

**Magyar Telekom Telecommunications
Public Limited Company**

Consolidated Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2008

**Magyar Telekom Telecommunications
Public Limited Company**

Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2008

Prepared in accordance with
International Financial Reporting Standards
(IFRS)

MAGYAR TELEKOM

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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

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



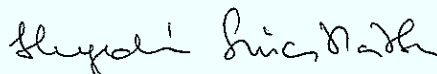
Manfred Krawietz

Partner

PricewaterhouseCoopers Kft.

1077 Budapest, Wesselényi u. 16.

License Number: 001464



Hegedűsné Szűcs Márta

Statutory auditor

Licence number: 006838

Note:

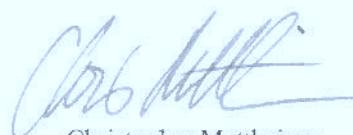
Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

MAGYAR TELEKOM

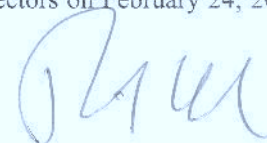
CONSOLIDATED BALANCE SHEETS

	Notes	At December 31,		
		HUF		USD
		2007	2008	2008 (unaudited – Note 2.1)
		(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		<u>231,575</u>	<u>254,815</u>	<u>1,356</u>
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		<u>904,003</u>	<u>914,041</u>	<u>4,864</u>
Total assets		<u>1,135,578</u>	<u>1,168,856</u>	<u>6,220</u>
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		<u>223,018</u>	<u>281,436</u>	<u>1,497</u>
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		<u>330,867</u>	<u>287,078</u>	<u>1,528</u>
Total liabilities		<u>553,885</u>	<u>568,514</u>	<u>3,025</u>
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		<u>514,998</u>	<u>537,263</u>	<u>2,859</u>
Minority interests		<u>66,695</u>	<u>63,079</u>	<u>336</u>
Total equity		<u>581,693</u>	<u>600,342</u>	<u>3,195</u>
Total liabilities and equity		<u>1,135,578</u>	<u>1,168,856</u>	<u>6,220</u>

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.

MAGYAR TELEKOM

CONSOLIDATED INCOME STATEMENTS

		For the year ended December 31,			
		HUF			USD
Notes		2006	2007	2008	2008
		(in HUF millions, except per share amounts)			(million USD)
	Revenue	671,196	676,661	673,056	3,582
	Expenses directly related to revenues	(182,073)	(177,265)	(167,558)	(892)
	Employee related expenses	(95,253)	(120,176)	(100,320)	(534)
	Depreciation and amortization	(122,249)	(115,595)	(106,120)	(565)
	Other operating expenses	(138,805)	(139,314)	(141,049)	(750)
	Operating expenses	(538,380)	(552,350)	(515,047)	(2,741)
	Other operating income	3,575	4,001	4,249	22
	Operating profit	136,391	128,312	162,258	863
	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
	Profit before income tax	111,684	99,277	133,291	709
	Income tax expense	(24,220)	(26,221)	(27,698)	(147)
	Profit for the year	<u>87,464</u>	<u>73,056</u>	<u>105,593</u>	<u>562</u>
	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
		<u>87,464</u>	<u>73,056</u>	<u>105,593</u>	<u>562</u>
	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.

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CONSOLIDATED CASHFLOW STATEMENTS

	Notes	For the year ended December 31,			
		HUF			USD
		2006	2007	2008	2008 (unaudited – Note 2.1)
		(in HUF millions)			(million USD)
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		<u>207,802</u>	<u>231,340</u>	<u>210,289</u>	<u>1,119</u>
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		<u>(138,320)</u>	<u>(134,881)</u>	<u>(113,449)</u>	<u>(604)</u>
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		<u>(35,154)</u>	<u>(109,221)</u>	<u>(79,230)</u>	<u>(421)</u>
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	<u>60,207</u>	<u>47,666</u>	<u>66,680</u>	<u>355</u>

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

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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)								(12)	(18)		(18)
Dividend (i)	(43,385)	(4)	(2)					(76,122)	(76,122)	(43)	(76,122)
Dividend declared to minority interests (j)									-	(71)	(43)
Sale of Cardnet (n)									-	(14,856)	(14,856)
MKT's purchase of its own shares (o)							36	205	205		205
Result of TSH's sale of a business unit (k)							(106)	(282)	(388)		(388)
Share based payments (Note 24.1)								87	509		509
Share options exercised by CEO (p)				422					(149)	(45)	(194)
Share options exercised by managers (l)									(1,054)	5	(1,049)
Change in reserve for AFS financial assets (e)					(1,054)			75,453	75,453	12,011	87,464
Cumulative Translation Adjustment											
Profit for the year							49	397,311	526,039	67,128	593,167
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			325				66	391		391
Share options exercised by managers (l)								3	3	1,540	1,543
Excess related to the acquisition of TSH (q)								243	243	(1,312)	(1,069)
TSH demerger (r)								(5)	(8)		(8)
Reduction in capital as a result of merger with T-Online and Emitel (s)									118	92	210
Change in reserve for AFS financial assets (e)						118			786	75	861
Cumulative Translation Adjustment					786			60,155	60,155	12,901	73,056
Profit for the year											
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

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

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Treasury stock (c)	Cumulative translation adjustment (d)	Revaluation reserve for AFS financial assets – net of tax (e)	Reserve for equity settled share based transactions (f)	Retained earnings (g)	Share- holders' equity	Minority interests (h)	Equity
Balance at January 1, 2008	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)	(18,431)	(77,051)
Dividend declared to minority interests (j)										-	(18,431)
Change in reserve for AFS financial assets (e)					6,485	(177)			(177)	(136)	(313)
Cumulative Translation Adjustment									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 at December 31, 2008	1,041,242,074										

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

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (notes)

- (a) The total amount of issued shares of common stock of 1,042,745,615 (each with a nominal value of HUF 100) is fully paid as at December 31, 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.

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

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (notes - continued)

- (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).
- (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.

MAGYAR TELEKOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

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

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

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

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

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

These financial statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, have the right to require amendments before acceptance. As the 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

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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.

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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

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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.

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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

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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-

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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.

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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 or 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.

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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

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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.

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- 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 a 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

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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 an 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

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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,		Activity
	2007	2008	
<u>Incorporated in Hungary:</u>			
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
<u>Incorporated in Macedonia:</u>			
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
<u>Incorporated in Montenegro:</u>			
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
<u>Incorporated in Romania:</u>			
Combridge	100.00%	100.00%	Alternative telecommunications service provider
<u>Incorporated in Bulgaria:</u>			
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.

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Associates / Joint ventures	Group interest in capital as at December 31,		Activity
	2007	2008	
<u>Incorporated in Hungary:</u>			
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.

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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

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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.

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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

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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

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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 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).

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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:

	<u>Years</u>
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.

	<u>Years</u>
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

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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.

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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

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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.

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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.

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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.

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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.

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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.

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

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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

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(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 portfolio¹ (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..

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

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(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
	<u>231,553</u>	<u>254,473</u>

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.

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

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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	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.

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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 formalized 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.

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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.

	Total	within 1 year	1 to 5 years	after 5 years
<u>December 31, 2008 (in HUF millions)</u>				
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
<u>Open swap positions' gross cash flows</u>				
Gross cash outflow in HUF million	11,275	6,191	5,084	-
Gross cash inflow in EUR million	43	23	20	-
<u>December 31, 2007 (in HUF millions)</u>				
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
<u>Open swap positions' gross cash flows</u>				
Gross cash outflow in HUF million	9,179	3,860	5,319	-
Gross cash inflow in EUR million	36	15	21	-
<u>Open forward positions' gross cash flows</u>				
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.

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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).

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that 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.

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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)	Cashflows (-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.

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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).

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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
<u>Net assets acquired:</u>	
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.

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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	<u>650</u>
Net assets acquired	93
Goodwill	<u>557</u>
<u>Net assets acquired:</u>	
Cash	64
Receivables	266
Non current assets	56
Trade and other payables	(285)
Short term borrowings	(2)
Non current liabilities	<u>(6)</u>
	93

The total purchase price was paid in 2007.

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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	<u>1,749</u>
Net assets acquired	<u>1,752</u>
Excess (recognized in equity)	3
<u>Net assets acquired:</u>	
Cash	421
Trade receivables	5,888
Inventory	146
Other assets	468
Property, plant and equipment	925
Intangible assets	3,202
Trade payables	(3,471)
Other financial liabilities	(4,258)
Provisions	<u>(179)</u>
Total net assets	3,142
Less: Minority interest	(1,539)
Associate goodwill transferred to goodwill.....	<u>149</u>
	<u>1,752</u>

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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	
<u>Net assets acquired:</u>		
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)
	<u>1,013</u>	<u>389</u>

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

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5.3.2 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
	<hr/>	<hr/>
Purchase price of ownership acquired	5,113	
Additional costs directly attributable to the business combination	35	
Consideration paid	<hr/> 5,148	
Net assets acquired	1,100	
Goodwill	<hr/> 4,048	
<u>Net assets acquired:</u>		
Cash	1	1
Receivables	148	148
Inventory	6	12
Property, plant and equipment	811	801
Intangible assets	933	1
Trade and other payables	(556)	(556)
Loans and other borrowings	(56)	(56)
Net deferred tax liability	<hr/> (187)	<hr/> -
	<hr/> 1,100	<hr/> 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.

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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
	<hr/>	<hr/>
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	<hr/> 9,840	
Net assets acquired	<hr/> 5,372	
Goodwill	4,468	
<u>Net assets acquired:</u>		
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	<hr/> (1,039)	<hr/> 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.

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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	<u>1,944</u>
Net assets acquired	<u>83</u>
Goodwill	1,861
 <u>Net assets acquired:</u>	
Cash	12
Receivables	73
Intangible assets	53
Income tax payable	(5)
Trade and other payables	<u>(50)</u>
	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.

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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)		
<u>Revenues</u>			
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
<u>Net income</u>			
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.

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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

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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.

	<u>At December 31,</u>	
	<u>2007</u>	<u>2008</u>
	(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	<u>(3,654)</u>	<u>(8,304)</u>
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.

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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
	<u>63,431</u>	<u>68,498</u>

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
	<u>24,977</u>	<u>26,094</u>

(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 ITMH.

(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.

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9 Income tax

9.1 Income tax expense

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

	For the year ended December 31,		
	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	<u>24,220</u>	<u>26,221</u>	<u>27,698</u>

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:

	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	<u>(24,220)</u>	<u>(26,221)</u>	<u>(27,698)</u>

(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

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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.

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(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 move- ments	Balance at Dec. 31, 2007	Income statement effect	Other move- ments	Balance at Dec. 31, 2008
(in HUF millions)							
<u>Deferred tax assets and (liabilities)</u>							
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.

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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

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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	2008
	(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.

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12 Property, plant and equipment – net

In HUF millions	Land and related rights	Buildings	Telecom. equipment	Other equipment	Total
<u>At January 1, 2007</u>					
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)
					<u>550,900</u>
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
<u>At December 31, 2007</u>					
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)
					<u>534,731</u>
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
<u>At December 31, 2008</u>					
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)
					<u>543,689</u>

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.

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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.

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

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13 Intangible assets – net

In HUF millions	Goodwill	Software	Concessions and licenses	Other	Total
<u>At January 1, 2007</u>					
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
<u>At December 31, 2007</u>					
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
<u>At December 31, 2008</u>					
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.

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In HUF millions	2008	2009	2010	2011	After 2011
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.....	<u>4,936</u>	<u>4,136</u>

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

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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			
	<u>96,331</u>			
	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	<u>243,097</u>			
	<u>339,428</u>			

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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	<u>75,432</u>	<u>75,432</u>	<u>140,432</u>	<u>140,432</u>
Total related party loans	<u>274,432</u>	<u>282,390</u>	<u>330,583</u>	<u>335,293</u>

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	<u>2,027</u>	<u>1,113</u>
Total other financial liabilities – current	<u>44,666</u>	<u>36,623</u>
Bank loans	(a) 52,204	19,313
Finance lease payable (Note 32.1)	2,711	3,474
Other	<u>123</u>	<u>123</u>
Total other financial liabilities – non current	<u>55,038</u>	<u>22,910</u>

(a) Bank loans

	As at December 31,	
	2007	2008
	(in HUF millions)	
Current bank loans	40,506	33,246
Non current bank loans	<u>52,204</u>	<u>19,313</u>
Total bank loans	<u>92,710</u>	<u>52,559</u>

Bank loans analyzed by currency are as follows:

HUF	81,130	39,515
EUR	11,484	13,044
Other	<u>96</u>	<u>-</u>
	<u>92,710</u>	<u>52,559</u>

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Principal repayments of bank loans fall due as follows:

<u>Year</u>	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	-
	<u>92,710</u>	<u>52,559</u>

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 of bank loans	In HUF millions except percentages						There- after	Total
	2009	2010	2011	2012	2013			
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	<u>27,527</u>	<u>988</u>	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,515</u>
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	<u>5,719</u>	<u>6,231</u>	<u>1,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,044</u>
Total bank loans	<u>33,246</u>	<u>7,219</u>	<u>12,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,559</u>

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

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

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
	<u>86,046</u>	<u>92,340</u>

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.

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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.

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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.

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20 Other current liabilities

	<u>At December 31,</u>	
	<u>2007</u>	<u>2008</u>
	(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	1,943	3,476
Dividend payable to minorities	151	290
Other liabilities	5,060	2,281
	<u>43,920</u>	<u>37,210</u>

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

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

(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.

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22 Revenue

	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
<u>Fixed line revenues</u>			
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	<u>319,187</u>	<u>309,333</u>	<u>299,895</u>
<u>Mobile revenues</u>			
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	<u>327,330</u>	<u>325,767</u>	<u>331,765</u>
System integration and IT revenue	<u>24,679</u>	<u>41,561</u>	<u>41,396</u>
Total revenue	<u><u>671,196</u></u>	<u><u>676,661</u></u>	<u><u>673,056</u></u>

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
	<u>182,073</u>	<u>177,265</u>	<u>167,558</u>

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.

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24 Employee related expenses

	For the year ended December 31,		
	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	<u>99,442</u>	<u>124,657</u>	<u>105,273</u>
Expenses capitalized	<u>(4,189)</u>	<u>(4,481)</u>	<u>(4,953)</u>
	<u><u>95,253</u></u>	<u><u>120,176</u></u>	<u><u>100,320</u></u>
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	<u>1,929</u>	<u>1,307</u>	-	-
Number of exercisable options at end of year	1,929	1,307	-	-

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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					Total
	2000	2001	2002	2003	2004	
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

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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
	<u>138,805</u>	<u>139,314</u>	<u>141,049</u>

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.

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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).

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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
	<u>30,102</u>	<u>35,186</u>	<u>37,199</u>

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
	<u>4,692</u>	<u>5,217</u>	<u>6,891</u>

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	<u>89,901</u>	<u>103,835</u>	<u>107,949</u>
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
	<u>96,790</u>	<u>103,097</u>	<u>116,039</u>

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

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30 Purchase of subsidiaries and business units

	For the year ended December 31,		
	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	<u>35,327</u>	<u>710</u>	<u>762</u>

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

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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	<u>315,243</u>	<u>307,701</u>	<u>290,524</u>
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	<u>349,566</u>	<u>346,870</u>	<u>349,440</u>
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	<u>65,369</u>	<u>78,932</u>	<u>85,225</u>
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	<u>26,397</u>	<u>23,737</u>	<u>22,145</u>
Less: Inter-segment revenue	(85,379)	(80,579)	(74,278)
Total revenue of the Group	<u><u>671,196</u></u>	<u><u>676,661</u></u>	<u><u>673,056</u></u>

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	For the year ended December 31,		
	2006	2007	2008
	(in HUF millions)		
<u>Depreciation and amortization</u>			
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	<u>122,249</u>	<u>115,595</u>	<u>106,120</u>
<u>Segment results (Operating profit)</u>			
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	<u>136,391</u>	<u>128,312</u>	<u>162,258</u>
<u>Additions to PPE and Intangible assets</u>			
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	<u>113,210</u>	<u>106,548</u>	<u>112,121</u>

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	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

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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	<u>(2,254)</u>	<u>(3,474)</u>	<u>(2,109)</u>
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	<u>(760)</u>	<u>(525)</u>	<u>(141)</u>
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	<u>(229)</u>	<u>(491)</u>	<u>(105)</u>
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	<u>(854)</u>	<u>(1,167)</u>	<u>(850)</u>
Revenue from external customers – other countries	3,930	5,322	9,310
Total revenue of the Group	<u>671,196</u>	<u>676,661</u>	<u>673,056</u>
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.....	<u>76,903</u>	<u>83,455</u>	<u>87,742</u>
Hungary	97,390	86,168	91,914
Additions to Goodwill	1,724	-	-
Investments in tangible and intangible assets.....	<u>7,340</u>	<u>9,880</u>	<u>15,710</u>
Macedonia	9,064	9,880	15,710
Investments in tangible and intangible assets.....	<u>3,541</u>	<u>6,974</u>	<u>3,750</u>
Montenegro	3,541	6,974	3,750
Additions to Goodwill	969	-	-
Other additions due to business combinations	129	-	-
Investments in tangible and intangible assets.....	<u>2,117</u>	<u>3,526</u>	<u>747</u>
Other countries	3,215	3,526	747
Total Group	<u>113,210</u>	<u>106,548</u>	<u>112,121</u>

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	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	<u>1,006,195</u>	<u>1,009,955</u>
Inter-segment elimination	<u>(10,299)</u>	<u>(6,455)</u>
Total segment assets	995,896	1,003,500
Unallocated assets	<u>139,682</u>	<u>165,356</u>
Total assets of the Group	<u><u>1,135,578</u></u>	<u><u>1,168,856</u></u>

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:

Amounts 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	<u>1,655</u>	<u>1,437</u>	<u>3,092</u>	<u>2,118</u>	<u>1,980</u>	<u>4,098</u>

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.

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

Amounts 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.

Amounts 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:

Amounts 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.

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32.4 Operating lease – Group as lessor

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

Amounts 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	<u>5,646</u>

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 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-Home and T-Mobile) in 2007, and was completed in 2008 in Macedonia (T-Home). The expenditures incurred in connection with the launch and promotion of the new brands and the loss of value caused by discontinuing the old brands were compensated in value by Deutsche Telekom AG. The compensation received was recognized in the income statement (Other operating income).

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(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.

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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

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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.

December 31, 2008	Financial assets				Carrying amount 2008	Fair value 2008
	Loans and receivables	Held-to- maturity	Available- for-sale	Held for trading		
In HUF millions						
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

December 31, 2007	Financial assets				Carrying amount 2007	Fair value 2007
	Loans and receivables	Held-to- maturity	Available- for-sale	Held for trading		
In HUF millions						
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

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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.

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34.1.2 Financial liabilities

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

December 31, 2008

In HUF millions	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

December 31, 2007

In HUF millions	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.

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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.

2008 in HUF millions	From interest	From subsequent measurement			From derecog- nition	From fee expense	Net gain / loss
		At fair value	Currency trans- lation	Impair- ment loss			
Loans and receivables	6,611	-	1,190	(5,866)	-	(3,554)	(1,619)
Held-to-maturity investments	-	-	-	-	-	-	-
Available-for-sale financial assets	-	(348)	-	-	-	-	(348)
Financial instruments held for trading	-	789	-	-	(477)	-	312
Financial liabilities measured at amortized cost ...	(32,728)	-	(1,838)	-	(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)
Net gain/loss related to finance lease (out of scope of IAS39)	692	-	-	1,500	-	-	2,192

2007 in HUF millions	From interest	From subsequent measurement			From derecog- nition	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 IAS39)	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.

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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.

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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

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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.

MAGYAR TELEKOM GROUP

**MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC
LIMITED COMPANY**

Business Report of 2008

February 2009

Introduction

The consolidated annual report of the Magyar Telekom Telecommunications Public Limited Company (“Magyar Telekom Plc.” or “the Company”) has been prepared pursuant to the International Financial Reporting Standards. Magyar Telekom Group (“Magyar Telekom” or “the Group”) is composed of Magyar Telekom Plc. and 37 business enterprises (of which 24 enterprises are direct and 13 are indirect investments).

Magyar Telekom classified its investments in line with the International Financial Reporting Standards, and as of December 31, 2008 the Company declared 21 direct and 11 indirect investments as subsidiaries subject to consolidation.

There are three companies as associated enterprises, in which Magyar Telekom as the parent company has a stake of between 20 and 50 percent.

As of December 31, 2008 Magyar Telekom classified two of its investments as jointly managed enterprise.

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

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

Organizational changes

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

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

- The *Consumer Services Business Unit (“CBU”)* comprises comprehensive marketing, sales and customer relations activities of both mobile and fixed consumer products and brands (T-Mobile, T-Com, T-Online, T-Kábel).
- The *Business Services Business Unit (“BBU”)* provides mobile and fixed telecommunications, infocommunications and system integration services (including marketing, sales and customer relations activities) under the T-Systems and T-Mobile brands to key business partners (large corporate customers) as well as small and medium businesses.
- An *Alternative Businesses and Corporate Development Business Unit (“ABCD”)* has been established comprising content, media and other non-access services; it is also responsible for new business development and the coordination of innovative activities. Accordingly, media and content service

activities, which have been separated from T-Online Hungary from October 2007, are now incorporated into this business unit.

- The mobile and fixed network management and development activities were transferred to the current IT Management area, which took responsibility for Technology and IT Management.

Strategic and cross-divisional management functions, as well as the management of our international subsidiaries in Macedonia and Montenegro, are performed by Group Headquarters and Shared Services.

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

The objective of this decision was to introduce for Magyar Telekom a simpler brand structure that helps customers clearly identify the company and its services, thereby strengthening its market leader position. With the transformation of the brand structure, implemented at Deutsche Telekom AG (“DT”) in May 2007, a renewed Magyar Telekom is better able to leverage its competitive advantage of having a uniquely broad range of services in Hungary’s telecommunications market.

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

Share Capital

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

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

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

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

Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders' register six business days prior to a General Meeting may cast a vote. Any decision overriding a resolution of the Board of Directors, require a three-quarter majority of votes cast by the shareholders present or represented at the General Meeting. All other matters submitted to a General Meeting require only a simple

majority vote. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares.

Transfer of Shares

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

When registering a transfer of shares, the registrar may request evidence that the shares were transferred in accordance with the Articles of Association. If the Company establishes that the transfer occurred in violation of the Articles of Association or if the transferee refuses to produce the necessary evidence, the Company may refuse to register the transfer. The Board of Directors may invalidate registrations based on untrue, false or misleading statements. Only shareholders registered in the Company's register may exercise shareholder rights vis-a-vis the Company or transfer shares. If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event.

Board of Directors

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

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

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

Management Committee

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

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

<u>Name</u>	<u>Age</u>	<u>Current position</u>	<u>Member since</u>
Christopher Mattheisen	47	Chairman and Chief Executive Officer	2006
Thilo Kusch.....	43	Chief Financial Officer	2006
Éva Somorjai.....	42	Chief Human Resources Officer	2007
György Simó	41	Chief Operating Officer, Alternative Businesses and Corporate Development BU	2006
István Papp.....	36	Chief Operating Officer, Business Services BU	2007
János Winkler.....	54	Chief Operating Officer, Consumer Services BU	2006
István Maradi	44	Chief Technology and IT Officer	2007

Supervisory Board

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

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

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

Compensation of Directors, Officers and Employees

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

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

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

Half of the Management Committee members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In case an employment contract for an undetermined duration is terminated, the notice period is normally six months, and severance is between 10 and 16 months. Employment contracts with our management employees contain special provisions providing for entitlements after termination of employment; therefore, the amount of severance is higher than the amount required by the applicable provisions of the Labor Code.

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

Investigation into certain consultancy contracts

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

Based on the documentation and other evidence obtained by it, White & Case preliminarily concluded that there was reason to believe four consulting contracts entered into in 2005 were entered into to serve improper objectives, and further found that, during 2006, certain employees had destroyed evidence that was relevant to the investigation. White & Case also identified several contracts at our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the internal investigation to cover these additional contracts and any related or similarly questionable contracts or payments. In May 2008, the independent investigators provided us with a "Status Report on the Macedonian Phase of the Independent Investigation." In the Status Report, White & Case stated, among other things, that "there is affirmative evidence of illegitimacy in the formation and/or performance" of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between us and/or various of our affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which we and/or our affiliates paid a total of over EUR 6.7 million. The internal investigation is continuing into these and other contracts identified by the independent investigators.

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

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

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

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

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

Analysis of results

Total Revenues

Our total revenues slightly decreased by 0.5 percent from HUF 676,661 million in 2007 to HUF 673,056 million in 2008. Lower fixed line voice-retail revenues due to lower average tariffs, decreased traffic and loss of lines as a result of strong competition and mobile substitution as well as lower fixed line voice-wholesale revenues were mostly offset by higher mobile services revenues. The decrease in the voice revenues of fixed line telecommunications services were mitigated also by higher Internet, data, equipment and other fixed line revenues.

Total Operating Expenses

Our total operating expenses decreased by 6.8 percent from 2007 to 2008. Operating expenses amounted to HUF 548,349 million in 2007 and HUF 510,798 million in 2008. Our total operating expenses as a percentage of total revenues decreased from 81.0 percent in 2007 to 75.9 percent in 2008 mainly as a result of lower severance provisions and expenses as well as lower depreciation and amortization.

The details on our analysis of the consolidated financial statements for the year ended December 31, 2008 are available in our annual flash report; see "Financial Reports" section of Magyar Telekom's website.

Overview of Magyar Telekom's Services

Voice Retail Services

Subscribers

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

	At December 31,		
	2006	2007	2008
Number of fixed lines			
Residential lines	1,901,398	1,778,444	1,594,974
Business lines	236,634	223,054	210,556
Public payphones	20,515	19,458	16,279
Total	2,158,547	2,020,956	1,821,809
ISDN channels	485,290	470,746	454,218
Total	2,643,837	2,491,702	2,276,027

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

In addition to fixed access lines, we also offer voice telephony services through VoIP and VoCATV. At the end of 2008, we had 49,540 VoIP and 50,608 VoCATV customers.

Products and Services

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

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

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

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

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

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

Wholesale voice services

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

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

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

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

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

Internet Services

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

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

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

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

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

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

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

Data Transmission and Related Services

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

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

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

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

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

System Integration and Information Technology

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

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

In 2008, we started the development of managed services also for Small and Medium Business customers. We created a standard integrated managed service package called Compleo, which includes symmetric Internet with VoIP channels, Managed LAN, Managed IP PBX and IP phones as well as Security (Fire Wall).

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

Multimedia

Our cable television (“CATV”) group consists of two entities providing various cable television services in Hungary. The larger entity is T-Kábel Hungary, which began providing cable television services on January 1, 1999.

Through network development and acquisitions, our CATV group significantly increased its number of cable television customers during the past years. We are the second largest cable television provider in Hungary. The growth of subscribers has slowed down in the past two years, because of the growing competition faced from satellite operators, direct competition with other CATV operators and the saturation of the market. The CATV group had approximately 423,000 CATV subscribers as of December 31, 2007 compared to approximately 419,000 a year earlier.

T-Kábel Hungary is the first High Definition TV (“HDTV”) service provider in the cable industry in Hungary. The HDTV service of T-Kábel was launched in March 2008.

Our CATV firms - in cooperation with ISPs – offer broadband Internet services. In 2008, the number of broadband Internet subscribers through our cable television networks increased to approximately 127,000 on December 31, 2008 compared to 102,000 a year earlier. In 2008, the number of VoIP service (Kábeltel) customers increased to approximately 50,000 compared to 38,000 a year earlier.

T-Kábel – in cooperation with Magyar Telekom Plc. – installed the Digital Video Broadcasting-Satellite (DVB-S) platform including head-end, uplink station, and conditional access system for satellite TV service in 2008. As a part of Magyar Telekom’s rebranding campaign, Magyar Telekom launched the service on November 24, 2008 under the brand T-Home Sat TV. DVB-S service offers favorably priced packages and discounts, a variety of channels grouped into thematic packages, and premium picture and voice quality, as well as electronic program listings. At the end of December 2008, the number of active DVB-S customers amounted to 5,338.

With the introduction of the DVB-S service, Magyar Telekom is able to provide 3play services (TV, internet, voice) almost everywhere in the country. The main objective is to become the number one 3play service provider in Hungary under the T-Home brand, which strengthens and broadens our customer base. We also target to increase our market share through acquisitions.

Fixed Line Telecommunications Equipment Sales

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

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

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

Revenues from other services

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

Macedonia

Makedonski Telekom (formerly Maktel) has been a consolidated subsidiary of the Group from 2001.

Makedonski Telekom is the primary fixed line service provider in Macedonia. Makedonski Telekom provides local, national and international long distance public telephone services, VoIP services, leased line services, Internet services, etc.

The following table sets forth information regarding the total fixed access lines of Makedonski Telekom:

	At December 31,		
	2006	2007	2008
Number of fixed lines			
Residential lines	430,082	404,925	371,285
Business lines	42,780	40,954	40,344
Public payphones	2,087	2,015	1,692
Total	474,949	447,894	413,321
ISDN channels	42,200	44,482	44,694
Total	517,149	492,376	458,015

Makedonski Telekom provides Internet access via the public switched telephone network, leased lines and ADSL. By the end of 2008, Makedonski Telekom had 104,905 Internet customers, including 98,866 ADSL connections compared to 66,822 Internet customers, including 48,214 ADSL connections at the end of 2007.

In order to increase the Internet market share, Makedonski Telekom continues to offer “ADSL+PC” product both for residential and business customers.

Starting from June 2008, Makedonski Telekom also focuses on VoIP based services (Call Comfort, Office Comfort and Office Comfort+ packages). VoIP product portfolio was extended in September 2008 when Call & Surf packages were launched on the market for the residential segment.

Makedonski Telekom launched IPTV in November 2008 to strengthen its position on the broadband Internet market. Makedonski Telekom offers TV sets as well in its sales network.

Makedonski Telekom offers end-to-end solutions for its business customer, including a complete portfolio of fixed line products and services, as well as SI solutions.

Montenegro

Crnogorski Telekom has been a consolidated subsidiary of the Group from March 31, 2005.

Crnogorski Telekom is the principal fixed line service provider in Montenegro. Its exclusive rights in fixed line telecommunications services expired in December 2003. Crnogorski Telekom provides a wide range of retail and wholesale telecommunications services at domestic and international level (voice services, broadband access, IPTV services, leased line circuits, data transmission, etc.).

The following table provides information regarding total fixed access lines of T-Com Crna Gora (“T-Com CG”), the fixed line operations of Crnogorski Telekom:

	At December 31,		
	2006	2007	2008
Number of fixed lines			
PSTN lines	173,248	168,062	164,394
ISDN channels	21,288	21,906	22,416
Total	<u>194,536</u>	<u>189,968</u>	<u>186,810</u>

Crnogorski Telekom is the sole provider of ADSL in Montenegro, although competitors started to offer broadband access through WiMAX access. Internet access is provided via the public switched telephone network, leased lines and ADSL. Crnogorski Telekom had 56,599 Internet customers, including 38,956 ADSL connections at the end of 2008 compared to 44,653 Internet customers, including 16,106 ADSL connections at the end of 2007.

Crnogorski Telekom introduced its IPTV service, called Extra TV on November 30, 2007. In 2008, the IPTV system was upgraded to support an increased number of customers, to improve service quality and offer a reporting system. At the end of December 2008, the number of IPTV customers amounted to 17,531.

Mobile Telecommunications Services - Hungary

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

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

Subscribers

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

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

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

T-Mobile operations in Macedonia

T-Mobile Macedonia is the leading mobile operator in Macedonia, continuously providing the highest technological and advanced service offerings in order to meet the growing needs of mobile customers in high competitive market. The principal activities of T-Mobile Macedonia’s operations are digital mobile telephone services based on the Global System for Mobile communications (“GSM”) technology and non-voice services such as SMS, MMS and GPRS.

By the end of 2008, T-Mobile Macedonia had expanded its customer base from 1,212,539 at the end of 2007 to 1,379,191. T-Mobile Macedonia had 59.4 percent market share in terms of subscribers based on the number of active SIM cards in the Macedonia mobile market. The mobile market penetration in Macedonia is over 100 percent.

The number of T-Mobile Macedonia customers has grown significantly over the past three years. The table below sets forth key operational information at the dates indicated:

	At December 31,		
	2006	2007	2008
Number of subscribers			
Postpaid subscribers	177,311	280,707	360,706
Prepaid subscribers	<u>767,219</u>	<u>931,832</u>	<u>1,018,485</u>
Total subscribers	<u>944,530</u>	<u>1,212,539</u>	<u>1,379,191</u>
Average MOU per subscriber.....	72	90	96
Average monthly Revenue per User in HUF	3,206	3,054	2,586
Mobile penetration in Macedonia (%).....	68.3	93.3	110.5
T-Mobile Macedonia's market share (%)	66.5	62.3	59.4

The increase in the number of T-Mobile Macedonia subscribers in the last three years is attributable to a number of factors, including the reductions of call charges in real terms, success of community offers and campaigns with attractive handset prices. The churn rates of customers are quite high in Macedonia.

T-Mobile Macedonia faced intense price-based competition in 2008, mainly driven by VIP that entered the market in September 2007. Competitors launched various campaigns and rate plans at very low prices both for postpaid and prepaid customers.

T-Mobile operations in Montenegro

T-Mobile Crna Gora is the second largest mobile operator in Montenegro with 36.1 percent mobile market share. Since its inception in 2000, it offers innovative and advanced services to the Montenegrin market and has been experiencing dynamic growth.

The main activities of T-Mobile Crna Gora's operations are digital mobile telephone services and non-voice services, such as SMS, MMS based on the GSM, UMTS, GPRS, Enhanced Data rates for GSM Evolution ("EDGE") and HSDPA technologies. T-Mobile Crna Gora actively employs various promotions and incentives to encourage use of its services. In addition to a variety of service packages, T-Mobile Crna Gora offers WAP, MMS, content SMS and premium-rate SMS services. In 2007, T-Mobile Crna Gora started the development of a new 3G network, and extended its service portfolio with web'n'walk and Mobile Internet, in order to meet the growing needs of mobile customers in an increasingly demanding and competitive Montenegrin mobile market.

The table below summarizes the key operational statistical figures of T-Mobile Crna Gora:

	At December 31,		
	2006	2007	2008
Number of subscribers			
Postpaid subscribers	48,252	73,675	89,070
Prepaid subscribers ⁽¹⁾	283,364	335,266	417,449
Total subscribers	<u>331,616</u>	<u>408,941</u>	<u>506,519</u>
Average MOU per subscriber.....	127	120	105
Average monthly Revenue per User in HUF.....	3,858	3,252	2,886
Mobile penetration in Montenegro (%) ⁽²⁾	103.8	168.7	185.6
T-Mobile Crna Gora's market share (%) ⁽²⁾	42.3	33.8	36.1

(1) In October 2006, the prepaid voucher lifecycle was extended from 3 to 11 months in Montenegro, resulting in an increase in the number of prepaid subscribers.

(2) Data published by the Montenegrin Agency of Telecommunications based on the total number of active subscribers in the previous three months.

T-Mobile Crna Gora's operations, customer base and revenues are significantly affected by seasonal factors. In 2007, the entrance of a third mobile operator, Mtel, significantly increased the competition in the Montenegrin mobile market.

Research and development

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

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

Real estate

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

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

The total area of properties used by Magyar Telekom Plc. as of December 31, 2008 was approximately 675,000 m². The majority of sites used in our operations are smaller than 100 m². Approximately 40 percent of the total area is used to house telecommunications equipment and other technical devices. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of 34,000 m².

In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties. In 2008, Magyar Telekom Plc. sold 14 properties with a total area of 14,000 m².

Environment protection

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

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

Corporate governance declaration

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

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

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

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

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

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

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

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

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

Financial risk management

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfilment annually. The Group treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group Treasurer continuously.

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

1. Market risk

Market risk is the risk that the fair value or future 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.

(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.

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.

(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 percent as of December 31, 2008.

(c) Other price risk

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

2. Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash 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 HUF 44.8 billion as at December 31, 2008. In addition to the above, DT 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 formalized 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, which is in line with the predefined liquidity management limit range of keeping the average maturity of the debt portfolio between 2 and 3 years.

3. Capital risk 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.

During 2008, the Group's strategy as approved by the Board was to maintain a gearing ratio within 30 percent to 40 percent. The gearing ratio at December 31, 2008 was 29.7 percent.

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.

Risk management policies

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

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

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

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

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

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

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

Risk factors

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

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

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

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

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

might have a negative impact on roaming revenues of our mobile operation. We also estimate a drop in advertisement revenues of our online business.

In addition, our businesses in Macedonia and Montenegro are also influenced with similar impacts.

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

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

Human policy

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

Revenues

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

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

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

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

In Macedonia, competition has been increasing and reinforcing in the fixed line segment, especially with the market entrance of Cosmofon in the Macedonian fixed line market in June 2008. Revenues also will be negatively affected by the liberalization and regulation of all telecommunications market segments. Broadband and IPTV growth can only slow down the decline.

Crnogorski Telekom's wholesale business suffers and faces difficulties in the near future. As a consequence of the future introduction of cost-based pricing by the Montenegrin Telecommunications Agency, national fixed termination rates and international fixed and mobile termination rates are expected to be decreased.

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

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

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

The government of Macedonia approved Austrian Mobilkom's bid to become the country's third mobile operator at the beginning of 2007. In line with the license rules, the new operator "VIP" launched services in September 2007. The entry of VIP into the market resulted in increased competition on Macedonian mobile market. As a result of intensified competition, we do not expect growth in mobile revenues in Macedonia.

In the Montenegrin market, the new entrant - Telekom Serbia ("MTS") - started a rush expansion and grabbed already more than 25 percent market share. We expect the very sharp competition to continue in 2009. The market is saturated and the penetration already exceeds 180 percent fuelled by dual usage and data cards.

Expenses

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

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

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

Total investments in tangible and intangible assets

The Company renewed its mobile concession contract for use of the 900 MHz frequency band that had expired on November 4, 2008 for an additional term of seven and a half years, as agreed with the Hungarian Government. At the same time, the Company agreed to carry out large-scale investment projects to further increase mobile broadband coverage. In addition to the payment of the HUF 10 billion concession fee in 2007, Magyar Telekom agreed with the Government to spend at least HUF 20 billion in 2008 and 2009 on further increasing mobile broadband coverage in Hungary.

We aimed and succeeded to achieve the total investments in tangible and intangible assets to sales ratio to around 15 percent in 2008 without the fees paid for the 3G license in Macedonia. Excluding potential acquisitions, we expect similar development in 2009.

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

According to our strategic directions we are committed to further strengthening and leveraging our presence in the South-East European region. Therefore, we are continuously seeking for further value-creating acquisition and investment targets with even larger scale.

Events after the balance sheet date

Depreciation of the HUF after the balance sheet date

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

Acquisitions after the balance sheet date

Magyar Telekom signed a share purchase agreement to acquire 100% of KFKI Direkt Kft. on February 9, 2009. The purchase price is HUF 300 million plus an earn-out payment depending on the 2009 financial performance of up to a maximum of HUF 100 million. KFKI Direkt is a systems integration and infrastructure support company with specialist expertise in these areas. Based on the preliminary financial statements, the company achieved nearly HUF 1.5 billion revenues and exceeded HUF 200 million EBITDA in 2008. KFKI Direkt de-merged from KFKI in 1995, while the remainder of the KFKI Group was acquired by Magyar Telekom in 2006. With this acquisition Magyar Telekom aims to further strengthen its position in the IT service market. The closing of the transaction, which is anticipated to be in the second quarter of 2009, is subject to Competition Authority approval.

Budapest, February 24, 2009.



Christopher Mattheisen
Chairman and Chief Executive Officer



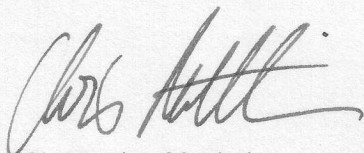
Thilo Kusch
Chief Financial Officer

Declaration

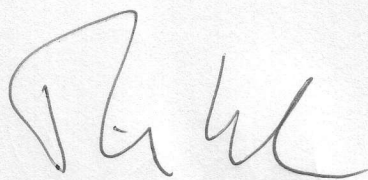
We the undersigned declare that

- the attached condensed set of financial statements which have been prepared in accordance with the applicable set of accounting standards and to the best of our knowledge, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, and
- the business report gives a fair view of the position, development and performance of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties of its business.

Budapest, April 2, 2009



Christopher Mattheisen
Chairman and Chief Executive Officer



Thilo Kusch
Chief Financial Officer