Magyar Telekom Plc.
Form 20-F
June 17, 2008

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As filed with the Securities and Exchange Commission on June 17, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 1-14720

MAGYAR TELEKOM TÁVKÖZLÉSI NYILVÁNOSAN MÜKÖDÖ RÉSZVÉNYTÁRSASÁG

(Exact name of Registrant as specified in Its Charter)

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

(Exact name of Registrant's Name Into English)

Hungary

(Jurisdiction of Incorporation or Organization)

Budapest, 1013, Krisztina krt. 55, Hungary

(Address of Principal Executive Offices)

Thomas Stumpf
Chief Accounting Officer
Magyar Telekom
Budapest, 1013, Krisztina krt 55, Hungary
+36-1-457-4211
tom.stumpf@telekom.hu
(Name, Telephone, Email and/or Facsimile number and Address of the Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

American Depositary Shares, each representing five Ordinary Shares	New York Stock Exchange
Ordinary Shares	New York Stock Exchange* Budapest Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **N/A**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **N/A**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares.....1,042,745,615 nominal value HUF 100 per share (as of December 31, 2007)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

US GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board ý Other o

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

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* Not for trading, but only in connection with the registration of American Depositary Shares.

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Certain Defined Terms and Conventions

In this annual report the terms "Magyar Telekom", the "Group", the "Company", "we", "us" and "our" refer to Magyar Telekom Plc. and, if applicable, its direct and indirect subsidiaries as a group; the term "Magyar Telekom Plc." refers to Magyar Telekom Plc. without its subsidiaries; the term "DT" refers to Deutsche Telekom AG. The term "TMH" refers to the mobile line of business of Magyar Telekom. T-Mobile Magyarország Távközlési Rt., our fully owned subsidiary, merged with Magyar Telekom Plc. on February 28, 2006. From March 1, 2006, Magyar Telekom is the legal successor of TMH.

In this annual report, the term "Minister" refers to the Minister heading the Ministry of Economy and Transport.

Totals in tables may be affected by rounding. Segment revenue and operating expense figures included in this annual report do not give effect to intersegment eliminations.

Forward-looking Statements

The Company may from time to time make written or oral forward-looking statements. Written forward-looking statements appear in documents the Company files with the Securities and Exchange Commission, including this annual report, reports to shareholders and other communications. The U.S. Private Securities Litigation Reform Act of 1995 contains a safe harbor for forward-looking statements. Actual results may differ materially from a forward-looking statement made by Magyar Telekom or on its behalf. Readers should also consider the information contained in Item 3, "Key Information Risk Factors" and Item 5, "Operating and Financial Review and Prospects", as well as the information contained in the Company's periodic filings with the Securities and Exchange Commission for further discussion of the risks and uncertainties that may cause such differences to occur. The Company's forward-looking statements speak only as of the date they are made, and the Company does not have an obligation to update or revise them, whether as a result of new information, future events or otherwise.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

SELECTED FINANCIAL DATA

This selected consolidated financial and statistical information should be read together with the consolidated financial statements, including the accompanying notes, included in this annual report. We derived these financial data from our consolidated financial statements as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 and the accompanying notes, which have been audited by PricewaterhouseCoopers Könyvvizsgáló és Gazdasági Tanácsadó Kft. ("PwC"). These consolidated financial data are qualified by reference to our consolidated financial statements and accompanying notes, which we have prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

	Year ended December 31,					
	2003	2004	2005	2006	2007	2007
	HUF	HUF	HUF	HUF	HUF	U.S.$[1]
	(in millions, except per share amounts)					
Consolidated Income Statement Data:						
Amounts in accordance with IFRS						
Revenues	607,252	596,792	615,054	671,196	676,661	3,920
Operating profit	122,064	93,719	141,754	136,391	128,312	743
Net income	57,475	34,641	78,415	75,453	60,155	349
Operating profit per share	117.60	90.30	136.46	131.10	123.25	0.71
Basic earnings per share	55.38	33.38	75.49	72.53	57.78	0.33
Diluted earnings per share	55.37	33.37	75.46	72.51	57.78	0.33
Consolidated Balance Sheet Data:						
Amounts in accordance with IFRS						
Total assets	1,058,837	1,029,568	1,082,948	1,131,595	1,135,578	6,579
Net assets as reported	630,384	576,664	597,694	593,167	581,693	3,370
Common stock	104,281	104,281	104,281	104,277	104,275	604
Total shareholders' equity as reported	560,110	516,567	527,567	526,039	514,998	2,984

	Year ended December 31,				
	2003	2004	2005	2006	2007
	(in millions)				
Other data:					
Weighted average number of shares					
Basic	1,038	1,038	1,039	1,040	1,041
Diluted	1,038	1,038	1,039	1,041	1,041

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2007 of U.S. dollar 1.00 = HUF 172.61. These translations are unaudited and presented for convenience purposes only.

Dividends

The following table sets forth the dividend per Magyar Telekom ordinary share for the years 2003, 2004, 2005, 2006 and 2007. The table shows the dividend amounts in Hungarian forints, together with U.S. dollar equivalents, for each of the years indicated.

	Dividend Paid Per Ordinary Share	
	HUF	U.S.$[(1)]
Year		
2003	70	0.3367
2004	70	0.3883
2005	73	0.3418
2006	70	0.3653
2007	74	0.4287

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2007 of U.S. dollar 1.00 = HUF 172.61, December 31, 2006 of U.S. dollar 1.00 = 191.62; December 31, 2005 of U.S. dollar 1.00 = HUF 213.58; December 31, 2004 of U.S. dollar 1.00 = HUF 180.29 and on December 31, 2003 of U.S. dollar 1.00 = HUF 207.92.

EXCHANGE RATE INFORMATION

As used in this document, "Hungarian forint" or "HUF" mean the lawful currency of Hungary. "EUR", "euro" or "€" mean the single unified currency of the European Union. "U.S. dollar," "USD" or "$" mean the lawful currency of the United States.

The National Bank of Hungary ("NBH") quotes and publishes official exchange rates of the Hungarian forint for all major currencies based on prevailing market rates. Unless otherwise stated, conversion of Hungarian forint into U.S. dollars have been made at the rate of USD 1.00 to HUF 172.61, which was the official rate quoted and published on December 28, 2007 (last working day in Hungary in 2007).

On any given day, the market exchange rate of the Hungarian forint against the euro may vary from the official rate of the NBH. Prior to May 4, 2001, the NBH had a policy of intervening in the foreign exchange market, if the market exchange rate of the Hungarian forint against the euro deviated more than 2.25 percent above or below the official rate. On May 4, 2001, the NBH announced that it had widened this intervention band to 15 percent above and below the official rate. The central parity was set at 282.36 HUF/EUR rate. As of February 26, 2008, the NBH terminated the intervention band. The floating exchange rate allows the NBH to focus more effectively on the inflation targets and therefore, it is an important step towards the introduction of the euro in Hungary.

The following tables set forth, for the periods and dates indicated, the period-end, average, high and low official rates quoted and published by the NBH for Hungarian forint per U.S.$1.00 and EUR 1.00.

	Exchange Rates (amounts in HUF/U.S.$)			
	Period-End	Average[1]	High	Low
Year				
2003	207.92	224.44	237.63	206.61
2004	180.29	202.63	217.24	180.19
2005	213.58	199.66	217.54	180.58
2006	191.62	210.51	225.01	191.02
2007	172.61	183.83	199.52	171.13
2007				
December	172.61	173.86	177.60	171.13
2008				
January	174.84	174.11	179.65	170.28
February	172.49	177.69	183.23	170.95
March	163.90	167.56	174.22	162.29
April	163.13	161.03	165.46	157.13
May	155.51	158.88	165.09	154.61

(1) The average of the exchange rates on each business day during the relevant period.

	Exchange Rates (amounts in HUF/EUR)			
	Period-End	Average[1]	High	Low
Year				
2003	262.23	253.51	272.03	234.69
2004	245.93	251.68	270.00	243.42
2005	252.73	248.05	255.93	241.42
2006	252.30	264.27	282.69	249.55
2007	253.35	251.31	261.17	244.96
2007				
December	253.35	253.15	254.82	251.68
2008				
January	259.52	255.98	259.95	252.95
February	262.17	262.02	265.92	256.60
March	259.36	260.09	266.01	256.05
April	253.43	253.79	259.41	250.94
May	240.80	247.41	253.17	240.80

(1) The average of the exchange rates on each business day during the relevant period.

We will pay any cash dividends in Hungarian forints, and if you are a holder of American Depository Shares ("ADSs") exchange rate fluctuations will affect the U.S. dollar amounts you will receive upon conversion of cash dividends on the shares represented by ADSs. Fluctuations in the exchange rate between the Hungarian forint and the U.S. dollar will also affect the prices of shares and ADSs.

RISK FACTORS

Prior to making any investment decision, you should carefully consider the risks set forth below in addition to other information contained in this annual report. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities.

The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion at the front of this Annual Report for cautionary information.

Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations.

The Electronic Communications Act of 2003 ("Electronic Communications Act"), which came into force in January 2004, was enacted by the Parliament to achieve harmonization of the telecommunications regulatory regime in Hungary with the New Regulatory Framework ("NRF") of the EU for electronic communications adopted in 2002, and to encourage further competition in the market. The NRF is currently under review in the EU; however, according to our expectations, the amended regulation will not affect business activities earlier than 2010.

Under the Electronic Communications Act, the National Communications Authority ("NCA") was established to regulate the telecommunications industry. The primary responsibility of the NCA is to perform market analysis procedures, under which it defines "relevant markets," or markets subject to the regulatory framework. The NCA analyzes such markets for the level of competition and, if it finds a lack of sufficient competition in such markets, identifies service providers with significant market power ("SMP"), and imposes appropriate regulatory obligations on such providers to encourage competition.

The NCA carried out a market analysis procedure and has reached its final findings on 17 out of 18 relevant markets identified in an applicable decree in 2004. Under these findings, Magyar Telekom was found to have SMP on 12 of the 16 markets (i.e., markets 1-9 and 11-13) and TMH was found to have SMP on one market (i.e., market 16). By the end of March 2008, the NCA had published SMP resolutions concerning 17 markets out of the 18 in the second round of market analyses. Out of these 17 markets, Magyar Telekom was identified as an operator with SMP in all but four markets (these four markets include market 15, which is related to the mobile market). As a result, the NCA imposed various obligations on Magyar Telekom and TMH with respect to these markets. See "Item 4 Regulation and Pricing".

The Recommendation of the European Commission on relevant product and service markets within the electronic communications sector susceptible to *ex ante* regulation in accordance with Directive 2002/21/EC of the European Parliament and of the Council on a common regulatory framework for electronic communication networks and services (2003/311/EC) ("Recommendation"), the regulation on which the market analysis procedure of the NCA is based, was also reviewed by the EU during 2006 and 2007. This new Recommendation entered into force on December 17, 2007. As a result of the EU review, the number of relevant markets decreased from 18 to 7. Magyar Telekom is currently identified as having SMP in all of the 7 remaining markets as well as in all retail markets cancelled from the list of relevant markets. The new Recommendation is expected to become effective in the next round of market analyses by the NCA, which are expected to be completed in 2009. Consequently, the new Recommendation will not affect Magyar Telecom's business activities in the short term. In the long term, we do not expect to be identified as an operator with SMP in market 7 (minimal set of leased lines) and we expect our obligation to provide such services to be abolished. Due to the cancellation of market 15 (mobile origination market), it would be more difficult to introduce Mobile Virtual Network Operators ("MVNOs") obligation for TMH (however currently the NCA is investigating the opportunities for a fourth mobile service provider in Hungary). The extension of the definition of market 11 (unbundling of the local loops) from copper to

optical networks makes the extension of the unbundling obligation to Magyar Telekom's new technology (optical) networks easier for the NCA. This is expected to have an adverse impact on our business results.

The new Communications Act, which affects our Bulgarian subsidiary's, Orbitel's, core business, entered into force on May 25, 2007. The new Act transposes into Bulgarian legislation the five directives of the EU 2003 regulatory framework the Access, Authorization, Framework, Universal Service and Privacy Directives. (In accordance with its EU accession commitments, Bulgaria had to complete the transposition of the EU 2003 electronic communications regulatory framework before the date of its accession to the EU on January 1, 2007, but the legislative process was delayed.) The implementation of the new regulation may have a negative impact on the businesses results of Orbitel.

In addition, our businesses in Macedonia and Montenegro are also subject to various regulatory developments.

We cannot fully anticipate the combined impact of these and other regulatory developments on our business and results of operations. Our business and results of operations may be adversely affected by these changes.

Review of the EU Regulation (of the European Parliament and of the Council No. 717/2007/EC) on roaming charges in the mobile telecommunications sector could adversely affect our results of operation.

The EU roaming regulation effective from June 30, 2007 sets a limit on international wholesale mobile roaming voice charges (Eurotariff). See "Item 4 Regulation and Pricing". Text messaging and data communications are not covered at present, but are subject to regulatory monitoring. This regulation will negatively influence the roaming revenues of our mobile operations.

Harmonization of mobile termination rates at EU level

Similarly to the regulation of roaming charges, the European Commission plans to introduce a harmonized regulation of mobile termination rates. As a result, it is possible that TMH termination rates will be reduced to a lower level than intended by the NRA. However, the harmonization of termination rates will have a positive effect on our company.

We are subject to more intense competition due to the liberalization of the telecommunications sector.

The Electronic Communications Act was enacted to facilitate further competition and encourage new entrants to the market. Although identities of such entrants are already known to some degree, the scope of competition and any adverse effect on our results will depend on a variety of factors that we currently cannot assess with precision and are for the most part not within our control. Among such factors are business strategies and capabilities of new competitors, prevailing market conditions, as well as the effectiveness of our efforts to prepare for new market conditions. Specific risks include continuous downward pressure on tariff levels, loss of customers as a result of unbundled access to the local loop, loss of fixed line customers as a result of introducing "naked" Asymmetrical Digital Subscriber Line ("ADSL"), competition from alternative operators using new technologies (such as voice over Internet Protocol technology, "VoIP" or cable television) and migration to lower priced Internet price plans as a result of speed upgrades.

In the mobile communications business, we already face intense competition. As all telecommunications markets have become increasingly saturated, the focus of competition has shifted from customer acquisition to retention. Significant customer defections could have an adverse effect on results of operations, and customer acquisition and retention expenses are substantial. Due to the increased level of competition, prices for mobile telephone services have been declining over the past several years and may continue to decline. An eventual entry of MVNOs into the mobile telecommunications market would intensify the competition in Hungary. MVNOs are mobile operators

that do not own their own spectrum or often network infrastructure, buy the use of the spectrum and network infrastructure from traditional mobile operators and provide mobile telecommunications services to consumers based on such purchased capacity. MVNOs will likely target the lower segment of the market and such development will likely increase price-based competition.

Our subsidiary, Professzionális Mobilrádió Zrt. ("Pro-M") has an exclusive right to provide Terrestrial Trunked Radio ("TETRA") services for public safety and security agencies in Hungary. However, the EDR (the Hungarian Unified Digital Radio Network) contract restricts the company from providing services to any other entity. Providing any services outside the above mentioned range of users requires the Hungarian government's consent.

We also face intense competition in the market for Internet services, as well as in the data communications markets from other fixed line, mobile and cable television service providers. As the Hungarian fixed broadband Internet market gets closer to its saturation, the share of Magyar Telekom DSL net additions has declined against competitors' cable internet offerings. This could adversely affect our further broadband growth prospects.

In Macedonia, the exclusive rights of Makedonski Telekommunikacii AD ("Maktel") to provide fixed line telecommunications services expired at the end of 2004 as a result of market liberalization in Macedonia. Competition posed by new entrants may result in a downward pressure on Maktel's pricing, sales volume and profitability, which would have an adverse effect on our financial condition and results of operations. The Macedonian telecommunications regulator issued a third mobile license to Austrian Mobilkom in the first quarter of 2007. The operator entered into the Macedonian market in September 2007 under the name VIP with 2.5G services. In addition, the Agency for Electronic Communications ("AEC") announced a call for expressions of interest for a fourth mobile operator on April 2, 2007. In November 2007, the AEC published a public tender for granting one license for Third Generation ("3G") radio frequencies utilization. Cosmofon won the tender and shall start the 3G commercial operations until August 12, 2008. The entrance of these new operators into the market intensify the competition in the Macedonian mobile market.

In Montenegro, the de facto exclusivity of Crnogorski Telekom in international voice traffic has come to an end as Promonte, the Montenegrin market leader in mobile telephony has acquired a license for international voice traffic valid from January 1, 2007. A third mobile operator, Mtel, a subsidiary of Telekom Serbia, has also entered the market. In 2007, several cable operators received licenses, and VoIP and World Interoperability for Microwave Access ("WiMax") licenses were also issued. Mtel started to offer fixed line and broadband services, eliminating the de facto monopoly on fixed line telephony of Crnogorski Telekom as well. Furthermore, in November 2006, the Montenegrin telecommunications regulator has issued a tender for two 3G licenses as well as a tender for a mixed 2G-3G license for a third mobile operator. In the first quarter of 2007, T-Mobile Crna Gora and Promonte were awarded with one 3G licenses each and Telekom Serbia won the combined 2G-3G license. The mobile operation of Crnogorski Telekom faces a significant decrease in its market share as a result of these new competitors entering the market.

Competition posed by potential new entrants may result in further downward pressure on Crnogorski Telekom's and T-Mobile Crna Gora's pricing, sales volume and profitability, which would have an adverse effect on our financial condition and results of operations.

Our ability to sustain revenue growth will depend in part on our ability to increase traffic and offer value added and data services to our customers and our ability to acquire telecommunications companies.

We expect the number of our fixed access lines and rates for fixed and mobile telephone services to decrease as competition increases. In addition, the growth rate of the Hungarian broadband market is expected to slow down. Our ability to sustain revenue growth will therefore depend on our ability to increase the amount of traffic over existing fixed lines and to increase revenues from value added, data and

System Integration ("SI") as well as Information Technology ("IT") services. We also plan to grow our mobile subscriber base and our related lines of business, such as Internet and cable television, and expand our coverage area. We may not be able to sustain revenue growth, if we are not able to offer attractive and affordable value added services in the future or if our customers do not purchase our services.

We may be unable to adapt to technological changes in the telecommunications market.

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of various segments of the increasingly global industry. Our future success will largely depend on our ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Technological advances may also affect our level of earnings and financial condition by shortening the useful life of some of our assets.

Next Generation Network ("NGN") is the main stream of technical development that gives the general framework for reaching most of our business strategic goals and for transforming the company. Our NGN strategy focuses on overlay NGN. This approach means that the new technology is built in parallel to the existing network, not in substitution or replacement of existing technology, and we build and use the new technology for introducing new services. In addition, we use the NGN for network transformation by migrating our legacy networks to NGN to change the technology and platform to further provide legacy services and features at a lower operational cost level. We have planned migration to NGN on the basis of recent trends in the telecommunications industry: as vendors allocate resources to develop NGN, they significantly increase legacy system support fees and development costs, we face increasing risk of failures due to aging technology, which may result in revenue loss and stimulate higher churn. The risk of failing to overlay NGN development is that we miss gaining new revenues from broadband-based services and applications as well as integrated, convergent service provision (3play, 4play), while we lose traditional business.

The operation of our mobile businesses depends in part upon the successful deployment of continually evolving mobile communications technologies, which requires significant capital expenditures. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance. We may be required to make more capital expenditures than we currently expect if suppliers fail to meet anticipated schedules, performance of such technologies fall short of expectations, or commercial success is not achieved.

The effects of technological changes on our businesses cannot be predicted. In addition, it is impossible to predict with any certainty whether the technology selected by us will be the most economic, efficient or capable of attracting customer usage. There can be no assurance that we will be able to develop new products and services that will enable us to compete effectively.

TMH launched 3G-based services in Hungary in 2005 before any of its competitors. TMH is currently upgrading the network infrastructure to better provide the new generation of services. However, new alternative technologies and standards, e.g., Wireless Fidelity ("WiFi"), WiMAX, or VoIP, may keep consumers from choosing 3G-based services. We are not able to predict at the moment which of these competing technologies will be the most widely accepted platform, however we think that High Speed Downlink Packet Access ("HSDPA") and High Speed Uplink Packet Access ("HSUPA") enabled 3G network is the most likely candidate.

Our subsidiary, Pro-M, also faces risks resulting from technological changes, since the TETRA technology is evolving according to customer demands. To neutralize this risk, Pro-M needs to keep pace with new developments and apply these to its network, while considering capital expenditure requirements.

The future of our current operational model is subject to currently unforeseeable changes in the future business environment.

The telecommunications industry is undergoing a major change globally with an effect on the Hungarian market as well. We have considered these market trends including changes in technology, customer requirements, competition and regulation, and accordingly, we have planned our operational restructuring to be in line with these market trends. Our new operational model effective from January 1, 2008 is based on customer segments and also provides a solid basis to capture long term growth. We have designed our new operational model according to our best current knowledge of market trends and our business needs; however, the future business environment might evolve into currently not foreseen directions that will require us to adjust the operational model to date.

Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets.

Developments in the technology and telecommunications sectors, including significant declines in stock prices, market capitalization and credit ratings of market participants may result in impairments of our tangible, intangible and financial assets. Future changes in these areas could lead to further impairments at any time. Recognition of impairment of tangible, intangible and financial assets could adversely affect our financial condition and results of operations and might lead to a drop in the trading price of our shares. We review on a regular basis the value of each of our subsidiaries and their assets. The value of goodwill is reviewed annually. In addition to our regular valuations, whenever we identify any indication (due to changes in the economic, regulatory, business or political environments) that goodwill, intangible assets or fixed assets may have been impaired, we consider the necessity of performing certain valuation tests which may result in an impairment charge.

We depend on a limited number of suppliers for equipment and maintenance services.

In each of our operating divisions, there are a limited number of suppliers for necessary equipment and maintenance services. The failure of these suppliers to meet our equipment and maintenance needs in a timely manner could have a significant effect on our revenues and market position. The construction and operation of our networks and the provision of our services and network infrastructure, especially mobile telecommunications services, are dependent on our ability to obtain adequate supplies of a number of key items on a timely and cost-efficient basis. These include handsets and transmission, switching and other network equipment. Significant delays in obtaining such equipment and maintenance services could have a material adverse effect on our business and results of operations.

Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies.

Media reports have suggested that radio frequency emissions from mobile telephones are linked to medical conditions such as cancer. In addition, a number of consumer interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital mobile technologies pose health risks and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on our mobile business or will not lead to additional government regulations. Our ability to install new mobile telecommunications base stations and other infrastructure may also be adversely affected, and related costs may increase, due to regulations or consumer action in response to concerns over health risks and adverse effect on the value of properties adjacent to such facilities. The actual or perceived health risks of mobile communications devices could adversely affect mobile communications service providers, including us, through increased barriers to network development, reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the mobile communications industry.

System failures could result in reduced user traffic and revenue and could harm our reputation.

Our technology infrastructure (including our network infrastructure for fixed network services and mobile telecommunications services) is vulnerable to damage and interruption from information technology failures, power loss, floods, windstorms, fires, intentional wrongdoing and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures or computer viruses could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and revenue and could harm our reputation.

Loss of key personnel could weaken our business.

Our operations are managed by a small number of directors and key executive officers. The loss of directors or key executive officers could significantly impede our financial, marketing and other plans. We believe that the growth and future success of our business will depend in large part on our continuing ability to attract and retain highly skilled and qualified personnel at all levels; however, the competition for qualified personnel in the telecommunications industry is intense. We can give no assurances that we will be able to hire or retain necessary personnel.

Ongoing internal and government investigations into contracts and activities in Montenegro and Macedonia may result in fines, sanctions and changes to our business practices and compliance programs. In connection with the internal investigation, management and the Board of Directors identified a material weakness of our internal controls over financial reporting that existed as of December 31, 2007, and we may not be able to prevent future weaknesses.

As previously disclosed, in connection with their audit of our consolidated financial statements for the year ended December 31, 2005, PwC, our independent auditor, identified two consulting contracts entered into by two of our subsidiaries for which it was unable to identify a proper business purpose. An independent internal investigation, is being carried out by the law firm of White & Case (the "independent investigators") under the supervision of our Audit Committee. In December 2006, the independent investigators issued an Initial Report of Investigation. The Initial Report concluded that there was reason to believe that four consulting contracts were entered into by us and our subsidiaries to serve improper objectives. The Initial Report also concluded that the destruction by certain employees of documents relevant to these four contracts impeded the internal investigation.

The Initial Report 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 internal investigation to cover these additional contracts and any related or similarly questionable contracts or payments.

In May 2008, the independent investigators provided us with a "Status Report on the Macedonian Phase of the Independent Investigation." In the Status Report, White & Case stated, among other things, that "there is affirmative evidence of illegitimacy in the formation and/or performance" of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between us and/or various of our affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which we and/or our affiliates paid a total of over EUR 6.7 million.

United States and Hungarian authorities have commenced their own investigations concerning the transactions which are the subject of our internal investigation, to determine whether there have been violations of U.S. and Hungarian law. The Ministry of Interior of the Republic of Macedonia has also issued a request to one of our Macedonian subsidiaries, requesting information and documents concerning certain of our and our subsidiary's procurement and dividend payment activities in that country (together with U.S. and Hungarian investigations, the "Government investigations"). During 2007, the U.S.

authorities expanded the scope of their investigations to include an inquiry into our actions taken in connection with the internal investigation and our public disclosures regarding the internal investigation.

We cannot predict when the internal investigation or the ongoing Government investigations will be concluded, what the final outcome of those investigations may be, or the impact, if any, they may have on our financial statements or results of operations. Government authorities could seek criminal or civil sanctions, including monetary penalties, against us or our affiliates, as well as additional changes to our business practices and compliance programs. For further discussion of the internal and Government investigations, see "Item 8 Legal Proceedings" and "Item 15 Controls and Procedures."

The internal investigation revealed certain weaknesses in our internal controls and procedures. Our Board of Directors, including our CEO and CFO, has concluded that, as of December 31, 2007, the Company did not maintain, in all material respects, effective internal controls over financial reporting, thus we had a material weakness in internal controls over financial reporting: management failed to consistently maintain an effective control environment. We believe that certain failures to communicate by certain senior managers did not demonstrate the appropriate level of control consciousness and, therefore, did not demonstrate a positive tone at the top of the organization. For further discussion of the material weakness and the steps that we haven taken and are taking in light of the internal investigation, see "Item 15 Controls and Procedures."

Notwithstanding the steps we have taken and continue to take to address these issues, we may not be successful in preventing future weaknesses. If we are unable to prevent future weaknesses, there is a risk that we may not be able to prevent or detect improper third-party contracts that could cause a material misstatement of our annual or interim consolidated financial statements. In addition any failure to implement new or improved internal controls, or resolve difficulties encountered with their implementation, could harm our operating results or cause us to fail to meet our reporting obligations and consequently subject us to regulatory fines. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our shares and ADSs.

Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs.

The Hungarian equity market is relatively small and illiquid compared to major global markets. As a result of the limitations of the Hungarian equity market and the volatility of the telecommunications sector in general, the price of our shares and ADSs may be relatively volatile and you may have difficulty selling your shares in the event of unfavorable market conditions.

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

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

Due to the substantial state budget deficit, the Hungarian government passed a stabilization package in June 2006. The stabilization program provided for significant tax hikes for both corporations and individuals, including the introduction of an additional income tax on high-income individuals, increases in corporate taxes and Value-Added Tax ("VAT"), and a new tax on healthcare contributions and other benefits. The stabilization program also introduced material energy price increases. This stabilization program had the effect of increasing the Consumer Price Index ("CPI") and decreasing Gross Domestic

Product ("GDP") in 2007 from the levels that might otherwise be attained without it. In 2008, we expect lower CPI and higher GDP growth rate compared to 2007, however there is a risk of stable or even increasing level of CPI and stable or even decreasing GDP growth rate in Hungary in the following years. As an effect of any relative CPI increase and/or GDP decrease, disposable income may decrease accordingly in both the corporate and the residential segments. Any such decrease in disposable income could negatively affect spending on telecommunications, which could result in decreased revenues for Magyar Telekom. In addition, the measures introduced and to be introduced by the government negatively affect our employees' remuneration and may cause difficulties in the negotiations conducted with the trade unions. In order to meet our efficiency improvement targets, we will not be in the position to fully compensate the negative effects of the government measures suffered by our employees.

We are closely monitoring the impact of the recent volatility in the global credit and equity markets and its effects on the financial position and performance of the Company. At this stage it is quite uncertain for how long this volatility will last and what its overall effects will be on our results of operations and financial conditions.

Fluctuations in the currency exchange rate could have an adverse effect on our results of operations.

We are subject to currency translation risks, mainly relating to the results of our Macedonian and Montenegrin operations. Devaluation of the Macedonian denar or appreciation of the Hungarian forint may have a negative impact on Maktel's results when converted into HUF. The conversion of Crnogorski Telekom's results into HUF depends on the value of the HUF against the EUR. This is mainly a reporting risk, but through the dividend payments it has direct financial (cashflow) effects on us as well.

We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. The results of those procedures may have a material adverse effect on our results of operations and financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party, or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or could be involved (or settlements thereof), may have a material adverse effect on our results of operations or financial condition. For information concerning material litigation in which we currently are involved, see "Item 8. Financial Information Legal Proceedings." For information concerning our regulatory environment, see "Item 4. Information on the Company Regulation."

ITEM 4 INFORMATION ON THE COMPANY

ORGANIZATION

Magyar Telekom is a limited liability stock corporation incorporated and operating under the laws of Hungary. Our shares are listed on the Budapest Stock Exchange, and our ADSs are listed on the New York Stock Exchange. Our headquarters are located at 55 Krisztina krt., 1013 Budapest, Hungary. Our telephone numbers are +36-1-458-0000 and +36-1-458-7000. Our agent for service of process in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011, USA.

HISTORY AND DEVELOPMENT

Prior to 1990, the Hungarian national postal, telephone and telegraph authority, Magyar Posta, provided all public telephone services in Hungary. On January 1, 1990, the Hungarian government split Magyar Posta into three distinct entities based on the nature of their operations: postal services, telecommunications and broadcasting. The Hungarian government made Magyar Távközlési Vállalat, the predecessor to Matáv, responsible for telecommunications operations. This entity was transformed on December 31, 1991 into a stock corporation, Magyar Távközlési Rt., or Matáv, then wholly owned by the predecessor of Állami Privatizációs és Vagyonkezelö Rt. ("State Privatization and Holding Company" or " ÁPV").

MagyarCom GmbH ("MagyarCom"), a holding company in which Deutsche Telekom and Ameritech Corporation ("Ameritech") each held a 50 percent interest, was selected by the Minister in an international tender and subsequently purchased a 30.1 percent stake in Matáv for approximately U.S.$875 million on December 22, 1993. ÁPV contributed U.S.$400 million of the purchase price paid by MagyarCom to Matáv to provide it with capital to expand the telephone network.

MagyarCom entered into a concession agreement with the Hungarian government on December 19, 1993. MagyarCom then assigned certain of its rights under the concession agreement to Matáv. On December 22, 1993, Matáv entered into a concession contract (the "Concession Contract") with the Hungarian government, which gave us the exclusive right to provide domestic long distance and international public telephone services throughout Hungary and local public fixed line voice telephone services in 31 of 54 Local Primary Areas for a term of eight years ending on December 22, 2001. On May 24, 1994, we obtained the right to provide telephone services in an additional five Local Primary Areas for a term of eight years ending in May 2002.

On December 22, 1995, MagyarCom acquired from ÁPV an additional 37.2 percent interest for approximately U.S.$852 million, raising its stake to 67.3 percent.

In connection with the Company's initial public offering in November 1997, both MagyarCom and ÁPV collectively sold 272,861,367 shares or 26.31 percent of then outstanding shares. In June 1999, ÁPV sold its remaining 5.75 percent stake in Matáv in a secondary offering.

On October 8, 1999, SBC Communications Inc. ("SBC") completed its acquisition of Ameritech and thus gained control over Ameritech's 50 percent interest in MagyarCom.

On July 3, 2000, SBC sold its 50 percent ownership in MagyarCom to Deutsche Telekom, making Deutsche Telekom a 100 percent owner of MagyarCom.

On December 20, 2005, Magyar Telekom's Extraordinary General Meeting approved the decision on the merger of Magyar Telekom Plc. and TMH. The court registration of the merger took place on February 28, 2006. From March 1, 2006, Magyar Telekom is the legal successor of TMH. TMH continues its operations within Magyar Telekom under an independent brand and as an independent line of business.

In 2007, Magyar Telekom changed its management structure to comprise four business segments instead of two (formerly, the Fixed Line and Mobile segments). The Fixed Line segment comprised three segments (T-Com, T-Systems and Group Headquarters and Shared Services). The Mobile segment

included the T-Mobile business segment. The results for our business segments in 2007 are presented on this basis and the segment results for 2006 and 2005 have been restated for comparative purposes.

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

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

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

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

On June 29, 2007, Magyar Telekom's Extraordinary General Meeting approved the merger of Magyar Telekom Plc., Emitel (a former fully owned subsidiary) and the access business area of T-Online Hungary Internet Service Provider Co. Ltd. ("T-Online"). The access business area includes Internet access products such as ADSL, dial-up, cable Internet, as well as Internet Protocol-based TV ("IPTV") and VoIP services.

Following the expansion of the T-Systems segment's service portfolio, particularly through the acquisitions of KFKI Group and T-Systems Hungary Kft., the Company has reviewed the organizational structure of the segment. Since January 1, 2007, the T-Systems segment has consisted of three divisions Infocom, IT Infrastructure and IT Applications. The latter two divisions encompassed the activities of six subsidiaries, divided according to their profiles and competencies. In order to increase the segment's transparency and improve sales efficiency, the number of subsidiaries was reduced via legal integration into the two respective divisions, thus forming two individual legal entities (KFKI System Integration Co. Ltd. and IQSYS IT and Consulting Co. Ltd). The legal procedures were completed by January 1, 2008.

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

Accordingly, Magyar Telekom's executive management has devised a new management structure, based on a Group operational model structured around customer segments. The new structure, which supports the Group's strategic goals to focus increasingly on customer demand, was introduced 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 were affected. The new structure is as follows:

The Consumer Services Business Unit ("CBU") comprises comprehensive marketing, sales and customer relations activities of both mobile and fixed consumer products and brands (T-Mobile, T-Com, T-Online, T-Kábel).

The *Business Services Business Unit ("BBU")* provides mobile and fixed telecommunications, infocommunications and system integration services (including marketing, sales and customer relations activities) under the T-Systems and T-Mobile brands to key business partners (large corporate customers) as well as small and medium businesses.

An *Alternative Businesses and Corporate Development Business Unit ("ABCD")* has been established comprising content, media and other non-access services; it is also responsible for new business development and the coordination of innovative activities. Accordingly, media and content service activities, which have been separated from T-Online Hungary from October 2007, are now incorporated into this business unit.

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

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

For the details on our principal acquisitions during the last three years, see "Item 10 Material contracts".

DESCRIPTION OF BUSINESS AND ITS SEGMENTS

We are the principal provider of fixed line telecommunications services in Hungary, with approximately 2.5 million fixed access lines as of December 31, 2007. We are also Hungary's largest mobile telecommunications services provider, with nearly 4.9 million mobile subscribers (including users of prepaid cards) as of December 31, 2007. We hold a 100 percent interest in Stonebridge Communications AD, which controls Maktel, the leading fixed line telecommunications services provider and, through its subsidiary T-Mobile Macedonia, the leading mobile telecommunications operator in Macedonia. We also hold a 76.53 percent ownership in Crnogorski Telekom, the principal fixed line telecommunications services provider and, through its subsidiary T-Mobile Crna Gora, the second largest mobile telecommunications operator in Montenegro.

In 2007, our consolidated revenues were HUF 676,661 million and our consolidated net income was HUF 60,155 million.

We are a full-service telecommunications provider operating in four business segments:

T-Com and T-Systems. Our T-Com and T-Systems segments are both engaged in providing fixed line telecommunications services, including local, long distance and international telephone as well as other telecommunications services, including leased line, data transmission, cable television and Internet services. We also provide corporate network services, SI and IT services, sell telecommunications equipment and offer network construction and maintenance services. Our T-Com segment provides these services for residential and small business customers. The T-Systems segment provides fixed line telecommunications services in Hungary to the largest 3,200 customers of Magyar Telekom Plc. Since most of our services are provided by both the T-Com and T-Systems segments, we present the description of services below combined for these two segments.

The T-Com segment also includes three Macedonian companies. Stonebridge is a holding company through which Magyar Telekom controls Maktel. Telemacedonia is a management company through which

Magyar Telekom provides management and consulting services to Maktel, T-Mobile Macedonia and Stonebridge. Maktel is Macedonia's leading fixed line telecommunications company. In addition, the T-Com segment also includes our Montenegrin subsidiary, Crnogorski Telekom. Crnogorski Telekom is the principal fixed line telecommunications service provider in Montenegro based on number of subscribers.

T-Com is also present in Romania, Bulgaria and Ukraine, providing alternative telecommunications services in these countries.

T-Mobile. Our mobile telecommunications business, TMH, is the leading provider of mobile telecommunications services in Hungary. TMH is one of three digital mobile services providers in Hungary. Since December 7, 2004, TMH also has rights to operate 3G, or Universal Mobile Telecommunications System ("UMTS"), mobile telecommunications services. Mobile telecommunications services have contributed significantly to our revenues.

The mobile telecommunications services segment also includes T-Mobile Macedonia, a leading mobile telecommunications services provider in Macedonia. T-Mobile Macedonia is a fully owned subsidiary of Maktel. The segment also includes T-Mobile Crna Gora, the second largest mobile telecommunications services provider in Montenegro, a fully owned subsidiary of Crnogorski Telekom. In addition, the T-Mobile segment also includes the professional mobile services provided by Pro-M in Hungary.

Group Headquarters and Shared Services. The GHS segment performs strategic and cross-divisional management functions for Magyar Telekom Group, as well as real estate, marketing, security, procurement, human resources and accounting services, mainly internally within the Group. The external revenues of the GHS segment represent only 0.4 percent of the group revenues; therefore we do not describe this segment separately in the following sections below.

STRATEGY

Since becoming a listed company in 1997, we have maintained our leading positions in the domestic fixed line, mobile, Internet and data businesses. We have successfully expanded into international operations through selective acquisitions, and continuously produced solid results.

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., increase in mobile usability of content services and terminal devices, quadruple-play solutions, growing need for customized content), competition and regulation (i.e., low entry barriers, new business models).

These worldwide trends are driving towards the concept of an integrated Telecommunications, Information, Media and Entertainment market, where market segments are overlapping and market barriers are dissolving.

There is a significant trend evolving also in connection with customer requirements. Customers tend to seek complex services rather than distinct products. Users are more interested in content delivered at the right time and in the right place, with access as a tool to fulfill this need. Largely individualized content, interoperability of devices, services and formats are driving industry players to exclusively possess customer contacts. Direct customer relationships are becoming key assets in competition for customers.

To adapt to these changes in the market, we have moved from a traditional usage-based revenue structure to an access-based revenue structure, which allows us to substitute declining usage revenues with content, entertainment and bundled access revenues. In addition, we are seeking new revenue sources by entering into non-traditional converged telecommunications markets. The recent changes in customer needs are driving us to further change our approach from access-based sales to a customer-need based complete service focus.

Accordingly, we have redefined the focus areas of our corporate strategies to better exploit our position as an integrated telecommunications operator with a full range of services, as well as to ensure our long-term competitiveness. Our strategies are designed to enable us to exploit and develop our extended customer base, significantly improve efficiency and capture growth opportunities.

In order to continue our transformation to become a cost-efficient integrated service company in an extended market of telecommunications and converged industries, we have set our strategic priorities as follows:

1. Revitalize core business short/mid-term focus

Operational efficiency

We intend to exploit potential improvements in efficiencies in current operations and processes to improve our competitiveness. We plan to improve our internal efficiency by prolonging our internal cost reduction program, which has been underway for several years. Analysis of best practices along key processes has resulted in the identification of further improvement opportunities which we plan to exploit by aligning business processes to international best practices and gaining recurring cost advantages.

We also plan to maximize revenue and cost potential in integrated operations and leverage economies of scale and synergies in a converging market. A set of specific operational efficiency targets has been set in place to leverage the synergies supported by the new organizational structure. We are committed to further simplification and improvement of processes and connected systems, accelerating decision making and therefore speeding up time-to-market. In addition to organizational measures and process improvement, we seek cost savings by leveraging our group-wide synergies in procurement.

Service excellence

We intend to provide best-in-class customer care, service delivery and provisioning to our customers in order to maintain our leadership on the market. We also plan to utilize cross/upsell opportunities through clear, dedicated customer segment focus.

Consumer Services Business Unit. The segment strategy is based on three pillars: attract new customers with mobile, TV and broadband services; retain existing customers more efficiently based on enhanced customer management capabilities; up-sell and cross-sell CBU services to the existing customer base. CBU provides broadband access for entertainment, information and communities at home and on the move. We are committed to accelerating broadband growth by expanding our mobile broadband user basis with flat and bundled mobile broadband offerings and by further pushing fixed broadband services. We also plan to extend our triple play ("3Play") products and launch integrated/bundled fixed-mobile propositions. We plan to restructure our brands by introducing and repositioning the T-Home brand for consumer services at home and further strengthen the T-Mobile brand. We intend to provide personalized offerings and differentiated services to our customers based on our state of the art Customer Relationships Management ("CRM") system. Also, we aim to radically improve service delivery/provisioning capabilities increasing customer satisfaction as it is a vital component in strengthening our competitiveness.

Business Services Business Unit. Our main strategic goal is to maintain steady revenue-based market share in corporate segment, increase market share in the Small and Medium size Enterprise ("SME") segment, enhance quality and customer satisfaction, and to build clear brand structure and maximize brand value. In order to achieve this, we aim to handle SI/IT as a core business and offer integrated IT, fixed-mobile convergent business solutions for corporate customers. We also plan to strengthen our focus on the SME segment by introducing a one-stop-shop sales system with a single sales representative model offering all products. This will be complemented by the gradual introduction of convergent SME products. In the near future we would like to leverage the synergies of the integrated operations and further expand in the next years.

2. Capture sustainable growth long-term focus

Traditional telecommunications markets of our core operations imply limited top line growth potential, whereas surrounding convergent market areas such as mass media, transactional services, commerce and info-communications services imply attractive growth in the longer term. Leveraging our relationship advantage, extended distribution network and strong brand awareness, we are in a strong position to enter these new markets and increase our market share in the extended marketplace.

Service expansion

As a service company operating in a competitive market, one of our major strategic goals has been to maximize customer focus in all areas of operation. We intend to focus on innovation, new business and diversification. We also plan to support business of providing access through attractive content and applications. We intend to expand into financially attractive business segments that also fit well with our existing businesses. To capture sustainable growth in the long-term, we have to expand beyond our core business through 'natural fit' diversification. The ABCD unit has been established to focus on these goals.

The main strategic goal of this business unit is to nurture growing, currently non-core businesses so that the CBU and BBU can focus on our core business. The ABCD unit will manage our alternative service portfolio and focus on developing new, alternative businesses. Content and innovative broadband-based services play a crucial role in further enhancing broadband market development. We aim to further advance and extend our presence in this market segment by leveraging our strong positions at web and community portals (further extension of iWiW Kft., the leading Hungarian online social network with currently 2.5 million registered users; [origo], the leading Hungarian news portal; Dataplex, a major provider of info-communications infrastructure hosting; M-Factory, a content developing company).

The other strategic goal of the ABCD business unit is to obtain new competencies and better investment practices and to grow faster with increased and dedicated management focus on group-wide innovation and new business areas. We are considering entering the following new market segments: Media & Advertising; Content Development and Management; Financial and Transactional Services; e-Health; e-Commerce; Public Markets. This unit will be the main driver for innovation in the Group by providing well-structured and best-in-class innovation management, process and systems for emerging new ideas.

International acquisitions

Leveraging our hands-on experience and good track record in the region, we are committed to further strengthen and leverage our presence in the South-East European region. Accordingly, we are continuously seeking further value-creating acquisition and investment targets with even larger scale.

OVERVIEW OF MAGYAR TELEKOM'S REVENUES AND PRINCIPAL ACTIVITIES

For the years ended December 31, 2005, 2006 and 2007, our total revenues by business segments were as follows:

	Year ended December 31,			Year ended December 31,
	2005	2006	2007	2007/2006
	(in HUF millions)			
Revenues				
T-Com revenues from external customers	275,016	272,822	273,275	0.2
T-Com revenues from other segments	30,340	42,421	34,426	(18.8)
Total revenues of T-Com	305,356	315,243	307,701	(2.4)
T-Mobile revenues from external customers	285,848	327,330	325,724	(0.5)
T-Mobile revenues from other segments	23,035	22,236	21,146	(4.9)
Total revenues of T-Mobile	308,883	349,566	346,870	(0.8)
T-Systems revenues from external customers	50,803	63,423	75,034	18.3
T-Systems revenues from other segments	6,198	1,946	3,898	100.3
Total revenues of T-Systems	57,001	65,369	78,932	20.7
GHS revenues from external customers	3,387	7,621	2,628	(65.5)
GHS revenues from other segments	18,628	18,776	21,109	12.4
Total revenues of GHS	22,015	26,397	23,737	(10.1)
Less: inter-segment revenues	(78,201)	(85,379)	(80,579)	(5.6)
Total revenue of the Group	615,054	671,196	676,661	0.8

Most of our revenues in 2005, 2006 and 2007 were derived from services provided within Hungary, except for the international fixed line and international mobile revenues, which were mainly derived from services provided in Macedonia and Montenegro.

Our business is not materially affected by seasonal variations.

T-COM AND T-SYSTEMS

In 2007, our T-Com segment generated revenues of HUF 307,701 million and our T-Systems segment generated revenues of HUF 78,932 million before inter-segment eliminations. The operations of T-Com and T-Systems consist of domestic and international services, Internet services, data transmission, SI/IT services, cable television, telecommunications equipment sales, as well as construction, maintenance and other services.

The T-Com segment also includes the activities of Magyar Telekom in Macedonia, Montenegro and other countries in South-Eastern Europe. Magyar Telekom provides international network and carrier services in South-Eastern Europe through Points of Presence ("PoPs"). Magyar Telekom entered the Romanian market in July 2004, the Bulgarian market in September 2004, and the Ukrainian market in August 2005 to offer various wholesale services. Capitalizing on our experience in these markets, we have entered into the retail market segment in Romania with a full service portfolio and intend to do so in Bulgaria and Ukraine as soon as the regulatory environment becomes favorable.

T-Com and T-Systems operations in Hungary

Domestic Services

Revenues from domestic fixed line telephone services consist of:

- subscriptions;
- outgoing domestic traffic revenues;
- incoming domestic traffic revenues; and
- value added and other services.

Products and Services

Local and Long Distance Telephone Services. We provide local, domestic and international long distance telephone services to our fixed line subscribers and to fixed line subscribers in other Local Telecommunications Operator ("LTO") areas.

Public Switched Telephone Network ("PSTN"). Due to fierce competition and mobile substitution, the number of our PSTN lines decreased from 2,158,547 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 installed 166,058 ISDN access lines with two channels and 4,621 ISDN access lines with 30 channels, for a 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 enables us to provide value added services in our entire service area. We provide a number of value added services, such as call forwarding, call waiting, call conference and caller number identity to a significant number of our fixed line subscribers. These services help increase fixed line usage as they make busy signals and unanswered calls less common. We also offer bundled price plans of digifon services, as well as bundled services in our ADSL package. The most popular of these price plans is the Összhang, which contains five services at a discount price. The Összhang price plan had approximately 230,000 customers by the end of 2007.

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

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.

Fixed SMS. From a fixed line terminal, short text messages can be sent with an SMS-capable telephone and SMS termination is available for every subscriber. If the addressee does not have an SMS-capable telephone, the text message is converted and sent as a voice message. The increasing number of SMS-capable telephone sets also helped to retain our customer base.

Private Branch Exchange ("PBX") Services. We offer PBX services. The vast majority of the leased equipment is digital and meets the demands of developing technologies such as IP, ISDN and digitally enhanced cordless telecommunications.

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

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

	At December 31,		
	2005	**2006**	**2007**
Number of fixed lines			
Residential lines	1,981,876	1,902,011	1,779,039
Business lines	248,955	236,019	222,451
Public payphones	22,112	20,517	19,466
Total	2,252,943	2,158,547	2,020,956
ISDN channels	500,696	485,290	470,746
Total	2,753,639	2,643,837	2,491,702

Our domestic fixed line 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.

The Hungarian government, through its various institutions and departments, constitutes our largest customer group. We develop separate service packages for each of these institutions and departments, as each of them generally has its own annual budget, particular telecommunications needs and responsibilities. From a strategic perspective, however, we consider the Hungarian government a single customer. We offer most of our largest customers, including the government, discounts for services we provide.

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 accordance with the Act LXXXVII of 1990 on Pricing (the "Pricing Act"), as modified by the Electronic Communications Act, the Minister, together with the Minister of Finance, is responsible for establishing the maximum rates for universal services. We may, however, offer services at prices lower than those established by the Minister.

Our one-time connection fee and monthly subscription charges are different for residential and business customers. We do not, however, charge our business and residential customers different traffic charges if they use the same price plan.

In 2005, we introduced flat rate price plans (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 price plans 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 price plans to allow customers in different market segments to choose plans that best suit their calling patterns. These price plans 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.

We target business customers with our flat rate price plans, which are transparent and easy to budget. These are designed to retain fixed line traffic, to stop the increasing erosion of our fixed line business, and to provide an opportunity for the reacquisition of traffic that we have lost due to pre-selection. Customers of flat rate price plans can use our network for local, domestic, and long distance calls for a fixed monthly fee. We also offer flat rate price plans with options for mobile, international or LTO calls.

Business price plans In 2007, we extended the existing business flat rate portfolio as well as optional supplementary price plans for domestic, mobile and international flat rate calls. These plans proved to be successful tools for traffic retention in the business segment.

Public Telephones As of December 31, 2007, Magyar Telekom operated 19,466 public payphones. The call charges for calls from public payphones are at a premium to those charged to fixed line subscribers. The Act on Electronic Communications requires us to provide one public telephone stations per 1,000 inhabitants.

International Telephone Services

International telephone services consist of outgoing and incoming international calls, including voice and switched transit traffic through Hungary. Until December 31, 2007, Magyar Telekom had individual arrangements with international telecommunications operators. Since January 1, 2008, Magyar Telekom sends and receives all its international voice and switched transit traffic to and from Deutsche Telekom. The agreement with Deutsche Telekom guarantees international telephone services revenues and profits for Magyar Telekom and allows cost reductions due to this synergy with the parent company.

Products and Services 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.

Our international toll free service was launched in 1998. This service enables the caller to make international calls free of charge to and from 39 countries, while the subscriber of the toll free number is billed for these calls. Universal international toll free service was launched in 2003. This service enables the subscriber to be called free of charge from 25 foreign countries with the same telephone number.

Our international prepaid calling card, "Barangoló", allows customers to make phone calls, including IP-based calls, in 50 countries. This service enables customers to make international calls from touch-tone payphones in Hungary and abroad.

Fees and Charges The call charge for an international call consists of 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 price plans.

Settlement Arrangements. Under bilateral settlement arrangements, we pay other carriers for the use of their networks for outgoing international calls and receive payments from other carriers for the use of our network for incoming international calls. In Europe, such settlement arrangements fall under the general auspices of the International Telecommunications Union. Settlement payments are generally denominated in Special Drawing Rights ("SDR"), based on a currency basket in which U.S. dollars have the greatest weight. Due to the large exchange rate fluctuations of the SDR caused by the recent volatility of the U.S. dollars, we started to shift our accounting rate agreements to euro-based arrangements. Most new international carrier partners prefer to use the euro as a settlement currency.

International Telecommunications Hub We believe that Hungary is geographically well positioned to serve as a telecommunications gateway between Eastern and Western Europe. We have 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 Deutsche Telekom'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 Internet Service Providers ("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.

Internet Services

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

We increased our subscriber base in Hungary to 505,725 by December 31, 2007 from 427,000 a year earlier, including dial up and broadband customers. 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. 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.

In 2007, the number of Internet users increased significantly. By the end of 2007, approximately 27 percent of Hungarian households were connected to the Internet compared to 23 percent at the end of 2006. We are committed to accelerating Internet penetration growth and have invested a significant amount of resources to develop attractive and innovative content, such as T-Home TV.

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. T-Home TV is available now in more than 140 settlements in Hungary. The total customer base of IPTV reached 9,224 as of December 31, 2007.

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.

To better satisfy customer demand, we increased the maximum download speed of our ADSL accesses at no extra charge in March 2007. As a result, the maximum download bit-rate was doubled, tripled or quadrupled at the same prices, terms and conditions. The higher bandwidth created a competitive advantage to our product and encouraged customers to download enriched broadband content.

Naked ADSL. On March 30, 2007, we introduced wholesale Naked ADSL, a continuous, high-speed ADSL access service over existing copper wires without a telephony service. We sell these services mainly on a wholesale basis to ISPs, which resell the services to residential and small business customers. Naked ADSL access is a basis for 2Play retail services as well.

ADSL roll-out. In 2007, we invested a significant amount in the roll-out of broadband Internet. As a result of these investments, the number of ADSL capable settlements reached nearly 1,200 by December 31, 2007.

T-Com ADSL ("T-DSL"). We offer voice and Internet bundles (T-DSL) for both residential and business customers. Residential T-DSL price plans contain telephone line with flat voice and a flat Internet access. Our objective is to expand the broadband Internet market aggressively.

T-Com HotSpot. T-Com HotSpot is a wireless broadband Internet solution, based on the WiFi technology for public sites (i.e., hotels, conference centers and restaurants). The HotSpot payment methods include T-Com HotSpot prepaid card and subscription packages (HotSpot 180). Customers with a valid T-Mobile HotSpot access identification may also use the T-Com HotSpot service. The HotSpot service is also available online by bank card payment. At the end of 2007, there were 308 public HotSpot sites in operation (107 hotels, 1 T-Ponts and 200 others).

T-Com Open Internet. T-Com Open Internet is our dial-up Internet service. To use the service, customers do not need to sign a contract or register and no monthly fees need to be paid. The minute fee of the usage is paid on the telephone bill. This dial-up service also provides a potential base for broadband migration. At the end of 2007, there were about 25,000 customers using Open Internet.

PC-Net. In 2007, we introduced a new product, PC and Internet in one package. At the end of 2007, we had approximately 1,400 PC-Net subscribers.

2Play (based on naked ADSL). In April 2007, we introduced the 2Play service. This package offers VOIP and naked ADSL services together and had 9,619 subscribers at December 31, 2007.

Data Transmission and Related Services

We are the principal provider of leased lines in Hungary.

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

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

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

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 9,165 as of December 31, 2006 to 7,710 lines as of December 31, 2007.

High Speed Leased Line ("HSLL"). The HSLL 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. Transmission rates provided by the HSLL service are 2, 34, 45, 140 and 155 Mbit/s. The number of HSLL connections decreased from 2,493 at December 31, 2006 to 1,246 by December 31, 2007. The major portion of churn from both Flex-Com and HSLL migrates to our most recent data communication services (e.g., IP Complex, MultiFlex).

As an addition to the HSLL portfolio, we offer a WDM technology-based premium service, Gigalink, which provides leased line service at a higher speed (622 Mbit/s) to business customers and to other service providers. For the Campus backbone network (a link between universities and academic institutions) we offer Gigalink service up to 10 Gbit/s speed.

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. Between 2003 and 2005, our major objectives were to extend the lifecycle of the product, maintain profitability, optimize the network and reduce costs. In 2005, we assessed and commenced migration of customers to other data transmission services. In 2006, we introduced a flat rate price plan and widened the access option by Ethernet interface.

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

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

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

Magyar Telekom DataLink. In 2004, we launched a new data transmission product that offers technology-independent data transmission between business customers' locations. The customer only needs to define three main parameters, bandwidth, Service Level Agreement ("SLA") and interface. This service provides data connection below 2 Mbit/s, with X.21 or Ethernet interfaces. With the introduction of this service, we can better utilize our spare data transmission capacity.

Symmetrical Internet. Symmetrical Internet is a wholesale service for ISPs, providing transport and access facilities to IP traffic. The product includes domestic and international peering and leased line access, by which the domestic end-point of the ISP is connected to our IP network. Symmetrical Internet was introduced in 2003, to maintain our competitive position on the Internet leased line market. After the introduction of this product, the majority of our wholesale customers migrated from IP Connect to Symmetrical Internet. IP Connect has similar facilities than Symmetrical Internet, but does not include leased line access.

IP Complex Plus. IP Complex Plus is an IP-based Virtual Private Network ("IP-VPN") service. IP Complex Plus service is offered to retail and wholesale customers having multiple remote sites. This service

enables them to establish secure data traffic between sites without the need of setting up "point-to-point" connections between two sites. The development of supplementary services, such as ISDN back-up, integrated voice/data, ADSL/Single-Pair High-Speed Digital Subscriber Line ("SHDSL") access and dial-up access to IP-VPNs make this product more attractive to a growing number of business customers. In addition to the current function of integrated voice/data service, we provide number portability for our IP Complex Plus customers. Using this new service, customers can use their existing phone numbers within their private network as well. In 2007, we extended our portfolio with new access technologies, which enable our customers to connect to the IP network with a speed up to 1 Gbit/s.

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 and X.25 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. International Internet connectivity has been enhanced to provide services for Internet service providers. By the end of 2007, the capacity of international Internet connections reached 17.5 Gbit/s.

MultiFlex. In 2007, Magyar Telekom launched a new MultiFlex service. It is an Ethernet-level virtual private network service on the Magyar Telekom Ethernet-aggregation and Multi Protocol Label Switching ("MPLS")-backbone network, where access may be provided through multiplicating copper pairs, optical fiber, or, based on unique demand, micro. Magyar Telekom provides proactive fault repair and Service Level Agreement report, and our partners can access the report via our VIP portal website.

System Integration and Information Technology

Following the expansion of the T-Systems segment's service portfolio, particularly through the acquisitions of KFKI Group and T-Systems Hungary Kft, the Company has reviewed the organizational structure of the segment. Since January 1, 2007, the T-Systems segment has consisted of three divisions Infocom, IT Infrastructure and IT Applications. The latter two encompassed the activities of the six subsidiaries, divided according to their profiles and competencies. In order to increase the segment's transparency and improve sales efficiency, the number of subsidiaries was reduced via legal integration into the two respective divisions, thus forming two individual legal entities (KFKI System Integration Co. Ltd. and IQSYS IT and Consulting Co. Ltd). The legal merger procedures were completed by January 1, 2008. This move will enable the Company to focus more efficiently on strengthening our market leadership in the Information and Communications Technology ("ICT") service market as well as repositioning our corporate market approach as a true IT and telecommunications service provider. Operational efficiency will also be improved through the elimination of overlapping activities.

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

In 2007, we had several Strategic ICT outsourcing projects, which helped us stabilize our position in the ICT outsourcing market. In 2007, within the framework of the Allianz strategic ICT outsourcing program, we launched the regional Outsourcing Service Portal for seven participating countries. The current values of the service parameters, the content of fault tickets, and the level of processing faults can be monitored on the web platform of the portal, which allows us to carry out electronic customer satisfaction surveys. With this solution we established regional level outsourcing competence, which we can also utilize with other customers.

Based on our outsourcing project experiences gained among strategic accounts, we started providing Managed Services ("Custom MenX") for medium size enterprises, and concluded long term contracts in this segment. We also extended the range of Managed Services. In addition to Managed Voice, Managed

LAN and Managed Security in 2006, we also added Managed Desktop and Managed Print to the portfolio in 2007.

Managed Desktop. Full scope desktop management service, which includes work stations and connected equipment, local printers and other peripherals, as well as their comprehensive management and related consulting services.

Managed Print. Managed Print Service uses and manages multifunctional printers to ensure printing, faxing, scanning and copying tasks. The service includes the planning of the entire printer park as per customer demand, its execution, operation, and the accessories and materials necessary for the operation, their replacement and continuous remote monitoring.

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

Multimedia

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

Through network development and acquisitions, our CATV group significantly increased its number of cable television customers during the past years. We are the second largest cable television provider in Hungary. The growth of subscribers has slowed down in the past two years, because of the growing competition and the saturation of the market. The CATV group had approximately 419,000 CATV subscribers as of December 31, 2007 compared to approximately 414,000 a year earlier.

T-Kábel Hungary offers 45 analog television channels in three program packages and 18 radio stations in most of its networks. Premium digital television services are available in the product portfolio since December 2005. As of December 31, 2007, our customers subscribed to over 42,000 digital mini program packages compared to approximately 13,000 subscriptions a year earlier. In 2007, we offered 45 digital channels in 14 mini program packages. In 2007, T-Kábel Hungary rolled out the digital simulcast of television channels in South-East Hungary.

Our CATV firms in cooperation with ISPs offer broadband Internet services. In 2007, the number of broadband Internet subscribers through our cable television networks increased to approximately 99,000 on December 31, 2007 compared to 63,000 a year earlier. During 2007, the number of VoIP service (Kábeltel) customers increased to approximately 38,000 compared to 28,000 a year earlier.

T-Kábel Hungary's cable television activities benefit from the long-term relationship with the customers, our thorough market knowledge as well as our strong brand name. Our main goals in this area are to increase market share through acquisitions, to connect new customers in the existing service areas, to keep our existing subscribers through active churn management and to enlarge the coverage of triple-play offering capabilities. T-Kábel Hungary is the first High Definition TV ("HDTV") service provider in the cable industry in Hungary.

Fixed Line Telecommunications Equipment Sales

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

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

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

Other Revenues

Other revenues include construction, maintenance, rental, wholesale infrastructure services and other miscellaneous revenues.

We construct fixed line telecommunications networks and offer network maintenance services to other telecommunications operators in Hungary. These construction and maintenance services are ancillary to the construction and maintenance of our networks.

IKO-Telekom Média Holding Zrt. ("ITMH") is a joint venture holding company of Magyar Telekom and IKO Production Kft., with each owning 50 percent of ITMH. ITMH has 100 percent ownership of IKO New Media Kft. and IKO Content & Rights Kft. companies and a 31 percent stake in Magyar RTL Televízió Zrt. ("M-RTL"), the leading Hungarian commercial TV station, and a member of the RTL Group.

M-RTL is entitled to provide commercial television programs, but not to engage in broadcast diffusion or distribution activities. M-RTL has a concession for a period of ten years with an option for a five-year extension. The Program Provision Agreement was signed on July 9, 1997, which was the starting date of the license. On July 20, 2005, M-RTL extended the license for an additional five years which is effective from July 10, 2007. M-RTL operates a channel under the brand name, "RTL KLUB".

Since its launch in 1997, RTL KLUB has rapidly established a strong position in Hungary's television market, being the market leader for the last six years. Market share among the targeted age 18-49 audience remained stable, at 28 percent in 2007 compared to 29 percent in 2006 for the whole day and 35 percent in 2007 compared to 34 percent in 2006 for prime-time (between 7 and 11 p.m.). RTL KLUB has successfully converted its high viewership ratings into television advertising market share.

RTL KLUB seeks to maintain and increase audience share through investing in local productions, as well as successful internationally licensed programs and through its continued long-term relationships with major film distributors, including Warner Brothers, Fox and Buena Vista. RTL KLUB is also strategically focused on sporting events, such as Formula One races, the Paris-Dakar rally and boxing.

According to the co-operation agreement signed in April 2008, the properties of ITMH will be split between the owners by way of a demerger. As a result, Magyar Telekom will have 100 percent ownership of IKO New Media Kft. and IKO Content & Rights Kft., and will be entitled to a HUF 2 billion compensation, while ITMH, including its 31 percent stake in M-RTL, will remain with IKO Production.

Since its establishment in 2003, IKO New Media Kft. has become one of the leading companies in the Hungarian interactive service market, and is the service provider of telecommunications applications for M-RTL. Through its own license, the company produces TV shows and is one of the largest aggregators of premium rate telecommunications services in Hungary with its own independent entertainment content selling division. IKO Content & Rights Kft. is an aggregator in the content outsourcing market.

The co-operation agreement enables Magyar Telekom to further increase its business focus on content-related and interactive service opportunities. At the same time, by strengthening its position in the content service market, Magyar Telekom will become the leading interactive service provider in Hungary.

The transaction is still pending, subject to the approval of the M-RTL shareholders and the Competition Authority. The Court of Registry is expected to register the legal separation in the fourth quarter of 2008.

T-Com operations in Macedonia

We fully own a Macedonian holding company, Stonebridge, which owns a 51 percent interest in Maktel. Magyar Telekom has commenced a liquidation procedure of Stonebridge in accordance with the relevant Macedonian laws. Once the process is complete, Magyar Telekom will directly own its shares in Maktel, thus simplifying the ownership structure.

Maktel is the primary fixed line service provider in Macedonia. Its exclusive rights in fixed line telecommunications services expired in December 2004. These exclusive rights included local, national and international long distance public telephone services, VoIP services, leased line services and building and operating public telephone network services.

On April 17, 2008, Maktel announced that it will change its name to Makedonski Telekom AD and introduce the T-Home brand. The rebranding has been completed in May 2008.

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

	At December 31,		
	2005	2006	2007
Number of fixed lines			
Residential lines	467,559	430,082	404,925
Business lines	48,252	42,780	40,954
Public payphones	2,063	2,087	2,015
Total	517,874	474,949	447,894
ISDN channels	41,262	42,200	44,482
Total	559,136	517,149	492,376

Maktel has a 93 percent market share in the Macedonian narrowband Internet market based on dial-up Internet traffic. The number of Internet subscribers and the time they spend on the Internet are gradually increasing. Maktel provides Internet access via the public switched telephone network, leased lines and ADSL. By the end of 2007, Maktel had 66,822 Internet customers, including 48,214 ADSL connections compared to 47,669 Internet customers, including 16,462 ADSL connections at the end of 2006.

Historically Maktel, like government-owned operators in other countries, maintained relatively low domestic charges and high rates for international calls. Since November 1999, however, Maktel has been gradually rebalancing its rates. International rates are expected to decrease further, bringing them in line with the EU standards. In order to complete the rebalancing, local rates and basic access charges should increase.

T-Com operations in Montenegro

Following a successful privatization tender, between March and May 2005 Magyar Telekom obtained a 76.53 percent interest in Crnogorski Telekom.

For details on the Crnogorski Telekom acquisition, see "Item 10 Material contracts".

Crnogorski Telekom is the principal fixed line service provider in Montenegro. Its exclusive rights in fixed line telecommunications services expired in December 2003. Crnogorski Telekom provides local,

national and international services, in addition to a wide range of telecommunications services involving leased line circuits, data networks, telex and telegraph services.

For the past three years, Crnogorski Telekom's major operational goals were to digitalize the fixed line network and to increase the number of subscribers and access to broadband services. The digitalization rate reached 100 percent by the end of 2006.

On June 26, 2006, the Shareholders Assembly of Telekom Montenegro approved the proposal of the Board of Directors to adopt the "T" brand in the Montenegrin market. On September 26, 2006, the fixed line operations became T-Com Crna Gora ("T-Com CG") and the mobile business changed its name to T-Mobile Crna Gora ("T-Mobile CG"), while the fixed line parent company and the group was renamed to Crnogorski Telekom.

The following table summarizes key operational information of T-Com CG:

	At December 31,		
	2005	2006	2007
Number of fixed lines			
PSTN lines	175,122	173,248	168,062
ISDN channels	18,750	21,288	21,906
Total	193,872	194,536	189,968

Through its wholly-owned subsidiary, Internet Crna Gora, Crnogorski Telekom has a 98 percent market share in the Montenegrin Internet market. Internet Crna Gora, in cooperation with Crnogorski Telekom, is the sole provider of ADSL in Montenegro. The time spent on dial-up Internet has eroded, due to ADSL substitution and increase in dial-up tariffs in September 2007. Internet access is provided via the public switched telephone network, leased lines and ADSL. Crnogorski Telekom Group had 28,401 active dial-up Internet customers at the end of 2007. Crnogorski Telekom increased the number of ADSL customers from 6,639 at the end of 2006 to 14,428 at the end of 2007.

Similarly to other fixed line service providers before privatization, Crnogorski Telekom maintained relatively low domestic charges and high charges for international calls. In September 2007, Crnogorski Telekom rebalanced the fix voice tariffs adopted by the Montenegrin Agency of Telecommunications. International charges have decreased both in residential and in business segment, while local charges and subscription fees have increased in residential segment.

T-MOBILE

Our mobile telecommunications services generated revenues of HUF 346,870 million in 2007 before inter-segment eliminations.

T-Mobile operations in Hungary

We provided mobile telecommunications services in Hungary through our wholly-owned subsidiary, TMH (previously: Westel Mobil Távközlési Rt., "Westel") prior to the merger of Magyar Telekom and TMH, which is described below.

On October 6, 2005, in line with Magyar Telekom's medium-term strategy announced in 2004, Magyar Telekom's Board of Directors made a proposal for the merger of Magyar Telekom Plc. and TMH. On December 20, 2005, Magyar Telekom's Extraordinary General Meeting approved the decision on the merger of the two companies.

The court registration of the merger took place on February 28, 2006. From March 1, 2006, Magyar Telekom is the legal successor of TMH. TMH continues its operations within Magyar Telekom under an independent brand and as an independent business segment.

As of December 31, 2007, TMH accounted for an estimated 45.2 percent of the total Hungarian mobile market in terms of subscribers based on the number of active Subscriber Identity Module ("SIM") cards and 44.0 percent in terms of total subscriber numbers. 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.

TMH was the first mobile operator to launch HSDPA service in Hungary. Since 2006, the company has 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. 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 October 2005, the Hungarian government selected the consortium of Magyar Telekom Plc. and TMH to build and operate the nation-wide EDR system in Hungary. For this purpose, Magyar Telekom established a new subsidiary, Pro-M in December 2005.

EDR is a 380-400 MHz band nation-wide Professional Mobile Radio ("PMR") network used by public safety and security agencies in Hungary. The main users of EDR are police and fire departments and ambulance agencies. The high-quality EDR network replaces the analog radios currently used by these agencies.

The consortium was able to offer favorable terms mainly due to its existing radio and fixed line infrastructure, on which the EDR network is based. The EDR service utilizes the TETRA technology, which is a global standard for Public Safety and Security mobile radio communication, defined and approved by the European Telecommunications Standards Institute ("ETSI") as the official European Standard for digital Professional Mobile Radio.

The roll-out of EDR was finished in 2006 and TETRA system continuously operates since that time. Under the terms of the agreement the government will pay us annual payments of HUF 9.3 billion starting in 2007 for nine years.

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:

International roaming service was available for TMH subscribers on 394 networks in 182 countries as of December 31, 2007, of which 208 networks in 115 countries were available for prepaid

customers. At the end of 2007, customers could use 174 General Packet Radio Service ("GPRS") networks in 92 countries. Since January 1, 2008, Magyar Telekom sends and receives all its international voice traffic to and from Deutsche Telekom when Deutsche Telekom offers more favorable price and better quality than other international carrier service providers.

In line with the increase in the number of MMS-capable handsets in the market, TMH experienced a boost in MMS penetration and traffic. Due to the growth in the number of Multimedia Message Service ("MMS") Interworking partners, the international MMS traffic volumes are 2.5 times higher in case of both outbound and inbound directions, compared with the previous year. By the end of 2007, TMH subscribers can send/receive MMS to/from 41 mobile networks of 36 countries.

TMH has renewed its t-zones portal with new structure and design in November 2007 by widening its digital contents' portfolio. TMH's t-zones Wireless Application Protocol ("WAP") portal offers news, chat, multimedia contents such as online streaming, music and traffic monitors and downloadable content (e.g., logos, ring-tones, Java games). The popularity of this portal grew continuously during 2007 and the daily average number of page downloads reached 1,670,000 by the end of 2007. News, sports, weather and other contents are available via InfoSMS and InfoMMS as well.

In December 2007, TMH launched its Mobil TV streaming service with 12 TV channels and high quality streaming option. The service can be used on both t-zones and web'n'walk portals.

Premium-rate SMS and premium voice traffic were substantial in 2007 with two new services, MMS and videophone. TMH is able to provide premium-rate services (e.g., voice and SMS, videophone and MMS) on the same number, which is a competitive advantage in this field.

The web'n'walk service (a service that allows mobile phone users to surf the Internet on their mobile phones) ensures access to the Internet on mobile phones for TMH postpaid customers from June 1, 2006. In addition to Internet browsing, customers have the opportunity to download a wide range of content, such as Java games, ring tones, videos and to enjoy Mobile TV service. In May 2007, TMH changed its web'n'walk search engine to Google. Owing to the strategic co-operation between Google and TMH, the usage of web'n'walk became easier, thus considerably increasing the number of searches made in web'n'walk.

In 2007, TMH significantly widened the range of products that can be purchased by WAP or SMS. Using mobile purchase service, customers can buy various products and services offered by TMH and third-party vendors. We experienced a strong growth in sales of products such as parking tickets, lottery and highway fees. We believe that mobile purchasing has a great potential for further growth.

Electronic top-up services are available at many Automatic Teller Machines ("ATMs"), petrol stations, Internet-banks, Telebanks and Mobilbank. In 2007, the number of electronic top-up outlets increased significantly. The share of electronic top-up increased, reaching 80 percent by the end of 2007.

For corporate customers TMH offers a full range of telecommunications solutions. In 2007, the total corporate non-voice revenue was 23 percent higher than in 2006. The most successful services are Bulk SMS, Corporate LAN Access and Fleet Management in the corporate segment. The revenues from the usage of Blackberries and corporate e-mail services also doubled in 2007. TMH has a department dedicated to major accounts. Our customers can also purchase TMH products in our online shop.

The increase in the usage of Packet Switched Data services played an important role in 2007. The number of GPRS subscribers rose by 80 percent by the end of 2007 compared to December 31, 2006.

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

The Hungarian mobile market is reaching a saturation level with a penetration rate of nearly 110 percent by end of 2007. Total growth rate in 2007 exceeded previous year's average due to the significant increase of inactive subscribers (i.e., subscribers who did not generate traffic in the last three months) at Pannon included in their subscriber base. 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.

According to the NCA, as of December 31, 2007, TMH had a 44.0 percent market share of the mobile services market in Hungary in terms of subscriber base.

Traffic. TMH's average traffic per subscriber is comparable to other European countries and was at a level of 149 minutes in 2007. Average traffic per subscriber has increased over 2006 as a result of successful price plans targeting both postpaid and prepaid segment.

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

TMH charges subscribers a one-time connection fee, monthly subscription charges, event charges and time-based traffic charges. Customers using prepaid cards do not pay monthly subscription charges (but in case of some price plans monthly recurring fees do exist). TMH does not charge subscribers for incoming calls, other than calls received while roaming. TMH receives payments from other telecommunications service providers for terminating calls on its network. TMH maintained the widest range of price plans and successfully introduced additional plans in 2007 to acquire new subscribers and develop loyalty.

TMH faced intense price-based competition in 2007. Competitors waged various campaigns, including introduction of new price plans 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 plan), 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 developments, in a 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).

T-Mobile operations in Macedonia

Our Macedonian mobile services provider, T-Mobile Macedonia, experienced significant growth in 2007.

T-Mobile Macedonia is the leading mobile operator in Macedonia, dedicated to providing up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standard of the T-Mobile Group. The principal activities of T-Mobile Macedonia's operations are digital mobile telephone services based on the GSM technology and non-voice services such as SMS, MMS and GPRS.

By the end of 2007, T-Mobile Macedonia had expanded its customer base from 944,530 at the end of 2006 to 1,212,539, despite the competitive market environment.

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

	At December 31,		
	2005	2006	2007
Number of subscribers			
Postpaid subscribers	139,367	177,311	280,707
Prepaid subscribers	737,775	767,219	931,832
Total subscribers	877,142	944,530	1,212,539
Average MOU per subscriber	63	72	90
Average monthly Revenue per User in HUF	3,065	3,206	3,054
Mobile penetration in Macedonia (%)	61.3	68.3	93.3
T-Mobile Macedonia's market share (%)	69.2	66.5	62.3

The increase in the number of T-Mobile Macedonia subscribers in the last three years is attributable to a number of factors, including reductions in handset prices and call charges in real terms, successful marketing campaigns and the introduction of installment purchase plans.

The Macedonian market is very price sensitive. Due to increased competitiveness, in order to prevent churn and encourage usage, T-Mobile Macedonia introduced several new services.

As of December 31, 2007, T-Mobile Macedonia had a 62.3 percent market share in the Macedonian mobile telecommunications market in terms of subscribers. The mobile penetration rate increased significantly reaching 93.3 percent by the end of 2007.

T-Mobile operations in Montenegro

T-Mobile Crna Gora is the second largest mobile operator in Montenegro with 33.8 percent mobile market share. Since its inception in 2000, it offers innovative and advanced services to the Montenegrin market and has been experiencing dynamic growth.

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

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

	At December 31,		
	2005	2006	2007
Number of subscribers			
Postpaid subscribers	31,212	48,252	73,675
Prepaid subscribers[1]	176,882	283,364	335,266
Total subscribers	208,094	331,616	408,941
Average MOU per subscriber	127	127	120
Average monthly Revenue per User in HUF	3,745	3,858	3,252
Mobile penetration in Montenegro (%)[2]	87.6	103.8	168.7
T-Mobile Crna Gora's market share (%)[2]	42.0	42.3	33.8

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

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

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

In the summer of 2007, T-Mobile Crna Gora experienced the largest roaming revenue growth since the beginning of its operation, attributable to the high number of tourists visiting the Montenegrin seaside, the higher roaming charges and preferred network agreements. In 2007, the penetration level in the summer season reached over 160 percent, as a large number of tourists purchased prepaid cards, and the new entrant started its operation with attractive offers.

MARKETING AND DISTRIBUTION

T-Com operations in Hungary

In 2007, our main strategic objectives focused on the development of customer relationship, the enhancement of the customer experience, the revenue maximization, and the expansion of the number of broadband accesses and IPTV customers, as well as the start of mobile integration.

As of October 1, 2007 the Internet access business unit of T-Online Hungary and Emitel merged with Magyar Telekom Plc. This integration offered several immediate benefits to our customers, the first being a simpler, and more comfortable integrated customer service. The merger enabled us to offer even more favorable offers to our customers from 2008, which fully meet their telecommunications needs.

We consider the retention of the fixed line user base and the decrease of customer churn rates to be one of our key objectives. We intend to prevent line churn with active and preventive measures, including favorable offers for value added and non-voice services and demand-based, segmented targeted customer contacts. In 2007, we significantly increased our broadband customer base, from 572,228 at the end of 2006 to 716,714 by December 31, 2007.

In 2007, the MOU of our residential customers decreased only by 0.3 percent. Driven primarily by our price plans offering unlimited calls for a fixed monthly fee, we could fight against the decreasing MOU of our customers. The number of our flat rate customers grew significantly in 2007, and reached approximately 580,000 in the residential market by the end of 2007.

In 2007, we continuously migrated our call-by-call customers into pre-selection services, thereby gaining all revenues from calls made by these customers in areas of other local telecommunications

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operators. In December 2007, the proportion of pre-selection by the active users was approximately 93 percent.

In 2007, T-Com and T-Online launched the 2Play and 3Play services. By the end of 2007, the number of 2Play and 3Play subscribers reached 12,150.

In 2007, Total SHOP BPR project was started in the T-Ponts with the aim of unifying and increasing effectiveness among T-Online, T-Com and T-Mobile customer service processes. We started to work on a new integrated web-shop, where we would like to provide almost the whole range of T-Com and T-Online products together with easy-to-use web-self-care.

In the area of improving customer satisfaction one of the key programs of 2006 was the "Quality for our customers!" initiative. This is a comprehensive, service quality assurance program that aims at the improvement of the customer relations, the continuous development of our services and the maintenance of our competitiveness. As part of the program, public commitments and customer service standards were formulated by the subsidiaries of Magyar Telekom. As a result of these efforts, customer satisfaction significantly improved further in 2007. Our areas of focus are minimizing average provisioning time and improving and insuring T-Com and T-Online customer service. Defined weekly key performance indicators relating to provisioning, customer service and fault repair can help to evaluate and control our operations on a daily basis in these areas. After evaluating weekly results of our new research of customer satisfaction, International Customer Contact Analysis, we are also able to effectively amend the operational processes on the spot.

Following the development of the integrated shop network in 2006, another step towards creating a unified customer service network for the Group was to make a unified telephone customer service available. Through new developments of our e-Customer program through the T-Com website, the online ordering of our services and products is also becoming faster and simpler.

T-Com operations in Macedonia

After the market liberalization in 2006, the new fixed line service providers started their operations by offering international outgoing VoIP-based calls. By adjusting the prices of international calls and by offering special price plans ("Partner Country", "Favorite Country"), Maktel managed to stabilize its fixed line market share based on number of subscribers. VoIP-based service providers have about ten percent market share in the Macedonian fixed line market. International outgoing calls provided via carrier selection services started in March 2007, and experienced small, but continuous growth in 2007, reaching about three percent of international outgoing traffic by the end of 2007. Market share loss in the domestic long distance traffic is below one percent. Maktel experienced the most significant market share loss in the international incoming calls (both fixed and mobile termination).

In 2007, Maktel made major structural changes in its ADSL portfolio and started to offer highly competitive broadband Internet services. After an intensive ADSL campaign, the number of broadband ADSL customers increased significantly. In addition to the new ADSL products, Maktel continues to offer "PC+ADSL" products that help in extending PC penetration and broadband Internet usage in Macedonia.

In 2007, Maktel continued to develop business solutions for the corporate market including video surveillance and bundled equipment and services offers.

T-Com operations in Montenegro

In 2007, the main focus of our marketing activities in our Montenegrin fixed line operations was to increase ADSL sales. In order to profit from the market dominance of Crnogorski Telekom and to stimulate growth of non-voice revenues, several promotions have been implemented and ADSL offers

have been restructured. As a result of intensive promotions and the restructuring of ADSL offers, ADSL subscriber base increased significantly.

In 2007, Montenegrin fixed voice tariffs were successfully rebalanced, and tariffs for residential and business users were equalized in voice services. International charges have decreased for both of the residential and business segments, while local charges and subscription fees have increased for the residential segment. Rebalancing also included new price plans for the residential segment.

In 2007, Crnogorski Telekom upgraded its network and launched IPTV service.

T-Systems

In 2007, T-Systems focused on maintaining market share in the voice and non-voice market, launching a joint corporate sales model with T-Mobile and T-Online, and improving cooperation and efficiency with its IT subsidiaries, mainly in the area of complex business offers.

In 2007, key accounts were served by qualified personal account managers and a dedicated customer service assistant. With the corporate sales model, T-Systems started a joint T-System, TMH and T-Online sales activity, with joint segmentation, strategy and products such as cross selling, full flat and fix-to-mobile offers. T-Systems worked together with the IT Infrastructure and Application subsidiaries as well to harmonize IT and telecommunications capabilities.

In 2007, T-Systems finished its CRM system development, which allows targeted marketing and sales activities, and the system is also able to report sales results.

We carried out customer satisfaction research both in 2006 and 2007. Our results in 2007 showed significant improvement in the satisfaction of our customers. Service level, service delivery and invoicing system results were far above average; however, areas for improvement include prices, communication and customer focus. In 2007, T-Systems prepared an action plan based on these results and has developed VIP Point on the web as a tool for giving confirmation and status reports on customer complaints and a source for "one stop shopping" to improve the focus on customers. T-Systems has also developed fixed-mobile convergent products to meet customers' price level needs.

T-Mobile operations in Hungary

At the end of 2007, the Hungarian mobile market reached a 109.7 percent penetration rate, which is comparable to the average level in Western European countries. Yearly penetration growth increased considerably compared to previous years due to the increase of inactive SIM cards included in the total subscriber base mainly at Pannon. The Hungarian mobile market is highly competitive and dominated by three mobile network operators: TMH, Pannon and Vodafone. Due to the very high penetration level, we have been keeping a clear focus on customer retention.

At T-Mobile International Group, focus areas and corresponding key performance indicators have been defined for the key pillars of our strategy, which remained unchanged in 2007:

Customer centricity;

Superior network experience; and

Operational excellence and brand recognition.

This provides the strategic framework for the local organizations. Each local company has translated these focus areas into concrete "BIG X" programs which outline the direction and define the strategic goals for 2007, taking local priorities into account.

At TMH the "Big7" program consisted of the following items:

Maintain market leadership;

Utilize advantages of integration through common customer touch-points;

Boost mobile Internet and data usage;

Design customer centric propositions and processes, build loyalty;

Sustain network leadership in quality and innovativeness;

Balance quality and efficiency in operation; and

Live the brand and be an advocate for it.

2007 was a very successful year for TMH in all of our strategic areas:

Maintain market leadership

TMH retained its market leader position with a 44.0 percent total market share based on the number of subscribers, and a 45.2 percent share based on the number of active SIM cards. Concerning the revenue-based market share, our position is similar.

Utilize advantages of integration through common customer touch-points

In 2007, both Sales (T-Ponts) and the Call Center have been operating in an integrated way, i.e., serving not only the mobile customers of T-Mobile, but also T-Com and T-Online customers. Key Performance Indicators ("KPIs"), formerly measuring only mobile-related activities, have been extended to measure the service level in fixed and Internet areas as well.

Boost mobile Internet and data usage

Non-voice and content services are playing an increasingly important role in the mobile market. All providers strengthened their non-voice services during 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 offered HSDPA with a download speed up to 7.2 Mbit/s in its network and at the same time launched HSUPA service in Hungary, also as the first among local mobile service providers.

Design customer centric propositions and processes, build loyalty

The active customer portfolio management facilitated the increase of our customer base in value. Our main targets were the following:

Develop services based on value and needs of customers;

Differentiate service levels based on the value of customers; and

Enhance effectiveness of communication via CRM and campaign management tools.

Sustain network leadership in quality and innovativeness

Not only the objective KPIs showed excellence with regards to the network, but our customers considered TMH's network to be of very high quality. The crucial 3G success rate showed better than planned results all year round.

Balance quality and efficiency in operation

Quality as well as efficiency form the basis of our operations. They are prerequisite and fundamental to our success in the market.

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Live the brand and be an advocate for it

We work continuously to strengthen our brand and build our brand values reliability, simplicity, inspiration; adding the "value for money" attribute in Hungary. Our efforts have maintained the aided brand awareness at nearly 100 percent, whereas the spontaneous brand awareness was around 90 percent in 2007.

According to surveys made by the T-Mobile International Group, the ratio of customers promoting the brand (i.e., recommending it to a friend or colleague) is significantly higher at T-Mobile than in the case of our principal competitors, Pannon or Vodafone.

Distribution

The integration process of the direct shop network of T-Mobile and T-Com was completed in 2006. The main objective of the integrated T-Pont network (direct shop network) in 2007 was to further leverage Group-level potentials for cross-selling, retention and customer satisfaction but also to increase operational efficiency in the shops.

The optimized direct shop network consisted of 47 integrated T-Pont shops at the end of 2007. All 47 shops provide full-scale sales and customer service in case of all related lines of business (T-Mobile, T-Com, T-Online). Full-scale mobile handset repair service is also provided in 29 shops. Fourteen T-Ponts are located in Budapest and the other 33 in regional centers, county capitals. During 2007, the refurbishing project has been finished resulting the "T-Pont design" in all 47 T-Pont shops.

TMH also has a department dedicated to major accounts. This department consists of 86 sales representatives and serves around 10,000 major accounts on the segment basis. Our customers can also purchase TMH products on our online shop.

TMH also distributes its products and services through indirect sales partners. At the end of 2007, TMH had 235 full-scale T-Mobile franchise dealer shops nationwide providing T-Mobile product portfolio for the customers. 66 of them are integrated shops, providing both mobile and fixed line products and services, whereas 100 of them are able to provide customer care services with access to the central customer database. From January 1, 2007 all T-Mobile franchise shops have access to the CRM system.

TMH also sells its prepaid products (e.g., prepaid SIM packages, plastic top-up cards, online top-up) through major Hungarian retail channels. Prepaid products are available in 12,493 sales points nationwide (including 10,844 shops where online top-up is available).

T-Mobile operations in Macedonia

In order to sustain its primary position on the mobile market in Macedonia, T-Mobile Macedonia has developed a wide range of services and price plans for prepaid, postpaid and business customers.

Marketing based on customer data is used to build strong customer relationships. Loyalty schemes and handset upgrade programs are also used to improve customer satisfaction and reduce customer churn rate.

During 2007, T-Mobile Macedonia introduced price plans combined with additional services, community services and tariff models and strong advertising campaigns in order to capture various parts of the telecommunications market. There is an ongoing CRM project that will enable segmented and targeted contact with the customers, thus increasing value offered and consequently customer satisfaction.

In 2007, Mobilkom Austria entered the Macedonian mobile market as the third mobile operator under the brand name VIP.

T-Mobile operations in Montenegro

After a successful brand introduction in September 2006, T-Mobile CG continues to strengthen its market position, as well as brand awareness. Under the T-Mobile brand, the brand values include high international competence and high quality standards. Since the entrance of the third mobile operator in 2007, T-Mobile CG is now challenged by stronger competition and high market saturation.

The company's key goals include meeting customers' needs through its services, keeping up with the development of technology, simplifying tariff structures, and building a strong brand by clear communication.

In 2007, the number of T-Centers reached 13. These are accompanied by a network of 15 exclusive Partner Shops which use a similar design to the own shops. Both types of outlets provide a permanent portfolio of handsets and the full range of services for new and existing customers. In addition, there are 1,800 contracted Points of Sale for prepaid vouchers and SIM cards.

COMPETITION

T-Com operations in Hungary

We face strong competition in all areas of our fixed line operations including voice, Internet, cable television and IT services. Competitors include other LTOs, mobile telecommunications providers, Internet service providers, alternative service providers and cable television service providers.

In 2007, HTCC acquired Invitel and the Hungarian business of Tele2, which enhanced the competitiveness of the HTCC group in the fixed line telecommunications market. HTCC now owns two former local telephone operators (Hungarotel, Invitel), the major alternative telephone operators (Pantel, Tele2) and other companies (Euroweb, Pantel Technocom). After the consolidation of its subsidiaries, HTCC will offer its products and services under a single unified brand name: Invitel.

In recent years, mobile carriers are our largest competitors on the voice market. Mobile penetration has increased from 99.0 percent at December 31, 2006 to 109.7 percent by the end of 2007, which not only led to intense competition on the mobile telecommunications market, but also affected the fixed line telephone market. In 2007, the main reason for fixed line churn was mobile substitution.

In addition to the fierce competition triggered by mobile carriers, alternative service providers (based on unbundled local loops) and cable television providers emphasized their voice services in 2007.

In our service areas, a number of carriers (HTCC, GTS Datanet, eTel, British Telecom and Monortel) offer pre-selection and call-by-call services and were able to attract some of our customers. However, we respond to this challenge with attractive price plans, and successfully limit their expansion. We also offer similar price plans and are successful in attracting new customers from LTO areas. In the government and public administration sector, we could successfully attack our competitors' low prices with the discounts we provide due to the high volume of the EKG frame contracts.

On the Internet access market, we could keep our leading position with the continuous, intense increase of the number of ADSL lines and subscriptions using cable modem. Our competitors include cable operators (UPC, Fibernet, Digikabel, etc.), alternative service providers based on Unbundled Local Loop ("ULL") (GTS-Datanet, Pantel, Actel, etc.), mobile service providers and other ISPs.

Naked ADSL services played an important role in 2007. The Competition Authority ("CA") ordered that fixed network operators must offer ADSL access without voice services by August 2007. Alternative

service providers already offered naked ADSL at the beginning of 2007. These market players are expected to concentrate on their packages based on ULL in the future.

In 2007, mobile service providers reduced the prices of mobile Internet access significantly. Mobile and fixed line broadband services are now at the same price level. The three mobile service providers have been developing their networks rapidly. Mobile Internet is expected to play an increasingly important role in the Internet market.

We face strong competition in the cable television market. In 2006, the launch of low price digital television packages affected the price levels of cable television services. This trend continued in 2007, although digital TV services also compete on the basis of quality. Fibernet introduced its digital cable TV service at the end of 2007, and UPC launched its digital offer in April 2008. In addition, Digi Kft. also competes with both cable and satellite broadcasting on the cable television market.

Alternative service providers were able to enter into the voice and broadband services market in 2006 due to the unbundling of local loops.

In 2004, cable television providers also entered the voice market with triple-play offers, consisting of voice telephone services, Internet access and cable television. As the obstacles imposed by technology disappeared, every major competitor is able to become a triple-play provider. Alternative and cable service providers laid an emphasis on these offers. In 2007, this trend largely influenced the competition on the Hungarian market.

T-Com operations in Macedonia

On January 1, 2005, Maktel's exclusive rights to provide fixed line telephone services expired, but as a result of the delay in implementation of the new regulatory framework, competition from other fixed line service providers started only in February 2007. Maktel, however, faced indirect competition earlier from mobile service providers and, to a limited extent, from VoIP providers. In 2007, the main competition in the fixed line voice services was posed by mobile service providers and in the segment of international incoming call termination by other fixed line service providers.

Starting from the second quarter of 2006, Maktel opened its network for alternative VoIP service providers of international outgoing calls. By the end of May 2008, Maktel concluded 28 ISDN-based commercial Network Access Agreements with alternative VoIP service providers.

In March 2007, OnNet started to commercially offer carrier selection services for long distance, fixed to mobile and international outgoing calls. In November 2007, NexCom also started to offer carrier selection services (long distance, fixed to mobile and international outgoing calls). OnNet and Akton started to terminate international calls in the fixed network in March 2007, NexCom and Neotel in September 2007 and VIP in February 2008. OnNet and Akton also terminated international calls towards mobile networks, since May 2007, through MakTel's transit. In January 2008, OnNet started to terminate international calls directly in T-Mobile Macedonia's network.

Until beginning of June 2008, Maktel concluded interconnection contracts with three mobile operators and seven fixed line operators. There are five pending requests from alternative operators to conclude interconnection agreements. OnNet has already entered into an ULL Agreement with Maktel based on Maktel's Unbundling Reference Offer ("MATERUO") and based on that, OnNet offers its services from May 2008.

The companies that received WiMAX licenses were obliged to launch their commercial products at the beginning of 2008. The commercial start of WiMax operators is delayed.

Maktel is the leading provider of leased line and data transmission services. CATV and other wireless operators have built their own networks and are also capable to offer data transmission services, transmission capacity and various broadband services.

In the Internet broadband market, there are three major service providers in addition to Maktel: OnNet, Cabletel and Telekabel. Maktel has approximately 49 percent market share based on the number of retail subscribers at the end of May 2008 and it faces competition mainly from OnNet's wireless broadband and CATV operators' cable broadband Internet, offered to the CATV customers through their own networks.

T-Com operations in Montenegro

In 2007, a new mobile and fixed line operator entered into the Montenegrin telecommunications market. Mtel, the third mobile operator and licensed operator for development and exploitation of WiMAX-based network, launched its WiMAX fixed network. According to Crnogorski Telekom's estimates, Mtel had around 1,000 subscribers or 0.5 percent of fixed line customers in Montenegro at December 31, 2007.

In November 2007, five licenses for VoIP operators were issued as well, but none of these operators have started their operations yet.

Fixed-mobile service substitution is expected to become increasingly significant. The high mobile penetration and the introduction of a third mobile operator in 2007 have intensified this trend.

Several Multichannel Multipoint Distribution Service ("MMDS") and CATV licenses were awarded at the beginning of 2007. Some of the cable operators have declared their intention to provide Internet and telephony services. Negotiations about terms and conditions for joint usage of our underground infrastructure are ongoing with these operators.

T-Systems

In 2007, our main competitors in the fixed line market were Invitel and GTS. In response to market consolidation and competitors' alliances, T-Systems focused on providing integrated network services and systems integration. These activities include managed and outsourcing services, sales based on providing consulting survey for complex customers' needs and focusing on large projects. With these product offerings, T-Systems positioned itself as an Information Technology / Technology Consulting ("IT/TC") solution provider for the corporate segment.

We divide the IT market into two segments according to the type of services. Our main competitors in the IT Infrastructure services segment are HP, Synergon, S&T, IBM, Albacomp and Getronics. Our main competitors in the IT Application Development services segment are HP, Synergon, IBM, Albacomp, Accenture, FMC and Unisys. Our goal in this highly competitive market is to keep our leading position in the IT services market by achieving a larger growth rate than the average; to win significant projects and to use a new business model in the small and medium business sector: standardized products via economies of scale.

T-Mobile operations in Hungary

In 2007, the Hungarian mobile telecommunications market was characterized by intense competition, driven by new broadband services, lower prices and aggressive marketing. The mobile penetration rate further increased to 109.7 percent by the end of 2007. At TMH, the focus remained on customer retention and the development of mobile broadband services. Despite the intense competition, TMH retained its market leading position with a 44.0 percent total market share (including inactive SIM cards), and a 45.2 percent share based on the number of active SIM cards.

The direct competitors of TMH are Pannon and Vodafone. Vodafone, the smallest mobile network operator in terms of the number of subscribers in Hungary, continued to focus on acquisitions supported by aggressive tariff offers and marketing campaigns. Despite all its efforts, Vodafone's market share decreased during 2007 to a 20.9 percent market share by the end of the year, though its market share

measured on the basis of active subscribers has increased. Pannon kept a strong mobile broadband focus, and maintained its stable second position in the market. By the end of 2007, it had a market share of 35.1 percent driven by the considerable increase of its inactive subscriber base.

T-Mobile operations in Macedonia

There are at present three mobile operators operating in the Macedonian mobile market. Competition is generally intense and conducted on the basis of prices, subscription options, subsidized handsets, range of services offered, innovation and quality of service. The second largest mobile telecommunications service provider in the country based on the number of subscribers, Cosmofon AD ("Cosmofon"), began commercial operation in June 2003. Its marketing and advertising efforts are aggressive with low and competitive handset pricing, attractive price plans, a broad array of advertising and indirect channels of sales. In October 2007, Cosmofon launched a new prepaid brand named Frog. It is marketed as a new virtual prepaid operator. Cosmofon has obtained a 3G license and is expected to start its 3G commercial operations by August 12, 2008 at the latest.

In February 2007, the Macedonian telecommunications regulator awarded a third mobile license to Mobilkom Austria. The operator entered into the Macedonian market in September 2007 under the name VIP with 2.5G services. VIP started intensive campaigns even before its official start of operations. VIP entered into a national roaming agreement with T-Mobile Macedonia, but is also building its own GSM network.

The entrance of VIP led to significant changes in the Macedonian mobile market. All three operators, T-Mobile Macedonia, Cosmofon and VIP, launched several price plans during this period. T-Mobile Macedonia and Cosmofon introduced changes to their existing product portfolios as well.

According to T-Mobile Macedonia's estimates, T-Mobile Macedonia had 62.3 percent, Cosmofon had 30.5 percent and VIP had 7.2 percent market share at the end of 2007 based on the number of subscribers.

In this intensely competitive environment, T-Mobile Macedonia plans to maintain its market leadership through improved productivity, efficiency measures and maintenance of existing customer relations.

T-Mobile operations in Montenegro

T-Mobile Crna Gora started its commercial operations as the second mobile telecommunications service provider in Montenegro in 2000, four years after the first mobile provider, Promonte, started its operations. In 2007, a third mobile operator, Mtel, entered the Montenegrin mobile market.

At the end of 2007, T-Mobile Crna Gora had 33.8 percent, Promonte had 41.3 percent, while Mtel had 24.9 percent of market share in terms of number of active subscribers. T-Mobile is the market leader in the postpaid segment with 46.1 percent market share.

In November 2006, the Montenegrin telecommunications regulator issued a tender for two 3G licenses as well as a tender for a mixed 2G-3G license for a third mobile operator. In the first quarter of 2007, T-Mobile Crna Gora and Promonte were awarded with one 3G licenses each and Telekom Serbia won the combined 2G-3G license. T-Mobile Crna Gora launched 3G services in June 2007. Promonte and Mtel offer 3G services as well.

As in other countries, competition in mobile services is intense and driven by pricing, subscription options, subsidized handsets, coverage, as well as quality and portfolio of services offered. Our competitor's marketing and advertising activities are aggressive.

T-Mobile Crna Gora's goal is to increase its market share by introducing segment-oriented price plans, continuously offering new attractive handsets, exploiting synergies of Deutsche Telekom, and maintaining existing customer relations and community involvement as a sponsor of important social, cultural, sports and educational events.

DEPENDENCE ON PATENTS, LICENSES, CUSTOMERS, INDUSTRIAL, COMMERCIAL AND FINANCIAL CONTRACTS

We do not believe that we are dependent on any patent or other intellectual property right, on any individual third party customer or on any industrial, commercial or financial contract. Similar to other fixed line and mobile operators, we require telecommunications licenses from the governments of Hungary, Macedonia, Montenegro, Romania, Bulgaria and the Ukraine, the countries in which we provide telecommunications services.

REGULATION

Overview

Our operations, as well as those of our subsidiaries and affiliates, are subject to sector-specific telecommunications regulations and general competition law, as well as a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with the conduct of traditional fixed-line telephony services usually being subject to the most extensive regulation. Regulations can have a very direct and material effect on our overall business, particularly in jurisdictions that favor regulatory intervention.

The EU Regulatory Framework

In 2002, the European Union adopted several legislative measures, which included a general framework directive and four specific directives regarding the following topics (collectively constituting the "EU Framework"):

- access to and interconnection of electronic communications networks;
- mandatory minimum service standards for all users ("universal service") and users' rights;
- authorization and licensing regimes;
- data protection and privacy;
- data retention, and
- decision on a regulatory framework for radio spectrum policy in the EU.

The NRF, in particular:

- sets out the rights, responsibilities, decision-making powers and procedures of the National Regulatory Authorities ("NRAs") and the European Commission;
- identifies specific policy objectives that NRAs must achieve in carrying out their responsibilities; and
- provides that operators with SMP in relevant communications markets can be subject to obligations set out in the directives on universal service and access.

Since Hungary joined the European Union on May 1, 2004, our operations have been subject to the EU Framework on telecommunications regulation. EU Member States are required to enact EU legislation in their domestic law and to take EU legislation into account when applying domestic law. Hungary fully implemented the NRF with the enactment of the Electronic Communications Act and fully implemented decrees in 2004.

In each EU Member State, a NRA is responsible for enforcing the national telecommunications laws that are based on the EU Framework. NRAs generally have significant powers under their relevant telecommunications acts, including the authority to impose network access and interconnection obligations, and to approve or review the charges and general business terms and conditions of providers

with SMP. In general, a company can be considered to have SMP if its share of a particular market exceeds 40 percent. Market share is determined based on revenue, number of subscribers, usage volume figures or a combination of these depending on the particular market. NRAs also have the authority to assign wireless spectrum and supervise frequencies and to impose universal service obligations.

The European Commission supervises the NRAs and formally and informally influences their decisions in order to ensure the harmonized application of the EU Framework throughout the European Union. Companies can challenge decisions of the relevant NRA before national courts. Such legal proceedings can lead to a decision by the European Court of Justice, which is the ultimate authority on the correct application of EU legislation.

Special Requirements Applicable to Providers with SMP

The most significant impact on our business stems from the EU Framework's special requirements applicable to providers with SMP. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication, and non-discrimination, can be imposed on those operators that are designated by the relevant NRA as having SMP in an electronic communications market. Such determinations are based on EU guidelines and EU competition case law.

In particular, the NRA may subject providers with SMP, and their affiliates, to the following rules and obligations:

The prior approval or retroactive review of charges, insofar as such charges and conditions relate to a market in which the provider holds SMP.

The obligation to offer other companies unbundled special network access (including interconnection) as well as access to certain services and facilities on a non-discriminatory basis.

In addition, providers with SMP can be obliged to maintain segregated accounting systems with regard to access services. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent, among other things, the cross-subsidization of services. In this regard, the NRA may specify the structure of a provider's internal accounting for particular telecommunications services, which can increase costs of compliance.

Under the EU Framework, the European Commission periodically issues a market recommendation, which is a list of telecommunications markets that it considers susceptible to sector-specific regulation. NRAs must take this list of markets into account when defining the markets that are to be analyzed for the existence of competitive restraints. If a NRA finds that a market is not competitive, it establishes which providers have SMP in this market and may impose certain measures prescribed by statute.

In February 2003, the European Commission issued its first recommendation, which related to the retail markets for fixed-line public telephone service and leased lines, as well as the wholesale markets for the ULL, fixed network interconnection, leased lines, broadband access, mobile voice call termination, mobile access and call origination, international roaming, and broadcasting transmission services. We have been designated as an operator with SMP in almost all of these markets in Hungary. Future market analyses by NRAs have to consider a new recommendation of the European Commission issued in November 2007 as described in " Legislative Developments" below.

NRAs may analyze additional markets not included in the EU recommendation if justified by special national circumstances. NRAs are required to conduct market analyses on all communications markets included in the European Commission's recommendation, as well as those that the NRAs have decided to include within the scope of sector-specific regulation in agreement with the European Commission. All NRA market analyses are subject to the supervision of the European Commission and can be challenged if the European Commission does not agree with the NRA's findings.

In addition to the European Commission's recommendation, there is a separate EU regulation on unbundled access to the local loop, which became effective in January 2001. It contains the obligations to provide full unbundled access to copper-paired wire lines, as well as unbundled access to the high-frequency spectrum of those lines (line-sharing). Since each member state has specifically addressed local loop unbundling by individual regulatory measures under the framework, the new EU proposals to amend the regulatory framework as described below provide for the termination of the separate EU regulation on local loop unbundling. Unbundling has led to a considerable loss of our market share.

Legislative Developments

Under the EU Framework, the European Commission must regularly review its market recommendation. In November 2007, the European Commission issued the second version of its market recommendation, which now has to be considered by NRAs when analyzing telecommunications markets. The new version of the market recommendation reduced the number of markets to be reviewed from 18 to 7. In particular, most retail markets have been removed from the list of markets that are susceptible to telecommunications regulation. However, the most important retail market relating to retail access to the fixed telephone network remains subject to such regulation. Further, some wholesale markets are now described in a broader manner. For example, the market for local loop unbundling is no longer restricted to metallic loops. Whether these broader definitions lead to an expansion or a reduction of regulation is difficult to predict at this time. The new market recommendation primarily relates to the retail market for access to the public telephone network at a fixed location, wholesale markets for call origination of fixed telephone networks, call termination of individual fixed networks, network infrastructure access (including shared or fully unbundled access) at a fixed location, broadband access, terminating segments of leased lines, and voice call termination on individual mobile networks.

In addition, the entire EU Framework is subject to a review currently in progress. The European Commission has issued proposals to amend the current framework, which must be accepted by the European Parliament and the Council of Ministers before becoming legislation. These proposals do not include any deregulation efforts. Instead, the European Commission has proposed establishing a regulatory agency at the EU level, and to extend veto rights of the European Commission with respect to an NRA decision. Furthermore, the European Commission proposes to provide NRAs the power to separate the network operations of providers with SMP from the service business of such providers in certain circumstances. In 2008, the European Parliament will debate these proposals. Any changes to the framework would become effective following their transposition into national law. Whether the regulatory framework will increase or decrease the regulatory burden on us will depend on the changes being adopted by the European Union, the manner in which revised directives are subsequently implemented in the EU Member States, and how the revised regulatory framework will be applied by the respective NRA.

Competition Law

The European Union's competition rules have the force of law in all EU Member States. The main principles of the EU competition rules are set forth in Articles 81 and 82 of the European Community Treaty ("E.C. Treaty") and in the EU Merger Regulation (the "Merger Regulation"). In general, the E.C. Treaty prohibits "concerted practices" and all agreements that may affect trade between Member States and which restrict, or are intended to restrict, competition within the European Union, and prohibits any abuse of a dominant position within the common market of the European Union, or any substantial part of it, that may affect trade between Member States. The European Commission enforces these rules in cooperation with the national competition authorities, which may also directly enforce the competition rules of the E.C. Treaty. In addition, the national courts have jurisdiction over alleged violations of EU competition law.

The Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds are to be submitted to the European Commission for

review, rather than to the national competition authorities. Under the amended Merger Regulation, concentrations will be prohibited if they significantly impede effective competition in the common European market, or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.

In addition, all EU Member States (and other jurisdictions in which we operate) have legislation in place, which is substantially similar to the EU competition rules. Thus, in markets where we are dominant, our ability to practice business freely and to establish our own prices can be restricted. Moreover, our opportunities to cooperate with other companies, or to enhance our business by fully or partially acquiring other businesses, can also be limited.

The EU Regulation of the Mobile Market

The recommendation on relevant markets, which has to be analyzed by NRAs, has been updated in November 2007, and requires NRAs to analyze one mobile communication market in order to determine whether regulatory remedies must be imposed: call termination in mobile networks.

The markets for access and call origination and international roaming have been deleted from the list of recommended markets to be analyzed. However, it will be possible for NRAs to analyze and regulate further markets, if (a) high and non-transitory entry barriers are present in this market, (b) a market structure does not tend towards effective competition within the relevant time horizon taking into account the state of competition behind the barriers of entry, or (c) competition law alone is insufficient to adequately address the market failures concerned.

On February 20, 2006, the European Commission announced that, in light of the inability of NRAs to impose regulatory remedies, it had begun to work on an EU regulation on international roaming charges. On June 30, 2007, an EU regulation entered into force which regulates international roaming tariffs for wholesale and retail customers on the basis of a capped pricing system. As a consequence, our mobile operations in the European Union had to lower their wholesale and retail roaming tariffs, which negatively affected our revenues. On the basis of a price schedule mandated by this EU regulation, further reductions of wholesale and retail roaming prices will have to be made in mid-2008 and mid-2009. Furthermore, the EU regulation mandates the introduction of additional transparency measures requiring us to make additional investments.

The European Commission has announced that it will review the development of prices for data roaming, possibly resulting in proposals to regulate those prices. For that reason, the European Regulators Group ("ERG") has coordinated market analysis procedures to be conducted by NRAs with the purpose of monitoring the development of data roaming prices. On February 11, 2008, EU Commissioner Reding announced that the European Commission would propose new price regulations unless SMS and data roaming prices are reduced significantly by July 2008.

In addition, the European Commission plans to introduce a harmonized regulation of mobile termination rates. As a result, it is possible that TMH termination rates will be reduced to a lower level than intended by the NRA. However, the harmonization of termination rates will have a positive effect on our company.

The Telecommunications Regulatory Regime in Hungary

The telecommunications industry has been governed by:

Act C of 2003 on Electronic Communications (the "Electronic Communications Act");

Act XVI of 1991 on Concessions, as amended (the "Concessions Act");

Act LXXXVII of 1990 on Pricing (the "Pricing Act"); and

Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practice (the "Competition Act").

The Electronic Communications Act and the Contract on Universal Service Provision

The Electronic Communications Act came into effect on January 1, 2004. Under the Act, the NCA, the supreme supervisory body, and the Permanent Court of Arbitration for Communications ("CAC") were established.

Set forth below is a brief summary of certain provisions of the Electronic Communications Act.

Universal Service. The Electronic Communications Act provides that universal services are basic communications services that should be available to all at an affordable price. Universal services include access to fixed line voice telephone services of certain quality enabling access to Internet services, a regulated density of public payphones, a public directory of telephone users, national domestic inquiry service as well as free call-blocks and emergency calls. Access to voice services at an affordable price is effected by designation of universal service providers (the Minister shall appoint the most efficient service provider).

We were designated as a universal service provider and entered into a universal service contract with the Minister. The current contract is valid until December 31, 2008 and can be extended for an additional four years.

Subscriber Contracts. Service providers must establish general terms and conditions of subscriber contracts. The Electronic Communications Act provides general rules of agreements between subscribers and telecommunications services providers for telecommunications services. The ministerial Decree 16/2003 (XII.27.) on "Telecommunications Subscriber Contract" contains other important rules relating to subscriber contracts. In subscriber contracts, parties can modify the provisions of the Electronic Communications Act only if they are more favorable to the subscribers.

The general terms and conditions of subscriber contracts must contain, among other things, the procedure for terminating and amending subscriber contracts, the quality of the telecommunications service, conditions for restriction of the service, the fault-repair service and the method for handling subscriber complaints. The individual subscriber contract must contain personal data of the subscriber.

SMP Regulation. On February 11, 2003, the European Commission identified in its recommendation (2003/311/EC) the following 18 relevant product and service markets within the electronic communications sector susceptible to ex ante regulation in accordance with Directive 2002/21/EC on a common regulatory framework for electronic communication networks and services:

Retail level:

1. Access to the public telephone network at a fixed location for residential customers.
2. Access to the public telephone network at a fixed location for non-residential customers.
3. Publicly available local and/or national telephone services provided at a fixed location for residential customers.
4. Publicly available international telephone services provided at a fixed location for residential customers.
5. Publicly available local and/or national telephone services provided at a fixed location for non-residential customers.
6. Publicly available international telephone services provided at a fixed location for non-residential customers.

7. The minimum set of leased lines.

Wholesale level:

8. Call origination on the public telephone network provided at a fixed location.

9. Call termination on individual public telephone networks provided at a fixed location.

10. Transit services in the fixed public telephone network.

11. Wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services.

12. Wholesale broadband access.

13. Wholesale terminating segments of leased lines.

14. Wholesale trunk segments of leased lines.

15. Access and call origination on public mobile telephone networks.

16. Voice call termination on individual mobile networks.

17. The wholesale national market for international roaming on public mobile networks.

18. Broadcasting transmission services, to deliver broadcast content to end users.

In 2004, analysis of 17 out of 18 markets was initiated by the NCA. The results of the analysis on fixed line retail markets have identified Magyar Telekom as having SMP and imposed a price cap on retail access market services (market 1 and 2) for residential and non-residential customers. In addition, it required Magyar Telekom to allow fixed line residential and non-residential customers to select other service providers for local and/or national and international calls (markets 3-6) and obliged Magyar Telekom to provide the minimum set of leased lines (market 7). On the wholesale markets, the NCA imposed the obligations of transparency (markets 8-9, 11-13), accounting separation (markets 8-9, 11-13), access and interconnection obligations (markets 8-9, 11-13), various obligations regarding cost-based prices and price control (markets 8-9, 11-13) and non-discrimination (markets 12-13). The market analysis procedure also identified TMH as having SMP in the mobile termination market (market 16) and imposed the obligations of transparency, accounting separation, access/interconnection and cost-based prices and price control.

The new round of analysis of the 18 relevant product and service markets started in the second half of 2006 and analysis of all of these markets has been completed. Market 17 concerning the wholesale national market for international roaming on public mobile networks has not and will not be analyzed because Regulation No. 717/2007/EC of the European Commission and the Council on price caps applied to wholesale and retail international roaming voice charges and on transparency requirements for the provision of roaming tariffs to end users came into force on June 30, 2007. Magyar Telekom's SMP status has been unchanged compared to the previous round of market analysis and our obligations have been changed only slightly by having more detailed rules apply to our provision of services.

The aforementioned list of relevant markets taken into account in the market analysis of the NCA was reviewed in the EU in 2006 and 2007. The amended recommendation of the EU that contains the relevant markets entered into force on December 17, 2007. As a result, retail call markets (market 3-6) and the minimum set of leased lines became deregulated as well as wholesale markets for transit services in the fixed telephone network, wholesale trunk segments of leased lines, access and call origination on public mobile telephone networks and broadcasting transmission services to deliver broadcast content to end users. The new recommendation is expected to be applied by the NCA in the next round

of market analyses due in 2009.

Local Loop and Bit-stream Unbundling. According to the Electronic Communications Act and Government Decree 277/2003, (XII.24.) on "The detailed rules of procedures related to the reference

offers and networking contracts", operators with SMP providing unbundled access or broadband access are obliged to unbundle local loops and prepare reference offers for unbundled local loops (whether fully or partially unbundled) and bit-stream access and to provide these services when there is a request for them by other telecommunications service providers.

Providers with SMP may refuse the request for unbundling only if:

there are technical barriers or the unbundling would put an unfair burden on the obliged service provider; and

providing access to the local loop or bit-stream access would endanger the unity of the provider's network.

Interconnection. According to the Electronic Communications Act and Government Decree 277/2003 (XII. 24.), providers with SMP are obliged to prepare reference offers for interconnection and to provide these services upon the reference offer when there is a request for them by other telecommunications service providers.

According to the Government Decree 277/2003 (XII. 24.), providers with SMP are obliged to enter into agreements for access to their networks when requested by another service provider. If the provider is obliged to prepare a reference interconnection offer, this offer must be in line with the legal regulations about the reference offer. The NCA has authority to arbitrate in disputed cases and may establish provisional arrangements. The reference offer of the providers with SMP must be approved by the NCA.

Carrier Selection. According to the Electronic Communications Act, voice telephone customers have the right to select different service providers for each call directions. The implementing regulation was released in Government Decree 73/2004 (IV.15.) in April 2004.

Number Portability. Fixed line telecommunications service providers are required to provide number portability on their networks, and to allow subscribers to change service providers without changing their telephone numbers in the same geographic location. In May 2004, non-geographic and mobile number portability were also implemented.

Licensing and Allocation of Frequencies. With the exception of a program receiver device, radio equipment, radio stations and radio communication networks may be operated with a radio license. A radio license may be issued exclusively on the basis of a valid frequency assignment license, with certain exceptions. Radio equipment, radio stations, radio networks and radio communications systems may be installed with a frequency assignment license, with certain exceptions. Payment of fees is required for reservation and authorized use of frequencies assigned for civil purposes, reservation of identifiers and use of the assigned identifiers.

Magyar Telekom Plc. pays a frequency license fee on the basis of Decree 6/1997 (IV.22.) KHVM on "Frequency Reservation and Usage Fee" and Government Decree 120/1998 (VI.17.) on "Rules of Payment of Frequency Reservation and Usage Fee". Additional rules related to frequency usage include Government Decree 346/2004 (XII. 22.) on "Specification of the National Frequency Allocation Table" and Government Decree 78/2006 (IV. 4.) on "Rules of the Auction and Tender to Obtain the Frequency Usage Right".

Magyar Telekom Plc. pays a number usage fee for call numbers used by the Company, according to Decree 11/2005 (IX. 28.) IHM on "Fees of Engaging the Identification Numbers Necessary for the Provision of Public Telephone Services".

Frequency assignments must conform to the National Frequency Range Distribution Chart, which lays out the entire spectrum and the purpose and availability of frequency bands. Our frequencies are generally valid for periods of one to five years.

Rights of Way. According to the Electronic Communications Act, communications service providers are entitled with prior notice to enter private property where communications facilities (equipment, cables, antennas) are located for maintenance and repair. The public telecommunications service provider must enter into a contract with the property owner setting forth conditions for the common use of the property. The property owners are also obliged to remove obstructions to public telecommunications networks.

The Hungarian Parliament approved the Act CLXXIV of 2007 on the amendment of Act C of 2003 on Electronic Communications on December 17, 2007 which came into effect in March 2008.

The Act includes the implementing provisions for Regulation No. 717/2007/EC of the European Parliament and of the Council of June 27, 2007 on roaming on public mobile telephone networks within the Community and amending Directive 2002/21/EC.

The Act serves to transpose the following legislation of the European Communities:

a) Directive 2002/21/EC of the European Parliament and of the Council of March 7, 2002 on a common regulatory framework for electronic communications networks and services;

b) Directive 2002/22/EC of the European Parliament and of the Council of March 7, 2002 on universal service and users' rights relating to electronic communications networks and services;

c) Directive 2006/24/EC of the European Parliament and of the Council of March 15, 2006 on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/EC.

The Act contains a new paragraph introducing a new task for the NCA; it shall in as much as permitted by law take account of the recommendations issued by the Commission pursuant to Article 19 (1) of Directive 2002/21/EC of the European Parliament and of the Council of March 7, 2002 on a common regulatory framework for electronic communications networks and services. Where the regulatory authority chooses not to follow the relevant recommendation, it shall inform the European Commission giving the reasoning for its position.

The main rules of the Act are in connection with the Data Retention Directive. Additionally, this Act obliges the telecommunications service providers to retain data for the purposes of prosecution of criminal offences, national security and national defense.

Mobile Concession Contracts

Under the Concession Contract, dated November 4, 1993, as amended (the "900 Concession Contract"), between the Minister and TMH, TMH was granted the right to provide public GSM mobile telephone services for 15 years. In November 2007, TMH signed the renewed Concession Contract along with the Cooperation Agreement with the Minister. The new Concession Contract prolonged the duration of the 900 MHz frequency usage right until May 2016. TMH paid HUF 10 billion for the 900 MHz license prolongation and committed to a HUF 20 billion mobile broadband investment obligation in underdeveloped regions of the country.

On October 7, 1999, an amended 900 Concession Contract was signed, allowing TMH to start commercial service in the 1800 MHz band for 15 years beginning November 26, 2000. By virtue of the amendment to the Concession Contract in 1999, by the end of 2003, the three digital mobile telecommunications service providers had the same spectrum resources allocated to them both on the 900 and the 1800 MHz bands. The DCS 1800 license of TMH will expire in 2014, but extendable without tender for a 7.5 year period. TMH pays an annual concession fee of USD 1 million.

Frequency Fees. TMH had frequency usage fee payment obligations for channels allocated by the NCA in the 900 MHz and in the 1800 MHz band. In 2007, TMH paid HUF 3,738 million frequency usage

fee for the right to use radio channels in the 2x8 MHz wide Primary 900 MHz band and HUF 275 million for the right to use the radio channels in the 2x15 MHz wide DCS 1800 MHz band.

TMH also paid frequency fees for the IMT-2000/UMTS band. In 2007, TMH paid HUF 1,058 million frequency fee for the right to use radio channels in the 2x15 MHz wide IMT-2000/UMTS frequency band. In addition, TMH paid HUF 1,101 million in 2007 for the right to use microwave frequencies.

Fees and Charges. TMH's subscriber charges are not subject to regulation under the Pricing Act or any ministerial decree.

Roaming Agreements and Tariffs. TMH may sign roaming agreements with other public mobile telecommunications service operators outside of Hungary in accordance with the rules of the GSM Association, an association of GSM operators and associated members. A new Regulation (of the European Parliament and of the Council No. 717/2007/EC) applies specific caps on wholesale and retail international roaming voice charges and sets transparency requirements for the provision of roaming tariffs to end users. Text messaging and data communications are not covered immediately but subject to regulatory monitoring. The regulation came into effect on June 30, 2007 but new retail charges (Eurotariff) are applicable from September 30, 2007.

Market Assessment, SMP Designation Process and Interconnection. See " Pricing".

Termination. TMH met all of its concession obligations in 2007. If an event of default occurs under the 900 Concession Contract, the NCA may issue a cure notice to TMH. TMH would then have 90 days to agree with the NCA on a plan of action for curing the default. If TMH does not reach an agreement with the NCA or if TMH does not cure any such default within an agreed period of between three to six months, the NCA may issue a notice terminating the 900 Concession Contract. Upon termination of the 900 Concession Contract, TMH would be dissolved under the Concessions Act.

UMTS. On December 7, 2004, the NCA awarded TMH the exclusive right to use the frequency blocks of 1920-1935 / 2110-2125 MHz Frequency Division Duplex ("FDD") and 1915-1920 MHz Time Division Duplex ("TDD") for deployment and operation of International Mobile Telecommunications ("IMT") 2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until 2019) with an option to extend for another seven and a half years.

The right was awarded after a tender process that started on September 1, 2004 and concluded on December 7, 2004. TMH applied for all three frequency blocks ("A", "B" and "C") separately and won the usage right of frequency block "A". The right to use the frequencies vested upon payment of the first installment of the license fee on December 27, 2004.

TMH was obliged by the term of the license decree to start commercial IMT-2000/UMTS service in the inner city of Budapest within 12 months of the grant of the license. This obligation was met. It was also obliged to expand the coverage to 30 percent of the Hungarian population within 36 months of the license. In December 2006, Magyar Telekom fulfilled the population coverage target of the IMT-2000/UMTS license.

The license fee for IMT-2000/UMTS was HUF 17,000 million plus reclaimable VAT, payable by the end of 2005. In addition to the license fee, TMH capitalized expenses incurred in connection with the acquisition process of the license. The total amount capitalized was HUF 17,073 million. The IMT-2000/UMTS license right is amortized on a straight-line basis over 15 years from the time of the commencement of the commercial service on August 26, 2005 to the end of the initial license period. The IMT-2000/UMTS license will expire in 2019, but extendable without tender for a 7.5 year period.

Competition Law Restrictions

The Electronic Communications Act and the Contract on Universal Service Provision in line with the Competition Act prohibit us from the abuse of our dominant position in the public voice telephone services market.

Under the Competition Act, a market participant is considered to be in a dominant position if, among other things, it is able to pursue economic activities substantially independent of other market participants, i.e., without the need to consider the market behavior of its competitors, suppliers, customers and other business partners.

Under the Electronic Communications Act and the Competition Act, service providers with SMP are required to provide services to other telecommunications service providers on the same commercial terms, and these terms may not be less favorable than those offered to other service providers controlled by it or controlling it.

According to the Contract on Universal Service Provision, we are obliged to treat similar subscribers in a reasonably similar manner and to refrain from effecting discrimination and/or unjustified advantage with respect to conditions and fees of universal service provision.

Broadcasting and Transmission

Broadcasting and transmission in Hungary are governed by Act I of 1996 on Radio and Television Broadcasting ("Media Act"), Act LXXIV of 2007 on Program Distribution and Digital Switchover ("Program Distribution Act") and the Electronic Communications Act. Under the Media Act and the Program Distribution Act, the National Radio and Television Board ("NRTB") has the primary authority for issuing tenders for broadcasting contracts and registering broadcasters and transmitters and the NCA has the primary authority for issuing tenders in relation to the Digital Switchover.

National and regional television and radio broadcasting or broadcast "distribution" to local operators generally require registration at the NCA and may be carried out on the basis of a program distribution contract in accordance with the Media Act between the NRTB and the distributor. Frequencies will be assigned under the terms of the Electronic Communications Act and the Program Distribution Act. Entities registered as program distributors are permitted to transmit broadcasts of third parties to subscribers through a cable transmission network or via any other means (satellite, IPTV).

The restriction under the Media Act on our further expansion in the program distribution sector was lifted on January 1, 2004. Accordingly, we are now free to increase our ownership interest in any program distributor, including cable television companies, despite our existing controlling interest in one cable television company.

Development of the Telecommunications Regulatory Regime in Macedonia

A new Macedonian law concerning electronic communications (Law on Electronic Communications, "ECL"), which was enacted on March 5, 2005, brings the country's telecommunications regulations closer to the EU regulatory framework, with some transitional provisions. It also provides a number of strict obligations for the existing operators.

In the second half of 2006, the Government of the Republic of Macedonia enacted a number of bylaws and rulebooks regulating different communication areas. As a result of the intensified implementation, there is a possibility that certain ECL provisions and bylaws will be soon amended. On May 4, 2007, the ECL was amended and criminal responsibility was introduced for the responsible person within the legal entity for not publishing the reference interconnection offer and the offer for unbundled access to the local loop.

Regulation of Fixed Line Business

On December 31, 2004, Maktel's monopoly rights in the Macedonian telecommunications market expired, thus making it possible for other network and service providers to enter the Macedonian telecommunications markets, upon the submission of notification to the AEC and the registration thereof. By December 2007, the AEC had registered 43 network operators and 52 providers of public fixed telephony services. Maktel published Network Access Agreement for the VoIP service providers for international calls. In February 2007, the Government of the Republic of Macedonia determined that the concession contracts of three telecommunications operators (Maktel, T-Mobile Macedonia and Cosmofon) do not exist any more according to the ECL, and that these companies should therefore continue their operations according to the provisions of the ECL. After several meetings held between the representatives of the telecommunications operators with valid concession contracts and the Macedonian government, the parties agreed that the current concession contracts should be harmonized with the provisions of the ECL. A draft version of the Contract for harmonization of the provisions of the existing concession contracts with the provisions of ECL was prepared and agreed between the operators and the Ministry of Transport and Communications. The above mentioned Contract is waiting approval from the representatives of European Commission in order to be signed.

In July 2005, the AEC issued regulations governing the conditions of interconnection. Rules for access to, and the use of, specific network facilities were issued in August 2005, and regulations governing the opening of the local loop to competitors, and carrier selection, were adopted in December 2005.

On August 8, 2005, Maktel submitted its first Referent Interconnection Offer ("MATERIO") to AEC. The interconnection prices contained in this offer were approved on January 23, 2006. In November 2006, the first interconnection contract was signed according to the conditions determined in the Referent Interconnection Offer ("RIO"). Maktel's first MATERUO was submitted to the AEC on September 5, 2005 and approved on July 19, 2006. The AEC approved the amended MATERIO on December 17, 2007. Changes made by Maktel mainly related to various fees, asymmetrical approach and technical corrections. MATERUO was also amended in 2007 twice by voluntary decreases of the shared access prices and by commercial technical provisions.

To prepare for competition in its fixed line business, Maktel carried out several changes to its retail pricing structure. For example, Maktel continued to align the prices it charged for network access products and calling services with the underlying costs, and changed its pulse-based charging system to a more customer-oriented time-based charging system with shorter time units. In addition, on the basis of the ECL, the AEC imposed obligation for cost-based prices for wholesale services of Maktel. Because Maktel's monthly fees for network access and the prices it charges for local calls amount to approximately half of the respective EU averages and are below Maktel's approved cost-based wholesale prices, further cost-based realignment of retail prices might become necessary. To the extent that any of its subscriber line prices do not yet fully reflect the cost of service, a negative impact on Maktel's competitiveness in the wholesale and retail markets can be expected. In July 2007, the wholesale ADSL Agreement with competitor OnNet was signed.

According to the obligations imposed by the ECL, a new number portability bylaw has been published by the AEC on December 27, 2006. Maktel and T-Mobile Macedonia, as operators of publicly available telephone services, must enable their subscribers to retain their geographic and non-geographic numbers when changing telecommunications operators. The number portability was scheduled to be fully implemented by July 1, 2007. The technical description of interfaces and Central Database ("CDB") were issued in March 2007. The AEC announced public tender on April 30, 2007 for the provision of the CDB. The winner of the tender is Seavus to build and manage CDB. Maktel's estimation is that number portability will be implemented in the company network in the third quarter of 2008.

At the end of January 2008, Maktel submitted amendments to the MATERIO to the AEC, which included provisions for the manner and time of provisioning number portability services in our network.

AEC refused Maktel's voluntary submission with the explanation that number portability is strictly a commercial service and cannot be included as a part of MATERIO. Maktel appealed to the Commission.

Since the end of 2004, when Maktel's obligation for providing universal services according to its concession contract expired, there has been no operator dedicated as universal service provider. In May 2006, the Government of the Republic of Macedonia enacted a decision for implementation of temporary strategy for universal services, which set the basic strategic decisions. The relevant bylaws regulating the technical parameters, quality requirements and pricing of providing universal services in Macedonia were enacted in the second half of 2006.

On December 27, 2007, the Commission of AEC decided to publish the public tender to provide universal electronic communications services in Macedonia. On February 22, 2008, Maktel and Cosmofon were selected as candidates to be universal service providers in the prequalification process. Written invitations (without public announcement) by AEC will be sent to selected candidates soliciting their offers to provide universal electronic communications services.

In 2007, the AEC granted six regional and two national authorizations for radio frequency utilization in the 3.4-3.6 GHz band for realization of a fixed wireless access, WiMAX. According to the tender rules, operators with national licenses are obliged to provide services from January 23, 2008 and operators with regional licenses are obliged to provide services from March 23, 2008. The commercial start of WiMax operators is delayed.

Regulation of Mobile Business

The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation. On June 29, 2007, the AEC has published the draft analysis conducted on call termination services in public mobile communication networks (market 16). Based on the analysis, on November 26, 2007, T-Mobile Macedonia and Cosmofon were designated with SMP status and several obligations were imposed on them, such as interconnection and access, transparency and non-discrimination in interconnection and access, accounting separation, price control and cost accounting. T-Mobile Macedonia appealed this decision. The appeal was rejected by the Commission of the AEC on January 18, 2008.

As designated SMP on the mobile voice termination market, T-Mobile Macedonia submitted RIO to the AEC on February 29, 2008. On March 28, 2008, the AEC decided to significantly decrease the mobile termination rates. T-Mobile Macedonia submitted an appeal against the decision of the AEC, but on June 12, 2008 the Commission of the AEC, as review board of second instance of the AEC, confirmed the decision of the AEC. As a result, the new termination rates of T-Mobile Macedonia will be applied from August 1, 2008. T-Mobile Macedonia can initiate a procedure before the Administrative Court to dispute the decision of the Commission of AEC.

In addition, T-Mobile Macedonia might be designated with SMP status on the relevant market for access to public mobile communication networks and services for the purpose of call origination in public mobile communication networks (market 15).

The third mobile operator, VIP, granted an authorization for radio frequencies utilization in the GSM 900 and DCS 1800 radio frequency bands on the entire territory of the Republic of Macedonia on January 31, 2007 and had its commercial start with its prepaid and postpaid offers.

The AEC announced a call for expressions of interest for a fourth mobile operator on April 2, 2007.

In November 2007, the AEC published a public tender for granting one license for 3G radio frequencies utilization. Cosmofon won the tender and is required to start the 3G commercial operations until August 12, 2008.

Macedonia and the European Union

The Republic of Macedonia signed the Stabilization and Association Agreement with the European Union and its Member States on April 9, 2001. The Macedonian Parliament ratified the Agreement on April 12, 2001, reaffirming the strategic interest and the political commitment for integration with the European Union. The Stabilization and Association Agreement has been ratified and in force since April 1, 2004.

On December 17, 2005, the EU decided to grant Macedonia EU candidate status. Following candidate status, the EU must set a date to begin the negotiations about full access encompassing all aspects of EU membership, including trade, environment, competition and health. Macedonia, as candidate country, should harmonize its legislation with the EU.

Development of the Telecommunications Regulatory Regime in Montenegro

Following the privatization of Crnogorski Telekom, the gradual liberalization of the telecommunications markets in Montenegro has started and this process is expected to become more pronounced in the coming years. The 2000 Montenegrin telecommunications law (the "2000 Law") conferred broad authority upon the Montenegrin telecommunications regulator. The 2000 Law established a licensing regime whereby all telecommunications activity must be licensed by the Montenegrin telecommunications regulator. A new competition law came into force on January 1, 2006. A consumer protection law was adopted in May 2007.

We expect that a new law on Electronic Communications will be adopted in Montenegro by the Parliament in the second or third quarter of 2008. The purpose of the new law will be to make conforming changes in the law to EU legislation, to stimulate competition, to stimulate Internet usage and to encourage investment in the telecommunications sector. We also expect that the current licensing-based regulatory regime will be replaced with an authorization-based regime. Furthermore, the introduction of cost-based pricing and accounting separation obligations, and of the provision of binding reference interconnection offers by operators with SMP, can also be expected. All of these obligations would significantly lower the market entry barriers for new providers in the telecommunications markets, thus leading to market share losses for Crnogorski Telekom in the medium and long term.

Crnogorski Telekom successfully rebalanced its tariffs on September 1, 2007, eliminating price differences between legal and physical entities and decreasing long distance and international prices. The increase in subscription fees for physical entities was alleviated by the termination of the collection of monthly radio and television subscription fee on behalf the Broadcasting Agency. The collection of radio and television subscription fee by another company or as a tax might decrease the disposable income of households and thus decrease telecommunications expenditures in the future.

The Agency for Telecommunications and Postal Activities issued secondary legislation obliging Crnogorski Telekom to introduce carrier selection and pre-selection by January 1, 2008. Crnogorski Telekom did not intend to implement carrier selection as it questions the legal basis of the relevant secondary legislation, however, it was obliged to introduce carrier selection from June 1, 2008. The introduction of carrier pre-selection is still under negotiation. VoIP operators licensed by the relevant agency during 2007, plan to use carrier selection to offer cheap long distance and international calls.

In the first quarter of 2007, T-Mobile Crna Gora and Promonte were awarded with one 3G license each and Telekom Serbia won the combined 2G-3G license. Mtel, the mobile company of Telekom Serbia started operations in July 2007 and begun offering WiMax-based fixed line and broadband services at the end of 2007. Licenses for cable and wireless program distribution systems were also awarded in 2007 and some of the licensees commenced operations offering for the time being media services only. The development plans of the cable operators are based to a great extent on using the underground infrastructure of Crnogorski Telekom.

Local governments in Montenegro have the authority to levy municipal taxes on telecommunications equipment placed under roads, resulting in a high degree of uncertainty for Crnogorski Telekom with respect to the overall tax liabilities.

Montenegro and the European Union

Montenegro became an independent state in 2006 and signed a Stabilization and Association Agreement with the European Union at the end of 2007. The Interim Stabilization and Association Agreement came into force on January 1, 2008.

PRICING

Hungarian Fixed Line Operations

Connection Fees

Decree 3/2002 (I.21.) MeHVM on "Charges for Voice Telephone Services Provided by Companies with SMP and Price Plans Related to Universal Services" ("the 2002 Fixed Line Tariff Decree") gives service providers the right to collect an additional fee of up to 50 percent of the costs incurred for providing connections in rural areas, if the connection fee does not cover the direct costs of the service provider. Connection fees and subscription charges, but not usage charges, are different for our business and residential customers. We may apply discounts to the published charges but are not allowed to exceed any published charge.

Subscription Fees and Usage Charges

Under the Pricing Act, as modified by the Electronic Communications Act, the Minister is responsible for establishing the maximum rates for universal services. Tariff regulation in Hungary is currently based on a price cap method for universal services. Since February 1, 2002, fixed line rates and connection fees have been regulated by the 2002 Fixed Line Tariff Decree. This decree has been modified to limit its scope of price regulation to universal services. The 2002 Fixed Line Tariff Decree established the price cap formula, under which our annual price increase cap was set as the forward-looking CPI less a three percent productivity factor.

According to the SMP resolutions concerning residential and business access markets, a price cap should apply to subscription fees of various price plans. These SMP resolutions were effective for 2005. A resolution with the same price cap regulation was published in 2007 effective from the end of 2007 until a new resolution is published. The SMP resolutions concerning residential and business access markets extend the applicability of price caps to all subscription fees. The resolutions provide that the maximum aggregate price increase of the subscription fees business and residential separately cannot be higher than the actual CPI for the current year.

This implies that a price check can only be carried out after the year the price cap relates to has ended.

In 2006, the NCA initiated a controlling process on price cap compliance in all three areas (universal services, residential and business access). We submitted the data required by the enquiry. We were not certain about the calculation method used by the NCA. As a result, there was a briefing on our request on December 15, 2006, at which the NCA informed us of the method to be used. According to the calculation of the NCA, we have breached the price cap by 5.9 percentage points on the residential access market. We disputed the correctness of the method set forth by the NCA. The NCA has not accepted any of our concerns with regards to the method it used to determine our price increase. As a result, the regulator ruled that we are permitted to increase our residential subscription fees until 2010 only in a way, so that the residential subscribers are compensated for the loss they suffered as a result of the price cap breach. The 2007 SMP resolution contains an appendix about the methodology of how the aggregate price increase

should be calculated for each year. We did not agree with that methodology, and appealed against the resolution on court. We lost this court case and did not file a subsequent appeal against the court's ruling.

We slightly increased our subscription fees for the residential market on January 1, 2007 and for the corporate market on March 1, 2007. Traffic fees have not changed significantly in 2007. No significant subscription or traffic fee increase is expected in 2008, either in the residential or in the corporate market.

Rates for PSTN Access to the Internet

Since January 1, 2004, retail rates for PSTN access to the Internet are no longer regulated. Since 2002, however, a part of the charge billed to the customer 30 percent in peak time and 10 percent in off-peak time must be transferred to ISPs. In the case of flat rate Internet access, 13 percent of the fee must be shared with ISPs. This type of revenue sharing remains in operation under the Electronic Communications Act. Since January 1, 2004, Internet call origination and Flat Rate Internet Access Call Origination ("FRIACO") services are part of the RIO and the prices of these services are also regulated within the scope of the RIO (rates approved by the NCA).

Leased Line Fees

After our concession ended in the area of leased lines required for interconnection, the leased lines market became unregulated in 2002. In 2005, we were identified as an operator with SMP on the retail market of a minimum set of leased lines and on the wholesale market of terminating segments of leased lines. In both cases we have been identified as the only operator with SMP in Hungary.

For the leased line termination market, the SMP resolution has adopted the "retail minus" pricing rule, requiring us to provide all wholesale leased line access services at prices approximately 33 percent lower than the listed retail prices. We are also required to provide all services identified in the resolution on a national basis. We have complied with this new regulation by reducing our wholesale leased line access prices by the set amount. This regulation only refers to Flex-Com prices.

A new resolution published in 2008 has identified us as an operator with SMP both in the markets of wholesale leased line access and in minimum sets of leased lines. The only change in the resolutions compared to the prior resolutions is that the resolution on wholesale leased line access now regulates leased lines with the bandwidth of 2 Mbit/s, as opposed to only those below 2 Mbit/s. However, the "retail minus" pricing rule set at 33 percent in the prior resolution may now be changed. The "retail minus" pricing rule is not set in the SMP resolution, but will be determined after the NCA examines the data submitted by us as a result of the obligation in the SMP resolution.

Regulated Wholesale Prices

Since December 23, 2001, the interconnection rates are no longer regulated on an itemized basis but as part of the RIO. Since January 1, 2004, local bit-stream access must be offered as part of the Reference Offer for the Unbundling of the Local Loop ("RUO"), which also regulates pricing for the local bit-stream access. The cost methodologies used in the reference offers are provided in the Ministerial Decree 18/2003 (XII.27.) IHM on cost calculation of electronic telecommunications services. The cost-based unbundling and interconnection rates must be approved by the NCA. The reference offers must contain approved rates.

The NCA published its SMP resolution with respect to the wholesale broadband market, and identified Magyar Telekom Plc., as well as all other LTOs, as operators with SMP. The SMP resolution adopted a "retail-minus" pricing rule for the wholesale broadband market of nationwide bit-stream access service. Pricing for the local bit-stream access service is currently regulated on a cost-based rule under the RUO. A new SMP resolution dealing with the broadband market was published in January 2008. It

introduced a new obligation according to which SMP operators have to offer wholesale naked ADSL at regulated prices.

In the first round of market analysis, we have been identified as an operator with SMP in the voice termination and origination market and the wholesale market on unbundling of copper loops, along with all other LTOs. These SMP resolutions included obligations to submit RIO and RUO to the NCA. The NCA also adopted cost-based pricing rules, based on Long Run Incremental Costs ("LRIC") for the RIO and Fully Distributed Costs ("FDC") for the RUO. We submitted our first draft RIO in June 2005 and first draft RUO in October 2005. After several rejections and repeated submissions the NCA accepted our RIO on May 3, 2006 and our RUO on September 11, 2006. The RIO took effect from September 15, 2005 retrospectively and the RUO from January 20, 2006 also retrospectively. New SMP resolutions for the voice termination and origination markets, as well as the wholesale market of unbundling of copper loops were published at the end of 2007. The resolution about the wholesale market of unbundling of copper loops rules that the tariffs for RUO should be determined by LRIC method as opposed to the FDC method used before. As ordered by the new SMP resolutions, new RIO and RUO were submitted in February 2008. They are expected to be approved in June 2008. By June 30, 2008, we must submit joint RIO and RUO with Emitel, which was a condition of the merger of Emitel and Magyar Telekom Plc. in October 2007.

Other Wholesale Prices

The Electronic Communications Act provides that network access fees be set based on a number of objective criteria, with transparency and without discrimination. The cost of wholesale access services are now required to be calculated based on LRIC and the pricing for these services must be approved by the NCA, even if the service provider is not obliged to make a reference offer for these services.

Network Access and Interconnection Agreements between Magyar Telekom and ISPs

We enter into network access agreements with ISPs to secure access to services provided by ISPs for our subscribers. In addition to the network access agreements, we may enter into interconnection agreements with ISPs. The terms and conditions for the network access agreements must be in line with the terms and conditions of the existing subscriber contracts.

Reverse Charging Agreements between Magyar Telekom and ISPs

We have entered into reverse charging agreements with a number of ISPs. Under these agreements, customers remit payment for Internet services to the ISPs rather than directly to us. This scheme allows ISPs to offer various price plans based on their customers' needs.

"Price Squeeze" (Predatory Pricing) Issues

Under the Electronic Communications Act, service providers with SMP are prohibited from pricing retail network services below their wholesale prices. When service providers reduce their end user prices and it causes a "price squeeze", they are obliged to proportionally reduce their wholesale prices in their reference offers. This provision only applies if the price reduction affects more than 10 percent of subscribers for the service, or the impact of the price reduction exceeds five percent of net sales of the service.

If the regulatory authority identifies a price squeeze, the NCA examines whether the price of the network service is in line with the incurred costs. If the network prices are cost-based, the NCA refers the case to the Competition Authority. If the network prices are not cost-based, the NCA determines the minimum mandatory margin between the price of the network service and the end user service and/or orders the service provider to modify the reference offer.

Hungarian Mobile Operations

Market Assessment, SMP Designation Process and Interconnection

Upon request for interconnection (to provide either network access or network interconnection) from another telecommunications operator, TMH is required under the Electronic Communications Act and a related decree to provide such services, if such request is reasonable on both technical and economic grounds and provision of such services is not impossible due to the limitation of resources.

See "Item 8 Legal proceedings" for developments on TMH's SMP designation process and interconnection rates.

Macedonian Fixed Line and Mobile Operations

Pricing for most of the retail services provided by Maktel is regulated by Maktel's Concession Contract. Pricing and maximum change in prices for these services are based on the price cap method.

In addition, according to the ECL, based on market analysis the AEC may impose retail price regulations and price controls on operators with SMP in a relevant market. The SMP operator is obliged to keep separate accounting records for its wholesale and retail activities.

Pricing for dial-up and ADSL access to the Internet, however, is currently unregulated.

Regulated Wholesale Prices. During 2006, the AEC approved Maktel's interconnection and unbundling fees (MATERIO and MATERUO) based on the FDC accounting method. However, the current interconnection fees between Maktel and T-Mobile Macedonia are still established based on former interconnection agreement and not yet harmonized with MATERIO. New MATERIO-based interconnection agreement has been signed with Cosmofon for both fixed and mobile network of Cosmofon. The third mobile operator, VIP, has a MATERIO-based interconnection agreement as well. Cosmofon and T-Mobile Macedonia are designated as SMP in the mobile telephony market and currently they are in the final stage of signing the MATERIO-based agreement between themselves and with other interconnection partners. According to the relevant bylaw, Maktel submitted LRIC methodology for interconnection fees in July 2007 and for unbundling fees in December 2007.

On December 21, 2006, the AEC decided to change the interconnection fees. The level of the fees was determined according to benchmarks and was mainly based on Maktel's retail fees without taking into account the costing model prepared by Maktel as prescribed by the relevant law. On February 14, 2007, the AEC decided to change the unbundling fees based on benchmarks. In May 2008, AEC imposed decision to decrease the interconnection and local loop unbundling fees by about 18 percent based on LRIC costing methodology submitted by Maktel. There fees are applicable from June 1, 2008.

The level of wholesale regulated prices directly depends on the finalization of the price adjustment of Maktel's retail regulated prices. In case Maktel does not increase its retail prices that can lead to significant decrease of wholesale regulated prices and/or the competitors may initiate procedures against Maktel for abusing dominant position on the market.

Based on the decision of the Commission for Protection of Competition, Maktel introduced a wholesale digital leased line product in November 2007. The wholesale products are offered at prices which are 30 percent lower than retail prices.

ORGANIZATIONAL STRUCTURE

MagyarCom, which is fully owned by Deutsche Telekom, owns 59.21 percent of the outstanding ordinary shares of Magyar Telekom.

For a list of principal operating subsidiaries and associates of the Company as of December 31, 2007, see Note 2.2 to the consolidated financial statements.

PROPERTY, PLANTS AND EQUIPMENT

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.

Since February 2005, Magyar Telekom Plc.'s real estate development, investment, operations and management activities have been outsourced to DeTe Immobilien-Hungary Zrt. The Company's real estate department, however, continues to handle strategic management and control of its real estate holdings.

In 2007, we evaluated the results of our real estate outsourcing activities, the merging of tasks within the Company as well as the possible extension of the real estate management within the group. Based on the results of this review, a new real estate organization has been set up from April 1, 2008. Its strategies, areas of operation and directions of development will be determined during 2008.

Maktel outsourced its real estate management operations to a third party starting from April 1, 2006.

The number of sites used by Magyar Telekom is approximately 7,800, out of which approximately 2,800 sites are owned by the Company and approximately 5,000 sites are leased. The total area of properties used by Magyar Telekom as of December 31, 2007 was approximately 1,200,000 m^2.

The majority of sites used in our operations are smaller than 100 m^2. Approximately 55 percent of the total area is used to house telecommunications equipment and other technical devices. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of 35,000 m^2.

INFRASTRUCTURE AND TECHNOLOGY

T-Com and T-Systems operations in Hungary

The following table provides information on the length of the copper and fiber optic cables contained in Magyar Telekom Plc.'s access, backbone and rural area networks in Hungary at December 31, 2007, and each of the two prior years in kilometers:

	At December 31,		
	2005	2006	2007
	(in kilometers)		
Copper cable	158,112	159,951	161,457
Fiber optic cable	14,376	15,026	15,454

Expansion of Access Networks. At the end of 2000, we began to offer broadband Internet access services, based on ADSL with Asynchronous Transfer Mode ("ATM") technologies. In 2004, we selected Ethernet-based Digital Subscriber Line Access Multiplexers ("DSLAMs") to provide a more cost effective ADSL solution together with the ATM technology already in use. The ADSL transmission system provides high-speed digital access to any data network over existing copper wires without interruption of Plain Old

Telephone Service ("POTS") and ISDN2 services with the data speed of 1, 4, 8 and 18 Mbit/s. In 2007, we continued the roll-out of the ADSL technology nationwide. At the end of 2007, more than 600,000 customers were using ADSL lines for connection to the Internet. By the end of 2007, our infrastructure allowed up to two million of our analog and ISDN2 subscribers to have access to the ADSL service. This represents coverage of over 1,200 towns and cities and approximately 86 percent of the population in our service area. In 2008, we plan to introduce the VDSL2 technology to provide high-speed data access with data speed of 25 and 50 Mbit/s.

We used fiber optic cables for our fixed line local loop networks for approximately 130,000 customers at the end of 2007. We installed a substantial amount of local network fiber optic cable in Budapest, where segments of the old cable network were in poor condition and where we believe the demand for high capacity and high quality transmission will be the greatest (e.g., shopping malls, industrial parks). We plan to extend our local fiber optic network both inside and outside Budapest to cover new business demands in existing areas, mainly to provide broadband services through optical access as well.

Backbone Network. We have a digital fiber optic national long distance network that connects local primary area networks. We have implemented the DWDM technology and Synchronous Digital Hierarchy ("SDH") systems in both the national long distance and Budapest networks. The countrywide DWDM backbone network, installed in 2006, provides high capacity (maximum 64 times 10 Gbit/s) in the most important areas of Hungary, as well as in international directions. In 2007, we carried out capacity and geographical extensions of the DWDM network. Optical cables were installed in TMH's main transmission networks to serve 3G and the core network. In addition to cost advantages, SDH systems provide a flexible transmission infrastructure with automatic transmission paths. We use a new generation of the SDH system that, besides increasing network availability and transmission capacity, enables new services, such as data transmission (e.g., Ethernet). Since we currently have a robust optical backbone network, we have no immediate plans for expansion.

IP/MPLS. Since 2000, we have provided Internet access and IP-VPN services on the same IP/MPLS platform. The network is built-up of Gigabit Ethernet ("GE") and 10GE connections. The network has several access options (dial-up, leased line, broadband DSL, CATV, Ethernet) with PoPs in each primary area in Hungary. Available services include L2 (Layer 2) VPN, IP-VPN (scalable interconnection for corporate sites with Integrated Voice and Data option), IPSec and xDSL to Virtual Private Networks, Virtual Private Dial-up Network and wholesale Internet services for ISPs. The connectivity network that concentrates xDSL traffic towards the IP core is based on ATM and Ethernet technology. In 2007, we developed a carrier-grade IP core network to be able to ensure high availability, demanded quality of service, scalability and security for triple-play, VoIP and broadband data communication services, and also for the common T-Com and T-Mobile IP platform. In 2007, significant capacity, quality and functional upgrades have been performed, including the development of the countrywide 10 Gbit/s core network, installation of new GE and 10 GE connections, duplications of devices to increase redundancies, and changes of old devices. Further Quality of Service ("QoS") and high-availability features are planned in 2008 in order to increase network capacity according to traffic demand, to install new network functions and to develop connectivity and integrity with different communication networks to become an appropriate transport platform for NGN and triple-play services.

The IP core and access network was developed to provide broadband digital video transmission to utilize multicast technology alongside QoS as a wholesale product.

Development of our traditional (such as PSTN/ISDN) networks has been limited to maintenance and legal compliance purposes. The key focus has instead been on development of technologies and networks compatible with or forming a part of NGN, such as VoIP. In 2005, Voice-over CATV, Integrated Voice and Data service ("IP Complex Plus") and Voice-over Internet ("KLIP") have been introduced. In 2006, we continued to deploy a carrier-grade multi-service overlay NGN. We also launched the commercial IPTV service at the end of 2006 together with T-Online. An IP Multimedia Subsystem was installed in 2006,

which is considered to be the base for future multimedia services to be provided on broadband. In 2007, we launched IP-based Publicly Available Telephone Service ("PATS"). In 2008, we continue to deploy a carrier-grade multi-service NGN and launch new services, such as IP Centrex, video-telephony, Click-to-dial.

Information Technology. We have dedicated a significant amount of resources to improve our information technology systems. We believe that the continuing development of these systems is essential to improving customer service and the efficiency and productivity of our employees.

Our nationwide operational support system integrates the following elements:

- CRM;
- billing, e-billing;
- automated call collection;
- network traffic management;
- workforce and workflow management;
- element, network and service management (configuration, alarm management, SLA management); and
- process controlled technical inventories.

This operational support system environment permits us to focus on our customers' needs, to offer more personalized services, itemized billing, to bundle products and services in price plans and to generate a single bill for customers with multiple locations. In 2007, we created the basics of the centralized alarm supervision and the support systems for IPTV, VOIP and Xplay services have been developed and initiated using the legacy systems. We also introduced an automatic trouble shooting support system along the Next Generation Operation Support System conception. In addition, a tender for an automatic establishment support system of NGN services will be launched.

T-Mobile operations in Hungary

GSM Network. TMH operates a nationwide GSM public digital mobile network in the 900 MHz band with 8 MHz duplex spectrum since 1994, in the 1800 MHz band with 6 MHz duplex spectrum since 1999 and in the 1800 MHz band with a total of 15 MHz duplex spectrum since January 2004. To guarantee the best possible service quality for our customers, we are dedicated to the continuing network roll-out to meet traffic and coverage demands. The deep indoor coverage for GSM in cities over 100,000 inhabitants, including Budapest, was increased up to 97 percent as of December 31, 2006. Indoor coverage was not increased in 2007.

EDGE Packet Switched Data Service. Commercial EDGE service was launched at the end of 2003. EDGE covered 59 and 74 percent of the population by the end of 2005 and 2006, respectively. The peak data rate was increased to around 200 Kbit/s in 2005. By the end of 2007, the EDGE population coverage reached 77 percent.

Universal Mobile Telecommunications System ("UMTS") and High Speed Downlink/Uplink Packet Access ("HSDPA"). The 3G network enables besides rapid data transmission and video-telephone more comprehensive and interesting content than before, including, in addition to image and text, fast transmission of high quality multimedia materials. In December 2004, TMH was awarded a 3G service license and was granted the use of 15 MHz duplex and 5 MHz unpaired 3G spectrums until 2019. In August 2005, TMH launched commercial UMTS service, first in Hungary. On May 17, 2006, commercial HSDPA service was launched in the internal districts of Budapest, also as a first operator in Hungary. For the time being, each 3G cell is capable of HSDPA, therefore the UMTS/HSDPA population coverage

reached 53 percent by the end of 2007, serving 118 towns in Hungary. The network allows 7.2 Mbit/s nominal downlink speed in Budapest and 3.6 Mbit/s in other areas. HSUPA is provided with 1.4 Mbit/s in Budapest as well.

WLAN project. In the frame of the WLAN program "Small settlements", 110 access points have been rolled out during 2006 making "Internet Fix" service available in 120 towns. In 2007, the capacity was upgraded, based on traffic demand. By the end of 2007, our subscribers were able to roam abroad in the hot spots of nine international mobile operators offering Public Wireless Local Access Network ("PWLAN") service.

Special Project TETRA. In 2005, TMH took part in the exclusive mobile tender of the Hungarian Government. We established a new entity, Pro-M, for providing TETRA services for governmental organizations. The network uses the 380-400 MHz spectrum, applying TETRA technology. By December 2006, TMH completed the roll out of the contracted system. The TETRA network operated with 237 sites and four switches with a further ten sites and two repeaters added in 2007.

T-Com operations in Macedonia

Maktel endeavors to maintain its network at a high technological level to offer and provide a wide range of products and services that will satisfy customers' demands. In 2007, we made significant efforts to upgrade the network to extend its capacities in order to support strong growth of broadband services.

The PSTN/ISDN network in the Republic of Macedonia has been fully digitalized since the end of 2003. The liberalization of the telecommunications market required Maktel to perform a substantial upgrade of the PSTN/ISDN platform. With the upgrade, switching systems are able to support carrier selection and pre-selection functions. In 2006, Airspan-based VoIP platform was installed in the network for the purposes of terminating and originating international VoIP calls as well as for providing business VoIP services. In 2008, we expect to finalize the implementation of number portability.

Maktel's primary area networks are connected to the fiber optic national long distance network. The SDH technology has been implemented in the backbone network, in the transmission networks in Skopje and other cities in the country. For connection of Remote Subscriber Units, Plesiochronous Digital Hierarchy ("PDH") equipment is used as well. In 2007, Maktel completed the first phase of the implementation of its DWDM network and metropolitan DWDM network in Skopje.

The existing copper-wire network is a good basis for introduction of broadband services based on the DSL technologies. At the end of 2003, Maktel introduced broadband Internet access services based on the ADSL technology. For connection of business customers Metro Ethernet equipment is used. Key business customers are connected to the network with optical cables.

In 2006, Maktel installed the Intrusion Detection and Prevention System in order to protect its users from Denial of Service ("DOS"). In 2007, Maktel started to redesign its IP/MPLS backbone network. The redesigned IP network will provide IP transmission capacities both for HS Internet and new IPTV services. The dual-star IP/MPLS network is connected to the global Internet network through two main Internet gateways. Available services include IP-VPN, ADSL High Speed Internet Access, ADSL-based VPN service, dial-up Internet access, Video Surveillance, Internet Symmetrical Access, wholesale Internet services for ISPs, web services, content-oriented services and video streaming. All existing Frame Relay/X.25 services have been migrated to IP-based VPN service.

T-Mobile operations in Macedonia

T-Mobile Macedonia has built a high quality and high capacity network that meets the requirements and needs of its growing subscriber base.

The Radio Access Network consists of 574 base stations installed on 425 sites, 3,879 transceiver units, 168 microwave transmission hops and 113 repeaters. The Core Network and Supporting systems consist of two Home Location Registers, three Mobile services Switching Centers and five Base Station Controllers installed on four different sites. Additionally, Prepaid node, GPRS Support node, SMS/VMS/MMS are operating via T-Mobile network. All network elements are centrally controlled and monitored via Operation and Support System located in Skopje.

Rating and billing platforms provide enhanced and seamless services for the entire prepaid and postpaid customer base as well as for the interconnection partners. Our comprehensive solutions for promotions, discounts and incentives provide extensive flexibility for tailored offerings and customer satisfaction. Back-end systems enable content aggregation from various content-delivery partners, simultaneously availing sophisticated m-payment, m-charging, messaging and remote configuration methods for the plethora of services.

T-Mobile Macedonia has also built functionalities to host the third mobile entrant on the local market, while simultaneously enforcing our capabilities for even more business processes automation, as well as data security and availability.

ENVIRONMENT PROTECTION

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

As a part of our commitment to sustainability, we developed a sustainability section for Magyar Telekom's website (http://www.magyartelekom.hu/english/aboutmagyartelekom/sustainability/ma in.vm). This section includes our reports and news relating to sustainability and discusses our philosophy and approach to sustainability.

ITEM 4A UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read together with the consolidated financial statements, including the accompanying notes, included in this annual report. The consolidated financial statements, the accompanying notes as well as the discussion of results presented below have been prepared in accordance with IFRS. Revenues and operating expenses discussed under " Results of Operations By Segment" do not reflect intersegment eliminations.

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to "Forward-Looking Statements" and "Item 3. Key Information Risk Factors" for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this Annual Report.

MANAGEMENT OVERVIEW

General

Management of our company provides the following discussion and analysis to present an overview of our financial condition, operating performance and prospects from management's perspective.

Magyar Telekom continued to deliver strong financial performance in 2007 amidst a difficult competitive and macroeconomic environment. Our ability to not just fulfill, but exceed some of our targets for this year illustrates the success of our strategy aimed at maintaining our leadership position in our key core markets. Group revenues increased by one percent in 2007 compared to the previous year. In addition, the total additions to tangible and intangible assets to sales ratio excluding the GSM license extension fee was below 14 percent, in line with our target.

Whilst mobile substitution and competition from cable and alternative service providers continued to drive the revenue decline in the Hungarian T-Com segment, the increase in Internet and multimedia revenues partly offset the decline in the fixed line voice market. Our broadband customer base increased by 25 percent to just under 717,000 during 2007. After a slow start, IPTV customer growth gained momentum in the second half of the year, reaching over 9,000 customers by year-end. Our online social network, iWiW also saw strong growth and now counts one in three Hungarians and around 85 percent of Internet users as its members, a cumulative five-fold increase since its acquisition by Magyar Telekom in 2006.

Our international fixed line businesses in Macedonia and Montenegro also experienced strong competition in 2007. While revenues in Macedonia were down by 7 percent mainly due to strong mobile substitution, in Montenegro the decline in voice retail revenues was offset by increasing wholesale and Internet revenues. In addition, Montenegrin tariff rebalancing positively affected financial performance with revenue growth of 12 percent in 2007. In both countries our focus remains on cost cutting and broadband expansion. In 2007, the number of ADSL lines in Macedonia nearly tripled and also more than doubled in Montenegro. In addition, in November 2007, we introduced IPTV service in Montenegro with great success, attracting more than 10,000 customers by year-end.

Within the T-Systems segment, system integration and IT revenues increased by 76 percent due to the consolidation of the newly acquired subsidiaries. Together with KFKI and T-Systems Hungary, we became the leading service provider in the IT and system integration market in Hungary. This is a great achievement considering that three years ago Magyar Telekom had no presence in this market. Our full-scale service offering has allowed us to introduce bundled IT-telecommunications products to the market and capitalize on cross-sale opportunities. As a result, revenues from these services were able to compensate for the eroding voice traffic in 2007.

Despite the difficult regulatory and competitive environment, T-Mobile Hungary can look back on a successful year. Our customer base increased by nearly 10 percent and we maintained our clear leadership position with a market share based on active SIM cards of above 45 percent, while penetration increased to 110 percent by the end of the year. Despite the added pressure on our mobile revenues as a result of the cut in mobile termination fees and the EU-level roaming regulation, T-Mobile achieved an increase in revenues. In mobile broadband, an important source of growth for Magyar Telekom, the number of customers exceeded 152,000 by the end of the year. We believe that focus on mobile broadband and value-added services is essential to maintaining our leadership in service quality and innovation.

Both Macedonia and Montenegro saw an increase in mobile competition due to the entry of third operators in both markets in the second half of 2007. In Macedonia, strong customer growth and higher usage counterbalanced the negative impacts of increased competition. As a result, mobile revenues were up by 9 percent in 2007. In Montenegro, successful customer acquisition and an improvement in the customer mix allowed T-Mobile Crna Gora to become the market leader in the postpaid segment. Furthermore, the company was the first in the country to launch mobile broadband services in June 2007.

Net revenues and net profit

Our total revenues grew by 9.1 percent from HUF 615,054 million in 2005 to HUF 671,196 million in 2006. The increase in revenues was mainly due to higher revenues from mobile telecommunications services, which grew by 14.5 percent from 2005 to 2006, driven mainly by Pro-M's TETRA activities in the Hungarian mobile operations. Since the main part of the TETRA network was completed in 2006, we had a significant one-off revenue increase that year. The higher system integration and IT revenues as well as higher broadband Internet revenues also contributed to the growth, and were only partly offset by lower voice retail revenues from outgoing domestic and international traffic in the fixed line telecommunications services. The longer consolidation period (12 months in 2006 compared to nine months in 2005) of Crnogorski Telekom also contributed to the revenue growth.

Total revenues showed a slight increase of 0.8 percent from HUF 671,196 million in 2006 to HUF 676,661 million in 2007. Higher system integration and IT revenues, higher mobile revenues (excluding TETRA-related revenues) as well as the growth in broadband Internet revenues was mostly offset by the drop in voice retail revenues in our fixed line telecommunications services and lower TETRA-related revenues.

In 2007, net income declined year-on-year by 20.3 percent to HUF 60,155 million driven by the expenses of the headcount reduction program (HUF 27.5 billion in 2007 including headcount reduction-related expenses, a portion of which was attributable to contractual termination expenses for key managers), higher investigation-related expenses (HUF 5.7 billion in 2007, compared to HUF 4.1 billion in 2006 (due to the extension of the investigation to review of several contracts of our Macedonian subsidiary), the higher financial expenses and the introduction of the solidarity tax as of September 2006.

Dividend

Our Management Board and Supervisory Board proposed a dividend of HUF 74 for each Magyar Telekom share carrying dividend rights. This proposal was approved by our shareholders at the 2007 annual general shareholders' meeting scheduled on April 25, 2008.

Organizational Structure and Business Activities

The headcount reduction is part of our overall aim to simplify the group structure and increase efficiency. The new organizational structure, focusing on customer segments, has been in force since January 1, 2008. We have also made significant improvements in reducing the number of subsidiaries: we have merged Emitel and the access business of T-Online into the parent company and have also decreased the number of subsidiaries at the T-Systems unit from six to two.

Basis of presentation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with IFRS as issued by the IASB.

Magyar Telekom reports results for its business segments primarily based on products and services that are subject to risks and returns that are different from those of other businesses. The primary reporting segments are based on the business lines of the Group. Before 2007, Magyar Telekom had two business segments, Fixed Line and Mobile. From January 1, 2007, Magyar Telekom split up its Fixed Line segment into T-Com, T-Systems and GHS. Comparative segmental information for 2005 and 2006 has been restated on the basis of these new segments. The Mobile segment remained substantially unchanged.

The Group will adopt IFRS 8 in 2009, which will result in a significant restructuring of the Group's segment disclosure. The Group restructured the way chief operating decision makers will decide on allocation of resources as of January 1, 2008, which is significantly different from the reportable segments of the Group in 2007. From 2008, the Group's segments are measured at different earnings level, which is

not accepted by IAS 14, the current standard on segment reporting. As no comparatives will be available next to 2008, the Group can not early adopt IFRS 8 in 2008.

In 2005, Magyar Telekom acquired a 76.53 percent interest in Crnogorski Telekom. Crnogorski Telekom's balance sheet was consolidated in our accounts as of March 31, 2005, and the results of Crnogorski Telekom are included in our consolidated income statement from the second quarter of 2005. The changes in our revenue and expense lines are partly explained by the full year inclusion of Crnogorski Telekom in 2006 compared to the nine-month consolidation in 2005. In 2006, the depreciation of HUF against the Macedonian Denar ("MKD") and EUR had a significant effect on the revenues and expenses of our Macedonian and Montenegrin operations. In 2007, the HUF strengthened against the MKD and EUR on average, affecting all revenue and expense lines at our Macedonian and Montenegrin subsidiaries.

In the 2007 financial statements of Magyar Telekom, bank balances with original maturities over 3 months have been reclassified and now are shown as financial investments as opposed to the presentation in prior years, when these were disclosed as cash and cash equivalents, which was not in line with the policies of the Group. Prior year disclosures have been restated accordingly. The reclassification had no impact on equity, net income or EPS.

From 2007, the Group changed the classification of certain items in the Cashflow statement. The classification in the 2005 and 2006 Cashflow statements have been amended to provide comparable information with the 2007 disclosure.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. Reported financial conditions and results of our operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements.

Critical accounting estimates are defined as accounting estimates and assumptions where:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimates and assumptions on financial condition or operating performance is material.

We base our estimates on historical experience and on various other assumptions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements.

For a list of our critical accounting policies and assumptions, see Note 4 to the consolidated financial statements.

Recent Accounting Pronouncements

We have reviewed the new standards, amendments and interpretations to existing standards that have been published but which are not yet effective and have not been adopted by the Group prior to their effectiveness. For a list of recent IFRS accounting pronouncements, see Note 2.1.3 to the consolidated financial statements.

Outlook

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

To adapt to these changes in the market, Magyar Telekom introduced a new management and organizational structure on January 1, 2008 in order to enhance service quality and improve cost efficiency, as well as exploit new, innovative service and business opportunities. 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.

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

We should emphasize that each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. 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. See the detailed description of these and other risk factors in "Item 3 Risk Factors".

We expect that our core business units will be able to continue to generate strong cash flows. However, there are some significant elements that can have negative effects our cash flows, for example, the roll-out of EDR infrastructure and potential acquisitions. Despite these effects, we expect to generate positive cash flows in 2008.

Revenues

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

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from VoIP or Voice over cable television ("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 acquisitions, together with the T-Online capabilities, have enabled 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 negatively impact the growth of the segment.

In Macedonia, increasing competition has already begun in the fixed line segment, with the competition in international incoming and outgoing fixed-to-mobile and long distance calls. Further competition is expected from the entry into the market of the third Macedonian mobile operator VIP in September 2007 and from Macedonian CaTV operators, which are expected to provide Internet and fixed voice on the same platform.

Crnogorski Telekom's improvement was significant in 2007 despite increasing competition (international termination, CATV launch). Promonte, the Montenegrin market leader in mobile telephony has acquired a license for international voice traffic which is valid from January 1, 2007; however Promonte continued to use Crnogorski Telekom's network during 2007. This is expected to change in 2008. The Montenegrin Telecommunication Agency awarded licenses of cable television services to 10 companies. These new providers are expected to enter traditional telecommunications markets in 2008, and will increase competition. The launch of the third mobile operator also imposes pressure on the fixed line market.

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

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. Adoption of EU regulations on roaming coupled with the continuation of gradual cuts in mobile termination fees are expected to decrease revenues significantly. As a combined result of these factors, we expect stable net revenue generation in the Hungarian mobile segment in 2008.

Magyar Telekom 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 has undertaken to spend at least HUF 20 billion in the next two years to further increase mobile broadband coverage in Hungary.

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

In the Montenegrin market, subscriber growth continued in 2007 and was a key driver in net revenue growth. In 2008, we expect a slowdown of subscriber growth as the markets became increasingly saturated. The new entrant Telekom Serbia ("MTS") started a rush expansion, and we expect the very sharp competition to continue in 2008. The Telecommunication Agency has also awarded three licenses for

providing 3G mobile services. Despite intensifying competition we expect further growth in mobile revenues in Montenegro.

Expenses

In line with our strategy, we plan to improve our internal operational efficiency in all business 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; the remainder will be implemented gradually in 2008. The headcount reduction includes our Macedonian and Montenegrin fixed line service providers as well. We are determined to bring their performance in line with industry best practices and our management is committed to the further simplification and improvement of processes and connected systems. In addition to organizational measures and process improvements, we seek cost savings by leveraging our group-wide synergies in procurement and by gradual integration of support systems.

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 liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices, high above the inflation level. We expect this 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 (T-Com, T-Online and T-Kábel) will be pulled from the market. This move will simplify the company's market presence from a customer point of view, but may cause marketing costs to increase in 2008.

Total additions to tangible and intangible assets

We aimed to reduce the total 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 to around 15 percent, 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 total 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.

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

Revenue and EBITDA targets

The increasing revenue contribution of new services, such as IT and systems integration, will help to maintain revenue levels. However, as these are lower margin services, we expect a slight decline in underlying EBITDA (earnings before net financial expenses, taxes, depreciation and amortization; "underlying EBITDA" excludes investigation-related costs as well as severance payments and accruals) in 2008 compared to the 2007 level.

OPERATIONS REVIEW GROUP

Revenues

The following table sets forth information regarding our revenues:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Fixed line revenues	320,183	319,187	309,333	(0.3)	(3.1)
Mobile revenues	285,848	327,330	325,767	14.5	(0.5)
SI/IT revenues	9,023	24,679	41,561	173.5	68.4
Total revenues	615,054	671,196	676,661	9.1	0.8

Fixed Line Revenues

The following table sets forth information regarding our fixed line revenues:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Subscriptions	90,550	93,387	90,789	3.1	(2.8)
Domestic outgoing traffic	87,497	69,724	51,423	(20.3)	(26.2)
International outgoing traffic	11,155	10,267	10,107	(8.0)	(1.6)
Value added and other services	8,477	8,902	7,453	5.0	(16.3)
Voice-retail revenues	197,679	182,280	159,772	(7.8)	(12.3)
Domestic incoming traffic revenues	9,530	9,125	10,459	(4.2)	14.6
International incoming traffic revenues	16,049	19,566	19,860	21.9	1.5
Voice-wholesale revenues	25,579	28,691	30,319	12.2	5.7
Internet	39,783	49,733	57,796	25.0	16.2
Data	26,792	27,121	27,440	1.2	1.2
Multimedia	15,037	17,506	18,102	16.4	3.4
Equipment	5,205	4,249	5,395	(18.4)	27.0
Other fixed line revenues	10,108	9,607	10,509	(5.0)	9.4
Total fixed line revenues	320,183	319,187	309,333	(0.3)	(3.1)

The table below sets forth information regarding average access lines in Hungary, Macedonia and Montenegro:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
Average access lines in the service areas of Magyar Telekom Plc. (including Emitel):					
Residential	2,033,397	1,942,260	1,848,374	(4.5)	(4.8)
Business	255,207	242,192	228,727	(5.1)	(5.6)
Public payphones	23,822	21,706	20,217	(8.9)	(6.9)
Total	2,312,426	2,206,158	2,097,318	(4.6)	(4.9)
ISDN channels	515,900	493,766	476,485	(4.3)	(3.5)
Total	2,828,326	2,699,924	2,573,803	(4.5)	(4.7)
Average access lines at Maktel					
Residential	502,712	449,813	418,876	(10.5)	(6.9)
Business	51,767	45,772	42,612	(11.6)	(6.9)
Public payphones	2,633	2,226	2,047	(15.5)	(8.0)
Total	557,112	497,811	463,535	(10.6)	(6.9)
ISDN channels	42,799	41,519	43,600	(3.0)	5.0
Total	599,911	539,330	507,135	(10.1)	(6.0)
Average access lines at T-Com Crna Gora					
PSTN lines	177,484	174,739	168,951	(1.5)	(3.3)
ISDN channels	16,860	20,366	21,509	20.8	5.6
Total	194,344	195,105	190,460	0.4	(2.4)

Voice-retail revenues. Voice-retail revenues consist of revenues from subscriptions, domestic and international traffic revenues as well as value-added and other services revenues.

Fixed line voice-retail revenues decreased by 19.2 percent in 2007 compared to 2005, mainly driven by lower domestic outgoing traffic revenues at Magyar Telekom Plc. due to wider use of flat-rate price plans, lower usage and decreased customer base resulting mainly from competition and mobile substitution.

Subscriptions. Revenues from subscriptions consist of revenues from monthly subscription fees for price plans. Revenues from subscriptions are principally a function of the number and mix of residential, business and ISDN access lines and corresponding charges.

Subscription fees showed an increase in 2006 compared to 2005 supported by higher revenues from customized and supplementary price plans at Magyar Telekom Plc. as a higher proportion of our customers chose such plans. The increase was helped by the contribution from Maktel due to favorable foreign exchange movement and higher tariffs as tariff rebalancing occurred in August 2005. The positive effect of the consolidation of T-Com Crna Gora's full year revenues in 2006 also contributed to this increase. These increases were partly offset by decreased ISDN subscription revenues resulting from a lower average number of customers and lower prices in Hungary.

The decrease in subscription revenues in 2007 compared to 2006 was due to lower revenues in the Hungarian fixed line operations driven by decreased average number of both PSTN and ISDN subscribers. Lower subscription revenues at Maktel were mainly driven by decreased average PSTN customer base. These decreases were somewhat offset by higher subscription revenues at T-Com Crna Gora resulting from tariff rebalancing in September 2007 when subscription fees for residential customers doubled.

Domestic outgoing traffic revenues. Domestic outgoing traffic revenues consist of traffic charges for local, domestic long distance and fixed line to mobile calls placed by our subscribers. Domestic outgoing traffic revenues are a function of rates, the total number of telephone calls, the distribution of call duration, the time of day and the mix between more costly domestic long distance or fixed line to mobile calls and less expensive local calls.

The following table sets forth the total minutes of domestic telephone traffic that our fixed line subscribers generated, including calls from the fixed line network to mobile subscribers:

	Year ended December 31,			December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in thousands of minutes)			(% change)	
Magyar Telekom Plc. (including Emitel)	5,126,455	5,037,235	4,518,428	(1.7)	(10.3)
Maktel	1,709,195	1,496,758	1,377,659	(12.4)	(8.0)
T-Com Crna Gora	470,157	479,620	379,341	2.0	(20.9)

Domestic outgoing fixed line traffic revenues in 2007 amounted to HUF 51,423 million compared to HUF 87,497 million in 2005. Domestic outgoing traffic revenues decreased over the period due to lower average per minute fees, lower usage and loss of fixed line customers mainly due to competition from other fixed line service providers and mobile substitution. We offered several price discounts to customers choosing different price plans. Customized price plans represented 84.9 percent of the lines at Magyar Telekom Plc. at December 31, 2007. The most popular of these plans are the Felezö (Halving) and the Favorit plans. Domestic outgoing traffic revenues decreased also at Maktel primarily due to lower usage and price discounts as a consequence of increasing mobile substitution. The consolidation of T-Com Crna Gora's full year revenues partly offset these decreases in 2006. In 2007, lower domestic outgoing traffic revenues at T-Com Crna Gora reflected mainly the reclassification of calls to Serbia to international traffic from the beginning of 2007 and also the effect of mobile substitution.

International outgoing traffic revenues. International outgoing traffic revenues are a function of rates and the number, duration and mix of calls to destinations outside Hungary in case of Magyar Telekom Plc. and Emitel, outside Macedonia in case of Maktel and outside Montenegro in case of T-Com Crna Gora, placed by our fixed line subscribers.

The following table sets forth information concerning outgoing international traffic[(1)]:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in thousands of minutes)			(% change)	
Magyar Telekom Plc. (including Emitel)	113,315	98,723	85,270	(12.9)	(13.6)
Maktel	31,557	27,455	24,726	(13.0)	(9.9)
T-Com Crna Gora	12,662	13,138	66,759	3.8	408.1

(1) Excludes minutes from calls placed by subscribers of other local telephone operators and mobile service providers. Our revenues relating to these calls are included in revenues from domestic incoming traffic.

International outgoing fixed line traffic revenues decreased both in 2006 and 2007. The decrease was mainly due to lower outgoing international traffic revenues at Magyar Telekom Plc. and also at Maktel resulting from lower volume of minutes and decreased prices. The consolidation of T-Com Crna Gora's full year revenues in 2006 partly offset these decreases. In 2007, the decrease was mitigated by a higher amount of outgoing international minutes at T-Com Crna Gora, as after the referendum on independence in May 2006 in Montenegro, calls to Serbia were classified as international traffic.

Value added and other services. Revenues from value added and other services consist of revenues from connection fees, fees for digifon services and directory assistance as well as cable TV voice subscription fees.

Value-added and other services revenues showed a 5.0 percent increase in 2006 as compared to 2005. The increase was owing to higher cable voice subscription fee revenues in line with higher customer number at T-Kábel Hungary and higher premium rate revenues at T-Com Crna Gora. These increases were somewhat compensated by lower amortization of deferred connection fee revenues at Magyar Telekom Plc. T-Com.

Value-added and other services revenues declined by 16.3 percent in 2007 as compared to 2006 primarily driven by further decreases in deferred connection fee revenues. Lower other services revenues at Magyar Telekom Plc. T-Systems, Magyar Telekom Plc. T-Com, Maktel and T-Com Crna Gora also contributed to the decrease, which was partly offset by a significant increase in cable voice subscription fee revenues resulting from higher customer number at T-Kábel Hungary.

Voice-wholesale revenues. Voice-wholesale revenues consist of domestic and international incoming traffic revenues.

Fixed line voice-wholesale revenues increased by 12.2 percent in 2006 compared to 2005 driven by higher international incoming traffic revenues and increased by 5.7 percent in 2007 compared to 2006 due to higher domestic and international incoming traffic revenues.

Domestic incoming traffic revenues. Domestic incoming traffic revenues include amounts related to domestic and international long distance services that we provide to other LTO or mobile customers.

Domestic incoming fixed line traffic revenues in 2006 decreased by 4.2 percent compared to the same period in 2005. Traffic revenues from LTOs decreased at Magyar Telekom Plc. due to the application of the new RIO prices based on NHH's decision from June 2006 and applied retrospectively for the period September 2005-June 2006. Revenues from call origination and call termination also declined owing to lower RIO fees, partly offset by higher volume of traffic. Incoming revenues from mobile operators decreased at Maktel resulting from lower interconnection prices of international calls. These decreases were somewhat offset by the additional revenue resulting from the full year consolidation of T-Com Crna Gora.

Domestic incoming fixed line traffic revenues increased by 14.6 percent in 2007 compared to 2006. The growth in this revenue mainly resulted from the previously mentioned retrospective application of new RIO prices in 2006. Higher revenues from local loop unbundling also contributed to the increase at Magyar Telekom Plc. At Maktel, the increase in incoming domestic traffic revenue was driven by new network access contracts with other operators. The increase in T-Com Crna Gora's incoming revenues from mobile operators resulted from higher traffic and higher prices effective from May 2007. These increases were offset somewhat by lower incoming revenues from other fixed line operators at T-Com Crna Gora reflecting the effect of the referendum on independence from Serbia in May 2006.

International incoming traffic revenues. International incoming traffic revenues consist of amounts paid by foreign carriers for the use of our network to carry calls placed by their customers.

The following table sets forth information concerning international incoming traffic of Magyar Telekom Plc:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in thousands of minutes)			(% change)	
International incoming traffic[1]	295,405	316,183	380,006	7.0	20.2

(1) Includes minutes from calls transited by Magyar Telekom Plc. and terminating with subscribers of Magyar Telekom Plc, other local telephone operators and mobile service providers. Does not include transit traffic and other international services via Hungary.

International incoming fixed line traffic revenues increased to HUF 19,566 million in 2006 compared to HUF 16,049 million for the same period in 2005. International incoming revenues increased mainly at Maktel due to the 28.6 percent higher international incoming minutes resulting from restricted illegal VoIP traffic and, to a lesser extent, favorable foreign exchange movements. The higher international incoming revenue was also due to the inclusion of T-Com Crna Gora's full year revenues. International incoming traffic revenues were also higher at Magyar Telekom Plc. due to the increased volume of international incoming traffic and higher HUF/EUR exchange rate, partly offset by lower average settlement rates. Higher traffic terminated in Magyar Telekom Plc. and LTO areas was only partly offset by lower mobile terminated international traffic transited by Magyar Telekom Plc. due to migrations of international calls to mobile networks.

International incoming fixed line traffic revenues increased slightly by 1.5 percent to HUF 19,860 million in 2007 as compared to 2006. International incoming revenues increased mainly at T-Com Crna Gora as interconnection with Telekom Serbia is presented as international in 2007. Higher amount of fixed and mobile incoming traffic and higher interconnection fees with Telekom Serbia also contributed to the increase in T-Com Crna Gora's revenues. This increase was partly offset by lower international incoming revenues at Maktel resulting from decrease in traffic, lower MKD/SDR exchange rate, lower average settlement rates and termination rates. At Magyar Telekom Plc., lower international incoming revenues were primarily attributable to decreased circuit lease fees and less circuit lease contracts as international telecommunications operators have been establishing their own points of presence.

Internet revenues of the fixed line operations grew both in 2006 and 2007. The growth was due to the strong increase in the number of ADSL, Internet and Cablenet subscribers in the Hungarian fixed line operations. The number of ADSL subscribers grew to 613,051 by December 31, 2007 in Hungary and the number of T-Online Internet connections grew to 505,725. The proportion of higher revenue generating broadband Internet customers has been continuously increasing within the customer base, which also contributed to the revenue growth. By the end of December 2007, the total number of broadband connections reached almost 717,000 in our Hungarian fixed line operations. The number of ADSL and Internet subscribers also increased significantly at our foreign subsidiaries. In 2007, higher content and advertisement revenues in Hungary also positively affected Internet revenues.

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
ADSL connections in Hungary	329,314	512,810	613,051	55.7	19.5
Number of Internet subscribers in Hungary					
Dial-up	80,938	31,401	16,357	(61.2)	(47.9)
Leased line	751	656	652	(12.6)	(0.6)
DSL	218,954	336,181	398,265	53.5	18.5
W-LAN	1,467	1,175	598	(19.9)	(49.1)
CATV	26,425	57,587	89,853	117.9	56.0
Total	328,535	427,000	505,725	30.0	18.4
ADSL connections					
Maktel	7,798	16,462	48,214	111.1	192.9
T-Com Crna Gora	1,085	6,639	14,428	511.9	117.3
Number of Internet subscribers					
Maktel	46,433	47,669	66,822	2.7	40.2
T-Com Crna Gora	26,796	32,429	42,975	21.0	32.5

Data revenues increased by 1.2 percent both in 2006 and 2007. The continuous migration of narrowband to broadband data products resulted in lower narrowband revenues and higher broadband retail revenues mainly at Magyar Telekom Plc. T-Systems. In 2006, the inclusion of T-Com Crna Gora and Orbitel revenues also contributed to the increase.

Multimedia revenues showed an increase both in 2006 and 2007 mainly due to the growth in cable TV revenues resulting from the increase in average number of cable TV subscribers and price increases in Hungary.

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
Cable television customers at T-Kábel Hungary	403,631	414,286	418,517	2.6	1.0

Revenues from fixed line equipment decreased to HUF 4,249 million in 2006 compared to HUF 5,205 million in 2005. Equipment revenue decreased due to lower rental fees of telecommunications equipment and lower PBX charges at Magyar Telekom Plc.

Revenues from fixed line equipment increased by 27.0 percent to HUF 5,395 million in 2007 as compared to 2006. The increase was mainly driven by higher revenues at Maktel due to more phones, ADSL modems and personal computers sold in 2007. Higher EKG-related rental revenues and higher rental revenues at Magyar Telekom Plc. as well as sale of network in the second half of 2007 at Combridge also increased equipment revenues. These increases were somewhat offset by the decrease at Magyar Telekom Plc. in line with less phones and ADSL modems sold.

Other fixed line revenues. Other fixed line revenues include construction, maintenance, rental, wholesale infrastructure service and miscellaneous revenues.

Other fixed line revenues decreased by 5.0 percent and amounted to HUF 9,607 million in 2006 as compared to 2005 and increased by 9.4 percent to HUF 10,509 million in 2007 as compared to 2006. In 2007, the increase in this revenue line was the result of higher revenues from services provided by Real Estate Management area for Magyar Posta and other companies and higher human resources revenues from educational and holiday services at Magyar Telekom Plc. HQ.

Mobile Revenues

The following table sets forth information regarding our mobile revenues:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice-retail	177,770	189,418	195,718	6.6	3.3
Voice-wholesale	37,714	45,859	46,244	21.6	0.8
Visitor	9,519	5,008	6,632	(47.4)	32.4
Voice	225,003	240,285	248,594	6.8	3.5
Non-voice	36,539	40,258	45,068	10.2	11.9
Equipment and activation	23,472	25,280	23,121	7.7	(8.5)
Other mobile revenues	834	21,507	8,984	2478.8	(58.2)
Total mobile revenues	285,848	327,330	325,767	14.5	(0.5)

The following table provides information concerning TMH, T-Mobile Macedonia and T-Mobile Crna Gora:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
TMH					
Average number of subscribers	4,077,521	4,270,324	4,551,953	4.7	6.6
Average monthly usage per subscriber (minutes)	127	142	149	11.8	4.9
ARPU in HUF					
Total subscriber	4,832	4,800	4,542	(0.7)	(5.4)
Postpaid subscriber	10,838	9,849	8,635	(9.1)	(12.3)
Prepaid subscriber	2,239	2,300	2,205	2.7	(4.1)
Enhanced services within ARPU in HUF	621	667	679	7.4	1.8
Average subscriber acquisition cost ("SAC") per customer in HUF	7,062	6,234	6,554	(11.7)	5.1
T-Mobile Macedonia					
Average number of subscribers	809,691	901,485	1,022,741	11.3	13.5
Average monthly usage per subscriber (minutes).	63	72	90	14.3	25.0
ARPU in HUF	3,065	3,206	3,054	4.6	(4.7)
T-Mobile Crna Gora					
Average number of subscribers	210,193	247,865	363,508	17.9	46.7
Average monthly usage per subscriber (minutes).	127	127	120	0.0	(5.5)
ARPU in HUF	3,745	3,858	3,252	3.0	(15.7)

Revenues from mobile telecommunications services amounted to HUF 327,330 million for the year ended December 31, 2006 compared to HUF 285,848 million for the same period in 2005. The increase in mobile revenues was mainly due to Pro-M's operations. Pro-M's TETRA activities contributed HUF 18,019 million to total mobile revenues and a similar amount to cost of equipment sales in 2006.

From the second quarter of 2005, the consolidated revenues of T-Mobile Crna Gora, our Montenegrin mobile operator positively affected the revenues from mobile operations.

Revenues from mobile telecommunications services slightly decreased and amounted to HUF 325,767 million in 2007 compared to 2006. The decrease in mobile revenues resulted from the significant decline in other revenues primarily due to Pro-M's lower TETRA-related revenue in 2007, which was almost offset by higher voice revenue primarily at our foreign mobile operators and higher non-voice revenues at each mobile operator.

Voice-retail revenues. Voice-retail revenues consist of revenues from subscriptions and voice-retail traffic revenues.

Within mobile telecommunications services, voice traffic revenues represent the largest portion of revenues. In 2006, the growth was mainly driven by the inclusion of T-Mobile Crna Gora as well as the higher voice traffic revenues of T-Mobile Macedonia (primarily due to the weaker HUF against the MKD). The traffic revenue generated by TMH's customers increased mainly due to the higher MOU, somewhat compensated by lower average per minute fees.

In 2007, the increase in voice-retail revenues for T-Mobile Macedonia was due to higher MOU and average customer base, while revenues for T-Mobile Crna Gora resulted from increased customer base, partly offset by lower MOU and lower per minute rates. Higher voice retail revenues in 2007 at TMH resulted from increased average customer base and higher MOU, partly offset by lower ARPU driven by lower average per minute fees and termination rates.

Mobile penetration reached 109.7 percent in Hungary and TMH accounted for 44.0 percent market share on the basis of total subscribers in the highly competitive mobile market at December 31, 2007. TMH's customer base increased by 15.7 percent from 4,193,855 at December 31, 2005 to 4,853,492 at December 31, 2007. The proportion of postpaid customers increased to 37.0 percent at December 31, 2007 from 31.6 percent at the end of 2005. TMH's average usage per customer per month measured in MOU increased by 17.3 percent from 127 minutes in 2005 to 149 minutes in 2007. TMH's monthly average revenue per user expressed in ARPU decreased by 6.0 percent from HUF 4,832 in 2005 to HUF 4,542 in 2007.

Higher voice revenues for T-Mobile Macedonia were driven by higher MOU and higher average number of mobile customers, partly offset by lower per minute rates both in 2006 and 2007. The number of T-Mobile Macedonia customers increased by 38.2 percent from 877,142 at December 31, 2005 to 1,212,539 at December 31, 2007. T-Mobile Macedonia's average usage per customer per month measured in MOU increased by 42.9 percent from 63 minutes in 2005 to 90 minutes in 2007. ARPU decreased from HUF 3,065 in 2005 to HUF 3,054 in 2007.

T-Mobile Crna Gora generated HUF 8,772 million revenues in 2005 (from April 1 to December 31), HUF 13,404 million revenues in 2006 and HUF 17,199 million revenues in 2007 before inter-company eliminations. As of December 31, 2007, T-Mobile Crna Gora had 408,941 customers compared to 208,094 at the end of 2005. The strong increase in the customer base in 2007 compared to 2006 was mainly influenced by the extended repaid voucher lifecycle from three to 11 months effective from October 2006. In 2007, the increase in the customer base was partly compensated by lower MOU and lower per minute fees.

Voice-wholesale revenues. Voice-wholesale revenues consist of domestic and international incoming traffic revenues.

Voice-wholesale traffic revenues increased both in 2006 and 2007. In 2006, the growth at TMH was primarily due to higher interconnection fee revenues received from other mobile service providers due to higher mobile penetration and traffic.

In 2007, the small increase was partly due to increased incoming international traffic and higher interconnection prices at T-Mobile Macedonia as well as higher interconnection traffic with Cosmofon and VIP. At T-Mobile Crna Gora, the growth resulted from increased interconnection fees with Promonte from May 2007. These increases were almost offset by lower interconnection revenues at TMH in line with decrease in termination rates effective from February 2007.

Visitor revenues. Visitor revenues showed a decrease in 2006 as compared to 2005 driven by lower revenues at TMH in line with higher discounts, partly offset by much higher visitor revenues at T-Mobile Crna Gora primarily due to the full year consolidation, and, to some extent also due to increasing tourism.

In 2007, the growth in visitor revenues reflected a strong increase at T-Mobile Crna Gora driven by higher amount of visitor minutes due to more intense tourism in Montenegro.

Non-voice revenues. Within the mobile telecommunications services, non-voice revenues grew by 10.2 percent in 2006 and 11.9 percent in 2007. Non-voice revenues consist of Internet, content and data revenues and represented 13.8 percent of our mobile revenues in 2007. Higher non-voice revenues both in 2006 and 2007 reflect the increase primarily at TMH. In 2006, higher revenues resulted from increased number of SMS and MMS and higher access revenues. In 2007, the strong increase at TMH was due to higher access revenues (data, WAP, Internet, GPRS) and corporate services revenues. The increase at T-Mobile Macedonia resulted from larger customer base and higher number of SMSs.

Equipment and activation. Mobile equipment revenues increased in 2006 compared to 2005 due to the increase in TMH's revenues from higher gross additions and higher average handset prices.

Mobile equipment revenues declined in 2007 compared to 2006 because of the decrease in TMH's revenues as a result of lower average handset prices and lower equipment sales ratio, partially offset by more gross additions to customers. This decrease was somewhat offset by higher equipment revenues at T-Mobile Macedonia and at T-Mobile Crna Gora mainly as a result of higher number of gross additions.

Average acquisition cost per customer grew by 5.1 percent to HUF 6,554 in 2007 from HUF 6,234 a year earlier at TMH primarily as a result of higher subsidies in the postpaid segment. When calculating subscriber acquisition cost, TMH includes the connection margin (activation fee less the SIM card cost), the sales related equipment subsidy and agent fee.

Other mobile revenues. Higher other mobile revenues were due to TETRA-related revenues at Pro-M in 2006 compared to 2005. Since the main part of EDR network was completed in 2006, the decrease in other mobile revenues reflected Pro-M's lower revenues in 2007 as compared to 2006.

SI/IT Revenues

The following table sets forth information regarding our SI/IT revenues:

	Year ended December 31,			Year ended December 31,	
	2005	**2006**	**2007**	**2006/2005**	**2007/2006**
	(in HUF millions)			**(% change)**	
System integration	7,354	11,494	19,715	56.3	71.5
IT	1,669	13,185	21,846	690.0	65.7
Total SI/IT revenues	9,023	24,679	41,561	173.5	68.4

System integration and IT revenues reached HUF 41,561 million in 2007 compared to HUF 9,023 million in 2005 mainly due to the consolidation of Dataplex and KFKI revenues since their acquisitions (in the second and the third quarter of 2006, respectively) and the consolidation of T-Systems Hungary from January 2007. The increased number of SI/IT service projects at Magyar Telekom Plc. and

BCN also had positive effects on revenues. The most significant projects are the outsourcing services provided to E.ON, Budapest Bank and Erste Bank, set-up of low current systems as well as SI and IT solutions provided to the Hungarian government (E-Közmü).

Operating Expenses

Our total operating expenses increased by 14.8 percent from 2005 to 2007. Operating expenses amounted to HUF 481,309 million in 2005, HUF 538,380 million in 2006 and HUF 552,350 million in 2007. Our total operating expenses as a percentage of total revenues increased from 78.3 percent in 2005 to 81.6 percent in 2007.

The following table sets forth information regarding our operating expenses:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice, data and Internet related payments	86,794	91,102	86,244	5.0	(5.3)
Material cost of telecommunications equipment sold	37,221	59,714	41,957	60.4	(29.7)
Payments to other subcontractors and agents	21,593	32,737	52,984	51.6	61.8
Expenses directly related to revenues	145,608	183,553	181,185	26.0	(1.3)
Employee related expenses	92,783	95,253	120,176	2.7	26.2
Depreciation and amortization	114,686	122,249	115,595	6.6	(5.4)
Other operating expenses	128,232	137,325	135,394	7.1	(1.4)
Total operating expenses	481,309	538,380	552,350	11.9	2.6

Voice-, data- and Internet-related payments increased to HUF 91,102 million in 2006 compared to HUF 86,794 million in 2005. The growth was mainly related to TMH's higher domestic mobile outpayments due to higher mobile penetration and increased traffic. With the introduction of flat rate plans the proportion of calls to other mobile service providers increased, resulting in higher outpayments at TMH. The inclusion of Crnogorski Telekom and Orbitel expenses also contributed to the increase. International outpayments also increased at the fixed line LoBs of Magyar Telekom Plc. driven by the weaker average HUF against the EUR, partly compensated by lower average settlement rates and decrease in traffic. These increases were partly offset by significantly lower mobile outpayments at Magyar Telekom Plc., due to lower traffic and lower fixed to mobile termination rates. Magyar Telekom Plc.'s outpayments to LTOs decreased as well due to lower RIO fees applied retrospectively.

Voice-, data- and Internet-related payments decreased by 5.3 percent to HUF 86,244 million in 2007 compared to 2006. Lower mobile outpayments at the fixed line LoBs of Magyar Telekom Plc. were due to lower traffic and lower fixed to mobile termination rates effective from February 2, 2007. Lower outpayments at TMH were driven by the decreases in termination fees, partly offset by increased traffic. These decreases were somewhat offset by the increase in mobile outpayments at T-Mobile Crna Gora due to increased interconnection fees with Promonte from May 2007. Higher voice-related payments at T-Com Crna Gora resulted from increased mobile traffic transited and higher interconnection fees from May 2007.

The material cost of telecommunications equipment sold in 2006 was HUF 59,714 million compared to HUF 37,221 million in 2005. The strong increase is mainly due to Pro-M. Higher material cost of telecommunications equipment sold at Magyar Telekom Plc. resulted from various network construction and system integration tenders. The increase in TMH's material cost of telecommunications equipment sold was driven by higher gross additions and higher average cost of phonesets, partly compensated by

lower equipment sales ratio. Higher costs at BCN as well as the inclusion of Orbitel and KFKI also contributed to the increase.

In 2007, the material cost of telecommunications equipment sold reached HUF 41,957 million decreasing by 29.7 percent compared to 2006. The decrease is mainly due to the significantly lower material cost of telecommunications equipment sold at Pro-M as the main part of EDR network was completed in 2006. At T-Mobile Macedonia, material cost of telecommunications equipment sold increased driven by higher gross addition of customers and higher average cost of phonesets.

Payments to other subcontractors and agents showed an increase both in 2006 and 2007. The strong increase mainly related to higher SI/IT-related payments due to the inclusion of KFKI Group's and T-Systems Hungary's expenses from September 15, 2006 and from January 1, 2007, respectively.

Employee-related expenses increased both in 2006 and 2007 mainly driven by higher severance provisions and expenses in connection with headcount reduction. Employee-related expenses include headcount reduction related expenses of HUF 6,523 million in 2006 and HUF 27,505 million in 2007. Employee-related expenses increased also because of the inclusion of new subsidiaries (such as Pro-M, Dataplex and KFKI in 2006 and T-Systems Hungary, M Factory in 2007). Despite these acquisitions, the group headcount number decreased from 11,919 on December 31, 2005 to 11,723 on December 31, 2007.

Depreciation and amortization increased by 6.6 percent from HUF 114,686 million in 2005 to HUF 122,249 million in 2006 mainly as a result of the full year consolidation of Crnogorski Telekom and the impairment of the Monet, TCG and Internet CG brandnames in connection with the rebranding in Montenegro in September 2006. In addition, depreciation increased at TMH due to the capitalized UMTS concession and also due to their higher gross asset base of telecommunications and IT equipment.

Depreciation and amortization decreased by 5.4 percent to HUF 115,595 million in 2007 as compared to 2006. Lower amount of depreciation is mainly driven by the lower asset base at Magyar Telekom Plc., T-Mobile Macedonia, T-Com Crna Gora and Maktel. Higher depreciation at TMH owing to shorter depreciation period of UMTS-related assets and the inclusion of new subsidiaries partly offset this decrease. As a result of the annual review of the useful life of our assets, the lives of certain assets were changed as of January 1, 2007 due to technical obsolescence. These assets mainly included software, and the change in life resulted in HUF 132 million higher depreciation expense in 2007.

Other operating expenses include materials, maintenance, marketing, service fees, fees and levies, outsourcing expenses, provisions, energy and consultancy. Other operating expenses increased by 7.1 percent in 2006 compared to 2005 primarily due to higher fees for outsourcing services (e.g., real estate management, transportation, customer service and informatics). In 2006, higher concession fees were due to the UMTS fee paid by TMH and to increased frequency fees at T-Mobile Macedonia. Non-rebranding related marketing expenses increased significantly as well at Magyar Telekom Plc., due to more intensive advertising activity in 2006.

Other operating expenses decreased by 1.4 percent in 2007 as compared to 2006. The small decrease in other operating expenses was driven by lower marketing expenses mainly at Magyar Telekom Plc. and T-Mobile Macedonia due to less intensive advertising activity in 2007. This decrease was mostly offset by increase in consultancy fees and also due to the consolidation of new subsidiaries such as KFKI and T-Systems Hungary.

Other operating expenses in 2007 also included a HUF 1.5 billion bad debt expense reflecting the likely loss to be incurred as a result of the early termination of a long-term IT outsourcing contract by a large T-Systems customer which was entered into with a subsidiary which the Company acquired control of in 2007.

In the course of conducting their audit of our 2005 financial statements, PwC identified certain contracts the nature and business purposes of which were not readily apparent. PwC notified the Audit

Committee and advised them to retain independent counsel to conduct an investigation into these contracts. Our Audit Committee retained White & Case, as its independent legal counsel, to conduct the investigation. See "Item 3 Risk Factors" and "Item 15 Controls and Procedures."

Magyar Telekom incurred HUF 4.1 billion in expenses relating to the investigation in 2006 and HUF 5.7 billion in 2007, which are included in other operating expenses in the GHS segment.

Other Operating Income

The following table sets forth information concerning other operating income:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Compensation for rebranding	7,281	1,435	229	(80.3)	(84.0)
Gain on sale of PP&E, Intangible assets and assets held for sale	728	2,140	3,203	194.0	49.7
Other operating income			569	n.a.	n.a.
Total other operating income	8,009	3,575	4,001	(55.4)	11.9

Other operating income declined by 55.4 percent in 2006 as compared to 2005 mainly resulting from lower rebranding revenues due to rebranding in the Hungarian fixed line operations in the second quarter of 2005. In 2007, higher other operating income derived from higher gain on sale of tangible assets, partly offset by lower compensation for rebranding in connection with rebranding in Montenegro and Macedonia in September 2006.

Operating Profit

Our total operating profit decreased by 9.5 percent from HUF 141,754 million in 2005 to HUF 128,312 million in 2007 due to the fact that the increase in expenses was higher than the growth in revenues.

Finance Expenses

The following table sets forth information concerning finance expenses:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Interest expense	31,340	27,325	31,147	(12.8)	14.0
Other finance expenses	3,157	2,831	4,039	(10.3)	42.7
Less: Interest capitalized		(54)		n.a.	(100.0)
Total finance expenses	34,497	30,102	35,186	(12.7)	16.9

Finance expenses decreased in 2006 primarily as a result of the decrease in HUF interest expenses due to lower average HUF interest rates. In addition, in 2006, Magyar Telekom did not have to take loans for dividends, as no dividends were paid due to the delayed acceptance of the 2005 financial statements. The proportion of the loan portfolio with variable interest rates was higher than in 2005.

Finance expenses increased by 16.9 percent in 2007 mainly due to higher interest paid at Magyar Telekom Plc. resulting mainly from an increased level of indebtedness. The increase in the total loan

portfolio resulted from the dividend related to 2005 and 2006 paid in January 2007 and May 2007, respectively and from the financing of KFKI and Dataplex acquisitions.

Finance Income

The following table sets forth information concerning finance income:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Gain on sale of financial instruments		1,190	828	n.a.	(30.4)
Gains/(losses) on the valuation of derivative financial instruments		377	(139)	n.a.	n.m.
Net foreign exchange gains/(losses)	1,014	(659)	(1,481)	n.m.	124.7
Finance lease interest income		480	1,675	n.a.	249.0
Interest and other finance income	1,982	3,304	4,334	66.7	31.2
Total finance income	2,996	4,692	5,217	56.6	11.2

Finance income increased both in 2006 and 2007. In 2006, the significant increase was attributable primarily to Crnogorski Telekom as a result of the sale of CKB's shares in December 2006. The increase in Magyar Telekom Plc.'s foreign exchange gains was due to the strengthening of the HUF in 2006. These increases were somewhat offset by higher foreign exchange losses at Maktel resulting from the unfavorable movements of the MKD against the USD. In 2007, the increase in finance income was partly due to Maktel as a consequence of favorable fluctuation of the MKD against the USD and higher amount of bank deposits in USD and partly due to Pro-M in line with higher interest income from finance leases related to TETRA.

See Notes 3, 16 and 17 to the consolidated financial statements for certain quantitative and qualitative information about financial instruments.

Income Tax Total

The following table sets forth information concerning our income tax expense:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Income tax expense	21,858	24,220	26,221	10.8	8.3

For more details on tax rates, tax credits and deferred taxes see Note 9 to the consolidated financial statements.

Income tax expense increased in 2006 as compared to 2005, mainly because of the deferred tax recognized in relation to withholding tax on future dividends based on the undistributed reserves of Maktel and Crnogorski Telekom. In addition, the higher profit before tax at our Macedonian and Montenegrin subsidiaries also increased income tax expenses. These increases were partly offset by lower income tax at Magyar Telekom Plc. in line with its lower pre-tax profit.

Income tax expense increased in 2007 mainly as a result of the full year solidarity tax liability compared to the prior year four-month liability after the introduction of solidarity tax in September 2006 and increase in local business tax as a result of higher revenues. Higher innovation fees due to decreased research and development costs also contributed to the increase.

OPERATIONS REVIEW BY SEGMENT

In 2007, Magyar Telekom changed its management structure such that the Group has been managed along four segments. The Fixed Line segment comprised of three segments (T-Com, T-Systems and GHS). Comparative segmental information for 2005 and 2006 has been restated according to these segments. The Mobile segment's new name was T-Mobile. For the description of these segments, see "Item 4 History and Development" and "Item 4 Description of Business and its Segments".

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

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

The following table sets forth revenues, operating expenses and operating profit by segment:

	Year ended December 31,		
	2005	2006	2007
	(in HUF millions)		
Revenues			
T-Com revenues from external customers	275,016	272,822	273,275
T-Com revenues from other segments	30,340	42,421	34,426
Total revenues of T-Com	305,356	315,243	307,701
T-Mobile revenues from external customers	285,848	327,330	325,724
T-Mobile revenues from other segments	23,035	22,236	21,146
Total revenues of T-Mobile	308,883	349,566	346,870
T-Systems revenues from external customers	50,803	63,423	75,034
T-Systems revenues from other segments	6,198	1,946	3,898
Total revenues of T-Systems	57,001	65,369	78,932
GHS revenues from external customers	3,387	7,621	2,628
GHS revenues from other segments	18,628	18,776	21,109
Total revenues of GHS	22,015	26,397	23,737
Less: inter-segment revenues	(78,201)	(85,379)	(80,579)
Total revenue of the Group	615,054	671,196	676,661
Operating expenses net			
T-Com	239,194	258,943	253,605
T-Mobile	221,359	256,794	245,015
T-Systems	36,178	53,235	72,966
GHS	54,770	51,212	57,342
Less: inter-segment expenses	(78,201)	(85,379)	(80,579)
Total operating expenses net of the Group	473,300	534,805	548,349
Segment results (Operating profit)			
T-Com	66,162	56,300	54,096
T-Mobile	87,524	92,772	101,855
T-Systems	20,823	12,134	5,966
GHS	(32,755)	(24,815)	(33,605)
Total operating profit of the Group	141,754	136,391	128,312

T-Com Segment

The T-Com segment includes the results of our fixed line operations other than Magyar Telekom Plc. T-Systems, Magyar Telekom Plc. HQ, T-Systems Hungary, Integris, BCN Group, KFKI Group and EurAccount.

The following table sets forth information regarding the T-Com segment:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice-retail revenues	169,536	159,757	141,914	(5.8)	(11.2)
Voice-wholesale revenues	45,177	45,550	45,217	0.8	(0.7)
Internet	35,534	47,968	57,385	35.0	19.6
Other revenues	55,109	61,968	63,185	12.4	2.0
Total revenues	305,356	315,243	307,701	3.2	(2.4)
Operating profit	66,162	56,300	54,096	(14.9)	(3.9)

The following table sets forth information regarding total revenues of T-Com Hungary, Maktel and T-Com Crna Gora:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
T-Com Hungary	248,608	251,468	244,782	1.2	(2.7)
Maktel	42,224	44,184	41,206	4.6	(6.7)
T-Com Crna Gora	13,539	19,906	22,201	47.0	11.5

Revenues

Our T-Com segment includes revenues from local, domestic and international long distance telephone services as well as value added digifon services such as call waiting, itemized billing and telephone equipment rental. This segment also consists of revenues from related services, such as leased lines, data transmission, Internet, SI/IT, equipment sales and cable television.

Voice retail revenues experienced a decline both in 2006 and 2007 mainly due to price discounts included in different price plans, lower usage and loss of lines reflecting the effect of strong competition and mobile substitution. In 2006, these decreases were somewhat compensated by the full year consolidation of T-Com Crna Gora's revenues.

Voice wholesale revenues slightly increased in 2006 due to higher international incoming traffic revenues. In 2006, higher revenues at Maktel reflected increased amount of international incoming minutes resulting from restricted illegal VoIP traffic. Higher revenues at Magyar Telekom Plc. were attributable to increased international incoming traffic and a higher HUF/EUR average exchange rate, partly offset by lower average EUR settlement rates. The revenue increase was also due to the inclusion of T-Com Crna Gora's full year revenues in 2006. These increases were largely offset by lower domestic incoming traffic revenues in 2006 as compared to 2005 due to lower traffic revenues from LTOs at Magyar Telekom Plc. due to the application of the new RIO prices based on NCA decision from June 2006 and applied retrospectively since September 2005. Revenues from call origination and call termination also declined as a result of lower RIO fees, partly offset by higher volume of traffic. Lower domestic incoming revenue at Maktel was principally due to lower interconnection fees of international calls, partly compensated by increased traffic from Cosmofon in line with its increased subscriber base.

Voice wholesale revenues decreased to a small extent in 2007 due lower incoming traffic revenues from mobile operators and lower revenue from international circuit lease due to cancellation of contracts at Magyar Telekom Plc. In addition, international wholesale revenues decreased at Maktel as well due to lower volume of traffic, lower termination rates, lower average settlement rate and MKD/SDR exchange rate. This decrease was partly compensated by higher domestic wholesale revenues at Maktel due to new

network access contracts with domestic fixed line operators. At T-Com Crna Gora, wholesale revenues increased due to higher revenues from mobile operators in line with increased transit traffic and higher interconnection fees with Telekom Serbia effective from May 2007.

Revenues from Internet services increased in both 2006 and 2007 as a result of higher broadband revenues because of strong volume increases in the number of ADSL and Internet subscribers both in Hungary and at our foreign subsidiaries as well as higher Cablenet customer base at T-Kábel Hungary. In 2007, higher content revenues at M Factory (formerly Mobilpress) and increased advertisement revenues at T-Online Hungary also had favorable effects on Internet revenues. These increases were somewhat offset by lower revenues from Internet narrowband services reflecting the continuous decrease in the volume of Internet dial-up traffic.

Other revenues showed an increase in 2006 as compared to 2005 driven mainly by higher broadband data retail revenues (mainly HSLL) and higher broadband IP revenue at Magyar Telekom Plc. The inclusion of Orbitel data revenues also contributed to the increase. These increases were partly offset by lower narrowband retail revenues at Magyar Telekom Plc. Multimedia revenues also increased due to the growth in cable TV revenues resulting from the increase in the average number of cable TV subscribers and price increases. The increase in SI/IT revenues resulted mainly from the consolidation of Dataplex revenues since the second quarter of 2006. In 2006, the consolidation of T-Com Crna Gora's full year revenues positively hit other revenues.

In 2007, other revenues increased mainly as a result of higher multimedia revenues in line with larger customer base and higher prices at T-Kábel Hungary. Higher equipment revenues reflected primarily the growth at Maktel driven by sales of more phones, ADSL modems and personal computers and at Combridge due to network sales in the second half of 2007.

Expenses

Higher operating expenses in 2006 resulted mainly from significant increases in payments to other network operators and also in depreciation and amortization. Higher employee-related expenses due to headcount reduction related costs and higher other net operating expenses also increased total operating expenses. These negative effects were partly offset by lower payments to mobile operators.

In 2007, lower depreciation and amortization and expenses directly related to revenues were partly offset by increased employee-related expenses.

Operating Profit

In 2006, operating profit of the T-Com segment declined by 14.9 percent, as total revenues increased only by 3.2 percent, while total net operating expenses increased by 8.3 percent.

In 2007, operating profit of the T-Com segment decreased by 3.9 percent. While total revenues decreased by 2.4 percent, total net operating expenses declined only by 2.1 percent.

T-Mobile Segment

The T-Mobile segment includes the results of T-Mobile Hungary, Pro-M, T-Mobile Macedonia and T-Mobile Crna Gora.

The following table sets forth information regarding the T-Mobile segment:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice-retail	177,937	189,529	197,028	6.5	4.0
Voice-wholesale	59,425	62,656	60,508	5.4	(3.4)
Visitor	9,519	8,303	9,652	(12.8)	16.2
Non-voice	36,612	40,991	44,932	12.0	9.6
Equipment and activation	23,710	25,221	23,155	6.4	(8.2)
Other mobile revenues	1,680	22,866	11,595	1,261.1	(49.3)
Total revenues	308,883	349,566	346,870	13.2	(0.8)
Operating profit	87,524	92,772	101,855	6.0	9.8

The following table sets forth information regarding TMH:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice-retail	152,871	157,861	163,025	3.3	3.3
Voice-wholesale	51,560	53,451	48,930	3.7	(8.5)
Visitor	6,929	5,351	6,031	(22.8)	12.7
Non-voice	31,876	35,111	37,782	10.1	7.6
Equipment and activation	21,718	23,028	20,472	6.0	(11.1)
Other mobile revenues	1,257	2,704	5,260	115.1	94.5
Total revenues	266,211	277,506	281,500	4.2	1.4
Operating profit	75,222	75,956	80,683	1.0	6.2

The following table sets forth information regarding total revenues of Pro-M, T-Mobile Macedonia and T-Mobile Crna Gora:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
				(% change)	
Pro-M		20,212	7,316	n.a.	(63.8)
T-Mobile Macedonia	33,945	39,023	42,517	15.0	9.0
T-Mobile Crna Gora	8,772	13,404	17,199	52.8	28.3

Revenues

Revenues of the T-Mobile segment consist of one-time connection fees, monthly subscription fees (only payable by postpaid customers), traffic charges, including fees for enhanced services, and equipment revenues.

Voice-retail revenues increased both in 2006 and 2007 principally as a result of higher revenues at our Macedonian and Montenegrin mobile subsidiaries, and, to lesser extent, higher revenues generated by TMH's customers.

The voice-retail traffic revenue at TMH increased mainly due to the growth in the MOU and due to higher average number of subscribers. The average number of TMH subscribers grew by 4.7 percent in

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2006 and 6.6 percent in 2007. TMH continuously monitors its churn rates and proactively offers tailor-made discounts to retain valuable customers. Despite intense competition in the Hungarian mobile market, TMH maintained its leading position with a 44.0 percent market share based on total subscribers at December 31, 2007.

The strong increase at T-Mobile Macedonia was due to higher MOU and the higher average number of subscribers, partly offset by lower per minute rates both in 2006 and 2007. At T-Mobile Crna Gora, the increase in voice-retail revenues resulted from inclusion of full year revenues in 2006. Higher revenues in 2007 as compared to 2006 were mainly driven by the significantly higher number of customers influenced by the extended repaid voucher lifecycle from three to 11 months effective from October 2006, partly offset by lower MOU and lower per minute fees.

The increase in voice-wholesale revenues in 2006 as compared to 2005 is partly explained by higher interconnection fee revenues at TMH due to higher mobile penetration and traffic, somewhat offset by lower interconnection revenues from Magyar Telekom Plc. T-Com in line with lower per minute termination fees. At T-Mobile Macedonia, the increase on the one hand related to increased incoming international traffic and higher related interconnection prices in 2006, and on the other hand, to increased traffic volume from Cosmofon due to its enlarged subscriber base. The consolidation of T-Com Crna Gora also contributed to the increase in revenues.

The 3.4 percent decline in wholesale revenues in 2007 compared to 2006 was mainly driven by lower interconnection revenues at TMH in line with decrease in termination rates effective from February 2007. This decrease was slightly offset by higher revenues at T-Mobile Macedonia reflecting increased incoming international traffic and higher interconnection prices as well as higher interconnection traffic with Cosmofon and VIP. At T-Mobile Crna Gora, the growth resulted from increased interconnection fees with Promonte from May 2007.

Visitor revenues showed a decrease in 2006 as compared to 2005 driven by lower revenues at TMH in line with higher discounts, partly offset by higher visitor revenues at T-Mobile Crna Gora primarily due to its full year consolidation, and, to some extent also due to increasing tourism. In 2007, the growth in visitor revenues reflected a strong increase at T-Mobile Crna Gora driven by higher amount of visitor minutes due to more intense tourism in Montenegro.

In 2006, higher non-voice revenue resulted partly from the increased number of SMS and MMS and partly from higher access revenues at TMH. The growth was also due to the full year consolidation of T-Mobile Crna Gora. In 2007, non-voice revenues were positively influenced by higher data access and corporate services revenues at TMH. At T-Mobile Macedonia, the increase over the period resulted from higher number of SMSs.

Equipment and activation revenues increased in 2006 in the T-Mobile segment principally due to higher average handset prices and higher gross additions at TMH. Higher equipment revenue was supported also by the longer consolidation period and increased sales during campaigns at T-Mobile Crna Gora. The decrease in equipment and activation revenues in 2007 as compared to 2006 resulted mainly from lower handset prices and lower equipment sales ratio, partly compensated by more gross additions to customers at TMH. This decrease was somewhat offset by higher equipment revenues at T-Mobile Macedonia and at T-Mobile Crna Gora because of higher number of gross additions.

In 2006, the significant increase in other mobile revenues reflects Pro-M's EDR activities. Pro-M's TETRA-related revenues contributed HUF 18.0 billion to total mobile revenues and a similar amount to cost of equipment sales. In 2007, the drop in other mobile revenues shows falling TETRA-related revenues as the main part of EDR network was completed in 2006.

Expenses

In 2006, total operating expenses for the T-Mobile segment increased due to the combined effect of significantly higher material cost of telecommunications equipment sold (primarily due to Pro-M's EDR services), increased payments to other mobile operators, higher depreciation and amortization, increased other net operating expenses and lower employee-related expenses.

In 2007, total operating expenses of T-Mobile segment decreased as a result of lower material cost of telecommunications equipment sold, decreased payments to other mobile operators, partly compensated by increased other operating expenses and employee-related expenses.

Operating Profit

Operating profit increased by 6.0 percent in 2006 as total revenues increased by 13.2 percent, while operating expenses increased by 16.0 percent year over year.

Operating profit grew by 9.8 percent in 2007 as compared to 2006 as total revenues decreased only by 0.8 percent, while total operating expenses declined by 4.6 percent.

T-Systems segment

The T-Systems segment includes the results of Magyar Telekom Plc. T-Systems, T-Systems Hungary, Integris, BCN Group and KFKI Group.

The following table sets forth information regarding the T-Systems segment:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Voice revenues	28,429	22,481	17,351	(20.9)	(22.8)
SI/IT revenues	10,701	23,555	41,434	120.1	75.9
Other revenues	17,871	19,333	20,147	8.2	4.2
Total revenues	57,001	65,369	78,932	14.7	20.7
Operating profit	20,823	12,134	5,966	(41.7)	(50.8)

Revenues

Voice revenues for the T-System segment decreased both in 2006 and 2007 in line with the continuous decline in domestic and international outgoing traffic due to loss of fixed lines and lower average per minute fees.

SI/IT revenues represent the largest portion of revenues for the T-Systems segment with 36.0 percent in 2006 and 52.5 percent in 2007. The strong increase over the period in SI/IT revenues primarily resulted from the consolidation of KFKI Group and T-Systems Hungary from September 15, 2006 and January 1, 2007, respectively. The contribution of KFKI Group and T-Systems Hungary to total revenues of the segment was HUF 27,609 million in 2007. The increase was supported also by higher revenues at BCN in 2006 and growing project-related revenues at Magyar Telekom Plc. T-Systems. The most significant projects are the outsourcing services provided to E.ON, Budapest Bank and Erste Bank, set-up of low current systems as well as SI and IT solutions provided to the Hungarian government (E-Közmü).

Other revenues for T-Systems segment include Internet, data, multimedia, equipment sales, and miscellaneous other revenues. Other revenues increased both in 2006 and 2007 mainly influenced by higher retail Internet revenues.

Expenses

Both in 2006 and 2007, operating expenses for the T-Systems segment increased due to higher subcontractor expenses, employee-related expenses, depreciation and amortization and other net operating expenses. Operating costs of the segment in 2007 include a HUF 1.5 billion bad debt expense reflecting the likely loss to be incurred as a result of the early termination of a long term IT outsourcing contract by a large corporate customer.

Operating Profit

Despite the considerable revenue growth, operating profit decreased by 41.7 percent in 2006 and by 50.8 percent in 2007 due to higher growth in operating expenses.

Group Headquarters and Shared Services segment

The GHS segment includes the results of Magyar Telekom Plc. HQ and EurAccount.

The following table sets forth information regarding the GHS segment:

	Year ended December 31,			Year ended December 31,	
	2005	2006	2007	2006/2005	2007/2006
	(in HUF millions)			(% change)	
Total revenues	22,015	26,397	23,737	19.9	(10.1)
Operating profit	(32,755)	(24,815)	(33,605)	(24.2)	35.4

The GHS segment performs strategic and cross-divisional management functions for Magyar Telekom Group, as well as real estate, marketing, security, procurement, human resources and accounting services, mainly internally within the Group. Revenues of the segment increased in 2006 compared to 2005 as a result of higher revenues from internal services, while it decreased in 2007 due to less marketing services provided within the Group. Operating expenses of the GHS segment significantly exceeded its revenues and this led to negative operating profit in each period. Higher negative operating results were mainly due to increase in employee-related expenses driven by higher severance expenses and higher costs related to our investigation in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow analysis

The following table sets forth information concerning our cashflows:

	Year ended December 31,		
	2005	2006	2007
	(in HUF millions)		
Net cashflows:			
From operating activities	205,260	207,802	231,340
Used in investing activities	(157,240)	(138,320)	(134,881)
Used in financing activities	(61,848)	(35,154)	(109,221)
Exchange gains/(losses) on cash and cash equivalents	1,259	1,569	221
Change in cash and cash equivalents	(12,569)	35,897	(12,541)
Cash and cash equivalents, beginning of year	36,879	24,310	60,207
Cash and cash equivalents, end of year	24,310	60,207	47,666

Net Cashflows from Operating Activities. Our primary source of liquidity is cashflows from operating activities.

Net cashflows from operating activities increased by HUF 2,542 million in 2006 as compared to 2005. Higher EBITDA and decreasing working capital requirements were partly offset by higher income tax paid.

Net cashflows from operating activities significantly increased by HUF 23,538 million in 2007 as compared to 2006 due to the combined effect of strong decrease in working capital requirements, lower EBITDA and lower income tax paid.

Net Cashflows from Investing Activities. Net cashflows from investing activities are primarily driven by capital expenditures and acquisitions of businesses. In 2006, the HUF 18,920 million decrease in cash outflow predominantly resulted from the change in other financial assets, lower cash outflows for capital expenditures and higher amounts of proceeds from the disposal of real estate. In 2007, the HUF 3,439 million decrease in cash outflow was mainly due to lower purchase prices for new subsidiaries acquired, mostly offset by the significant change in other financial assets primarily due to higher amount of bank deposits with maturities over three months at the Macedonian and Montenegrin subsidiaries and higher additions to tangible and intangible assets. Purchases of property plant and equipment and intangible assets totaled HUF 103,587 million in 2005, HUF 96,790 million in 2006 and HUF 103,097 million in 2007.

Net Cashflows from Financing Activities. Net cashflows from financing activities primarily relate to our borrowing activities and dividend payment.

In 2006, we had a net repayment of loans of HUF 35,568 million as Magyar Telekom Plc. and Maktel did not pay dividends in 2006. Maktel used part of its cash-flow to buy back shares from the minority shareholders in 2006. In 2007, we received net proceeds from loans in an amount of HUF 52,946 million. Dividends paid to shareholders increased by HUF 162,481 million reflecting dividend payment after the 2005 and 2006 results in 2007 at Magyar Telekom Plc.

We carry indebtedness at a level we consider appropriate based on a number of factors, including cash flow expectations (i.e., cash requirements for ongoing operation, investment plans), expectations of investors, analysts, rating agencies and the overall cost of capital. We announced a definite dividend policy in 2003, according to which the net debt ratio is to be kept between 30 to 40 percent. Under the new dividend policy, based on the results of 2005, we paid dividends in the amount of HUF 73 per share in January 2007 and based on the results of 2006, we paid dividends in the amount of HUF 70 per share in May 2007, by which we maintained our net debt ratio in the target range of 30 to 40 percent. Our net debt ratio was 31.0 percent at December 31, 2007. Future dividend payment will be determined by the new dividend policy and will depend on our cashflow generation and potential acquisition opportunities.

For a discussion of our financial instruments, loans and other borrowings, see Notes 3, 16 and 17 to our consolidated financial statements.

In our Hungarian fixed line and mobile operations, our operating revenues and expenses are denominated almost entirely in Hungarian forints. Amounts payable to and receivable from other international carriers, which are denominated in a basket of currencies known as SDRs, are netted against one another and settled primarily in U.S. dollars and euros. Capital expenditures are denominated partly in foreign currencies, principally U.S. dollars and euros.

During 2007, the NBH lowered its base rate from 8 percent to 7.5 percent in two steps and the rate has been unchanged since September 2007 until April 2008, when it was increased to 8 percent. At December 31, 2007, our loans were almost 100 percent denominated in HUF, thus the foreign exchange risk of the loan portfolio is naturally hedged by the HUF-denominated revenues.

At December 31, 2007, 59.2 percent of the loan portfolio bore fixed interest rates these are mainly the medium and long-term loans included in the portfolio while 40.8 percent of the loan portfolio was subject to variable interest rates. Short-term loans are partially taken to manage our short term cash obligations and their variable rates are based on Budapest Interbank Offered Rate ("BUBOR"). Taking into consideration HUF interest rate volatility, we follow the approach of balancing the fixed and variable interest rate elements in our loan portfolio.

We do not have any legal or economic restrictions on the ability of our subsidiaries to transfer funds to the Company in forms of cash dividends, loans or advances.

Our liquidity needs are primarily covered by our free cash flows. Liquidity peaks are financed from current account overdrafts and bilateral shelf facilities. The total available current account overdrafts at the end of 2007 amounted HUF 12,120 million. The total committed shelf facilities from the Hungarian market including current account overdrafts amounting to HUF 71,500 million, out of which HUF 35,684 million was available at the end of 2007. We also have a EUR 50 million shelf facility with Deutsche Telekom, which functions as a reserve for potential liquidity peaks and has not been drawn since its signing on April 16, 2004.

We have uncommitted lines at Hungarian banks in the amount of HUF 14.4 billion, which can be drawn for a maximum period of 90 days. Since these are non-committed lines, we do not rely on them when managing liquidity, however they are used when the liquidity need is only short-term. At the end of 2007, no amount was drawn from these facilities.

	Amount of the facility	Drawn at the end of 2007	Available at the end of 2007
	(in HUF millions)		
Current account overdrafts	17,800	5,680	12,120
Bilateral loans	53,700	30,136	23,564
DT shelf facility	12,668		12,668
Total credit lines	84,168	35,816	48,352
Total uncommitted lines	14,400		14,400
Total lines for liquidity purposes	98,568	35,816	62,752

The current amount and structure of the shelf facilities described above is sufficient, and for the purposes of liquidity management, we believe that there is no need to establish new facilities.

	Maturity structure		
	2008	2009	2010
	(in HUF millions)		
Current account overdrafts	17,800		
Bilateral loans	32,660	18,000	3,040
DT shelf facility			12,668
Total credit lines	50,460	18,000	15,708

Our parent Deutsche Telekom provides us with funding to meet our major financing needs (such as refinancing or financing acquisitions) through the international capital markets and it passes the conditions of the loans on an arm's length basis to Magyar Telekom. Should this financing source cease to become available in the