

PricewaterhouseCoopers

Tanácsadó Kft.

H-1077 Budapest

Wesselényi u. 16.

H-1438 Budapest, P.O. Box 517

HUNGARY

Telephone: (36-1) 461-9100

Facsimile: (36-1) 461-9101

Internet: www.pwc.com/hu

INDEPENDENT AUDITOR'S REPORT
(Free translation)

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

We have audited the accompanying financial statements of Magyar Telekom Nyrt. ("the Company") which comprise the balance sheet as of 31 December 2007 (in which the balance sheet total is HUF 942,877 million, the profit per balance sheet is HUF 0, the related profit and loss account for the year then ended, and the notes to the financial statement including a summary of the main accounting policies as well as other disclosures.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Accounting Act and accounting principles generally accepted in Hungary. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work in respect of the

business report was limited to checking it in within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

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

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the financial statements of Magyar Telekom Nyrt. in accordance with the Hungarian and International Standards on auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provision of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2007, and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the financial statements.

Budapest, April 25, 2008

Nick Kós
Partner
PricewaterhouseCoopers Kft.
1077 Budapest, Wesselényi u. 16.
License Number: 001464

Hegedűsné Szűcs Márta
Statutory auditor
Licence number: 006838

Translation note:

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

Magyar Telekom Plc.

**MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY**

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

ASSETS

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

Budapest, April 25, 2008


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


 Thilo Kusch
 Chief Financial Officer,
 Board member

LIABILITIES AND SHAREHOLDER'S EQUITY

	Note	December 31, 2006	Self-revision	December 31, 2007
D. SHAREHOLDER'S EQUITY	16	381 638	975	335 645
I. Common stock		104 277	0	104 275
- of this treasury stock at par value		246	0	150
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		54 932	0	58 289
IV. Retained earnings		205 520	265	171 525
V. Restricted reserves		1 504	0	1 556
VI. Valuation reserves		0	0	0
VII. Net income		15 405	710	0
E. PROVISIONS	17	7 977	0	22 049
Provision for expected obligations		7 783	0	20 598
Provision for expected expenses		166	0	1 311
Other provisions		28	0	140
F. LIABILITIES		533 211	-278	533 587
I. Subordinated liabilities		0	0	0
II. Non current liabilities		212 001	0	309 062
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		123	0	123
Investment and development loans	18	18 250	0	0
Other non current loans	19	0	0	50 557
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	20	185 432	0	254 432
Other non current liabilities		8 196	0	3 950
III. Liabilities		321 210	-278	224 505
Current borrowings		71	0	71
- of this convertible bonds		0	0	0
Current loans	21	27 374	0	39 942
Advances received		343	0	529
Accounts payable		28 704	-6	34 805
Bills of exchange payable		0	0	0
Current liabilities to related parties	22	22 441	-1	24 540
Current liabilities to other related parties	23	74 089	0	20 000
Other current liabilities	24	168 188	-271	104 618
- of this dividends payable		72 994	0	77 052
G. ACCRUED EXPENSES	25	43 036	-12	51 616
Deferred income		7 619	0	6 319
Accrued expenses		34 646	-12	44 854
Other deferred revenue		771	0	443
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		965 862	685	942 877

Budapest, April 25, 2008



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



Thilo Kusch
Chief Financial Officer,
Board member

	Note	2006	Self-revision	2007
1. Domestic sales	26	450 016	217	478 105
2. Export sales	27	20 735	113	21 804
I. Sales revenues		470 751	330	499 909
3. Change in self-manufactured inventories		0	0	12
4. Capitalised value of self-manufactured assets		14 339	3	22 743
II. Own work capitalized		14 339	3	22 755
III. Other revenues	28	22 290	0	20 763
of which: reversal of impairment		170	0	0
5. Costs of raw material		19 939	3	31 220
6. Costs of services	29	97 843	-79	97 487
7. Costs of other services		9 473	25	12 711
8. Cost of goods sold		34 415	-2	34 276
9. Costs of services sold (intermediated)	31	84 872	50	85 780
IV. Material-type expenses		246 542	-3	261 474
10. Salaries and wages	32	42 522	1	46 342
11. Other payroll related costs	32	10 900	5	15 930
12. Payroll related contributions		15 948	24	18 695
V. Payroll and related expenses		69 370	30	80 967
VI. Depreciation		93 408	47	97 230
VII. Other expenses	34	30 034	-1	41 800
of which: impairment		2 814	0	1 220
A. PROFIT FROM OPERATING ACTIVITIES		68 026	260	61 956
13. Dividends and profit sharing (received or due)		50 174	353	5 531
of which: received from related parties		50 174	353	5 531
14. Foreign exchange gains on sale of investments		260	0	11
of which: received from related parties		0	0	0
15. Interest income and gains on financial investments		1 517	0	1 828
of which: received from related parties		1 508	0	1 828
16. Other interest income received		873	1	783
of which: received from related parties		710	0	547
17. Other revenues from financial activities		2 860	0	2 161
VIII. Revenues from financial transactions		55 684	354	10 314
18. Loss on the sale of financial investments		0	0	0
of which: related to related parties		0	0	0
19. Interest expense		27 084	0	31 815
of which: related to related parties		939	0	1 134
related to other related party		21 396	0	23 301
20. Impairment of investments, securities and bank deposits		1 872	-2	17
21. Other expenses refinancing activities		3 235	-10	1 178
IX. Expenses from financial transactions		32 191	-12	33 010
B. FINANCIAL RESULTS	35	23 493	366	-22 696
C. PROFIT FROM ORDINARY ACTIVITIES		91 519	626	39 260
X. Extraordinary revenues	36	234	43	4 818
XI. Extraordinary expenses	37	3 231	-3	7 087
D. PROFIT FROM EXTRAORDINARY ACTIVITIES		-2 997	46	-2 269
E. PROFIT BEFORE TAXES		88 522	672	36 991
XII. Corporate income tax	39	123	-38	1 357
F. NET INCOME		88 399	710	35 634
22. Use of retained earnings for dividends		0	0	41 418
23. Dividend paid (approved)	40	72 994	0	77 052
G. BALANCE SHEET NET INCOME		15 405	710	0

Budapest, April 25, 2008


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


Thilo Kusch
Chief Financial Officer,
Board member

Real estate and related rights

(in HUF millions)

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

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, 2007)	563 179	3 662	566 841	88 131	654 972	34
12. Additions in gross value	34 838	691	35 529	4 521	40 050	0
13. Additions due to merger	8 546	145	8 691	973	9 664	0
14. Disposals in gross value	17 109	569	17 678	7 518	25 196	0
Reclassifications	5 835	-4	5 832	-11 417	-5 585	0
15. Closing gross value (on December 31, 2007)	595 289	3 925	599 215	74 690	673 905	34
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2007)	390 027	2 594	392 621	72 697	465 318	22
22. Annual depreciation	50 276	214	50 490	6 124	56 614	4
23. Extraordinary depreciation	80	0	80	8	88	0
24. Addition due to merger	5 607	86	5 693	661	6 354	0
25. Disposals in depreciation	15 296	559	15 855	7 096	22 951	0
Reclassifications	8 432	0	8 432	-10 575	-2 143	0
26. Closing depreciation (on December 31, 2007)	439 126	2 335	441 461	61 819	503 280	26
3. Net book value (on December 31, 2007)	156 163	1 590	157 754	12 871	170 625	8
- Of which residual value						
	33	476	509	1 508	2 017	0
4. Other data						
Annual depreciation (January - December, 2007)	50 276	214	50 490	6 124	56 614	4
Extraordinary depreciation	80	0	80	8	88	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>Adnetwork Online Marketing Kft.</i>	1117 Budapest, Gábor Dénes u. 2.	100,00%		100,00%	100,00%	5	-1	30	34
<i>BCN Rendszerház Informatikai és Kommunikációs Hálózatokal Szolgáltató Kft.</i>	1107 Budapest, Bihari út 6.	100,00%		100,00%	100,00%	3 500	56	375	3 931
<i>Cambridge S.R.L.</i>	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100,00%		100,00%	100,00%	231	-390	-185	-344
<i>Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Inovatlanhasznosító Kft.</i>	1087 Budapest, Asztalos Sándor u. 13	100,00%		100,00%	100,00%	900	300	178	1 378
<i>Gabriele 17 Vermögensverwaltung GmbH.</i>	60311 Frankfurt am Main, Bethmann str. 50-54, Germany	100,00%		100,00%	100,00%	6			6
<i>Integris-Rendszerház Informatikai Szolgáltató Kft.</i>	9027 Győr, Bajcsy-Zsilinszky 46.	100,00%		100,00%	100,00%	615	45	255	915
<i>Investel Magyar Távközlési Befektetési Zrt.</i>	1013 Budapest, Krisztina krt. 32.	100,00%		100,00%	100,00%	4 453	1 089	3 605	9 147
<i>IWIW Szolgáltató Kft.</i>	1117 Budapest, Gábor Dénes u. 2.	100,00%		100,00%	100,00%	3	17	54	74
<i>KFKI-LNX Hálózatiintegrációs Zrt.</i>	1135 Budapest, Hun u 2.	100,00%		100,00%	100,00%	204	2 639	638	3 481
<i>Novatei E.O.O.D.*</i>	Sredna Gora 49. et. 4., Sofia 1303, Bulgaria	100,00%		100,00%	100,00%	672	-158	7	521
<i>Orbitel A.D.*</i>	1 Makedonia Sq, Floor 18, Sofia 1000, Bulgaria	100,00%		100,00%	100,00%	1 659	73	-356	1 376
<i>[origo] Média és Kommunikációs Szolgáltató Zrt.</i>	1117 Budapest, Gábor Dénes u. 2.	100,00%		100,00%	100,00%	282	3 282	-2 220	1 344
<i>Pro-M Profissionais Mobilrádió Zrt.</i>	1107 Budapest, Száva u. 3-5.	100,00%		100,00%	100,00%	5 200	3 049	674	8 923
<i>ProMoKom Zárkörűen Működő Profissionais Mobil Kommunikációs Rt., #</i>	1013 Budapest, Krisztina krt.55.	100,00%		100,00%	100,00%	21	-1	-2	18
<i>Stonebridge Communication A.D. Skopje* #</i>	1000 Skopje, Orce Nikolov bb.	100,00%		100,00%	100,00%	87 745	13 842	18 191	119 778
<i>Telemacedonia A.D. Skopje*</i>	1000 Skopje, Orce Nikolov bb.	100,00%		100,00%	100,00%	3	273	31	307
<i>T-Systems Hungary Szolgáltató Kft.</i>	1135 Bp. Hun u. 2.	100,00%		100,00%	100,00%	500	1 651	-1 914	237
<i>Viabridge Telecommunications Holding Limited* #</i>	Level 2, Valletta Buildings, South Street, Valletta, Malta VLT 11	99,99%	0,01%	100,00%	100,00%	294	-57	-125	112
<i>Novatel UKRAINE L.L.C.*</i>	Pymonenka Str. 13, building 7, office 7B/36, - Kiev. 04050 Ukraine	99,94%	0,06%	100,00%	100,00%	58	-68	-80	-90
<i>EurAccount Pénzügyi és Számviteli Szolgáltató Kft.</i>	1077 Budapest, Kéthly Anna tér 1.	99,00%	1,00%	100,00%	100,00%	450	0	258	708
<i>KIBU Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft.</i>	1092. Budapest, Ráday u. 30.	99,20%	0,80%	100,00%	100,00%	25	86	-25	86
<i>Első Pesti Telefonsársaság Nyrt.</i>	1183 Budapest, Haladás út 5.	97,20%		97,20%	97,20%	777	-2	-223	552
<i>M Factory Kommunikációs Szolgáltató Zrt.</i>	1033 Budapest, Huszti út 32.	92,00%		92,00%	92,00%	20	214	-339	-105
<i>Crnogorski Telekom A.D. Podgorica*</i>	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76,53%		76,53%	76,53%	35 721	993	5 194	41 908
<i>ViDaNet Kábeltelevíziós Szolgáltató Zrt.</i>	1036 Bp, Dereglye út 5/B	67,50%	22,50%	90,00%	50,00%	2 000	508	947	3 455
<i>TELE-DATA Távközlési Adatfeldolgozó és Hírtelésszervező Kft.</i>	2040 Budaörs, Baross u. 89.	50,98%		50,98%	50,98%	39	8	65	112
<i>HUNSAT Magyar Űrtávközlés Zrt.</i>	1117 Budapest, Hauszmann Alajos u. 2.	50,00%		50,00%	50,00%	100	0	179	279
<i>IKO-Telekom Média Holding Zrt.</i>	1222 Bp, Nagytétényi út 29.	50,00%		50,00%	50,00%	3 200	1 589	1 497	6 266
<i>Mindentudás Egyeteme Tudományos Közhasznú Társaság</i>	1105 Budapest, Zágrábi út 1-3.	60,00%		60,00%	60,00%	5	7	15	27
<i>T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft.</i>	1089 Budapest, Baross u. 133.	16,39%	83,61%	100,00%	100,00%	920	4 090	1 811	6 821
<i>Axelero Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10,00%	90,00%	100,00%	100,00%	4	0	-1	3
<i>Matáv Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10,00%	90,00%	100,00%	100,00%	4	0	-1	3
<i>MatávKábelTV Kereskedelmi és Szolgáltató Kft.</i>	1013 Budapest, Krisztina krt. 55.	10,00%	90,00%	100,00%	100,00%	4	0	-1	3
<i>IQSYS Informatikai Zrt.</i>	1135 Budapest, Hun u 2.	0,30%	99,70%	100,00%	100,00%	211	273	240	724

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

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

Under liquidation.

Impairment

(in HUF millions)

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

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

Off-balance Sheet Liabilities

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

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

Description	January - December, 2006	January - September, 2007
1. Domestic sales	35 023	29 676
2. Export sales	57	67
I. Sales revenues	35 080	29 743
II. Own work capitalized	80	101
III. Other revenue	1 841	430
IV. Material-type expenses	29 109	26 703
V. Payroll and related expenses	3 218	2 703
VI. Depreciation	1 218	1 319
VII. Other expenditures	1 707	1 131
A. PROFIT FROM OPERATING ACTIVITIES	1 749	-1 582
VIII. Revenues from financial transactions	216	131
IX. Expenses from financial transactions	33	23
B. FINANCIAL RESULTS	183	108
C. PROFIT FROM ORDINARY ACTIVITIES	1 932	-1 474
D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES	-184	-123
E. PROFIT BEFORE TAXES	1 748	-1 597
XII. Corporate income tax	25	0
F. NET INCOME	1 723	-1 597
G. BALANCE SHEET NET INCOME	1 723	-1 597

Period January - September, 2007 in percentage of Magyar Telekom Plc.'s relevant figures
8,38%
0,39%
8,01%
0,78%
2,77%
14,31%
4,78%
1,84%
3,00%
-3,36%
1,46%
0,09%
-0,62%
-4,95%
8,33%
-5,64%
-5,86%
-5,86%

Description	January - December, 2006	January - September, 2007
1. Domestic sales	4 898	3 552
2. Export sales		
I. Sales revenues	4 898	3 552
II. Own work capitalized	135	86
III. Other revenue	212	84
IV. Material-type expenses	1 618	1 067
V. Payroll and related expenses	1 064	797
VI. Depreciation	779	556
VII. Other expenditures	282	146
A. PROFIT FROM OPERATING ACTIVITIES	1 502	1 156
VIII. Revenues from financial transactions	7	9
IX. Expenses from financial transactions	148	119
B. FINANCIAL RESULTS	-141	-110
C. PROFIT FROM ORDINARY ACTIVITIES	1 361	1 046
D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES	12	-3
E. PROFIT BEFORE TAXES	1 373	1 043
XII. Corporate income tax	146	74
F. NET INCOME	1 227	969
Dividend paid (approved)	1 158	0
G. BALANCE SHEET NET INCOME	69	969

Period January - September, 2007 in percentage of Magyar Telekom Plc.'s relevant figures
1,00%
0,96%
0,66%
0,54%
0,57%
1,41%
0,78%
0,39%
2,45%
0,10%
0,45%
0,63%
3,51%
0,20%
3,68%
6,83%
3,56%
3,56%

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

NOTES
TO THE 2007 ANNUAL REPORT

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

0. Note Added For Translation

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

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

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

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

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

1. Background and General Information

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

Short name of the Company: Magyar Telekom Plc.

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

The Company's main activity is telecommunication.

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

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

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

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

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

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

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

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

Persons authorised to sign the annual report:

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

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

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

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

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

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

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

Magyar Telekom Plc.'s homepage address: www.magyartelekom.hu

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

Investigation into certain consultancy contracts

As previously disclosed, in the course of conducting their audit of our 2005 consolidated financial statements, PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. identified two contracts the nature and business purposes of which were not readily apparent. In February 2006, our Audit Committee initiated an independent investigation into this matter. In the course of the investigation, two further contracts entered into by Magyar Telekom Plc. were also raising concerns. To date, the independent investigators have been unable to find sufficient evidence to show that any of the four contracts under investigation resulted in the provision of services to us or to our subsidiaries under those contracts of a value commensurate with the payments we made under those contracts. The independent investigators have been unable to determine definitively the purpose of the contracts, and it is possible that the purpose may have been improper. The independent investigators further identified several contracts at our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions. We have approved and have been implementing certain remedial measures designed to enhance our internal controls to ensure compliance with Hungarian and U.S. legal requirements and NYSE listing requirements.

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

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

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

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

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

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

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

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

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

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

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

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

3. Accounting policies

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

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

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

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

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

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

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

Definition of the accounting principles, guidelines and methods

Classification of accounting matters:

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

Material error

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

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

Significant error

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

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

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

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

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

Valuation methods used for the preparation of the Balance Sheet

ASSETS

Recognition and measurement of non current assets

Intangible and tangible fixed assets

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

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

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

Depreciation policy

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

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

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

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

Applied residual value:

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

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

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

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

Capitalized value of foundation and restructuring

The Company does not capitalize foundation and restructuring costs.

Capitalized value of research and development

The Company does not capitalize research and development costs.

Goodwill

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

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

Intellectual property

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

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

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

Own work capitalized

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

Financial investments

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

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

Recognition and measurement of current assets

Inventories

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

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

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

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

Measure of impairment on new materials:

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

Measure of impairment on used or repaired materials:

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

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

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

Raw materials from 2006:

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

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

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

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

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

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

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

Trade receivables

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

Rates of impairment for overdue receivables are the following:

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

* NER: System for international settlements

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

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

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

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

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

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

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

Securities

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

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

LIABILITIES AND SHAREHOLDER'S EQUITY

Valuation reserve

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

Restricted reserve

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

Provisions

Main items include:

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

Valuation of liabilities in foreign currencies

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

Measurement principles applied in the preparation of the Income Statement

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

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

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

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

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

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

Extraordinary items are disclosed in the Notes.

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

OTHER

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

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

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

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

	2006	2007
Liquidity ratio (= current assets / current liabilities)	0.24	0.3
Operating margin (= operating profit / (sales revenues + other revenues))	0.14	0.12
Operating return on assets (= operating profit / total assets)	0.07	0.06
Leverage ratio (= non current liabilities / (equity + non current liabilities))	0.36	0.48

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

The increase in leverage ratio is due to the increase in bank and owner's (Deutsche Telekom Finance B.V.) financing and the decrease in equity caused by dividend payment debited to retained earnings.

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

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

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

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

5. Intangible fixed assets

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

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

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

Rights

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

The decrease was caused by scrapping of obsolete software rights.

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

Intellectual properties

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

Goodwill

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

Also in 2006, the Company purchased Dataplex Infokommunikációs Infrastruktúra Szolgáltató és 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.

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

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

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

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

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

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

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

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

6. Tangible fixed assets

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

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

Further details are disclosed in Appendix 1.

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

Real estate and related rights

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

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

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

Technical equipment, machinery and vehicles

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

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

Other equipment and vehicles

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

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

Reclassifications

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

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

7. Non current investments in related parties

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

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

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

Significant changes of Non current investments in subsidiaries

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

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

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

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

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

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

New investments in 2007

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

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

Novatel EOOD

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

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

Orbitel EAD

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

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

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

Combridge SRL

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

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

Further investments acquired in 2007

IQSYS Informatikai Zártkörűen Működő Részvénytársaság (IQSYS Zrt.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adnetwork Online Marketing Kft. (Adnetwork Online Kft.)

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

IWIW Szolgáltató Kft. (IWIW Kft.)

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

Other major investments:

Stonebridge Communications AD (Stonebridge AD)

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

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

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

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

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

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

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

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

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

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

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

MatávCom Kft. was established in 1997 with its headquarters in Budapest. MatávCom Kft. sells products and provides services for the integration of business communication networks and IT applications. The activities of the company were restructured during 2001 and certain activities were transferred to Magyar Telekom Plc.
In 2004, BCN Kft. merged into MatávCom Kft. Following this transaction MatávCom Kft. changed its name to BCN Rendszerház Informatikai és Kommunikációs Hálózatokat Szolgáltató Kft. (BCN Rendszerház Kft.)
In 2007 Magyar Telekom Plc. decreased the company's capital in the amount of HUF 2,177 million.
The company merged into KFKI-LNX Rendszerintegrációs Zrt. (owned 100 per cent by Magyar Telekom Plc.) and the merger was registered by the Court of Registry.

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

Investel Zrt. was established on June 25, 1991 with the majority ownership of Magyar Telekom Plc. for the purpose of ensuring financing for Magyar Telekom's investment programs by obtaining financing from domestic and international money markets. By the end of 1997, the original function of the company lost its importance. Currently it is the owner and trustee of cable TV companies.
In 2007 EGERTEL Zrt. merged into Investel Zrt. and it was registered by the Court of Registry with effect from August 31, 2007.

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

On July 1, 1998 Magyar Telekom Plc. established MatávkábelTV Kft. to provide cable television services.
MatávkábelTV Kft. changed its name in 2005. The new name is T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft. (T-Kábel Magyarország Kft.) which was registered by the Court of Registry on May 6, 2005.

EGERTEL Távközlési Hálózat Létesítő Zrt. (EGERTEL Zrt.)

The company was established on May 27, 1993 with the majority ownership of EMA (First Hungarian Fund) to construct a telephone network in the area of Eger. Magyar Telekom Plc. gradually bought out EMA by using its call option.
In 2007 the company merged into Investel Zrt. The transformation was registered by the Court of Registry with effect from August 31, 2007. Magyar Telekom Plc. derecognized its investment from the books.

Első Pesti Telefonszolgálat Nyrt. (EPT Nyrt.)

EPT Nyrt. was established in 1992 with headquarters in Budapest. At present the company provides IP based international and domestic telecommunication and call center services. In 2003 additional shares were bought by the Company for HUF 65 million, increasing Magyar Telekom Plc.'s direct ownership in the company to 97.20 per cent.
In 2005 the company decreased its share capital together with a capital increase which was registered by the Court of Registry on March 1, 2005.

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

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

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

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

The co-operation with the Rába Group is based on a frame-contract expiring in 2012 signed on November 14, 2003. In line with the ownership expectations and the new strategic aims, the company changed its name to Integris-Rendszerház Kft. on September 14, 2004. The company continues its operations as an outsourcing company of Magyar Telekom Plc. Group's Business Services Line of Business.

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

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

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

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

Mindentudás Egyeteme Tudományos Közhasznú Társaság (Mindentudás Egyeteme Kht.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ViaBridge Telecommunications Holding Limited (ViaBridge Ltd.)

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

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

Crnogorski Telekom A.D.

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

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

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

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

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

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

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

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

Novatel UKRAINE LLC

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

Pro-M. Profeszionalis Mobilradio Zártkörűen Működő Részvénytársaság (Pro-M. Zrt.)

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

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

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

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

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

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

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

KFKI-LNX Hálózatintegrációs Zrt.

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

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

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

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

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

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

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

8. Non current loans granted to related parties

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

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

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

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

9. Other non current loans granted

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

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

10. Inventories

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

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

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

* The increase in 2006 is due to the merger of T-Mobile Magyarország Rt.

Further details of inventory impairment are disclosed in Appendix 3.

11. Accounts receivable

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

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

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, 2007
(All amounts in millions of HUF, unless otherwise indicated)

12. Receivables from related parties

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

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

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

13. Other receivables

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

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

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

14. Securities

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

15. Prepayments and accrued income

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

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

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

16. Shareholder's Equity

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

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

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

	<i>Common stock</i>	<i>Capital reserves</i>	<i>Retained earnings</i>	<i>Restricted reserves</i>	<i>Balance Sheet Net Profit</i>
Opening balance as of January 1, 2006	104,281	52,837	204,834	1,926	0
Increases	0	0	163	0	15,405
Increase due to the merger	0	2,097	51,258	500	0
Decreases	4	2	13	0	0
Decreases due to the merger	0	0	51,644	0	0
Reclassifications	0	0	922	-922	0
Balance as of December 31, 2006	104,277	54,932	205,520	1,504	15,405
Increases	0	0	1,025	0	0
Increase due to the merger	0	3,358	1,023	377	0
Decreases	2	1	41,603	0	0
Decreases due to the merger	0	0	10,170	0	0
Reclassifications	0	0	15,730	-325	-15,405
Balance as of December 31, 2007	104,275	58,289	171,525	1,556	0

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

17. Provisions

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

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

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

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

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

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

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

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

18. Construction loans

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

19. Other non current loans

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

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

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

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

The Company does not have any assets pledged for loans.

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

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

* Debt from issuance of bonds

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

20. Non current liabilities to other related parties

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

Loans in the amount of HUF 30,000 million were drawn down in January 2007 repayable until 2010 (fix interest rate of 7.66 per cent), HUF 34,000 million loan was drawn down in May 2007 repayable until 2011 (fix interest rate of 7.21 per cent) and HUF 25,000 million loan was drawn down also in May 2007 repayable until 2013 (fix interest rate of 7.26 per cent).

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

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

Maturity	Amount
2009	87,487
2010	39,487
2011	43,486
2012	49,486
2013	34,486
Total	254,432

21. Current loans

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

22. Current liabilities to related parties

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

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

23. Current liabilities to other related parties

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

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

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

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

24. Other current liabilities

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

	2006	2007
Dividends payable 2007	0	77,052
Liability relating to inter-connection fee based on Decrees of NHH 999/2004, NHH/DH-6584-12/2005 and DH-385-18/2006.	5,063	6,603
Payables to employees and related contributions	3,127	4,597
Value Added Tax	5,967	4,772
Personal income tax	1,909	3,067
Liability from topping up the universal balance*	0	2,309
Remaining purchase price of KFKI-LNX Zrt. - second installment	0	920
Liabilities to government	171	887
Solidarity tax	0	182
Dividends payable 2005**	76,122	0
Dividends payable 2006**	72,994	0
Withholding tax	358	0
Other***	2,477	4,229
Total	168,188	104,618

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

** The General Meeting held on December 21, 2006, decided on paying dividend for 2005 which commenced on January 12, 2007. The General Meeting held on April 26, 2007, decided on paying dividend for 2006 which commenced on May 24, 2007.

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

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

25. Accrued expenses and deferred income

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

* 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, 2007
(All amounts in millions of HUF, unless otherwise indicated)

26. Domestic sales

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

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

27. Export sales by geographical areas

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

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

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

28. Other revenues

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

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

29. Import purchases

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

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

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

30. Cost of services

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

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

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

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

31. Costs of services sold (intermediated)

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

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

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

32. Employees

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

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

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

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

33. Remuneration of Board of Directors and Supervisory Board

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

Year	Board of Directors	Supervisory Board	Total
2006	8	18	26
2007	11	42	53

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

34. Other expenses

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

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

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

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

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

35. Results of financial activities

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

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

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

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

36. Extraordinary revenues

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

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

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

37. Extraordinary expenses

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

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

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

38. Transactions with related parties

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

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

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

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

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

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

39. Corporate Income Tax

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

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

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

Other tax related information

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

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

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

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

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

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

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

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

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

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

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

40. Dividend

At the general meeting held on 25 April 2008, Magyar Telekom Plc. decided on paying dividend of HUF 74 after each shares with nominal values of HUF 100, resulting in a current year's dividend payable of HUF 77,052 million.

HUF 45,690 million is due to the parent company – Deutsche Telekom A.G. – from the approved dividend for the year 2007.

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

41. Off-balance sheet items

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

42. Hazardous waste, Research & Development costs

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

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

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

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

43. Self-revisions

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

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

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

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

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

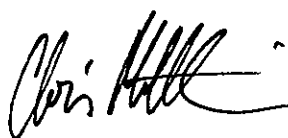
* Total amount of items related to the merger of Emitel Zrt. and T-Online Magyarország Zrt.'s access business line into Magyar Telekom Plc. as of September 30, 2007 for the period indicated above.

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

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

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

Budapest, April 25, 2008



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



Thilo Kusch
Chief Financial Officer,
Board member

MAGYAR TELEKOM PLC.

**MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC
LIMITED COMPANY**

Business Report of 2007

April 2008

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 2.5 million fixed access lines at December 31, 2007. The Company is also Hungary's largest mobile telecommunications service provider, with approximately 4.9 million mobile subscribers (including users of prepaid cards) at December 31, 2007.

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

Organizational changes

On June 29, 2007, Magyar Telekom's Extraordinary General Meeting approved the decision on the merger of Magyar Telekom Plc., Emitel (a former fully owned subsidiary) and the access business area of T-Online. The access business area includes Internet access products such as ADSL, dial-up, cable Internet, as well as IPTV and VoIP services. The remaining business entity of T-Online will focus on media, content and other new business areas. Financial and operational statistical figures throughout this report include Emitel's and T-Online's results for the last quarter of 2007 and as of December 31, 2007, therefore these figures are not comparable with those of 2006.

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

Accordingly, Magyar Telekom Plc.'s executive management has devised a new management structure, based on an operational model structured around customer segments. The new structure, which supports the Company's achievement of its strategic goals, was introduced on January 1, 2008, as approved by the Board of Directors. Both the organizational framework and scope of activity of individual business units, and the responsibility spheres of senior management will be affected. The main changes are as follows:

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

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

Share Capital

As of December 31, 2007, the share capital of Magyar Telekom Plc. was HUF 104,274,561,500, consisting of 1,042,745,615 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100.

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

(1) Of our publicly traded shares, JP Morgan Chase Bank had 9,505,784 ADRs, evidencing 47,528,920 shares on its accounts as of December 31, 2007, for registered holders, such amount representing 4.6 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.

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

Transfer of Shares

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

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

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 former holder of the Series "B" Share, five of the current directors were nominated by MagyarCom and two of the current directors were elected upon proposal by other shareholders of the Company.

On December 31, 2007, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Member since</u>
Christopher Mattheisen	46	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. István Földesi	58	International business advisor	2003
Dr. Mihály Gálik	61	Professor and Head of the Marketing and Media Department of the Corvinus University	2006
Michael Günther	63	Member of the Management Board of T-Mobile International, responsible for Joint Venture Management	2002
Horst Hermann	53	Senior Executive Vice President of DT, responsible for Affiliate Management in Central and Eastern Europe	2003
Thilo Kusch	43	Chief Financial Officer of Magyar Telekom Plc.	2006
Rudolf Kemler ⁽¹⁾	52	Generaldirektor of HP Austria	2007
Frank Odzuck.....	48	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler.....	47	Member of the Management Board of T-Com	2003

⁽¹⁾ Resigned from his position on January 31, 2008.

Management Committee

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

On December 31, 2007, the Management Committee consisted of seven chief officers of Magyar Telekom. The members were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Member since</u>
Christopher Mattheisen	46	Chairman and Chief Executive Officer	2006
Thilo Kusch	43	Chief Financial Officer	2006
Éva Somorjai	41	Chief Human Resources Officer	2007
György Simó.....	41	Chief Officer, Alternative Business and Corporate Development BU	2006
István Papp	36	Chief Officer, Business Services BU	2007
János Winkler	53	Chief Officer, Consumer Services BU	2006
István Maradi	43	Chief Technology and IT Officer	2007

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the shareholders for a term of three years. The Works Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board require a quorum of eight members.

On December 31, 2007, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Member since</u>
István Koszorú.....	57	Chairman of the Workers' Council at Network Management Directorate	2007
Attila Csizmadia	58	Ministry of Finance, Chief Counsellor	2003
Dr. Ádám Farkas.....	40	CEO of Allianz Bank Zrt.	2005
Dr. János Illéssy.....	45		2006
Gellért Kadlót	59	Member of the Workers' Council of the sales field	2002
Dr. Sándor Kerekes.....	59	Director of Institute of Environmental Sciences Corvinus University Budapest	2006
Jutta Burke.....	43	Corporate Country Manager, responsible for Hungary, Macedonia and Montenegro	2007
Konrad Kreuzer	59	Chairman of the Board of Directors of E.ON Hungária Zrt.	2006
Dr. László Pap	64	Budapest University of Technology, Professor and Head of Telecommunication Department	1998
György Varju.....	61	Chairman of the Workers' Council at Technical Services	2005
Péter Vermes	61	Chairman of Magyar Telekom's Central Workers' Council	1995

Compensation of Directors, Officers and Employees

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

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszervezet, "MATÁSZ"). 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.

Investigation into certain consultancy contracts

In the course of conducting their audit of our 2005 financial statements, PwC identified two 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 entered into by Magyar Telekom Plc. 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.

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 had been 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 certain documents that could 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.

In our 2005 preliminary results announcement, we had capitalized the HUF 1.12 billion payment related to two of these contracts. As a result of the interim findings of the investigation, we have expensed the total amount of the HUF 2 billion paid under these four contracts and disclosed these expenses under the caption "Other operating expenses – net" in our 2005 Form 20-F report. This has resulted in a commensurate effect on, among other items, taxes, minority interest and net income when compared to the corresponding items reported in our 2005 preliminary results announcement.

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 our Macedonian subsidiary that could warrant further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related transactions.

The investigation has revealed certain weaknesses in the design and operation of our internal controls and procedures. Accordingly, we have approved and have implemented certain remedial measures designed to enhance our internal controls and 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 Audit Committee and with direct access to the Supervisory Board, Board of Directors, the Company Chief Executive Officer, the Company Chief Financial Officer, and other members of senior management. We note that, as required by Hungarian labor law, the employer's rights vis-à-vis the Group Compliance Director are exercised by a representative of the Company (the CFO). The most significant of the employer's rights, including any substantial amendment to the Compliance Director's employment contract, shall be exercised in consultation with the Audit Committee. In conjunction with this new position, we have reviewed, with the assistance of U.S. counsel, our compliance and corporate governance policies and have established 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 Corporate Compliance Program Manual, a Group Financial Code of Ethics to Treasury and Financial Managers applicable as a Code of Ethics for Senior Financial Officers, a Group Code of Business Conduct and Ethics, a Group Anti Fraud Policy, a Group Document Management Directive, a Group Directive on Compliance with Anti-Corruption Laws and the U.S. Foreign Corrupt Practices Act, a Group Insider Trading Directive, a Group Procurement Directive, a Group Directive on Compliance with U.S. Sanctions and Export Control Laws, a Group M&A Policy, and a new Disclosure Committee Charter. These policies are being further improved based on the experience from the implementation and comments from our Audit Committee and its independent legal counsel. Second, we have revised 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 remains responsible for business development, and the area of the Chief Financial Officer, which is responsible for execution of M&A transactions. All M&A activity requires Board approval and will be reported to the Audit Committee on a semi-annual basis. Fourth, we are reviewing, and modifying where necessary, all other significant procurement, compliance, governance, M&A, and disclosure-related Group directives. Fifth, we have undertaken a significant compliance and governance assessment of our Hungarian and non-Hungarian subsidiaries. This assessment included a review of all significant governance and compliance-related policies and the implementation of the new and revised Group-level policies and directives. Sixth, we have developed a comprehensive compliance training program, which covers all aspects of our compliance regime and will be effected through a combination of in person, Web-based and other forms of training depending on the category of employee and the compliance topic. In-person training has been carried out for the members of our top management, including Hungarian and international subsidiaries, as well as members of our Board of Directors, Supervisory Board and Audit Committee. Training will extend to all employees throughout the Magyar Telekom Group. 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 6.1 percent from HUF 471,081 million in 2006 to HUF 499,909 million in 2007. This growth is due to the higher mobile traffic revenues and higher subscriptions, connections and other charges. Increase were partly offset by lower fixed line traffic revenues resulting from lower per minute rates included in our various tariff packages, lower usage and loss of lines reflecting the effect of strong competition and mobile substitution.

Other revenues decreased by 6.9 percent. Decrease is attributable to the lower amounts of proceeds from disposal of real estates and the lower amount of reversal of provision in 2007. These decreases were partly offset by higher amounts of discount received and higher revenues in connection with impairment.

Expenditures. Material-type expenditures increased by 6.1 percent due to significant increase in costs of raw material and costs of other services.

Payroll and related expenditures increased by 16.7 percent. The main driver of the increase is higher amounts of severance expenditures in relation to the headcount reduction program in 2007.

Other expenses increased by 39.2 percent as HUF 13,942 million provisions were recognized for early retirement exemption salaries, severance and related social security in 2007.

Financial results. Financial results decreased from HUF 23,859 million in 2006 to HUF -22,696 million in 2007. The decrease mainly resulted from lower dividend received from affiliated companies.

Overview of Magyar Telekom Plc.'s Services

Fixed Line Telecommunications Services

Domestic 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 2,090,507 as of December 31, 2006 to 2,020,956 as of December 31, 2007.

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. We offer both basic ISDN access lines with two channels and multiplex ISDN access lines with 30 channels. As of December 31, 2007, we had 166,058 ISDN access lines with two channels and 4,621 ISDN access lines with 30 channels, amounting to the total of 470,746 ISDN channels. We intend to extend the life cycle of the ISDN product in the business segment by offering various discounts to our customers.

Digifon Services. Our network is 100 percent digitalized, which enable us to provide value added services in

our entire service area. We provide a number of value added services, such as call forwarding, call waiting, call conference and caller number identity to a significant number of our fixed line subscribers. These services help increase fixed line usage as they make busy signals and unanswered calls less common. We also offer bundled packages of digifon services, as well as bundled ones in the ADSL complex package. The most popular of these packages is the Összhang, which contains five services at a discount price. Összhang package had approximately 228,000 customers by the end of 2007.

Voice-mail. We offer a voice-mail service including call return and call capture. We also offer 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:

	At December 31,		
	2005	2006	2007 ⁽¹⁾
Lines in service in Magyar Telekom Plc.'s service areas			
Residential lines	1,919,434	1,841,214	1,779,039
Business lines	241,875	229,209	222,451
Public payphones	21,596	20,084	19,466
Total	2,182,905	2,090,507	2,020,956
ISDN channels	495,796	480,374	470,746
Total	2,678,701	2,570,881	2,491,702
Lines installed per 100 inhabitants			
in Magyar Telekom Plc.'s service areas	35.6	34.2	33.7

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

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, 2007, 74 percent of our access lines were utilized by our residential customers and 25 percent by our business customers. The remaining one percent of access lines was used for public payphones.

Fees and Charges

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 tariff packages (Favorit "family") that offer free unlimited calls to customers during a certain period of the day for an additional monthly fee. In 2006 and 2007, we introduced various tariff

packages with a monthly fee that can be fully offset by call charges. By the end of 2007, our flat rate offers attracted the highest customer base.

In 2007, 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 serve 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, fixed-to-mobile and international) receive the highest discounts. During 2007, the fixed-to-mobile bundled offers proved to be successful customer retention tools.

International Voice Telephone Services

International voice telephone services consist of outgoing and incoming international calls, including voice and switched transit traffic through Hungary. Since January 1, 2008, Magyar Telekom Plc. sends and receives all its international voice and switched transit traffic to and from Deutsche Telekom.

We provide international calling access to our fixed line 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 foreign countries to their home phone numbers in Hungary.

Fees and Charges

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. Although the published prices of our international rates did not change in 2007, 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 25 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.

To seize the opportunities presented by the liberalization of the telecommunications market in Romania, we established interconnection arrangements with major Romanian network service providers to offer transit services to Western Europe. We provide Internet transit service to several Romanian and Bulgarian ISPs on our three IP PoPs in Romania and high-capacity international Internet transit service on our IP PoPs in Hungary to ISPs of Macedonia.

According to a new agreement with Deutsche Telekom, Magyar Telekom Plc. stopped buying and selling international voice services from and to other foreign carriers as of January 1, 2008. Since that time, Deutsche Telekom became the sole international voice partner. The agreement allows cost reductions due to synergy with the parent company.

Internet Services

We offer Internet services based on dial-up, ADSL technology as well as access through cable television, Wireless Local Area Network ("WLAN") and leased lines to provide residential and business customers with

narrowband or broadband Internet services at affordable prices.

We increased our subscriber base to 505,725 from 427,000 as of December 31, 2006 in Hungary. We are the largest Internet service provider in Hungary with an estimated 62.2 percent market share based on the number of DSL broadband subscribers and 17.1 percent market share based on the number of cable net subscribers. Our broadband (ADSL, cable television, WLAN and leased line) customers reached 489,368 as of December 31, 2007 compared to 395,599 a year earlier.

In 2006, we introduced an IPTV service. IPTV allows broadcasts to be seen on a television set with a set-top-box over ADSL connection. The new product line offers various interactive contents, such as time-shift function, electronic program guide ("EPG") on screen, recording onto the hard disc built in the set-top-box, web EPG service, video on demand service and picture in picture. The total customer base of IPTV reached 9,224 as of December 31, 2007 compared to 650 a year earlier.

Klip offers VoIP services via broadband access. Users of Klip can initiate and receive calls for free via the Internet, to both fixed line and mobile networks. Klip users can also be called from T-Com's fixed network. The product was launched at the end of 2005 and had more than 48,000 registered users at the end of 2007.

Magyar Telekom ADSL. ADSL is a continuous, high-speed Internet access service based on the Asymmetric DSL technology. The service offers cost-efficient broadband Internet access over existing copper wires. We provide these services on a wholesale basis to ISPs, which in turn resell the services to residential and small business customers. At the end of 2007, we had contractual relationships with 25 ISPs. In 2007, this service saw a significant growth with the number of ADSL connections reaching 613,051 by December 31, 2007 from 512,810 at December 31, 2006.

Leased lines and data transmission

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.

Flex-Com. We offer 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 8,726 as of December 31, 2006 to 7,710 lines as of December 31, 2007.

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.

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.

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.

Leased lines and data transmission 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. 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.

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.

MultiFlex. In 2007, Magyar Telekom Plc. launched this new data transmission product that offers a standard solution for serving our partners' complex telecommunications demand, allowing the entire internal data communications to be realized in one single corporate network. This is a technology independent service and it realizes the interconnection of local networks (LANs) with point to point or multi point to multi point structure.

Fixed Line Telecommunications Equipment Sales

Magyar Telekom Plc. distributes an extensive range of telecommunications equipment, from individual telephone sets to facsimile terminals, PBXs and complete network systems, through a network of customer service centers. In addition to stand-alone phoneset sales, Magyar Telekom Plc. offers various packages combining telephone sets with telephone lines and 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 elements of a full service telecommunications provider and are necessary for the expansion of its customer base. In addition, these activities allow Magyar Telekom Plc. to ensure that technologically advanced equipment required for new services is available in Hungary.

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 Plc. and TMH. TMH continues its operations within Magyar Telekom Plc. under an independent brand and as an independent business segment.

As of December 31, 2007, TMH accounted for an estimated 44.0 percent of the total Hungarian mobile market in terms of subscribers. The penetration rate of mobile telephone services in Hungary increased from 99.0 percent at December 31, 2006 to 109.7 percent at December 31, 2007.

Since 2006, when TMH was the first mobile operator to launch HSDPA service in Hungary, the company increased its HSDPA coverage based on population from 30 to 53 percent. In 2007, TMH made HSDPA with download speed up to 7.2 Mbit/s available in its network and at the same time launched HSUPA service in Hungary also as the first among local mobile service providers. In 2007 not only downloads but also uploads became faster in TMH's network, offering the customers a highly stable, reliable service with the best quality all over Hungary.

In 2007, 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:

	At December 31,		
	2005	2006	2007
Number of subscribers			
Postpaid subscribers	1,323,814	1,545,115	1,793,620
Prepaid subscribers	2,870,041	2,886,021	3,059,872
Total subscribers.....	4,193,855	4,431,136	4,853,492
Average monthly Minutes of Use ("MOU") per subscriber ..	127	142	149
Churn ratio (%)			
Postpaid subscribers	10.4	9.9	10.0
Prepaid subscribers	22.0	21.9	21.1
Total subscribers	18.5	17.9	17.1
Average monthly Revenue per User in HUF			
Postpaid subscribers	10,838	9,849	8,635
Prepaid subscribers	2,239	2,300	2,205
Total subscribers	4,832	4,800	4,542
Mobile penetration in Hungary (%)	92.4	99.0	109.7
TMH's market share (%)	45.0	44.5	44.0

Though the Hungarian mobile market is reaching a saturation level with penetration nearly 110 percent, in 2007, total growth rate exceeded previous year's average due to the significant increase of inactive subscribers driven largely by Pannon's inactivity results. The increase in the number of TMH subscribers since December 31, 2006 is attributable to a number of factors, including the expansion of mobile broadband services and the success of community offers.

Traffic. TMH's average traffic per subscriber is comparable to other European countries and was at a blended level of 149 minutes in 2007. Average traffic per subscriber has increased over 2006 as a result of successful tariff packages 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 tariff packages 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 tariff packages and successfully introduced additional packages in 2007 to acquire new subscribers and develop loyalty.

TMH faced intense price-based competition in 2007. Competitors waged various campaigns, including introduction of new tariff packages with minute, money bundle (purchasing a certain amount of minutes or a

predefined monetary amount that can be applied toward usage) and community offers and products (such as family package), to win over TMH's subscribers. TMH responded to the competitors with its own new tariff initiatives across all of the subscriber segments. In 2007, mobile Internet was one of the key development directions on the market where all operators introduced several offers. TMH is leading in both coverage and in the introduction of high speed technology (3G/HSDPA 7.2 Mbit/s, HSUPA).

Research and development

Magyar Telekom Plc. has a department 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 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, Wi-Fi) 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. After introducing triple-play solutions, we started a field trial to provide IP High Definition TV ("HDTV"). We intend to offer HDTV as a commercial service from 2008. We also deployed a complex measurement system to measure the streamed quality of IPTV and to monitor the overall service quality in an "end-to-end" manner. Home Media Sharing is under investigation in order to provide value added features.

In 2007, we focused on the potential Next Generation, IP Multimedia Subsystem ("IMS")-based applications. We conducted an internal test to evaluate the usability of the IP Centrex features. Based on IMS, we developed the Click-to-dial application, which is considered to be the basis for the forthcoming service improvements. In 2008, we intend to continue this project towards more complex services.

We developed a pilot system for the automated measure of the acoustic and electronic parameters of the analogue CPEs. This project is planned to be continued towards a completely automatic CPE testing framework.

Peer-to-peer communication services (p2p file sharing, p2p voice and video transmission, etc.) are intensively utilizing our IP infrastructure. To estimate and measure this traffic a pilot measuring system was elaborated.

The possibility to introduce EuroDOCSIS 3.0 technology is being considered. This technology has the potential to offer value added services and higher bandwidth data transmission.

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. As an application, TV programs were used to measure the understanding factor by a test group of disabled people. Based on the results, a product development can be started for commercial launch.

Environment protection

The management committee of Magyar Telekom Plc. 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

Our headquarters are located at 55 Krisztina krt., 1013 Budapest, Hungary.

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

Due to the consolidation of various operations, the conversion to digital switches and ongoing staff reductions, we anticipate that a substantial portion of our owned and leased properties will not be necessary for our core business in the future. We intend to sell or rent our surplus properties.

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.

Real estate holdings have the following functions:

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

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.

Financial risk management

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

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

1. Market risk

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

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

(a) Foreign currency risk

In order to mitigate the foreign currency risk, Magyar Telekom Plc. minimized its foreign currency borrowings in 2002 and 2003. From 2004, Magyar Telekom Plc. is having insignificant amount of foreign currency denominated debts.

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

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

In line with currency hedging policy, Magyar Telekom Plc. holds significant amounts of EUR and USD on its bank accounts. The necessary amount is determined by the balance of trade payables and trade receivables in order to hedge the currency risk arising in connection with those liabilities. Exchange rate fluctuations therefore have no significant effect on profit or loss, or equity.

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

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Magyar Telekom Plc. is exposed to financial market risk primarily through interest rate fluctuations. This is due to the fact that changing HUF interest rates affect the fair value of fixed rate debts and also affect the cash outflow through the variable rate debts. By the end of 2003, Magyar Telekom Plc. managed to convert almost its entire remaining foreign exchange debt portfolio to HUF, thereby the debt portfolio is only exposed to HUF interest rate fluctuations. To control interest rate risk, a combination of fixed and floating rate debt is used within the HUF portfolio.

Magyar Telekom Plc. has insignificant amounts of HUF deposits, therefore, the change in interest rates would have a very minimum impact on its financial statements.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible according to management's estimations, the exposure to which is mitigated by the balanced portfolio of fixed and variable interest rate borrowings.

(c) Other price risk

As of December 31, 2006 and 2007, Magyar Telekom Plc. did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

2. Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient cash, cash equivalents and term deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury's management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Plc.'s budgeted financing needs until the end of June 2009. Despite the fact that this has not been formalized in a contract, it can be considered as a "quasi shelf facility".

3. Capital risk

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, Magyar Telekom Plc. monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by Equity (including Minority interest) and net debt.

Risk management policies

It is our policy that all disclosures made by us to our security holders and the investment community be accurate and complete, and fairly present our financial condition and results of operations in all material respects.

Such disclosures should be made on a timely basis as required by applicable laws, rules and regulations, including by-laws of the Budapest Stock Exchange and rules adopted by the U.S. Securities and Exchange Commission ("SEC"). To achieve these objectives, we formed the Disclosure Committee and developed and have continuously enhanced our risk management policies.

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

In 1999, we established a formal risk management system. This system was integrated into the risk management system of 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. All of our 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 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 introduced to train our employees on requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures. Completion of this course has been made compulsory for all of our employees.

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

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 2003-2007 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).

Magyar Telekom Plc.'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 Plc. is present could influence our business performance negatively.

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.

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 2008 as well.

Revenues

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

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

reduced gradually further in 2008 and in the years after, having additional negative impact on our fixed line revenue streams.

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

We aim to move towards content and media businesses to support traditional access services and build new revenue streams and exploit new revenue sources. We are 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. Recent years' acquisitions, together with the T-Online capabilities, enable us to achieve success in that segment. On the other hand, we experienced a slow-down of the growth-rate of the broadband market in the second half of 2007. If the weak demand continues in 2008, it could impact negatively the growth of the segment.

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. Expanding our business operation to these new areas with lower EBITDA margins results in a dilutive effect on the EBITDA margin.

In the mobile operations, 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 value added and data services, which is supported by the continuing roll-out of UMTS and HSDPA services. Accordingly, leveraging on our newly built HSDPA capacities and market leadership in 3G coverage and quality is one of T-Mobile Hungary's primary strategic priorities on the fast growing wireless broadband market.

The expected growth driven by customer base and mobile data is off-set by regulatory measures. Adopting EU regulations on roaming coupled with continuation of gradual cuts of mobile termination fees are expected to decrease revenues significantly. As a result, we expect stable net revenue generation in the Hungarian mobile segment in 2008.

Magyar Telekom Plc. renewed its mobile concession contract for use of the 900 MHz frequency that expires on November 4, 2008 for an additional term of seven and half years according to an agreement with the Ministry of Economy and Transport. In addition to payment of the HUF 10 billion concession fee Magyar Telekom Plc. has undertaken to spend at least HUF 20 billion in the following two years on further increase of mobile broadband coverage in Hungary.

Expenses

In line with our strategy, we plan to improve our internal operational efficiency in all segments. We announced a headcount reduction plan in October 2007. The measures are expected to decrease the Group-level headcount by 15 percent by the end of 2008 compared to end of June 2007. The majority of the headcount reduction was implemented at the end of 2007; rest will be implemented gradually in 2008.

Though adopted EU roaming regulations and decreasing termination fees result in lower interconnection revenues, this effect is partially offset by decreasing outpayment costs.

In line with world market developments and the Hungarian energy market liberalization, we experience rapid growth in energy prices, highly above the inflation level. We expect the trend will continue in 2008, impacting us negatively. We also expect growing expenses in mobile site rental costs as a result of the increasing coverage of 3G services and higher IT costs driven by value added products.

We plan to reshuffle our brand portfolio in 2008, similarly to our parent company Deutsche Telekom. We intend to introduce a new brand, "T-Home", and current fixed line brands will be pulled off from the market.

This move will simplify the company's market presence from customer point of view, but may cause marketing cost increase in 2008.

Gross additions to tangible and intangible assets

We aimed to reduce the gross additions to tangible and intangible assets to sales ratio to below 14 percent in 2007 and succeeded in meeting this target (without the fees for mobile license). Excluding potential acquisitions, we expect this ratio to increase in 2008, mostly because of our mobile license contract that includes HUF 20 billion investment obligations for the next two years to increase mobile coverage. 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

The increasing revenue contribution of new services will help to maintain revenue levels. However, as these are lower margin services, we expect a slight decline in EBITDA in 2008 compared to the 2007 level.

Events after the balance sheet date

Privatization tender for Telekom Slovenia

Following the completion of due diligence Magyar Telekom filed a binding bid in the public tender of the Republic of Slovenia for the sale of an equity participation in Telekom Slovenije d.d. on January 4, 2007. Later in January it was announced that the Company had not been selected to proceed to the next stage in the public tender process.

Budapest, April 25, 2008.



Christopher Mattheisen
Chairman and Chief Executive Officer



Thilo Kusch
Chief Financial Officer

Declaration of responsibility

We the undersigned declare that to the best of our knowledge all data and information in the attached annual report are true and correct and the report does not omit any material information necessary for investors to make an informed judgement of Magyar Telekom. We acknowledge that, based on the order of the Capital Markets Act, Magyar Telekom, as an issuer, is responsible for any damage caused by its failure to make a regular or extraordinary announcement or by any misleading announcement made.



Christopher Mattheisen
Chairman and Chief Executive Officer



Thilo Kusch
Chief Financial Officer

Budapest, April 25, 2008