

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

BALANCE SHEET AND PROFIT AND LOSS STATEMENT  
TO THE 2007 ANNUAL REPORT

(All amounts in millions of HUF)

## ASSETS

	Note	December 31, 2006	Self-revision	December 31, 2007
<b>A. FIXED ASSETS AND FINANCIAL INVESTMENTS</b>		<b>859 509</b>	<b>2</b>	<b>842 584</b>
<b>I. Intangible assets</b>	5	<b>223 598</b>	<b>-4</b>	<b>224 100</b>
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		39 783	-4	62 531
Intellectual property		19 935	0	3 502
Goodwill		163 880	0	158 067
Advance payments on intangible assets		0	0	0
<b>II. Tangible assets</b>	6	<b>436 866</b>	<b>-5</b>	<b>427 065</b>
Land and buildings and related rights		232 976	590	236 254
- Land		2 691	2	2 661
- Buildings		68 198	258	64 175
- Telecommunication network		153 203	151	157 188
- Other properties		7 804	179	11 148
- Real estate related rights		1 080	0	1 082
Technical equipment, machinery and vehicles		174 220	2 585	157 754
- Telecommunication equipment and machinery		173 152	2 416	156 164
- Other technical equipment, machinery and vehicles		1 068	169	1 590
Other equipment and vehicles		15 434	315	12 871
Construction-in-progress		13 762	-3 495	20 185
Advance payments on construction-in-progress		474	0	1
<b>III. Financial investments</b>		<b>199 045</b>	<b>11</b>	<b>191 419</b>
Non current investments in related parties	7	177 838	10	164 290
Non current loans granted to related parties	8	14 672	0	21 641
Other investments		0	0	0
Other non current loans granted	9	6 535	1	5 488
Non current bonds and other securities		0	0	0
<b>B. CURRENT ASSETS</b>		<b>76 591</b>	<b>742</b>	<b>68 160</b>
<b>I. Inventories</b>	10	<b>7 501</b>	<b>-19</b>	<b>7 161</b>
Raw materials		1 397	0	606
Work in progress and semi-finished products		0	0	32
Finished products		0	0	0
Goods resale		6 054	-19	6 523
Advance payments on inventories		50	0	0
<b>II. Receivables</b>		<b>64 404</b>	<b>761</b>	<b>55 908</b>
Accounts receivable	11	35 506	328	39 052
Receivables from subsidiaries	12	16 754	352	10 511
Bills receivable		0	0	0
Receivables from other related companies		2	86	0
Other receivables	13	12 142	-5	6 345
<b>III. Securities</b>	14	<b>1 504</b>	<b>0</b>	<b>1 179</b>
Investments in related parties		0	0	0
Other investments		0	0	0
Treasury stock, quotas		1 504	0	1 179
Marketable securities		0	0	0
<b>IV. Liquid assets</b>		<b>3 182</b>	<b>0</b>	<b>3 912</b>
Cash and cheques		67	0	88
Bank deposits		3 115	0	3 824
<b>C. PREPAYMENTS</b>	15	<b>29 762</b>	<b>-59</b>	<b>32 133</b>
Accrued income		28 341	-59	31 080
Prepayments for costs and expenses		1 421	0	1 053
Deferred expenses		0	0	0
<b>TOTAL ASSETS</b>		<b>965 862</b>	<b>685</b>	<b>942 877</b>

Budapest, March 18, 2008



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



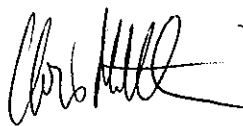
Thilo Kusch  
Chief Financial Officer,  
Board member

(All amounts in millions of HUF)

LIABILITIES AND SHAREHOLDER'S EQUITY

	Note	December 31, 2006	Self-revision	December 31, 2007
<b>D. SHAREHOLDER'S EQUITY</b>	16	381 638	975	412 697
I. Common stock		104 277	0	104 275
- of this treasury stock at par value		246	0	150
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		54 932	0	58 289
IV. Retained earnings		205 520	265	212 943
V. Restricted reserves		1 504	0	1 556
VI. Valuation reserves		0	0	0
VII. Net income		15 405	710	35 634
<b>E. PROVISIONS</b>	17	7 977	0	22 049
Provision for expected obligations		7 783	0	20 598
Provision for expected expenses		166	0	1 311
Other provisions		28	0	140
<b>F. LIABILITIES</b>		533 211	-278	456 515
I. Subordinated liabilities		0	0	0
II. Non current liabilities		212 001	0	309 062
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		123	0	123
Investment and development loans	18	18 250	0	0
Other non current loans	19	0	0	50 557
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	20	185 432	0	254 432
Other non current liabilities		8 196	0	3 950
III. Liabilities		321 210	-278	147 453
Current borrowings		71	0	71
- of this convertible bonds		0	0	0
Current loans	21	27 374	0	39 942
Advances received		343	0	529
Accounts payable		28 704	-6	34 805
Bills of exchange payable		0	0	0
Current liabilities to related parties	22	22 441	-1	24 540
Current liabilities to other related parties	23	74 089	0	20 000
Other current liabilities	24	168 188	-271	27 566
- of this dividends payable		72 994	0	0
<b>G. ACCRUED EXPENSES</b>	25	43 036	-12	51 616
Deferred income		7 619	0	6 319
Accrued expenses		34 646	-12	44 854
Other deferred revenue		771	0	443
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>965 862</b>	<b>685</b>	<b>942 877</b>

Budapest, March 18, 2008



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



Thilo Kusch  
Chief Financial Officer,  
Board member

	Note	2006	Self-revision	2007
1. Domestic sales	26	450 016	217	478 105
2. Export sales	27	20 735	113	21 804
<b>I. Sales revenues</b>		<b>470 751</b>	<b>330</b>	<b>499 909</b>
3. Change in self-manufactured inventories		0	0	12
4. Capitalised value of self-manufactured assets		14 339	3	22 743
<b>II. Own work capitalized</b>		<b>14 339</b>	<b>3</b>	<b>22 755</b>
<b>III. Other revenues</b>	28	<b>22 290</b>	<b>0</b>	<b>20 763</b>
of which: reversal of impairment		170	0	0
5. Costs of raw material		19 939	3	31 220
6. Costs of services	29	97 843	-79	97 487
7. Costs of other services		9 473	25	12 711
8. Cost of goods sold		34 415	-2	34 276
9. Costs of services sold (intermediated)	31	84 872	50	85 780
<b>IV. Material-type expenses</b>		<b>246 542</b>	<b>-3</b>	<b>261 474</b>
10. Salaries and wages	32	42 522	1	46 342
11. Other payroll related costs	32	10 900	5	15 930
12. Payroll related contributions		15 948	24	18 695
<b>V. Payroll and related expenses</b>		<b>69 370</b>	<b>30</b>	<b>80 967</b>
<b>VI. Depreciation</b>		<b>93 408</b>	<b>47</b>	<b>97 230</b>
<b>VII. Other expenses</b>	34	<b>30 034</b>	<b>-1</b>	<b>41 800</b>
of which: impairment		2 814	0	1 220
<b>A. PROFIT FROM OPERATING ACTIVITIES</b>		<b>68 026</b>	<b>260</b>	<b>61 956</b>
13. Dividends and profit sharing (received or due) of which: received from related parties		50 174 50 174	353 353	5 531 5 531
14. Foreign exchange gains on sale of investments of which: received from related parties		260 0	0 0	11 0
15. Interest income and gains on financial investments of which: received from related parties		1 517 1 508	0 0	1 828 1 828
16. Other interest income received of which: received from related parties		873 710	1 0	783 547
17. Other revenues from financial activities		2 960	0	2 161
<b>VIII. Revenues from financial transactions</b>		<b>55 684</b>	<b>354</b>	<b>10 314</b>
18. Loss on the sale of financial investments of which: related to related parties		0 0	0 0	0 0
19. Interest expense of which: related to related parties related to other related party		27 084 939 21 396	0 0 0	31 815 1 134 23 301
20. Impairment of investments, securities and bank deposits		1 872	-2	17
21. Other expenses refinancing activities		3 235	-10	1 178
<b>IX. Expenses from financial transactions</b>		<b>32 191</b>	<b>-12</b>	<b>33 010</b>
<b>B. FINANCIAL RESULTS</b>	35	<b>23 493</b>	<b>366</b>	<b>-22 696</b>
<b>C. PROFIT FROM ORDINARY ACTIVITIES</b>		<b>91 519</b>	<b>626</b>	<b>39 260</b>
X. Extraordinary revenues	36	234	43	4 818
XI. Extraordinary expenses	37	3 231	-3	7 087
<b>D. PROFIT FROM EXTRAORDINARY ACTIVITIES</b>		<b>-2 997</b>	<b>46</b>	<b>-2 269</b>
<b>E. PROFIT BEFORE TAXES</b>		<b>88 522</b>	<b>672</b>	<b>36 991</b>
XII. Corporate income tax	39	123	-38	1 357
<b>F. NET INCOME</b>		<b>88 399</b>	<b>710</b>	<b>35 634</b>
22. Use of retained earnings for dividends		0	0	0
23. Dividend paid (approved)	40	72 994	0	0
<b>G. BALANCE SHEET NET INCOME</b>		<b>15 405</b>	<b>710</b>	<b>35 634</b>

Budapest, March 18, 2008



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



Thilo Kusch  
 Chief Financial Officer,  
 Board member

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

NOTES  
TO THE 2007 ANNUAL REPORT

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2007  
(All amounts in millions of HUF, unless otherwise indicated)

**0. Note Added For Translation**

This annual report for December 31, 2007 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C/2000 on accounting and with generally accepted accounting principles in Hungary.

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

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

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

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2007  
(All amounts in millions of HUF, unless otherwise indicated)

### 1. Background and General Information

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

Short name of the Company: Magyar Telekom Plc.

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

The Company's main activity is telecommunication.

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

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

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

In June 1999, the State Privatization and Holding Company sold its remaining stake (5.75 per cent) through a secondary offering. After this transaction, the proportion of publicly traded shares increased to 40.47 per cent. MagyarCom's share in the Company decreased to 59.53 per cent.

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

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

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

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

Persons authorised to sign the annual report:

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

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

The Company's bookkeeping services are provided by EurAccount Pénzügyi és Számviteli Szolgáltató Kft.

The company register number of EurAccount Kft. is 01-09-737269, its taxation number is 13477541-2-42.

The accounting services provided by EurAccount Kft. are supervised by Beáta Bálintné Pál Executive Director.

Certificate number: 132224. Area of speciality: entrepreneurial activity. State: registered. Residence: Budapest

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Ltd. – Márta Hegedűsné Szűcs

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

**Magyar Telekom Plc.**  
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*Investigation into certain consultancy contracts*

As previously disclosed, in the course of conducting their audit of our 2005 consolidated financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. identified two contracts the nature and business purposes of which were not readily apparent. In February 2006, our Audit Committee initiated an independent investigation into this matter. In the course of the investigation, two further contracts entered into by Magyar Telekom Plc. were also raising concerns. To date, the independent investigators have been unable to find sufficient evidence to show that any of the four contracts under investigation resulted in the provision of services to us or to our subsidiaries under those contracts of a value commensurate with the payments we made under those contracts. The independent investigators have been unable to determine definitively the purpose of the contracts, and it is possible that the purpose may have been improper. The independent investigators further identified several contracts at our Macedonian 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 independent investigation to cover these additional contracts and related transactions. We have approved and have been implementing certain remedial measures designed to enhance our internal controls to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements.

As previously reported, the investigation delayed the finalization of our 2005 financial statements, and as a result we and some of our subsidiaries have failed and may fail to meet certain deadlines prescribed by U.S., Hungarian and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings. To date, we have been fined HUF 13 million as a consequence of these delays.

The Hungarian Financial Supervisory Authority, the Hungarian National Bureau of Investigation, the U.S. Securities and Exchange Commission and the U.S. Department of Justice have been informed of the investigation. The Company is in regular contact with these authorities regarding the investigation and is also responding to inquiries raised by and to the investigations being conducted by these authorities under U.S. and Hungarian law. The U.S. Department of Justice has recently expanded the scope of its investigation to include the actions taken by the Company in response to the findings of and issues raised by the Company's internal investigation and a related subpoena and further document requests have been issued.

**2. Effects of mergers on the comparability of figures in 2006 and 2007**

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the demerger of the access business line of T-Online Magyarország Zrt. and its merger into Magyar Telekom Plc. and the merger of Emitel Távközlési Zrt. into Magyar Telekom Plc. The mergers were registered by the Court of Registry on September 30, 2007.

In the course of the merger, EMITEL Távközlési Zrt. prepared an annual report according to the Hungarian Act on Accounting as of September 30, 2007 by closing its analytical and general ledgers. Magyar Telekom Plc. and T-Online Magyarország Zrt. (its new name is [origo] Zrt.) managed the takeover of assets and liabilities (including provisions and accrued expenses as well) and the resulting shareholder's equity being the difference, with continuous bookkeeping.

Due to the takeover of assets and liabilities, the balance sheet lines of December 31, 2006 and 2007 are not entirely comparable. In order to assure comparability the merger balance sheet is disclosed in a summarised form in the Notes.

Due to the merger, the income statement of Magyar Telekom Plc. contains the revenues and expenses of the activities taken over for the period started October 1, 2007 ended on December 31, 2007. As a consequence, the income statements as of 2007 and 2006 are not entirely comparable. In order to assure comparability the income statements



**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2007

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

of EMITEL Távközlési Zrt. and T-Online Magyarország Zrt. for the period started January 1 ended September 30, 2007 are disclosed in summarised forms in the Notes.

T-Mobile Magyarország Zrt. merged into Magyar Telekom Plc. with effect from February 28, 2006. Magyar Telekom Plc. managed the takeover of assets and liabilities (including provisions and accrued expenses as well) and the resulting shareholder's equity being the difference, with continuous bookkeeping.

Due to the merger, Magyar Telekom Plc.'s income statement for 2006 contains the revenues and expenses of the Mobile Line of Business (T-Mobile ) for the period started on March 1, 2006 ended on December 31, 2006.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2007  
(All amounts in millions of HUF, unless otherwise indicated)

**3. Accounting policies**

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

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

The closing day in the Company's business year is December 31. The balance sheet preparation date is the 1st working day of the following year.

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

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

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

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

*Definition of the accounting principles, guidelines and methods*

Classification of accounting matters:

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

Material error

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

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
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### Significant error

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

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

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

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

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

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

## ASSETS

### Recognition and measurement of non current assets

#### *Intangible and tangible fixed assets*

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

The volume of costs connected directly to loans taken for acquisition or production of the asset is not significant therefore the Company does not capitalize it considering the principle of cost-benefit.

The Company neither capitalizes the foreign exchange difference resulting from the conversion of a foreign currency liability - for which there is no cover in the foreign currency bank account - that is directly connected to a tangible or intangible asset and has been recorded for the period up to the time when the asset is put into operation.

#### *Depreciation policy*

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

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

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

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
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As of December 31, 2007

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

Applied residual value:

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

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

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

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

### *Capitalized value of foundation and restructuring*

The Company does not capitalize foundation and restructuring costs.

### *Capitalized value of research and development*

The Company does not capitalize research and development costs.

### *Goodwill*

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

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

### *Intellectual property*

Since 2005 only those assets have been recorded as intellectual property which are in the ownership of the Company.

The useful life of intellectual property is generally 5 years.

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

## Magyar Telekom Plc.

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### *Own work capitalized*

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

### *Financial investments*

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

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

### Recognition and measurement of current assets

#### *Inventories*

Goods are valued at cost using standard price method and raw materials using the weighted average cost formula. Telephone cards on stock are classified as goods for resale and are valued using the FIFO method.

Inventories include assets whose future usage can not be determined at the time of purchase (i.e. whether they will be used for an investment project or maintenance). Inventories also include advance payments on inventories and assets held for sale reclassified from tangible fixed assets.

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

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

Measure of impairment on new materials:

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

Measure of impairment on used or repaired materials:

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

Before 2007, impairments of inventories based on the following estimation method:

"Impairment loss is charged on individual inventory articles using ageing as follows:

Raw materials from 2006:

Inventories from 6-12 months	20 per cent impairment (40 % in 2005)
Inventories from 12 months	40 per cent impairment (80 % in 2005)

Individual impairment percentages can be applied for both categories above if it reasonable due to inventory usage or economic considerations.

80 per cent of goods are qualified based on ageing and market information.

Impairment loss charged on goods is similar to the method at raw materials by using 20 and 40 per cent rate.

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Mobile Line of Business charges impairment loss on purchased inventories to show their market or fair value at balance sheet date and other qualification date in the balance sheet."

The change in the estimation method has no significant effect on the amount recorded as impairment (see Note 10).

*Trade receivables*

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

Rates of impairment for overdue receivables are the following:

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

\* NER: System for international settlements

Accounts receivable from companies under liquidation and in bankruptcy are identified on an individual basis and fully impaired. Magyar Telekom Plc. excluding Mobile LoB evaluates individually all trade receivables from those debtors (customers) having at least one non-hire-purchase debt more than 360 days overdue and in special circumstances receivables of key customers and receivables reduced by liabilities of countries participating in international settlement.

Impairment loss for debts of customers under voluntary liquidation is recorded based on individual decision.

The Company considers receivables as doubtful debt in the following cases:

- customers with suspended SIM cards are reported to police because of suspicion of fraud but the procedure at the police has not been finalized yet;
- customers with installment debts to whom the order for payment has been sent,
- customers with expired conditional discounts.

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

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

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

*Securities*

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

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### LIABILITIES AND SHAREHOLDER'S EQUITY

#### *Valuation reserve*

Magyar Telekom Plc. does not apply the allowed alternative treatment for the recognition of a valuation reserve arising from market value and fair value measurement.

#### *Restricted reserve*

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

#### *Provisions*

Main items include:

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

#### *Valuation of liabilities in foreign currencies*

Liabilities denominated in foreign currencies are valued at the official exchange rate of MNB at year-end.

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

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

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

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

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

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

Extraordinary items are disclosed in the Notes.

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

### OTHER

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

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

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

The Company's financial position and liquidity as of December 31, 2006 and 2007 are represented by the following financial ratios:

	2006	2007
Liquidity ratio (= current assets / current liabilities)	0.24	0.46
Operating margin (= operating profit / (sales revenues + other revenues))	0.14	0.12
Operating return on assets (= operating profit / total assets)	0.07	0.06
Leverage ratio (= non current liabilities / (equity + non current liabilities))	0.36	0.43

The favorable change in liquidity ratio is due to the decrease of current liabilities because year 2007 as of opposed to 2006, did not include two years of dividend payment liability (2005 and 2006). The payment of dividend for 2005 commenced on January 12, 2007 therefore its full amount (HUF 76,122 million) is disclosed as current liabilities in the 2006 figures.

The increase in leverage ratio is due to the increase in bank and owner's (Deutsche Telekom Finance B.V.) financing.



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The following is the cashflow statement for the years ended on December 31, 2006 and 2007:

		2006	2007
<b>I. Cash flows from operating activities (lines 1-14)</b>		<b>147,220</b>	<b>6,894</b>
1. Profit before income tax (before dividend received)	(+/-)	37,231	31,812
2. Depreciation and amortization	(+)	93,471	97,277
3. Impairment losses charged and reversed	(+/-)	8,462	5,600
4. Change in provisions	(+/-)	3,670	14,072
5. Profit or loss on the sale of non current assets	(+/-)	-1,794	-1,713
6. Change in accounts payable	(+/-)	7,013	-4,427
7. Change in other current liabilities	(+/-)	-3,446	12,235
8. Change in accruals	(+/-)	18,208	8,580
9. Change in accounts receivable	(+/-)	-15,950	-5,865
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	14,425	15,603
11. Change in prepayments	(+/-)	-19,442	-2,371
12. Income tax paid	(-)	5,767	-2,179
13. Dividend paid	(-)	-36	-149,066
14. Other non cash items	(+/-)	-359	-12,664
<b>II. Cash flows from investing activities (lines 15-17)</b>		<b>-103,931</b>	<b>-58,418</b>
15. Acquisition of fixed assets and financial investments	(-)	-112,851	-68,872
16. Proceeds from sale of non current assets	(+)	6,700	4,570
17. Dividends and advanced dividends received	(+)	2,220	5,884
<b>III. Cash flows from financing activities (lines 18-29)</b>		<b>-41,780</b>	<b>52,254</b>
18. Proceeds from issue of shares	(+)	2,097	7,472
19. Proceeds from the issuance of bonds	(+)	0	0
20. Loans received	(+)	227,021	283,361
21. Redemption from non current loans granted and bank deposits	(+)	37,196	39,582
22. Non-repayable liquid assets received	(+)	14	0
23. Share capital decrease	(-)	-18	-8
24. Treasury stock repurchases	(-)	0	0
25. Repayment of bonds	(-)	-1	0
26. Repayment of loans	(-)	-262,856	-223,836
27. Non current loans granted and bank deposits	(-)	-48,073	-49,939
28. Non-repayable donations given	(-)	0	-131
29. Change in liabilities to founders and other non current liabilities	(+/-)	2,840	-4,246
<b>IV. Change in liquid assets (lines I. + II. + III.)</b>	(+/-)	<b>1,509</b>	<b>730</b>
<b>Cash at the beginning of the year</b>		<b>1,673</b>	<b>3,182</b>
<b>Cash at year-end</b>		<b>3,182</b>	<b>3,912</b>

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**5. Intangible fixed assets**

The following table is a summary of intangible fixed asset movements between January 1, 2006 and December 31, 2007:

<b>GROSS BOOK VALUE</b>	<i>Capitalized costs of R&amp;D</i>	<i>Rights</i>	<i>Intellectual property</i>	<i>Goodwill</i>	<i>Total</i>
Opening balance as of January 1, 2006	<b>876</b>	<b>52,136</b>	<b>2,438</b>	<b>200,456</b>	<b>255,906</b>
Additions	0	3,388	7,562	13,414	24,364
Additions due to merger	0	35,401	34,029	0	69,430
Disposals	763	2,211	37	0	3,011
Reclassifications	0	1,372	-1,194	0	178
<b>Balance as of December 31, 2006</b>	<b>113</b>	<b>90,086</b>	<b>42,798</b>	<b>213,870</b>	<b>346,867</b>
Additions	0	21,403	556	3,100	25,059
Additions due to merger	0	3,327	1,359	1,376	6,062
Disposals	113	1,230	29	0	1,372
Reclassifications	0	32,747	-32,417	0	330
<b>Balance as of December 31, 2007</b>	<b>0</b>	<b>146,333</b>	<b>12,267</b>	<b>218,346</b>	<b>376,946</b>
<b>AMORTIZATION</b>					
Opening balance as of January 1, 2006	<b>876</b>	<b>33,898</b>	<b>880</b>	<b>39,841</b>	<b>75,495</b>
Charge for the year	0	8,937	5,354	10,149	24,440
Impairment	0	0	0	0	0
Additions due to merger	0	8,940	17,250	0	26,190
Disposals	763	2,067	32	0	2,862
Reclassifications	0	595	-589	0	6
<b>Balance as of December 31, 2006</b>	<b>113</b>	<b>50,303</b>	<b>22,863</b>	<b>49,990</b>	<b>123,269</b>
Charge for the year	0	15,217	2,098	10,170	27,485
Impairment	0	0	0	58	58
Additions due to merger	0	2,385	743	61	3,189
Disposals	113	1,021	28	0	1,162
Reclassifications	0	16,918	-16,911	0	7
<b>Balance as of December 31, 2007</b>	<b>0</b>	<b>83,802</b>	<b>8,765</b>	<b>60,279</b>	<b>152,846</b>
<b>NET BOOK VALUE</b> as of December 31, 2006	<b>0</b>	<b>39,783</b>	<b>19,935</b>	<b>163,880</b>	<b>223,598</b>
<b>NET BOOK VALUE</b> as of December 31, 2007	<b>0</b>	<b>62,531</b>	<b>3,502</b>	<b>158,067</b>	<b>224,100</b>
Extraordinary depreciation	0	0	0	58	58
Reversal of extraordinary depreciation	0	0	0	0	0

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### Rights

The increase is mainly due to the extension of the period of GSM concessions, additionally capitalized rights of use (IT systems, SAP and other software) and reclassification of software rights of use from intellectual properties.

The decrease was caused by scrapping of obsolete software rights.

In 2007, depreciation increased by HUF 132 million due to the change of software's useful life.

### Intellectual properties

The increase in intellectual properties is mainly due to the mergers of Emitel Zrt. and the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc. The decrease is due to the reclassification from rights as mentioned before.

### Goodwill

In 2006, further HUF 60 million goodwill was recognized relating to a correction of the purchase price of investment in Stonebridge Communication AD. Its useful life was defined in line with the remaining useful life of the previously recorded goodwill related to this investment.

Also in 2006, the Company purchased Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasználó Kft. and acquired an ownership in KFKI-LNX Hálózatintegrációs Zrt. Relating to these transactions, HUF 4,793 million and HUF 8,561 million goodwill was recognized.

Magyar Telekom Plc. has become the owner of IWIW Kft. and Adnetwork Kft. as a consequence of the merger of the access business line of T-Online Magyarország Kft. into Magyar Telekom Plc. At the same time the related goodwill was recognized in the amounts of HUF 1,132 million (IWIW Kft.) and HUF 174 million (Adnetwork Kft.). In connection with the merge HUF 8 million goodwill was recognized related to Alba Internet Adatbank és Informatikai Kft.

The Company purchased three subsidiaries previously 100 per cent owned by Viabridge Telecommunications Holdings Ltd. in 2007 and recognized goodwill in the amounts of HUF 447 million (Novatel EOOD), HUF 933 million (Orbitel EAD) and HUF 818 million (Combridge SRL).

Also in 2007, further goodwill was recognized in the amounts of HUF 507 million and HUF 395 million in connection with Magyar Telekom Plc.'s investments acquired in Mobilpress Zrt. and in M-Factory Kft.

During 2007 HUF 10,170 million amortization was charged on goodwill. Impairment in the amount of HUF 58 million was charged on X-Byte Számítástechnikai Kft.'s goodwill and it was derecognized from the books.

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The movements in gross value and amortization of goodwill in 2006 and 2007 are summarized as follows:

Description	Remaining useful life (month)	Gross book value as of December 31, 2006	Accumulated amort'n as of December 31, 2006	Net book value as of December 31, 2006	Goodwill recorded in 2007	Amort'n charge in 2007	Net book value as of December 31, 2007
T-Mobile Távközlési Magyarország Rt.	168	181,948	-45,494	136,454	0	-9,115	127,339
KFKI-LNX Hálózatintegrációs Zrt.	0	8,561	0	8,561	0	0	8,561
EMITEL Távközlési Zrt.	137	10,501	-3,190	7,311	0	-589	6,722
Stonebridge Communication AD	186	7,507	-1,050	6,457	0	-392	6,065
Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasznosító Kft.	0	4,793	0	4,793	0	0	4,793
IWIW Szolgáltató Kft.	0	0	0	0	1,132	0	1,132
Orbitel EAD	0	0	0	0	933	0	933
Combridge SRL	0	0	0	0	818	0	818
Mobilpress Zrt.	0	0	0	0	507	0	507
Novatel EOOD	0	0	0	0	447	0	447
M-Factory Kft.	0	0	0	0	395	0	395
Adnetwork Online Marketing Kft.	0	0	0	0	174	0	174
Integris-Rendszerház Kft.	61	306	-99	207	0	-34	173
Alba Internet Adatbank és Informatikai Kft.	5	0	0	0	9	-1	8
X-Byte Számítástechnikai Kft.	0	58	0	58	0	-58	0
Telemacedonia AD	22	3	-2	1	0	-1	0
BCN Rendszerház Kft.	0	193	-155	38	0	-38	0
<b>Total</b>		<b>213,870</b>	<b>-49,990</b>	<b>163,880</b>	<b>4,415</b>	<b>-10,228</b>	<b>158,067</b>

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**6. Tangible fixed assets**

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2006 and December 31, 2007:

<b>GROSS BOOK VALUE</b>	<i>Real estate and related rights</i>	<i>Technical equipment, machinery and vehicles</i>	<i>Other equipment and vehicles</i>	<i>Total</i>
Opening balance as of January 1, 2006	<b>305,418</b>	<b>370,401</b>	<b>39,534</b>	<b>715,353</b>
Additions	17,426	38,341	6,725	62,492
Additions due to merger	31,077	171,751	45,590	248,418
Disposals	5,836	13,384	3,808	23,028
Reclassifications	0	-268	90	-178
<b>Balance as of December 31, 2006</b>	<b><u>348,085</u></b>	<b><u>566,841</u></b>	<b><u>88,131</u></b>	<b><u>1,003,057</u></b>
Additions	10,095	35,529	4,521	50,145
Additions due to merger	8,318	8,691	973	17,982
Disposals	3,349	17,678	7,518	28,545
Reclassifications	5,457	5,832	-11,417	-128
<b>Balance as of December 31, 2007</b>	<b><u>368,606</u></b>	<b><u>599,215</u></b>	<b><u>74,690</u></b>	<b><u>1,042,511</u></b>
<b>DEPRECIATION</b>				
Opening balance as of January 1, 2006	<b>100,702</b>	<b>252,671</b>	<b>33,244</b>	<b>386,617</b>
Charge for the year	11,737	49,918	7,061	68,716
Impairment	0	1,209	35	1,244
Additions due to merger	4,522	99,914	35,988	140,424
Disposals	1,865	11,046	3,657	16,568
Reclassifications	13	-45	26	-6
<b>Balance as of December 31, 2006</b>	<b><u>115,109</u></b>	<b><u>392,621</u></b>	<b><u>72,697</u></b>	<b><u>580,427</u></b>
Charge for the year	12,608	50,490	6,124	69,222
Impairment	95	80	8	183
Additions due to merger	3,428	5,693	661	9,782
Disposals	1,007	15,855	7,096	23,958
Reclassifications	2,119	8,432	-10,575	-24
<b>Balance as of December 31, 2007</b>	<b><u>132,352</u></b>	<b><u>441,461</u></b>	<b><u>61,819</u></b>	<b><u>635,632</u></b>
<b>NET BOOK VALUE</b>				
as of December 31, 2006	<b>232,976</b>	<b>174,220</b>	<b>15,434</b>	<b>422,630</b>
<b>NET BOOK VALUE</b>				
as of December 31, 2007	<b>236,254</b>	<b>157,754</b>	<b>12,871</b>	<b>406,879</b>

Further details are disclosed in Appendix 1.

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### Real estate and related rights

The merger of the access business line of T-Online Zrt. and Emitel Zrt. into Magyar Telekom Plc. resulted in a significant increase of HUF 8,318 million in gross book value (HUF 4,890 million in net value) in the current year figures.

Increase in buildings amounted to HUF 3,131 million in gross value of which the capitalization from construction in progress of Antenna towers amounted to HUF 1,126 million. Gross value of telecommunication networks increased by HUF 6,375 million of which the additions to the on-ground metallic conducting cables for local network amounted to HUF 2,506 million.

The decrease in real estate and related rights is mainly due to the sale of real estates (Budapest, Horváth Mihály tér 17-19. - net value: HUF 1,145 million; Budapest, XI. Vásárhelyi Pál utca 4-6. - net value: HUF 439 million; Budapest, XI. Nagyszabani út 53. - net value: HUF 197 million etc.), scrapping of rented buildings (net value: HUF 34 million) and partial scrapping of on-ground metallic conducting cables for local network (net value: HUF 40 million).

### Technical equipment, machinery and vehicles

Increase is due the capitalization of telecommunication equipment of HUF 44,220 million and the merger of the access business line of T-Online Zrt. and Emitel Zrt. into Magyar Telekom Plc.

Obsolete and replaced assets were scrapped in an amount of HUF 386 million (EWSD subscriber centers, on-ground microwave telecommunication equipment, IN PreIN equipment).

### Other equipment and vehicles

Increase in the amount of HUF 5,494 million is due to the capitalization of IT system hardware and the merger of the access business line of T-Online Zrt. and Emitel Zrt. into Magyar Telekom Plc.

The decrease in other equipment and vehicles is due to the sale of computers and peripherals connected indirectly to the core activity in an amount of HUF 184 million, car sales and scrapping of equipment for training and system support purposes with a net book value of HUF 56 million.

### Reclassifications

Reclassifications of movements of intangible and tangible fixed assets are mainly due to the review of classification of assets in the asset categories.

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

As of December 31, 2006 and 2007, the Company's non current investments are summarized as follows (further details on investments are disclosed in Appendix 2):

	Ownership	Ownership	Net book value	
	direct (%)	indirect (%)	2006	2007
Stonebridge AD (under liquidation)	100.00		90,266	90,364
Crnogorski Telekom AD	76.53		36,729	36,891
Investel Zrt.	100.00		7,162	9,029
Pro-M Zrt.	100.00		8,200	8,200
BCN Rendszerház Kft.	100.00		5,042	2,864
ViDaNet Zrt.	67.50	22.50	2,836	2,836
T-Kábel Magyarország Kft.	16.39	83.61	2,359	2,359
[origo] Zrt. (previously T-Online Zrt.)	100.00		12,750	1,886
T-Systems Hungary Kft.	100.00		1,633	1,693
Orbitel EAD	100.00		0	1,650
IKO-Telekom Zrt.	50.00		1,600	1,600
KFKI-LNX Zrt.	100.00		1,223	1,224
Dataplex Kft.	100.00		355	1,055
Novatel EOOD	100.00		0	633
Integris-Rendszerház Kft.	100.00		594	594
EurAccount Kft.	99.00	1.00	446	446
EPT Nyrt.	97.20		304	304
ViaBridge Telecommunications H. L. (under liquidation)	99.99	0.01	293	294
KIBU Innováció Kft. (X-Byte Kft.)	99.20	0.80	12	86
Novatel Ukraine LLC	99.94	0.06	70	70
M-Factory Zrt.	92.00		0	63
HUNSAT Zrt.	50.00		50	50
Telemacedonia AD	100.00		21	21
TeleData Kft.	50.98		20	20
ProMoKom Zrt. (under liquidation)	100.00		35	18
IQSYS Zrt.	0.30	99.70	0	15
IWIW Kft.	100.00		0	11
Gabriele 17 GmbH	100.00		7	7
Adnetwork Kft.	100.00		0	4
Mindentudás Egylete Kht.	60.00		2	3
Combridge SRL	100.00		0	0
Emitel Zrt.	0		4,036	0
EGERTEL Zrt.	0		1,793	0
<b>Total</b>			<b>177,838</b>	<b>164,290</b>

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### **Significant changes of Non current investments in subsidiaries**

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

During 2007 some subsidiaries increased their capitals (Dataplex Kft. by HUF 700 million, KIBU Innováció Kft./X-Byte Kft. by HUF 74 million, Novatel EOOD by HUF 630 million and Orbitel EAD by 1,650 million).

Magyar Telekom Plc. has decreased the capital of BCN Rendszerház Kft. in the amount of HUF 2,177 million.

HUF 263 million (of which HUF 253 million related to 2007) was recorded as foreign exchange difference on foreign exchange investments at the balance sheet date. This amount increased the book value of non current investments.

During 2007 HUF 17 million impairment was recorded related to investments (ProMoKom Zrt.).

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

### **New investments in 2007**

Magyar Telekom Plc. decided to purchase three subsidiaries (Novatel EOOD, Orbitel EAD and Combridge SRL) owned 100 per cent by Viabridge Telecommunications Holdings Ltd.

After the transaction the Company has 100 per cent ownership in these companies. The acquisition cost of the companies was together EUR 8,709 thousand.

#### **Novatel EOOD**

The company was established in 2004 with BGN 300,000 subscribed capital and with headquarter in Sofia, Bulgaria. The company's main activities are: international and domestic leased line connection, international IPVPN services, roaming services, infocommunication business solutions and international call termination.

In connection with the investment HUF 447 million was recorded as goodwill. Novatel's share capital was increased by HUF 630 million (EUR 2,500 thousand) at year-end.

#### **Orbitel EAD**

The company's headquarter is in Sofia, Bulgaria. Its subscribed capital is BGN 78,125. The company is an alternative service provider with main activities of voice service, providing connection between sites, leased line and IPVPN services and system (network) integration.

In connection with the investment HUF 933 million (EUR 3,696 thousand) was recorded as goodwill. Magyar Telekom Plc. increased Orbitel's share capital by HUF 1,650 million (EUR 6,511 thousand) at year-end.



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**Combridge SRL**

The company's headquarter is in Bucarest, Romania. Its subscribed capital is ROL 2,000,000. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination.

In connection with the investment HUF 818 million (EUR 3,241 thousand) was recorded as goodwill.

**Further investments acquired in 2007**

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

IQSYS Zrt. was established in 1990 with headquarter in Budapest. The company's capital at acquisition was HUF 211 million. Its main activities are: releasing software, wholesale of computers and software, reproduction of computer storage media, data processing and repair of office computers.

In 2007 Magyar Telekom Plc. Purchased the 32 remaining shares in the amount of HUF 15 million (HUF 20,000 per share at face value) representing 0.3 per cent ownership rights.

T-Systems Hungary Kft. and Integris Rendszerház Kft. merged into IQSYS Zrt. with effect from December 31, 2007. The transformation was registered by the Court of Registry.

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

Mobilpress Zrt. is one of the leading provider of mobile content and aggregator services in Hungary, was established in 2005. The company's common stock is HUF 20 million which consists of 200 shares (HUF 100,000 per share at face value).

In January 2007 - after signing the contract in December 2006 - Magyar Telekom Plc. purchased 100 per cent of Mobilpress Zrt.'s shares in the amount of HUF 600 million. By this transaction the Company strengthened its leading role in the area of mobile content and value added services.

In connection with the investment HUF 507 million was recorded as goodwill.

Magyar Telekom Plc. purchased 75.05 per cent share in M-Factory Kommunikációs Szolgáltató Kft. in the amount of HUF 450 million. The transaction was registered by the Court of Registry in January 2007.

In connection with the investment HUF 394 million was recorded as goodwill.

During 2007 the founders decided to merge Mobilpress Zrt. and M-Factory Kommunikációs Szolgáltató Kft. The form of transformation is merger under which M-Factory Kft. merged into Mobilpress Zrt.. Magyar Telekom Plc. derecognized its investment.

The successor company's name was changed to M-Factory Kommunikációs Szolgáltató Zártkörűen Működő Részvénytársaság.

As a result of the transformation, Magyar Telekom Plc.'s ownership in the company changed to 92 per cent.

The transformation and the change of name were registered by the Court of Registry.

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### **Investments in the books of Magyar Telekom Plc. resulting from the transformations in 2007:**

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

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

The company was established in 2005 with headquarter in Budapest. Its share capital is HUF 5 million. Among others the company's activities are: wholesale trade of certain products as an agent, retail trade of certain products, reproduction of computer storage media, releasing software, periodical publications and data processing.

#### **IWIW Szolgáltató Kft. (IWIW Kft.)**

The company was established in 2002 with headquarter in Budapest. Its share capital is HUF 3 million. The company's main activities are: producing software, technical assistance and releasing software. Its other activities are: publication of books, newspaper, phonograms, hardware consultancy services, data processing, database services and on-line publications.

#### **Other major investments:**

##### **Stonebridge Communications AD (Stonebridge AD)**

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of MakTel on its privatization. The deal was concluded on January 15, 2001, whereby the Company paid the purchase price on behalf of the consortium in accordance with the relevant agreement. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed on January 16, 2001 to a newly established Macedonian holding company, Stonebridge AD, which is a holding company residing in Skopje.

In accordance with the deed of foundation and an agreement between Magyar Telekom Plc., SEEF Holdings Ltd. and CosmoTelco Added Value Services S.A., the latter two acquired 6.1 per cent and 7.4 per cent ownership in Stonebridge AD.

In accordance with the shareholders' agreement between Magyar Telekom Plc., SEEF and CosmoTelco signed on December 14, SEEF exercised its put option in 2003 and 2004. Thereby the Company purchased further 6.1 per cent stake in Stonebridge AD.

Also in 2004, Magyar Telekom Plc. Purchased the 7.4 per cent shares owned by CosmoTelco in Stonebridge AD. As a result of this transaction, the Company became the 100 per cent owner of Stonebridge AD.

##### **[origo] Média és Kommunikációs Zrt. ([origo] Zrt.) - previously T-Online Magyarország Internet Szolgáltató Zrt.**

In the field of Internet servicing, this company is a very important investment of Magyar Telekom Plc. The company was established in 1999, with its headquarters in Budapest. The company has a strong position both in the residential and the business segments.

In 2005 the company changed its name to T-Online Magyarország Internet Szolgáltató Részvénytársaság (T-Online Magyarország Zrt.) and was registered by the Court of Registry on May 6, 2005.

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

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

The transformation and the change of name were registered by the Court of Registry on September 30, 2007.

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### **BCN Rendszerház Informatikai és Kommunikációs Hálózatokat Szolgáltató Kft. (BCN Rendszerház Kft.)**

MatávCom Kft. was established in 1997 with its headquarters in Budapest. MatávCom Kft. sells products and provides services for the integration of business communication networks and IT applications. The activities of the company were restructured during 2001 and certain activities were transferred to Magyar Telekom Plc.

In 2004, BCN Kft. merged into MatávCom Kft. Following this transaction MatávCom Kft. changed its name to BCN Rendszerház Informatikai és Kommunikációs Hálózatokat Szolgáltató Kft. (BCN Rendszerház Kft.)

In 2007 Magyar Telekom Plc. decreased the company's capital in the amount of HUF 2,177 million.

The company merged into KFKI-LNX Rendszerintegrációs Zrt. (owned 100 per cent by Magyar Telekom Plc.) and the merger was registered by the Court of Registry.

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

Investel Zrt. was established on June 25, 1991 with the majority ownership of Magyar Telekom Plc. for the purpose of ensuring financing for Magyar Telekom's investment programs by obtaining financing from domestic and international money markets. By the end of 1997, the original function of the company lost its importance. Currently it is the owner and trustee of cable TV companies.

In 2007 EGERTEL Zrt. merged into Investel Zrt. and it was registered by the Court of Registry with effect from August 31, 2007.

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

On July 1, 1998 Magyar Telekom Plc. established MatávkábelTV Kft. to provide cable television services.

MatávkábelTV Kft. changed its name in 2005. The new name is T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft. (T-Kábel Magyarország Kft.) which was registered by the Court of Registry on May 6, 2005.

### **EGERTEL Távközlési Hálózat Létesítő Zrt. (EGERTEL Zrt.)**

The company was established on May 27, 1993 with the majority ownership of EMA (First Hungarian Fund) to construct a telephone network in the area of Eger. Magyar Telekom Plc. gradually bought out EMA by using its call option.

In 2007 the company merged into Investel Zrt. The transformation was registered by the Court of Registry with effect from August 31, 2007. Magyar Telekom Plc. derecognized its investment from the books.

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

EPT Nyrt. was established in 1992 with headquarters in Budapest. At present the company provides IP based international and domestic telecommunication and call center services. In 2003 additional shares were bought by the Company for HUF 65 million, increasing Magyar Telekom Plc.'s direct ownership in the company to 97.20 per cent.

In 2005 the company decreased its share capital together with a capital increase which was registered by the Court of Registry on March 1, 2005.

### **Integris-Rendszerház Informatikai Szolgáltató Kft. (Integris-Rendszerház Kft./ Rába Szolgáltatóház Kft.)**

The company residing in Győr, provides telecommunications, IT, financial, accounting and human resources related services for Rába Automotive Group. The company started its operations on October 1, 2000.

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On November 28, 2003, Magyar Telekom Plc. paid HUF 900 million to Rába Járműipari Holding Rt. for the 100 per cent ownership of Rába-Szolgáltatóház Kft. The transaction was approved by the Competition Office on January 5, 2004. The acquisition provides the Company with the opportunity to take advantages of its economies of scale in new areas.

The co-operation with the Rába Group is based on a frame-contract expiring in 2012 signed on November 14, 2003.

In line with the ownership expectations and the new strategic aims, the company changed its name to Integris-Rendszerház Kft. on September 14, 2004. The company continues its operations as an outsourcing company of Magyar Telekom Plc. Group's Business Services Line of Business.

The company merged into IQSYS Zrt. with effect from December 31, 2007 and the merger was registered by the Court of Registry.

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

In 2003 Győri KTV Kft., Kaposkábel Kft. and Kábelholding Rt. merged into Németkábel Vagyonkezelő Rt. After the merger the company changed its name to ViDaNet Rt. which was registered on February 11, 2003 by the Court of Registry. The company's common stock is HUF 2,000 million which consists of 20,000 shares (HUF 100,000 per share at face value) with different ownership rights.

In 2005 KIS-ASTRASAT Kft. merged into ViDaNet Rt. and the book value of the investment increased by HUF 336 million. In 2005, the company's name was changed to ViDaNet Kábeltelevíziós Szolgáltató Zártkörűen Működő Részvénytársaság which was registered by the Court of Registry.

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

The company was established in 2004 by Magyar Telekom Plc., the Hungarian Academy of Sciences and T-Online Magyarország Zrt. The company's share capital is HUF 5 million. Magyar Telekom Plc.'s quota in the company and its share in its capital was 40 per cent. The purpose of its public activity is to organize public courses through media and other telecommunication means to help spreading knowledge of highly interesting scientific topics. The company conducts its business activities to accomplish its main purposes and not endanger it.

The company was registered by the Court of Registry on June 3, 2004.

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

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

Magyar Telekom Plc. entered into an agreement with IKO Media Group for establishing a holding company with the aim of merging their interests in Magyar RTL Televízió Rt. and providing interactive and premium rate content services. As a result IKO-Matáv Média Holding Rt. was established with 50 per cent ownership of both owners. The company's share capital is HUF 20 million, fully paid in cash. The company's headquarter is in Budapest.

Through this business association, Magyar Telekom Plc. increased its share in premium rate content services and strengthened its position in commercial broadcasting.

As stated in the decree of the General Meeting, the owners' shares in M-RTL Rt. were contributed to the Holding as contribution-in-kind. In 2005 the contribution-in-kind by Magyar Telekom Plc. was registered by the Court of Registry in the amount of HUF 1,590 million.

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### **T-Systems Hungary Szolgáltató Kft. (T-Systems Hungary Kft.)**

In 2004 Magyar Telekom Plc. acquired a 49 per cent share in T-Systems Hungary Kft. based on an agreement between Magyar Telekom Plc. and T-Systems International. The acquisition included the purchase of the quota for HUF 1,430 million through a capital increase by HUF 82 million and the transfer of HUF 1,918 million to capital reserves.

The company's main activity is software consultation and supply.

T-Systems Hungary Kft. and Magyar Telekom Plc. form a strategic alliance in providing integrated solutions to 200 of the most significant Hungarian companies. T-Systems Hungary Kft. acts as an outsourcing partner of Magyar Telekom Plc. for system integration services, while Magyar Telekom Plc. supports its partner in telecommunications and network services.

In 2006 HUF 1,797 million impairment loss was recorded related to the investment.

On January 1, 2007 Magyar Telekom Plc. acquired a further 2 per cent share in an amount of HUF 60 million in the company and its ownership in the company increased to 51 per cent.

Also in 2007 Magyar Telekom Plc. and T-Systems Enterprise Services GmbH (as 49 per cent owner of T-Systems Hungary Kft.) entered into a separation, contract including that the T-Systems Enterprise Services GmbH separates its ownership from T-Systems Hungary Kft. After this separation T-Systems Hungary Kft. continues its operations as a single-member company with unchanged legal status. The company's share capital is HUF 500 million.

As a result of the transformation, Magyar Telekom Plc. became the 100 per cent owner of the company.

The company merged into IQSYS Zrt. with effect from December 31, 2007 and the merger was registered by the Court of Registry.

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

ViaBridge Telecommunications Holding Ltd. was registered on July 6, 2004 in Malta. The company's share capital is EUR 251,000 (HUF 62 million) consisting of 2,510 shares (EUR 100 per share at face value). Magyar Telekom Plc. owns 2,509 shares and EGERTEL Zrt. (Investel Zrt.) owns 1 share.

In 2005, the company's share capital increased as a result of issuing 9,100 shares (EUR 100 per share at face value) and therefore Magyar Telekom Plc.'s investment increased by HUF 222 million.

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

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

Crnogorski Telekom A.D. is the incumbent fixed line service provider of Montenegro with a 100 per cent owned mobile telecom service provider subsidiary, T-Mobile Crne Gore D.O.O. The company is also the 100 per cent owner of Internet Crne Gore D.O.O., the leading Montenegrin internet service provider company. The share purchase agreement was signed on March 15, 2005 in the amount of EUR 114 million. Magyar Telekom Plc. acquired a further 25.41 per cent share for EUR 27 million based on an agreement with minority shareholders.

Related to this investment consulting fees were capitalized in the amount of HUF 971 million and negative goodwill was recognized in the amount of HUF 239 million.

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

EurAccount Kft. was established on March 1, 2005 by Magyar Telekom Plc. and EGERTEL Zrt. to provide accounting services for Magyar Telekom Plc. The company was registered by the Court of Registry on April 1, 2005.

The company's share capital is HUF 450 million, cash contribution in full, of which Magyar Telekom Plc.'s capital contribution is HUF 445.5 million.

After the merger of EGERTEL Zrt. into Investel Zrt, Investel Zrt. became the minority owner of the company

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### **Novatel UKRAINE LLC**

In 2005, Magyar Telekom Plc. established NOVATEL Ukraine Limited Liability Company with 99.9 per cent stake. The company's share capital is EUR 150,150, of which Magyar Telekom Plc. paid EUR 150,000 based on its ownership ratio. During 2005 the company's share capital increased by EUR 126,000.

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

On November 11, 2005 Magyar Telekom Plc. together with T-Mobile Magyarország Rt. established Pro-M Profesziónális Mobilrádió Zártkörűen Működő Részvénytársaság (Pro-M Zrt.) with its headquarter in Budapest. The company's main activity is telecommunication. The company's share capital was HUF 200 million, which was cash contribution in full, of which Magyar Telekom Plc.'s share was HUF 50 million.

The Court of Registry registered Pro-M Zrt. on January 31, 2006.

The company's capital increased by HUF 5,000 million and further HUF 3,000 million was contributed as capital reserves during 2006. The Court of Registry registered the transaction on May 22, 2006.

As a result of T-Mobile Magyarország Rt.'s merger into Magyar Telekom Plc., the Company's share increased to 100 per cent.

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

On December 12, 2005, Magyar Telekom Plc. signed an agreement on purchasing a 100 per cent ownership of Dataplex Kft. The company is a major player in Hungary's IT service sector. The company provides growth potential in the IT service sector for Magyar Telekom Group. After the approval of the Competition Office the Court of Registry registered the transaction on April 20, 2006. The purchase price of the investment was HUF 5,113 million. Consulting fee of HUF 34 million capitalized on the investment increased the book value.

In connection with the investment HUF 4,793 million was recorded as goodwill in 2006.

### **KFKI-LNX Hálózatintegrációs Zrt.**

On June 16, 2006 Magyar Telekom Plc. signed an agreement on purchasing a 100 per cent ownership in KFKI-LNX Zrt.

The maximum purchase price was determined HUF 9,670 million. KFKI Group (KFKI-LNX Zrt. and its subsidiaries ICON Zrt. and IQSYS Zrt.) is a major player in Hungary's IT service sector. By the acquisition, Magyar Telekom Group may achieve further market growth and widen its service portfolio in the business segment of the IT service sector.

The members of KFKI Group are: KFKI-LNX Zrt., main activities including structuring and operating of communication networks (network integration) ICON Zrt., main activities including IT infrastructure and security solutions (system integration) and IQSYS Zrt., main activities including software and application development. The purchase price (with a maximum of HUF 9,670 million) can change depending on later financial results.

Consulting fee of HUF 115 million capitalized on the investment increased the book value.

In connection with the investment, HUF 8,561 million was recorded as goodwill in 2006.

BCN Rendszerház Kft. and ICON Zrt. merged into KFKI-LNX Zrt. with effect from December 31, 2007 and the merger was registered by the Court of Registry.

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

As of December 31, 2006 and 2007 non current loans granted to related parties are the following:

	<u>2006</u>	<u>2007</u>
Pro-M Zrt.	9,400	10,500
T-Kábel Magyarország Kft.	0	5,424
ViDaNet Zrt.	1,580	1,940
KFKI-LNX Zrt.	0	1,300
Orbitel EAD	0	1,140
Dataplex Kft.	0	800
ICON Zrt.	0	400
NOVATEL Ukraine LLC	119	137
EMITEL Zrt.*	1,820	0
Viabridge Ltd.	1,753	0
<b>Total</b>	<b><u>14,672</u></b>	<b><u>21,641</u></b>

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

After the merger with Emitel Zrt. the Company derecognized its relevant existing loans.

### 9. Other non current loans granted

This caption contains long term loans granted to employees and deposits given and long term bank deposits as well as the long term part of installment receivables of cell phone sales.

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**10. Inventories**

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

The following is a movement table of inventories in 2006 and in 2007:

	<u>2006</u>	<u>2007</u>
Opening balance	2,862	7,501
Change in inventories	1,365	103
Impairment loss	-501	-469
Increase due to the merger *	3,555	76
Impairment loss reversed	170	0
Change in advance payments given for inventories	<u>50</u>	<u>-50</u>
<b>Closing balance</b>	<b><u>7,501</u></b>	<b><u>7,161</u></b>

\* The increase in 2006 is due to the merger of T-Mobile Magyarország Rt.  
Further details of inventory impairment are disclosed in Appendix 3.

**11. Accounts receivable**

As of December 31, 2006 and 2007 accounts receivable include the following:

	<u>2006</u>	<u>2007</u>
Domestic accounts receivable	45,399	48,206
Foreign accounts receivable	2,024	1,570
Impairment of receivables	<u>-11,917</u>	<u>-10,724</u>
<b>Total</b>	<b><u>35,506</u></b>	<b><u>39,052</u></b>

Further details on receivables impairment are disclosed in Appendix 3.



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**12. Receivables from related parties**

Receivables from related parties as of December 31, 2006 and 2007 are summarized as follows:

	<u>2006</u>	<u>2007</u>
Receivables from Combridge SRL	604	2,798
Loans to BCN Kft.	0	1,300
Loans to Novatel EOOD	8	1,094
Loans to Orbitel EAD	0	966
Receivables from T-Systems Hungary Kft.	250	844
Loans to Dataplex Kft.	500	700
Receivables from T-Kábel Kft.	3,925	631
Loans to EPT Nyrt.	500	500
Receivables from Pro-M Zrt.	2,585	470
Loans to M-Factory Zrt.	0	270
Loans to ViDaNet Zrt.	464	60
Receivables from [origo] Zrt. (previously T-Online Zrt.)	2,036	13
Loans to Viabridge Ltd	4,513	0
Loans to EGERTEL Zrt.	593	0
Other	776	865
<b>Total</b>	<b><u>16,754</u></b>	<b><u>10,511</u></b>

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**13. Other receivables**

The Company's other receivables as of December 31, 2006 and 2007 are summarized as follows:

	2006	2007
Advance payments given	1,440	1,653
Tax receivables*	6,885	1,551
Receivables from employees	1,190	1,342
Shorter part of KFKI deposit (maturing in March 2008)	0	920
Receivables from the government	104	150
Own share sale	509	0
Reclaimable VAT of Roaming service	464	0
M-Factory acquisition (not registered by the Court of Registry until December 31, 2006)	450	0
Other	1,100	729
<b>Total</b>	<b>12,142</b>	<b>6,345</b>

\* After the merger of T-Mobile Magyarország Rt. into Magyar Telekom Plc. the Company as T-Mobile Magyarország Rt.'s legal successor was to pay its tax advances in 2006.

**14. Securities**

The amount of HUF 1,179 million, presented as securities, represents the value of repurchased treasury stock. On July 3, 2002 the Company issued new shares through CIB Bank Rt. to cover its management stock option plan. In 2006 and 2007 shares with a book value of HUF 422 and HUF 325 million were sold within the frame of the above mentioned plan. In connection with the sale, a part of the restricted reserve was released in the same amount in 2006 and 2007(see Note 16).

**15. Prepayments and accrued income**

	2006	2007
Accrued income related to telecommunication activities	26,004	23,038
Accrued income related to related parties	1,604	7,917
Other	733	125
<b><i>Accrued income</i></b>	<b>28,341</b>	<b>31,080</b>
Rental fees	572	535
Insurance fees	4	11
Other	845	507
<b><i>Prepaid costs and expenses</i></b>	<b>1,421</b>	<b>1,053</b>
<b>Total</b>	<b>29,762</b>	<b>32,133</b>

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

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**16. Shareholder's Equity**

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

The Company's common stock consists of 1,042,745,615 pieces of shares (face value HUF 100 per share, "A" series). The extraordinary general meeting of the Company held on June 29, 2007 abolished the "B" series of preference share ("golden share") and the "B" share (face value HUF 10,000) was transformed to 100 pieces of share (face value HUF 100, "A" series). The Court of Registry was registered the change with effect from September 30, 2007.

Changes in the equity items during 2006 and 2007 are summarized as follows:

	<i>Common stock</i>	<i>Capital reserves</i>	<i>Retained earnings</i>	<i>Restricted reserves</i>	<i>Balance Sheet Net Profit</i>
<b>Opening balance as of January 1, 2006</b>	<b>104,281</b>	<b>52,837</b>	<b>204,834</b>	<b>1,926</b>	<b>0</b>
Increases	0	0	163	0	15,405
Increase due to the merger	0	2,097	51,258	500	0
Decreases	4	2	13	0	0
Decreases due to the merger	0	0	51,644	0	0
Reclassifications	0	0	922	-922	0
<b>Balance as of December 31, 2006</b>	<b><u>104,277</u></b>	<b><u>54,932</u></b>	<b><u>205,520</u></b>	<b><u>1,504</u></b>	<b><u>15,405</u></b>
Increases	0	0	1,025	0	35,634
Increase due to the merger	0	3,358	1,023	377	0
Decreases	2	1	185	0	0
Decreases due to the merger	0	0	10,170	0	0
Reclassifications	0	0	15,730	-325	-15,405
<b>Balance as of December 31, 2007</b>	<b><u>104,275</u></b>	<b><u>58,289</u></b>	<b><u>212,943</u></b>	<b><u>1,556</u></b>	<b><u>35,634</u></b>

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**17. Provisions**

	<i>Early retirement and severance payments*</i>	<i>Contingent liabilities</i>	<i>Other**</i>	<i>Total</i>
<b>Opening Balance as of January 1, 2006</b>	<b>2,807</b>	<b>1,376</b>	<b>124</b>	<b>4,307</b>
Increase	0	6,250	195	6,445
Increase due to the merger	25	3,752	48	3,825
Decrease	1,842	4,585	173	6,600
<b>Closing Balance as of December 31, 2006</b>	<b>990</b>	<b>6,793</b>	<b>194</b>	<b>7,977</b>
Reclassification at opening	0	166	-166	0
Increase	13,942	2,856	1,351	18,149
Increase due to the merger	0	99	51	150
Decrease	787	3,440	0	4,227
<b>Closing Balance as of December 31, 2007</b>	<b>14,145</b>	<b>6,474</b>	<b>1,430</b>	<b>22,049</b>

\* In 2007, HUF 13,942 million provision was recognized for headcount reduction in the following years.

\*\* In 2007, HUF 1,284 million provision was recognized for reorganisation of the call center.

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

Titles	2006	2007
Customer loyalty program	1,811	1,834
Employees' bonuses	45	426
Payment obligation due to EKG agreement	0	296
Legal cases	806	195
Penalties	400	190
Amount transferred to Dimenzió Biztosító Egyesület	193	139
Dismissal expenses of employees of DeTelImmobilien Hungary Rt.	168	96
Environmental liabilities	0	91
Forgiveness of employee loans	171	58
Guarantee liabilities	31	48
Local business tax default	874	0
Multipoint usage	86	0
Other	0	67
<b>Total reversals</b>	<b>4,585</b>	<b>3,440</b>

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

Titles	2006	2007
Customer loyalty program	1,963	1,720
Liability increase due to EKG agreement	711	497
Environmental liabilities	972	225
Contribution to be given to Dimenzió Biztosító Egyesület	139	180
Penalties	320	100
Employees' bonuses	332	54
Guarantee liabilities	46	46
Legal cases	826	34
Local business tax default	874	0
Public procurement fee	67	0
<b>Total increases</b>	<b>6,250</b>	<b>2,856</b>

**18. Construction loans**

Construction loans disclosed in previous year's annual report are reclassified to Other non current loans in 2007 and are detailed in Note 19.

**19. Other non current loans**

The Company had long term loan liabilities in the amount of HUF 50,557 million as of December 31, 2007 which includes the opening balance of the Construcion loans disclosed in the previous year's annual report.

During 2007, HUF 57,600 million was drawn down and HUF 2,449 million was reclassified to current loans.

The Company repaid HUF 23,000 million during 2007. Non-realized foreign exchange loss was recognized in the amount of HUF 156 million on foreign exchange loans.

The short term parts of construction loans are disclosed among current loans (see Note 21).

The Company does not have any assets pledged for loans.

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

Due dates	Amount
2009	30,828
2010	8,729
2011	11,000
Further installments in total	123*
<b>Total</b>	<b>50,680</b>

\* Debt from issuance of bonds

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

This caption contains the non current part of related party loans received from Deutsche Telekom Finance B.V. The closing balance of these loans as of December 31, 2007 is HUF 254,432 million.

Loans in the amount of HUF 30,000 million were drawn down in January 2007 repayable until 2010 (fix interest rate of 7.66 per cent), HUF 34,000 million loan was drawn down in May 2007 repayable until 2011 (fix interest rate of 7.21 per cent) and HUF 25.000 million loan was drawn down also in May 2007 repayable until 2013 (fix interest rate of 7.26 per cent).

The short term part of related party loans (HUF 20,000 million) is disclosed in Note 23.

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

Maturity	Amount
2009	87,487
2010	39,487
2011	43,486
2012	49,486
2013	34,486
<b>Total</b>	<b><u>254,432</u></b>

**21. Current loans**

The Company had current loans received from banks in the amount of HUF 39,942 million as of December 31, 2007. During 2007, HUF 136,761 million was drawn down and HUF 2,449 million was reclassified from long term loans. The Company repaid HUF 126,723 million during 2007. Non-realized foreign exchange loss was recognized in the amount of HUF 81 million on foreign exchange loans.

**22. Current liabilities to related parties**

This caption consists mainly the loan payables to related parties. The balance of the loan payables to Stonebridge AD is HUF 13,682 million, to Investel Magyar Távközlési Befektetési Zrt. is HUF 630 million and to EurAccount Kft. is HUF 400 million.

Interest-Pool liabilities to subsidiaries amounted to HUF 2,748 million. Other liabilities to related parties include HUF 3,554 million to INVESTEL Magyar Távközlési Befektetési Zrt., HUF 1,144 million to BCN Rendszerház Kft, HUF 587 million to T-Systems Hungary Kft and HUF 1,795 million to other related parties.

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

This caption contains HUF 20,000 million (short term part) of the related party loans described in Note 20.

This amount has to be repaid on May 20, 2008 (fix interest rate of 8.21 per cent).

Deutsche Telekom has pledged its support for financing the Company's needs through to the end of June 2009.

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**24. Other current liabilities**

Other current liabilities as of December 31, 2006 and 2007 are summarized as follows:

	2006	2007
Liability relating to inter-connection fee based on Decrees of NHH 999/2004, NHH/DH-6584-12/2005 and DH-385-18/2006.	5,063	6,603
Payables to employees and related contributions	3,127	4,597
Value Added Tax	5,967	4,772
Personal income tax	1,909	3,067
Liability from topping up the universal balance*	0	2,309
Remaining purchase price of KFKI-LNX Zrt. - second installment	0	920
Liabilities to government	171	887
Solidarity tax	0	182
Dividends payable 2005**	76,122	0
Dividends payable 2006**	72,994	0
Dividends payable 2007**	0	0
Withholding tax	358	0
Other***	2,477	4,229
<b>Total</b>	<b>168,188</b>	<b>27,566</b>

\* In August 2007 the Company's Mobile Services Line of Business introduced, as a new service, the option for its customers to top up their universal balance.

\*\* The General Meeting held on December 21, 2006, decided on paying dividend for 2005 which commenced on January 12, 2007. The General Meeting held on April 26, 2007, decided on paying dividend for 2006 which commenced on May 24, 2007. Dividend payable for 2007 has not been decided yet.

\*\*\* The category "Other" includes HUF 42 million and HUF 55 million unpaid dividends approved for 2006 and 2007, respectively. The category also includes liabilities due to the EKG agreement in the amounts of HUF 1,075 million in 2006 and HUF 2,028 million in 2007.

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**25. Accrued expenses and deferred income**

	2006	2007
Deferred subscription and traffic fees	6,758	5,580
Deferred income of rebranding *	470	311
Other	391	428
<b>Deferred income</b>	<b>7,619</b>	<b>6,319</b>
Vendor accruals	16,320	19,928
Accrued payroll related expenses	4,076	7,453
Accrued interest on owners' loan	3,758	5,210
Accrued frequency usage fee	3,910	4,557
Accrued roaming related expenses	3,729	3,829
Accruals to related parties	1,702	1,909
Accrued interest	291	1,451
Accrued value added services	734	517
Other	126	0
<b>Accrued expenses</b>	<b>34,646</b>	<b>44,854</b>
<b>Other deferred revenue</b>	<b>771</b>	<b>443</b>
<b>Total</b>	<b>43,036</b>	<b>51,616</b>

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



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**26. Domestic sales**

Domestic sales in the years ending December 31, 2006 and 2007 are as follows:

	<u>2006</u>	<u>2007</u>
Subscriptions, connections and other charges	111,094	127,929
Fixed line traffic revenues	66,676	50,952
Mobile traffic revenues	177,073	209,870
Leased lines and data transmission	50,183	47,582
Handset revenues	17,679	18,270
Revenues from equipment sales	2,611	1,900
Other revenues	<u>24,700</u>	<u>21,602</u>
<b>Total domestic sales</b>	<b><u>450,016</u></b>	<b><u>478,105</u></b>

**27. Export sales by geographical areas**

Export sales by geographical areas in the years ending December 31, 2006 and 2007 are summarized as follows  
(sales are solely connected with services provided):

	<u>2006</u>		<u>2007</u>	
		%		%
Europe (within the EU)	12,794	61.70%	16,784	76.98%
Europe (outside the EU)	6,807	32.83%	3,719	17.06%
America	787	3.79%	871	4.00%
Asia	320	1.54%	369	1.69%
Australia	22	0.11%	48	0.22%
Africa	<u>5</u>	<u>0.03%</u>	<u>13</u>	<u>0.06%</u>
<b>Total export sales</b>	<b><u>20,735</u></b>	<b><u>100.00%</u></b>	<b><u>21,804</u></b>	<b><u>100.00%</u></b>

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**28. Other revenues**

Other revenues in the years ending December 31, 2006 and 2007 are as follows:

	2006	2007
Discount received subsequently	4,256	5,856
Revenue from sale of intangible and tangible fixed assets	6,611	4,570
Reversal of provisions	6,601	4,227
Default interest, penalties, compensations	1,622	2,164
Other revenues in connection with impairment	360	1,791
Revenue from receivable factoring	449	303
Renaming and rebranding	602	185
Reversal of impairment	170	0
Other	1,619	1,667
<b>Total</b>	<b>22,290</b>	<b>20,763</b>

**29. Import purchases**

Import purchases by geographical areas in the years ending December 31, 2006 and 2007 are summarized as follows:

	2006			2007		
	Services	Products	Total	Services	Products	Total
Europe (within the EU)	19,283	6,656	25,939	15,381	18,655	34,036
Europe (outside the EU)	7,748	6	7,754	2,301	27	2,328
America	3,049	218	3,267	5,267	334	5,601
Asia	241	76	317	555	453	1,008
Australia	11	0	11	53	0	53
Africa	102	0	102	243	0	243
<b>Total</b>	<b>30,434</b>	<b>6,956</b>	<b>37,390</b>	<b>23,800</b>	<b>19,469</b>	<b>43,269</b>

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**30. Cost of services**

Cost of services in the years ending December 31, 2006 and 2007 are as follows:

	2006	2007
Repair and maintenance costs	29,281	27,345
Marketing expenses	11,558	12,219
Consulting fees	9,947	11,263
Rental fees	8,060	9,544
Payments to international network operators	9,208	8,227
Fees paid to entrepreneurs	6,617	7,295
Commissions paid	6,459	6,401
Expenses of rented workforce	3,786	6,055
Postage*	3,911	2,330
Bookkeeping services	1,720	2,123
Property operating costs	1,186	1,369
Education, training expenses	1,024	905
Travel and accommodation costs	581	588
Services related to other revenues	2,620	484
Fleet management	727	469
Payments to Internet service providers**	346	284
T-Mobile Royalty fee	170	181
Other	642	405
<b>Total</b>	<b>97,843</b>	<b>97,487</b>

\* In 2006, Postage includes postal check-processing costs in the amount of HUF 1,500 million which is among other services in 2007.

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

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

Costs of intermediated services sold in the years ending December 31, 2006 and 2007 are as follows:

	2006	2007
Payment to mobile operators	65,414	66,379
Payment to fixed line operators	3,985	3,908
Other	15,473	15,493
<b>Total</b>	<b>84,872</b>	<b>85,780</b>

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**32. Employees**

The average number of employees in 2006 and 2007 are as follows:

		December 31, 2006		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	1,171	3,055	889
	white collar	5,227	36,626	9,207
	total	6,398	39,681	10,096
Part-time employees				
	blue collar	22	44	13
	white collar	406	886	251
	total	428	930	264
Employees total				
	blue collar	1,193	3,099	902
	white collar	5,633	37,512	9,458
	total	6,826	40,611	10,360
Employees not in headcount*		0	1,911	540
<b>Total</b>		<b>6,826</b>	<b>42,522</b>	<b>10,900</b>
		December 31, 2007		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	1,144	3,392	1,214
	white collar	5,473	39,411	6,078
	total	6,617	42,803	7,292
Part-time employees				
	blue collar	20	45	23
	white collar	389	971	427
	total	409	1,016	450
Employees total				
	blue collar	1,164	3,437	1,237
	white collar	5,862	40,382	6,505
	total	7,026	43,819	7,742
Employees not in headcount*		0	2,523	8,188
<b>Total</b>		<b>7,026</b>	<b>46,342</b>	<b>15,930</b>

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

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### 33. Remuneration of Board of Directors and Supervisory Board

The remuneration of members of the Board of Directors and Supervisory Board of the Company in the years ending December 31, 2006 and 2007 is summarized below:

<u>Year</u>	<u>Board of Directors</u>	<u>Supervisory Board</u>	<u>Total</u>
2006	8	18	26
2007	11	42	53

The members of Board of Directors and Supervisory Board have not received any advance payments or loans from the Company.

### 34. Other expenses

Other expenses in the years ending December 31, 2006 and 2007 are as follows:

	<u>2006</u>	<u>2007</u>
Provisions*	6,445	18,149
Government taxes	7,388	8,399
Discount given subsequently on roaming traffic	2,751	3,095
Write-off, extraordinary depreciation and scrapping of intangible and tangible fixed assets **	3,442	3,084
Net book value of fixed assets sold	4,292	2,850
Write-off of uncollectible receivables	1,458	1,984
Factored receivables	1,682	1,670
Impairment of receivables and inventories	464	1,225
Other	<u>2,112</u>	<u>1,344</u>
<b>Total</b>	<b><u>30,034</u></b>	<b><u>41,800</u></b>

\* In 2007, HUF 13,942 million provisions were recognized for early retirement, exemption salaries, severance and related social security.

\*\* Extraordinary depreciation amounted to HUF 241 million in 2007.

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**35. Results of financial activities**

The main driver in revenues from financial activities (HUF 10,314 million) is the dividend received in 2007 related to 2006 (HUF 5,531 million). The most significant item is the dividend received from Crnogorski Telekom AD (HUF 1,593 million), from Emitel Zrt. (HUF 1,158 million), from T-Kábel Kft. (HUF 639 million) and from ViDaNet Zrt. (HUF 535 million). Further significant item is the interest on loans given to subsidiaries disclosed as interest income on financial investments (HUF 1,828 million) and as other interest income received (HUF 783 million).

In 2007, other gains amounted to HUF 432 million, the foreign exchange gain related to year-end revaluation of investments amounted to HUF 253 million. HUF 67 million gain on sale of treasury shares also increased the revenues from financial activities (HUF 2,161 million). Gain on financial investments contains HUF 11 million profit on a related party sold in 2007.

The majority of the HUF 33,010 million financial expenses is the HUF 31,815 million interest expense in 2007. This includes the amount of the interest payable on owners' loans and bank loans. Impairment loss of HUF 17 million was recorded on investments in 2007. Other expenses from financial transactions is HUF 1,178 million which consists of HUF 666 million other foreign exchange loss.

In 2007, realized foreign exchange gain in the amount of HUF 1,307 million and foreign exchange loss in the amount of HUF 488 million were recorded in connection with closed forward transactions (over-the-counter hedging transactions).

**36. Extraordinary revenues**

Extraordinary revenues in the years ending December 31, 2006 and 2007 are summarized as follows:

	2006	2007
Assets received free of charge	5	5
<b><i>Extraordinary revenues adjusting tax base</i></b>	<b>5</b>	<b>5</b>
Revenues related to investments in subsidiaries:		
- <i>BCN Rendszerház Kft. capital decrease</i>	0	2,704
- <i>Merger of EGERTEL Zrt. into Investel Zrt.</i>	0	1,866
- <i>Merger of M-Factory Kft. Mobilpress Zrt.</i>	0	8
Assets received free of charge (not adjusting tax base)	6	116
Development contributions	120	93
Assets surplus	12	15
Dividends expired	17	7
Liabilities waived	59	0
Other extraordinary revenues	15	4
<b><i>Extraordinary revenues not adjusting tax base</i></b>	<b>229</b>	<b>4,813</b>
<b>Total</b>	<b>234</b>	<b>4,818</b>

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**37. Extraordinary expenses**

The extraordinary expenses of the Company in the years ending December 31, 2006 and 2007 are summarized as follows:

	2006	2007
Donation to foundations, charities and other organizations	2,850	2,893
Net book value of assets contributed free of charge	3	75
Net book value of receivables waived	73	57
Repayment of state contribution	178	0
<b>Extraordinary losses adjusting tax base</b>	<b>3,104</b>	<b>3,025</b>
Expenses related to investments in subsidiaries:		
- <i>BCN Rendszerház Kft. capital decrease</i>	0	2,177
- <i>Merger of EGERTEL Zrt. into Investel Zrt.</i>	0	1,793
- <i>Merger of M-Factory Kft. into Mobilpress Zrt.</i>	0	56
Assets contributed free of charge based on Law	113	12
Other extraordinary losses	14	24
<b>Extraordinary losses not adjusting tax base</b>	<b>127</b>	<b>4,062</b>
<b>Total</b>	<b>3,231</b>	<b>7,087</b>

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**38. Transactions with related parties**

Among related parties the items connected to the members of Magyar Telekom Group are disclosed mainly in the relevant captions of the balance sheet and income statement. Only revenues are detailed as follows.

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

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

Transactions with related parties and subsidiaries of Deutsche Telekom in the years ending December 31, 2006 and 2007 are summarized as follows:

	2006	2007
<i><b>Net domestic sales</b></i>	<i><b>450,016</b></i>	<i><b>478,105</b></i>
- of which: related parties	30,778	25,132
- of which: subsidiaries of Deutsche Telekom Group	516	425
<i><b>Net export sales</b></i>	<i><b>20,735</b></i>	<i><b>21,804</b></i>
- of which: related parties	2,124	2,254
- of which: subsidiaries of Deutsche Telekom Group	5,935	6,740
<i><b>Other revenues</b></i>	<i><b>22,290</b></i>	<i><b>20,763</b></i>
- of which: related parties	556	189
- of which: subsidiaries of Deutsche Telekom Group	4,853	5,274
<i><b>Accounts receivable</b></i>	<i><b>35,506</b></i>	<i><b>39,052</b></i>
- of which: subsidiaries of Deutsche Telekom Group	327	422
<i><b>Receivables from related parties</b></i>	<i><b>16,754</b></i>	<i><b>10,511</b></i>
- of which: subsidiaries of Deutsche Telekom Group	7	0
<i><b>Other receivables</b></i>	<i><b>12,142</b></i>	<i><b>6,345</b></i>
- of which: subsidiaries of Deutsche Telekom Group	0	1
<i><b>Accrued income</b></i>	<i><b>28,341</b></i>	<i><b>31,080</b></i>
- of which: subsidiaries of Deutsche Telekom Group	4,673	6,003
<i><b>Accounts payable</b></i>	<i><b>28,704</b></i>	<i><b>34,805</b></i>
- of which: subsidiaries of Deutsche Telekom Group	824	2,476
<i><b>Current liabilities to other related parties</b></i>	<i><b>74,089</b></i>	<i><b>20,000</b></i>
- of which: subsidiaries of Deutsche Telekom Group	74,089	20,000
<i><b>Accrued expenses</b></i>	<i><b>34,646</b></i>	<i><b>44,854</b></i>
- of which: subsidiaries of Deutsche Telekom Group	7,366	9,947



**Magyar Telekom Plc.**  
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**39. Corporate Income Tax**

The differences between profit before tax and the tax base for the years ending December 31, 2006 and 2007 are presented below:

	2006	2007
<b>Profit before tax</b>	<b>88,522</b>	<b>36,991</b>
Depreciation, amortization and write-off	100,641	97,471
Provisions	6,445	18,149
Derecognition of intangible and tangible assets, reclassification to current assets	470	4,832
Non-repayable donations, assets and services given free of charge, assumed liabilities	3,739	3,085
Uncollectible and waived receivables	1,429	2,086
Expenses unrelated to business	419	0
Impairment of receivables	220	-650
Other increasing items	308	1,076
<b><u>Tax base increasing items</u></b>	<b>113,671</b>	<b>126,049</b>
Depreciation, amortization according to the Tax Law, tax book value of assets derecognized	106,272	105,633
Local business tax	6,815	7,327
Dividend income	50,174	5,531
Derecognition of intangible and tangible assets, reclassification to current assets	397	4,733
Reversal of provisions	6,600	4,227
Utilization of tax loss carried forward	28,016	2,500
Bad debt write-off, reversal of impairment	1,869	2,199
Donations	450	1,077
R&D costs	976	634
Subsidies received	602	0
Other decreasing items	22	5
<b><u>Tax base decreasing items</u></b>	<b>202,193</b>	<b>133,866</b>
<b>Tax base</b>	<b>0</b>	<b>29,174</b>
<b><u>Calculated amount of tax</u></b>	<b>0</b>	<b>4,668</b>
Tax credit	0	4,668
Solidarity tax	123	1,357
<b><u>Corporate Income Tax</u></b>	<b>123</b>	<b>1,357</b>

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
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### Other tax related information

2180/2003 Government Resolution: The Company can reduce its corporate income tax liability by the present value of tax credit on broadband Internet investments. The tax credit can be used from the year when the investment is completed up to four years and cannot exceed HUF 3,174 million.

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

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

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

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

6515/2005 Ministry of Finance Resolution: The tax credit is applicable in connection with construction of UMTS network which also provides broadband internet service and cannot exceed HUF 2,911 million at present value.

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

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

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

Budapest Capital City Local Authority conducted a tax audit for 2002 and 2003 at T-Mobile Magyarország Rt. in connection with local tax in 2004. Although the inquiry had not been closed yet the probable tax difference of HUF 519 million was already paid.

The tax authority started a tax audit for all taxes for 2002, 2003 and 2004 at Magyar Telekom Plc. in September, 2006. The audit was closed in 2007. 2004 is the last year closed by comprehensive audit by the Hungarian Tax Authority (APEH) at the Company. Tax authorities may at any time inspect the books and records until the end of the 5th year following the year when the tax declarations were submitted and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which could result in a significant liability in this respect.

### **40. Dividend**

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

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2007  
(All amounts in millions of HUF, unless otherwise indicated)

### 41. Off-balance sheet items

Off-balance sheet items are mainly contractual commitments (rental contracts, contracted construction-in-progress commitments). For details see Appendix 4.

### 42. Hazardous waste, Research & Development costs

The following table shows the movement of hazardous waste at the Company in 2007 (data in kilograms):

	<u>Hazardous waste (kg)</u>
December 31, 2006	2,000
Increase	1,545,286
Decrease	1,546,492
December 31, 2007	<u>794</u>

Environmental expenses amounted to HUF 232 million in 2006, and HUF 350 million in 2007.

Research and development costs amounted to HUF 492 million at Magyar Telekom Plc. in 2007.

### 43. Self-revisions

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

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

Errors related to prior years, that were discovered in 2007 exceeded the HUF 500 million limit (irrespective of their profit increasing or decreasing nature), therefore they are presented next to previous year's figures in the balance sheet and income statement.

The total (profit increasing) impact of self-revisions is HUF 710 million and is broken down by corresponding years as follows:

Year	<u>Self-revision</u>
1999	-2
2001	-1
2002	1
2003	-29
2004	-46
2005	313
2006	502
January - September, 2007*	-28

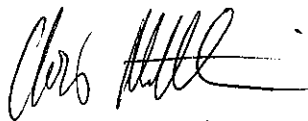
\* Total amount of items related to the merger of Emitel Zrt. and T-Online Magyarország Zrt.'s access business line into Magyar Telekom Plc. as of September 30, 2007 for the period indicated above.

Magyar Telekom Plc.  
Notes to the Financial Statements prepared  
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The major items based on the „A” type income statement lines are the following:

<i>I. Sales revenue</i>		<i>330</i>
Settlement of revenues from leased lines	149	
Advertisement revenues	53	
Other export revenues - Combridge SRL	40	
Other	88	
<i>II. Own work capitalized</i>		<i>3</i>
<i>IV. Material-type expenses</i>		<i>-3</i>
<i>V. Payroll and related expenses</i>		<i>30</i>
Training contribution	30	
Health care contribution related to contribution in kind	12	
Social Security	-18	
Other	6	
<i>VI. Depreciation</i>		<i>47</i>
Depreciation related to prior years	47	
<i>VII. Other expenses</i>		<i>-1</i>
<i>VIII. Revenues from financial transactions</i>		<i>354</i>
M-RTL dividend	353	
Other	1	
<i>IX. Expenses from financial transactions</i>		<i>-12</i>
Non-realized foreign exchange loss on foreign exchange investment (TCG)	-10	
Other	-2	
<i>D. PROFIT FROM EXTRAORDINARY ACTIVITIES</i>		<i>46</i>
Assets surplus	43	
Other	3	
<i>XII. Corporate income tax</i>		<i>-38</i>
Corporate income tax	-30	
Solidarity tax	-8	
<i>Impact on net income</i>		<i>710</i>

Budapest, March 18, 2008



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



Thilo Kusch  
Chief Financial Officer,  
Board member

## Real estate and related rights

(in HUF millions)

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
<b>1. Gross value</b>						
11. Opening gross value (on January 1, 2007)	2 691	84 333	242 074	13 715	5 272	348 085
12. Additions in gross value	37	3 131	6 375	366	186	10 095
12. Additions due to merger	37	642	7 479	98	62	8 318
14. Disposals in gross value	80	2 876	336	50	7	3 349
Reclassifications	-24	-3 994	5 509	3 967	-1	5 457
15. Closing gross value (on December 31, 2007)	2 661	81 236	261 101	18 096	5 512	368 606
<b>2. Accumulated depreciation</b>						
21. Opening depreciation (on January 1, 2007)	0	16 134	88 872	5 911	4 192	115 109
22. Annual depreciation	0	2 002	9 876	492	238	12 608
23. Additions due to merger	0	84	0	11	0	95
24. Extraordinary depreciation	0	122	3 263	37	6	3 428
25. Disposals in depreciation	0	732	224	44	7	1 007
Reclassifications	0	-549	2 126	541	1	2 119
26. Closing depreciation (on December 31, 2007)	0	17 061	103 913	6 948	4 430	132 352
3. Net book value (on December 31, 2007)	2 661	64 175	157 188	11 148	1 082	236 254
- Of which residual value		210	0	5	1	216
<b>4. Other data</b>						
Annual depreciation (January - December, 2007)	0	2 002	9 876	492	238	12 608
Extraordinary depreciation	0	84	0	11	0	95
Reversal of Extraordinary depreciation	0	0	0	0	0	0



## Investments of Magyar Telekom Plc.

(in HUF millions)

Description	Headquarter	Ownership Direct (%)	Ownership Indirect (%)	Ownership (%)	Voting Rights	Common Stock *	Capital Reserves	Net Income	Owner's Equity
<b>Adnetwork</b> Online Marketing Kft.	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	5	-1	30	34
<b>BCN</b> Rendszerház Informatikai és Kommunikációs Hálózatokat Szolgáltató Kft.	1107 Budapest, Bihari út 6.	100.00%		100.00%	100.00%	3 500	56	375	3 931
<b>Combridge</b> S.R.L.	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100.00%		100.00%	100.00%	231	-390	-185	-344
<b>Dataplex</b> Infokommunikációs Infrastruktúra Szolgáltató és Inoatlanhasznosító Kft.	1087 Budapest, Asztalos Sándor u. 13	100.00%		100.00%	100.00%	900	300	178	1 378
<b>Gabriele 17</b> Vermögensverwaltung GmbH.	60311 Frankfurt am Main, Bethmann str. 50-54, Germany	100.00%		100.00%	100.00%	6			6
<b>Integris</b> Rendszerház Informatikai Szolgáltató Kft.	9027 Győr, Bajcsy-Zsilinszky 46.	100.00%		100.00%	100.00%	615	45	255	915
<b>Investel</b> Magyar Távközlési Befektetési Zrt.	1013 Budapest, Krisztina krt. 32.	100.00%		100.00%	100.00%	4 453	1 089	3 605	9 147
<b>IWIW</b> Szolgáltató Kft.	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	3	17	54	74
<b>KFKH-LNX</b> Hálózatintegrációs Zrt.	1135 Budapest, Hun u 2.	100.00%		100.00%	100.00%	204	2 639	638	3 481
<b>Novatel</b> E.O.O.D.*	Sredna Gora 49. et. 4., Sofia 1303, Bulgaria	100.00%		100.00%	100.00%	672	-158	7	521
<b>Orbitel</b> A.D.*	1 Makedonia Sq. Floor 18, Sofia 1000, Bulgaria	100.00%		100.00%	100.00%	1 659	73	-356	1 376
<b>[origo]</b> Média és Kommunikációs Szolgáltató Zrt.	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	282	3 282	-2 220	1 344
<b>Pro-M</b> Profesionális Mobilrádió Zrt.	1107 Budapest, Száva u. 3-5.	100.00%		100.00%	100.00%	5 200	3 049	674	8 923
<b>ProMokom</b> Zártkörűen Működő Profesionális Mobil Kommunikációs Rt. #	1013 Budapest, Krisztina krt.55.	100.00%		100.00%	100.00%	21	-1	-2	18
<b>Stonebridge</b> Communication A.D. Skopje* #	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	87 745	13 842	18 191	119 778
<b>Telemacedonia</b> A.D. Skopje*	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	3	273	31	307
<b>T-Systems</b> Hungary Szolgáltató Kft.	1135 Bp. Hun u. 2.	100.00%		100.00%	100.00%	500	1 651	-1 914	237
<b>Viabridge</b> Telecommunications Holding Limited* #	Level 2, Valletta Buildings, South Street, Valletta, Malta VLT 11	99.99%	0.01%	100.00%	100.00%	294	-57	-125	112
<b>Novatel</b> UKRAINE L.L.C.*	Pymonenka Str. 13, building 7, office 7B/36. - Kiev. 04050 Ukraine	99.94%	0.06%	100.00%	100.00%	58	-68	-80	-90
<b>EurAccount</b> Pénzügyi és Számviteli Szolgáltató Kft.	1077 Budapest, Kéthly Anna tér 1.	99.00%	1.00%	100.00%	100.00%	450	0	258	708
<b>KIBU</b> Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft. .	1092. Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	25	86	-25	86
<b>Első Pesti Telefonszolgálat</b> Nyrt.	1183 Budapest, Haladás út 5.	97.20%		97.20%	97.20%	777	-2	-223	552
<b>M Factory</b> Kommunikációs Szolgáltató Zrt.	1033 Budapest, Huszti út 32.	92.00%		92.00%	92.00%	20	214	-339	-105
<b>Cmogorski</b> Telekom A.D. Podgorica*	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76.53%		76.53%	76.53%	35 721	993	5 194	41 908
<b>ViDaNet</b> Kábeltelevíziós Szolgáltató Zrt.	1036 Bp, Dereglye út 5/B	67.50%	22.50%	90.00%	50.00%	2 000	508	947	3 455
<b>TELE-DATA</b> Távközlési Adattfeldolgozó és Hirdetésszervező Kft.	2040 Budaörs, Baross u. 89.	50.98%		50.98%	50.98%	39	8	65	112
<b>HUNSAT</b> Magyar Úrtávközlés Zrt.	1117 Budapest, Hauszmann Alajos u. 2.	50.00%		50.00%	50.00%	100	0	179	279
<b>IKO-Telekom</b> Média Holding Zrt.	1222 Bp, Nagytétényi út 29.	50.00%		50.00%	50.00%	3 200	1 569	1 497	6 266
<b>Mindentudás Egyeteme</b> Tudományos Közhasznú Társaság	1105 Budapest, Zágrábi út 1-3.	60.00%		60.00%	60.00%	5	7	15	27
<b>T-Kábel</b> Magyarország Kábeltelevíziós Szolgáltató Kft.	1089 Budapest, Baross u. 133.	16.39%	83.61%	100.00%	100.00%	920	4 090	1 811	6 821
<b>Axelero</b> Kereskedelmi és Szolgáltató Kft.	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	0	-1	3
<b>Matáv</b> Kereskedelmi és Szolgáltató Kft.	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	0	-1	3
<b>MatávkábelTV</b> Kereskedelmi és Szolgáltató Kft.	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	0	-1	3
<b>IQSYS</b> Informatikai Zrt.	1135 Budapest, Hun u 2.	0.30%	99.70%	100.00%	100.00%	211	273	240	724

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

\* The common stock figures of foreign subsidiaries based on IFRS reports were revalued using foreign exchange rates as of December 31, 2007.

# Under liquidation.

## Impairment

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables *	Securities
Opening balance	4 132	0	0	2 814	14 191	0
Opening correction	6	0	0	0	0	0
Increase due to merger	0	0	0	10	614	0
Increase	17	0	0	469	755	0
Decrease	1 273	0	0	0	2 564	0
Reversed impairment	0	0	0	0	0	0
Closing balance	2 882	0	0	3 293	12 996	0

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



## Off-balance Sheet Liabilities

(in HUF millions)

	Total	2008.	2009.	2010.	2011.	2012.	2013.
Rental contracts	32 851	6 177	5 101	4 304	3 999	3 438	9 833
Rental contracts with related parties	62	62	0	0	0	0	0
Commitment for capital expenditure	6 262	6 262	0	0	0	0	0
Environmental protection, restoration and other	582	132	90	90	90	90	90

Summarized form of Magyar Telekom Plc.'s final merger balance sheet  
as of September 30, 2007

Description	Magyar Telekom Plc.	Emitel	Separating part from T-Online	Total	Differences	Magyar Telekom Plc. Final merger balance sheet of the transformed company	The effect of transformation on Magyar Telekom Plc.'s balance sheet as of September 30, 2007
<b>A. Fixed assets and financial investments</b>	<b>828 309</b>	<b>6 167</b>	<b>6 163</b>	<b>840 639</b>	<b>-16 390</b>	<b>824 249</b>	<b>-4 060</b>
I. Intangible assets	209 628	249	2 738	212 615	0	212 615	2 987
II. Tangible assets	411 500	5 912	3 325	420 737	0	420 737	9 237
III. Financial investments	207 181	6	100	207 287	-16 390	190 897	-16 284
<b>B. Current assets</b>	<b>65 855</b>	<b>721</b>	<b>4 434</b>	<b>71 010</b>	<b>-5 201</b>	<b>65 809</b>	<b>-46</b>
I. Inventories	6 169	25	51	6 245	0	6 245	76
II. Receivables	52 742	689	4 358	57 789	-5 201	52 588	-154
III. Securities	1 179	0	0	1 179	0	1 179	0
IV. Liquid assets	5 765	7	25	5 797	0	5 797	32
<b>C. Prepayments</b>	<b>30 921</b>	<b>48</b>	<b>201</b>	<b>31 170</b>	<b>-446</b>	<b>30 724</b>	<b>-197</b>
<b>Total assets</b>	<b>925 085</b>	<b>6 936</b>	<b>10 798</b>	<b>942 819</b>	<b>-22 037</b>	<b>920 782</b>	<b>-4 303</b>
<b>D. Shareholder's equity</b>	<b>409 934</b>	<b>4 550</b>	<b>4 943</b>	<b>419 427</b>	<b>-14 912</b>	<b>404 515</b>	<b>-5 419</b>
I. Common stock	104 277	3 110	1 624	109 011	-4 736	104 275	-2
<i>of this treasury stock at par value</i>	<i>150</i>	<i>0</i>	<i>0</i>	<i>150</i>	<i>0</i>	<i>150</i>	<i>0</i>
II. Unpaid share capital (-)	0	0	0	0	0	0	0
III. Capital reserves	54 932	40	3 319	58 291	-1	58 290	3 358
IV. Retained earnings	249 546	1 023	0	250 569	-10 175	240 394	-9 152
V. Restricted reserves	1 179	377	0	1 556	0	1 556	377
<b>E. Provisions</b>	<b>25 911</b>	<b>64</b>	<b>87</b>	<b>26 062</b>	<b>0</b>	<b>26 062</b>	<b>151</b>
<b>F. Liabilities</b>	<b>437 473</b>	<b>1 916</b>	<b>4 564</b>	<b>443 953</b>	<b>-6 683</b>	<b>437 270</b>	<b>-203</b>
II. Non current liabilities	309 690	1 423	41	311 154	-1 420	309 734	44
III. Current liabilities	127 783	493	4 523	132 799	-5 263	127 536	-247
<b>G. Accrued expenses</b>	<b>51 767</b>	<b>406</b>	<b>1 204</b>	<b>53 377</b>	<b>-442</b>	<b>52 935</b>	<b>1 168</b>
<b>Total liabilities and shareholder's equity</b>	<b>925 085</b>	<b>6 936</b>	<b>10 798</b>	<b>942 819</b>	<b>-22 037</b>	<b>920 782</b>	<b>-4 303</b>

**Summarized form of T-Online Magyarország Zrt.'s income statement  
as of September 30, 2007**

Description	January - December, 2006	January - September, 2007	Period January - September, 2007 in percentage of Magyar Telekom Plc.'s relevant figures
1.Domestic sales	35 023	29 676	8.38%
2. Export sales	57	67	0.39%
I. Sales revenues	35 080	29 743	8.01%
II. Own work capitalized	80	101	0.78%
III. Other revenue	1 841	430	2.77%
IV. Material-type expenses	29 109	26 703	14.31%
V. Payroll and related expenses	3 218	2 703	4.78%
VI. Depreciation	1 218	1 319	1.84%
VII. Other expenditures	1 707	1 131	3.00%
<b>A. PROFIT FROM OPERATING ACTIVITIES</b>	<b>1 749</b>	<b>-1 582</b>	<b>-3.36%</b>
VIII. Revenues from financial transactions	216	131	1.46%
IX. Expenses from financial transactions	33	23	0.09%
<b>B. FINANCIAL RESULTS</b>	<b>183</b>	<b>108</b>	<b>-0.62%</b>
<b>C. PROFIT FROM ORDINARY ACTIVITIES</b>	<b>1 932</b>	<b>-1 474</b>	<b>-4.95%</b>
<b>D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES</b>	<b>-184</b>	<b>-123</b>	<b>8.33%</b>
<b>E. PROFIT BEFORE TAXES</b>	<b>1 748</b>	<b>-1 597</b>	<b>-5.64%</b>
XII. Corporate income tax	25	0	
<b>F. NET INCOME</b>	<b>1 723</b>	<b>-1 597</b>	<b>-5.86%</b>
<b>G. BALANCE SHEET NET INCOME</b>	<b>1 723</b>	<b>-1 597</b>	<b>-5.86%</b>

**Summarized form of EMITEL Zrt.'s income statement  
as of September 30, 2007**

(in HUF millions)

Description	January - December, 2006	January - September, 2007	Period January - September, 2007 in percentage of Magyar Telekom Plc.'s relevant figures
1. Domestic sales	4 898	3 552	1.00%
2. Export sales			
I. Sales revenues	4 898	3 552	0.96%
II. Own work capitalized	135	86	0.66%
III. Other revenue	212	84	0.54%
IV. Material-type expenses	1 618	1 067	0.57%
V. Payroll and related expenses	1 064	797	1.41%
VI. Depreciation	779	556	0.78%
VII. Other expenditures	282	146	0.39%
<b>A. PROFIT FROM OPERATING ACTIVITIES</b>	<b>1 502</b>	<b>1 156</b>	<b>2.45%</b>
VIII. Revenues from financial transactions	7	9	0.10%
IX. Expenses from financial transactions	148	119	0.45%
<b>B. FINANCIAL RESULTS</b>	<b>-141</b>	<b>-110</b>	<b>0.63%</b>
<b>C. PROFIT FROM ORDINARY ACTIVITIES</b>	<b>1 361</b>	<b>1 046</b>	<b>3.51%</b>
<b>D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES</b>	<b>12</b>	<b>-3</b>	<b>0.20%</b>
<b>E. PROFIT BEFORE TAXES</b>	<b>1 373</b>	<b>1 043</b>	<b>3.68%</b>
XII. Corporate income tax	146	74	6.83%
<b>F. NET INCOME</b>	<b>1 227</b>	<b>969</b>	<b>3.56%</b>
Dividend paid (approved)	1 158	0	
<b>G. BALANCE SHEET NET INCOME</b>	<b>69</b>	<b>969</b>	<b>3.56%</b>