

Magyar Telekom Nyrt.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

BALANCE SHEET AND PROFIT AND LOSS STATEMENT  
TO THE 2006 ANNUAL REPORT

Magyar Telekom Nyrt.  
BALANCE SHEET AS OF DECEMBER 31, 2006  
(All amounts in millions of HUF)

ASSETS

	Note	December 31, 2005	Self-revision	December 31, 2006
<b>A. FIXED ASSETS AND FINANCIAL INVESTMENTS</b>		<b>842 373</b>	<b>-83</b>	<b>859 509</b>
<b>I. Intangible assets</b>	5	<b>180 411</b>	<b>-16</b>	<b>223 598</b>
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		18 238	133	39 783
Intellectual property		1 558	-149	19 935
Goodwill		160 615	0	163 880
Advance payments on intangible assets		0	0	0
<b>II. Tangible assets</b>	6	<b>338 114</b>	<b>-67</b>	<b>436 866</b>
Land and buildings and related rights		204 716	54	232 976
- Land		2 298	34	2 691
- Buildings		39 334	30	68 198
- Telecommunication network		153 969	-9	153 203
- Other properties		8 108	-1	7 804
- Real estate related rights		1 007	0	1 080
Technical equipment, machinery and vehicles		117 730	966	174 220
- Telecommunication equipment and machinery		116 718	966	173 152
- Other technical equipment, machinery and vehicles		1 012	0	1 068
Other equipment and vehicles		6 290	69	15 434
Construction-in-progress, renovation		9 378	-1 156	13 762
Advance payments on construction-in-progress		0	0	474
<b>III. Financial investments</b>		<b>323 848</b>	<b>0</b>	<b>199 045</b>
Non current investments in affiliated companies	7	230 147	0	177 838
Non current loans granted to affiliated companies	8	89 141	0	14 672
Other investments		0	0	0
Other non current loans granted	9	4 560	0	6 535
Non current bonds and other securities		0	0	0
<b>B. CURRENT ASSETS</b>		<b>70 773</b>	<b>1 301</b>	<b>76 591</b>
<b>I. Inventories</b>	10	<b>2 862</b>	<b>-87</b>	<b>7 501</b>
Raw materials		884	0	1 397
Work in progress and semi-finished products		0	0	0
Finished products		0	0	0
Goods available for sale		1 978	-87	6 054
Advance payments on inventories		0	0	50
<b>II. Receivables</b>		<b>64 312</b>	<b>1 372</b>	<b>64 404</b>
Accounts receivable	11	22 225	114	35 506
Receivables from affiliated companies	12	36 410	0	16 754
Bills receivable		0	0	0
Receivables from other related companies		36	-11	2
Other receivables	13	5 641	1 269	12 142
<b>III. Securities</b>	14	<b>1 926</b>	<b>0</b>	<b>1 504</b>
Investments in affiliated companies		0	0	0
Other investments		0	0	0
Treasury stock, quotas		1 926	0	1 504
Marketable securities		0	0	0
<b>IV. Liquid assets</b>		<b>1 673</b>	<b>16</b>	<b>3 182</b>
Cash and cheques		5	0	67
Bank deposits		1 668	16	3 115
<b>C. PREPAYMENTS</b>	15	<b>10 320</b>	<b>62</b>	<b>29 762</b>
Accrued income		9 960	62	28 341
Prepayments for costs and expenses		360	0	1 421
Deferred expenses		0	0	0
<b>TOTAL ASSETS</b>		<b>923 466</b>	<b>1 280</b>	<b>965 862</b>

Budapest, March 22, 2007

Christopher Mattheisen  
Chairman and Chief Executive Office,  
Board member

Thilo Kusch  
Chief Financial Officer,  
Board member

## BALANCE SHEET AS OF DECEMBER 31, 2006

(All amounts in millions of HUF)

LIABILITIES AND OWNER'S EQUITY

	Note	December 31, 2005	Self-revision	December 31, 2006
<b>D. SHAREHOLDER'S EQUITY</b>	16	<b>363 878</b>	<b>163</b>	<b>454 632</b>
I. Common stock		104 281	0	104 277
- of this treasury stock at par value		246	0	246
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		52 837	0	54 932
IV. Retained earnings		204 834	0	205 520
V. Restricted reserves		1 926	0	1 504
VI. Valuation reserves		0	0	0
VII. Net income		0	163	88 399
<b>E. PROVISIONS</b>	17	<b>4 307</b>	<b>0</b>	<b>7 977</b>
Provision for expected obligations		4 183	0	7 783
Provision for expected expenses		124	0	166
Other provisions		0	0	28
<b>F. LIABILITIES</b>		<b>530 453</b>	<b>1 200</b>	<b>460 217</b>
I. Subordinated liabilities		0	0	0
II. Non current liabilities		<b>230 605</b>	<b>0</b>	<b>212 001</b>
Non current credits		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		124	0	123
Investment and development loans	18	13 125	0	18 250
Other non current loans		0	0	0
Non current liabilities to affiliated companies		0	0	0
Non current liabilities to other affiliated companies	19	212 000	0	185 432
Other non current liabilities		5 356	0	8 196
III. Current liabilities		<b>299 848</b>	<b>1 200</b>	<b>248 216</b>
Current loans		71	0	71
- of this convertible bonds		0	0	0
Current credits	20	41 913	0	27 374
Advances received		606	-1	343
Accounts payable		19 499	-262	28 704
Bills of exchange payable		0	0	0
Current liabilities to affiliated companies	21	73 399	0	22 441
Current liabilities to other affiliated companies	22	74 678	0	74 089
Other current liabilities	23	89 682	1 463	95 194
- of this dividends payable		76 122	0	0
<b>G. ACCRUED EXPENSES</b>	24	<b>24 828</b>	<b>-83</b>	<b>43 036</b>
Deferred income		2 502	0	7 619
Accrued expenses		21 804	-83	34 646
Other deferred revenue		522	0	771
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>923 466</b>	<b>1 280</b>	<b>965 862</b>

Budapest, March 22, 2007

Christopher Mattheisen  
Chairman and Chief Executive Office,  
Board member

Thilo Kusch  
Chief Financial Officer,  
Board member

Magyar Telekom Nyrt.  
INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER, 2006  
(All amounts in millions of HUF)

	Note	2005	Self-revision	2006
1. Domestic sales	25	237 079	-315	450 016
2. Export sales	26	12 060	16	20 735
<b>I. Sales revenues</b>		<b>249 139</b>	<b>-299</b>	<b>470 751</b>
3. Change in self-manufactured inventories		0	0	0
4. Capitalised value of self-manufactured assets		12 915	0	14 339
<b>II. Own work capitalized</b>		<b>12 915</b>	<b>0</b>	<b>14 339</b>
<b>III. Other revenues</b>	27	<b>23 184</b>	<b>-127</b>	<b>22 290</b>
of which: reversal of write-down for assets		388	0	170
5. Costs of raw material		15 858	-88	19 939
6. Costs of services	29	59 593	-277	97 843
7. Costs of other services		2 151	1 132	9 473
8. Cost of goods sold		4 271	40	34 415
9. Costs of services sold (intermediated)	30	41 813	0	84 872
<b>IV. Material-type expenditures</b>		<b>123 686</b>	<b>807</b>	<b>246 542</b>
10. Salaries and wages	31	32 552	-2	42 522
11. Other payroll related costs	31	12 942	26	10 900
12. Payroll related contributions		13 733	-15	15 948
<b>V. Payroll and related expenditures</b>		<b>59 227</b>	<b>9</b>	<b>69 370</b>
<b>VI. Depreciation</b>		<b>64 097</b>	<b>63</b>	<b>93 408</b>
<b>VII. Other expenditures</b>	33	<b>16 914</b>	<b>-205</b>	<b>30 034</b>
of which: write-down for assets		2 769	0	2 814
<b>A. PROFIT FROM OPERATING ACTIVITIES</b>		<b>21 314</b>	<b>-1 100</b>	<b>68 026</b>
13. Dividends and profit sharing (received or due) of which: received from affiliated companies		68 429 68 429	0 0	50 174 50 174
14. Foreign exchange gains on sale of investments of which: received from affiliated companies		497 0	0 0	260 0
15. Interest income and f/x gains on financial investments of which: received from affiliated companies		7 051 7 044	0 0	1 517 1 508
16. Other interest income received of which: received from affiliated companies		3 171 3 015	0 0	873 710
17. Other revenues on financial activities		4 476	-8	2 860
<b>VIII. Revenues from financial transactions</b>		<b>83 624</b>	<b>-8</b>	<b>55 684</b>
18. Foreign exchange loss on the sale of financial investments of which: related to affiliated companies		0 0	0 0	0 0
19. Interest expense of which: related to affiliated companies related to other affiliated company		31 702 643 24 793	0 0 0	27 084 939 21 396
20. Write-down for investments, securities and bank deposits		0	0	1 872
21. Other expenses on financial activities		576	0	3 235
<b>IX. Expenditures from financial transactions</b>		<b>32 278</b>	<b>0</b>	<b>32 191</b>
<b>B. FINANCIAL RESULTS</b>	34	<b>51 346</b>	<b>-8</b>	<b>23 493</b>
<b>C. INCOME FROM ORDINARY ACTIVITIES</b>		<b>72 660</b>	<b>-1 108</b>	<b>91 519</b>
<b>X. Extraordinary revenues</b>	35	<b>2 013</b>	<b>8</b>	<b>234</b>
<b>XI. Extraordinary expenditures</b>	36	<b>6 583</b>	<b>3</b>	<b>3 231</b>
<b>D. NET INCOME ON EXTRAORDINARY ACTIVITIES</b>		<b>-4 570</b>	<b>5</b>	<b>-2 997</b>
<b>E. NET INCOME BEFORE TAXES</b>		<b>68 090</b>	<b>-1 103</b>	<b>88 522</b>
<b>XII. Corporate income tax</b>	38	<b>0</b>	<b>-1 266</b>	<b>123</b>
<b>F. NET INCOME</b>		<b>68 090</b>	<b>163</b>	<b>88 399</b>
22. Use of retained earnings for dividends		8 032	0	0
23. Dividend paid (approved)	39	76 122	0	0
<b>G. BALANCE SHEET NET PROFIT FIGURE</b>		<b>0</b>	<b>163</b>	<b>88 399</b>

Budapest, March 22, 2007

Christopher Mattheisen  
Chairman and Chief Executive Office,  
Board member

Thilo Kusch  
Chief Financial Officer,  
Board member

Magyar Telekom Nyrt.

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

SUPPLEMENT  
TO THE 2006 ANNUAL REPORT

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**0. Note Added For Translation**

This annual report for December 31, 2006 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, 2006  
(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 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 Matáv 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 had been 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 at Court of Registry on May 6, 2005.

On February 28, 2006 the name of Magyar Telekom Telecommunications Company Ltd. has 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 at 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. – Szilvia Szabados.

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

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
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As of December 31, 2006  
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*Investigation into certain consultancy contracts*

In the course of conducting their audit of our 2005 financial statements, PwC identified certain contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit Committee and advised them to retain independent counsel to conduct an investigation into these contracts. In February 2006, our Audit Committee retained White & Case, as its independent legal counsel, to conduct the investigation, with the additional assistance of a financial advisory firm and a digital forensics firm. In December 2006, the investigators delivered an Initial Report of Investigation. We cannot predict when the investigation will be concluded or what the final findings will be.

PwC initially raised concerns regarding two consultancy contracts entered into in 2005 by our Montenegrin subsidiaries Crnogorski Telekom and T-Mobile Crna Gora. The initial scope of the independent investigation was a complete review of these two contracts, including a review of all related documents and interviews with our, and Crnogorski Telekom and T-Mobile Crna Gora, employees and third parties with knowledge of the contracts. The financial advisory firm assisting the investigation also reviewed a sampling of our and our Montenegrin subsidiaries' account and transactional data, equaling 72 percent of the value of all transactions and 90 percent of the value of all contracts with third party vendors. For each of these test items, all available supporting documentation was reviewed. Early in the investigation, two additional consultancy contracts, which we entered into in 2005, were also called into question by the investigators, and our Audit Committee expanded the scope of the investigation to cover these contracts. The total value of these four contracts under investigation is approximately HUF 2 billion, of which HUF 1,120 million relates to the two contracts entered into by the Magyar Telekom Plc.

During the course of the investigation, it became evident that certain of Magyar Telekom, Crnogorski Telekom and T-Mobile Crna Gora employees had obstructed the investigation by destroying or tampering with electronic documents. Specifically, the digital forensics firm assisting the investigation found that ten computers assigned to seven employees showed evidence that documents had been deleted from the hard drives and "wiping" software used to make those documents permanently unrecoverable. Investigators determined that the deleted electronic documents included a number of documents related to the contracts under investigation. This deletion and wiping activity took place after our management had issued document retention memos requiring that all documents related to these contracts be retained. As a result of this deliberate destruction of documents, the investigators have been unable to review drafts of the contracts, emails and other documents that would have been relevant to the investigation.

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. It is unclear who the true counterparties are to the contracts, and certain of the contracts are vague as to the actual services that are to be provided. 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. On the basis of the findings to date, the concerns of our auditors were well founded.

Accordingly, although the Company had originally capitalized the amounts paid under these contracts, as a result of the findings of the investigation, the Company has ultimately expensed the HUF 1,120 million paid under these two contracts, and discloses these expenses under the caption "Extraordinary expenditures." See Note 36

As a consequence of the investigation, we have suspended a number of employees who have since resigned. The suspended employees included senior members of our Strategy Group and a senior executive of Crnogorski Telekom. The Crnogorski Telekom Board of Directors has also been replaced.

The independent investigators' Initial Report of Investigation further identified several contracts at another subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be



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Notes to the Financial Statements prepared  
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As of December 31, 2006  
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reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions.

The investigation has revealed certain weaknesses in the design and operation of our internal controls and procedures. Accordingly, we have approved and are currently implementing certain remedial measures designed to enhance our internal controls to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements. First, the position of Magyar Telekom Group Compliance Director has been created, reporting directly to the Company Chief Financial Officer, the Supervisory Board and the Audit Committee. In conjunction with this new position, we are reviewing, with the assistance of U.S. counsel, our compliance and corporate governance policies and are establishing a comprehensive compliance-training program, with a focus on our code of ethics, insider trading policy, document retention policy, regulatory matters, and compliance with U.S. securities laws and the U.S. Foreign Corrupt Practices Act. Our Board has already approved and implemented a Magyar Telekom Group Code of Ethics for Senior Financial Officers and a Group Insider Trading Policy. Second, we are revising our internal controls relating to procurement, including centralized access to all SAP systems of subsidiaries and a requirement that all contract approvals pass through uniform rules and procedures. Third, we have revised our mergers and acquisitions process, including dividing accountability for M&A between the Strategy Group, which will remain responsible for business development, and the area of the Chief Financial Officer, which will be responsible for execution of M&A transactions. All M&A activity will require Board approval and will be reported to the Audit Committee on a semi-annual basis. Finally, our Board may make further decisions or recommendations in connection with the involvement of any senior management in the four contracts under investigation.

As previously reported, the investigation has 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. We have to date been fined HUF 13 million as a consequence of these delays. We have notified the Hungarian Financial Supervisory Authority, the U.S. Securities and Exchange Commission and the U.S. Department of Justice of the investigation, are in contact with these authorities regarding the investigation and are responding to inquiries raised by these authorities.

## **2. The merge of T-Mobile Magyarország Rt.**

The extraordinary general meeting of Magyar Telekom Plc. held on December 20, 2005 decided on the merger of Magyar Telekom Plc. and T-Mobile Magyarország Rt. In the course of this transaction T-Mobile Magyarország Rt. merged into Magyar Telekom Plc. The merger was registered at Court of Registry on February 28, 2006.

Magyar Telekom Plc. widened with Mobile Services Line of Business ('Mobile Line of Business' or 'Mobile LoB') due to the merger on March 1, 2006.

In the course of merger T-Mobile Magyarország Rt. prepared an annual report according to the Hungarian Act on Accounting as of February 28, 2006 by closing its analytical and general ledger registers. Magyar Telekom Plc. settled the takeover of assets and liabilities (incl. provisions and accrued expenses) and shareholder's equity arisen from the differences of before mentioned lines with continuous bookkeeping and also the kept subledger systems of T-Mobile Magyarország Rt.

Due to the takeover of assets and liabilities the balance sheet lines of December 31, 2005 and 2006 are not comparable. Assuring the comparison notes show assets and liabilities broken down into Mobile Line of Business and Magyar Telekom Plc. excluding Mobile Line of Business figures.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
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As of December 31, 2006  
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Due to the merger the income statement of Magyar Telekom Plc. consists the revenues and expenditures of Mobile Line of Business for the period started on March 1, 2006 ended on December 31, 2006, so figures of 2005 and 2006 are not comparable. Assuring the comparison notes show revenues and expenditures broken down into Mobile Line of Business figures from March to December, 2006 and Magyar Telekom Plc. excluding Mobile Line of Business figures from January to December, 2006.

**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 2nd working day of the 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 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, as well.

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 (as adopted by EU).

Based on the above, in contrast to previous practice, information regarding the consolidation level of affiliated companies – 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.

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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 on market value and valuation of certain financial instruments on 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.

*Measurement methods used at 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 those improvements and refurbishment, which extend the useful life of the asset, increase its capacity and/or modify its functionality. Borrowing costs are capitalized up to the date the assets are put into use. Foreign exchange differences arising from foreign currency capital expenditure loans are capitalized in case they are significant. These items are considered to be significant if they exceed 1 per cent of the annual capital expenditure.

*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 fixed 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  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006

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

Determination of residual value:

- Buildings: Determined individually based on location of the building as well as 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)  
personal 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 telecom network directly; are part of subscriber network and furthermore telecom software operating solely on telecom hardware or are installed on them.

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 discounted cashflow analysis.

In case the market value of the individual asset 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 directly controlled subsidiary (more than 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 depreciation on goodwill realized after January 1, 2005 unless impairment required. The Company practices the straight-line method for goodwill recorded 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 the intellectual property is mainly 5 years.

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

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

### *Own work capitalized*

Direct expenses incurred in 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 supplied to subcontractors at delivery as construction in progress.

### *Financial investments*

Long term investments in affiliated companies are recorded at cost when established or at original purchase price less goodwill when acquired. At the end of the 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 affiliates as well as long term loans given to employees for housing purposes.

### Recognition and measurement of current assets

#### *Inventories*

The cost of goods and raw materials are valued at Mobile Line of Business on purchase price by using settling price method and raw materials recorded in SAP by using the weighted average cost formula. Telephone cards are classified as goods 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 per unit value. These inventories are impaired in proportion to a percentage of their book value.

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

Raw materials form 2006:

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

Inventories from 2 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.

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.

#### *Trade receivables*

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

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

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)	Radiotelephone receivables	Other trade receivables	ROAMING receivables
1-30					
31-90		Based on individual LoB decision (Business Services LoB)	61-90		
91-180	30%		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 bankruptcy are identified on an individual basis and fully impaired. Magyar Telekom Plc. excluding Mobil 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 final settlement procedure 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 affiliated companies.

Accounts receivable and payable related to international telecommunications traffic are stated at gross value, even though the actual 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 among current assets include the original cost of bonds, shares, other securities held for sale and the repurchase value of treasury stock.

**LIABILITIES AND SHAREHOLDER'S EQUITY**

*Valuation reserve*

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.

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

### *Restricted reserve*

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

### *Provisions*

Main items provided for:

- early retirement payments
- severance payments
- contingent liabilities and commitments
- environmental liabilities
- guarantee liabilities determined by law

### *Measurement of liabilities in foreign currencies*

Liabilities denominated in foreign currencies are measured 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 declared it to Magyar Telekom Plc. (e.g. non-resident customer - whose registered office, place of abode or permanent residence is situated abroad – buys phone sets in 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 balance of non-realized foreign exchange gain and loss is a gain, it is recorded as other revenue from financial transactions,
- if the balance is a loss, it is recorded as other expenditure 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.

Based on telecommunication regulations the Universal Electronic Telecommunication Cash Register (Egyetemes Elektronikus Hírközlési Kassza, "Kassza") – the former Universal Telecommunication Support Fund (Egyetemes Távközlési Támogatási Alap, "ETTA") - was established in 2004 to compensate universal service providers for their loss of revenue resulting from the low price of universal service packages. The rules of the operation, sources, supervision and usage of the Kassza are laid down by the Government of the Hungarian Republic. All the companies in the telecommunication market have a payment obligation to the Kassza. Donations are given from the Kassza to the universal service providers entitled to it. The Company records the fees paid to Kassza as other expenditure and the amounts received from Kassza as other revenues.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

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 as mediated services disclosed as costs of services sold.

In compliance with the 30/2001. (XII. 23) MeHVM Regulation, the Company uses two methods for recording the fees due to the Internet service providers. In case an invoice is issued by the Internet service provider the Company records the amount as costs of other services, while in case the settlement is without invoice, the amount is recorded as other expenditure.

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 are stored and neutralized in accordance with the applicable environmental protection laws.

The Company had no expense of penalty 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, 2005 and 2006 are represented by the following financial ratios:

	2005	2006
Liquidity ratio (= current assets / current liabilities)	0.24	0,31
Operating margin ((= operating profit / (sales revenues + other revenues))	0.08	0,14
Operating return on assets (= operating profit / total assets)	0.023	0,071
Leverage ratio ((= non current liabilities / (equity + non current liabilities))	0.39	0,32

The liquidity ratio increased from 0.24 in 2005 to 0.31 in 2006, which is mainly due to the decrease in short term liabilities. The current year's dividend payable has not been decided yet.

The favorable change in operating margin is due to the merger of T-Mobile Magyarország Rt. The result of Mobile Line of Business increased mainly the profit from operating activities line in 2006 while in 2005 it was presented as dividend in the financial results.

The favorable change in operating return on assets is also due to the merger of T-Mobile Magyarország Rt.

The decrease in leverage ratio is due to the increase of shareholder's equity because 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, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

The following is the cashflow statement for the year ended on December 31, 2005 and 2006:

	2005	2006
<b>I. Cash flows from operating activities (lines 1-14)</b>	<b>12,330</b>	<b>147,220</b>
1. Profit before income tax (before dividend received)	(+/-) -334	37,231
2. Depreciation and amortization	(+)	64,110
3. Impairment losses charged and reversed	(+/-)	5,078
4. Change in provisions	(+/-)	-9,209
5. Profit or loss on the sale of non current assets	(+/-)	-1,032
6. Change in accounts payable	(+/-)	13
7. Change in other current liabilities	(+/-)	4,094
8. Change in accruals	(+/-)	-1,877
9. Change in accounts receivable	(+/-)	-5,934
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	32,319
11. Change in prepayments	(+/-)	843
12. Income tax paid	(-)	0
13. Dividend paid	(-)	-72,638
14. Other non cash items	(+/-)	-3,103
<b>II. Cash flows from investing activities (lines 15-17)</b>	<b>-23,769</b>	<b>-103,931</b>
15. Acquisition of fixed assets and financial investments	(-)	-80,594
16. Proceeds from sale of non current assets	(+)	2,436
17. Dividends received, interim dividend	(+)	54,389
<b>III. Cash flows from financial activities (lines 18-29)</b>	<b>12,226</b>	<b>-41,780</b>
18. Proceeds from issue of shares	(+)	0
19. Proceeds from the issuance of bonds	(+)	0
20. Loans received	(+)	283,575
21. Redemption from non current loans granted and bank deposits	(+)	43,032
22. Non-repayable liquid assets received	(+)	0
23. Share capital decrease	(-)	0
24. Treasury stock repurchases	(-)	0
25. Repayment of bonds	(-)	-4
26. Repayment of loans	(-)	-250,306
27. Non current loans granted and bank deposits	(-)	-69,427
28. Non-repayable donations given	(-)	0
29. Change in liabilities to founders and other non current liabilities	(+/-)	5,356
<b>IV. Change in liquid assets (lines I. + II. + III.)</b>	<b>(+/-) 787</b>	<b>1,509</b>
<b>Cash at the beginning of the year</b>	<b>886</b>	<b>1,673</b>
<b>Cash at year-end</b>	<b>1,673</b>	<b>3,182</b>

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

**5. Intangible fixed assets**

The following is a summary of intangible fixed asset movements between January 1, 2005 and December 31, 2006:

<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, 2005	<b>876</b>	<b>2,551</b>	<b>43,390</b>	<b>200,398</b>	<b>247,215</b>
Additions	0	7,030	2,883	58	9,971
Disposals	0	140	1,156	0	1,296
Reclassifications	0	42,695	-42,679	0	16
<b>Balance as of December 31, 2005</b>	<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>
<b>AMORTIZATION</b>					
Opening balance as of January 1, 2005	<b>876</b>	<b>1,413</b>	<b>29,553</b>	<b>29,694</b>	<b>61,536</b>
Charge for the year	0	4,570	494	10,147	15,211
Impairment	0	0	0	0	0
Disposals	0	127	1,134	0	1,261
Reclassifications	0	28,042	-28,033	0	9
<b>Balance as of December 31, 2005</b>	<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>
<b>NET BOOK VALUE</b> as of December 31, 2005	0	18,238	1,558	160,615	180,411
<b>NET BOOK VALUE</b> as of December 31, 2006	0	<b>39,783</b>	<b>19,935</b>	<b>163,880</b>	<b>223,598</b>

The movements excluding goodwill consists items related to Mobile Line of Business.

Further details are disclosed in Appendix 1a.

Further details of intangible fixed asset movements for Magyar Telekom Nyrt. excluding Mobile Line of Business are disclosed in Appendix 1b.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

Capitalized costs of R&D

The disposal of the category was caused by scrapping of obsolete studies.

Rights

The increase is mainly due to new purchases (SAP R3 software licenses, network managing software, NGN licenses etc.) and additionally capitalized software rights of use (CRM software, REKOD software, SAP etc.).

The decrease was caused by scrapping of obsolete and non-useful software rights.

Intellectual properties

The increase in intellectual properties is related to purchased software (OSA PARLAY, EMPS, ATLASZ) and developments (Jazz, CRM, DW, SIS, DOMINO) of Mobile Line of Business.

Goodwill

In 2005, the Company acquired an investment in X-Byte Számítástechnikai Kft. and relating to this transaction HUF 58 million goodwill was recognized.

In 2006, further HUF 60 million goodwill has been recognized relating to post-correction of 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 Ingatlanhasznosító 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.

During current period HUF 10,149 million amortization has been charged on goodwill.

The movements in gross value and amortization of goodwill in 2005 and 2006 are summarized as follows:

Description	Remaining useful life (month)	Gross book value as of December 31, 2005	Amort'n as of December 31, 2005	Net book value as of December 31, 2005	Goodwill recorded in 2006	Amort'n charge in 2006	Net book value as of December 31, 2006
T-Mobile Távközlési Magyarország Rt.	180	181,948	-36,397	145,551	0	-9,097	136,454
EMITEL Távközlési Zrt.	149	10,501	-2,601	7,900	0	-589	7,311
Stonebridge Communication AD	198	7,447	-661	6,786	60	-389	6,457
BCN Rendszerház Kft.	12	193	-116	77	0	-39	38
Integris-Rendszerház Kft. (Rába Szolgáltatóház Kft.)	73	306	-65	241	0	-34	207
Telemacedonia AD	34	3	-1	2	0	-1	1
X-Byte Számítástechnikai Kft.	0	58	0	58	0	0	58
KFKI-LNX Hálózatintegrációs Zrt.	0	0	0	0	8,561	0	8,561
Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasznosító Kft.	0	0	0	0	4,793	0	4,793
<b>Total</b>		<b>200,456</b>	<b>-39,841</b>	<b>160,615</b>	<b>13,414</b>	<b>-10,149</b>	<b>163,880</b>

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**6. Tangible fixed assets**

The following is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2005 and December 31, 2006

<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, 2005	<b>298,158</b>	<b>363,417</b>	<b>40,908</b>	<b>702,483</b>
Additions	10,377	19,592	1,834	31,803
Disposals	3,125	13,378	2,414	18,917
Reclassifications	8	770	-794	-16
<b>Balance as of December 31, 2005</b>	<b><u>305,418</u></b>	<b><u>370,401</u></b>	<b><u>39,534</u></b>	<b><u>715,353</u></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>
<b>DEPRECIATION</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, 2005	<b>91,119</b>	<b>229,332</b>	<b>32,866</b>	<b>353,317</b>
Charge for the year	10,867	34,376	3,364	48,607
Impairment	8	199	117	324
Disposals	1,300	12,021	2,301	15,622
Reclassifications	8	785	-802	-9
<b>Balance as of December 31, 2005</b>	<b><u>100,702</u></b>	<b><u>252,671</u></b>	<b><u>33,244</u></b>	<b><u>386,617</u></b>
Charge for the year	11,737	50,003	7,061	68,801
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>
<b>NET BOOK VALUE</b>				
as of December 31, 2005	204,716	117,730	6,290	328,736
<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>

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006

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

The movements consists items related to Mobile Line of Business. Further details are disclosed in Appendix 1a. Further details of tangible fixed asset movements for Magyar Telekom Plc. excluding Mobile Line of Business are disclosed in Appendix 1b.

### Real estate and related rights

Significant increase in telecommunication network is due to enlargement of HUF 8,552 million.

Addition of buildings is caused by the capitalization of an office building of Mobile Line of Business in Szerémi út 4. in the amount of HUF 4,284 million and HUF 457 million due to rebranding of T-Points.

Buildings held for sale with high value were sold (Budapest, Városház utca 18. (HUF 1,515 million), Budapest, Városmajor utca 35-37. (HUF 1,085 million), Budapest, Gyáli út 18-22 (HUF 447 million), etc.). Due to the reshaping of T-Points at Mobile Line of Business assets in rented buildings were scrapped in the amount of HUF 106 million.

### Technical equipment, machinery and vehicles

Technical equipment increased by HUF 20,340 million (new base stations and enlargements) of which HUF 10,136 million was related to capitalization of UMTS investments. Exchanges increased by HUF 6,728 million of which UMTS was HUF 3,069 million and 900 frequency was HUF 3,659 million.

Obsolete and deputed assets were scrapped in value of HUF 1,215 million (SDH, GSM, ISDN2 equipment). Extraordinary depreciation arose in the amount of HUF 1,209 million of which HUF 1,161 million is related to picture signal and program voice assets and HUF 48 million related to WDM equipment. Net book value of technical equipment in Mobile Line of Business decreased by HUF 827 million.

### Other equipment and vehicles

Significant increase in furniture and office equipment in Mobile Line of Business is due to capitalization of office building in Szerémi út (HUF 528 million) and rebranding of T-Points (HUF 257 million). Vehicles increased by HUF 939 million (of which Mobile Line of Business is HUF 904 million) and leased vehicles increased by HUF 509 million (of which Mobile Line of Business is HUF 216 million). Gross book value of IT system hardware of Mobile Line of Business increased due to new purchases (OSA Parlay hardware, SUN and HP servers) and to enlargements of IT network and SUN servers.

Extraordinary depreciation was recorded in the amount of HUF 35 million in case of cars, which has already been depreciated to their residual value..

Decrease in net value of other equipment was caused by HUF 185 million (of which Mobile Line of Business is HUF 125 million) sale of cars and scrapping of furniture, IT and other equipment in the amount of HUF 89 million (of which Mobile Line of Business is HUF 48 million).

### Construction in progress

Other construction in progress in Mobile Line of Business significantly decreased by HUF 5,231 million due to the capitalization of office building in Szerémi út 4.

Telecommunication related construction in progress did not change significantly compared to previous year.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**7. Non current investments in affiliated companies**

As of December 31, 2005 and 2006, 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 (%)	2005	2006
	2006			
Stonebridge A.D.	100.00		90,725	90,266
T-Mobile Magyarország Rt.	0		59,675	0
Crnogorski Telekom A.D.	76.53		36,801	36,729
T-Online Magyarország Zrt.	100.00		12,750	12,750
Investel Zrt.	62.28	37.72	7,162	7,162
BCN Rendszerház Kft.	100.00		5,042	5,042
EMITEL Zrt.	100.00		4,036	4,036
T-Systems Hungary Kft.	49.00		3,430	1,633
ViDaNet Zrt.	67.50	22.50	2,836	2,836
T-Kábel Magyarország Kft.	16.39	83.61	2,359	2,359
EGERTEL Zrt.	99.99	0.01	1,793	1,793
IKO-Telekom Zrt.	50.00		1,600	1,600
KFKI-LNX Kft.	92.50	7.50	0	1,223
Integris-Rendszerház Kft.	100.00		594	594
EurAccount Kft.	99.00	1.00	446	446
Dataplex Kft.	100.00		0	355
EPT Nyrt.	97.20		304	304
ViaBridge Telecommunications H. L.	99.99	0.01	293	293
T-Systems Ric Kft.	20.00	39.20	74	0
Novatel Ukraine LLC.	99.94	0.06	70	70
HUNSAT Zrt.	50.00		50	50
ProMoKom Zrt.*	100.00		0	35
CARDNET Zrt.	0		45	0
Telemacedonia AD	100.00		21	21
TELE-DATA Kft.	50.98		20	20
X-Byte Kft.	99.00	1.00	12	12
Gabriele 17 GmbH	100.00		7	7
Mindentudás Egyeteme Kht.	40.00	20.00	2	2
Pro-M Zrt.	100.00		0	8,200
<b>Total</b>			<b>230,147</b>	<b>177,838</b>

\* ProMoKom Zrt. is Mobile Line of Business related investment.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**Significant changes of Non current investments in affiliated companies**

The general meeting of Magyar Telekom Plc. decided on the merger of Magyar Telekom Plc. and T-Mobile Magyarország Rt. In the course of this transaction T-Mobile Magyarország Rt. merged into Magyar Telekom Plc. The merger was registered at Court of Registry on February 28, 2006. After this date the Company terminated the related investment from books.

During 2006 Cardnet Zrt. was sold. The investment's book value was terminated in the amount of HUF 45 million. HUF 531 million was recorded as foreign exchange difference on foreign exchange investments at the balance sheet date. This amount decreased the book value of non current investments.

During 2006 HUF 1,871 million impairment was recorded related to investments (T-Systems Hungary HUF1,797 million, T-Systems RIC HUF 74 million).

**New investments in 2006**

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

On November 11, 2005 Magyar Telekom Plc. together with T-Mobile Magyarország Rt. decided to establish Pro-M Profesziónális Mobilrádió Zártkörűen Működő Részvénytársaság (Pro-M Zrt.) with headquarter in Budapest. The company's main activity is telecommunication. The company's share capital is HUF 200 million, 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 recorded as capital reserves during 2006. The Court of Registry registered the transaction on May 22, 2006.

As a result of T-Mobile Magyarország Rt. merged to Magyar Telekom Plc., Magyar Telekom Plc.'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 100% ownership share of Dataplex Kft. The company is a participant of Hungary's IT service sector. The company provides organic potential of growth in 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 investment increased its 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 100% ownership share of KFKI-LNX Zrt. The purchase price was determined as maximum price of HUF 9,670 million. The KFKI Group (KFKI-LNX Zrt and its affiliated companies ICON Zrt. and IQSYS Zrt.) is participant of Hungary's IT service sector. By the acquisition Magyar Telekom Group may achieve further market growth and widen its service portfolio in business segment of IT service sector.

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

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

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

**Major investments:**

## **Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006

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

### **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, which carries out investment activities with a headquarter 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.

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

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

### **T-Online Magyarország Zártkörűen Működő Internet Szolgáltató Rt. ( T-Online Magyarország Internet Szolgáltató Zrt.)**

In the field of Internet servicing, this company was 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.

The company changed its name in 2005. The new name is T-Online Magyarország Internet Szolgáltató Részvénytársaság (T-Online Magyarország Zrt.) and was registered at Court of Registry on May 6, 2005.

### **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 certain activities have been transferred to Magyar Telekom Plc.

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

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

Investel Zrt. was established on June 25, 1991 with majority ownership of Magyar Telekom Plc. for the purpose of ensuring financing for Magyar Telekom's investment programs. The company obtained 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.



## **Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006

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

### **EMITEL Távközlési Zártkörűen Működő Részvénytársaság (EMITEL Zrt.)**

Magyar Telekom Plc. had been a 50 per cent owner of EMITEL Zrt. since its establishment. The company's main profile is telecommunications activity, with its headquarters in Szeged. On December 31, 2000, Magyar Telekom Plc. agreed with Aphrodite BV, the owner of the other 50 per cent stake of EMITEL Zrt. that it would purchase its shares. The purchase was in July, 2001.

### **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.) and was registered at 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 build up telephone network in the area of Eger. Magyar Telekom Plc. has gradually bought out EMA by using its call option. At present Magyar Telekom Plc. owns 100 per cent of the company.

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

EPT Nyrt. was established in 1992 and with its 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 common stock together with a capital withdrawn which was registered at Court of Registry on March 1, 2005. At the registration Magyar Telekom Plc. decreased the book value of its investment with HUF 311 million.

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

The company provides telecommunications, IT, financial, accounting and human resources related services for Rába Automotive Group with its headquarters in Győr. The company started its operations on October 1, 2000. On November 28, 2003, Magyar Telekom Plc. paid HUF 900 million to Rába Járműipari Holding Rt. for 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 firm of Magyar Telekom Plc. Group Business Services Line of Business.

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

In 2003 the Győri KTV Kft., Kaposkábel Kft. and Kábelholding Rt. merged into Németkábel Vagyonkezelő Rt. After the merger the company changed its name to ViDaNet Rt. and was registered on February 11, 2003 at the Court of Registry. The company's common stock is HUF 2,000 million which consists of 20,000 nominal 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 investment has increased by HUF 336 million. In 2005, the company's name was changed to ViDaNet Kábeltelevíziós Szolgáltató Zártkörűen Működő Részvénytársaság and was registered at Court of Registry.

## **Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006

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

### **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 is 40 per cent. The purpose of its activity is to organize public courses through media and other telecommunication equipment to help spreading knowledge of highly interesting scientific subjects. The company executes business activities only for accomplishing its main purposes and not endangering it.

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

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

Magyar Telekom Plc. entered into an agreement with IKO Media Group for establishing a mutual holding 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 is headquartered 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' M-RTL Rt. shares will be provided to the Holding as contribution-in-kind. In 2005 the contribution-in-kind by Magyar Telekom Plc. was registered at Court of Registry in the amount of HUF 1,590 million.

### **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 of the transfer of HUF 1,918 million to capital reserves. As a result the company's share capital increased to HUF 281,690,000, Magyar Telekom Plc.'s share in it was HUF 138 million.

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.

### **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. 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. (Telekom Crne Gore A.D.)**

In 2004, the Montenegrin Privatization Agency issued a tender for the purchase of a 51.12 per cent stake in the Montenegrin Telecommunications Company (TCG). On January 14, 2005 the Magyar Telekom Plc. has been announced as the winner of 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 has been signed on March 15, 2005 in the amount of EUR 114

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

million. Magyar Telekom Plc. acquired a further 25.41 per cent share in the amount of 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 at 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.

**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.

**8. Non current loans granted to affiliated companies**

As of December 31, 2005 and 2006 non current loans granted to affiliated companies are the following:

	2005	2006
Pro-M. Zrt.	0	9,400
EMITEL Zrt.	2,050	1,820
Viabridge Ltd.	1,799	1,753
ViDaNet Zrt.	2,044	1,580
NOVATEL Ukraine	23	119
T-Mobile Magyarország Rt.	77,900	0
T-Kábel Magyarország Kft.	5,325	0
<b>Total</b>	<b>89,141</b>	<b>14,672</b>

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

After merger with T-Mobile Magyarország Rt. the Company terminated its existing relevant 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 long term part of installment receivables at Mobile Line of Business.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**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 2005 and in 2006:

	2005	2006*
Opening balance	2,235	2,862
Increase due to the merger	0	3,555
Change in inventories	726	1,365
Impairment loss	-181	-501
Impairment loss reversed	82	170
Advance payments given for inventories	0	50
<b>Closing balance</b>	<b>2,862</b>	<b>7,501</b>

Further details of inventory impairment are disclosed in Appendix 3.

**11. Accounts receivable**

As of December 31, 2005 and 2006 accounts receivable are the following:

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Domestic accounts receivable	22,591	19,205	26,194	45,399
Foreign accounts receivable	1,392	1,566	458	2,024
Impairment of receivables	-1,758	-1,488	-10,429	-11,917
<b>Total</b>	<b>22,225</b>	<b>19,283</b>	<b>16,223</b>	<b>35,506</b>

Further details on receivables impairment are disclosed in Appendix 3.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**12. Receivables from affiliated companies**

Receivables from affiliated companies as of December 31, 2005 and 2006 are summarized as follows:

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Loans to Viabridge Ltd	0	4,513	0	4,513
Loans to T-Kábel Kft.	300	3,925	0	3,925
Receivables from Pro-M Zrt.	0	290	2,295	2,585
Receivables from T-Online Zrt.	1,347	2,036	0	2,036
Loans to EGERTEL Zrt.	554	593	0	593
Loans to EPT Nyrt.	485	500	0	500
Loans to Dataplex Kft	0	500	0	500
Loans to ViDaNet Zrt.	0	464	0	464
Loans to T-Mobile Magyarország Rt.*	29,300	0	0	0
Receivables from T-Mobile Magyarország Rt. based on Decrees of NHH 999/2004. and NHH/DH-6584-12/2005 connected to settlement of connection fees*	2,334	0	0	0
Dividend receivable from M-RTL Zrt.	500	0	0	0
Other	1,590	1,612	26	1,638
<b>Total</b>	<b>36,410</b>	<b>14,433</b>	<b>2,321</b>	<b>16,754</b>

\* After merger with T-Mobile Magyarország Rt. the Company terminated its existing relevant receivables.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**13. Other receivables**

The Company's other receivables as of December 31, 2005 and 2006 are summarized as follows:

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Tax receivables*	220	5,956	929	6,885
Receivables from employees	1,094	1,153	37	1,190
Advance payments given	2,660	1,049	391	1,440
Own share sale	0	509	0	509
Reclaimable VAT of Roaming service	0	0	464	464
M-Factory investment acquisition (not registered yet in the Court of Registry)	0	450	0	450
Receivables from the government	94	104	0	104
Reclaimable VAT	575	0	0	0
Receivables based on Decrees of NHH 999/2004. and NHH/DH-6584-12/2005 connected to settlement of connection fees (Vodafone Magyarország Zrt.)	473	0	0	0
Receivables from sale of TELIT Rt.	253	0	0	0
Other	272	308	792	1,100
<b>Total</b>	<b>5,641</b>	<b>9,529</b>	<b>2,613</b>	<b>12,142</b>

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

**14. Securities**

The amount of HUF 1,504 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. On December 29, 2006 HUF 422 million shares were sold on book value within the frame of the above mentioned plan. In connection with the sale, a part of the restricted reserve was released with the same amount in 2006. (see Note 16)

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

### 15. Prepayments and accrued income

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Accrued income related to telecommunication activities	6,452	5,397	20,607	26,004
Accrued income related to affiliated companies	2,735	1,455	149	1,604
Other	773	454	279	733
<b><i>Accrued income</i></b>	<b>9,960</b>	<b>7,306</b>	<b>21,035</b>	<b>28,341</b>
Rental fees*	82	196	376	572
Insurance fees	13	4	0	4
Other	265	370	475	845
<b><i>Prepaid costs and expenses</i></b>	<b>360</b>	<b>570</b>	<b>851</b>	<b>1,421</b>
<b>Total</b>	<b>10,320</b>	<b>7,876</b>	<b>21,886</b>	<b>29,762</b>

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

\* The category 'Other' contained Rental fees of HUF 50 million in 2005.

### 16. Shareholder's Equity

Shareholder	Number of shares	Nominal value (HUF per share)	Total value (HUF'000)	Ownership percentage (%)
MagyarCom Holding GmbH	617,452,081	100	61,745,208	59.21%
Free float	422,859,475	100	42,285,948	40.55%
Repurchased treasury stock	2,456,659	100	245,666	0.24%
State-owned	1	10,000	10	0.00%
<b>Total</b>	<b>1,042,768,216</b>		<b>104,276,832</b>	<b>100.00%</b>

Details of common stock by types of shares are the following:

Type of share	Series of shares	Number of shares	Common stock (HUF'000)
Nominal shares (HUF 100 per share)	A	1,042,768,215	104,276,822
Preference share (HUF 10,000 per share)	B	1	10
<b>Total</b>		<b>1,042,768,216</b>	<b>104,276,832</b>

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

Changes in the equity items during 2005 and 2006 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, 2005</b>	<b>104,281</b>	<b>52,837</b>	<b>210,764</b>	<b>3,842</b>	<b>0</b>
Increases	0	0	186	0	0
Decreases	0	0	8,032	0	0
Reclassifications	0	0	1,916	-1,916	0
<b>Balance as of December 31, 2005</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	88,399
Increase due to the merger		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>104,277</b>	<b>54,932</b>	<b>205,520</b>	<b>1,504</b>	<b>88,399</b>

**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, 2005</b>	<b>12,228</b>	<b>1,116</b>	<b>172</b>	<b>13,516</b>
Increase	507	916	124	1,547
Decrease	9,928	656	172	10,756
<b>Closing Balance as of December 31, 2005</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 merge	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>

In 2006, HUF 1,842 million provision was reversed in connection with headcount reduction.



**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

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

Titels	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Residential loyalty program	0	23	1,788	1,811
Local business tax absence	0	0	874	874
Legal cases	17	149	657	806
Penalties	0	0	400	400
Amount transferred to Dimenzió Biztosító Egyesület	285	193	0	193
Forgiveness of employee loans	120	171	0	171
Dismissal expenses of employee of DeTelmmobilien Hungary Rt.	0	168	0	168
Multipont usage	0	86	0	86
Employees' bonuses	0	45	0	45
Guarantee liabilities	0	0	31	31
Legal consequence of VPOP case	220	0	0	0
Other	14	0	0	0
<b>Total reversals</b>	<b>656</b>	<b>835</b>	<b>3,750</b>	<b>4,585</b>

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

Titles	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Residential loyalty program	90	187	1,776	1,963
Environmental liabilities	0	972	0	972
Local business tax absence	0	0	874	874
Legal cases	82	258	568	826
Liability increase due to EKG agreement	0	711	0	711
Employees' bonuses	102	332	0	332
Penalties	0	0	320	320
Cash and cash equivalent to be given to Dimenzió Biztosító Egyesület	193	139	0	139
Public procurement fee	0	0	67	67
Guarantee liabilities	0	0	46	46
Dismissal expenses of employee of DeTelmmobilien Hungary Rt.	410	0	0	0
Other	39	0	0	0
<b>Total increases</b>	<b>916</b>	<b>2,599</b>	<b>3,651</b>	<b>6,250</b>

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

### 18. Construction loans

The Company had long term loan liabilities in the amount of HUF 18,250 million as of December 31, 2006. During 2006 HUF 19,550 million was drawn down and HUF 12,925 million was reclassified to current loans. The Company repaid HUF 1,500 million during 2006.

The short term parts of construction loans are disclosed among current loans (see Note 20).  
The Company does not have any pledged liabilities on loans.

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

Due dates	Amount
2008	5,500
2009	8,750
2010	4,000
2011	0
2012	0
Further installments in total	123*
<b>Total</b>	<b>18,373</b>

\* Debt from issuance of bonds

### 19. Non current liabilities to other affiliated companies

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, 2006 is HUF 185,432 million.

HUF 47,432 million loan was drawn down in January 2006 repayable until 2013 (3 month BUBOR +0.1753 per cent).

The short term part of related party loans (HUF 74,000 million) can be seen in Note 22.

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

Due dates	Amount
2008	20,000
2009	87,486
2010	9,486
2011	9,487
2012	49,486
Further installments in total	9,487
<b>Total</b>	<b>185,432</b>

### 20. Current loans

The Company had current loans received from banks in the amount of HUF 27,374 million as of December 31, 2006.

During 2006 HUF 112,258 million was drawn down and HUF 12,925 million was reclassified from long term loans. The Company repaid HUF 139,722 million during 2006.

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

### 21. Current liabilities to affiliated companies

This caption consists mainly the loan payables to affiliated companies. The balance of the loan payables to Stonebridge A.D. is HUF 12,938 million, to Investel Magyar Távközlési Befektetési Zrt. is HUF 1,030 million, to EurAccount Kft. is HUF 600 million, to T-Online Magyarország Zrt. is HUF 500 million and to X-Byte Kft. is HUF 16 million. Interest-Pool liabilities to subsidiaries is amounted HUF 3,571 million. Other liabilities to affiliated companies are HUF 1,200 million to BCN Rendszerház Kft, HUF 881 million to T-Systems Hungary Kft and HUF 1,646 million to other affiliated companies. Also this caption consists HUF 47 million IT training of Pro-M Zrt. and HUF 12 million press advertisement (Találkozások Magazin) of T-Online Zrt. both items related to the merger of T-Mobile Magyarország Rt. to Magyar Telekom Plc.

### 22. Current liabilities to other affiliated companies

This caption contains HUF 74,000 million short term part of related party loans described in Note 19 and further HUF 89 million accounts payable liability to Deutsche Telekom AG. Its balance as of December 31, 2006 is HUF 74,089 million. From this amount HUF 20,000 million has to be repaid on January 22, 2007 (fix interest rate of 7.55 per cent). Further HUF 34,000 million has to be repaid on May 29, 2007 (interest rate of 10.21 per cent for HUF 14,000 million and fix interest rate of 7.61 per cent for HUF 20,000 million). The remaining HUF 20,000 million is due on December 04, 2007 (fix interest rate of 7.45 per cent). Deutsche Telekom has pledged its support for Magyar Telekom Plc.'s financing needs through to June 30, 2008.

### 23. Other current liabilities

Other current liabilities as of December 31, 2005 and 2006 are summarized as follows:

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Dividends payable*	76,122	76,122	0	76,122
VAT of continuous services	3,250	0	0	0
Liability relating to reversal of connection fee revenue based on Decrees of NHH 999/2004 and NHH/DH-6584-12/2005	2,870	5,063	0	5,063
Payables to employees, and its contributions	2,380	2,226	901	3,127
Value Added Tax	1,564	3,101	2,866	5,967
Personal income tax	1,319	1,586	323	1,909
Payment obligation connected to purchasing shares of Stonebridge AD	851	0	0	0
Withholding tax	224	212	146	358
Liabilities to government	215	171	0	171
Other**	887	2,022	455	2,477
<b>Total</b>	<b>89,682</b>	<b>90,503</b>	<b>4,691</b>	<b>95,194</b>

\* At the general meeting held on 21 December 2006, Magyar Telekom Plc. decided on paying dividend for 2005 which started on January 12, 2007.

\*\* The category "other" consists of HUF 77 million and HUF 42 million unpaid dividends approved for 2005 and 2006, respectively.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**24. Accrued expenses and deferred income**

	2005.	2006.		
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Deferred subscription and traffic fees	1,233	1,378	5,380	6,758
Deferred income of rebranding *	773	470	0	260
Other	496	360	31	391
<b><i>Deferred income</i></b>	<b>2,502</b>	<b>2,208</b>	<b>5,411</b>	<b>7,619</b>
Accounts payable accruals	8,160	9,035	7,285	16,320
Accrued payroll related expenses	4,621	3,070	1,006	4,076
Accrued frequency usage fee	0	0	3,910	3,910
Accrued interest on owners' loan	6,201	3,758	0	3,758
Accrued roaming related expenses	0	0	3,729	3,729
Accruals to affiliated companies	2,234	1,687	15	1,702
Accrued value added services	0	0	734	734
Accrued interest	393	291	0	291
Accrued taxes	0	0	0	0
Other	195	84	42	126
<b><i>Accrued expenses</i></b>	<b>21,804</b>	<b>17,925</b>	<b>16,721</b>	<b>34,646</b>
<b><i>Other deferred revenue</i></b>	<b>522</b>	<b>432</b>	<b>339</b>	<b>771</b>
<b>Total</b>	<b>24,828</b>	<b>20,565</b>	<b>22,471</b>	<b>43,036</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.

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

### 25. Domestic sales

Domestic sales in the years ending December 31, 2005 and 2006 are as follows:

	<u>2005.</u>	<u>Jan - Dec, 2006.</u>	<u>March - Dec, 2006.</u>	<u>2006.</u>
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Subscriptions, connections and other charges	88,470	88,326	21,190	109,516
Outgoing domestic traffic revenues	68,921	48,400	0	48,400
Outgoing international traffic revenues	6,750	5,452	0	5,452
Total outgoing traffic revenues	75,671	53,852	0	53,852
Incoming domestic traffic revenues	9,970	6,680	0	6,680
Incoming international traffic revenues	12	11	0	11
Total incoming traffic revenues*	9,982	6,691	0	6,691
Telecommunications traffic revenues	0	0	179,614	179,614
Leased lines and data transmission	48,498	54,935	0	54,935
Goods sales	0	0	17,679	17,679
Equipment sales	3,061	2,611	0	2,611
Other revenues	11,397	18,040	7,078	25,118
<b>Total domestic sales</b>	<b><u>237,079</u></b>	<b><u>224,455</u></b>	<b><u>225,561</u></b>	<b><u>450,016</u></b>

\* The grouping of telecommunications traffic revenues for outgoing and incoming traffic revenues is not available.

### 26. Export sales by geographical areas

Export sales by geographical areas in the years ending December 31, 2005 and 2006 are summarized as follows (sales are solely connected with services provided):

	<u>2005.</u>		<u>Jan - Dec, 2006.</u>		<u>March - Dec, 2006.</u>		<u>2006.</u>	
		%	Magyar Telekom Plc. excl. Mobile Line of Business	%	Mobile Line of Business	%	Total	%
Europe (within the EU)	6,898	57.19%	6,380	48.17%	6,414	85.63%	12,794	61.70%
Europe (outside the EU)	4,147	34.39%	5,963	45.02%	844	11.27%	6,807	32.83%
America	519	4.30%	653	4.93%	134	1.79%	787	3.79%
Asia	446	3.70%	236	1.78%	84	1.12%	320	1.54%
Australia	20	0.17%	13	0.10%	9	0.13%	22	0.11%
Africa	30	0.25%	0	0.00%	5	0.06%	5	0.03%
<b>Total export sales</b>	<b><u>12,060</u></b>	<b><u>100.00%</u></b>	<b><u>13,245</u></b>	<b><u>100.00%</u></b>	<b><u>7,490</u></b>	<b><u>100.00%</u></b>	<b><u>20,735</u></b>	<b><u>100.00%</u></b>

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

### 27. Other revenues

Other revenues in the years ending December 31, 2005 and 2006 are as follows:

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Revenue from sale of intangible and tangible fixed assets*	2,436	6,491	120	6,611
Reversal of provisions	10,756	2,777	3,824	6,601
Discount received subsequently	0	0	4,256	4,256
Default interest, penalties, compensations	621	619	1,003	1,622
Renaming and rebranding **	6,857	602	0	602
Revenue from claims assigned ***	1,195	387	62	449
Reversal of impairment****	388	170	0	170
Other*****	931	1,750	229	1,979
<b>Total</b>	<b>23,184</b>	<b>12,796</b>	<b>9,494</b>	<b>22,290</b>

\* Mainly due to sales of land and building (Budapest, V. ker. Városház utca 18. és Budapest, XII. ker. Városmajor utca 35-37. ) in 2006.

\*\* Reimbursement received from Deutsche Telekom in connection with renaming and rebranding.

\*\*\* Revenue from claims assigned is mainly due to the revenue from sale of receivables from governmental organizations in 2005.

\*\*\*\* The category 'Reversal of impairment' contained returns exceeding net book value of receivables impaired in previous years.

\*\*\*\*\* In 2005 ETTA receivable of HUF 619 million returned and the Company recorded HUF 849 million impairment on remaining part of receivable. However in 2006 HUF 700 million returned and the Company recorded this amount as other revenue.

### 28. Import purchases

Import purchases by geographical areas in the years ending December 31, 2005 and 2006 are summarized as follows:

	2005.			Jan - Dec, 2006.			March - Dec, 2006.			2006.		
				Magyar Telekom Plc. excl. Mobile Line of Business			Mobile Line of Business			Total		
	Services	Products	Total	Services	Products	Total	Services	Products	Total	Services	Products	Total
Europe (within the EU)	6,592	4,880	11,472	12,806	4,855	17,661	6,477	1,801	8,278	19,283	6,656	25,939
Europe (outside the EU)	4,039	0	4,039	5,785	6	5,791	1,963	0	1,963	7,748	6	7,754
America	240	112	352	2,917	1	2,918	132	217	349	3,049	218	3,267
Asia	183	81	264	119	76	195	122	0	122	241	76	316
Australia	45	0	45	0	0	0	11	0	11	11	0	11
Africa	24	0	24	14	0	14	88	0	88	102	0	102
<b>Total</b>	<b>11,123</b>	<b>5,073</b>	<b>16,196</b>	<b>21,641</b>	<b>4,938</b>	<b>26,579</b>	<b>8,793</b>	<b>2,018</b>	<b>10,811</b>	<b>30,434</b>	<b>6,956</b>	<b>37,389</b>

## Magyar Telekom Plc.

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

### 29. Cost of services

Cost of services in the years ending December 31, 2005 and 2006 are as follows:

	<u>2005.</u>	<u>Jan - Dec. 2006.</u>	<u>March - Dec. 2006.</u>	<u>2006.</u>
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Repair and maintenance costs	19,474	21,351	7,930	29,281
Marketing expenses	9,853	6,251	5,307	11,558
Consulting fees	3,931	8,368	1,579	9,947
Payments to international network operators	7,439	9,208	0	9,208
Rental fees	3,296	3,178	4,882	8,060
Fees paid to entrepreneurs	5,072	5,790	827	6,617
Commissions paid	2,382	2,255	4,204	6,459
Postage	3,180	3,171	740	3,911
Manpower obtainment expenses*	145	286	3,500	3,786
Property operating costs	1,657	1,186	0	1,186
Services related to other revenues	0	2,620	0	2,620
Bookkeeping services	1,154	1,720	0	1,720
Education, training expenses**	566	704	320	1,024
Fleet management	79	481	246	727
Travel and accommodation costs	410	409	172	581
Payments to Internet service providers***	687	346	0	346
T-Mobile Royalty fee	0	0	170	170
Other	268	324	318	642
<b>Total</b>	<b><u>59,593</u></b>	<b><u>67,648</u></b>	<b><u>30,195</u></b>	<b><u>97,843</u></b>

\* The category 'Other' contained 'Manpower obtainment expenses' of HUF 145 million in 2005.

\*\* The category 'Other' contained 'Education expenses' of HUF 566 million in 2005.

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

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

Costs of intermediated services sold in the years ending December 31, 2005 and 2006 are as follows:

	<u>2005.</u>	<u>Jan - Dec. 2006.</u>	<u>March - Dec. 2006.</u>	<u>2006.</u>
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Payment to mobile operators	27.912	13.437	51.977	65.414
Payment to other LTO operators	3.696	3.329	656	3.985
Other	10.205	8.882	6.591	15.473
<b>Total</b>	<b><u>41.813</u></b>	<b><u>25.648</u></b>	<b><u>59.224</u></b>	<b><u>84.872</u></b>

**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

**31. Employees**

The average number of employees in 2005 and 2006 are as follows:

**Average number of employees (person)**

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Full-time employees				
blue collar	1,498	1,170	1	1,171
white collar	4,449	3,788	1,439	5,227
total	5,947	4,958	1,440	6,398
Part-time employees				
blue collar	21	22	0	22
white collar	410	386	20	406
total	431	408	20	428
Employees total				
blue collar	1,519	1,192	1	1,193
white collar	4,859	4,174	1,459	5,633
total	6,378	5,366	1,460	6,826
Non-employee members*	0	0	0	0
<b>Total</b>	<b>6,378</b>	<b>5,366</b>	<b>1,460</b>	<b>6,826</b>

**Salaries and Wages**

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Full-time employees				
blue collar	3,556	3,052	3	3,055
white collar	25,110	25,488	11,138	36,626
total	28,666	28,540	11,141	39,681
Part-time employees				
blue collar	37	44	0	44
white collar	827	837	49	886
total	864	881	49	930
Employees total				
blue collar	3,593	3,096	3	3,099
white collar	25,937	26,325	11,187	37,512
total	29,530	29,421	11,190	40,611
Non-employee members*	3,022	1,784	127	1,911
<b>Total</b>	<b>32,552</b>	<b>31,205</b>	<b>11,317</b>	<b>42,522</b>



**Magyar Telekom Plc.**

Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting

As of December 31, 2006

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

**Other payroll related expenses**

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Full-time employees				
blue collar	1,414	889	0	889
white collar	9,983	7,422	1,785	9,207
total	11,397	8,311	1,785	10,096
Part-time employees				
blue collar	15	13	0	13
white collar	328	243	8	251
total	343	256	8	264
Employees total				
blue collar	1,429	902	0	902
white collar	10,311	7,665	1,793	9,458
total	11,740	8,567	1,793	10,360
Non-employee members*	1,202	519	21	540
<b>Total</b>	<b>12,942</b>	<b>9,086</b>	<b>1,814</b>	<b>10,900</b>

\* Includes employees doing their military services and employees on maternity leave, who are excluded from the average number of employees.

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

The remuneration of members of the Board of Directors and Supervisory Board of the Company in the years ending December 31, 2005 and 2006 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2005	10	14	24
2006	8	18	26

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

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**33. Other expenditures**

Other expenditures in the years ending December 31, 2005 and 2006 are as follows:

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Government taxes	4,445	4,384	3,004	7,388
Provisions	1,547	2,766	3,679	6,445
Net book value of fixed assets sold **	1,705	4,141	151	4,292
Write-off, extraordinary depreciation and scrapping of intangible and tangible fixed assets *	2,313	3,216	226	3,442
Discount given subsequently on roaming traffic	0	0	2,751	2,751
Factored receivables	1,773	625	1,057	1,682
Write-off of uncollectible receivables	120	137	1,321	1,458
Impairment of receivables and inventories	2,445	1,283	-819	464
Renaming and rebranding	1,715	0	0	0
Other expenditures connected with Motorola - VPOP	220	0	0	0
Other ***	631	836	1,276	2,112
<b>Total</b>	<b>16,914</b>	<b>17,388</b>	<b>12,646</b>	<b>30,034</b>

\* Extraordinary depreciation of HUF 1,160 million was recorded on obsolete assets in December, 2006.

\*\* During 2006 land and building in Budapest, V. Városház utca18. was sold with a net book value of HUF 1,515 million and another land and building in Budapest, XII. Városmajor utca 35-37. was sold with a net book value of HUF 1,081 million .

\*\*\* The 'other' category consists HUF 277 million employee related VAT payments and damages of HUF 477 million at Mobile Line of Business.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**34. Results of financial activities**

The main driver in revenues from financial activities (HUF 55,684 million) is the dividend received in 2006 related to 2005 (HUF 50,174 million). The most significant item is the dividend received from T-Mobile Magyarország Rt. (HUF 47,954 million). Further significant item is the interest on loans given to subsidiaries disclosed as interest income on financial investments (HUF 1,517 million) and as other interest income received (HUF 873 million). Other foreign exchange gain of HUF 2,750 and HUF 87 million gain on sale of treasury shares were recorded in 2006. Foreign exchange gain of investments sale contains HUF 260 million profit on sold affiliated company in 2006.

The major portion of the HUF 32,191 million financial expenditures is the HUF 27,084 million interest payable in 2006. This includes the amount of the interest paid for owners' loans and for bank loans. Impairment loss of HUF 1,872 million was recorded on investments in 2006. Other expenditures from financial transactions is HUF 3,235 million which consists of HUF 2,702 million other foreign exchange loss and HUF 531 million foreign exchange loss related to revaluation of investments at year end.

In 2006, realized foreign exchange gain in the amount of HUF 952 million and foreign exchange loss in the amount of HUF 504 million were recorded in connection with closed forward transactions (over-the-counter hedging settlement transactions).

**35. Extraordinary revenues**

Extraordinary revenues in the years ending December 31, 2005 and 2006 are summarized as follows:

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Capital decrease in EPT Nyrt.	1,587	0	0	0
Assets received free of charge	5	5	0	5
<b><i>Extraordinary revenues adjusting tax base</i></b>	<b>1,592</b>	<b>5</b>	<b>0</b>	<b>5</b>
Merger of KIS-ASTRASAT Telekommunikációs Kft. into ViDaNet Zrt.	336	0	0	0
Development contributions	81	74	46	120
Released liabilities	0	0	59	59
Obsolete dividend	0	17	0	17
Assets surplus	3	5	7	12
Assets received free of charge (not adjusting tax base)	0	4	2	6
Other extraordinary revenues	1	12	3	15
<b><i>Extraordinary revenues not adjusting tax base</i></b>	<b>421</b>	<b>112</b>	<b>117</b>	<b>229</b>
<b>Total</b>	<b>2,013</b>	<b>117</b>	<b>117</b>	<b>234</b>

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**36. Extraordinary expenditures**

The extraordinary expenditures of the Company in the years ending December 31, 2005 and 2006 are summarized as follows:

	2005.	Jan - Dec, 2006.	March - Dec, 2006.	2006.
		Magyar Telekom Plc. excl. Mobile Line of Business	Mobile Line of Business	Total
Donation to foundations, charities and other organizations	4,030	2,850	0	2,850
Not reimbursable funds transferred to other organizations	1,120	0	0	0
Capital decrease in EPT Nyrt.	311	0	0	0
Repayment of state contribution	260	178	0	178
Net book value of receivables released	9	28	45	73
Net book value of assets contributed free of charge	1	3	0	3
<b><i>Extraordinary losses adjusting tax base</i></b>	<b>5,731</b>	<b>3,059</b>	<b>45</b>	<b>3,104</b>
Merger of KIS-ASTRASAT Telekommunikációs Kft. into ViDaNet Zrt.	852	0	0	0
Assets contributed free of charge based on Law	0	0	113	113
Other extraordinary losses	0	14	0	14
<b><i>Extraordinary losses not adjusting tax base</i></b>	<b>852</b>	<b>14</b>	<b>113</b>	<b>127</b>
<b>Total</b>	<b><u>6,583</u></b>	<b><u>3,073</u></b>	<b><u>158</u></b>	<b><u>3,231</u></b>

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**37. Transactions with affiliated companies**

Among affiliated companies 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 in the follows.

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

Revenues and expenditures related mainly to telecommunication services and to the subsidiaries of Deutsche Telekom Group were not disclosed separately as transactions with affiliated companies.

Transactions with affiliated companies and subsidiaries of Deutsche Telekom in the years ending December 31, 2005 and 2006 are summarized as follows:

	2005.	2006.
<b><i>Net domestic sales</i></b>	<b><i>237,079</i></b>	<b><i>450,016</i></b>
- of which: affiliated companies	24,963	30,778
- of which: subsidiaries of Deutsche Telekom Group	609	516
<b><i>Net export sales</i></b>	<b><i>12,060</i></b>	<b><i>20,735</i></b>
- of which: affiliated companies	1,527	2,124
- of which: subsidiaries of Deutsche Telekom Group	3,060	5,935
<b><i>Other revenues</i></b>	<b><i>23,184</i></b>	<b><i>22,290</i></b>
- of which: affiliated companies	313	556
- of which: subsidiaries of Deutsche Telekom Group	6,739	4,853
<b><i>Accounts receivable</i></b>	<b><i>22,225</i></b>	<b><i>35,506</i></b>
- of which: subsidiaries of Deutsche Telekom Group	479	327
<b><i>Receivables from affiliated companies</i></b>	<b><i>36,410</i></b>	<b><i>16,754</i></b>
- of which: subsidiaries of Deutsche Telekom Group	36	7
<b><i>Other receivables</i></b>	<b><i>5,641</i></b>	<b><i>12,142</i></b>
- of which: subsidiaries of Deutsche Telekom Group	25	0
<b><i>Accrued income</i></b>	<b><i>9,960</i></b>	<b><i>28,341</i></b>
- of which: subsidiaries of Deutsche Telekom Group	542	4,673
<b><i>Accounts payable</i></b>	<b><i>19,499</i></b>	<b><i>28,704</i></b>
- of which: subsidiaries of Deutsche Telekom Group	771	824
<b><i>Current liabilities to other affiliated companies</i></b>	<b><i>74,678</i></b>	<b><i>74,089</i></b>
- of which: subsidiaries of Deutsche Telekom Group	30	89
<b><i>Accrued expenses</i></b>	<b><i>21,804</i></b>	<b><i>34,646</i></b>
- of which: subsidiaries of Deutsche Telekom Group	6,765	7,366

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**38. Corporate Income Tax**

The differences between profit before tax and the tax base for the years ending December 31, 2005 and 2006 are presented below:

	2005.	2006.
<b>Profit before tax</b>	<b>68,090</b>	<b>88,522</b>
Depreciation, amortization and write-off of assets	67,863	100,641
Provisions	1,547	6,445
Non-repayable donations, assets and services given free of charge, assumed debt	6,984	3,739
Uncollectible and released receivables	79	1,429
Termination of intangible and tangible assets, reclassification to current assets	0	470
Expenditures incurred not on company's behalf	0	419
Impairment of receivables	2,536	220
Other increasing items	231	308
<b><u>Tax base increasing items</u></b>	<b>79,240</b>	<b>113,671</b>
Depreciation, amortization according to the Tax Law, tax book value of assets written-off	70,628	106,272
Dividend revenue	68,429	50,174
Reversal of accrued losses	0	28,016
Local business tax	2,012	6,815
Reversal of provisions	10,756	6,600
Bad debt write-off, reversal of impairment	482	1,869
R&D costs	510	976
Subsidies received	6,862	602
Donations	2,487	450
Termination of intangible and tangible assets, reclassification to current assets	0	397
Other decreasing items	1,985	22
<b><u>Tax base decreasing items</u></b>	<b>164,151</b>	<b>202,193</b>
<b>Tax base</b>	<b>-16,821</b>	<b>0</b>
<b><u>Calculated amount of tax</u></b>	<b>0</b>	<b>0</b>
Allowance	0	0
Solidarity tax	0	123
<b>Corporate Income Tax</b>	<b>0</b>	<b>123</b>

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

Tax related other 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 is applicable 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 1,691 million at present value.

Tax credit on broadband Internet investments announced for 2006. Tax credit cannot exceed HUF 601 million at present value.

6515/2005 Ministry of Finance Resolution: The tax credit is applicable in connection with structuring 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 improvement 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 structuring 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 improvement of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

Budapest Capital Local Authority brought a tax action for 2002 and 2003 against 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 is paid.

2001 is the last year closed by comprehensive audit by APEH at the Company.

The tax authority started a tax inquiry for all tax sorts for 2002, 2003 and 2004 at Magyar Telekom Plc. in September, 2006. The inquiry is currently in progress. Tax authorities may inspect the books and records at any time within 5 years after the relevant tax year and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which would cause significant liability in this respect.

**39. Dividend**

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

**40. Off-balance sheet items**

Off-balance sheet items are mainly rental commitments, repayable government grants.

For details see Appendix 4.

**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

**41. Hazardous waste, Research & Development costs**

The following table shows the movement of hazardous waste at the Company in 2006 (data in kilograms):

	Hazardous waste kg
December 31, 2005	51,093
Increase due to the merger	250
Increase	491,692
Decrease	541,035
December 31, 2006	<b>2,000</b>

Environmental expenses were HUF 153 million in 2005, and HUF 232 million in 2006 including Mobile Line of Business.

Research and development costs amounted to HUF 1,161 million at Magyar Telekom Plc. including Mobile Line of Business in 2006.

**42. Self-revisions**

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

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

Errors related to prior years, that were discovered in 2006 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 163 million and is broken down by corresponding years as follows:

Year	HUF	<u>Self-revision</u>
2000	HUF	-13 million
2001	HUF	-147 million
2002	HUF	-81 million
2003	HUF	-11 million
2004	HUF	-1,157 million
2005	HUF	197 million
January - February, 2006	HUF	1,375 million



**Magyar Telekom Plc.**  
Notes to the Financial Statements prepared  
in accordance with the Hungarian Act on Accounting  
As of December 31, 2006  
(All amounts in millions of HUF, unless otherwise indicated)

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

<b><i>I. Sales revenue</i></b>	<b><i>-299</i></b>
Settlement of revenues from leased lines	-322
Other	23
<b><i>III. Other revenues</i></b>	<b><i>-127</i></b>
Settlement of Motorola – VPOP	-219
Settlement of accruals	99
Other	-7
<b><i>IV. Material-type expenditures</i></b>	<b><i>807</i></b>
Settlement of ETTA	1,131
Settlement of accruals	-220
Settlement of energy expenses	-71
Other	-33
<b><i>V. Payroll and related expenditures</i></b>	<b><i>9</i></b>
Other personal income tax paid by employer	8
Other	1
<b><i>VI. Depreciation</i></b>	<b><i>63</i></b>
Depreciation related to prior years	63
<b><i>VII. Other expenditures</i></b>	<b><i>-205</i></b>
Settlement of Motorola – VPOP	-219
Other	14
<b><i>VIII. Revenues from financial transactions</i></b>	<b><i>-8</i></b>
Obsolete dividend	-8
<b><i>D. NET INCOME ON EXTRAORDINARY ACTIVITIES</i></b>	<b><i>5</i></b>
Obsolete dividend	8
Other	-3
<b><i>XII. Corporate income tax</i></b>	<b><i>-1,266</i></b>
Corporate income tax	-1,266
<b><i>Impact on the profit</i></b>	<b><i>163</i></b>

Budapest, March 22 , 2007

Christopher Mattheisen  
Chairman and Chief Executive Officer,  
Board member

Thilo Kusch  
Chief Financial Officer,  
Board member

## Intangible Assets

(in HUF millions)

Description	Capitalized Value of Research and Development	Rights	Intellectual Property	Goodwill	Total
1. Gross value					
11. Opening gross value (on March 1, 2006.) *	0	35 401	34 029	0	69 430
12. Addition in gross value	0	10	5 961	0	5 971
13. Disposal in gross value	0	0	13	0	13
Reclassifications within Intangible Assets	0	0	0	0	0
Reclassification between Intangible Assets and Tangible Assets	0	0	0	0	0
14. Closing gross value (on December 31, 2006.)	0	35 411	39 977	0	75 388
2. Accumulated amortization					
21. Opening amortization (on March 1, 2006.) *	0	8 940	17 250	0	26 190
22. Addition in amortization	0	2 339	5 256	0	7 595
23. Disposal in amortization	0	0	9	0	9
Termination of impairment	0	0	3		3
Reclassifications within Intangible Assets	0	0	0	0	0
Reclassification between Intangible Assets and Tangible Assets	0	0	0	0	0
24. Closing amortization (on December 31, 2006.)	0	11 279	22 494	0	33 773
3. Net book value (on December 31, 2006.)	0	24 132	17 483	0	41 615
4. Other data					
Annual amortization (March - December, 2006.)		2 339	5 256		7 595
Extraordinary amortization		0	0		0
Reversal of Extraordinary amortization		0	0		0

\* In movements of Magyar Telekom Plc. including Mobile Line of Business these amounts are in 'Addition' lines.

## Real estate and related rights representing value

(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 March 1, 2006.) *	<b>479</b>	<b>29 926</b>	<b>0</b>	<b>0</b>	<b>672</b>	<b>31 077</b>
12. Addition in gross value	44	7 358	0	0	22	7 424
13. Disposal in gross value	0	171	0	0	0	171
Reclassifications within Property, Plant and Equipmnet	0	4	0	0	0	4
Reclassification between Intangible Assets and Tangible Assets	0		0	0	0	0
14. Closing gross value (on December 31, 2006.)	<b>523</b>	<b>37 117</b>	<b>0</b>	<b>0</b>	<b>694</b>	<b>38 334</b>
<b>2. Accumulated depreciation</b>						
21. Opening depreciation (on March 1, 2006.) *	<b>0</b>	<b>4 106</b>	<b>0</b>	<b>0</b>	<b>416</b>	<b>4 522</b>
22. Addition in depreciation	0	679	0	0	57	736
23. Disposal in depreciation	0	42	0	0	0	42
Reclassifications within Property, Plant and Equipmnet	0	1	0	0	0	1
Reclassification between Intangible Assets and Tangible Assets	0		0	0	0	0
24. Closing depreciation (on December 31, 2006.)	<b>0</b>	<b>4 744</b>	<b>0</b>	<b>0</b>	<b>473</b>	<b>5 217</b>
3. Net book value (on December 31, 2006.)	<b>523</b>	<b>32 373</b>	<b>0</b>	<b>0</b>	<b>221</b>	<b>33 117</b>
- Of which residual value	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4. Other data</b>						
Annual depreciation (March - December, 2006.)	<b>0</b>	<b>679</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>736</b>
Extraordinary depreciation	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Reversal of Extraordinary depreciation	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* In movements of Magyar Telekom Plc. including Mobile Line of Business these amounts are in 'Addition' lines.

(in HUF millions)

Technical and Other Equipment, Machinery and Vehicles				Technical and Other Equipment used for environ-mental protection
Description	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	
1. Gross value				
11. Opening gross value (on March 1, 2006.) *	171 751	45 590	217 341	0
12. Addition in gross value	20 255	5 209	25 464	
13. Disposal in gross value	2 210	1 550	3 760	
Reclassifications within Property,Plant and Equipmnet	-3	290	287	
Reclassification between Intangible Assets and Tangible Assets	0	0	0	
14. Closing gross value (on December 31, 2006.)	189 793	49 539	239 332	0
2. Accumulated depreciation				
21. Opening depreciation (on March 1, 2006.) *	99 914	35 988	135 902	0
22. Addition in depreciation	17 850	4 504	22 354	
23. Disposal in depreciation	1 373	1 615	2 988	
Termination of impairment	10	5	15	
Reclassifications within Property,Plant and Equipmnet	-3	83	80	
Reclassification between Intangible Assets and Tangible Assets	0		0	
24. Closing depreciation (on December 31, 2006.)	116 378	38 955	155 333	0
3. Net book value (on December 31, 2006.)	73 415	10 584	83 999	0
- Of which residual value	0	808	808	
4. Other data				
Annual depreciation (March - December, 2006.)	17 850	4 504	22 354	
Extraordinary depreciation	0	0	0	
Reversal of Extraordinary depreciation	0	0	0	

\* In movements of Magyar Telekom Plc. including Mobile Line of Business these amounts are in 'Addition' lines.

## Magyar Telekom Plc. excl. Mobile Line of Business

## Intangible Assets

(in HUF millions)

Description	Capitalized Value of Research and Development	Rights	Intellectual Property	Goodwill	Total
<b>1. Gross value</b>					
11. Opening gross value (on January 1, 2006.)	<b>876</b>	<b>52 136</b>	<b>2 438</b>	<b>200 456</b>	<b>255 906</b>
12. Addition in gross value		3 377	1 602	13 414	18 393
13. Disposal in gross value	763	2 211	24		2 998
Reclassifications within Intangible Assets		1 196	-1 196		0
Reclassification between Intangible Assets and Tangible Assets		178			178
14. Closing gross value (on December 31, 2006.)	<b>113</b>	<b>54 676</b>	<b>2 820</b>	<b>213 870</b>	<b>271 479</b>
<b>2. Accumulated amortization</b>					
21. Opening amortization (on January 1, 2006.)	<b>876</b>	<b>33 898</b>	<b>880</b>	<b>39 841</b>	<b>75 495</b>
22. Addition in amortization		6 598	98	10 149	16 846
23. Disposal in amortization	763	2 067	20		2 850
Reclassifications within Intangible Assets		589	-589		0
Reclassification between Intangible Assets and Tangible Assets		6			6
24. Closing amortization (on December 31, 2006.)	<b>113</b>	<b>39 024</b>	<b>369</b>	<b>49 990</b>	<b>89 496</b>
<b>3. Net book value (on December 31, 2006.)</b>	<b>0</b>	<b>15 652</b>	<b>2 451</b>	<b>163 880</b>	<b>181 983</b>
<b>4. Other data</b>					
Annual amortization (January - December, 2006.)	<b>0</b>	<b>6 598</b>	<b>98</b>	<b>10 149</b>	<b>16 845</b>
Extraordinary amortization	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Reversal of Extraordinary amortization	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Magyar Telekom Plc. excl. Mobile Line of Business

## Real estate and related rights representing value

(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, 2006.)	2 298	50 686	234 144	13 738	4 552	305 418
12. Addition in gross value	42	1 018	8 551	332	58	10 001
13. Disposal in gross value	181	4 649	657	148	31	5 666
Reclassifications within Property, Plant and Equipmnet	9	159	36	-208	0	-4
Reclassification between Intangible Assets and Tangible Assets						0
14. Closing gross value (on December 31, 2006.)	2 168	47 214	242 074	13 714	4 579	309 749
<b>2. Accumulated depreciation</b>						
21. Opening depreciation (on January 1, 2006.)	0	11 352	80 175	5 630	3 545	100 702
22. Addition in depreciation		1 234	9 116	445	206	11 001
Correction of addition		1				1
23. Disposal in depreciation		1 268	436	89	31	1 824
Reclassifications within Property, Plant and Equipmnet		70	16	-75	0	11
Reclassification between Intangible Assets and Tangible Assets						0
24. Closing depreciation (on December 31, 2006.)	0	11 389	88 871	5 911	3 720	109 891
<b>3. Net book value (on December 31, 2006.)</b>	<b>2 168</b>	<b>35 825</b>	<b>153 203</b>	<b>7 803</b>	<b>859</b>	<b>199 858</b>
- Of which residual value	0	96		42		138
<b>4. Other data</b>						
Annual depreciation (January - December, 2006.)	0	1 234	9 116	445	206	11 001
Extraordinary depreciation	0	0	0	0	0	0
Reversal of Extraordinary depreciation	0	0	0	0	0	0

## Magyar Telekom Plc. excl. Mobile Line of Business

## Technical and Other Equipment, Machinery and Vehicles

(in HUF millions)

Description	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value						
11. Opening gross value (on January 1, 2006.)	366 408	3 993	370 401	39 534	409 935	33
12. Addition in gross value	17 797	288	18 085	1 516	19 601	1
13. Disposal in gross value	10 573	601	11 174	2 257	13 431	
Reclassifications within Property, Plant and Equipment	-70	-18	-88	-199	-287	
Reclassification between Intangible Assets and Tangible Assets	-177		-177	-1	-178	
14. Closing gross value (on December 31, 2006.)	373 385	3 662	377 047	38 593	415 640	34
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2006.)	249 690	2 981	252 671	33 244	285 915	18
22. Addition in depreciation	33 048	229	33 277	2 592	35 869	4
Correction of addition	27	0	27		27	
23. Disposal in depreciation	9 091	599	9 690	2 037	11 727	
Reclassifications within Property, Plant and Equipment	-19	-17	-36	-57	-93	
Reclassification between Intangible Assets and Tangible Assets	-6		-6	0	-6	
24. Closing depreciation (on December 31, 2006.)	273 649	2 594	276 243	33 742	309 985	22
3. Net book value (on December 31, 2006.)						
	99 736	1 068	100 804	4 851	105 655	12
- Of which residual value	0	408	408	632	1 040	0
4. Other data						
Annual depreciation (January - December, 2006.)	31 839	229	32 068	2 557	34 625	
Extraordinary depreciation	1 209	0	1 209	35	1 244	0
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
<i>BCN Rendszerház Informatikai és Kommunikációs Hálózatokat Szolgáltató Kft.</i>	1107 Budapest, Bihari út 6.	100.00%		100.00%	100.00%	6161	57	408	6626
<i>Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasználó Kft.</i>	1087 Budapest, Asztalos Sándor u. 13	100.00%		100.00%	100.00%	200	109	191	500
<i>EMITEL Távközlési Zrt.</i>	6722 Szeged, Tisza Lajos krt. 41.	100.00%		100.00%	100.00%	3110	402	1227	4739
<i>Gabriele 17 Vermögenverwaltung GmbH.</i>	60311 Frankfurt am Main, Bethmann str. 50-54. Germany	100.00%		100.00%	100.00%				
<i>Integris Rendszerház Informatikai Szolgáltató Kft.</i>	9022 Győr, Bajcsy-Zsilinszky 46.	100.00%		100.00%	100.00%	615	28	217	860
<i>Pro-M Profesziónális Mobilrádió Zrt.</i>	1107 Budapest, Száva u. 35.	100.00%		100.00%	100.00%	5200	2963	86	8249
<i>ProMokom Zártkörűen Működő Profesziónális Mobil Kommunikációs Rt.</i>	1117 Budapest, Szerémi út 4.	100.00%		100.00%	100.00%	21	0	-2	19
<i>Stonebridge Communication A.D. Skopje</i>	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	87323	13423	372	101118
<i>Telemacedonia A.D. Skopje</i>	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	4	96	194	294
<i>T-Online Magyarország Zártkörűen Működő Internet Szolgáltató Rt.</i>	1117 Budapest, Neumann János út 1/B	100.00%		100.00%	100.00%	1906	2635	2002	6543
<i>EGERTEL Távközlési Hálózat Létesítő Zrt.</i>	1013 Budapest, Krisztina krt. 55.	99.99%	0.01%	100.00%	100.00%	1425	311	9	1745
<i>Viabridge Telecommunications Holding Limited</i>	Level 2, Valletta Buildings, South Street, Valletta, Malta VLT 11	99.99%	0.01%	100.00%	100.00%	293	-12	-46	235
<i>Novatel UKRAINE LLC.</i>	Pymonenka Str. 13, building 7, office 7B/36, - Kyiv, 04050 Ukraine	99.94%	0.06%	100.00%	100.00%	63		-96	-33
<i>EurAccount Pénzügyi és Számviteli Szolgáltató Kft.</i>	1077 Budapest, Kéthly Anna tér 1.	99.00%	1.00%	100.00%	100.00%	450	195	100	745
<i>X-BYTE Pénzügyi és Számviteli Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	99.00%	1.00%	100.00%	100.00%	20	18	-2	36
<i>Első Pesti Telefonszolgálat Nyrt.</i>	1183 Budapest, Haladás út 5.	97.20%		97.20%	97.20%	777	128	-130	775
<i>KFKH-LNX Hálózatintegrációs Szolgáltató Zrt.</i>	1135 Budapest, Hun u 2.	92.50%	7.50%	100.00%	100.00%	220	2569	421	3210
<i>M Factory Kft.</i>	1075 Bp. Madách tér. 4.	75.00%		75.00%	75.00%	10	39	25	74
<i>Omogorski Telekom A.D. Podgorica</i>	2 Kralja Nikole Street, Podgorica, Serbia and Montenegro	76.53%		76.53%	76.53%	35573	19	3065	38657
<i>VIDaNet Kábeltelevíziós Szolgáltató Zrt.</i>	1036 Budapest, Dereglye u. 5/b	67.50%	22.50%	90.00%	49.90%	2000	373	932	3305
<i>Investel Magyar Távközlési Befektetési Zrt.</i>	1013 Budapest, Krisztina krt. 32.	62.28%	37.72%	100.00%	100.00%	4862	901	233	5996
<i>TELE-DATA Távközlési Adatfeldolgozó és Hirdetésszervező Kft.</i>	2040 Budaörs, Baross u. 89.	50.98%		50.98%	50.98%				
<i>HUNSAT Magyar Úrtávközlés Zrt.</i>	1117 Budapest, Hauszmann Alajos u. 2.	50.00%		50.00%	50.00%	100		145	245
<i>IKO-Telekom Média Holding Zrt.</i>	1122 Budapest, Nagytétényi út 29.	50.00%		50.00%	50.00%	3200	661	1208	5069
<i>T-Systems Hungary Szolgáltató Kft.</i>	1117 Budapest, Infopark, Neumann János utca 1/C.	49.00%		49.00%	49.00%	282	3024	29	3335
<i>Mindentudás Egyeteme Tudományos Közhasznú Társaság</i>	1105 Budapest, Zágrábi út 1-3.	40.00%	20.00%	60.00%	60.00%	5	3	4	12
<i>T-Systems RIC Kutatási Kft.</i>	1117 Budapest, Infopark, Neumann János utca 1/C.	20.00%		20.00%	20.00%	121	-18	-47	56
<i>T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft.</i>	1089 Budapest, Baross u. 133.	16.39%	83.61%	100.00%	100.00%	920	6023	2020	8963
<i>Axelero Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	3	0	0	3
<i>Matáv Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	3	0	0	3
<i>Matáv KábelTV Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	3	0	0	3
<i>ÓBUDA Televízió Kft. **</i>	1032 Bp. Gyenes u. 8/A		100.00%	100.00%	100.00%				
<i>Adnetwork Online Marketing Kft.</i>	1052 Budapest, Sütő u. 2.		100.00%	100.00%	100.00%	5	0	1	4
<i>Combridge S.R.L.</i>	Str. Viitorului, Nr. 24, Bloc 7, Scara C, Ap. 16, Sfântu Gheorghe, Romania		100.00%	100.00%	100.00%	245	-43	-285	-83
<i>ICON Számítástechnikai Zrt.</i>	1134 Budapest, Tűzér utca 39-41.		100.00%	100.00%	100.00%	120	157	152	429
<i>IWIW Kft.</i>	1117 Budapest, Neumann János út 1/B		100.00%	100.00%	100.00%	3	0	17	20
<i>Novatel E.O.O.D.</i>	37 Fridtjof Nances Street, Sofia 1142, Bulgaria		100.00%	100.00%	100.00%	39	-38	-127	-126
<i>Orbitel A.D.</i>	Sofia, Bulgaria		100.00%	100.00%	100.00%	10	404	-321	93
<i>SafeCom Biztonságtechnikai Szolgáltató Zrt.</i>	1107 Budapest, Bihari út 6.		100.00%	100.00%	100.00%	20	23	-22	21
<i>IQSYS Informatikai Zrt.</i>	1135 Budapest, Hun u 2.		99.70%	99.70%	99.70%	211	65	210	486
<i>BALATEL Telekommunikációs Szolgáltató Rt. *</i>	8600 Siófok, Somogyi Bacsó Béla u. 4.		96.63%	96.63%	96.63%				
<i>CompArgo Számítástechnikai, Távközlési és Szolgáltató Kft.</i>	1023 Bp., Zsigmond tér 13.		80.00%	80.00%	80.00%	3	51	62	116
<i>Internet Cma Gore D.O.O. Podgorica</i>	Vucedolska 13, 81000 Podgorica, Serbia and Montenegro		76.53%	76.53%	100.00%	249	436	125	810
<i>T-Mobile Cma Gore D.O.O. Podgorica</i>	Bulevar Svetog Perta Cetinjskog 3, 81000 Podgorica, Serbia and Montenegro		76.53%	76.53%	100.00%	5758	3624	3354	12736
<i>Makedonski Telekomunikacii A.D.</i>	1000 Skopje, Orce Nikolov bb.		56.67%	56.67%	56.67%	39486	45789	10308	95583
<i>T-Mobile Macedonia A.D. Skopje (former MOBIMAK)</i>	1000 Skopje, Orce Nikolov bb.		56.67%	56.67%	100.00%	9657	22726	13258	45641
<i>Montenegrocard D.O.O. Podgorica</i>	Bulevar Lenjina 3, 81000 Podgorica, Serbia and Montenegro		39.03%	39.03%	51.00%	21			21
<i>Budakalász Kábel TV Szolgáltató Kft.</i>	2011 Budakalász, Szentendrei út 9.		25.00%	25.00%	25.00%				
<i>Magyar RTL Televízió Zrt.</i>	1222 Budapest, Nagytétényi út 29.		25.00%	25.00%	25.00%	2010	6711	3789	12510

\* finished liquidation (October 31, 2006)

\*\* finished final settlement (December 31, 2006)

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



## Write down

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables *	Securities
Opening balance	2 424	0	0	230	4 755	0
Increase due to merger	0	0	0	2 253	11 483	0
Increase	1 871	0	0	501	90	0
Decrease	163	0	0	0	2 137	0
Released write down	0	0	0	170	0	0
Closing balance	4 132	0	0	2 814	14 191	0

\* The write down for receivables contains the other receivables write down, too.

## Off-balance Sheet Liabilities

(in HUF millions)

	Total	2007.	2008.	2009.	2010.	2011.	2012.
Repayable State loan	3	3	0	0	0	0	0
Rental contracts	5 779	1 825	1 489	1 003	717	533	212
Rental contracts with affiliated companies	1 002	380	290	290	14	14	14
Capital Commitment	256	256	0	0	0	0	0
Environmental protection	0	0	0	0	0	0	0
Act of honour	0	0	0	0	0	0	0
Guarantee	0	0	0	0	0	0	0
Bill guarantee	0	0	0	0	0	0	0
Puts	0	0	0	0	0	0	0
Trade futures	0	0	0	0	0	0	0
Swap	0	0	0	0	0	0	0

## Off-balance Sheet Liabilities

(in HUF millions)

	Total	2007.	2008.	2009.	2010.	2011.	2012.
Repayable State loan	0	0	0	0	0	0	0
Rental contracts	17 528	3 792	3 512	3 006	2 571	2 388	2 259
Rental contracts with affiliated companies	56	11	9	9	9	9	9
Capital Commitment	0	0	0	0	0	0	0
Environmental protection	0	0	0	0	0	0	0
Act of honour	0	0	0	0	0	0	0
Guarantee	0	0	0	0	0	0	0
Bill guarantee	0	0	0	0	0	0	0
Puts	0	0	0	0	0	0	0
Trade futures	0	0	0	0	0	0	0
Swap	0	0	0	0	0	0	0

## Off-balance Sheet Liabilities

(in HUF millions)

	Total	2007.	2008.	2009.	2010.	2011.	2012.
Repayable State loan	3	3	0	0	0	0	0
Rental contracts	23 307	5 617	5 001	4 009	3 288	2 921	2 471
Rental contracts with affiliated companies	1 002	380	290	290	14	14	14
Capital Commitment	256	256	0	0	0	0	0
Environmental protection	56	11	9	9	9	9	9
Act of honour	0	0	0	0	0	0	0
Guarantee	0	0	0	0	0	0	0
Bill guarantee	0	0	0	0	0	0	0
Puts	0	0	0	0	0	0	0
Trade futures	0	0	0	0	0	0	0
Swap	0	0	0	0	0	0	0

**MAGYAR TELEKOM PLC.**

**MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC  
LIMITED COMPANY**

**Business Report of 2006**

March 2007

## Introduction

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

Magyar Telekom Plc. is the principal provider of fixed line telecommunications services in Hungary, with approximately 2.6 million fixed access lines at December 31, 2006.

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

Magyar Telekom Plc.'s headquarters are located at 55 Krisztina krt., 1013 Budapest, Hungary.

## Share Capital

As of December 31, 2006, the share capital of Magyar Telekom Plc. was HUF 104,276,831,500, consisting of 1,042,768,215 Series “A” ordinary shares and one Series “B” voting preference share.

All Series “A” ordinary shares have a nominal value of HUF 100 and the Series “B” Share has a nominal value of HUF 10,000. The holder of the Series “B” Share enjoys certain preferential voting and other rights described below.

<u>Shareholder</u>	<u>Number of shares</u>	<u>Percentage of share capital</u>
MagyarCom .....	617,452,081	59.21
Publicly traded <sup>(1)</sup> .....	422,859,475	40.55
Treasury shares .....	2,456,659	0.24
	<u>1,042,768,215</u>	<u>100.00</u>
Holder of Series “B” Shares .....	1	

(1) Of our publicly traded shares, JP Morgan Chase Bank had 12,229,840 ADRs, evidencing 61,149,200 shares on its accounts as of December 31, 2006, for registered holders, such amount representing 5.9 percent of the total shares outstanding. We do not know whether this percentage may be indicative of the percentage of our ordinary shares held by U.S. persons.

The number of treasury shares held by Magyar Telekom declined from 2,456,659 to 1,917,824, due to options exercised as part of the company’s management incentive program on December 29, 2006. The decreased share number was reflected in the company’s share register from January 2, 2007, as the settlement date of the transactions was on the first working day following the trade date.

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

## Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or their proxies registered in the shareholders' register six business days prior to a general meeting may cast a vote. The Series “B” Share has special voting rights as described below. Any decision overriding a resolution of the Board of Directors and preemptive shareholder rights in the event of a capital increase, all require a three-quarter majority of votes cast by the shareholders present or represented at the general meeting. All other matters submitted to a general meeting require only a simple majority vote.

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

*Series "B" Share*

The Hungarian government owns the Series "B" Share. Only the Minister or his legal successor may exercise rights attached to the Series "B" Share. Except as described below, the Series "B" Share has the same rights as the ordinary shares. The holder of the Series "B" Share is entitled:

1. to nominate one member of the Board of Directors and one member of the Supervisory Board and effectively to elect, remove or replace these members;
2. if the Company's registered capital is increased, a new class of shares is issued or the rights attached to a particular class of shares change, to require the Articles of Association to be amended so that the voting rights of the Series "B" Share will be sufficient to nominate, elect or remove the Series "B" director or Supervisory Board member;
3. to inspect the shareholders' register and the books maintained by a depository of the Company's shares approved by the Company and to request copies of the register or books;
4. if the Company dissolves without a successor company, to purchase all or part of the Company's assets, including shares of subsidiaries or affiliates, for a price equal to the appraised fair market value of such assets;
5. to request from the Board of Directors detailed information about a material fact significantly affecting the Company's financial position; and
6. to request that the Company audit or investigate any issue or prepare reports or provide information on issues within the scope of activities of the Company's auditor or the Supervisory Board pursuant to law or the Articles of Association.

The holder of the Series "B" Share must be present, in person or by proxy, for a quorum, and its approval is required to pass shareholders' resolutions related to any:

1. increase and decrease of the Company's registered capital;
2. change of rights attached to any class of shares, including any amendment to the rights of the Series "B" Share or the creation of a new class of shares with rights superior or equal to the rights or adversely affecting the rights of the Series "B" Share, or any amendment to the rights attached to any existing class of shares that would grant them rights superior or equal to the rights attached to the Series "B" Share;
3. merger into or consolidation with another business entity, de-merger, transformation into another form of business association and termination of the Company without a legal successor;
4. transfer, creation of encumbrance of a valuable right that enables the Company to operate according to the Universal Telecommunications Service Contract;
5. election or removal of the Series "B" director or Supervisory Board member;
6. conversion of a type of shares;
7. transfer of all or a substantial part of the assets of the Company that would render the Company incapable of performing its obligations under the Universal Telecommunications Service Contract;

8. amendment to the Articles of Association which would impair the rights of the holder of the Series “B” Share, including authorizing the Board of Directors to increase the Company's registered capital;
9. issuance of convertible bonds or bonds conferring preemptive rights; and
10. decisions on significant transfers of shares.

### **Transfer of Shares**

The holder of the Series “B” Share and other shareholders holding at least a simple majority of the shares must generally approve a transfer of shares that would result in a person or group of persons gaining ten percent or more of the outstanding voting stock of the Company. The consent of the holder of the Series “B” Share is also required to transfer shares if the transferee would acquire more than 49.9 percent of the outstanding voting stock of the Company.

When registering a transfer of shares, the registrar may request evidence that the shares were transferred in accordance with the Articles of Association. If the Company establishes that the transfer occurred in violation of the Articles of Association or if the transferee refuses to produce the necessary evidence, the Company may refuse to register the transfer. The Board of Directors may invalidate registrations based on untrue, false or misleading statements. A registered shareholder must notify the Company within eight days of any transfers of its shares or it will be liable for liquidated damages.

### **Limitation of the Rights of Shareholders**

Shareholders whose names have not been entered into the Shareholders' Register and shareholders who acquired their shares in violation of the restrictions in the Articles of Association pertaining to the transfer and the acquisition of shares shall not be allowed to exercise their rights attached to such shares vis-à-vis the Company.

### **Amendment of the Articles of Association**

The general meeting of the shareholders has the sole right to approve and amend the Articles of Association unless otherwise provided by law.

### **Board of Directors**

Pursuant to our amended Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected at the annual general meeting of the shareholders for a term of three years. One of the current directors was nominated by the holder of the Series “B” Share pursuant to the Articles of Association, seven of the current directors were nominated by MagyarCom and two of the current directors are independent; MagyarCom therefore controls Magyar Telekom.

### **Management Committee**

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

### **Supervisory Board**

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the shareholders for a term of three years. The Works Council



nominates one third of the Supervisory Board members. The holder of the Series “B” Share has the right to nominate one member of the Supervisory Board. Meetings of the Supervisory Board require a quorum of eight members.

### **Compensation of Directors, Officers and Employees**

Half of the MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In the case of an employment contract for a fixed duration the notice period is normally six months, and severance is between 16 and 21 months. Employment contracts with our management employees contain special provisions providing for entitlements after termination of employment; therefore, the amount of severance is higher than the amount required by the applicable provisions of the Labor Code.

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, “TÁVSZAK” and Magyar Távközlési Ágazati Szakszervezet, “MATÁSZ”). Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee.

### **Private Placement**

The Board of Directors shall be authorized to increase the registered capital of the Company in order to operate the stock option program by a maximum amount of 490.000 thousand HUF, offered exclusively to such investors who wish to participate in the stock option program to be implemented at Magyar Telekom Nyrt. The issue price shall be at least the par value of the share. The authorization of the Board of Directors shall be effective for five years until the date of the General Meeting, closing the business year of 2006.

### *Investigation into certain consultancy contracts*

In the course of conducting their audit of our 2005 financial statements, PwC identified certain contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit Committee and advised them to retain independent counsel to conduct an investigation into these contracts. In February 2006, our Audit Committee retained White & Case, as its independent legal counsel, to conduct the investigation, with the additional assistance of a financial advisory firm and a digital forensics firm. In December 2006, the investigators delivered an Initial Report of Investigation. We cannot predict when the investigation will be concluded or what the final findings will be.

PwC initially raised concerns regarding two consultancy contracts entered into in 2005 by our Montenegrin subsidiaries Crnogorski Telekom and T-Mobile Crna Gora. The initial scope of the independent investigation was a complete review of these two contracts, including a review of all related documents and interviews with our, and Crnogorski Telekom and T-Mobile Crna Gora, employees and third parties with knowledge of the contracts. The financial advisory firm assisting the investigation also reviewed a sampling of our and our Montenegrin subsidiaries’ account and transactional data, equaling 72 percent of the value of all transactions and 90 percent of the value of all contracts with third party vendors. For each of these test items, all available supporting documentation was reviewed. Early in the investigation, two additional consultancy contracts, which we entered into in 2005, were also called into question by the investigators, and our Audit Committee expanded the scope of the investigation to cover these contracts. The total value of these four contracts under investigation is approximately HUF 2 billion, of which HUF 1,120 million relates to the two contracts entered into by the Magyar Telekom Plc.

During the course of the investigation, it became evident that certain of Magyar Telekom, Crnogorski Telekom and T-Mobile Crna Gora employees had obstructed the investigation by destroying or tampering with electronic documents. Specifically, the digital forensics firm assisting the investigation found that ten computers

assigned to seven employees showed evidence that documents had been deleted from the hard drives and “wiping” software used to make those documents permanently unrecoverable. Investigators determined that the deleted electronic documents included a number of documents related to the contracts under investigation. This deletion and wiping activity took place after our management had issued document retention memos requiring that all documents related to these contracts be retained. As a result of this deliberate destruction of documents, the investigators have been unable to review drafts of the contracts, emails and other documents that would have been relevant to the investigation.

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. It is unclear who the true counterparties are to the contracts, and certain of the contracts are vague as to the actual services that are to be provided. 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. On the basis of the findings to date, the concerns of our auditors were well founded.

Accordingly, although the Company had originally capitalized the amounts paid under these contracts, as a result of the findings of the investigation, the Company has ultimately expensed the HUF 1,120 million paid under these two contracts, and discloses these expenses under the caption “Extraordinary expenditures” in 2005.

As a consequence of the investigation, we have suspended a number of employees who have since resigned. The suspended employees included senior members of our Strategy Group and a senior executive of Crnogorski Telekom. The Crnogorski Telekom Board of Directors has also been replaced.

The independent investigators’ Initial Report of Investigation further identified several contracts at another 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.

The investigation has revealed certain weaknesses in the design and operation of our internal controls and procedures. Accordingly, we have approved and are currently implementing certain remedial measures designed to enhance our internal controls to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements. First, the position of Magyar Telekom Group Compliance Director has been created, reporting directly to the Company Chief Financial Officer, the Supervisory Board and the Audit Committee. In conjunction with this new position, we are reviewing, with the assistance of U.S. counsel, our compliance and corporate governance policies and are establishing a comprehensive compliance-training program, with a focus on our code of ethics, insider trading policy, document retention policy, regulatory matters, and compliance with U.S. securities laws and the U.S. Foreign Corrupt Practices Act. Our Board has already approved and implemented a Magyar Telekom Group Code of Ethics for Senior Financial Officers and a Group Insider Trading Policy. Second, we are revising our internal controls relating to procurement, including centralized access to all SAP systems of subsidiaries and a requirement that all contract approvals pass through uniform rules and procedures. Third, we have revised our mergers and acquisitions process, including dividing accountability for M&A between the Strategy Group, which will remain responsible for business development, and the area of the Chief Financial Officer, which will be responsible for execution of M&A transactions. All M&A activity will require Board approval and will be reported to the Audit Committee on a semi-annual basis. Finally, our Board may make further decisions or recommendations in connection with the involvement of any senior management in the four contracts under investigation.

As previously reported, the investigation has 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. We have to date been fined HUF 13 million as a consequence of these delays. We have notified the Hungarian Financial Supervisory Authority, the U.S. Securities and Exchange Commission and the U.S. Department of Justice of the investigation, are in contact with these authorities regarding the investigation and are responding to inquiries raised by these authorities.

## **Analysis of results**

*Revenues.* Our sales revenues increased by 89.0 percent from HUF 249,139 million in 2005 to HUF 470,751 million in 2006. This significant growth is due to the inclusion of T-Mobile Hungary after the merger in 2006. In 2005, T-Mobile Hungary's performance was included in financial results. Sales revenues without mobile operations decreased by 4.6 percent from HUF 249,139 million in 2005 to HUF 237,700 million in 2006. The decrease is primarily due to lower revenues from outgoing domestic and international traffic resulting from lower per minute rates included in our various tariff packages and lower amount of outgoing traffic. These decreases were partly offset by higher leased lines and data transmission revenues.

Other revenues decreased by 3.9 percent including T-Mobile Hungary's results and by 44.8 percent without T-Mobile Hungary in 2006 compared to 2005. Decrease is attributable to the compensation received from Deutsche Telekom for the costs of rebranding in 2005 and the higher amount of released provisions for severance payments last year. These decreases were partly offset by higher amounts of proceeds from disposal of real estates.

*Expenditures.* Material-type expenditures increased by 99.3 percent owing to the inclusion of T-Mobile Hungary in 2006. Without mobile operations material-type expenditures decreased by 4.6 percent primarily owing to lower mobile outpayments by Magyar Telekom Plc. due to strong decrease in traffic and lower fixed to mobile termination rates. This decrease was partly compensated by higher cost of services.

Payroll and related expenditures increased by 17.1 percent with T-Mobile Hungary, while it decreased by 12.0 percent without the mobile operations in 2006. The main driver of the decrease is lower amounts of severance expenditures.

Other expenditures increased by 77.6 percent due to the inclusion of T-Mobile Hungary. Excluding T-Mobile Hungary other expenditures remained stable year over year.

*Financial results.* Financial results decreased by 54.2 percent, from 51,346 million in 2005 to 23,493 million in 2006. The inclusion of T-Mobile Hungary had no significant effect on the financial results. The decrease mainly resulted from lower dividend received from affiliated companies.

## **Overview of Magyar Telekom Plc.'s Services**

### ***Fixed Line Telecommunications Services***

#### ***Domestic Voice Telephone Services***

##### ***Products and Services***

*Public Switched Telephone Network ("PSTN").* Due to the fierce competition and mobile substitution, the number of our PSTN lines decreased from 2,182,905 as of December 31, 2005 to 2,090,507 as of December 31, 2006.

*Integrated Services Digital Network ("ISDN").* ISDN allows a single access line to be used simultaneously for a number of purposes, including voice, data, facsimile and video transmission. ISDN also provides higher quality and faster transmission of signals while increasing the bandwidth capacity of the network. The coverage of ISDN is 100 percent of our network. We offer both basic ISDN access lines with two channels and multiplex ISDN access lines with 30 channels. As of December 31, 2006, we had 170,182 ISDN access lines with two channels and 4,667 ISDN access lines with 30 channels, amounting to the total of 480,374 ISDN channels. We intend to extend the life cycle of the ISDN product by offering various discounts to our customers.

*Digifon Services.* At the end of 2006, our network was 100 percent digitalized, which enable us to provide

value added service in our whole service area. We offer a number of value added services, such as call forwarding, call waiting, call conference and caller number identity to a significant number of our fixed line telephony subscribers. These services help increase fixed line usage as they make busy signals and unanswered calls less common. We also offer bundled packages of digifon services: Digifon Home, Digifon Business, Összhang, Visszhang, etc. The most popular of these packages is the Összhang, which contains five services at a discount price. Összhang package had approximately 265,000 customers by the end of 2006.

*Voice-mail.* We offer a voice-mail service including call return and call capture. We also offer a voice-mail Short Message Service (“SMS”), which provides an SMS alert to the mobile handset of the customer each time he or she receives a voice-mail message. These services allow better usage of the network, provide convenience to our customers and decrease the ratio of uncompleted calls.

*Directory Assistance.* We offer directory inquiry services. The domestic directory assistance database includes all fixed line and postpaid mobile subscribers’ data in Hungary. We offer a call completion option to subscribers, whereby calls may be connected automatically. We also offer increasingly popular Directory Assistance-Plus (“DA-Plus”) service. DA-Plus offers a wide range of information including Yellow Pages, residential classified advertisements, encyclopedia- and dictionary-based information, recipes, poems, as well as telephone numbers, postal, e-mail and website addresses without any quantity restrictions. The requested information may be provided verbally, by SMS, by e-mail or by fax. The fees for the service are based on per minute usage. We also offer a call completion option to the subscribers of DA-Plus.

### Subscribers

The following table sets forth information regarding total fixed access lines and penetration rates in our service areas:

	<b>At December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Lines in service in Magyar Telekom Plc.'s service areas			
Residential lines .....	2,015,934	1,919,434	1,841,214
Business lines .....	256,321	241,875	229,209
Public payphones .....	27,059	21,596	20,084
Total .....	<u>2,299,314</u>	<u>2,182,905</u>	<u>2,090,507</u>
ISDN channels .....	525,346	495,796	480,374
Total .....	<u><u>2,824,660</u></u>	<u><u>2,678,701</u></u>	<u><u>2,570,881</u></u>
Lines installed per 100 inhabitants			
in Magyar Telekom Plc.'s service areas .....	37.5	35.6	34.2
Digital exchange capacity as % of Magyar Telekom Plc.'s total exchange capacity .....	92.9	100	100

Our domestic fixed line telephony subscribers can be classified into two categories: residential customers and business customers, which include our customers in the public sector. As of December 31, 2006, 74 percent of our access lines was utilized by our residential customers and 25 percent by our business customers. The remaining one percent of access lines was used for public payphones.

### Tariffs

We charge fixed line subscribers a one-time connection fee, monthly subscription charges and call charges based on usage. A call charge contains two elements: a call set-up charge and a traffic charge measured in seconds based on the call's duration.

In 2005, we introduced flat rate packages that offer free of charge calls to customers during the flat-rate period for an additional monthly fee. We also introduced tariff packages specially developed for LTO areas,

such as Teleperc, a call-by-call tariff package. In 2006, we increased the number of tariff packages to allow customers in different market segments to choose plans that best suit their calling patterns. These tariff packages also served as a tool to maintain our customer base in the fully liberalized market as those customers who select us as the operator for every traffic direction (local, long distance and international) receive the highest discounts. At the end of December 2006, approximately 83 percent of Magyar Telekom Plc.'s customers chose customized tariff packages, the most popular of which is the Felező (Halving) package with over 530,000 subscribers and the flat rate Favorit packages with approximately 550,000 customers.

### ***International Voice Telephone Services***

International telephone services consist of outgoing and incoming international telephony traffic, including voice and switched transit traffic through Hungary.

We provide international calling access to our fixed line telephony subscribers and to subscribers of other local telephone operators and mobile service providers. Our Hungary Direct and Country Direct services permit customers to charge calls made from 50 countries abroad to their home phone numbers.

#### ***Tariffs***

The call charge for an international call contains two elements: a call set-up charge and a traffic charge measured in seconds based on the call's duration. In 2006, the average per minute rates decreased as a result of discounts given in various optional tariff packages.

#### ***International Telecommunications Hub***

We believe that Hungary is geographically well positioned to serve as a telecommunications gateway between Eastern and Western Europe. We have two state-of-the-art international gateways as well as fiber optic cable connections serving 12 border crossings. These fiber optic cable connections use synchronous digital hierarchy transmission facilities and we have launched our own Dense Wavelength-Division Multiplexing ("DWDM") backbone network. To increase the utilization of our transmission network, we offer attractive price schedules for dedicated transit services through Hungary. We are DT's partner in Delivery of Advanced Network Technology to Europe ("DANTE"), which provides transmission paths interconnecting Bucharest (2x622 Mbit/s) and Sofia (2x155 Mbit/s) to the European research and educational network, GEANT through their Budapest node.

We have X.25 links, which are used for packet switched data transmission with 83 international networks. We also have ISDN connections with more than 50 international networks.

To seize the opportunities presented by the liberalization of the telecommunications market in Romania, we established interconnection arrangements with major Romanian alternative service operators and network service providers to offer transit services to Western Europe. In addition, we use our own point of presence in Austria, which enables us to engage in telephone and Internet business with alternative telecommunications carriers located in Vienna. We provide Internet transit service to several Romanian and Bulgarian ISPs on our two IP PoPs in Romania and high-capacity international Internet transit service on our IP PoPs in Hungary to ISPs in Ukraine and Macedonia.

#### ***Leased Lines***

Magyar Telekom Plc. is the principal provider of leased lines in Hungary.

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

abroad.

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

*Flex-Com.* Since 1996, we have offered Flex-Com, domestic and international digital leased lines with managed back-up systems that are dedicated to data transmission. The number of Flex-Com connections decreased from 9,842 as of December 31, 2005 to 8,726 lines as of December 31, 2006.

*Frame-Flex.* We also use our managed leased line network to offer Frame-Flex, a public frame relay service that is particularly suited to customers who transmit data in bursts, such as connections between local area networks. As of December 31, 2006, we had 172 Frame-Flex connections.

*High Speed Leased Line ("HSL")*. The HSL service provides permanent, digital, transparent, point-to-point leased line service between service access points ("SAPs"). The connections are established by a service provider according to the needs of its customers.

Our leased line customers pay a one-time connection fee based on the type of line leased. Monthly subscription charges vary with the type and length of lines leased and, in some cases, with the term of the lease. With the exception of leased lines required for connection with other networks, leased line charges are not subject to regulation. As part of the overall rebalancing of our rates, we have reduced our leased line charges in real terms over the last few years in response to competition, which partly offset the revenue increase generated by volume and bandwidth increases of the leased line services.

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

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

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

*Datex-P.* We offer Datex-P, a packet-switched data transmission service based on the X.25 protocol. The service provides low to medium speed domestic switched data communications services with international connectivity to business customers. As a result of the proliferation of new technologies, growth in the number of subscribers has stopped. Full service withdrawal is planned for 2008-2009.

*ADSL.* ADSL is a continuous, high-speed Internet access service. The service offers cost efficient broadband Internet access together with telephony service over existing copper wires. We sell these services mainly on a wholesale basis to ISPs, which in turn resell the services to residential and small business customers. In 2006, this service had a significant growth with the number of ADSL connections reaching 497,384 by December 31, 2006 from 321,416 at December 31, 2005.

*International data products.* We provide signaling links for mobile operators to facilitate international roaming. We also sell international leased lines, including international managed leased lines, international ISDN, X.400, X.25 and telegraph services. The sales of international leased lines are steadily growing, partly

due to the introduction of one-stop-shopping agreements, whereby customers can order from and pay for the service at one end-point of the connection, which eliminate the need to deal with multiple service providers.

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

Magyar Telekom Plc. distributes an extensive range of telecommunications equipment, from individual telephone sets to facsimile terminals and complete network systems, through a network of customer service centers. In addition to stand-alone phoneset sales, Magyar Telekom Plc. sells various packages combining telephone sets with telephone lines or tariff packages.

The telecommunications equipment sector is highly competitive and characterized by rapid technological innovation. Magyar Telekom Plc. believes that the supply and service of telecommunications equipment are integral parts of being a full service telecommunications provider and are necessary for the expansion of its customer base. In addition, these activities permit Magyar Telekom Plc. to ensure that technologically advanced equipment required for new services is available in the Hungarian market.

### ***Other Revenues***

Other revenues include construction and maintenance services as well as other miscellaneous revenues.

We construct fixed telecommunications networks and offers network maintenance services to other telecommunications operators in Hungary. These construction and maintenance services are ancillary to the construction and maintenance of Magyar Telekom Plc.'s networks.

We carry out our construction mainly through subcontractors. The majority of construction revenue is derived from optical network construction, network construction related to subscriber connections and project planning.

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

We provided mobile telecommunications services in Hungary through our wholly-owned subsidiary, T-Mobile Hungary ("TMH") prior to the merger of Magyar Telekom and TMH. TMH continues its operations within Magyar Telekom under an independent brand and as an independent business segment.

As of December 31, 2006, TMH accounted for estimated 44.5 percent of the total Hungarian mobile market in terms of subscribers. The penetration rate of mobile telephone services in Hungary increased from 92.4 percent at December 31, 2005 to 99.0 percent at December 31, 2006.

In 2006, TMH was the first mobile operator in Hungary to launch High Speed Downlink Package Access ("HSDPA") service. TMH also launched new data products, like web'n'walk and mobile internet based on HSDPA. TMH reached 30.3 percent HSDPA coverage based on population, which is a quite significant achievement in this short period.

In 2006, TMH continued to enhance its non-voice service portfolio, introduced several new products, increased the penetration and usage of the existing products and extended the access of some of its domestic products abroad:

*Subscribers.* The number of TMH subscribers has been growing over the past three years. The table below sets forth information concerning the number of TMH subscribers at the dates indicated:

	<b>At December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Number of subscribers			
Postpaid subscribers .....	1,163,483	1,323,814	1,545,115
Prepaid subscribers .....	2,868,562	2,870,041	2,886,021
Total subscribers.....	<u>4,032,045</u>	<u>4,193,855</u>	<u>4,431,136</u>
 Average monthly Minutes of Use (“MOU”) per subscriber..	115	127	142
 Churn ratio (%)			
Postpaid subscribers .....	11.9	10.4	9.9
Prepaid subscribers .....	17.4	22.0	21.9
Total subscribers .....	15.9	18.5	17.9
 Average monthly Revenue per User in HUF			
Postpaid subscribers .....	11,828	10,838	9,849
Prepaid subscribers .....	2,380	2,239	2,300
Total subscribers .....	4,945	4,832	4,800
 Mobile penetration in Hungary (%) .....	86.4	92.4	99.0
 TMH’s market share (%) .....	46.2	45.0	44.5

The increase in the number of TMH subscribers since December 31, 2004 is attributable to a number of factors, including the expansion of mobile broadband services. Though the market is slowly reaching a saturation level, in 2006 total growth rate exceeded previous year’s results due to significant growth in the postpaid segment.

*Traffic.* TMH’s average traffic per subscriber is comparable to other European countries and was at a blended level of 142 minutes in 2006. Average traffic per subscriber has increased over 2005 as a result of successful tariff plans targeting both postpaid and prepaid segment.

*Rates.* Since January 1998, mobile subscriber rates have been deregulated, and carriers have had the freedom to set the level of fee components (i.e., connection fee, subscription charge and traffic charges).

TMH charges subscribers a one-time connection fee, monthly subscription charges, event charges and time-based traffic charges. Customers using prepaid cards do not pay monthly subscription charges (but in case of some price plans monthly recurring fees do exist). TMH does not charge subscribers for incoming calls, other than calls received while roaming. TMH receives payments from other telecommunications service providers for terminating calls on its network. TMH maintained the widest range of price plans and successfully introduced additional plans in 2006 to acquire new subscribers and develop loyalty.

TMH faced intense price-based competition in 2006. Competitors waged various campaigns, including introduction of new price plans and products, to win over TMH’s subscribers. TMH responded to the competitors with its own new tariff initiatives across all of the subscriber segments.



## Research and development

Magyar Telekom Plc. has a department (“PKI-FI”) dedicated to performance of research and development (“R&D”) projects to meet the demands of the rapidly changing market, such as development of our telecommunications networks and service platforms. The R&D department works in close cooperation with educational institutions (including the Budapest University of Technical and Economic Sciences and the Technical College of Budapest), strategic investors, suppliers and domestic and international development organizations. Following our accession to the European Union, several funds aimed encouraging research and development activities became available to us as well; this encouraged us to deepen our involvement in national and international consortiums engaged in R&D.

The harmonization projects among DT Group members (Maktel, Slovak Telekom, Croatian Telekom and T-Systems International) play an important role. The joint development themes enable us to utilize group-level synergies, pursue efficient financial and human resource management and use the same third party contractors for our R&D projects.

In the last few years, to maintain or expand the competitive positions of Magyar Telekom we developed the technical platform through the R&D activities for the introduction of new VoIP and multimedia-based services, based on the next generation (“NGN”) IP/Ethernet-based core and broadband fixed (“ADSL”, “xDSL”) and wireless (“WLAN”, “WiFi”) accesses.

Significant resources are devoted to the upgrading of our digital backbone network. The DWDM technology was introduced to satisfy the additional demands on the backbone network that arose in connection with broadband services, such as fast Internet access and broadband IP-VPN.

We are continuously developing our data communications and IP network and services to meet demands for broadband services. We developed the concept of a national, high-speed IP network built on DWDM and Gigabit Ethernet. Under this program, the components of our IPv6 protocol pilot network were identified.

In the last few years, we rolled out a wide range of broadband access technologies (e.g., ADSL, cable television, optical access network and managed leased line technologies) to satisfy demands for higher bandwidth. To widen the choice of broadband services, we considered the possibilities of implementing triple-play solutions. In 2006, multimedia services, including IPTV development, were tested in the Ethernet and DSLAM environment. Based upon this work, by the end of 2006, we introduced IPTV services. The possibility of introduction and application of IP High Definition TV (“HDTV”) and Three Dimension (“3D”) TV technologies are being investigated.

In 2006, we studied the usability of World Interoperability for Microwave Access (“WiMAX”) technology. WiMAX can provide wireless broadband access with effective radius of up to several kilometers with up to 70 Mbit/s radio throughput. We also plan to implement the new generation of xDSL technologies (“VDSL2”, “Gigabit capable Passive Optic Network”) in the access network to extend the broadband access coverage and provide higher bit rate.

The Global Resource Information Database (“GRID”) mass-computing platform prototype has been further developed providing quota management to enhance its security and to ensure resilience against data flooding attacks.

In the last two years, we laid down the basis for product developments toward the convergence of fixed and mobile networks together with TMH. A Bluetooth and WiFi-based intelligent solution has been tested in our laboratory. Our next step in this field will be a study on the FMC possibilities in IP Multimedia Subsystem (“IMS”) environment, and WiFi/UMTS handsets. A study has been launched on the potential interconnection of the Next Generation fixed and mobile networks, based on the ETSI Telecoms and Internet converged Services and Protocols for Advanced Networks (“TISPAN”) IMS architecture.

When we aim to provide voice service over IP networks, Name Addressing and Routing (“NAR”) issues essentially differ from those that we experienced in the PSTN network. Telephone Number Mapping (“ENUM”) is one of the most promising technologies to provide information for IP based call routing including information for number portability, freephone and other number or address translation capabilities, SMS and MMS. This routing is available both internally and for interconnection of networks (peering). In 2006, we set up an experimental network and interconnected it with the ENUM trial system of Deutsche Telekom to examine the possibilities of the ENUM infrastructure. In 2007, we aim to build an ENUM network that will be used for dynamic call routing based on Bluetooth sensors.

We have developed a test system for hearing-impaired users, which transforms the speech signals into moving images, so users can recognize the speech by lip-reading.

## **Environment protection**

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

As a part of our commitment to sustainability, we developed a sustainability section for Magyar Telekom’s website. This section includes our reports and news relating to sustainability and discusses our philosophy and approach to sustainability.

## **Real estate**

Based on a five-year contract, we outsourced our real estate operations from February 1, 2005, thus real estate development, investment, operations and management activities are now provided by DeTe Immobilien-Hungary Zrt. for Magyar Telekom Plc. In order to exercise strategic management and control, we established the Real Estate Management Office.

On December 31, 2006, we have more than 2,000 premises in use exceeding 619,000 m<sup>2</sup>. These are freehold, leased, jointly owned and used properties as well as realties used under right of common.

Real estate holdings have the following functions:

- Technical building
- Warehouse
- Garage
- Holiday resort
- Tower
- Office
- Other social building
- Preferential office
- Apartment
- Land

Most of the properties are under 100 m<sup>2</sup>. Technical functions have the highest weight - the area of technical buildings constitutes almost 40 percent within the total space available. The largest real estate with 35,000 m<sup>2</sup> is situated at Krisztina krt. 55 in Budapest.

According to our proprietary needs, the aim of the Real Estate Management Office is to optimize the utilization of the real estate portfolio, while selling or otherwise making use of the surplus properties on favorable terms.

## **Liquidity, financial instruments**

We carry indebtedness at a level we consider appropriate based on a number of factors, including cash flow expectations (i.e., cash requirements for ongoing operation, investment plans), expectations of investors, analysts, rating agencies and the overall cost of capital. We announced a definite dividend policy in 2003, according to which the group level net debt ratio is to be kept between 30 to 40 percent.

The majority of our operating revenues and expenses are denominated in Hungarian forints. Accounts payable to and receivable from international carriers, which are denominated in a basket of currencies known as SDRs, are netted against one another and settled primarily in U.S. dollars and Euros. Capital expenditures are denominated partly in foreign currencies, principally U.S. dollars and euros.

We reduced foreign exchange and interest rate risks associated with our loan portfolio. At December 31, 2006, the loans were 100 percent denominated in HUF, thus the foreign exchange risk of the loan portfolio is naturally hedged by the HUF-denominated revenues.

In order to avoid potential negative effects of the exchange rate movements, in case of remarkable foreign exchange denominated cash-flow (e.g. acquisition of a foreign subsidiary or foreign exchange denominated dividend payment) after the decision on the payment, prior to the execution of the transaction we open an appropriate hedge (mainly forward) transaction. We do not have any other material derivative transactions.

## **Risk management policies**

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

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

In 1999, we established a formal risk management system. In 2000, we established a department to coordinate all risk management tasks. This system was integrated into the risk management system of Deutsche Telekom in 2002.

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

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

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

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

## **Human policy**

„Professional and committed employees, who are able to act on their own initiative, are the most important success factor of the business effectiveness of Magyar Telekom Plc.”—this is the HR vision the company has articulated in line with its mission and strategy. The most important goal is to achieve that our company possesses the most professional human resources organization in Hungary and in international terms as well, regarded by its clients as their internal partner and consultant, which other firms also approach with confidence whenever they need to obtain experience.

Magyar Telekom Plc.’s human resources strategy for the years 2003-2006 is grouped around five focal points in line with Deutsche Telekom’s HR strategy. The focal points are as follows:

- Managing diversity: we endeavour to leverage group level synergies in order to achieve highest best business returns.
- Management of personnel expenses: our aim is to achieve a cost effective personnel management based on market information and best international practice.
- Total compensation: our aim is to ensure performance-based and market-competitive compensation.
- Management of skills and competences: we focus on identifying and managing knowledge and skill, and on promoting talent.
- HR efficiency and quality: our aim is to deliver high-level human resource services meeting the needs of our business partners.

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

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

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

Magyar Telekom Plc.’s welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature,

the basis of which is the employees' collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

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

Magyar Telekom Plc. pays special attention to young graduates through the „Starting-Block” trainee program, which grants employment and training to 15-20 graduates each year.

The company introduced in 1997 and has continuously developed since then its knowledge management system, which is being used for the measurement of competence and knowledge, for the definition of development areas and the review of individual tasks. Development needs are identified with the help of the Personnel Round Table for middle and top management. Development is available in the following forms:

- traditional „classroom” training within the company and outside,
- skills development training (individual and group programs administered by trainers, e.g. team building, self-awareness training)
- e-learning, i.e. distant training through an individual training „net” (e.g. media training).

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

Magyar Telekom Plc. is committed to excellence: the results of regular surveys among employees and customers are used as a basis for the improvement of our internal operation. In addition, the company takes advantage of the possibilities rendered by modern technologies to achieve excellence: through the enhancement and use of advanced IT systems it improves operating efficiency.

The HR area operates its web-based IT services and, through eHR solutions, it continuously broadens the range of its cost saving, efficiency improving and customer friendly services.

Magyar Telekom Plc. pays special attention to the high level of the employees' occupational safety and provides them the conditions of safe work and a working environment, which does not harm health. A special organizational unit is engaged in occupational health and safety of work issues, and develops the company's safety of work strategy and set of objectives.

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

## **Outlook**

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

To adapt to these changes in the market, we are now moving from the traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. In addition, we are seeking new revenue sources by entering into new non-traditional converged telecommunications markets.

We should emphasize that each segment is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, changes in competition, the unforeseeable effects of the announced stabilization package of the Hungarian government and changes in the foreign exchange rates just to mention the most important ones.

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

We expect that our core business units will be able to continue to generate strong free cash flow. However, there are some significant elements that can have negative effects on the free cash flow, for example, the roll-out of EDR infrastructure and potential acquisitions. Despite these effects we expect to generate solid positive free cash flow in 2007 as well.

## **Revenues**

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

In the fixed line segment, we expect continued gradual decline in fixed line voice revenues due to continued line erosion and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from PSTN resellers and VoIP or VoCATV providers. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from the traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues.

As the leading broadband provider in Hungary, we are committed to accelerating growth in country-wide broadband penetration by applying a multi-access cost-efficient approach. In November 2006, we launched IPTV services; in early 2007 we doubled bandwidths on our network by utilizing ADSL2 technology and to further boost market development by introducing naked DSL services.

To maintain sustainable competitiveness in the corporate sector, we have committed to further developing our IT competencies by focusing on complex service offering via managed services, system integration and outsourcing through consultancy-based selling to corporate customers.

In addition, we are seeking new revenue sources by entering new non-traditional telecommunication markets such as transactional services and commerce to generate new revenue streams in case a potential business opportunity arises to capture potential growth opportunities on new converged market areas.

In the mobile segment we expect continuing growth in net revenues. Market penetration in Hungary is now almost saturated, and we expect lower growth rates due to a smaller number of potential new subscribers. This trend is partly offset by the migration of prepaid customers to postpaid packages and the future growth potential

of higher-value services, which is supported by the launch of UMTS and HSDPA services. Accordingly, leveraging first mover advantage on our newly built HSDPA capacities is one of T-Mobile Hungary's primary strategic priorities on the fast growing wireless broadband market.

### **Expenses**

In line with our strategy, we plan to improve our internal operational efficiency in all segments. Our initial 2006 goal to improve the efficiency of our workforce by increasing the fixed lines (B-channel equivalent) per employee ratio to over 500 (a ratio that corresponds to the best practice in Western Europe) was already reached by the end of February 2006.

The merger of Magyar Telekom Plc. and TMH will enable us to further improve efficiency. We are expecting significant value generation through the gradual implementation of the integration by seizing additional revenues and optimizing operating and capital expenses. In 2006, the first impacts from the fixed-mobile integration in terms of sales and customer retention began to be seen. These were, however, offset by related costs. The next three years we expect to see a significant positive impact, with net present value of these benefits currently estimated to be around HUF 60 billion in the period of 2007-2009. The integration of our fixed and mobile businesses will particularly enhance our competitiveness in the areas of customer care and customer service, products and value propositions, back-office and supporting systems and joint network infrastructure management.

### **Gross additions to tangible and intangible assets**

We aimed to reduce the gross additions to tangible and intangible assets to sales ratio to below 15 percent in 2006 on group level and succeeded in meeting this target. We are targeting this ratio to fall below 14 percent in 2007 excluding potential acquisitions. We expect an increasing proportion of gross additions to relate to high-growth areas in the fixed line segment, such as Internet, broadband and data transmissions, while our mobile segment will continue the roll-out of the UMTS and HSDPA infrastructure.

### **Revenue and EBITDA targets**

Based on our former outlook and market and regulatory conditions, we expected to achieve compounded average revenue growth rate of at least three percent for the period of 2006-2007 on group level. In terms of EBITDA, we targeted to maintain the 2005 reported EBITDA level in 2006. At the end of 2006, we were fully on track to meet both of these targets. Looking forward to 2007, we are targeting stable revenue and EBITDA in forint terms over 2006 reported figures.

Budapest, March 22, 2007