Magyar Telekom Plc.
Form 20-F
May 21, 2009

Use these links to rapidly review the document
TABLE OF CONTENTS
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

As filed with the Securities and Exchange Commission on May 21, 2009

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, 2008

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

(Translation 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, 2008)

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

U.S. 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

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

Table of Contents

TABLE OF CONTENTS

		Page
	Certain Defined Terms and Conventions	iii
	Forward-looking Statements	iii
	PART I	
Item 1	Identity of Directors, Senior Management and Advisers	1
Item 2	Offer Statistics and Expected Timetable	1
Item 3	Key Information	1
	Selected Financial Data	1
	Exchange Rate Information	2
	Risk Factors	4
Item 4	Information on the Company	14
	Organization	14
	History and Development	14
	Description of Business and its Segments	16
	Strategy	17
	Overview of Magyar Telekom's Revenues and Principal Activities	20
	T-Home and T-Systems	20
	T-Mobile	32
	Distribution and Sales	38
	Competition	40
	Dependence on patents, licenses, customers, industrial, commercial and financial contracts	45
	Regulation	45
	Pricing	60
	Organizational Structure	65
	Property, Plants and Equipment	65
	Infrastructure and Technology	65
	Environment Protection	69
Item 4A	Unresolved Staff Comments	69
Item 5	Operating and Financial Review and Prospects	69
	Management overview	70
	Operations review Group	76
	Operations review By segment	89
	Liquidity and Capital Resources	96
	Research and Development	100
	Risk Management Policies	102
Item 6	Directors, Senior Management and Employees	104
	Board of Directors	104
	Management Committee	108
	Supervisory Board	110
	Indemnification of the Board of Directors and the Supervisory Board	114
	Compensation of Directors and Officers	114
	Board Practices	116
	Employees	117
	Share Ownership of Management	119
Item 7	Major Shareholders and Related Party Transactions	119
	Major Shareholders	119
	Related Party Transactions	120

Table of Contents

		Page
Item 8	Financial Information	120
	Consolidated Financial Statements	120
	Other Financial Information	121
	Legal proceedings	121
	Dividend Policy	124
	Significant Changes	124
Item 9	The Offer and Listing	124
Item 10	Additional Information	126
	Share Capital	126
	Option to Purchase Securities from Registrant or Subsidiaries	126
	Memorandum and Articles of Association	126
	Deposit Agreement	127
	Corporate Governance	127
	Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual	130
	Material Contracts	133
	Exchange Control	133
	Taxation	134
	Documents on Display	136
Item 11	Quantitative and Qualitative Disclosures About Market Risk	136
Item 12	Description of Securities Other than Equity Securities	136
	PART II	
Item 13	Defaults, Dividend Arrearages and Delinquencies	137
Item 14	Material Modifications to the Rights of Security Holders and Use of Proceeds	137
Item 15	Controls and Procedures	137
Item 16A	Audit Committee Financial Expert	142
Item 16B	Code of Ethics	142
Item 16C	Principal Accountant Fees and Services	143
Item 16D	Exemptions from the Listing Standards for Audit Committees	144
Item 16E	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	144
Item 16F	Change in Registrant's Certifying Accountant	144
Item 16G	Corporate Governance	144
	PART III	
Item 17	Financial Statements	145
Item 18	Financial Statements	145
Item 19	Exhibits	145

Table of Contents

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.

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

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.

Table of Contents

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, 2004, 2005, 2006, 2007 and 2008 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,					
	2004	2005	2006	2007	2008	2008
	HUF	HUF	HUF	HUF	HUF	U.S.$[(1)]
	(in millions, except per share amounts)					
Consolidated Income Statement Data:						
Amounts in accordance with IFRS						
Revenues	596,792	615,054	671,196	676,661	673,056	3,582
Operating profit	93,719	141,754	136,391	128,312	162,258	863
Net income	34,641	78,415	75,453	60,155	93,008	495
Operating profit per share	90.30	136.46	131.10	123.25	155.83	0.83
Basic earnings per share	33.38	75.49	72.53	57.78	89.32	0.48
Diluted earnings per share	33.37	75.46	72.51	57.78	89.32	0.48
Consolidated Balance Sheet Data:						
Amounts in accordance with IFRS						
Total assets	1,029,568	1,082,948	1,131,595	1,135,578	1,168,856	6,220
Net assets	576,664	597,694	593,167	581,693	600,342	3,195
Common stock	104,281	104,281	104,277	104,275	104,275	555
Total shareholders' equity	516,567	527,567	526,039	514,998	537,263	2,859

Table of Contents

	Year ended December 31,				
	2004	2005	2006	2007	2008
	(in millions)				
Other data:					
Weighted average number of shares					
Basic	1,038	1,039	1,040	1,041	1,041
Diluted	1,038	1,039	1,041	1,041	1,041

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2008 of U.S. dollar 1.00 = HUF 187.91. 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 2004, 2005, 2006, 2007 and 2008. 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		
2004	70	0.3883
2005	73	0.3418
2006	70	0.3653
2007	74	0.4287
2008	74	0.3938

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2008 of U.S. dollar 1.00 = HUF 187.91, 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 and on December 31, 2004 of U.S. dollar 1.00 = HUF 180.29.

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 ("EU"). "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 187.91, which was the official rate quoted and published on December 31, 2008 (last working day in Hungary in 2008).

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.

Table of Contents

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				
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
2008	187.91	171.80	218.76	144.11
2008				
November	201.76	208.22	217.42	200.35
December	187.91	196.78	207.17	182.64
2009				
January	229.70	211.69	229.70	194.37
February	234.09	233.34	244.73	224.77
March	233.00	233.54	249.29	221.46
April	215.55	223.70	232.71	215.55

(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				
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
2008	264.78	251.25	275.79	229.11
2008				
November	259.59	265.16	272.03	257.13
December	264.78	264.15	268.57	260.76
2009				
January	294.93	279.84	294.93	264.86
February	296.54	298.53	307.75	289.78
March	309.22	304.36	316.00	295.00
April	287.52	295.13	307.13	287.52

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

As of May 20, 2009, the official rate for Hungarian forint per U.S.$ 1.00 and EUR 1.00 was 202.75 and 276.85, respectively.

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.

Table of Contents

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 November 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 13 of the 16 markets (i.e., markets 1-9, 11-13 and 16). By the end of March 2008, the NCA had published new 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. As a result, the NCA imposed various obligations on Magyar Telekom 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 current round of market analyses by the NCA, which are expected to be completed in 2009. Consequently, the new Recommendation will not affect Magyar Telekom'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 for the NCA to mandate an access obligation on the mobile operations of Magyar Telekom Plc. (T-Mobile Hungary, "TMH") to introduce Mobile Virtual Network Operators ("MVNOs"). 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

Table of Contents

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

In 2008, Magyar Telekom launched a widespread optical network deployment program, under which approximately 780,000 households will be connected via optical solution by the end of 2013. Currently there is no specific regulation imposed on optical networks on the Hungarian telecommunications market, but there is ongoing consultation on this issue. In the event the NCA decides to impose regulations on optical networks, it would affect both the wholesale and the retail market. This decision is expected in 2009.

On October 22, 2008, the NCA published comparative biddings for the spectrum usage rights of 450 MHz/GSM/UMTS/26 GHz spectrum blocks. Magyar Telekom and the two other mobile incumbents were excluded from the auctions for the 450 MHz and the 4th GSM/UMTS spectrum blocks. Winners of the auctions were expected to be announced at the latest by end of January 2009, however the NCA postponed the decisions on the results of the bids. On March 16, 2009, the NCA cancelled the auction for the 4th GSM/UMTS spectrum package referring to the economic recession, which made the bids questionable from a financing and profitability point of view. On April 24, 2009, the Council of the NCA dismissed the appeals of three bidders, who may go to the Municipal Court asking for the review of the decision of second instance. On April 30, 2009, the NCA declared the auction for the 450 MHz spectrum block unsuccessful in a decision of first instance, while the auctions for the two 26 GHz spectrum blocks successful. Magyar Telekom won the 26 GHz spectrum block it had bid for, while the other block was won by Antenna Hungária Zrt. GTS Datanet, the unsuccessful bidder of the 26 GHz band ?E" block won by Antenna Hungária Zrt appealed against the decision of the NCA on the basis of alleged procedural mistakes. The appeal does not have any effect on Magyar Telekom's successful bid for the 26 GHz band ?D" block. Unsatisfied bidders for the 450 MHz spectrum block may also appeal against the decision of the NCA.

As a result of the dismissal of their appeals, bidders are expected to litigate. Currently we do not know whether bidders for the 450 MHz band will also appeal the annulment of the tender. There is a low probability of successful appeals against the NCA decisions. However, should the court order a new tender procedure that might be successful in the future, the market entry of new mobile service providers would involve business risks for Magyar Telekom. Using the 450 MHz spectrum block frequency and the CDMA2000 technology the new operator would be able to provide both voice and wireless broadband services mainly on rural areas (smaller cities, villages) from the second half of 2009 at the earliest. These offers would primarily impact our fixed line broadband market on rural areas. Using the fourth license, the new operator would be able to provide full-scale mobile communications services impacting our mobile business significantly.

National Digital Public Utility. The government published a proposal entitled "National Digital Public Utility" at the end of 2008. This is a homogeneous and integrated optical backbone and regional transmission network created by the government to secure access to all Hungarian towns. Its financing is planned through the reallocation of EU resources. This network would satisfy the government's telecommunications infrastructure needs. It would operate in a self-sustaining, non-profit way based on the principle of open access, generating revenues from the provision of wholesale services. The full or partial implementation of the concept may have direct impact on Magyar Telekom's network solutions and could indirectly affect the Company's operation.

In addition, our businesses in Macedonia, Montenegro and Bulgaria are also subject to various regulatory developments. One of the potential consequences of the new law on Electronic Communications in Montenegro is the compulsory introduction of second based billing in 2009 impacting both mobile and fixed revenues.

In Macedonia, in particular, the current and possible future SMP status of T-Mobile Macedonia on various markets may lead to lower mobile termination rates and additional obligations.

Table of Contents

The European Commission plans to introduce a recommendation on termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the national regulatory authorities ("NRAs"). As a result, it is possible that TMH's termination rates will be reduced to a lower level than intended by the NCA by 2012. The regulation of termination rates at the EU level can lead to interventions by the Macedonian and Montenegrin regulator as well.

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.

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

The scope of competition and any adverse effect on our results depend on a variety of factors that we 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, "VoCATV") and migration to lower priced Internet price plans as a result of speed upgrades. In addition, the declining prices of mobile telecommunications services also lead to the migration of fixed line customers.

The most significant trend in the fixed line market is the increasing share of double-play ("2Play") or triple-play ("3Play") offers which may result in discounts on purchased services for customers. In Hungary, cable penetration is above the European average. From a competition point of view, the non-regulated cable television operators may be able to give more flexible price structure than the regulated market players, such as Magyar Telekom. In case of increasing price competition, this may narrow our ability to give adequate market responses against the competitors' actions.

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 and new price plans, prices for mobile telephone services have been declining over the past several years and may continue to decline.

New market models using Internet-based messaging and communication services may adversely affect both of our fixed line and mobile voice and messaging services.

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.

Competition posed by new entrants in Macedonia and Montenegro may result in a downward pressure on 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

Table of Contents

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 (IP Multimedia Subsystem based) to change the technology and platform to further provide legacy services and features at a lower operational cost level. Our Next Generation Fixed Access strategy is to widely deploy FTTx (optical network) and EuroDocsis3.0 technology for upgrading cable network.

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, quadruple-play, ("4Play")), while we lose traditional business.

Many of our competitors have started to invest in deploying Next Generation Access network, which might be a threat to the value of our existing network.

After merging the mobile and fixed line technology areas of the Company, in order to improve the efficiency of the customer service function, we intend to unify the IT and Customer Relationship Management systems that support daily business, the sale of new products and the management of customers. If these development processes are drawn out over time and if the various systems continue to operate concurrently for a longer period, this could contribute to more significant churn and a faster decline in our revenues.

Due to the accelerated network development of our competitors in the last few years, our services face competition from broadband products of other service providers. The development of this parallel infrastructure affects the price level and the available penetration of our services as well as the return of our investments.

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.

Table of Contents

TMH launched Third Generation ("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"), World Interoperability for Microwave Access ("WiMAX"), or VoIP, may keep consumers from choosing 3G-based services. These new technologies, especially VoIP, also endanger our fixed line voice business. 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, and later the Long Term Evolution ("LTE", 4G) standard are the most likely candidates. There is a frequency spectrum allocation risk for LTE, because currently there is no frequency spectrum available, on which the LTE service could be launched without making compromise.

Our subsidiary, Pro-M Professzionális Mobilrádió Zrt. ("Pro-M"), also faces risks resulting from technological changes, since the Terrestrial Trunked Radio ("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 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.

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 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

Table of Contents

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.

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

Table of Contents

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

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

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

On March 28, 2009, the NBI informed the Company that, based on a report received by it, it had begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with the Company's ongoing internal investigation into certain contracts entered into by members of the Magyar Telekom group and related matters. The NBI has requested from the Company materials and information relating to such payments. The Company is cooperating with the ongoing NBI investigation.

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

By letter dated February 27, 2009 addressed to counsel to the Audit Committee, the DOJ requested that the Audit Committee pursue all reasonable avenues of investigation prior to completing and issuing a final report of the internal investigation, including investigation into matters recently identified to counsel for the Audit Committee by the DOJ. The DOJ recognized that a delay in the completion of the report may result from investigation into these matters. The DOJ also requested that the Audit Committee refrain from disseminating any such final report until further notice from the DOJ because of the DOJ's concern that such dissemination could interfere with the DOJ's investigation. The Company, its Board of Directors, and its Audit Committee continue to support the internal investigation and the continuing cooperation with and assistance to the Governmental investigations, as being in the best interests of the Company and its shareholders. In its letter, the DOJ stated that the internal investigation had been of assistance to the DOJ and that such assistance will be taken into account in determining the appropriate disposition of this matter by the DOJ, if any.

Table of Contents

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

We cannot predict when our 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. We cannot predict what impact, if any, these investigations will have on each other. 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 management concluded that, as of December 31, 2007, 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 as of December 31, 2007. We have taken and are taking steps in light of issues raised by the internal and Government investigations. See "Item 15 Controls and Procedures." Based on the Company's remediation efforts, management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective, and that previous material weaknesses have been remedied.

Notwithstanding the steps we have taken and continue to take to address issues raised by the internal and Government investigations, 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, 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.

The affirmation of an adverse initial court ruling regarding the Company's April 25, 2008 Annual General Meeting may annul certain resolutions passed at that meeting and may necessitate corrective action.

On May 23, 2008, two of our minority shareholders filed suit against Magyar Telekom Plc., requesting that the resolutions passed by our AGM on April 25, 2008, including the resolution on the payment of dividends to our shareholders, be annulled. We believe the suit to be without merit and have been vigorously defending against it. We have paid dividends to our shareholders as approved by our shareholders on April 25, 2008. The Metropolitan Court acting as Court of Registry entered the changes resolved by the AGM into the company register. On May 13, 2009, the first instance Court ruled to annul the resolutions (except for one procedural resolution) passed by the AGM on April 25, 2008. The ruling by the first instance Court is neither final nor, by its terms, immediately enforceable, and we believe it to be unfounded. The Company will appeal against this initial ruling and intends to pursue its appeal vigorously. Nevertheless, an affirmation of the first instance Court's ruling may result in the invalidation of resolutions passed by the AGM on April 25, 2008, which may necessitate the Company taking time-consuming and/or expensive corrective action. Also, we cannot exclude that such an affirmation would have other unforeseen detrimental effects on the Company.

Table of Contents

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.

We are closely monitoring the impact of the recent volatility in the global credit and equity markets and its effects on our financial position and performance. The fiscal policy restrictions aimed at reducing Hungary's reliance on external financing have substantially increased the risk of an outright recession; in line with this, analysts have significantly scaled back their Gross Domestic Product ("GDP") growth expectations for 2009. We therefore expect further pressure on the demand for telecommunications services both in fixed and mobile segment through lower household disposable income as well as fewer orders from business customers and the public sector. An increase in the price level generated by the planned increase of VAT (by 5 percentage points from July 1, 2009) could lead to a further decrease of demand. A long term weakness of the Hungarian currency can also negatively affect our customers' disposable income because of the high rate of indebtedness denominated in foreign currencies.

As a consequence of the declining demand we assume a higher churn rate in voice and broadband services than expected. A drop in average revenue per user and minutes of usage can also be expected in fixed and mobile voice services, while revenues from SMS services can also be affected negatively. In the current and evolving macro-economic conditions, wholesale partners of Magyar Telekom (i.e., Internet Service Providers, ("ISPs")) selling xDSL face increasing risks of insolvency and even bankruptcy. Besides pressure on consumer demand, this may further accelerate the churn of wholesale DSL. Furthermore, we predict an increase in bad debt ratio both in the residential and the corporate customer segments. Due to fiscal policy restrictions, we expect cost cuttings in the government segment, which could influence our revenues through (i) postponing government developments/projects and (ii) decreasing telecommunications spending. Recent difficulties in the tourism sector might have a negative impact on roaming revenues of our mobile operation. We also estimate a drop in advertisement revenues of our online business.

In addition, our businesses in Macedonia and Montenegro are also affected by similar factors.

A significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries is held in local banks and in connection with these deposits the counterparty risk may increase considerably due to the global financial crisis. Moreover, cash deposited in these countries runs higher counterparty risk, due to the small number of internationally substantial financial institutions in these countries. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely change the cashflows from these instruments.

We may also experience higher financing costs in the future as higher fluctuations of interest rates seems to be more likely due to the volatile international capital and money markets.

Table of Contents

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. For additional information about our financial risk management, see Note 3 to the consolidated financial statements.

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 Makedonski Telekom'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. The recent financial crisis increased the volatility of exchange rate fluctuations, which affect our purchasing costs of goods and services. While the vast majority of our revenues are denominated in the functional currency of the pertinent Group company, part of our operating expenses and capital expenditures are denominated in EUR and USD. The recent significant devaluation of HUF against EUR and USD puts pressure on our operational expenses and capital expenditure due to increased purchasing costs of goods and services.

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."

Table of Contents

ITEM 4 INFORMATION ON THE COMPANY

ORGANIZATION

Magyar Telekom Távközlési Nyilvánosan Müködö Részvénytársaság (in English, Magyar Telekom Telecommunications Public Limited Company) is a limited liability stock corporation incorporated and operating under the laws of Hungary. We operate under a commercial name, Magyar Telekom Nyrt. or Magyar Telekom Plc. 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 T-Mobile Magyarország Távközlési Rt., our fully owned subsidiary. 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.

Table of Contents

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-Home, T-Systems and Group Headquarters and Shared Services ("GHS")). The Mobile segment included the T-Mobile business segment. The results for our business segments in 2007 and 2008 are presented on this basis and the segment results for 2006 have been restated for comparative purposes.

The T-Home (formerly, T-Com) segment is the primary fixed line telecommunications service provider in Hungary, Macedonia and Montenegro. To a lesser extent, T-Home is also present in Romania, Bulgaria and Ukraine, providing alternative telecommunications services 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 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 in 2008, as approved by the Board of Directors. Both the organizational framework and scope of activity of individual

Table of Contents

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 and T-Home).

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 enterprises.

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.

On June 26, 2008, we announced that our Management Committee decided to introduce the T-Home brand as a replacement for the T-Com, T-Online and T-Kábel brands in the autumn of 2008.

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

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

DESCRIPTION OF BUSINESS AND ITS SEGMENTS

We are the principal provider of fixed line telecommunications services in Hungary, with approximately 2.3 million fixed access lines as of December 31, 2008. We are also Hungary's largest mobile telecommunications services provider, with nearly 5.4 million mobile subscribers (including users of prepaid cards) as of December 31, 2008. We hold a 100 percent interest in Stonebridge Communications AD, which controls Makedonski Telekom, 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 2008, our consolidated revenues were HUF 673,056 million and our consolidated net income was HUF 93,008 million.

Table of Contents

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

T-Home and T-Systems. Our T-Home 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-Home 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-Home and T-Systems segments, we present the description of services below combined for these two segments.

The T-Home segment also includes three Macedonian companies. Stonebridge is a holding company through which Magyar Telekom controls Makedonski Telekom. Telemacedonia is a management company through which Magyar Telekom provides management and consulting services to Makedonski Telekom, T-Mobile Macedonia and Stonebridge. Makedonski Telekom is Macedonia's leading fixed line telecommunications company. In addition, the T-Home 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-Home is also present in Romania, Bulgaria and Ukraine, providing alternative telecommunications services in these countries.

T-Mobile. We are the leading provider of digital mobile services providers in Hungary. Since December 7, 2004, we also have the 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, the leading mobile telecommunications services provider in Macedonia. T-Mobile Macedonia is a fully owned subsidiary of Makedonski Telekom. The segment also includes T-Mobile Crna Gora, the second largest mobile telecommunications services provider in Montenegro, a fully owned subsidiary of Crnogorski Telekom. On May 1, T-Mobile Crna Gora merged into Crnogorski Telekom and ceased to exist as a separate legal entity. 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 below five percent of the group revenues; therefore we do not describe this segment separately in the 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, 4Play solutions, growing need for customized content),

Table of Contents

competition and regulation (i.e., low entry barriers, new business models, telecommunications and media broadcast industry convergence).

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.

Traditional telecommunications market will not deliver sizeable revenue growth and all players will feel pressure on revenue and profitability. Overall the fixed voice market, as major revenue and profit source, is declining; growing segments (especially TV and mobile broadband) are not any more able to fully over-compensate fixed-line decline. We, like other operators, are experiencing strong price pressure with fierce technology platform-based competition, and also changing dynamics of broadband market growth and structure (DSL vs. cable/fixed vs. mobile). The fixed line market is characterized by 3Play bundles with TV becoming driver and core element of service offerings, while in the mobile market broadband is the clear driver. Services beyond core connectivity are needed to improve access base and usage. Continuous cost control is strongly required to manage profitability.

Several factors drive the competitive landscape locally, while real innovations are coming from global industry players. Factors shaping competitive environment include customer demand for bundling with discount; simple administration; regulatory environment opening up market entry opportunities through Next Generation Access ("NGA" interactive, IP based, high-speed access); technology platform based competition; economies of scale through regional business models; market consolidation and unforeseen impacts of credit/economic crises. Also, we see many other changes locally with aggressive own access infrastructure build-out and upgrade, and strong consolidation in the ISP and cable markets. The government published a proposal entitled "National Digital Public Utility" at the end of 2008, a homogeneous and integrated optical backbone and regional transmission network created by the state to secure access to all Hungarian towns that may further enhance infrastructure-based competition in certain segments.

On a global scale, we see a strong pressure on access providers from the device manufacturers (Apple, Nokia, Sony Ericsson) and content service providers (Google, Yahoo, MSN). They attract customers with new services over a commoditized access.

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.

Magyar Telekom's strategic value proposition

We need to follow clear strategic guidelines according to our corporate level value proposition (i.e., value for money) with full attention to excellence in customer service, while bringing innovations first to the market with efficient operation and processes behind. Accordingly, we need to have a consciously managed focus on both core and non-core (mainly IT and media) business and products, however with consideration of the differing financial characteristics and business models to effectively manage the transition.

The strategic objective on the short-/mid-term is to fix critical factors within the core business (simplification of core processes, implement access strategy, simplify IT landscape, optimize resource allocation and cost structure, improve customer experience) and to further strengthen our positions on core connectivity segments (mobile, broadband, TV) that will enable us to shift resources and priorities towards further diversification through service/product innovation and expansion.

Table of Contents

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

1. "Three Screen Company" approach

Three screen company strategy with full service portfolio and improved customer experience in consumer;

State-of-the-art network and IT capabilities.

2. Information and Communications Technology ("ICT") leader

Deliver integrated customer approach, real ICT portfolio;

Solutions for the Small and Medium Size Enterprises ("SME") segment.

3. Service Innovation

Develop and launch new access supporting services;

Identify significant sources of currently non-core revenues, increase share-of-wallet.

4. Regional Presence

Continue to deliver and extend our regional presence, increase economies of scale, discover opportunities through alternative business models;

Further leverage our merger and acquisition capabilities.

5. Enabling Corporate Fundamentals

Build corporate culture in line with the One Company approach.

Our corporate strategy in place fixing the core business and capturing sustainable growth is still valid. Emphases need to be adjusted in line with market development and foreseen opportunities, and execution will be strengthened through focused corporate initiatives and accordingly, with clear strategic implications and roadmaps on business unit level.

Table of Contents

OVERVIEW OF MAGYAR TELEKOM'S REVENUES AND PRINCIPAL ACTIVITIES

For the years ended December 31, 2006, 2007 and 2008, our total revenues by business segments were as follows:

	Year ended December 31,			Year ended December 31,
	2006	2007	2008	2008/2007
	(in HUF millions)			
Revenues				
T-Home revenues from external customers	272,822	273,275	260,649	(4.6)
T-Home revenues from other segments	42,421	34,426	29,875	(13.2)
Total revenues of T-Home	315,243	307,701	290,524	(5.6)
T-Mobile revenues from external customers	327,330	325,724	331,765	1.9
T-Mobile revenues from other segments	22,236	21,146	17,675	(16.4)
Total revenues of T-Mobile	349,566	346,870	349,440	0.7
T-Systems revenues from external customers	63,423	75,034	77,761	3.6
T-Systems revenues from other segments	1,946	3,898	7,464	91.5
Total revenues of T-Systems	65,369	78,932	85,225	8.0
GHS revenues from external customers	7,621	2,628	2,881	9.6
GHS revenues from other segments	18,776	21,109	19,264	(8.7)
Total revenues of GHS	26,397	23,737	22,145	(6.7)
Less: inter-segment revenues	(85,379)	(80,579)	(74,278)	(7.8)
Total revenues of the Group	671,196	676,661	673,056	(0.5)

Most of our revenues in 2006, 2007 and 2008 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.

In the following sections, we describe our products and services in line with our income statement structure presented in Note 22 to the consolidated financial statements.

T-HOME AND T-SYSTEMS

In 2008, our T-Home segment generated revenues of HUF 290,524 million and our T-Systems segment generated revenues of HUF 85,225 million before inter-segment eliminations. The operations of T-Home and T-Systems consist of voice retail and wholesale services, Internet services, data transmission, SI/IT services, multimedia, telecommunications equipment sales, as well as other services.

The T-Home 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.

Table of Contents

T-Home and T-Systems operations in Hungary

Voice Retail Services

Revenues from voice retail services consist of:

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

Subscribers

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

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

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

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.

We also offer voice telephony services through VoIP and VoCATV. At the end of 2008, we had 49,540 VoIP and 50,608 VoCATV customers.

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. Traffic charge is either measured in seconds based on the call's duration, or in minutes, depending on call plans.

Our one-time connection fee and monthly subscription charges are different for residential and business customers. There are different price plans for residential and business customers as well.

Residential price plans

Our new T-Home brand (introduced in September 2008) offers fixed line voice, Internet and television services independently of underlying technology. 3Play is in the focus of the portfolio and of the communication, but the elements can also be purchased one by one or in

any combination with certain limitations. The more services are subscribed, the more T-Home discount is granted to customers. If two or

Table of Contents

three basic services are used, the customer is granted the "T-Home Double Discount" or the "T-Home Triple Discount," respectively.

Regarding the T-Home voice portfolio, a new Base price plan was launched, that features a low monthly fee. Base price plan on VoIP made 2Play and 3Play products more competitive compared to the offers of alternative service providers, aiming to prevent customer churn. We also continue to offer flat rate price plans for heavy users.

Business price plans

We target business customers with flat rate price plans, which are transparent and easy to budget. These are designed to reduce the 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 and domestic long distance calls for a fixed monthly fee. We also offer flat rate price plans with options for mobile and international calls.

In September 2008, along with the rebranding campaign, we introduced the new T-Home product portfolio and discount structure also for the small office, home office ("SOHO") customers and small businesses. This is aimed to stimulate customers to subscribe for more services (telephone and Internet) from the same provider. The T-Home SOHO discount includes flat rate voice price plans, aiming to further increase our penetration.

For SMEs we extended the existing business flat rate portfolio and launched a fixed-mobile closed user group ("CUG") bundled product to retain fixed line traffic in the business segment.

Public Telephones

As of December 31, 2008, Magyar Telekom operated 16,279 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 universal service providers to provide one public payphone per 1,000 inhabitants and at least one public payphone per settlement with less than 1,000 inhabitants.

Products and Services

Local, Domestic and International Long Distance Telephone Services. We provide local, domestic and international long distance telephone services to our fixed line subscribers and to fixed line subscribers in other Local Telecommunications Operator ("LTO") areas. Until December 31, 2007, Magyar Telekom had individual arrangements with international telecommunications operators. Since January 1, 2008, Magyar Telekom sends and receives all its international voice and switched transit traffic to and from 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.

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

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

Directory Assistance. We offer directory inquiry services. The domestic directory assistance database includes all fixed line and postpaid mobile subscribers' data in Hungary. We offer a call completion option to subscribers, whereby calls may be connected automatically.

Table of Contents

Wholesale voice services

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

Domestic services. Domestic wholesale services consist of regulated and commercial products. Regulated domestic services primarily consist of call origination and termination services for switched voice traffic. In addition to these traffic type services, Magyar Telekom offers carrier pre-selection service to other domestic service providers. The terms of these regulated services are based on Reference Interconnection Offer, accepted by NCA. Magyar Telekom had 22 bilateral interconnection agreements to provide regulated wholesale services at December 31, 2008. The NCA mandated price reductions on interconnection prices from April 26, 2008. Since May 2005, Magyar Telekom has not been designated as an operator with SMP in the transit market. In order to provide domestic transit services, Magyar Telekom concludes commercial contracts with other service providers.

International services. We have two state-of-the-art international gateways as well as fiber optic cable connections serving 26 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 seize the opportunities presented by the liberalization of the telecommunications market in Romania, we established interconnection arrangements with major Romanian network service providers to offer transit services to Western Europe.

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

Internet Services

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

We increased our subscriber base in Hungary to 548,738 by December 31, 2008 from 505,725 a year earlier, including dial up and broadband customers. Our broadband (ADSL, cable television, WLAN and leased line) customers reached 539,027 as of December 31, 2008 compared to 489,368 a year earlier. We are the largest Internet service provider in Hungary with an estimated 79.1 percent market share based on the number of DSL broadband subscribers.

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 retail basis to our customers and on a wholesale basis to ISPs. In addition, we offer Naked ADSL, an ADSL service over existing copper wires without a telephony service. To enhance the competitiveness of our ADSL portfolio and to improve the sales of new ADSL connections, we introduced a new entry level ADSL product to the market in September 2008 with 2 Mbit/s maximum download bandwidth. The number of ADSL connections increased from 613,051 at December 31, 2007 to 633,459 at December 31, 2008.

Table of Contents

Wholesale ADSL

Magyar Telekom offers wholesale ADSL service to ISPs. This service enables ISPs to offer an integrated ADSL service combining access and IP services to their retail customers under their own brands. At the end of 2008, we had contractual relationships with 22 ISPs providing ADSL services. Wholesale ADSL service had a slight growth in 2008 with the number of ADSL connections reaching 196,776 by December 31, 2008 (this number is included in total number of Magyar Telekom ADSL).

ADSL roll-out. In 2008, we finished the roll-out of ADSL services to the larger settlements (over 3,000 inhabitants) on Magyar Telekom service area. Further ADSL developments were also carried out on smaller settlements.

VDSL. In October 2008, we introduced our first services on Very High Bitrate DSL ("VDSL") technology. In addition to the retail high speed 25 Mbit/s DSL product, we provide this service on a wholesale basis to ISPs, which in turn resell these services to residential and small business customers.

Retail ADSL

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

VDSL. In October 2008, we introduced retail VDSL service in four districts of Budapest and in six other cities. We offer two new services for residential customers on this technology: 25 Mbit/s Internet access and High Definition ("HD") channels on IPTV.

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

IPTV. IPTV service was introduced in 2006. IPTV allows broadcasts to be seen on a television set with a set-top-box over ADSL connection. The product line offers various interactive contents, such as time-shift function, electronic program guide ("EPG") on screen, recording onto the hard disc built in the set-top-box, web EPG service, video on demand service and picture-in-picture. In 2008, we continued to increase the coverage of this service. T-Home IPTV is available in more than 200 settlements in Hungary. The total customer base of IPTV reached 28,496 as of December 31, 2008.

T-Home/T-Mobile integrated broadband offer. On October 1, 2008, we introduced an integrated broadband offer to provide unlimited fixed-line and mobile Internet together at a discounted price. The purpose of the promotion is to retain ADSL and cable customers with a competitive offer and to sell mobile Internet as a complementary service.

PC-Net, Laptop-Net. In 2007, we introduced a new product, PC and Internet in one package. At the end of 2008, we had approximately 5,500 PC-Net subscribers. To better satisfy customer demand, we introduced a new product from July 2008, Laptop and Internet in one package. At the end of 2008, we had approximately 2,000 Laptop-Net subscribers.

Bundled ADSL ("T-DSL"). We also offer voice and Internet bundles (T-DSL) targeting primarily small and medium business customers. In 2008, we have re-bundled the T-DSL offer with more value added services: T-DSL price plans contain telephone line with flat voice and a flat Internet access and value added services such as virus protection, domain.

Table of Contents

T-HotSpot. HotSpot is a wireless broadband Internet solution, based on the WiFi technology for public sites (i.e., hotels, conference centers and restaurants). By November 2008, former T-Com and T-Mobile HotSpots have been consolidated, i.e., the whole T-HotSpot network can be used under the same terms and conditions. At the end of 2008, there were 304 T-HotSpot sites in operation.

Managed Leased Line Network Internet access ("MLLNI"). We offer MLLN Internet access mainly to our business customers. MLLNI provides transport and access facilities for IP traffic. The product includes domestic and international peering and leased line access, by which the domestic end-point of the customer is connected to our IP network with symmetrical upload and download link. With the growing penetration of xDSL based broadband access technology and its aggressive pricing in the consumer segment, we expect the penetration of the MLLNI to decrease.

Cable Internet. In addition to the ADSL and Naked ADSL services, we also provide high-speed cable Internet by using cable television infrastructure. Our main cable television service provider partners are T-Kábel and Vidanet. The total customer base of our cable Internet service reached 127,683 by December 31, 2008.

Data Transmission and Related Services

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

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

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

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 7,710 as of December 31, 2007 to 6,037 lines as of December 31, 2008.

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, 155, 622 Mbit/s and 2.5 Gbit/s. 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 with 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.

Table of Contents

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. To increase the utilization of our transmission network, we offer attractive price plans for dedicated transit services through Hungary. We also sell international leased lines, including international managed leased lines, international ISDN, X.400 and X.25 services. Our X.25 links are used for packet switched data transmission with 83 international networks. 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 2008, the capacity of international Internet connections reached 30 Gbit/s. We provide Internet transit services to several Romanian and Bulgarian ISPs on our two

Table of Contents

IP PoPs in Romania and high-capacity international Internet transit service on our IP PoPs in Hungary to ISPs in Bosnia and Herzegovina, Ukraine and Macedonia.

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, micro, which enables connections to our customers with a speed up to 1 Gbit/s. Magyar Telekom provides proactive fault repair and SLA report, and our partners can access the report via our VIP portal website. In 2008, Magyar Telekom launched a few new service options, such as Internet access and Premium options. By the end of 2008, Magyar Telekom had 136 contracted customers.

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 increased its number of cable television customers during the past years. We are the second largest cable television provider in Hungary. The growth of subscribers has slowed down in the past two years, because of the growing competition faced from satellite operators, direct competition with other CATV operators and the saturation of the market. The CATV group had approximately 423,000 CATV subscribers as of December 31, 2008 compared to approximately 419,000 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. In 2008, we offered 108 digital TV channels in two program packages and 21 mini program packages and 3 radio stations. In 2007, T-Kábel Hungary rolled out the digital simulcast of television channels in South-East Hungary.

T-Kábel Hungary is the first High Definition TV ("HDTV") service provider in the cable industry in Hungary. The HDTV service of T-Kábel was launched in March 2008. We offer 2 HD mini packages with 8 HD channels to the digital service subscribers. By the end of 2008, T-Kábel customers subscribed to 719 HD packages.

Our CATV firms in cooperation with ISPs offer broadband Internet services. The number of broadband Internet subscribers through our cable television networks increased to approximately 127,000 by December 31, 2008 compared to 102,000 a year earlier.

T-Kábel Hungary in cooperation with Magyar Telekom Plc. installed the Digital Video Broadcasting-Satellite (DVB-S) platform including head-end, uplink station and conditional access system for satellite TV service in 2008. As a part of Magyar Telekom's rebranding campaign, Magyar Telekom launched the service on November 24, 2008 under the brand T-Home Sat TV. DVB-S service offers favorably priced packages and discounts, a variety of channels grouped into thematic packages, and premium picture and voice quality, as well as electronic program listings. Currently two T-Home Sat TV packages are available: the Basic package, which includes 14 channels and the Family package, which has 49 channels. When subscribing for the Family package, optional thematic packages and two HD mini packages can also be chosen.

At the end of December 2008, the number of active DVB-S customers amounted to 5,338.

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

Table of Contents

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.

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 enabled us to focus more efficiently on strengthening our market leadership in the ICT service market as well as repositioning our corporate market approach as a true IT and telecommunications service provider.

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. In case of strategic ICT outsourcing projects, with up-selling and contract prolongations, we retained our market share of 2007 also in 2008.

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

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

Table of Contents

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").

Other Revenues

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

Share of associates' profits

Share of associates' profits primarily include our share of profit from Magyar RTL Televízió ZRt. ("M-RTL"), a Hungarian television broadcasting company.

M-RTL is entitled to provide commercial television programs, but not to engage in broadcast diffusion or distribution activities. The Program Provision Agreement was signed on July 9, 1997, which was the starting date of the license for an initial period of ten years. On July 20, 2005, M-RTL extended the license for an additional five years which is effective from July 10, 2007 until July 9, 2012. 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 ten years. Market share among the targeted age 18-49 audience has slightly decreased to 26 percent in 2008 compared to 28 percent in 2007 for the whole day and 33 percent in 2008 compared to 35 percent in 2007 for prime-time (between 7 and 11 p.m.). The decrease of market share is due to the increased number of Hungarian speaking channels on the market. RTL KLUB has successfully converted its leading audience results 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 (e.g., I'm a celebrity, get me out of here! reality show, Take it or leave it, Poker face game shows) and through its continued long-term relationships with major film distributors, including Warner Brothers, 20th Century Fox and Buena Vista. M-RTL is strategically focused on sporting events, such as Formula One races and boxing.

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.

According to the co-operation agreement signed in April 2008, the properties of IKO-Telekom Média Holding Zrt. ("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.

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. The Court of Registry is expected to register the legal separation in the second quarter of 2009.

Table of Contents

T-Home operations in Macedonia

We fully own a Macedonian holding company, Stonebridge, which owns a 51 percent interest in Makedonski Telekom. 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 Makedonski Telekom, thus simplifying the ownership structure.

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

In May 2008, Makedonski Telekom introduced the T-Home brand.

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

	At December 31,		
	2006	**2007**	**2008**
Number of fixed lines			
Residential lines	430,082	404,925	371,285
Business lines	42,780	40,954	40,344
Public payphones	2,087	2,015	1,692
Total	474,949	447,894	413,321
ISDN channels	42,200	44,482	44,694
Total	517,149	492,376	458,015
ADSL connections	16,462	48,214	98,866
Number of Internet subscribers			
Dial-up	31,066	18,459	5,910
Broadband (ADSL, leased line)	16,603	48,363	98,995
Total	47,669	66,822	104,905
Market share in the DSL broadband market (retail and wholesale, estimated) (%)	45	58	59
Market share in the dial-up market (estimated) (%)	94	93	96

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

Makedonski Telekom launched IPTV in November 2008. Makedonski Telekom offers TV sets as well in its sales network.

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

T-Home operations in Montenegro

We have a 76.53 percent interest in Crnogorski Telekom. Crnogorski Telekom is the principal fixed line service provider in Montenegro. Its exclusive rights in fixed line telecommunications services expired in December 2003. Crnogorski Telekom provides a wide range of retail and wholesale telecommunications services at domestic and international level (e.g., voice services, broadband access, IPTV services, leased line circuits, data transmission).

Table of Contents

The following table summarizes key operational information of T-Com Crna Gora ("T-Com CG"), the fixed line operations of Crnogorski Telekom:

	At December 31,		
	2006	2007	2008
Number of fixed lines			
PSTN lines	173,248	168,062	164,394
ISDN channels	21,288	21,906	22,416
Total	194,536	189,968	186,810
ADSL connections	6,639	16,106	38,956
IPTV customers	n.a.	2,397	17,531
Number of Internet subscribers			
Dial-up	25,669	28,401	17,455
Broadband (ADSL, leased line)	6,760	16,252	39,144
Total	32,429	44,653	56,599
Market share in the dial-up market (estimated) (%)	98	98	98

Crnogorski Telekom is the sole provider of ADSL in Montenegro, although competitors started to offer broadband access through WiMAX access. Internet access is provided via the public switched telephone network, leased lines and ADSL. We experienced strong dial-up to ADSL substitution during the last two years.

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 fixed line voice tariffs adopted by the Montenegrin Agency of Electronic Communications. International charges have decreased both in residential and in business segment, while local charges and subscription fees have increased in residential segment.

Crnogorski Telekom introduced its IPTV service, called Extra TV on November 30, 2007. In 2008, the IPTV system was upgraded to support an increased number of customers and to improve service quality.

Table of Contents

T-MOBILE

Our mobile telecommunications services generated revenues of HUF 349,440 million in 2008 before inter-segment eliminations.

T-Mobile operations in Hungary

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

We were the first mobile operator to launch HSDPA service in Hungary in 2006. The outdoor mobile broadband coverage based on population reached about 67.4 percent by the end of 2008. In 2008, the penetration of this service grew significantly and all three Hungarian mobile operators extended their data tariff portfolios, with prices falling. We managed to keep our market leader position in the consumer mobile Internet market, holding market share of 53.4 percent, compared to 24.7 percent of Pannon' and 21.9 percent of Vodafone' share.

In October 2005, the Hungarian government selected us to build and operate the nation-wide Egységes Digitális Rádiótávközlö Rendszer ("EDR") system (the Hungarian Unified Digital Radio Network) in Hungary. For this purpose, Magyar Telekom established a subsidiary, Pro-M in December 2005.

EDR is a 380-400 MHz band nation-wide Professional Mobile Radio ("PMR") network. The main users of EDR are various public safety (emergency) and law enforcement bodies (e.g. police and fire departments, National Ambulance Service). The high-quality EDR network replaces the analog radios currently used by these agencies.

We were able to offer favorable terms mainly due to our 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 has been paying us annual payments of HUF 9.3 billion from 2007 until 2015.

Table of Contents

Subscribers

The table below sets forth information concerning the number of our subscribers at the dates indicated:

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

The Hungarian mobile market reached a penetration rate of 121.8 percent by end of 2008. 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. Total growth rate both in 2007 and 2008 exceeded previous year's average due to the significant increase of inactive subscribers (i.e., subscribers who did not generate traffic in the last three months) included in the subscriber base mainly at Pannon, one of our competitors.

Churn policy. Generally, a contract customer of TMH is churned either after the voluntary termination upon the lapse of his contracted loyalty period or after forced contract termination due to the customer's failure to fulfill payment obligations. In the absence of re-charging, a prepaid customer is churned after a period of 12 to 16 months depending on the amount charged on the prepaid card.

Traffic. TMH's average traffic per subscriber is comparable to other European countries and was 152 minutes in 2008. Average traffic per subscriber has increased each year since 2004 as a result of successful price plans and significant price erosion targeting both postpaid and prepaid segment.

Products and services

Voice services

In July 2008, we introduced a new tariff plan which mixes the advantages of prepaid and postpaid packages in a new postpaid package (i.e., favorable rates, comfortable postpaid invoicing with controllable expenses). Subscribers of this package must recharge the balance once the monthly subscription fee has been used toward usage.

In October 2008, we launched new prepaid and postpaid tariff packages for iWiW members offering favorable tariffs within the user-group.

Table of Contents

International roaming service was available for our mobile subscribers on 410 networks in 187 countries as of December 31, 2008, of which 214 networks in 119 countries were available for prepaid customers. On December 31, 2008, customers could use 219 General Packet Radio Service ("GPRS") networks in 109 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.

Non-voice services

In 2008, we continued to enhance our non-voice service portfolio, introduced several new products, increased the penetration and usage of the existing products and extended the access of some of our domestic products abroad:

We provide premium-rate Short Message Service ("SMS"), premium voice traffic, Multimedia Message Service ("MMS") and videophone. Due to the growth in the number of MMS Interworking partners, the international MMS traffic volumes are more than 1.5 times higher in case of both outbound and inbound directions, compared to the previous year. By the end of 2008, our subscribers can send/receive MMS to/from about 60 international mobile networks.

We launched location-based messaging service via MMS with cooperation of various partners in July 2008 (the first third party owned location-based service is picture sending via MMS). As a further development, we launched location-based service platform via web and Wireless Application Protocol ("WAP") channels for third party's content service (advertisements and partner finder) in October 2008. These services give the opportunity for our partners to provide their TMH's customers with value-added content services based on location after the customer's approval of the transaction. We believe that wide range of content services will offer to our customers the comfort ensured by location-based services.

We renewed our t-zones portal with new structure and design in July 2008 by widening our digital contents' portfolio. Our t-zones WAP portal offers news, chat, multimedia contents such as online streaming, music and downloadable content (e.g., pictures, ring-tones, Java games). iWiW has been optimized for mobile use, and it is now available through t-zones. iWiW Message-board SMS has been launched in September 2008. iWiW members can now use their mobile phones to send messages to the message-board of their friends and relatives. From the end of 2008, customers can access the mobile optimized Freemail service, which enables users to read and manage their e-mails easily through their mobile handsets. News, sports, weather and other contents are available via InfoSMS and InfoMMS as well.

In December 2007, we launched our Mobil TV streaming service with 12 TV channels and high quality streaming option. The service can be accessed on both t-zones and web'n'walk portals. To improve user experience, Mobile TV client has been downloadable (with fast channel switching and embedded EPG) for dedicated devices from August 2008. By the end of 2008, the number of channels was increased to 14 basic (one of them is the Hungarian market-leader commercial TV channel) and 6 optional ones.

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 our 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 March 2008, we changed our web'n'walk search engine to Yahoo. Owing to the strategic co-operation between Yahoo and TMH, the usage of web'n'walk became easier, thus considerably increasing the number of searches made in web'n'walk. Web'n'walk 3.0 introduced in 2008 ensures easier browsing for the users and enables them to have a 'One click access' to the personalized contents display on the homepage of web'n'walk.

Table of Contents

In 2007, we 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 us and third-party vendors. We have rearranged the Dynamic SIM toolkit menu that simplifies the access of mobile purchase services. 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 in 2009.

We launched a Mobile Payment service in cooperation with Pannon and FHB Bank in October 2008. After registration, the service enables customers to buy several products and services charging the customer's FHB bank account. Registered customers are also able to pay for their telecommunications accounts and other goods in T-Pont shops through their FHB bank accounts.

Electronic top-up services are available at many Automatic Teller Machines ("ATMs"), petrol stations, Internet banks, Telebanks, Mobilbanks, on public Internet sites, in post offices, newsagent network, T-Mobile franchise and wholesale partners. In 2008, the number of electronic top-up outlets increased significantly. The share of electronic top-up increased, reaching about 86 percent by the end of 2008.

For corporate customers we offer a full range of telecommunications solutions. 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 increased by over 80 percent in 2008.

In 2008, TMH reduced the tariffs of mobile Internet used abroad by 50 percent, and in 42 roaming networks to one sixth within the EU as well as in further three countries.

The increase in the usage of Packet Switched Data services played an important role in 2008. The number of GPRS postpaid users rose by 70 percent by the end of 2008 compared to a year earlier.

Magyar Telekom continues to leverage the opportunity of Fixed Mobile Convergence ("FMC"), e.g., we have launched integrated broadband offers (bundling ADSL and mobile Internet).

Equipment and activation

We distribute an extensive range of mobile device portfolio, such as terminals, accessories, notebooks, netbooks, data products, SIM cards and vouchers.

We focus on both acquisition and retention, offering several favorable packages to our customers, like the interest-free installment option for almost all mobile handsets and notebooks, or in case of our existing customers, the popular loyalty offers with more favorable prices and conditions.

We offer combined mobile service and device offers to our customers, finely-tuning the eventualities of existing mobile services, together with supportive devices.

The best example of this is the successful introduction of iPhone 3G in the Hungarian market exclusively by TMH. iPhone 3Gs can be also bought bundled with iPhone specific tariff plans (ikon 400 and ikon 600), which help fully exploit iPhone 3G's multimedia capabilities.

TMH sells and leases equipments manufactured by other companies.

The telecommunications device sector is highly competitive and characterized by rapid technological innovation, mainly in the mobile business. We believe that supply and service of telecommunications devices 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 equipments required for new services are available on the Hungarian market.

35

Table of Contents

Other mobile services

Pro-M realizes service revenues from providing EDR telecommunications services for various public safety (emergency) and law enforcement bodies based on the EDR contract. The agreement provides continuous payments until 2015.

Fees and charges

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).

We charge 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). We do not charge subscribers for incoming calls, other than calls received while roaming. We receive payments from other telecommunications service providers for terminating calls on our network. We maintained the widest range of price plans and successfully introduced additional plans in 2008 to acquire new subscribers and develop loyalty.

T-Mobile operations in Macedonia

T-Mobile Macedonia is the leading mobile operator in Macedonia, continuously providing the highest technological and advanced services in order to meet the growing needs of mobile customers in the highly competitive market. The principal activities of T-Mobile Macedonia's operations are digital mobile telephone services based on GSM technology and non-voice services such as SMS, MMS and GPRS.

T-Mobile Macedonia had expanded its customer base from 1,212,539 at the end of 2007 to 1,379,191 by the end of 2008. T-Mobile Macedonia had 59.4 percent market share in terms of subscribers based on the number of active SIM cards in the Macedonia mobile market. The mobile market penetration in Macedonia is over 110 percent.

The table below sets forth information concerning the number of T-Mobile Macedonia subscribers at the dates indicated:

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

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

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

With clear focus on retention and growth of the valuable customers base and in order to meet Macedonian mobile subscribers' needs for lower prices, T-Mobile Macedonia adjusted the prices for some

Table of Contents

of the existing price plans and introduced several services with attractive prices as extensions of the existing price plans, mainly based on the community offers.

T-Mobile Macedonia was awarded a 3G license on December 17, 2008.

T-Mobile operations in Montenegro

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

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

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

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

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

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

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

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 exceeded 160 percent, as a large number of tourists purchased prepaid cards, and the new entrant started its operation with attractive offers. In 2008, strong competition induced tariff declines and lower mobile usage could not be offset by higher customer base, which resulted in lower retail traffic voice revenues. Due to the weaker summer season, visitor revenues also dropped in 2008 compared to 2007. These factors resulted in lower ARPU in 2008 as compared to 2007.

Table of Contents

DISTRIBUTION AND SALES

T-Home operations in Hungary

In September 2008, Magyar Telekom introduced the T-Home brand. In parallel with the T-Home brand introduction, all 48 shops have been transformed to comply with the new T-Home brand requirements. The T-Home design has been visualized and displayed in all direct shops.

Besides customer acquisition, cross-selling, up-selling and customer retention type of activities, shops are heavily loaded with customer service related tasks. In 2009, the direct shop network has to face two major challenges: to decrease the average customer waiting time by simplifying and improving IT processes and to put more emphasis on cross-selling and up-selling activities by focusing on the new T-Home portfolio (2Play and 3Play offers) in order to increase customer value.

115 indirect shops also provide T-Home related products and services and this number will be further increased in 2009. In 2009, in the recently integrated shops, the major task will be to improve T-Home sales performance. T-Home services are also sold via an extensive Telesales channel as well as a door to door agent network which is currently being reformed to meet quality as well as efficiency requirements.

T-Home operations in Macedonia

Makedonski Telekom has developed different sales channels in order to serve customers from different segments. Makedonski Telekom uses direct sales channel, such as its own retail network, direct agents and key account managers; indirect sales channel based on indirect master dealers with their network of own shops, partner shops and free lancers; on-line sales channel and call centre which performs telesales.

The main sales channel is the Makedonski Telekom shop network. There are seven T-Home standalone shops and 21 joint shops with T-Mobile Macedonia, which offer the complete T-Mobile and T-Home product portfolio. A new joint shop introducing a new concept (café and shop) was opened on January 23, 2009. A part of the Makedonski Telekom product portfolio (e.g., telephone sets, photo equipment, computers, printers, network equipment) is available to the customers using installments payment through their telephone bill.

Direct agents serving the SME segment put strong emphasis on sale of PBX-based solutions and IT network solutions in 2008.

T-Home operations in Montenegro

In 2008, the main focus of our sales activities in the 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.

Crnogorski Telekom has developed different sales channels in order to provide best services to residential and business customers. Crnogorski Telekom's direct sales channels consist of own shop network (14 joint T-Mobile and T-Com shops), key account managers and SME coordinators. Crnogorski Telekom's indirect sales channels include the partner shop's network, dealers, web sales, "door to door" sales and Call Center.

Table of Contents

T-Systems

Enterprise

We deliver high service level to our Enterprise customers with full dedication to not only client management, but also technical support and service desk level. 81 key account managers handled approximately 2,800 large enterprises as of December 31, 2008 in governmental accounts, industrial accounts, commercial accounts, utility and media accounts and financial accounts split. The largest multinational companies are being served on Deutsche Telekom group level by a separate team in order to assure utmost attention to their trans-border needs.

In 2008, we have launched the "Top30" project, in the framework of which we handle top customers of T-Systems and our subsidiaries KFKI and IQSYS in an integrated way. As T-Systems offers traditional telecommunications (fixed and mobile data and voice) services as well as IT services to its customers, a special team is dedicated to handle companywide info-communications, managed services and outsourcing projects both in the sales and implementation phases.

SME

In 2008, we accomplished dedicated customer service within SME segment, i.e., all of the approximately 45,000 SME customers are managed by dedicated T-Systems sales managers. Our SME account managers are responsible for 40 percent of our customer base in terms of account and sales targets, while the other part is being managed through our indirect partners. Our own account managers and our indirect partners offer the whole T-Systems and T-Mobile portfolio, which includes IT, voice, data and complex services as well. In our sales activity, both our own account managers and our indirect network play an important role, where the indirect network has exclusivity with Magyar Telekom. In 2008, we started a project to brand our indirect sales channel "T-Partner".

In 2008, the main focus has been on integrated offers, selling at least two different types of services to customers at the same time. In 2009, our goal is to grow further in IT and application services within our SME customer base.

T-Mobile operations in Hungary

Magyar Telekom had 48 direct shops at the end of 2008. All shops provide full scale of sales and customer care related services in the entire consumer product portfolio. Handset repair service is also available in all shops. In parallel with the T-Mobile brand facelift, all shops have been transformed to comply with the new, refreshed T-Mobile brand requirements.

In Magyar Telekom's distribution the exclusive indirect partner network plays important role with its 223 shops. The design and the outlook of the network have been significantly improved by transforming more than half of the shops into the new refreshed T-Mobile design. In 2008, 115 shops have become quasi-integrated, i.e., they sell T-Mobile and T-Home product portfolio as well. The cooperation with Internet and IT equipment retailers has been further developed by increasing the number of partners from 9 to 15 with several points of sales. In four main retail outlets (MediaMarkt shops), we introduced a "shop in shop" concept resulting in small "T-Points" with strong focus on customer acquisition. The exclusive indirect partner network has to face the same challenges in 2009 as the direct shop network, i.e., improve customer waiting service level and better exploit cross-selling and up-selling opportunities.

We also sells our prepaid products (e.g., prepaid SIM packages, plastic top-up cards, on-line top-up) through major Hungarian retail channels. Prepaid products are available at 14,124 sales points nationwide (including 9,800 shops where on-line top-up is available, e.g., post offices).

Table of Contents

T-Mobile operations in Macedonia

T-Mobile Macedonia distributes its services in its own retail shops and through indirect partners (dealers). At the end of 2008, the retail shop network consisted of 34 shops, of which 13 are solely operated by T-Mobile Macedonia, while the other 21 are joint shops with Makedonski Telekom. All shops carry the full portfolio of products and services of T-Mobile Macedonia. In 2009, additional four joint shops are planned to be open.

Another channel of the distribution network is the dealers' cooperation. Currently the network consists of 13 master dealers (including 2 direct contractors) with 140 shops. All the shops offer the full portfolio of sales activities, except for collection. By the end of 2008, all the dealers' shops have been redesigned with outdoor illuminated signs according to "T-Partner" image. Prepaid packages (with or without handsets) are available in all dealers shops and in additional 7,000 kiosks, which sell prepaid vouchers.

T-Mobile operations in Montenegro

After a successful brand introduction in September 2006, T-Mobile Crna Gora 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 Crna Gora is now challenged by stronger competition and high market saturation.

In 2008, the number of T-Centers reached 14. 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 were approximately 1,200 contracted points of sale for prepaid vouchers and SIM cards at the end of 2008.

Business customers are served by key account managers taking care of the top 300 clients and SME coordinators who are in charge of SME and SOHO companies. Top clients are divided by industries (e.g., banks, hotels, large manufacturers, government) and small companies are divided by regions.

In 2008, T-Mobile Crna Gora continued to be the market leader in the postpaid segment of mobile customers. The numerous promotions and the wide sales network resulted in increase in the number of both prepaid and postpaid customers in the business and residential segment as well.

COMPETITION

T-Home 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.

The concentration of the telecommunications market continued in 2008. Externet bought up Vivanet, which enhanced its position in the Internet market. By acquiring eTel, Interware has become able to provide voice services. Monortel merged into UPC and offers its services under the UPC Telekom brand. With the purchase of Actel, EnterNet obtained an own infrastructure.

Voice

In recent years, mobile carriers are our largest competitors on the voice market. Mobile penetration has increased from 109.7 percent at December 31, 2007 to 121.8 percent by the end of 2008, which not only led to intense competition on the mobile telecommunications market, but also affected the fixed line telephone market. In 2008, the main reason for fixed line churn was mobile substitution.

Table of Contents

In our service areas, a number of carriers (Invitel, GTS Datanet, Interware and UPC Telekom) 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 in order to attract new customers from LTO areas, however with only moderate success so far.

Internet

Cable operators (e.g., UPC Telekom, Fibernet, Digikábel), alternative service providers based on Unbundled Local Loop ("ULL") (e.g., GTS Datanet, EnterNet), mobile service providers and other ISPs are our competitors on the Internet market. In 2008, we kept our leading position with the continuous increase of the number of ADSL lines, however, our market share declined mainly because of the spread of cable Internet.

Compared to the previous years, the growth of fixed line Internet penetration was slower in 2008. A technology shift from ADSL to cable Internet can be experienced in the broadband market because in case of cable Internet, higher bandwidth is available at lower prices. Mobile Internet plays an increasingly important role, it represents approximately 25 percent of total Internet subscriptions, however the majority uses mobile Internet as a complimentary service beside fixed line technologies.

ULL services have only marginal shares in the broadband market, therefore the NCA ordered the decrease of ULL access fees. We expect a slight growth of ULL services, which could lead to more intensive competition.

TV

In 2008, the trend of digitalization continued in the television market. NCA issued a tender for digital terrestrial broadcasting which was won by Antenna Hungária Zrt. The digital terrestrial broadcasting television service is available from December 2008, with network coverage of almost 60 percent and the programs dominantly are available without a subscription fee.

Invitel launched IPTV offers on its own service area and therefore became a 3Play service provider. Parallel to the launch of digital television services, UPC Telekom introduced a new offer structure and harmonized its voice, Internet and television packages.

In October 2008, the NCA announced calls for a tender that allows new mobile carriers to enter the market. As a result of the tender, competition could become even more intensive in the Hungarian voice and broadband market.

T-Home operations in Macedonia

On January 1, 2005, Makedonski Telekom'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. Makedonski Telekom, however, faced indirect competition earlier from other mobile service providers and, to a limited extent, from other VoIP providers. In 2008, the main competition in the fixed line voice services was posed by mobile service providers. New fixed line service providers also started their operations by offering outgoing calls to Makedonski Telekom subscribers, either over VoIP or through carrier selection services. In addition, there is intense competition in the area of terminating international incoming calls on the fixed and mobile networks in Macedonia. By end of 2008, there were eight operators that terminated international traffic.

The nature of fixed line competition has shifted from offering cheap outgoing calls (through carrier selection and VoIP) towards offering complete fixed line services.

Table of Contents

In April 2007, OnNet entered into an ULL Agreement with Makedonski Telekom based on Makedonski Telekom's Unbundling Reference Offer ("MATERUO"). Based on this agreement, OnNet offers its commercial services to the customers from May 2008. Commercial wholesale line rental agreement with OnNet, based on OnNet's request, has been signed as well.

Cosmofon launched fixed line voice services in June 2008 over its GSM network, and in August 2008 it started to offer services based on 3G technology.

Both major CATV operators, CableTel and Telekabel, as well as several smaller CATV operators started to offer fixed line services in the last quarter of 2008.

Number portability has become available since September 1, 2008. Since fixed line customers are mostly Makedonski Telekom customers, we expect negative effects of number portability.

To respond these challenges, Makedonski Telekom launched attractive bundled offers including flat components, VoIP, ADSL and IPTV.

Until the end of 2008, Makedonski Telekom concluded interconnection contracts with three mobile operators and ten fixed line operators.

Makedonski Telekom is the leading provider of leased line and data transmission services. CATV and wireless operators have built their own networks and are also capable to offer data transmission services, transmission capacity and various broadband services. Based on Makedonski Telekom's new wholesale leased line offer with decreased prices, we expect to sign several wholesale agreements with alternative operators.

We expect more opportunities for alternative operators as Makedonski Telekom had to introduce new wholesale products based on regulatory obligations from the first quarter of 2009.

In the Internet broadband market, there are three major service providers in addition to Makedonski Telekom: OnNet, CableTel and Telekabel. Makedonski Telekom has approximately 49 percent market share based on the number of retail subscribers at the end of 2008. It faces competition mainly from CATV operators' cable broadband Internet, offered to the CATV customers through their own networks and from broadband services through Makedonski Telekom's wholesale ADSL offer. Mobile operator Cosmofon also started to offer mobile broadband Internet access, through its 3G network, from September 2008.

In November 2008, Makedonski Telekom entered the TV market by offering 3Play services: TV, Internet and voice bundles. Competitors also announced similar services, and CableTel already launched its first offer in October 2008. On April 25, 2009, the AEC granted radiofrequencies for digital TV services through digital video broadcasting- terrestrial ("DVB-T") to Telekom Slovenije.

T-Home operations in Montenegro

In 2007, a new mobile and fixed line operator entered 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.

In the third quarter of 2007 and the first quarter of 2008, eight licenses for VoIP operators were issued as well. Two of them have signed agreements on interconnection and access with us in July 2008. They are able to offer outgoing call services to our customers through carrier selection and freephone service. The transit of incoming international calls via VoIP providers to our network is still not a regulated service and it is subject to a commercial agreement between parties.

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.

Table of Contents

Nine 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. Terms and conditions for joint usage of our underground infrastructure were published in 2008, but currently only three of these cable operators are using this possibility at five municipalities in Montenegro (in total length of less than 20 km). MMDS and satellite operators, who were able to start first with service provisioning and who are not dependant on our infrastructure, are currently market leaders in CATV segment.

Strong competition is developing in the wholesale segment as well. It is expected that significant players like Telekom Serbia, National Broadcasting Company and Electricity Company will enter the Internet and data wholesale business after significant investments in their communications infrastructure have been realized during 2008.

T-Systems

In 2008, our main competitors in the fixed line market were Invitel and GTS Datanet. 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 2008, 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 121.8 percent by the end of 2008. We continued to focus on customer retention and the development of mobile broadband services. Despite the intense competition, as of December 31, 2008, we accounted for an estimated 43.9 percent of the total Hungarian mobile market in terms of subscribers based on the number of active Subscriber Identity Module ("SIM") cards and 44.2 percent in terms of total number of active SIM cards generating traffic in the previous three months.

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 (especially in the field of mobile broadband) supported by aggressive flat tariff offers and marketing campaigns. Vodafone's market share slightly increased to 21.0 percent by the end of 2008. Pannon kept a strong mobile market share and community focus, and maintained its stable second position in the market. By the end of 2008, 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. The mobile market penetration measured in terms of subscribers is over 110 percent, which is mainly due to strong and intense competition 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

Table of Contents

provider in the country based on the number of subscribers, 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. Cosmofon broadened its operations in the field of fixed line telecommunications services in June 2008 and started its 3G commercial operations in the prepaid, postpaid and Internet segment in August 2008.

In February 2007, the Macedonian telecommunications regulator awarded a third mobile license to Mobilkom Austria. The operator entered into the Macedonian market with 2.5G Services in September 2007 under the name VIP. VIP started intensive campaigns even before its official start of operations. VIP entered into a national roaming agreement and site sharing agreement with T-Mobile Macedonia, but is also building its own GSM network. The partnership with Vodafone helped VIP to introduce Blackberry together with introduction of Virtual Private Network ("VPN") capabilities.

While greater competition was brought to the mobile market with the entry of a third market player, the investment of Deutsche Telekom in OTE/Cosmote significantly increased Deutsche Telekom's position in Macedonia. The Macedonian Commission for Protection of Competition ("CPC") decided that Deutsche Telekom should sell Cosmofon as corrective measure on the market. In March 2009, Telekom Slovenije purchased 100 percent shares of Cosmofon and currently owns the two major competitors, Cosmofon and OnNet.

T-Mobile Macedonia was awarded a 3G license on December 17, 2008. The tender obligations impose a commercial launch of the service within six months from the date of granting the license (June 17, 2009) and 50 percent population coverage within a year from the date of granting the license (i.e., by December 17, 2009), additional 30 percent (or 80 percent total) population coverage within 3 years as from the date of granting the license (i.e., by December 17, 2011).

In March 2009, T-Mobile Macedonia introduced 3G iPhone on the Macedonian market.

On May 7, 2009, the Agency has published on its web site the decision of the Commission no. 11-20/3 from May 5, 2009, as its second instance body, for choosing T-Mobile Macedonia as best bidder on the tender for granting 2 radiofrequency licenses in the 1800 MHz band. T-Mobile Macedonia will be able to enhance the performance of its network with this additional band. T-Mobile Macedonia needs to pay the one off fee of EUR 2 million by June 5, 2009.

On January 9, 2009 the Government of Republic of Macedonia decided on initial fee of EUR 5 million per license for a tender for granting two new 3G licenses.

On December 31, 2008, T-Mobile Macedonia had 59.4 percent, Cosmofon had 29.1 percent and VIP had 11.5 percent market share based on the number of subscribers.

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 2008, T-Mobile Crna Gora had 36.1 percent, Promonte had 38.2 percent, while Mtel had 25.7 percent market share in terms of number of active subscribers. T-Mobile Crna Gora is the market leader in the postpaid segment with 42.9 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 license 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.

Table of Contents

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 competitors' 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 with 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, and/or register our services at 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 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.

Table of Contents

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, an 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.

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 an 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

Table of Contents

analyses by NRAs have to consider a new recommendation of the European Commission effective as of December 17, 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 moderate loss of our market share.

Legislative Developments

Under the EU Framework, the European Commission must regularly review its market recommendation. On December 17, 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, which is 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. On September 24, 2008, the European Parliament approved significant changes to these proposals in its first reading. The main amendment to the proposals recommends the development of the European Regulators Group organization instead of the creation of a full regulatory agency at the EU level, rejects the extension of Commission veto rights, subjects the separation remedy to the fulfillment of strict conditions and intends to introduce a series of measures for enhancing investments in NGNs. The Telecommunications Council decided on its own amendment proposal on November 27, 2008. The European Commission, the Parliament and the Council will have to agree on a compromise amendment proposal to be approved in second reading in the second quarter of 2009 according to plans. Any changes to the framework would become effective following their transposition into national law, expected by November 2010. 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

Table of Contents

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 EU, and prohibits any abuse of a dominant position within the common market of the EU, 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 on December 17, 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 voice 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 took place in mid-2008 and will have to be made in mid-2009. Furthermore, the EU regulation mandates the introduction of additional transparency measures requiring us to make additional investments.

The European Commission has reviewed the development of prices for data roaming, resulting in proposals to regulate those prices. On September 23, 2008, the European Commission presented a legislative proposal to the European Parliament and Council to revise the EU Roaming Regulation. The

Table of Contents

proposal asks for extension of voice telephony roaming price caps for a further three years beyond the current expiry at end June 2010, mandating per second billing, regulating SMS wholesale and retail prices as well as wholesale data roaming prices and introducing further transparency rules starting from July 2009. The revised Regulation would apply until end of June 2013. The Telecommunications Council supported the Commission proposals on November 27, 2008. The European Parliament, however, has not yet decided on the proposed amendment.

In addition, the European Commission plans to introduce a recommendation on mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the NRAs. As a result, it is possible that TMH termination rates will be reduced to a lower level than intended by the NRA by 2012. However, the harmonization of termination rates introduced on January 1, 2009 according to the NCA's decision 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 contract was valid until December 31, 2008 and could be extended for an additional four years. The negotiations started with the Minister on the future terms of the contract have not led to an agreement. Therefore the Minister issued a decree on December 31, 2008 imposing an obligation on Magyar Telekom (and the other two operators) to provide universal services in 2009 without being designated as a universal service provider and without having concluded a universal services contract. Our interpretation of the legal status is that the Act on Electronic Communication provides that (i) the obligation to provide universal services may only be imposed on operators designated as universal service providers and (ii) the terms of such obligations need to be agreed in a contract between the designated operator and the Minister. In the absence of such a designation and without having concluded such a contract, we have no obligation to provide universal services from January 1, 2009.

Subscriber Contracts. Service providers must establish general terms and conditions of subscriber contracts. The Electronic Communications Act provides general rules of agreements between subscribers

Table of Contents

and telecommunications services providers for telecommunications services. The minis