees paid by Magyar Telekom Plc. to carrier, mobile and international service providers for call termination are invoiced to the customers by Magyar Telekom Plc. Therefore the payments for calls initiated in Magyar Telekom Plc.'s network and terminated by carrier, mobile and international service providers as well as payments for leased lines (both domestic and international) are recorded and disclosed as intermediated services disclosed as costs of services sold.

Extraordinary items are disclosed in the Notes.

Revenues and expenses not directly related to the ordinary operations are disclosed as extraordinary items.

### OTHER

Magyar Telekom Plc. pays special attention to meeting environmental protection regulations in its activities. The necessary power supply batteries used in switches and power generators and used cell phones are stored and neutralized in accordance with the applicable environmental protection laws.

The Company did not incur penalty expenses due to environmental liabilities.

#### 4. Summary of the Company's financial position and liquidity

The Company's financial position and liquidity as of December 31, 2007 and 2008 are represented by the following financial ratios:

	2007	2008
Liquidity ratio (= current assets / current liabilities)	0.3	0.55
Operating margin (= operating profit / (sales revenues + other revenues))	0.12	0.18
Operating return on assets (= operating profit / total assets)	0.06	0.1
Leverage ratio (= non current liabilities / (equity + non current liabilities))	0.48	0.38

The favorable change in liquidity ratio is due to the significant increase of current assets resulted the significant increase of bank deposits (HUF 32,708 million) and the increase of loans given to subsidiaries (HUF 5,260 million). The decrease of current liabilities is mainly due to the payment of dividend payment liability related to 2007 in the current year.

The decrease in leverage ratio is due to the reclassification of a significant part of the bank and owner's (Deutsche Telekom Finance B.V.) loans from long term to short term.

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The following is the cashflow statement for the years ended on December 31, 2007 and 2008:

	2007	2008
<b>I. Cash flows from operating activities (lines 1-14)</b>	<b>3,161</b>	<b>57,074</b>
1. Profit before income tax (before dividend received)	(+/-) 31,812	65,225
2. Depreciation and amortization	(+) 97,277	88,104
3. Impairment losses charged and reversed *	(+/-) 3,700	3,245
4. Change in provisions	(+/-) 14,072	-1,966
5. Profit or loss on the sale of non current assets	(+/-) -1,714	-2,323
6. Change in accounts payable **	(+/-) -1,498	4,806
7. Change in other current liabilities **	(+/-) 9,306	-87,924
8. Change in accruals	(+/-) 8,580	-1,655
9. Change in accounts receivable **	(+/-) -285	1,627
10. Change in current assets (without accounts receivable and cash and cash equivalents) **	(+/-) 8,104	-7,860
11. Change in prepayments	(+/-) -2,371	2,920
12. Income tax paid	(-) -2,179	-3,046
13. Dividend paid	(-) -149,066	0
14. Other non cash items	(+/-) -12,577	-4,079
<b>II. Cash flows from investing activities (lines 15-17)</b>	<b>-58,897</b>	<b>-42,141</b>
15. Acquisition of fixed assets and financial investments	(-) -69,351	-85,589
16. Proceeds from sale of non current assets	(+) 4,570	5,972
17. Dividends and advanced dividends received	(+) 5,884	37,476
<b>III. Cash flows from financing activities (lines 18-29)</b>	<b>56,466</b>	<b>17,783</b>
18. Proceeds from issue of shares	(+) 7,472	0
19. Proceeds from the issuance of bonds	(+) 0	0
20. Loans received	(+) 283,361	139,979
21. Redemption from non current loans granted and bank deposits	(+) 55,595	19,287
22. Non-repayable liquid assets received	(+) 0	0
23. Share capital decrease	(-) -8	0
24. Treasury stock repurchases	(-) 0	0
25. Repayment of bonds	(-) 0	0
26. Repayment of loans	(-) -223,836	-124,467
27. Non current loans granted and bank deposits	(-) -61,740	-14,445
28. Non-repayable donations given	(-) -131	-129
29. Change in liabilities to founders and other non current liabilities	(+/-) -4,246	-2,442
<b>IV. Change in liquid assets (lines I. + II. + III.)</b>	(+/-) <b>730</b>	<b>32,716</b>
<b>Cash at the beginning of the year</b>	<b>3,182</b>	<b>3,912</b>
<b>Cash at year-end</b>	<b>3,912</b>	<b>36,628</b>

\* 'Impairment losses charged and reversed' contained the amount of credit related loss and claims assigned in the Notes as of 2007. Amounts recorded under this titles were not considered in 2008 so the last year figures were modified in order to ensure the comparability.

\*\* Balances of affiliated suppliers and affiliated customers were not taken out of the change in other current liabilities and the change in current assets in the Notes as of 2007. This method was changed in 2008 so the last year figures were modified accordingly in order to ensure the comparability.

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**5. Intangible fixed assets**

The following table is a summary of intangible fixed asset movements between January 1, 2007 and December 31, 2008:

<b>GROSS BOOK VALUE</b>	<i>Capitalized costs of R&amp;D</i>	<i>Rights</i>	<i>Intellectual property</i>	<i>Goodwill</i>	<i>Total</i>
Opening balance as of January 1, 2007	<b>113</b>	<b>90,086</b>	<b>42,798</b>	<b>213,870</b>	<b>346,867</b>
Additions	0	21,403	556	3,100	25,059
Additions due to merger	0	3,327	1,359	1,376	6,062
Disposals	113	1,230	29	0	1,372
Reclassifications	0	32,747	-32,417	0	330
<b>Balance as of December 31, 2007</b>	<b>0</b>	<b>146,333</b>	<b>12,267</b>	<b>218,346</b>	<b>376,946</b>
Additions	0	13,311	949	1,374	15,634
Disposals	0	4,967	0	0	4,967
Reclassifications	0	-72	24	0	-48
<b>Balance as of December 31, 2008</b>	<b>0</b>	<b>154,605</b>	<b>13,240</b>	<b>219,720</b>	<b>387,565</b>
<b>AMORTIZATION</b>					
Opening balance as of January 1, 2007	<b>113</b>	<b>50,303</b>	<b>22,863</b>	<b>49,990</b>	<b>123,269</b>
Charge for the year	0	15,217	2,098	10,170	27,485
Impairment	0	0	0	58	58
Additions due to merger	0	2,385	743	61	3,189
Disposals	113	1,021	28	0	1,162
Reclassifications	0	16,918	-16,911	0	7
<b>Balance as of December 31, 2007</b>	<b>0</b>	<b>83,802</b>	<b>8,765</b>	<b>60,279</b>	<b>152,846</b>
Charge for the year	0	15,175	875	10,137	26,187
Impairment	0	0	0	883	883
Disposals	0	4,929	0	0	4,929
Reclassifications	0	-4	0	0	-4
<b>Balance as of December 31, 2008</b>	<b>0</b>	<b>94,044</b>	<b>9,640</b>	<b>71,299</b>	<b>174,983</b>
<b>NET BOOK VALUE</b> as of December 31, 2007	<b>0</b>	<b>62,531</b>	<b>3,502</b>	<b>158,067</b>	<b>224,100</b>
<b>NET BOOK VALUE</b> as of December 31, 2008	<b>0</b>	<b>60,561</b>	<b>3,600</b>	<b>148,421</b>	<b>212,582</b>
Extraordinary depreciation	0	0	0	883	883
Reversal of extraordinary depreciation	0	0	0	0	0

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### Rights

The gross value of rights increased with HUF 13,311 million in the current year. Significant part of this increment (HUF 10,653 million) was caused by capitalizations and additional capitalizations of software rights of use (other software, IT systems, generally used software and network managing systems).

The decrease is mainly due to the extension of the period of GSM concession rights (gross value is HUF 4,662 million, net value is zero) and scrapping of obsolete software rights shall not be used for other purposes (gross value is HUF 257 million, net value is zero).

### Intellectual properties

The increase in intellectual properties is mainly due to the additional capitalization of other own software such as additional capitalization on the stock management and billing system (JAZZ) in the amount of HUF 933 million.

In 2008, the Company reviewed the useful life of intangible assets similar to previous years and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 2,623 million less amortization was charged for 2008.

### Goodwill

In 2008, the Company purchased the IQSYS Zrt.'s shares from KFKI Rendszerintegrációs Zrt. Relating to this transaction, HUF 1,132 million goodwill was recognized.

Also in 2008, connected to the subsequent correction of the purchase price of KFKI Rendszerintegrációs Zrt. and IWIW Szolgáltató Kft. further HUF 157 million and HUF 10 million goodwill was recognized, respectively.

Magyar Telekom Plc. acquired further shares in M-Factory Kft. in the current year and recognized goodwill in the amount of HUF 75 million.

During 2008 HUF 10,137 million amortization was charged on goodwill. Impairment in the amount of HUF 883 million was charged on Orbitel A.D.'s goodwill (purchased in 2007) as a result of market value calculated on the basis of the subsidiary's ten-year business plan prepared on December 31, 2008. The reason for impairment is the significant deterioration of the company's business prospects compared to the parameters presumed at the time the acquisition was made.

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The movements in gross value and amortization of goodwill in 2007 and 2008 are summarized as follows:

Description	Remaining useful life (month)	Gross book value as of December 31, 2007	Accumulated amort'n as of December 31, 2007	Net book value as of December 31, 2007	Goodwill recorded in 2008	Amort'n and reclass. charge in 2008	Net book value as of December 31, 2008
T-Mobile Távközlési Magyarország Rt.	156	181,948	-54,610	127,338	0	-9,115	118,223
KFKI Rendszerintegrációs Zrt.	0	8,561	0	8,561	157	0	8,718
EMITEL Távközlési Zrt.	125	10,501	-3,778	6,723	0	-589	6,134
Stonebridge Communication A.D.	174	7,507	-1,442	6,065	0	-391	5,674
Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasznosító Kft.	0	4,793	0	4,793	0	0	4,793
IWIW Szolgáltató Kft.	0	1,132	0	1,132	10	0	1,142
IQSYS Zrt.	0	0	0	0	1,132	0	1,132
Orbitel A.D.	0	933	0	933	0	-883	50
Combridge S.R.L.	0	818	0	818	0	0	818
Mobilpress Zrt. *	0	507	0	507	0	-507	0
Novatel EOOD	0	447	0	447	0	0	447
M-Factory Kft. *	0	395	0	395	75	507	977
Adnetwork Online Marketing Kft.	0	174	0	174	0	0	174
Integris-Rendszerház Kft. (Rába Szolgáltatóház Kft.)	49	306	-133	173	0	-34	139
Alba Internet Adatbank és Informatikai Kft.	0	70	-62	8	0	-8	0
KIBU Innováció Kft.	0	58	-58	0	0	0	0
Telemacedonia A.D.	10	3	-3	0	0	0	0
BCN Rendszerház Informatikai Szolgáltató Kft.	0	193	-193	0	0	0	0
<b>Total</b>		<b>218,346</b>	<b>-60,279</b>	<b>158,067</b>	<b>1,374</b>	<b>-11,020</b>	<b>148,421</b>

\* Due to the merger of M-Factory Kft. and Mobilpress Zrt. the companies' goodwills as of 2007 was disclosed together in the line of M-Factory Kft. in 2008.



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**6. Tangible fixed assets**

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2007 and December 31, 2008:

<b>GROSS BOOK VALUE</b>	<i>Real estate and related rights</i>	<i>Technical equipment, machinery and vehicles</i>	<i>Other equipment and vehicles</i>	<i>Total</i>
Opening balance as of January 1, 2007	<b>348,085</b>	<b>566,841</b>	<b>88,131</b>	<b>1,003,057</b>
Additions	10,095	35,529	4,521	50,145
Additions due to merger	8,318	8,691	973	17,982
Disposals	3,349	17,678	7,518	28,545
Reclassifications	5,457	5,832	-11,417	-128
<b>Balance as of December 31, 2007</b>	<b><u>368,606</u></b>	<b><u>599,215</u></b>	<b><u>74,690</u></b>	<b><u>1,042,511</u></b>
Additions	11,972	38,278	5,935	56,185
Disposals	6,462	18,009	3,125	27,596
Reclassifications	-6,350	6,892	-661	-119
<b>Balance as of December 31, 2008</b>	<b><u>367,766</u></b>	<b><u>626,376</u></b>	<b><u>76,839</u></b>	<b><u>1,070,981</u></b>
<b>DEPRECIATION</b>				
Opening balance as of January 1, 2007	<b>115,109</b>	<b>392,621</b>	<b>72,697</b>	<b>580,427</b>
Charge for the year	12,608	50,490	6,124	69,222
Impairment	95	80	8	183
Additions due to merger	3,428	5,693	661	9,782
Disposals	1,007	15,855	7,096	23,958
Reclassifications	2,119	8,432	-10,575	-24
<b>Balance as of December 31, 2007</b>	<b><u>132,352</u></b>	<b><u>441,461</u></b>	<b><u>61,819</u></b>	<b><u>635,632</u></b>
Charge for the year	12,868	43,232	5,393	61,493
Impairment	9	1	1	11
Disposals	3,019	16,624	2,740	22,383
Reclassifications	-2,811	3,141	-354	-24
<b>Balance as of December 31, 2008</b>	<b><u>139,399</u></b>	<b><u>471,211</u></b>	<b><u>64,119</u></b>	<b><u>674,729</u></b>
<b>NET BOOK VALUE</b>				
as of December 31, 2007	<b>236,254</b>	<b>157,754</b>	<b>12,871</b>	<b>406,879</b>
<b>NET BOOK VALUE</b>				
as of December 31, 2008	<b>228,367</b>	<b>155,165</b>	<b>12,720</b>	<b>396,252</b>

Further details are disclosed in Appendix 1.

*Real estate and related rights*

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Increase in real estate and related rights amounted to HUF 11,972 million in gross value of which the most significant items are:

The buildings and other real estates increased by HUF 3,684 million in gross value (see Appendix 1) of which the antenna towers built on land not owned by the Company amounted to HUF 2,235 million was the most significant.

Gross value of telecommunication networks increased by HUF 7,892 million (see Appendix 1) of which the significant items are:

- copper wire overground telecom cables for local network amounted to HUF 2,465 million,
- copper wire telecom cables of local network pulled in ducts amounted to HUF 1,858 million,
- fiber optic telecom cables of local network pulled in ducts amounted to HUF 1,093 million,
- ducts amounted to HUF 919 million.
- inground copper wire telecom cables for local network amounted to HUF 792 million.

The decrease in real estate and related rights is mainly due to

- the sale of used real estates of which the most significant items are:
  - Budapest, X. Zágrábi út 1-3. - gross value: HUF 1,024 million, net value: HUF 809 million;
  - Debrecen, Bethlen u. 3-9. - gross value: HUF 813 million, net value: HUF 591 million;
  - Pécs, Rákóczi út 19. - gross value: HUF 489 million, net value: HUF 350 million;
  - Szolnok, Madách u. 2-4. - gross value: HUF 296 million, net value: HUF 206 million)
- scrapping and partial scrapping of which the significant items are:
  - copper wire overground telecom cables for local network (gross value: HUF 716 million, net value: HUF 284 million),
  - rental right of international connection (gross value: HUF 713 million, net value: HUF 1 million),
  - intra-company, internally used communication and asset protection networks relating to copper wire properties (gross value: HUF 330 million, net value: HUF 8 million),
  - fiber optic telecom cables of local network pulled in ducts (gross value: HUF 164 million, net value: HUF 108 million)
  - copper wire telecom cables of local network pulled in ducts (gross value: HUF 111 million, net value: HUF 41 million).

The most significant item in reclassifications was the reclassification of mobile power injection cables from networks to telecommunications equipment amounted to HUF 6,161 million in gross value (its amortization is HUF 2,739 million).

### Technical equipment, machinery and vehicles

Increase is due the capitalization and extension of telecommunication equipment of HUF 38,278 million of which the significant items are:

- BTS-GSM (900-1800) radio communications equipment amounted to HUF 4,356 million,
- BTS-UMTS radio communications equipment amounted to HUF 3,388 million,
- CE routers 3 play equipment amounted to HUF 2,566 million,
- routers amounted to HUF 2,072 million,
- control of mobile central network amounted to HUF 1,472 million,
- ADSL node facilities amounted to HUF 1,433 million
- WDM equipment amounted to HUF 1,406 million.

Decrease is mainly due to scrapping of obsolete assets amounted to HUF 18,009 million in gross value of which the significant items are:

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- BTS-GSM (900-1800) radio communications equipment (gross value: HUF 5,072 million, net value: HUF 462 million),
- Mobile 2G CS/PS radio network equipment (gross value: HUF 1,653 million, net value: HUF 45 million),
- package switched data transmission switches (gross value: HUF 852 million, net value: HUF 2 million),
- HDSL equipment (gross value: HUF 500 million, net value: HUF 6 million),
- EWSD Subscriber Telecom Switch (gross value: HUF 427 million, net value: 17 million),
- batteries (gross value: HUF 444 million, net value: HUF 2 million)
- DTU (gross value: HUF 302 million, net value: HUF 51 million).

The most significant item in reclassifications amounted to HUF 6,892 million in gross value was the above mentioned reclassification of mobile power injection cables into this caption.

Other equipment and vehicles

Increase in the amount of HUF 5,935 million is mainly due to the capitalization and extension of IT system hardware amounted to HUF 1,658 million and the capitalization of cars amounted to HUF 1,477 million.

The decrease in other equipment and vehicles amounted to HUF 3,125 million in gross value is due to the sale and scrapping of equipment of which the significant items are:

- sale of passenger cars (gross value: HUF 753 million, net value: HUF 285 million),
- sale of instruments (gross value: HUF 48 million, net value: HUF 29 million),
- scrapping of intranet local network equipment (gross value: HUF 476 million, net value: HUF 6 million),
- scrapping of instruments (gross value: HUF 214 million, net value: HUF 15 million)
- scrapping of furniture (gross value: HUF 211 million, net value: HUF 1 million).

The most significant item in reclassifications was the reclassification of power supply and associated equipment to telecommunications equipment amounted to HUF 661 million in gross value (its amortization is HUF 354 million).

In 2008, the Company reviewed the useful life of tangible assets similar to previous years and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 7,147 million less depreciation was charged for 2008.

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**7. Non current investments in related parties**

As of December 31, 2007 and 2008, the Company's non current investments are summarized as follows (further details on investments (owner's equity data) are disclosed in Appendix 2):

	Ownership	Ownership	Net book value	
	direct (%)	indirect (%)	2007	2008
	2008			
Stonebridge Communication A.D. (under liquidation)	100.00		90,364	94,546
Crnogorski Telekom A.D.	76.53		36,891	38,539
Investel Zrt.	100.00		9,029	9,029
Pro-M Zrt.	100.00		8,200	8,200
KFKI Rendszerintegrációs Zrt.	100.00		1,224	5,155
ViDaNet Zrt.	67.50	22.50	2,836	2,836
T-Kábel Magyarország Kft.	16.39	83.61	2,359	2,359
Origo Zrt. (previously T-Online Zrt.)	100.00		1,886	2,049
Dataplex Kft.	100.00		1,055	2,005
Combridge S.R.L.	100.00		0	1,959
Orbitel A.D.	100.00		1,650	1,724
IKO-Telekom Zrt.	50.00		1,600	1,600
IQSYS Zrt.	100.00		15	1,375
Novatel E.O.O.D	100.00		633	662
EurAccount Kft.	99.00	1.00	446	446
EPT Nyrt.	97.20		304	304
ViaBridge Telecommunications H. L. (under liquidation)	99.99	0.01	294	106
KIBU Innováció Kft. (X-Byte Kft.)	99.20	0.80	86	86
Novatel Ukraine L.L.C.	99.94	0.06	70	73
M-Factory Zrt.	100.00		63	63
HUNSAT Zrt.	50.00		50	50
Telemacedonia A.D.	100.00		21	22
Tele-Data Kft.	50.98		20	20
Mindentudás Egyeteme Kht.	60.00		3	3
BCN Rendszerház Kft.	100.00		2,864	0
T-Systems Hungary Kft.	100.00		1,693	0
Integris-Rendszerház Kft.	100,00		594	0
ProMoKom Zrt.	100.00		18	0
IWIW Kft.	100.00		11	0
Gabriele 17 GmbH	100.00		7	0
Adnetwork Kft.	100.00		4	0
<b>Total</b>			<b>164,290</b>	<b>173,211</b>

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### **Significant changes of Non current investments in subsidiaries in 2007 and in 2008**

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the merger of the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc. and the merger of Emitel Távközlési Zrt. and Magyar Telekom Plc. The mergers were registered by the Court of Registry on September 30, 2007. After the merger the Company cancelled the Emitel Zrt.'s investments from its books and decreased the investment in T-Online Magyarország Zrt. (Origo Zrt.) correspondingly.

Further significant changes in case of subsidiaries at the end of 2007: T-Systems Hungary Kft. and Integris Rendszerház Kft. merged into IQSYS Zrt.; BCN Rendszerház Kft. and ICON Zrt. merged into KFKI-LNX Hálózatintegrációs Zrt. The transformations were registered by the Court of Registry with effect from December 31, 2007. The merged companies are disclosed separately in the books of Magyar Telekom Plc. and in the Notes on December 31, 2007. The merged subsidiaries were cancelled from the books in January, 2008.

During 2008 some subsidiaries increased their capitals (Dataplex Kft. by HUF 950 million, Combridge S.R.L. by HUF 1,726 million).

The Company purchased further IQSYS shares in the amount of HUF 1,456 million.

Gabriele 17 GmbH was sold and so was cancelled from the books in the amount of HUF 7 million on book value. Because of liquidation ProMoKom Zrt. was also cancelled from the books in the amount of HUF 18 million.

HUF 6,176 million was recorded as foreign exchange difference on foreign exchange investments at the balance sheet date. This amount increased the book value of non current investments.

During 2008 HUF 196 million impairment was recorded related to investments of which the most significant item is the impairment of ViaBridge Telecommunications H.L. in the amount of HUF 193 million.

### **Stonebridge Communications A.D. (Stonebridge A.D.)**

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of MakTel on its privatization. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed on January 16, 2001 to a newly established Macedonian holding company, Stonebridge A.D., which is a holding company residing in Skopje. Magyar Telekom Plc.'s has 100 per cent share in Stonebridge A.D. since 2004.

### **Crnogorski Telekom A.D.**

In 2004, the Montenegrin Privatization Agency issued a tender for the sale of a 51.12 per cent stake in the Montenegrin Telecommunications Company (TCG). Magyar Telekom Plc. won the tender.

Crnogorski Telekom A.D. is the leading fixed line service provider of Montenegro and its subsidiary, T-Mobile Crna Gora is the second largest mobile service provider in the country. The share purchase agreement was signed on March 15, 2005 in the amount of EUR 114 million.

Magyar Telekom Plc. acquired a further 25.41 per cent share for EUR 27 million based on an agreement with minority shareholders.

### **Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)**

Investel Zrt. was established in 1991 with the majority ownership of Magyar Telekom Plc. Currently it is the owner and trustee of cable television companies.

In 2007 EGERTEL Zrt. merged into Investel Zrt.

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**Pro-M Professzionális Mobilrádió Zártkörűen Működő Részvénytársaság (Pro-M. Zrt.)**

Magyar Telekom Plc. took a decision in 2005 to establish Pro-M Professzionális Mobilrádió Zártkörűen Működő Részvény-társaság (Pro-M Zrt.) and it was registered at Court of Registry in 2006. The company has concluded an agreement to establish and operate a wireless network (with TETRA technology) used exclusively by certain organizations (e.g. police, ambulance services etc.). The agreement is for a period of ten years. The company is committed to construct the network until January 31, 2007 and provides operation and maintenance services for contracted annual fee during the total length of the agreement.

**KFKI Rendszerintegrációs Zrt.**

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI (KFKI-LNX) Zrt. The company had further two subsidiaries: ICON Zrt. and IQSYS Zrt. All three were significant in Hungary's IT service sector. BCN Rendszerház Kft. and ICON Zrt. merged into the company with effect of December 31, 2007.

**ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)**

ViDaNet Zrt. was established in 2003 by merge of several companies for providing cable television services. Magyar Telekom Plc.'s direct and indirect ownership in total is 90 per cent and has 49 per cent voting right in the company.

**T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft. (T-Kábel Magyarország Kft.)**

In 1998, Magyar Telekom Plc. established MatávkábelTV Kft. to provide cable television services. MatávkábelTV Kft. changed its name to T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft. (T-Kábel Magyarország Kft.) in 2005 and continues its activities under that name.

**Origo Média és Kommunikációs Szolgáltató Zrt. (Origo Zrt.) - previously T-Online Magyarország Internet Szolgáltató Zrt.**

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the merger of the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc.

The internet and content providing business line of T-Online Magyarország Zrt. continues its activities under the name of Origo Média és Kommunikációs Szolgáltató Zrt.

**Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasznosító Kft. (Dataplex Kft.)**

On December 12, 2005, Magyar Telekom Plc. signed an agreement on purchasing a 100 per cent ownership of Dataplex Kft. The company is a major player in Hungary's IT service sector.

After the approval of the Competition Office the Court of Registry registered the transaction on April 20, 2006.

**Combridge S.R.L.**

The company is an alternative telecommunication service provider of Romania. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination. In 2007, Magyar Telekom Plc. purchased the share of Combridge S.R.L from ViaBridge Ltd.

**Orbitel A.D.**

The company is an alternative telecommunication service provider of Bulgaria and purchased by Magyar Telekom Plc. through ViaBridge Ltd. in 2006. Its main activities are: voice service, providing connection between sites, leased line and IPVPN services and system (network) integration. In 2007, Magyar Telekom Plc. purchased the share of Orbitel A.D. from ViaBridge Ltd. and increased its share capital by HUF 1,650 million (EUR 6,511 thousand).

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### **IKO-TELEKOM Média Holding Zártkörűen Működő Részvénytársaság (IKO-TELEKOM Zrt.)**

IKO-Telekom Zrt. was established in 2005. The company is jointly controlled by Magyar Telekom Plc. and IKO Productions Kft. with the aim of merging their interests in Magyar RTL Televízió Rt. and providing interactive and premium rate content services. In April, 2008 the owners decided to demerge the company by separation which shall be expected to be in the first half of 2009.

### **IQSYS Informatikai Zártkörűen Működő Részvénytársaság (IQSYS Zrt.)**

IQSYS Zrt. was established in 1990. The company's main activities are: releasing software, wholesale of computers and software, reproduction of computer storage media, data processing and repair of office computers. In 2007 Magyar Telekom Plc. purchased 0.3 per cent direct ownership in the amount of HUF 15 million. T-Systems Hungary Kft. and Integris Rendszerház Kft. merged into IQSYS Zrt. with effect from December 31, 2007. In 2008 the Magyar Telekom Plc. purchased further shares and acquired 100 per cent ownership in the company.

### **Novatel E.O.O.D.**

The company was established in 2004 with headquarter in Bulgaria. The company's main activities are: international and domestic leased line connection, international internet access and IPVPN services, roaming services, infocommunication business solutions and international call termination. The company was owned by ViaBridge Ltd. until Magyar Telekom Plc. purchased it in 2007.

### **EurAccount Pénzügyi és Számviteli Szolgáltató Kft. (EurAccount Kft.)**

EurAccount Kft. was established on March 1, 2005 by Magyar Telekom Plc. The company provides booking and accounting services for Magyar Telekom Plc. and its subsidiaries.

### **Első Pesti Telefonszolgálat Nyr. (EPT Nyr.)**

EPT Nyr. was established in 1992. At present the company provides IP based international and domestic telecommunication and call center services.

### **ViaBridge Telecommunications Holding Limited (ViaBridge Ltd.)**

The company was established in 2004 with headquarter in Malta owned by Magyar Telekom Plc.'s 100 per cent direct and indirect ownership in total. Its aim was to manage Magyar Telekom Plc.'s small foreign investments as a holding. In 2007 Magyar Telekom Plc. purchased the company's investments acquiring 100 per cent direct ownership in them. In 2008 Magyar Telekom Plc. decided on the liquidation of the company.

### **KIBU Innováció Kft.**

The company was established in 1989 under the name of X-Byte Kft. Magyar Telekom Plc. has become 100 per cent owner of the company in 2005. The company changed its name to KIBU Innováció Kft. in 2007. Its activity is technical research and development as a nonprofit organization. KIBU is the Magyar Telekom Plc.'s innovation labor for young researchers who are interested in the convergence of mobile communication, online communities and urban space and are passionate about creating experimental projects in cross-disciplinary teams.

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**Novatel UKRAINE LLC**

Magyar Telekom Plc. established NOVATEL Ukraine Limited Liability Company in 2005. The company's main activity is to sale certain products of Magyar Telekom Plc. in Ukraine.

**M-Factory Kommunikációs szolgáltató Kft. (M-Factory Kft.) / Mobilpress Zrt.**

Mobilpress Zrt. was established in 2005. In January 2007 Magyar Telekom Plc. purchased 100 per cent of Mobilpress Zrt.'s shares. Magyar Telekom Plc. purchased 75.05 per cent share in M-Factory Kommunikációs Szolgáltató Kft. During 2007 the M-Factory Kft. merged into Mobilpress Zrt. The successor company's name was changed to M-Factory Kommunikációs Szolgáltató Zártkörűen Működő Részvénytársaság. As a result of the transformation, Magyar Telekom Plc.'s ownership in the company changed to 92 per cent. In 2008 Magyar Telekom Plc. purchased 8 per cent of shares and changed its ownership to 100 per cent.

**Mindentudás Egyeteme Tudományos Közhasznú Társaság (Mindentudás Egyeteme Kht.)**

The company was established in 2004 by Magyar Telekom Plc., the Hungarian Academy of Sciences and T-Online Magyarország Zrt. The purpose of its public activity is to organize public courses through media and other telecommunication means to help spreading knowledge of highly interesting scientific topics. The company conducts its business activities to accomplish its main purposes without endangering it.

The proportion of Magyar Telekom Plc.'s direct share in the company changed from 40 per cent to 60 per cent subsequent to the merger of T-Online Zrt.'s access business line into Magyar Telekom Plc.

**IWIW Szolgáltató Kft. (IWIW Kft.)**

The company was established in 2002 and then T-Online Zrt. acquired the majority ownership in the company in 2006. The company's main activities are: producing software, technical assistance and releasing software.

As mentioned before, with the separation of the access business line from T-Online Magyarország Zrt. and its merger into Magyar Telekom Plc., the Company acquired a 100 per cent ownership in IWIW Kft.

In 2008 the company was merged into Origo Zrt.

**Adnetwork Online Marketing Kft. (Adnetwork Online Kft.)**

The company was established in 2005 and in 2006 T-Online Zrt. acquired the majority ownership in the company. As mentioned before, with the separation of the access business line from T-Online Magyarország Zrt. and its merger into Magyar Telekom Plc., the Company acquired a 100 per cent ownership in Adnetwork Online Kft. and then the company was merged into Origo Zrt.



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**8. Non current loans granted to related parties**

As of December 31, 2007 and 2008 non current loans granted to related parties are the following:

	2007	2008
Pro-M Zrt.	10,500	8,100
Dataplex Kft.	800	3,250
NOVATEL E.O.O.D.	0	2,148
KFKI-LNX Zrt.	1,300	1,000
ViDaNet Zrt.	1,940	700
Origo Zrt.	0	600
T-Kábel Magyarország Kft.	5,424	0
Orbitel A.D.	1,140	0
ICON Zrt.	400	0
NOVATEL Ukraine L.L.C.	137	0
<b>Total</b>	<b>21,641</b>	<b>15,798</b>

The amount of loans does not include the instalments due within one year. These instalments were reclassified to short term receivables from related parties (see Note 12).

**9. Other non current loans granted**

This caption contains long term loans granted to employees, deposits given and the long term part of instalment receivables of cell phone sales amounted to HUF 4,641 million in total.

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**10. Inventories**

Inventories include mainly network maintenance materials, goods include mainly telecommunication goods and abandoned fixed assets designated for sale.

The following is a movement table of inventories in 2007 and in 2008:

	2007	2008
Opening balance	7,501	7,161
Change in inventories	103	1,216
Impairment loss	-469	-110
Increase due to the merger	76	0
Change in advance payments given for inventories	-50	0
<b>Closing balance</b>	<b>7,161</b>	<b>8,267</b>

The increase of inventories is due to the increase of mobile phone and accessories and the increase of service materials of mobile phones.

Further details of inventory impairment are disclosed in Appendix 3.

**11. Accounts receivable**

As of December 31, 2007 and 2008 accounts receivable include the following:

	2007	2008
Domestic accounts receivable	48,206	44,650
Foreign accounts receivable	1,570	2,069
Impairment of receivables	-10,724	-10,123
<b>Total</b>	<b>39,052</b>	<b>36,596</b>

In 2008, impairment of receivables was HUF 512 million less than last year as a consequence of the change in accounting estimate (see Note 3).

Further details on receivables impairment are disclosed in Appendix 3.

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**12. Receivables from related parties**

Receivables from related parties as of December 31, 2007 and 2008 are summarized as follows:

	2007	2008
Receivables from T-Kábel Kft. *	631	7,279
Receivables from Pro-M Zrt. **	470	3,099
Dividend receivable from IKO-Telekom Media Holding Zrt.	0	2,033
Loans to Dataplex Kft.	700	1,000
Receivables from Combridge S.R.L.	2,798	893
Receivables from IQSYS Kft.	0	676
Loans to ViDaNet Zrt.	60	540
Loans to Novatel E.O.O.D.	1,094	481
Loans to EPT Nyrt.	500	445
Receivables from Makedonski Telekom A.D. ***	226	420
Receivables form EurAccount Kft. ****	29	354
Receivables from Novatel Ukraine L.L.C. *****	147	236
Loans to M-Factory Zrt.	270	220
Receivables from Origo Zrt. (previously T-Online Zrt.)	13	26
Loans to BCN Kft.	1,300	0
Loans to Orbitel A.D.	966	0
Receivables from T-Systems Hungary Kft.	844	0
Other	463	421
<b>Total</b>	<b>10,511</b>	<b>18,123</b>

\* In 2008, the increase is due to the loans granted to T-Kábel Kft. in the amount of HUF 6,679 million.

\*\* In 2008, the increase is due to the loans granted to Pro-M Zrt. in the amount of HUF 2,800 million.

\*\*\* Receivables from Makedonski Telekom AD was disclosed as Other in the Note as of 2007.

\*\*\*\* Receivables from EurAccount Kft. was disclosed as Other in the Note as of 2007.

\*\*\*\*\* Receivables from Novatel Ukraine L.L.C. was disclosed as Other in the Note as of 2007.

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**13. Other receivables**

The Company's other receivables as of December 31, 2007 and 2008 are summarized as follows:

	2007	2008
Advance payments given	1,653	2,672
Tax receivables	1,551	1,743
Receivables from employees	1,342	1,364
KFKI deposit	920	413
Receivables from the government	150	84
Other	729	1,000
<b>Total</b>	<b>6,345</b>	<b>7,276</b>

**14. Securities**

The amount of HUF 1,179 million, presented as securities, represents the value of repurchased treasury stock. On July 3, 2002 the Company issued new shares through CIB Bank Zrt. to cover its management stock option plan. In 2007 shares with a book value of HUF 325 million were sold within the frame of the above mentioned plan.

There was no change in the facts compared to the previous year's Note whereas there was no treasury stock sale in 2008.

**15. Prepayments and accrued income**

	2007	2008
Accrued income related to telecommunication activities	28,928	25,728
Accrued income related to related parties *	2,027	1,698
Other	125	707
<b><i>Accrued income</i></b>	<b>31,080</b>	<b>28,133</b>
Rental fees	535	632
Insurance fees	11	2
Other	507	446
<b><i>Prepaid costs and expenses</i></b>	<b>1,053</b>	<b>1,080</b>
<b>Total</b>	<b>32,133</b>	<b>29,213</b>

Revenues related to the main activity are accrued depending on the billing-cycle. The revenues of actual, but not invoiced traffic are accrued.

\* Roaming revenue accrual relating to entrepreneurs within DT Group was reclassified to 'Accrued income related to telecommunication activities' in both years. The reclassified amount was HUF 5,890 million in 2007 and HUF 3,683 million in 2008.

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**16. Shareholder's Equity**

Shareholder	Number of shares	Nominal value (HUF per share)	Total value (HUF'000)	Ownership percentage (%)
MagyarCom Holding GmbH	617,438,581	100	61,743,858	59.21%
Free float	423,803,393	100	42,380,339	40.65%
Repurchased treasury stock	1,503,541	100	150,354	0.14%
State-owned	100	100	10	0.00%
<b>Total</b>	<b><u>1,042,745,615</u></b>		<b><u>104,274,561</u></b>	<b><u>100.00%</u></b>

The owners' structure disclosed in the table above did not change compared to December 31, 2007.

The Company's common stock consists of 1,042,745,615 pieces of shares (face value HUF 100 per share, "A" series).

Changes in the equity items during 2007 and 2008 are summarized as follows:

	<i>Common stock</i>	<i>Capital reserves</i>	<i>Retained earnings</i>	<i>Restricted reserves *</i>	<i>Balance Sheet Net Profit</i>
<b>Opening balance as of January 1, 2007</b>	<b>104,277</b>	<b>54,932</b>	<b>205,520</b>	<b>1,504</b>	<b>15,405</b>
Increases	0	0	1,025	0	0
Increase due to the merger	0	3,358	1,023	377	0
Decreases	2	1	41,603	0	0
Decreases due to the merger	0	0	10,170	0	0
Reclassifications	0	0	15,730	-325	-15,405
<b>Balance as of December 31, 2007</b>	<b><u>104,275</u></b>	<b><u>58,289</u></b>	<b><u>171,525</u></b>	<b><u>1,556</u></b>	<b><u>0</u></b>
Increases	0	0	1,347	0	98,625
Decreases	0	0	128	0	0
Reclassifications	0	0	-500	500	0
<b>Balance as of December 31, 2008</b>	<b><u>104,275</u></b>	<b><u>58,289</u></b>	<b><u>172,244</u></b>	<b><u>2,056</u></b>	<b><u>98,625</u></b>

\* Restricted reserves contain amount of own shares (HUF 1,179 million) and development reserve in the amount of HUF 500 million in the current year and HUF 377 million in the previous year.

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**17. Provisions**

	<i>Early retirement and severance payments *</i>	<i>Contingent liabilities</i>	<i>Other</i>	<i>Total</i>
<b>Opening Balance as of January 1, 2007</b>	<b>990</b>	<b>6,793</b>	<b>194</b>	<b>7,977</b>
Reclassification at opening	0	166	-166	0
Increase	13,942	2,856	1,351	18,149
Increase due to the merger	0	99	51	150
Decrease	787	3,440	0	4,227
<b>Closing Balance as of December 31, 2007</b>	<b>14,145</b>	<b>6,474</b>	<b>1,430</b>	<b>22,049</b>
Reclassification at opening	0	27	-27	0
Increase	4,603	5,887	551	11,041
Decrease	9,790	2,689	529	13,008
<b>Closing Balance as of December 31, 2008</b>	<b>8,958</b>	<b>9,699</b>	<b>1,425</b>	<b>20,082</b>

\* In 2008, HUF 4,603 million provision was recognized for collective headcount reduction.

The main items of reversals of provision for contingent liabilities during the year are as follows:

Titles	2007	2008
Customer loyalty program	1,834	1,812
Local business tax default	0	355
Amount transferred to Dimenzió Biztosító Egyesület	139	180
Legal cases	195	150
Employees' bonuses	426	70
Environmental liabilities	91	58
Guarantee liabilities	48	44
Dismissal expenses of employees of DeTelmmobilien Hungary Rt.	96	14
Forgiveness of employee loans	58	6
Payment obligation due to EKG agreement	296	0
Penalties	190	0
Other	67	0
<b>Total reversals</b>	<b>3,440</b>	<b>2,689</b>

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The main items of increase of provision for contingent liabilities during the year are as follows:

Titles	2007	2008
Contractual (asset retirement) obligation	0	2,324
Customer loyalty program	1,720	1,562
Environmental liabilities	225	1,285
Liability increase due to EKG agreement	497	541
Local business tax default	0	-519
Employees' bonuses	54	352
Royalties	0	230
Penalties	100	50
Guarantee liabilities	46	48
Legal cases	34	14
Contribution to be given to Dimenzió Biztosító Egyesület	180	0
<b>Total increases</b>	<b>2,856</b>	<b>5,887</b>

**18. Other non current loans**

The Company had long term loan liabilities in the amount of HUF 18,326 million as of December 31, 2008.

During 2008, HUF 8,519 million was drawn down and HUF 28,333 million was reclassified to current loans. The Company repaid HUF 12,863 million during 2008.

HUF 443 million non-realized foreign exchange loss, HUF 10 million realized foreign exchange loss and HUF 7 million realized foreign exchange gain was recognized on foreign exchange loans.

The short term parts of other non current loans are disclosed among current loans (see Note 20).

The Company does not have any assets pledged for loans.

The maturities of non current bank loans are as follows (including debt from issuance of bonds):

Due dates	Amount
2010	6,231
2011	12,095
Further instalments in total	122*
<b>Total</b>	<b>18,448</b>

\* Debt from issuance of bonds

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**19. Non current liabilities to other related parties**

This caption contains the non current part of other related party loans received from Deutsche Telekom Finance B.V. The closing balance of these loans as of December 31, 2008 is HUF 242,531 million.

Loans in the amount of HUF 25,000 million were drawn down in May 2008 repayable until 2013 (fix interest rate of 7.25567 per cent) and HUF 50,586 million loan was drawn down also in May 2008 repayable until 2015 (fix interest rate of 8.29525 per cent).

The short term part of related party loans (HUF 87,486 million) is disclosed in Note 22.

The maturities of non current owner's loans are as follows:

<u>Maturity</u>	<u>Amount</u>
2010	39,487
2011	68,486
2012	49,486
2013	34,486
2015	50,586
<b>Total</b>	<b><u>242,531</u></b>

**20. Current loans**

The Company had current loans received from banks in the amount of HUF 32,541 million as of December 31, 2008.

During 2008, HUF 56,282 million was drawn down and HUF 28,333 million was reclassified from long term loans. The Company repaid HUF 92,266 million during 2008.

HUF 331 million non-realized foreign exchange loss and HUF 81 million realized foreign exchange gain was recognized on foreign exchange loans.

**21. Current liabilities to related parties**

This caption consists mainly the loan payables to related parties. The balance of the loan payables to Stonebridge AD is HUF 14,989 million, to Orbitel A.D. is HUF 479 million, to Investel Magyar Távközlési Befektetési Zrt. is HUF 430 million, to EurAccount Kft. is HUF 370 million and to ViaBridge Ltd. is HUF 80 million.

Interest-Pool liabilities to subsidiaries amounted to HUF 4,549 million.

Other liabilities to related parties include HUF 4,179 million to KFKI Zrt. (of which HUF 2,842 million is accounts payable liability and HUF 1,337 million is not invoiced services), HUF 1,350 to Investel Magyar Távközlési Befektetési Zrt. (received dividend advance), HUF 1,124 million to T-Kábel Magyarország Kft. (of which HUF 1,123 million is accounts payable liability and HUF 1 million is other liability), HUF 900 million to IQSYS Zrt. (of which HUF 753 million is accounts payable liability and HUF 147 million is not invoiced services) and HUF 829 million to other related parties (of which HUF 795 million is accounts payable liability, HUF 24 million is not invoiced services and HUF 10 million is other liability).



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**22. Current liabilities to other related parties**

This caption contains HUF 87,486 million (short term part) of other related party loans described in Note 19.

The maturities and interests of current liabilities to other related parties are as follows:

Maturity	Interest	Amount
January 30, 2009	3 month BUBOR +0,17525%	9,486
September 26, 2009	Fix 9,677%	5,000
October 7, 2009	Fix 9,605%	25,000
October 7, 2009	6 month BUBOR +0,34325%	28,000
October 7, 2009	Fix 7,533%	20,000
<b>Total</b>		<b><u>87,486</u></b>

Deutsche Telekom has pledged its support for financing the Company's needs through to the end of June 2010.

**23. Other current liabilities**

Other current liabilities as of December 31, 2007 and 2008 are summarized as follows:

	2007	2008
Payables to employees and related contributions	4,597	3,278
Value Added Tax	4,772	2,679
Liability from topping up the universal balance	2,309	2,677
Liabilities to government	887	684
Personal income tax	3,067	677
Purchase price of KFKI Zrt. - second instalment	920	413
Solidarity tax	182	51
Liability relating to inter-connection fee based on Decrees of NHH 999/2004, NHH/DH-6584-12/2005 and DH-385-18/2006. *	6,603	0
Dividends payable 2007	77,052	0
Dividends payable 2008**	0	0
Other***	4,229	4,574
<b>Total</b>	<b><u>104,618</u></b>	<b><u>15,033</u></b>

\* In August 2008, the negotiations with NHH resulted in a positive conclusion, consequently Magyar Telekom Plc. did not record any liability as of December 31, 2008 due to this matter.

\*\* Dividend payable for 2008 has not been decided yet.

\*\*\* The category "Other" includes HUF 92 million and HUF 99 million unpaid dividends approved for 2007 and 2008, respectively. The category also includes liabilities due to the EKG agreement in the amounts of HUF 2,028 million in 2007 and HUF 2,156 million in 2008. It contains vehicle leasing liabilities in the amounts of HUF 287 million in 2007 and HUF 575 million in 2008. Further element is the customer overpayment liability amounted to HUF 685 million in 2007 and HUF 1,001 million in 2008.

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**24. Accrued expenses and deferred income**

	<u>2007</u>	<u>2008</u>
Deferred subscription and traffic fees	5,580	3,864
Deferred income of rebranding *	531	362
Other **	<u>208</u>	<u>33</u>
<b>Deferred income</b>	<b>6,319</b>	<b>4,259</b>
Vendor accruals	19,928	19,246
Accrued interest on owners' loan	5,210	8,845
Accrued payroll related expenses	7,453	5,904
Accrued frequency usage fee	4,557	4,346
Accrued roaming related expenses	3,829	2,902
Accruals to related parties	1,909	2,307
Accrued interest	1,451	1,223
Accrued value added services	<u>517</u>	<u>594</u>
<b>Accrued expenses</b>	<b>44,854</b>	<b>45,367</b>
<b>Other deferred revenue</b>	<b>443</b>	<b>335</b>
<b>Total</b>	<b><u>51,616</u></b>	<b><u>49,961</u></b>

\* The reimbursement received from the parent company in connection with rebranding-related capitalized expenditures is shown as deferred income, and recognized in other revenues in line with the depreciation of the related assets.

\*\* Mobile revenues relating to branding amounted to HUF 220 million was disclosed as other revenues in the Note as of 2007.

**25. Domestic sales**

Domestic sales in the years ending December 31, 2007 and 2008 are as follows:

	<u>2007</u>	<u>2008</u>
Mobile traffic revenues	209,870	204,800
Subscriptions, connections and other charges *	127,929	153,125
Fixed line traffic revenues **	50,981	49,951
Leased lines and data transmission ***	47,553	39,262
Handset revenues	18,270	17,022
Revenues from equipment sales	1,900	1,052
Other revenues	<u>21,602</u>	<u>17,317</u>
<b>Total domestic sales</b>	<b><u>478,105</u></b>	<b><u>482,529</u></b>

\* T-Online Zrt. and EMITEL Távközlési Zrt. merged into the Company on October 1, 2007 so the 'Subscriptions, connections and other charges' line contains only 3 months charge in 2007 and it contains 12 months charge in 2008.

\*\* VoIP revenues (HUF 29 million in 2007 and HUF 259 million in 2008) were disclosed in 'Leased lines and data transmission' line in the Note as of 2007.

\*\*\* Decrease of 'Leased lines and data transmission' in 2008 is caused by that the T-Online Zrt. (until its merger in 2007) made use of leased line services from the Company.

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### 26. Export sales by geographical areas

Export sales by geographical areas in the years ending December 31, 2007 and 2008 are summarized as follows (sales are solely connected with services provided):

	2007		2008	
		%		%
Europe (within the EU)	16,784	76.98%	15,021	82.19%
Europe (outside the EU)	3,719	17.06%	2,261	12.37%
America	871	4.00%	463	2.53%
Asia	369	1.69%	459	2.51%
Australia	48	0.22%	60	0.33%
Africa	13	0.06%	11	0.06%
<b>Total export sales</b>	<b><u>21,804</u></b>	<b><u>100.00%</u></b>	<b><u>18,275</u></b>	<b><u>100.00%</u></b>

### 27. Other revenues

Other revenues in the years ending December 31, 2007 and 2008 are as follows:

	2007	2008
Reversal of provisions *	4,227	13,008
Revenue from sale of intangible and tangible fixed assets	4,570	5,963
Discount received subsequently **	5,856	3,960
Default interest, penalties, compensations	2,164	2,045
Revenue from receivable factoring	303	434
Other revenues in connection with impairment	1,791	364
Renaming and rebranding	185	169
Other	1,667	755
<b>Total</b>	<b><u>20,763</u></b>	<b><u>26,698</u></b>

\* The increase is due to the reversal of provision for 'Early retirement and severance payments' in the amount of HUF 9,790 million. Reversal of provisions is detailed in the Note 17.

\*\* The decrease is due to decrease of discount received subsequently for roaming traffic.

### 28. Import purchases

Import purchases by geographical areas in the years ending December 31, 2007 and 2008 are summarized as follows:

	2007			2008		
	Services	Products	Total	Services	Products	Total
Europe (within the EU)	15,381	18,655	34,036	13,016	19,377	32,393
America	5,267	334	5,601	5,850	248	6,098
Europe (outside the EU)	2,301	27	2,328	2,053	40	2,093
Asia	555	453	1,008	1,129	162	1,291
Australia	53	0	53	350	0	350
Africa	243	0	243	44	0	44
<b>Total</b>	<b><u>23,800</u></b>	<b><u>19,469</u></b>	<b><u>43,269</u></b>	<b><u>22,442</u></b>	<b><u>19,827</u></b>	<b><u>42,269</u></b>

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**29. Cost of services**

Cost of services in the years ending December 31, 2007 and 2008 are as follows:

	2007	2008
Repair and maintenance costs **	23,099	21,774
Marketing expenses	12,219	13,882
Expenses of rented workforce and operator activities *	10,301	12,718
Rental fees	9,544	10,720
Consultancy	11,263	10,121
Fees paid to entrepreneurs	7,295	7,737
Commissions paid	6,401	6,981
Payments to international network operators	8,227	5,034
Postage	2,330	2,604
Bookkeeping services	2,123	1,909
Property operating costs	1,369	1,718
Education, training expenses	905	1,359
Travel and accommodation costs	588	627
Fleet management	469	480
Services related to other revenues	484	386
Payments to Internet service providers***	284	196
T-Mobile Royalty fee	181	182
Other	405	637
<b>Total</b>	<b>97,487</b>	<b>99,065</b>

\* In 2008, this line also contains the expenses of operators taken over from T-Online and Emitel after these subsidiaries merged into Magyar Telekom Plc. During 2008 the Company carried out the standardization of the operator activities in the frame of the transformation and initiated a standard employment form for renting workforce.

\*\* Expenses of operator activities were disclosed in 'Repair and maintenance costs' in the Notes as of 2007.

\*\*\* 'Payments to Internet service providers' are based on the decree of MeHVM 30/2001 (XII.23.).

**30. Costs of services sold (intermediated)**

Costs of intermediated services sold in the years ending December 31, 2007 and 2008 are as follows:

	2007	2008
Payment to mobile operators *	66,379	57,128
Costs of intermediated RI/IT services **	8,068	6,714
Payment to other fixed line network operators ***	4,320	5,664
Costs of content providing and mobile trade services sold **	5,170	4,802
Charges for network use paid to Cable TV companies **, ****	610	2,919
Other	1,233	1,911
<b>Total</b>	<b>85,780</b>	<b>79,138</b>

\* Decrease of payment to mobile operators is due to the decrease in traffic and call termination charges.

\*\* These items were disclosed in 'Other' in the Notes as of 2007.

\*\*\* Premium rate audiofix services and ADSL monthly charges were reclassified from 'Other' to 'Payment to other fixed line network operators' amounted to HUF 412 million in the Note as of 2007 and HUF 682 million in 2008.

\*\*\*\* Increase is due to the KábelNet services taken over by the merge of T-Online (October 1, 2007) because this caused only 3 months charge in 2007 but 12 months charge in 2008.

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**31. Employees**

The average number of employees in 2007 and 2008 are as follows:

		December 31, 2007		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	1,144	3,392	1,214
	white collar	5,473	39,411	6,078
	total	6,617	42,803	7,292
Part-time employees				
	blue collar	20	45	23
	white collar	389	971	427
	total	409	1,016	450
Employees total				
	blue collar	1,164	3,437	1,237
	white collar	5,862	40,382	6,505
	total	7,026	43,819	7,742
Employees not in headcount*		0	2,523	8,188
<b>Total</b>		<b>7,026</b>	<b>46,342</b>	<b>15,930</b>
		December 31, 2008		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	938	2,876	1,053
	white collar	5,036	38,876	5,881
	total	5,974	41,752	6,934
Part-time employees				
	blue collar	6	16	9
	white collar	265	716	311
	total	271	732	320
Employees total				
	blue collar	944	2,892	1,062
	white collar	5,301	39,592	6,192
	total	6,245	42,484	7,254
Employees not in headcount*		0	2,586	6,012
<b>Total</b>		<b>6,245</b>	<b>45,070</b>	<b>13,266</b>

\* Includes employees on maternity leave, who are excluded from the average statistical number of employees.

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**32. Remuneration of Board of Directors and Supervisory Board**

The remuneration of members of the Board of Directors and Supervisory Board of the Company in the years ending December 31, 2007 and 2008 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2007	11	42	53
2008	13	46	59

The members of Board of Directors have not received any advance payments or loans from the Company. The members of Supervisory Board have received advance payments or loans in the current year as follows:

Description	Supervisory Board
Advance payments	
Opening balance	0
Payments in the current year	2
Payments repaid	2
Closing balance	0
Loans	
Opening balance	5
Disbursements in the current year	0
Loans repaid in the current year	1
Closing balance	4

The loans are to be reimbursed monthly, the average repayment term left is 33 months. All advance payments and loans are free of interest.

The Company did not offer guarantees on behalf of the members of the Board of Directors and Supervisory Board and has no retirement pension liability to them.

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**33. Other expenses**

Other expenses in the years ending December 31, 2007 and 2008 are as follows:

	<u>2007</u>	<u>2008</u>
Provisions*	18,149	11,553
Government taxes	8,399	8,632
Net book value of fixed assets sold	2,850	3,661
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets **	3,700	3,219
Discount granted subsequently on roaming traffic	3,095	1,785
Write-off of uncollectible receivables	1,984	1,683
Factored receivables	1,670	1,528
Loss of intangible and tangible fixed assets and inventory shortage **	609	524
Other ***	<u>1,344</u>	<u>2,220</u>
<b>Total</b>	<b><u>41,800</u></b>	<b><u>34,805</u></b>

\* In 2008, HUF 4,603 million provisions were recognized for early retirement, exemption salaries and related social security.

\*\* Extraordinary depreciation of intangible and tangible fixed assets amounted to HUF 2,480 million in 2007 and HUF 2,598 million in 2008 was reclassified from 'Loss of intangible and tangible fixed assets and inventory shortage' to 'Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets'.

\*\*\* Profit tax paid abroad is the most significant item in 'Other' amounted to HUF 1,536 million (it was HUF 90 million in 2007).

**34. Results of financial activities**

The main driver in revenues from financial activities (HUF 49,601 million) is the dividend received in 2008 related to year 2007 (HUF 37,476 million). The most significant items are the dividends received from Stonebridge A.D. (HUF 26,310 million), from Crnogorski Telekom AD (HUF 4,024 million), from Investel Zrt. (HUF 3,940 million) and from IKO-Telekom Zrt. (HUF 2,033 million).

Further significant item is the interest on loans given to subsidiaries disclosed as interest income on financial investments (HUF 1,689 million) and as other interest income received (HUF 1,788 million).

The main item in other revenues from financial activities (HUF 8,648 million) is the foreign exchange gain related to year-end revaluation of investments in the amount of HUF 6,176 million.

The majority of the HUF 37,576 million financial expenses is the HUF 33,256 million interest expense in 2008. This includes the amount of the interest payable on owners' loans and bank loans. Impairment loss of HUF 196 million was recorded on investments in 2008. Other expenses from financial transactions is HUF 4,121 million of which the most significant item is the other foreign exchange loss in the amount of HUF 1,990 million.

In 2008, realized foreign exchange gain in the amount of HUF 1,386 million and foreign exchange loss in the amount of HUF 1,863 million were recorded in connection with closed forward transactions. All of the closed forward F/X deals were contracted on the OTC market with the original aim of delivery, which was closed by reverse transaction.

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**35. Extraordinary revenues**

Extraordinary revenues in the years ending December 31, 2007 and 2008 are summarized as follows:

	2007	2008
Assets received free of charge	5	4
<b><i>Extraordinary revenues adjusting tax base</i></b>	<b>5</b>	<b>4</b>
Revenues related to investments in subsidiaries:		
- Merger of BCN Kft. into KFKI Zrt.	0	3,932
- Merger of Integris Kft. into IQSYS Zrt.	0	915
- Merger of TSH into IQSYS Zrt.	0	120
- Merger of IWIW Kft. into [origo] Zrt.	0	103
- Merger of Adnetwork Kft. into [origo] Zrt.	0	59
- Liquidation of ProMoKom Zrt.	0	18
- BCN Rendszerház Kft. capital decrease	2,704	0
- Merger of EGERTEL Zrt. into Investel Zrt.	1,866	0
- Merger of M-Factory Kft. into Mobilpress Zrt.	8	0
Development contributions	93	65
Assets received free of charge (not adjusting tax base)	116	10
Dividends expired	7	6
Other extraordinary revenues *	19	1
<b><i>Extraordinary revenues not adjusting tax base</i></b>	<b>4,813</b>	<b>5,229</b>
<b>Total</b>	<b>4,818</b>	<b>5,233</b>

\* The sum of assets surplus was reclassified from 'Asset surplus' to 'Other extraordinary revenues' concerning the magnitude of the amount (in 2007 it was HUF 15 million).



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**36. Extraordinary expenses**

The extraordinary expenses of the Company in the years ending December 31, 2007 and 2008 are summarized as follows:

	2007	2008
Dimenzió contributions *	1,422	2,991
Donation to foundations, charities and other organizations *	1,471	1,194
Net book value of assets contributed free of charge	75	71
Net book value of receivables waived	57	51
<b>Extraordinary losses adjusting tax base</b>	<b>3,025</b>	<b>4,307</b>
Expenses related to investments in subsidiaries:		
- Merger of BCN Kft. into KFKI Zrt.	0	2,864
- Merger of TSH into IQSYS Zrt.	0	1,693
- Merger of Integris Kft. into IQSYS Zrt.	0	594
- Liquidation of ProMoKom Zrt.	0	18
- Merger of IWIW Kft. into [origo] Zrt.	0	11
- Merger of Adnetwork Kft. into [origo] Zrt.	0	4
- BCN Rendszerház Kft. capital decrease	2,177	0
- Merger of EGERTEL Zrt. into Investel Zrt.	1,793	0
- Merger of M-Factory Kft. into Mobilpress Zrt.	56	0
Assets contributed free of charge based on Law	12	1
Other extraordinary losses	24	12
<b>Extraordinary losses not adjusting tax base</b>	<b>4,062</b>	<b>5,197</b>
<b>Total</b>	<b>7,087</b>	<b>9,504</b>

\* The Dimenzió contributions amounted to HUF 1,422 million in the Notes as of 2007 were reclassified from 'Donation to foundations, charities and other organizations' to 'Dimenzió contributions'.

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**37. Transactions with related parties and subsidiaries of Deutsche Telekom Group**

Balances of transactions with related parties not disclosed in the balance sheet and income statement are detailed as follows.

Loans received from owners are disclosed as Non current liabilities to other related parties or Current liabilities to other related parties. Their interests are disclosed separately as expenses from financial transactions in the income statement.

Revenues and expenses (mainly relating to telecommunication services) from the subsidiaries of Deutsche Telekom Group were not disclosed separately as transactions with related parties.

Transactions with related parties and subsidiaries of Deutsche Telekom in the years ending December 31, 2007 and 2008 are summarized as follows:

	2007	2008
<b><i>Net domestic sales</i></b>	<b><i>478,105</i></b>	<b><i>482,529</i></b>
- of which: related parties	25,132	7,778
- of which: subsidiaries of Deutsche Telekom Group	425	589
<b><i>Net export sales</i></b>	<b><i>21,804</i></b>	<b><i>18,275</i></b>
- of which: related parties	2,254	1,751
- of which: subsidiaries of Deutsche Telekom Group	6,740	10,668
<b><i>Other revenues</i></b>	<b><i>20,763</i></b>	<b><i>26,698</i></b>
- of which: related parties	189	81
- of which: subsidiaries of Deutsche Telekom Group	5,274	1,363
<b><i>Accounts receivable</i></b>	<b><i>39,052</i></b>	<b><i>36,596</i></b>
- of which: subsidiaries of Deutsche Telekom Group	422	1,070
<b><i>Receivables from related parties</i></b>	<b><i>10,511</i></b>	<b><i>18,123</i></b>
<b><i>Other receivables</i></b>	<b><i>6,345</i></b>	<b><i>7,276</i></b>
- of which: subsidiaries of Deutsche Telekom Group	1	0
<b><i>Accrued income</i></b>	<b><i>31,080</i></b>	<b><i>28,133</i></b>
- of which: subsidiaries of Deutsche Telekom Group	6,003	4,354
<b><i>Accounts payable</i></b>	<b><i>34,805</i></b>	<b><i>32,555</i></b>
- of which: subsidiaries of Deutsche Telekom Group	2,476	1,731
<b><i>Current liabilities to other related parties</i></b>	<b><i>20,000</i></b>	<b><i>87,486</i></b>
- of which: subsidiaries of Deutsche Telekom Group	20,000	87,486
<b><i>Accrued expenses</i></b>	<b><i>44,854</i></b>	<b><i>45,367</i></b>
- of which: subsidiaries of Deutsche Telekom Group	9,947	12,323

**38. Corporate Income Tax**

**Magyar Telekom Plc.**  
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The differences between profit before tax and the tax base for the years ending December 31, 2007 and 2008 are presented below:

	2007	2008
<b>Profit before tax</b>	<b>36,991</b>	<b>101,433</b>
Depreciation according to the Act on Accounting	97,471	88,722
Recognition of provisions	18,149	11,553
Derecognition of intangible and tangible assets, reclassification to current assets	4,832	5,328
Non-repayable donations, assets and services given free of charge, assumed liabilities	3,085	4,283
Recoverable, waived and expired receivables	2,086	267
Impairment of receivables	-650	2,042
Other increasing items	1,076	2,647
<b><u>Tax base increasing items</u></b>	<b>126,049</b>	<b>114,842</b>
Depreciation according to the Tax Law	105,633	138,509
Local business tax	7,327	7,463
Dividend income	5,531	37,476
Derecognition of intangible and tangible assets, reclassification to current assets	4,733	4,983
Reversal of provisions	4,227	13,008
Utilization of tax loss carried forward	2,500	0
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	2,199	1,896
Donations	1,077	2,489
R&D costs	634	372
Realized gain on termination of investments	0	1,046
Development reserve	0	500
Subsidies received	0	5
Non realized foreign exchange gain	0	6,176
Other decreasing items	5	51
<b><u>Tax base decreasing items</u></b>	<b>133,866</b>	<b>213,974</b>
<b>Tax base</b>	<b>29,174</b>	<b>2,301</b>
<b><u>Calculated amount of tax</u></b>	<b>4,668</b>	<b>368</b>
Tax credit	4,668	294
Solidarity tax	1,357	2,734
<b><u>Corporate Income Tax</u></b>	<b>1,357</b>	<b>2,808</b>

Other tax related information

## Magyar Telekom Plc.

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552/2004 Ministry of Finance Resolution: Tax credit in connection with improvement program cannot exceed HUF 5,908 million at present value.

19/2005 Ministry of Finance Resolution: Tax credit in connection with improvement program cannot exceed HUF 2,614 million at present value.

Tax credit on broadband Internet investments announced for 2006. Tax credit cannot exceed HUF 2,292 million at present value.

Tax credit on broadband Internet investments announced for 2007. Tax credit cannot exceed HUF 1,318 million at present value.

12.724/2005 Ministry of Finance Resolution: The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 334 million at present value.

The tax credit is applicable in connection with construction of UMTS network announced by T-Mobile on 18 August, 2005 which also provides broadband internet service and cannot exceed HUF 4,215 million at present value.

Tax credit on broadband Internet investments announced for 2006 by T-Mobile. The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

2004 is the last year closed by comprehensive audit by the Hungarian Tax Authority (APEH) at the Company. Tax authorities may at any time inspect the books and records until the end of the 5th year following the year when the tax declarations were submitted and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which could result in a significant liability in this respect.

### **39. Dividend**

The current year's dividend payable has not been decided yet.

### **40. Off-balance sheet items**

Off-balance sheet items are mainly contractual commitments (rental contracts, contracted construction-in-progress and other development commitments; guarantee obligations, environmental, restoration and other expected obligations).

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 further HUF 20 billion in 2008 and 2009 on increasing mobile broadband coverage in Hungary. Management expects to fulfill the obligation by the end of 2009, and approximately HUF 9 billion had already been spent on this project by December 31, 2008. The amount of the not fulfilled obligation was included in the balance of the Commitment for capital expenditure and other developments line.

Off-balance sheet items are detailed (including the off-balance sheet receivables and liabilities related to forward and swap deals not closed until the balance sheet closing day) in Appendix 4.

**Magyar Telekom Plc.**  
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**41. Hazardous waste, Research & Development costs**

The following table shows the movement of hazardous waste at the Company in 2008 (data in kilograms):

	Hazardous waste (kg)
December 31, 2007	794
Increase	
Lead batteries	712,888
Soil and rocks containing hazardous substance	320,973
Other	15,655
	1,049,516
Increase in total	1,049,516
Decrease	
Lead batteries	712,888
Soil and rocks containing hazardous substance	320,973
Other	16,449
	1,050,310
Decrease in total	1,050,310
December 31, 2008	<b>0</b>

Environmental expenses amounted to HUF 350 million in 2007, and HUF 323 million in 2008.  
Research and development costs amounted to HUF 554 million at Magyar Telekom Plc. in 2008.

**42. Self-revisions**

At Magyar Telekom Plc., financial events that are related to prior years are recorded in the current year through self-revision.

According to the Hungarian Accounting Regulations, if the impact of the self-revision exceeds the 2 per cent of the total assets of the current year, or at least HUF 500 million, such items must be disclosed in a separate column in both the balance sheet and the income statement.

Errors related to prior years, that were discovered in 2008 exceeded the HUF 500 million limit (irrespective of their profit increasing or decreasing nature), therefore they are presented next to previous year's figures in the balance sheet and income statement.

The total (profit increasing) impact of self-revisions is HUF 1,347 million and is broken down by corresponding years as follows:

Year	Self-revision (in millions of HUF)
2003	1
2004	41
2005	87
2006	336
2007	882

The major items based on the „A” type income statement lines are the following:

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<b><i>I. Sales revenue</i></b>		<b><i>190</i></b>
Other export revenues	96	
Subscription fees	44	
Incoming international revenue	36	
Settlement of revenues from leased lines	32	
Other	-18	
<b><i>II. Own work capitalized</i></b>		<b><i>187</i></b>
Capitalized value of self-manufactured assets	187	
<b><i>III. Other revenues</i></b>		<b><i>-17</i></b>
Discount received subsequently on Roaming traffic	-29	
Other	12	
<b><i>IV. Material-type expenses</i></b>		<b><i>-1,128</i></b>
Consultant fees	-483	
Marketing costs	-228	
Repair, installation and maintenance costs	-159	
Postage	-133	
Intermediated services (rental fee of service provider's establishment)	-93	
Fuel cost	-36	
Electricity cost	-20	
Cost of rented workforce	66	
Other	-42	
<b><i>V. Payroll and related expenses</i></b>		<b><i>21</i></b>
Other employer's PIT	49	
Taxable competition prize	17	
Sales commissions	-31	
Bonuses	-18	
Other	4	
<b><i>VI. Depreciation</i></b>		<b><i>276</i></b>
Depreciation related to prior years	276	
<b><i>VII. Other expenses</i></b>		<b><i>-47</i></b>
Discount granted subsequently on Roaming traffic	-66	
Other	19	
<b><i>VIII. Revenues from financial transactions</i></b>		<b><i>8</i></b>
Subsequent discount in connection with financial settlement	8	
<b><i>IX. Expenses from financial transactions</i></b>		<b><i>-8</i></b>
Overdraft interest	-7	
Other	-1	
<b><i>D. PROFIT FROM EXTRAORDINARY ACTIVITIES</i></b>		<b><i>14</i></b>
Assets surplus	14	
<b><i>XII. Corporate income tax</i></b>		<b><i>-79</i></b>
Corporate income tax	-115	
Solidarity tax	36	
<b><i>Impact on net income</i></b>		<b><i>1,347</i></b>

**Magyar Telekom Plc.**  
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**43. Remuneration of auditor**

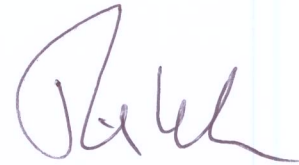
Fees charged by the auditors in the years ending December 31, 2007 and 2008 are summarized as follows (disclosed from 2008 in accordance with the laws in force):

	<u>2007</u>	<u>2008</u>
Audit	459	240
Other assurance services	31	163
Other non-audit services	257	107
Tax advisory	<u>5</u>	<u>0</u>
<b>Total</b>	<b><u>752</u></b>	<b><u>510</u></b>

Budapest, February 24, 2009



Christopher Mattheisen  
Chairman and Chief Executive Officer,  
Chairman of the Board



Thilo Kusch  
Chief Financial Officer,  
Board member

## Intangible Assets

(in HUF millions)

Description	Capitalized Value of Research and Development	Rights	Intellectual Property	Goodwill	Total
1. Gross value					
11. Opening gross value (on January 1, 2008)	0	146,333	12,267	218,346	376,946
12. Addition in gross value	0	13,311	949	1,374	15,634
13. Disposals in gross value	0	4,967	0	0	4,967
Reclassifications	0	-72	24	0	-48
14. Closing gross value (on December 31, 2008)	0	154,605	13,240	219,720	387,565
2. Accumulated amortization					
21. Opening amortization (on January 1, 2008)	0	83,802	8,765	60,279	152,846
22. Annual amortization	0	15,175	875	10,137	26,187
23. Extraordinary amortization	0	0	0	883	883
24. Disposals in amortization	0	4,929	0	0	4,929
Reclassifications	0	-4	0	0	-4
25. Closing amortization (on December 31, 2008)	0	94,044	9,640	71,299	174,983
4. Net book value (on December 31, 2008)	0	60,561	3,600	148,421	212,582
- Of which residual value	0	0	0	0	0
4. Other data					
Annual amortization (January - December, 2008)	0	15,175	875	10,137	26,187
Extraordinary amortization	0	0	0	883	883
Reversal of extraordinary amortization	0	0	0	0	0



## Real estate and related rights

(in HUF millions)

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value *						
11. Opening gross value (on January 1, 2008)	2,661	81,236	261,101	18,096	5,512	368,606
12. Additions in gross value	28	3,251	7,892	433	368	11,972
13. Disposals in gross value	173	3,791	1,526	241	731	6,462
Reclassifications	-79	1,556	-6,161	-1,667	1	-6,350
14. Closing gross value (on December 31, 2008)	2,437	82,252	261,306	16,621	5,150	367,766
2. Accumulated depreciation *						
21. Opening depreciation (on January 1, 2008)	0	17,061	103,913	6,948	4,430	132,352
22. Annual depreciation	0	2,186	10,006	469	207	12,868
23. Extraordinary depreciation	0	9	0	0	0	9
24. Disposals in depreciation	0	1,071	1,008	211	729	3,019
Reclassifications	0	274	-2,739	-346	0	-2,811
25. Closing depreciation (on December 31, 2008)	0	18,459	110,172	6,860	3,908	139,399
3. Net book value (on December 31, 2008)	2,437	63,793	151,134	9,761	1,242	228,367
- Of which residual value	0	171	0	5	1	177
4. Other data						
Annual depreciation (January - December, 2008)	0	2,186	10,006	469	207	12,868
Extraordinary depreciation	0	9	0	0	0	9
Reversal of Extraordinary depreciation	0	0	0	0	0	0

\* Excludes the assets below HUF 50,000

### Technical and Other Equipment, Machinery and Vehicles

(in HUF millions)

Description	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value *						
11. Opening gross value (on January 1, 2008)	595,290	3,925	599,215	74,690	673,905	34
12. Additions in gross value	37,562	716	38,278	5,935	44,213	0
13. Disposals in gross value	17,133	876	18,009	3,125	21,134	0
Reclassifications	6,917	-25	6,892	-661	6,231	0
14. Closing gross value (on December 31, 2008)	<b>622,636</b>	<b>3,740</b>	<b>626,376</b>	<b>76,839</b>	<b>703,215</b>	<b>34</b>
2. Accumulated depreciation *						
21. Opening depreciation (on January 1, 2008)	439,126	2,335	441,461	61,819	503,280	26
22. Annual depreciation	42,924	308	43,232	5,393	48,625	2
23. Extraordinary depreciation	0	1	1	1	2	0
24. Disposals in depreciation	15,785	839	16,624	2,740	19,364	0
Reclassifications	3,140	1	3,141	-354	2,787	0
25. Closing depreciation (on December 31, 2008)	<b>469,405</b>	<b>1,806</b>	<b>471,211</b>	<b>64,119</b>	<b>535,330</b>	<b>28</b>
3. Net book value (on December 31, 2008)	<b>153,231</b>	<b>1,934</b>	<b>155,165</b>	<b>12,720</b>	<b>167,885</b>	<b>6</b>
- Of which residual value	32	961	993	1,891	2,884	0
4. Other data						
Annual depreciation (January - December, 2008)	42,924	308	43,232	5,393	48,625	2
Extraordinary depreciation	0	1	1	1	2	0
Reversal of Extraordinary depreciation	0	0	0	0	0	0

\* Excludes the assets below HUF 50,000

## Direct and indirect investments of Magyar Telekom Plc.

(in HUF millions)

Description	Headquarter	Ownership Direct (%)	Ownership Indirect (%)	Ownership (%)	Voting Rights	Common Stock	Capital Reserves	Net Income	Owner's Equity
<b>Combridge S.R.L.</b>	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100.00%		100.00%	100.00%	1,970	-540	1,104	2,534
<b>Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Informatikahasznosító Kft.</b>	1087 Budapest, Asztalos Sándor u. 13	100.00%		100.00%	100.00%	1,850	396	-54	2,192
<b>Investel Magyar Távközlési Befektetési Zrt.</b>	1013 Budapest, Krisztina krt. 32.	100.00%		100.00%	100.00%	4,453	754	1,570	6,777
<b>KFKI Rendszerintegrációs Zrt.</b>	1135 Budapest, Hun u 2.	100.00%		100.00%	100.00%	2,000	5,564	1,057	8,621
<b>Novatel E.O.O.D.*</b>	Sredna Gora 49. et. 4., Sofia 1303, Bulgaria	100.00%		100.00%	100.00%	703	-157	416	962
<b>Orbital A.D.*</b>	1 Makedonia Sq. Floor 18, Sofia 1000, Bulgaria	100.00%		100.00%	100.00%	1,735	-298	-317	1,120
<b>Origo Média és Kommunikációs Szolgáltató Zrt.</b>	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	282	1,244	-833	693
<b>Pro-M Profesionális Mobilrádió Zrt.</b>	1107 Budapest, Száva u. 3-5.	100.00%		100.00%	100.00%	5,200	3,223	488	8,911
<b>Stonebridge Communication A.D. Skopje*, **</b>	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	91,348	6,375	25,577	123,300
<b>Telemacedonia A.D. Skopje*</b>	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	3	317	-33	287
<b>M Factory Kommunikációs Szolgáltató Zrt.</b>	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	20	15	33	68
<b>IQSYS Informatikai és Tanácsadó Zrt.</b>	1135 Budapest, Hun u 2.	100.00%		100.00%	100.00%	1,000	759	83	1,842
<b>Viabridge Telecommunications Holding Limited*, **</b>	Level 2, Valletta Buildings, South Street, Valletta, Malta VLT 11	99.99%	0.01%	100.00%	100.00%	307	-189	-7	111
<b>Novatel UKRAINE L.L.C.*</b>	Pymonenka Str. 13, building 7, office 7B/36, - Kiev, 04050 Ukraine	99.94%	0.06%	100.00%	100.00%	41	-105	-8	-72
<b>EurAccount Pénzügyi és Számviteli Szolgáltató Kft.</b>	1077 Budapest, Kéthly Anna tér 1.	99.00%	1.00%	100.00%	100.00%	450	0	138	588
<b>KIBU Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft.</b>	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	25	59	-53	31
<b>Eiső Pesti Telefonszolgálat Nyr.</b>	1183 Budapest, Haladás út 5.	97.20%		97.20%	97.20%	777	-225	8	560
<b>Cmogorski Telekom A.D. Podgorica*</b>	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76.53%		76.53%	76.53%	37,333	642	2,769	40,744
<b>VIDaNet Kábeltelevíziós Szolgáltató Zrt.</b>	1036 Budapest, Dereglye út 5/B	67.50%	22.50%	90.00%	50.00%	2,000	1,455	939	4,394
<b>TELE-DATA Távközlési Adattfeldolgozó és Hirdetésszervező Kft.</b>	2040 Budaörs, Baross u. 89.	50.98%		50.98%	50.98%	39	39	41	119
<b>HUNSAT Magyar Úrtávközlés Zrt.</b>	1016 Budapest, Krisztina krt. 93-99.	50.00%		50.00%	50.00%	100	1	186	287
<b>IKO-Telekom Média Holding Zrt.</b>	1222 Budapest, Nagytétényi út 29.	50.00%		50.00%	50.00%	3,200	523	74	3,797
<b>Mindentudás Egyeteme Tudományos Közhasznú Társaság</b>	1105 Budapest, Zágrábi út 1-3.	60.00%		60.00%	60.00%	5	22	-20	7
<b>T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft.</b>	1089 Budapest, Baross u. 133.	16.39%	83.61%	100.00%	100.00%	920	4,106	2,838	7,864
<b>Axelero Kereskedelmi és Szolgáltató Kft.***</b>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-1	-1	2
<b>Matáv Kereskedelmi és Szolgáltató Kft.***</b>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-1	-1	2
<b>Matáv KábelTV Kereskedelmi és Szolgáltató Kft.***</b>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-1	-1	2

Data of indirect owned companies which are not in the investments balance sheet caption of Magyar Telekom Plc. \*

<b>Makedonski Telekomunikacii A.D.</b>	1000 Skopje, Orce Nikolov bb.		51.00%	51.00%	56.67%	41,307	23,094	27,262	91,663
<b>T-Mobile Macedonia A.D.</b>	1000 Skopje, Orce Nikolov bb.		51.00%	51.00%	56.67%	10,104	7,468	16,701	34,273
<b>T-Mobile Crna Gora D.O.O.</b>	Moskovska 29, Podgorica, Montenegro		76.53%	76.53%	76.53%	6,043	11,169	3,355	20,567
<b>Internet Crna Gora D.O.O.</b>	Moskovska 29, Podgorica, Montenegro		76.53%	76.53%	76.53%	261	896	386	1,543
<b>Dét-Vonal Informatikai Fejlesztő és Szolgáltató Kft.</b>	1089 Budapest, Baross utca 133.		100.00%	100.00%	100.00%	3	-2	114	115
<b>Compargo Kft.</b>	1126 Budapest, Hollósy S. u. 26.		80.00%	80.00%	80.00%	3	54	55	112
<b>SafeCom Zrt.</b>	1107 Budapest, Bihari út 6.		100.00%	100.00%	100.00%	20	2	0	22
<b>Magyar RTL Televízió Zrt.</b>	1222 Budapest, Nagytétényi út 29.		15.50%	15.50%	15.50%	2,010	8,521	4,704	15,235
<b>Budakalász Kábel TV Kft.</b>	2011 Budakalász, Szentendrei út 9.		25.00%	25.00%	25.00%	70	22	30	122

All data in the table related to the capital is the last known figures by Magyar Telekom Plc. and not yet audited.

The indicated voting rights define unambiguously the significant (more than 25%), the majority (more than 50%) and the direct control (more than 75%) according to the Companies Act.

\* The common stock figures of foreign subsidiaries and indirect owned companies are based on IFRS reports were revalued using foreign exchange rates as of December 31, 2008.

\*\* Under liquidation.

\*\*\* Book values of investments are lower than HUF 1 million so they are not disclosed in Note 7.

## Impairment

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables *	Securities
Opening balance	2,882	0	0	3,293	12,996	0
Increase	196	0	0	110	510	0
Decrease	2,803	0	0	0	3158	0
Closing balance	275	0	0	3,403	10,348	0

\* The impairment of receivables contains the impairment of other receivables, too.

## Off-balance Sheet Liabilities

	Total	2009	2010	2011	2012	2013	2014
Rental contracts	34 190	6 425	5 232	4 785	4 051	3 280	10 417
Rental contracts with related parties	62	62	0	0	0	0	0
Guarantee obligation	16 996	16 296	372	128	163	19	18
Commitment for capital expenditure and other developments	12 900	12 900	0	0	0	0	0
Commitment for capital expenditure with related parties	1 420	1 316	104	0	0	0	0
Environmental protection, restoration and other obligations	773	131	130	128	128	128	128

## Forward and swap deals

Opened forward F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2008. \*

ID	Date	Off-balance sheet liability	F/X	Off-balance sheet receivable (HUF million)	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1.	12.12.2008.	1,108,000	USD	220	01.05.2009.	198.57	11.51
2.	12.10.2008.	328,000	USD	67	01.06.2009.	204.46	5.32
3.	11.28.2008.	1,183,144	USD	241	01.14.2009.	203.95	18.08
4.	11.25.2008.	90,000	EUR	24	01.16.2009.	263.54	-0.19
5.	12.10.2008.	113,000	USD	23	01.16.2009.	204.92	1.82
6.	12.12.2008.	681,000	USD	136	01.21.2009.	199.33	7.02
7.	12.10.2008.	250,000	USD	51	01.22.2009.	205.21	4.03
8.	12.10.2008.	35,000	EUR	9	01.27.2009.	265.21	-0.04
9.	12.10.2008.	31,000	USD	6	02.11.2009.	206.10	0.5
10.	11.28.2008.	284,180	EUR	75	02.14.2009.	263.44	-1.06
11.	11.25.2008.	541,000	USD	112	02.18.2009.	207.06	8.99
12.	11.28.2008.	647,130	USD	134	03.04.2009.	206.31	9.87
13.	11.25.2008.	700,000	USD	146	03.11.2009.	208.06	11.66
14.	12.10.2008.	381,000	USD	79	04.01.2009.	208.30	6.09
15.	11.28.2008.	726,919	USD	151	04.08.2009.	207.93	11.14
16.	12.12.2008.	400,000	USD	81	04.15.2009.	203.03	4.09
<b>Total</b>		<b>7,090,193</b>	<b>USD</b>	<b>1,555</b>			<b>98.83</b>
		<b>409,180</b>	<b>EUR</b>				

Opened swap F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2008. \*

ID	Date	Off-balance sheet liability (HUF million)	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1/2007	03.22.2007.	1,859	7,164,417	EUR	03.12.2009.	247.29	
2/2007	03.22.2007.	1,791	7,004,000	EUR	09.12.2009.	247.29	
3/2007	03.22.2007.	1,719	6,832,583	EUR	03.12.2010.	247.29	
<b>Total 2007</b>		<b>5,369</b>	<b>21,001,000</b>				<b>413</b>
1/2008	05.21.2008.	1,298	4,593,052	EUR	05.22.2009.	243.10	
2/2008	05.21.2008.	1,243	4,507,171	EUR	11.23.2009.	243.10	
3/2008	05.21.2008.	1,178	4,404,617	EUR	05.21.2010.	243.10	
4/2008	05.21.2008.	1,125	4,321,262	EUR	11.23.2010.	243.10	
5/2008	05.21.2008.	1,063	4,224,773	EUR	05.23.2011.	243.10	
<b>Total 2008</b>		<b>5,907</b>	<b>22,050,874</b>				<b>599</b>
<b>Total</b>		<b>11,276</b>	<b>43,051,874</b>				<b>1012</b>

\* Profit or loss was not recorded related to these deals in the current year.

**MAGYAR TELEKOM PLC.**

**MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC  
LIMITED COMPANY**

**Business Report of 2008**

February 2009

## Introduction

The annual report of the Magyar Telekom Telecommunications Public Limited Company (“Magyar Telekom Plc.” or “the Company”) has been prepared pursuant to the Hungarian Accounting Law.

Magyar Telekom Plc. is the principal provider of fixed line telecommunications services in Hungary, with approximately 2.3 million fixed access lines at December 31, 2008. The Company is also Hungary's largest mobile telecommunications service provider, with approximately 5.4 million mobile subscribers (including users of prepaid cards) at December 31, 2008.

Magyar Telekom Plc. is listed in the Budapest and the New York Stock Exchanges.

## Organizational changes

On September 25, 2007, Board of Directors decided to re-shape the Company's management and organizational structure in order to enhance service quality and improve cost efficiency, as well as exploit new, innovative service and business opportunities. The decision reflects the significant structural changes that are underway in the telecommunications industry, driven by long-term industry trends. Ongoing technological development and innovation, changes in customer demand, as well as the changing market dynamics and convergence experienced throughout the industry, have resulted in a shift of focus away from technology-based customer orientation towards the demands of individual customer segments. As a consequence, Magyar Telekom Plc.'s operational structure in telecommunications services has been re-aligned with this development, to allow the Company to continue to cope successfully with intensifying market competition.

Accordingly, Magyar Telekom Plc.'s executive management has devised a new management structure, based on an operational model structured around customer segments. The new structure, which supports the Company's strategic goals to focus increasingly on customer demand, was introduced in 2008, as approved by the Board of Directors. Both the organizational framework and scope of activity of individual business units, and the responsibility spheres of senior management were affected. The new structure is as follows:

- The *Consumer Services Business Unit (“CBU”)* comprises comprehensive marketing, sales and customer relations activities of both mobile and fixed consumer products and brands (T-Mobile, T-Com, T-Online, T-Kábel).
- The *Business Services Business Unit (“BBU”)* provides mobile and fixed telecommunications, infocommunications and system integration services (including marketing, sales and customer relations activities) under the T-Systems and T-Mobile brands to key business partners (large corporate customers) as well as small and medium businesses.
- An *Alternative Businesses and Corporate Development Business Unit (“ABCD”)* has been established comprising content, media and other non-access services; it is also responsible for new business development and the coordination of innovative activities. Accordingly, media and content service activities, which have been separated from T-Online Hungary from October 2007, are now incorporated into this business unit.
- The mobile and fixed network management and development activities were transferred to the current IT Management area, which took responsibility for Technology and IT Management.

On June 26, 2008, Magyar Telekom Plc. announced that Management Committee decided on the introduction of the T-Home brand to replace the T-Com, T-Online and T-Kábel brands in the autumn of 2008.

The objective of this decision was to introduce for Magyar Telekom Plc. a simpler brand structure that helps customers clearly identify the company and its services, thereby strengthening its market leader position. With the transformation of the brand structure, implemented at Deutsche Telekom AG (“DT”) in May 2007, a

renewed Magyar Telekom Plc. is better able to leverage its competitive advantage of having a uniquely broad range of services in Hungary's telecommunications market.

As a result of rebranding, our customers are able to use, under a single T-Home brand, all home-based fixed line communication and entertainment services, which were earlier branded T-Com, T-Online and T-Kábel. As part of the repositioning, simultaneously with the introduction of T-Home, the corporate "T" brand and the T-Mobile brand covering residential and business mobile services have also been refreshed, while the full scope of business communications solutions are continued to be offered to corporate customers under the T-Systems brand.

## Share Capital

As of December 31, 2008, the share capital of Magyar Telekom Plc. was HUF 104,274,561,500, consisting of 1,042,745,615 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100.

<u>Shareholder</u>	<u>Number of shares</u>	<u>Percentage of share capital</u>
MagyarCom .....	617,438,581	59.21
Publicly traded <sup>(1)</sup> .....	423,803,493	40.65
Treasury shares .....	1,503,541	0.14
	1,042,745,615	100.00

(1) Of our publicly traded shares, JP Morgan Chase Bank, N.A., as Depositary, had 6,511,890 ADRs, evidencing 32,559,450 shares on its accounts as of December 31, 2008, for registered holders, such amount representing 3.12 percent of the total shares outstanding. Also, members of the Board of Directors, Supervisory Board and the management own a total of 68,457 shares.

SBC Communications Inc ("SBC") and DT jointly managed and operated MagyarCom until SBC's 50 percent ownership in MagyarCom was transferred to DT in June 2000. DT now controls Magyar Telekom Plc. indirectly.

## Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders' register six business days prior to a General Meeting may cast a vote. Any decision overriding a resolution of the Board of Directors, require a three-quarter majority of votes cast by the shareholders present or represented at the General Meeting. All other matters submitted to a General Meeting require only a simple majority vote. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares.

## Transfer of Shares

The shareholders holding at least a simple majority of the shares must generally approve a transfer of shares that would result in a person or group of persons gaining directly or indirectly ten percent or more of the outstanding voting stock of the Company.

When registering a transfer of shares, the registrar may request evidence that the shares were transferred in accordance with the Articles of Association. If the Company establishes that the transfer occurred in violation of the Articles of Association or if the transferee refuses to produce the necessary evidence, the Company may refuse to register the transfer. The Board of Directors may invalidate registrations based on untrue, false or misleading statements. Only shareholders registered in the Company's register may exercise shareholder rights



vis-a-vis the Company or transfer shares. If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event.

### **Board of Directors**

Pursuant to our amended Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected at the Annual General Meeting of the shareholders for a term of three years. On December 31, 2008, there were nine members of the Board of Directors. Six of the directors were nominated by MagyarCom and three of the directors were elected upon proposal by other shareholders of the Company.

On December 31, 2008, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Member since</u>
Christopher Mattheisen .....	47	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. István Földesi .....	59	International business advisor, Director, InnoHungary Technology Center/President, Inter-Access Inc.	2003
Dr. Mihály Gálik .....	62	Professor and Head of the Marketing and Media Department of the Corvinus University	2006
Michael Günther .....	64	Member of the Management Board of T-Mobile International, responsible for Joint Venture Management	2002
Gregor Stücheli .....	45	Chief Executive Officer of T-Systems Schwitzerland, International Business Units	2008
Thilo Kusch.....	43	Chief Financial Officer of Magyar Telekom Plc.	2006
Lothar A. Harings .....	48	Chief Human Resources Officer and Member of the Management Board of T-Mobile International	2008
Frank Odzuck.....	49	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler.....	48	Member of the Board of Management, T-Com/T-Home (Division of Deutsche Telekom AG)	2003

### **Management Committee**

Pursuant to our amended Articles of Association and the amended Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000, which is empowered to carry out the day-to-day operations in accordance with the annual business plan.

On December 31, 2008, the Management Committee consisted of seven chief officers of Magyar Telekom Plc.. The members were as follows:

<u>Name</u>	<u>Age</u>	<u>Current position</u>	<u>Member since</u>
Christopher Mattheisen .....	47	Chairman and Chief Executive Officer	2006
Thilo Kusch .....	43	Chief Financial Officer	2006
Éva Somorjai .....	42	Chief Human Resources Officer	2007
György Simó.....	41	Chief Operating Officer, Alternative Businesses and Corporate Development BU	2006
István Papp .....	36	Chief Operating Officer, Business Services BU	2007

János Winkler .....	54	Chief Operating Officer, Consumer Services BU	2006
István Maradi .....	44	Chief Technology and IT Officer	2007

### Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the shareholders for a term of three years. The Works Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members are present.

On December 31, 2008, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Member since</u>
Jutta Burke .....	43	Senior Expert Group Reporting at Group Accounting and Reporting, Deutsche Telekom AG	2007
Attila Csizmadia .....	58	Ministry of Finance, Chief Counsellor	2003
Dr. Ádám Farkas.....	40	Chairman-CEO of Allianz Bank Zrt.	2005
Dr. János Illéssy.....	46	Adjunct Associate Professor at the Business School of Central European University	2006
Dr. Sándor Kerekes.....	60	Deputy Director of Institute of Environmental Sciences Corvinus University Budapest	2006
István Koszorú.....	57	Chairman of Magyar Telekom Plc.'s Central Workers' Council	2007
Konrad Kreuzer .....	60	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Dr. László Pap .....	65	Budapest University of Technology, Professor	1997
Zsoltné Varga .....	39	Business Process Manager of the Customer Care Directorate at Magyar Telekom Plc.	2008
György Varju.....	62	Chairman of the Workers' Council at Technical Services, member of the Central Workers' Council	2005
Péter Vermes .....	61	Advisor at the Chief Human Resources Officer's field of Magyar Telekom Plc.	1995

### Compensation of Directors, Officers and Employees

For the year ended December 31, 2008, the aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 13.1 million.

For the year ended December 31, 2008, the aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 45.8 million.

For the year ended December 31, 2008, the aggregate compensation of the members of the Management Committee ("MC") was HUF 805.7 million.

Half of the Management Committee members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In case an employment contract for an undetermined duration is terminated, the notice period is normally six months, and severance is between 10 and 16 months. Employment contracts with our management

employees contain special provisions providing for entitlements after termination of employment; therefore, the amount of severance is higher than the amount required by the applicable provisions of the Labor Code.

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszervezet, "MATÁSZ"). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the Chief Executive Officer, regardless of their union membership status. Wage terms in the agreement must be renegotiated annually. Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee. Employees are also entitled to welfare benefits.

### **Investigation into certain consultancy contracts**

As previously disclosed, in the course of conducting their audit of Magyar Telekom's 2005 financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. ("PWC") 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 (the "independent investigators"), 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 Foreign Corrupt Practices Act ("FCPA"), or internal Company policy. The Company's Audit Committee also informed the U.S. Department of Justice ("DOJ") and the U.S. Securities and Exchange Commission ("SEC"), and the Hungarian Supervisory Financial 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 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 could warrant 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. In May 2008, the independent investigators provided us with a "Status Report on the Macedonian Phase of the Independent Investigation." In the Status Report, White & Case stated, among other things, that "there is affirmative evidence of illegitimacy in the formation and/or performance" of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between us and/or various of our affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which we and/or our affiliates paid a total of over EUR 6.7 million. The internal investigation is continuing into these and other contracts identified by the independent investigators.

In 2007 the Supreme State Prosecutor of the Republic of Montenegro informed the Board of Directors of Crnogorski Telekom, our Montenegrin subsidiary, of her conclusion that the contracts subject to the internal investigation in Montenegro included no elements of any type of criminal act for which prosecution would be initiated in Montenegro.

Hungarian authorities also commenced their own investigations into the Company's activities in Montenegro. The Hungarian National Bureau of Investigation has informed us that it closed its investigation as of May 20, 2008 without identifying any criminal activity.

United States authorities commenced their own investigations concerning the transactions which are the subject of our internal investigation, to determine whether there have been violations of U.S. law. The Ministry of Interior of the Republic of Macedonia has also issued requests to our Macedonian subsidiaries, requesting information and documents concerning certain of our subsidiaries' procurement and dividend payment activities in that country (together with U.S. investigations, the "Government investigations"). During 2007, the U.S. authorities expanded the scope of their investigations to include an inquiry into our actions taken in connection with the internal investigation and our public disclosures regarding the internal investigation.

According to an extract of a press conference published on the official web site of the Macedonian Ministry of Interior on December 10, 2008, the Organized Crime Department of the Ministry submitted files to the Basic Public Prosecution Office of Organized Crime and Corruption in Macedonia, with a proposal to bring criminal charges against four individuals, including three former Magyar Telekom Group employees. According to that public information, these individuals are alleged to have committed an act of “abuse of office and authorizations” in their position in Makedonski Telekom by concluding five consultancy contracts with Chaptex Holdings Ltd in the period 2005-2006 for which there was allegedly no intention nor need for any services in return.

We cannot predict when the internal investigation or the ongoing Government investigations will be concluded, what the final outcome of those investigations may be, or the impact, if any, they may have on our financial statements or results of operations. Government authorities could seek criminal or civil sanctions, including monetary penalties, against us or our affiliates, as well as additional changes to our business practices and compliance programs.

### **Analysis of results**

*Revenues.* Our sales revenues remained almost at the same level and reached HUF 500,804 million in 2008 compared to HUF 500,099 million in 2007. Higher domestic sales driven mainly by the increased revenues from subscription fees, connection fees and other charges were offset by lower mobile traffic revenues, leased lines and data transmission revenues, other revenues and also by lower export sales revenues.

Other revenues increased by 28.7 percent. Increase was mainly attributable to change in the reversal of severance provision in 2008.

*Expenses.* Material-type expenses slightly decreased by 1.4 percent primarily due to the decrease in costs of services sold reflecting lower payments to mobile operators in 2008.

Payroll and related expenses decreased by 6.0 percent. The main driver of the decrease is lower amounts of severance expenses in relation to the headcount reduction in 2008.

Depreciation and amortization decreased by 9.9 percent. Lower amount of depreciation is mainly due to change in the useful life of certain group of assets in 2008.

Other expenses decreased by 16.6 percent as HUF 4,603 million provisions were recognized for early retirement exemption salaries, severance and related social security in 2008 compared to HUF 13,942 million in 2007.

*Financial results.* Financial results increased from HUF -22,680 million in 2007 to HUF 12,025 million in 2008. The increase mainly resulted from higher dividend received from affiliated companies.

## Overview of Magyar Telekom Plc.'s Services

### Voice Retail Services

#### Subscribers

The following table sets forth information regarding total fixed access lines of Magyar Telekom Plc.:

	At December 31,		
	2006	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>
Number of fixed lines			
Residential lines .....	1,840,601	1,778,444	1,594,974
Business lines .....	229,824	223,054	210,556
Public payphones .....	20,082	19,458	16,279
Total .....	2,090,507	2,020,956	1,821,809
ISDN channels .....	480,374	470,746	454,218
Total .....	2,570,881	2,491,702	2,276,027

(1) From October 1, 2007 Emitel merged with Magyar Telekom Plc. Figures for December 31, 2007 and 2008 include Emitel's subscriber data.

Due to fierce competition and mobile substitution, the number of our lines decreased from 2,491,702 as of December 31, 2007 to 2,276,027 as of December 31, 2008.

#### Products and Services

*Local, Domestic and International Long Distance Telephone Services.* We provide local, domestic and international long distance telephone services to our fixed line subscribers and to fixed line subscribers in other Local Telecommunications Operator ("LTO") areas. Until December 31, 2007, Magyar Telekom Plc. had individual arrangements with international telecommunications operators. Since January 1, 2008, Magyar Telekom Plc. sends and receives all its international voice and switched transit traffic to and from DT. The agreement with DT guarantees international telephone services revenues and profits for Magyar Telekom Plc. and allows cost reductions due to this synergy with the parent company.

*Digifon Services.* Our network is 100 percent digitalized, which enables us to provide value added services in our entire service area. We provide a number of value added services, such as call forwarding, call waiting, call conference and caller number identity to a significant number of our fixed line subscribers. These services help increase fixed line usage as they make busy signals and unanswered calls less common. We also offer bundled tariff packages of digifon services, as well as bundled services in our ADSL package.

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

*Private Branch Exchange ("PBX") Services.* We offer virtual PBX services via VoIP to develop internal voice and data integrated business network for the small and medium business segment.

*Directory Assistance.* We offer directory inquiry services. The domestic directory assistance database includes all fixed line and postpaid mobile subscribers' data in Hungary. We offer a call completion option to subscribers, whereby calls may be connected automatically. We also offer the increasingly popular Directory Assistance-Plus ("DA-Plus") service. DA-Plus offers a wide range of information including Yellow Pages, residential classified advertisements, encyclopedia- and dictionary-based information, recipes, poems, as well as

telephone numbers, postal, e-mail and website addresses without any quantity restrictions. The requested information may be provided verbally, by SMS, by e-mail or by fax. The fees for the service are based on per minute usage. We also offer a call completion option to the subscribers of DA-Plus.

### ***Wholesale voice services***

Through its wholesale services business Magyar Telekom Plc. provides products and services to other domestic and international carriers and service providers.

*Domestic services.* Domestic wholesale services consist of regulated and commercial products. Regulated domestic services primarily consist of call origination and termination service of any other switched voice traffic. In addition to these traffic type services, the Company offers carrier pre-selection service to other domestic service providers. The terms of these regulated services are based on Reference Interconnection Offer, accepted by National Communications Authority (“NCA”). The NCA mandated price reductions on interconnection prices from April 26, 2008. Since May 2005, Magyar Telekom Plc. has not been designated as an operator with Significant Market Power (“SMP”) in the transit market. In order to provide domestic transit services, Magyar Telekom Plc. concludes commercial contracts with other service providers.

*International services.* We have two state-of-the-art international gateways as well as fiber optic cable connections. These fiber optic cable connections use synchronous digital hierarchy transmission facilities and we have launched our own Dense Wavelength-Division Multiplexing (“DWDM”) backbone network.

To seize the opportunities presented by the liberalization of the telecommunications market in Romania, we established interconnection arrangements with major Romanian network service providers to offer transit services to Western Europe.

Due to an agreement with DT, Magyar Telekom Plc. stopped buying and selling international voice services from and to other foreign carriers as of January 1, 2008. From that time DT became the sole international voice partner (with limited exceptions). The agreement guarantees the earlier planned relevant revenues and profits for Magyar Telekom Plc. and allows cost reductions due to this synergy with the mother company.

### ***Internet Services***

We offer Internet services based on dial-up, ADSL technology as well as access through cable television, Wireless Local Area Network (“WLAN”) and leased lines to provide residential and business customers with narrowband or broadband Internet services at affordable prices.

We increased our subscriber base to 548,738 by December 31, 2008 from 505,725 a year earlier, including dial-up and broadband customers. Our broadband (ADSL, cable television, WLAN and leased line) customers reached 539,027 as of December 31, 2008 compared to 489,368 a year earlier.

We are committed to accelerating Internet penetration growth and have invested a significant amount of resources to develop attractive and innovative content, such as T-Home TV.

ADSL is a continuous, high-speed Internet access service based on the Asymmetric DSL technology. The service offers cost-efficient broadband Internet access over existing copper wires. We provide these services on a retail basis to our customers and on a wholesale basis to ISPs. In addition, we offer Naked ADSL, an ADSL service over existing copper wires without a telephony service. The number of ADSL connections increased from 613,051 at December 31, 2007 to 633,459 at December 31, 2008.

*T-Home portfolio.* In September 2008, we introduced our new T-Home brand, including Internet services. T-Home provides Internet services through ADSL service on PSTN lines (DSL Classic) or on naked ADSL (DSL Solo) as well as on cable television.

*TV.* From September 2008, T-Home offers TV services on two different TV platforms: on cable (T-Home analogue and digital Cable TV) and on IP (“IPTV”). The price of the TV service depends on the number of channels (package type) and the number of T-Home services subscribed by the customer (Double or Triple discount).

*IPTV.* IPTV service was introduced in 2006. IPTV allows broadcasts to be seen on a television set with a set-top-box over ADSL connection. The product line offers various interactive contents, such as time-shift function, electronic program guide (“EPG”) on screen, recording onto the hard disc built in the set-top-box, web EPG service, video on demand service and picture-in-picture. In 2008, we continued to increase the coverage of this service. The total customer base of IPTV reached 28,496 as of December 31, 2008.

### ***Data Transmission and Related Services***

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

We lease lines to other local telephone operators and mobile service providers, who use such lines as part of their networks. We also lease lines to providers of data services. In addition, we lease lines to multi-site business customers who use leased lines to transmit internal voice and data traffic.

We offer a broad variety of standard analog and digital lines for lease, including two-wire and four-wire analog lines and digital lines with capacities from 64 Kbit/s to 155 Mbit/s. We also offer high capacity customized digital lines to other telecommunications providers.

Data transmission and related services consist primarily of data transmission and network services for business customers, such as financial institutions and insurance companies, and, to a lesser extent, residential customers. The market for data transmission and related services in Hungary is highly competitive. We are the leading supplier of data transmission and related services in Hungary.

Our revenues from data transmission have slightly grown as a result of both the development of the Hungarian economy and our increasingly sophisticated services. We expect the market for these services to grow with the proliferation of personal computers and increasing consumer demand. We believe that the ability to offer new data products and services will be critical to competing effectively in the future, particularly with respect to business customers.

### ***System Integration and Information Technology***

We achieved significant increases in the sales of complex Information and Communications Technology (“ICT”) solutions, outsourcing and managed services. In cooperation with business partners, we also sell the products and services of our subsidiaries and external market partners (e.g., Cisco) to our customers.

Based on our outsourcing project experiences gained among strategic accounts, we started providing Managed Services (“Custom MenX”) for medium size enterprises, and concluded long term contracts in this segment. We also extended the range of Managed Services. In addition to Managed Voice, Managed LAN and Managed Security in 2006, we also added Managed Desktop and Managed Print to the portfolio in 2007. In line with our strategic goals set in 2007, we significantly increased the number of managed service contracts in 2008. We concluded the first contracts for Managed Desktop and Server Hosting services.

In 2008, we started the development of managed services also for Small and Medium Business customers. We created a standard integrated managed service package called Compleo, which includes symmetric Internet

with VoIP channels, Managed LAN, Managed IP PBX and IP phones as well as Security (Fire Wall).

In addition, we experienced high customer demand in the sales of IP telephony, complex solutions, flat rate tariff packages and bandwidth expansion. The project sales of security systems and the sales of IT solutions also showed a significant increase. The most important project in this field related to the Electronic Government Backbone Network (“EKG”).

### ***Fixed Line Telecommunications Equipment Sales***

We distribute an extensive range of telecommunications equipment, from individual telephone sets to facsimile terminals, PBXs and complete network systems, through a network of customer service centers. In addition to stand-alone telephone set sales, we offer various packages combining telephone sets with telephone lines and tariff packages.

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

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

### ***Revenues from other services***

Other revenues include construction, maintenance, rental, customer care services, telephone book publishing and other miscellaneous revenues.

### ***Mobile Telecommunications Services***

As of December 31, 2008, we accounted for an estimated 43.9 percent of the total Hungarian mobile market in terms of subscribers based on the number of active Subscriber Identity Module (“SIM”) cards and 44.2 percent in terms of total number of active SIM cards generated traffic in the previous three months. The penetration rate of mobile telephone services in Hungary increased from 109.7 percent at December 31, 2007 to 121.8 percent at December 31, 2008.

We were the first mobile operator to launch HSDPA service in Hungary in 2006. We offer 14.4 Mbit/s HSDPA for fast downloads, and HSUPA for fast uploads. In 2008, the penetration of this service has significantly grown and all three Hungarian mobile operators extended their data tariff portfolios, while the prices have fallen. We managed to keep our market leader position in the consumer mobile Internet market.



## Subscribers

The table below summarizes key operational information at the dates indicated:

	<b>At December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Number of subscribers			
Postpaid subscribers .....	1,545,115	1,793,620	2,066,495
Prepaid subscribers .....	2,886,021	3,059,872	3,295,297
Total subscribers .....	<u>4,431,136</u>	<u>4,853,492</u>	<u>5,361,792</u>
 Average monthly Minutes of Use (“MOU”) per subscriber ..	 142	 149	 152
 Churn ratio (%)			
Postpaid subscribers .....	9.9	10.0	9.9
Prepaid subscribers .....	21.9	21.1	18.8
Total subscribers .....	17.9	17.1	15.4
 Average monthly Revenue per User in HUF			
Postpaid subscribers .....	9,849	8,635	7,720
Prepaid subscribers .....	2,300	2,205	1,890
Total subscribers .....	4,800	4,542	4,087
 Mobile penetration in Hungary (%) .....	 99.0	 109.7	 121.8
 Market share (%) .....	 44.5	 44.0	 43.9

The Hungarian mobile market is reaching a saturation level with a penetration rate of 121.8 percent by end of 2008. The increase in the number of our mobile subscribers since December 31, 2006 is attributable to a number of factors, including the expansion of mobile broadband services and the success of community offers. Total growth rate in 2008 exceeded previous year’s average due to the significant increase of inactive subscribers (i.e., subscribers who did not generate traffic in the last three months) at Pannon included in their subscriber base.

## Research and development

Research and development (“R&D”) activities within Magyar Telekom Plc. are coordinated through the body established by the ABCD Business Unit. This body, called the R&D Committee (the “Committee”), ensures that R&D activities originated and conducted within the organizational umbrella of Magyar Telekom Plc. are performed in accordance with the goals of the Company, without undue overlapping of scopes and with appropriate funding. To this end, the Committee convenes regularly in order to discuss and decide about the approval of individual R&D proposals, initiated and executed within a project framework by the respective Business Units. During 2008, the Committee reviewed 107 proposals, out of which 67 have been approved, accounting for a total investment of HUF 640 million.

We are a founder member of the Mobility & Multimedia Cluster, a group of Hungarian companies, many of them being local subsidiaries of well-known multinational companies and universities. The aim of the cluster is to integrate the fragmented R&D capabilities of Hungarian companies into a more synergistic structure ultimately aiming at enhancing the global competitiveness of the Hungarian economy.

## **Real estate**

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

The number of sites used by Magyar Telekom Plc. is approximately 2,400, out of which approximately 22 percent are owned by the Company, 39 percent is jointly owned and 36 percent is leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have approximately 3,000 base stations, of which 10 percent is owned by Magyar Telekom Plc. and 90 percent is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2008 was approximately 675,000 m<sup>2</sup>. The majority of sites used in our operations are smaller than 100 m<sup>2</sup>. Approximately 40 percent of the total area is used to house telecommunications equipment and other technical devices. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of 34,000 m<sup>2</sup>.

In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties. In 2008, Magyar Telekom Plc. sold 14 properties with a total area of 14,000 m<sup>2</sup>.

## **Environment protection**

The Management Committee of Magyar Telekom Plc. adopted the Sustainability Strategy of the Company in January 2005 to strengthen its commitment to sustainable development.

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

## **Corporate governance declaration**

Corporate governance principles for Hungarian stock corporations are set forth in the Companies Act. The Companies Act, along with other related laws and regulations, describes and summarizes the basic mandatory statutory corporate governance principles applicable for stock corporations in Hungary.

In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the "Recommendations") containing suggestions related to corporate governance for companies listed in the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market. The Recommendations were updated in 2007 and 2008.

Based on the two above regulations, the Board of Directors of Magyar Telekom pre-approved the Corporate Governance Report of the Company and submitted it to the Annual General Meeting. The report – along with other corporate governance related documents - is posted on the Corporate Governance section of our website: ([http://www.telekom.hu/investor\\_relations/corporate\\_governance/corporate\\_governance\\_documents](http://www.telekom.hu/investor_relations/corporate_governance/corporate_governance_documents)).

In addition to the above regulation, we employ other corporate governance practices. Point 6 of the above report includes a description of our internal controls and risk management procedures, while point 8 of the report includes our disclosure policies and insider trading guidelines.

The Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations included in the above report describes how we meet the requirements of the regulatory obligations.

Points 1, 2, 3 and 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management.

Pursuant to Section 6.2 (g) of our Articles of Association, the members of the Board of Directors and the Supervisory Board are elected at the Annual General Meeting of the shareholders for a term of three years.

The General Meeting of the shareholders has the sole right to approve and amend the Articles of Association (section 6.2. (a)) unless otherwise provided by law.

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4.1. of our Articles of Association and in the Rules of Procedure of the Board of Directors, which are also posted on the Corporate Governance section of our website. The detailed rules regarding the capital increase and purchase of treasury shares are detailed in 7.4.1 (l) and (m) of our Articles of Association.

## **Financial risk management**

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

The fundamentals of Magyar Telekom Plc.'s financing strategy are established each year by the Board of Directors. The Company's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfilment annually. The Group 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.

The detailed descriptions of risks, the management thereof is provided below.

### **1. Market risk**

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

Magyar Telekom Plc. is exposed to interest and foreign exchange rate risk associated with its interest bearing assets and liabilities and anticipated transactions. As the vast majority of the revenues and expenses arise in HUF, the functional currency of Magyar Telekom Plc. is HUF. Consequently, Magyar Telekom Plc.'s objective is to minimize the level of its financial risk in HUF terms.

#### **(a) Foreign currency risk**

Due to the free-float of the HUF introduced in 2008 the Company is exposed to foreign exchange ("FX") risk in case of FX denominated financial instruments to a higher degree. In order to mitigate this risk, Magyar Telekom Plc. has minimized its foreign currency borrowings.

The FX exposure of Magyar Telekom Plc. is mostly related to operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

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

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 payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. FX rate fluctuations therefore have no significant effect on profit or loss, or equity.

#### **(b) Interest rate risk**

Magyar Telekom Plc. is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing HUF interest rates affect the fair value of the fixed rate instruments and also affect the cashflows through the variable rate instruments. As the vast majority of debt portfolio is denominated in HUF, the Company is exposed almost exclusively to HUF interest rate fluctuations for its financial liabilities. To control interest rate risk, a combination of fixed and floating rate debt is used within the HUF portfolio.

#### **(c) Other price risk**

As of December 31, 2008, Magyar Telekom Plc. did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

### **2. Liquidity risk**

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

Prudent liquidity risk management implies maintaining sufficient Cash 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. In addition to the above, DT confirmed its readiness to finance Magyar Telekom Plc.'s budgeted financing needs until the end of June 2010. Despite the fact that this has not been formalized in a contract, it can be considered as a "quasi shelf facility".

### **3. Capital risk management**

The Company's objectives when managing capital are to safeguard its 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 Company. This can be effectuated by adjusting the amount of dividends paid to shareholders, returning capital to shareholders by capital reductions, selling or buying back own shares. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as Net debt divided by Equity (including Minority interest) and Net debt.

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 far in compliance with this regulation.

## **Risk management policies**

It is our policy that all disclosures made by us to our security holders and the investment community be accurate and complete, and fairly presents our financial condition and results of operations in all material respects. Such disclosures should be made on a timely basis as required by applicable laws, rules and regulations, including by-laws of the Budapest Stock Exchange and rules adopted by the U.S. Securities and Exchange Commission (“SEC”). To achieve these objectives, we formed the Disclosure Committee and developed and have continuously enhanced our risk management policies.

Our risk management includes identification, assessment and evaluation of risks, development of necessary action plans, and monitoring of performance and results. For risk management to be effective, we must ensure that management take business decisions with full understanding of all relevant risks.

In 1999, we established a formal risk management system. This system was integrated into the risk management system of DT in 2002.

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and internal regulation on risk management were published in 2003. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly. All of our business units, divisions and entities are obliged to identify and report their strategic, operational, compliance and reporting risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the Board of Directors, to the Audit Committee, to the Disclosure Committee and to DT.

Following the enactment of the Sarbanes-Oxley Act in the United States in 2002, we decided to enhance our risk management procedures. As this law requires prompt disclosure of all risk items influencing investors’ decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is monitored by the risk management area, and the Chief Financial Officer (“CFO”) is notified when a new material risk or information is identified.

A CEO directive has been issued to define responsibilities of each employee in risk monitoring and management. In addition, an e-learning course was introduced to train our employees on requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures. Completion of this course has been made compulsory for all of our employees.

We established the Disclosure Committee on July 31, 2003. The Disclosure Committee acts both in plenary meetings and through its members acting individually. It supports CEO and CFO in fulfilling their responsibility to oversee processes designed to ensure accuracy and timeliness of our disclosures.

## **Risk factors**

Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities.

- Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition due to the liberalization of the telecommunications sector;
- Our ability to sustain revenue growth will depend in part on our ability to increase traffic and offer value added and data services to our customers and our ability to acquire telecommunications companies;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets;
- We depend on a limited number of suppliers for equipment and maintenance services;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. The results of those procedures may have a material adverse effect on our results of operations and financial condition.

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

Our business depends on general economic conditions in Hungary and abroad. There are many factors, which are outside of our control that influence global and regional economies. A cautious or negative business outlook may cause our customers to delay or cancel investment in information technology and telecommunications systems and services, which would adversely affect our revenues directly and, in turn, slow the development of new services and applications that could become future revenue sources.

We are closely monitoring the impact of the recent volatility in the global credit and equity markets and its effects on the financial position and performance of the Company. The fiscal policy restrictions aimed at reducing Hungary's reliance on external financing have substantially increased the risk of an outright recession; in line with this, analysts have significantly scaled back their Gross Domestic Product ("GDP") growth expectations for 2009. We therefore expect further pressure on the demand for telecommunications services both in the fixed and mobile segment through lower household disposable income as well as fewer orders from business customers and the public section. As a consequence of the declining demand we assume a higher churn rate in voice and broadband services than expected. Furthermore we predict an increase in bad debt ratio both in residential and corporate customer segment. Due to the fiscal policy restrictions we expect cost cuttings in government segment, which could influence our revenues through (i) postponing government

developments/projects and (ii) decreasing telecommunications spending. Recent difficulties in the tourism sector might have a negative impact on roaming revenues of our mobile operation. We also estimate a drop in advertisement revenues of our online business.

We may also experience higher financing costs in the future. On the other hand, our financial position is strong thanks to the Company's solid cashflow and strong balance sheet. The majority of our loans have a fixed interest rate and the average maturity of the loans is around three years. Although we do not have substantial facility expiring until the fourth quarter of 2009, we have access to DT's financial pool which further decreases Magyar Telekom Plc.'s refinancing risk. This not only reduces Magyar Telekom Plc.'s exposure to the current financial crisis, but also allows us to exploit the opportunities that may arise from this situation, in particular lower asset prices in respect of potential acquisition targets.

At this stage it is quite uncertain for how long this volatility will last and what its overall effects will be on our results of operations and financial conditions.

## **Human policy**

In alignment with Magyar Telekom Plc.'s strategy for 2008-2010 the HR area has also updated its strategic objectives.

The strategy published in the spirit of "Let us shape future together" contains the following objectives for 2008-2010, in line with DT's HR strategic focuses:

- Implementing the HR concept, the HR area contributes significantly to the achievement of the Company level financial targets, through the optimization of personnel expenditure.
- We shall bring about a performance based company culture, for which we shall improve our performance management system.
- In jobs of a key importance for the management and the company we intend to ensure succession primarily from internal sources, which will be supported by the career management system to be implemented.
- We shall place management development on a new foundation with its focus being the training content and structure in the service of business effectiveness.
- We intend to turn Magyar Telekom Plc. into a more attractive place of work, for which we have restructured our trainee program.
- We shall use an updated measurement system to measure HR's contribution to company targets.

Out of the nine core elements of SA8000 (Social Accountability) standard, our human resources strategy highlights the one dealing with the absence of discrimination. As far as other core elements are concerned, our company's practice is adapted to Hungarian legislative norms (among others the Constitution of the Hungarian Republic, provisions set out in the Labour Code, as well as the Universal Declaration of Human Rights). The principles of justice and equal opportunities are set out in the basic standards articulated in our Code of Ethics published in 1997, which complies with the S-OX (Sarbanes-Oxley) act. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the practical implementation of equal opportunities.

Magyar Telekom Plc. continuously cooperates with trade unions and the Workers Council to represent employees' interests: wage and compensation elements are reviewed once a year and their upward correction is set out in a contract along with headcount efficiency measures.

The Company's wage tariff system regulated by way of the Collective Agreement complies with Article 23 of the Universal Declaration of Human Rights, which says: „Everybody is entitled to equal wage for equal work without any kind of discrimination.”

Magyar Telekom Plc.'s welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature, the basis of which is the employees' collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

Both in its selection processes and during the career of its employees at the company, Magyar Telekom Plc. is committed to ensure for its employees equal opportunities independently from age, gender, ethnicity, religious or political conviction, and sexual orientation. In hiring labour a special attention is paid to granting possibilities to its own employees in the first place, through either horizontal or vertical advancement: this is the FreeJob system (a data base of vacant positions accessible only to Magyar Telekom Plc. employees) accompanied by a regulation—for 30 days being reserved for an exclusively internal search. The company operates an Induction Program to effectively help the accommodation of colleagues selected for the position.

Both management succession and development of professionals are key aims in the area of advancement and talent management, for which Magyar Telekom Plc. operates several, target-specific talent management programs.

Magyar Telekom Plc. pays special attention to the high level of the employees' occupational safety and provides them the conditions of safe work and a working environment, which does not harm health.

Magyar Telekom Plc. puts a major emphasis on taking care of departing employees: several solutions have been developed to provide for benevolent outplacement and to reduce the number of one-sided terminations. Using the wealth of alternative forms of employment is accompanied by an outplacement system called Chance program to help departing employees find a new employment. The program provides training and helps departing employees' reintegration in the labour market.

## **Outlook**

The telecommunications industry is undergoing a major change globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. Key drivers of the long-term trends include changes in technology (i.e., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (i.e., mobility and ease of use, triple-play solutions), competition and regulation (i.e., low barriers to entry, new business models).

Magyar Telekom Plc.'s current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless the behavior of our competitors can hardly be predicted completely. Therefore a stronger than assumed impact of alternative operators, new market entrants and new solutions in any country where Magyar Telekom Plc. is present could result in a negative impact on our business performance.

We should emphasize that each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. The financial turmoil that started from the United States real estate markets but since then it swept across the world financial system, negatively hit the Hungarian economy. The financing of the budget deficit was in jeopardy because loan resources are dried up. The government successfully applied for emergency help to international financial institutions, International Monetary Fund (“IMF”) and European Central Bank (“ECB”). With the provided loan frame of USD 25 billion the economy could avoid the crisis.

Despite the restrictive government measures and negative business environment we expect that our core business units will be able to continue to generate strong cashflows and can keep up the dividend policy.



We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, changes in competition, and changes in the foreign exchange rates.

### ***Revenues***

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

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from VoIP or VoCATV providers. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from the traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Fixed line interconnection tariffs are expected to be reduced gradually further in 2009 and in the years after, having additional negative impact on our fixed line revenue streams.

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

We aim to move towards content and media businesses to support traditional access services and build new revenue streams and exploit new revenue sources. We are combining our product portfolio in order to provide all services for every customer demand on every platform (three-screen approach), where all customer screens (computer, mobile, TV) are provided by the Company.

To maintain sustainable competitiveness in the corporate sector, we have committed to further developing our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing through consultant services to corporate customers. Expanding our business operation to these new areas with lower profitability results in a dilutive effect on the profitability.

In the mobile operations, market penetration in Hungary is now saturated, and we expect lower growth rates due to a smaller number of potential new subscribers. This trend is partly offset by the migration of prepaid customers to postpaid packages and the future growth potential of value-added and data services, which is supported by the continuing roll-out of UMTS and HSDPA services.

In December 2008, the NCA enforced the regulation for mobile termination fee decrease within the networks of all three Hungarian mobile operators in three steps, starting from January 2009 until December 2010, by approximately 40 percent compared to current rates.

### ***Expenses***

In line with our strategy, we plan to improve our internal operational efficiency in all business segments. The new agreement with the Trade Unions gives way to further headcount reduction by approximately 300 employees at Magyar Telekom Plc. by the end of 2009. In order to focus more on the total labor cost and not solely on headcount number and employee-related expenses, we introduced a Total Workforce Management system from the beginning of 2009. The system enables us to increase the flexibility and efficiency with which all human resource-related expenses are managed, including contracted or rented employees as well as outsourcing and entrepreneurial contracts.

Though decreasing termination fees result in lower interconnection revenues, this effect is partially offset by decreasing outpayment costs.

In line with world market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices, high above the inflation level. We expect energy prices will remain high in 2009, impacting us negatively.

### ***Total investments in tangible and intangible assets***

The Company renewed its mobile concession contract for use of the 900 MHz frequency band that had 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 in 2007, Magyar Telekom Plc. agreed with the Government to spend at least HUF 20 billion in 2008 and 2009 on further increasing mobile broadband coverage in Hungary.

We expect an increasing proportion of total additions will relate to the fiber network project and other high-growth areas in the fixed line segment, such as Internet, broadband and data transmissions, while our mobile segment will continue the roll-out of the UMTS and HSDPA infrastructure.

### **Events after the balance sheet date**

#### ***Depreciation of the HUF after the balance sheet date***

As a further stage of the global credit crunch, the HUF weakened to unprecedented low levels (together with the peer countries in the region) and temporarily the HUF-EUR exchange rate was as high as 309.00. The HUF-EUR exchange rate at December 31, 2008 was 264.78, i.e. there was a period of time between the balance sheet date and the approval of these financials when the HUF was approximately 17% weaker than at year end.

#### ***Acquisitions after the balance sheet date***

Magyar Telekom signed a share purchase agreement to acquire 100% of KFKI Direkt Kft. on February 9, 2009. The purchase price is 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. Based on the preliminary financial statements, the company achieved nearly 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. With this acquisition Magyar Telekom aims to further strengthen its position in the IT service market. The closing of the transaction, which is anticipated to be in the second quarter of 2009, is subject to Competition Authority approval.

Budapest, February 24, 2009.



Christopher Mattheisen  
Chairman and Chief Executive Officer



Thilo Kusch  
Chief Financial Officer