Magyar Telekom Plc.
Form 20-F
March 24, 2011

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As filed with the Securities and Exchange Commission on March 24, 2011

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, 2010

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)

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Accounting and Taxation Director
Magyar Telekom
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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	N/A*
Ordinary Shares	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.....1,042,742,543 nominal value HUF 100 per share (as of December 31, 2010)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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

*

On November 2, 2010, the Company filed a Form 25 with respect to the delisting of its American Depository Shares from the New York Stock Exchange. The delisting became effective on November 12, 2010.

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Certain Defined Terms and Conventions

In this annual report the terms "Magyar Telekom", the "Group", the "Company", "we", "us" and "our" refer to Magyar Telekom Plc. and, if applicable, its direct and indirect subsidiaries as a group; the term "Magyar Telekom Plc." refers to Magyar Telekom Plc. without its subsidiaries; the term "TMH" refers to the mobile operations of Magyar Telekom Plc.; the term "DT" refers to Deutsche Telekom AG; the term "DT Group" refers to DT and its subsidiaries as a group.

In this annual report, the term "Minister" refers to the Minister of the applicable government ministry then responsible for regulation of the activities of the Company as described below.

Prior to June 1, 2000, the Minister of Transport, Telecommunications and Water Management was in charge of regulating the telecommunications industry. The responsibility was transferred to the Minister heading the Prime Minister Office on June 1, 2000 and to the Minister heading the Ministry of Informatics and Communications on May 27, 2002. On June 1, 2006 the Ministry of Informatics and Communications merged into the Ministry of Economy and Transport. The Ministry of Economy and Transport was divided into two ministries on May 15, 2008, and responsibility for regulating the telecommunications industry was transferred to the Ministry of Transport, Telecommunications and Energy. On December 1, 2008 the Minister heading the Prime Minister Office took over the responsibility for the telecommunications industry in Hungary. On May 29, 2010, this responsibility was transferred to the Ministry of National Development.

Totals in tables may be affected by rounding. Segment revenue 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.

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Explanation of abbreviations used throughout the report

Abbreviation	Term
2G, 3G, 4G	Second/Third/Fourth-generation mobile technology
2Play, 3Play, 4Play	double-play, triple-play, quadruple-play
3Screen	Three Screen (TV, PC and wireless phone)
ADS	American Depository Shares
ADSL	Asymmetrical Digital Subscriber Line
ARPA	Average monthly Revenue per Access
ARPU	Average monthly Revenue per User
ASP	Application Service Provider
ATM	Asynchronous Transfer Mode
ATMs	Automatic Teller Machines
AVL	Automatic Vehicle Location
BRAS	Broadband Remote Access Server
CPE	Consumer Premises Equipment
CRM	Customer Relationship Management
CUG	Closed User Group
DOCSIS	Data Over Cable Service Interface Specification
DSLAM	Digital Subscriber Line Access Multiplexer
DVB-C	Digital Video Broadcasting Cable
DVB-S	Digital Video Broadcasting Satellite
DVB-T	Digital Video Broadcasting Terrestrial
DWDM	Dense Wavelength-Division Multiplexing
ED3	EuroDOCSIS 3.0 technology
EDGE	Enhanced Data rates for GSM Evolution
EDR	Hungarian Unified Digital Radio Network/Egységes Digitális Rádiótávközlö Rendszer
EFM	Ethernet in the First Mile

EPG	Electronic Program Guide
ERP	Enterprise Resource Planning
F2M	Fixed to Mobile
FDC	Fully Distributed Costs
FDD	Frequency Division Duplex
FL-LRIC	Forward-Looking Long Run Incremental Costs

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Abbreviation	Term
FMC	Fixed Mobile Convergence
FTTH	Fiber to the Home
FTTx	Fiber to the x
GE	Gigabit Ethernet
GIA	Global Internet Access
GPON	Gigabit Passive Optical Network
GPRS	General Packet Radio Service
GPS	Global Positioning System
GSM	Global System for Mobile communications
HAG	Home Access Gateways
HD	High Definition
HFC	Hybrid Fiber Coax
HSI	High Speed Internet
HSDPA	High Speed Downlink Packet Access
HSLL	High Speed Leased Lines
HSUPA	High Speed Uplink Packet Access
HYTAS	Hybrid Telecommunications Access System
IC	Interconnection
ICT	Information and Communications Technology
ILL	Internet Leased Line
IMS	IP Multimedia Subsystem
IMSI	International Mobile Subscriber Identity
IMT	International Mobile Telecommunications 2000 (global standard for 3G)
IP	Internet Protocol
IPSec	Internet Protocol Security
IPTV	Internet Protocol-based TV
IP-VPN	Internet Protocol-based Virtual Private Network

ISDN	Integrated Services Digital Network
ISP	Internet Service Provider
IT	Information Technology
IVR	Interactive Voice Response
LRIC	Long Run Incremental Costs
LTE	Long Term Evolution

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Abbreviation	Term
LTO	Local Telecommunications Operator
MLLNI	Managed Leased Line Network Internet
MMDS	Multichannel Multipoint Distribution Service
MMS	Multimedia Message Service
MNO	Mobile Network Operator
MOU	Average monthly Minutes of Use per subscriber
MPLS	Multi Protocol Label Switching
MSAN	Multi Service Access Node
MVNO	Mobile Virtual Network Operator
NAS	Network Attached Storage
NAT	Network Address Translation
NAPA-WINE	Network-Aware P2P-TV Application over Wise Networks
NFC	Near Field Communication
NGA	Next Generation Access
NG EMM	Next Generation Enterprise Marketing Management
NGMN	Next Generation Mobile Networks
NGN	Next Generation Network
NGOSS	Next Generation Operation Support System
NMIA	National Media and Infocommunications Authority
NT	Network Technology
PABX	Private Automated Branch Exchange
PATS	Publicly Available Telephone Service
PBX	Private Branch Exchange
PC	Personal Computer
PDH	Plesiochronous Digital Hierarchy
PoP	Point of Presence
POTS	Plain Old Telephone Service

PSTN	Public Switched Telephone Network
QoS	Quality of Service
R4 3GPP	Release 4 Third Generation Partnership Project
RIO	Reference Interconnection Offer
RUO	Reference Unbundling Offer
SaaS	Software as a Service

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Abbreviation	Term
SAC	Subscriber Acquisition Cost
Sat TV	Satellite TV
SDH	Synchronous Digital Hierarchy
SDR	Special Drawing Rights
SHDSL	Single-Pair High-Speed Digital Subscriber Line
SI	System Integration
SIM	Subscriber Identity Module
SLA	Service Level Agreement
SMB	Small and Medium Businesses
SMS	Short Message Service
SOHO	Small Office/Home Office
SPA	Service Provisioning and Activation
TDD	Time Division Duplex
TDM	Time Division Multiplex
TETRA	Terrestrial Trunked Radio
ULL	Unbundled Local Loop
UMTS	Universal Mobile Telecommunications System
VDSL	Very High Bitrate DSL
VoCable	Voice over Cable television
VoIP	Voice over Internet Protocol
VPN	Virtual Private Network
WACC	Weighted Average Cost of Capital
WAP	Wireless Application Protocol
WiFi	Wireless Fidelity
WiMAX	World Interoperability for Microwave Access
WLAN	Wireless Local Area Network
WLR	Wholesale Line Rental

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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, 2006, 2007, 2008, 2009 and 2010 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,					
	2006	2007	2008	2009	2010	2010
	HUF	HUF	HUF	HUF	HUF	U.S.$[1]
	(in millions, except per share amounts)					
Consolidated Comprehensive Income Data:						
Amounts in accordance with IFRS						
Revenues	671,196	676,661	673,056	643,989	609,579	2,922
Operating profit	135,408	128,312	162,258	147,133	112,094	537
Profit attributable to the owners of the parent	74,700	60,155	93,008	77,618	64,378	309
Operating profit per share	130.16	123.25	155.83	141.31	107.65	0.52
Basic earnings per share	71.80	57.78	89.32	74.54	61.83	0.30
Diluted earnings per share	71.78	57.78	89.32	74.54	61.83	0.30
Consolidated Financial Position Data:						
Amounts in accordance with IFRS						
Total assets	1,129,282	1,133,265	1,166,543	1,166,377	1,109,006	5,315
Net assets	589,372	577,898	596,547	605,420	594,712	2,850
Common stock	104,277	104,275	104,275	104,275	104,275	500
Total Equity of the owners of the parent	522,722	511,681	533,946	538,480	531,512	2,547

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2010 of U.S. dollar 1.00 = HUF 208.65. These translations are unaudited and presented for convenience purposes only.

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	Year ended December 31,				
	2006	2007	2008	2009	2010
	(in millions)				
Other data:					
Weighted average number of shares					
Basic	1,040	1,041	1,041	1,041	1,041
Diluted	1,041	1,041	1,041	1,041	1,041

Dividends

The following table sets forth the dividend per Magyar Telekom ordinary share for the years 2006, 2007, 2008, 2009 and 2010. 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		
2006	70	0.3653
2007	74	0.4287
2008	74	0.3938
2009	74	0.3935
2010[(2)]	50	0.2396

(1) Translated into U.S. dollars at the official exchange rate of the National Bank of Hungary on December 31, 2010 of U.S. dollar 1.00 = HUF 208.65, December 31, 2009 of U.S. dollar 1.00 = HUF 188.07, December 31, 2008 of U.S. dollar 1.00 = HUF 187.91, December 31, 2007 of U.S. dollar 1.00 = HUF 172.61 and December 31, 2006 of U.S. dollar 1.00 = 191.62.

(2) The Board of Directors of the Company has proposed a HUF 50 per ordinary share dividend distribution to be approved by the Annual General Meeting of the Company on April 12, 2011.

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 208.65, which was the official rate quoted and published on December 31, 2010.

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.

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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				
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
2009	188.07	202.26	249.29	176.67
2010	208.65	208.15	240.57	184.00
2010				
September	203.43	216.22	227.80	203.13
October	197.95	197.55	201.02	193.23
November	218.76	201.88	218.76	190.78
December	208.65	209.67	214.72	205.00
2011				
January	200.31	206.31	216.37	198.14
February	197.05	198.67	201.95	194.86
March (through March 23, 2011)	190.06	194.82	198.46	190.04

(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				
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
2009	270.84	280.58	316.00	264.17
2010	278.75	275.41	290.03	261.60
2010				
September	277.33	282.25	288.78	276.12
October	273.69	274.46	276.83	270.53
November	284.54	275.70	284.54	270.78
December	278.75	277.47	280.60	273.43
2011				
January	273.30	275.45	279.40	271.93
February	272.34	271.18	274.28	268.21
March (through March 23, 2011)	269.66	272.15	273.92	269.66

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

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

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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 Hungarian 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 has been subject to review by the EU since 2007. The agreed reforms to the NRF accepted in November 2009 are the result of three years of discussions with stakeholders, national regulators and users. See "Item 4 Regulation New Regulatory Framework (revised)" for a description of the reforms adopted in 2009. Changes to the NRF are required to be implemented by national legislation by May 25, 2011. The NRF review implementation process was launched by the Ministry in October 2010, and Magyar Telekom is providing written input and comments to the Ministry in the course of the consultation process.

The National Media and Infocommunications Authority of Hungary ("NMIA") was officially established on August 11, 2010 to ensure the undisturbed operation, in compliance with applicable legislation, of the media and the markets for electronic communications, postal and information technology services in Hungary in accordance with the Electronic Communications Act and Act I of 1996 on Television Broadcasting, as amended. The new, converged regulator performs the tasks of its predecessors: the National Communications Authority ("NCA") and the National Radio and Television Commission ("NRTC"). According to the official announcement, the purpose of the merger, among others, is cost efficiency, more rational allocation of resources, more cost effective work, avoidance of duplication of work and better cooperation of the supporting activities within a single organizational structure. One of the primary responsibilities of the NMIA is to perform market analysis procedures under which it defines "relevant markets," or markets subject to the regulatory framework. The NMIA 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 previously carried out a market analysis procedure and 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 in 13 of the 18 markets (i.e., markets 1-9, 11-13 and 16). By the end of March 2008, the NCA had published SMP resolutions concerning 17 markets out of the 18 in the second round of market analyses. Out of these 17 markets, Magyar Telekom was identified as an operator with SMP in all but four markets. 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 was 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,

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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 will become effective in the current round of market analyses by the NMIA, which is expected to be completed in 2011. Until now only two resolutions with respect to market 7/2007 (voice call termination on individual mobile networks) and market 1/2007 (access to public telephone network at a fixed location for residential and non-residential customers) have been published. The extension of the definition of market 11 (unbundling of the local loops) from copper to optical networks by the NMIA makes the extension of the unbundling obligation to Magyar Telekom's new technology (optical) networks easier for the NMIA. This is expected to have an adverse impact on our business results. In 2008, Magyar Telekom launched a widespread optical network deployment program. In the event the NMIA decides to impose regulations on optical networks, it would affect both the wholesale and the retail market. This decision is expected in the first half of 2011.

The Ministry of National Development published the final version of the Infocommunications Strategy currently titled as the "Digital Renewal Action Plan" on December 23, 2010. The Strategy has four priorities (citizens, growing enterprises and employment, effective and secure operating government and infrastructure available for all) and 82 action plans related to them. Some objectives are related to the effective ICT operation of the government, including consolidation and centralization of governmental networks and applications (already implemented in a decree) and the state's role in infrastructure development. The exact details, resource allocation and exact timing of the latter are not yet included in the strategy. The full or partial achievement of these objectives may have direct impact on Magyar Telekom's network solutions and could indirectly affect the Company's operations.

In addition, our businesses in Macedonia and Montenegro are also subject to various regulatory developments. In Montenegro, the additional relevant markets (e.g., trunk segment of leased lines, retail market of publicly available services for local, domestic and international calls, wholesale market on access and origination of calls in public mobile telephone networks) are expected to be defined by the Agency for Electronic Communications and Postal Services ("EKIP") in the first half of 2011 and consequently, the new market analysis may result in additional obligations in the fourth quarter of 2011 or the first quarter of 2012, which may have an impact on the profitability of the company depending on the nature and scope of obligations imposed.

In Macedonia, in particular, the current and possible future SMP status of T-Mobile Macedonia in various markets may lead to additional obligations, such as lower mobile termination rates, national roaming, lower RUO and IC fees, access to ducts and specific network elements, universal service and requirements to publish general conditions and quality parameters of services. The activities of the Agency for Electronic Communications ("AEC") related to retail price control will be enhanced.

The European Commission (the "Commission") has issued a recommendation on mobile 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 mobile termination rates will be reduced to a lower level than intended by the NMIA by 2012. The regulation of mobile termination rates at the EU level may 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 or similar regulatory developments or changes by our regulators.

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

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effectiveness of our efforts to prepare for new market conditions. Specific risks in the fixed line market 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" ADSL (i.e., without a subscription for a PSTN line), competition from alternative operators using new technologies (e.g., VoIP, VoCable) 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 2Play or 3Play offers (bundling voice, Internet and television services into one package) 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 unregulated cable television operators may be able to offer more flexible price structures to customers than the regulated market players, such as Magyar Telekom. In the 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 our 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. Entry by MVNOs into the mobile telecommunications market may intensify the competition in Hungary. MVNOs are mobile operators that do not own their own spectrum or network infrastructure, and instead buy the use of the spectrum and network infrastructure from traditional mobile operators and provide mobile telecommunications services to consumers based on the purchased capacity. MVNOs are likely to target the lower segment of the market and such development will likely increase price-based competition. Currently there is no regulation in Hungary where incumbents would be obliged to provide regulation based access prices for MVNOs. We do not expect changes in this field.

For example, on November 20, 2009, Vodafone, in cooperation with Magyar Posta, launched a branded reseller mobile service, "Postafon", which is offered by Magyar Posta in several post offices. Telenor has also launched a new mobile service in cooperation with Red Bull (the producer of energy drinks) under the name "Red Bull Mobile". The entry pressure from other interested parties to a 3-player mobile market may increase in the future. If MVNO is hosted by one of our competitors, Magyar Telekom will lose revenue as customers are lost to the MVNO and the tariff level in the Hungarian mobile market may significantly decrease.

The modified GSM Directive UMTS technology to be deployed in the 900 MHz bands was published in the Official Journal of the EU on October 20, 2009, along with the Decision of the European Commission on the technical implementation requirements. The modified Directive entered into force on November 9, 2009 and the Directive was required to be implemented by national legislation by May 9, 2010. There is a possibility for an E-GSM900 spectrum tender in the second quarter of 2011 at the earliest. The tender may further increase the competition in the Hungarian mobile market. On July 1, 2010, during the conference of the Hungarian Association of ICT companies, the Deputy Secretary of State of the Ministry of National Development indicated the possibility of conducting a 450 MHz tender in the near future and this tender is still on the agenda of the NMIA and may possibly take place in 2011. Incumbents are expected to be excluded in the same way as in the tender of 2008.

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. The share of

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Magyar Telekom DSL net additions has declined against competitors' cable Internet offerings. This could adversely affect our further broadband growth prospects and may lead to further tariff erosion.

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 meet our revenue targets will depend in part on our ability to offset the declining fixed line voice revenues with data, TV, Internet and SI/IT revenues and our ability to acquire telecommunications companies.

We expect the number of our fixed access lines and rates for fixed telephone services to decrease. In addition, the growth rate of the Hungarian broadband market is expected to slow down. To mitigate this decrease in fixed line voice revenues, we are now moving from pure fixed line voice offers to integrated 2Play and 3Play packages, which allow us to partially substitute declining voice traffic revenues with content, entertainment and bundled access revenues. In mobile operations in Hungary, market penetration is now saturated, and we expect flat development in the following year. We may not be able to sustain our revenue targets, if we are unsuccessful in offsetting the effect of our declining voice and messaging revenues with new 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 or potentially requiring their impairment.

NGN (IP Multimedia Subsystem-based network) is the main stream of technical development that gives the general framework for reaching most of our business strategic goals and for transforming the company. Our NGN strategy focuses on overlay NGN. This approach means that the new technology is built in parallel to the existing network, not in substitution or replacement of existing technology, and we build and use the new technology for introducing new services. In addition, we use the NGN for network transformation by migrating our legacy networks to NGN to change the technology and platform to further provide legacy services and features at a lower operational cost level.

We have planned migration to NGN on the basis of recent trends in the telecommunications industry: as vendors allocate resources to develop NGN, they significantly increase legacy system support fees and development costs, we face increasing risk of failures due to aging technology, which may result in revenue loss and stimulate higher churn. The risk of failing to overlay NGN development is that we miss gaining new revenues from broadband-based services and applications as well as integrated, convergent service offerings (3Play, 4Play), while we lose traditional business.

Our Next Generation Fixed Access strategy is to widely deploy FTTH (optical network) and to upgrade our cable networks (coax) to EuroDocsis3.0 technology. The EuroDocsis3.0 technology upgrade was performed in 2010. As described below, due to poor economic conditions in Hungary in 2009 and 2010, the FTTH roll-out did not proceed according to our original strategy in 2010, and we expect the FTTH roll-out will be further delayed in 2011. Many of our competitors have started to invest in deploying a NGA network, which might decrease our market share in High Speed Internet (above 20 Mbit/s) market as well as in other markets (voice, TV) through xPlay offers, and therefore be a threat to the value of our existing network.

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Further, the economic crisis in 2009 and 2010 in Hungary has affected our ability to invest in and deploy new technology. In 2009 and 2010, we could not fulfill the original FTTH roll-out plan due to combined effect of lower funds available for capital expenditures and the weakening of the Hungarian currency as a result of the economic crisis. See " The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries". In addition, the economic crisis has also affected us from the demand side as customers may not use new products and services developed on our FTTH network to the extent anticipated, which may lead to decline in revenues and have an adverse impact on our results. Management continually assesses and reviews our plans and related capital expenditures with respect to the roll-out of new technology and accordingly, our plans may change as market conditions develop, including amending targets in relation to the FTTH roll-out plan such as the target to connect approximately 360,000 households via optical network solution by the end of 2013. Our original target was to connect 780,000 households by the end of 2013.

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 CRM 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.

TMH launched 3G-based services in Hungary in 2005 before any of its competitors. TMH is currently upgrading the network infrastructure to better provide the new generation of services. However, alternative technologies and standards (e.g., WiFi, WiMAX or VoIP) may keep consumers from choosing 3G-based services. These new technologies, especially VoIP, also endanger our 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 HSDPA and HSUPA enabled 3G network, and later the 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.

Our subsidiary, Pro-M Professzionális Mobilrádió Zrt. ("Pro-M"), also faces risks resulting from technological changes, since the TETRA technology on which its network is based 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.

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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 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 operational model according to our most current knowledge of market trends and our business needs; however, the future business environment might evolve into currently unforeseen directions that will require us to adjust our operational model.

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 impairment tests, whenever we identify any indication (including changes in the economic, regulatory, business or political environments) that goodwill, intangible assets or fixed assets may have been impaired, we consider the necessity of performing certain valuation tests which may result in an impairment charge.

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

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

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

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

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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 government investigations into contracts and activities in Montenegro and Macedonia may result in fines or other sanctions.

In the course of conducting their audit of the Company's 2005 financial statements, PricewaterhouseCoopers, the Company's auditors, 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, 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 U.S. Foreign Corrupt Practices Act ("FCPA") or internal Company policy. The Company's Audit Committee also informed the United States Department of Justice ("DOJ"), the United States Securities and Exchange Commission ("SEC") and the Hungarian Financial Supervisory Authority of the internal investigation.

Based on the documentation and other evidence obtained by it, White & Case preliminarily concluded that there was reason to believe that 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 warranted 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.

On December 2, 2009, the Audit Committee provided the Company's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated November 30, 2009 (the "Final Report"). The Audit Committee indicated that it considers that, with the delivery of the Final Report based on currently available facts, White & Case has completed its independent internal investigation.

The Final Report includes the following findings and conclusions, based upon the evidence available to the Audit Committee and its counsel:

The information obtained by the Audit Committee and its counsel in the course of the investigation "demonstrates intentional misconduct and a lack of commitment to compliance at the most senior levels of Magyar Telekom, TCG, and Makedonski Telekom during the period under investigation."

As previously disclosed, with respect to Montenegrin contracts, there is "insufficient evidence to establish that the approximately EUR 7 million in expenditures made pursuant to four

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consultancy contracts . . . were made for legitimate business purposes", and there is "affirmative evidence that these expenditures served improper purposes." These contracts were not appropriately recorded in the books and records of the Company and its relevant subsidiaries. As previously disclosed, the Company has already reclassified, in the Company's financial statements, the accounting treatment relating to certain of these contracts to more accurately account for these expenditures.

As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by the Company and its affiliates.

Between 2000 and 2006 a small group of former senior executives at the Company and the Company's Macedonian affiliates authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between the Company and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."

"The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements."

In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:

- intentional circumvention of internal controls;
- false and misleading Company documents and records;
- lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption;
- lack of evidence of performance; and
- expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Companies that could only be conferred by government action.

The Final Report states that "the Investigation did not uncover evidence showing receipt of payments by any Macedonian government officials or political party officials." However, the Audit Committee's counsel did not have access to evidence that would allow it to identify the ultimate beneficiaries of these expenditures.

Nothing in the Final Report implicates any current senior executive or Board member of the Company in connection with any wrongdoing.

As previously disclosed, the Company has taken remedial measures to address issues previously identified by the independent investigation. These measures included steps designed to revise and enhance the Company's internal controls as well as the establishment of the Corporate Compliance Program.

Due to these measures, no modifications to the Corporate Compliance Program were viewed as necessary in response to the Final Report. This conclusion has been discussed with the Audit Committee

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and the Audit Committee has not made recommendations either relating to the Company's compliance program or internal controls.

The Company is continuing to assess the nature and scope of potential legal remedies available to the Company against individuals or entities that may have caused harm to the Company.

As previously announced, the DOJ, the SEC and the Ministry of Interior of the Republic of Macedonia have commenced investigations into certain of the Company's activities that were the subject of the internal investigation. Further, in relation to certain activities that were the subject of the internal investigation, the Hungarian Central Investigating Chief Prosecutor's Office has commenced a criminal investigation into alleged corruption with the intention of violating obligations in international relations and other alleged criminal offenses. In addition, the Montenegrin Supreme State Prosecutor is also investigating the activities of the Company that were the subject of the internal investigation and has requested information from the Company in relation to the relevant contracts. These governmental investigations are continuing, and the Company continues to cooperate with these investigations.

As previously disclosed, the Company, through its external legal counsel, is engaged in discussions with the DOJ and the SEC regarding the possibility of resolving their respective investigations as to the Company through negotiated settlements. The Company has not reached any agreement with either the DOJ or the SEC regarding resolution of their respective investigations, and discussions with both agencies are continuing. We may be unable to reach a negotiated settlement with either agency. Any resolution of the investigations could result in criminal or civil sanctions, including monetary penalties and/or disgorgement, against the Company or its affiliates, which could have a material effect on the Company's financial position, results of operations or cash flows, as well as require additional changes to its business practices and compliance programs. The Company cannot predict or estimate whether or when a resolution of the DOJ or SEC investigations will occur, or the terms, conditions, or other parameters of any such resolution, including the size of any monetary penalties or disgorgement, the final outcome of these investigations, or any impact such resolution may have on its financial statements or results of operations.

A lawsuit by our minority shareholders may require us to take time-consuming and/or expensive corrective actions.

As previously disclosed in May 2010, two Hungarian minority shareholders filed a lawsuit against the Company, requesting the Metropolitan Court to render ineffective the resolutions passed by the general meeting on April 7, 2010. These two shareholders have previously brought lawsuits challenging resolutions passed by Magyar Telekom's shareholders at previous general meetings, as previously disclosed by the Company.

On October 29, 2010, the Metropolitan Court announced its first instance judgment rejecting the minority shareholders' claim. This first instance judgment is not final and binding as the plaintiffs submitted an appeal against the judgment.

Magyar Telekom disagrees with the lawsuit initiated by the minority shareholders and will continue to vigorously defend against the claims. We cannot fully exclude that the Company will be required to take other corporate actions in connection with the shareholders' suit described above. Also, we cannot provide any assurance that this matter would not have other adverse effects on the Company that are not currently foreseen.

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

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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. Further, effective as of November 12, 2010, the Company's ADSs were delisted from and are no longer traded on the New York Stock Exchange ("NYSE"), which may impact the liquidity of our ADSs.

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 down the development of new services and applications that could become future revenue sources.

In 2009, the global financial crisis led to declining demand, which resulted in declining prices and higher churn rates, both in our consumer and business segments in Hungary. The negative trends experienced in 2009 continued in 2010 as well. We experienced positive signs of recovery in the second half of 2010, but the Hungarian economy is still very fragile. We expect continued pressure on demand for telecommunications services both in the fixed and mobile sectors due to the weak labor market, lower household disposable income, as well as fewer orders from business customers and the public sector. A long term weakness of the Hungarian currency may also negatively affect our customers' disposable income because of the high rate of indebtedness denominated in foreign currencies. Due to the continuing weak economic conditions, the new government has sought to implement cost-savings measures in government spending. Based on a Government resolution, the new government intends to deliver HUF 20 billion of savings related to the 2010 budget for national asset management, which includes IT and telecommunication services. As a result of the requested price allowances in relation to government contracts, we experienced a negative impact on our 2010 revenues and expect that these price allowances will affect our results in the coming years by HUF 5-7 billion. Furthermore, the Government issued a decree which authorized a state-owned company to exclusively provide ICT services for public administration and/or state-owned organizations, institutions and companies. This company is entitled to consolidate the state-owned networks and to make the necessary infrastructure developments. These measures by the Government aiming at, amongst other purposes, cost savings will have a negative impact on our SI/IT revenues; however the actual effect cannot be determined at this time, as the exact timing of contract amendments and network development are not included in the decree. Our subsidiary, Pro-M, also faces risks emerging from government-financed, EDR-based projects that might be affected by the financial situation of Hungary. In addition, our businesses in Macedonia and Montenegro are also affected by similar factors. See "Item 5 Management Overview General" for further explanations of effects of the financial crisis on our 2010 performance and "Item 5 Management Overview Outlook" for our expectations for 2011.

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 be higher, due to the small number of internationally substantial financial institutions in these countries, however, all of our deposits are covered with bank guarantees issued by banks from the European Union. 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 seem to be more likely due to the increased volatility in the international capital and money markets after the financial crisis. For additional information about our financial risk management, see Note 3 to the consolidated financial statements.

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We are subject to unpredictable changes in Hungarian tax regulations.

In October 2010, the Hungarian government imposed special "crisis" taxes on the telecommunications, energy and retail sectors. The taxes were introduced with a retroactive effect for the fiscal year 2010. The special telecommunications tax is a progressive tax to be calculated on the revenues from electronic telecommunication services. Tax rates are: 0 percent (on revenues below HUF 500 million), 4.5 percent (on revenues between HUF 500 million and HUF 5 billion) and 6.5 percent (on revenues exceeding HUF 5 billion). The total special telecommunications tax paid by the Company in 2010 amounted to HUF 28 billion and the impact on Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA") was HUF 27 billion. Pursuant to the relevant legislation, these special taxes will be in effect until the end of 2012; however, there are indications from the government that these special taxes or other similar taxes affecting the telecommunications sector may be imposed beyond 2012. We are in the process of reviewing how the special telecommunications tax will affect our plans beyond 2010.

On March 14, 2011, the European Commission announced that it had decided to send a request for information to Hungary, in the form of a 'letter of formal notice', thereby opening an infringement procedure against Hungary in relation to the special telecommunications tax. The Commission raised concerns that this tax is incompatible with EU telecommunications rules. Hungary has two months to reply to the request. If the Commission receives no reply, or if the responses presented by the Hungarian Government do not address the Commission's concerns, the Commission may issue a formal request for Hungary to ensure that it complies with EU law on the taxation of telecommunications companies. The Commission may also eventually bring the case before the Court of Justice of the European Communities. The outcome of the infringement procedure, to which the Company and/or its affiliates are not party, is uncertain.

On March 1, 2011 the Hungarian Government announced that as part of its long-term effort to reduce the Hungarian budget deficit it intends to amend existing law that provides for a reduction in corporate tax rates from the current 19 percent to 10 percent starting in 2013. When the law reducing future corporate tax rates was enacted in 2010, the Group recalculated its deferred tax balances, resulting in the reversal of net deferred tax liabilities of HUF 14.5 billion in the 2010 comprehensive income statement. The recent announcement of the intended cancellation of the scheduled reduction of the tax rate from 2013 is expected to cause the recognition of a substantially higher amount of net deferred tax liabilities in 2011 and result in a negative impact on deferred tax expense in 2011 equivalent in magnitude to the positive impact on net deferred tax expense in 2010.

These uncertain and unforeseeable changes to tax legislation in Hungary has had, and in the future may continue to have, as a result of these or similar regulations introduced by the government, a material effect on our results of operations and financial condition.

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.

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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."

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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 were listed on the NYSE until November 12, 2010, on which date the delisting of our ADSs from the NYSE became effective and our ADSs are no longer traded on the NYSE. 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 responsible for telecommunications operations. This entity was transformed on December 31, 1991 into a stock corporation, Magyar Távközlési Rt. ("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.

DESCRIPTION OF BUSINESS AND ITS SEGMENTS

We are the principal provider of fixed line telecommunications services in Hungary, with approximately 1.9 million fixed voice access lines as of December 31, 2010. We are also Hungary's largest mobile telecommunications services provider, with more than 5.2 million mobile subscribers (including users of prepaid cards) as of December 31, 2010.

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Magyar Telekom established its current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's key operating segments in Hungary are: Consumer Services Business Unit, Business Services Business Unit, Group Headquarters and Technology Business Unit. The Media Business Unit, a separate operating segment in 2008 and 2009 (which was not a reportable segment for accounting purposes due to its relatively small size), was reported to the Management Committee as part of the Group Headquarters in 2010. In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments.

The Consumer Services Business Unit ("CBU") operates in Hungary, providing mobile, fixed line telecommunications and TV distribution services (including marketing, sales and customer relations activities) to residential and small business telecommunications customers in Hungary, with several million customers mainly under the T-Mobile and T-Home brands.

The Business Services Business Unit ("BBU") operates in Hungary, providing mobile and fixed line telecommunications, info-communications and system integration services (including marketing, sales and customer relations activities) mainly under the T-Systems and T-Mobile brands to key business partners (large corporate and public sector customers), as well as SMBs.

The Group Headquarters ("Headquarters") is responsible for providing wholesale mobile and fixed line services and also includes the operations of the Media Business Unit, considered as a separate operating segment in 2008 and 2009 in Hungary. Headquarters also performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. Headquarters is also responsible for the Group's points of presence in Bulgaria, Romania and Ukraine, providing wholesale services to local companies and operators.

The Technology Business Unit ("Technology") is responsible for the operations and development of the mobile, fixed line and cable TV network, as well as IT management in Hungary.

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional reporting segments of the Group. 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.

We have not made any significant acquisitions between 2008 and 2010. For the investments in capital expenditures between 2008 and 2010 by our reportable segments, see Note 32.1.1 to the Consolidated Financial Statements. For the discussion of our major infrastructure developments, see "Item 4 Information on the Company Infrastructure and Technology."

STRATEGY

As a result of our strategy, Magyar Telekom has maintained a leading position in its Hungarian fixed line, mobile, Internet and data businesses in 2010.

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. The economic crisis has also led to restructuring between market segments.

We expect that the traditional telecommunications market will no longer deliver sizeable revenue growth in Hungary. The fixed voice market as a major revenue and profit source is declining; mobile is no longer able to compensate this decline. However, we expect that new core segments, especially mobile broadband, broadcasting and IT services will deliver sizable revenue growth in the coming years. The fixed market is characterized by 3Play bundles, with TV services becoming a driver and core element of service

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offerings, while the mobile market is driven by fierce competition in broadband. An increasing technology platform-based competition can be observed in the domestic market, and our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The battle for customer contact has pushed prices down. This slower development in the telecommunications market is likely to lead to consolidation between market players to increase economies of scale and enable growth.

Our Corporate Strategy was designed in order to address these global and local market challenges and better exploit our position as an integrated telecommunications operator with a full range of services. Our Corporate Strategy FIX, TRANSFORM, INNOVATE enables us to exploit and develop our extended customer base, significantly improve efficiency and capture growth opportunities. The strategic objective in the short/mid-term is to fix critical factors within the core business (simplified and focused lean operation, lower cost structure, end-to-end responsibilities) and to further strengthen our positions in core connectivity segments (voice, mobile broadband, TV) that will enable us to shift resources and priorities towards focused innovation and expansion.

Our new growth areas support conscious revenue restructuring, i.e., our growth in our new core segments, such as broadband, broadcasting, IT and content services, is expected to gradually compensate for lower revenues from traditional telecommunications, while non-core areas, such as energy, e-health, finance, and insurance services, support customer retention and the maintenance of high-margin revenues.

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

1. *Slow down voice churn*

   To retain customers of the highest margin segments

   To secure the largest profit pool for future investments

2. *Reach competitive cost structure*

   To reach competitive cost base

   Improve Return on Capital Employed ("ROCE"), Operating Expenses to Sales and Capital Expenditures to EBITDA ratios

3. *Secure market leader position in broadband*

   To secure broadband access leadership as basis for all future services

   To stabilize revenue market share and increase share of high-margin revenues

4. *Achieve market leader position on the TV market*

   To increase TV customer volumes as means to retain high-margin voice and broadband customers

   To increase number of services per customer (3/4Play)

5. *Stabilize revenues*

To transform our revenues into a sustainable mix

To reverse declining revenue trends, thus easing pressure on cost side

To further monetize infrastructure with high-margin revenues

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OVERVIEW OF MAGYAR TELEKOM'S REVENUES AND PRINCIPAL ACTIVITIES

For the years ended December 31, 2008, 2009 and 2010, our total revenues by business segment were as follows:

	Year ended December 31,			Year ended December 31,
	2008	2009	2010	2010/2009
	(in HUF millions)			(% change)
Revenues				
Total CBU revenues	341,563	322,336	314,773	(2.3)
Less: CBU revenues from other segments	(38,655)	(33,849)	(30,066)	11.2
CBU revenues from external customers	302,908	288,487	284,707	(1.3)
Total BBU revenues	179,174	170,989	159,271	(6.9)
Less: BBU revenues from other segments	(16,833)	(18,861)	(15,683)	16.8
BBU revenues from external customers	162,341	152,128	143,588	(5.6)
Total Headquarters revenues	163,905	143,776	123,013	(14.4)
Less: Headquarters revenues from other segments	(70,945)	(62,258)	(53,184)	14.6
Headquarters revenues from external customers	92,960	81,518	69,829	(14.3)
Total Technology revenues	11,370	10,556	8,287	(21.5)
Less: Technology revenues from other segments	(7,877)	(7,599)	(7,142)	6.0
Technology revenues from external customers	3,493	2,957	1,145	(61.3)
Total Macedonia revenues	76,097	82,312	77,598	(5.7)
Less: Macedonia revenues from other segments	(285)	(214)	(134)	37.4
Macedonia revenues from external customers	75,812	82,098	77,464	(5.6)
Total Montenegro revenues	33,148	34,442	32,874	(4.6)
Less: Montenegro revenues from other segments	(105)	(51)	(44)	13.7
Montenegro revenues from external customers	33,043	34,391	32,830	(4.5)
All other (net)	2,416	2,426	1	(100.0)
Total consolidated revenue of the segments	672,973	644,005	609,564	(5.3)
Measurement differences to Group revenue	83	(16)	15	n.a.
Total revenues of the Group	673,056	643,989	609,579	(5.3)

In addition to the segments described above, there are a few small foreign subsidiaries not belonging to any segment for financial reporting purposes and are not reported separately due to their small size. These operations are included in "All other" in the reconciliation of the reportable segments' totals to the Group totals.

Our business is not materially affected by seasonal variations.

CONSUMER SERVICES BUSINESS UNIT (CBU)

The operations of CBU consist of fixed line and mobile voice retail services, fixed line and mobile Internet services, data transmission, pay TV, telecommunications equipment sales, as well as other services. The most important "other services" are: energy retail business, mobile purchase (buying opportunity based on SMS) and insurance business. These services are often provided in cooperation with other companies.

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CBU provides services for residential and SOHO customers. CBU offers home-related telecommunications services under the T-Home brand and mobile communications services under the T-Mobile brand.

Fixed Line Services

Voice Retail Services

Subscribers

The following table sets forth information regarding the key voice operating statistical figures of CBU, including PSTN, VoIP and VoCable lines:

	At December 31,		
	2008	**2009**	**2010**
Voice services			
Total voice access	1,921,486	1,740,619	1,587,192
Payphone	16,274	14,788	11,897
Total outgoing traffic (thousand minutes)	3,550,076	3,135,892	2,762,690
Blended MOU (outgoing)	151	159	160
Blended ARPA (HUF)	3,650	3,630	3,427

Products and Services

Local, Domestic and International Long Distance Telephone Services. We provide local, domestic and international long distance telephone services for our fixed line subscribers. We send and receive all our international voice and switched transit traffic to and from Deutsche Telekom. The agreement with Deutsche Telekom guarantees us international telephone services revenues and profits and allows for cost reductions due to this synergy with the parent company.

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.

Digital Home. Based on our Digital Home concept, we started to sell a complete portfolio of devices, including e-books, Network-attached Media Storage, Media Streamer and Xbox video game consoles to gain new broadband subscribers. Since November 2010, simultaneously with the world premier of Xbox Live, T-Home started to offer the Xbox online gaming service. As a brand new service in our Digital Home portfolio, the Otthonörzö ("Home Security") service was launched in January 2010. With the help of a wireless radio communication channel and fixed line broadband Internet technology, our clients can monitor their home through their mobile devices.

Fees and Charges

We charge fixed line subscribers a one-time connection fee, monthly subscription charges and traffic charges based on usage. Traffic charge is measured in minutes in residential price plans while either in seconds or in minutes in business price plans, depending on the specific plan.

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 T-Home brand (introduced in September 2008) offers fixed line voice, Internet and pay television services independently of underlying technology. 3Play (when the three services, such as fixed

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line voice, Internet and TV, are bundled and offered in a single package) is the focus of the portfolio and of the communication, but the elements can also be purchased separately or in any combination with certain limitations. The more services to which a customer subscribes, the more T-Home discounts are available. If two or three basic services are subscribed to, the customer is granted the "T-Home Double Discount" or the "T-Home Triple Discount," respectively.

Our voice portfolio offers the same plans at the same price on all platforms (PSTN, VoIP and VoCable). T-Home Double Discount or T-Home Triple Discount is offered to customers in all of our residential price plans. We continue to offer flat rate price plans. Flat rate price plans are transparent and easy to budget, and are designed to reduce the erosion of our fixed line business. Customers of flat rate price plans can use our network for domestic calls periods for a fixed monthly fee.

Small business price plans

The T-Home discount structure, introduced in 2008, is also available for SOHO customers. The T-Home SOHO discount includes flat rate voice price plans designed for business customers, aiming to further increase our flat price plan penetration.

Internet Services

The following table sets forth information regarding Internet products of CBU:

	At December 31,		
	2008	**2009**	**2010**
Internet products			
Retail DSL market share (%)[1]	54	58	63
Cable broadband market share (%)[1]	18	19	20
Number of retail DSL customers	404,878	435,558	462,566
Number of cable broadband customers	127,683	152,878	181,056
Number of fiber optic connections	0	7,247	19,109
Total retail broadband customers	532,561	595,683	662,731
Blended broadband ARPU (HUF)	5,103	4,427	3,944

(1) Data relates to Magyar Telekom Plc. The figures are our estimates and are based on the number of subscribers in the market.

T-Home provides broadband Internet services for residential and SOHO customers through three different technologies such as copper (ADSL, VDSL), coax network (Cable Internet) and GPON (Optical Internet). The prices and bandwidths offered on these technologies are harmonized as far as possible.

The prices of Internet services depend on the bandwidth (and traffic limit) and the number of other T-Home services (telephone and TV) subscribed (T-Home Double or Triple Discount). There are different Internet packages for residential and SOHO customers.

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. In addition, we offer Naked ADSL, an ADSL service over existing copper wires without a telephony service. We offer 1/5/15 Mbit/s download bandwidth packages.

VDSL. In 2010, we offered VDSL service in more than 90 cities, reaching 145,000 households. We offer two special services on this technology in addition to the normal ADSL services: up to 25 Mbit/s Internet access and HD channels on IPTV.

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Cable Internet. We also provide cable Internet by using cable television infrastructure. After the continuous development of our cable network, we offer ED3 technology almost on all of our cable networks. At the end of 2010, ED3 services were available in approximately 589,000 households. We offer 5 and 15 Mbit/s maximum download speeds in the whole network and we also offer 25/50/80 Mbit/s maximum download speeds in ED3 service.

Optical Internet. After the introduction of our optical Internet portfolio on GPON network in April 2009, we continued our FTTx network roll-out program in 2010 as well. We offer optical Internet packages with 5/15/^{25}/$_{50}$ Mbit/s maximum download speeds. GPON services are available in approximately 227,000 households.

T-Home HSI portfolio. Through VDSL, ED3 and GPON technologies, we were able to provide HSI packages with 25/50/80 Mbit/s maximum download bandwidth in about 961,000 households by the end of 2010.

TV

The following table sets forth information regarding the key TV operational statistical figures of CBU:

	At December 31,		
	2008	**2009**	**2010**
TV services			
Number of cable TV customers	422,936	406,841	370,212
Number of satellite TV customers	5,338	156,142	254,188
Number of IPTV customers	28,496	67,430	124,374
Total TV customers	456,770	630,413	748,774
Blended TV ARPU (HUF)	3,537	3,280	2,949

T-Home offers pay TV services on three different TV platforms: on cable (T-Home analogue and digital cable TV), on IP (IPTV) and on satellite (Sat TV). The prices of cable TV and IPTV have been harmonized, while Sat TV is available for a slightly lower monthly fee. The prices of TV services depend on the number of channels (package type) and the number of T-Home services subscribed by the customer (T-Home Double or Triple Discount).

IPTV. IPTV service was introduced in 2006. Since the launch of IPTV over ED3, the sale of IPTV services has been dynamically increasing and the number of IPTV connections reached more than 124,000 by end of 2010. IPTV allows broadcasts to be seen on a television set with a set-top-box over copper, ED3 or optical network. The product line offers various interactive contents, such as time-shift function, EPG on screen, recording on the hard disc built in the set-top-box, web EPG service, video on demand service and picture-in-picture. In 2010, we continued to increase the coverage of this service by developing our networks. T-Home IPTV is available in more than 1,600,000 households in Hungary.

Cable TV. With the integration of T-Kábel, analogue and digital cable TV products have become an integral part of the harmonized T-Home TV portfolio. The growth in the number of cable TV subscribers slowed down in 2008 and the number of customers began to decrease in 2009, as a result of growing competition and also due to the saturation and development of the market, as well as the continuous migration towards more improved platforms (e.g., IPTV). We have sought to offset our Cable TV churn with network and customer acquisitions.

Sat TV. We launched satellite TV service (T-Home Sat TV) in 2008. By entering the Sat TV market we became a nation-wide TV service provider. The sale of our Sat TV service increased rapidly and the number of Sat TV customers reached more than 254,000 by the end of 2010. With the introduction of the

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DVB-S service, we are able to provide 3Play bundled services (TV, Internet, voice) in 78 percent of the country.

We have reached one of our main strategic objectives by becoming the number one 3Play service provider in Hungary (based on number of customers) under the T-Home brand, which strengthens and broadens our customer base (less churn sensitivity).

Fixed Line Telecommunications Equipment Sales

We distribute an extensive range of telecommunications equipment, from individual telephone sets to modems, HAGs, set-top-boxes, TVs and complete network systems, through a network of customer service centers and our technical unit. In addition to stand-alone telephone-set sales, we offer various price plans combining voice, Internet and TV services together with a wide range of device portfolio supporting service packages (e.g., phones, routers, TVs, etc.). We also continually research new device solutions (e.g., media streamer, gaming consoles, ePAD) in order to offer and to build a high-level Digital Home for our customers.

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

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

Other Revenues

Other fixed line revenues include construction, maintenance, rental, customer care services, revenues from retail energy trade and other miscellaneous revenues.

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Mobile Services

Subscribers

The table below sets forth information concerning the key mobile operating statistical figures of CBU at the dates indicated:

	At December 31,		
	2008	**2009**	**2010**
Mobile penetration (%)[1]	121.8	117.7	120.2
Mobile SIM market share (%)[2]	43.9	43.4	43.4
Number of customers	4,648,323	4,343,672	4,416,312
Postpaid share in the customer base (%)	29.1	35.2	39.0
MOU	127	126	138
ARPU (HUF)	3,397	3,164	3,239
Postpaid	7,265	6,454	5,956
Prepaid	1,862	1,670	1,635
Overall churn rate (%)	16.9	27.5	21.0
Postpaid (%)	12.1	15.1	15.9
Prepaid (%)	18.8	33.1	24.0
Ratio of non-voice revenues in ARPU (%)	15.2	16.7	18.6
Average SAC per gross add (HUF)	6,813	7,680	6,570
Number of mobile broadband subscriptions	182,687	326,384	488,867
Mobile broadband market share (%)[2]	53.4	45.9	47.8
Population-based indoor 3G coverage[2]	n.a.	65.4	65.4

(1) Data relates to the mobile penetration in Hungary, including customers of all three service providers.

(2) Data relates to Magyar Telekom Plc., figures published by NMIA.

On December 31, 2010, we accounted for 43.4 percent of the total Hungarian mobile market in terms of subscribers based on the number of active SIM cards and 44.8 percent in terms of total number of active SIM cards generating traffic in the previous three months as published by NMIA.

We were the first mobile operator to launch HSDPA service in Hungary in 2006. The outdoor mobile broadband coverage based on population reached about 75.2 percent by the end of 2010. We have managed to maintain our market leader position in the mobile Internet market. At the end of 2010, we had a market share of 47.8 percent based on the number of subscriptions and 43.1 percent based on the number of subscriptions with data transfers according to information published by NMIA.

Despite the difficult economic circumstances in 2010, we were able to increase the number of our mobile subscribers with attractive price plans. The number of mobile broadband subscriptions increased and at the end of 2010, we had 488,867 subscribers representing a 49.8 percent increase in comparison with the previous year.

Churn policy. Generally, a contract customer is churned either after 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 considered to be churned after a period of 12 to 15 months depending on the amount charged on the prepaid card.

Traffic. The average monthly traffic per CBU mobile subscriber was 138 minutes in 2010. The usage increased as a result of free or discounted usage in closed user groups.

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Mobile voice services

Voice postpaid services

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. 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 a wide range of price plans in 2010 to remain competitive and develop loyalty.

For the small enterprise segment (SOHO customers), CBU offers several price plans providing favorable calls within the user group and other specific services. Customers can manage their user groups and connecting services via web-based application called Telematrix.

We introduced a shareable business tariff called Etalon Team in June 2010. For a single monthly fee, this product can be used by several employees of a small business company as a shareable usage pool.

Customized employee discounts are gaining considerable market share in the Hungarian mobile market, concentrating mainly on large multinational companies and the government segment. Since the bills of these subscriptions are paid by individuals (and not their employers), this group of customers belongs to the CBU customer base.

Voice prepaid services

Customers using prepaid cards do not pay monthly subscription charges, but certain price plans do include monthly recurring fees.

Electronic top-up services are available at many ATMs, petrol stations, Internet banks, Telebanks, Mobilbanks, on public Internet sites, in post offices, newsagent network, T-Mobile franchise and wholesale partners. The estimated share of electronic top-up in our total top-up remained stable, at above 90 percent at the end of 2010.

Roaming services

International roaming services are available both for our prepaid and postpaid subscribers. The number of networks and countries where they can make and receive voice calls, send and receive data or SMS is increasing continuously. Since 2007, EU roaming regulations have been in place for roaming voice tariffs for retail customers. The regulation was extended for further three years to retail voice and SMS tariffs as well in 2009.

Mobile non-voice services

In 2010, we continued to enhance our non-voice services portfolio, introduced several new products, increased the penetration and usage of existing products and extended access to some of our domestic products abroad:

The increase in the usage of our mobile Internet services played an important role in 2010. The number of subscribers for this service rose by 49.8 percent in 2010.

In December 2010, Origo, our fully owned media subsidiary, launched a new mobile version of [origo], Hungary's most visited online portal with a very strong brand. Origo mobile replaced "t-zones" and "web'n'walk" as the default mobile home page for all T-Mobile subscribers and it is also available to the subscribers of other service providers. We believe this service will boost the traffic of the default T-Mobile portal significantly and generate mobile advertisement revenues.

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We continued to broaden our mobile-related insurance portfolio in 2010, which is available for our postpaid mobile customers by calling our customer service center. We doubled the number of subscribers for family insurance products and in 2010, we successfully introduced two new services (handset insurance for new devices and travel insurance service for subscribers in mobile roaming situation). Revenues from insurance services grew by 87 percent in 2010.

In 2010, we extended the Mobile TV streaming service for iPhone users in order to gain more subscribers and revenue.

Purchases via mobile phones continued to grow in 2010, transaction figures grew by 57 percent and revenues by 27 percent. The main driver of growth in 2010 was the parking service (i.e., when parking tickets can be purchased via mobile phones using SMS or IVR channel). Other popular products purchased by mobile phones are lottery tickets and highway fees, but further smaller partners were also integrated (e.g., travel insurance). In the future, we see potential for the purchase of public and rail transportation tickets by mobile phone.

AkcióNekem.hu ("OffersForMe.hu") is a webpage, which was launched to build up a mobile marketing database in September 2010. We expect the usage of this database to bring new revenue streams from the advertisers and also to support CRM activities. Mobile subscribers may register for this database for free and receive regular promotional offers, third party advertisements and discount notices. Subscribers have the option to add thematic filters to their profiles and to limit the number of messages per week they are willing to receive.

We offer free navigation software for iPhone in cooperation with NAVIGON AG with the aim of increasing customer loyalty and iPhone 4 sales volumes in our highest ARPU-generating mobile customer segment. Immediately on the day of launch in August 2010, the T-Mobile branded application became the No.1 downloaded application in the AppStore accessible for Hungarian customers. The positive customer feedback and the activation rate reflect that the project holds extremely high brand-building value.

Mobile equipment and activation

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

We focus on both acquisition and retention, offering several favorable packages to our customers, such as 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 (voice, Internet and TV) 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 2008, iPhone 3GS in 2009 and iPhone 4 in 2010 for the Hungarian market exclusively by T-Mobile. iPhone can also be bought bundled with iPhone-specific price plans (ikon 200, ikon 400 and ikon 600), which help to fully exploit iPhone's multimedia capabilities. We also have a wide range of Android-, Windows Phone 7- and Symbian-based smartphone portfolio. The related terminals are offered with the MediaMánia price plans. Among the operating systems, Android became increasingly popular and due to the wide selection of smartphone devices with MediaMánia tariffs, T-Mobile was able to increase its smartphone penetration in 2010.

We sell mobile equipment manufactured by other companies.

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T-Home and T-Mobile integrated offers

Since we are the only integrated (fixed-mobile) telecommunications service provider in the Hungarian market we continue to leverage the opportunity of FMC.

T-Home/T-Mobile integrated broadband offer. This offer provides fixed line and mobile Internet together at a discounted price. The purpose of the promotion is to retain fixed line and mobile customers with a competitive offer and to sell mobile Internet as a complementary service for them.

FamilyFriend Option. This option offers flat rate voice traffic to those customers who subscribed to the FamilyFriend Option between their T-Home fixed and T-Mobile postpaid and prepaid numbers. In 2010, we added VoIP technology to fixed lines.

The Connection Program. The joint loyalty program of T-Home and T-Mobile offers the opportunity to collect loyalty points for use of fixed line and mobile services, as well as several favorable discounts.

Paletta. As part of our integrated company strategy, we introduced a fixed-mobile price plan in June 2010, which was aided with a full advertising campaign in September. This price plan offers mobile and fixed voice, fixed Internet and TV services to residential customers in a single package at a discounted price. The offer is available in two price plans, targeting mid- and advanced-user segments offering a very unique service in the Hungarian market.

Kombi business discount. As another element of our integrated company strategy, we introduced a fixed-mobile offers for small businesses in February 2010. This price plan offers mobile voice, fixed voice and fixed Internet plus an optional mobile broadband to small business customers at a discounted price.

BUSINESS SERVICES BUSINESS UNIT (BBU)

The operations of BBU consist of fixed line and mobile voice retail services, Internet services, data transmission, SI/IT services, TV, telecommunications equipment sales, as well as other services.

Fixed line services

Voice Retail Services

Subscribers

The following table sets forth information regarding the key voice operating statistical figures of BBU:

	At December 31,		
	2008	**2009**	**2010**
Voice services			
Business PSTN lines	110,389	100,172	86,439
Managed leased lines (Flex-Com connections)	6,037	4,745	3,454
ISDN channels	288,338	270,466	236,706
Total lines	404,764	375,383	326,599

Total outgoing traffic (thousand minutes)	798,157	656,372	557,319
MOU (outgoing)	191	178	176
ARPU (HUF)	5,457	5,162	4,880

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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.

Due to the continuing weak economic conditions, the new government has sought to implement cost-savings measures in government spending. Based on a Government resolution, the new government intends to deliver HUF 20 billion of savings related to the 2010 budget for national asset management, which includes IT and telecommunication services. As a result of the requested price allowances in relation to government contracts, we had a negative impact on our 2010 revenues and expect that these price allowances will affect our results in the coming years by HUF 5-7 billion.

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.

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.

Beginning in 2009, we also offer flat rate price plans to our largest key customers. To prevent customer churn, we use these price plans as a retention tool for our fixed line and mobile voice services customers.

For SMBs, we extended the existing business flat rate portfolio and launched a fixed-mobile CUG bundled product to retain fixed line traffic in the business segment.

Services

Local, Domestic and International Long Distance Telephone Services. We provide local, domestic and international long distance telephone services to our fixed line subscribers.

IP-based Voice Services. We provide integrated voice, Internet and corporate data packages at very attractive prices for our SMB segment within the fixed line portfolio.

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.

PBX Services. We offer virtual PBX services via VoIP providing internal voice and data integrated business networks for the small and medium business segment.

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Internet Services

The following table sets forth information regarding the Internet customers of BBU:

	At December 31,		
	2008	**2009**	**2010**
Internet services			
Number of leased line Internet subscribers	617	558	564
Number of retail DSL customers	31,805	32,358	30,192
Retail DSL ARPU (HUF)	13,743	12,712	10,485

We offer our business customers Internet services based on ADSL technology as well as access through cable, WLAN and leased lines. BBU provides ADSL service on PSTN lines named BDSL. Packages without traffic limits are available with four different download speeds: 5, 10, 15 and 25 Mbit/s.

Bundled ADSL ("T-DSL"). BBU also offers voice and Internet bundles (T-DSL) targeting primarily small and medium business customers. In 2009, we have reshaped our T-DSL portfolio with new bandwidth packages (5, 10, 15 and 25 Mbit/s download speeds) and more value added services. T-DSL price plans contain telephone line services with voice and Internet access and value added services such as virus protection and domain name.

T-HotSpot. HotSpot is a WiFi technology-based wireless broadband Internet solution for public site Internet services (i.e., hotels, conference centers, restaurants). By the end of 2008, former T-Com and T-Mobile HotSpots have been consolidated; therefore the whole T-HotSpot network can be now used under the same terms and conditions.

MLLN Internet Access. MLLNI provides transport and access facilities to IP traffic and it is offered mainly to our largest business customers. 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 the aggressive pricing in the customer segment, we will derive less revenue from our MLLNI services.

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 offer a broad variety of standard analogue and digital lines for lease, including two-wire and four-wire analogue lines and digital lines with capacities from 64 Kbit/s to 10 Gbit/s. We also offer high capacity customized digital lines to other telecommunications providers.

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, although the difference between the retail and wholesale prices is set by the regulators. 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.

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 has been decreasing as customers choose leased line services based on the high speed FTTx technologies within

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100 Mbit/s and 10 Gbit/s speed ranges (e.g., Gigalink) or choose network facilities with higher values from our product portfolio (e.g., IP Complex Plus, MultiFlex).

Magyar Telekom DataLink. In 2004, we launched a data transmission product that offers technology-independent data transmission between business customers' locations. The customer only needs to define three main parameters: bandwidth, 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 and also offer other high-value network facilities to our customers (e.g., IP Complex Plus, MultiFlex).

MultiFlex. In 2007, we launched a new MultiFlex service. It is an Ethernet-level virtual private network service on our Ethernet-aggregation and MPLS-backbone network, where access may be provided through multiplying copper pairs, optical fiber, or micro, which enables connections to our customers with a speed up to 1 Gbit/s. We provide proactive fault repair and SLA report, and our partners can access the report via our VIP portal website. In 2009, we launched a few new service options, such as Redundancy and Measurement-based SLA options. By the end of 2010, we had more than 200 contracted customers.

Datex-P. We offer Datex-P, a packet-switched data transmission service based on the X.25 (e.g., X.1, X.28, X.32) protocol. The service provides low speed (up to 128 Kbit/s) 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, which is still ongoing. The churned customers can choose up-to-date and high-value network facilities from our product portfolio (e.g., IP Complex Plus, MultiFlex).

IP Complex Plus. IP Complex Plus is an 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/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 based on Ethernet network, which enable our customers to connect to the IP network with a speed up to 1 Gbit/s. In 2009, we launched the HSDPA mobile backup option to improve the reliability of data transmission. Furthermore, we allow wired connections to the domestic customer VPN from Romania and Bulgaria.

Telepresence. Telepresence is an entirely new generation of video conferencing services that is offered to our corporate customers. It creates a unique live, face-to-face communication experience over the network. Telepresence uses powerful integrations to our IP Complex Plus network enabling highest quality (1080p, low latency, spatial audio) video and audio connections, which provide users with simplicity in call scheduling and launching, as well as reliability. It manages real time applications such as voice and video at the lowest possible bandwidth. This allows customers to keep costs down, and use their network investments to maximum advantage. We also use Telepresence for our own company purposes with several sites in Hungary, which are connected by IP-VPN with other Deutsche Telekom subsidiaries in Skopje, Podgorica and Frankfurt.

Távszámla. In 2005, we launched our electronic bill presentment and payment product (Távszámla). Távszámla provides certified invoices in PDF format with electronic signatures and time stamps complying with relevant legal regulations. This service is perfectly suitable for public utilities to reduce paper-based bills and significantly reduce their billing costs. In addition to our own services, the bills of various public

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utilities (e.g., gas, electricity) are also available through Távszámla. At the end of 2010, the registered users of Távszámla exceeded 97,000.

System Integration and Information Technology

BBU has a prominent competitive advantage in providing complex ICT services in the Hungarian market, since it also owns the necessary telecommunications infrastructure. As a result of our clear strategy to dominate the Hungarian ICT services market and the acquisitions completed between 2006 and 2009, our company became the market leader providing combined IT and telecommunications services. In the spring of 2009, we acquired ISH, an IT services vendor with a significant client base in the healthcare sector. On February 28, 2011, we completed the purchase of Daten-Kontrol Kft., which develops, installs and operates IT applications from two sites in Budapest and Pécs.

Outsourcing services

ICT Outsourcing

Our ICT Outsourcing services offer transfer of assets, customized hardware configuration, customized SLA and processes for mainly large enterprise companies and public institutions. We select the billing and settlement solutions that best suit the goals of our partners (e.g., solutions based on users, infrastructure elements, service tickets and combinations of these factors).

Managed Services

Our managed services represent complex IT infrastructure services including both the necessary network equipment and the related services for a monthly service charge. As a managed infrastructure service, we provide Managed LAN, Managed Voice, Managed Desktop, Managed Security, and Managed Printer services for our mid-market business customers.

Managed LAN. With the Managed LAN Service, we offer construction, continuous operation and management of companies' computer networks (LAN). The service includes continuous monitoring of active devices in local networks and proactive fault repair. With this service we offer our customers a one-stop service provision for a foreseeable transparent monthly service charge.

Managed Voice. Our Managed Voice Service offers the construction and operation of a complete integrated voice and data communication system. In addition to all functions of conventional telephone systems, the Managed Voice Service includes an IP-based voice transmission (telephone) system with numerous comfort features. The system is fully based on and is integrated into the data network of the company's headquarters and its sites so there is no need for an additional internal telephone network at the headquarters or at the sites.

Managed Desktop. Our Managed Desktop Service is a solution for companies to outsource their IT infrastructure operations. With this service, we assume the overall management (including continuous monitoring) of client workstations (computers) and connected devices, i.e., printers and other peripherals. The service also includes professional consulting, procurement of the necessary PC and notebook configurations, installation of the necessary software environment and, when requested, its modification.

Managed Security. Our Managed Security Service offers protection of the IT infrastructure through local or centralized monitoring, construction and operation of an IT protection system.

Managed Printer. Our Managed Printer Service includes design, installation and operation of companies' entire printer pool, the devices needed for printer operations, their replacement and continuous monitoring.

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Compleo

BBU offers to SMBs office communications infrastructure services in one package, containing modern IT and telecommunications tools. Components of the T-Systems Compleo service package include:

- Telecommunications access and usage, i.e., integrated broadband, voice and Internet service for each site;
- IT network (LAN) and equipment, i.e., telephone sets and PABX functionality;
- Internet security;
- Service Desk and monitoring service; and
- Secure above-Internet (IPSec-VPN-based) data communication options between the sites.

This service package can be tailored to the very needs of the SMBs' business.

Infrastructure-hosting & co-location services

We provide hosting and co-location services, which offer full-scale solutions for data storage and at the same time allow clients to monitor servers during any period of the day, and take immediate action if necessary. Our hosting and co-location services include all the functions associated with servers, starting from locality- or server-based co-location through server leases to the provision of replacement computers, and provision of value added services.

ASP, SaaS services

We provide ASP/SaaS services to local governments, medium sized companies and SMBs. These services enable us to bundle telecommunications and IT services. We developed the Virtualoso product to enter the SMB market with standardized ASP Services, while we plan to provide from 2011 customized ASP solutions for local governments and ERP/CRM applications in SaaS model for mid-market customers. We provide the following types of Virtualoso services:

- Virtualoso eMail (Microsoft Exchange functions);
- Virtualoso Meeting (teleconference, virtual meeting room and joint online work);
- Virtualoso Server (rent of server capacity);
- Virtualoso WorkPlace (online application for storing and sharing documents);
- Virtualoso BackUp (archiving data from own server or PC in a safe data park);
- Virtualoso BlackBerry (safe e-mail communication with automatic synchronization and device management);

Virtualoso VoiceCenter (virtual PBX); and

Virtualoso SMS (user friendly web interface to manage and send large number of messages).

Application Development and Operation

Our subsidiary, IQSYS provides IT application development, management and system integration services mainly for large enterprises and public institutions. In addition to these traditional markets, IQSYS has an increasing focus on the SMB sector as well. We deliver complex, custom-tailored solutions covering the full application lifecycle. Our services range from business and IT consulting, through the implementation of application packages (ERP, CRM, other sector specific applications, business intelligence solutions), custom application development and system integration to the delivery of the

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required tools and the operation of the applications. Our offering is complete with application services as well as outsourced IT and business workflow services.

Infrastructure

Our subsidiary, KFKI provides large enterprises and public institutions with various infrastructure solutions and IT operation services. Beside these large business partners, KFKI also handles customers from the SMB sector. KFKI implements, supports and operates unified communication solutions, intelligent building solutions, network integration solutions, IT security infrastructure, IT service management and system administration solutions as well as computer systems. KFKI also provides consulting services in the areas of IT security, IT operation and IT investments. We outsource not only IT equipment, but human resources ("HR") as well. Our IT operation services range from operation by our expert delegated to the client on a long-term basis to installation, repair, maintenance, planning, consulting, operation and upgrading in any part of the country.

Mobile operations

Subscribers

The table below sets forth information concerning the key mobile operating statistical figures of BBU at the dates indicated:

	At December 31,		
	2008	**2009**	**2010**
Mobile operations			
Number of customers	713,469	775,912	792,106
Overall churn rate (%)	5.8	8.0	8.2
MOU	325	336	340
ARPU (HUF)	7,655	6,458	5,926
Number of mobile broadband subscriptions	81,339	102,161	135,583
Ratio of non-voice revenues in ARPU (%)	20.2	23.6	26.3
Average SAC per gross add (HUF)	9,092	8,280	6,030

Mobile voice services

We provide the same voice retail services to our corporate customers that we offer to our residential market.

Mobile non-voice services

In addition to the services we offer to our residential customers, we developed the following products for our corporate clients:

Telematrix. Telematrix is a web-based tool available for our customers to manage their entire mobile fleet (cost and asset management, service activation and deactivation) on their own. We continually develop the Telematrix platform, which we consider a major competitive advantage enabling us to maintain our market leader position in the corporate mobile market.

Corporate Internet and Intranet Service (APNCA). APNCA is a Virtual Private Network service with optional Internet access based on mobile network. APNCA service is offered to corporate customers having multiple mobile endpoints. This service enables them to establish secure data traffic between the mobile end point and the customer's main office.

Bulk SMS. Bulk SMS service enables corporate customers to contact a large number of customers, employees or business partners in a simple way. The service provides easy and fast sending, receiving and management of SMSs in bulk and is a new way to acquire or retain customers and send advertisements.

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BlackBerry Enterprise services. Using a special mobile device, the BlackBerry Enterprise Service enables users to access their corporate mailing systems. The service provides comprehensive on-line access to various functions, including incoming electronic mails, calendar, corporate address book and tasks.

Fleet management. Fleet management is a position tracking service based on GSM/GPS systems.

Our subsidiary, Pro-M provides TETRA services for public safety and security agencies in Hungary.

Due to continuous network developments, the outdoor mobile radio coverage of EDR is more than 99 percent, based on a countrywide average. EDR services have been available since 2006 for public safety and security agencies, such as e-learning and the AVL system that serves police action control, or new mobile units extending TETRA services.

Providing EDR services for a new range of users is a possibility for Pro-M after having finished negotiations concerning the related processes with the responsible Minister.

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 is valid until 2015. The EDR contract was modified in 2010 as EDR service fees were lowered for 2010 and 2011 due to the fact that the Central Office for Administrative and Electronic Public Services at the Prime Minister's Office was required to fulfill cost cutting requirements to comply with the saving measures introduced by the Hungarian government.

HEADQUARTERS

Headquarters is responsible for:

(i) wholesale services;

(ii) headquarters functions (management and support);

(iii) shared services (back-office and non-core shared services within the company);

(iv) our PoPs in South-Eastern Europe;

(v) media business unit and new business developments.

Wholesale services

Our wholesale unit represents a separate line of business operating independently from our retail businesses. The wholesale activities focus on three strategic objectives:

(i) enabling retail activities;

(ii) complement retail activities; and

(iii) strengthen our regional presence.

To enable our retail businesses, we have bilateral interconnection and roaming agreements with national and international network operators. Furthermore, we purchase services from other telecommunications operators ensuring nationwide coverage for our retail services.

In the domestic telecommunications market, we face strong competition in both the retail and wholesale levels. In most service markets, the parallel use of wholesale and retail sales channels in a complementary way can ensure reaching the optimum financial results. In addition, our wholesale business increases utilization of the existing network capacities.

In order to offset the decreasing revenue potential of the traditional domestic wholesale markets, we are looking for opportunities to expand our regional presence especially in South-Eastern Europe. We intend to strengthen our market position in this region through our regional subsidiaries (PoPs).

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Customers

Alternative domestic fixed network and service providers

ISPs, ASPs and cable TV operators belong to this wholesale partner group, consisting of approximately 200 partners in 2010. Most Internet service providers and cable TV service providers are further expanding their traditional service portfolios and become 2Play or 3Play (and in certain cases even 4Play) service providers through intensive up-sell strategies. In response to this demand, we provide commercial-based and regulated wholesale solutions to these partners enabling them to sell 2Play or 3Play packages. We offer to this segment end-user access (xDSL, unbundled local loop and leased lines), backbone capacity (low and high speed leased lines on several technologies), infrastructure-based services (duct rental), interconnection and network access services (transit) as well as complex network and service platform solutions (IPTV and VoIP). The market demands are gradually shifting to all IP-based technologies regarding both the backbone capacity and the end-user access. Furthermore, the domestic wholesale market is undergoing significant market consolidation, especially in the cable TV market.

MNOs

We have two partners belonging to this wholesale segment. Typical services sold to these partners include interconnection-based services, network access-based services (e.g., international and domestic transit, value-added services) and capacity sales (TDM and IP-based leased lines). Their demands particularly focus on interconnection services, however we make efforts to increase the portion of commercial services in our sales.

International data telecommunications providers

We sell international low and high speed leased lines, transit circuits, IP/Internet connections, other managed data communication services and backbone capacity to approximately 50 international wholesale partners and purchase such services from approximately 50 international partners for our retail activities. Our international partners, which are typically simultaneous buyers and suppliers, are significant wholesalers in Europe, including Deutsche Telekom, Telekom Austria, Interoute and T-Systems International. We expect that the dynamic growth of the IP-based services will be able to offset the decline of the low-speed data communications services in the future.

Premium rate segment (Third party wholesale market)

In the third party wholesale market, we have 74 contracted content provider partners, the largest of which also act as aggregators. Dominant partners have leading roles in media and mobile marketing market support (e.g., suppliers of commercial TV channels, mobile marketing campaign organizers). Due to the characteristics of the market we offer premium and normal rate interactive services and solutions, allowing content providers to access mobile and fixed line customers.

Roaming and international voice partners

International roaming service was available for our subscribers on 433 networks in 188 countries as of December 31, 2010, of which 243 networks in 125 countries were available for prepaid customers. As of December 31, 2010, customers could use 270 GPRS networks in 124 countries. Since January 1, 2008, we send and receive all our international voice and switched transit traffic to and from Deutsche Telekom. The agreement with Deutsche Telekom guarantees us international telephone services revenues and profits and allows for cost reductions due to this synergy with the parent company.

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Wholesale product lines

Regulated services

Regulated, domestic traffic services primarily consist of call origination and termination services. In the call origination and termination market, we are an SMP service provider and therefore obliged to submit RIO. We have 28 bilateral interconnection agreements for providing regulated services. We are also obliged to provide number portability for fixed line numbers based on RIO as well as local loop unbundling based on RUO.

Broadband services

We sell wholesale ADSL service to ISPs, which enable them to offer integrated broadband Internet services combining access and IP transport to their retail customers under their own brands. At the end of 2010, we had contractual relationships with 19 ISPs. Due to the strong competition caused by alternative broadband technologies (mobile broadband and cablenet), the number of wholesale ADSL connections decreased to 130,965 at the end of December 2010, from 161,270 at the end of 2009. We expect further decreases in the number of wholesale ADSL connections in 2011.

TV services

As one of the first providers in Europe, we launched a wholesale IPTV product in the middle of 2009 enabling ISPs to provide own branded IPTV service to their ADSL customers. We had nine wholesale IPTV partners at December 31, 2010. The number of wholesale IPTV subscribers reached 975 at December 31, 2010. The Hungarian TV market is highly competitive driven by different technologies such as analogue broadcasting, analogue cable TV, DVB-T, DVB-S, DVB-C.

Data and IP service

We offer an extended data and IP service portfolio to wholesale partners. It consists of managed leased lines on different technologies (TDM, Ethernet, ATM, SDH). These connections are available on access and backbone network levels as well. BBU is responsible for product management of most of these products and our Headquarters unit sells them to wholesale partners. We are responsible for the development and life-cycle management of two services within the wholesale data and IP service portfolio.

Our Symmetrical Internet, which combines IP transport, Internet peering and leased line access, was designed especially for ISPs. This product was introduced in 2003 to maintain our competitive position in the Internet leased line market. In 2009, we extended the domestic Symmetrical Internet portfolio to the international market involving Magyar Telekom's, Deutsche Telekom's and Telekom Austria's IP MPLS platforms. We experienced significant growth in sales in this market in 2010.

Our HSLL service also plays a significant role in wholesale sales providing high speed (from 2 Mbit/s to 155 Mbit/s), high reliability leased line connections between service access points. Our Gigalink service provides high capacity (from 155 Mbit/s to 10 Gbit/s) connections for large volume data transmission. The market demands have been gradually moving towards Ethernet-based solutions. As a result, the HSLL users gradually started migrate to Ethernet in 2010.

Infrastructure service

We share our physical infrastructure (ducts, poles, equipment housing) on a commercial basis. Our partners are mostly cable TV companies. We had 23 partners at December 31, 2010. We have to face competition in this market particularly within major cities and regarding backbone relations.

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Interactive mobile service

There are two major lines of interactive messaging services: premium and normal rate. Both service groups are available on the following service channels: voice, SMS, MMS. Due to the evolution of business models and technologies, the premium rate services are operated in a harmonized market among the mobile operators (except premium voice), contrary to the normal rate competitive market. Harmonization in premium rate services is necessary to ensure countrywide access required by the characteristics of the market. In case of normal rate services and premium rate voice there is a heavy competition among mobile operators for increasing market share (especially from mobile marketing revenues). Appearance of new alternative solutions (e.g., mobile payment, IPTV) and the direction of media and mobile marketing development strongly influence the opportunities in this market. We expect the demand for such services to increase in the future.

Headquarters functions

General

Headquarters performs strategic and cross-divisional management functions for the Group. Headquarters functions include those performed by many of our central departments, such as legal, regulatory, strategy, HR, communication, investor relations, treasury, security, internal audit and compliance.

Principal Activities

Our strategy area is responsible for determination of new lines of business, to scout new products, technologies and services, to acquire access to them on our behalf and to handle the portfolio of our international subsidiaries.

Our treasury team is primarily responsible for cash management, investments in securities, leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credit arrangements. Furthermore, this unit is responsible for the issuance of debt in international capital markets, the handling of payments and clearing transactions, foreign exchange and hedging, as well as mergers and acquisitions ("M&A") activities.

Our legal department represents us in legal disputes, creates and approves our contracts and regulations and performs due diligence activities with our treasury team on potential acquisition targets.

Shared services

General

Operating functions not directly related to the core businesses of our operating segments are considered shared services functions. Shared services include, among others, the management and servicing of our real estate portfolio, fleet management, procurement, HR administration and accounting.

Principal Activities

The real estate unit, based on revenues, is the largest shared service within Headquarters. The real estate unit is responsible for managing our real estate portfolio, renting commercial real estate and providing facility management services for the Group, primarily in Hungary. In addition, this unit is also responsible for the operation, management and servicing of our radio transmission sites, such as our radio towers and transmitter masts in Hungary (primarily used in mobile, radio and satellite communications, as well as for television broadcasting).

Our real estate operations are conducted partly through STRABAG Property and Facility Services Zrt. and partly by our own property organization.

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Our fleet management is conducted through MKB Eurolízing Zrt., which provides fleet management and mobility services, with approximately 2,650 vehicles provided to the Group companies and affiliates within Hungary.

Central procurement handles purchasing activities, calls for tenders, signs and controls contracts and it is responsible for all related procurement procedures.

Our Points of Presence in South-Eastern Europe

The Headquarters segment also includes the activities of Magyar Telekom in certain countries in South-Eastern Europe. Magyar Telekom provides international network and carrier services in South-Eastern Europe through PoPs. We 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 the retail market segment in Romania with a full service portfolio.

Media unit and new business developments

The Headquarters segment is also comprised of content, media and other non-access services; it is also responsible for new business developments and the coordination of innovative activities.

In line with our strategy of capturing new revenue sources in business areas in which we can build on our existing capabilities, we have decided to enter the retail energy market, via the resale of natural gas and electricity, leveraging off the extensive sales networks that we already have in place. It is anticipated that participation in the retail electricity and gas market will enable us to retain existing, and win new, telecommunications customers with attractive energy offers. We expect that such electricity and gas offers will help support additional sales and services provided to existing customers, as well as possible upgrades to existing services.

The liberalization of the Hungarian electricity and gas market was completed in July 2009, enabling us to enter into agreements with a wholesale provider for the supply of sufficient electricity and gas volumes. We sell electricity and gas to our existing customer base as a bundled product supplementing the telecommunication services offered.

We launched electricity and gas retail offers for a targeted segment of residential and business customers from among our existing customers from April 2010 to test customer perception and acceptance. After this initial phase, we have provided services from May 2010 in a limited service area. Based upon our experiences in this limited service area, we will assess the possibility of becoming a nationwide energy service provider in 2012.

TECHNOLOGY

Technology is a central supporting unit for the business units of the Company. It is responsible for the development and operations of the mobile and fixed networks as well as IT.

Technology derives its revenues mainly from:

(i) internal services to other segments of the Company regarding NTs, service development and IT;

(ii) network maintenance and consulting services to subsidiaries; and

(iii) network construction and maintenance services to external parties.

Technology in its current form was established in 2008 and became a central technology unit serving the Company's business units as internal clients. Currently it employs approximately 1,900 professionals. On the IT side, two directorates (IT Architecture and Development, and IT Operations) were established after a merger of the IT organizational units of former T-Mobile, T-Com and T-Online. On the network

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technology side, mobile and fixed network areas were initially kept separate because processes differed significantly.

In 2010, a substantial organizational change took place in Technology: the mobile and fixed network technology areas merged. This merger, referred to as "TU 2.0", provides opportunities for exploiting synergy effects by the following steps:

- fully integrate fixed and mobile network technology areas;
- consolidate processes, eliminate functional redundancies;
- clarify functional responsibilities, between and within IT and NT; and
- centralize all service development tasks and organizations.

The first phase of the TU 2.0 project ended at January 1, 2010, when the new organizational structure was established. During the second phase in the first half 2010, we started the harmonization and merger of fixed line and mobile processes, made modifications to adjust operations to the new organizational structure and developed the detailed rules of operations. According to the new organizational structure, all network development-related functions have been consolidated in the NT Plan and Build unit. At the same time, all operations related tasks, both fixed and mobile, have been consolidated in the NT Operations unit. An important change is that all technology-related service development tasks are centralized in one Service Development unit. These three NT areas work under the leadership of the NT Chief Technical Officer.

Besides the NT and IT directorates, a separate directorate is responsible for setting strategic goals and objectives for Technology and ensuring the strategic harmonization with the rest of the Company. This organization is also responsible for the governance of Technology as a whole, including reporting, process and risk management, quality management and business alignment (including demand management).

Technology maintains direct relationships with the respective technology units of DT. DT maintains supervision of major strategic activities. In 2010, DT established its European region and defined common regional strategic goals for both NT and IT areas. Regional collaborations focus on standardization to exploit volume effect of technology procurements and cost savings derived from maintenance. As an example, IT application retirement, procurement and GPON testing will be coordinated among the EU Group affiliates.

Technology also performs extensive Research and Development ("R&D") activities. Particularly in co-operation with Hungarian universities, 43 research projects have been completed in 2010 to identify future opportunities of telecommunications services and technology innovations.

In 2010, the most important NT developments included the following:

- We continued the fiber roll-out according to the Company's fixed-access strategy: designed and deployed FTTH (based on GPON technology) covering 227,000 homes by the end of 2010. In addition, Technology finalized ED3.0 upgrade on Magyar Telekom's HFC network, enabling high-speed Internet connection on cable TV infrastructure.
- We continued the roll-out of mobile broadband connectivity. By end of 2010, 75 percent of the population was covered by 3G (UMTS/HSDPA) and 91 percent of the population was covered by EDGE Packet Switched Data Service. Data traffic on our mobile network has constantly increased (by 43 percent in 2010). Capacity to support these increases is assured by the continued development of our network.
- We continued designing NGMN focusing on access domain (including pilots of LTE) and core network elements. The LTE pilot was successfully executed, and its results have been evaluated.

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The replacement of legacy PSTN (Austrian Digital System) switches that had reached the end of their life-cycle has been completed in order to reduce maintenance costs at telephone central offices.

According to the long-term voice strategy, Technology, together with marketing areas, designed and started an all-IP pilot at Budaörs Hytas area, where GPON roll-out has been done previously. The migration is still in progress.

As one of the first operators in the world, we introduced IPTV services on EuroDOCSIS 3.0 platform, covering almost 589,000 households.

As for the IT strategy, we successfully carried out several substantial developments in 2010, including:

We continued the strategic CRM & Billing IT landscape consolidation program to simplify processes, reduce parallel developments, reduce time-to-market, and decrease IT cost. The implementation will continue in 2011 and 2012.

We launched a thorough program to transform our IT area to increase efficiency and effectiveness. To increase business agility and time-to-market we have reengineered many IT processes (e.g., end-to-end testing and release management) and introduced several new processes, such as a business alignment office (including demand management), metrics and problem management.

To support our new energy service line, we introduced a new energy-billing system.

As an international roll-out, we implemented our SAP system (all major modules) at our subsidiary in Montenegro and provide them SAP services.

We have introduced an any-place unified business communication system for our internal workforce to make soft phone, video conferencing, chat (instant messaging) and document sharing functions available company-wide.

We increased the service quality and efficiency of IT operations and consolidated our different legacy service desks into a new unified one. We replaced the infrastructure platform for our prepaid mobile service as well.

Based on the internal success of our identity and access management (IAM) application, we have started to roll out the unified solution to our national and international subsidiaries.

MACEDONIA

Fixed line services

Makedonski Telekom is the primary fixed line service provider in Macedonia. Makedonski Telekom provides traditional fixed line telecommunications services and content services within the scope of the fixed line network, broadband services and integrated solutions, including IPTV. In addition, the product portfolio of Makedonski Telekom includes IP-based services, data transmission, sale and lease of equipment and system integration services.

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

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The following table sets forth information regarding the fixed line operation of Makedonski Telekom:

	At December 31,		
	2008	2009	2010
Number of revenue generating fixed lines			
Residential lines	356,082	305,806	281,436
Business lines	34,864	31,443	29,255
Payphone	1,692	1,218	889
Total	392,638	338,467	311,580
ISDN channels	38,598	34,766	32,328
Total	431,236	373,233	343,908
Number of retail DSL customers	81,858	109,617	130,127
Number of wholesale DSL access	17,008	18,751	21,091
Total DSL access	98,866	128,368	151,218
Retail DSL market share (estimated) (%)	81	83	84
Number of dial-up customers	5,910	1,813	633
Number of leased line customers	129	228	301
Number of IPTV customers	1,952	14,150	30,123

Beginning in 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 and offers TV sets as well in its sales network. In March 2009 and April 2009, respectively, the 'Call & Surf Start' 2Play package and the '3 Max Start' 3Play package were introduced in the Macedonian fixed line market. The '2Max' package (fixed line and TV) was introduced in November 2009.

Makedonski Telekom introduced FTTH service in December 2009. Call & Surf Optic, Office Complete Optic and 3Play Optic packages were introduced on the Macedonian fixed line market.

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.

Mobile services

T-Mobile Macedonia is the leading provider of mobile telecommunications services in Macedonia. The principal activities of T-Mobile Macedonia's operations are digital mobile telephone services and non-voice services such as SMS, MMS and GPRS based on GSM and UMTS technology.

T-Mobile Macedonia had a customer base of 1,295,285 at the end of 2010, compared to 1,381,094 at the end of 2009. It represents an estimated market share of 51.3 percent in the Macedonian mobile telecommunications market at the end of 2010 as opposed to 56.4 percent at December 31, 2009 (based on the number of total SIM cards). The mobile market penetration in Macedonia is 122.8 percent, which shows the

trend of individuals owning multiple SIM cards. As a result of the market saturation, we especially focus on retaining customers to protect our market share. The AEC uses the market share calculation method based on the total number of active SIM cards which were used in the previous three months.

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The table below sets forth information concerning the key operational statistical figures of T-Mobile Macedonia at the dates indicated:

	At December 31,		
	2008	2009	2010
Number of subscribers			
Postpaid subscribers	360,706	419,148	418,083
Prepaid subscribers	1,018,485	961,946	877,202
Total subscribers	1,379,191	1,381,094	1,295,285
MOU	111	121	135
ARPU (HUF)	2,586	2,678	2,690
Mobile penetration in Macedonia (%)[1]	110.5	116.1	122.8
T-Mobile Macedonia's market share (%)[1]	59.4	56.4	51.3

(1) Data estimated by T-Mobile Macedonia based on internal analysis of competition.

The decrease in the number of T-Mobile Macedonia subscribers in 2010 was due to aggressive pricing offers by competitors. The pricing offers were accompanied by strong marketing campaigns focusing on very low price levels.

The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2010. Due to the increased competitiveness and in order to prevent churn and encourage usage, T-Mobile Macedonia launched various campaigns, price plans and additional services specially designed to meet subscribers' needs with focus on value instead of price. These offers are targeting different customer segments.

In 2010, T-Mobile Macedonia introduced several products that differentiate T-Mobile Macedonia in the mobile market and provide additional value for the customers.

T-Mobile Macedonia is continuously working on creating market demand for mobile Internet and stimulating mobile data usage via device/data price plans.

T-Mobile Macedonia introduced its first 4Play bundled product, Family Max which is a joint offer containing fixed line and mobile telephony, high speed ADSL Internet and IPTV for one monthly subscription fee.

MONTENEGRO

Fixed line services

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).

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The following table sets forth information regarding the fixed line operation of Crnogorski Telekom:

	At December 31,		
	2008	2009	2010
Number of revenue generating fixed lines			
Residential lines	144,897	140,591	137,156
Business lines	18,532	18,241	17,476
Total	163,429	158,832	154,632
ISDN channels	18,806	18,058	17,052
Total	182,235	176,890	171,684
Number of retail DSL customers	38,956	54,983	68,540
Number of dial-up customers	17,455	5,184	1,160
Number of leased line customers	188	191	193
Number of IPTV customers	17,531	29,612	40,042

Crnogorski Telekom is the sole provider of ADSL in Montenegro, although competitors 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 three years. In 2010, the number of ADSL subscribers at Crnogorski Telekom surpassed 68,000.

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 EKIP. International charges have decreased both in residential and in business segment, while local charges and subscription fees have increased in the 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. In 2010, Crnogorski Telekom reached market leadership in the Pay TV segment with over 32 percent market share in the number of customers based on EKIP reports.

In 2010, the main focus of our sales activities in Montenegro was to increase broadband data penetration including Extra TV (IPTV) and ADSL sales. In September 2009, Crnogorski Telekom introduced its 3Play offer with great success. In October 2010, the company introduced its first fixed-mobile integrated solution combining voice, data and Extra TV into one offer for Montenegrin families.

Mobile services

T-Mobile Crna Gora is the second largest mobile operator in Montenegro with 37.0 percent mobile market share according to the data published by EKIP. 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 and MMS based on the GSM, UMTS, GPRS, 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.

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

	At December 31,		
	2008	2009	2010
Number of subscribers			
Postpaid subscribers	89,070	104,095	109,982
Prepaid subscribers[1]	417,449	427,362	354,057
Total subscribers	506,519	531,457	464,039
MOU	105	96	105
ARPU (HUF)	2,886	2,459	2,430
Mobile penetration in Montenegro (%)[1]	185.6	208.7	199.5
T-Mobile Crna Gora's market share (%)[1]	36.1	36.7	37.0

(1) Data published by EKIP 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 May 2009, prepaid mobile offers were introduced for the youth segment which significantly contributed to the increase in the number of prepaid customers. On the other hand, the increase was also attributable to higher prepaid and postpaid sales due to special offers during the tourist season.

DISTRIBUTION AND SALES

CBU

Magyar Telekom had 48 direct shops (T-Points) at the end of 2010. All shops provide full scale of sales and customer care related services in the entire T-Home and T-Mobile consumer product portfolio. Besides sales activity, cross-selling, up-selling and customer retention are the main activities in focus at T-Points. In 2010, the major challenge is to further enhance the service level within our sales channel in order to better meet customer expectations and to dedicate more time to the customer.

In Magyar Telekom's distribution, the exclusive indirect partner network plays an important role with its 206 shops. In 2010, 14 shops were integrated resulting in a total of 136 shops selling the T-Mobile and T-Home product portfolio.

We have a strong focus on mobile and fixed line broadband sales and we have further developed cooperation with Internet and IT equipment retailers. With our retail partners, the number of outlets selling our broadband services increased to 139 in 2010.

We also sell 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 242 sales points nationwide.

We have reorganized our door-to-door agent network to fully align it with our strategic goals in order to leverage the potential of high speed Internet technologies. The number of agents has been continuously increasing with focus on quality and sales capabilities. Telesales channels are also transformed to fully support both acquisition and retention objectives primarily regarding T-Home services.

BBU

Enterprise

We deliver a high service level to our Enterprise customers with full dedication to not only client management, but also technical support and service desk level support. In 2009, approximately 70 key

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account managers handled approximately 2,800 large enterprises in governmental accounts, industrial accounts, commercial accounts, utility and media accounts and financial accounts. The largest multinational companies are being served at the DT Group level by a separate team in order to assure utmost attention to their cross-border needs.

In 2008, we launched the "Top30" project, in the framework of which we handle top customers of BBU and our subsidiaries KFKI and IQSYS in an integrated way. As BBU 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.

SMB

In 2008, we established dedicated customer services within the SMB segment, i.e., all of the approximately 46,000 SMB customers are managed by dedicated T-Systems sales managers. Our SMB account managers are responsible for 25 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, the main focus was on integrated offers, selling at least two different types of services to customers at the same time. In 2009, we focused to grow further in IT and application services within our SMB customer base.

Changes in the sales structure from January 1, 2010

In line with Magyar Telekom's long term ICT strategy and based on our 18 months experience of the new operational model introduced on January 1, 2008, we decided to take further steps to change our service and sales culture and to achieve an even more simplified operation in order to further improve our customers' experience. The basis for the new sales model was the re-segmentation of our customer group. We have segmented our customers based on their joint IT and telecommunications potential and their service expectations. At the same time, we harmonized and re-consolidated our front- and back office service structure, our supporting IT and other processes. As a consequence of all these arrangements, we serve our business customers according to the following structure as of January 1, 2010.

Enterprise. We have established a joint ICT sales force in KFKI and will move all enterprise sales and presales tasks there. 60 account managers serve 400 groups of customers, which include approximately 2,000 very large and large enterprises invariably in governmental accounts, industrial accounts, commercial accounts, utility and media accounts and financial accounts. There is no change compared to previous years' practice for large multinational companies who are being served at the DT Group level by a separate team.

Mid Market. Approximately 3,350 medium size business entities (including public institutions and governmental sector) are handled by approximately 50 account managers within BBU.

SMB/Indirect channel. Approximately 25,600 small businesses are served by our approximately 90 contracted indirect partners countrywide.

Furthermore, approximately 12,000 very small and micro businesses are served by CBU, where SOHO companies have been handled both in terms of service and customer care.

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Macedonia

Makedonski Telekom and T-Mobile Macedonia have developed different sales channels in order to serve customers from different segments. These channels include:

- direct sales channels, such as 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 center which performs telesales.

The main sales channel is the Makedonski Telekom and T-Mobile Macedonia shop network. There are 46 active joint shops (43 shops and three kiosks). From October 1, 2010, all shops offer complete product portfolio of T-Home and T-Mobile under the same conditions and customer service level. A new retail DT concept was introduced in four shops in 2010. One of the shops was also redesigned as a "café and shop", in addition to the one opened on January 23, 2009.

Another channel of the distribution network of Makedonski Telekom and T-Mobile Macedonia is the dealers' cooperation. Currently the network consists of 11 master dealers with 105 shops as T-Mobile Macedonia partners and 15 master dealers with 116 shops as Makedonski Telekom partners. The majority of the master dealers' shops are joint shops, offering the full portfolio of sales activities, except for cash collection. Postpaid and prepaid packages of T-Mobile Macedonia (with or without handsets) are available in all dealers' shops. Prepaid vouchers are also available in more than 6,500 kiosks. In addition, some of the kiosks also sell T-Mobile Macedonia prepaid packages without handsets.

A part of the Makedonski Telekom product portfolio (e.g., telephone sets, photo equipment, computers, printers, network equipment) is available to the customers by installment payments through their telephone bill.

In 2010, direct agents put strong emphasis on sale of FTTH products for residential and SOHO/SMB customers and sale of telecommunications and Internet services under customized ICT solutions and data services especially for the SMB segment. In addition, T-Mobile Macedonia is using subsidized handsets and high quality service as strong tools for customer retention and churn prevention both in the residential and business segments.

Montenegro

Crnogorski Telekom has developed different sales channels in order to provide the best services for residential and business customers. Business customers are served by key account managers taking care of the top 400 clients and SMB coordinators who are in charge of the SMB and SOHO segments. Top clients are divided by branches (e.g., banks, hotels, large manufacturers, government) and small companies are divided by regions.

There are 12 own T-Centers accompanied by a network of 12 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.

Other sales channels include web shop, door-to-door and telesales. In October 2010, a business telesales channel was introduced in order to cover SMB and SOHO segments not covered by SMB coordinators.

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COMPETITION

CBU

Fixed line services

We face strong competition in all areas of our fixed line operations including voice, Internet and broadcasting services. Direct competitors include other LTOs, mobile telecommunications providers, Internet service providers, alternative service providers and broadcasting service providers.

There is a continuous concentration of market players in the telecommunications market in Hungary. In November 2010, Invitel announced that they acquired Fibernet (the fourth biggest cable service provider in Hungary) and then sold one-third of its cable TV network to UPC, another cable operator. Many small cable companies were also acquired or merged.

Voice

In 2010, the main reasons for fixed line churn continued to be mobile substitution, cable competition and the effects of the economic crisis.

In our service areas, some service providers (the largest one of which is Invitel) offer pre-selection and call-by-call services and were able to attract some of our customers. However, we responded to this challenge with competitive flat rate voice packages to regain the traffic generated by customers.

The value of stand-alone fixed voice service continued to decrease for our customers as cable competitors continued to offer VoIP services at very low prices. Cable operators are providing voice services as an add-on to their pay TV offers especially if they are bundled with fixed Internet and/or pay TV service. There is a clear trend of customer demand for 2/3Play bundles for discounted prices. Our largest competitors based on customer numbers are UPC and Digi but we also have to face strong competition from mid-sized and small cable operators in many regions in Hungary.

Internet

Cable operators (e.g., UPC, Fibernet, Digi), alternative service providers based on ULL (e.g., GTS Datanet, EnterNet), mobile service providers and other ISPs are our competitors in the fixed Internet market. We kept our leading position in a continuously, but slowly growing retail Internet market.

A technology shift from ADSL to cable Internet and mobile broadband has continued in the broadband market because in the case of cable Internet higher bandwidth is available at lower prices. Mobile Internet plays an increasingly important role, representing more than 40 percent of total Internet subscriptions in 2010. However, a large number of customers use mobile Internet as a complementary service along with fixed line technologies.

ULL services have only marginal shares in the broadband market.

TV

The growth of pay TV penetration and the trend of digitalization continued in the television market in 2010.

The market growth was primarily driven by DVB-S technology and T-Home has played an important part in that growth as we acquired the largest number of new DVB-S customers. UPC, the largest service provider in the pay TV market, lost a significant number of subscribers as well as market share during 2010 as their DVB-S subscriber base has not grown and their traditional cable operation was challenged by Digi. Digi's focus shifted from DVB-S to their cable operations and they acquired some small service providers to gain more customers.

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Cable operators are slowly, but consistently, migrating their customers from analogue to digital cable platforms (DVB-C). In addition, smaller operators also launched digital cable services. In the pay TV market, several ISPs and alternative telecommunications service providers (e.g., Invitel, EnterNet) offer IPTV services. DVB-T television service offered by Antenna Hungária Zrt. is available from December 2008. Its network coverage based on population exceeded approximately 95 percent by the end of 2010. Antenna Hungária Zrt. offers a few channels for a very low subscription fee under the brand MindigTV.

Mobile Services

In 2010, the Hungarian mobile telecommunications market was characterized by intense competition, driven by new broadband services and decreasing tariff levels. Penetration growth in 2010 was very moderate compared to the previous years indicating that the mobile SIM market reached its saturation.

We continued to focus on customer retention and the development of mobile broadband services and increased our emphasis on fixed-mobile integrated services.

Despite the intense competition, on December 31, 2010, we accounted for 43.4 percent share of the total Hungarian mobile market in terms of subscribers and 44.8 percent in terms of total number of active SIM cards generating traffic in the previous three months according to data published by NMIA.

The direct competitors of T-Mobile Hungary are Telenor and Vodafone.

Vodafone, the third mobile network operator in Hungary by SIM market share, continued to focus on customer acquisitions (especially in the field of mobile broadband) supported by attractive tariff offers and marketing campaigns. Vodafone's SIM market share slightly increased to 22.8 percent by the end of 2010 based on the data published by NMIA.

In April 2010, Vodafone set up a partnership with Invitel in order to develop and launch a new product called Vodafone SmartOffice, designed for small businesses. They have also been engaged in a wholesale agreement with Netfone since July 2010, allowing cable service providers to sell Vodafone's mobile Internet.

In order to follow its parent company's innovation strategy Pannon was rebranded to Telenor in May 2010. The company kept a clear retention and community focus, and maintained its second position in the voice market. At the same time, they pushed mobile broadband and advertised Telenor as the company covering the most settlements (towns and villages) in Hungary. In addition, their already existing Djuice brand was separated from Telenor and relaunched in April 2010, as the first real second brand in the mobile market. Djuice is targeting youth under 26 years with a relatively new concept and a very simple and transparent product portfolio. As part of their multibrand strategy, Telenor established an exclusive partnership with Red Bull and launched a new brand under the name of Red Bull Mobile. Its service portfolio includes competitive tariffs and complete packages with some of the latest handsets. Telenor continued their partnership with Invitel, which sells Telenor's mobile broadband subscriptions bundled with their ADSL packages under the name of Net&Go. By the end of 2010, Telenor's SIM market share slightly decreased to 32.4 percent based on the data published by NMIA.

Mobile Internet penetration reached 13.1 percent at the end of 2010. The number of active mobile Internet users constantly grew during the year. Despite intense mobile Internet competition, we are market leaders when considering both total and active customer numbers, with 47.8 percent and 48.6 percent market share, respectively, according to data published by NMIA.

BBU

In 2010, our main competitors in the telecommunications market were Invitel, GTS, Telenor and Vodafone. In order to minimize the effect of the economic downturn in 2010, BBU focused on cross selling activities by providing integrated, managed network services, systems integration and outsourcing services.

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Focusing on complex customers' needs, BBU provided consulting surveys for its large projects. With its wide range of telecommunications and IT services, BBU positioned itself as a general ICT solution provider for the corporate segment.

We divide the IT market into two segments according to the type of services: IT Infrastructure and IT Applications. Nevertheless, due to the economic crisis, IT Outsourcing services (as a new business model for customers to improve the efficiency in their IT spending) became the most required service type both in the infrastructure and the application solutions. Hosting services became more and more popular among SMBs in 2010.

Our main competitors in the IT Infrastructure services are Getronics, Synergon, HP-EDS, S&T Unitis and IBM. Our main competitors in the IT Application Development services are SAP, NESS, IDOM2000, Oracle and Alerant, while in the IT Application Integration services Synergon, IBM, HP-EDS and Accenture. In case of infrastructure hosting services, our main competitors are Invitel, Interware and HP-EDS; while in the application hosting, our main competitors are Hostlogic, Unisys and Nexon. 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 SMB sector (i.e., standardized products via economies of scale).

Headquarters Wholesale Services

We face increasing competition regarding most of our non- or semi-regulated wholesale services. Our main competitors already have their own backbone telecommunications infrastructures with spare capacities, which enable them to provide services in the market of long-distance data-transmission connections at favorable prices, causing a continuous migration towards the more cost-effective IP-based solutions.

The dynamically improving alternative mobile and cable broadband networks and services challenge our fixed broadband market position (infrastructure-based competition), especially our copper network-based wholesale solutions (wholesale ADSL, IPTV, voice). Furthermore, our competitors are driving the roll-out of NGA networks, which provide them a technological advantage in offering 2Play and 3Play retail services against the ISPs' retail services based on our wholesale products.

The Hungarian mobile broadband market is open for the entrance of MVNOs. Vodafone signed long-term strategic wholesale agreements with Btel and Netfone in July 2010 and with Externet in October 2010, regarding mobile Internet services. The agreements enable MVNOs to provide mobile broadband services under their own brand and MVNOs can contract directly with subscribers.

Our main competitors in the domestic wholesale market are GTS Hungary, Invitel, British Telecom, MVM and Netfone.

In the third party wholesale market we face strong competitors (Telenor and Vodafone) regarding normal rate services and premium rate voice services.

There is also intense competition in the market for international wholesale services. The worldwide development of alternative, cost-efficient technologies is also characteristic in our region. As a consequence, the leased line market share of the less than 2 Mbit/s bandwidth MLLN product is continuously decreasing, while that of high-speed leased lines is increasing. The preference for integrated solutions and new technologies generate IP and Ethernet network demand.

Those providers that possess a global network have a competitive edge in the market of international connections because they can keep the prices relatively low.

Our main competitors in the international wholesale markets are Interroute, Pantel, Telekom Austria, GTS, TeliaSonera and British Telecom.

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Macedonia

Fixed line services

Voice

Makedonski Telekom faces competition from other fixed line and mobile service providers. The major fixed line competitors of Makedonski Telekom are ONE and the cable operators.

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. In March 2009, Telekom Slovenije purchased 100 percent of the shares of Cosmofon and became owner of two major competitors, Cosmofon and OnNet. They launched their first joint offer in July 2009, consisting of fixed line voice and Internet broadband services. In November 2009, they were re-branded as ONE. While ONE is our main competitor in the retail fixed line market, they are also one of our most important partners in providing wholesale fixed line and ADSL services.

In September 2008, number portability was introduced as a main service for opening the market for competitors. The fixed line numbers were primarily ported from Makedonski Telekom's network to competitors' networks, mainly into ONE's network.

Both major cable TV operators, CableTel and Telekabel, as well as several smaller cable TV operators have offered fixed line voice services since the last quarter of 2008.

Internet

In the fixed line broadband market, there are three major service providers in addition to Makedonski Telekom: ONE, CableTel and Telekabel. Makedonski Telekom continues to be the market leader both in terms of customer numbers and revenue market share based on latest available market report of the AEC (end of third quarter of 2010). It faces competition mainly from cable TV operators' cable broadband Internet, offered to cable TV customers through their own networks and from broadband services through Makedonski Telekom's wholesale ADSL offer. ONE also started to offer mobile broadband Internet access, through its 3G network, from September 2008.

TV

In November 2008, Makedonski Telekom entered the TV market by offering 3Play services: TV, Internet and voice bundles. Cable providers also offer similar services. On April 25, 2009, the AEC granted radiofrequencies for digital TV services through DVB-T to Telekom Slovenije, and its commercial operations started in November 2009, under the new brand ONE.

In December 2009, ONE introduced a new bundled offer in the market for 3Play packages containing fixed line, fixed broadband Internet and digital TV.

Mobile Services

The Macedonian mobile communications market currently has two GSM operators with UMTS licenses (T-Mobile Macedonia and ONE) and only one GSM operator (VIP).

According to our estimates, as at December 31, 2010, T-Mobile Macedonia had a customer market share of approximately 51.3 percent, ONE 29.7 percent, and VIP 19.0 percent. The mobile penetration rate increased to 122.8 percent by the end of 2010, due to strong and intense competition on the basis of prices, subscription options, subsidized handsets, range of services offered, innovation and quality of service.

According to information from the AEC published on November 11, 2010 and analyses on the Market for services for access and call origination in the public mobile communication networks (Market

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15), World Teleconnect International Macedonia d.o.o has entered the market as MVNO, with 100,000 numbers assigned to it for provision of mobile phone services.

Montenegro

Crnogorski Telekom faces competition mainly from mobile service providers, and, to a lesser extent, from other fixed line services and cable TV providers.

In 2007, a new mobile and fixed line operator entered the Montenegrin telecommunications market: Mtel, the third mobile operator and one of the licensed operators for development and exploitation of WiMAX-based network.

By the end of 2009, ten licenses for VoIP operators were issued as well. They are able to offer outgoing call services to our customers through carrier selection and freephone service.

Nine MMDS and cable TV licenses were awarded at the beginning of 2007. Some of the cable operators have declared their intention to provide Internet and telephony services. 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 the cable TV segment.

Stronger competition has been 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 by 2011.

In 2010, Promonte, the incumbent mobile operator, was rebranded to Telenor, in line with its Norwegian parent company.

In the Montenegrin mobile market, T-Mobile Crna Gora had a market share of 37.0 percent, Telenor had a market share of 39.6 percent, while Mtel had a market share of 23.4 percent in terms of number of active subscribers at the end of 2010 according to the data published by EKIP. T-Mobile Crna Gora is the market leader in the postpaid segment.

In November 2006, EKIP 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 (Telenor) were awarded with one 3G license each and Mtel won the combined 2G-3G license. T-Mobile Crna Gora launched 3G services in June 2007. Promonte (Telenor) and Mtel offer 3G services as well.

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

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 and the Ukraine, the countries in which we provide telecommunications services.

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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.

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

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proceedings can lead to a decision by the European Court of Justice, which is the ultimate authority on the correct application of EU legislation.

New Regulatory Framework (revised)

The entire NRF has been subject to a review since 2007 by the EU. The European Commission issued proposals to amend the current framework, which had to be accepted by the European Parliament and the Council of Ministers before coming into force. These proposals did not include any deregulation efforts.

The amendments to the NRF were adopted on November 24, 2009 by the European Parliament; changes to the framework have to be implemented through national law by May 25, 2011. The NRF Review implementation process was launched by the Ministry in October 2010 and we are providing written input and comments in the course of the consultation process.

The main changes introduced by the amendments to the NRF are the following:

The prime objective of the new framework is to promote investments in new infrastructure based on the following measures:

Risk sharing ('risk-diversification') to split investment risk between investor and access seeker;

Regulatory measures to allow regional segmentation of national markets;

NRAs have the authority to apply the "common and symmetrical use of passive infrastructure" obligation to all operators, who have the right to install facilities on, over or under public or private property; and

New remedy of functional separation available for national regulators only under exceptional circumstances and as last resort.

Establishment of a Body of European Regulators for Electronic Communications ("BEREC"): BEREC is supported by a small administrative office and it will replace the existing European Regulators Group ("ERG").

New procedure to harmonize remedies: NRAs have to notify a draft decision on remedial measures to the European Commission, other NRAs and the BEREC. The opinion of BEREC has also been taken into account when adopting a final decision. The new harmonization rules enable the European Commission to adopt further harmonization measures in the form of recommendations or binding decisions when differences in the regulatory approaches of NRAs are found.

Consumer protection: extension of consumer protection rules, such as transparency of consumer contracts (provision of information), consumer contracts must not exceed 24 months, personal data protection and number portability deadlines.

Universal service obligation:

Universal service obligation for providing network access has been separated from the universal service obligation to provide services and the member states can decide what constitutes a "functional Internet access";

Member states shall designate one or more company to provide "equivalent" services for disabled people;

Member states shall empower NRAs to require service providers to provide tariff information on premium rate services immediately prior to a call.

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Spectrum management:

- More emphasis on a member state's cooperation in the strategic planning and harmonization of spectrum usage;
- The implementation of technology and service neutrality principles on new spectrum licenses;
- Removing restrictions on existing spectrum licenses;
- NRAs should make secondary spectrum trading and leasing possible, but they should take action against possible market distortion;
- More emphasis on general licenses than on individual ones.

Net neutrality:

- NRA can set minimum quality of service levels for network transmission to promote net neutrality;
- Consumers should be informed of traffic management techniques, impact on quality of service and any other limitations; however no requirements are imposed on ISP to monitor content;
- Procedural safeguards on restriction of Internet users' access in case of copyright infringement.

Special Requirements Applicable to Providers with SMP

The most significant impact on our business stems from the EU Framework's special requirements are 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 separated 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,

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mobile access and call origination, international roaming, and broadcasting transmission services. Current and future market analyses by NRAs have to consider a new recommendation of the European Commission effective as of December 17, 2007. This new version 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 the retail access of the fixed telephone network remains subject to such regulation. Further, some wholesale markets are now described in a broader manner (e.g., market for local loop unbundling is no longer restricted to metallic loops). At the moment it is difficult to predict whether these broader definitions lead to an expansion or a reduction of regulation. The new market recommendation also relates to wholesale markets for call origination of fixed telephone networks, call termination of individual fixed networks, broadband access, terminating segments of leased lines and voice call termination on individual mobile networks. 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. 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.

On May 7, 2009 the European Commission introduced a recommendation on fixed and mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the NRAs. EU members are required to implement the recommendation and develop mobile and fixed termination rate cost models by December 31, 2012, as described in the recommendation in details. As a result of the costing methodology that imposes the use of a pure FL-LRIC model, the EU hopes to reduce termination rates by 70 percent within three years. The recommendation shall be reviewed after four years, i.e. in May 2013.

Roaming

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 a 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. After a review of roaming prices development, the European Commission published the stricter Roaming Regulation II on June 29, 2009. See "Item 4 Pricing Roaming Agreements and Tariffs". The EU will reevaluate its Roaming Regulation II in 2011 and implement further regulatory remedies and requirements if the European Commission finds that necessary, but this is not expected earlier than the summer of 2012.

In December 2010, BEREC published the "International Mobile Roaming Regulation report" from available roaming data. The amended Roaming Regulation (EC) 544/2009 expires on June 30, 2012. The Commission must complete its review and report on the effectiveness of that regulation to the European Parliament and Council by no later than June 30, 2011. For that reason, the European Commission launched a public consultation to examine retail and wholesale roaming developments, future trends and possibilities. Opinions had to be sent by February 11, 2011. Any new regulatory remedies are expected not to take effect earlier than summer of 2012.

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Legislative Developments in the EU

NGA Recommendation. The European Commission adopted the final version of its NGA recommendation on September 20, 2010.

The recommendation aims to promote a consistent approach to regulated access to NGA networks imposed by NRAs on operators designated as having SMP on market 4 (wholesale network infrastructure access at a fixed location) and market 5 (wholesale broadband access). In particular, the recommendation seeks to avoid distortions of the single market and provide legal assurance to operators investing in NGA.

The recommendation focuses on FTTx technologies including cable TV's ED3, however, ED3 is not mentioned with respect to remedies (e.g., access obligations, infrastructure sharing and transparency with cost orientation in wholesale pricing). Wireless and mobile technologies are not included in the scope of the recommendation.

The approach proposed by the European Commission aims at driving infrastructure-based competition where it is possible and efficient, while ensuring a seamless migration from copper to fiber-based networks.

The EU proposes extended regulation on NGA, which means that a full set of passive (e.g., facility and infrastructure sharing or access like duct sharing) and active (e.g., wholesale broadband access) remedies can be introduced at the same time to provide the possibility for alternative operators to choose and to enter at any level of the SMP's network. The emphasis is on access to civil engineering infrastructure (duct, pole, manhole, other physical asset sharing and designing newly built facilities so as to allow partners deploying their fibers), access to FTTH terminating segment (in house wiring) and fiber unbundling. Bit stream access is a possible further obligation.

The recommendation proposes cost-based prices for all obligations. A favorable change to the previous draft recommendation is that long-term access pricing (period discounts) may be acceptable if the discounts only reflect the reduction of risk for the investor, judged over an appropriate timeframe and there is no margin squeeze. Volume discounts may be acceptable if the discounts are calculated over a relevant area (as designated by the NRA) and apply equally to all access seekers willing to buy at the same volume, only reflect the reduction of risk for the investor are judged over an appropriate timeframe and there is no margin squeeze. Further, geographic segmentation has to be considered by the NRA (only wired substitution is mentioned in this respect).

Amendment of the GSM Directive. On October 20, 2009 the Council Directive 2009/114/EC amending the Council Directive 87/372/EEC ("GSM Directive") and removing the restriction on use of the 900 MHz spectrum exclusively for GSM services; and the complementary Commission Decision setting out the technical parameters that enable the co-existence of GSM and UMTS systems in the 900 MHz and 1800 MHz bands were published in the Official Journal of the European Union. The new rules enable the use of the 900/1800 MHz frequencies for UMTS and more advanced wireless technologies alongside today's GSM services.

Member States were required to implement the amended GSM directive through national law by May 9, 2010. The same implementation deadline was set for opening up the 900 MHz and the 1800 MHz bands for UMTS services. Member States were also required to review the existing spectrum assignments in these bands in order to avoid competition distortions.

Hungary did not meet the implementation deadline of May 9, 2010. Issuing a letter of formal notice, the European Commission started an infringement procedure against Hungary on September 20, 2010, on the basis that Hungary has not taken measures to adapt the revised GSM Directive. The European Commission can initiate a case in the European Court, which can oblige Hungary to comply with the implementation or it can impose fines.

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Consultation on universal service principles in e-communications. Public consultation on the second review of the universal service principles was held in 2010. Current EU rules on universal service obligations for telecommunications service providers date from 2002 and guarantee that all Europeans have access to public telephone networks and to basic telecommunications services. The aim of the consultation was to review if these rules and definitions on universal services need to be updated for the digital age, and in particular if they should be extended to cover broadband access. However, the public consultation was closed in May 2010 and no European Commission opinion or proposal has been published to date.

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 101 and 102 of the Treaty on the Functioning of the European Union ("TFEU") and in the EU Merger Regulation (the "Merger Regulation"). In general, the TFEU 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 TFEU. 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 Telecommunications Regulatory Regime in Hungary

The telecommunications industry has been governed by:

Act C of 2003 on Electronic Communications (the "Electronic Communications 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.

Establishment of the new regulatory authority. The National Media and Infocommunications Authority of Hungary ("NMIA") was officially established on August 11, 2010 to ensure the undisturbed operation, in compliance with pertaining legislation in force, of the media and the markets for electronic

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communications, postal and information technology services in Hungary in accordance with Act C of 2003 and Act I of 1996 on Television Broadcasting. The new, converged regulator performs the tasks of its predecessors: the NCA and the NRTC. The aims of the merger are: cost efficiency, more rational allocation of resources, avoidance of duplication of work and better cooperation of the supporting activities within a single organizational structure.

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 Directory Assistance service as well as free calls to emergency services. Access to voice services at an affordable price is affected 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. The necessary modifications of the telecommunications law and the concerning government and ministerial decrees entered into force in the first half of 2010. The new legislation provides more favorable conditions in line with market changes than the earlier regime. The main modification includes a 'last resort' access obligation, easing the obligation to maintain public payphones and modification of the financing scheme.

Based on discussions between the Ministry and operators, we signed a "pre-contract" with the Ministry on December 30, 2009, which included future conditions for providing universal services and an agreement to sign a final contract with the same conditions by March 31, 2010. However, after lengthy discussions, no universal service contract was signed between the Ministry and operators due to the late submission of bylaws. Further negotiations with the Ministry of National Development have started, and if we were to enter into a new contract, it would be based on the relevant modified government and ministerial decrees which contain more favorable conditions then the previous legislation.

Subscriber Contracts. Service providers must establish General Terms of Contracts for providing publicly available electronic communication services. The subscriber contract consists of the General Terms of Contracts and the individual subscriber contract. The Electronic Communications Act provides general rules of agreements between subscribers and telecommunications services providers for telecommunications services. The ministerial Decree 16/2003 (XII.27.) on "Telecommunications Subscriber Contract" contains other important rules relating to subscriber contracts. In subscriber contracts, parties can deviate from the provisions of the Electronic Communications Act and the General Terms of Contracts only if they are more favorable to the subscribers.

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

Local Loop and Bit-stream Unbundling. According to the Electronic Communications Act and Government Decree 277/2003, (XII.24.) on "The detailed rules of procedures related to the reference offers and networking contracts", operators with SMP providing unbundled access or broadband access are obliged to unbundle local loops and prepare reference offers for unbundled local loops (whether fully or partially unbundled) and bit-stream access and to provide these services when there is a request for them by other telecommunications service providers. Currently these rules apply only for copper pair local loops; optical fiber access networks are not included.

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

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

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

Unbundling has not become significant in the Hungarian market so far mostly due to the already existing infrastructure-based competition. As a result, unbundling has only led to a moderate loss of our market share to date.

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

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

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

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

Licensing and Allocation of Frequencies. With the exception of radio receiver device, radio equipment, radio stations and radio communication networks may be operated on the basis of a general or exclusive radio license. A radio license may be issued exclusively on the basis of a valid frequency assignment license, with certain exceptions. Radio equipment, radio stations, radio networks and radio communications systems may be installed with a frequency assignment license, with certain exceptions. Payment of fees is required for reservation and usage of frequencies assigned for civil purposes, reservation of identifiers and use of the assigned identifiers. In the case of terrestrial public mobile communications there is no frequency reservation fee, there is only a frequency usage fee.

Frequency assignments must conform to the National Table of Frequency Allocations, which lays out the entire spectrum and the purpose and availability of frequency bands.

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

Data Retention. The Data Retention Directive of the European Union was implemented in Hungary by an amendment to the Electronic Communications Act that entered into force on March 15, 2008. According to the law, Magyar Telekom has to retain data on the following:

unsuccessful calls, call forwarding and call routing data location identifying on fixed phone;

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call forwarding and call routing data, unsuccessful calls, mobile Internet and other data (e.g., IMSI, location identifying, cell identifier) on mobile phone;

user ID, IP-address, e-mail and Internet telephony on Internet services.

Data retention period was reduced from three years to one year (in case of criminal data requests) and to six months (in case of unsuccessful calls).

SMP Regulation

On April 24, 2004 the Minister issued Decree No. 16/2004 (IV.24.) on the basic principles of market definition, market analysis and identification of service providers having significant market power. The Decree implemented the recommendation of the European Commission (2003/311/EC) and accordingly listed the following 18 relevant product and service markets within the electronic telecommunications sector susceptible to ex ante regulation:

Retail level:

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

Wholesale level:

8. Call origination on the public telephone network provided at a fixed location.
9. Call termination on individual public telephone networks provided at a fixed location.
10. Transit services in the fixed public telephone network.
11. Wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services.
12.

Wholesale broadband access.

13. Wholesale terminating segments of leased lines.

14. Wholesale trunk segments of leased lines.

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

16. Voice call termination on individual mobile networks.

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

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

The NCA accomplished two rounds of market analysis. In the second round, obligations were only slightly modified as compared to those imposed in the first round, by having more detailed rules apply to our provision of services. The results of the analysis on fixed line retail markets identified Magyar Telekom as having SMP and imposed a price cap on retail access market services (market 1 and 2) for residential and non-residential customers. In addition, it required Magyar Telekom to allow fixed line residential and non-residential customers to select other service providers for local and/or national and international calls

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(markets 3-6) and obliged Magyar Telekom to provide the minimum set of leased lines (market 7). On the wholesale markets, the NCA imposed the obligations of transparency (markets 8-9, 11-13), accounting separation (markets 8-9, 11-13), access and interconnection obligations (markets 8-9, 11-13), various obligations regarding cost-based prices and price control (markets 8-9, 11-13) and non-discrimination (markets 12-13). It also imposed an obligation to offer wholesale naked ADSL at regulated prices. The market analysis procedure identified TMH as having SMP in the mobile termination market (market 16) and imposed the obligations of transparency, accounting separation, access/interconnection and cost-based prices and price control.

The third round of analysis of the 18 relevant product and service markets started in 2008. So far, only the decision on the mobile termination market and on the public telephone access market 7 and market 1 (in accordance with the new EU Recommendation on relevant markets) have been adopted. On market 7, the NMIA maintained the obligations of transparency, accounting separation, access/interconnection, cost-based prices and price control, as well as extended the so-called 'Glide Path' regulation (i.e., gradual decreases in termination rates) until the end of 2010. On market 1, the NMIA maintained the obligations of access, non discrimination, prohibition of unjustifiable excessive prices (price cap regulation), carrier selection and carrier pre-selection. Furthermore, NMIA significantly extended the scope of technologies included in its market definition, with wireless local loop, home zone services for mobile operators, wired and wireless broadband access, leased lines and FTTH included in the market definition.

The aforementioned Minister Decree No. 16/2004 (IV.24.) was amended in October 2009 and implemented the revised recommendation of the EU that entered into force on December 17, 2007. As a result, retail call markets (market 3-6) and the minimum set of leased lines became deregulated as well as wholesale markets for transit services in the fixed telephone network, wholesale trunk segments of leased lines, access and call origination on public mobile telephone networks and broadcasting transmission services to deliver broadcast content to end users. The new Decree (8/2009 MeHVM) has become effective already in the current (third) round of market analysis by the NMIA. Current relevant product and service markets are:

1. Access to the public telephone network at a fixed location for residential and non-residential customers;
2. Call origination on the public telephone network provided at a fixed location;
3. Call termination on individual public telephone networks provided at a fixed location;
4. Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location;
5. Wholesale broadband access;
6. Wholesale terminating segments of leased lines; and
7. Voice call termination on individual mobile networks.

In the course of the third round market analysis of the relevant markets, new SMP resolutions are expected in 2011.

Mobile Concession Contracts

Under the 900 MHz Concession Contract, dated November 4, 1993, between the Minister and TMH, TMH was granted the right to provide public GSM 900 mobile telephone services for 15 years, with a possibility of 7.5 years license duration prolongation without a tender.

On October 7, 1999, an amended and integrated GSM 900/DCS 1800 MHz Concession Contract was signed, allowing TMH to start public mobile telephone service in the 1800 MHz band for 15 years beginning November 26, 2000. By virtue of the integrated Concession Contract in 1999, by the end of 2003, the three digital mobile telecommunications service providers had the same spectrum resources assigned

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to them both on the 900 and the 1800 MHz bands. The DCS 1800 license of TMH will expire in 2014, but may be prolonged without a tender for a 7.5 year period. TMH pays an annual concession fee of USD 1 million.

On November 8, 2007, TMH signed the renewed 900/1800 MHz Concession Contract along with the Cooperation Agreement with the Minister. The new Concession Contract prolonged the duration of the TMH's 900 MHz frequency usage right until May 4, 2016. TMH paid HUF 10 billion for the 900 MHz license prolongation and committed to a HUF 20 billion additional mobile broadband investment obligation in the underdeveloped regions of the country in the timeframe of 2008-2009. By the end of 2009, TMH met his investment obligation set in the Cooperation Agreement.

Licenses for exclusive frequency usage rights

On December 7, 2004, the NCA awarded TMH the exclusive right to use the frequency blocks of 1920-1935/2110-2125 MHz FDD and 1915-1920 MHz TDD for deployment and operation of IMT 2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until 2019) with an option to extend for another 7.5 years. The right to use the frequencies vested upon payment of the first installment of the license fee on December 27, 2004.

TMH was obliged by the term of the license decree to start commercial IMT-2000/UMTS service in the inner city of Budapest within 12 months after the license had entered into force. This obligation was met. TMH was also obliged to expand the coverage to 30 percent of the Hungarian population within 36 months after the license came into effect. In December 2006, we fulfilled the population coverage target of the IMT-2000/UMTS license.

The license fee for IMT-2000/UMTS was HUF 17,000 million plus reclaimable VAT, payable by the end of 2005. In addition to the license fee, TMH capitalized expenses incurred in connection with the acquisition process of the license. The total amount capitalized was HUF 17,073 million. The IMT-2000/UMTS license right is amortized on a straight-line basis over 15 years from the time of the commencement of the commercial service on August 26, 2005 to the end of the initial license period.

On April 30, 2009, we won the spectrum tender for the 26 GHz "D" spectrum block. On May 18, 2009, we asked for the frequency assignment decision from the NCA, which was received on July 10, 2009. The total amount capitalized was HUF 510 million.

The Company is also subject to various regulatory requirements with respect to the fees it may charge for its services, as well as fees it is required to pay to the applicable regulators in relation to the services it provides. See "Item 5 Tabular disclosure of contractual obligations".

Legislative developments in Hungary

Implementation of the revised NRF. EU Member States are required to implement the new telecommunications framework within 18 months upon its publication in the Official Journal of the European Union. The new telecommunications framework was published on December 18, 2009 in the Official Journal of the EU. The Regulation establishing BEREC need not be implemented; it will enter into force throughout the EU upon its publication. Whether the regulatory framework will increase or decrease the regulatory burden on us will depend on the manner in which revised directives are implemented in the EU Member States and the way the revised regulatory framework will be applied by the respective NRA. Changes to the NRF are required to be implemented through national legislation by May 25, 2011. The NRF Review implementation process was launched by the Ministry in October 2010 and Magyar Telekom has provided, and will continue to provide, written input and comments in the course of the consultation process.

Spectrum. In conjunction with the implementation of the modified GSM Directive, a "public consultation-like" process started on November 24, 2009, organized by the Minister, which was followed by

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a second consultation meeting on January 21, 2010. The new Government, which came into power in June 2010 is evaluating the different implementation options.

Although official decisions have not been made public, the 900 MHz tender-auction could be further delayed in 2011 due to the unfavorable financial conditions of the operators created by the special tax on the telecommunications sector.

It is likely that in the process of implementing 2008/477/EC Decision, a comparative or competitive bidding process for the 2.6 GHz spectrum blocks will take place in 2011. The 2.6 GHz band is the core frequency band in Europe for LTE, which meets the NGMN.

The ministerial decree on frequency fee has been under revision. The new band fee concept is expected to revise the current usage proportional frequency usage calculation. The timing of the new regulation is not known.

NGA. The Hungarian NRA published its draft resolutions on wholesale (physical) network infrastructure access market (market 4) and wholesale broadband access market (market 5) in December 2010. The draft resolutions maintain all previous obligations and impose new ones. The drafts contain all obligations listed in the EC Recommendation. Market 4 changes include: extension of the obligation to next generation networks, duct sharing, dark fiber and access to backhaul services. Cable networks are taken into account as substitutes of ADSL, however, no obligations are imposed on them. Market 5 changes include: extension of the obligation on next generation networks, duct sharing, access to backhaul services and migration rules. The cable networks are expected to be part of market 5 as well because of their high fixed broadband market share in Hungary. No detailed geographical segment analysis (concerning sub-markets) was carried out by NMIA.

Implementation of EU Recommendation on termination rates. We assume that the NMIA will implement the Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in Hungary in 2011. As our fixed and mobile IC models calculate with a higher cost base than it is allowed in the Recommendation, the implementation would result in a strong decrease in fixed and mobile termination rates over a three-year glide path. However, since we have nearly symmetric IC traffic, the effect of the Recommendation on our (fixed and mobile) net IC balance (IC expenses and IC revenues) is expected to be near to neutral. On March 11, 2011, the NMIA published its draft resolution on Market 7/2007 (Voice call termination on individual mobile networks). According to the draft resolution, the earlier obligations have not changed, but the termination rates are expected to be lower. The draft resolution includes the details of the LRIC bottom-up model. We will provide comments on the draft resolution to the NMIA.

Interconnection fees. On February 24, 2011, the NMIA published its draft resolution on Market 2/2007 and 3/2007. The earlier obligations were not changed, but it is possible that some new obligations will be imposed, such as maximum interconnection fees of VoIP or making the interconnection fees on our cable network part of Magyar Telekom RIO. We will provide comments on the draft resolution to the NMIA.

Competition Law Restrictions

The Electronic Communications Act and the Competition Act prohibit us from the abuse of our dominant position in the markets where we are in a dominant position.

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

Under the Electronic Communications Act and the Competition Act, service providers with SMP are required to provide services to other telecommunications service providers on the same commercial terms,

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and these terms may not be less favorable than those offered to other service providers controlled by it or controlling it.

The Telecommunications Regulatory Regime in Macedonia

For a description of the telecommunications regulatory regime in Macedonia, see Notes 1.3.2 and 1.3.5 to the Consolidated Financial Statements.

The Telecommunications Regulatory Regime in Montenegro

For a description of the telecommunications regulatory regime in Montenegro, see Notes 1.3.3 and 1.3.6 to the Consolidated Financial Statements.

Broadcasting and Transmission

Program distribution activities are governed by the rules of Act LXXIV of 2007 on Program Distribution and Digital Switchover ("Program Distribution Act") and Electronic Communications Act. In October 2010 (as a result of the Act LXXXII of 2010), a new authority, the NMIA was established, merging the former National Radio and Television Commission (supervising broadcasting) and the former National Communications Authority (supervising electronic communications).

The NMIA accepts and reviews the notifications received for the provision of services, including program distribution and transmission services, in compliance with legal requirements, registers the services and service providers under its supervisory authority, and determines the obligatory technical and operational conditions in order to preserve integrity of the communications network. Entities registered as program distributors are permitted to transmit broadcasts by third parties to subscribers through a cable transmission network or via any other means (e.g., satellite, IPTV).

In December 2010, a New Media Law was adopted (Act CLXXXV of 2010 on Media Services and Mass Media), implementing the Audiovisual Media Services Directive. The law came into force on January 1, 2011, and imposes certain additional burdens and obligations to our organizations dealing with media.

PRICING

Fixed Line Subscription Fees and Usage Charges

There used to be two types of price cap regulation, however the price cap for universal services (3 percent for CPI) is no longer in effect from April 22, 2010. On the other hand, the price cap regulation deriving from the SMP resolution on market 1 (residential and business access markets) is still in effect and applies to subscription fees of various price plans. The resolutions provide that the maximum aggregate price increase of the subscription fees business and residential separately cannot be higher than the CPI for the current year. This implies that a price check can only be carried out after the year the price cap relates to has ended.

Leased Line Fees

In 2005, we were identified as the only operator with SMP in Hungary on the retail market of a minimum set of leased lines (defined as analogue lines in standard and special quality and digital lines between 64 Kbit/s and 2,048 Kbit/s) and were obliged to provide the minimum set of leased lines. The new resolution published on January 31, 2008 did not change our obligation.

"Price Squeeze" (Predatory Pricing) Issues

Under the Electronic Communications Act, service providers with SMP are prohibited from pricing retail network services below their wholesale prices. When service providers reduce their end user prices and it causes a "price squeeze", they are obliged to proportionally reduce

their wholesale prices in their reference offers. This provision only applies if the price reduction affects more than ten percent of

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subscribers for the service, or the impact of the price reduction exceeds five percent of net sales of the service.

If the regulatory authority identifies a price squeeze, the NMIA examines whether the price of the network service is in line with the incurred costs. If the network prices are cost-based, the NMIA refers the case to the Competition Authority. If the network prices are not cost-based, the NMIA determines the minimum mandatory margin between the price of the network service and the end user service and/or orders the service provider to modify the reference offer. In practice, however, only the National Competition Authority has carried out price squeeze tests so far.

Fixed Line Regulated Wholesale Prices

Magyar Telekom is currently identified as having SMP in all 7 regulated markets.

In the first round of market analysis, we have been identified as an operator with SMP in the voice termination and origination market and the wholesale market on unbundling of copper loops, along with all other LTOs. These SMP resolutions included obligations to submit RIO and RUO to the NCA. The NCA also adopted cost-based pricing rules, based on LRIC for the RIO and FDC for the RUO. Revised SMP resolutions for the voice termination and origination markets, as well as the wholesale market of unbundling of copper loops were published at the end of 2007. The major change in the revised resolution on the wholesale market of unbundling of copper loops is that the tariffs for RUO should be determined by LRIC method as opposed to the FDC method used before. As ordered by the new SMP resolutions, new RIO and RUO were submitted in February 2008. They were approved in July and September 2008, respectively, with a retroactive effect from April 26, 2008. On July 2, 2008, we submitted the joint RIO and RUO with Emitel as a consequence of the merger of Emitel and Magyar Telekom Plc. in October 2007. These recent reference offers were approved on March 26, 2009.

The draft of the new SMP resolution regarding the wholesale (physical) network infrastructure access (market 4) was published in December 2010 and contains broadening remedies on passive network elements, such as ducts, in-house wiring, and NGA optical (GPON) networks.

Magyar Telekom is designated as SMP operator in the wholesale broadband access market (market 5). The "retail-minus" pricing rule is in effect for the wholesale broadband market of nationwide bit-stream access service (including naked bit-stream access), requiring us to provide services at prices lower than retail prices according to a certain margin. The margin applied in the retail minus formula is determined by a fixed amount, instead of on the basis of a percentage (the more common standard internationally). The local bit-stream access service is currently cost-based. The draft of the new SMP resolution regarding the wholesale broadband access market, including the retail minus methodology, was published in December 2010.

Once the drafts are finalized, we will have to submit the first versions of our new reference offers for interconnection and unbundling, most likely in the first half of 2011.

The wholesale leased line termination market consists of i) the wholesale leased line access market and ii) the wholesale market of terminating segment of the leased lines. In 2005, we were identified as the only operator with SMP in Hungary in the wholesale market of terminating segments of leased lines. For the wholesale leased line termination market, the SMP resolution has adopted the "retail minus" pricing rule, requiring us to provide all wholesale leased line access services at prices approximately 33 percent lower than the listed retail prices. We are also required to provide all services identified in the resolution on a national basis. We have complied with this new regulation by reducing our wholesale leased line access prices by the set amount. A regulation published on January 31, 2008 provides for regulation of leased lines up to and including the bandwidth of 2 Mbit/s, as opposed to only those below 2 Mbit/s, and that the "retail minus" pricing rule set at 33 percent in the prior resolution is now 29 percent up to 128 Kbit/s and 28 percent thereafter. The "retail minus" pricing rule is not set in the SMP resolution, but is determined after the NCA examined the data submitted by us as a result of the obligation in the SMP resolution.

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Final SMP resolutions are expected to be published in 2011.

Fixed Line Other Wholesale Prices

The Electronic Communications Act provides that network access fees are to be set based on a number of objective criteria, with transparency and without discrimination.

Network Access and Interconnection Agreements between Magyar Telekom and ISPs

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

Mobile Market Assessment, SMP Designation Process and Interconnection

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

Mobile Retail fees

Fees and Charges. Magyar Telekom's subscriber charges are not subject to regulation under the Pricing Act or any other regulation.

Mobile Wholesale fees

Termination fees. In the first round of market analysis, the NCA identified all three mobile operators as having SMP on the voice call termination of individual mobile networks and set asymmetrical termination rates for them. TMH, being the operator with the highest market share, was obliged to apply the lowest rate. In the second round of market analysis, the NCA set a glide-path for the following three years that envisaged gradual reductions in termination rates as a result of which asymmetrical termination rates became symmetrical on January 1, 2009. The revised resolution published in December 2008 confirmed the charging of symmetrical termination rates by the three mobile network operators and set a new glide-path envisaging further reductions by December 2010. The harmonization of termination rates introduced on January 1, 2009 in accordance with the NCA's decision has had and continues to have a positive effect on our company even though, as a result of the new EU recommendation of May 7, 2009 on termination rates, it is possible that TMH termination rates will be reduced to a lower level than intended by the NMIA by 2012.

Roaming Agreements and Tariffs. TMH may sign roaming agreements with other public mobile telecommunications service operators outside Hungary in accordance with the rules of the GSM Association, an association of GSM operators and associated members. The Roaming Regulation (of the European Parliament and of the Council No. 717/2007/EC) applied specific caps on wholesale and retail international roaming voice charges and set transparency requirements for the provision of roaming tariffs to end users. Text messaging and data communications were not covered immediately but are subject to regulatory monitoring. The regulation came into effect on June 30, 2007 but new retail charges (Eurotariff) were applicable from September 30, 2007. 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 in mid-2009. Furthermore, the EU regulation mandated the introduction of additional transparency measures requiring us to make additional investments.

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In 2008 and 2009, the European Commission reviewed the development of roaming prices. As a result, voice telephony roaming price caps have been extended for a further two years until the end of June 2012. Roaming Regulation II mandates per second billing after the first 30 seconds of a call, regulates SMS wholesale and retail prices as well as wholesale data roaming prices and has prescribed further transparency rules including a cut-off limit system, which was introduced on March 1, 2010. This system requires us to limit data roaming traffic (unless further usage is explicitly allowed by the customer) in order to avoid unexpectedly high invoices. The amended Regulation was published on June 29, 2009. As a consequence, our mobile operations in the European Union had to lower their wholesale and retail roaming SMS tariffs, which have negatively affected our revenues. However, since roaming data services constitute an emerging market, revenues from this segment continue to increase despite regulation.

ORGANIZATIONAL STRUCTURE

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

For a list of principal operating subsidiaries and associates of the Company as of December 31, 2010, see Note 2.2 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

The real estate portfolio of the Company had a book value of HUF 104,129 million at December 31, 2010. Approximately 77 percent of this amount relates to properties of Magyar Telekom Plc.

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

The number of sites used by Magyar Telekom Plc. is approximately 2,500, out of which approximately 22 percent are owned by the Company, 40 percent jointly owned and 38 percent leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have 3,435 base stations, of which five percent are owned by Magyar Telekom Plc. and 95 percent are leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2010 was approximately 621,000 m^2. The majority of sites used in our operations are smaller than 100 m^2. Approximately 39 percent of the total area is used to house telecommunications equipment and other technical devices. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m^2.

In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties. For more details on property, plant and equipment, see Note 12 to the consolidated financial statements.

We have financed and continue to finance our capital expenditures from cash generated from operating activities. Any excess cash is primarily used to repay loans.

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INFRASTRUCTURE AND TECHNOLOGY

Hungary

The following table provides information on the length of the copper and fiber optic cables contained in Magyar Telekom Plc.'s access, backbone and rural area networks in Hungary at December 31, 2010, and each of the two prior years in kilometers (not including the network of T-Kábel):

	At December 31,		
	2008	2009	2010
	(in kilometers)		
Copper cable	162,737	166,408	168,785
Fiber optic cable	16,547*	16,092	17,261
Fiber optic cable (broadband access)	0	2,095	2,492

* Including GPON pilot (fiber optic cable for broadband access).

The number of households with access to cable TV in the T-Kábel network increased from 619,754 at the end of 2008 to 683,942 by December 31, 2010, as a result of own development and acquisition.

Expansion of Access Networks. We offer broadband Internet access services, based on ADSL with ATM technologies since 2000. In 2004, we selected Ethernet-based DSLAMs to provide a more cost effective ADSL solution together with the ATM technology already in use. The ADSL transmission system provides high-speed digital access to any data network over existing copper wires without interruption of POTS and ISDN2 services with the data speed of 1, 4, 5, 8 10, 15 and 18 Mbit/s. In 2010, we continued the roll-out of the ADSL technology nationwide. At the end of 2010, almost 624,000 customers were using ADSL lines for connection to the Internet. By the end of 2010, our infrastructure allowed up to 1.5 million of our analogue and ISDN2 subscribers to have access to the ADSL service. This represents coverage of more than 1,350 towns and cities (potentially approximately 2,910,000 households) in our service area. More than 1,600,000 households are covered with DSL-based IPTV technology and more than 85,000 users also use the TV service on copper lines. In 2008, we introduced the VDSL2 technology to provide high-speed data access with data speed of 25 Mbit/s. Consistent with our continuous VDSL rollout plans, in 2010, approximately 145,000 households were covered by 25 Mbit/s and/or HD TV service. At the end of 2010, the number of connected VDSL customers was 15,860.

We used fiber optic cables (HYTAS access and direct business access network) for our fixed line local loop networks for approximately 125,300 customers at the end of 2010. We installed a substantial amount of local network fiber optic cable in Budapest, where segments of the old cable network were in poor condition and where we believe the demand for high capacity and high quality transmission will be the greatest (e.g., shopping malls, industrial parks).

In accordance with our Next Generation Fix Access Strategy, in 2009 we started to implement a country-wide FTTH (GPON) optical network to cover new business demands in existing areas. As a result, we can fulfill the current and expected customer needs practically without limitation. In Budapest and the surrounding areas, we finished the DOCSIS 3.0 upgrade of our HFC networks as well.

By the end of 2010, we reached approximately 227,000 households covered by optical network and 589,000 households covered by ED3.0 HFC network with the capability of high speed Internet and IPTV.

We introduced new, attractive services, independent from the two underlying technologies (e.g., HD IPTV). These steps allow us to enter the competition in a very effective way, obtain new customers and increase the market share in the area of broadband services.

We plan to extend our local fiber optic network both inside and outside Budapest to cover new business demands in existing areas, mainly to provide broadband services through optical access as well. In 2011, we also intend to increase our cable TV coverage through further acquisitions.

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In addition to fixed cable television developments, on November 24, 2008, we launched our DVB-S service with a high number of channels, covering the whole country, by using the AMOS 3 satellite. On the current platform, in addition to the 82 standard-definition television programs, 4 HD TV channels and 3 public radio stations are broadcasting. The T-Home Sat TV continued to be a very popular service in 2010.

Backbone Network. We have a digital fiber optic national long distance network that connects local primary area networks. We have implemented the DWDM technology and SDH systems in both the national long distance and Budapest networks. The countrywide DWDM backbone network provides 80 times 10 Gbit/s capacity in the most important areas of Hungary, as well as in international directions. Between 2001 and 2007, we carried out capacity and geographical extensions of the DWDM network. In the first half of 2008, we established a nationwide Next Generation DWDM express layer network. It provides high capacity (80 times 10 Gbit/s), and a very flexible usability and cost effectiveness solutions (e.g., optical switching, Optical Transport Network functions, L2 (Layer 2) Ethernet functions). Optical cables were installed to the important mobile base stations to serve 3G. Since we currently have a robust optical backbone network, we have no immediate plans for expansion.

IP/MPLS. Since 2000, we have been providing Internet access and IP-VPN services on the same IP/MPLS platform. The network is built-up of GE and 10 GE connections. The network has several access options (dial-up, leased line, broadband DSL, GPON, cable TV, Ethernet) with PoPs in each primary area in Hungary. Available services include L2 VPN, IP-VPN (scalable interconnection for corporate sites with integrated voice and data option), IPSec and xDSL to VPNs, Virtual Private Dial-up Network, business and residential Internet access, and wholesale Internet services for ISPs. The connectivity network that concentrates xDSL traffic towards the IP core is based mainly on Ethernet technology, and to a lesser extent, on ATM. In 2007, we developed a carrier-grade IP core network to be able to ensure high availability, demanded quality of service, scalability and security for 3Play, VoIP and broadband data communication services, and also for the common T-Home and T-Mobile IP platform.

In 2008, significant capacity, quality and functional upgrades have been performed, including the development of the countrywide 10 Gbit/s core network, installation of new GE and 10 GE connections, duplications of devices to increase redundancies, and changes of old devices. In addition, QoS was introduced into the IP network in order to efficiently serve the IPTV offerings. Other high-availability features were also installed in order to increase network capacity according to traffic demand, to install new network functions and to develop connectivity and integrity with different communication networks to become an appropriate transport platform for NGN and 3Play services. In 2009, further network capacity upgrades have been performed including new connections and new equipment for PoP redundancy developments and for serving the increasing traffic demands. In 2010, we carried out a half-year public testing of the IPv6 protocol involving our residential and corporate customers.

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

In 2010, a new "best-effort Internet core" segment was introduced in order to offload Internet transit traffic from the top level of the MPLS network, ensuring extra capacity and long-term expansion possibility in a cost-efficient way. In 2010, we also started the migration of old Cisco BRASs to new Redback Smart Edge devices. The main goal is to support the traffic growth forecasted over the next years. The migration also prepares the introduction of IPv6 and NAT in order to handle IPv4 address shortage. The migration will be completed in 2011 for all Ethernet-based access devices. After 2011, less than 15 percent of customers will remain on ATM technology.

Point-to-multipoint network was launched in the 26 GHz band in 2010 as we are entitled to use the 3x28 MHz frequency block in the 26 GHz band for 15 years from July 2009. The 26 GHz band is utilized for microwave point-to-point and point-to-multipoint links as well. Point-to-multipoint applications are supported by the Nokia Siemens Network Intracom's equipment is feasible for direct access of SMB

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customers in areas without fiber optic coverage. The network was launched in the fourth quarter of 2010, with the installation of five base stations and 16 sectors in four cities.

In 2009, we introduced EuroDocsis 3.0 function in Budapest for high speed Internet service. In this phase we have covered 370,000 households. After the introduction of high speed Internet service over ED3, we started to launch the IPTV over ED3 service. In 2010, we continued the introduction of ED3 services (high speed Internet and IPTV) in the South East Hungary region and in the surrounding areas of Budapest. By the end of 2010, we reached approximately 589,000 households covered by HFC network with the capability of high speed Internet and IPTV.

Development of our traditional (such as PSTN/ISDN) networks has been limited to maintenance and for legal compliance purposes. Our key focus has instead been on development of technologies and networks compatible with or forming a part of NGN, such as VoIP. Voice-over cable TV, Integrated Voice and Data service ("IP Complex Plus") and Voice-over Internet ("KLIP") have been introduced in recent years. An IMS was also installed, which is considered to be the base for future multimedia services to be provided on broadband. The first service on the platform was the geographical number-based PATS. In 2010, we continued to deploy a carrier-grade multi-service NGN, upgraded the IMS, and implemented PSTN Emulation on it. The Austrian Digital System type PSTN switches are replaced by this IMS-based solution. We launched the commercial IPTV service at the end of 2006 and in 2010 it covered 828 towns with over 124,000 customers. The PSTN replacement with MSAN and IMS was started in 2009.

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

Our nationwide operational support system integrates the following elements:

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

This operational support system environment permits us to focus on our customers' needs, to offer more personalized services, itemized billing, to bundle products and services in price plans and to generate a single bill for customers with multiple locations. We have established the framework of the centralized alarm supervision and the support systems for IPTV, VoIP and XPlay services have been developed and introduced. We also created an automatic trouble shooting support system along the NGOSS conception. We have been operating an automatic service support system for NGN services.

2G Network. At December 31, 2010, our GSM network consisted of 2,489 base station sites providing 99.9 percent population coverage. Our EDGE Packet Switched Data Service population coverage reached 91.3 percent.

UMTS and HS(D/U)PA. The 3G network enables besides rapid data transmission and video-telephone more comprehensive and interesting content than before, including, in addition to image and text, fast transmission of high quality multimedia materials. In August 2005, TMH launched commercial UMTS service, first in Hungary. On May 17, 2006, commercial HSDPA service was launched in the internal districts of Budapest, also as a first operator in Hungary. For the time being, each 3G cell is

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capable of HSDPA, therefore the UMTS/HSDPA population coverage reached 75.2 percent by the end of 2010, serving 463 settlements in Hungary. The network allows 14.4 Mbit/s nominal downlink speed and HSUPA is provided with 1.44 Mbit/s as well. In September 2010, HSPA+ services were launched at 10 sites.

ARCchart prepared a study about Worldwide Mobile Broadband Performance. They found TMH the best performing mobile broadband network with the highest average download throughput. The study is based on over two million individual test readings, from 268 wireless networks in 103 different countries worldwide. The measurements were performed from August 2008 until June 2009 by iPhone, Android and Blackberry user equipment. The study confirms Magyar Telekom's innovations and efforts spent to 3G/HSDPA network development.

Macedonia

Makedonski Telekom endeavors to maintain its network at a high technological level to offer and provide a wide range of products and services that will satisfy customers' demands. In the last few years, Makedonski Telekom upgraded the network to extend its capacities in order to support strong growth of broadband services.

Digital switching systems are used in the network for providing PSTN/ISDN services. In order to assure reliable voice services and to provide a base for further network migration towards NGN, we began the implementation of a new IMS platform in 2010.

Makedonski Telekom's primary area networks are connected to the fiber optic national long distance network. The SDH technology has been implemented in the backbone network, in the transmission networks in Skopje and other cities in the country. For connection of Remote Subscriber Units, PDH equipment is used as well. DWDM backbone and metropolitan network in Skopje was implemented in 2008 and it is continuously being developed as a main transport for IP/MPLS and Ethernet traffic. During 2010, the DWDM network was extended in accordance with the increased bandwidth demands.

The existing copper-wire network is used as the basis for providing broadband services based on DSL technologies. Beginning in 2008, in order to support higher speed of Internet packages and introduction of IPTV, ADSL2+ technology has been used. In 2010, the ADSL Central Office equipment was extended in terms of capacities and coverage according to the forecasted number of customers. In addition, capacities of aggregation links that are considered as a bottleneck in the network are upgraded.

For connection of business customers, Metro Ethernet equipment is used. Key business customers are connected to the network with optical cables. In 2009, new project was established to start migrating TDM-based ILLs and VPNs towards IP-based solutions. The migration is done using existing copper infrastructure with implementation of EFM modems as well as using optical infrastructure via Ethernet aggregation switches and Ethernet optical demarcation devices. This migration has continued in 2010 as well.

The IP/MPLS network, as a base for transport of IP services, has been continuously developed and extended in accordance with traffic growth. In 2010, Makedonski Telekom extended capacity of some interfaces of the IP/MPLS network.

Makedonski Telekom launched 3Play offers in November 2008. In order to achieve this, during 2008, new equipment (e.g., Head-end, IPTV platform) was installed and necessary configuration of the existing access and transport network was made. In 2009, Head end equipment was extended for an additional number of channels and new applications were developed. During 2010, the IPTV platform was upgraded to a new software version in order to support new functionalities and a larger number of users.

In order to prepare the network for prospective high bandwidth services, and to provide a solid basis against competition, Makedonski Telekom started the implementation of FTTH in 2009. We

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installed GPON equipment and built fiber optic infrastructure in a few areas in Skopje. In 2010, Makedonski Telekom continued with the implementation of FTTH.

IT application and operation efficiency has been increased by introduction of new IT development standards and new IT technologies, supporting Makedonski Telekom and T-Mobile Macedonia processes and activities and providing a secure business environment.

IT has developed systems and platforms to support development and sales of fixed and mobile converged services and introduction of 4Play service for T-Mobile Macedonia and Makedonski Telekom customers.

Following DT's strategy for transformation and standardization of IT on a group-wide basis, Makedonski Telekom and T-Mobile Macedonia are participating in several Next Generation projects, such as NG CRM, NG Billing, NG Enterprise Marketing Management, Target Architecture and One.ERP.

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

At the end of 2010, the 2G radio access network consisted of 751 base stations on 551 sites providing 99.9 percent population coverage. The 3G radio access network consists of 135 Node base stations installed on 135 sites providing 62 percent population coverage allowing subscribers to use high speed Internet. In 2010, trial for data speed increase in 3G network has been conducted on two base station sites. A data speed increase to 14.4 Mb/s has been tested and deployed on 10 percent of the 3G network and the implementation of the higher speed will continue in 2011.

In 2010, the billing system upgrade project was finished, which enabled new rating and billing functions, such as cost control, split billing and enhanced roaming ratings. T-Mobile Macedonia service platforms were complemented with functionalities that enable a unified customer experience across all servicing channels (IVR, SMS, MMS, web, handset).

T-Mobile Macedonia is hosting the third mobile entrant in the local market for 2G services in some areas and from 2010, for 3G services on the whole network, with the national roaming arrangement, and is offering convergent fixed and mobile services through the whole process from providing services to invoicing for these services, while simultaneously enforcing its capabilities for even more business processes automation, as well as data security and availability.

During 2010, Makedonski Telekom and T-Mobile Macedonia have started a three year project for implementation of a new consolidated CRM system that should enable 360 degree customer insight and further sharpen the customer focus of T-Mobile Macedonia.

ENVIRONMENT PROTECTION

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

As a part of our commitment to sustainability, we developed a sustainability section for Magyar Telekom's website (http://www.telekom.hu/society_and_environment/sustainability_reports). This section includes our reports and news relating to sustainability and discusses our philosophy and approach to sustainability.

ITEM 4A UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

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

MANAGEMENT OVERVIEW

General

2010 was an eventful year for Hungary, as well as for our company. The main driver of our 2010 performance and share price was the difficult economic and regulatory environment. Our financial results experienced a downward trend at the beginning of 2010 as our business performance continued to be affected by negative trends in prior quarters due to the wider economic downturn, declining domestic consumption, strong competition and market saturation in our core markets. However, market conditions started to improve in the second half of 2010, positively impacting our financial performance by the end of the year. These signs of recovery were partially set back by the government's decision in October to impose a special tax on a number of sectors, including telecommunications services.

We achieved our public targets in 2010 with a revenue decline of 5.3 percent, a 5.5 percent decrease in underlying EBITDA (EBITDA excluding investigation-related costs, severance payments and accruals, and related provision reversals, as well as the special telecommunications tax) and a reduction in capital expenditures ("capex") of 10 percent, as per our previous guidance.

	Year ended December 31,	
	2009	2010
	(in HUF millions)	
Details of special influences, special telecommunications tax and EBITDA performance		
Investigation-related costs	6,398	2,313
Severance payments and accruals, provision reversals	7,357	6,055
Total Special Influence	13,755	8,368
Special telecommunications tax		26,970
EBITDA	249,053	212,966
Underlying EBITDA, also excluding special telecommunications tax	262,808	248,304

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Driven by the continuing intense competition and depressed household consumption, our residential business remained under significant pressure with high fixed churn levels and lower usage. To address these trends, we continued to execute our strategy aimed at positioning Magyar Telekom as the leading 3Play operator with a focus on TV services. As a result, the ratio of multiple-play subscribers to total subscribers increased from 35 percent at the end of 2009 to 43 percent by the end of 2010. In addition, our satellite TV customer base in Hungary increased significantly from 156,142 customers at the end of 2009 to 254,188 customers at the end of 2010, and the number of IPTV customers increased from 67,430 customers at the end of 2009 to 124,374 customers at the end of 2010. Due to these favorable trends, Magyar Telekom strengthened its second position on the pay TV market in Hungary, according to a report published by NMIA, and it is our intention to become the number one player in time.

In the residential mobile market, we witnessed positive trends in both our subscriber base and revenues. After a declining subscriber trend in 2009, the number of active customers increased again in 2010 and TMH remained the market leader in terms of market share based on the total number of active SIM cards generating traffic in the previous three months as published by NMIA. The number of TMH's Internet subscribers increased rapidly and going forward, we expect smart phones to become the principal driver of growth in the mobile data market, which we expect to support with our high quality 3G network covering more than 75 percent of the Hungarian population.

In the BBU segment our business customers are facing increased pressure to renegotiate their contracts with us to achieve cost savings, resulting in a decline in voice revenues. Our SI/IT revenues have also decreased mainly due to the economic uncertainties and the government's strict budgetary measures, as governmental institutions, our largest customer group, stopped IT investments by the end of the year.

Although the economies of Macedonia and Montenegro were starting to emerge from the recession by the second half of 2010, 2010 was a challenging year for our international markets. Despite our continuous efforts to increase customer retention in the fixed line market, the churn rate remained relatively high in both countries. In addition, usage declined further, also due to the unfavorable economic environment. However, due to initiatives we launched in 2010 to counter these negative factors, including the introduction of multi-play packages, we managed to increase our broadband and IPTV subscriber base further.

In the mobile segment of our international markets, both of our subsidiaries faced intense competition. T-Mobile Macedonia's market share decreased, but the company continued to maintain its position as the market leader on the basis of the total number of SIM cards as published by AEC. Demand for mobile broadband services in Macedonia is increasing, supported by iPhone sales, and T-Mobile Macedonia continues to expand its 3G coverage. In Montenegro, competitors are still aggressive in the prepaid segment, while T-Mobile Crna Gora maintained its position as market leader in the postpaid segment based on the number of SIM cards as published by EKIP. Since the fourth quarter of 2010, T-Mobile Crna Gora has been the first and only Blackberry service provider and iPhone 4 distributor in Montenegro.

Looking ahead, we expect that we will continue to face challenges in 2011. Although macroeconomic improvement is expected to continue in Hungary, household spending on telecommunications services is expected to remain under pressure due to increased household debt burdens and the slowly decreasing unemployment rate. At the same time we expect our business customers to continue to be conservative in terms of costs, leading to continued pressure on prices in contracts.

In order to further enhance our efficiency and to react faster to changes in the market and the wider economy, we implemented a number of changes to our management structure. From July 1, 2010, all mass market product management, communications, market research and branding competencies are consolidated under the area of a Chief Marketing Officer. A Chief Sales Officer position was also created responsible for sales, customer service, provisioning and logistics for customer premises equipment to help ensure a seamless end-to-end service for our mass market customers. In parallel, approximately 28,000

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small and medium size business customers were transferred from BBU to our mass market business, CBU. As most of these customers require products that are included in our residential portfolio, this enables us to serve them more efficiently and also enables our BBU segment to focus more on the crucial corporate, multinational and government accounts that require complex telecommunications and IT solutions, which we believe differentiates us from the rest of the market.

We believe that the telecommunications sector will experience a significant growth in mobilization and data communication. We are committed to providing the highest level of customer experience through our high quality fixed and mobile network, and we intend to invest in the future by developing better quality and more efficient networks.

In line with our strategy of capturing incremental revenue sources in business areas where the company can build on its existing capabilities, we entered the retail energy market in 2010, via the resale of natural gas and electricity, leveraging our extensive sales networks. We anticipate that participation in the retail electricity and gas market will enable us to retain existing, and win new, telecommunications customers with attractive energy offers, as we expect that such electricity and gas offers will help to support upsell and upgrade offers in the telecommunications business.

Dividend

The Board of Directors proposed a HUF 50 per ordinary share dividend distribution to be approved by the Annual General Meeting of the Company on April 12, 2011.

Basis of presentation

The Consolidated Financial Statements of Magyar Telekom have been prepared in accordance with IFRS as issued by IASB.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

We established our current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's operating segments in Hungary are: Consumer Services Business Unit (CBU), Business Services Business Unit (BBU), Technology Business Unit (Technology) and Group Headquarters (Headquarters). In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments. The Media Business Unit, a separate operating segment in 2008 and 2009 (which was not a reportable segment for accounting purposes due to its relatively small size) was reported to the MC as part of the Group Headquarters in 2010, therefore we have included its numbers in the Headquarters' numbers in all three years presented.

The movement of HUF against the Macedonian Denar ("MKD") and EUR can significantly affect all revenue and expense lines of our Macedonian and Montenegrin subsidiaries.

Critical Accounting Estimates

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

Outlook

The telecommunications industry is undergoing significant changes globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. These 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 and the growing need for customized content) and competition and regulation (i.e., low entry barriers, new business models, convergence in the telecommunications and media broadcast industry).

To adapt to these changes in the market, 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 current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless, we cannot predict the behavior of our competitors. Therefore, a stronger than assumed impact of alternative operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. As the world economy shows signs of recovery, there have been indications of improvement in macroeconomic trends in Hungary however the recovery has been slow. After a one percent increase in GDP in 2010, analyst and government forecasts indicate GDP growth above three percent in 2011. The unemployment rate remains very high, above ten percent, and the volatility of the Hungarian currency is expected to continue. The government has sought to finance the Hungarian budget deficit through special taxes on several industries (e.g., banking, telecommunications and retail), as negotiations to renew loan resources from international financial

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institutions, such as the International Monetary Fund ("IMF") and the European Central Bank ("ECB") were suspended in the summer of 2010.

In order to balance the government budget, the government implemented several measures to decrease the deficit to 3.0 percent of GDP in 2011. The most significant of these was the 6.5 percent special telecommunications tax, which had a negative impact of HUF 26,970 million on our EBITDA in 2010. Our Business Services Business Unit was also affected by heavy spending cuts by the government, our largest business customer. Despite these measures and a negative business environment, we expect that our core business units will be able to continue to generate strong cash flows from the operations, although the special telecommunications tax will impact our dividend policy. Partially mitigating these negative measures, the government lowered the income tax rates from 2011, which may lead to increased demand for telecommunications services as household disposable income increases. Tax rates for small and medium-sized companies were also lowered.

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in "Item 3 Risk Factors".

Revenues

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

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and increased competition in the fixed line market, including competition from VoIP or VoCable providers. Mobile substitution is still the main driver of the churn and we expect that average mobile per minute fees will be continue to be lower than average fixed line per minute fees in 2011. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from a traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Based on draft directives of NMIA, fixed line interconnection tariffs are expected to reduce further in 2011 and in the years after, having additional negative impact on our fixed line revenues.

We aim to move further toward content and media services to support traditional access services, build new revenue streams and exploit new revenue sources. As the market is shifting towards multiplay offers, we are combining our product portfolio in order to provide all services for every customer demand on every platform. In the second half of 2010, we presented the first 4Play offer in the Hungarian market.

In the saturated fixed line market TV remains the key driver. Building on our large variety of platforms (cable, IP, DVB-S), we are targeting to reach those customers who currently have less than three of our services. In 2010, we increased the number of our Revenue Producing Customers ("RPC") more than our competitors, as a result, we gained additional market share. We are targeting continued growth in the RPC figures to be continued in 2011, however margins are under pressure due to significant competition. To strengthen our position in the TV market, we are building on our two existing channels (weather, lifestyle), and we are committed to add more channels to our broadcasting services depending on market conditions.

In mobile operations in Hungary, market penetration is now saturated, and we expect flat development in 2011. We expect further growth in mobile broadband and the future growth potential of value-added and data services, which is supported by the continuing roll-out of UMTS and HSDPA services.

Fixed line interconnection tariffs are expected to be reduced by ten percent in 2011, and by an additional ten percent in December 2012 (with the extension to VoIP and VoCable). Fixed-to-mobile and mobile-to-mobile termination tariffs as well as mobile termination fees are expected to be further reduced.

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

In Macedonia, competition is increasing both in the fixed line and mobile segment. Our main competitors in the fixed line segment are ONE and two major cable TV operators (Telekabel and CableTel), targeting the retail voice market with 3Play offers (ONE is capable of offering 4Play as well), aggressive pricing and marketing communication. Fast-growing fixed broadband, the roll-out of new platforms (FTTx) and combined fixed-mobile products may only partially offset the decline in fixed voice revenues.

We also expect more intensive regulatory measures in Macedonia in the future. In addition to currently existing obligations (RIO, RUO, Naked DSL, Number Portability, Cost-based pricing, Accounting separation, Access to specific network elements, Wholesale Line Rental, Wholesale Digital Leased Line, Minimal set of leased lines, Bitstream Access), new regulations are expected to come into effect in relation to asymmetric mobile termination and control of retail prices. A further decline in wholesale fees (e.g., IC, leased lines, WLR) is also expected.

In the mobile segment the competition is also very strong with three players in the market but mobile voice revenues are still expected to increase on the basis of fast growth in mobile broadband based on the new 3G technology. T-Home services included in T-Mobile bundled offers were launched during 2010. Demand for mobile data services (e.g., IP-VPN, DLL, Metro Ethernet) is expected to decrease due to unfavorable market conditions.

In Crnogorski Telekom, we are also expecting difficulties due to competition and regulation in the near future. Fixed wholesale revenues are expected to be the most impacted by regulatory actions (reducing international termination rates to rates at the national level), while mobile revenue is also expected to decline due to gradual termination fee cuts. Growth in fixed and mobile broadband cannot entirely compensate the losses in the voice market. Competitors are also putting pressure on prices with 2Play and 3Play offers.

In the Montenegrin market, new regulatory actions are expected related to prepaid registration (i.e., the obligation to register each prepaid customer with the regulator) and SIM changes, cost-based pricing, wholesale obligation and number portability.

Expenses

We are entirely committed to improving internal operational efficiency in all of our business segments. To accomplish our goals despite the intensifying competitive environment, we expect to offset decreasing revenue with strict cost control. We will continue our group-wide efficiency project Save for Service ("S4S"). This multi-year project yielded substantial savings in 2010, and will be continued in the coming years. The target for S4S in 2011 is to overhaul cross-functional, end-to-end processes, and to exploit all cost saving opportunities with better optimization and re-organization of processes irrespective of current organizational borders.

We have reached an agreement with trade unions on wage development, headcount reduction and decreases in additional employee allowances at the parent company for 2011. The key elements of the agreement are the following: reduction of headcount by 300 employees in addition to executive termination and retirement and a four percent wage increase from July 2011 (two percent for higher paid employees). These measures will reduce our Total Workforce Management ("TWM") related costs.

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In line with world market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices above the inflation level. We expect energy prices to remain high in 2011, impacting us negatively.

Total investments in tangible and intangible assets

Compared to previous years, the key priorities of capex spending have not changed. Investments in new products and platforms (e.g., FTTx, LTE) remain our key strategic goals although the overall investment level is decreasing. We will also continue the roll-out of the UMTS and HSDPA infrastructure by building new base stations but the total investment will decrease in that area.

We will increase investments in the IT area to reach our goals to become an ICT leader in Hungary, while expansion into new segments (e.g., energy sector) will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority for 2011 and beyond is the successful implementation of a new CRM system. We are targeting the complete overhaul of the current customer management of the Company. The goals of the project include not just the replacement of outdated billing systems but to bring a new approach to the entire customer management process by integrating fixed and mobile portfolios.

In 2010, we succeeded in decreasing our total level of investments in tangible and intangible assets compared to 2009, despite the volatility of the Hungarian currency during the year.

According to our strategy, we are committed to further strengthening and leveraging our presence in the South-East European region. Therefore, we are continuously seeking further value-creating acquisition and investment targets.

Revenue and EBITDA targets

Our revenue and underlying EBITDA, also excluding the special telecommunications tax, decreased more moderately than our previous estimates of a 6-8 percent and 7-9 percent decrease in revenue and underlying EBITDA, respectively, in 2010. Revenues decreased by 5.3 percent and underlying EBITDA decreased by 5.5 percent, which resulted in an almost flat EBITDA compared to the prior year, primarily due to our strong focus on cost efficiency. In line with our target, our capex decreased by 10 percent compared to 2009. Despite a special telecommunications tax advance payment of HUF 28 billion, our free cash flow (defined as operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets) declined by HUF 4,548 million. These results indicate the beginnings of a recovery in the Hungarian economy and we continue to see positive signs in customer spending.

Improved trends have also been observed in the Hungarian residential market: mobile usage increased in 2010 and churn due to non-payment significantly declined in the last quarters. The number of mobile subscribers grew in 2010 after a slight decrease in 2009. Growth continued in the number of TV customers and mobile Internet subscribers. In addition, we successfully implemented further cost cutting measures, notably in employee-related and other operating expenses.

In light of the above trends, we expect that our revenues will decline by 3-5 percent and underlying EBITDA by 4-6 percent in 2011 compared to 2010, excluding special influences and the special telecommunications tax. In addition, we are aiming to further reduce capex spending by approximately 5 percent.

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Revenues

The following table sets forth information regarding our revenues:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Fixed line revenues	299,895	274,080	249,633	(8.6)	(8.9)
Mobile revenues	331,765	325,996	315,173	(1.7)	(3.3)
SI/IT revenues	41,396	43,913	44,773	6.1	2.0
Total revenues	673,056	643,989	609,579	(4.3)	(5.3)

Fixed Line Revenues

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice-retail	151,033	128,133	106,623	(15.2)	(16.8)
Voice-wholesale	21,494	21,322	21,317	(0.8)	(0.0)
Internet	59,823	55,089	53,755	(7.9)	(2.4)
Data	28,839	30,762	27,710	6.7	(9.9)
TV	18,830	23,753	28,549	26.1	20.2
Equipment	7,058	4,745	4,091	(32.8)	(13.8)
Other fixed line revenues	12,818	10,276	7,588	(19.8)	(26.2)
Total fixed line revenues	299,895	274,080	249,633	(8.6)	(8.9)

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The table below sets forth information regarding total revenue generating fixed access lines in Hungary, Macedonia and Montenegro:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
				(percent change)	
Number of fixed lines at Magyar Telekom Plc. (including Emitel)					
Residential	1,595,517	1,387,609	1,215,393	(13.0)	(12.4)
Business	204,839	190,248	175,822	(7.1)	(7.6)
Payphone	16,284	14,801	11,912	(9.1)	(19.5)
Total	1,816,640	1,592,658	1,403,127	(12.3)	(11.9)
ISDN channels	419,754	383,952	349,108	(8.5)	(9.1)
Total	2,236,394	1,976,610	1,752,235	(11.6)	(11.4)
Number of fixed lines at Makedonski Telekom					
Residential	356,082	305,806	281,436	(14.1)	(8.0)
Business	34,864	31,443	29,255	(9.8)	(7.0)
Payphone	1,692	1,218	889	(28.0)	(27.0)
Total	392,638	338,467	311,580	(13.8)	(7.9)
ISDN channels	38,598	34,766	32,328	(9.9)	(7.0)
Total	431,236	373,233	343,908	(13.5)	(7.9)
Number of fixed lines at Crnogorski Telekom					
Residential	144,897	140,591	137,156	(3.0)	(2.4)
Business	18,532	18,241	17,476	(1.6)	(4.2)
Total	163,429	158,832	154,632	(2.8)	(2.6)
ISDN channels	18,806	18,058	17,052	(4.0)	(5.6)
Total	182,235	176,890	171,684	(2.9)	(2.9)

Voice-retail revenues

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

Fixed line voice-retail revenues decreased both in 2009 and 2010, mainly driven by lower subscription fees and outgoing traffic revenues at Magyar Telekom Plc. due to a decreased customer base and lower usage resulting primarily from weak economic conditions, mobile substitution and also competition from VoCable and VoIP service providers.

Subscriptions. Revenues from subscriptions consist of revenues from monthly subscription fees for price plans. Revenues from subscriptions are principally a function of the number and mix of residential, business and ISDN access lines and corresponding charges. The decrease in subscription revenues in 2009 and in 2010 was mainly due to lower revenues in the Hungarian fixed line operations driven by a lower average number of fixed line subscribers. Lower subscription revenues at Makedonski Telekom were also driven by a declining average PSTN customer base.

Domestic outgoing traffic revenues. Domestic outgoing traffic revenues consist of traffic charges for local, domestic long distance and fixed line to mobile calls placed by our subscribers. Domestic outgoing traffic revenues are a function of rates, the total number of telephone calls, the distribution of call

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duration, the time of day and the mix between more costly domestic long distance or fixed line to mobile calls and less expensive local calls.

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in thousands of minutes)			(percent change)	
Magyar Telekom Plc. (including Emitel)	4,020,941	3,520,251	3,098,288	(12.5)	(12.0)
Makedonski Telekom	1,194,717	876,761	698,770	(26.6)	(20.3)
Crnogorski Telekom	324,603	300,902	301,639	(7.3)	0.2

Domestic outgoing fixed line traffic revenues decreased in 2009 compared to 2008 mainly as a consequence of lower fixed to mobile revenues in Hungary due to the reversal of a HUF 8,525 million provision booked on F2M termination fees in June 2008, as described below.

Pursuant to a decree, we had the obligation to decrease the F2M tariffs of the universal services subscribers by the amount of the decrease in the F2M termination rates. We did not fulfill this obligation because the mobile operators referring to their lawsuits against the NCA resolutions did not, from a legal point of view, decrease the F2M termination rates, in their interconnection agreements with us.

The NCA called upon us to repay the difference to our universal customers regardless of the status of the above legal cases. In August 2008, the negotiations with NCA resulted in a positive conclusion, whereby the NCA accepted our arguments that despite other forms of compensation, we had already passed on the required discounts to the customers. Even though the NCA conclusion was limited to the year 2005, based on the NCA's reasoning for the relief, we believe that we passed on the required discounts to our customers in the subsequent years of 2006-2008 as well. As a result of the above, we believed that the recognition of the provision was no longer necessary, and released to revenues the total amount of the HUF 8,525 million provision recorded in prior years.

In 2009 and 2010, the decline in the number of PSTN lines and decreasing traffic led to lower domestic outgoing traffic revenues in Hungary. We offered several price discounts to customers choosing different flat-rate and optional price plans to decrease churn, resulting in lower average per minute fees. Traffic revenues also declined due to the increasing usage of bundled fixed line services (2Play, 3Play and 4Play price plans).

Domestic outgoing traffic revenues decreased also at Makedonski Telekom and Crnogorski Telekom throughout the period primarily due to lower usage and price discounts as a consequence of increasing mobile substitution. In 2009, the significant weakening of the HUF against the MKD and the EUR on average partly offset these decreases.

International outgoing traffic revenues. International outgoing traffic revenues are a function of rates and the number, duration and mix of calls placed by our fixed line subscribers to destinations outside Hungary in the case of Magyar Telekom Plc., outside Macedonia in the case of Makedonski Telekom and outside Montenegro in the case of Crnogorski Telekom.

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in thousands of minutes)			(percent change)	
Magyar Telekom Plc. (including Emitel)	73,746	64,946	64,919	(11.9)	(0.0)
Makedonski Telekom	22,481	18,527	16,798	(17.6)	(9.3)
Crnogorski Telekom	53,202	47,386	43,166	(10.9)	(8.9)

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

International outgoing fixed line traffic revenues decreased both in 2009 and 2010 at Magyar Telekom Plc. and also at our foreign subsidiaries resulting from lower volumes of minutes and loss of lines.

Value-added and other services. Revenues from value-added and other services mainly consist of fees for digifon services and directory assistance.

Value-added and other services revenues declined both in 2009 and 2010 primarily driven by lower revenues at Magyar Telekom Plc. and Makedonski Telekom due to lower usage of value-added services (e.g., directory assistance, premium rate numbers).

Voice-wholesale revenues

Voice-wholesale revenues consist of domestic and international incoming traffic revenues. Fixed line voice-wholesale revenues remained at the same level throughout the reported period. While prices and volumes fluctuated during the period in our markets of operation, overall, revenues remained stable as these underlying trends either offset each other or did not result in material increases or decreases.

Internet revenues

Internet revenues declined both in 2009 and 2010 primarily in Hungary, as the increase in broadband volumes did not fully offset the effect of lower prices as a result of strong competition. Since the rebranding in September 2008, as a result of increased competition, there has been a strong trend towards consolidation of services into 2Play and 3Play plans at lower price levels. Lower narrowband Internet revenues were driven by a decreased narrowband subscriber base and the decline in dial-up traffic. Lower advertisement revenues as a result of the economic crisis also contributed to the decrease in Internet revenues in 2009. These decreases were partly offset by an increase in the number of Cablenet customers in Hungary and ADSL connections at our foreign subsidiaries.

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The following table sets forth information concerning broadband customer figures in Hungary, Macedonia and Montenegro:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
				(percent change)	
Hungary					
Retail DSL customers	436,683	467,916	492,758	7.2	5.3
Wholesale DSL access	196,776	161,270	130,965	(18.0)	(18.8)
Total DSL access	633,459	629,186	623,723	(0.7)	(0.9)
Cable broadband customers	127,683	152,878	181,056	19.7	18.4
Fiber optic connections	0	7,247	19,109	n.a.	163.7
Leased line Internet subscribers	617	558	564	(9.6)	1.1
Macedonia					
Retail DSL customers	81,858	109,617	130,127	33.9	18.7
Wholesale DSL access	17,008	18,751	21,091	10.2	12.5
Total DSL access	98,866	128,368	151,218	29.8	17.8
Leased line Internet subscribers	129	228	301	76.7	32.0
Montenegro					
Retail DSL customers	38,956	54,983	68,540	41.1	24.7
Leased line Internet subscribers	188	191	193	1.6	1.0

Data revenues

Data revenues increased in 2009 compared to 2008 mainly driven by the increase at Crnogorski Telekom due to a higher number of leased line customers and increased GIA wholesale broadband revenues. This increase was largely intensified by the significant weakening of the HUF against the euro. The increase in Makedonski Telekom's broadband data revenues was primarily attributable to the favorable currency translation effect as a result of a weaker HUF and, to a lesser extent, to higher number of leased line customers. These retail volume increases were partly offset by the decline in the number of wholesale broadband leased lines with VIP (the third largest operator in the Macedonian mobile market).

Data revenues decreased in 2010 compared to 2009. Lower narrowband data revenue at Headquarters was primarily due to lower Flex-Com leased line revenues driven mainly by a decrease in volumes attributable to migration to cheaper products. Lower broadband data revenue reflected the sale of Orbitel (an alternative telecommunications and Internet service provider in Bulgaria, in which we had 100 percent interest) in January of 2010, and no further revenues from Orbitel as a result. See Note 2.2.1 and Note 26 to the consolidated financial statements for details of Orbitel's sale. At Magyar Telekom Plc., lower data broadband revenue for BBU was driven by decreased revenues relating to ADSL portfolios and leased lines. Lower broadband revenues at Combridge, our subsidiary offering retail and wholesale fixed line telecommunications services in Romania, were primarily driven by the loss of retail key accounts and decreased prices due to strong competition. These decreases were partially offset by the increase in Makedonski Telekom's broadband data revenues.

TV revenues

TV revenues increased both in 2009 and 2010. The increase in TV revenues resulted primarily from the introduction of satellite TV service in Hungary in November 2008. The number of satellite TV customers increased significantly and reached 254,188 customers at December 31, 2010 compared to 5,338 at the end of 2008. The growth in the IPTV subscriber base both in Hungary and at our foreign subsidiaries

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also contributed to the increase in TV revenues. These increases were partly offset by lower cable TV revenues driven by decreased average revenue per user and lower subscriber base in Hungary.

The following table sets forth information concerning our TV customer figures in Hungary, Macedonia and Montenegro:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
				(percent change)	
Hungary					
Cable TV customers	422,936	406,841	370,212	(3.8)	(9.0)
Satellite TV customers	5,338	156,142	254,188	2,825.1	62.8
IPTV customers	28,496	67,430	124,374	136.6	84.4
Total TV customers	456,770	630,413	748,774	38.0	18.8
Number of IPTV customers					
Makedonski Telekom	1,952	14,150	30,123	624.9	112.9
Crnogorski Telekom	17,531	29,612	40,042	68.9	35.2

Fixed line equipment sales

Revenues from sales of fixed line equipment decreased both in 2009 and 2010. In 2009, the decrease was primarily due to lower revenues at Combridge. Lower telecommunications equipment rental revenue throughout the period at Magyar Telekom Plc. reflected the decrease in the number of rented telephone sets. At Makedonski Telekom, the decrease was due to lower sales volumes of personal computers and ADSL modems, partially offset by increased sales volumes of TV sets.

Other fixed line revenue

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

Other fixed line revenues decreased by 19.8 percent in 2009 compared to 2008. The decrease partly resulted from lower other revenues due to a decreased number of contact center contracts in the financial sector. Lower revenues related to telephone book publishing at Magyar Telekom Plc. and the decline in other fixed line revenues of Combridge also contributed to the decrease.

Other fixed line revenues decreased by 26.2 percent in 2010 compared to 2009. The decrease resulted mainly at Technology, as we no longer received revenues from DT after termination of the agreement to provide customer care service to DT from January 2010 as well as lower volumes of construction work for the government due to cuts in government spending. Lower revenues from telephone book publishing at Magyar Telekom Plc. also negatively affected other fixed line revenues. These decreases were partially offset by higher other fixed line revenues at CBU from the sale of set-top-boxes to Slovak Telekom and increased revenues from family insurance services.

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Mobile Revenues

The following table sets forth information regarding our mobile revenues:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice-retail	196,983	192,704	185,967	(2.2)	(3.5)
Voice-wholesale	46,241	41,563	36,815	(10.1)	(11.4)
Voice-visitor	5,995	4,959	4,217	(17.3)	(15.0)
Voice	249,219	239,226	226,999	(4.0)	(5.1)
Non-voice	50,936	56,188	57,789	10.3	2.8
Equipment	21,169	21,320	22,691	0.7	6.4
Other mobile revenues	10,441	9,262	7,694	(11.3)	(16.9)
Total mobile revenues	331,765	325,996	315,173	(1.7)	(3.3)

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
				(percent change)	
T-Mobile Hungary					
Total number of subscribers	5,361,792	5,119,584	5,208,418	(4.5)	1.7
MOU	152	155	168	2.0	8.4
ARPU (HUF)					
Total subscriber	4,087	3,764	3,732	(7.9)	(0.9)
Postpaid subscriber	7,720	6,736	6,066	(12.7)	(9.9)
Prepaid subscriber	1,890	1,699	1,699	(10.1)	0.0
Ratio of non-voice revenues in ARPU (percent)	17.2	19.4	20.8	n.a.	n.a.
Average SAC per gross addition in HUF	7,376	7,851	6,531	6.4	(16.8)
Number of mobile broadband subscriptions	264,026	428,545	624,450	62.3	45.7
T-Mobile Macedonia					
Total number of subscribers	1,379,191	1,381,094	1,295,285	0.1	(6.2)
MOU	111	121	135	9.0	11.6
ARPU (HUF)	2,586	2,678	2,690	3.6	0.4
T-Mobile Crna Gora					
Total number of subscribers	506,519	531,457	464,039	4.9	(12.7)
MOU	105	96	105	(8.6)	9.4
ARPU (HUF)	2,886	2,459	2,430	(14.8)	(1.2)

Revenues from mobile telecommunications services amounted to HUF 325,996 million for the year ended December 31, 2009 compared to HUF 331,765 million in 2008. The decrease in mobile revenues resulted primarily from significantly lower voice revenues in Hungary, which were largely offset by higher non-voice revenues at TMH and higher voice revenues at T-Mobile Macedonia, which were strongly affected by favorable currency translation.

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In 2010, mobile revenues decreased by 3.3 percent to HUF 315,173 million, primarily due to lower voice revenues at TMH and also at our foreign subsidiaries, which were partially offset by increases in non-voice revenues and equipment revenues at TMH.

Voice-retail revenue

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

Within mobile telecommunications services, voice traffic revenues represent the largest portion of revenues. In Hungary, the decrease in voice-retail revenues in 2009 compared to 2008 reflected primarily retail tariff erosion due to strong competition. Roaming tariff decreases within the EU also contributed to the decrease. These decreases were partially offset by the increase at T-Mobile Macedonia, primarily attributable to favorable foreign exchange movements, as well as higher MOU, which was partially offset by a decrease in average per minute fees and lower subscription fees.

In 2010, the decline in TMH's revenues primarily resulted from lower per minute fees due to strong competition. Lower voice-retail revenues at T-Mobile Macedonia were mainly driven by decreased average prices per minute, which were partially offset by higher traffic and increased subscriber fee revenues due to a higher number of postpaid subscribers. The decrease in voice-retail revenues at T-Mobile Crna Gora was due to a decrease in prepaid revenues as a result of a lower customer base and lower prices per minute.

Mobile penetration at December 31, 2010 reached 120.2 percent in Hungary and TMH preserved its market leader position with a 43.4 percent market share on the basis of total number of SIM cards as published by NMIA. Within total customer base of TMH, the proportion of postpaid customers increased to 48.2 percent at December 31, 2010 from 38.5 percent at the end of 2008, indicating the migration of prepaid customers to fixed contracts, which we seek to stimulate through price plans, sales commission schemes and loyalty programs.

Voice-wholesale revenues

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

Voice-wholesale traffic revenues declined by 10.1 percent in 2009 compared to 2008 and by 11.4 percent in 2010 compared to 2009. In Hungary, mobile termination fees were reduced by the NCA from January 1, 2009 and this reduction together with a decrease in incoming MOU caused significant revenue losses. In 2010, the NMIA decreased the mobile termination rates by 16 percent from January 2010 and by a further 16 percent from December 2010 leading to further downward pressure on TMH's revenues despite increasing incoming MOU. In 2009, the negative effects of mobile termination fee reductions in Hungary were partially offset by higher voice-wholesale revenues at T-Mobile Macedonia mainly resulting from the significant weakening of the HUF against the MKD. In addition to the currency effect, higher MVNO revenues from VIP (the third largest mobile service operator in the Macedonian market) due to higher incoming traffic also positively affected wholesale revenues. Higher interconnection revenues from mobile operators reflected the enlarged subscriber base of all the three Macedonian mobile operators.

Voice-visitor revenues

Voice-visitor revenues (revenues derived from customers of foreign network operators generating traffic within the network of TMH) declined both in 2009 and 2010, primarily due to the decreased traffic at TMH and also at our foreign subsidiaries.

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Non-voice revenues

Within the mobile telecommunications services, non-voice revenues increased by 10.3 percent in 2009 and by 2.8 percent in 2010. Non-voice revenues consist of Internet, content and data revenues and represented 18.3 percent of our mobile revenues in 2010 compared to 15.4 percent in 2008. Higher non-voice revenues in 2009 and in 2010 reflected higher access revenues supported by the expansion of mobile Internet usage primarily at TMH. In 2010, the increase was partly offset by lower messaging and content revenues due to decreased usage of television voting games through SMS. TMH maintained its market leader position in the mobile broadband market with a 47.8 percent market share at the end of 2010, based on number of mobile broadband customers (624,450 mobile broadband customers) according to the report published by NMIA.

Mobile Internet usage increased also at our foreign mobile subsidiaries throughout the period, although this volume increase only partially offset the decrease in data revenues due to SMS promotions (price discounts for text messages) as a result of strong competition at T-Mobile Macedonia in 2010.

Equipment

Mobile equipment revenues increased in 2009 compared to 2008 mainly due to an increase at T-Mobile Macedonia, driven by a higher number of handsets sold in retention campaigns despite lower average prices for handsets. Declining equipment revenues at TMH mostly offset this increase due to a decreased number of handsets sold, as a result of poor economic conditions leading to reduced demand, and high mobile penetration in Hungary. The average sales price per handset increased due to high-end offers (iPhone and multimedia plans), but this increase did not fully offset the decrease in sales volumes.

Mobile equipment and activation revenues increased in 2010 compared to 2009 mainly due to a higher number of new customers and a higher number of handset upgrades at TMH. The increase in sales volumes led to higher equipment revenues, despite a decrease in average upgrade handset prices. This increase in revenues was partially offset by lower equipment revenues at T-Mobile Macedonia, driven by lower average prices for handsets and a decreased number of handsets sold to both new and existing customers.

Other mobile revenues

The decrease in other mobile revenues both in 2009 and 2010 reflected a lower level of TETRA-related revenues at Pro-M resulting from decreased government spending.

SI/IT Revenues

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
SI and IT revenues	41,396	43,913	44,773	6.1	2.0

SI and IT revenues increased by 6.1 percent in 2009 as a result of higher outsourcing revenues and also driven by increased application revenues, which were partially offset by lower infrastructure and prime contracting revenues.

SI and IT revenues increased in 2010 compared to 2009, reflecting an increase in infrastructure revenues at KFKI driven by higher revenues from outside partners than from intercompany projects in 2010. The inclusion of ISH, our new subsidiary providing software for the health care sector also

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contributed to the increase. These increases were partially offset by a large one-off sale of assets in a finance lease transaction in 2009.

Operating Expenses

The following table sets forth information regarding our operating expenses:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice-, data- and Internet-related payments	79,076	71,583	65,247	(9.5)	(8.9)
Material cost of telecommunications equipment sold	45,061	44,011	41,037	(2.3)	(6.8)
Payments to agents and other subcontractors	43,421	44,982	51,143	3.6	13.7
Expenses directly related to revenues	167,558	160,576	157,427	(4.2)	(2.0)
Employee-related expenses	100,320	101,918	93,884	1.6	(7.9)
Depreciation and amortization	106,120	101,920	100,872	(4.0)	(1.0)
Other operating expenses	141,049	135,305	148,750	(4.1)	9.9
Total operating expenses	515,047	499,719	500,933	(3.0)	0.2

Voice-, data- and Internet-related payments

Voice-, data- and Internet-related payments decreased in 2009 compared to 2008. Lower voice-related payments to domestic mobile operators in Hungary were driven by lower mobile termination fees applied from January 1, 2009. Declining roaming payments were in line with the EU roaming tariff decrease as well as lower usage. At Makedonski Telekom, the payments to domestic mobile operators decreased due to lower interconnection fees and decreased traffic, while lower payments to international operators resulted from a lower volume of minutes and a lower average SDR settlement rate, partially offset by a higher MKD/SDR exchange rate. Lower traffic together with decreased termination fees resulted in declining international payments in the case of Crnogorski Telekom.

Voice-, data- and Internet-related payments decreased by 8.9 percent in 2010 compared to 2009 predominantly resulting from lower voice-related payments to domestic mobile operators in Hungary driven by lower mobile termination fees applied from January 2010 and December 2010 as well as lower traffic. The payments to international operators also decreased at Magyar Telekom Plc. due to decreased traffic, lower average settlement fees and a lower average HUF/EUR exchange rate. The decrease in voice-related payments was also attributable to the sale of Orbitel in January 2010. These decreases were partially offset by higher payments to domestic mobile operators driven by higher volumes of international minutes with higher prices at Makedonski Telekom and increases also at T-Mobile Macedonia mainly due to the increased volume of traffic in line with the enlarged subscriber base of VIP (the third largest mobile service operator in the Macedonian market).

Material cost of telecommunications equipment sold

The material cost of equipment sold decreased by 2.3 percent in 2009 compared to 2008. The decrease was primarily due to decreasing costs at Pro-M in line with lower TETRA-related revenues in 2009. The decrease was also attributable to a lower number of handsets sold in the mobile prepaid segment at TMH, and a lower number of ADSL modems sold on wholesale basis. These decreases were largely counterbalanced by higher material cost of equipment at T-Mobile Macedonia resulting from a higher number of handsets sold in retention campaigns.

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The material cost of telecommunications equipment decreased by 6.8 percent in 2010 compared to 2009. The decrease at T-Mobile Macedonia was primarily due to a lower number of new customers and a decrease in the average cost of handsets, which were partially offset by a higher equipment sales ratio (the proportion of new customers purchasing a handset). A significantly lower cost of equipment at Pro-M was due to the much lower number of construction projects in 2010 due to cuts in government spending. The lower cost of equipment sold at BBU was in line with the lower sales volumes of mobile handsets. At Makedonski Telekom, decreased sales volumes of PCs in PC+ADSL offers and lower sales volumes of telecommunications equipment sold within integrated solutions also contributed to the decrease in cost of equipment.

Payments to agents and other subcontractors

Payments to agents and other subcontractors include payments made to our subcontractors in SI/IT projects, agents' and dealers' commissions, content and TV related payments (including broadcast and royalty fees) and other revenue related payments (such as expenses of operators in directory services, cost of the energy sold in our new retail energy trade).

Payments to agents and other subcontractors increased by 3.6 percent in 2009 compared to 2008. The increase mainly related to higher SI/IT-related payments at IQSYS in line with higher outsourcing revenues as well as increased application revenues. The increase was also due to higher content- and TV-related payments due to broadcast and royalty fee paid by Magyar Telekom Plc. in connection with satellite TV and IPTV services.

Payments to agents and other subcontractors increased in 2010 by 13.7 percent compared to 2009. The increase was primarily due to higher content and TV-related payments due to broadcast and royalty fees paid by CBU in connection with satellite TV and IPTV services. The increase was also due to increased SI/IT-related payments in line with higher infrastructure revenues at KFKI and the inclusion of ISH's full year payments in 2010 after its acquisition in December 2009. A further increase was due to higher other revenue-related payments at Headquarters related to energy costs appearing in line with the launch of retail energy trade in 2010. These increases were partially offset by lower SI/IT-related payments at IQSYS in line with lower SI/IT revenues.

Employee-related expenses

Employee-related expenses in 2009 amounted to HUF 101,918 million increasing by 1.6 percent compared to 2008. The increase in employee-related expenses was predominantly attributable to higher severance expenses at Magyar Telekom Plc. in 2009. The increase was also due to a higher average employee number (due to the insourcing of temporary workforce) and a 5.6 percent average wage increase from April 1, 2009. These increases were partially offset by decreased severance expenses at Makedonski Telekom and at Crnogorski Telekom, where a significant amount of severance expenses were recorded in 2008. The group headcount number increased from 10,439 on December 31, 2008 to 10,828 on December 31, 2009.

Employee-related expenses decreased by 7.9 percent in 2010 compared to 2009. The decrease was mainly attributable to a lower Group headcount number, which decreased from 10,828 on December 31, 2009 to 10,258 on December 31, 2010 due to cost savings measures. The decrease was also attributable to a decrease in severance-related expenses due to a lower number of employees laid off and the reduction in benefits given to employees due to cost cutting measures primarily at Magyar Telekom Plc. These decreases were partially offset by increased severance payments at Crnogorski Telekom due to the dismissal of employees in 2010 and the inclusion of of ISH's full year expenses in 2010 after its acquisition in December 2009.

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Depreciation and amortization

Depreciation and amortization decreased by 4.0 percent to HUF 101,920 million in 2009, mainly as a result of the decrease at Magyar Telekom Plc. due to changes in the useful lives of certain group of assets both in 2008 and 2009. The reviews of the useful lives of intangible assets during the period affected the lives of a large number of assets including primarily the IT, billing and other operation support systems and software.

Depreciation and amortization decreased by 1.0 percent in 2010 compared to 2009, mainly due to the HUF 969 million goodwill impairment booked in June 2009 before the sale of Orbitel in January 2010.

Other operating expenses

Other operating expenses include mainly materials and maintenance, marketing, service fees, fees and levies, rental fees, bad debt expense, energy and consultancy.

Other operating expenses decreased by 4.1 percent in 2009 compared to 2008. Lower other operating expenses reflected primarily the significant decrease in marketing expenses at Magyar Telekom Plc. driven by less intensive advertising activity in 2009 due to cost-cutting measures and the expenses related to T-Home brand campaign in 2008. In addition, Crnogorski Telekom reversed a provision of approximately HUF 1 billion made in 2007 for litigation in connection with the voluntary leave program in the third quarter of 2009 due to the closing of the legal case. Higher consultancy fees in relation to the ongoing investigation at Magyar Telekom Plc. partially offset these decreases in 2009.

Other operating expenses increased from HUF 135,305 million in 2009 to HUF 148,750 million in 2010. Increased other operating expenses at Magyar Telekom Plc. related primarily to the HUF 26,970 million special telecommunications tax imposed by the Hungarian government in 2010. This increase was partially offset by the decline in material and maintenance expenses at Headquarters and Technology driven mainly by lower energy prices and lower fees paid for the maintenance of telecommunications equipment after the renewal of service contracts. Consultancy fees in relation to the ongoing investigations at Headquarters also decreased. Cost cutting measures resulted in a decrease in marketing expenses at Magyar Telekom Plc. and at our foreign subsidiaries. Decreased fees and levies at Makedonski Telekom were driven by provisions made in 2009 for various legal cases and the release of a portion of the legal provisions in 2010 for cases resolved. Other service fees also decreased as a result of a lower number of contracted employees both at BBU and Headquarters.

Magyar Telekom incurred HUF 5,420 million in expenses relating to the internal investigation of certain contracts in 2008, HUF 6,398 million in 2009 and HUF 2,313 million in 2010, which are included in other operating expenses of Group Headquarters. See "Item 3 Risk Factors" and "Item 15 Controls and Procedures" for description of the investigation.

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Other Operating Income

The following table sets forth information concerning other operating income:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Gain on sale of PPE, Intangible assets and assets held for sale	2,126	326	327	(84.7)	0.3
Gain on sale of subsidiaries and associates	1,233	1,371		11.2	n.a.
Compensation for renaming	676			n.a.	n.a.
Other operating income	214	1,166	3,121	444.9	167.7
Total other operating income	4,249	2,863	3,448	(32.6)	20.4

Other operating income decreased by 32.6 percent in 2009 compared to 2008 resulting mainly from a lower gain on sale of buildings at Magyar Telekom Plc. in 2009 as well as higher other operating income in 2008 due to compensation received from DT in 2008 for rebranding at Makedonski Telekom. The 20.4 percent increase in 2010 compared to 2009 related primarily to an increase at Technology due to higher income from ad-hoc works performed on our networks for the orders of external parties in 2010. The gain realized on the IKO-Telekom Media Holding M-RTL transaction in 2009 partially offset this increase (as the other operating income in 2009 included this one-off gain see Note 5.1.1 to the consolidated financial statements of the 2009 financial year for the details of the transaction).

Operating Profit

Our total operating profit decreased from HUF 162,258 million in 2008 to HUF 147,133 million in 2009 since the decrease in total revenues exceeded the decrease in operating expenses. In 2010, operating profit decreased to HUF 112,094 million, primarily due to the 5.3 percent decrease in total revenues and the special telecommunications tax imposed by the Hungarian government in 2010, which amounted to HUF 26,970 million.

Interest income

The following table sets forth information concerning interest income:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Finance lease interest income	1,340	1,390	1,334	3.7	(4.0)
Other interest income	5,887	7,136	3,604	21.2	(49.5)
Total interest income	7,227	8,526	4,938	18.0	(42.1)

Interest income increased by 18.0 percent in 2009 compared to 2008 primarily due to higher interest income received from banks at Magyar Telekom Plc. in line with a higher amount of bank deposits. In 2010, bank interest income declined due to lower average interest rates as well as lower amounts of deposits especially at Magyar Telekom Plc. but also at our Macedonian and Montenegrin subsidiaries.

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Interest expense

The following table sets forth information concerning interest expense:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Interest expense to DT	26,986	27,530	18,397	2.0	(33.2)
Other interest expense	5,742	5,765	4,660	0.4	(19.2)
Finance lease interest expense	648	712	529	9.9	(25.7)
Accretion interest on provisions	70	184	704	162.9	282.6
less: borrowing costs capitalized	(258)	(726)	(506)	181.4	(30.3)
Total interest expense	33,188	33,465	23,784	0.8	(28.9)

While interest expenses remained broadly stable in 2009 compared to 2008, the 28.9 percent decrease in interest expenses in 2010 resulted mainly from lower interest paid by Magyar Telekom Plc. in line with significantly lower average interest rates and lower average amount of loans received from DT.

Other finance expense net

The following table sets forth information concerning other finance expense net:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Fee expense	4,011	4,068	4,236	1.4	4.1
Net foreign exchange losses/(gains)	648	269	2,855	(58.5)	961.3
Losses/(gains) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with related parties		2,387	(1,410)	n.a.	n.m.
Losses/(gains) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with third parties	(789)	568	998	n.m.	75.7
Losses/(gains) on the derecognition of financial instruments at fair value through profit and loss contracted with related parties		441	1,996	n.a.	352.6
Losses/(gains) on the derecognition of financial instruments at fair value through profit and loss contracted with third parties	477	141	592	(70.4)	319.9
Losses/(gains) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)				n.a.	n.a.

Total other finance expense net	4,347	7,874	9,267	81.1	17.7

In 2009, the increase in net other finance expenses mainly reflected significant losses related to interest rate derivative transactions the Group entered into to hedge interest rate risk. This increase was slightly offset by lower net foreign exchange losses reflecting the favorable movement of HUF against EUR.

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In 2010, the increase in net other finance expenses primarily reflected significant net foreign exchange losses driven by the weakening of HUF against EUR. This negative effect was partially offset by lower losses on derivatives in 2010.

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

Income Tax Total

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

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Income tax expense	27,698	20,958	6,583	(24.3)	(68.6)

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

Income tax expense decreased in 2009 compared to 2008 mainly as a result of lower profit before tax. In addition, the decrease reflected the significant decrease in tax expenses of our Macedonian subsidiaries for 2009 as a result of the change in tax law (corporate tax is recorded only at time of dividend payment). These decreases were partially offset by changes in the Hungarian tax regime effective from 2010, which necessitated the recalculation of our deferred tax balances.

Income tax expense decreased by 68.6 percent in 2010 compared to 2009. The decrease was mainly due to lower profit before tax and the reduction of the Hungarian corporate tax rate to ten percent effective from 2013 (enacted in 2010), which resulted in the reversal of significant amounts of deferred tax liabilities. This was partially offset by the recognition of additional deferred tax liabilities related to the undistributed profits of our Macedonian subsidiaries that became subject to additional withholding tax as a result of the change in the Macedonian tax law in July 2010.

On March 1, 2011 the Hungarian Government announced that as part of its long-term effort to reduce the Hungarian budget deficit it intends to amend existing law that provides for a reduction in corporate tax rates from the current 19 percent to 10 percent starting in 2013. When the law reducing future corporate tax rates was enacted in 2010, the Group recalculated its deferred tax balances, resulting in the reversal of net deferred tax liabilities of HUF 14.5 billion in the 2010 comprehensive income statement. The recent announcement of the intended cancellation of the scheduled reduction of the tax rate from 2013 is expected to cause the recognition of a substantially higher amount of net deferred tax liabilities in 2011 and result in a negative impact on deferred tax expense in 2011 equivalent in magnitude to the positive impact on net deferred tax expense in 2010.

OPERATIONS REVIEW BY SEGMENT

We established our current management structure in Hungary based on customer segmentation which requires different technology and marketing strategies, and support functions. The Group's operating segments in Hungary are: Consumer Services Business Unit (CBU), Business Services Business Unit (BBU), Technology Business Unit (Technology) and Group Headquarters (Headquarters). In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments. The Media Business Unit, a separate operating segment in 2008 and 2009 (which was not a reportable segment for accounting purposes due to its relatively small size) was reported to the Management Committee as part of the Group Headquarters in 2010, therefore we have included its numbers in the Headquarters' numbers in all three years presented. In addition to the operating segments, there are a few operations, which do not qualify as operating or reportable segments. These operations are

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grouped in "All other" included in the reconciliations of the reportable segments' totals to the Group totals.

For the discussion of our segments, see "Item 4 Information on the Company Description of business and its segments."

The revenues and expenses of the segments include both primary and secondary results. The primary revenues are derived from external parties, while the secondary ones are allocated from the other segments. Similarly, the primary expenses are paid to external parties, while the secondary ones are charged by the other segments. All secondary revenues and expenses are eliminated in the group's financial statements.

The segments' results are monitored to EBITDA. Depreciation, operating profit, financial results, the share of associates' and joint ventures' profits and tax expenses as well as the non-controlling interests are not allocated to the segments, as these items are managed at Group level. EBITDA is used by Magyar Telekom to measure the profitability of its business segments both for internal management reporting purposes and in external reporting to analysts and investors.

EBITDA for each segment, in principle, could be reconciled to the segment's operating profit, the most directly comparable financial measure according to IFRS, by adding depreciation. However, depreciation is not allocated to the segments; therefore the reconciliation cannot be prepared and presented on a segment basis. As all fixed and mobile network elements of Magyar Telekom Plc. belong to our Technology Business Unit, the vast majority of depreciation would be allocated to that segment. Accordingly, we provide a reconciliation of the total segment EBITDA to consolidated profit for the year of the Group.

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The following tables set forth revenues and EBITDA by segment, as reported to the Management Committee of the Company:

	Year ended December 31,		
	2008	2009	2010
	(in HUF millions)		
Revenues			
Total CBU revenues	341,563	322,336	314,773
Less: CBU revenues from other segments	(38,655)	(33,849)	(30,066)
CBU revenues from external customers	302,908	288,487	284,707
Total BBU revenues	179,174	170,989	159,271
Less: BBU revenues from other segments	(16,833)	(18,861)	(15,683)
BBU revenues from external customers	162,341	152,128	143,588
Total Headquarters revenues	163,905	143,776	123,013
Less: Headquarters revenues from other segments	(70,945)	(62,258)	(53,184)
Headquarters revenues from external customers	92,960	81,518	69,829
Total Technology revenues	11,370	10,556	8,287
Less: Technology revenues from other segments	(7,877)	(7,599)	(7,142)
Technology revenues from external customers	3,493	2,957	1,145
Total Macedonia revenues	76,097	82,312	77,598
Less: Macedonia revenues from other segments	(285)	(214)	(134)
Macedonia revenues from external customers	75,812	82,098	77,464
Total Montenegro revenues	33,148	34,442	32,874
Less: Montenegro revenues from other segments	(105)	(51)	(44)
Montenegro revenues from external customers	33,043	34,391	32,830
All other (net)	2,416	2,426	1
Total consolidated revenue of the segments	672,973	644,005	609,564
Measurement differences to Group revenues	83	(16)	15
Total revenue of the Group	673,056	643,989	609,579

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	Year ended December 31,		
	2008	2009	2010
	(in HUF millions)		
Segment results (EBITDA)			
CBU	193,314	181,920	181,944
BBU	90,816	80,307	72,161
Headquarters	(15,921)	(22,888)	(50,886)
Technology	(49,059)	(47,485)	(43,565)
Macedonia	39,132	42,861	40,248
Montenegro	10,815	13,736	11,370
All other	(169)	265	11
Total EBITDA of the segments	268,928	248,716	211,283
Measurement differences to Group EBITDA	(550)	337	1,683
Total EBITDA of the Group	268,378	249,053	212,966
Depreciation and amortization of the Group	(106,120)	(101,920)	(100,872)
Total Operating profit of the Group	162,258	147,133	112,094
Net financial result	(30,308)	(32,813)	(28,113)
Share of associates' and joint ventures' profits/(losses)	1,341	(109)	(27)
Total Profit before income tax of the Group	133,291	114,211	83,954
Income tax expense	(27,698)	(20,958)	(6,583)
Total Profit for the year of the Group	105,593	93,253	77,371

Consumer Services Business Unit

The CBU comprises comprehensive marketing, sales and customer relations activities of both mobile and fixed consumer products and brands (T-Mobile and T-Home).

The following table sets forth information regarding the CBU segment:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice revenues	89,115	77,709	67,071	(12.8)	(13.7)
Internet revenues	32,582	30,042	29,885	(7.8)	(0.5)
TV revenues	18,412	21,990	25,159	19.4	14.4
Other fixed line and SI/IT revenues	3,520	3,301	3,564	(6.2)	8.0
Total fixed line and SI/IT revenues	143,629	133,042	125,679	(7.4)	(5.5)
Voice revenues	152,472	142,907	138,002	(6.3)	(3.4)
Non-voice revenues	27,404	28,555	31,620	4.2	10.7
Other mobile revenues	18,058	17,832	19,472	(1.3)	9.2
Total mobile revenues	197,934	189,294	189,094	(4.4)	(0.1)

Total revenues	341,563	322,336	314,773	(5.6)	(2.3)
EBITDA	193,314	181,920	181,944	(5.9)	0.0

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Revenues

Revenues in CBU decreased over the period driven by lower fixed line and mobile voice revenues, which were partially offset by higher TV and mobile non-voice revenues.

Fixed line voice-retail revenues experienced a decline both in 2009 and 2010 mainly due to lower subscription revenues resulting from the decrease in the average number of fixed lines. In addition, outgoing domestic and international traffic revenues also declined due to loss of lines, price discounts and lower usage reflecting unfavorable economic environment, mobile substitution and also competition with VoIP and VoCable operators. The reversal of a HUF 3,129 million provision booked on F2M termination fees in June 2008 also contributed to the decrease in voice-retail revenues in 2009.

Internet revenues decreased both in 2009 and 2010 mainly driven by lower broadband revenues as the effect of lower prices forced by fierce competition mainly from cable and mobile operators was only partly offset by the increase in broadband subscriber base. The migration towards double- and triple-play plans also had negative effect on blended ARPU level.

The decreases in fixed line voice revenues were slightly compensated by higher TV revenues. The successful introduction of satellite TV service in November 2008 led to higher TV revenues both in 2009 and 2010. In addition, higher IPTV revenues driven by the increase in the number of subscribers also contributed to the increase. The satellite TV customer base increased to 254,188 and the number of IPTV customers increased to 124,374 by December 31, 2010. These increases were partly offset by lower cable TV revenues influenced by lower ARPU and decreased customer numbers.

Mobile voice revenues decreased in 2009 compared to 2008, while remaining mostly stable in 2010 compared to 2009. Lower voice-wholesale revenues over the period were driven by the decrease in termination fees from January 2009 continuing also in 2010 (16 percent decrease both from January and December 2010). Lower voice-retail revenues reflected mainly the decrease in outgoing tariff levels due to strong competition. Lower roaming revenues were due to decreased traffic and also due to the impact of roaming fee regulation in the European Union. Other mobile revenues decreased as a result of lower sales volumes of mobile handsets despite higher average handset prices in 2009 compared to 2008. These decreases were largely compensated by the increase in non-voice revenues over the period driven by higher access revenues in line with wider usage of mobile Internet. In 2010, higher equipment revenues due to increased retention also offset the decreases.

EBITDA

EBITDA of the CBU decreased by 5.9 percent in 2009 compared to 2008 due to lower total revenues, partly offset by declining voice-related payments and lower other net operating expenses.

In 2010, EBITDA of the CBU remained stable as lower total revenues and higher payments to agents and other subcontractors were offset by declining voice-related payments and employee-related expenses.

Business Services Business Unit

The BBU provides mobile and fixed line 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 and public sector) as well as small and medium enterprises.

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The following table sets forth information regarding the BBU segment:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice revenues	32,277	23,492	19,039	(27.2)	(19.0)
Other fixed line revenues	26,725	25,850	24,245	(3.3)	(6.2)
Total fixed line revenues	59,002	49,342	43,284	(16.4)	(12.3)
Voice revenues	48,035	44,055	40,284	(8.3)	(8.6)
Non-voice revenues	12,463	13,608	14,296	9.2	5.1
Other mobile revenues	11,885	10,662	9,027	(10.3)	(15.3)
Total mobile revenues	72,383	68,325	63,607	(5.6)	(6.9)
SI/IT revenues	47,789	53,322	52,380	11.6	(1.8)
Total revenues	179,174	170,989	159,271	(4.6)	(6.9)
EBITDA	90,816	80,307	72,161	(11.6)	(10.1)

Revenues

Total revenues of BBU decreased over the period primarily driven by lower fixed line and mobile voice revenues, which were partially offset by higher mobile non-voice revenues. In 2009, these decreases were also offset by higher SI/IT revenues.

In 2009, fixed line voice-retail revenues decreased due to the reversal of the HUF 5,370 million F2M provision in June 2008. As a consequence, this one-off item negatively affected F2M outgoing traffic revenues in 2009. Declining outgoing domestic and international traffic revenues reflect the erosion both in the customer base and traffic over the period. Lower subscription fee revenues were in line with a decreased average number of fixed lines. Other fixed line revenues decreased as a result of lower fixed line data revenues influenced mainly by decreased prices due to strong competition and a lower number of subscribers in 2010.

Mobile voice revenues decreased by 8.3 percent in 2009 and 8.6 percent in 2010 mainly due to lower voice-retail revenues as a result of lower average per minute fee, which were partially offset by a higher average customer base. Lower voice-wholesale revenues reflected mainly the impact on wholesale interconnection fees of regulations which took effect from January 2009 as well as from January 2010 and December 2010. These decreases were partially offset by higher non-voice revenues driven by the expansion of mobile Internet. The change in other mobile revenues over the period shows the different level of TETRA-related revenues at Pro-M.

SI/IT revenues increased in 2009 compared to 2008 resulting primarily from higher outsourcing revenues at IQSYS due to the one-off sale of assets in a finance lease transaction in the first quarter of 2009. Consequently, the decrease in SI/IT revenues in 2010 resulted mainly from lower outsourcing revenues in 2010 compared to 2009, reflecting the sale in 2009. At BBU, the decrease in outsourcing revenues was driven mainly by lower fees in relation to certain large government projects due to government cost cutting measures. These decreases were partially offset by the addition of ISH's revenues after its consolidation within the Group from December 2009 and increased infrastructure revenues at KFKI driven by significantly higher revenues from outside partners than from intercompany projects in 2010.

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EBITDA

While total revenues of BBU decreased by 4.6 percent in 2009, higher SI/IT-related payments and higher employee-related expenses led to further decrease in EBITDA which was only partly offset by declining voice-related payments and lower material cost of equipment sold.

The EBITDA for BBU decreased by 10.1 percent in 2010 compared to 2009. Declining total revenues and higher SI/IT-related payments led to decreases in EBITDA, which were partially offset by lower other operating expenses, decreased voice-related payments and lower material cost of equipment sold.

Group Headquarters

The Group Headquarters is responsible for:

(i) headquarters functions (management and support);

(ii) wholesale services;

(iii) shared services (back-office and non-core shared services within the company);

(iv) our PoPs in South-Eastern Europe; and

(v) the Media Business Unit and new business developments.

The following table sets forth information regarding the Headquarters segment:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Voice-wholesale revenues	21,445	18,760	15,557	(12.5)	(17.1)
Other fixed line and SI/IT revenues	47,070	41,003	34,373	(12.9)	(16.2)
Total fixed line and SI/IT revenues	68,515	59,763	49,930	(12.8)	(16.5)
Voice-wholesale revenues	78,098	65,668	56,692	(15.9)	(13.7)
Other mobile revenues	17,292	18,345	16,391	6.1	(10.7)
Total mobile revenues	95,390	84,013	73,083	(11.9)	(13.0)
Total revenues	163,905	143,776	123,013	(12.3)	(14.4)
EBITDA	(15,921)	(22,888)	(50,886)	43.8	122.3

Wholesale revenues (both fixed line and mobile) at Headquarters include the wholesale revenues received from other fixed line, mobile and international telecommunications service providers (primary revenues) as well as the secondary revenues charged to CBU and BBU for their interconnection expenses. Similarly, voice-, data- and Internet-related payments of the Headquarters include primary expenses (paid to external parties), as well as secondary expenses transferred to CBU and BBU related to their wholesale revenues.

Revenues

Total revenues of Headquarters decreased both in 2009 and 2010 primarily due to lower fixed line and mobile voice-wholesale revenues as a result of mobile termination fee reductions from January 2009 as well as further fee reductions in January 2010 and December 2010. Lower interconnection fees applied from April 2008 also contributed to the decrease in 2009.

Other fixed line revenues include mainly Internet, data, equipment and other revenues. Internet revenues declined due to price decreases of xDSL lines and a lower number of wholesale DSL customers

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over the period. In 2009, the decrease in Internet advertisement revenues at Origo reflected weak economic conditions due to the financial crisis. Other fixed line revenues declined also at Combridge and Novatel EOOD in 2009. In 2010, lower broadband data revenue was mainly the result of the sale of Orbitel in January 2010, after which we recognized no further revenues from Orbitel. The change in other mobile revenues in 2010 is due to decreased usage of television voting games through SMS.

EBITDA

In 2009, the decrease in EBITDA was mainly due to lower total revenues, higher material and maintenance expenses as well as higher investigation-related consultancy fees, partly mitigated by lower voice-related payments.

EBITDA for Headquarters segment decreased more than double in 2010 compared to 2009 mainly due to the HUF 26,970 million special telecommunications tax. Lower revenues and higher employee-related expenses also contributed to the decrease in EBITDA, which were partially offset by lower voice-related payments.

Technology Business Unit

The Technology Business Unit performs the mobile and fixed network management and development activities as well as IT management.

The following table sets forth information regarding the Technology segment:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Total revenues	11,370	10,556	8,287	(7.2)	(21.5)
EBITDA	(49,059)	(47,485)	(43,565)	(3.2)	(8.3)

The Technology Business Unit derives its revenues mainly from

(i) provision of internal services to other segments of the company (operation of IT and billing services, support of SAP and other applications);

(ii) provision of IT support, network maintenance and consulting services to subsidiaries; and

(iii) network construction and maintenance services to external parties.

Technology is responsible for the operations and development of both the mobile and fixed network, the costs of which are not transferred to other business units leading to a significant negative EBITDA for this segment.

Significant operating expense for the Technology segment include employee-related expenses, maintenance costs of telecommunications equipments, IT support expenses (including license costs) and concession fees.

In 2009, lower material and maintenance expenses as well as lower other service fees favorably affected EBITDA for the segment, which was partly offset by higher employee-related expenses. In 2010, improved EBITDA mainly resulted from lower employee-related expenses, lower other operating expenses as well as higher other operating income, partly offset by lower total revenues.

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Macedonia

The following table sets forth information regarding the Macedonian operations:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Total fixed line and SI/IT revenues	36,604	36,802	35,194	0.5	(4.4)
Total mobile revenues	39,493	45,510	42,404	15.2	(6.8)
Total revenues	76,097	82,312	77,598	8.2	(5.7)
EBITDA	39,132	42,861	40,248	9.5	(6.1)

The results of our Macedonian operations in HUF terms were strongly affected by the weakening of HUF against MKD by an average of 11.7 percent in 2009. The currency translation on the results of our Macedonian operations due to the MKD HUF exchange rate was relatively minimal in 2010, as the HUF strengthened by 1.5 percent on average against the Macedonian Denar in 2010.

Revenues

Excluding the currency translation effects, fixed line voice revenues decreased over the period mainly as a result of lower voice-retail revenues reflecting the loss of fixed lines and lower traffic affected by strong competition and mobile substitution. In 2010, this decrease was partially offset by higher voice-wholesale revenues, primarily as a result of higher international incoming revenues due to a higher volume of traffic and higher termination fees. Higher Internet revenues reflected a higher number of DSL connections, which were 151,218 at December 31, 2010 compared to 98,866 at the end of December 2008. The increase in TV revenues was due to a larger IPTV subscriber base.

Total revenues of T-Mobile Macedonia increased in 2009 compared to 2008 mainly due to higher voice-retail revenues driven by an increased average customer base and increased MOU, partly offset by lower per minute fees and lower subscription fees. Voice-wholesale revenues increased in 2009 as a result of higher international traffic in line with the higher subscriber base of the Macedonian mobile operators and due to higher MVNO revenues from VIP. Higher non-voice revenues primarily reflected the growing number of mobile Internet subscriptions.

In 2010, mobile revenues for T-Mobile Macedonia decreased primarily due to lower voice-retail revenues reflecting lower per minute fees, which were partially offset by a higher average postpaid customer base and increased MOU. Non-voice revenues also decreased as lower data revenues due to the lower average prices of SMSs were only partially compensated by higher mobile Internet revenues resulting from increased usage. Lower equipment revenues were driven by a lower number of handsets sold, as well as a decrease in the average price of handsets. T-Mobile Macedonia had a 51.3 percent share based on the number of SIM cards in the Macedonian mobile market and mobile penetration was 122.8 percent at the end of December 2010 as published by AEC.

EBITDA

In 2009, the 9.5 percent increase in EBITDA was primarily attributable to higher total revenues and a decrease in employee-related expenses, which were partially offset by higher material cost of equipment sold and higher other net operating expenses. EBITDA for our Macedonian operations decreased by 6.1 percent in 2010, primarily due to the decrease in total revenues, although expenses remained relatively in line with the previous year.

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Montenegro

The following table sets forth information regarding the Montenegrin operations:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
Total fixed line and SI/IT revenues	16,907	18,214	17,666	7.7	(3.0)
Total mobile revenues	16,241	16,228	15,208	(0.1)	(6.3)
Total revenues	33,148	34,442	32,874	3.9	(4.6)
EBITDA	10,815	13,736	11,370	27.0	(17.2)

The results of our Montenegrin operations were positively affected by a weaker HUF against the EUR in 2009, while the strengthening of the HUF against the EUR by 1.5 percent on average in 2010 decreased revenues when translated into HUF.

Revenues

Excluding the currency translation effects, the loss of fixed line customers as a result of mobile substitution resulted in lower voice-retail revenues both in 2009 and 2010. Lower voice-wholesale revenues relating to a lower volume of terminated and transited international and mobile incoming traffic also contributed to the decrease in 2010. Higher TV revenues (enlarged IPTV subscriber base) and higher Internet revenues (increased number of DSL connections) had favorable effects on total fixed line and SI/IT revenues both in 2009 and 2010.

In 2009, T-Mobile Crna Gora's revenues in EUR decreased, however, as mentioned above, the weakening of the HUF against the EUR had a positive effect on revenues when translated into HUF. Visitor revenues decreased as a result of a significant decrease in the volume of visitor minutes. Lower voice-retail revenues reflected decreases in average per minute fees and in MOU, which were partially offset by a higher average customer base. These decreases were partially offset by higher non-voice revenues based on higher mobile Internet usage.

In 2010, mobile revenues in EUR for T-Mobile Crna Gora decreased primarily as a result of lower voice-retail revenues due to a decrease in prepaid revenues as a result of lower customer base and lower prices per minute. Decreasing voice-wholesale revenues reflected lower incoming traffic. Voice-visitor revenues also decreased, reflecting lower volumes of minutes and higher discounts.

EBITDA

In 2009, EBITDA of our Montenegrin operations improved by 27.0 percent mainly due to higher total revenues, lower net other operating expenses and lower employee-related expenses. In 2010, EBITDA decreased mainly due to lower total revenues and higher employee-related expenses due to severance payments, which were partially offset by lower voice-related payments and decreased material cost of equipment sold.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flow analysis

The following table sets forth information concerning our cashflows:

	Year ended December 31,		
	2008	2009	2010
	(in HUF millions)		
Net cashflows:			
From operating activities	210,289	193,795	164,670
Used in investing activities	(113,449)	(130,299)	(52,848)
Used in financing activities	(79,230)	(96,560)	(130,589)
Exchange gains on cash and cash equivalents	1,404	654	338
Change in cash and cash equivalents	19,014	(32,410)	(18,429)
Cash and cash equivalents, beginning of year	47,666	66,680	34,270
Cash and cash equivalents, end of year	66,680	34,270	15,841

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

Net cashflows from operating activities decreased by HUF 16,494 million in 2009 compared to 2008 mainly due to lower EBITDA.

Net cashflows from operating activities decreased by HUF 29,125 million in 2010 compared to 2009. The lower EBITDA and the unfavorable changes in working capital (primarily due to higher advances, tax receivables and lower cash inventory sales) were partially offset by lower income tax and lower interest payments. Our income tax payments decreased in line with lower profit before tax and interest payments declined due to falling interest rates and lower loan balances.

Net Cashflows from Investing Activities. Net cashflows from investing activities are primarily driven by capital expenditures and acquisitions of businesses.

Net cash used in investing activities amounted to HUF 130,299 million in 2009, compared to HUF 113,449 million in 2008. The increase in cash outflow was mainly due to changes in other financial assets, as we increased investments in short-term deposits in 2009.

Net cash used in investing activities decreased by HUF 77,451 million in 2010 compared to 2009, primarily reflecting changes in other financial assets, as short-term bank deposits made in 2009 were cashed out in 2010, as well as the effect of lower investments in tangible and intangible assets.

Purchase of property, plant and equipment and intangible assets totaled HUF 116,039 million in 2008, HUF 110,228 million in 2009 and HUF 87,300 million in 2010.

The decrease in net cash used in investing activities also reflected favorable changes in adjustments to cash purchases. Payables to creditors in relation to capital expenditures ("capex creditors"), improved 2010 cash flow by HUF 4,462 million, while decreasing cashflow by HUF 8,362 million in 2009. The difference in trends from 2009 to 2010 reflected our capex spending volumes in December of each year. Our usual practice is to spend a quarter of our annual capex budget in December of the year; however, in 2009, capital expenditures were distributed more evenly throughout the year. This resulted in lower capex payables at the end of 2009 compared to the end of 2008, resulting in a HUF 8,362 million cash outflow relating to capex during 2009. In 2010, the year-end capex creditor balance was higher than the year-end capex creditor balance in 2009, leading to an increase in cash in 2010. Year-end capex creditors increased in 2010 partly due to our extending payment terms with our suppliers, as one of the measures taken to combat the financial crisis.

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

During 2008, we borrowed HUF 16,113 million net loan. In 2009, we repaid a net HUF 2,920 million loan, resulting in increased net cashflows used in financing activities in 2009.

Net cash used in financing activities amounted to HUF 130,589 million in 2010 compared to HUF 96,560 million in 2009, reflecting a higher amount of loan repayments made in 2010, although the amount of dividends paid remained in line with the previous year.

We carry indebtedness at a level we consider appropriate based on a number of factors, including cash flow expectations (e.g., cash requirements for ongoing operations, investment plans), expectations of investors, analysts, rating agencies considerations and the overall cost of capital. We announced a definite dividend policy in 2003, according to which the net debt ratio is to be kept between 30 to 40 percent. Under the dividend policy, based on the results of 2009, we paid dividends in the amount of HUF 74 per share in May 2010 and based on the results of 2010, the Board of Directors has proposed to the AGM for approval a HUF 50 per share dividend to be paid in May 2011. Our net debt ratio was 32.7 percent at December 31, 2010. Future dividend payments will be determined by the dividend policy and will depend on our profitability, cashflow generation and potential acquisition opportunities.

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

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

The NBH increased its base rate by three percentage point to 11.5 percent in October 2008 to avoid the speculative easing of the Hungarian currency due to market volatility. After the improvement in international financial market conditions, the NBH decreased its base rate to 5.25 percent in several steps between November 2008 and April 2010 before increasing the base rate to 5.75 percent by the end of 2010. In January 2011, the NBH further increased its base rate by 0.25 percentage point to 6.0 percent. At December 31, 2010, 78 percent of our loan portfolio was denominated in HUF, while the remaining 22 percent (denominated in EUR) was almost fully swapped to HUF, thus the foreign exchange risk of the loan portfolio is naturally hedged by the HUF-denominated revenues.

At December 31, 2010, 63 percent of the loan portfolio bore fixed interest rates (including loans swapped to fixed interest and excluding loans swapped to floating interest) these are mainly the medium and long-term loans included in the portfolio while 37 percent of the loan portfolio was subject to variable interest rates (including loans swapped to floating interest and excluding loans swapped from fixed to floating interest). Short-term loans are used in part to manage our short term cash obligations and their variable rates are based on the Budapest Interbank Offered Rate ("BUBOR"). Taking into consideration HUF interest rate volatility, we follow the approach of balancing the fixed and variable interest rate elements in our loan portfolio.

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

Our liquidity needs are primarily covered by our free cash flows. Liquidity requirements are financed from current account overdrafts, short term bank deposits and bilateral shelf facilities. The total undrawn current account overdrafts at the end of 2010 amounted to HUF 7,032 million. The total committed shelf

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facilities from the Hungarian market including current account overdrafts amount to HUF 103,911 million, out of which HUF 54,603 million was undrawn at the end of 2010.

	Amount of the facility	Drawn at the end of 2010	Undrawn at the end of 2010
		(in HUF millions)	
Current account overdrafts	14,900	7,868	7,032
Bilateral loans	89,011	41,440	47,571
Total credit lines	103,911	49,308	54,603

The current amount and structure of the shelf facilities described above is sufficient, and for the purposes of liquidity management, we believe that there is no need to establish new facilities. We believe that, taking into account the substantial amount of undrawn borrowing facilities available, the Group has sufficient working capital for its foreseeable requirements.

	Maturity structure		
	2011	2012	2013
	(in HUF millions)		
Current account overdrafts	14,900		
Bilateral loans	82,706	2,870	3,435
Total credit lines	97,606	2,870	3,435

Our parent company, Deutsche Telekom, provides us with funding to meet our major financing needs (such as refinancing or financing acquisitions) through the international capital markets and extends the proceeds through loans on arm's length terms to Magyar Telekom. Should this financing source cease to become available in the future, we plan to raise funds from the Hungarian syndicated loan market and from the Hungarian capital markets. Our financial position is quite strong in the Hungarian markets therefore we expect to be able to obtain financing at favorable terms from these markets. In addition, we have access to the international bank and capital markets.

For additional information about market risk sensitive instruments, see Notes 3, 16 and 17 to the consolidated financial statements.

Off-balance sheet arrangements

We do not have any off-balance sheet arrangements (including contingent liabilities, guarantees) that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We do not participate in, nor secure, financings for any unconsolidated, limited purpose entities.

Tabular disclosure of contractual obligations

Our contractual obligations, including commitments for future payments under non-cancelable lease arrangements and short- and long-term debt arrangements, are summarized below and are disclosed in more detail in Notes 16, 17 and 33 to our consolidated financial statements. Accrued interest related to loans is included in Financial liabilities to related parties and Other financial liabilities. Amounts disclosed as purchase obligations represent long-term commitments under outsourcing contracts, commitments to purchase interconnection services, rented workforce, commitments for IT and telecommunications systems support and other purchase commitments. Payment obligations for certain purchase contracts depend on a number of factors, such as the quantitative and qualitative conditions of service, exchange rates and annual inflation rates, therefore the amounts included in the table below are estimates.

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This table excludes other obligations we may have, such as payroll and related human resource services (including bonuses and payments under our mid-term incentive plan). Payments under these contracts are based on the level of service required and are excluded from this table due to the uncertainty of the amounts to be paid, if any, as well as the timing of such amounts.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	(in HUF millions)				
Financial liabilities to related parties	306,372	72,208	84,710	120,976	28,478
Other financial liabilities	55,475	46,647	7,326	904	598
Trade payables	88,613	88,613			
Current income tax payable	661	661			
Other current liabilities	30,966	30,966			
Other non current liabilities	1,263		1,020	124	119
Total financial liabilities	483,350	239,095	93,056	122,004	29,195
Interest on loans and borrowings	61,424	19,926	23,322	16,446	1,730
Finance leases	4,462	1,080	1,652	1,012	718
Operating leases	42,869	7,711	12,610	8,377	14,171
Contractual commitments for capital expenditures	8,951	7,830	1,121		
Purchase obligations	66,290	26,019	22,488	14,335	3,448
Total financial obligations	183,996	62,566	61,193	40,170	20,067
Total contractual obligations	667,346	301,661	154,249	162,174	49,262

Purchase commitments for investments

Magyar Telekom signed an agreement to buy 100 percent of Daten Kontor Kft., DK Telecom Zrt. and DK Consulting Zrt. ("DK Group") on July 20, 2010. The maximum purchase price of HUF 1.4 billion payable under the agreement is dependent on the financial performance of DK Group over the next two years and was also adjusted with the value of the net debt at the closing of the transaction, which took place on February 28, 2011, when Magyar Telekom paid the initial purchase price of HUF 900 million. Due to these factors, the exact amount, and the timing of payment, of the outstanding purchase price are uncertain.

Regulatory fee payment obligations

We are obliged to pay various regulatory fees. The exact amount of these fees for future periods cannot be determined; therefore we describe the basis of their calculation and disclose the amounts paid in 2010 for such fees as an indication of their magnitude.

1. Supervisory fees

Magyar Telekom Plc. pays a quarterly market surveillance fee on the basis of Decree 15/2004. (IV.24.) IHM on the "Rates of the Supervisory Fee and the Disclosure of Data and Responsibilities of the Authority in Connection with the Supervisory Fee". The rate of the market surveillance fee is annually set by the Ministry. The rate of the market surveillance fee was 0.212 percent in 2010 (the maximum rate is 0.35 percent) of net sales revenues derived from electronic telecommunications services in the previous year. Magyar Telekom Plc. paid HUF 857million as supervisory fee in 2010.

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2. Number usage fees

Magyar Telekom Plc. pays a number's usage fee for call numbers used by the Company, according to Decree 11/2005 (IX. 28.) IHM on "Fees of Engaging the Identification Numbers Necessary for the Provision of Public Telephone Services". We paid HUF 1,196 million in 2010 for the right to use call numbers.

3. Frequency fees

Magyar Telekom Plc. pays frequency usage fees on the basis of Decree 6/1997 (IV.22.) KHVM on "Frequency Reservation and Usage Fee" and Government Decree 120/1998 (VI.17.) on "Rules of Payment of Frequency Reservation and Usage Fee".

TMH has frequency usage fee payment obligations for channels assigned by the NCA in the 900 MHz and in the 1800 MHz band. The fee consists of a fixed amount and a variable part depending on the number of channels used. The Ministry determines the amount of fees payable each quarter and issues invoices. In 2010, TMH paid HUF 3,849 million frequency usage fee for the right to use radio channels in the 2x8 MHz wide Primary 900 MHz band and HUF 280 million for the right to use the radio channels in the 2x15 MHz wide DCS 1800 MHz band.

TMH also pays frequency fees for the International Mobile Telecommunications ("IMT") 2000/UMTS band. The fee consists of a monthly fixed element and a variable part based on the number of UMTS channels. The Ministry determines the amount of fee payable each months and issues invoices. In 2010, TMH paid HUF 1,583 million frequency fee for the right to use radio channels in the 2x15 MHz wide IMT-2000/UMTS frequency band.

In addition, TMH paid HUF 1,132 million in 2010 for the right to use microwave frequencies.

In addition to the above, Magyar Telekom assumes the legal expenses of its current and former employees involved in the internal investigation (see "Item 3 Risk Factors" and "Item 15 Controls and Procedures"); in connection with this we incurred HUF 797 million expenses in 2010. We are not able to estimate the expenses we will incur in 2011 and future years for legal counsel advising these individuals.

Capital expenditures

Our capital expenditures on property, plant and equipment and intangible assets totaled HUF 116,039 million in 2008, HUF 110,228 million in 2009 and HUF 87,300 million in 2010, including in each year changes in the balance of capital expenditure trade creditors and the recognition of investment tax credit. Capital expenditures include expenditures for (1) the fixed line network, including network operations systems, (2) mobile telecommunications and (3) new products, corporate infrastructure and other assets.

For information about total capital expenditure on property, plant and equipment and intangible assets by reportable segment, see Note 32.1.1 to the consolidated financial statements.

We expect to be able to finance capital expenditures over the next several years from net cashflows from operations and from borrowings. Our actual future capital expenditures will depend on a variety of factors, such as development of our business and of the Hungarian economy and whether we enter into any new lines of business. As a result, our actual future capital expenditures may be significantly different.

RESEARCH AND DEVELOPMENT

In 2009, Magyar Telekom strengthened the strategic alignment of its innovation processes by combining the Corporate Business Development and Group Strategy Departments into one organization under the leadership of the Chief Strategy and Corporate Development Officer. One of the key responsibilities of this business unit was to coordinate all R&D-related activities within the whole

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company. The research and development process is governed by a cross-functional R&D Committee ("the Committee"), which has the mandate and the exclusive right to coordinate every innovation research project originated from the business units. Each business unit is represented on the Committee by relevant decision-makers. Furthermore, the Committee ensures that all R&D activities are performed in accordance with the strategic goals of Magyar Telekom and to avoid overlapping of scopes.

The Committee convenes regularly in order to discuss and decide on the approval of individual R&D proposals, initiated and executed within a project framework by the respective business units. During 2010, the Committee reviewed 94 proposals, out of which 73 have been approved, accounting for a total investment of HUF 737 million (including HUF 679 million reflected as operating expenses and HUF 58 million reflected as employee-related expenses).

Magyar Telekom has worked on several R&D projects in collaboration with the Mobile Innovation Centre ("MIK") which started to operate from 2005 as a result of the call for proposal "The Establishment of R&D and Innovation Centre for Mobile Communication" supported by the National Office for Research and Technology. MIK was established to solve scientific and technologic questions revealed in future mobile and fixed line networks. This partnership finished its fourth year with great success and has applied for further subsidies.

We are also a founding member of the Mobility & Multimedia Cluster, which is a group of local SMBs, subsidiaries of well-known multinational companies and Hungarian universities. The aim of this cluster was to integrate the fragmented R&D capabilities of Hungarian companies into a more synergistic structure ultimately aiming at enhancing the global competitiveness of the Hungarian economy. The cluster also hosts several technology research projects.

We have been supporting for a number of years the Mobile Communications and Computing Laboratory ("MCL"), located at the Department of Telecommunications of Budapest University of Technology and Economics. Currently six staff members, 20 PhD students and around 50 undergraduates work on a number of projects concerning IP mobility support, development environments for mobile multimedia systems, fixed line ad-hoc networks, software radio and security considerations of mobile systems.

Magyar Telekom has also participated in international R&D projects, for example the NAPA-WINE project, which started in 2008 and lasted for three years, supported by the European Union (FP7: Seventh Framework Program) together with established universities (e.g., Politecnico di Torino, Budapest University of Technology and Economics) and other significant telecommunications companies (e.g. France Telecom, Polish Telecom).

The following table indicates our research and development expenditures during the last three years:

	Year ended December 31,			Year ended December 31,	
	2008	2009	2010	2009/2008	2010/2009
	(in HUF millions)			(percent change)	
R&D Expenditures	641	721	737	12.5	2.2

Some of our research topics from the business units are listed below:

Headquarters Strategy and Corporate Development

Investigation of e-health solutions in order to improve customers' every day life by providing personalized health related consultation based on a regular ICT enabled monitoring.

Research the market potential of certain products and services of Magyar Telekom in specific geographical locations in Hungary based on finding statistical correlations between dispersed publicly available data sources.

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Prototype different services around our 3-Screen Content DataMart, such as enhanced targeting capabilities, TV audience analysis and mobile content consumption.

Consumer Services Business Unit

Investigation of NFC with special focus on payment services.

Applying community based analysis to our customer base to better understand and forecast consumer needs, such as identifying community groups based on call frequency and duration.

Enhancement of our churn prevention algorithm by forecasting the rotational churn probabilities, such as the probability that customers will recontract with us.

Technology

Exploration of newer TV interactive content technologies and prototyping applications for these technologies (TV widgets, IPTV applications).

Investigating and prototyping Smartphone application development capabilities, identifying potential Magyar Telekom value added services (such as set-top-box recording for IPTV via Smartphones).

Analyzing the impact of IPv6 technology on our technological platforms and CPE to ensure a smooth roll-out and better customer experience.

Completing the three-year NAPA-WINE European R&D project on P2P-TV capabilities, its technical challenges and QoS controls at telecommunications providers.

Macedonia

Makedonski Telekom continues to maintain its network at a high technological level in order to provide a solid base for a wide range of products and services that will satisfy customers' demands. In the next development period, the main focus will be on network development in all segments: Access, Transport and Service Platforms.

FTTH is foreseen as the main direction for development of a fixed access network. In addition to Skopje, FTTH is planned to be implemented in other regions in the country.

The increasing demand for video and data services requires increasing capacity of transport network. IP/MPLS Network, as a base for transport of IP services, will continue to be developed and extended in accordance with the expected traffic growth. Additional focus will be put on QoS, increasing network security and network availability.

DWDM network is a main transport for IP/MPLS and Ethernet traffic. Further network development is in the direction of implementing a new Optical Transport Network.

In terms of Service Platforms, the main focus will be on development of IPTV with new applications and IMS Platform. IMS Platform will be used:

To provide VoIP as part of 2Play and 3Play services;

To provide new services and applications in the future; and

As a base for PSTN network migration towards all an IP network.

In the next development period, the migration towards the NGN IP-based network will continue with increased broadband penetration, followed by implementation of NGOSS.

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Research and development projects at T-Mobile Macedonia are performed in close cooperation with suppliers and state educational institutions.

In cooperation with local partners, T-Mobile Macedonia has developed solutions for handling low balance prepaid customers, as well as developed a solution that will enable us to offer Unstructured Supplementary Service Data ("USSD") based services.

In 2010, T-Mobile Macedonia was the first operator to offer a 4Play product offering on the Macedonian market, encompassing mobile voice and data, fixed line voice, broadband Internet and TV within one product.

In cooperation with its partners, T-Mobile Macedonia has launched Mobile Payment services as well as successfully completed an e-commerce development enabling residential customers to pay invoices through the T-Mobile Macedonia web site. The next development phase will focus on the e-shop, allowing purchase of products from the Internet with payment cards.

T-Mobile Macedonia is working on implementing 3G-based services for their subscribers. The first service implemented in June 2010, was mobile TV.

T-Mobile Macedonia is implementing the VPN service in its network. The VPN is an Intelligent Network ("IN")-based service, targeting the business subscribers with advanced services.

RISK MANAGEMENT POLICIES

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

Risk Management Policies

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

In 1999, we established a formal risk management system. This system was integrated into the risk management system of DT in 2002.

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

Following the enactment of the Sarbanes-Oxley Act in the United States in 2002, we decided to enhance our risk management procedures. As this law requires prompt disclosure of all risk items influencing investors' decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is

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monitored by the risk management area, and the Chief Financial Officer ("CFO") is notified when a new material risk or information is identified.

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

Disclosure Committee

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

The Disclosure Committee consists of individuals knowledgeable in significant and diverse aspects of our business, finances and risks. The members of the Disclosure Committee are:

Head of the Secretariat of the Chairman-CEO;

Group Compliance Director;

The Accounting and Taxation Director;

Head of the Group Investor Relations Department;

Head of Decision Support Group;

Director of Central Functions HR Department;

Head of the External Reporting Department;

Group Legal Director;

Group Strategy Director;

Group Security Director;

SOX Compliance Manager;

Deputy Director of Group Controlling Center;

Finance Director of BBU; and

Corporate PR Director.

The Internal Audit Director is a permanent invitee.

Principal responsibilities of the Disclosure Committee are as follows:

1. Develop, review and recommend controls and other procedures, which include procedures currently used by the Company ("Disclosure Controls"), that are designed to ensure that information required by the Company to be disclosed to the BSE, SEC and HFSA, such as Annual and Quarterly Reports and 20-F filings is recorded, processed, summarized, and reported accurately and on a timely basis.

2. Monitor and recommend appropriate processes and procedures for the review of the Company's

   (i) periodic and current reports, registration statements and any other information filed with the BSE, SEC and HFSA;

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(ii) ad hoc releases and press releases containing financial information, earnings guidance, forward-looking statements, information about material acquisitions or dispositions, or other information material to the Company's security holders;

(iii) correspondence containing financial information to be broadly disseminated to the Company's security holders;

(iv) financial and other disclosure-related information displayed on the Company's corporate/investor relations websites.

3. Read and review all periodic reports prior to their submission to the applicable financial supervisory authorities, including quarterly stock exchange reports and the Company's Annual Report on Form 20-F.

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ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Board of Directors

Under Hungarian laws, the Board of Directors is responsible for all matters relating to the Company's management and course of business not otherwise reserved for the General Meeting or for other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors is required to report annually to the shareholders at the General Meeting and quarterly to the Supervisory Board on our business administration, state of assets and business policy.

Pursuant to our Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting of the shareholders for a term of three years. On December 31, 2010, there were eleven members of the Board of Directors. Eight of the directors were nominated by MagyarCom and three of the directors were elected upon proposal by other shareholders of the Company.

Meetings of the Board of Directors are held at least four times a year. Meetings of the Board of Directors require the presence of six members for a quorum. Each member has one vote. The Board of Directors passes resolutions by a simple majority vote.

On December 31, 2010, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Ferri Abolhassan	1964	Director Production and Member of the Board of Management, T-Systems Int. GmbH, Deutsche Telekom AG	2010
Dr. István Földesi	1949	International business consultant	2003
Dietmar Frings	1959	Vice President Human Resources Compensation and Benefits and Labor Law, Deutsche Telekom AG	2010
Dr. Mihály Gálik	1946	Professor of the Media, Marketing Communication and Telecommunications Department at the Faculty of Business Administration of the Corvinus University of Budapest	2006
Guido Kerkhoff	1967	Member of the Board of Management of Deutsche Telekom AG to manage the subsidiaries in Europe	2009
Thilo Kusch	1965	Chief Financial Officer of Magyar Telekom Plc.	2006
Dr. Klaus Nitschke	1961	Senior Vice President, EU Strategy & Area Management, Magyar Telekom Group, TM-Netherlands, JV-UK, Deutsche Telekom AG	2010
Frank Odzuck	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	1960	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003
Dr. Steffen Roehn	1964	Member of the Deutsche Telekom Group's CIO Board and responsible for the IT of the integrated German mass market approach of Deutsche Telekom	2009

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Other Principal Directorships of Members of the Board of Directors

Name	Position held	Company
Christopher Mattheisen	Member of the Board of Directors	Makedonski Telekom
	Member of the Board of Directors	T-Mobile Macedonia
Dr. Ferri Abolhassan	Member of the Board of Directors	T-Systems International GmbH
	Chairman of the Supervisory Board	T-Systems GEI GmbH
	Chairman of the Management Committee Production	T-Systems International GmbH
	Chairman of the Board of Directors	T-Systems ITC IBERIA, S.A.U.
Dr. István Földesi	President	Inter-Access, Inc., USA
Dietmar Frings	None	
Dr. Mihály Gálik	None	
Guido Kerkhoff	Member of the Board of Directors	OTE, Greece
	Member of the Board of Directors	Deutsche Telekom AG
	Member of the Supervisory Board	Deutsche Telekom Venture Funds GmbH
	Chairman of the Supervisory Board	HT-Hrvatske telekommunikacije d.d.
	Member of the Supervisory Board	Polska Telefonia Cyfrowa
	Chairman of the Supervisory Board	T-Mobile Austria GmbH
	Chairman of the Supervisory Board	T-Mobile Austria Holding GmbH
	Member of the Board of Directors	Everything Everywhere Ltd., UK
Thilo Kusch	None	
Dr. Klaus Nitschke	Chairman of the Supervisory Board	T-Mobile Netherlands
	Member of the Board of Directors	T-Mobile Macedonia
	Member of the Board of Directors	Makedonski Telekom
Frank Odzuck	Member of the Board of Directors	Zwack Unicum
Dr. Ralph Rentschler	Member of the Board of Directors	Slovak Telekom
	Member of the Supervisory Board	Hrvatski Telekom, Croatia
	Member of the Supervisory Board	DeTe Fleet Services GmbH
	Member of the Supervisory Board	T-Mobile Netherlands Holding B.V.
Dr. Steffen Roehn	Member of the Supervisory Board	Hrvatski Telekom, Croatia
	Chairman of the Supervisory Board	Deutsche Telekom Netzproduction GmbH
	Member of the Supervisory Board	T-Systems International GmbH
	Member of the Supervisory Board	Telekom Deutschland GmbH

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Biographies of Members of the Board of Directors

Christopher Mattheisen. Mr. Mattheisen studied economics at Indiana University of Bloomington and at Columbia University. He first came to Hungary in 1990 to start a strategic planning and business consulting company. In 1993, in his capacity as a marketing manager of U.S. West International, Mr. Mattheisen helped launch various Hungarian, Polish and Czech mobile service operators. He worked as the marketing and sales director of TMH between 1993 and 1996. Between 1997 and 1999, he ran sales and marketing activities of MediaOne in London and later worked in Britain as a business, sales and marketing director of BT's Cellnet. In September 2002, Mr. Mattheisen became Chief Officer of Residential Services of Magyar Telekom and in January 2005, Chief Officer of the Wireline Lines of Business ("T-Com", including Residential Services, Internet and Network divisions). From December 6, 2006, Mr. Mattheisen has been the Chief Executive Officer of Magyar Telekom, from December 21, 2006, he has been the Chairman of the Company's Board of Directors.

Dr. Ferri Abolhassan. Dr. Abolhassan joined IBM in California in 1989 and completed his doctoral work in Research & Development in massive parallel computing at Saarland University in Saarbrucken. Between 1992 and 2000, he worked at SAP Retail Solutions as a Sales Director and as a Managing Director. Between 2001 and 2004, he was Co-Chairman and Chief Executive Officer at IDS Scheer AG. He was a member of top management at SAP AG as Executive Vice President. In 2008, he joined T-Systems International GmbH and he has been a Member of the Board of Directors of T-Systems and Chief of Systems Integration. From December 1, 2010, Dr. Abolhassan has been responsible for the New Production Unit as a member of the Executive Board at T-Systems.

Dr. István Földesi. Dr. Földesi received a degree in economics in 1972 and graduated with a Ph.D. in 1974. He spent twenty years as a diplomat in London, Madrid and Washington D.C. At the end of the 1980s, he served as an advisor to the Prime Minister and participated in round table negotiations resulting in political and economic changes. In 1991, he became an advisor to the Organization for Economic Co-operation and Development ("OECD"). He has been working as an international business advisor since 1992. From 1994 to 1999, Mr. Földesi was a member of the Board of Directors of Magyar Telekom and until 1996 he acted as Chairman of the Board. In 2003, he was reappointed as a member of the Board of Directors of Magyar Telekom.

Dietmar Frings. Mr. Frings acquired a degree in Business Administration at Federal University for Applied Services in Mainz in 1982. Between 1982 and 1986, he worked in managing functions in the Regional Office Branches at German Railways and between 1986 and 1989 at the Federal Ministry of Transport, and then as consultant of the Parliamentary State Secretary. He joined Deutsche Telekom in 1991 as a specialist for human resources issues, responsible for human resources services, recruitment and organizational change at Deutsche Telekom Headquarters. Subsequently, he has been in several positions within human resources. Between 1998 and 2001, he was responsible for the Labor Relations Management in Germany within the Human Resources Board Member Support Unit. After that, he was the Vice President and Head of the German Employers Association for eight years, at the same time being in charge of International Labor Relations. Since April 1, 2010, he has been Vice President Human Resources Compensation & Benefits and Labor Law for DT.

Dr. Mihály Gálik. Dr. Gálik is a senior university lecturer with a Ph.D in economics. He spent nearly two decades in the media, working for Hungarian Radio, where he held several positions involving high responsibility, including that of Managing Director. Afterwards, his professional career has been linked to the Budapest University of Economics (currently called Corvinus University of Budapest). For three years, he was a senior lecturer, while in the last twelve years he headed several departments at the university. He is author of some 90 scientific publications including four textbooks. He was also a recipient of the Széchenyi Professor Scholarship. Since January 1, 2008, he has been a Professor of the Media, Marketing-communication and Telecommunications Department of the Corvinus University of Budapest.

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Guido Kerkhoff. Mr. Kerkhoff holds a degree in Business Administration from Bielefeld/Saarbrücken, Germany. He started his career in 1995 as a corporate balance sheet and taxation specialist with VEW AG, Dortmund, Germany. In 1996, he moved to Bertelsmann AG, Gütersloh, heading the Group Accounting and Controlling department from 1998. In 2002, he joined Deutsche Telekom's Finance area at the Headquarters in Bonn. His positions developed over several leading positions to the head of Group Accounting and Controlling. Since July 1, 2010, he has served as a member of the Board of Management of Deutsche Telekom AG to manage the subsidiaries in Europe.

Thilo Kusch. Mr. Kusch studied communication engineering and business administration at Technische Universität Berlin. From 1989 to 1992, he successfully established and ran his own company selling PCs and PC networks to residential and small business customers. From 1992 to 1998, he worked in a leading position in Arthur D. Little's Telecoms, IT, media and entertainment practice as a management consultant and from 1998 to 2001, he was telecommunications equity analyst with Dresdner Kleinwort Wasserstein. He joined Deutsche Telekom Group in 2001 as Senior Director in charge of IPO preparations and investor relations for T-Mobile International. Since April 2002, he was a Senior Executive Vice president of Deutsche Telekom, in charge of investor relations. He was appointed Chief Financial Officer of Magyar Telekom in September 2006.

Dr. Klaus Nitschke. Dr. Nitschke has a degree from the Cologne University in Biochemistry and Molecular Biology. He acquired a Bachelor of Arts degree from the Boston University and in 1992, a PhD degree as Doctor rerum naturalium from the Max-Planck Institute in Cologne. His career started in 1992 as a Top Management Consultant for Dicke & Associates Management Consultants. He participated in 1999 in the decision to sell the company to Deloitte Consulting, where he continued to work for another year. From 2000 to 2002, he continued his career with Bertelsmann AG as Chief Operating Officer of BOL AG (e-commerce book and CD retailer) and as Vice President, responsible for building up an MVNO. In 2002, he joined Deutsche Telekom where he has been in various management positions. He was first assigned as Area Manager for the Central European subsidiaries of Deutsche Telekom: Magyar Telekom, Hrvatski Telekom and Slovak Telekom. Between 2003 and 2005, he led the Strategy department of Deutsche Telekom's fixed line business in Germany. From 2005 to 2009, he worked as a Managing Director to build up a Product & Development unit which was later reintegrated into Deutsche Telekom. Currently he is working at Deutsche Telekom's General Headquarters leading the South Eastern European Strategy and is acting as Area Manager for Magyar Telekom Group.

Frank Odzuck. Mr. Odzuck obtained an economics degree in 1983 in Budapest. He was the managing director of the Hungarian operations of Eduscho and Eduscho-Tchibo for 8 years and later the managing director of Nestlé-Schöller Hungary Ltd. Since 2003, he has been the CEO of Zwack Unicum Plc., listed on the Budapest Stock Exchange. The company, producing and marketing a genuine "Hungaricum", is one of the best-known international companies in Hungary (Underberg, Diageo).

Dr. Ralph Rentschler. After receiving a doctorate degree in economics, Dr. Rentschler worked for four years for Robert Bosch GmbH as an expert advisor on business principles and methods. His areas of responsibility included investment analysis and cost accounting. He was Head of Group Controlling and Planning and Reporting Departments at Carl Zeiss from 1992 to 1997. His areas of responsibility included production and investment controlling, controlling of affiliated companies, M&A and strategic planning. Later he became Commercial Manager of the Brand Optics Division at Carl Zeiss, where he managed Accounting, Controlling, Data Processing and Purchasing. Dr. Rentschler joined Deutsche Telekom in 2001 and became CFO of the group-wide Fixed Net division. From July 2009, Dr. Rentschler has taken over the position as the Financial Director of the Board Division Southern and Eastern Europe in addition to his position as the CFO of the Fixed Net business. From July 2010, Dr. Rentschler took over the position of the Financial Director Europe.

Dr. Steffen Roehn. Dr. Roehn graduated with a degree in Physics from the Universities of Kaiserslautern, Karlsruhe and Mainz. In 1991, he obtained a PhD degree at the European research facility

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CERN (Geneva) and the Imperial College (London). After his graduation, Dr. Roehn acted as consultant for Gemini Consulting, advising the telecommunications and consumer goods industry branches. Subsequently, he was employed as a quality manager by Credit Suisse. In 1996, he moved to the international Diebold Management Consulting, where he became a partner and member of the Board responsible for TIME practice. In January 2000, he was appointed CEO of the Diebold Group. Dr. Roehn joined Deutsche Telekom in 2000 as IT Director of T-Mobile Deutschland. In 2006, he was appointed Member of the Executive Committee of T-Mobile International. Since May 2009, Dr. Roehn has been the Chief Information Officer of Deutsche Telekom Group.

Management Committee

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000, which is empowered to carry out the day-to-day operations in accordance with the annual business plan. On December 31, 2010, the Management Committee consisted of nine chief officers of Magyar Telekom. The members were as follows:

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer	2006
Attila Keszég	1966	Chief Sales and Services Officer	2010
István Király	1965	Chief Marketing Officer	2010
Thilo Kusch	1965	Chief Financial Officer	2006
István Maradi	1964	Chief Technology Officer	2007
Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Róbert Pataki	1971	Chief Strategy and Corporate Development Officer	2009
Tibor Rékasi	1973	Chief Operating Officer, Business Services Business Unit on an interim basis	2010
Éva Somorjai	1966	Chief Human Resources Officer	2007

Other Principal Directorships of Members of Management Committee

Name	Position held	Company
Christopher Mattheisen	See above	
Attila Keszég	None	
István Király	Member of the Board of Directors	IQSYS Informatikai és Tanácsadó Zrt.
	Member of the Board of Directors	Origo Média és Kommunikációs Szolgáltató Zrt.
Thilo Kusch	See above	
István Maradi	Managing Director	Centro-plane Ltd.
Balázs Máthé	None	
Róbert Pataki	Member of the Supervisory Board	FHB Kereskedelmi Bank Co., Ltd.
	Member of the Board of Directors	Origo Zrt.

Member of the Board of Directors	Telekom New Média Zrt.
Member of the Board of Directors	Investel Zrt.
Member of the Board of Directors	Cronogorski Telekom

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Name	Position held	Company
Tibor Rékasi	Member of the Board of Directors	IQSYS Informatikai és Tanácsadó Zrt.
	Member of the Board of Directors	KFKI Zrt.
Éva Somorjai	None	

Biographies of Chief Officers

Christopher Mattheisen. See "Biographies of Members of the Board of Directors" above.

Attila Keszég. Mr. Keszég graduated from the Budapest University of Technology and Economics as a qualified mechanical engineer before attending an MBA course specializing in financial and management studies. He started his career in 1992 at Hemingway Holding, then he worked for Dove Mid Europe. In 1994, he joined Pepsi Cola Hungary first as Key Accounts Director, then Project Manager, later Unit Manager Central Hungary managing field sales, delivery and warehousing. From 1999, he worked as Sales Director of Pepsi Cola Hungary and from 2001, as Sales Director for Traditional Trade Central and Eastern Europe responsible for the Hungarian, Polish, Czech and Slovak markets. From 2005, he was the General Manager of Red Bull Hungary. From September 1, 2010, he has been Chief Sales and Services Officer of Magyar Telekom.

István Király. Mr. Király graduated from the Institute of International Relations in Moscow with a major in international economic relations. He received a specialized economics and business English translator and interpreter qualification from the Foreign Trade College Budapest in 1992 and MBA qualification from Oxford Brookes University in 2000. He joined Magyar Telekom from Pannon in 2004 as a business development manager and he was in charge of Strategy and Marketing Director in the Business Services Business Unit from 2008. As a result of the organizational changes effective from July 1, 2010, he has been appointed Chief Marketing Officer of Magyar Telekom.

Thilo Kusch. See "Biographies of Members of the Board of Directors" above.

István Maradi. Mr. Maradi graduated in 1989 from the Technical University of Budapest with a degree in communications engineering, specializing in GSM and mobile communication, then in 2000 obtained an MBA degree at the Open University of London. He started his carrier in Matáv PKI Research Institute as mobile telecommunications researcher. Then he participated in the start-up of Westel Rádiótelefon Ltd. with responsibility for network design. In the initial period of the company's operations he worked as design engineer, then as radio engineer, and from 1992 as director for network operations. From 1995, he was director of operations and core network planning at Westel 900 Rt. From 2001 to 2006, he worked as Chief Development Officer, Chief Information Officer and Deputy General Manager of T-Mobile Hungary. From 2006 to 2007, he worked for Cisco CEE as a market analyst in charge of business development support for the local Cisco offices in 17 European countries. From April 1, 2007, he has been Chief Information Officer of Magyar Telekom and from January 1, 2008, Chief Technology and IT Officer.

Dr. Balázs Máthé. Dr. Máthé received his law degree from Janus Pannonius University, Pécs in 1995. His previous studies included EU Law Studies at the Università degli Studi di Trento, Italy and a few semesters at the Faculty of Arts (History and Languages) of Janus Pannonius University. Prior to joining Magyar Telekom, he worked as an attorney at various international law firms for over a decade, including five years at one of the leading global law firms, Linklaters, where he was a Partner and the Head of the Corporate Department in Budapest. As an attorney, he specialized in cross border mergers and acquisitions and corporate governance matters. He joined Magyar Telekom as Group Legal Director in 2007. He was appointed Chief Legal and Corporate Affairs Officer of Magyar Telekom as of July 1, 2010.

Róbert Pataki. Mr. Pataki graduated as an economist from the Corvinus University in Budapest and then completed studies in International Finances and Marketing Management at the University of Erasmus in Rotterdam. He started his career as an investment analyst at Project Finance International Ltd.

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in The Hague in 1995 and he worked as a financial analyst for Nutricia Netherlands BV in Rotterdam in 1996. He joined Accenture (Andersen Consulting) in 1996 and until 2001 he worked for Accenture's Strategic Services, first as a strategic consultant, later as a senior manager responsible for the telecommunications and e-commerce sectors. From 2001, he continued his professional career with A.T. Kearney as a dedicated account manager providing consultancy services to leading Hungarian telecommunications companies; later in 2003, he became senior manager of A.T. Kearney's European Telecommunications Team responsible for major European projects in the field of mobile communications and Internet services. He has been Chief Strategist of Magyar Telekom since September 2006. As of April 1, 2009, he was appointed Chief Operating Officer of Alternative Businesses and Corporate Development Business Unit by keeping his tasks as Chief Strategist of Magyar Telekom as well. Due to organizational changes within the company, he has worked as Chief Strategy and Corporate Development Officer from September 2009.

Tibor Rékasi. Mr. Rékasi graduated from the Budapest Foreign Trade College. He started his career at Integra Kft, as account manager. From 1997, he worked for Unisys Hungary as a relationship manager dealing with financial business partners, and then as Director for Customer Relations. In 2000, he joined Cisco Systems Hungary, where first he worked as Key Account Manager, and then as the Director of the Large Corporations Business Unit. In February 2007, he was appointed Managing Director of Cisco Systems Hungary, and in this position he was responsible for the coordination of all sales activities in Hungary in addition to the operating management of the company. He joined the Magyar Telekom Group on September 15, 2008, as the Managing Director of IQSYS Zrt., a member company of the Services Division, where he was Sales Director in addition to directing the entire company. From December 1, 2010, he was appointed head of Magyar Telekom Plc's Business Services Division on an interim basis.

Éva Somorjai. Ms. Somorjai completed her studies at the College for Commerce and Catering. From 1989, she worked at the international directorate of Magyar Hitelbank. From 1991 through 1994, she was the administrative and financial manager of a real estate investment company in Melbourne, Australia. Between 1996 and 2001, she worked in various management positions in the human resources area of Pepsi Cola's Central European division. In 1999, she was appointed human resources director of the international organization and personnel development area, from 2000 she filled the position of human resources director of the Hungarian company. She has been working for Magyar Telekom since October 2001. Since 2002, she served as Director of the Group HR Branch. From April 1, 2007, she has been Chief Human Resources Officer of Magyar Telekom.

Supervisory Board

The Supervisory Board has to examine every important report on business policy and every submission made on matters falling into the exclusive competence of the General Meeting. The General Meeting may pass resolution on the annual report prepared in accordance with the Act on Accounting and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board, whereas the proposal of the Board of Directors on the payment of dividends and the company's corporate governance report can only be submitted to the General Meeting with the prior approval of the Supervisory Board.

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the General Meeting for a term of three years. The Workers' Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members are present.

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On December 31, 2010, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. János Bitó	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Attila Bujdosó	1967	President of the Telecommunications Trade Union	2010
Dr. János Illéssy	1962	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes	1948	Director of Institute of Environmental Sciences Corvinus University Budapest	2006
Konrad Kreuzer	1948	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Tamás Lichnovszky	1962	Senior expert, Magyar Telekom Plc.	2010
Martin Meffert	1960	Country manager for Hungary, Head office of T-Home, Deutsche Telekom AG	2009
Dr. László Pap	1943	Budapest University of Technology, Professor	1997
Dr. Károly Salamon	1954	Chairman Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt.	2010
Zsoltné Varga	1969	Quality Manager, Magyar Telekom Plc.	2008
György Varju	1946	Chairman of the Central Workers' Council	2005

The members' mandate lasts until May 31, 2013.

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Other Principal Directorships of Members of the Supervisory Board

Name	Position held	Company
Dr. János Bitó	None	
Attila Bujdosó	None	
Dr. János Illéssy	None	
Dr. Sándor Kerekes	Chairman of the Advisory Board	Zöld Iránytü Alapítvány
	Member of the Supervisory Board	Tomori Pál Föiskola
	Chairman of the Advisory Board	Vezetöképzésért Alapítvány
	Member of the Advisory Board	Lélegzet Alapítvány
	Member of the Supervisory Board	Budapesti Közgazdaságtudományi Egyetem Alapítvány
Konrad Kreuzer	Chairman of the Board of Directors	E.ON Slovensko
	Chairman of the Supervisory Board	E.ON Észak-dunántúli Áramszolgáltató Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Áramszolgáltató Zrt.
	Chairman of the Supervisory Board	E.ON Tiszántúli Áramszolgáltató Zrt.
	Chairman of the Supervisory Board	E.ON Közép-dunántúli Gázszolgáltató Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Gázszolgáltató Zrt.
	Chairman of the Board of Directors	Zapadoslovenska Energetika, Slovakia
	Member of the Supervisory Board	Budapest Airport Zrt.
Tamás Lichnovszky	None	
Martin Meffert	None	
Dr. László Pap	Member of the Supervisory Board	Viking Zrt.
Dr. Károly Salamon	Member of the Board of Directors	Hungarian Mortgage Bank
	Member of the Presidency	German Hungarian Chamber of Commerce
Zsoltné Varga	None	
György Varju	Member of the Supervisory Board	Dimenzió Insurance and Self-Aid Association

Biographies of Members of the Supervisory Board

Dr. János Bitó. Dr. Bitó graduated from the Faculty of Natural Sciences at József Attila University of Sciences in 1958, and received a Doctor rerum naturalium in 1960. In 1967, he received a PhD, and in 1971, a Doctor of Science in technical sciences. He has taught in many Hungarian and foreign universities. Between 1971 and 2002, he worked as a technical, research and development director, managing director or chief officer at a number of companies and institutions, and as senior advisor to a minister. Between 1965 and 2005, he accomplished considerable achievements in scientific research and development. He is a member of a number of scientific organizations, including the Committee on Information Science and the Committee on Automation and Computer Science of the Hungarian Academy of Sciences. At present he is the Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty.

Attila Bujdosó. Mr. Bujdosó holds a degree in electrical engineering from Kandó Kálmán Technical College of Budapest, Faculty of Electrical Engineering. Since 1985, he has been working at Magyar Telekom and its legal predecessors. Until 1998, he worked as an exchange maintenance technician, then as

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a technical coordinator and an administrative operator. He has been a member of various trade unions since 1985: between 1985 and 1990 a member of the Postal Workers' Trade Union, between 1990 and 1993 a member of the Telecommunications Workers' Trade Union, between 1993 and 2004 a member of the Hungarian Telecommunications Branch Trade Union, from 2004 a member, and since July 1, 2008, the president of the Telecommunications Trade Union. Between 2005 and 2007, he was a member of the Workers' Council and between July 1, 2008 and December 31, 2010 he was a member of the Presidency of MSZOSZ (National Confederation of Hungarian Trade Unions).

Dr. János Illéssy. Dr. Illéssy is an electrical engineer with a degree from the Budapest Technical University and has received MBA and PhD degrees from the University of Pittsburgh, USA. He spent over 15 years with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, as consultant, controller, CFO and then Chairman-CEO. Between 2001 and 2003 he worked as CFO for the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the CFO and member of the Board of Directors of BorsodChem. Currently, he is the managing director of Lebona Kft. and teaches Financial Economics at the Institute of International Business Relations and also at the Business School of Central European University as an Adjunct Professor.

Dr. Sándor Kerekes. Professor Kerekes holds an MSc in Chemistry and Economics. He received a PhD degree in Economics in 1984 and Doctor of Sciences (the highest degree awarded by the Hungarian Academy of Sciences) in 2003. In 1994, he participated in the Advanced Management Program at Harvard Business School. For 15 years, he was member or Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he has served as the Head of Department and later as the director of Corvinus University and its legal predecessors. Between 1994 and 1997 and between 2002 and 2006 he served as the Dean of Business Administration Faculty of Corvinus University. He is the Director of the Institute of Environmental Sciences and Vice Rector of Academic Affairs of Corvinus University. He is member of the editorial boards of various papers (e.g., Economy and Society, Vezetéstudomány) and the author of many books and articles.

Konrad Kreuzer. Mr. Kreuzer is a lawyer with a degree in Business Administration. After serving in various positions at the Universities of Munich and Konstanz and in the Ministry of Domestic Affairs of the State of Bavaria, he joined Bayernwerke utilities as the Head of the Law and Property Department. Since 1997, he has served as the Chairman of the Board of Directors of E.ON in Hungary. His current responsibilities are Legal Affairs, Gas Business and International Affairs.

Tamás Lichnovszky. Mr. Lichnovszky received a Bachelor's degree as licensed signal officer and telecommunications engineer in 1984 from Zalka Máté Military Technical College and as manager engineer in 2002 from the Budapest Technical College. In 2010, he received a post-graduate degree in complementary legal studies from the Pázmány Péter Catholic University. He has been working at Magyar Telekom and its legal predecessor in technical and customer service areas since 1990. He has been an elected member of the Workers' Council since 1998 and is a member of the Central Workers' Council.

Martin Meffert. Mr. Meffert holds a degree in Telecommunications Engineering from the University of Applied Sciences and a degree in Economics from the Business and Administration Academy in Koblenz, Germany. He started his career in 1985 as a telecommunications network planner and later satellite services specialist in the regional directorate of Deutsche Bundespost in Koblenz. Between 1990 and 1998 he served in the Ministry of Telecommunications in Bonn at the departments of satellite systems and international network projects. In 1999, he joined the fixed line business of Deutsche Telekom responsible for cooperation and alliance management. Since 2003, he has been a country manager for Hungary at the Head Office of T-Home.

Dr. László Pap. Dr. Pap graduated from the Budapest Technical University with a degree in telecommunications. He received a PhD in 1980 and Doctor of Sciences in 1992. He has been a professor in the Electrical Engineering and Informatics Faculty at Budapest Technical University since 1992. From

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1992 to 2008 he served as Head of the Telecommunications Department and from 2001 to 2004 as Strategic Vice Rector. He is a full member of the Hungarian Academy of Sciences and has obtained numerous patents for his inventions. He is the Honorary President of the Scientific Society of Telecommunications, a member of the Telecommunications Systems Committee of the Hungarian Academy of Sciences, a member of the editorial board of the periodical World of Nature and Wireless Networks, an expert of the Hungarian Space Research Governmental Committee and the president of the Scientific Committee of Space Research.

Dr. Károly Salamon. Dr. Salamon graduated in 1977 from the Kandó Kálmán Technical College of Budapest with a bachelor of science of Electrical Engineering, and in 1983 from Eötvös Lóránd University of Sciences with a master of science of Mathematics. He received an MBA degree at the University of Pittsburgh in 1991 and then he received a PhD from the University of Economics in Budapest in 1993. Between 1977 and 1990, he worked as a design engineer, then as a development engineer and later as a project leader at different companies. From 1990, he worked for Ernst and Young International Audit and Consulting Company as a partner. Between 1995 and 2005, he was the Chief Financial Officer, then from 2006 to 2008 the Chairman-Chief Executive Officer of Allianz Hungária Biztosító Zrt. From 2008, he was the general director of MIS Ltd. He has been the Chairman-Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt. since July 1, 2010.

Zsoltné Varga. Mrs. Varga graduated from the College of Transport and Telecommunications at Györ in 1991. She has been working for Magyar Telekom (and its legal predecessor) since 1991. From 1991 to 1996, she was an engineer in the technical area, later she was head of a T-Pont shop. Currently, she works as a quality manager. In 1998, she became an elected member of the Workers' Council and she is member of the Central Workers' Council. Since 2004 she has been a member and from 2009 deputy chairwoman of Deutsche Telekom's European Workers' Council.

György Varju. Mr. Varju has been working for Magyar Telekom and its legal predecessor since 1977. Until 1998, he acted as an on-site construction manager. In 1993, he was elected to the Workers' Council, at present he is Chairman of the Central Workers' Council.

Indemnification of the Board of Directors and the Supervisory Board

Pursuant to our Articles of Association, to the extent permitted by law, we are required to indemnify each current and former member of the Board of Directors and the Supervisory Board, provided on the one hand that he or she was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal or administrative, by reason of the fact of his or her current or former position at the Company and on the other hand that he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. We may maintain insurance on behalf of any member of the Board of Directors or the Supervisory Board against any liability asserted against him or her and incurred by him or her in any such capacity, whether or not we have the obligation to indemnify him or her against such liability.

Compensation of Directors and Officers

For the year ended December 31, 2010, the aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 13.1 million in the following breakdown:

Name	Position held	Compensation
Dr. István Földesi	Member of the Board of Directors	HUF 4.37 million
Dr. Mihály Gálik	Member of the Board of Directors	HUF 4.37 million
Frank Odzuck	Member of the Board of Directors	HUF 4.37 million

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For the year ended December 31, 2010, the aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 48.3 million in the following breakdown:

Name	Position held	Compensation
Attila Csizmadia	Member of the Supervisory Board (until April 7, 2010)	HUF 0.95 million
Dr. János Illéssy	Member of the Supervisory Board	HUF 3.53 million
	Chairman of the Audit Committee	HUF 4.71 million
Dr. Sándor Kerekes	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.47 million
Dr. László Pap	Chairman of the Supervisory Board	HUF 5.38 million
	Member of the Audit Committee	HUF 2.27 million
István Koszorú	Member of the Supervisory Board (until March 3, 2010)	HUF 0.61 million
Konrad Kreuzer	Member of the Supervisory Board	HUF 3.53 million
Zsoltné Varga	Member of the Supervisory Board	HUF 3.53 million
György Varju	Member of the Supervisory Board	HUF 3.53 million
Dr. János Bitó	Member of the Supervisory Board (from April 7, 2010)	HUF 2.59 million
	Member of the Audit Committee (from April 7, 2010)	HUF 1.94 million
Dr. Károly Salamon	Member of the Supervisory Board (from April 7, 2010)	HUF 2.59 million
	Member of the Audit Committee (from April 7, 2010)	HUF 1.94 million
Attila Bujdosó	Member of the Supervisory Board (from April 7, 2010)	HUF 2.59 million
Tamás Lichnovszky	Member of the Supervisory Board (from April 7, 2010)	HUF 2.59 million

For the year ended December 31, 2010, the aggregate compensation of the members of the Management Committee ("MC") was HUF 998 million.

Currently two of the MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In case an employment contract for an undetermined duration is terminated, the notice period is normally six months, and severance is between 10 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the employee will be liable for a payment of compensation to the employer.

The MC members from foreign countries may be entitled to housing subsidies.

In line with the Company's remuneration guidelines, the company provides contribution-based personal pension scheme and the personal insurance scheme on behalf of the MC members. In addition, the MC members are entitled to the use of company cars.

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For information about our Mid-term Incentive Plan ("MTIP"), see Note 24.1 to the consolidated financial statements. For further information about the compensation of key management and Deutsche Telekom's Stock Option Plan, see Note 34.4 to the consolidated financial statements.

Remuneration guidelines

On December 16, 2008, the Board of Directors prepared the Remuneration guidelines of the Company. These guidelines were opined by the Supervisory Board on March 11, 2009 and were approved by the General Meeting on April 2, 2009.

Board of Directors

Members of the Board of Directors are compensated by fee;

The amount of the fee is determined by the General Meeting;

The amount of the fee is determined taking into account Hungarian benchmark data;

The fee may be revised upon initiative by the Remuneration Committee;

Members elected from the management of the strategic investor waive their fees, and the members elected from the Company's management donate their fees to charitable purposes;

The Board of Directors evaluates its activities along predefined measures (e.g., strategy, business performance, compliance, efficiency, dividend policy, information flow) annually. As part of this evaluation, the Board of Directors also reviews the self evaluation performed by individual Board of Directors members along predefined measures.

Supervisory Board

Members of the Supervisory Board are compensated by fee;

The amount of the fee is determined by the General Meeting;

The amount of the fee is determined taking into account Hungarian market benchmark data;

The fee may be revised upon initiative by the Remuneration Committee;

Members elected from the management of the strategic investor waive their fees;

On the basis of reviewing each tasks defined by its Rules of Procedures, the Supervisory Board evaluates the work done in order to accomplish the specific tasks in course of the given year, and determines which activities need to be improved. As part of this evaluation, the Supervisory Board evaluates the skills and experience of each Supervisory Board member, that are relevant to performing their Supervisory Board tasks.

Audit Committee

Members of the Audit Committee are compensated by fee;

The amount of the fee is determined by the General Meeting;

The amount of the fee is determined taking into account Hungarian market benchmark data;

The fee may be revised upon the initiative of the Remuneration Committee;

On the basis of reviewing each task defined by its Rules of Procedures, the Audit Committee evaluates the work done in order to accomplish the specific tasks in course of the given year, and determines which activities need to be improved.

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Management Committee

The Remuneration Committee of the Board of Directors makes recommendations, taking into account Hungarian remuneration benchmark data, as to the size of specific elements in remuneration packages. The decision is made by Magyar Telekom's Board of Directors;

Remuneration packages are reviewed once a year;

Remuneration packages consist of the following elements:

(i) *Basic salary.* Fixed amounts of compensation determined for individuals vary according to the individual's position and performance, paid in equal monthly amounts.

(ii) *Variable pay.* The annual bonus is defined as a certain percentage of the basic salary payable pro rated to the achievement of the personalized bonus targets defined before the start of the business year, derived from Magyar Telekom Group's strategic targets. For each target, specific ranges from underachievement to overachievement are defined, along with the curve of payment on performance within the range. Annual targets and the evaluation of their achievement are to be approved by the Board of Directors on the basis of the submission by the Remuneration Committee.

(iii) *Fringe and social benefits.* Fringe benefits (e.g., company car, mobile phone and managerial insurance) are determined taking into account Hungarian benchmark data and the principles of cost efficiency. Fringe and social benefits are granted in compliance with the relevant stipulations of Magyar Telekom's Collective Agreement and policies.

The performance and potential of individual management members are evaluated annually along predefined measures and procedures.

Board Practices

Members of the Board of Directors and the Supervisory Board are elected for a term of three years. Current members of the Board of Directors and the Supervisory Board serve until May 31, 2013. Members of the Management Committee are elected for an indefinite period.

Employment contracts with our management employees contain special provisions providing for entitlements after termination of employment; therefore, the amount of severance is higher than the amount required by the applicable provisions of the Labor Code.

In compliance with the relevant provisions of the Act IV of 2006 on Business Associations and the Company's Articles of Association, the AGM held on April 7, 2010 elected an Audit Committee from the independent members of the Supervisory Board. The members of the Audit Committee of Magyar Telekom are Dr. János Illéssy (Chairman), Dr. László Pap, Dr. Sándor Kerekes, Dr. Károly Salamon and Dr. János Bitó. The mandate of the Audit Committee members similarly to that of the Board of Directors members and the other Supervisory Board members lasts until May 31, 2013.

The Audit Committee acts independently within its scope of authority provided in Act IV of 2006 on Business Associations, Act CXX of 2001 on the Capital Market, our Articles of Association, and in compliance with the rules and regulations of the BSE and the SEC, as well as the provisions and rules of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

The purpose of the Audit Committee is, among others, to oversee:

the integrity of the Company's financial statements;

the Company's compliance with legal and regulatory requirements falling within the scope of authorities and responsibilities of the Audit Committee;

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the qualifications and independence of the Company's independent external auditor; and

the performance of the Company's internal audit function and independent auditors.

The Audit Committee recommends the appointment of independent auditors to be elected at the AGM and approves the scope of external audit services. The Audit Committee pre-approves all audit and non-audit services to be performed by the external auditor and the related fees. With respect to the fees within the exclusive scope of authority of the General Meeting, it shall provide the General Meeting with a recommendation. The Audit Committee also reviews and evaluates our annual financial statements, taking into account results of audits and reviews performed by the independent auditors. The Audit Committee meets at least four times a year.

The Remuneration Committee makes proposals to the Board of Directors with respect to appointment and dismissal, as well as remuneration of chief officers, including establishment and assessment of bonus targets. Members of the Remuneration Committee are Frank Odzuck and Dr. Ralph Rentschler. The Chairman of the Remuneration Committee is Guido Kerkhoff who was elected as member of the Remuneration Committee by the Board of Directors on April 21, 2010. The Remuneration Committee meets at least three times a year.

Employees

We had 10,258 employees as of December 31, 2010. The following table provides information concerning the number of full-time employees, including full-time equivalents, of Magyar Telekom Plc. and its consolidated subsidiaries:

	At December 31,		
	2008	**2009**	**2010**
Magyar Telekom Plc.	6,125	6,459	6,076
Magyar Telekom Plc. and its consolidated subsidiaries	10,439	10,828	10,258

The following table provides information on the breakdown of Magyar Telekom's employees by segment:

	At December 31,		
	2008	**2009**	**2010**
CBU	2,893	2,937	2,678
BBU	1,469	1,709	1,662
Headquarters	1,034	1,095	1,513
Technology	2,078	2,120	1,893
Macedonia	1,738	1,754	1,698
Montenegro	868	876	814
All other	359	337	0
Total	10,439	10,828	10,258

Total Workforce Management. From 2009, Magyar Telekom introduced a Total Workforce Management ("TWM") system. This scheme focuses on the total labor cost and not solely on headcount number and employee-related expenses. As a result, it enables us to increase the flexibility and efficiency with which all human resource-related expenses are managed, including contracted or temporary employees as well as outsourcing and entrepreneurial contracts.

Workforce Reduction and Redeployment. Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling (disregarding the technical effects of acquisitions and Total Workforce Management), the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

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In order to simplify and streamline its organization, Magyar Telekom has already implemented several integration steps. The merger with T-Mobile Hungary in March 2006, the integration of Emitel and the access business area of T-Online into the parent company from October 2007 and the integration of T-Kábel from October 2009 enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Group. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management started negotiations with the trade unions and reached an agreement in October 2010.

We have reached an agreement with the trade unions representing our employees on wage development, headcount reduction and decreases in additional employee allowances at the parent company level for 2011. The key elements of the agreement are the following: reduction of headcount by 300 in addition to lay-offs of managers and early retirement packages. The agreement with the trade unions also sets the increase in remuneration for parent company employees at four percent from July 2011. However, higher paid employees (approximately 520), typically in managerial positions, will be entitled to an average wage increase of two percent. Related to the wage increase, a portion of the 2011 regular bonus payment will be dependent on the financial performance of the Company in 2011 and will only be paid if EBITDA surpasses a certain level.

These efficiency improvement measures are necessary steps to mitigate the negative trends in the telecommunications industry being faced by Magyar Telekom. Increasing competition in all segments and a tougher regulatory (roaming regulation and reducing termination fees) and macroeconomic environment will put pressure on our performance in coming years.

Employee Representation and Labor Relations. Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszevezet, "MATÁSZ"). The agreement, which can be terminated by either party with three months' notice, and applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the agreement must be renegotiated annually. Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee. Employees are also entitled to welfare benefits as discussed below.

In addition to the collective bargaining agreement, employees of our Hungarian operations are generally covered by the Hungarian Labor Code, Law XXII of 1992, as amended, which imposes various restrictions on the involuntary termination of employment. The Hungarian Labor Code protects employee interests through two different labor organizations: the Trade Union and the Workers' Council.

The Trade Union, as the official representative of employee interests in negotiations relating to the terms of employment, has the right to be informed of all corporate measures that may significantly affect the interests of employees and to commence legal action against us for employment-related conduct that infringes an employment rule. In addition, the Workers' Council directly represents employee interests in dealings with management and decides jointly with management on matters involving employee welfare funds and institutions. The Workers' Council must be informed semi-annually on issues affecting our economic performance and changes in wages, employment conditions and working hours. The Workers' Council must also be consulted on corporate measures affecting employees.

Under the Act IV of 2006 on Business Associations (the "Companies Act"), employee representatives on the Supervisory Board are nominated by the Workers' Council in cooperation with the Trade Union. The composition of the Supervisory Board is approved by the AGM. At least one third of the members of the Supervisory Board must be employee representatives. On December 31, 2010, three members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga and György Varju.

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We believe that our relations with our employees are good. We have not experienced any labor strikes or disruptions since our formation.

Pensions and Benefit Programs. We provide employees with discounted telephone services, subsidized meals, interest-free loans to purchase real estate (such loans are not offered or extended to the Company's executive officers and directors), discount holiday facilities and other fringe benefits. In addition to our statutory contributions to governmental health, retirement and unemployment schemes, we contribute to the employees' voluntary pension fund and supplementary benefits fund, which provide private pension and health insurance benefits supplementing government pension and health benefits. We do not, however, guarantee payment by the benefits fund to its members. At the end of 2010, approximately 83 percent of all employees participated in the pension plan, 58 percent in the self-help plans and 80 percent in the health fund.

Share Ownership of Management

The following table sets out information relating to holdings of ordinary shares by our directors and executive officers at December 31, 2010:

Name	Position	No. of Shares Owned
Christopher Mattheisen	CEO, Chairman of the Board of Directors	19,041
Thilo Kusch	CFO, Member of the Board of Directors	3,500
Dr. Mihály Gálik	Member of the Board of Directors	1,000
Tamás Lichnovszky	Supervisory Board Member	7,790
Dr. Károly Salamon	Supervisory Board Member	43,200
Zsoltné Varga	Supervisory Board Member	1
György Varju	Supervisory Board Member	320
Éva Somorjai	Chief Human Resources Officer	2,300
Total		77,152

For information about share options, see 24.3 to the consolidated financial statements. For information about Deutsche Telekom stock appreciation rights, Mid-term Incentive Plan ("MTIP") programs and stock option plans, see Note 24.1 and 34.4 to the consolidated financial statements.

None of our directors and executive officers held Magyar Telekom options at December 31, 2010.

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ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The share capital of Magyar Telekom Plc. is HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares with a nominal value of HUF 100 each at December 31, 2010.

Ordinary shares outstanding as of December 31, 1999 amounted to 1,037,281,600 shares. In June 2000, 630,000 ordinary shares of the Company were registered, which increased Magyar Telekom Plc.'s number of registered ordinary shares to 1,037,911,600. Of the newly issued shares, 77,270 ordinary shares were traded outside Magyar Telekom. Consequently, the number of shares outstanding increased to 1,037,358,870 shares.

In 2002, the remaining 552,730 shares from the June 2000 transaction issue were traded outside Magyar Telekom. In addition, as a result of the new management stock ownership program launched in 2002, we issued 4,900,000 shares of common stock, which were repurchased immediately. As a result, the number of registered shares increased to 1,042,811,600.

At the end of February 2006, TMH was merged into Magyar Telekom Plc. According to the Hungarian Act on Business Associations it is not mandatory for the shareholders to remain shareholders of the merged company and the company's share capital should be reduced by the nominal value of the shares held by those shareholders who did not participate in the merger. When these shareholders elected not to participate in the merger, MagyarCom, as controlling stakeholder, also had to divest some of its interest in Magyar Telekom to avoid a public offering procedure. As 43,385 shares were divested by the departing shareholders, the number of ordinary shares outstanding decreased to 1,042,768,215 as of February 28, 2006, when the Court of Registry registered the merger.

The Parliament of the Republic of Hungary approved an Act that abolishes the priority voting share of the state (golden share, Series "B" share). As a result, Magyar Telekom Plc. amended its Articles of Associations on June 29, 2007, to delete the provisions concerning the "B" shares and converted the one registered priority Series "B" voting share (golden share) with a face value of HUF 10,000 to 100 dematerialized ordinary Series "A" shares with a face value of HUF 100 each and terminated the priority rights associated with the golden share.

With the effective day of September 30, 2007, Emitel and the access business line of T-Online Hungary merged into Magyar Telekom Plc. Due to the reasons explained in the paragraph above, MagyarCom, as controlling stakeholder, also had to divest some of the interest in Magyar Telekom to avoid a public offering procedure. As 22,700 shares were divested by the departing shareholders, the number of ordinary shares outstanding decreased to 1,042,745,615 as of September 30, 2007, when the Court of Registry registered the merger.

Effective as of September 30, 2009, T-Kábel Magyarország Kft. and Dél-Vonal Kft. merged into Magyar Telekom Plc. Due to the reasons explained in the previous paragraphs, MagyarCom, as controlling stakeholder, had to divest some of the interest in Magyar Telekom to avoid a public offering procedure. As 3,072 shares were divested by the departing shareholders, the number of ordinary shares outstanding decreased to 1,042,742,543 as of September 30, 2009, when the Court of Registry registered the merger.

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Information concerning our ownership structure as of December 31, 2010 is set out in the following table:

Shareholder	Number of shares	Percentage of share capital
MagyarCom[1]	617,436,759	59.21
Publicly traded[2]	424,914,922	40.75
Treasury stock	390,862	0.04
	1,042,742,543	100.00

(1) MagyarCom is a wholly owned subsidiary of Deutsche Telekom.

(2) Of our publicly traded shares, JP Morgan Chase Bank, N.A., as Depositary, had 5,077,942 ADRs, evidencing 25,389,710 shares on its accounts as of December 31, 2010, for registered holders, such amount representing 2.43 percent of the total shares outstanding. We do not know whether this percentage may be indicative of the percentage of our ordinary shares held by U.S. persons. Also, members of the Board of Directors, Supervisory Board and the management own a total of 77,152 shares.

MagyarCom does not have different voting rights than our other shareholders and, as with our other shareholders, MagyarCom is entitled to one vote per each ordinary share that it owns.

Related party transactions

For a discussion of related party transactions and a list of loans outstanding at December 31, 2010 with related parties, see Notes 16 and 34 to the consolidated financial statements.

The table below sets out the largest amount outstanding during 2010 for each of the Company's liabilities to Deutsche Telekom International Finance BV. We did not have loans from any other related parties during 2010.

Date of highest amount of outstanding	Carrying amount in HUF millions	Currency	Interest rate (%)	Fixed/ floating	Repayable/repaid
April 30, 2010	54,460	HUF	8.30	fixed	May 2015
July 31, 2010	46,122	EUR	4.46	fixed	January 2015
April 30, 2010	40,466	HUF	6.83	floating	May 2012
June 30, 2010	36,734	HUF	7.21	fixed	July 2011
December 31, 2010	28,478	HUF	6.23	fixed	December 2016
June 30, 2010	27,000	HUF	5.97	fixed	July 2010
September 30, 2010	26,690	HUF	7.25	fixed	October 2013
September 30, 2010	25,691	HUF	5.99	floating	April 2011
August 31, 2010	22,288	EUR	3.76	fixed	June 2014
June 30, 2010	21,636	HUF	7.68	fixed	July 2010
January 1, 2010	20,313	HUF			