Seizing future's prospects

Magyar Telekom annual report 2008

Life is for sharing.

Magyar Telekom's business units and brand structure

Life is for sharing.

Group Headquarters and Shared Services

Consumer Services

Business Services

Alternative Businesses and Corporate Development

T-Home

T-Mobile

T-Systems

We are building a new Magyar Telekom.
We have repositioned Magyar Telekom as the market's only "double triple-play" service provider, which offers television, Internet and telephone services on wireline and wireless networks alike, at home and on the move, for all customer segments.
As the first genuine "three-screen" company we are present on life's three important screens: the television sets, the computers and the mobile phones.

ISO 9001:2000 SGS

ISO 14001:2004 SGS

ISO/IEC 27001 SGS

Magyar Telekom Group: financial highlights

	2007 (HUF million)	2008 (HUF million)	Change (%)
Total revenues	676,661	673,056	(0.5)
EBITDA*	243,907	268,378	10.0
Operating profit	128,312	162,258	26.5
Net income	60,155	93,008	54.6
Number of employees (closing)	11,723	10,439	(11.0)
Weighted average number of common stock outstanding (million)	1,041	1,041	0.0
Basic earnings per share (HUF)	57.8	89.3	54.5
Total assets	1,135,578	1,168,856	2.9
Long term financial liabilities	309,470	266,007	(14.0)
Total shareholders' equity	514,998	537,263	4.3
Net debt / net debt + total capital	31.0%	29.7%	n.a.
Purchase of property plant and equipment (PPE) and intangible assets	103,097	116,039	12.6
EBITDA margin	36.0%	39.9%	n.a.
Operating margin	19.0%	24.1%	n.a.
Net income margin	8.9%	13.8%	n.a.
CAPEX to Sales	15.3%	16.0%	n.a.
ROA	5.3%	8.1%	n.a.
ROE	11.6%	17.7%	n.a.
HUF/EUR (year-end)	253.35	264.78	4.5
HUF/EUR (average)	251.31	251.25	0.0
HUF/USD (year-end)	172.61	187.91	8.9
HUF/USD (average)	183.83	171.80	(6.5)

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

Key Shareholders as of December 31, 2008

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

Magyar Telekom Group: summary of operating statistics

T-Home segment	December 31, 2007	December 31, 2008	Change (%)
Hungarian fixed line operations			
Fixed line penetration	28.8%	26.9%	n.a.
Number of closing lines			
Residential	1,778,444	1,594,974	(10.3)
Business	162,795	150,734	(7.4)
Payphone	19,458	16,279	(16.3)
ISDN channels	303,998	285,660	(6.0)
Total lines	2,264,695	2,047,647	(9.6)
Data products			
ADSL connections	613,051	633,459	3.3
Number of Internet subscribers			
Dial-up	16,357	9,711	(40.6)
Leased line	652	617	(5.4)
DSL	398,265	430,433	8.1
W-LAN	598	208	(65.2)
Cable broadband	89,853	107,769	19.9
Total retail Internet subscribers	505,725	548,738	8.5
Total broadband Internet access	716,714	761,967	6.3
Market share in the DSL broadband market (estimated)	82%	79%	n.a.
Market share in the dial-up market (estimated)	33%	32%	n.a.
Cable television customers	418,517	422,936	1.1
IPTV customers	9,225	28,496	208.9
Macedonian fixed line operations			
Macedonian fixed line penetration	22.4%	20.9%	n.a.
Number of closing lines			
Residential	404,925	371,285	(8.3)
Business	40,954	40,344	(1.5)
Payphone	2,015	1,692	(16.0)
ISDN channels	44,482	44,694	0.5
Total Macedonian lines	492,376	458,015	(7.0)
Data products (Macedonia)			
ADSL connections	48,214	98,866	105.1
Number of Internet subscribers			
Dial-up[1]	18,459	5,910	(68.0)
Leased line	149	129	(13.4)
DSL	48,214	98,866	105.1
Total Internet subscribers	66,822	104,905	57.0
Market share in the DSL broadband market (estimated)	58%	59%	n.a.
Market share in the dial-up market (estimated)	93%	96%	n.a.
Montenegrin fixed line operations			
Montenegrin fixed line penetration	30.6%	28.0%	n.a.
Number of closing lines			
PSTN lines	168,062	164,394	(2.2)
ISDN channels	21,906	22,416	2.3
Total Montenegrin lines	189,968	186,810	(1.7)
Data products (Montenegro)			
ADSL connections	16,106	38,956	141.9
Number of Internet subscribers			
Dial-up	28,401	17,455	(38.5)
Leased line	146	188	28.8
DSL	16,106	38,956	141.9
Total Internet subscribers	44,653	56,599	26.8
Market share in the dial-up market (estimated)	98%	98%	n.a.
IPTV customers	2,397	17,531	631.4

T-Mobile segment	December 31, 2007	December 31, 2008	Change (%)
Hungarian mobile operations			
Mobile penetration	109.7%	121.8%	n.a.
Market share of T-Mobile Hungary	44.0%	43.9%	n.a.
Number of customers (RPC)	4,853,492	5,361 792	10.5
Postpaid share in the RPC base	37.0%	38.5%	n.a.
MOU (Minutes of Usage per User/Month)	149	152	2.0
ARPU (Average Traffic Revenue per User/Month, HUF)	4,542	4,087	(10.0)
Postpaid ARPU (HUF)	8,635	7,720	(10.6)
Prepaid ARPU (HUF)	2,205	1,890	(14.3)
Enhanced services within ARPU (HUF)	679	702	3.4
Average acquisition cost (SAC) per customer (HUF)	6,554	7,376	12.5
Macedonian mobile operations			
Macedonian mobile penetration	93.3%	110.5%	n.a.
Market share of T-Mobile Macedonia	62.3%	59.4%	n.a.
Number of customers (RPC)	1,212,539	1,379,191	13.7
Postpaid share in the RPC base	23.2%	26.2%	n.a.
MOU	90	96	6.7
ARPU (HUF)	3,054	2,586	(15.3)
Montenegrin mobile operations			
Montenegrin mobile penetration[2]	168.7%	185.6%	n.a.
Market share of T-Mobile Crna Gora[2]	33.8%	36.1%	n.a.
Number of customers (RPC)	408,941	506,519	23.9
Postpaid share in the RPC base	18.0%	17.6%	n.a.
MOU	120	105	(12.5)
ARPU (HUF)	3,252	2,886	(11.3)

T-Systems segment	December 31, 2007	December 31, 2008	Change (%)
Number of closing lines			
Business	60,259	59,822	(0.7)
Managed leased lines (Flex-Com connections)	7,710	6,037	(21.7)
ISDN channels	166,748	168,558	1.1
Total lines	234,717	234,417	(0.1)

[1] Dial-up Internet subscriber figures were reported according to the number of accounts in previous periods. One user may have several accounts (that can be inactive for longer time). In order to avoid the misleading picture of the Internet market, we now report the number of users. Previously published subscriber figures have been restated.

[2] Data published by the Montenegrin Telecommunications Agency based on the total number of active SIM cards in the previous three months.

Magyar Telekom Group: international presence

Incumbent service providers
Alternative service providers
* Point of presence

Our Mission

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

Magyar Telekom (www.telekom.hu) is the principal provider of telecom services in Hungary. It provides a broad range of fixed line services including telephony, data transmission, value added, systems integration and IT services, and it is Hungary's largest mobile carrier and leading Internet service provider.

Magyar Telekom is the majority owner of Makedonski Telekom, Macedonia's leading fixed line operator and its subsidiary T-Mobile Macedonia, the country's leading mobile operator. Magyar Telekom also has a majority stake in Crnogorski Telekom, Montenegro's largest telecom operator which provides fixed line, mobile and Internet services.

Magyar Telekom was incorporated in 1991 (under the name Matáv) and privatized in 1993. Magyar Telekom shares were introduced to national and international stock exchange dealing both in Budapest and New York in 1997. Magyar Telekom's majority shareholder (59.21%) is MagyarCom Holding GmbH, fully owned by Deutsche Telekom AG.

From March 1, 2006 Magyar Telekom's registered company name is Magyar Telekom Telecommunications Public Limited Company, the abbreviated name is Magyar Telekom Plc.

Awards and recognition

February 2008 Magyar Telekom won Deutsche Telekom Group's data security award for the second time, after it was rated first in the annual data security survey of the 35 Deutsche Telekom Group companies.

March 2008 Magyar Telekom received a special recognition in the Hungarian Innovation Foundation competition for the elaboration of the GSA software system, which generates alert signals in case of wireless network failures.

April 2008 Magyar Telekom won first place in the contest of Corporate diversity and equal opportunity programs, organized by the Metropolitan Equal Opportunity and Methodology Office.

April 2008 Magyar Telekom Group company KFKI won Cisco Systems' international "Service Partner of the Year" award in the Central and Eastern European region.

April 2008 The survey conducted by Conscious Buyer Company Gauge online consumer portal site, created by the Association of Conscious Buyers, which rates companies according to their ethical and environmental performance, gave the first place to T-Mobile and Domino in the mobile services category.

May 2008 Similarly to the past years, T-Mobile was again rated as the most reliable mobile operator in Hungary in the European Reliable Brands survey conducted by Readers' Digest.

June 2008 The Mobile Scratch Card (a scratch card designed for the mobile phone), a product developed by Magyar Telekom Group company M Factory, was given a Silver Award at the Mobile Content Awards competition in London as the first prize-winner from the Central and Eastern European region.

August 2008 The achievement of György Simó, Chief Officer of Magyar Telekom, was recognized with the Order of Merit of the Republic of Hungary, Knight's Cross.

September 2008 The TTS (TroubleShooting System) developed for and implemented by Magyar Telekom for the support of the fault repair processes of the next generation services, was given an IT Business Leadership Award.

October 2008 Animata, a software enabling real time animation developed by Kitchen Budapest (KIBU), Magyar Telekom's innovation laboratory, was given the Software of the Year award at the Pixelache electronic art festival in Helsinki.

October 2008 As the first in Hungary, Magyar Telekom's sustainability report won the highest, A+ rating, which means full compliance with the international reporting principles. The report also won second place of the "Green Frog" awards granted to the best reports in the region.

October 2008 In recognition of its innovative activity, Magyar Telekom won the special prize of the Hungarian Venture Capital Association, which represents the venture capital industry.

October 2008 Magyar Telekom won the first place for the third time in sequence in the Accountability Rating Hungary survey, which assessed the management of the social, economic and environmental challenges by the Hungarian companies.

November 2008 Magyar Telekom's [origo] portal was rated Best Quality Mass Medium in a comprehensive user brand awareness research. In the research conducted by Szonda Ipsos users also put in the first place the [freemail] and iWiW services of the [origo] portfolio.

December 2008 The Superbrands jury honored the T-Home and T-Mobile brands of Magyar Telekom with the Superbrands rating and listed them among the top business and consumer brands of the year.

December 2008 The Hungarian Donors' Forum gave Magyar Telekom for the third time in sequence the Corporate Donor of the Year award as the large enterprise providing the highest amount of donations in the preceding year.

February 2009 Magyar Telekom was listed among the top 10 most attractive employers in the country, according to an opinion survey involving technical university and college students conducted in autumn 2008.

February 2009 Magyar Telekom won the Family-Friendly Workplace Award, large enterprise category, in the national competition invited by the Ministry of Social Affairs and Labor.

Contents

Dear Shareholders,

2008 marked an important milestone in the continuing development of the new Magyar Telekom. Throughout the year, we created a new management structure and, in parallel, redesigned our branding structure. These were significant steps towards becoming a truly integrated company, with a leaner organization, simplified branding and more powerful and competitive product offerings from T-Home, T-Mobile and T-Systems. The new branding structure enables us to position Magyar Telekom as an integrated triple-play service company and leverage our competitive advantage of having a uniquely broad range of services in Hungary's telecommunications market.

We have significantly improved our ability to offer quality services to our customers and launched several important initiatives to improve our competitiveness and support the new T-Home brand. When it comes to mobile, cable or even a satellite TV infrastructure, we already have the country's best network and are now in the process of rolling out a state-of-the-art fiber optic network, as well. Through these efforts, we have strengthened Magyar Telekom's position both in terms of service quality and pricing and are well positioned to face future challenges.

Regarding our financial performance, I am happy to announce that we again delivered strong results in 2008. Despite a challenging competitive and macroeconomic environment, the Group fulfilled the public targets announced for 2008. We delivered broadly stable revenues, while reaching a slight increase in underlying EBITDA compared to our flat target. Our underlying EBITDA margin was close to 42% in 2008, compared to 41% for the year before, reflecting our successful efforts to improve efficiency. In terms of CAPEX, excluding one-off items and other non-cash items, we reported a CAPEX to sales ratio of around 15%, again in line with announced targets.

Magyar Telekom's fixed line and mobile integration process enabled us to set up a new management structure in 2008, supporting an even greater focus on customer needs.
As a result, we now have new, leaner and more efficient business units serving our residential and corporate clients. Within these business units we offer our full range of telecommunications services, wireline and wireless voice, data and broadcasting. In addition, leveraging our market leading position and unique competence we offer information technology and system integration (SI/IT) services for corporate customers.

Building upon the organizational transformation we decided to rebrand our fixed line services and introduced the T-Home brand, bringing all of our residential fixed line services under one brand name. With the rebranding, we introduced very attractive double and triple-play bundled products to position Magyar Telekom as a real triple-play telecommunications company in Hungary. The introduction of our satellite TV service expanded the geographical availability of our bundled products, thus we are currently the only telecommunications company in Hungary capable of offering voice, data and TV service throughout the whole country. We believe that all these steps were necessary to offset the erosion of traditional fixed line traffic. In terms of financials, T-Home Hungary's revenues decreased by 5%, however EBITDA margin increased to 42% showing the results of our efficiency enhancing efforts.

T-Mobile Hungary again closed a very successful year, preserving its market leading position while also achieving outstanding financial results in 2008. Mobile broadband services were undoubtedly the growth driver of the Hungarian mobile market in 2008. Thanks to our high-quality 3G network, we achieved significant growth in the mobile broadband customer base, our market share exceeded 53% at the end of 2008. As a result, SIM card-based penetration increased further, and exceeded 120% at the end of the year. The integration of our operations has enabled us to exploit our unique position in the Hungarian market and launch fixed-mobile broadband bundles, and we launched the 3G-enabled Apple iPhone with great success in August. T-Mobile also introduced new mobile broadband packages and special mobile voice tariffs for the members of our iWiW social Internet network. Revenues at T-Mobile Hungary were broadly stable in 2008 compared to 2007 and EBITDA margin exceeded 42%.

In our corporate segment, we reduced the number of subsidiaries at the beginning of 2008 with the aim of increasing the segment's transparency and improving efficiency. The transformation to the new company structure has been successful, allowing us to benefit from extending unified customer relationship management to small and medium-sized businesses. T-Systems is now Hungary's clear market leader in SI/IT services with a more than 11% market share in a very fragmented market. Financially the segment closed a strong 2008 year with revenue growth of 8% and with a healthy EBITDA margin of 28%. These results justify our strategy to build strong market positions in SI/IT in order to strengthen our up- and cross-selling capabilities.

Besides our extensive marketing efforts in 2008 we did not lose sight of the fact that telecommunications is an innovation and technology-driven industry. Keeping that in mind we have also set up separate units for new business development (Alternative Businesses and Corporate Development – ABCD) and for technology. Regarding our new business developments, we further strengthened our market leading position in the Hungarian online content and advertising market as well as in the server hosting market. We operate iWiW, the largest social Internet network, and [origo], the most-visited web site in Hungary, as well as Dataplex, Central Europe's largest capacity data storage center with the highest quality standards.

On the technology front we are continuously improving our network quality and introducing state-of-the-art technologies. Our outdoor mobile 3G population-based coverage in Hungary reached 67% at the end of 2008. In the fixed line segment we finished the roll-out of our VDSL network covering 100,000 households. Even more importantly, we have decided to commence a significant new generation network roll-out program extending over the coming 5 years. We aim to reach around 200,000 households with our fiber network by end-2009 and increase the number of households in Hungary covered by a fiber network to 780,000 by end-2013. The new network will offer bandwidths of up to 100 Mbit/s, allowing customers to enjoy multiple bandwidth-demanding services such as HDTV, video streaming and high-speed Internet access at the same time. In addition, Magyar Telekom will upgrade its hybrid-fiber-coax network in an additional 380,000 households by end-2009 to provide a similarly high bandwidth to our cable customers. These network developments are an important part of our strategy to improve the quality and competitiveness of our fixed line offerings in Hungary.

At our international subsidiaries, 2008 was mainly characterized by increasing market competition. In Macedonia, strict regulatory environment, alternative operators and one of the mobile operators' fixed line offer were the drivers behind increased competition in the fixed line market, while in Montenegro wholesale revenues came under pressure due to the market leading mobile operator rerouting its traffic. These factors were counterbalanced by our successful efficiency-enhancing efforts and strong focus on broadband services. The number of DSL connections more than doubled in both countries, helped also by continuous network upgrades and introduction of favorable new packages. In addition, our IPTV service was also launched in Macedonia, where we have introduced the T-Home brand during the first half of 2008.

International mobile markets showed a further increase in subscriber numbers. In Macedonia, penetration exceeded 110% and in Montenegro increased to close to 190%. In both countries the market environment somewhat normalized after the entrance of the third mobile operator which took place in 2007. Although, on a year-on-year comparison, margins and revenues came under significant pressure in Montenegro, in Macedonia T-Mobile was able to counterbalance the negative effects of the third entrant and even increase its revenues, with EBITDA margin reaching well above 50%. In Montenegro T-Mobile launched its 3G service, offering mobile broadband Internet, while in Macedonia our mobile operator won the 3G license at the end of 2008, and will start services before June 2009.

Looking forward we will focus on continued successful execution of our strategy, which focuses on operational efficiency, service excellence, and regional expansion. We think that the transformation of 2008 strengthened the positions of the new Magyar Telekom in both the Hungarian and international telecommunications markets. Following on from the challenges of 2008, we do not expect 2009 to be any easier. Due to the very unfavorable external financial and macroeconomic situation, coupled with intense market competition, we expect a very demanding year for the telecommunications industry. Despite this very challenging environment and uncertain outlook that we face, not just in Hungary but in our international markets as well, we are targeting for 2009 a revenue decline of 1% and an EBITDA decline of 1 to 2% compared to the 2008 results, excluding both special influences and the one-off item related to the fixed-to-mobile provision reversal. In terms of CAPEX, we aim to maintain the absolute amount at 2008 levels, despite the weaker Hungarian currency. This includes the previously announced investment in the fiber roll-out program. We are continuously monitoring the economic environment and its impact on our business and will communicate if and when our assessment of our outlook changes.

On the other hand, the current economic environment also offers us new opportunities. We believe that we may benefit from increasing our role in the SI/IT outsourcing market and leading further consolidation in markets such as cable TV, SI/IT, media and content. The global economic crisis has lowered asset prices considerably in recent quarters opening even better chances for long term strategic investors like Magyar Telekom. Therefore, we are still committed to executing value-accretive acquisitions both in Hungary and in our region. We think that our company is well positioned to face the challenges ahead and even exploit potential opportunities resulting from the current demanding market environment.

In the event that sizeable acquisition opportunities do not materialize, our dividend policy ensures that our shareholders benefit from the strong cash flow generation of Magyar Telekom through an attractive dividend yield. In line with this, the Board of Directors proposed a dividend payment of HUF 74 per share for the financial year 2008 for approval to the Annual General Meeting.

Christopher Mattheisen
Chairman and Chief Executive Officer

The Management Committee of Magyar Telekom

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

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

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

János Winkler, Chief Operating Officer Consumer Services Business Unit
Born in 1954. He earned an economics diploma at the Budapest University of Economic Sciences, and in 2000 an MBA degree at Purdue University (USA). He started his career as trade manager with Nikex Foreign Trade Company, then from 1986 to 1991 he served in Beijing at the Commercial Section of the Republic of Hungary as commercial secretary, later deputy counselor. From 1992 he was National Sales Manager, later Deputy Marketing Director at Westel Rádiótelefon, and in 1994 he was appointed Deputy CEO. From February 1996 he has been Chief Marketing and Sales Officer of T-Mobile Hungary (formerly: Westel Mobile). As of January 20, 2006 he was appointed T-Mobile Hungary's CEO and became member of the Management

Committee. From March 1, 2006 he was Chief Operating Officer of Magyar Telekom's Mobile Services. From January 1, 2008 he has been Chief Operating Officer Consumer Services Business Unit.

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

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

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

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

Magyar Telekom’s Board of Directors and Supervisory Board

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

Christopher Mattheisen

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

Dr. István Földesi

Born in 1949. He spent 20 years in diplomatic service in London, Madrid and Washington as Attaché, then Counsellor. Up to 1988, he was Assistant Under-Secretary Science and Technology at Hungary’s Ministry of Foreign Affairs, then to 1990 Advisor to the Prime Minister. From 1989 he was Deputy Assistant Under-Secretary International Relations at the Ministry of Foreign Affairs. Since 1992 he has been working as international business consultant. From 1993 to 1995 he was Vice-Chairman, Central Europe, then East Coast, of IMPAC Integrated Control Systems, a US management consulting firm. Currently he is President of Inter Access, a business consulting firm. He was Magyar Telekom’s Director from December 13, 1994 to April 28, 1999 and Chairman of the Board from 1994 to 1996. Magyar Telekom’s Director again since April 25, 2003.

Dr. Mihály Gálik

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

Michael Günther

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

Lothar Alexander Harings

Born in 1960. He held various senior management functions in Human Resources at Siemens Group in Germany and from 1991 he was Head of HR at Siemens Nixdorf in Madrid. In 1994 he became Director of Industrial Relations and Labor Law for Siemens Nixdorf Group. From 1996 as Vice President of International HR at Siemens Nixdorf Group he was responsible for the selection and development of the international top management, for talent development and for assignments worldwide. In 1998 he took over the same function as Vice President of International HR for Siemens ICN. Since joining Deutsche Telekom in October 2002 he has been Chief HR Officer and Member of the Board of Management of T-Mobile International. Magyar Telekom’s Director since April 25, 2008.

Thilo Kusch

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

Frank Odzuck

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

Dr. Ralph Rentschler

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

Gregor Stücheli

Born in 1963. He studied economics at University of St. Gallen and completed the General Management Program at the Harvard Business School. He began his career in 1989 at IBM in Switzerland where he held a series of leadership positions, incl. a 3-year assignment at the IBM Headquarters in Armonk, N. Y. From 2000 he was part of the IBM Leadership team in Switzerland and responsible for the Outsourcing Sales Division. He joined T-Systems in 2002 as Chief Commercial Officer responsible for Swiss market strategy and positioning of T-Systems. He has been CEO and Member of the Board of T-Systems Switzerland since July 2004. Since February 2008 he is also leading the international strategy and business development of T-Systems in the Central and Eastern European region. Magyar Telekom's Director since April 25, 2008.

* Horst Hermann, who served on the Board since April 25, 2003, has resigned from his Board membership as of August 15, 2008.

Members of the Remuneration Committee

Lothar Alexander Harings, Frank Odzuck, Dr. Ralph Rentschler

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

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

Members of the Audit Committee

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

Repositioning for improved competitiveness

Our strategy

A new brand structure, a repositioned operator

Following the Board of Directors' decision in June 2008, Magyar Telekom introduced the T-Home brand in September, which replaced the T-Com, T-Online and T-Kábel brands and has become the single brand representing fixed line communications and entertainment services at home. The corporate "T" brand has been renewed simultaneously, and it functions as an umbrella brand for the brands offered by T-Home, T-Mobile and the T-Systems. Magyar Telekom's new slogan "Life is for sharing" was also introduced and is used both by T-Home and T-Mobile. The slogan reflects the fact that fixed line and mobile services play an important role in the communication and sharing of experience. Our business customers continue to meet with the T-Systems brand they are accustomed to. The rebranding has created a simpler brand structure, easier to identify for customers. Along with the introduction of T-Home brand, we also repositioned Magyar Telekom as Hungary's only "double triple-play" provider, which, through T-Home and T-Mobile, offers Internet, television and telephone services on the fixed line and mobile networks alike, at home and on the move. In November, we have added the T-Home SatTV satellite TV service to our portfolio, giving our customers, as the first genuine "three-screen" company, the experience of home television countrywide.

Efficient operation and reinforced objectives

The new management structure introduced in 2008 definitely traced a new direction for Magyar Telekom and also gave it a leaner organization. The money market problems that emerged in autumn 2008 in themselves do not make it necessary for us to modify our strategy and objectives announced in 2007. We reckon with the risks carried by the economic recession, at the same time we are ready to exploit any business opportunity that comes our way. Our key strategic objectives remain efficiency; excellence; service expansion and innovation.

In addition to revamping our brand structure and introducing the T-Home brand, we also put on the market new integrated fixed-mobile products and began upgrading our fixed network infrastructure, efforts which have helped us improve our service quality and competitiveness primarily in the broadband services market. After having implemented a new, more efficient management structure and a more flexible organization, we are determined to develop further our corporate culture and achieve the position of one of the most preferred employers in the country. Both our customers and the outside world can clearly see that we are building a new Magyar Telekom.

Integrating customer services

The efficient and integrated operation processes of the new organization structure have laid the foundations of the provision of excellent quality, integrated services for residential and business customers under T-Home, T-Mobile and T-Systems brands. Magyar Telekom is striving to improve further the quality of customer services and enhance customer satisfaction by integrating the processes and customer services that support the brands. The harmonization of the back-office infrastructure, including the development of one-stop shopping in administration and the integration of billing and IT systems, is both a major challenge and an opportunity.

Integrated management system

Magyar Telekom has further developed its quality management system that has been operating successfully at both company and Group level since 2002, and introduced an integrated quality, environmental and information security management system (ISO 9001, ISO 14001, ISO 27001) whose certification was successfully completed in November 2008. We extended the management system in place to the areas of environment protection and information security. The extended, new integrated management system of the Magyar Telekom Group responds to the expectations of customers, further raises the standard of services provided to our customers and pays special attention to sustainable development, including environment protection. As the region's leading infocommunications service provider, the Magyar Telekom Group gives priority to information security. This covers the customer, business and personal information stored and managed on conventional and electronic data carriers, as well as the protection of the related information processing equipment.

Compliance and transparency

Magyar Telekom is the only Hungarian company listed on the New York Stock Exchange, and through its subsidiaries it is present in several South-Eastern European countries, consequently no other company in Hungary has to comply with such strict stock exchange and regulatory requirements as Magyar Telekom has for over 11 years now. In the wake of the Sarbanes-Oxley Act, these regulations put even more strict transparency requirements on the company from 2002, with which Magyar Telekom has fully complied. The compliance program launched by Magyar Telekom in 2007 guarantees the company's transparent operations and its compliance with the strictest legal and ethical standards. A compliance training program covering all employees of the company in the form of online e-learning, was completed in November 2008.

New access strategy

In September 2008, Magyar Telekom announced its new generation access strategy under which the company is embarking on new generation fiber optic network development in order to strengthen its leading role in the fixed line and mobile broadband market and to give its customers even faster fixed access than available at present. Magyar Telekom intends to reach some 200,000 households by the end of 2009, and 780,000 households by the end of 2013 with fiber-to-the-home network (fiber optic network to the home of the user, FTTH), and for another 380,000 homes currently connected to the cable, it will upgrade the network with the high-speed EuroDocsis 3.0 technology. The new generation network enables us to provide extra-fast services for our customers with fixed and mobile technology alike. These network development projects further strengthen Magyar Telekom's position as leading telecommunications and multimedia service provider and are an important step for Hungary too, as they promote the development of an information society and increase the country's competitiveness. By December 2008 the fiber optic network was tested in 5,000 households, and by 2013 the new generation access network is expected to be available in 1.2 million households nationwide.

Acquisitions to strengthen market positions

In 2008, Magyar Telekom acquired the remaining 8% share in MFactory Zrt. and in April it reached a strategic agreement with IKO Production Kft. about the acquisition of 100% of IKO New Media Kft. and IKO Content&Rights Kft. These acquisitions grant Magyar Telekom more favorable access to business opportunities offered by content and interactive services. At the same time, the company will further strengthen its presence in the content services market and will become Hungary's leading interactive content provider. In another market expansion move, Magyar Telekom's wholly-owned subsidiary T-Kábel Magyarország signed an agreement in July 2008 about the acquisition of 100% of Dél-Vonal Kft., which operates a cable TV network in Southern Hungary. The transaction was closed in August 2008.

Leadership in the online media market

As part of the integration processes inside the Magyar Telekom Group, with effect June 30, 2008 iWiW Kft., which operates the iWiW community portal, and Adnetwork Online Marketing Kft. merged into Origo Zrt., which operates as the fully-fledged legal successor of both companies. iWiW is one of the most important junctions of Hungarian-language Internet, a community site of extraordinary popularity. In December 2008 it boasted over 4 million users. The Adnetwork advertisement network holds leading position in the online advertising market, its pages are visited by over 700,000 users daily. The integrations further strengthen Magyar Telekom's leading position in Hungary's online media market, thanks to more efficient exploitation of the synergies of its various media products. Through the solutions offered to advertisers by Origo's media portfolio, 98% of the Internet users in Hungary can be reached.

Sustainability and IT security strategy

Based on the environmental policy adopted in 2006, the Management Committee approved the new sustainability strategy of the Magyar Telekom Group in May 2008. One of the key objectives of the strategy covering the years 2008–2011 is to make Magyar Telekom's leading sustainability position visible for both the employees and customers. In developing the new sustainability strategy, the company took into consideration the Hungarian and international regulations, the interests of its stakeholders as well as the industry trends and best practices. The aim of the corporate information security principles adopted in July 2008 is to give strategic guidance and support for the information security activities in compliance with the business requirements, the ISO 27001 standard and the relevant regulations.

Competitiveness programs

The national technology platforms created under European Union auspices include the most important players of the infocommunications (ICT) industry with the goal of identifying key development directions which can strengthen the competitive positions of the Union and its member states. The Mobility and Multimedia National Technology Platform, established in June 2008, has the mission to prepare the strategic research plan for the future of Hungary's ICT industry. As Hungary's leading ICT company, Magyar Telekom was one of the Platform's founders. The TITAN program, an adult education initiative, also promotes the development of the information society. This program was launched in May 2008 by leading IT companies, including Magyar Telekom, and industry organizations and government agencies to promote the acquisition of IT knowledge and competence required for efficient work and to reduce the shortage of professionals.

International markets

In May 2008, the Macedonian subsidiary of the Magyar Telekom Group introduced the integrated brand structure and the T-Home brand, and took the new company name Makedonski Telekom (MKT). With continued dynamic growth of 105%, the number of T-Home broadband ADSL connections reached 99,000, and the number of Internet users grew to 105,000 with a 57% increase compared to the end of 2007. With 14% growth T-Mobile Macedonia's customers reached almost 1.4 million by the end of 2008, giving a strong leading position to the operator in the mobile market with a share exceeding 59%. Competition intensified in the wake of the third mobile operator's market entry, to which T-Mobile responded with powerful marketing campaigns in 2008.

In Montenegro, Crnogorski Telekom continued the fast rollout of broadband ADSL connections, recording 142% growth, which also assisted the 27% increase of Internet subscriptions. The success story of the year became IPTV which, with a growth of more than 7 times, exceeded 17,000 subscribers. T-Mobile Crna Gora raised its market share to 36% and saw its customer base growing by 24% in 2008.

Joint performance, in a cooperating team

Human resources

For a performance-based corporate culture

In Magyar Telekom's three-year HR strategy leading up to 2010, the creation of a performance-based corporate culture has an outstanding significance. As part of the renewed performance management system, we introduced for employees individual performance-based incentive, or bonus, determined as percentage of the base wages. Extra performance can be also rewarded with a bonus, and a stronger and more targeted encouragement is given for the fulfillment of indicators crucial for the implementation of strategy. In the new system, much more flexible and better customized targets can be assigned to each manager and employee.

Expanded fringe benefit system

We can all be proud of the fact that today, Magyar Telekom offers to its employees the most attractive and widest range of fringe benefits in Hungary. The fringe benefits were expanded from January 1, 2009, and they also became more flexible and attractive. Magyar Telekom's new fringe benefit system rests on three pillars: cafeteria-type benefits (such as food vouchers, health fund contribution, back-to-school support, local transport season ticket), discount-rate Telekom services (fixed and mobile phone, Internet, television), and welfare benefits (such as company holiday homes, low-interest employee loan for home purchase, pension-supplement insurance, welfare aid).

After having studied the best market practices, we developed together with the employee representation organizations the new system, which ensures fairer and more equitable distribution of the benefits, and also extended it to the leased employees working for the company for whom this will bring a significant increase in their income. The new system is better suited to employee demand. Within the first pillar, up to a given framework amount, each employee can choose the benefit of the package which is most appropriate in his/her personal life situation. Thanks to the expansion of the scope of the benefits, the income of Telekom employees also grows.

For a liveable and lovable workplace

In addition to the new fringe benefit system, we continued to contribute with innovative solutions to the development of corporate culture in 2008 in an effort to increase employee satisfaction. In April, we upgraded the content of the Compass company program designed for new entrants, which is also available online. In July, we launched the Abigel program with the goal of helping the employees solve their non-job-related (e.g. family, child-raising or health) problems. Under this program we attempt to help by giving creative and practical information and guidance to the inquirers, if necessary, with the involvement of volunteer response networks and civil organizations. The Telekom Podium, an art festival of our employees, celebrated its 10th anniversary in November, and the proceeds of the event were once again donated to charities. In 2008, we renewed our traditional award, the Employee of the Year. In October and November nominations were made by employees for the award in Innovation and Customer Focus categories. For the first time nominations were invited in the Team of the Year category as well: here the criteria of nomination was that the team should offer outstanding joint performance in promotion of the strategic objectives, thus enhancing the prestige of cooperation. The winners were determined by online voting.

Two-year equal opportunity plan

Magyar Telekom makes a special point of improving the situation of its disadvantaged employees and ensuring equal opportunities for them. Accordingly, our company was one of the first among the country's leading enterprises to develop and adopt an integrated equal opportunity plan in order to make the principles of equal treatment and equal opportunities even more essential in hiring employees. The two-year Equal Opportunity Plan, which was adopted in September 2008 in agreement with the employee representation organizations, specifies all those measures and programs which the company intends to implement in order to improve the situation of the employee groups concerned. In addition, Magyar Telekom is ready to join the relevant public, business and civil initiatives intended to promote the implementation of equal opportunity in the society.

Programs for equal opportunities

As an acknowledged inclusive employer, Magyar Telekom promoted diversity and equal opportunity with many programs and initiatives in 2008, too. In April we joined the Civil Auction initiative under which civil organizations held programs and training for the employees on issues of non-discrimination and equal opportunity.
In spring 2008 we also launched a family support program in order to promote day nursery and kindergarten care for the children of Magyar Telekom employees.
In the summer of 2008 we helped employees who raise children under the age of 14 by paying for the summer holiday camp of more than 200 children. In June, we held the second Mothers' gathering of Magyar Telekom, where employees on child-care leave were given information about the changes at the company, the elements of the family assistance program, holiday opportunities and the typical and non-typical methods of re-integration to work.
In October, in the framework of the Decade of Roma Integration programs spanning 12 countries, we hosted a poster exhibition entitled Roma Desires. The aim of this event was to induce positive change in the image people have about the Roma, break down stereotypes and eliminate segregation.
We joined as sponsor a new research program launched in November 2008 under the title Equal Opportunity at the Place of Work – Corporate Social Responsibility whose goal is to give an insight into the equal opportunity and CSR situation of Hungarian employers and present the examples studied to HR professionals and the public at large.

Everyday heroes

In autumn 2008 Magyar Telekom launched its employer branding campaing with the slogan 'Everyday Heroes'. Participants have been invited at the university job fairs to our professional Telekom Trainee Program, made flexible and renewed according to Bologna system, which welcomes BSc students. From 2009 we are launching 5-month trainee programs in each university semester. The trainees selected via application on our career site www.karrier.telekom.hu can acquire practice at Magyar Telekom on contract, and from the autumn of 2009 they can join our program while completing their MSc studies, and thus start their professional career at Magyar Telekom.

Agreement for efficiency and saving

As part of the efficiency-boosting measures, in October 2008 Magyar Telekom signed a new agreement with the employee representations to dismiss no more than 300 employees from the parent company up to the end of 2009. As a result of the downsizing measures, to be implemented predominantly in the first quarter of 2008, the company expects to save HUF 1.8 billion at annual level on personnel expenditures. For employees leaving the company due to headcount downsizing we continue to offer the Chance outplacement program to support their re-employment. The agreement with the employee representation organization also specifies 5.6% wage increase from April 2009 for those employees who remain on the payroll of the parent company. The 15% downsizing announced in 2007 was completed by the end of 2008 and the restructuring of the labor force was implemented in compliance with the business plans.

Total Workforce Management for cost efficiency

From 2009 Magyar Telekom is implementing a Total Workforce Management system at the Group's companies in Hungary in order to monitor all HR-related costs instead of keeping track of the headcount and personnel expenditures only. The system enables the company to flexibly and efficiently manage all human resource-related costs, including the costs of contracted and leased employees, as well as outsourced employees and those employed under agency contract. This will also make it possible to regroup employees in different forms of employment in keeping with cost efficiency considerations. In the coming years Magyar Telekom intends to keep stable or even slightly reduce in nominal terms the overall cost of its human resources.

Giving back for health, education and a sustainable future

Corporate social responsibility

Strengthened leadership in corporate social responsibility

In 2008, Magyar Telekom continued efforts to strengthen its acknowledged leading position in the key areas of corporate social responsibility. In October, Figyelő Top 200 published the Accountability Rating Hungary list for the third time. As always since the start of these surveys, Magyar Telekom finished in the first place. Accountability Rating measures how much importance the leading enterprises of the country attach to the efficient management of social, economic and environmental challenges and how they integrate these aspects in their business strategy and corporate governance practices. In 2008, Magyar Telekom was rated the country's number one corporate donor, also for the third time in sequence. After having made donations of over HUF 1.4 billion to non-profit organizations in 2007, we won again the Corporate Donor of the Year award of the Hungarian Donors Forum, which evaluates the donation activities of Hungarian enterprises.

Sustainability

Magyar Telekom considers sustainability, and efforts to harmonize economic, social and environmental interests, a long-term strategic principle. Its sustainability activities, which also encompass environment protection, cover all member companies of the Group. The Magyar Telekom Group is making every effort to integrate these principles in all aspects of its operation, and through its example it wishes to encourage its suppliers to respect environmental considerations in their operation. To promote goal this we founded the Dolphin Award in 2008, which was first given in April to those suppliers that play an outstanding role in the field of sustainability. We publish our sustainability activities and their results in our annual sustainability reports.

Climate, environment and nature protection

In March 2008, a climate protection program was launched under the slogan 'Switch Back!', with the participation of Magyar Telekom and companies and non-profit organizations which are intent on promoting climate protection. Magyar Telekom was the sponsor of the first Sustainability Day held in November in the framework of the program. Our company is a regular participant of various climate protection events too, such as the Earth Hour and the Car Free Day. Thousands of our employees are involved in selective garbage collection and recycling in an effort to contribute to the protection of the climate. In November 2008 Magyar Telekom, as first in Hungary and among the first in Europe, installed the first PEM cell, i.e. hydrogen-powered T-Mobile base station. This advanced and also environment-friendly innovation is an important milestone of Magyar Telekom's efforts to reduce its ecological footprint. In another effort to save the natural environment, in 2008 we invited applications for HUF 20 million worth of scholarships under the Magyar Telekom Gives Back program. The aim of the program was to help protect the country's natural treasures, rare animal and plant species and their habitats. In April, our employees were again involved in voluntary Earth Day initiatives.

Closing the digital gap

For years Magyar Telekom has been supporting initiatives aimed at enhancing an information society, promoting digital literacy and the use of the Internet. One of the key instruments of these efforts is the Telekom Internet Academy which provides free Internet education programs to all interested people at basic and advanced levels alike. The success of the 2008 program is shown by the over 16,000 participants attending 44 programs held in Magyar Telekom's Headquarters and another 163 events countrywide. The majority of participants were people over 50, a group where Internet use is still below average. Our Digital Bridge initiative, which was launched in 2004 to introduce the residents of small and remote localities to the use of the Web, reached the 100th locality in July 2008. So far nearly 250 Magyar Telekom volunteers have provided free and personalized training in Internet use. The Wi-Fi Village program distributes wireless Internet access and cheap used computers to families, including many Roma, living in the disadvantaged regions of Northern Hungary. Magyar Telekom builds the infrastructure and provides the wi-fi service free of charge up to the end of 2009. Thanks to the program, by the end of 2008, 1,700 households in 102 localities accessed the broadband Internet network.

Charitable donations

"The Cause", an awareness-raising charity program sponsored by Magyar Telekom broadcast by TV2 channel, continued with series 5 and 6 in May and November 2008. Viewers could donate HUF 200 with each telephone call to the causes presented in the program and the foundations championing them. In addition to the proceeds of the telephone calls, Magyar Telekom donated HUF 5 million each to the first two foundations which won the most votes, and 1 million each to the other six non-profit organizations. In 2008 almost HUF 70 million in cash donations was distributed under the Magyar Telekom Gives Back program for initiatives helping people with disabilities as well as children, education, health and sustainability programs. In 2008, too, the organizations dedicated to solving social problems could apply for donations collected through the Donation Line, thus another 6 non-profit organizations received over HUF 26 million. Magyar Telekom focuses on charitable goals also when making Christmas gifts. Our business units spend on support part of the money meant for the Christmas gifts to business partners, so in 2008, instead of Christmas gifts, they donated almost HUF 4 million for children. In June Magyar Telekom enabled the nationwide non-stop availability of the Blue Line child and youth protection telephone service on the 116 111 and of the Blue Line "Are You OK? Missing Children" service on the 116 000 harmonized European numbers. These numbers were allocated by the European Union for the child assistance telephone services operating in the member states and for aiding missing children and relatives looking for them. Magyar Telekom donated HUF 6.5 million in 2008 to the Blue Line Child Crisis Foundation that operates these helpline services. T-Com Children's Island, which was held for the 7th time in June, offered a wider spectrum of programs and for the first time it also assisted the visit to Budapest of disadvantaged children living in remote regions. In October, Magyar Telekom was the lead sponsor of the Bridge of Health program series aimed at raising the women's awareness of fighting breast cancer as well as of the importance of prevention and healthy way of life.

Culture and arts

As sponsor of high quality culture, from 2008 Magyar Telekom became the strategic partner of the Budapest Palace of Arts, one of the most important cultural institutions in Central Europe. Our sponsoring of The Piano concert series has brought world famous musicians to Budapest. Since March 2008 Magyar Telekom has been the exclusive sponsor of the Pulitzer Memorial Award for outstanding journalistic merit. The company has also been the lead sponsor for years of the Millenáris culture center in Budapest. In 2008 T-Mobile was again the communications partner of the Budapest Spring Festival, one of Hungary's most prestigious cultural events. At the T-Mobile Connection concert, held for the 12th time at the end of June, hundreds of thousands of audience enjoyed live the virtuoso performance of Carlos Santana. An interactive mobile telephone-based museum guide solution developed by T-Mobile was first available to visitors in Budapest in April 2008. In June, in an exhibition sponsored by T-Mobile, 12 contemporary artists presented their works on the topic of freedom of communication in the Hall of Arts. Magyar Telekom's fixed line brand was the traditional sponsor of the Kaláka Folk Festival held in Miskolc in July, and communications partner in the Valley of Arts at Kapolcs. Both our residential brands were present in July as sponsors of the Veszprém Arts Festival, the biggest music event of the region. The VOLT and the Balaton Sound and Campus festivals in July were also held with T-Mobile sponsorship. The Budapest Autumn Festival, one of Europe's outstanding contemporary arts events, was sponsored by T-Home in October.

Creative solutions for mobile

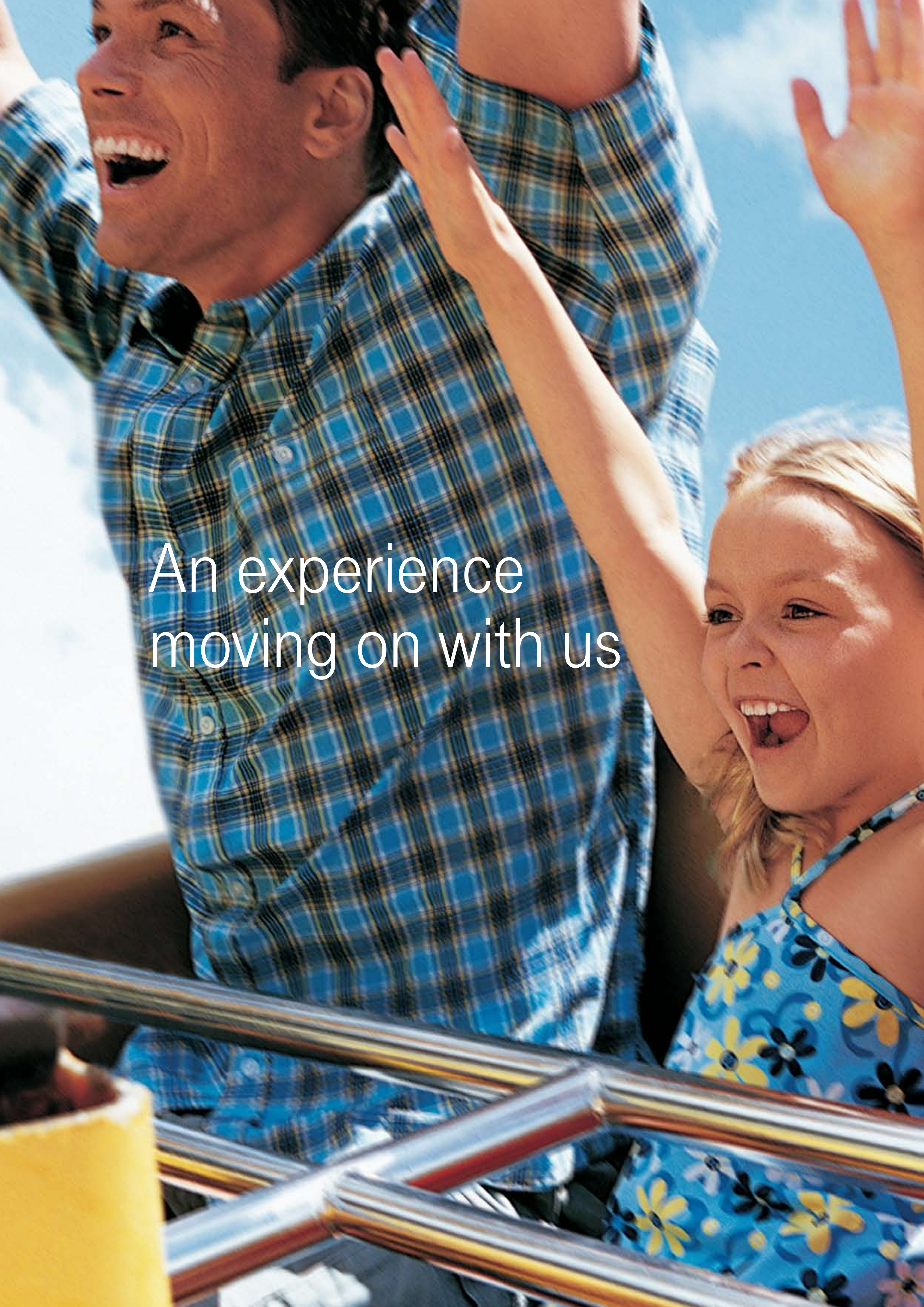
In September 2008, T-Mobile invited mobile Internet-related applications from the students of three leading Hungarian universities on the theme of “MobilNet – Creative Community Solutions on Mobile Broadband”. The students can apply individually or in teams, offering creative ideas promoting the growth of the mobile Internet and its multiple uses. In a move to promote innovation, in November T-Mobile also invited the students of three secondary schools to present feasible ideas for the creative use of the mobile telephone and mobile broadband communication in community building. In the MobilNet Junior competition secondary school applicants are encouraged to present creative solutions.

Leisure and sports

In September 2008, we organized the traditional and successful city runs under the name of T-Home Vivicitta in Szeged and Kaposvár. The Budapest event in April was attended by a record number of over 11,000 runners. In July, thousands visited the T-Mobile Water Sports Festival at Lake Velence. T-Mobile has been a dedicated sponsor of the Hungarian mass cycling since 2004, and has also played a role in developing the sport and making it safer. The T-Mobile Mountain Bike Top Marathon was the biggest Central European amateur cycling event in the summer of 2008. Safe cycling, environment protection and healthy, active lifestyle appear as key messages at the T-Mobile bicycle events. T-Mobile also sponsored the Bike School nationwide education program, which helps schoolchildren learn the rules of safe cycling. In the field of competitive sports, in April T-Mobile extended its sponsorship contract with Domino Honvéd, one of Hungary's most successful water polo teams. Under the contract the team will compete in T-Mobile colors till 2010.

Research on communications

The joint social scientific research project of T-Mobile and the Hungarian Academy of Sciences, which studies the impact of mobile communications on society, has earned international recognition. The focal topics of the conference, held for the 8th time in September 2008, were mobile communications and the ethics of community-building networks. From 2009 also the public can learn the results of the latest survey into the relationship of fixed line and mobile Internet and the business life, as a result of an agreement reached in November between T-Home, T-Mobile and GKIeNET research institute. The relevant analyses are published quarterly under the title ‘Report on the Internet economy’.


An experience
moving on with us

Consumer services

We remove the barriers!

The new management structure of Magyar Telekom, operating since January 2008, has put the Consumer Services Business Unit, responsible for T-Home and T-Mobile brands, in charge of the overall marketing, sales and customer care activities of both mobile and fixed line residential products and brands. The restructuring has made our company a screen enterprise. The repositioning of Magyar Telekom has become tangible for the customers through the integrated triple-play and fixed-mobile packages. The implementation of the T-Home brand, the new, streamlined brand structure and the integrated product offerings have improved our competitiveness, primarily in the broadband services market, and aided recognition of the new brand soared to 77% in less than 6 months. T-Mobile has been leading the Hungarian mobile market for 15 years, and by the end of 2008 its customers approached 5.4 million. The fact that Magyar Telekom has a service portfolio unique in Hungary gives it an edge in providing excellent service quality for customers. Magyar Telekom is the only provider in Hungary offering – through T-Home and T-Mobile – "double triple-play" services, i.e. television, Internet and telephone on the fixed and mobile networks alike, both at home and on the move. As the only "three-screen company" we are present on life's three important screens: the television sets, the mobile phones and the computers.

T-Home: communication and entertainment at home

Acting on the June decision of Magyar Telekom's Board of Directors, on September 8 we introduced T-Home, the brand of fixed line communications and entertainment services for the home. Along with the new brand, replacing the T-Com, T-Online and T-Kábel brands, the new corporate slogan "Life is for sharing" was also launched and is used both by T-Home and T-Mobile. This slogan refers to the role fixed and mobile services play in the communication and sharing of experience. The rebranding has created a simpler brand structure, which is also easier for the customers to identify. Along with the introduction of T-Home we also repositioned Magyar Telekom as Hungary's only "double triple-play" operator. The rebranding was much more than a change of visual image. We introduced to market new integrated fixed-mobile packages and with the T-Home brand we entered the satellite television services market, too. Our customers could also feel improvement in the quality of customer care enabled by technology upgrades and integration implemented along with rebranding.

Integrated triple-play and Internet portfolio

Since September 2008 T-Home has been offering an upgraded product portfolio and new discounts. The customers are free to compile their own package. T-Home's triple-play packages (comprising television, Internet and telephone) bring considerable savings for the customers, regardless of whether they use them on conventional fixed line or cable network, and whether they subscribe to IPTV, digital or analog television service, and conventional or IP-based telephone. From October 2008 T-Home and T-Mobile subscribers can use fixed and mobile Internet together, too, an offering unmatched in Hungarian market. We offer the home DSL service, which comes with unlimited download option, and the mobile Internet service containing at least 3 GB traffic, in a single discount Internet package, which is also available to business customers.

Extra fast Internet and television offerings

By the end of 2008 the number of T-Home broadband Internet subscriptions approached 762,000. The new feature in our service portfolio, the extra fast broadband (VDSL) product, brings additional benefits to the T-Home customers. The VDSL-based Internet and television services, available on Magyar Telekom's network since October 2008, can be used by both our residential subscribers and the customers of our wholesale partners. In addition to faster download, the VDSL Internet access also enables T-Home IPTV users to enjoy high definition (HD) broadcasts in their homes, wherever the technical conditions are available. The availability of the VDSL-based extra fast broadband Internet and IPTV services is growing steadily as the development of the new generation fiber optic network progresses.

T-Home SatTV, IPTV, KábelTV

With the introduction of the T-Home SatTV service in November 2008 Magyar Telekom made available its television service offering in the entire territory of the country. Satellite television service is a new market for Magyar Telekom. The launch of T-Home SatTV exceeded expectations; from its launch at the end of November to the end of the year more than 18,000 customers ordered the service, thanks to the varied package offering and the nationwide coverage. We are offering the Internet television service, that Magyar Telekom introduced as first in Hungary, under the name T-Home IPTV from September 2008 as part of our new consumer brand offerings and triple-play packages. Thanks to the successful T-Home offerings, interest increased in T-Home IPTV too, so that up to the end of 2008 more than 28,000 subscribers selected it in the most favorable tariff packages. In 2008, Magyar Telekom maintained and strengthened the position of second largest cable television service provider in the Hungarian market. While competition intensified during the year, we did not lose customers and managed to increase the number of cable television subscribers to 423,000 by the end of the year. From September 2008 our cable TV service portfolio was also integrated in the new brand offering as T-Home KábelTV. T-Home DSL, which also contains IPTV service, and Kábelnet can be subscribed for also outside Magyar Telekom's service area. We were the first to introduce to Hungary's television market in March 2008 the high definition (HD) TV service in Budapest and its area, which is based on T-Home's digital cable TV service.

T-Mobile: stable market leading positions

Hungary's telecommunications industry reached an important milestone in April 2008 when the number of T-Mobile customers exceeded 5 million. By the end of the year their number reached 5.42 million. Safely maintaining market leadership, our 44% market share was unchanged, while the country's mobile phone penetration reached 122% at the end of 2008. T-Mobile, that has been leading the market for 15 years, focuses on innovation, quality, broad choice of tariff packages, a calculable loyalty program and customer retention solutions. We are playing a pioneering role in the implementation of mobile broadband and Internet-based technologies. At the end of 2008, our customers could use their mobile phone almost anywhere in the world, in over 400 networks in 187 countries, with which we provide the broadest global coverage for travelers among Hungary's mobile operators. We have reached agreements with 76 mobile operators in 44 countries on the provision of broadband mobile Internet access abroad.

Innovative mobile products

The single most important and highly successful product launch to Hungary's mobile market was the iPhone 3G in August 2008. The introduction of iPhone 3G was part of the repositioning of Magyar Telekom and its establishing in the market as a 'double triple-play' provider. T-Mobile introduced two new Internet packages designed especially for the iPhone 3G, which give users full multimedia experience. From November we made available the iPhone 3G services also to Domino prepaid card customers. The Mix tariff package introduced in July combines the benefits of prepaid and postpaid services: after having used up the monthly fee, subscribers can use their Domino card balance or recharge it electronically to pay for extra usage, at the same time the subscription discounts remain available to them. From October T-Mobile has been offering favorably rated postpaid and prepaid iWiW tariff packages to users registered at Hungary's biggest community site. This is the first tariff package in Hungary that is connected with a community site and can be ordered only from there.

Mobile broadband and mobile Internet

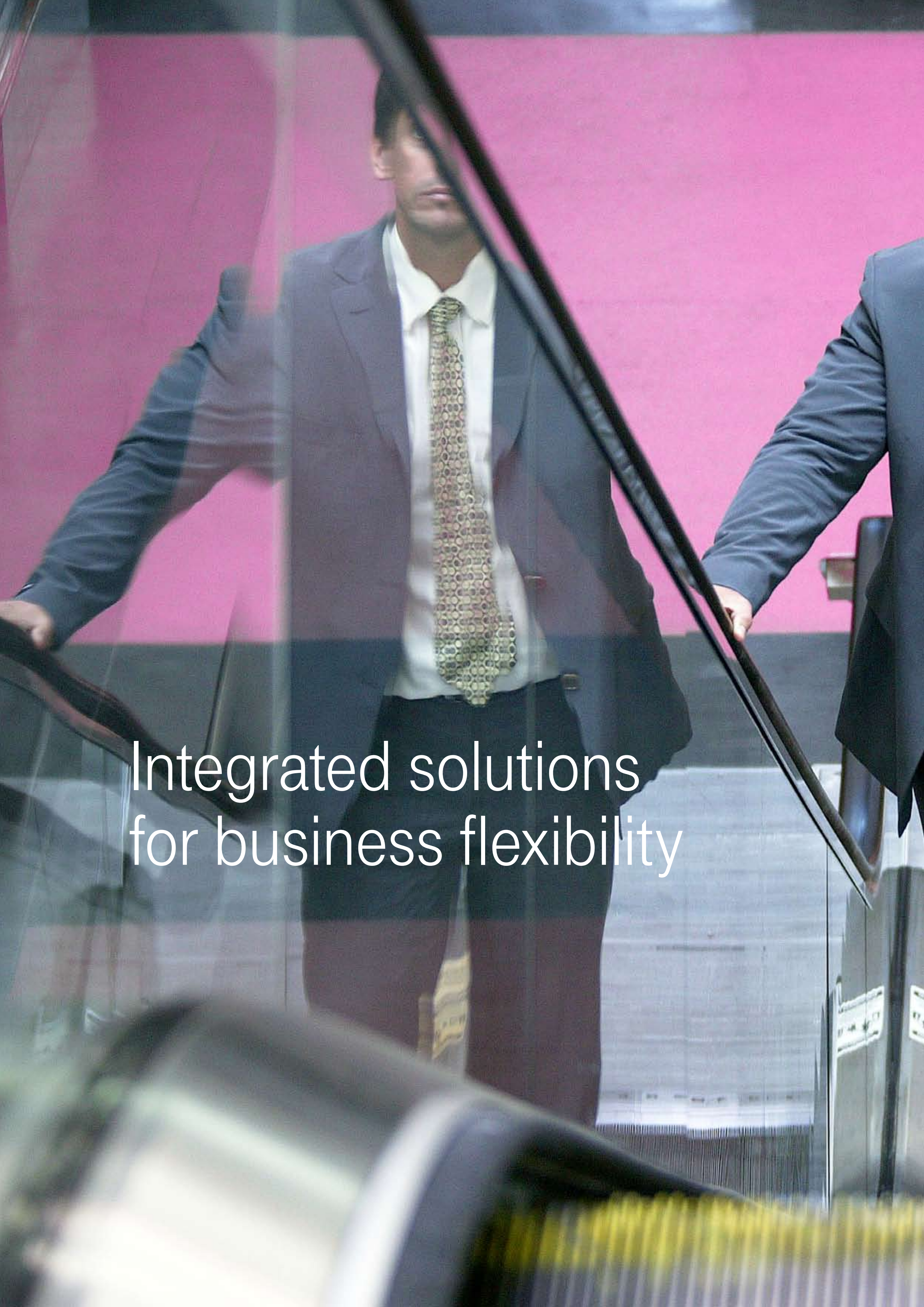
Ever more users, rejecting compromise, select T-Mobile's broadband mobile Internet products, thanks to the favorable monthly fee, the broad equipment choice and the discounts offered. The number of mobile Internet users soared in 2008 to more than 260,000 by the end of the year and our mobile broadband market share exceeded 53%. The outdoor coverage of our dynamically expanding broadband HSDPA network reached localities with 67% of the country's population. T-Mobile is continuously increasing bandwidth in the localities already covered. In addition to increasing bandwidth, we are stimulating the use of mobile Internet with attractive new offers. From August, we added new 3 GB postpaid and prepaid Domino card packages to our unmatched mobile Internet tariff package offering. Together with these T-Mobile is already offering six different Internet packages designed especially for computer-aided surfing. T-Mobile also expanded its notebook offering from November, so mobile Internet users could pick Apple models, too. Launched in December, T-Mobile's special offer contained an unlimited data traffic option (upload and download), available to subscribers of 5 GB or larger mobile Internet packages. As first in the Hungarian mobile market, in December T-Mobile added to its mobile Internet offering two new Internet security services. T-Mobile customers can use the Internet at more favorable rates abroad too, after we decreased international data roaming charges in July (mobile Internet, WAP, e-mail) for the partner networks of the European Economic Area.

Mobile television

In January 2008 T-Mobile conducted a mobile television (DVB-H) technical and user experimental broadcast on the Nokia Siemens Networks mobile TV platform, with the involvement of Vodafone Hungary and broadcasting company Antenna Hungária, in continuation of the test launched by T-Mobile and Antenna Hungária in the spring of 2007. Besides the television programs the providers also tested some interactive services. Since December 2008 T-Mobile has been offering the full range of mobile television services with a choice of channels unmatched in Hungary's mobile market. In the basic mobile television package 14, and in the extra package a total of 20 channels were available on sets ready for the service at the end of 2008.

Payment with mobile phone

For years T-Mobile has been successfully offering mobile commerce solutions which enable users to buy products and services with their mobile phone charged to their prepaid balance or postpaid bill. The three most popular products available through our Mobile Purchase are motorway stickers, mobile lottery and mobile parking tickets. The Mobile Payment service developed by T-Mobile and its partners taking into account user demand and launched in October 2008 enables T-Mobile prepaid and postpaid customers to do various financial transactions by mobile phone on their bank account or the optional credit line associated with it. For example, users can pay for services or products with Mobile Payment either personally or through remote access in places that have joined the system, send and receive money, pay their mobile telephone bill or fill up their prepaid card balance.



Integrated solutions for business flexibility

Business services

Market leadership in infocommunications

T-Systems, Magyar Telekom's Business Services Business Unit offers infocommunications (ICT) solutions from one source by combining the competences of its subsidiaries. The T-Systems strategy resting on convergent ICT services represents a new stage in the merger of telecommunications and information technology. Relying on the knowledge, synergies and international presence of the Magyar Telekom Group and Deutsche Telekom, T-Systems offers the broadest range of integrated telecom and IT services in Hungary. As a result of successful acquisitions of recent years and the business unit's integration completed in 2008, today T-Systems holds the leading position in Hungary's ICT services market.

ICT solutions for all business customers

Since early 2008, T-Systems has been offering infocommunications solutions also to small and medium-size businesses, in addition to large business and government clients. This also means that the entire business and institutional customer base can buy from a single source all fixed line and mobile phone and broadband communications services, as well as IT application and infrastructure services. T-Systems has a clear objective: it wants to be a partner to its customers that offers the full range of the highest standard infocommunications solutions so as to make them even more competitive and successful. To be able to fully comply with this spirit, the organization of the business unit was also renewed. A new account management system has also emerged which reflects the changes: from January 2008, business customers can reach the future-oriented products and services of T-Systems and T-Mobile through a single contact manager.

Integrated knowledge

As part of the measures aimed at repositioning Magyar Telekom and introducing a new management structure, from January 2008 the Business Services Business Unit combined the knowledge and competence of the Group's telecommunications and IT member companies serving business customers. KFKI Rendszerintegrációs Zrt. and IQSYS Informatikai és Tanácsadó Zrt., formed in 2008, are both leading players of the infocommunications and system integration market. This move has made Magyar Telekom a dominant player of Hungary's IT services market. The portfolio of KFKI covers a broad spectrum of solutions required for the installation and operation of IT infrastructures. IQSYS is responsible for the integrated operation of business IT systems, company management, customer care and business intelligence-related systems. In 2008 Pro-M, which fulfills special tasks under the auspices of the Business Services Business Unit, further developed the network of the Unified Digital Radio Telecommunications System (EDR), operated by it nationwide. The closed radio communications system using Tetra technology that provides professional connection and high level availability for the emergency and law enforcement bodies, has been assisting the work of the Danube water police since April and the work of the airborne ambulance service since May 2008. EPT, as a flexible provider without a telecom infrastructure of its own, offers to its business customers a number of VoIP (Voice over Internet Protocol) solutions and also provides market research-related data collection and campaign monitoring. With these innovative solutions that do not require capital expenditure or human resource development, it grants its customers a premium quality customer relations management system.

Integrated product portfolio

The Magyar Telekom Group, in close cooperation with its member companies having outstanding IT competence, KFKI and IQSYS, is at the disposal of large enterprises and government institutions. The integrated product portfolio also comprises convergent communications solutions such as video conferencing and telephony as well as systems support, intelligent building and intelligent building monitoring. The importance of network solutions enhanced by IT security infrastructure and system monitoring is growing fast. The integrated IT solutions offered by T-Systems are capable of optimizing the business processes of customers, thus giving them more security and flexibility in both the support and the operation of processes. It is also an added value of the IT service management, consulting and operation services that they assist the operation of the customers by integrating their processes and reducing risks to a minimum. T-Systems is also involved in the infocommunications development projects of the public and the local government sector. Through the hospital, library and e-local government projects, managed by T-Systems, competitive and cost-efficient IT systems emerge which promote transparent and economical operation.

ICT: telecommunications and IT from a single source

T-Systems offers its customers comprehensive, customized infocommunications solutions, in addition to fixed line and mobile business services. Our steadily expanding product offering is characterized by innovation, customer focus, fast response capability, cost-efficiency and the exploitation of Magyar Telekom Group synergies. As a result of the dynamically developing technology and ever changing customer demand, corporate IT and telecommunications applications are merged in such a way that they can no longer be separated in the world of infocommunications (ITC). In order to make maximum use of the benefits of ICT, it is necessary to develop complex, universal solutions and harmonize them with the business processes. In addition to enhancing their business flexibility, offering efficient cost-saving options and enabling the companies to concentrate on their core activities, ICT also carries benefits for customers in the respect of optimizing their business processes in an advanced, secure and adaptable ICT environment. With its infocommunications solutions T-Systems offers business customers the tools of higher business efficiency.

Compleo: a new ICT solution

In November 2008 T-Systems launched a new infocommunications solution for small and medium-size business customers. The Compleo service offers a full range of broadband IP-based voice and data communication services through symmetric architecture and remote monitoring. Taking full advantage of applications offered by infocummunications technologies, Compleo offers cost efficient, monitored telephone and Internet service from a single source. Voice and data traffic is implemented within a common network, the network equipment is provided by T-Systems. The Compleo service rests on a cutting-edge Cisco communications system, which provides all the customary functions while also offering numerous other features for the users. These include the fast installation and relocation of extensions and the mobility of these extensions (transfer of user authorizations), conference calls, voice message forwarding in e-mail, call group option and call queuing (for customer services, fault report help desks). Compleo helps the user enterprises concentrate on their most important tasks i.e. their own business activities.

Innovative fixed line services

The fixed line voice services of T-Systems help our business customers optimize their communications, improve the cooperation of their employees and increase customer satisfaction. The T-Systems MultiFlex service offers an integrated solution for the satisfaction of the complex telecommunications demands of our business partners. Through MultiFlex, the entire internal data communications can be implemented within a single corporate network. The technology-independent MultiFlex service implements the connection of the local area networks (LAN). This solution providing large bandwidth and cost-efficiency, enables the implementation of further ICT technologies for our customers, which will boost their efficiency and increase their competitiveness.

Business mobile services

T-Systems as a business services provider is prepared to satisfy demand for voice and data communications independent of time and place. It develops customized industry-specific mobile communications solutions tailored to company size, which match the various business situations and customer requirements to the greatest possible degree. Our business mobile services enable secure data upload and download and Internet surfing also with remote access, which promote the growing telecommuting and mobile office businesses. The mobile services of T-Systems offer unlimited data traffic for a fixed monthly fee. Another cost-efficient T-Systems mobile service is the vehicle fleet GPS monitoring service, which helps determine the current position of the monitored vehicles and gather specific data from them. Our advanced mobile devices enable location-independent access to information, providing for the players of business life the possibility to access data or send e-mails also on the move.

Hosting and virtualization

After its two data centers in Budapest, T-Systems commissioned two new server rooms in 2008: in Szeged in April and in Győr in December. In the T-Systems Data Center, which provides hosting service, business customers of any size can place their servers in an environment that offers optimum conditions and premium security. The business customers can accommodate their servers or buy server lease services in the air conditioned and humidity controlled rooms of the data center. This monthly rated service is particularly favorable for the customers from a financial point of view because the secure storage of their data does not require huge upfront investment. Our qualified operators monitor the systems 24 hours a day and immediately repair any fault detected. To ensure uninterrupted availability, T-Systems uses the innovative virtualization solution, which means that in case of any server failure the data are transferred to a backup server within a few thousandths of a second. The optional remote management service of T-Systems enables the owner to access and operate its servers remotely. The users of the hosting service of T-Systems can benefit from an outstanding level of data security and cost efficiency.

Telepresence: new generation video conferencing

Magyar Telekom's Business Services Business Unit was among the first in Hungary in 2008 to acquire the competence, which represents a new generation of video conference solutions. This solution gives users the experience of a face-to-face meeting, thanks to the high resolution video technology, the surround sound technology and the arrangement of the meeting room. Compared to conventional video conference, IP-based Telepresence offers much better quality image and voice transmission without any perceptible delay, which makes the connection indeed live. T-Systems offers this innovative solution to large enterprises with nationwide and regional presence. With Telepresence, users can also cut their travel costs significantly. The benefits of substituting travel are manifested not only in cost and time saving. Users attach growing importance to environmental considerations, and video conference is indeed a "green IT" technology. This technology also helps increase efficiency through easier coordination, which in turn can speed up decision processes. Telepresence also promotes multicultural cooperation inside multinational companies. In November 2008 Telepresence was in operation at two Hungarian and two international companies of Magyar Telekom.

Non-conventional thinking, innovative products

Alternative businesses and corporate development

A new business unit with new tasks

One of the key elements of Magyar Telekom's medium-term strategy is to explore new business opportunities and markets, to develop and introduce new products. Since January 2008 the Alternative Businesses and Corporate Development Business Unit has been responsible for managing the innovation and business development activities of the Magyar Telekom Group. It manages both the current non-conventional products and services of the company, and ones to be put on the market in the future. In 2008, we implemented some successful integration (Adnetwork, iWiW) and acquisition moves (IKO New Media, IKO Content&Rights) in the media and content services market to strengthen the market positions of Magyar Telekom in non-access services. We also operate our own innovation laboratory (KIBU), and from 2008 we have been playing a leading role as initiator in the Hungarian innovation programs and in the industry research and development cooperation schemes (Mobility and Multimedia Cluster, MMPlatform).

Non-conventional products

It is the Alternative Businesses and Corporate Development Business Unit that makes marketable the non-conventional, non-access products and services developed by Magyar Telekom. These include the premium-rate content services connected with the existing mobile payment solutions, as well as the synergic products. The Mobile Payment service launched in October 2008 is an innovative cash-saving payment method, which enables users to pay for products and services, send money or place a bet on their mobile phone in a safe and comfortable way. Using the Mobile Purchase service, customers can now buy more products with SMS or via the Internet and have the purchase charged to their T-Mobile bill. The number of users of our electronic bill presentation and payment (EBPP) service is growing steadily: since October 2008 registered users can also pay the bills issued by Tigáz gas utility company online, via secure payment channels. T-Mobile customers first met the Mobile TV service in early 2008. For the first time in Hungary, the subscribers of this service had the opportunity to follow the European football championships and the Summer Olympic Games live on their mobile phone screen. During the year the offering of the Mobile TV basic package was expanded to 14 channels and the Extra package containing a further 6 channels was also put on the market. Under the synergic product portfolio called Security Program, launched in May 2008, the customers of Magyar Telekom can buy family accident insurance, family health and vehicle insurance packages at favorable rates.

Innovation programs

Through the Alternative Businesses and Corporate Development Business Unit, Magyar Telekom is actively involved in several Hungarian and European Union-sponsored research and development programs and industry innovation projects. The Mobility and Multimedia Cluster initiated by Magyar Telekom in December 2007 has been organizing innovation cooperation programs in the field of mobile and multimedia technologies research and development since February 2008. Under the auspices of the Cluster, the research and development units of the leading companies of Hungary's infocommunications industry pool their resources in order to reach greater results on both a national and international scale. In June 2008 the members of the Cluster started an open initiative called Mobility and Multimedia National Technology Platform (MMPlatform), whose goal is to prepare a long-term strategy and feasibility plan of the infocommunications industry, and to strengthen Hungary's research and development position in the European Union.

Market leadership in online advertising

In 2008, Origo Zrt. implemented several steps to strengthen its market leading position in the online advertising market. As from January, it built the eTarget click-based advertising system, which links the text of the advertisements to the relevant content, into the surfaces of its [origo] portal site, its [freemail] system, iWiW community portal and Videa video sharing service. From March 2008 the targeted display of advertisements by type and county, which can be set by the users, has also been enabled under an agreement with eTarget. This feature makes the advertisements more valuable and more interesting in content for the users, while also granting savings and higher efficiency to advertisers. In June 2008 Adnetwork Online Marketing Kft. merged into Origo as part of the Group's integration processes. As a result of the integration Origo can offer cost efficient and high-access solutions to advertisers through better exploitation of the synergies of its media products [origo], [freemail], iWiW, Adnetwork, OptiMail and Videa. The integration of Adnetwork further strengthens the market leading position of Origo Adhouse, Origo's media sales division, through which 98% of the Internet users in Hungary can be reached.

iWiW: a 4-million community site

iWiW is the biggest Hungarian community portal, boasting an outstanding number of visits, and a web 2.0 service motivating Internet use. Many people come into regular contact with the Internet through iWiW. By Christmas 2008 the number of its active registered users reached 4 million. As part of the integration processes inside the Magyar Telekom Group, in June 2008 iWiW Kft., which operates the portal, merged into Origo Zrt. As a result of exploiting Group synergies, from October 2008 T-Mobile has been offering monthly subscription and prepaid card iWiW packages, which enable registered iWiW users to call each other at discount rates. Online users' clubs were launched and in December 2008 iWiW was opened to external development, too. On the Development Portal linked to iWiW anyone can make and test new applications built on the community functions at the terms and conditions specified there. As the first step of stimulating developers, Origo invited a contest under the slogan 'Looking for the three most exciting developments'.

Origo: portal developments

One of the medium-term strategic objectives of Origo Zrt., which has been operating since October 2007, is to go beyond the online frameworks and become one of the country's leading media companies. With this goal in mind, in 2008 the company upgraded its organization, creating business units, which carry responsibility for the business success of the company, and functional units supporting them. [origo], Hungary's market leading portal group that attracts one million visitors weekly, provides access to almost 100% of the Hungarian Internet user community through its portfolio. [origo] has implemented numerous developments in order to make the contents and services in its portfolio more attractive and user-friendly. In April, the Videa video sharing portal was revamped. From June 2008 not only T-Home customers, but also the users of any Hungarian provider can access the majority of the videos offered by the [origo] Téka online video rental service. As a result of an agreement between [origo] and Disney, the subscribers of T-Home IPTV Videotéka and [origo] Téka can watch in their home the film offering of several other leading studios, too. The development of the [freemail] system implemented in 2008 further increases the security of this market leading e-mail service, and at the end of 2008 the ok.hu search engine adopted a new design and speeded up user searches through new applications.

KIBU: the innovation laboratory

Kitchen Budapest (KIBU), which celebrated the first anniversary of its foundation in June 2008, is Magyar Telekom's innovation laboratory dealing with electronic media, mobile communications and Internet. It provides space and tools for creative team work for young researchers from various scientific fields. The researchers working in the Kitchen can get acquainted with the latest research achievements, expand their knowledge and exchange ideas at regular workshops, presentations and seminars featuring prominent Hungarian and foreign lecturers. The Animata software developed by KIBU was given the Software of the Year award at the Pixelache electronic arts festival in Helsinki in October 2008. The software enables real time animation, offering new opportunities both in everyday life and entertainment. The researchers of KIBU presented their latest design pieces at the 100% Design Tokyo exhibition also in October.

Dataplex: enlarged data center

Dataplex is the most important provider of infocommunications infrastructure collocation in Hungary. The inauguration of the new 5,600 square meter wing of its Budapest data center in August was an outstanding event of 2008. Hungary's highest volume IT infrastructure expansion project of the decade has made the Dataplex facility the largest high-security data center in Central Europe and one of the top ten in all Europe. The expansion, connected with the old 8,800 square meter facility, has created one of the most advanced infocommunications single infrastructures of the continent. The company made a special point of complying with the relevant environmental and noise abatement requirements in designing and building the new center. The advanced infocommunications infrastructure services of Dataplex have attracted numerous Hungarian, regional and global customers to the Budapest facility.

M Factory: innovative mobile content

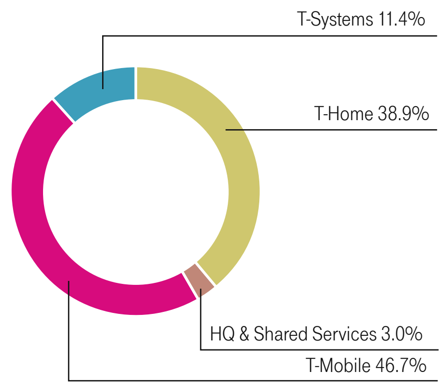
M Factory is the biggest mobile multimedia and content provider in Central and Eastern Europe. Within Magyar Telekom it is responsible for the operation and development of T-Mobile's t-zones and web'n'walk portals, for the infoSMS and MMS content services and for the aggregation of the premium-rate services. In addition, it provides interactive services for telecommunications and trade companies and the media. The Mobile Scratch Card, M Factory's own development, combines the experiences of a scratch lottery card, a quiz and a jackpot game. In June 2008 in London this product, as first in the region, won the silver class of the Mobile Content Awards. The competitive products developed by M Factory include also the vidUP video sharing and community building applications available on the t-zones portal, and the adjoining customizable vidYOU community service unveiled in February 2008. In response to customer demand, in August 2008 M Factory upgraded the t-zones WAP portal, putting its entertainment features more in focus. In November, the content of the infoSMS/MMS was also upgraded and expanded with transport information. December saw the upgrade of the web'n'walk mobile Internet portal: now users have the opportunity to customize the portal's main page.

Interactive content services

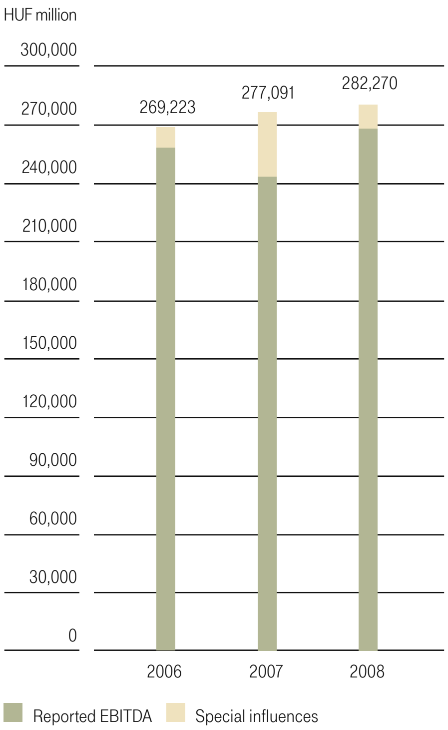
Under the strategic cooperation agreement between Magyar Telekom and IKO Production, reached in April 2008, the assets of the formerly jointly owned IKO-Telekom Média Holding were split between the owners and following the closing of the transaction due in 2009, Magyar Telekom will acquire 100% ownership of IKO New Media and IKO Content&Rights. IKO New Media is a decisive player of the Hungarian interactive mobile content and premium-rate aggregator services market, and also produces programs for television. IKO Content&Rights acts as aggregator in the market of mobile content suppliers. This dual acquisition will make Magyar Telekom a leading interactive content provider through its strengthened market presence and its improved ability to reach more favorable business opportunities.

Management report for the 2008 financial year

Revenue breakdown before intersegment eliminations



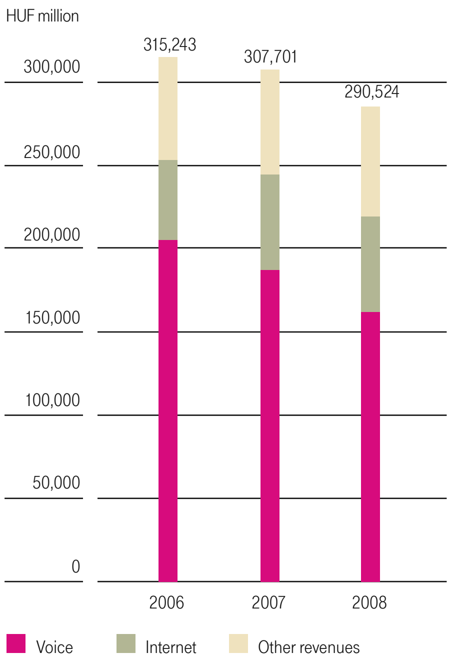
Reported and underlying EBITDA



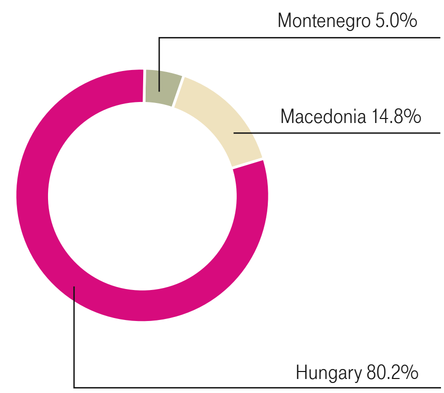
Highlights

- Revenues were down by just 0.5% to HUF 673.1 bn in 2008 compared to 2007. Fixed line voice retail revenues came under pressure due to competition from cable, mobile and alternative operators. Fixed line wholesale revenues also declined in all three countries; in Hungary this was mainly driven by the integration of international voice wholesale traffic by Deutsche Telekom since the beginning of 2008. Declining fixed line voice revenues were partly offset by growth in mobile and Internet revenues. Revenues were also supported by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5 bn accounted in the second quarter of 2008.
- EBITDA was up by 10.0% to HUF 268.4 bn, with an EBITDA margin of 39.9%. Group EBITDA excluding investigation-related costs, severance payments and accruals increased by 1.9% year-on-year. (Investigation-related costs came to HUF 5.4 bn in 2008 against HUF 5.7 bn in 2007; severance payments and accruals were HUF 8.5 bn in 2008, and, including a portion attributable to the contractual termination expense of key managers, reached HUF 27.5 bn in 2007.) EBITDA without these special influences increased by 1.9% and EBITDA margin was 41.9% in 2008 compared to 40.9% in 2007. The savings generated from the headcount reduction are reflected in the improved profitability, which was also helped by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 8.5 bn in the second quarter of 2008.
- Profit attributable to equity holders of the company (net income) increased by 54.6%, from HUF 60.2 bn to HUF 93.0 bn. Besides higher EBITDA, the increase was also due to lower depreciation and amortization expenses in 2008. Depreciation expenses decreased due to the extension of the useful life of certain network assets during 2008.
- Investments in tangible and intangible assets (CAPEX) increased from HUF 103.8 bn in 2007 to HUF 107.9 bn in 2008. Of this, HUF 52.5 bn is related to the T-Home segment, HUF 45.7 bn to T-Mobile (within this, HUF 13.2 bn was spent on mobile broadband investment in Hungary), HUF 3.3 bn to T-Systems and HUF 6.4 bn to Group Headquarters and Shared Services. The 2008 CAPEX spending also includes a HUF 2.5 bn fee for the 3G license in Macedonia and HUF 1.8 bn for non-cash items related to inventory reallocation and asset retirement obligations.

T-Home revenue breakdown



T-Home underlying EBITDA breakdown



T-Home

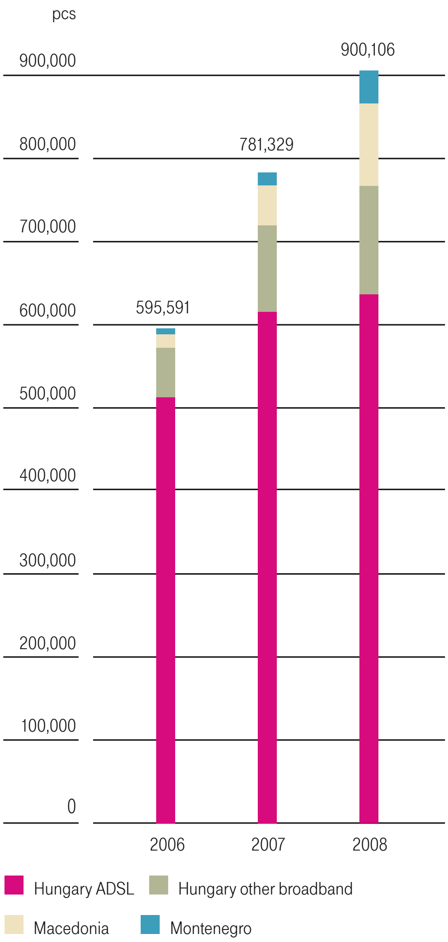
Revenues of the T-Home segment decreased by 5.6% to HUF 290.5 bn in 2008 due to increasing pressure in all our national markets resulting from competition of mobile, cable and alternative operators. Reported EBITDA increased by 5.5% to HUF 117.7 bn due to higher special influences accounted in 2007 and improved profitability. EBITDA margin excluding investigation-related costs and headcount reduction-related severance expenses was 42.3%.

T-Home Hungary

Hungarian T-Home revenues were down by 5.2% in 2008, driven by a continued decrease in voice revenues and slightly declining Internet revenues, which were partly offset by higher equipment revenues. Revenues and also EBITDA were supported by the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 3.2 bn. The savings generated from the headcount reduction are reflected in the improved profitability; EBITDA margin excluding special influences of HUF 2.0 bn was 42.5% in 2008.

The high level of mobile substitution, intensifying migration to VoIP services and the increasing competition mainly from cable operators resulted in a 9.6% decline in the total number of fixed lines compared to end-2007. Fixed line penetration decreased to 26.9%. Voice revenues were down by 9.9% in 2008 compared to 2007, driven by further declines in both traffic and average tariff levels and decreasing wholesale revenues, driven by the integration of international voice wholesale traffic by Deutsche Telekom since the beginning of 2008. In the broadband market, the total number of broadband connections was up by 6.3% and reached almost 762,000 by the end of 2008. Although we are facing some slowdown in ADSL penetration growth, increasing demand for cable broadband, mobile broadband and naked ADSL was able to offset this trend somewhat. In 2008 the number of cable broadband customers increased by 19.9% and by the end of 2008 was close to 108,000, while naked DSL customers numbered around 50,000. Internet revenues declined by 2.4%, as the 8.1% growth in our retail ADSL customer base was not able to offset the decreasing prices.

Total number of broadband connections

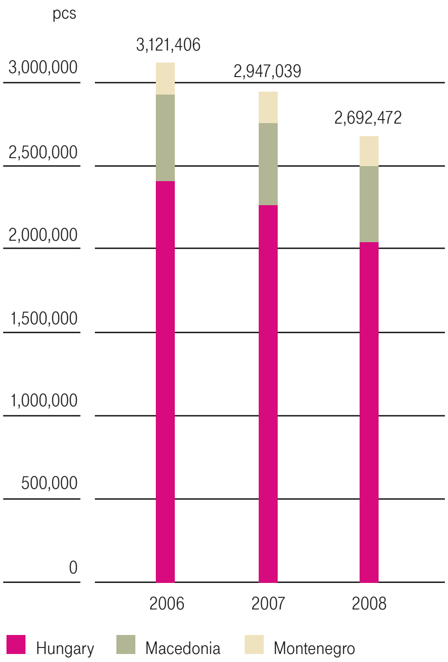


In response to the difficulties facing our fixed line business, Magyar Telekom has launched a rebranding campaign in September with the aim of repositioning itself as the leading triple-play company in Hungary. As a result of the rebranding, Magyar Telekom's residential customers are able, under a single T-Home brand, to use all home-based fixed line communication and entertainment services, which were previously branded T-Com, T-Online and T-Kábel.

One of our most important steps this year was the announcement of a new generation access network rollout plan. According to the announced strategy, Magyar Telekom aims to reach around 200,000 households by end-2009 and increase the number of households covered by a fiber network to 780,000 by end-2013. At the same time, Magyar Telekom will upgrade its cable network to EuroDocsis 3.0 in an additional 380,000 households by end-2009 to provide capability for high-bandwidth applications. The new networks will offer higher bandwidth and improved cost efficiency, enabling Magyar Telekom to put a stronger focus on high-quality double/triple-play offers at competitive prices, resulting in improved sales and customer retention.

Another important initiative this year was the introduction of our satellite TV service in November under the brand T-Home Sat TV. With this step we expanded the geographical reach of our bundled products and became the only telecommunications company in Hungary capable of offering voice, Internet and TV service nationwide. The service offers favorably priced packages and discounts, a variety of channels grouped into thematic packages, premium picture and voice quality, as well as electronic program listings. As a result of the greater focus on entertainment services, our IPTV product also strengthened, with customer numbers exceeding 28,000 by the end of 2008.

Total number of fixed lines



T-Home Macedonia

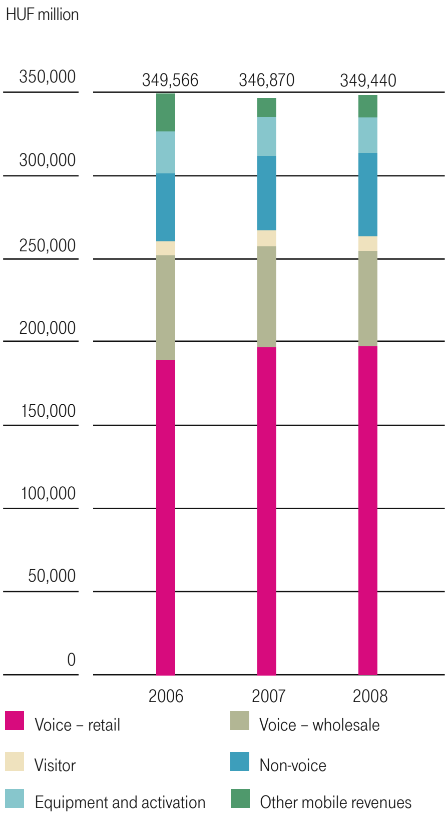
In Macedonia, revenues decreased by 3.8% to HUF 39.6 bn as the increased Internet, data and equipment revenues could not offset lower voice revenues. EBITDA margin excluding special influences (HUF 2.0 bn severance expense) was 45.7% in 2008.

The total number of Makedonski Telekom's fixed lines decreased by 7.0% to 458,015 by the end of 2008, which was mainly a result of strong mobile substitution. Fixed line penetration declined to 20.9%. Besides the pressure on our retail revenues mainly driven by mobile substitution, we face strong competition on the wholesale market from alternative operators terminating a significant part of the international incoming traffic.

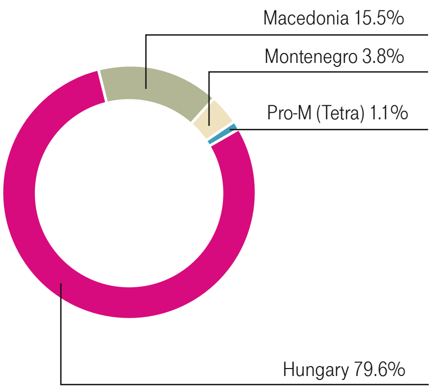
To offset the strong decline in voice traffic, Makedonski Telekom is continuously focusing on broadband services and has started bundling products. On the broadband market we are witnessing continued growth; the number of ADSL customers more than doubled to almost 100,000 by the end of 2008 thanks to our initiatives to increase speed and monthly traffic. After the launch of IPTV in November, Makedonski Telekom is aiming to exploit its unique position of offering voice, Internet and TV service, and launched its first triple-play package with great success.

In December, Makedonski Telekom decided to invest in a new generation fiber optic network with the aim of offering super-fast broadband access to its customers.

T-Mobile revenue breakdown



T-Mobile underlying EBITDA breakdown



T-Com Crna Gora

Revenues of T-Com Crna Gora decreased by 14.2% to HUF 19.0 bn in 2008. The strong increase in Internet and data revenues could not offset the declining voice revenues. The decline in wholesale revenues was driven by the significantly lower transit traffic from one of our mobile competitors. Retail revenues were also down mainly due to mobile substitution, which accelerated after the third mobile operator entered the market in the third quarter of 2007. EBITDA margin excluding special influences (HUF 0.9 bn severance expense) was 32.4% in 2008.

Montenegrin fixed line penetration decreased to 28.0% by the end of 2008 with 187,000 lines installed. Thanks to the strong focus on broadband services, the number of ADSL customers more than doubled, reaching almost 39,000 by year-end, and we expect it to increase further. In the second half of 2008 we made important progress towards enhancing efficiency and slowing fixed line revenue erosion. Thanks to our new flat voice packages, fixed line churn was already stable in the last quarter of 2008. There is increasing demand for our IPTV product, the number of subscribers exceeded 17,000, a seven-fold increase compared to end-2007. We plan to introduce bundled fixed line products to the market to further strengthen our position and defend voice revenues.

T-Mobile

The T-Mobile segment showed a 0.7% revenue increase to HUF 349.4 bn as the increasing non-voice service revenues were mainly offset by declining voice-wholesale and visitor revenues. Our international subsidiaries showed revenue growth in 2008 despite the increased competition coming from the third mobile operators in both Macedonia and Montenegro. However, regulation and strong competition put pressure on our profitability. T-Mobile segment's EBITDA declined by 0.6% to HUF 148.4 bn and EBITDA margin was 42.5% in 2008.

Breakdown of T-Mobile Hungary customer base

T-Mobile Hungary

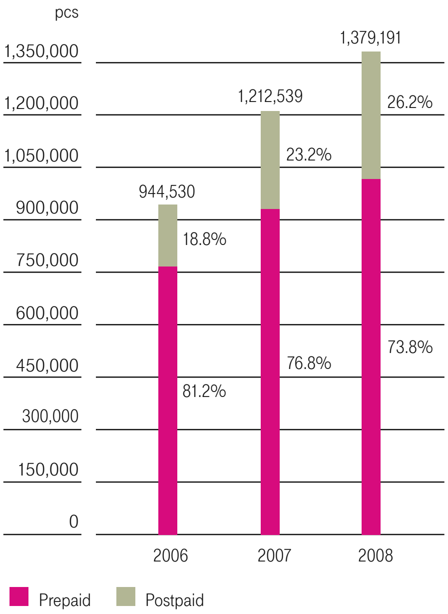
T-Mobile Hungary showed a revenue decline of 0.3% to HUF 280.6 bn in 2008 as lower wholesale revenues were only partly offset by higher non-voice revenues. Hungarian mobile revenues were significantly impacted by regulatory developments. The 15% cut in mobile termination fees of T-Mobile Hungary in January 2008 decreased wholesale revenues, while the EU voice roaming regulation put pressure on our roaming and visitor revenues. EBITDA was down by 0.7% and amounted to HUF 118.0 bn, while the EBITDA margin was 42.1% in 2008.

Penetration growth accelerated further during 2008, rising to 121.8% by the end of the year in Hungary. T-Mobile Hungary maintained its market leading position with a market share of 43.9%, the subscriber base increased by 10.5% to 5.4 million.

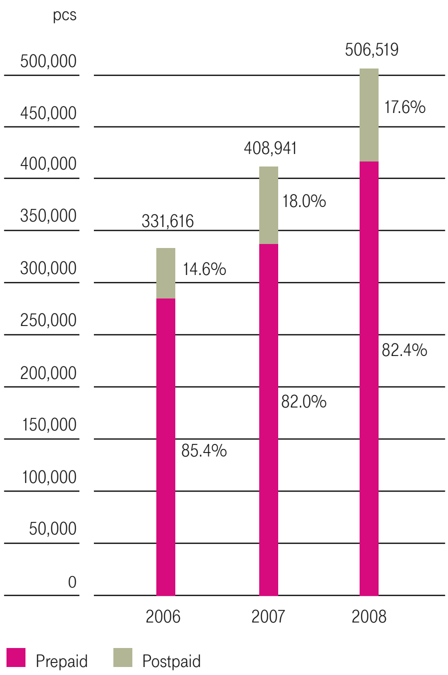
The cut in mobile termination rates and the widening use of closed user group discounts were the main driver for the erosion in average tariff levels, which the slight increase in MOU, the significant increase in the subscriber base and non-voice services were not able to offset. Consequently, average revenue per user declined by 10.0% by the end of 2008. To offset the negative ARPU trend, we are continuously migrating customers to postpaid packages resulting in a postpaid ratio of 38.5% by end-2008.

Competition in the mobile broadband market continued, as all three operators maintained their focus on this area. The number of broadband customers at T-Mobile Hungary dynamically increased and exceeded 260,000 at the end of 2008, leading to 14.5% growth in the non-voice revenues. Our customer market share on the mobile broadband market exceeded 53% at the end of 2008. The population-based outdoor coverage of our HSDPA network was around 67% by the end of December and we aim to further improve coverage in the coming years.

Breakdown of T-Mobile Macedonia customer base



Breakdown of T-Mobile Crna Gora customer base



T-Mobile Macedonia

T-Mobile Macedonia reported revenue growth of 3.9% to HUF 44.2 bn. The 13.7% growth in the customer base, and the improving customer mix more than offset the 15.3% decline in ARPU, which resulted from the continuous tariff decreases driven by tough competition. EBITDA increased by 3.7% to HUF 23.1 bn with an EBITDA margin of 52.3%.

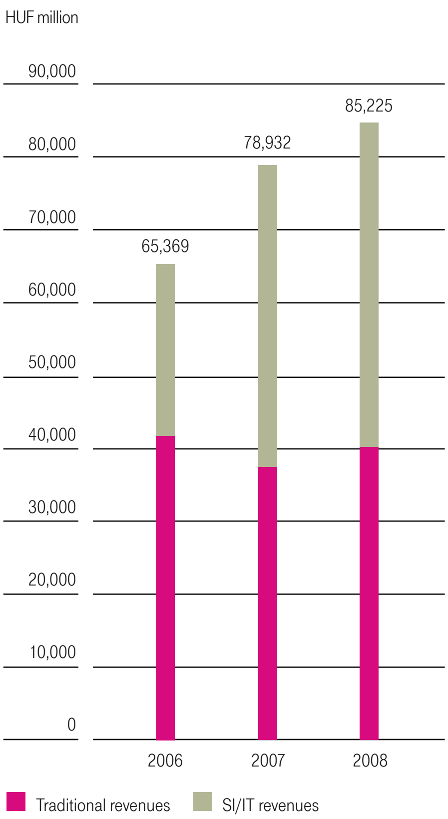
Strong promotions pushed penetration up to 110.5% by the end of 2008, driven by the focus on customer acquisition at all three operators. T-Mobile Macedonia maintained its strong market leadership with a market share of 59.4% based on SIM cards at the end of 2008. In December T-Mobile Macedonia was granted a 3G license at a cost of EUR 10 million. As part of the agreement, the company is obliged to cover 50% of the population by the end of 2009 and increase the coverage to 80% by the end of 2011.

T-Mobile Crna Gora

Revenues of T-Mobile Crna Gora increased by 5.2% to HUF 18.1 bn. The strong growth in the customer base was able to offset the lower average usage and the decline in tariff levels driven by the market entry of the third mobile operator in 2007. Wholesale revenues increased, partly due to the introduction of SMS interconnection fees in April. The entrance of the new operator put pressure on profitability; as a result EBITDA declined by 13.7% to HUF 5.6 bn. EBITDA margin was 30.9%.

The penetration level in Montenegro was 185.6% at the end of December 2008 according to the data reported by the Montenegrin Telecommunications Agency. Driven by the entrance of the third mobile operator in July 2007, penetration growth accelerated and tariff competition further intensified in 2008. ARPU dropped by 11.3% as a result of the introduction of packages with bundled free minutes and closed user group offers. We are still focusing on the postpaid segment, where T-Mobile Crna Gora is the market leader with a 42.9% market share. Our overall market share was 36.1% at the end of December.

T-Systems revenue breakdown



Pro-M

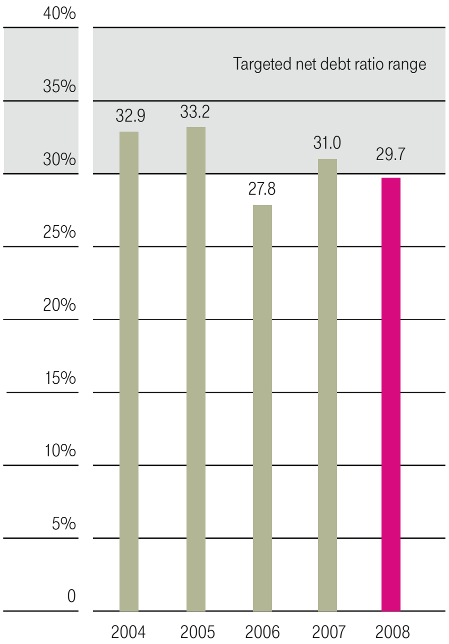
Revenues of Pro-M, the TETRA service company, totaled HUF 8.7 bn in 2008 compared to HUF 7.3 bn in 2007. Revenues increased due to the higher sale of network elements (HUF 2.5 bn in 2008 compared to HUF 1.3 bn in 2007). EBITDA was HUF 1.6 bn and the EBITDA margin was 19.0% in 2008.

T-Systems

Revenues of the T-Systems segment increased by 8.0% to HUF 85.2 bn, which was a result of higher system integration/IT revenues and the reversal of provisions related to fixed to mobile traffic revenues in the amount of HUF 5.3 bn. Thanks to the integration efforts, efficiency improvements and the above mentioned reversal of provisions, EBITDA increased by 99.7% to HUF 23.6 bn. The EBITDA increase was also driven by the reversal of a bad debt impairment accounted in 2007. Excluding the HUF 1.5 bn severance-related expenses, EBITDA margin was 29.4% in 2008.

In traditional voice revenues, T-Systems is mainly facing pressure from mobile substitution, which resulted in significant tariff erosion. To protect our customer base and minimize the decrease in the business telecommunications voice market, we are focusing on cost efficient bundled products and trying to strengthen our cross-selling opportunities. In addition, T-Systems realized several big projects related to network upgrades, data warehousing and outsourcing projects during 2008.

Net debt to total capital ratio



Group Headquarters and Shared Services segment

Revenues before intersegment elimination were down by 6.7% to HUF 22.1 bn. EBITDA increased to HUF -21.4 bn due to lower headcount reduction-related severance payments and accruals (HUF 1.2 bn in 2008 compared to HUF 7.6 bn in 2007) and lower investigation-related expenses (HUF 5.4 bn in 2008 compared to HUF 5.7 bn in 2007).

Cash flow generation, dividend payment

Net cash generated from operating activities decreased from HUF 231.3 bn to HUF 210.3 bn. The higher EBITDA was more than offset by increased working capital requirements, mainly driven by the use of provisions related to the headcount reduction program and the reversal of provisions related to fixed to mobile traffic revenues. Net cash used in investing activities decreased from HUF 134.9 bn to HUF 113.4 bn due to lower payments for other financial assets in 2008. Net cash used in financing activities decreased significantly, from HUF 109.2 bn to HUF 79.2 bn, as 2007 figures also include the dividends paid to shareholders in January 2007 for 2005 earnings and the related financing requirement.
Net debt decreased slightly, from HUF 261.6 bn to HUF 253.7 bn by the end of 2008. The net debt ratio (net debt to net debt plus total equity) also slightly decreased and stood at 29.7% at end-2008.

Our dividend policy continues to place finding value-creating acquisitions as Magyar Telekom's strategic priority. These potential future transactions require that balance sheet flexibility be maintained by keeping the net debt ratio in the range of 30-40%.
In line with this dividend policy, and reflecting the Group's solid financial position and strong cash flow generation in 2008, the Board of Directors proposed a dividend level of HUF 74 per ordinary share for the 2008 financial year for approval to the Annual General Meeting.

Outlook

Looking ahead, the general economic outlook and its potential impact on our business is still uncertain and difficult to predict. Despite the very challenging environment and uncertain outlook that we face, not just in Hungary but in our foreign markets as well, we are targeting for 2009 a revenue decline of 1% and an EBITDA decline of 1 to 2% compared to the 2008 results (excluding both special influences and the one-off item related to the fixed-to-mobile provision reversal). In terms of CAPEX, as announced earlier, we aim to maintain the absolute 2008 level this year, despite the weakening Hungarian currency. This flat level also includes the investments in the fibre roll-out program announced earlier. We are continuously monitoring the economic environment and its impact on our business and will communicate if and when our assessment of our outlook changes.

Consolidated financial statements

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Magyar Telekom Nyrt. ("the Company"), which comprise the consolidated balance sheet as of 31 December 2008 (in which the balance sheet total is HUF 1,168,856 million and the profit attributable to the equity holders of the Company is HUF 93,008 million) the consolidated income statement, consolidated statement of changes in equity, and the consolidated cash flow statement, for the year then ended and the notes to the financial statements including a summary of the main accounting policies as well as other disclosures.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the consolidated financial statements. We conducted our audit in accordance with Hungarian and International Standards on Auditing and with applicable laws and regulations in force in Hungary. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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

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

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Magyar Telekom Nyrt. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2008, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The business report is consistent with the disclosures in the financial statements.

Budapest, March 17, 2009

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

Hegedűsné Szűcs Márta
Statutory auditor
Licence number: 006838

Note:

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

CONSOLIDATED BALANCE SHEETS

	Notes	2007	2008	2008 (unaudited – Note 2.1)
			At December 31,	
		(in HUF millions)	(in HUF millions)	(million USD)
ASSETS				
Current assets				
Cash and cash equivalents	6	47,666	66,680	355
Trade and other receivables	7	103,576	101,895	542
Other current financial assets	8.1	63,431	68,498	365
Current income tax receivable	9.2	1,857	2,676	14
Inventories	10	10,652	13,291	71
Non current assets held for sale	11	4,393	1,775	9
Total current assets		**231,575**	**254,815**	**1,356**
Non current assets				
Property, plant and equipment – net	12	534,731	543,689	2,894
Intangible assets – net	13	337,227	337,692	1,797
Investments in associates and joint ventures	14	4,936	4,136	22
Deferred tax assets	9.4	1,286	1,590	8
Other non current financial assets	8.2	24,977	26,094	139
Other non current assets	15	846	840	4
Total non current assets		**904,003**	**914,041**	**4,864**
Total assets		1,135,578	1,168,856	6,220
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	16	25,210	96,331	513
Other financial liabilities	17	44,666	36,623	195
Trade payables	18	86,046	92,340	490
Current income tax payable	9.2	2,365	1,697	9
Provisions	19	20,811	17,235	92
Other current liabilities	20	43,920	37,210	198
Total current liabilities		**223,018**	**281,436**	**1,497**
Non current liabilities				
Financial liabilities to related parties	16	254,432	243,097	1,294
Other financial liabilities	17	55,038	22,910	122
Deferred tax liabilities	9.4	2,714	11,071	59
Provisions	19	12,886	9,417	50
Other non current liabilities	21	5,797	583	3
Total non current liabilities		**330,867**	**287,078**	**1,528**
Total liabilities		**553,885**	**568,514**	**3,025**
EQUITY				
Shareholders' equity				
Common stock		104,275	104,275	555
Additional paid in capital		27,379	27,379	146
Treasury stock		(1,179)	(1,179)	(6)
Cumulative translation adjustment		(688)	5,797	31
Revaluation reserve for available for sale financial assets – net of tax		118	(59)	-
Reserve for equity settled share based transactions		49	49	-
Retained earnings		385,044	401,001	2,133
Total shareholders' equity		**514,998**	**537,263**	**2,859**
Minority interests		**66,695**	**63,079**	**336**
Total equity		**581,693**	**600,342**	**3,195**
Total liabilities and equity		1,135,578	1,168,856	6,220

These consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2009 and signed on their behalf by:

Christopher Mattheisen
Chairman and Chief Executive Officer

Thilo Kusch
Chief Financial Officer

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

CONSOLIDATED INCOME STATEMENTS

	Notes	2006	2007	2008	2008 (unaudited – Note 2.1)
		For the year ended December 31,			
		HUF			USD
		(in HUF millions, except per share amounts)			(million USD)
Revenue	22	671,196	676,661	673,056	3,582
Expenses directly related to revenues	23	(182,073)	(177,265)	(167,558)	(892)
Employee related expenses	24	(95,253)	(120,176)	(100,320)	(534)
Depreciation and amortization		(122,249)	(115,595)	(106,120)	(565)
Other operating expenses	25	(138,805)	(139,314)	(141,049)	(750)
Operating expenses		**(538,380)**	**(552,350)**	**(515,047)**	**(2,741)**
Other operating income	26	3,575	4,001	4,249	22
Operating profit		**136,391**	**128,312**	**162,258**	**863**
Finance expenses	27	(30,102)	(35,186)	(37,199)	(198)
Finance income	28	4,692	5,217	6,891	37
Share of associates' and joint ventures' profits	14	703	934	1,341	7
Profit before income tax		**111,684**	**99,277**	**133,291**	**709**
Income tax expense	9.1	(24,220)	(26,221)	(27,698)	(147)
Profit for the year		**87,464**	**73,056**	**105,593**	**562**
Attributable to:					
Equity holders of the Company (Net income)		75,453	60,155	93,008	495
Minority interests		12,011	12,901	12,585	67
		87,464	**73,056**	**105,593**	**562**
Earnings per share (EPS) information:					
Profit attributable to the equity holders of the Company		75,453	60,155	93,008	495
Weighted average number of common stock outstanding (thousands) used for basic EPS		1,040,321	1,041,070	1,041,242	1,041,242
Average number of dilutive share options (thousands)		290	-	-	-
Weighted average number of common stock outstanding (thousands) used for diluted EPS		1,040,611	1,041,070	1,041,242	1,041,242
Basic earnings per share (HUF and USD)		72.53	57.78	89.32	0.48
Diluted earnings per share (HUF and USD)		72.51	57.78	89.32	0.48

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

CONSOLIDATED CASHFLOW STATEMENTS

	Notes	HUF 2006 (in HUF millions)	HUF 2007 (in HUF millions)	HUF 2008 (in HUF millions)	USD 2008 (unaudited – Note 2.1) (million USD)
		For the year ended December 31,			
Cashflows from operating activities					
Profit for the year		87,464	73,056	105,593	562
Depreciation and amortization		122,249	115,595	106,120	565
Income tax expense		24,220	26,221	27,698	147
Finance expenses		30,102	35,186	37,199	198
Finance income		(4,692)	(5,217)	(6,891)	(37)
Share of associates' and joint ventures' profits		(703)	(934)	(1,341)	(7)
Change in assets carried as working capital		(2,245)	6,897	1,481	8
Change in liabilities carried as working capital		8,913	25,592	(8,379)	(44)
Income tax paid		(19,388)	(12,343)	(20,768)	(111)
Dividend received		157	72	127	1
Interest and other financial charges paid		(33,480)	(32,528)	(34,119)	(182)
Interest received		2,002	5,742	7,923	42
Other cashflows from operations		(6,797)	(5,999)	(4,354)	(23)
Net cash generated from operating activities		**207,802**	**231,340**	**210,289**	**1,119**
Cashflows from investing activities					
Purchase of property plant and equipment (PPE) and intangible assets	29	(96,790)	(103,097)	(116,039)	(618)
Purchase of subsidiaries and business units	30	(35,327)	(710)	(762)	(4)
Cash acquired through business combinations		379	485	-	-
Cash spun-off through demerger		-	(1,173)	-	-
Payments for other financial assets – net		(13,495)	(39,491)	(4,075)	(22)
Proceeds from disposal of subsidiaries	5.5	115	-	1,233	7
Proceeds from disposal of PPE and intangible assets		6,798	9,105	6,194	33
Net cash used in investing activities		**(138,320)**	**(134,881)**	**(113,449)**	**(604)**
Cashflows from financing activities					
Dividends paid to shareholders and minority interest		(77)	(162,558)	(95,343)	(507)
Proceeds from loans and other borrowings		183,051	283,184	143,014	761
Repayment of loans and other borrowings		(218,619)	(230,238)	(126,901)	(675)
Proceeds from sale of treasury stock		491	391	-	-
Net cash used in financing activities		**(35,154)**	**(109,221)**	**(79,230)**	**(421)**
Exchange gains on cash and cash equivalents		1,569	221	1,404	7
Change in cash and cash equivalents		**35,897**	**(12,541)**	**19,014**	**101**
Cash and cash equivalents, beginning of year		24,310	60,207	47,666	254
Cash and cash equivalents, end of year	6	**60,207**	**47,666**	**66,680**	**355**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Treasury stock (c)	Cumulative translation adjustment (d)	Revaluation reserve for AFS financial assets – net of tax (e)	Reserve for equity settled share based transactions (f)	Retained earnings (g)	Share-holders' equity	Minority interests (h)	Equity
Balance at December 31, 2005	**1,042,811,600**	**104,281**	**27,382**	**(1,926)**	**(420)**	**149**	**119**	**397,982**	**527,567**	**70,127**	**597,694**
Reduction in capital as a result of merger with T-Mobile HU (m)	(43,385)	(4)	(2)					(12)	(18)		(18)
Dividend (i)								(76,122)	(76,122)		(76,122)
Dividend declared to minority interests (j)									-	(43)	(43)
Sale of Cardnet (n)									-	(71)	(71)
MKT's purchase of its own shares (o)									-	(14,856)	(14,856)
Result of TSH's sale of a business unit (k)								205	205		205
Share based payments (Note 24.1)							36		36		36
Share options exercised by CEO (p)							(106)	(282)	(388)		(388)
Share options exercised by managers (l)				422				87	509		509
Change in reserve for AFS financial assets (e)						(149)			(149)	(45)	(194)
Cumulative Translation Adjustment					(1,054)				(1,054)	5	(1,049)
Profit for the year								75,453	75,453	12,011	87,464
Balance at December 31, 2006	**1,042,768,215**	**104,277**	**27,380**	**(1,504)**	**(1,474)**	**-**	**49**	**397,311**	**526,039**	**67,128**	**593,167**
Dividend (i)								(72,729)	(72,729)		(72,729)
Dividend declared to minority interests (j)									-	(13,729)	(13,729)
Elimination of the "B" share (a)	100								-		
Share options exercised by managers (l)				325				66	391		391
Excess related to the acquisition of TSH (q)								3	3	1,540	1,543
TSH demerger (r)								243	243	(1,312)	(1,069)
Reduction in capital as a result of merger with T-Online and Emitel (s)	(22,700)	(2)	(1)					(5)	(8)		(8)
Change in reserve for AFS financial assets (e)						118			118	92	210
Cumulative Translation Adjustment					786				786	75	861
Profit for the year								60,155	60,155	12,901	73,056
Balance at December 31, 2007	**1,042,745,615**	**104,275**	**27,379**	**(1,179)**	**(688)**	**118**	**49**	**385,044**	**514,998**	**66,695**	**581,693**
Dividend (i)								(77,051)	(77,051)		(77,051)
Dividend declared to minority interests (j)									-	(18,431)	(18,431)
Change in reserve for AFS financial assets (e)						(177)			(177)	(136)	(313)
Cumulative Translation Adjustment					6,485				6,485	2,366	8,851
Profit for the year								93,008	93,008	12,585	105,593
Balance at December 31, 2008	**1,042,745,615**	**104,275**	**27,379**	**(1,179)**	**5,797**	**(59)**	**49**	**401,001**	**537,263**	**63,079**	**600,342**
Of which treasury stock	(1,503,541)										
Shares of common stock outstanding December 31, 2008	**1,041,242,074**										

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

Consolidated statements of changes in equity (notes)

(a) The total amount of issued shares of common stock of 1,042,745,615 (each with a nominal value of HUF 100) is fully paid as at December 31, 2008. Total shareholders' equity included one Series „B" preference share at the nominal value of HUF 10,000 until September 30, 2007. This Series "B" share was held by the Ministry of Economics and Transport, and bestowed certain rights on its owner, including access to information, and the appointment of a Director. This share could only be held by the Government or its nominee. In order to comply with EU regulations, a new Hungarian regulation in 2007 required the Company to eliminate the "B" share and the special rights attached to it, consequently, the "B" share was transformed into 100 ordinary shares. The number of authorized ordinary shares on December 31, 2008 is 1,042,745,615.

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

(c) Treasury stock represents the cost of the Company's own shares repurchased. Of the Treasury shares as at December 31, 2008, 103,530 can be used by the ex-CEO for his share options still outstanding (Note 24.1.2).

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

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

(f) Reserve for equity settled share based transactions includes the compensation expenses accrued in equity related to share settled compensation programs. When equity instruments are issued or treasury shares are utilized as part of the program, the accumulated balance related to the particular program and employees is utilized, and is taken out of the reserve (Note 24.1).

(g) Retained earnings include the accumulated and undistributed net income of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2008 amounted to approximately HUF 270,869 million (HUF 248,000 million at December 31, 2007).

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

(i) In 2008 Magyar Telekom Plc. declared HUF 74 dividend per share (HUF 70 in 2007, HUF 73 in 2006).

(j) The amount of dividend declared in 2006 to minorities includes the amount declared to the minority owners of smaller subsidiaries. The amount of dividend declared in 2007 and 2008 to minorities includes predominantly the amount declared to the minority owners of Makedonski Telekom (MKT) and Crnogorski Telekom (CT).

(k) In 2006 T-Systems Hungary (TSH), an associate of the Group at that time sold one of its business units to another member of Deutsche Telekom group. TSH's gain on the transaction (HUF 418 million) resulted in an increase of TSH's net assets, the Group's share of which (HUF 205 million) was recognized directly in Retained earnings.

(l) In 2006 managers exercised share options, for which the Company used its treasury shares. As a result of these transactions, the Company sold 538,835 of its treasury shares to the managers at the fixed option prices. On the sale of the treasury shares the Company recognized a gain of HUF 87 million, which was recognized in Retained earnings. In 2007, managers exercised further options, for which the Company used its treasury shares. As a result of these transactions, the Company sold 414,283 of its treasury shares to the managers at the fixed option prices. On the sale of the treasury shares the Company recognized a gain of HUF 66 million, which was recognized in Retained earnings. For more details on the programs see Note 24.1.

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

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

(o) In 2006 MKT bought 10% of its own shares from the Government of Macedonia during a public tender issued for the sale of the Government shares. As a result of this transaction, Magyar Telekom's share of ownership increased from 51% to 56.67% resulting in a decrease in the minority interest in MKT (Note 5.3.5).

(p) On December 5, 2006, Mr. Elek Straub, the former CEO and Chairman of the Company resigned. As part of the resignation agreement, Mr. Straub exercised 1,181,178 of his share options, of which 487,465 would only have vested on July 1, 2007, which was accelerated. The whole transaction was settled in cash instead of shares as intended by the original agreement. By December 2006 the Company had accumulated HUF 155 million (including HUF 7 million for pre-mature vesting) in a Reserve for equity settled share based transactions, of which HUF 106 million was released. The closing balance of this reserve of HUF 49 million at the end of 2006, 2007 and 2008 represents the amount reserved for the 103,530 options (granted in 2000) Mr. Straub still has open (Note 24.1.2).

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

(q) As of January 1, 2007 Magyar Telekom acquired an additional 2% ownership in TSH for a cost of HUF 60 million. The acquisition was accounted for at cost as the transaction took place between entities under common control, and resulted in an excess of HUF 3 million recognized in Retained earnings (Note 5.2.2).

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

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

Together with the approval of these financial statements for issue, the Board of the Company proposes a HUF 74 per share dividend distribution to be approved by the Annual General Meeting of the Company in April 2009.

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

Notes to the consolidated financial statements

1 General information

1.1 About the Company

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

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

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

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

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

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

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

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

1.2 Investigation into certain consultancy contracts

As previously disclosed, in the course of conducting their audit of 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.

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.

1.3 Public service concession and license arrangements

1.3.1 Hungarian Fixed line

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. Act C of 2003 on Electronic Communications, the latest act on the telecommunications sector, came into effect on January 1, 2004. The National Communications Authority of Hungary (NCAH) is the supreme supervisory body. Magyar Telekom Plc. was designated as universal service provider in its former concession areas till December 31, 2008.

According to the Act on Electronic Communications, universal services are basic communications services that should be available to all customers at an affordable price. Universal service providers are entitled to compensation for their net avoidable costs, except for the costs incurred from voluntary discount pricing plans offered to residential subscribers. In practice, Magyar Telekom Plc. has not received compensation since 2004. Furthermore, in the first half of 2008, the competent Ministry abolished the funding system based on social eligibility granted to a part of the universal service subscribers.

Magyar Telekom Plc. has been a Universal Service Operator (USO) since 2002. The last effective USO contract was signed in 2004 and expired at the end of 2008; no new contract has been concluded since. The Ministry's intention is to preserve the universal service and for that reason through the amendment of a decree in December, 2008 orders the operators formerly in universal service provider status – amongst them Magyar Telekom Plc. – to continue the provisioning of universal service under unchanged terms and conditions. Currently the Company does not consider itself universal service provider in lack of an effective universal service contract. The Company's objective is the discontinuation of being universal service provider or modifying the terms and conditions thereof (e.g. effective financing, reduction of conditions). The negotiations between the Ministry and the Company will continue in 2009 which will probably result in a new universal service contract.

In the field of electronic communications Magyar Telekom was designated as an SMP (an operator with significant market power) in 12 fixed line markets out of the 18 relevant markets stipulated by the EU in 2004 and 2005. These 12 markets include all retail and wholesale telephony services, the market of wholesale leased line termination, the market of minimum set of leased lines and the wholesale broadband market. As a result of the market analysis conducted at the end of 2006 the Company was designated as SMP on the same markets as in the first round analysis in 2004 with basically no changes in the corresponding obligations. In 2008 the NCAH commenced the third round of market analysis. To date only the mobile termination wholesale market analysis resolution was published in this round of analysis. SMP resolutions concerning all other markets subject to analysis are expected to be published in the second half of 2009.

Currently in Hungary, retail tariffs are regulated in two ways. Price cap methodology is applicable for universal services, and - based on SMP resolutions on residential and business access markets – there is another formula used for subscription fees. In addition there is a prohibition of price squeeze in effect for SMP operators and, in accordance with the Act on Unfair and Restrictive Market Practices, retail prices should be set in accordance with wholesale tariffs providing an acceptable level of retail margins.

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

According to the Act on Electronic Communications, designated SMP operators are obliged to prepare reference offers for unbundled local loops (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NCAH. The pricing of these services has to be cost based and calculated – according to the NCAH resolution on the market of wholesale unbundled access to metallic loops published at the end of 2007 - by Long Run Incremental Costs ("LRIC") method as opposed to using Fully Distributed Costs based on a 2003 Ministerial Decree. The SMP operators may refuse the offer for unbundling if there are technical or economic barriers or if the provision of access to the local loop or its broadband network access would endanger the integrity of the SMPs' network.

SMPs are also obliged to prepare reference offers for interconnection (RIO), containing applicable fees, and to provide these services in accordance with the reference offer when there is a request for them by other telecommunications service providers. The reference offers of the SMPs must be approved by the NCAH, and prices have to be based on LRIC. Fees in the currently effective reference offers are applicable from April 26, 2008. The NCAH approval process of the Company's reference offers (MARIO, MARUO) containing the standard terms and conditions in the Company's service area is under way, and expected to enter into force in March, 2009.

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

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

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, Makedonski Telekom (MKT). MKT is the largest fixed line service provider in Macedonia. The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL), enacted in March 2005. With the latest changes of the ECL published on August 4, 2008, the existing Concession Contract of MKT is no longer valid as of September 4, 2008. On September 5, 2008 the Agency for Electronic Communications (The Agency), ex officio, has issued a notification to MKT for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contract. Radiofrequency licenses were issued to the operators for the bands granted with the Concession Contracts in a form prescribed by the ECL.

On December 27, 2007 the Commission of Agency for Electronic Communications ("Agency") brought a decision to publish a public tender for the universal provider of electronic communications services in the Republic of Macedonia. The opening of the qualified bids was on February 18, 2008, and on February 22, 2008 based on the decision of the Agency, MKT was selected as one of the candidates for universal service provider in the prequalification. Written invitation (without public announcement) by the Agency will be submitted to selected candidates from the first phase, to submit offer for selection of universal service provider.

The regulatory framework for the tariff regulation for MKT until August 2008 was provided in the Concession Contract. With the enactment of the ECL in March 2005 and the published Draft bylaw for retail price regulation in September 2008, the Agency may prescribe one of the following ways of retail regulation of fixed telephony services: price cap, individual price approval, cost based prices or benchmarks. MKT had a cost based price obligation for the Regulated wholesale services, using fully distributed costs (FDC) methodology until July 2007 and using Long Run Incremental Costs methodology (LRIC) subsequently. A proposal for interconnection fees with LRIC was submitted by MKT in July 2007 and for unbundling fees in December 2007. On May 23, 2008, the Agency issued approval for the new decreased interconnection and unbundling fees, based on the audit report on MKT's costing accounting system issued by an independent auditor.

Under the ECL, MKT has been designated as an SMP in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines. Based on 4 enacted bylaws and several Draft bylaws published in September 2008 MKT will be obliged to prepare several additional regulated wholesale products. MKT as an SMP operator has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with officially signed interconnection contract. On November 15, 2006, MKT signed the first RIO (Reference Interconnection Offer) based Interconnection Agreement with an alternative fixed network operator. On April 16, 2007, MKT signed the first RUO (Reference Unbundling Offer) based Unbundling Agreement with an alternative fixed network operator. MKT implemented the number portability starting from September 1, 2008.

1.3.3 Montenegrin Fixed line

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

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

In 2007, cable television and WiMax based fixed wireless access licenses were distributed in Montenegro and CT has the right to provide both services. CT launched its IPTV service in 2008.

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

1.3.4 Hungarian Mobile

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

The initial duration of the concession regarding the GSM 900 public mobile radio telephone service was a period of 15 years starting from the execution of the concession agreement (November 4, 1993 to November 4, 2008). On October 7, 1999 an amended concession contract was signed between the Ministry of Transport, Communications and Water Management and T-Mobile HU extending T-Mobile HU's rights and obligations to also provide service in the 1800 MHz band in Hungary till October 7, 2014. The duration of the concession regarding the DCS 1800 public mobile radio telephone service is 15 years starting from the execution of the new concession agreement (October 7, 1999 to October 7, 2014). As stipulated in the concession contracts, the Minister is entitled to extend the concession period for both services upon their expiration for another 7.5 years without the invitation of a tender. On November 8, 2007, the Company signed the renewed Concession Contract along with the Cooperation Agreement with the Minister that is effective from November 2008. The new Concession Contract prolonged the duration of the 900 MHz frequency usage right till May 4, 2016.

On December 7, 2004, T-Mobile HU obtained the exclusive right of use of certain frequency blocks for the deployment and operation of an IMT2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until December 7, 2019) with an option to extend it for another 7.5 years. T-Mobile HU was obliged by the term of the license decree to start commercial 3G service within 12 months after the acquisition of the license within the inner city of Budapest, which was completed. We were also obliged to reach a population-wide coverage of 30% within 36 months of license acquisition which was also completed in December 2006. On August 26, 2005 T-Mobile HU started to provide 3G service and has been operating it in compliance with the license conditions.

T-Mobile HU is subject to number portability regulation since May 2004, applicable only in case of other mobile operators.

In January 2005 and October 2006 the NCAH designated T-Mobile HU as having significant market power in the mobile wholesale call termination market, and it is currently subject to regulatory obligations regarding the termination charge of calls into its network. In December 2008 the NCAH designated T-Mobile HU as an SMP for the third time in a row and in its resolution reinforced the symmetric mobile termination fees applicable from January 1, 2009, and envisaged further reduction of tariffs until December 2010 based on a new 'glide path'. The Company had appealed in court against the resolution.

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

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

In the tender for the fourth mobile license a combined IMT-2000/UMTS/ DCS 1800/E-GSM900 spectrum package (so called 'A' block) is offered for new entrant candidates. Incumbent mobile operators are excluded from the bid. The frequency usage rights may be transferred wholly (though not to existing mobile operators), and in the case of E-GSM900 band there is a possibility of transferring maximum 16 channels to incumbent mobile operator(s). Four companies have submitted bids.

Only one license will be issued on the 450 MHz tender, for digital cellular system having wider bandwidth. Incumbent mobile operators and 3.5 GHz FWA license holders are excluded from the bid. Two companies have submitted bids.

Five licenses are to be issued in the 26 GHz bid; 2 licenses for 112 MHz wide blocks, 1 license for a 84 MHz wide block and 2 licenses for 56 MHz wide frequency block. Incumbent mobile operators may bid for the 84 MHz wide block only. The frequencies may be used for publicly available electronic communication services and for the operation of electronic communications networks (mobile backhaul). T-Mobile HU submitted its bid document solely for the 26 GHz 'D' block and two companies for the 'E' block.

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), Magyar Telekom's subsidiary, is the leading mobile service provider in Macedonia. With the latest changes of the Electronic Communications Law published on August 4, 2008, the existing Concession Contract of T-Mobile MK is no longer valid as of August 5, 2008. On September 5, 2008 the Agency for Electronic Communications, ex officio, has issued a notification to T-Mobile MK for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile MK with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until September 5, 2018, which can be renewed up to additional 20 years. T-Mobile MK is also registered to provide a public network for data transmission and radio transmission, with the corresponding data transmission and radio communications services, according to the ECL.

After the analysis of the market "Call termination services in public mobile communication networks" the Agency on November 26, 2007 brought a decision by which T-Mobile MK and Cosmofon (competitor of T-Mobile MK) were designated with SMP status on Market 16 (Call termination services in public mobile communication networks) and several obligations were imposed (interconnection and access, transparency in interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting).

The Agency has published a public tender for granting one license for 3G radiofrequencies utilization in November 2007. Cosmofon won the tender and started the 3G commercial operations from August 12, 2008. On September 2, 2008 a decision for granting three 3G licenses was published for EUR 10 million one-off fee each. On September 15, 2008 a new tender for additional three 3G licenses was published and T-Mobile MK won one license which was granted to it on December 17, 2008. T-Mobile MK is obliged to launch commercial start of the 3G services by June 17, 2009. TMMK paid EUR 10 million as one-off fee for the 3G license.

The Government has published an official decision for granting additional two 3G licenses for EUR 5 million one off fee, each. The public tender for granting these licenses is still not published.

1.3.6 Montenegrin Mobile

T-Mobile Crna Gora (T-Mobile CG), the Group's subsidiary, is the holder of one of three GSM/UMTS licenses issued in Montenegro. T-Mobile CG, as the second mobile operator, was launched on July 1, 2000. The third mobile operator entered the market in 2007. T-Mobile CG started 3G operations in 2007.

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

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated financial statements are presented in millions of HUF. For the convenience of the reader, the consolidated balance sheet, income statement and cashflow statement for the year 2008 are also presented in millions of U.S. dollars (USD) translated at a rate of HUF 187.91 to USD 1 (the official rate of the National Bank of Hungary at December 31, 2008). These translations are un-audited supplementary information, and are not in compliance with IFRS.

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

2.1.1 Standards, amendments and interpretations effective and adopted by the Group in 2008

- IAS 39 (amended) – Financial Instruments: Recognition and Measurement. The IASB published on October 14, 2008 amendments to IAS 39 and IFRS 7 – Financial Instruments: Disclosures. The amendments relate to the possibility to reclassify financial instruments measured at fair value through profit of loss. So far, reclassifications in and out of this category were not allowed. The amendment now enables under certain circumstances a reclassification. If based on the new rules a reclassification is done, the amended IFRS 7 demands additional disclosures. The amendments had no effect on Magyar Telekom's equity or Net income or implications for reporting as the Group did not make and does not intend to make such reclassifications. The amendment is effective from July 2008, and endorsed by the EU.

- IFRIC 11 Interpretation to IFRS 2 – Group and Treasury shares transactions. Under IFRS 2 it was not defined exactly how it should be calculated where the employees of a subsidiary received the shares of a parent. IFRIC 11 clarifies that certain types of transactions are accounted for as equity-settled or cash-settled transactions under IFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The Group applied this Interpretation from January 1, 2008, but no such transactions fell under the scope of IFRIC 11. The European Union has also endorsed the interpretation.

- IFRIC 12 Service Concession Agreements. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. Even though the European Union has not yet endorsed this interpretation, as the Group's interpretation of the relevant standards have been in line with the IFRIC issued by the IASB, IFRIC 12 had no impact on the Group's financials.

2.1.2 Standards, amendments and interpretations effective in 2008 but not relevant for the Group

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

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

- IAS 1 (revised) – Presentation of Financial statements. Revised IAS 1 introduces overall requirements for the presentation of financial statements, guideline for their structure and minimum requirements for their contents. The Group will apply this Interpretation from January 1, 2009. The Group does not expect the revised IAS 1 to cause significant changes in the presentation of the Group's financial statements. The European Union has also endorsed the revised standard.

- IAS 23 Borrowing Costs (Revised March 2007). Under the revised IAS 23 an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group does not expect IAS 23 to have any impact on the financial statements as it is the Group's accounting policy to capitalize eligible borrowing costs on qualifying assets. The European Union has also endorsed the revised standard.

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

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

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

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

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

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

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

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

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

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

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

  The amended version of IFRS 3 has to be applied for Business Combinations with effective dates in annual periods beginning on or after July 1, 2009. Early application is allowed but restricted on annual periods beginning on or after June 30, 2007. The changes to IAS 27 must be applied in periods beginning on or after July 1, 2009. Early application is allowed. Early application of any of the two standards requires early application of the other standard, respectively. Management does not intend to early apply the amended standards. We also believe that that the amended standards will not have a significant impact on the Group's income statement or balance sheet. The European Union has endorsed the amended IAS 27, while the amended IFRS 3 has not been endorsed yet.

- IFRS 8 Operating Segments. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers. The European Union has also endorsed this standard. The Group will adopt IFRS 8 in 2009.

  The adoption will result in a significant restructuring of the Group's segment disclosure. The Group restructured the way chief operating decision makers decide on allocation of resources in 2008, which is different from the reportable segments of the Group as per IAS 14. In the new structure concluded during 2008, the primary focus is on the customer segmentation (consumer / business) rather than on the technology serving the customers (fixed line / mobile).

- IFRIC 13 Customer Loyalty programs. This Interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The Group will apply this Interpretation from January 1, 2009. We do not expect that IFRIC 13 may cause material changes in the Group's accounting treatments (see Note 19.2) as the loyalty programs have been accounted for in substantially the same way as included in the recently issued IFRIC 13. The European Union has also endorsed this interpretation.

- IFRIC 18 Transfers of Assets from Customers. The Interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to be used explicitly for the acquisition of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The Interpretation is effective for annual periods beginning on or after July 1, 2009 and applies prospectively. However, limited retrospective application is permitted. Management is currently analyzing what impacts this interpretation may have on Magyar Telekom's financial statements. The European Union has not yet endorsed this interpretation.

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

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

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

- IFRS 1 First-time Adoption of IFRS (revised). In November 2008 the IASB issued the revised version of IFRS1. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that are relevant for the Group. The European Union has also endorsed the revised standards.

- IFRIC 15 Agreements for the Construction of Real Estate. IFRIC 15 refers to the issue of how to account for revenue and associated expenses by entities that undertake the construction of real estate and sell these items before construction is completed. The interpretation defines criteria for the accounting in accordance with either IAS 11 or with IAS 18. IFRIC 15 shall be applied for annual periods beginning on or after January 1, 2009. As the Group is not involved in such constructions, IFRIC 15 is not relevant for Magyar Telekom. The European Union has not yet endorsed the interpretation.

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

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

2.2 Consolidation

2.2.1 Subsidiaries

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

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

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

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

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

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

2.2.2 Associates and joint ventures

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

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

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

At December 31, 2008 and 2007 the principal operating subsidiaries and associates and joint ventures of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31, 2007	Group interest in capital as at December 31, 2008	Activity
Incorporated in Hungary:			
T-Kábel	100.00%	100.00%	Cable TV operator
Dataplex	100.00%	100.00%	IT hardware co-location service provider
Origo	100.00%	100.00%	Internet content provider
KFKI	100.00%	100.00%	System integration and IT services
IQSYS	100.00%	100.00%	System integration and IT services
BCN Rendszerház (BCNR)	100.00%	- (a)	System integration and IT services
T-Systems Hungary (TSH)	100.00%	- (a)	System integration and IT services
Pro-M	100.00%	100.00%	Professional Mobile Radio (PMR) network operator
Incorporated in Macedonia:			
Makedonski Telekom (MKT)	56.67%	56.67%	Fixed line telecom service provider
T-Mobile Macedonia (T-Mobile MK)	56.67%	56.67%	Cellular telecom service provider
Stonebridge	100.00%	100.00%	Holding company
Incorporated in Montenegro:			
Crnogorski Telekom (CT)	76.53%	76.53%	Fixed line telecom service provider
T-Mobile Crna Gora (T-Mobile CG)	76.53%	76.53%	Cellular telecom service provider
Internet Crna Gora (ICG)	76.53%	76.53%	Internet service and content provider
Incorporated in Romania:			
Combridge	100.00%	100.00%	Alternative telecommunications service provider
Incorporated in Bulgaria:			
Orbitel	100.00%	100.00%	Alternative telecommunications and internet service provider

(a) T-Systems Hungary merged into IQSYS and BCNR merged into KFKI effective from January 1, 2008.

Associates / Joint ventures	Group interest in capital as at December 31, 2007	Group interest in capital as at December 31, 2008	Activity
Incorporated in Hungary:			
Hunsat	50%	50%	Satellite telecommunications
Magyar RTL (M-RTL)	25%	25%	Television broadcast company
IKO-Telekom Media Holding	50%	50%	Media holding company

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

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

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

2.3.2 Transactions and balances

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

2.3.3 Group companies

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

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

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

- Income statements are translated at cumulated average exchange rates.

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

2.4 Financial instruments

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

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

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:

(a) at fair value through profit or loss,
(b) loans and receivables,
(c) available-for-sale (AFS),
(d) held-to-maturity.

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

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

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

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

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

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

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

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

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

(b) Loans and receivables

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

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

- cash and cash equivalents,
- receivables and loans to third parties,
- trade receivables,
- employee loans,
- other receivables.

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

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

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

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

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

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

Employee loans

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

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

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

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

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

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement (Finance income). Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement, while impairment losses recognized in the income statement on debt instruments are reversed through the income statement.

(d) Held-to-maturity investments

Held-to-maturity measurement category includes non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group does not classify any of its financial instruments in this category.

2.4.2 Financial liabilities

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

(a) Financial liabilities carried at amortized cost,
(b) Financial liabilities at fair value through profit or loss.

No reclassification between categories have been made in the past and no reclassifications are expected in the future even though the amendment to IAS39 released in October 2008 (Note 2.1.1) would allow this.

(a) Financial liabilities carried at amortized cost

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

Loans and other borrowings

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

Trade and other payables

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

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

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

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

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

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

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

2.5 Inventories

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

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

2.6 Non current assets held for sale

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

2.7 Property, plant and equipment (PPE)

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

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the costs if the obligation incurred can be recognized as a provision according to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

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

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

Subsequent expenditure on an asset that that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

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

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

Depreciation is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives and residual values for consistency with current development plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 12.

The useful lives assigned are as follows:

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

2.8 Intangible assets

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

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

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

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

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

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

Amortization is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives for consistency with current development and replacement plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 13.

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

2.9 Impairment of PPE and intangible assets

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

Magyar Telekom allocates goodwill to its primary business segments, which is the lowest level at which management monitors goodwill, and conducts the impairment testing at this level. Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred.

The fair values of investments in subsidiaries listed on active stock exchanges are based on current bid prices. If the market for the shares of subsidiaries is not active or the subsidiaries are not listed and for 100% owned subsidiaries the Group establishes the subsidiaries' recoverable amounts by determining their fair value less cost to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cashflow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values determined as described above are used as a basis when establishing the need for an impairment on the goodwill allocated to the cash generating units of the segments. See also Note 4.2.

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

The fair values of the individual tangible and intangible assets of the Group in most cases can not be determined as the single assets do not generate cashflows. Instead, the Group determines CGUs to which the individual assets are allocated and the fair values can only be determined at CGU level, primarily by using discounted cashflow analyses. See also Note 4.3.

2.10. Provisions and contingent liabilities

Provisions are recognized when Magyar Telekom has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

2.11 Treasury stock

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

2.12 Revenues

Revenues for all services and equipment sales (Note 22) are shown net of VAT, discounts and excluding sales within the Group. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group and all other specific recognition criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Group's services and sale of goods.

Customers of the Group are granted loyalty awards (credit points) based on their usage of the Group's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. call credits, handset discounts, etc.) from the operators of the Group. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as a provision (Note 19.2). On redemption (or expiry) of the points, the provision is released to revenue as the customer collected (or waived) the undelivered element of the deemed bundle.

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

2.12.1. Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to Magyar Telekom's customer subscribers and other third parties using Magyar Telekom's telecommunications network, and equipment sales.

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

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

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

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

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

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

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

2.12.2 System integration and IT revenues

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

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

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by one of the following types of contracts: fixed-price or time and material-based. For fixed-price contracts, revenue is generally recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. In the case of contracts billed on the basis of time and material, revenue is recognized as the services are rendered.

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

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

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

2.13 Employee benefits

2.13.1 Short term employee benefits

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

Pensions

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

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

2.13.2 Share based compensation

Magyar Telekom recognizes the costs of services received from its employees in a share based payment transaction when services are received. Magyar Telekom recognizes a corresponding increase in its equity reserves (Reserve for equity settled share based transactions) if the services are received in an equity-settled share based payment transaction. If the services are received in a cash-settled share based payment transaction, the Group recognizes the expense against a liability, re-measured at each balance sheet date.

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

Bonuses tied to the long term performance of the Magyar Telekom share are recognized in the income statement at their time-proportioned fair value (Note 24.1) against an accumulating balance in Provisions.

2.13.3 Termination benefits

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

2.14 Research and Marketing expenses

Research as well as marketing costs are expensed as incurred. Research costs are not material, while marketing expenses are disclosed in Note 25.

2.15 Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. Borrowing costs include interest and other costs that the Group incurs in connection with the borrowing of funds. The borrowing costs eligible for capitalization are capitalized applying the weighted average of the borrowing costs applicable to the general borrowings of the Group that are outstanding during the period. A qualifying asset is an asset that necessarily takes a substantial period of time, in general over 6 months, to get ready for its intended use.

2.16 Income taxes

2.16.1 Corporate income taxes

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

2.16.2 Other income taxes

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

2.16.3 Deferred taxes

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

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

2.17 Leases

2.17.1 Operating lease –Group as lessor

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

2.17.2 Finance lease – Group as lessor

Leases of assets where Magyar Telekom transfers substantially all the benefits and risks of ownership are recognized and disclosed as revenue against a finance lease receivable. The revenue equals the estimated present value of the future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). The cost of the asset sold in a finance lease transaction is recognized at the inception of the lease. Each lease receipt is then allocated between the receivable and finance income so as to achieve a constant rate of return on the finance receivable balance outstanding. The interest element of the lease receipt is recognized as Finance income.

2.17.3 Operating lease –Group as lessee

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

2.17.4 Finance lease – Group as lessee

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

2.17.5 Sale and leaseback transactions

Sale and leaseback transactions involve the sale of an asset by Magyar Telekom and the leasing of the same asset or part of it back to Magyar Telekom. When sale and leaseback transactions qualify as finance leases any gain on the sale is deferred and recognized in the income statement over the lease term through lower depreciation expense. If the leaseback qualifies as an operating lease, any gains or losses on the sale are recognized in the income statement (Other operating income) at the time of the sale as the sales price always reflects the fair value of the asset, while the lease payments are recognized in the income statement (Other operating expenses) on a straight line basis over the period of the lease.

2.18 Earnings per share

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

2.19 Dividends

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

2.20 Segment reporting

Magyar Telekom determines segments primarily based on products and services that are subject to risks and returns that are different from those of other businesses. The primary segments are based on the business lines of the Group, which are T-Home, T-Mobile, T-Systems and Group Headquarters and Shared services. T-Home is the new name of the old T-Com segment and brand.

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

2.21 Comparative information

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

3 Financial risk management

3.1 Financial risk factors

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2007 and 2008 Magyar Telekom fulfilled both criteria, with Total Debt to EBITDA ratio of 1.56 in 2007, 1.49 in 2008 (maximum 2.5) and EBITDA to Interest Expense ratio of 8.14 in 2007, 8.86 in 2008 (minimum 3.0). 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 as well as sensitivity analyses are provided below. Sensitivity analyses include potential changes in profit before tax. The impacts disclosed below are subject to an average income tax rate of approximately 20%, i.e. the impact on Profit for the year would be 80% of the before tax amount. The potential impacts disclosed (less tax) are also applicable to the Group's Equity.

3.1.1 Market risk

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

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

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

(a) Foreign currency risk

Due to the free-float of the HUF introduced in 2008 the Group 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 has minimized its foreign currency borrowings.

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

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

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.

The Group's foreign currency denominated assets (primarily held by the Group's foreign subsidiaries) exceed its foreign currency denominated liabilities, therefore changes of the functional currencies' exchange rates would have significant impact on the profit of the Group. Compared to the spot FX rates as of December 31, 2008, a 20% weakening of the functional currency (HUF and MKD) against the EUR would cause (ceteris paribus) approx. HUF 6.6 billion gain on this net balance (2007: HUF 10.0 billion). The same respective amounts of loss would be caused in case of a 20% strengthening against the EUR.

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

Magyar Telekom has cross-currency swap contracts with one of the substantial Hungarian banks (the fair value of the swap positions was HUF 1.0 billion as of December 31, 2008 and HUF 162 million as of December 31, 2007). These contracts are established to eliminate FX risk in connection with two of the Company's EUR denominated loan agreements.

The fair value of the open short term forward positions was HUF -106 million as of December 31, 2007. These positions were opened to hedge the FX risks of the dividend to be received from Macedonia. The Group had no open forward positions as of December 31, 2008.

Compared to the FX rate as of December 31, 2007, a 20% weakening of HUF against EUR would have caused (ceteris paribus) approx. HUF 3.5 billion loss in fair value of the open short forward. The same respective amount of gain would have been caused by a 20% strengthening of the HUF against the EUR.

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

(b) Interest rate risk

Magyar Telekom is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing HUF interest rates affect the fair value of the fixed rate instruments and also affect the cash flows through the variable rate instruments. As the vast majority of debt portfolio is denominated in HUF, the Group 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. The fixed rate HUF debt to total HUF debt ratio was 54% as of December 31, 2008 (2007: 59%).

In addition, some of the Group's loan agreements with Deutsche Telekom also include an interest rate that in fact may change in case of downgrading of Deutsche Telekom by specific international rating agencies. Such rating downgrades from the current grade may cause additional annual interest payments of approximately HUF 590 million on top of the pre-fixed amount of interest, while such rating upgrades may cause HUF 320 million lower interest expense annually.

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

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

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks.

The floating rate debt as of December 31, 2008 amounted to approximately HUF 173 billion (2007: HUF 150 billion). A 5 percentage point rise in market interest rate would cause (ceteris paribus) the interest payment to increase by approx. HUF 8.7 billion annually on the Group loan portfolio[1] (2007: 7.5 billion), while the same decrease of interest rates would cause the same decrease in interest payments.

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

The Group's forint denominated deposits amounted to HUF 29.5 billion at the end of 2008, reducing the impact of the above 5 percentage point change in interest rates by HUF 1.5 billion on the Group's financials.

Macedonian subsidiaries of Magyar Telekom had bank deposits of HUF 64.1 billion as of December 31, 2008 (2007: 75.8 billion), therefore a 5 percentage point rise in market interest rate would cause (ceteris paribus) the interest received to increase by approx. HUF 3.2 billion annually (2007: 3.8 billion), while the same decrease would cause the same decrease in interest received.

Montenegrin subsidiaries of Magyar Telekom had HUF 19.8 billion deposit as of December 31, 2008 (2007: HUF 19 billion), a 5 percentage point rise in market interest rate would cause (ceteris paribus) the interest received to increase by approx. HUF 1.0 billion annually (2007: HUF 1.0 billion), while the same decrease would cause the same decrease in interest received.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible, the exposure to which is mitigated by the balanced portfolio of fixed and variable interest rate borrowings (see above). Sensitivities have been disclosed for a movement of 5 percentage points but extraordinary market conditions may cause extreme volatility on money markets, which can result in even higher than 5 percentage point change in interest rates.

(c) Other price risk

As of December 31, 2008 and 2007, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

3.1.2 Credit risk

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

The maximum exposure to credit risk as at the balance sheet dates are represented by the carrying amounts of the financial assets that are carried in the balance sheet. Guarantee agreements reducing the maximum exposure to credit risk as of the reporting date are described later in this section.

The following table represents Magyar Telekom's maximum exposure to credit risk as at December 31, 2007 and 2008.

	At December 31,	
	2007	2008
	(in HUF millions)	
Cash and cash equivalents	47,666	66,680
Bank deposits with original maturities over 3 months	58,053	59,300
Trade receivables	95,478	93,201
Finance lease receivables	21,569	23,082
Employee loans	4,610	4,383
Dividend receivables from joint ventures	-	2,033
Trade receivables over one year	619	414
Derivative financial instruments	57	1,011
Loans to third parties	1,334	949
Financial assets available for sale	690	282
Other current financial assets	636	2,375
Other non-current financial assets	841	763
	231,553	**254,473**

The vast majority of credit risks may arise in respect of Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables.

[1] Assuming parallel increase/decrease in the yield curve, and it is supposed that every deposits/loans are rolled over during calculation relating to the sensitivity analysis in this chapter.

According to the Group's risk management policy Magyar Telekom Group companies deposit the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar Telekom prefers to deposit in banks which grants loans for Magyar Telekom to make possible the compensation of debts and loans in case of the default of the bank.
Cash and cash equivalents and Bank deposits with maturities over 3 months held by the Hungarian members of the Group are primarily denominated in HUF and concentrations of credit risk are limited as Magyar Telekom places its cash with substantial credit institutions. Further, excess HUF cash is used for repayment of the HUF denominated loans and borrowings, or is deposited at partner banks which grant loans for Magyar Telekom, therefore, the credit risk related to HUF cash is very limited.

Cash and cash equivalents and Bank deposits with maturities over 3 months held by the Macedonian subsidiaries are primarily denominated in MKD and EUR, while the Montenegrin subsidiaries possess Cash and cash equivalents and Bank deposits with maturities over 3 months primarily denominated in EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in these countries run higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. However the bank deposits in Montenegro (HUF 19.8 billion as at December 31, 2008) are fully covered with bank guarantees issued by international financial institutions rated at BBB+ or above, while part of the bank deposits in Macedonia (HUF 13.2 billion out of the total HUF 64.1 billion deposits as at December 31, 2008) is also covered with bank guarantees. Credit risk related to bank deposits is further limited by the diversification of the deposits among several independent credit institutions determinant on the local market.

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

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

Trade receivables	At December 31, 2007	At December 31, 2008
	(in HUF millions)	
T-Mobile	49,172	46,299
T-Home	33,399	32,565
T-Systems	12,194	13,694
Headquarters	713	643
	95,478	**93,201**

The amounts in the table above are shown net of provisions for impairment losses of approximately HUF 26 billion (see Note 7.2). Impairment losses are charged primarily based on past experience of defaults on payments. The annual impairment charge has historically been under 1% of the consolidated revenues. Changes in customer payment behavior in the future may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of approximately HUF 7 billion.

T-Systems has primarily large business customers, while T-Home and T-Mobile have a combination of business and residential customers. There's no significant difference between the recoverability of the segments' receivables.

There are varying credit checking practices applied across the members of the Group. The majority of customers are located in Hungary. For these customers the Company follows the following practice. Credit checking for T-Home and T-Mobile customers at the time of the service request is carried out automatically by the credit checking application of the Sales Department. A variety of checks including checking the SOS list of faulty IDs, the bankruptcy list, the internal database of risky installation locations, the collection history of the past 6 months, the outstanding debt and the joint database of debtors of the Hungarian mobile operators are performed depending on the service to be used.

In case of T-Systems, customer managers call a hotline of the Business Customer Care group to check if the customer has outstanding debts. As of January 1, 2009, the Fraud Detecting System was implemented, which is used to monitor extreme usage and fraudulent behavior of customers not only for mobile but also for fixed-line and Internet services.

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

Trade and other receivables and one finance lease receivable had to be impaired in the reported years, but no other financial assets had to be impaired as they are neither past due nor are there any signs of impairment.

3.1.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury's management aims at maintaining flexibility in funding by keeping committed credit lines available. The available free credit line amounted to 44.8 billion as at December 31, 2008 (2007: HUF 48.4 billion), and the Company also had uncommitted credit lines from several Hungarian Banks as at December 31, 2008. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2010. Despite the fact that this has not been formulized in a contract, it can be considered as a "quasi shelf facility".

The average maturity of Magyar Telekom's debt portfolio was 2.58 years as at December 31, 2008 (2007: 2.58 years), both of which are in line with the predefined liquidity management limit range of keeping the average maturity of the debt portfolio between 2 and 3 years.

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2008 and 2007.

December 31, 2008 (in HUF millions)	**Total**	**within 1 year**	**1 to 5 years**	**after 5 years**
Trade payables	92,340	92,340	-	-
Dividend payable	290	290	-	-
Financial liabilities to related parties	434,404	126,703	248,606	59,095
Bank loans	59,379	37,227	22,152	-
Finance lease liabilities	7,148	1,721	3,534	1,893
Nonconvertible bonds and debentures	193	71	-	122
Other financial liabilities	5,812	5,270	541	1
Total other financial liabilities	**72,532**	**44,289**	**26,227**	**2,016**
Total cashflows	**599,566**	**263,622**	**274,833**	**61,111**
Open swap positions' gross cash flows				
Gross cash outflow in HUF million	11,275	6,191	5,084	-
Gross cash inflow in EUR million	43	23	20	-

December 31, 2007 (in HUF millions)	**Total**	**within 1 year**	**1 to 5 years**	**after 5 years**
Trade payables	87,989	87,989	-	-
Dividend payable	151	151	-	-
Financial liabilities to related parties	343,997	41,290	266,219	36,488
Bank loans	101,253	43,292	57,865	96
Finance lease liabilities	5,269	1,146	3,149	974
Nonconvertible bonds and debentures	194	71	-	123
Other financial liabilities	5,359	1,532	3,827	-
Total other financial liabilities	**112,075**	**46,041**	**64,841**	**1,193**
Total cashflows	**544,212**	**175,471**	**331,060**	**37,681**
Open swap positions' gross cash flows				
Gross cash outflow in HUF million	9,179	3,860	5,319	-
Gross cash inflow in EUR million	36	15	21	-
Open forward positions' gross cash flows				
Gross cash inflow in HUF million	17,500	17,500	-	-
Gross cash outflow in EUR million	69	69	-	-

The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2008.

3.2 Capital risk management

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

The Company's management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be effectuated 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 Group monitors capital on the basis of the gearing ratio. This ratio is calculated as Net debt divided by Equity (including Minority interest) and Net debt. Net debt is calculated as:

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

During 2007 and 2008, the Group's strategy as approved by the Board was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2008 was 29.7% (2007: 31.0%).

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, and no such statutory regulation exists for consolidated equity.

The capital, which the Group manages, amounted to HUF 600.3 billion on December 31, 2008 (2007: HUF 581.7 billion).

4 Critical accounting estimates and judgments

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

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

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. As an example, if Magyar Telekom was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately HUF 11 billion (2007: HUF 12 billion). See Notes 12 and 13 for the changes made to useful lives in 2008.

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

4.2 Estimated impairment of goodwill

Goodwill is no longer amortized, but tested for impairment annually or more frequently. As all of our subsidiaries are either not listed on stock exchanges or there is no active market for their shares, the recoverable amounts of the business units and reportable segments are calculated based on fair value less cost to sell determined by the discounted projected cashflows of these units over the next ten years with a terminal value. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations would prove to be inappropriate. The Group has an implemented policy to make the impairment test based on a 10-year cashflow projection on reasonable and supportable assumptions that present the management's best estimate on market participants' assumptions and expectations considering recent similar transactions and industry benchmarks.

Goodwill is allocated to the reportable segments (T-Home, T-Mobile and T-Systems). The T-Home and the T-Mobile segment consist of national cash generating units operating in Hungary, Macedonia and Montenegro.

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

The table below summarizes the WACCs and PGRs used in the fair value calculations of the National operations of the Group's segments in order to determine whether the goodwill allocated to the segments have been impaired.

Cash generating unit	WACC (%)		PGR (%)	
	2007	2008	2007	2008
T-Home Hungary	11.72	12.40	1.0	1.0
T-Home Macedonia	10.64	10.80	0.0	0.0
T-Home Montenegro	10.41	10.74	-1.0	-1.0
T-Mobile Hungary	12.66	12.99	2.0	2.0
T-Mobile Macedonia	11.61	11.14	2.0	2.0
T-Mobile Montenegro	11.33	11.07	0.5	0.5
T-Systems	13.41	13.23	1.0	1.0

The table below includes a sensitivity analysis that shows how much impairment should be recognized as at December 31, 2008 for the goodwill allocated to the segments if we had used 21% lower cashflows than used in the calculations, or a WACC of 15% or a PGR of -10% for all units, leaving the other assumptions unchanged (ceteris paribus). Any combination of these hypothetical changes would result in higher amounts of impairment. The percentages disclosed in the sensitivity analyses are the first round percentages where impairment would occur (e.g. while impairment would occur using a 15% WACC, no impairment occurs yet using a 14% WACC).

Sensitivity analysis of goodwill impairment calculations in 2008 (in HUF millions)	Cashflow (-21%)	WACC (15%)	PGR (-10%)
T-Home	(2,608)	(3,793)	(1,617)
T-Mobile	-	-	-
T-Systems	-	-	-

The above calculations and sensitivity analyses were prepared as of December 31, 2008 to reflect the most recent assumptions also including the potential impacts of the credit crunch and the resulting downturn of the real economy.

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

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

4.4 Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make required payments. For the largest customers and other telecommunications service providers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent and expected changes in our customer payment terms. These factors are reviewed periodically, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile, internet, cable TV, etc.) and the environment in which the Group's entities operate in the various markets. The estimates also involve assumptions about future customer behavior and the resulting future cash collections. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far. See also Note 3.1.2.

4.5 Provisions

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

4.6 Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. Among these, net losses on equipment sales of the Group amounted to HUF 19.2 billion in 2008 (2007: HUF 15.9 billion), while agent fees amounted to HUF 8.8 billion in 2008 (2007: HUF 8.4 billion). The Group's marketing costs amounted to HUF 22.1 billion in 2008 (2007: HUF 20.2 billion).

5 Business combinations

5.1 Acquisitions in 2008

5.1.1 Cable TV networks

In 2008 Magyar Telekom acquired a number of cable TV networks for HUF 687 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the T-Home segment of the Group. The purchase price of these networks in most cases included connected customers, while in the remaining few cases the network was fully completed with immediate capability of connecting customers to them. The purchase prices paid for these networks also included goodwill representing the networks' potential of acquiring additional customers and conveying additional services.

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

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

The total purchase price was paid in 2008.

5.2 Acquisitions in 2007

5.2.1 MobilPress

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

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

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

The total purchase price was paid in 2007.

5.2.2 T-Systems Hungary (TSH)

In December 2006, the Company signed a sale-purchase agreement to acquire an additional 2% ownership in TSH effective from January 1, 2007 for a purchase price of HUF 60 million. TSH had been an associate of the Group since September 2004, with the majority owner being another Deutsche Telekom Group member. As the transaction took place between entities under common control, the acquisition was accounted for at cost. The carrying values of TSH's net assets at acquisition as well as the consideration paid are disclosed in the table below. TSH has been a consolidated subsidiary of the Group since January 1, 2007 included in the T-Systems segment.

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

5.3 Acquisitions in 2006

5.3.1 Orbitel

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

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

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

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

5.3.2 Dataplex

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

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

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

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

5.3.3 KFKI Group

In June 2006 Magyar Telekom signed a share purchase agreement to acquire the 100% ownership of KFKI-LNX Zrt., one of the leading Hungarian IT companies for a purchase price of HUF 8.2 billion plus an optional earn-out payment of HUF 1.5 billion dependent on the 2006 financial performance. The acquisition was closed on September 15, 2006, from which date KFKI Group has been consolidated in the T-Systems segment of the Group. In 2005, KFKI Group's revenues amounted to approximately HUF 17 billion. KFKI-LNX had two 100% owned subsidiaries, ICON and IQSYS.

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

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

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

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

5.3.4 iWiW, Adnetwork, MFactory

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

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

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

In December 2006, Magyar Telekom acquired a 75.05% stake in MFactory, one of the leading Hungarian mobile content producers and aggregators for HUF 469 million. In addition, the Company also had an option to increase its stake in MFactory to 100% from 2009, while MFactory's minority owners had a put option for their shares. The Group considered this combination of the options to be of a liability nature (in an amount of HUF 166 million), therefore MFactory is consolidated as a 100% subsidiary in the T-Home segment of the Group, while the initial goodwill arising on the business combination is allocated to the T-Mobile segment. MFactory's revenues amounted to HUF 190 million in 2006.

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

In HUF millions	**Carrying values**
Purchase price of ownership acquired	1,767
Further purchase price payable	176
Costs directly attributable to the business combinations	1
Consideration paid	**1,944**
Net assets acquired	**83**
Goodwill	**1,861**
Net assets acquired:	
Cash	12
Receivables	73
Intangible assets	53
Income tax payable	(5)
Trade and other payables	(50)
	83

Magyar Telekom acquired the outstanding shares of MFactory in 2008 for additional payment of HUF 75 million. The amount of the remaining payable as at December 31, 2008 depends on the final agreement between the seller and Magyar Telekom to be concluded later in 2009.

5.3.5 MKT – own shares

In June 2006, MKT acquired 10% of its own shares at a public auction held by the Macedonian Government (the minority owner) for EUR 60.9 million (HUF 16,579 million including additional costs). Following the share repurchase transaction, Magyar Telekom's voting rights in MKT increased from 51.0% to 56.7%, while the Macedonian Government's share of ownership fell to 36.8%, with the rest of the shares owned by smaller minority shareholders. The difference between the purchase price of the shares and the decrease in the minority interests was recognized as goodwill in an amount of HUF 1,724 million, all allocated to the T-Mobile segment.

5.4 Pro forma information on business combinations

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

	2006	2007	2008
		(in HUF millions)	
Revenues			
Reported	671,196	676,661	673,056
Pro forma – if consolidated from beginning of year	684,099	676,661	673,145
Current year contribution since date of business combination in the year of acquisition	12,465	4,969	53
Net income			
Reported	75,453	60,155	93,008
Pro forma – if consolidated from beginning of year	76,267	60,155	93,019
Current year contribution since date of business combination in the year of acquisition	191	(1,812)	7

5.5 Disposals of subsidiaries

In 2008 the Group sold its 100% investment in MontMak. In 2007 the Group sold the total of its 51% ownership in Montenegrocard. In 2006 the Company sold the total of its 72% ownership in Cardnet. The results of the above transactions have been recognized as Other operating income in the years of disposal (Note 26). These subsidiaries conducted non-core operations and were insignificant to the Group, their disposal was not so significant that they would constitute discontinued operations or disposal groups.

6 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts. These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. No impairment had to be recognized for any of these balances in the reported years.

	At December 31,	
	2007	2008
	(in HUF millions)	
Cash on hand	1,487	1,462
Cash in banks and other cash equivalents	46,179	65,218
	47,666	**66,680**

7 Trade and other receivables

7.1 Trade and other receivables – carrying amounts

		At December 31,	
		2007	2008
		(in HUF millions)	
Trade receivables from third parties		88,588	87,092
Receivables from Deutsche Telekom Group companies		6,878	5,903
Receivables from associates and joint ventures		12	206
Trade receivables	(a)	**95,478**	**93,201**
Prepayments and advance payments		4,674	6,902
Other taxes receivable		1,204	744
Other		2,220	1,048
Other receivables		**8,098**	**8,694**
		103,576	**101,895**

(a) Age profile of Trade receivables

The following tables show the age profile of the Group's receivables by segments by days outstanding (past due). The carrying amounts of past due receivables are shown net of impairment losses charged as of the balance sheet dates.

Trade receivables (in HUF millions)	Carrying amount as of Dec 31, 2008	of which not past due	of which past due by					
			less than 30 days	30 – 60 days	61 – 90 days	91 – 180 days	181 – 360 days	Over 360 days
T-Mobile	46,299	35,777	6,585	1,174	530	941	955	337
T-Home	32,565	22,396	6,392	1,306	844	982	490	155
T-Systems	13,694	11,918	1,032	279	145	283	32	5
Headquarters	643	459	138	29	4	4	8	1
Total	**93,201**	**70,550**	**14,147**	**2,788**	**1,523**	**2,210**	**1,485**	**498**

Trade receivables (in HUF millions)	Carrying amount as of Dec 31, 2007	of which not past due	of which past due by					
			less than 30 days	30 – 60 days	61 – 90 days	91 – 180 days	181 – 360 days	Over 360 days
T-Mobile	49,172	39,373	6,818	1,202	501	726	453	99
T-Home	33,399	24,035	5,498	1,304	794	1,165	360	243
T-Systems	12,194	9,940	1,715	237	111	129	35	27
Headquarters	713	629	35	19	19	6	5	-
Total	**95,478**	**73,977**	**14,066**	**2,762**	**1,425**	**2,026**	**853**	**369**

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

Non past due receivables are not assessed collectively for impairment, but in case of bankruptcy of the customer non past due receivables may have to be partly or fully impaired, the amount of which is not significant, therefore, not disclosed separately.

7.2 Impairment losses

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

	At December 31,	
	2007	2008
	(in HUF millions)	
Impairment loss, beginning of period	28,781	30,263
Charged to expense – net (included in Other operating expenses)	5,136	4,353
Utilized, and translation difference	(3,654)	(8,304)
Impairment loss, end of period	**30,263**	**26,312**

Closing balance of impairment losses by segment	2008
	(in HUF millions)
T-Mobile	12,903
T-Home	12,208
T-Systems	1,175
Headquarters	26
Group	**26,312**

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

8 Other financial assets

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

8.1 Other current financial assets

		At December 31,	
		2007	2008
		(in HUF millions)	
Bank deposits with original maturities over 3 months		58,053	59,300
Finance lease receivable	(a)	4,011	3,718
Loans and receivables from employees	(b)	861	798
RDC receivable	(c)	152	189
Derivative financial instruments	(d)	57	1,011
Dividend receivable from joint ventures	(e)	-	2,033
Other		297	1,449
		63,431	**68,498**

8.2 Other non current financial assets

		At December 31,	
		2007	2008
		(in HUF millions)	
Finance lease receivable	(a)	17,558	19,364
Loans and receivables from employees	(b)	4,233	4,018
RDC receivable	(c)	841	763
Trade receivables over one year	(f)	619	414
Financial assets available-for-sale	(g)	690	282
Other		1,036	1,253
		24,977	**26,094**

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

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

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

(d) Derivative financial instruments include the fair value of open currency forwards and cross-currency interest rate swaps.

(e) Dividend receivable from joint ventures includes the amount of dividend due from IKO-Telekom Média Holding.

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

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

9 Income tax

9.1 Income tax expense

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

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Corporate income tax	6,423	7,795	9,941
Other income taxes	8,529	9,321	9,462
Deferred income taxes	9,268	9,105	8,295
Total income tax expense	**24,220**	**26,221**	**27,698**

9.2 Current income tax receivable and payable

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

9.3 Tax rate reconciliation

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

	Notes	For the year ended December 31,		
		2006	2007	2008
			(in HUF millions)	
IFRS profit before income tax		**111,684**	**99,277**	**133,291**
Tax at 16%		(17,869)	(15,884)	(21,327)
Impact of different tax rates	(a)	(323)	(4,088)	(1,512)
Tax on items not subject to tax	(b)	2,405	1,650	2,278
Tax on non deductible items	(c)	(1,955)	(1,107)	(2,134)
Impact of tax incentives	(d)	778	-	-
Other income taxes	(e)	(8,529)	(9,321)	(9,462)
Impact of tax deductibility of other income taxes	(f)	2,701	2,873	2,883
Withholding tax	(g)	(2,034)	(1,684)	(1,111)
(De)/recognized deferred tax on tax losses	(h)	(255)	73	1,436
Broadband tax credit accretion	(i)	861	1,267	1,251
Income tax expense		**(24,220)**	**(26,221)**	**(27,698)**

(a) Impact of different tax rates

The corporate tax rate in Hungary was 16% in the first 8 months of 2006. As of September 1, 2006 a so called Solidarity tax was introduced in Hungary, which is an extra 4% tax on a base very similar to the corporate tax base, therefore included in the corporate tax expense, with fewer adjusting items from accounting profit before tax to arrive at the tax base. The tax rate reconciliation for all 3years includes 16%, while the difference arising due to the introduction of the Solidarity tax is included in this line of the reconciliation.

The Group is also present in foreign countries where the tax rate is generally lower than in Hungary. The tax rate in Macedonia was 15% in 2006, which was reduced to 12% in 2007 and to 10% in 2008. Deferred tax balances have been recalculated accordingly. The corporate tax rate is 9% in Montenegro, 16% in Romania, 10% in Bulgaria, and 25% in the Ukraine.

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

(b) Tax on items not subject to tax

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

(c) Tax on non deductible items

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

(d) Tax incentives

Tax incentives included the tax impact of qualifying investments in property, plant and equipment in Macedonia, which could be utilized as a reducing item in the calculation of the corporate tax base until 2006. After 2006 this opportunity is no longer available.

(e) Other income taxes

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

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

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

(g) Withholding tax

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

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

Deferred tax asset is recognized on tax losses only to the extent that the realization of the related tax benefit is probable. Deferred tax assets on tax losses that will probably not be recovered are un/de-recognized. On the other hand, when the recoverability of the previously un/derecognized tax losses becomes probable, these deferred tax assets are recognized.

(i) Broadband investment tax credit accretion

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

9.4 Deferred taxes

Magyar Telekom's deferred tax balances are as follows:

	Balance at Dec. 31, 2006	Income statement effect	Other movements	Balance at Dec. 31, 2007	Income statement effect	Other movements	Balance at Dec. 31, 2008
				(in HUF millions)			
Deferred tax assets and (liabilities)							
Investment tax credits	14,300	(4,273)	3,561	13,588	1,873	350	15,811
Net operating loss carry-forward	1,217	(676)	-	541	741	-	1,282
Investments in subsidiaries	(1,200)	(213)	-	(1,413)	(12)	-	(1,425)
Withholding tax	(2,034)	(1,606)	-	(3,640)	402	-	(3,238)
Other financial assets	(307)	322	(23)	(8)	(173)	-	(181)
Impairment of receivables, inventory	3,050	(488)	-	2,562	(1,604)	-	958
Property, plant and equipment and intangible assets	(9,041)	(641)	211	(9,471)	(9,499)	(108)	(19,078)
Goodwill	(4,126)	(2,965)	-	(7,091)	(1,198)	-	(8,289)
						-	
Trade and other payables	363	(781)	-	(418)	546	-	128
Loans and other borrowings	279	(156)	-	123	439	-	562
Deferred revenue	-	293	-	293	531	-	824
Provisions for liabilities and charges	1,427	2,079	-	3,506	(341)	-	3,165
Total net deferred tax asset / (liability)	**3,928**	**(9,105)**	**3,749**	**(1,428)**	**(8,295)**	**242**	**(9,481)**
Of which deferred tax liability after netting	**(5,647)**			**(2,714)**			**(11,071)**
Of which deferred tax asset after netting	**9,575**			**1,286**			**1,590**
Items included in other movements							
Investment tax credit recognized against cost of PPE			3,561			350	
AFS financial assets – valuation differences recognized in equity			(23)			35	
Currency translation adjustment arising on consolidation			211			(112)	
Arising on business combinations			-			(31)	
			3,749			**242**	

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

The Group's net deferred tax liability balance is HUF 9,481 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 6,078 million net deferred tax is expected to reverse in 2009 (deferred tax asset is HUF 6,282 million and deferred tax liability is HUF 204 million). The above items exclude deferred tax items expected to arise in 2009.

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

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

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 3,211 million at December 31, 2008 (2007: net asset of HUF 2,964 million).

If the Group's Macedonian subsidiaries distributed all their distributable reserves in the form of a dividend, the Group would have to pay HUF 2,562 million withholding tax, and deferred tax liability with the same amount is recognized as at December 31, 2008. If the Group's Montenegrin subsidiaries distributed all their distributable reserves in the form of a dividend, the Group would have to pay HUF 967 million withholding tax in addition to the amount for which a deferred tax liability is recognized as at December 31, 2008 (HUF 676 million). As the Group can control the timing and the form of the dividends, deferred tax liabilities have only been recognized to the extent of the planned dividend distributions of the subsidiaries' retained earnings (undistributed results of 2005–2008) in the foreseeable future.

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. There is no tax loss expiring in 2009 for which a deferred tax asset has been recognized. As of December 31, 2008, the balance of recognized tax losses is HUF 9,978 million of which HUF 8,088 million is not subject to statutory limitations. For tax losses in an amount of HUF 1,984 million no deferred tax asset was recognized as at December 31, 2008.

9.5 Investment tax credits

In order to increase broadband internet penetration in Hungary, companies investing over HUF 100 million in a year in broadband assets (e.g. DSL lines, UMTS assets) from 2003 can apply for a corporate tax reduction. The potential reduction of the corporate tax charge is defined as a percentage of the companies' capital investment in broadband assets. As these investment tax credits are of a governmental grant nature, Magyar Telekom recognized the deferred tax asset against the cost of the related investment. If the tax credits are not utilized in the year when earned, the amount of tax credits carried forward can be utilized at a higher amount as outstanding amounts can be accreted. This accretion is recognized as an increase in the deferred tax asset against a reduction in the deferred tax expense.

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

Earned in year	Amount of qualifying broadband investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2008
2003	6,197	2,613	1,119	(3,732)	-
2004	6,735	3,111	1,122	(1,126)	3,107
2005	14,438	5,730	1,001	(2,162)	4,569
2006	15,127	4,335	723	(469)	4,589
2007	12,777	2,919	240	(92)	3,067
2008	2,291	479	-	-	479
Total	**57,565**	**19,187**	**4,205**	**(7,581)**	**15,811**
			Expires in	2015	7,676
				2016	4,589
				2017	3,067
				2018	479
					15,811

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

9.6 Tax reviews

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

10 Inventories

	At December 31, 2007	At December 31, 2008
	(in HUF millions)	(in HUF millions)
Cables, wires and other materials, work-in-progress and advances	3,125	2,964
Inventory for resale	8,454	10,703
Subtotal	**11,579**	**13,667**
Less allowances for obsolete inventory	(927)	(376)
	10,652	**13,291**

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

11 Non current assets held for sale

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

12 Property, plant and equipment – net

	Land and related rights	Buildings	Telecom. equipment	Other equipment	Total
			In HUF millions		
At January 1, 2007					
Cost	6,654	124,145	972,654	154,113	1,257,566
Accumulated depreciation	(2,038)	(25,467)	(557,176)	(115,160)	(699,841)
Carrying amount	**4,616**	**98,678**	**415,478**	**38,953**	**557,725**
Of which held for sale					(6,825)
					550,900
Carrying amount – January 1, 2007	4,616	98,678	415,478	38,953	557,725
Exchange differences	4	74	180	750	1,008
Additions due to business combinations	-	2	366	123	491
Additions due to asset retirement obligations	-	-	83	-	83
Investments	24	13,560	51,297	10,944	75,825
Disposals	-	(3,229)	(454)	(1,705)	(5,388)
Impairment charge	-	(94)	(32)	-	(126)
Depreciation charge	(143)	(2,286)	(79,147)	(8,918)	(90,494)
Reclassifications	267	(7,680)	25,741	(18,328)	-
Carrying amount – December 31, 2007	**4,768**	**99,025**	**413,512**	**21,819**	**539,124**
At December 31, 2007					
Cost	6,687	127,522	1,057,554	98,645	1,290,408
Accumulated depreciation	(1,919)	(28,497)	(644,042)	(76,826)	(751,284)
Carrying amount	**4,768**	**99,025**	**413,512**	**21,819**	**539,124**
Of which held for sale					(4,393)
					534,731
Carrying amount – January 1, 2008	4,768	99,025	413,512	21,819	539,124
Exchange differences	49	725	2,660	320	3,754
Additions due to business combinations	-	-	522	-	522
Additions due to asset retirement obligations	-	2,303	1,111	-	3,414
Investments	257	6,880	67,337	11,015	85,489
Disposals	-	(2,683)	(867)	(416)	(3,966)
Impairment charge	-	-	-	-	-
Depreciation charge	-	(4,357)	(70,588)	(7,928)	(82,873)
Reclassifications	294	(294)	-	-	-
Carrying amount – December 31, 2008	**5,368**	**101,599**	**413,687**	**24,810**	**545,464**
At December 31, 2008					
Cost	7,276	133,605	1,109,442	102,775	1,353,098
Accumulated depreciation	(1,908)	(32,006)	(695,755)	(77,965)	(807,634)
Carrying amount	**5,368**	**101,599**	**413,687**	**24,810**	**545,464**
Of which held for sale					(1,775)
					543,689

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 32,601 million as at December 31, 2008 (2007: HUF 27,633 million). In the table above the assets in course of construction are shown in the categories where the capitalization is expected.

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

Additions due to asset retirement obligations represent the amounts recognized as part of the carrying amounts of the constructed assets against a provision for asset retirement obligation in the reported year (Note 19.6).

Investments represent the regular investing activity in PPE assets. These additions are shown net of the investment tax credit related to broadband investments of HUF 350 million in 2008 (2007: HUF 3,561 million). For more details, see Note 9.4.

Impairment losses charged in 2007 relate to the WLAN assets deployed in rural areas of Hungary. It was established that the recoverable amount of these assets (grouped in a CGU) based on the value in use calculations was lower than the carrying amount. Value in use was determined using discounted cashflow analyses. The discount rates used were 11.6% to 12.0%. No impairment was identified in 2008.

Reclassifications between PPE in 2007 categories are the result of the unification of disclosure of PPE of the fixed line and mobile business from January 1, 2007, after the merger of the Company and T-Mobile HU. A large number of various assets were reclassified to ensure consistent disclosures between the business units. No major reclassifications were made in 2008. The impact of reclassifications on depreciation expense was not material.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2008 the gross book value of the leased back assets is HUF 2,739 million (2007: HUF 2,460 million) and the net book value is HUF 1,450 million (2007: HUF 1,407 million).

Included mainly in buildings and telecom equipment are assets leased under finance lease conditions (other than sale and lease back). At December 31, 2008 the gross book value of the finance leased assets is HUF 2,646 million (2007: HUF 2,593) and the net book value is HUF 1,813 million (2007: HUF 1,828 million).

Included in telecommunications equipment at December 31, 2008 are assets leased under operating lease contracts to customers with a gross book value of HUF 1,759 million (2007: HUF 7,029 million) and net book value of HUF 1,122 million (2007: HUF 2,514 million). Depreciation for the year of these assets amounted to HUF 469 million (2007: HUF 808 million). The future minimum lease payments receivable under these contracts are disclosed in Note 32.4.

HUF 3,263 million of PPE has restricted titles as at December 31, 2008 (2007: HUF 3,235 million), which serve as pledges for finance leases.

The reviews of the useful lives of property, plant and equipment during 2008 affected the lives of a large number of assets including primarily the telecommunications equipment of both the fixed line and mobile operations. The revision results in the following change in the original trend of depreciation.

	2008	2009	2010	2011	After 2011
			(In HUF millions)		
Increase / (decrease) in depreciation	(7,147)	(7,771)	(2,048)	1,374	15,592

13 Intangible assets – net

	Goodwill	Software	Concessions and licenses	Other	Total
			(in HUF millions)		
At January 1, 2007					
Cost	245,149	118,264	40,705	25,328	429,446
Accumulated amortization	-	(77,860)	(13,480)	(6,366)	(97,706)
Carrying amount	**245,149**	**40,404**	**27,225**	**18,962**	**331,740**
Carrying amount – January 1, 2007	245,149	40,404	27,225	18,962	331,740
Exchange differences	185	41	1,629	9	1,864
Additions due to business combinations	520	384	1,214	21	2,139
Investments	-	15,441	11,564	1,005	28,010
Disposals	-	-	(1,505)	(46)	(1,551)
Impairment	-	-	-	-	-
Amortization charge	-	(18,243)	(3,020)	(3,712)	(24,975)
Reclassifications	458	3,142	(102)	(3,498)	-
Carrying amount – December 31, 2007	**246,312**	**41,169**	**37,005**	**12,741**	**337,227**

	Goodwill	Software	Concessions and licenses	Other	Total
			(in HUF millions)		
At December 31, 2007					
Cost	246,312	135,990	54,262	23,243	459,807
Accumulated amortization	-	(94,821)	(17,257)	(10,502)	(122,580)
Carrying amount	**246,312**	**41,169**	**37,005**	**12,741**	**337,227**
Carrying amount – January 1, 2008	246,312	41,169	37,005	12,741	337,227
Exchange differences	346	357	298	250	1,251
Additions due to business combinations	132	-	-	104	236
Investments	-	19,680	2,525	255	22,460
Disposals	-	-	-	(235)	(235)
Impairment	-	-	-	-	-
Amortization charge	-	(16,263)	(3,464)	(3,520)	(23,247)
Reclassifications	-	-	-	-	-
Carrying amount – December 31, 2008	**246,790**	**44,943**	**36,364**	**9,595**	**337,692**
At December 31, 2008					
Cost	246,790	155,513	50,096	22,663	475,062
Accumulated amortization	-	(110,570)	(13,732)	(13,068)	(137,370)
Carrying amount	**246,790**	**44,943**	**36,364**	**9,595**	**337,692**

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

Investments represent the regular investing activity in intangible assets.

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

The reviews of the useful lives of intangible assets during 2008 affected the lives of a large number of assets including primarily the billing and other operation support systems of both the fixed line and mobile operations. The revision of the useful lives of these assets results in the following change in the original trend of depreciation.

	2008	2009	2010	2011	After 2011
			(In HUF millions)		
Increase / (decrease) in depreciation	(2,623)	(1,432)	1,125	1,150	1,780

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. We established in all cases that the carrying amount of goodwill allocated to the segments did not suffer impairment as the recoverable amounts of the segments based on fair values determined using discounted projected cashflows proved to be higher than the carrying values. Consequently, no goodwill impairment was charged in any of the reported years. The cashflows attributable to the national CGUs were projected for the coming ten years with terminal values determined. See also Note 4.2. Goodwill is tested for impairment at segment level. The goodwill allocated to the T-Mobile segment is added to the carrying amounts of the national CGUs of the T-Mobile segment and to the relevant portion of the allocated carrying amounts of the GHS segment. The aggregate of these is compared with the total of the recoverable amounts of the national CGUs of the T-Mobile segment. The method is the same for the T-Home segment. In T-Systems, being as one CGU, the carrying amount of the segment (including the allocated goodwill) and the allocated carrying amounts of the GHS segment are compared with the recoverable amount of the T-Systems segment.

14 Investments in associates and joint ventures

	For the year ended December 31,	
	2007	2008
	(in HUF millions)	
Opening balance	5,771	4,936
TSH becomes a subsidiary (Note 5.2.2)	(1,689)	-
Share of associates' and joint ventures' profits	934	1,341
Dividends	(72)	(2,141)
Sale of T-Systems RIC	(11)	-
Additions	3	-
Closing balance	**4,936**	**4,136**

The following table shows the total assets and liabilities as at December 31, 2008, and revenues and profit for the year ended December 31, 2008 of the major associates and joint ventures of the Group.

	Hunsat	IKO-Telekom Média Holding	Magyar RTL
		(in HUF millions)	
Total assets	1,288	7,864	29,351
Total liabilities	1,001	4,067	14,861
Revenues	3,387	-	35,614
Profit for the year	186	74	4,920

Magyar Telekom signed a strategic co-operation agreement with IKO Production Kft., the other 50% owner of IKO-Telekom Média Holding (ITMH) in April 2008 to split the investments of ITMH and gain full control of ITMH's two independent content service provider subsidiaries, IKO New Media (IKO NM) and IKO Content & Rights (IKO CR), both being the 100% owned subsidiaries of ITMH. According to the co-operation agreement, the properties of ITMH will be split between the owners by way of a demerger; as a result of which Magyar Telekom gains 100% ownership over IKO NM and IKO CR, while the Holding including the 31% stake in M-RTL will remain with IKO Production. IKO NM is one of the leading companies in the Hungarian interactive service market, and is the service provider of telecommunications applications for M-RTL. In addition, IKO NM produces TV shows and is one of the largest aggregators of premium rate telecommunications services in Hungary. IKO CR is an aggregator in the content outsourcing market. The transaction is subject to the approval of M-RTL's other shareholders.

15 Other non current assets

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

16 Financial liabilities to related parties

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

The table below shows the details of the loans outstanding as at December 31, 2008 and the related accrued interest.

	Carrying amount (HUF millions)	Interest rate (%)	Fixed / variable	Repayable
	9,486	12.35	variable	Jan 2009
	5,000	9.68	fixed	Sep 2009
	25,000	9.61	fixed	Oct 2009
	28,000	9.15	variable	Oct 2009
	20,000	7.55	fixed	Oct 2009
Due within 1 year	**87,486**			
Accrued interest	**8,845**			
	96,331			

	Carrying amount (HUF millions)	Interest rate (%)	Fixed / variable	Repayable
	9,486	12.35	variable	Jan 2010
	10,060	8.17	fixed	Jul 2010
	20,121	8.18	fixed	Jul 2010
	9,486	12.35	variable	Jan 2011
	25,000	9.30	variable	Apr 2011
	34,384	7.75	fixed	Jul 2011
	9,487	12.35	variable	Jan 2012
	40,000	11.93	variable	May 2012
	9,487	12.35	variable	Jan 2013
	25,000	7.26	fixed	Oct 2013
	50,586	8.30	fixed	May 2015
Due after 1 year	**243,097**			
	339,428			

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

	At December 31,			
	2007		2008	
	(in HUF millions)			
	Book value	Fair value	Book value	Fair value
At fixed rate	199,000	206,958	190,151	194,861
At variable rate	75,432	75,432	140,432	140,432
Total related party loans	**274,432**	**282,390**	**330,583**	**335,293**

The weighted average interest rate on related party loans was 9.39% in 2008 (7.95% in 2007, 8.45% in 2006). The majority of the Group's related party loans is subject to fixed interest rates that are exposed to fair value risk as it is stated in the table above. Any decrease of market interest rates would result in an increase of the fair value of the fixed interest liabilities.

17 Other financial liabilities

		At December 31,	
		2007	2008
		(in HUF millions)	
Bank loans	(a)	40,506	33,246
Finance lease payable (Note 32.1)		659	1,018
Accrued interest		1,474	1,246
Other		2,027	1,113
Total other financial liabilities – current		**44,666**	**36,623**
Bank loans	(a)	52,204	19,313
Finance lease payable (Note 32.1)		2,711	3,474
Other		123	123
Total other financial liabilities – non current		**55,038**	**22,910**

(a) Bank loans

	As at December 31,	
	2007	2008
	(in HUF millions)	
Current bank loans	40,506	33,246
Non current bank loans	52,204	19,313
Total bank loans	**92,710**	**52,559**
Bank loans analyzed by currency are as follows:		
HUF	81,130	39,515
EUR	11,484	13,044
Other	96	-
	92,710	**52,559**

Principal repayments of bank loans fall due as follows:

	Maturity as at December 31,	
	2007	2008
	(in HUF millions)	
Within 1 year	40,506	33,246
1–5 years	52,108	19,313
After 5 years	96	-
	92,710	**52,559**

Loans totaling HUF 2,277 million at December 31, 2008 are revolving loans (2007: HUF 30,136 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The following table shows the weighted average interest rates of bank loans as at December 31, 2008.

	Maturities						
	2009	2010	2011	2012	2013	Thereafter	Total
	(in HUF millions, except percentages)						
Bank loans (HUF denominated)							
At variable rate	27,527	988	-	-	-	-	28,515
Average interest rate (%)	10.55	10.73	-	-	-	-	10.56
At fixed rate	-	-	11,000	-	-	-	11,000
Average interest rate (%)	-	-	7.83	-	-	-	7.83
Total	**27,527**	**988**	**11,000**	**-**	**-**	**-**	**39,515**
Bank loans (EUR denominated)							
At variable rate	-	2,277	-	-	-	-	2,277
Average interest rate (%)	-	5.07	-	-	-	-	5.07
At fixed rate	5,719	3,954	1,094	-	-	-	10,767
Average interest rate (%)	4.74	4.65	4.40	-	-	-	4.67
Total	**5,719**	**6,231**	**1,094**	**-**	**-**	**-**	**13,044**
Total bank loans	33,246	7,219	12,094	-	-	-	52,559

The weighted average interest rate on bank loans was 8.54% in 2008 (7.41% in 2007, 7.86% in 2006).

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

	At December 31,			
	2007		2008	
	(in HUF millions)			
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	11,000	12,067	11,000	11,768
At variable rate	70,130	70,130	28,515	28,515
	81,130	**82,197**	**39,515**	**40,283**
EUR denominated bank loans				
At fixed rate	8,444	8,617	10,767	11,069
At variable rate	3,040	3,040	2,277	2,277
	11,484	**11,657**	**13,044**	**13,346**
Bank loans denominated in other currencies (BGN)				
At fixed rate	-	-	-	-
At variable rate	96	96	-	-
	96	**96**	**-**	**-**
Total bank loans	**92,710**	**93,950**	**52,559**	**53,629**

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

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

(b) Credit facilities

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

18 Trade payables

	At December 31,	
	2007	2008
	(in HUF millions)	
Payable to DT Group companies	7,524	5,850
Payable to associates and joint ventures	9	7
Other trade payables	78,513	86,483
	86,046	**92,340**

In order to maintain consistency with the current year presentation, certain items have been reclassified of the 2007 year end balances between Trade payables and Other current liabilities in an amount of HUF 1,943 million.

19 Provisions

(in HUF millions)	Severance	Customer loyalty programs	Legal cases	MTIP	Fixed to mobile IC fees	ARO	Other	Total
January 1, 2007	4,053	2,035	2,652	189	4,590	1,106	1,912	16,537
Acquired through business combinations	-	-	-	-	-	-	179	179
Amounts utilized	(3,589)	(645)	(443)	-	-	-	(2,258)	(6,935)
Amounts reversed	-	-	(99)	(158)	-	-	(70)	(327)
Accretion	-	-	-	-	-	55	-	55
Additions	14,258	1,064	3,542	24	2,394	83	2,823	24,188
December 31, 2007	**14,722**	**2,454**	**5,652**	**55**	**6,984**	**1,244**	**2,586**	**33,697**
Amounts utilized	(10,988)	(1,801)	(199)	(175)	-	(72)	(558)	(13,793)
Amounts reversed	(62)	-	(1,469)	-	(8,499)	-	(1,464)	(11,494)
Exchange rate difference	31	25	246	-	-	-	14	316
Accretion	-	-	-	-	-	70	-	70
Additions	6,061	1,565	2,683	356	1,515	3,414	2,262	17,856
December 31, 2008	**9,764**	**2,243**	**6,913**	**236**	**-**	**4,656**	**2,840**	**26,652**
Of which current	**8,853**	**1,393**	**4,371**	**-**	**-**	**104**	**2,514**	**17,235**
Of which non current	**911**	**850**	**2,542**	**236**	**-**	**4,552**	**326**	**9,417**

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

19.1 Severance

The majority of the provision for severance as at December 31, 2008 relates to the employee terminations in 2009 in relation to the further organizational changes in Magyar Telekom Plc. The provision for severance as at December 31, 2007 mostly related to the major restructuring of Magyar Telekom Plc's operations from January 1, 2008, and impacted all functions of the Company.

1,910 employees were dismissed in 2008 (2007: 1,704), related to which severance payments were made. The balance of provision as at December 31, 2008 relates to 738 employees (2007: 813) working in various functions of the Group.

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

The total payments made in relation to employee termination in 2007 amounted to HUF 14,663 million, of which HUF 3,589 million was charged against the provision as at December 31, 2006, while the rest was recognized as employee related expense in 2007.

19.2 Customer loyalty

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

19.3 Legal cases

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

19.4 MTIP

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

19.5 Fixed to mobile (F2M) interconnect fees

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

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

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

19.6 Asset retirement obligations (ARO)

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

19.7 Other provisions

Other provisions include guarantee obligations and further other individually small items as well as provisions for onerous contracts.

20 Other current liabilities

		At December 31,	
		2007	2008
		(in HUF millions)	
Deferred revenue and advances received		13,939	13,102
Other taxes and social security		13,327	9,925
Salaries and wages		9,500	8,136
EKG payable	(a)	1,943	3,476
Dividend payable to minorities		151	290
Other liabilities		5,060	2,281
		43,920	37,210

In order to maintain consistency with the current year presentation, certain items have been reclassified of the 2007 year end balances between Trade payables and Other current liabilities in an amount of HUF 1,943 million.

21 Other non current liabilities

		At December 31,	
		2007	2008
		(in HUF millions)	
EKG payable	(a)	3,293	385
Other		2,504	198
		5,797	583

(a) During 2005 the Company concluded an agreement with the Hungarian government for taking over the operation of the existing Electronic Governmental Backbone Network (EKG) for a period of 50 months. During the term of the agreement the Company committed to significant upgrades of the network and transferring it back to the government at the end of the term free of charge. During the term of the agreement, the Company has exclusivity in providing telecommunication services to the government institutions connected to the network. As the substance of the agreement is of a nature similar to a concession, the Company recognized an intangible asset (right) and a corresponding liability. The contract expires in 2009, with the last payments to be made in 2010.

22 Revenue

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Fixed line revenues			
Voice retail	182,280	159,772	151,033
Voice wholesale	28,691	30,319	21,494
Internet	49,733	57,796	59,823
Data	27,121	27,440	28,839
Multimedia	17,506	18,102	18,830
Equipment	4,249	5,395	7,058
Other fixed line revenues	9,607	10,509	12,818
Total Fixed line revenue	**319,187**	**309,333**	**299,895**
Mobile revenues			
Voice	240,285	248,594	249,219
Non voice	40,258	45,068	50,936
Equipment	25,280	23,121	21,169
Other mobile revenues	21,507	8,984	10,441
Total Mobile revenue	**327,330**	**325,767**	**331,765**
System integration and IT revenue	**24,679**	**41,561**	**41,396**
Total revenue	**671,196**	**676,661**	**673,056**

23 Expenses directly related to revenues

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Voice, data and internet related payments	91,102	86,244	79,076
Material cost of equipment sold	59,714	41,957	45,061
Payments to agents and other subcontractors	31,257	49,064	43,421
	182,073	**177,265**	**167,558**

In order to maintain consistency with the current year presentation, certain items have been reclassified of the 2006 and 2007 expenses between Expenses directly related to revenues and Other operating expenses in an amount of HUF 1,480 million and HUF 3,920 million respectively.

24 Employee related expenses

		For the year ended December 31,		
	Note	2006	2007	2008
			(in HUF millions)	
Short term benefits		92,638	99,459	96,407
Share based payments	24.1	281	(134)	356
Termination benefits	19.1	6,523	25,332	8,510
Total before capitalization		**99,442**	**124,657**	**105,273**
Expenses capitalized		(4,189)	(4,481)	(4,953)
		95,253	**120,176**	**100,320**
Total costs expensed in relation to defined contribution plans (including social security)		21,737	28,791	23,376
Closing number of employees		12,341	11,723	10,438

24.1 Share-based compensation

24.1.1 Management share option plan

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

On July 1, 2002, the Company granted 3,964,600 options to participants of the stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third tranches (exercisable in 2004 and 2005). As the Company's share price as quoted on the Budapest Stock Exchange on the grant date was HUF 833 per share, there was no intrinsic value to the options. The options had a life of five years from the grant date, meaning that the un-exercised options were forfeited without replacement or compensation on June 30, 2007.

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

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

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

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

The average share price on the exercise dates in 2007 was HUF 985 (2006: HUF 1,060).

24.1.2 The former CEO's share option plan

The former CEO of Magyar Telekom was granted share options in 2000, 2001, 2002, 2003 and 2004. The exercise price of the options was determined in US dollars and the options had no intrinsic values on the grant dates in 2000, 2001, 2002 and 2003, while those granted in 2004 had an intrinsic value of HUF 63 million. One third of the options granted vested after one year, another one third vested two years after the grant date, while the last third vested after three years. The options are exercisable for ten years after the grant date. The Group recognized compensation expense in an amount of HUF 36 million in 2006 among employee related expenses against equity (Reserve for equity settled share based transactions).

In 2006, the former CEO resigned and exercised his remaining options from 2003 and 2004. Although the last third of the 2004 grant would not have been exercisable, the resignation agreement concluded between the Company and the CEO allowed the early exercising of these 487 thousand options. Further, the settlement was concluded in cash even though the plan was originally intended as equity settled. The options granted in 2000 remain exercisable with the original conditions. The closing share price on the exercise date was HUF 1,060.

The table below shows the details of the CEO's share options.

	Options granted in year					
	2000	2001	2002	2003	2004	Total
Number of options granted (thousand)	103	250	303	619	1,462	2,737
Exercised (thousand) – in 2005	-	(250)	(303)	(413)	(487)	(1,453)
Exercised (thousand) – in 2006	-	-	-	(206)	(975)	(1,181)
Outstanding (thousand) at December 31, 2008	**103**	**-**	**-**	**-**	**-**	**103**
Exercisable (thousand) at December 31, 2008	103	-	-	-	-	103
Exercise price in USD	7.36	2.93	3.48	3.62	3.87	
Remaining contractual life at December 31, 2008 (years)	1.5	-	-	-	-	

24.1.3 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP is a cash settled long term incentive instrument which was planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years. At the beginning of the plan each participant has an offered bonus. This bonus will be paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target.

The relative performance target is linked to the Total Return of the Magyar Telekom share compared to the performance of the Dow Jones Euro STOXX Total Return Index during the vesting period, each at the last 20 trading days. Measurement is the un-weighted average Magyar Telekom share price plus dividend payments. The absolute performance target is achieved when the Magyar Telekom share price, adjusted for dividends paid during the tenure, is more than 35 percent higher at the end of the lock-up period than at the beginning of the plan. The basis of the calculation is the un-weighted average closing price of the Magyar Telekom share at the Budapest Stock Exchange during the last 20 trading days before the beginning and the end of the plan.

The share price calculated according to the above are included in the table below. When determining the Group's liability, these target figures are weighted with the fair value factors of achieving these targets. The fair value factors are calculated using the Monte Carlo technique. The target figures are multiplied by the relevant fair value factors and these amounts are then accrued for the given tranche period. This technique aims to determine the fair values of the share options granted and present it in accordance with the accruals concept.

Tranche	Vesting period	MT Share price at the beginning of the vesting period	Fulfillment
1	January 1, 2004 – December 31, 2006	765	Only absolute target met
2	January 1, 2005 – December 31, 2007	843	Neither targets met
3	January 1, 2006 – December 31, 2008	949	Only relative target met
4	January 1, 2007 – December 31, 2009	1,013	-
5	January 1, 2008 – December 31, 2010	912	-

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

25 Other operating expenses

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
Materials, maintenance and service fees	71,586	69,034	72,858
Marketing	21,868	20,152	22,065
Fees and levies	14,919	15,640	16,000
Consulting, audit and other expert fees	11,301	12,818	10,960
Rental and operating lease	9,977	9,304	9,947
Bad debt expense	5,066	5,136	4,353
Other expenses	4,088	7,230	4,866
	138,805	**139,314**	**141,049**

In order to maintain consistency with the current year presentation, certain items have been reclassified of the 2006 and 2007 expenses between Expenses directly related to revenues and Other operating expenses in an amount of HUF 1,480 million and HUF 3,920 million respectively.

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

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
Audit of the financial statements	713	765	500
Other audit related fees	316	176	108
Tax advisory fees	11	12	-
Other non audit related fees	42	-	-
Total expenses payable to PwC	**1,082**	**953**	**608**

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

Other audit-related fees in the above table are the aggregate fees of PwC for services which are normally performed by the external auditor in connection with the auditing of the annual financial statements, e.g. advice on issues of accounting and reporting, which were not classified as audit services, and support with the interpretation of new accounting and reporting standards. Audit-related fees in 2008 also included HUF 108 million (2007: HUF 125 million) incurred relating to the ongoing investigation (Note 1.2).

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

Other non audit related fees in the above table are fees of PwC primarily related to services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC. There were no such fees incurred in 2007 and 2008.

26 Other operating income

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Compensation for renaming (Note 33.1)	1,435	229	676
Gain on sale of PP&E, Intangible assets and assets held for sale	2,140	3,203	2,126
Other operating income	-	569	1,447
	3,575	**4,001**	**4,249**

Other operating income in 2008 also includes the gain realized on the sale of the Group's non-core subsidiary, MontMak (Note 5.5).

27 Finance expenses

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Interest expense	27,271	31,147	32,540
Other finance expenses	2,831	4,039	4,659
	30,102	**35,186**	**37,199**

Other finance expenses mainly include bank charges.

Interest expense is shown net of interest capitalized in an amount of HUF 258 million in 2008 (using a rate of 8.3%). Comparative amounts were also not significant.

28 Finance income

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Gain / (losses) on the sale of financial instruments	1,190	828	(477)
Gains / (losses) on the valuation of derivative financial instruments	377	(139)	789
Net foreign exchange losses	(659)	(1,481)	(648)
Finance lease interest income	480	1,675	1,340
Interest and other finance income	3,304	4,334	5,887
	4,692	**5,217**	**6,891**

29 Purchase of property, plant and equipment and intangible assets

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Investments in property, plant and equipment (Note 12)	73,443	75,825	85,489
Investments in intangible assets (Note 13)	16,458	28,010	22,460
Total investments in tangible and intangible assets	**89,901**	**103,835**	**107,949**
Recognition of investment tax credit (Note 9.4)	3,109	3,561	350
Change in payables relating to capital expenditures	3,780	(4,299)	7,740
	96,790	**103,097**	**116,039**

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

30 Purchase of subsidiaries and business units

	For the year ended December 31,		
	2006	2007	2008
		(in HUF millions)	
Stonebridge / MKT	16,579	-	-
KFKI	9,840	-	-
Dataplex	5,148	-	-
Orbitel	1,982	-	-
Other	1,778	710	762
Total purchase of subsidiaries and business units	**35,327**	**710**	**762**

Other items include the consideration paid for smaller business combinations and for additional shares of ownership in subsidiaries already consolidated. See also Note 5 for further details.

31 Segment information

The Group's primary presentation of its segments is along its lines of business.

The T-Home segment is the primary fixed line telecommunications service provider in Hungary, Macedonia and Montenegro. To a lesser extent, T-Home is also present in Romania, Bulgaria and Ukraine, providing alternative telecommunications services.

The T-Mobile segment provides digital mobile services in various frequency bandwidths in Hungary, Macedonia and Montenegro and also includes the professional mobile services provided by Pro-M in Hungary.

The T-Systems segment provides fixed line telecommunications services in Hungary to the largest 3,200 customers of Magyar Telekom Plc. Further, T-Systems also provides system integration and information technology related services and products to business clients in Hungary.

The Group headquarters and Shared services (GHS) segment includes the activities of the Magyar Telekom headquarters, including the Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal audit and similar shared services and other central functions of the Group's management. GHS is disclosed voluntarily as a segment regardless of its size and activities.

The segments' revenues include revenues from external clients as well as the internal revenues generated from other segments for telecommunications as well as support services.

The segments' depreciation, amortization and impairment expenses include the aforementioned expenses related to the intangible assets and PPE allocated to the segments.

Costs allocated to the segments include third party as well as inter-segment costs. Inter-segment costs between legal entities are charged on an arm's length basis, while inter-segment costs within Magyar Telekom Plc. are charged as internal services, the vast majority of which is also calculated on an arm's length basis. As a result, the costs directly incurred by, and allocated to, the segments include all the operating costs incurred for the operations of the segments.

The segments' results are monitored to Operating profit. The financial results, the share of associates' and joint ventures' profits and tax expenses as well as the minority interests are not allocated to the segments, as these items are monitored at Group level.

Assets allocated to the segments exclude Cash and cash equivalents, Other current financial assets and Non current financial assets and Current and Deferred tax assets, which are monitored at Group level. All other assets are allocated to the segments.

Liabilities allocated to the segments exclude Financial liabilities and Current and Deferred tax liabilities, which are monitored at Group level. All other liabilities are allocated to the segments.

Allocation of assets, liabilities, revenues and expenses remained consistent in the periods disclosed.

31.1 Primary reporting format

The following tables present a summary of operating results of the Group by business segment.

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
Revenues			
T-Home revenues from external customers	272,822	273,275	260,649
T-Home revenues from other segments	42,421	34,426	29,875
Total revenues of T-Home	**315,243**	**307,701**	**290,524**
T-Mobile revenues from external customers	327,330	325,724	331,765
T-Mobile revenues from other segments	22,236	21,146	17,675
Total revenues of T-Mobile	**349,566**	**346,870**	**349,440**
T-Systems revenues from external customers	63,423	75,034	77,761
T-Systems revenues from other segments	1,946	3,898	7,464
Total revenues of T-Systems	**65,369**	**78,932**	**85,225**
GHS revenues from external customers	7,621	2,628	2,881
GHS revenues from other segments	18,776	21,109	19,264
Total revenues of GHS	**26,397**	**23,737**	**22,145**
Less: Inter-segment revenue	(85,379)	(80,579)	(74,278)
Total revenue of the Group	**671,196**	**676,661**	**673,056**

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
Depreciation and amortization			
Impairment of tangible and intangible assets	2,457	-	-
Other depreciation and amortization	65,004	57,473	53,147
T-Home	**67,461**	**57,473**	**53,147**
Impairment of tangible and intangible assets	616	126	-
Other depreciation and amortization	46,559	47,323	41,243
T-Mobile	**47,175**	**47,449**	**41,243**
Impairment of tangible and intangible assets	-	-	-
Other depreciation and amortization	3,611	5,867	6,466
T-Systems	**3,611**	**5,867**	**6,466**
Impairment of tangible and intangible assets	-	-	-
Other depreciation and amortization	4,002	4,806	5,264
GHS	**4,002**	**4,806**	**5,264**
Total depreciation and amortization of the Group	122,249	115,595	106,120
Segment results (Operating profit)			
T-Home	56,300	54,096	64,569
T-Mobile	92,772	101,855	107,168
T-Systems	12,134	5,966	17,165
GHS	(24,815)	(33,605)	(26,644)
Total operating profit of the Group	136,391	128,312	162,258
Additions to PPE and Intangible assets			
Additions to Goodwill	6,317	-	132
Other additions due to business combinations	3,090	50	626
Addition due to ARO	972	83	1,111
Investments in tangible and intangible assets	37,602	39,350	52,542
T-Home	**47,981**	**39,483**	**54,411**
Additions to Goodwill	2,285	507	-
Addition due to ARO	-	-	2,303
Investments in tangible and intangible assets	40,236	55,903	45,706
T-Mobile	**42,521**	**56,410**	**48,009**
Additions to Goodwill	4,468	13	-
Other additions due to business combinations	6,177	2,060	-
Investments in tangible and intangible assets	5,853	3,316	3,337
T-Systems	**16,498**	**5,389**	**3,337**
Investments in tangible and intangible assets	6,210	5,266	6,364
GHS	**6,210**	**5,266**	**6,364**
Total Group	113,210	106,548	112,121

	As at December 31, 2007	2008
	(in HUF millions)	
Assets		
Goodwill	33,174	33,347
Associates and joint ventures	4,933	4,133
Assets held for sale	636	488
Other assets	390,481	395,546
T-Home	**429,224**	**433,514**
Goodwill	208,275	208,580
Assets held for sale	-	1
Other assets	260,796	267,476
T-Mobile	**469,071**	**476,057**
Goodwill	4,863	4,863
Assets held for sale	739	739
Other assets	32,550	34,040
T-Systems	**38,152**	**39,642**
Associates and joint ventures	-	3
Assets held for sale	3,018	548
Other assets	62,418	62,111
GHS	**65,436**	**62,662**
Inter-segment elimination	(5,987)	(8,375)
Total segment assets	**995,896**	**1,003,500**
Unallocated assets	139,682	165,356
Total assets of the Group	**1,135,578**	**1,168,856**
Liabilities		
T-Home	65,274	61,587
T-Mobile	58,348	60,452
T-Systems	20,127	17,111
GHS	34,829	21,509
Inter-segment elimination	(5,987)	(8,375)
Total segment liabilities	**172,591**	**152,284**
Unallocated liabilities	381,294	416,230
Total liabilities of the Group	**553,885**	**568,514**

31.2 Secondary reporting format

Magyar Telekom's segments primarily operate in Hungary, Macedonia and Montenegro. The Group also has Fixed line operations in Romania, Bulgaria and Ukraine, which are shown in aggregated amounts in the table below. The geographical segment reporting information is included in the tables below.

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
Revenues			
Revenue generated in Hungary	565,770	565,750	556,856
Less: inter-segment revenue	(2,254)	(3,474)	(2,109)
Revenue from external customers – Hungary	**563,516**	**562,276**	**554,747**
Revenue generated in Macedonia	74,056	74,332	76,097
Less: inter-segment revenue	(760)	(525)	(141)
Revenue from external customers – Macedonia	**73,296**	**73,807**	**75,956**
Revenue generated in Montenegro	30,683	35,747	33,148
Less: inter-segment revenue	(229)	(491)	(105)
Revenue from external customers – Montenegro	**30,454**	**35,256**	**33,043**
Revenue generated in other countries	4,784	6,489	10,160
Less: inter-segment revenues	(854)	(1,167)	(850)
Revenue from external customers – other countries	**3,930**	**5,322**	**9,310**
Total revenue of the Group	671,196	676,661	673,056
Additions to PPE and Intangible assets			
Additions to Goodwill	10,377	520	132
Other additions due to business combinations	9,138	2,110	626
Addition due to ARO	972	83	3,414
Investments in tangible and intangible assets	76,903	83,455	87,742
Hungary	**97,390**	**86,168**	**91,914**
Additions to Goodwill	1,724	-	-
Investments in tangible and intangible assets	7,340	9,880	15,710
Macedonia	**9,064**	**9,880**	**15,710**
Investments in tangible and intangible assets	3,541	6,974	3,750
Montenegro	**3,541**	**6,974**	**3,750**
Additions to Goodwill	969	-	-
Other additions due to business combinations	129	-	-
Investments in tangible and intangible assets	2,117	3,526	747
Other countries	**3,215**	**3,526**	**747**
Total Group	113,210	106,548	112,121

	As at December 31, 2007	2008
	(in HUF millions)	
Assets		
Hungary	812,311	803,909
Macedonia	135,623	142,454
Montenegro	49,909	55,528
Other countries	8,352	8,064
Total	**1,006,195**	**1,009,955**
Inter-segment elimination	(10,299)	(6,455)
Total segment assets	**995,896**	**1,003,500**
Unallocated assets	139,682	165,356
Total assets of the Group	**1,135,578**	**1,168,856**

32 Commitments

32.1 Finance lease –Group as lessee

Finance leases in 2007 and 2008 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contract term of these leases is 5–10 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2007 and 2008 are as follows:

(in HUF millions)	At December 31, 2007			At December 31, 2008		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	222	324	546	265	438	703
1–5 years	872	866	1,738	1,154	1,211	2,365
After 5 years	561	247	808	699	331	1,030
Total	**1,655**	**1,437**	**3,092**	**2,118**	**1,980**	**4,098**

Finance leases other than sale and lease back in 2007 and 2008 mainly relate to vehicles and IT equipment. In most cases the contract term of the leases is 3–5 years.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2007 and 2008 are as follows:

(in HUF millions)	At December 31, 2007			At December 31, 2008		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	437	163	600	753	265	1,018
1–5 years	1,131	280	1,411	864	305	1,169
After 5 years	147	19	166	757	106	863
Total	**1,715**	**462**	**2,177**	**2,374**	**676**	**3,050**

32.2 Operating lease – Group as lessee

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

(in HUF millions)	At December 31, 2007	2008
Within 1 year	7,360	6,741
1–5 years	19,801	17,798
After 5 years	15,668	14,945
Total	**42,829**	**39,484**

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 3 to 20 years with renewal options in most cases.

32.3 Finance lease – Group as lessor

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

Future lease receivables under finance leases at December 31, 2007 and 2008 are as follows:

(in HUF millions)	At December 31, 2007			At December 31, 2008		
	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	4,011	1,617	5,628	3,718	1,606	5,324
1–5 years	9,742	3,928	13,668	12,853	4,104	16,957
After 5 years	7,816	5,971	8,787	6,511	605	7,116
Total	**21,569**	**6,514**	**28,083**	**23,082**	**6,315**	**29,397**

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Other non current financial assets. The finance income accruing to the Group over the lease term is recognized in the income statement (Finance income).

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

32.4 Operating lease – Group as lessor

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

(in HUF millions)	At December 31, 2008
	Minimum lease receipt
Within 1 year	2,394
1–5 years	2,524
After 5 years	728
Total	**5,646**

32.5 Purchase commitments for tangible assets

As of December 31, 2008, Magyar Telekom had contractual commitments for capital expenditures of HUF 6.5 billion (HUF 12.6 billion in 2007) with the majority falling due within one year.

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

The Company renewed its mobile concession contract for the use of the 900 MHz frequency band that expired on November 4, 2008 for an additional term of seven and a half years, as agreed with the Hungarian Government. At the same time, the Company agreed to carry out large-scale investment projects to further increase mobile broadband coverage. In addition to the payment of the HUF 10 billion concession fee, Magyar Telekom agreed with the Government to spend at least HUF 20 billion in 2008 and 2009 on further increasing mobile broadband coverage in Hungary. This agreement includes that 25% of the unfulfilled obligation would have to be paid as a penalty to the Government at the end of 2009 if Magyar Telekom did not increase the coverage as agreed. 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.

33 Related party transactions

33.1 Deutsche Telekom Group

Deutsche Telekom AG (DTAG) is the ultimate controlling owner of Magyar Telekom Plc. holding 59.21% of the issued shares. Deutsche Telekom (DT) Group has a number of fixed line and mobile telecom service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

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

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

The Company's Hungarian operations were renamed in 2004 and 2005. The renaming continued in 2006 in Macedonia (T-Mobile) and in Montenegro (T-Com and T-Mobile) in 2007, and was completed in 2008 in Macedonia (T-Home). The expenditures incurred in connection with the launch and promotion of the new brands and the loss of value caused by discontinuing the old brands were compensated in value by Deutsche Telekom AG. The compensation received was recognized in the income statement (Other operating income).

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

	2006	2007	2008
		(in HUF millions)	
Revenues from telecom services provided to DT Group	7,127	6,729	16,035
Costs of services provided by DT Group	(13,016)	(11,881)	(20,759)
Other income from DTAG	1,435	229	676
Interest expense to DTIF	(21,389)	(23,301)	(26,986)
Dividend paid to MagyarCom GmbH	-	(88,296)	(45,690)
Dividend payable to MagyarCom GmbH	(45,074)	-	-
Accounts receivable from DT Group	7,991	6,878	5,903
Accounts payable to other DT Group companies	(6,207)	(7,524)	(5,850)
Accrued interests payable to DTIF	(3,756)	(5,210)	(8,845)
Loans payable to DTIF	(259,432)	(274,432)	(330,583)

Deutsche Telekom has pledged its support for Magyar Telekom's financing needs through to June 30, 2010.

33.2 Governments

Magyar Telekom provides services to Government departments and businesses in Hungary, Macedonia and Montenegro, but individually none of these customers represent a significant source of revenue.

33.3 Associates and joint ventures

Hunsat is a joint venture founded by the Company (50%) and Antenna Hungária (50%). The revenues of Hunsat include commissions received from Hungarian telecommunications companies for the use of services of international satellite agencies. The operational transactions and balances with Hunsat are insignificant. Dividends received from Hunsat amounted to HUF 89 million in 2008 (2007: HUF 72 million, 2006: HUF 157 million).

M-RTL is an associate of Magyar Telekom Group. M-RTL is a television broadcast company that sells airtime through media agencies to Magyar Telekom, and Magyar Telekom provides telecom services to M-RTL, but these inter-company services are not material. M-RTL declared dividends to Magyar Telekom directly and indirectly in an amount of HUF 825 million in 2008 (2007: HUF 750 million, 2006: HUF 605 million).

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

33.4 Board and supervisory board members

The remuneration of the members of the Company's Board of Directors amounted to HUF 13 million in 2008 (2007: HUF 11 million, 2006: HUF 8 million). The remuneration of the members of the Company's Supervisory Board amounted to HUF 46 million in 2008 (2007: HUF 42 million, 2006: HUF 17 million).

33.5 Key management

Key management has been identified as the members of the Group's Management Committee, which is the main operational decision making body of Magyar Telekom.

The table below shows in total the compensation expenses (including social security and other payroll related taxes) incurred by the Group in relation to the key management.

	At December 31,		
	2006	2007	2008
	(in HUF millions)		
Salaries and other short-term employee benefits	647	978	1,063
Contractual termination expense	432	1,129	-
Share based compensation (Note 24.1)	112	(123)	80
	1,191	**1,984**	**1,143**

The Group does not provide loans to its key management.

In 2001, DT's shareholders approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in 2001 and 2002. 50 percent of the options granted to each beneficiary may only be exercised following the end of a vesting period of two years. The remaining 50 percent of the options granted to each beneficiary may be exercised after the end of a vesting period of three years. All options are vested as December 31, 2008. The exercise price of the 2001 option is EUR 30.00, the term of the options runs until August 12, 2011. The exercise price of the 2002 option is EUR 12.36, the term of the options runs until July 14, 2012. At the time they were granted, the options of the 2001 and 2002 tranches had no intrinsic value, but a fair value of EUR 4.87 and EUR 3.79 respectively. The Company's Chief Financial Officer (CFO), who was a senior manager of DT at the time of the stock option, is a participant of the 2002 tranche, having 6,510 share options. Magyar Telekom does not have any potential obligation deriving from the CFO's share options, and no expenses or liabilities have been recognized in the presented years as these options are not in the scope of IFRS 2 and IFRIC 11 according to the transitional rules.

Further, the Company's CFO is also a participant of the 2004, 2005 and 2006 MTIP programs of DT, which are very similar to those of Magyar Telekom as described in Note 24.1.3, the difference being that the targets of the programs are tied to the performance of the DT shares. As of December 31, 2008, one performance target of the 2006 program of DT had been achieved. Consequently, the MTIP reward earned (EUR 66,000) shall be paid out by Magyar Telekom, as agreed with DT.

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

In 2001 and 2002, Deutsche Telekom granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options. Magyar Telekom employees only participated in the 2001 program. Each individual SAR entitles the plan participant to receive an amount in cash subject to these terms and conditions. Magyar Telekom does not have any potential obligation deriving from that contract, since Deutsche Telekom will pay the compensation, if any, to the participants, and further, the fair value of the SARs as at December 31, 2008 is estimated to be zero. No member of the current key management is a participant of the SAR program, but former members of the key management were participants of the 2001 SAR program.

34 Disclosures on financial instruments

34.1 Categories of financial assets and liabilities

34.1.1 Financial assets

The tables below shows the categorization of financial assets as at December 31, 2008 and 2007.

(in HUF millions)	December 31, 2008					
	Financial assets				Carrying amount 2008	Fair value 2008
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
Cash and cash equivalents	66,680	-	-	-	66,680	66,680
Bank deposits with original maturities over 3 months	59,300	-	-	-	59,300	59,300
Trade receivables	93,201	-	-	-	93,201	93,201
Trade receivables over one year	414	-	-	-	414	396
Employee loans	4,383	-	-	-	4,383	4,148
Derivative financial instruments	-	-	-	1,011	1,011	1,011
Loans to third parties	949	-	-	-	949	949
Dividend rec. from joint ventures	2,033	-	-	-	2,033	2,033
Other current financial assets	2,375	-	-	-	2,375	2,375
Financial assets AFS	-	-	282	-	282	282
Other non current financial asset	763	-	-	-	763	687
Total	**230,098**	**-**	**282**	**1,011**	**231,391**	**231,062**

(in HUF millions)	December 31, 2007					
	Financial assets				Carrying amount 2007	Fair value 2007
	Loans and receivables	Held-to-maturity	Available-for-sale	Held for trading		
Cash and cash equivalents	47,666	-	-	-	47,666	47,666
Bank deposits with original maturities over 3 months	58,053	-	-	-	58,053	58,053
Trade receivables	95,478	-	-	-	95,478	95,478
Trade receivables over one year	619	-	-	-	619	595
Employee loans	4,610	-	-	-	4,610	4,879
Derivative financial instruments	-	-	-	57	57	57
Loans to third parties	1,334	-	-	-	1,334	1,334
Other current financial assets	636	-	-	-	636	636
Financial assets AFS	-	-	690	-	690	690
Other non current financial asset	841	-	-	-	841	897
Total	**209,237**	**-**	**690**	**57**	**209,984**	**210,285**

All financial instruments are recognized initially at fair value. More details on subsequent measurement of financial instruments are provided in Note 2.4.

Cash and cash equivalents, trade receivables, dividend receivable from joint ventures, other current financial assets and loans to third parties mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of employee loans, trade receivables over one year and other non-current financial assets are determined by using discounted cash-flow valuation technique. The quarterly cash inflows from the employees are discounted by market based interest rates interpolated from the official Budapest and EUR Interest Rate Swap.

The fair value of financial instruments that are not traded in an active market (derivative financial instruments) is determined by using discounted cash-flow valuation technique. The fair value of forward foreign exchange contracts is determined using quoted spot exchange rates and appropriate interest rates at the balance sheet date.

Financial assets available for sale include investment in equity instruments that are measured at fair value.

Finance lease receivables (2008: HUF 23,082 million, 2007: HUF 21,569 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 32.3.

34.1.2 Financial liabilities

The table below shows the categorization of financial liabilities as at December 31, 2008 and 2007.

(in HUF millions)	December 31, 2008			
	Financial liabilities		Carrying amount	Fair value
	Measured at amortized cost	Held for trading		
Financial liabilities to related parties (including accrued interest)	339,428	-	339,428	344,137
Bank loans (including accrued interest)	53,805	-	53,805	54,875
Trade payables	92,340	-	92,340	92,340
Dividend payable	290	-	290	290
Nonconvertible bonds and debentures	193	-	193	193
Other current financial liabilities	4,988	-	4,988	4,988
Other non current financial liabilities	386	-	386	345
Total	**491,430**	**-**	**491,430**	**497,168**

(in HUF millions)	December 31, 2007			
	Financial liabilities		Carrying amount	Fair value
	Measured at amortized cost	Held for trading		
Financial liabilities to related parties (including accrued interest)	279,642	-	279,642	287,600
Bank loans (including accrued interest)	94,184	-	94,184	95,424
Trade payables	87,989	-	87,989	87,989
Dividend payable	151	-	151	151
Nonconvertible bonds and debentures	194	-	194	146
Other current financial liabilities	1,532	-	1,532	1,532
Other non current financial liabilities	3,827	-	3,827	3,566
Total	**467,519**	**-**	**467,519**	**476,408**

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

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

Trade payables and other current financial liabilities generally have short times to maturity, therefore the values reported approximate the fair values.
As dividend payable is also a short-term liability, the carrying amount is a reasonable approximation of fair value.

Finance lease liabilities (2008: HUF 4,492 million, 2007: HUF 3,370 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 32.3.

34.2 Net gain/loss by financial instrument category

The tables below shows the net gains and losses by financial instruments in 2008 and 2007.

(in HUF millions)	For the year ended December 31, 2008							
	From interest	From subsequent measurement				From derecognition	From fee expense	Net gain / loss
		At fair value	Currency translation	Impairment loss	Recalculation			
Loans and receivables	6,611	-	1,190	(5,866)	-	-	(3,554)	(1,619)
Held-to-maturity investments	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	(348)	-	-	-	-	-	(348)
Financial instruments held for trading	-	789	-	-	-	(477)	-	312
Financial liabilities measured at amortized cost	(32,728)	-	(1,838)	-	(743)	-	(96)	(35,405)
Net gain/loss of financial instruments under the scope of IAS 39	**(26,117)**	**441**	**(648)**	**(5,866)**	**(743)**	**(477)**	**(3,650)**	**(37,060)**
Net gain/loss related to finance lease (out of scope of IAS 39)	692	-	-	1,500	-	-	-	2,192

(in HUF millions)	For the year ended December 31, 2007						
	From interest	From subsequent measurement			From derecognition	From fee expense	Net gain / loss
		At fair value	Currency translation	Impairment loss			
Loans and receivables	4,334	-	(799)	(3,454)	-	(3,120)	(3,039)
Held-to-maturity investments	-	-	-	-	-	-	-
Available-for-sale financial assets	-	233	-	-	-	-	233
Financial instruments held for trading	-	(321)	-	-	828	-	507
Financial liabilities measured at amortized cost	(31,147)	-	(457)	-	-	(427)	(32,031)
Net gain/loss of financial instruments under the scope of IAS 39	**(26,813)**	**(88)**	**(1,256)**	**(3,454)**	**828**	**(3,547)**	**(34,330)**
Net gain/loss related to finance lease (out of scope of IAS 39)	1,183	-	-	(1,500)	-	-	(317)

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

The Group has pledged no financial assets as collateral for liabilities or contingent liabilities.

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not material therefore no separate disclosure is provided on those.

The amount of receivables that are individually determined to be impaired is not material, therefore, these are not disclosed separately.

The Group does not have compound financial instruments with multiple embedded derivatives.

There were no defaults and breaches in connection with loans payable.

35. Contingent assets and liabilities

35.1 Contingent assets

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

35.2 Contingent liabilities

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

35.2.1 Macedonia

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

In January 2002, T-Mobile MK signed an agreement with a subcontractor, including a 3-month trial period, for the collection of T-Mobile MK's overdue receivables. After the expiration of the 3-month trial period, T-Mobile MK terminated this contract in April 2002 due to breaches of the contractual obligations by the subcontractor. The subcontractor initiated a lawsuit in April 2003 requesting damage compensation for foregone profit and compensation for services already rendered. Management estimates it unlikely that the subcontractor would win the court case against T-Mobile MK. The potential loss from the claim is approximately HUF 4,200 million. The first instance decision will be made by a primary court of Macedonia, the timing of which is uncertain.

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

T-Mobile MK paid the invoices issued by the Agency for the 2004 and 2005 radio frequency fees, however, the Agency issued further invoices for the same periods in May 2007, which T-Mobile MK is disputing as the management believes that there is no valid legal base for invoicing additional fees. The potential exposure is about HUF 770 million, for which no provision was recognized.

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

In 2005, MKT changed the retail prices for the traffic from fixed to mobile network. According to the interconnection agreements with the mobile operators the change in retail prices automatically decreased the interconnection fees for termination in the mobile networks. In February 2006, one of the Macedonian mobile operators, Cosmofon, submitted to the Agency a request for dispute resolution with reference to the termination prices. The Agency rejected the requests of Cosmofon as "ungrounded". This decision of the Agency was appealed by Cosmofon by filing a law suit at the Administrative Court of Macedonia. The potential loss from the claim is approximately HUF 390 million, but the management estimates it unlikely that this would result in any material cash outflows. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

35.2.1.4 T-Mobile MK's base station disputes

T-Mobile MK does not have building permissions for all of its existing base stations and procedures have been initiated against T-Mobile MK for the decommissioning of 189 of its mobile towers. T-Mobile MK appealed against these procedures. Management believes it is unlikely that T-Mobile MK would have to dismantle these base stations and expects to receive the necessary permissions to retain the towers. Management also expects that T-Mobile MK will not be subject to any material fines either. For the above reasons no impairment or provision has been recognized related to these legal disputes.

35.2.2 Montenegro

35.2.2.1 Employee salary dispute in Montenegro

405 employees initiated a legal proceeding against CT and T-Mobile CG, requesting the payment of compensation for not increasing salaries from 2005 until June 2008. The plaintiffs are referring to the regulation of this matter by the Collective Bargaining Agreement (CBA). Management's view is that automatic salary increase is not established in the CBA, therefore management believes that the Group will not be subject to any compensations payable. The maximum exposure is approximately HUF 400 million, for which no provision has been recognized.

35.2.3 Hungary

35.2.3.1 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 17 billion (2007: HUF 16.4 billion). These guarantees were issued by Hungarian banks on behalf of Magyar Telekom as collaterals to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future.

35.2.3.2 Investigation

Please see Note 1.2.

36 Events after the reporting date

36.1 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. The impacts of a weaker HUF on the Group's financial assets and liabilities, and its resulting impact on profits are analyzed in Note 3.1.1.

36.2 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.

Financial Calendar 2009

February 24, 2009	Release of 2008 full year results
April 2, 2009	Annual General Meeting
May 7, 2009*	Release of 2009 1st quarter results
August 6, 2009*	Release of 2009 1st half results
November 5, 2009*	Release of 2009 1st nine months results

*planned date

Forward-looking statements

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2008 filed with the U.S. Securities and Exchange Commission.

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Magyar Telekom stock ticker symbol

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Life is for sharing.