LIBERTY ALL STAR GROWTH FUND INC /MD/
Form N-CSR
March 08, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-4537

Liberty All Star Growth Fund, Inc.
(Exact name of registrant as specified in charter)

One Financial Center, Boston, Massachusetts 02111
(Address of principal executive offices) (Zip code)

Heidi Hoefler, Esq.
Columbia Management Group, Inc.
One Financial Center
Boston, MA 02111
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-617-772-3743

Date of fiscal year end: December 31, 2003

Date of reporting period: December 31, 2003

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

Item 1. Report to Stockholders

[GRAPHIC]

[ALL STAR(R) GROWTH FUND LOGO]

ANNUAL REPORT 2003

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LIBERTY ALL-STAR GROWTH FUND

[GRAPHIC]

map to 330
in ARTPRO

A SINGLE INVESTMENT...

A DIVERSIFIED GROWTH PORTFOLIO

Only one fund offers:

- A diversified, multi-managed portfolio of small, mid- and large cap growth stocks

- Exposure to the industry sectors that make the U.S. economy the world's most dynamic

- Access to institutional-quality investment managers

- Objective and ongoing manager evaluation

- Active portfolio rebalancing

- A quarterly fixed distribution policy

- Listing on the New York Stock Exchange
  (ticker symbol: ASG)

LIBERTY ALL-STAR GROWTH FUND, INC.

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PRESIDENT'S LETTER

FELLOW SHAREHOLDERS: FEBRUARY 2004

Two thousand three was a strong year for equity investors and a good year for Liberty All-Star Growth Fund shareholders. The Fund generally performed in line with key benchmarks during 2003. What is more gratifying, the Fund has outperformed for the past three years - a period that includes a strong 2003 and the difficult market years of 2001 and 2002, thus demonstrating its ability to perform well through widely varying market conditions.

Certainly, the stock market's rebound from three straight negative years - a phenomenon not seen since 1939-1941 - was universally welcomed. We will look more closely at 2003 momentarily, but first pause to review the Fund's performance for the fourth quarter and full year.

FUND STATISTICS PERIODS ENDING DECEMBER 31, 2003	4TH QUARTER	2003
LIBERTY ALL-STAR GROWTH FUND, INC.		
Year End Net Asset Value (NAV)		$6.51
Year End Market Price		$6.83
Year End Premium		4.9%
Distributions	$0.16	$0.58
Market Price Trading Range	$6.23 to $7.00	$4.61 to $7.00
Premium/(Discount) Range	8.2% to 0.8%	8.5% to (7.8)%

PERFORMANCE SUMMARY PERIODS ENDING DECEMBER 31, 2003	4TH QUARTER	2003
LIBERTY ALL-STAR GROWTH FUND, INC.		
Shares Valued at NAV	10.9%	33.5%
Shares Valued at NAV with Dividends Reinvested	10.9%	33.7%
Shares Valued at Market Price with Dividends Reinvested	12.9%	51.1%
Lipper Multi-Cap Growth Mutual Fund Average	10.8%	35.3%
Category Percentile Rank (1=best; 100=worst)	53rd	50th
Russell Growth Indices		
Largecap	10.4%	29.8%
Midcap	12.2%	42.7%
Smallcap	12.7%	48.5%
Nasdaq Composite Index	12.2%	50.7%

Figures shown for the Fund and the Lipper Multi-Cap Growth Mutual Fund Average are total returns, which include dividends, after deducting fund expenses. The Fund's reinvested returns assume that all of the Fund's rights offerings were fully subscribed under the terms of each offering. Figures shown for the unmanaged Russell Indices and the Nasdaq Composite Index are total returns, including income. Past performance cannot predict future results.

*Average annual returns.

PRESIDENT'S LETTER

Looking at the tables on the previous page, the Fund closed 2003 with a solid quarter. In terms of net asset value (NAV), the Fund advanced 10.9 percent. Measured in terms of market price, the Fund returned 12.9 percent. These results compare favorably to the 10.8 percent quarterly return of its primary benchmark, the Lipper Multi-Cap Growth Mutual Fund Average. For the full year, the Fund's returns were 33.5 percent and 51.1 percent, respectively, based on NAV and market price. These results were competitive with the 35.3 percent return for the Lipper Multi-Cap Growth Mutual Fund Average.

The past year was a good one for the Fund, but as mentioned, the three-year period demonstrates the benefits of the Fund's multi-managed structure, as this time frame encompasses both sharply rising and falling markets. During this period of widely varying market conditions, the Fund performed favorably compared to its primary benchmark. As the second table on the previous page indicates, the Fund is a top quartile performer over the past three years when ranked against peer funds in the Lipper Multi-Cap Growth Mutual Fund Average, meaning that it outperformed 75 percent of the funds in that universe.

PERFORMANCE VALIDATES UNDERLYING STRENGTHS

Investment performance - both short term and long term - demonstrates the Fund's underlying strengths. The Fund's closed-end, multi-management structure provides shareholders with access to institutional quality investment managers and exposure to the full spectrum of growth stocks: small-cap, mid-cap and large-cap. Management and ongoing monitoring by the Fund manager, Liberty Asset Management Company (LAMCO), ensure alignment with shareholder interests and that the investment managers are meeting expectations. A fuller description of the Fund's unique attributes may be found in this Annual Report's feature section, which immediately follows this letter. I encourage you to review it.

Turning to 2003, most investors feel that the market's recovery actually began with the lows reached on October 9, 2002. Using the S&P 500 Index as a proxy for the broad market, the index gained 8.4 percent in the final quarter of 2002 and then declined 3.2 percent in the first quarter of 2003, with investors moving to the sidelines as war with Iraq moved ever closer. Once hostilities actually broke out and the uncertainty was removed, investors gained confidence and returned to the stock market, leading the S&P 500 to a 15.4 percent second quarter gain. Of course, monetary and fiscal policy helped greatly. The Federal Reserve lowered the Fed funds rate to 1.0 percent - a level not seen since the Eisenhower administration - and President Bush shepherded his $350 billion economic package - including a lower tax on dividends - to Congressional passage in May. In addition, inflation remained quiescent, corporate profits were strong (one of the best trough to peak earnings recoveries in the postwar era) and GDP gained momentum, leading up to an annualized 8-plus percent surge in the third quarter.

GROWTH LED BY LOWER QUALITY STOCKS

Commenting specifically on the growth style of investing during 2003, small-cap outperformed large-cap as the Russell indices indicate. Lower quality, lower priced and more speculative issues outperformed higher quality stocks for most of the year. That is not unusual in a rebounding economy - especially when ample monetary stimulus is present - because companies that once looked as though they might fail suddenly look as though they'll survive. The Fund's managers

[PHOTO]

OFFICERS OF LIBERTY ALL-STAR GROWTH FUND, FROM LEFT: MARK T. HALEY, CFA, VICE PRESIDENT - INVESTMENTS; WILLIAM R. PARMENTIER, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER; AND FRED H. WOFFORD, VICE PRESIDENT - OPERATIONS.

have a high quality bias, meaning they do not focus on these more speculative, lower quality stocks. Over time, quality - defined by growth and stability of earnings and dividends - almost always wins out. Certainly, the Fund's investment managers maintained their disciplines and focused on better quality companies during 2003.

For further analysis of 2003 and a look ahead, I would recommend to you our annual Manager Roundtable, which begins on page 11. This year's Roundtable is especially insightful, as the managers summarize their varying growth strategies, allowing shareholders to see and compare how each manager's capitalization and growth philosophy influence their respective outlook and investment decision making. In addition, in a departure from past Roundtables, we at LAMCO offer our own comments at the end of each discussion point, allowing shareholders to gain better insights into the perspective we bring to Fund management.

In summary, we are pleased with the Fund's performance in 2003, given its high quality focus. We feel the same way about its longer-term results, as they encompass one of the most difficult stock market environments in decades. We are gratified, as well, that shareholders expressed their confidence in the Fund by oversubscribing the offering of rights to purchase additional shares of the Fund, which was conducted during late summer. We are optimistic over prospects for 2004, but realistically believe that it will be extremely difficult to top 2003. That may be for the better. A sound if unspectacular year may be in investors' best long-term interests.

Be assured that as we move forward your team here at LAMCO remains dedicated to the Fund's founding principles, to integrity in all that we do, and to managing with our shareholders' best interests first and foremost. We thank you for your ongoing support of the Fund.

Sincerely,

/s/ William R. Parmentier

William R. Parmentier, Jr.
President and Chief Executive Officer
Liberty All-Star Growth Fund, Inc.

UNIQUE FUND ATTRIBUTES

MULTI-MANAGEMENT

[GRAPHIC]

Multi-management is the process of allocating Fund assets among several carefully selected investment managers with complementary investment approaches. It's an important factor distinguishing Liberty All-Star Growth Fund from other funds. The Fund doesn't have one investment manager, but three. Why? Multi-management is intended to diversify the Fund and lower risk. While all of the Fund's managers practice the growth style of investing, each is selected for its particular investment strategy and capitalization focus - one small-cap manager, one mid-cap and one large-cap. This mix of capitalization ranges recognizes that growth investor preference shifts over time as changing business and economic conditions favor small-, mid- or large-cap companies. Having three managers also reduces the volatility that a single growth manager inevitably encounters, and it has the potential for producing more consistent returns over time. Thus, in a single investment the Fund provides investors with access to a diversified portfolio and exposure to the entire capitalization spectrum of growth companies. Multi-management is widely practiced by large institutional investors, such as endowments, foundations and pension plans. It is found far less frequently in funds in which individuals can invest. Liberty Asset Management Company (LAMCO), the Fund manager, was among the first investment firms to bring multi-management to individual investors.

AS ADVISOR TO THE ALL-STAR GROWTH FUND, LIBERTY ASSET MANAGEMENT

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CLOSED-END STRUCTURE

[GRAPHIC]

Liberty All-Star Growth Fund is a closed-end fund, a characteristic that distinguishes it from most investment funds, which are open-end mutual funds. An open-end mutual fund creates or redeems shares continuously as money flows into or out of the fund. Closed-end funds, by contrast, have a fixed number of shares that are traded between investors on a stock exchange (the Fund is listed on the New York Stock Exchange but trades on other exchanges, as well). Why does closed-end versus open-end matter to investors? An exchange-traded, closed-end fund is bought and sold just like the shares of other publicly traded securities. Pricing is intra-day - not just end-of-day, as is the case with open-end mutual funds. A transaction price is continuously available and there are no annual sales fees. From the perspective of the three investment managers, the Fund's closed-end structure gives them the confidence of knowing that they will not experience sharp inflows or outflows of assets. Thus, they are able to focus on stock selection and investing for the long term instead of being influenced by cash flows that can occur at inappropriate times. Finally, closed-end funds do not have minimum transaction or balance requirements and do not incur ongoing costs associated with distributing their shares, often resulting in lower expense ratios.

COMPANY (LAMCO) ADDS VALUE FOR INVESTORS BY PRACTICING A WELL-

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PROFESSIONAL MANAGEMENT

[GRAPHIC]

Investors in Liberty All-Star Growth Fund benefit from having multiple levels of investment professionals acting on their behalf. At the first level, the professionals at LAMCO research and evaluate a broad universe of growth investment management firms, selecting those few that meet a rigorous set of criteria. Once chosen, the investment managers are closely monitored by LAMCO, which considers a range of factors, including their investment performance. The investment managers themselves represent the second level. The investment managers chosen for Liberty All-Star Growth Fund are institutional-quality managers - "all-stars" in their field - and operate independently of LAMCO. That means there are no affiliations or alliances with the investment managers, and that they have just one mandate: consistent implementation of their style and strategy in pursuit of good performance. At the third level is the Fund's independent Board of Directors. This Board, elected by the shareholders, has oversight responsibility for Fund operations to ensure that decisions made by LAMCO and the investment managers reflect the shareholders' best interests.

DEFINED AND DISCIPLINED INVESTMENT MANAGEMENT PROCESS.

ACCESS TO LEADING INVESTMENT MANAGERS

[GRAPHIC]

Manager selection is perhaps the critical decision for any investor. There are thousands of investment management firms from which to choose, and their long-term investment performance varies widely. Many of the most sought-after investment managers are closed to new investors and many of the best performing managers invest only for institutions, not individuals. LAMCO provides Fund shareholders with access to these leading investment managers. In the search for managers, LAMCO calls on the expertise of its professional staff, state-of-the-art analytical tools and years of experience in the investment industry. In selecting investment managers for the Fund, LAMCO conducts in-depth research and rigorous due diligence, focusing on the "four Ps" ... that is, each manager's philosophy, process, people and performance. We seek investment management firms that have demonstrated a consistent application of their growth strategy and a clearly articulated, disciplined investment process. We also want to see a well-managed organization and continuity among a firm's investment professionals.

LAMCO BRINGS OBJECTIVITY, EXPERIENCE AND EXPERTISE TO

ONGOING MONITORING AND REBALANCING

[GRAPHIC]

It's not enough to simply select all-star investment managers. Constant vigilance is required to ensure that each is performing up to expectations and contributing to Fund performance. Like all businesses, investment management firms can change over time. Ownership and key personnel can change. Market pressures may lead a firm to deviate from its espoused growth strategy. Individual investors often have difficulty knowing that the fund in which they originally invested has changed. LAMCO's active monitoring guards against that. We analyze the Fund's investment managers' trading activity and the characteristics of their holdings to confirm that they are adhering to their strategy and performing well relative to their peers. We also evaluate changes in key decision makers, should they occur. When warranted, LAMCO replaces managers. LAMCO also proactively rebalances the Fund when necessary. Portfolio rebalancing maintains the Fund's structural integrity and is a well-recognized risk management tool. Disciplined, periodic rebalancing keeps the Fund's assets equally divided among its three investment managers. Owing to shifting market sentiment and economic conditions, small-cap, mid-cap and large-cap growth stocks will perform differently over time. This can unbalance the portfolio. When this happens, LAMCO "locks in" profits by taking assets from the managers whose capitalization focus has been in favor and gives it to those whose capitalization focus has been out of favor. While this seems counterintuitive, it is really a case of taking money from today's winners and redeploying it among tomorrow's.

CONSTRUCTING AND MONITORING A MULTI-MANAGED PORTFOLIO, AND

DISTRIBUTION POLICY

[GRAPHIC]

Since 1997, the Fund has followed a policy of paying annual distributions on its common stock at a rate of 10 percent of net asset value (paid quarterly at 2.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders. Because a portion of the portfolio is turned over when an investment manager is replaced (often generating realized capital gains), the Fund's multi-management investment approach and the payout policy complement one another. Recognizing the diverse needs of the Fund's shareholders, LAMCO also offers an Automatic Dividend Reinvestment and Cash Purchase Plan. Some investors prefer their dividends in the form of cash. Others reinvest their dividends in additional Fund shares, thus letting their dividends compound over time. The Cash Purchase feature allows shareholders to make additional investments in the Fund on a monthly basis. LAMCO rounds out its services for shareholders by providing a range of tools, such as a Web site at www.all-starfunds.com; communications, such as monthly updates and quarterly reports; and shareholder assistance via toll-free telephone at 1-800-LIB-FUND.

IS DEDICATED TO THE LONG-TERM SUCCESS OF FUND SHAREHOLDERS.

INVESTMENT MANAGERS/PORTFOLIO CHARACTERISTICS

THE FUND'S THREE GROWTH INVESTMENT MANAGERS AND THE MARKET CAPITALIZATION ON WHICH EACH FOCUSES:

[CHART]

SMALL-CAP GROWTH	MID-CAP GROWTH	LARGE-C GROWT
M.A. WEATHERBIE & CO., INC. Companies with enduring competitive advantages and high, sustainable earnings growth.	TCW INVESTMENT MANAGEMENT COMPANY Companies with competitive advantages and superior business models that should result in rapidly growing sales and earnings.	WILLIAM BLAIR & C Companies that ha consistently high and profitability

MANAGERS' DIFFERING INVESTMENT STRATEGIES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS

The portfolio characteristics table below is a regular feature of the Fund's shareholder reports. It serves as a useful tool for understanding the value of the Fund's multi-managed portfolio. The characteristics are different for each of the Fund's three investment managers. These differences are a reflection of the fact that each has a different capitalization focus and investment strategy. The shaded column highlights the characteristics of the Fund as a whole, while the first three columns show portfolio characteristics for the S&P/BARRA SmallCap, MidCap and LargeCap Growth indices.

MARKET CAPITALIZATION SPECTRUM

SMALL LARGE

[GRAPHIC]

PORTFOLIO CHARACTERISTICS
AS OF DECEMBER 31, 2003
(UNAUDITED)

	S&P/BARRA GROWTH: SMALLCAP 600 INDEX	MIDCAP 400 INDEX	LARGECAP 500 INDEX	M.A. WEATHERBIE	TCW
Number of Holdings	231	169	162	56	4
Weighted Average Market Capitalization (billions)	$ 1.3	$ 3.7	$ 117.3	$ 2.4	$ 15.
Average Five-Year Earnings Per Share Growth	13%	17%	19%	19%	3
Dividend Yield	0.5%	0.7%	1.5%	0.3%	0.
Price/Earnings Ratio	23x	24x	27x	29x	4
Price/Book Value Ratio	3.8x	4.2x	5.8x	4.5x	5.

*Certain holdings are held by more than one manager.

THE VIEWS EXPRESSED BY THE FUND'S INVESTMENT MANAGERS REFLECT THEIR GROWTH ORIENTATION AS WELL AS THEIR CAPITALIZATION FOCUS

HAVING REMAINED TRUE TO THEIR INVESTMENT DISCIPLINES THROUGH A DIFFICULT MARKET, THE FUND'S INVESTMENT MANAGERS PRODUCED SOLID RETURNS IN 2003. HERE, THEY DISCUSS THEIR APPROACHES AND TAKE ON ISSUES RANGING FROM GLOBALIZATION TO PROSPECTS FOR THE STOCK MARKET.

Continuing a tradition, the Fund's manager, Liberty Asset Management Company (LAMCO), recently had the opportunity to moderate another annual roundtable with the Fund's three investment managers. In a departure from past practice, in this roundtable LAMCO offers its perspective - as a further insight for investors - at the conclusion of the discussion on each point.

As would be expected, there is commonality to the managers' comments because they are all growth style investors. However, in reading this roundtable, Fund shareholders should make note of differences, as well - reflecting the managers' varying capitalization focus - small, medium or large cap - and their investment philosophy, strategy and process. The participating investment managers and their investment styles are:

THE VIEWS EXPRESSED IN THIS INTERVIEW REPRESENT THE PORTFOLIO MANAGERS' VIEWS AND LAMCO'S PERSPECTIVE AT THE TIME OF THE DISCUSSION (JANUARY 2004) AND ARE SUBJECT TO CHANGE.

M. A. WEATHERBIE & CO., INC.
PORTFOLIO MANAGER/Matthew A. Weatherbie, CFA,
President and Founder

INVESTMENT STYLE/Small-Cap Growth - M.A. Weatherbie practices a small capitalization growth investment style focusing on high quality companies that demonstrate superior earnings growth prospects, yet are reasonably priced relative to their intrinsic value. The firm seeks to provide superior returns relative to small capitalization growth indices over a full market cycle.

TCW INVESTMENT MANAGEMENT COMPANY
PORTFOLIO MANAGER/Douglas S. Foreman, CFA,
Chief Investment Officer U.S. Equities

INVESTMENT STYLE/Mid-Cap Growth - TCW seeks capital appreciation through investment in the securities of rapidly growing companies whose business prospects, in TCW's view, are not properly perceived by consensus research.

WILLIAM BLAIR & COMPANY, L.L.C.
PORTFOLIO MANAGER/John F. Jostrand, CFA, Principal

INVESTMENT STYLE/Large-Cap Growth - William Blair emphasizes disciplined, fundamental research to identify quality growth companies with the ability to sustain their growth over long time periods. At the core of the firm is a group of analysts, who perform research aimed at identifying companies that have the opportunity to grow in a sustainable fashion for extended periods of time.

LAMCO: Having all the managers in a roundtable is an excellent opportunity for Fund shareholders to compare the varying growth investment approaches that are present in the Fund. Thus, we'd like to open by asking each of you to summarize your investment philosophy and approach. Let's go by capitalization size, from small to large. That means starting off with you, Matt Weatherbie.

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): We are growth stock investors: We seek to invest in the best smaller capitalization growth companies in America. This means companies with some seasoning, a significant competitive advantage, high inherent profitability, financial strength and proven entrepreneurial management. Our process is bottom-up and emphasizes both detailed financial analysis and field

research to assess the quality of a company's business model and management. We use a disciplined, proven set of stock valuation techniques to determine good investment value.

LAMCO: Doug Foreman, summarize your approach, will you please?

FOREMAN (TCW - MID-CAP GROWTH): We're aggressive growth investors. We're looking for companies with the potential for positive earnings surprise and that have outstanding business models. Those are our two key criteria. We believe that a stock is only truly mispriced in the marketplace if the Wall Street consensus has expectations in terms of growth rate and earnings per share (EPS) that are below our own. That gap between what our estimates are based on our fundamental work and what Wall Street expects and will pay for is our alpha, or our ability to outperform. Overall, our batting average for finding companies that have sound business models is pretty high, which means the growth these companies are generating is sustainable and capable of beating expectations.

LAMCO: John Jostrand, tell us about the William Blair large-cap growth approach.

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): William Blair employs a quality growth approach and a fundamental company research process. We define a quality growth company as one exhibiting superior, long-term earnings growth combined with a proven and sustainable competitive advantage from a market/brand position, proprietary product or technology position, or a unique asset base. These companies generally exhibit superior profitability, high reinvestment rate, low financial leverage, consistency of returns and strong management. We have a team of experienced analysts, who are organized into sector teams and led by a portfolio manager.

LAMCO PERSPECTIVE: THE INVESTMENT MANAGERS' RESPONSES CLEARLY HIGHLIGHT THE DIVERSIFICATION THAT THE FUND OFFERS TO SHAREHOLDERS. ALL THE MANAGERS FOCUS ON THE GROWTH STYLE OF INVESTING, BUT THEY FOLLOW VERY DIFFERENT INVESTMENT DISCIPLINES. IN ADDITION, WITH ALL THREE CAPITALIZATION RANGES BEING REPRESENTED IN THE FUND, SHAREHOLDERS COULD BENEFIT FROM THE ECONOMIC RECOVERY, AS INVESTOR SENTIMENT FREQUENTLY ROTATES AMONG SMALL, MID- AND LARGE CAPITALIZATION STOCKS DURING SUCH PERIODS.

LAMCO: In a vein similar to our first discussion point, this roundtable also gives us an opportunity to compare top-down and bottom-up investment approaches. To what extent are you more a bottom-up manager or a top-down manager? Or do you factor both perspectives into your thinking? Let's take the responses in reverse order, from large to small.

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): William Blair is 90 percent bottom-up. The vast majority of our time, resources, and philosophical and research criteria are devoted to investigating specific investment opportunities, the industry in which they compete and the managements of those investment opportunities. We spend some time evaluating the overall environment. This consists of primarily setting an investment framework in which to establish proper valuation analysis and examine broad trends in the global economy.

FOREMAN (TCW - MID-CAP GROWTH): We are almost exclusively a bottom-up manager. We build a portfolio stock-by-stock, company-by-company. What we find,

[SIDENOTE]

"WE SEEK TO INVEST IN THE BEST SMALLER CAPITALIZATION GROWTH COMPANIES IN AMERICA. THIS MEANS COMPANIES WITH SOME SEASONING, A SIGNIFICANT COMPETITIVE ADVANTAGE, HIGH INHERENT PROFITABILITY, FINANCIAL STRENGTH AND PROVEN ENTREPRENEURIAL MANAGEMENT."

MATT WEATHERBIE,
M.A. WEATHERBIE

though, is that our investment criteria of finding companies that are growing rapidly, beating expectations and operating with good business models tends to lead us to areas such as technology, health care, specialty retail, media, and consumer and business services. The reason we tend to focus on those industries is that over time they tend to grow faster than the overall economy. Secondly, there's a lot of change in these industries. If there isn't much change in an industry or if change occurs glacially, then it's very difficult for a medium-sized business to add value and take on bigger firms, which possess inherent advantages, including scale, product breadth, management depth and geographic coverage. Generally, however, the one key attribute they don't have is an ability to react quickly to change. That can provide the opportunity for small and medium-sized companies to create new businesses within those industries or to find a better, cheaper, faster way to do what's already being done.

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): We are primarily a bottom-up manager evaluating stocks one at a time. Once or twice a year, however, we devote an internal research meeting to looking at macro issues to try and make sure that we are cognizant of important trends that could affect our investments.

LAMCO PERSPECTIVE: THE INVESTMENT MANAGERS WE SELECTED PLACE THEIR EMPHASIS ON BEING GOOD STOCK PICKERS. THEY DON'T IGNORE THE MACRO ENVIRONMENT, BUT THEIR FOCUS IS ON FINDING SOLID COMPANIES WITH EXCELLENT GROWTH PROSPECTS.

LAMCO: There's a collective sigh of relief now that 2003 has gone down in the history books as a positive year for equity investors. Looking back, how would you summarize the stock market during 2003? Doug Foreman, start us off on this one, please.

FOREMAN (TCW - MID-CAP GROWTH): I think 2003 was the flip side of 2002 - almost a mirror image. Just to retrace: 2002 was the last year of the bear market, which ended in early October of that year. Until that point in 2002, it didn't matter what area of the market you were in - small, medium or large, growth or value - you got tattooed pretty good. But, this is typical of the final stages of a bear market - everybody gives up on everything. You saw that in 2002. In 2003, we saw the flip side. It was a year in which a rising tide lifted all the boats, even though small-cap did better than large, which is typical of the early stages of a recovery.

The fundamentals in the industries that we follow really bottomed in the summer of '02. The market didn't take off for a while because it was suffering through the fallout from various corporate scandals. But beneath the surface, fundamentals were improving. By the time we got to the third quarter of 2003, we had an 8 percent plus annualized gain in GDP. By then, investors across the board were beginning to understand that business had gotten a whole lot better and stocks hadn't gone up just because they were oversold. They went up because business conditions improved dramatically.

LAMCO: John Jostrand, how does William Blair see 2003?

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): We summarize 2003 as a dramatic step back from the brink. Many companies experienced their first positive financial trends in three years, and the global political/terror picture improved markedly. Small and cyclical were the two defining characteristics of winning

[SIDENOTE]

"WE'RE LOOKING FOR COMPANIES WITH THE POTENTIAL FOR POSITIVE EARNINGS SURPRISE AND THAT HAVE OUTSTANDING BUSINESS MODELS...THAT GAP BETWEEN WHAT OUR ESTIMATES ARE... AND WHAT WALL STREET EXPECTS AND WILL PAY FOR IS OUR ALPHA, OR OUR ABILITY TO OUTPERFORM."

DOUG FOREMAN,
TCW

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stocks, many of which were up 100 percent or more. Proven growth companies were up, but significantly less. Still, they turned in a respectable and welcome 20 percent gain.

LAMCO: Recap your views on 2003, please, Matt Weatherbie.

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): The year 2003 was one of strong absolute returns in both large and small company stocks. Within the small cap universe, it was somewhat frustrating and unexpected that lower quality, low priced small cap stocks outperformed the high quality stocks we emphasize. Essentially, in 2003, Federal Reserve monetary policy was extremely accommodative. This led to an 800-basis point decline in junk bond yields, bringing over-leveraged companies back from the brink and creating a speculative stock market, causing low quality to outperform high quality.

LAMCO PERSPECTIVE: THE MANAGERS WERE WELL POSITIONED TO PARTICIPATE IN A RECOVERING ECONOMY AND A REBOUNDING STOCK MARKET, AS EVIDENCED BY THE FUND'S 33 PERCENT-PLUS RETURN BASED ON NET ASSET VALUE IN 2003. EQUALLY GRATIFYING, THE FUND RANKED IN THE TOP QUARTILE AMONG ITS LIPPER MULTI-CAP GROWTH FUND PEERS FOR THE PAST THREE YEARS, A PERIOD THAT INCLUDED THE NEGATIVE STOCK MARKET YEARS OF 2001 AND 2002 AND THE STRONG 2003.

LAMCO: Liberty All-Star Growth Fund may be a domestic equity fund - but it is subject to perhaps the most pervasive force of our era: globalization. The pluses and minuses of globalization are frequently debated - sometimes heatedly. As an investor, how do you seek to benefit from the upside of globalization, and how do you seek to protect yourself from its downside? Matt Weatherbie, we'll stay with you.

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): One of the tenets we look for in a company is a significant competitive advantage. It is important that globalization be at worst a neutral and, better still, a positive for our companies. For example, Dollar Tree Stores is a domestic specialty retailer. One of its significant competitive advantages is its ability, developed over a number of years, to source unique, high quality merchandise from China. China has become "the manufacturing floor for the world" and the diverse sources of product in China that Dollar Tree has established has created a compelling advantage for it. For our companies that sell overseas as well as in the U.S., it is important that they have world-class franchises that enable them to penetrate growing overseas markets. An example is Microchip Technology, a manufacturer of microcontrollers that derives 70 percent of its revenues from non-U.S. markets. Microchip's highly productive R&D, reputation for cost-effective, technically advanced products and aggressive worldwide engineering sales network provide this advantage.

LAMCO: Let's hear from Doug Foreman and then from John Jostrand.

FOREMAN (TCW - MID-CAP GROWTH): We're domestic-only investors. We make few direct investments in overseas-based companies. The areas in which we invest - the ones I mentioned earlier - are the very areas where the U.S. tends to be in a global competitive lead. There are a few exceptions to that, but, generally, in areas such as specialty retail, technology and health care the U.S. is the world-class leader. So, looking globally, Europe, Asia and China are all fertile ground in which our companies

[SIDENOTE]

"WE DEFINE A QUALITY GROWTH COMPANY AS ONE EXHIBITING SUPERIOR, LONG-TERM EARNINGS GROWTH COMBINED WITH A PROVEN AND SUSTAINABLE COMPETITIVE ADVANTAGE FROM A MARKET/BRAND POSITION, PROPRIETARY PRODUCT OR TECHNOLOGY POSITION, OR A UNIQUE ASSET BASE."

JOHN JOSTRAND,
WILLIAM BLAIR

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can grow. A good example of this is eBay in Germany over the last three years. eBay has created an absolutely huge business, despite a sluggish German economy.

In most cases, our portfolio companies are either in the process of establishing operations overseas and starting to grow very rapidly, or they've been so successful domestically they just haven't had the time to expand offshore. So, for us, globalization offers more upside than downside. Our portfolio companies tend not to be big and mature enough for foreign competition to represent a threat to their growth. And, typically, their market share in foreign countries is still low, as they are just getting established.

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): The upside of globalization is the marked expansion of revenue opportunities for our companies in the All-Star Growth Fund. In the portion of the Fund that we manage, the share of portfolio companies' revenue generated by customers outside North America ranges up to 65 percent. In a broader sense, growth rates are higher in countries where the standard of living is rising. Increased per capita income and GDP are the chief benefits of globalization and we believe corporate activity is an important contributor to improved living standards.

The downside to globalization is the clash of cultures. In spite of a so-called shrinking world - due to the ease of communication and travel - distance may contribute to misunderstanding and, therefore, failed investments. New competitors are another downside, but one that is more easily analyzed than culture clash or misunderstood government policies in distant lands. We believe that the best protection to the downside of globalization is in the adage "travel broadens the mind." Fortunately, this is very near to our basic research philosophy, which can be expressed as, "Get out there and find out what's going on and speak directly to people who are in the middle of the issues." Our firm is fortunate to have several people doing excellent work globally.

LAMCO PERSPECTIVE: THE MANAGERS' CONSENSUS IS THAT THE FUND IS POSITIONED TO BENEFIT MORE FROM GLOBALIZATION THAN IT IS TO BE HARMED BY IT. WE WOULD AGREE.

LAMCO: What issue or potential problem most concerns you going forward? And the reverse: what are you most sanguine about? Let's stay with you, John Jostrand, and then ask Doug Foreman and Matt Weatherbie to comment.

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): The most concerning economic development is the decline of more than 28 percent over the past two years in the trade-weighted value of the U.S. dollar. The current exchange level is about in the middle of the range before the bubble in U.S. technology stocks (i.e., the 10 years ended 1996), so our concern is mild for the moment. The decline in the currency, paired with the revival in gold prices, has us watchful about valuations for U.S. equities.

On a positive note, with the consensus view that the economic cycle has entered mid-stream, there is less controversy about the earnings outlook. The indicators that we, as stock pickers, watch are positive for continued earnings growth. The yield curve is positive and commodity prices are up, signaling the return of corporate pricing power. Our portfolio characteristics remain in clear harmony with our philosophy of owning quality growth companies. The moderate beta and volatility characteristics of quality investments had their predictable

[SIDENOTE]

"FOR US, GLOBALIZATION OFFERS MORE UPSIDE THAN DOWNSIDE. THE AREAS IN WHICH WE INVEST - INCLUDING TECHNOLOGY, HEALTH CARE, SPECIALTY RETAIL AND MEDIA - ARE THE VERY AREAS WHERE THE U.S. TENDS TO BE IN A GLOBAL COMPETITIVE LEAD."

DOUG FOREMAN,
TCW

effects in a recovery year such as 2003, but the moderate portfolio turnover William Blair typically exhibits was highlighted in some academic research as a proven long-term element in good investor returns. A mid-stream year, cyclically speaking, should give William Blair portfolios - and quality in general - an advantage as lower quality companies dominated in the early stages of the market recovery in 2003.

FOREMAN (TCW - MID-CAP GROWTH): The one thing I'm a little bit concerned about is that the consensus of opinion regarding the economic outlook is one of the tightest that I've seen in my investing career. By that, I mean the evidence of recovery has been so overwhelming that even bearish investors have had to cave in. At year-end 2003, there was a tight consensus that it had been a very good year of recovery and that '04 is highly likely to be more of the same. I agree with that - and that's what makes me a little nervous. Slightly more divergence would be better, because divergence usually represents a better opportunity to make money. You'll get somewhat different views as to what the tight consensus outlook for the economy means for the stock market. My gut instincts tell me there will be some surprises - there always are.

The same thing that makes me nervous also makes me feel good - namely the ongoing recovery and projected strength in the economy. I feel that we are still in the fairly early innings of the recovery, to use a baseball analogy. We're not in the first inning any more, but we're still in the second, third or fourth - somewhere in that area. So, it feels to me like we're still in the early stages of the recovery and it would be highly unusual with the elections coming up for us to lose this head of steam that we've built up. Anything can happen, as we've learned the hard way. But, barring some unusual event, things should continue to get better and the stock market should continue to rise. At the same rate as '03? Probably not, but I think we have a good year ahead of us. The other thing I feel good about is that, unlike investors who lagged the market, better quality companies should do better this year. Lower quality companies always outperform at the beginning of a bull market. And, I don't think there are excesses in the market, despite the positive year that we had.

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): The issue that most concerns me at present is the size of the federal budget deficit. Fiscal restraint needs to be reestablished in Washington. Even if it is, it is unclear to me whether the Bush tax cuts - which are very good for stock market investors - can be made permanent, or whether future significant tax increases are likely, which would depress economic growth and the market's potential.

I am most sanguine about the prospect for accelerating economic growth worldwide in 2004. This, combined with the impressive productivity improvements that U.S. businesses have been demonstrating, will lead to strong corporate profit growth, rising employment and, in my opinion, another year of positive equity returns in 2004. It should be noted that the fourth year of a presidential term has traditionally been a good one for the stock market.

LAMCO PERSPECTIVE: CONSENSUS ISN'T PERFECT. AS DOUG FOREMAN SAYS, "ANYTHING CAN HAPPEN, AS WE'VE LEARNED THE HARD WAY." THE MANAGERS WILL NOT STRAY FROM THEIR STRATEGY AND CAPITALIZATION FOCUS, BUT THEY CLEARLY HAVE THE EXPERIENCE TO FINE-TUNE THE PORTFOLIO, DEPENDING ON DEVELOPMENTS, AND MONITOR THE LARGER TRENDS THAT COULD IMPACT THE STOCK MARKET.

[SIDENOTE]

"I AM MOST SANGUINE ABOUT THE PROSPECT FOR ACCELERATING ECONOMIC GROWTH WORLDWIDE IN 2004...AND, IT SHOULD BE NOTED THAT THE FOURTH YEAR OF A PRESIDENTIAL TERM HAS TRADITIONALLY BEEN A GOOD ONE FOR THE STOCK MARKET."

MATT WEATHERBIE,
M.A. WEATHERBIE

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LAMCO: Name one stock that you have added recently to the portion of the All-Star Growth Fund portfolio that you manage and why you added it. Doug Foreman, what does TCW like?

FOREMAN (TCW - MID-CAP GROWTH): Eon Labs is a smaller generic drug company that we believe is well positioned for growth. The number of prescription drugs coming off patent in the next five years represents billions of dollars in revenue and this company has done a good job of being the first to file for a number of generic products over the past four years. Eon Labs also enjoys good revenue diversity by going to market with more than 100 drugs, which is important because generic drugs can come and go. The company has a tremendous growth record - 30 percent plus on the top and bottom lines over the past few years. It's a well managed company and it has numerous products in the pipeline for approval over the next 12 to 18 months.

LAMCO: John Jostrand, what has William Blair added to the portfolio?

JOSTRAND (WILLIAM BLAIR - LARGE-CAP GROWTH): Our most recent purchase is actually an addition to an existing position - EMC. This is a data storage company in which the original thesis of growing demand for storage capacity, modular additions to capacity and the increasing complexity of storage management continues to strengthen. Management has shown an ability to adapt to customers' shifting priorities through recent product developments, additional distribution channels and strategic partnering - all of which has improved its competitive position. Lastly, the company made three important acquisitions that bring greater value to its customer base and greater distribution clout for the acquired companies.

LAMCO: Matt Weatherbie, what have you focused on recently?

WEATHERBIE (M.A. WEATHERBIE - SMALL-CAP GROWTH): A company that we recently added is Universal Technical Institute (UTI), the leading provider of post-secondary education for students seeking careers as professional automotive technicians. The company works closely with leading original equipment manufacturers to continuously refine and expand its program. As a result, it is often the sole provider of manufacturer-based training programs. There is a shortage of 60,000 auto techs in the U.S., primarily because of rapid technological advancement and an aging workforce. For example, an auto these days can have up to 42 microprocessors in it. UTI fits our criteria: it has high growth, an excellent return on invested capital, strong cash flow generation, a market leadership position, long-tenured and stable management team, a strong balance sheet and significant growth potential.

LAMCO PERSPECTIVE: THE MANAGERS' RECENT PURCHASES OR ENHANCEMENTS TO EXISTING POSITIONS CLEARLY REFLECT THEIR CAPITALIZATION FOCUS. SINCE THE RESTRUCTURING OF THE FUND OVER THREE YEARS AGO AND THE ESTABLISHMENT OF THE CURRENT INVESTMENT MANAGER LINE-UP, EACH MANAGER HAS CONSISTENTLY MAINTAINED ITS RESPECTIVE STRATEGY AND CAPITALIZATION FOCUS, AS LAMCO INTENDED.

[SIDENOTE]

"WE SUMMARIZE 2003 AS A DRAMATIC STEP BACK FROM THE BRINK. MANY COMPANIES EXPERIENCED THEIR FIRST POSITIVE FINANCIAL TRENDS IN THREE YEARS, AND THE GLOBAL POLITICAL/TERROR PICTURE IMPROVED MARKEDLY."

JOHN JOSTRAND,
WILLIAM BLAIR

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INVESTMENT GROWTH as of December 31, 2003

GROWTH OF A $10,000 INVESTMENT

The graph below illustrates the growth of a $10,000 investment assuming purchase of common stock at the closing market price (NYSE: ASG) of $9.25 on December 31, 1996, and tracking its progress through December 31, 2003. This 7-year period covers the calendar years since the Fund commenced its 10 percent distribution policy in 1997.

[CHART]

The dark green region of the graph above reflects the growth of the investment assuming all distributions were received in cash and not reinvested back in the Fund. The value of the investment under this scenario grew to $15,308 (this value includes distributions per share totaling $7.33 during the period).

The light green region of the graph depicts additional value realized through reinvestment of all distributions and participation in all the rights offerings under the terms of each offering. On three occasions, the Fund has conducted rights offerings that allow shareholders to purchase additional shares at a discount. The value of the investment under this scenario grew to $16,594.

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TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS

		RIGHTS OFFERINGS
YEAR	PER SHARE DISTRIBUTIONS	SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE
1997	$ 1.24	

1998	1.35	10
1999	1.23	
2000	1.34	
2001	0.92	8
2002	0.67	
2003	0.58	8*

*The number of shares offered was increased by an additional 25% to cover a portion of the over-subscription requests.

DISTRIBUTION POLICY

Liberty All-Star Growth Fund, Inc.'s current policy, in effect since 1997, is to pay distributions on its shares totaling approximately 10 percent of its net asset value per year, payable in four quarterly installments of 2.5 percent of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. THE FIXED DISTRIBUTIONS ARE NOT RELATED TO THE AMOUNT OF THE FUND'S NET INVESTMENT INCOME OR NET REALIZED CAPITAL GAINS OR LOSSES AND MAY BE TAXED AS ORDINARY INCOME UP TO THE AMOUNT OF THE FUND'S CURRENT AND ACCUMULATED EARNINGS AND PROFITS. If, for any calendar year, the total distributions made under the 10 percent pay-out policy exceed the Fund's net investment income and net realized capital gains, the excess will generally be treated as a non-taxable return of capital, reducing the shareholder's adjusted basis in his or her shares. If the Fund's net investment income and net realized capital gains for any year exceed the amount distributed under the 10 percent pay-out policy, the Fund may, in its discretion, retain and not distribute net realized capital gains and pay income tax thereon to the extent of such excess.

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TOP 50 HOLDINGS

RANK AS OF 12/31/03	RANK AS OF 9/30/03	SECURITY NAME	MARKET VALUE ($000)
1	1	eBay, Inc.	$ 5,451
2	2	Bed Bath & Beyond, Inc.	4,695
3	7	Xilinx, Inc.	3,909
4	5	Maxim Integrated Products, Inc.	3,790
5	3	Westwood One, Inc.	3,561
6	12	Univision Communications, Inc., Class A	3,002
7	10	Pfizer, Inc.	2,933
8	13	Yahoo! Inc.	2,895
9	6	Microsoft Corp.	2,859
10	11	Paychex, Inc.	2,786
11	23	Getty Images, Inc.	2,750
12	4	EchoStar Communications Corp., Class A	2,744
13	15	Clear Channel Communications, Inc.	2,599
14	24	First Data Corp.	2,317
15	25	Cisco Systems, Inc.	2,310
16	17	National Instruments Corp.	2,297

17	22	Genentech, Inc.	2,283
18	30	Fastenal Co.	2,245
19	18	Amazon.com, Inc.	2,211
20	16	Medtronic, Inc.	2,122
21	21	Cox Communications, Inc., Class A	2,119
22	14	SLM Corp.	2,087
23	41	SAP AG	1,966
24	27	Patterson Dental Co.	1,950
25	33	Walgreen Co.	1,930
26	32	Linear Technology Corp.	1,925
27	31	UnitedHealth Group, Inc.	1,922
28	35	State Street Corp.	1,854
29	26	InterActiveCorp	1,825
30	19	Dollar Tree Stores, Inc.	1,793
31	28	Martek Biosciences Corp.	1,771
32	48	BEA Systems, Inc.	1,684
33	37	Cognex Corp.	1,648
34	34	ResMed, Inc.	1,631
35	29	Education Management Corp.	1,630
36	44	Eli Lilly and Co.	1,609
37	49	Juniper Networks, Inc.	1,601
38	51	Zebra Technologies Corp., Class A	1,598
39	38	Dell, Inc.	1,532
40	42	Fannie Mae	1,531
41	63	The Cheesecake Factory, Inc.	1,521
42	57	UTI Worldwide, Inc.	1,519
43	54	Danaher Corp.	1,459
44	53	Taiwan Semiconductor Manufacturing Co., Ltd.	1,447
45	64	Siebel Systems, Inc.	1,395
46	45	PepsiCo, Inc.	1,371
47	36	Lincare Holdings, Inc.	1,367
48	43	The Corporate Executive Board Co.	1,354
49	20	Avon Products, Inc.	1,350
50	50	Alcon, Inc.	1,338

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MAJOR STOCK CHANGES IN THE FOURTH QUARTER

The following are the major ($500,000 or more) stock changes--both purchases and sales--that were made in the Fund's portfolio during the fourth quarter of 2003.

SECURITY NAME	PURCHASES (SALES)	SH
PURCHASES		
CheckFree Corp.	19,200	
EMC Corp.	49,900	
Medicis Pharmaceutical Corp., Class A	8,082	
MGI Pharma, Inc.	15,200	
SALES		
Avon Products, Inc.	(10,800)	

Charles River Laboratories International, Inc.	(21,972)
Family Dollar Stores, Inc.	(32,582)
Gilead Sciences, Inc.	(48,800)
Intel Corp.	(53,700)
The Yankee Candle Co., Inc.	(21,661)

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SCHEDULE OF INVESTMENTS as of December 31, 2003

COMMON STOCKS (98.9%)	SHARES	MARKET VA
CONSUMER DISCRETIONARY (27.6%)		
AUTOMOBILES (0.6%)		
Harley-Davidson, Inc.	21,300	$ 1,01
HOTELS, RESTAURANTS & LEISURE (2.7%)		
The Cheesecake Factory, Inc. (a)	34,537	1,52
International Speedway Corp., Class A	29,810	1,33
Outback Steakhouse, Inc.	21,086	93
P.F. Chang's China Bistro, Inc. (a)	11,498	58
		4,36
INTERNET & CATALOG RETAIL (6.4%)		
Amazon.com, Inc. (a)	42,000	2,21
eBay, Inc. (a)	84,400	5,45
InterActiveCorp.	53,781	1,82
Netflix, Inc. (a)	17,114	93
		10,42
MEDIA (11.8%)		
Cablevision Systems Corp., Class A (a)	34,751	81
Citadel Broadcasting Co. (a)	33,096	74
Clear Channel Communications, Inc.	55,500	2,59
Cox Communications, Inc., Class A (a)	61,500	2,11
Cox Radio, Inc., Class A (a)	36,700	92
EchoStar Communications Corp., Class A (a)	80,700	2,74
Getty Images, Inc. (a)	54,860	2,75
Univision Communications, Inc., Class A (a)	75,640	3,00
Westwood One, Inc. (a)	104,094	3,56
		19,25
MULTI-LINE RETAIL (2.7%)		
Dollar Tree Stores, Inc. (a)	59,635	1,79
Family Dollar Stores, Inc.	31,723	1,13
Kohl's Corp. (a)	27,400	1,23
99 Cents Only Stores (a)	10,389	28
		4,44

SPECIALTY RETAIL (3.4%)		
Bed Bath & Beyond, Inc. (a)	108,300	4,69
The Children's Place Retail Stores, Inc. (a)	32,106	85
		5,55

See Notes to Schedule of Investments.

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SCHEDULE OF INVESTMENTS

COMMON STOCKS (CONTINUED)	SHARES	MARKET VA
CONSUMER STAPLES (3.2%)		
BEVERAGES (0.9%)		
PepsiCo, Inc.	29,400	$ 1,37
FOOD & STAPLES RETAILING (1.5%)		
Rite Aid Corp. (a)	90,662	54
Walgreen Co.	53,050	1,92
		2,47
PERSONAL PRODUCTS (0.8%)		
Avon Products, Inc.	20,000	1,34
ENERGY (1.8%)		
ENERGY EQUIPMENT & SERVICES (1.4%)		
Patterson-UTI Energy, Inc. (a)	25,315	83
Pride International, Inc. (a)	44,705	83
Tidewater, Inc.	18,338	54
		2,21
OIL & GAS (0.4%)		
Suncor Energy, Inc.	27,200	68
FINANCIALS (7.3%)		
CAPITAL MARKETS (3.0%)		
Affiliated Managers Group, Inc. (a)	8,820	61
Investment Technology Group, Inc. (a)	33,590	54
SEI Investment Co.	21,000	63
State Street Corp.	35,600	1,85
T. Rowe Price Group, Inc.	25,500	1,20
		4,85
CONSUMER FINANCE (1.3%)		
SLM Corp.	55,400	2,08

DIVERSIFIED FINANCIAL SERVICES (0.6%)		
CapitalSource, Inc. (a)	4,600	9
Financial Federal Corp. (a)	27,842	85
		95
INSURANCE (1.5%)		
Brown & Brown, Inc.	17,610	57
Montpelier Re Holdings Ltd.	16,663	61
Platinum Underwriters Holdings Ltd.	18,064	54
XL Capital Ltd., Class A	8,800	68
		2,41

See Notes to Schedule of Investments.

COMMON STOCKS (CONTINUED)	SHARES	MARKET VA
THRIFTS & MORTGAGE FINANCE (0.9%)		
Fannie Mae	20,400	$ 1,53
HEALTH CARE (17.0%)		
BIOTECHNOLOGY (5.2%)		
Affymetrix, Inc. (a)	44,800	1,10
Amgen, Inc. (a)	19,200	1,18
Enzon Pharmaceuticals, Inc. (a)	35,712	42
Genentech, Inc. (a)	24,400	2,28
Martek Biosciences Corp. (a)	27,258	1,77
MedImmune, Inc. (a)	26,200	66
QLT, Inc. (a)	49,737	93
		8,37
HEALTH CARE EQUIPMENT & SUPPLIES (3.9%)		
Alcon, Inc.	22,100	1,33
Medtronic, Inc.	43,650	2,12
PolyMedica Corp.	49,938	1,31
ResMed, Inc. (a)	39,275	1,63
		6,40
HEALTH CARE PROVIDERS & SERVICES (4.0%)		
Express Scripts, Inc., Class A (a)	14,000	93
Inveresk Research Group, Inc. (a)	14,280	35
Lincare Holdings, Inc. (a)	45,530	1,36
Patterson Dental Co. (a)	30,390	1,94
UnitedHealth Group, Inc.	33,040	1,92
		6,52
PHARMACEUTICALS (3.9%)		
Eli Lilly and Co.	22,875	1,60
Eon Labs, Inc. (a)	5,500	28

Medicis Pharmaceutical Corp., Class A	12,382	88
MGI Pharma, Inc. (a)	15,200	62
Pfizer, Inc.	83,030	2,93
Pharmion Corp. (a)	4,700	7
		6,40
INDUSTRIALS (6.7%)		
AIR FREIGHT & LOGISTICS (0.9%)		
UTI Worldwide, Inc.	40,035	1,51

See Notes to Schedule of Investments.

COMMON STOCKS (CONTINUED)	SHARES	MARKET VA
COMMERCIAL SERVICES & SUPPLIES (3.5%)		
Bright Horizons Family Solutions, Inc. (a)	6,851	$ 28
Cintas Corp.	12,572	63
The Corporate Executive Board Co. (a)	29,019	1,35
Education Management Corp. (a)	52,528	1,63
Robert Half International, Inc. (a)	26,200	61
Universal Technical Institute, Inc. (a)	10,906	32
West Corp. (a)	36,366	84
		5,68
MACHINERY (0.9%)		
Danaher Corp.	15,900	1,45
TRADING COMPANIES & DISTRIBUTORS (1.4%)		
Fastenal Co.	44,950	2,24
INFORMATION TECHNOLOGY (33.7%)		
COMMUNICATIONS EQUIPMENT (3.7%)		
CIENA Corp. (a)	62,100	41
Cisco Systems, Inc. (a)	95,100	2,30
Juniper Networks, Inc. (a)	85,700	1,60
Packeteer, Inc. (a)	30,500	51
Polycom, Inc. (a)	62,793	1,22
		6,06
COMPUTERS & PERIPHERALS (2.4%)		
Avid Technology, Inc. (a)	5,556	26
Dell, Inc. (a)	45,100	1,53
EMC Corp. (a)	83,100	1,07
Network Appliance, Inc. (a)	49,100	1,00
		3,87
ELECTRONIC EQUIPMENT & INSTRUMENTS (2.4%)		

Cognex Corp.	58,365	1,64
National Instruments Corp.	50,510	2,29

		3,94

INTERNET SOFTWARE & SERVICES (2.9%)		
Orbitz, Inc., Class A (a)	10,756	24
Retek, Inc. (a)	36,172	33
WebEx Communications, Inc. (a)	37,945	76
webMethods, Inc. (a)	41,600	38
Yahoo! Inc. (a)	64,100	2,89

		4,62

See Notes to Schedule of Investments.

COMMON STOCKS (CONTINUED)	SHARES	MARKET VA
IT SERVICES (4.7%)		
CheckFree Corp. (a)	19,200	$ 53
First Data Corp.	56,400	2,31
Paychex, Inc.	74,900	2,78
SRA International, Inc. (a)	19,721	84
SunGard Data Systems, Inc. (a)	44,000	1,21

		7,70

OFFICE ELECTRONICS (1.0%)		
Zebra Technologies Corp., Class A (a)	24,082	1,59

SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT (10.0%)		
Altera Corp. (a)	32,500	73
Applied Micro Circuits Corp. (a)	72,300	43
GlobespanVirata, Inc. (a)	45,800	26
Intersil Corp., Class A	20,956	52
Linear Technology Corp.	45,750	1,92
Maxim Integrated Products, Inc.	76,100	3,78
Microchip Technology, Inc.	33,221	1,10
Novellus Systems, Inc. (a)	17,500	73
Power Integrations, Inc. (a)	16,450	55
Semtech Corp. (a)	37,103	84
Taiwan Semiconductor Manufacturing Co., Ltd. (a)(b)	141,300	1,44
Xilinx, Inc. (a)	100,900	3,90

		16,26

SOFTWARE (6.6%)		
Agile Software Corp. (a)	84,820	83
BEA Systems, Inc. (a)	136,900	1,68
E.piphany, Inc. (a)	76,548	55
Interwoven, Inc. (a)	21,152	26
Intuit, Inc. (a)	23,700	1,25
Microsoft Corp.	103,800	2,85
SAP AG (b)	47,300	1,96
Siebel Systems, Inc. (a)	100,600	1,39

		10,81
TELECOMMUNICATION SERVICES (1.6%)		
DIVERSIFIED TELECOMMUNICATION SERVICES (0.6%)		
Time Warner Telecom, Inc. (a)	93,800	95

See Notes to Schedule of Investments.

COMMON STOCKS (CONTINUED)	SHARES	MARKET VA
WIRELESS TELECOMMUNICATION SERVICES (1.0%)		
At Road, Inc. (a)	22,678	$ 30
Sprint Corp. (PCS Group) (a)	141,000	79
Telephone and Data Systems, Inc.	8,800	55
		1,64
TOTAL COMMON STOCKS (COST OF $137,684,267)		161,09
WARRANTS (0.1%)	UNITS	
CONSUMER DISCRETIONARY (0.1%)		
INTERNET & CATALOG RETAIL (0.1%)		
InterActiveCorp, Expires 02/04/09 (a) (Cost of $20,691)	2,918	10
SHORT-TERM INVESTMENT (2.4%)	PAR VALUE	
REPURCHASE AGREEMENT (2.4%)		
Repurchase agreement with State Street Bank & Trust Co., dated 12/31/03, due 01/02/04 at 0.78%, collateralized by U.S. Treasury Bonds with various maturities to 08/15/28, market value $4,135,222 (repurchase proceeds $4,044,175) (Cost of $4,044,000)	$ 4,044,000	4,04
TOTAL INVESTMENTS (101.4%) (COST OF $141,748,958) (c)		165,25
OTHER ASSETS AND LIABILITIES, NET (-1.4%)		(2,34
NET ASSETS (100.0%)		$ 162,90
NET ASSET VALUE PER SHARE (25,007,325 SHARES OUTSTANDING)		$

NOTES TO SCHEDULE OF INVESTMENTS:

(a) Non-income producing security.

(b) Represents an American Depositary Receipt.

(c) Cost of investments for federal income tax purposes is $142,386,727. Gross unrealized appreciation and depreciation of investments at December 31, 2003 is as follows:

Gross unrealized appreciation	$ 39,076,858
Gross unrealized depreciation	(16,211,790)
Net unrealized appreciation	$ 22,865,068

See Notes to Financial Statements.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES DECEMBER 31, 2003

ASSETS:	
Investments at market value (identified cost $141,748,958)	$
Cash	
Receivable for investments sold	
Dividends and interest receivable	
TOTAL ASSETS	
LIABILITIES:	
Payable for investments purchased	
Distributions payable to shareholders	
Investment advisory, administrative and bookkeeping/pricing fees payable	
Accrued expenses	
TOTAL LIABILITIES	
NET ASSETS	$
NET ASSETS REPRESENTED BY:	
Paid-in capital (authorized 60,000,000 shares at $0.10 Par; 25,007,325 shares outstanding)	$
Accumulated net realized loss on investments	
Net unrealized appreciation on investments	
TOTAL NET ASSETS APPLICABLE TO OUTSTANDING SHARES OF COMMON STOCK ($6.51 PER SHARE)	$

See Notes to Financial Statements.

STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2003

INVESTMENT INCOME:

Dividends
Interest

TOTAL INVESTMENT INCOME (NET OF FOREIGN TAXES WITHHELD AT SOURCE WHICH AMOUNTED TO $2,228)

EXPENSES:

Investment advisory fee $
Administrative fee
Bookkeeping and pricing fees
Custodian fees
Transfer agent fees
Shareholder communication expenses
Directors' fees and expenses
NYSE fee
Miscellaneous expense

--

TOTAL EXPENSES

CUSTODY EARNINGS CREDIT

NET EXPENSES

NET INVESTMENT LOSS

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:
Net realized gain on investment transactions:
Proceeds from sales
Cost of investments sold

--

Net realized gain on investment transactions

Net unrealized appreciation (depreciation) on investments:
Beginning of year
End of year

--

Change in unrealized depreciation-net

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

See Notes to Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

OPERATIONS:	
Net investment loss	$
Net realized gain (loss) on investment transactions	
Change in unrealized appreciation (depreciation)-net	
Net increase (decrease) in net assets resulting from operations	
DISTRIBUTIONS DECLARED FROM:	
Net realized gain on investments	
Paid-in capital	
Total distributions	
CAPITAL TRANSACTIONS:	
Proceeds from rights offering	
Dividend reinvestments	
Increase in net assets from capital share transactions	
Total increase (decrease) in net assets	
NET ASSETS:	
Beginning of year	
End of year	$

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS

	YEAR ENDED DECEMBER 31,			
	2003	2002	2001	200
PER SHARE OPERATING PERFORMANCE:				
Net asset value at beginning of year	$ 5.44	$ 8.31	$ 10.86	$ 13
Income from Investment Operations:				
Net investment loss	(0.06)	(0.07)	(0.09)	(0

Net realized and unrealized gain (loss) on investments	1.79	(2.13)	(1.50)	(1
Total from Investment Operations	1.73	(2.20)	(1.59)	(1
Less Distributions from:				
Paid-in capital	(0.26)	(0.67)	(0.92)	(0
Realized capital gain	(0.32)	--	--	(1
In excess of realized capital gain	--	--	--	(0
Total Distributions	(0.58)	(0.67)	(0.92)	(1
Change due to rights offering (a)	(0.08)	--	(0.04)	
Impact of shares issued in dividend reinvestment (b)	--	--	--	
Total Distributions, Reinvestments and Rights Offering	(0.66)	(0.67)	(0.96)	(1
Net asset value at end of year	$ 6.51	$ 5.44	$ 8.31	$ 10
Market price at end of year	$ 6.83	$ 5.05	$ 8.33	$ 9.
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (c)				
Based on net asset value	33.7%	(27.2)%	(13.7)%	(
Based on market price	51.1%	(32.6)%	(0.5)%	(
RATIOS AND SUPPLEMENTAL DATA:				
Net assets at end of year (millions)	$ 163	$ 112	$ 163	$
Ratio of expenses to average net assets (d)	1.34%	1.38%	1.41%	1
Ratio of net investment loss to average net assets (d)	(0.94)%	(1.07)%	(1.12)%	(0
Portfolio turnover rate	37%	25%	41%	

(a) Effect of Fund's rights offerings for shares at a price below net asset value.

(b) Effect of payment of a portion of distributions in newly issued shares at a discount from net asset value.

(c) Calculated assuming all distributions reinvested at actual reinvestment price and all rights offerings were fully subscribed under the terms of each offering.

(d) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had an impact of less than 0.01%.

See Notes to Financial Statements.

	YEAR ENDED DECEMBER 31,			
	1998	1997	1996	1995(
PER SHARE OPERATING PERFORMANCE:				
Net asset value at beginning of year	$ 12.89	$ 11.27	$ 10.55	$ 9
Income from Investment Operations:				
Net investment income (loss)	(0.03)	(0.02)	0.01	0
Net realized and unrealized gain (loss) on investments	1.73	2.88	1.86	1
Total from Investment Operations	1.70	2.86	1.87	1
Less Distributions from:				
Net investment income	--	--	(0.01)	(0
Paid-in capital	(0.83)	--	--	
Realized capital gain	(0.52)	(1.24)	(1.01)	(0
Total Distributions	(1.35)	(1.24)	(1.02)	(0
Change due to rights offering (a)	(0.21)	--	--	
Impact of shares issued in dividend reinvestment (b)	--	--	(0.13)	
Total Distributions, Reinvestments and Rights Offering	(1.56)	(1.24)	(1.15)	(0
Net asset value at end of year	$ 13.03	$ 12.89	$ 11.27	$ 10
Market price at end of year	$ 11.438	$ 11.938	$ 9.250	$ 9.
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (c)				
Based on net asset value	15.3%	27.3%	18.3%	1
Based on market price	9.3%	43.6%	9.3%	1
RATIOS AND SUPPLEMENTAL DATA:				
Net assets at end of year (millions)	$ 199	$ 167	$ 137	$
Ratio of expenses to average net assets (d)	1.22%	1.20%	1.35%	1
Ratio of net investment income (loss) to average net assets (d)	(0.22)%	(0.18)%	0.06%	2
Portfolio turnover rate	33%	57%	51%	

(a) Effect of Fund's rights offerings for shares at a price below net asset value.

(b) Effect of payment of a portion of distributions in newly issued shares at a discount from net asset value.

(c) Calculated assuming all distributions reinvested at actual reinvestment price and all rights offerings were fully subscribed under the terms of each offering.

(d) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had an impact of less than 0.01%.

(e) Liberty Asset Management Company assumed complete management responsibilities of the Fund in November 1995.

See Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS December 31, 2003

I. ORGANIZATION

Liberty All-Star Growth Fund, Inc. (the "Fund") is a Maryland corporation registered under the Investment Company Act of 1940 (the "Act"), as amended, as a diversified, closed-end management investment company.

INVESTMENT GOAL

The Fund seeks long-term capital appreciation.

FUND SHARES

The Fund may issue 60,000,000 shares of common stock at $0.10 par.

II. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

SECURITY VALUATION

Equity securities are valued at the last sale price at the close of the principal exchange on which they trade. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

Debt securities generally are valued by a pricing service approved by the Fund's Board of Directors, based upon market transactions for normal, institutional-sized trading units of similar securities. The services may use various pricing techniques, which will take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotes are readily available are valued at an over-the-counter or exchange bid quotation.

Short-term debt obligations maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Investments for which market quotations are not readily available are valued at fair value as determined in good faith under consistently applied procedures approved by and under the general supervision of the Board of Directors.

SECURITY TRANSACTIONS

Security transactions are accounted for on the trade date. Cost is determined and gains (losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

REPURCHASE AGREEMENTS

The Fund may engage in repurchase agreement transactions with institutions that the Fund's investment advisor has determined are creditworthy. The Fund, through its custodian, receives delivery of underlying securities collateralizing a repurchase agreement. Collateral is at least equal, at all times, to the value of the repurchase obligation including interest. A repurchase agreement transaction involves certain risks in the event of default or insolvency of the counterparty. These risks include possible delays or restrictions upon the Fund's ability to dispose of the underlying securities and a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights.

INCOME RECOGNITION

Interest income is recorded on the accrual basis. Premium and discount are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date.

FEDERAL INCOME TAX STATUS

Consistent with the Fund's policy to qualify as a regulated investment company and to distribute all of its taxable income to shareholders, no federal income tax has been accrued.

DISTRIBUTIONS TO SHAREHOLDERS

The Fund currently has a policy of paying distributions on its common shares totaling approximately 10% of its net asset value per year. The distributions are payable in four quarterly distributions of 2.5% of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. Distributions to shareholders are recorded on ex-date.

III. FEDERAL TAX INFORMATION

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations.

For the year ended December 31, 2003, permanent differences resulting primarily from differing treatments for net operating losses, return of capital and excess distributions were identified and reclassified among the components of the Fund's net assets as follows:

ACCUMULATED NET INVESTMENT LOSS	ACCUMULATED NET REALIZED LOSS	PAID-IN CAPITAL
$ 1,229,500	$ 7,098,748	$ (8,328,248)

Net investment income and net realized gains (losses), as disclosed on the Statement of Operations, and net assets were not affected by this reclassification.

The tax character of distributions paid during the years ended December 31, 2003 and December 31, 2002 was as follows:

	12/31/03	12/31/02
Distributions paid from:		
Ordinary income*	$ 7,098,737	$ --
Long-term capital gain	--	--
	7,098,737	--
Return of capital	4,528,603	14,239,710
	$ 11,627,340	$ 14,239,710

*For tax purposes short-term capital gains distributions, if any, are considered ordinary income distributions.

As of December 31, 2003, the components of distributable earnings on a tax basis were as follows:

UNDISTRIBUTED ORDINARY INCOME	UNDISTRIBUTED LONG-TERM CAPITAL GAINS	NET UNREALIZED APPRECIATION*
$ --	$ --	$ 22,865,068

*The differences between book-basis and tax-basis net unrealized appreciation are primarily due to deferral of losses from wash sales.

The following capital loss carryforwards are available to reduce taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Internal Revenue Code:

YEAR OF EXPIRATION	CAPITAL LOSS CARRYFORWARD
2009	$ 5,781,653
2010	11,242,729
	$ 17,024,382

Future realized gains offset by the loss carryforwards are not required to be distributed to shareholders. However, under the Fund's distribution policy, as described above, such gains may be distributed to shareholders in the year gains are realized. Any such gains distributed may be taxable to shareholders as ordinary income. Capital loss carryforwards of $7,098,726 were utilized during the year ended December 31, 2003.

IV. FEES AND COMPENSATION PAID TO AFFILIATES

INVESTMENT ADVISORY FEE

Liberty Asset Management Company ("LAMCO"), a wholly owned subsidiary of Columbia Management Group, Inc. ("Columbia"), which is a wholly owned subsidiary of FleetBoston Financial Corporation, is the investment advisor of the Fund. LAMCO receives a monthly fee based on the Fund's average weekly net assets at the following annual rates:

AVERAGE WEEKLY NET ASSETS	FEE RATE
First $300 million	0.80%
Over $300 million	0.72%

Under Portfolio Manager Agreements, LAMCO pays each Portfolio Manager a portfolio management fee based on the assets of the investment portfolio that they manage. The portfolio management fee is paid from the investment advisory fees collected by LAMCO and is based on the Fund's average weekly net assets at the following annual rates:

AVERAGE WEEKLY NET ASSETS	FEE RATE
First $300 million	0.40%
Over $300 million	0.36%

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ADMINISTRATION FEE

LAMCO provides administrative and other services for a monthly fee based on the Fund's average weekly net assets at the following annual rates:

AVERAGE WEEKLY NET ASSETS	FEE RATE
First $300 million	0.20%
Over $300 million	0.18%

PRICING AND BOOKKEEPING FEES

LAMCO is responsible for providing pricing and bookkeeping services to the Fund under a pricing and bookkeeping agreement. Under a separate agreement (the "Outsourcing Agreement"), LAMCO has delegated those functions to State Street Corporation ("State Street"). LAMCO pays the total fees collected from the Fund for these services to State Street under the Outsourcing Agreement.

Under its pricing and bookkeeping agreement with the Fund, LAMCO receives from the Fund an annual flat fee of $10,000 paid monthly, and in any month that the Fund's average weekly net assets exceed $50 million, an additional monthly fee. The additional fee rate is calculated by taking into account the fees payable to State Street under the Outsourcing Agreement. This rate is applied to the average daily net assets of the Fund for that month. The Fund also pays additional fees for pricing services. For the year ended December 31, 2003, the effective pricing and bookkeeping fee rate was 0.031%.

CUSTODY CREDITS

The Fund has an agreement with its custodian bank under which custody fees may be reduced by balance credits. The Fund could have invested a portion of the assets utilized in connection with the expense offset arrangement in an income producing asset if it had not entered into such an agreement.

FEES PAID TO OFFICERS

The Fund pays no compensation to its officers, all of whom are employees of Columbia or its affiliates.

V. PORTFOLIO INFORMATION

PURCHASES AND SALES OF SECURITIES

For the year ended December 31, 2003, the cost of purchases and proceeds from sales of securities, excluding short-term obligations, were $59,173,014 and $48,328,625, respectively.

VI. CAPITAL TRANSACTIONS

In a rights offering commencing September 12, 2003, shareholders exercised rights to purchase 3,305,213 shares at $5.72 per share for proceeds, net of expenses, of $18,754,401. During the years ended December 31, 2003 and December 31, 2002, distributions in the amount of $6,412,884 and $6,185,822, respectively, were paid in newly issued shares valued at market value or net asset value, but not less than 95% of market value. Such distributions resulted in the issuance of 1,083,624 and 964,320 shares, respectively.

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF LIBERTY ALL-STAR GROWTH FUND, INC.

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Liberty All-Star Growth Fund, Inc. (the "Fund") at December 31, 2003, and the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights of the Fund for periods prior to January 1, 1999 were audited by other independent accountants whose report dated February 12, 1999 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

Boston, Massachusetts

February 10, 2004

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AUTOMATIC DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED)

Each shareholder of the Fund will automatically be a participant in the Fund's Automatic Dividend Reinvestment and Cash Purchase Plan as amended June 30, 1996 (the "Plan"), unless the shareholder specifically elects otherwise by writing to the agent for participants in the Plan, EquiServe Trust Company, N.A. (the "Plan Agent"), P.O. Box 43010, Providence, RI 02940-3010 or by calling 1-800-LIB-FUND (1-800-542-3863). Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee must notify their brokerage firm, bank or nominee if they do not wish to participate in the Plan.

Under the Plan, all dividends and other distributions on shares of the Fund are automatically reinvested by the Plan Agent in additional shares of the Fund. Distributions declared payable in shares or cash at the option of shareholders are paid to participants in the Plan entirely in newly issued full and fractional shares valued at the lower of market value or net asset value per share on the valuation date for the distribution (but not a discount of more than 5 percent from market price). Distributions declared payable only in cash will be reinvested for the accounts of participants in the Plan in additional shares purchased by the Plan Agent on the open market at prevailing market prices. If, prior to the Plan Agent's completion of such open market purchases, the market price of a share equals or exceeds its net asset value, the remainder of the distribution will be paid in newly issued shares valued at net asset value (but not at a discount of more than 5 percent from market price). Dividends and distributions are subject to taxation, whether received in cash or in shares.

Participants in the Plan have the option of making additional cash payments in any amount from $100 to $3,000 on a monthly basis for investment in shares of the Fund purchased on the open market. These voluntary cash payments will be invested on or about the 15th day of each calendar month, and voluntary payments should be sent so as to be received by the Plan Agent no later than 10 days before the next investment date. Barring suspension of trading, voluntary cash payments will be invested within 45 days of receipt. A participant may withdraw a voluntary cash payment by written notice received by the Plan Agent at least 48 hours before such payment is to be invested.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

There is no charge to participants for reinvesting distributions pursuant to the Plan. The Plan Agent's fees are paid by the Fund. There are no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions declared payable in shares or in cash. However, each participant bears a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions declared payable only in cash.

With respect to purchases from voluntary cash payments, the Plan Agent will charge $1.25 for each such purchase for a participant, plus a pro rata share of the brokerage commissions. Brokerage charges for purchasing small amounts of shares for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing shares for all participants in blocks and prorating the lower commission thus attainable.

Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee will be able to participate in the Plan only if their brokerage firm, bank or nominee is able to do so on their behalf. Shareholders participating in the Plan through a brokerage firm may not be able to transfer their shares to another brokerage firm and continue to participate in the Plan.

Shareholders may terminate their participation in the Plan by written notice to the Plan Agent, EquiServe Trust Company, N.A., P.O. Box 43010, Providence, RI 02940-3010. Such termination will be effective immediately if received not less than 10 days prior to the record date for a dividend or distribution; otherwise it will be effective on the first business day after the payment date of such dividend or distribution. On termination, participants may either have certificates for the Fund shares in their Plan accounts delivered to them or have the Plan Agent sell such shares in the open market and deliver the proceeds, less a $2.50 fee plus brokerage commissions, to the participant.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan.

TAX INFORMATION (UNAUDITED)

All 2003 distributions whether received in cash or shares of the Fund consist of the following:
(1) ordinary dividends and
(2) return of capital

Below is a table that details the breakdown of each 2003 distribution for federal income tax purposes.

TAX STATUS OF 2003 DISTRIBUTIONS

		ORDINARY DIVIDENDS			
DATE PAID	AMOUNT PER SHARE	QUALIFIED	NON-QUALIFIED	LONG-TERM CAPITAL GAINS	RETURN OF CAPITAL
*01/02/03	$ 0.14	3.68%	55.96%	--	40.36%
03/17/03	$ 0.13	3.68%	55.96%	--	40.36%
06/30/03	$ 0.14	3.68%	55.96%	--	40.36%
10/06/03	$ 0.15	3.68%	55.96%	--	40.36%
**01/02/04	$ 0.16	--	--	--	--

* Pursuant to section 852 of the Internal Revenue Code, the taxability of this distribution will be reported on the Form 1099-DIV for 2003.

** Pursuant to section 852 of the Internal Revenue Code, the taxability of this distribution will be reported on the Form 1099-DIV for 2004.

The names of the Directors and officers of the Liberty All-Star Growth Fund, Inc., the date each was first elected or appointed to office, their term of office, their principal business occupations and other directorships they have held during at least the last five years, are shown below.

NAME (AGE) AND ADDRESS	POSITION WITH LIBERTY ALL-STAR GROWTH FUND	TERM OF OFFICE AND LENGTH OF SERVICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER PORTFOLI FUND COM OVERSE BY DIRE
DISINTERESTED DIRECTORS				
John A. Benning (69) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111	Director	Director Since 2002; Term expires 2005	Retired since December, 1999; Senior Vice President, General Counsel and Secretary, Liberty Financial Companies Inc. (July, 1985 to December, 1999); Vice President, Secretary and Director, Liberty Asset Management Company (August, 1985 to December, 1999).	2
James E. Grinnell (74)	Director	Director Since	Private investor since	2

c/o Liberty Asset Management Company One Financial Center Boston, MA 02111		1994; Term Expires 2006	November 1988; President and Chief Executive Officer, Distribution Management Systems, Inc. (1983 to May 1986); Senior Vice President, Operations, The Rockport Company (importer and distributor of shoes) (May 1986 to November 1988).	
Richard W. Lowry (67) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111	Director	Director Since 1994; Term Expires 2004	Private Investor since 1987 (formerly Chairman and Chief Executive Officer, U.S. Plywood Corporation (building products manufacturer).	121
John J. Neuhauser (60) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111	Director	Director Since 1998; Term Expires 2006	Academic Vice President and Dean of Faculties since August 1999, Boston College (formerly Dean, Boston College School of Management from September 1977 to September 1999).	122
INTERESTED DIRECTOR				
William E. Mayer* (63) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111	Director	Director Since 1998; Term Expires 2005	Managing Partner, Park Avenue Equity Partners (private equity) since February 1999 (formerly Founding Partner, Development Capital, LLC from November 1996 to February 1999).	121

* A DIRECTOR WHO IS AN "INTERESTED PERSON" (AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 ("1940 ACT")) OF LIBERTY ALL-STAR GROWTH FUND, INC. OR LAMCO. MR. MAYER IS AN INTERESTED PERSON BY REASON OF HIS AFFILIATION WITH WR HAMBRECHT + CO.

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NAME (AGE) AND ADDRESS	POSITION WITH LIBERTY ALL-STAR GROWTH FUND	YEAR FIRST ELECTED OR APPOINTED TO OFFICE	PRINCIPAL PAST
OFFICERS			
William R. Parmentier, Jr. (51) Liberty Asset Management Company One Financial Center Boston, MA 02111	President and Chief Executive Officer	1998	President (since Jun Officer (since April (May 1995 to June 19
Mark T. Haley, CFA (39)	Vice President	1999	Vice President-Inves

Liberty Asset Management Company One Financial Center Boston, MA 02111			Director of Investme December 1998), Inve to November 1996), L
Fred H. Wofford (48) Liberty Asset Management Company One Financial Center Boston, MA 02111	Vice President	2003	Director of Funds Op Liberty Asset Manage Investment Complianc from February 1999 t Administration, Bank November 1995 to Feb
J. Kevin Connaughton (39) One Financial Center Boston, MA 02111	Treasurer	2000	Treasurer of the Col All-Star Funds since Controller of the Co Liberty All-Star Fun October 2000); Vice Management Advisors, Treasurer of the Gal 2002; Treasurer of t Multi-Strategy Hedge (formerly Vice Presi Associates, Inc. fro 2000; Senior Tax Man from April 1996 to J
Vicki Benjamin (42) One Financial Center Boston, MA 02111	Chief Accounting Officer and Controller	2001	Controller of the Co All-Star Funds since Officer of the Colum Funds since June 200 Accounting Officer o September 2002 (form Audit, State Street May 1998 to April 20 1994 to June 1997, S 1997 to May 1998, Co
David A. Rozenson (49) One Financial Center Boston, MA 02111	Secretary	2003	Secretary of the Col All-Star Funds since of FleetBoston Finan 1996; Associate Gene Management Group sin

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[ALL-STAR(R) GROWTH FUND LOGO]

FUND MANAGER
Liberty Asset Management Company
One Financial Center
Boston, Massachusetts 02111
617-772-3626
www.all-starfunds.com

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125 High Street
Boston, Massachusetts 02110

CUSTODIAN
State Street Bank & Trust Company

225 Franklin Street
Boston, Massachusetts 02110

INVESTOR ASSISTANCE,
TRANSFER & DIVIDEND
DISBURSING AGENT & REGISTRAR
EquiServe Trust Company, N.A.
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1-800-LIB-FUND (1-800-542-3863)
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1800 Massachusetts Avenue, NW
Washington, DC 20036-1800

DIRECTORS
John A. Benning*
James E. Grinnell*
Richard W. Lowry*
William E. Mayer
Dr. John J. Neuhauser*

OFFICERS
William R. Parmentier, Jr., President and Chief Executive Officer
Mark T. Haley, CFA, Vice President
Fred H. Wofford, Vice President
J. Kevin Connaughton, Treasurer
Vicki L. Benjamin, Chief Accounting Officer and Controller
David A. Rozenson, Secretary

*Member of the audit committee.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities is available (1) without charge, upon request, by calling 1-800-542-3863 or (2) on the Securities and Exchange Commission's web site at www.sec.gov.

[ASG LISTED NYSE LOGO]

[GRAPHIC]

[ALL STAR(R) GROWTH FUND LOGO]

LIBERTY ASSET MANAGEMENT COMPANY,
FUND MANAGER
ONE FINANCIAL CENTER
BOSTON, MASSACHUSETTS 02111
617-772-3626
www.all-starfunds.com

[ASG LISTED NYSE LOGO]

A MEMBER OF THE
[CLOSED-END FUND ASSOCIATION, INC LOGO]

WWW.CLOSED-END FUND.COM

IMAGE OF THE NEW YORK STOCK EXCHANGE
TRADING FLOOR WITH PERMISSION OF NYSE.

MULTI-MANAGEMENT

[GRAPHIC]

CLOSED-END STRUCTURE

[GRAPHIC]

PROFESSIONAL MANAGEMENT

[GRAPHIC]

ACCESS TO LEADING
INVESTMENT MANAGERS

[GRAPHIC]

ONGOING MONITORING
AND REBALANCING

[GRAPHIC]

DISTRIBUTION POLICY

[GRAPHIC]

LIBERTY ALL-STAR GROWTH FUND

ITEM 2. CODE OF ETHICS.

(a) The registrant has, as of the end of the period covered by this report, adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.

(b) During the period covered by this report, there were not any amendments to a provision of the code of ethics adopted in 2(a) above.

(c) During the period covered by this report, there were not any waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's Audit Committee is composed of three of the registrant's independent directors who are not affiliated with the registrant's investment adviser. The Board has determined that each of the audit committee members is "financially literate" and that at least one member has "accounting or related financial management expertise" as used in the New York Stock Exchange definitions of the terms.

Under the recently enacted Sarbanes-Oxley Act, if the Board of Directors has not determined that a "financial expert," a new term based on criteria contained in the Sarbanes-Oxley Act, is serving on the audit committee, it must disclose this fact and explain why the committee does not have such an expert. The Board of Directors has determined that none of the members of its audit committee meets the technical requirements of the definition. Moreover, it believes that for the following reasons it is not necessary for a registered investment company such as the registrant, with an audit committee that meets the New York Stock Exchange requirements of financial literacy, to have a "financial expert" as a member of the committee.

1. The financial statements of and accounting principles applying to registered investment companies such as the registrant are relatively straightforward and transparent compared to those of operating companies. The significant accounting issues are valuation of securities and other assets (regulated under the Investment Company Act of 1940 (the "1940 Act") and computed daily), accrual of expenses, allocation of joint expenses shared with other entities, such as insurance premiums, and disclosures of all related party transactions. Equally important is a knowledge of the tax laws applying to registered investment companies. None of the accounting issues involving corporate America that have received recent publicity, such as sophisticated derivative transactions and special purpose entities, are present in financial reporting for registered investment companies.

2. During the years that the registrant has been filing financial reports under the 1940 Act since its inception in 1986 there has never been a requirement for a financial report or statement to be restated.

3. The current members of the audit committee have many years of aggregate experience serving on this audit committee and in the Board's judgment, through this experience and experience with other public corporation's financial affairs, they have an understanding of the relevant generally accepted accounting principles governing the registrant's financial statements, tax laws applying to the registrant, the registrant's internal accounting controls and audit committee functions necessary to satisfy the objectives of the Sarbanes-Oxley Act with respect to the financial statements, auditing process and internal controls of the registrant.

4. The audit committee has the capability of employing a consultant who satisfies the technical definition of a "financial expert" and will do so from time to time if circumstances warrant.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

4(a) Aggregate Audit Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
$27,500	$23,100

Audit Fees include amounts related to the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

(b) Aggregate Audit-Related Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
$4,000	$2,000

Audit-Related Fees include amounts for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported in Audit Fees above. In fiscal year 2003, Audit-Related Fees relate to certain agreed-upon procedures performed for semi-annual shareholder reports. Audit-Related Fees in fiscal year 2002 relate to certain agreed-upon procedures conducted during the conversion of the registrant's accounting system.

The "de minimis" exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. The percentage of Audit-Related services to the registrant that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

The pre-approval requirements for services to the investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. During the fiscal year ended December 31, 2003, there were no Audit-Related Fees that were approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

The percentage of Audit-Related fees required to be approved under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

(c) Aggregate Tax Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002

$2,600	$2,500

Tax Fees include amounts for professional services by the principal accountant for tax compliance, tax advice and tax planning. Tax Fees in both fiscal years 2003 and 2002 relate to the review of annual tax returns.

The "de minimis" exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. The percentage of Tax Fees billed to the registrant that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

The pre-approval requirements for services to the investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. During the fiscal year ended December 31, 2003, there were no Tax Fees that were approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

The percentage of Tax Fees required to be approved under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

(d) Aggregate All Other Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
$0	$0

All Other Fees include amounts for products and services provided by the principal accountant, other than the services reported in (a)-(c) above.

The "de minimis" exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. The percentage of All Other Fees billed to the registrant that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

The pre-approval requirements for services to the investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X became effective on May 6, 2003. During the fiscal year ended December 31, 2003, there were no All Other Fees that were approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

The percentage of All Other Fees required to be approved under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X that were approved under the "de minimis" exception during the fiscal years ended December 31, 2003 and December 31, 2002 are as follows:

2003	2002
0%	N/A

(e)(1) Audit Committee Pre-Approval Policies and Procedures

I. GENERAL OVERVIEW

The Audit Committee of the registrant has adopted a formal policy (the "Policy") which sets forth the procedures and the conditions pursuant to which the Audit Committee will pre-approve (i) all audit and non-audit (including audit related, tax and all other) services provided by the registrant's independent auditor to the registrant and individual funds (collectively "Fund Services"), and (ii) all non-audit services provided by the registrant's independent auditor to the funds' adviser or a control affiliate of the adviser, that relate directly to the funds' operations and financial reporting (collectively "Fund-related Adviser Services"). A "control affiliate" is an entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the funds, and the term "adviser" is deemed to exclude any unaffiliated sub-adviser whose role is primarily portfolio management and is sub-contracted or overseen by another investment adviser.

The Audit Committee uses a combination of specific (on a case-by-case basis as potential services are contemplated) and general (pre-determined list of permitted services) pre-approvals. Unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee if it is to be provided by the independent auditor.

The Policy does not delegate the Audit Committee's responsibilities to pre-approve services performed by the independent auditor to management.

II. GENERAL PROCEDURES

On an annual basis, the Fund Treasurer and/or Director of Trustee

Administration shall submit to the Audit Committee a schedule of the types of Fund Services and Fund-related Adviser Services that are subject to general pre-approval.

These services will provide a description of each type of service that is subject to general pre-approval and, where possible, will provide projected fees for each instance of providing each service. This general pre-approval and related fees (where provided) will generally cover the period from July 1 through June 30 of the following year. The Audit Committee will review and approve the types of services and review the projected fees for the next fiscal year and may add to, or subtract from, the list of general pre-approved services from time to time, based on subsequent determinations. This approval acknowledges that the Audit Committee is in agreement with the specific types of services that the independent auditor will be permitted to perform. The fee amounts will be updated to the extent necessary at other regularly scheduled meetings of the Audit Committee.

In addition to the fees for each individual service, the Audit Committee has the authority to implement a fee cap on the aggregate amount of non-audit services provided to an individual fund.

If, subsequent to general pre-approval, a fund, adviser or control affiliate determines that it would like to engage the independent auditor to perform a service not included in the general pre-approval list, the specific pre-approval procedure shall be as follows:

- A brief written request shall be prepared by management detailing the proposed engagement with explanation as to why the work is proposed to be performed by the independent auditor;

- The request should be addressed to the Audit Committee with copies to the Fund Treasurer and/or Director of Trustee Administration;

- The Fund Treasurer and/or Director of Trustee Administration will arrange for a discussion of the service to be included on the agenda for the next regularly scheduled Audit Committee meeting, when the Committee will discuss the proposed engagement and approve or deny the request.

- If the timing of the project is critical and the project needs to commence before the next regularly scheduled meeting, the Chairperson of the Audit Committee may approve or deny the request on behalf of the Audit Committee, or, in the Chairperson's discretion, determine to call a special meeting of the Audit Committee for the purpose of considering the proposal. Should the Chairperson of the Audit Committee be unavailable, any other member of the Audit Committee may serve as an alternate for the purpose of approving or denying the request. Discussion with the Chairperson (or alternate, if necessary) will be arranged by the Fund Treasurer and/or Director of Trustee Administration. The independent auditor will not commence any such project unless and until specific approval has been given.

III. ADDITIONAL PRE-APPROVAL INFORMATION

The engagement of the independent auditor to provide Fund Services and Fund-related Adviser Services shall be approved by the Audit Committee prior to the commencement of any such engagement.

A. AUDIT SERVICES TO THE FUNDS

The Audit Committee will monitor the Audit services engagement throughout the year and will also approve, if necessary, any changes in terms and conditions resulting from changes in audit scope, fund structure or other items.

B. AUDIT-RELATED SERVICES TO THE FUNDS

The Audit Committee believes that the provision of Audit-related Services is consistent with the SEC's rules on auditor independence, and will grant general pre-approval to specific Audit-related Services.

C. TAX SERVICES TO THE FUNDS

The Audit Committee will grant general pre-approval to those specific Tax services that have historically been provided by the auditor, that the Audit Committee has reviewed and believes would not impair the independence of the auditor, and that are consistent with the SEC's rules on auditor independence.

D. ALL OTHER SERVICES TO THE FUNDS

The Audit Committee will grant general pre-approval to those specific permissible non-audit services classified as All Other Services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

E. FUND-RELATED ADVISER SERVICES

The Audit Committee will grant general pre-approval to provide specific non-audit services to the funds' investment adviser, or any control affiliates, that relate directly to the funds' operations and financial statements. This includes services customarily required by one or more adviser entities or control affiliates in the ordinary course of their operations.

F. CERTAIN OTHER SERVICES PROVIDED TO ADVISER ENTITIES

The Audit Committee recognizes that there are cases where services proposed to be provided by the independent auditor to the adviser or control affiliates are not Fund-related Adviser Services within the meaning of the Policy, but nonetheless may be relevant to the Audit Committee's ongoing evaluation of the auditor's independence and objectivity with respect to its audit services to the funds. As a result, in all cases where an adviser or control affiliate engages the independent auditor to provide audit or non-audit services that are not Fund Services or Fund-related Adviser Services, were not subject to pre-approval by the Audit Committee, and the projected fees for any such engagement (or the aggregate of all such engagements) exceeds a pre-determined

threshold established by the Audit Committee, the independent auditor, Fund Treasurer and/or Director of Trustee Administration will notify the Audit Committee not later than its next meeting. Such notification shall include a general description of the services provided, the entity that is to be the recipient of such services, the timing of the engagement, the entity's reasons for selecting the independent auditor, and the projected fees. Such information will allow the Audit Committee to consider whether non-audit services provided to the adviser and Adviser Entities, which were not subject to Audit Committee pre-approval, are compatible with maintaining the auditor's independence.

IV. REPORTING TO THE AUDIT COMMITTEE

The Fund Treasurer or Director of Trustee Administration shall report to the Audit Committee at each of its regular meetings regarding all Fund Services or Fund-related Adviser Services initiated since the last such report was rendered, including:

- A general description of the services, and

- Actual billed and projected fees, and

- The means by which such Fund Services or Fund-related Adviser Services were approved by the Audit Committee.

In addition, in accordance with Section 208-5 of the Sarbanes-Oxley Act of 2002, the independent auditor shall report to the Audit Committee annually, and no more than 90 days prior to the filing of audit reports with the SEC, all non-audit services provided to entities in the funds' "investment company complex," as defined by SEC rules. In addition, the independent auditor must annually disclose to the Audit Committee all relationships with the funds of which the independent auditor is aware that may be reasonably thought to bear on the auditor's independence. The independent auditor shall tabulate, calculate and disclose its fees annually for such relationships.

V. AMENDMENTS; ANNUAL APPROVAL BY AUDIT COMMITTEE

The Policy may be amended from time to time by the Audit Committee. Prompt notice of any amendments will be provided to the independent auditor, Fund Treasurer and Director of Trustee Administration. The Policy shall be reviewed and approved at least annually by the Audit Committee.

(f) Not applicable.

(g) All non-audit fees billed by the registrant's accountant for services rendered to the registrant for the fiscal years ended December 31, 2003 and December 31, 2002 are disclosed in 4(b)-(d) above.

All non-audit fees billed by the registrant's accountant for services rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the

adviser that provides ongoing services to the registrant for the fiscal years ended December 31, 2003 and December 31, 2002 are also disclosed in 4(b)-(d) above. There were no such fees during the last two fiscal years.

(h) The registrant's Audit Committee of the Board of Directors has considered whether the provision of non-audit services that were rendered to the registrant's adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X, is compatible with maintaining the principal accountant's independence. The Audit Committee determined that the provision of such services is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable at this time.

ITEM 6. RESERVED.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Fund has delegated to Liberty Asset Management Company (the "Advisor") the responsibility to vote proxies relating to portfolio securities held by the Fund. In deciding to delegate this responsibility to the Advisor, the Board of Trustees of the Trust reviewed and approved the policies and procedures adopted by the Advisor. These included the procedures that the Advisor follows when a vote presents a conflict between the interests of the Fund and its shareholders and the Advisor, its affiliates, its other clients or other persons.

The Advisor's policy is to vote all proxies for Fund securities in a manner considered by the Advisor to be in the best interest of the Fund and its shareholders without regard to any benefit to the Advisor, its affiliates, its other clients or other persons. The Advisor examines each proposal and votes against the proposal, if, in its judgment, approval or adoption of the proposal would be expected to impact adversely the current or potential market value of the issuer's securities. The Advisor also examines each proposal and votes the proxies against the proposal, if, in its judgment, the proposal would be expected to affect adversely the best interest of the Fund. The Advisor determines the best interest of the Fund in light of the potential economic return on the Fund's investment.

The Advisor addresses potential material conflicts of interest by having predetermined voting guidelines. For those proposals that require special consideration or in instances where special circumstances may require varying from the predetermined guideline, the Advisor's Proxy Committee determines the vote in the best interest of the Fund, without consideration of any benefit to the Advisor, its affiliates, its other clients or other persons. A member of the Proxy Committee is prohibited from voting on any proposal for which he or she has a conflict of interest by reason of a direct relationship with the issuer or other party affected by a given proposal. Persons making recommendations to the Proxy Committee or its members are required to disclose to the Committee any relationship with a party making a proposal or other matter known to the person that would create a potential conflict of interest.

The Advisor has three classes of proxy proposals. The first two classes are predetermined guidelines to vote for or against specific proposals, unless otherwise directed by the Proxy Committee. The third class is for proposals given special consideration by the Proxy Committee. In addition, the Proxy Committee considers requests to vote on proposals in the first two classes other than according to the predetermined guidelines.

The Advisor generally votes in favor of proposals related to the following matters: selection of auditors (unless the auditor receives more than 50% of its revenues from non-audit activities from the company and its affiliates), election of directors (unless the proposal gives management the ability to alter the size of the board without shareholder approval), different persons for chairman of the board /chief executive officer (unless, in light of the size of the company and the nature of its shareholder base, the role of chairman and CEO are not held by different persons), compensation (if provisions are consistent with standard business practices), debt limits (unless proposed specifically as an anti-takeover action), indemnifications (unless for negligence and or breaches of fiduciary duty), meetings, name of company, principal office (unless the purpose is to reduce regulatory or financial supervision), reports and accounts (if the certifications required by Sarbanes-Oxley Act of 2002 have been provided), par value, shares (unless proposed as an anti-takeover action), share repurchase programs, independent committees, and equal opportunity employment.

The Advisor generally votes against proposals related to the following matters: super majority voting, cumulative voting, preferred stock, warrants, rights, poison pills, reclassification of common stock and meetings held by written consent.

The Advisor gives the following matters special consideration: new proposals, proxies of investment company shares (other than those covered by the predetermined guidelines), mergers/acquisitions (proposals where a hostile merger/acquisition is apparent or where the Advisor represents ownership in more than one of the companies involved), shareholder proposals (other than those covered by the predetermined guidelines), executive/director compensation (other than those covered by the predetermined guidelines), pre-emptive rights and proxies of international issuers which block securities sales between submission of a proxy and the meeting (proposals for these securities are voted only on the specific instruction of the Proxy Committee and to the extent practicable in accordance with predetermined guidelines).

In addition, if a portfolio manager or other party involved with a client of the Advisor or Fund account concludes that the interest of the client or Fund requires that a proxy be voted on a proposal other than according to the predetermined guidelines, he or she may request that the Proxy Committee consider voting the proxy differently. If any person (or entity) requests the Proxy Committee (or any of its members) to vote a proxy other than according to a predetermined guideline, that person must furnish to the Proxy Committee a written explanation of the reasons for the request and a description of the person's (or entity's) relationship with the party proposing the matter to shareholders or any other matter known to the person (or entity) that would create a potential conflict of interest.

The Proxy Committee may vary from the predetermined guideline if it determines that voting on the proposal according to the predetermined guideline would be expected to impact adversely the current or potential market value of the issuer's securities or to affect adversely the best interest of the client. References to the best interest of a client refer to the interest of the client in terms of

the potential economic return on the client's investment. In determining the vote on any proposal, the Proxy Committee does not consider any benefit other than benefits to the owner of the securities to be voted.

The Advisor's Proxy Committee is composed of operational and investment representatives of its regional offices as well as senior representatives of the Advisor's equity investments, equity research, compliance and legal functions. During the first quarter of each year, the Proxy Committee reviews all guidelines and establishes guidelines for expected new proposals. In addition to these reviews and its other responsibilities described above, its functions include annual review of its Proxy Voting Policy and Procedures to ensure consistency with internal policies and regulatory agency policies, and development and modification of voting guidelines and procedures as it deems appropriate or necessary.

The Advisor uses Institutional Shareholder Services ("ISS"), a third party vendor, to implement its proxy voting process. ISS provides proxy analysis, record keeping services and vote disclosure services.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable at this time.

ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable at this time.

ITEM 10. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer, based on their evaluation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing of this report, have concluded that such controls and procedures are adequately designed to ensure that information required to be disclosed by the registrant in Form N-CSR is accumulated and communicated to the registrant's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 11. EXHIBITS.

(a)(1) Code of ethics required to be disclosed under Item 2 of Form N-CSR attached hereto as Exhibit 99.CODE ETH

(a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) attached hereto as Exhibit 99.CERT.

(a)(3) Not applicable at this time.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) attached hereto as Exhibit 99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(registrant) Liberty All-Star Growth Fund, Inc.

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By (Signature and Title)       /s/ William R. Parmentier, Jr.
                              --------------------------------------------------------
                                 William R. Parmentier, Jr., President

Date                               March 5, 2004
    ---------------------------------------------------------------------------

Pursuant to the requirements of the Securities Exchange Act of 1934 and the
Investment Company Act of 1940, this report has been signed below by the
following persons on behalf of the registrant and in the capacities and on
the dates indicated.

By (Signature and Title)       /s/ William R. Parmentier, Jr.
                              --------------------------------------------------------
                                 William R. Parmentier, Jr., President

Date                               March 5, 2004
    ---------------------------------------------------------------------------

By (Signature and Title)       /s/ J. Kevin Connaughton
                              --------------------------------------------------------
                                 J. Kevin Connaughton, Treasurer

Date                               March 5, 2004
    ---------------------------------------------------------------------------
```

2.0%;">

67,470

Accrued interest

8,845

8,845

7,675

7,675

Swaps

3,050

3,050

Total related party financial liabilities

339,428

344,138

337,571

351,017

The weighted average interest rate on related party loans was 6.75% in 2009 (9.39% in 2008, 7.95% in 2007). The fixed interest rate loans are exposed to fair value risk as it is stated in the table above. Any decrease of market interest rates will result in an increase of the fair value of the fixed interest liabilities.

Accrued interest include the nominal interest earned that is paid quarterly, semi-annually or annually.

Derivatives contracted with related parties include cross-currency interest rate swaps and FX forwards concluded with DT AG to change the Group s exposure to HUF in case of the EUR denominated loans.

There were no defaults and breaches in connection with the financial liabilities to related parties.

17 Other financial liabilities

In HUF millions		At December 31, 2008	2009
Bank loans	(a)	33,246	32,810
Finance lease payable (Note 32.1)		1,018	763
Accrued interest		1,246	1,139
Third party derivatives	(b)		179
Other		1,624	1,441
Total other financial liabilities current		37,134	36,332
Bank loans	(a)	19,313	23,316
Finance lease payable (Note 32.1)		3,474	2,660
Other		252	245
Total other financial liabilities non current		23,039	26,221

(a) Bank loans

In HUF millions	As at December 31, 2008	2009
Current bank loans	33,246	32,810
Non current bank loans (within 1-5 years)	19,313	23,316
Total bank loans	52,559	56,126

MAGYAR TELEKOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Loans totaling HUF 9,997 million at December 31, 2009 are revolving loans (2008: HUF 2,277 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The weighted average interest rate on bank loans was 7.92% in 2009 (8.54% in 2008, 7.41% in 2007).

The following table compares the carrying values and the fair values of the Group s bank loans.

	At December 31,			
	2008		2009	
In HUF millions	**Book value**	**Fair value**	**Book value**	**Fair value**
HUF denominated bank loans				
At fixed rate	11,000	11,768	11,000	12,090
At floating rate	28,515	28,515	38,215	38,215
	39,515	40,283	49,215	50,305
EUR denominated bank loans				
At fixed rate	10,767	11,069	5,164	5,316
At floating rate	2,277	2,277	1,747	1,747
	13,044	13,346	6,911	7,063
Total bank loans	52,559	53,629	56,126	57,368

Floating interest rate loans are subject to interests calculated based on mostly BUBOR (Budapest Inter-Bank Offered Rate) and EURIBOR (Euro Inter-Bank Offered Rate) plus a margin interest formula.

The majority of the Group s third party loans and borrowings are subject to floating interest rates, which are exposed to cash flow risks. If interest rates are rising, it results in higher cash outflows through interest payments.

There were no defaults and breaches in connection with other financial liabilities.

(b) Third party derivatives

Third party derivatives included FX forward deals in a total fair value of HUF 179 million (unrealized loss) as of December 31, 2009. There were no such derivatives of a liability nature as at December 31, 2008.

(c) Credit facilities

At December 31, 2009, Magyar Telekom had un-drawn committed credit facilities of HUF 50,479 million (2008: HUF 44,833 million). These credit facilities, should they be drawn down, are subject to an interest rate of EURIBOR, BUBOR and commercial floating bank prime rates plus a margin depending on the currency and institution providing the facilities.

18 Trade payables

	At December 31,	
In HUF millions	**2008**	**2009**
Payable to DT Group companies	5,850	5,169
Payable to associates and joint ventures	7	7
Other trade payables	86,483	80,698
	92,340	85,874

MAGYAR TELEKOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Provisions

In HUF millions	Severance	Legal cases	MTIP	Fixed to mobile IC fees	ARO	Other (as restated)	Total
January 1, 2008	14,722	5,652	55	6,984	1,244	4,068	32,725
Amounts utilized	(10,988)	(199)	(175)		(72)	(558)	(11,992)
Amounts reversed	(62)	(1,469)		(8,499)		(1,464)	(11,494)
Exchange rate difference	31	246				14	291
Accretion					70		70
Additions	6,061	2,683	356	1,515	3,414	2,262	16,291
December 31, 2008	9,764	6,913	236		4,656	4,322	25,891
Amounts utilized	(7,832)	(1,887)	(277)		(63)	(2,519)	(12,578)
Amounts reversed	(1,532)	(1,298)			(26)		(2,856)
Exchange rate difference	43	189				11	243
Accretion					184		184
Additions	8,304	1,733	397		259	836	11,529
December 31, 2009	8,747	5,650	356		5,010	2,650	22,413
Of which current	8,295	3,471			175	751	12,692
Of which non current	452	2,179	356		4,835	1,899	9,721

Magyar Telekom does not expect any reimbursement with regards to the provisions recognized, therefore, no related assets have been recognized in the financial statements.

Provisions recognized for customer loyalty programs in previous years have been retrospectively reclassified as other liabilities (current and non current). See more information in Note 2.1.5.

19.1 Severance

The majority of the provision for severance as at December 31, 2009 relates to the stand-by-pool and the employee terminations in 2010 in relation to the further organizational changes in Magyar Telekom Plc. The stand-by-pool of employees include people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them for maximum 4 years. This is a way of severance that is not paid in one lump sum but in maximum 48 installments following the discontinuation of services. The provision for severance as at December 31, 2008 mostly related to the major restructuring of Magyar Telekom Plc s operations from January 1, 2009, and impacted all functions of the Company.

961 employees were dismissed in 2009 (2008: 1,910) at Group level, related to which severance payments were made. The balance of provision as at December 31, 2009 relates to 569 employees and former employees in the stand-by-pool (2008: 738) working in various functions of the Group.

The total payments made in relation to employee termination in 2009 amounted to HUF 8,700 million, of which HUF 7,832 million was charged against the provision as at December 31, 2008, while the rest was recognized as employee related expense in 2009. The relatively high amount of the reversal of provision in 2009 is the result of the different actual mix of employees severed compared to the originally estimated mix (length of service years, choice of immediate leave versus stand-by pool, etc.).

The total payments made in relation to employee termination in 2008 amounted to HUF 13,468 million, of which HUF 10,988 million was charged against the provision as at December 31, 2007, while the rest was recognized as employee related expense in 2008.

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19.2 Legal cases

Provisions for legal cases mainly include amounts expected to be paid to regulatory and competition authorities as well as to ex-employees and trading partners as a result of legal disputes. There are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed. Further, the disclosure of any individual legal case could hurt the Group defending its position at various courts.

19.3 MTIP

For more details on the Mid-term Incentive Plan see Note 24.1.1.

19.4 Fixed to mobile (F2M) interconnect fees

The amount provided for in this category in prior years included amounts collected from Magyar Telekom Plc s customers, which were estimated as probably repayable to universal customers related to the reduced fixed to mobile termination charges, which was accounted for as a reduction of revenues.

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

The NCAH called upon the Company to repay the difference to its universal customers regardless of the status of the above legal cases. In August 2008, the negotiations with NCAH resulted in a positive conclusion, whereby the NCAH accepted the Company s arguments that in other forms of compensation the Company had already passed on the required discounts to the customers. Even though the NCAH conclusion was limited to the year 2005, based on the NCAH s reasoning for the relief, management believes that the Company passed on the required discounts to its customers in the subsequent years of 2006-2009 as well. As a result of the above, management believed that the recognition of the provision was no longer necessary, and in 2008 released to revenues the total amount of the provision accumulated in prior years.

19.5 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties properties.

In 2009, the Group conducted a revision of the required provisions, primarily as a result of the increased discount rates, and recognized the difference as a change in estimate in an amount of HUF 233 million against the carrying amounts of the related assets.

In 2008, the Group conducted a revision of the probabilities of having to dismantle the constructed assets and having to remediate the landlords and public premises after dismantling, and revised the projected cash outflows expected to be incurred to settle these obligations at the end of the useful life of the assets. As a result of the revision, the Group recognized an additional HUF 3,344 million provision in 2008 against an increase in the carrying amounts of the related assets.

19.6 Other provisions

Other provisions include guarantee obligations and further other individually small items as well as provisions for onerous contracts. The December 31, 2006 balance of Other provisions has been restated to also include the provisions for the potential tax implications of the contracts identified by the Investigation (Note 1.2.2).

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20 Other current liabilities

In HUF millions		At December 31, 2008	2009
Deferred revenue and advances received	(a)	14,495	12,131
Other taxes and social security		9,925	8,838
Salaries and wages		8,136	8,652
EKG payable	(b)	3,476	
Dividend payable to Non-controlling interests		290	303
Other liabilities		1,770	2,304
		38,092	32,228

(a) Deferred revenue and advances received

Deferred revenue and advances received include amounts already collected but not yet earned. Included in these are also the accruals recognized for customer loyalty programs in previous years that have been retrospectively reclassified from provisions and are now disclosed in this caption. See more information in Note 2.1.5.

(b) EKG payable

During 2005 the Company concluded an agreement with the Hungarian government for taking over the operation of the existing Electronic Governmental Backbone Network (EKG) for a period of 50 months. During the term of the agreement the Company committed to significant upgrades of the network and transferring it back to the government at the end of the term free of charge. During the term of the agreement, the Company had exclusivity in providing telecommunication services to the government institutions connected to the network. As the substance of the agreement is of a nature similar to a concession, the Company recognized an intangible asset (right) and a corresponding liability. The contract expired in 2009, with the last payments made in 2009.

21 Other non current liabilities

In HUF millions	At December 31, 2008	2009
Deferred revenue (Note 20)	908	1,089
EKG payable (Note 20)	385	
Other	11	11

	1,304	1,100

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22 Revenue

In HUF millions	For the year ended December 31, 2007	2008	2009
Fixed line revenues			
Voice retail	159,772	151,033	128,133
Voice wholesale	30,319	21,494	21,322
Internet	57,796	59,823	55,089
Data	27,440	28,839	30,762
TV	18,102	18,830	23,753
Equipment	5,395	7,058	4,745
Other fixed line revenues	10,509	12,818	10,276
Total Fixed line revenue	309,333	299,895	274,080
Mobile revenues			
Voice retail	195,718	196,983	192,704
Voice wholesale	46,244	46,241	41,563
Voice visitor	6,632	5,995	4,959
Non voice	45,068	50,936	56,188
Equipment	23,121	21,169	21,320
Other mobile revenues	8,984	10,441	9,262
Total Mobile revenue	325,767	331,765	325,996
System integration and IT revenue	41,561	41,396	43,913
Total revenue	676,661	673,056	643,989

None of the Group s customers represent a significant source of revenue. Revenues from transactions with a single external customer (or group of entities that - knowingly to us are under common control of a third party or government) do not exceed 10 per cent of the Group s revenues.

23 Expenses directly related to revenues

In HUF millions	For the year ended December 31, 2007	2008	2009
Voice, data and internet related payments	86,244	79,076	71,583
Material cost of equipment sold	41,957	45,061	44,011
Payments to agents and other subcontractors	49,064	43,421	44,982
	177,265	167,558	160,576

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24 Employee related expenses

		For the year ended December 31,		
In HUF millions	**Note**	**2007**	**2008**	**2009**
Short term benefits		99,459	96,407	100,425
Share based payments	24.1	(134)	356	397
Termination benefits	19.1	25,332	8,510	7,640
Total before capitalization		124,657	105,273	108,462
Expenses capitalized		(4,481)	(4,953)	(6,544)
		120,176	100,320	101,918
Total costs expensed in relation to defined contribution plans (including social security)		28,791	23,376	23,690
Closing number of employees		11,723	10,438	10,828

24.1 Share-based compensation

24.1.1 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP is a cash settled long term incentive instrument which was planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years. In 2009, Magyar Telekom decided on prolonging the original program by one additional year, with the same concept. At the beginning of the plan each participant has an offered bonus. This bonus will be paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target. Depending on the achievement of the targets, 0, 50 or 100% of the bonus is paid if neither, one or both of the targets are met, respectively.

The relative performance target is linked to the Total Return of the Magyar Telekom share compared to the performance of the Dow Jones Euro STOXX Total Return Index during the vesting period, each at the last 20 trading days. Measurement is the un-weighted average Magyar Telekom share price plus dividend payments. The absolute performance target is achieved when the Magyar Telekom share price, adjusted for dividends paid during the tenure, is more than 35 percent higher at the end of the lock up period than at the beginning of the plan. The basis of the calculation is the un-weighted average closing price of the Magyar Telekom share at the Budapest Stock Exchange during the last 20 trading days before the beginning and the end of the plan.

The share price calculated according to the above are included in the table below. When determining the Group s liability, these target figures are weighted with the fair value factors of achieving these targets. The fair value factors are calculated using the Monte Carlo technique. The target figures are multiplied by the relevant fair value factors and these amounts are then accrued for the given tranche period. This technique aims to determine the fair values of the share options granted and present it in accordance with the accruals concept.

Tranche	Vesting period		MT Share price at the beginning of the vesting period	Fulfillment
1	January 1, 2004	December 31, 2006	755	Only absolute target met
2	January 1, 2005	December 31, 2007	843	Neither targets met
3	January 1, 2006	December 31, 2008	949	Only relative target met
4	January 1, 2007	December 31, 2009	1,013	Only relative target met
5	January 1, 2008	December 31, 2010	912	
6	January 1, 2009	December 31, 2011	561	

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The provision for the payments in relation to the MTIP program and the movements thereof are disclosed in Note 19.

24.1.2 Management share option plan

On April 26, 2002, the annual Shareholders Meeting approved the introduction of a new management share option plan and authorized the Company s Board of Directors to purchase 17 million A series registered ordinary shares, each having a nominal value of HUF 100 as treasury shares. Consequently, the Company issued 4,900,000 shares on July 1, 2002, which were repurchased immediately as treasury shares.

On July 1, 2002, the Company granted 3,964,600 options to participants of the stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third tranches (exercisable in 2004 and 2005). As the Company s share price as quoted on the Budapest Stock Exchange on the grant date was HUF 833 per share, there was no intrinsic value to the options. The options had a life of five years from the grant date, meaning that the un-exercised options were forfeited without replacement or compensation on June 30, 2007.

The option with respect to a maximum of one-third of the shares that could be purchased under the first tranche was exercisable from July 1, 2003 until the end of the term. The option with respect to a maximum of a further one-third of the shares that could be purchased under the second tranche was exercisable from July 1, 2004 until the end of the term. The option with respect to the rest of the shares that could be purchased under the third tranche was exercisable from July 1, 2005 until the end of the term.

As the management share option plan did not fall into the scope of IFRS 2 Share based Payments, the Group did not recognize compensation expense in any of the periods.

The table below shows the movements in the number of management stock options in thousands.

	2005	2006	2007	Average exercise price (HUF)
Opening number of share options	3,207	1,929	1,307	944
Number of share options exercised	(991)	(539)	(414)	944
Forfeited share options	(287)	(83)	(893)	944
Closing number of share options	1,929	1,307		
Number of exercisable options at end of year	1,929	1,307		

The average share price on the exercise dates in 2007 was HUF 985 (2006: HUF 1,060).

24.1.3 The former CEO s share option plan

The former CEO of Magyar Telekom was granted share options in 2000, 2001, 2002, 2003 and 2004. The exercise price of the options was determined in US dollars and the options had no intrinsic values on the grant dates in 2000, 2001, 2002 and 2003, while those granted in 2004 had an intrinsic value of HUF 63 million. One third of the options granted vested after one year, another one third vested two years after the grant date, while the last third vested after three years. The options are exercisable for ten years after the grant date.

In 2006, the former CEO resigned and exercised his remaining options from 2003 and 2004. Although the last third of the 2004 grant would not have been exercisable, the resignation agreement concluded between the Company and the CEO allowed the early exercising of these 487 thousand options. Further, the settlement was concluded in cash even though the plan was originally intended as equity settled. The options granted in 2000 remain exercisable with the original conditions. The closing share price on the exercise date

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was HUF 1,060.

The table below shows the details of the CEO s share options.

	Options granted in year					
	2000	**2001**	**2002**	**2003**	**2004**	**Total**
Number of options granted (thousand)	103	250	303	619	1,462	2,737
Exercised (thousand) in 2005		(250)	(303)	(413)	(487)	(1,453)
Exercised (thousand) in 2006				(206)	(975)	(1,181)
Outstanding (thousand) at December 31, 2009	103					103
Exercisable (thousand) at December 31, 2009	103					103
Exercise price in USD	7.36	2.93	3.48	3.62	3.87	
Remaining contractual life at December 31, 2009 (years)	0.5					

25 Other operating expenses

	For the year ended December 31,		
In HUF millions	**2007**	**2008**	**2009**
Materials, maintenance and service fees	69,034	72,858	71,650
Marketing	20,152	22,065	16,180
Fees and levies	15,640	16,000	14,712
Consulting, audit and other expert fees	12,818	10,960	11,230
Rental and operating lease	9,304	9,947	11,153
Bad debt expense	5,136	4,353	9,072
Other expenses	7,230	4,866	1,308
	139,314	141,049	135,305

Consulting, audit and other expert fees among others include expenses incurred in relation to the audit of the standalone and consolidated financial statements of the Company by PricewaterhouseCoopers (PwC) as follows.

	For the year ended December 31,		
In HUF millions	**2007**	**2008**	**2009**
Audit of the financial statements	765	500	593
Other audit related fees	176	108	205
Tax advisory fees	12		
Other non audit related fees			4
Total expenses payable to PwC	953	608	802

Audit of the financial statements in the above table are the aggregate fees of PwC in connection with the audit of our annual financial statements, reviews of quarterly reports and services performed in relation to legal obligations and submissions required by regulatory provisions.

Other audit-related fees in the above table are the aggregate fees of PwC for services which are normally

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performed by the external auditor in connection with the auditing of the annual financial statements, e.g. advice on issues of accounting and reporting, which were not classified as audit services, and support with the interpretation of new accounting and reporting standards. Audit-related fees in 2009 also included HUF 205 million (2008: HUF 108 million) incurred relating to the ongoing investigation (Note 1.2).

Tax advisory fees in the above table are fees of PwC for services relating to issues of domestic and international taxation (adherence to tax law, tax planning and tax consulting). Furthermore, services were commissioned for the assistance with tax audits and appeals, evaluations for taxation purposes, as well as assistance to tax law.

Other non audit related fees in the above table are fees of PwC primarily related to services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC.

26 Other operating income

	For the year ended December 31,		
In HUF millions	**2007**	**2008**	**2009**
Compensation for renaming (Note 33.1)	229	676	
Gain on sale of PPE, Intangible assets and assets held for sale	3,203	2,126	326
Gain on sale of subsidiaries and associates (Notes 5.1 and 5.5)		1,233	1,371
Other operating income	569	214	1,166
	4,001	4,249	2,863

27 Finance expenses

	For the year ended December 31,		
In HUF millions	**2007**	**2008**	**2009**
Interest expense	31,147	32,798	33,479
Other finance expenses (Fee expense)	4,039	4,659	4,780
less: interest capitalized		(258)	(726)
	35,186	37,199	37,533

Other finance expenses mainly include bank charges.

Interest expense is shown net of interest capitalized using an average borrowing rate of 8.25% (2008: 8.3%).

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28 Finance income

In HUF millions	For the year ended December 31, 2007	2008	2009
Gains / (losses) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with related parties			(2,387)
Gains / (losses) on the subsequent measurement of financial instruments at fair value through profit and loss (derivatives) contracted with third parties	(139)	789	(568)
Gains / (losses) on the derecognition of financial instruments at fair value through profit and loss contracted with related parties			(141)
Gains / (losses) on the derecognition of financial instruments at fair value through profit and loss contracted with third parties	828	(477)	(441)
Gains / (losses) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)			
Net foreign exchange losses	(1,481)	(648)	(269)
Finance lease interest income	1,675	1,340	1,390
Interest and other finance income	4,334	5,887	7,136
	5,217	6,891	4,720

29 Purchase of property, plant and equipment and intangible assets

In HUF millions	For the year ended December 31, 2007	2008	2009
Investments in property, plant and equipment (Note 12)	75,825	85,489	81,786
Investments in intangible assets (Note 13)	28,010	22,460	20,078
Total investments in PPE and intangible assets	103,835	107,949	101,864
Recognition of investment tax credit (Note 9.4)	3,561	350	428
Change in payables relating to capital expenditures	(4,299)	7,740	7,936
	103,097	116,039	110,228

The Group had no significant non cash transactions in any of the reported years.

30 Purchase of subsidiaries and business units

For the year ended December 31,

In HUF millions	2007	2008	2009
ISH			3,131
Cable TV networks		687	1,745
KFKI Direkt			317
M-Factory contingent consideration		75	
Mobilpress	650		
T-Systems Hungary	60		
Total purchase of subsidiaries and business units	710	762	5,193

See Note 5 for further details of business combinations.

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31 Reportable segments and information about geographical areas

31.1 Reportable segments

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 operating segments in Hungary are: Consumer Services Business Unit, Business Services Business Unit, Media Business Unit, Group Headquarters and Technology Business Unit. In addition, the Group also has operations in Macedonia and Montenegro, which represent two additional reporting segments. Of these segments, MBU has not qualified as a reportable segment, therefore, it is included in All other in the reconciliations of the reportable segments totals.

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 small and medium businesses (SMB). BBU s customer portfolio includes approximately 3,000 key business partners and over 40,000 SMB customers.

The Group Headquarters (Headquarters) is responsible for providing wholesale mobile and fixed line services in Hungary, and 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. From 2009, similarly to the Hungarian operations, in these countries also less emphasis is put on the segregation by technology (fixed line or mobile services), but up until the end of 2009, the Group s operations in Macedonia and Montenegro were reviewed separately for the fixed line and mobile operations, therefore, these were two separate operating segments by country.

In addition to the operating segments described above, there are a few operations, which do not qualify as operating or reportable segments. These operations (including MBU as well) are grouped in All other included in the reconciliations of the reportable segments totals to the Group totals.

Comparative information has been provided for 2008, including minimum level of estimates as the new structure was gradually introduced in 2008. We have also provided comparative figures for 2007, which include more management estimate (except in case of Macedonia and Montenegro) as the Group operated in the old structure in 2007, which was completely different from the current structure of operations, it was not a simple regrouping of organizations. These numbers have never been reviewed or evaluated by the MC.

31.1.1 Information regularly provided to the MC

The following tables present the segment information by reportable segment regularly provided to the Management Committee of the Group, reconciled to the corresponding Group numbers.

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In HUF millions	For the year ended December 31, 2007	2008	2009
Revenues			
Total CBU revenues	346,495	341,563	322,336
Less: CBU revenues from other segments	(42,219)	(38,655)	(33,849)
CBU revenues from external customers	304,276	302,908	288,487
Total BBU revenues	172,346	179,174	170,989
Less: BBU revenues from other segments	(14,308)	(16,833)	(18,835)
BBU revenues from external customers	158,038	162,341	152,154
Total Headquarters revenues	164,428	153,544	135,456
Less: Headquarters revenues from other segments	(75,403)	(69,384)	(59,889)
Headquarters revenues from external customers	89,025	84,160	75,567
Total Technology revenues	9,166	11,370	10,556
Less: Technology revenues from other segments	(7,771)	(7,877)	(7,599)
Technology revenues from external customers	1,395	3,493	2,957
Total Macedonia revenues	74,332	76,097	82,312
Less: Macedonia revenues from other segments	(111)	(285)	(214)
Macedonia revenues from external customers	74,221	75,812	82,098
Total Montenegro revenues	35,747	33,148	34,442
Less: Montenegro revenues from other segments	(241)	(105)	(51)
Montenegro revenues from external customers	35,506	33,043	34,391
All other (net)	14,200	11,216	8,351
Total consolidated revenue of the segments	676,661	672,973	644,005
Measurement differences to Group revenue		83	(16)
Total revenue of the Group	676,661	673,056	643,989
Segment results (EBITDA)			
CBU	188,304	193,314	181,920
BBU	82,694	90,816	80,307
Headquarters	(26,507)	(15,899)	(22,209)
Technology	(56,839)	(49,059)	(47,485)
Macedonia	42,018	39,132	42,861
Montenegro	13,732	10,815	13,736
All other	505	(191)	(414)
Total EBITDA of the segments	243,907	268,928	248,716
Measurement differences to Group EBITDA		(550)	337
Total EBITDA of the Group	243,907	268,378	249,053
Depreciation and amortization of the Group	(115,595)	(106,120)	(101,920)
Total Operating profit of the Group	128,312	162,258	147,133

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In HUF millions	For the year ended December 31, 2007	2008	2009
Capital expenditure (Capex) on PPE and Intangible assets			
CBU	11,983	13,540	23,774
BBU	2,997	7,493	2,905
Headquarters	8,665	8,507	4,520
Technology	61,617	58,716	48,989
Macedonia	9,880	15,709	15,320
Montenegro	6,936	3,751	4,913
All other	2,603	710	1,433
Total capital expenditure of the segments	104,681	108,426	101,854
Measurement differences to capital expenditure of the Group	(846)	(477)	10
Total investments of the Group in PPE and Intangible assets	103,835	107,949	101,864

Total investments of the Group in PPE and Intangible assets correspond to the Investments lines disclosed in Notes 12, 13 and 29.

31.2 Information about geographical areas

The table below shows the revenues generated from external customers in the countries where the Group operates, using the same measurement principles as for the corresponding Group numbers.

Revenues In HUF millions	For the year ended December 31, 2007	2008	2009
Hungary	562,276	554,747	520,584
Macedonia	73,807	75,956	82,098
Montenegro	35,256	33,043	34,391
Romania	2,729	5,244	3,636
Bulgaria	2,530	3,933	3,151
Ukraine	63	133	129
Total revenue of the Group	676,661	673,056	643,989

None of the Group s external customers represent a significant source of revenue.

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The table below shows the Non current assets of the Group located in the countries of operations (including goodwill allocated to these countries) and the reconciliation to the total Non current assets of the Group, using the same measurement principles as for the corresponding Group numbers.

Non current assets	**As at December 31,**	
In HUF millions	**2008**	**2009**
Hungary	707,271	709,576
Macedonia	126,062	130,046
Montenegro	43,051	42,480
Bulgaria	5,012	3,124
Romania	2,632	2,532
Ukraine	16	19
Total excluding Other non current financial assets and Deferred tax assets	884,044	887,777
Other non current financial assets (Note 8.2)	26,094	27,528
Deferred tax assets (Note 9.4)	1,590	1,890
Total Non current assets of the Group	911,728	917,195

32 Leases and other commitments

32.1 Finance lease Group as lessee

Finance leases in 2008 and 2009 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contracts are denominated in EUR, the term of the leases is 5-10 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2008 and 2009 are as follows:

	At December 31, 2008			**At December 31, 2009**		
In HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	265	438	703	291	389	680
1-5 years	1,154	1,211	2,365	1,067	1,012	2,079
After 5 years	699	331	1,030	505	172	677
Total	2,118	1,980	4,098	1,863	1,573	3,436

Finance leases other than sale and lease back in 2008 and 2009 mainly relate to vehicles and IT equipment. In most cases the contract term of the leases is 3-5 years with renewal and purchase options.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2008 and 2009 are as follows:

	At December 31, 2008			At December 31, 2009		
In HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	753	265	1,018	472	208	680
1-5 years	864	305	1,169	473	295	768
After 5 years	757	106	863	615	187	802
Total	2,374	676	3,050	1,560	690	2,250

The Group has no contingent rents related to its finance leases. The Group does not sub-lease any of the

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assets leased in a finance lease contract.

32.2 Operating lease Group as lessee

Operating lease commitments are mainly in respect of the rental of mobile cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities.

In HUF millions	At December 31, 2008	2009
Within 1 year	6,741	7,541
1-5 years	17,798	20,897
After 5 years	14,945	16,131
Total	39,484	44,569

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 3 to 20 years with renewal options in most cases, but no purchase options.

32.3 Finance lease Group as lessor

Finance leases primarily include the private mobile Tetra network constructed for the exclusive use of the Hungarian State, and to a lesser extent equipment provided to business customers as part of our outsourcing contracts where the Group is the service provider.

Future lease receivables under finance leases at December 31, 2008 and 2009 are as follows:

	At December 31, 2008			At December 31, 2009		
In HUF millions	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	3,718	1,606	5,324	3,797	1,641	5,438
1-5 years	12,853	4,104	16,957	15,270	3,810	19,080
After 5 years	6,511	605	7,116	4,464	286	4,750
Total	23,082	6,315	29,397	23,531	5,737	29,268

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Other non current financial assets. The finance income accruing to the Group over the lease term is recognized in the Profit for the year (Finance income).

The unguaranteed residual values accruing to the benefit of the Group are insignificant.

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32.4 Operating lease Group as lessor

The following table includes the future minimum lease payments receivable by the Group for the operating leases of towers and PBX (private business exchange) equipment where Magyar Telekom is the lessor.

	At December 31,	
In HUF millions	**2008**	**2009**
Within 1 year	2,394	1,210
1-5 years	2,524	1,943
After 5 years	728	1,115
Total	5,646	4,268

32.5 Purchase commitments for tangible and intangible assets

The table below summarizes Magyar Telekom s contractual purchase commitments for tangible and intangible assets with the majority falling due within one year.

	At December 31,	
In HUF millions	**2008**	**2009**
Property, plant and equipment	2,797	4,407
Intangible assets	2,701	1,788
Total	5,498	6,195

32.6 Commitments related to the extended GSM license of T-Mobile HU

The Company renewed its mobile concession contract for the use of the 900 MHz frequency band that expired on November 4, 2008 for an additional term of seven and a half years, as agreed with the Hungarian Government. At the same time, the Company agreed to carry out large-scale investment projects to further increase mobile broadband coverage. In addition to the payment of the HUF 10 billion concession fee, Magyar Telekom agreed with the Government to spend at least HUF 20 billion in 2008 and 2009 on further increasing mobile broadband coverage in Hungary. This agreement includes that 25% of the unfulfilled obligation would have to be paid as a penalty to the Government at the end of 2009 if Magyar Telekom had not increased the coverage as agreed. Management believes that the Company fulfilled the obligation by the end of 2009, and therefore no fine can be expected.

33 Related party transactions

33.1 Deutsche Telekom Group

Deutsche Telekom AG is the ultimate controlling owner of Magyar Telekom Plc. holding 59.21% of the issued shares. Deutsche Telekom (DT) Group has a number of fixed line, mobile and IT service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

The Company is directly owned by MagyarCom GmbH, which is a holding subsidiary of DTAG. Magyar Telekom pays dividends annually to its owners including MagyarCom GmbH.

Deutsche Telekom International Finance (DTIF) is the treasury center of DT Group, which typically provides loan financing across the DT Group including Magyar Telekom.

The Company s Hungarian operations were renamed in 2004 and 2005. The renaming continued in 2006 in Macedonia (T-Mobile) and in Montenegro (T-Home and T-Mobile) in 2007, and was completed in 2008 in Macedonia (T-Home). The expenditures incurred in connection with the launch and promotion of the new

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brands and the loss of value caused by discontinuing the old brands were compensated in value by Deutsche Telekom AG. The compensation received was recognized in the Profit for the year (Other operating income).

The table below summarizes the above related party transactions with DT group.

In HUF millions	2007	2008	2009
Revenues from telecom services provided to DT Group	6,729	16,035	22,059
Costs of services provided by DT Group	(11,881)	(20,759)	(16,819)
Other income from DTAG	229	676	
Interest expense to DTIF	(23,301)	(26,986)	(27,530)
Dividend paid to MagyarCom GmbH	(88,296)	(45,690)	(45,690)
Accounts receivable from DT Group companies	6,878	5,903	5,492
Accounts payable to DT Group companies	(7,524)	(5,850)	(5,169)
Loans receivable from DTAG			29,587
Accrued interests payable to DT Group companies	(5,210)	(8,845)	(7,675)
Loans payable to DT Group companies	(274,432)	(330,583)	(329,896)
Fair value of swap agreements with DTAG - net			(2,388)

Deutsche Telekom has pledged its support for Magyar Telekom s financing needs through to June 30, 2011.

33.2 Associates and joint ventures

Hunsat is a joint venture founded by the Company (50%) and Antenna Hungária (50%). The revenues of Hunsat include commissions received from Hungarian telecommunications companies for the use of services of international satellite agencies. The operational transactions and balances with Hunsat are insignificant. Dividends received from Hunsat amounted to HUF 93 million in 2009 (2008: HUF 89 million, 2007: HUF 72 million).

M-RTL was an associate of Magyar Telekom Group until May 2009 (Note 5.1.1). M-RTL is a television broadcast company that sells airtime through media agencies to Magyar Telekom, and Magyar Telekom provides telecom services to M-RTL, but these inter-company services are not material. M-RTL declared dividends to Magyar Telekom directly and indirectly in an amount of HUF 825 million in 2008 (2007: HUF 750 million).

IKO-Telekom Média Holding (ITMH) was a joint venture holding company of Magyar Telekom and IKO Production Kft., with a 50-50% ownership (Note 5.1.1). The operating transactions between the Group and ITMH were insignificant. Dividends declared by ITMH to the Company amounted to HUF 2,033 million in 2008, primarily representing the indirect dividends from M-RTL.

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33.3 Board and supervisory board members

The remuneration of the members of the Company s Board of Directors amounted to HUF 13 million in 2009 (2008: HUF 13 million, 2007: HUF 11 million). The remuneration of the members of the Company s Supervisory Board amounted to HUF 42 million in 2009 (2008: HUF 46 million, 2007: HUF 42 million).

33.4 Key management

Key management has been identified as the members of the Group s Management Committee, which is the chief operating decision making body of Magyar Telekom.

The table below shows in total the compensation expenses (including social security and other payroll related taxes) incurred by the Group in relation to the key management.

	At December 31,		
In HUF millions	**2007**	**2008**	**2009**
Salaries and other short-term employee benefits	978	1,063	1,377
Contractual termination expense	1,129		248
Share based compensation (Note 24.1)	(123)	80	131
	1,984	1,143	1,756

The Group does not provide loans to its key management.

In 2001, DT s shareholders approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in 2001 and 2002. 50 percent of the options granted to each beneficiary may only be exercised following the end of a vesting period of two years. The remaining 50 percent of the options granted to each beneficiary may be exercised after the end of a vesting period of three years. All options are vested as of December 31, 2009. The exercise price of the 2001 option is EUR 30.00, the term of the options runs until August 12, 2011. The exercise price of the 2002 option is EUR 12.36, the term of the options runs until July 14, 2012. At the time they were granted, the options of the 2001 and 2002 tranches had no intrinsic value, but a fair value of EUR 4.87 and EUR 3.79 respectively. The Company s Chief Financial Officer (CFO), who was a senior manager of DT at the time of the stock option, is a participant of the 2002 tranche, having 6,510 share options. Magyar Telekom does not have any potential obligation deriving from the CFO s share options, and no expenses or liabilities have been recognized in the presented years as these options are not in the scope of IFRS 2 and IFRIC 11 according to the transitional rules.

Further, the Company s CFO is also a participant of the 2004, 2005 and 2006 MTIP programs of DT, which are very similar to those of Magyar Telekom as described in Note 24.1.1, the difference being that the targets of the programs are tied to the performance of the DT shares. As of December 31, 2008, one performance target of the 2006 program of DT had been achieved. Consequently, the MTIP reward earned EUR 66,000 (HUF 18 million) was paid out by Magyar Telekom, as agreed with DT.

Some members of the Key management are participants of the 2006, 2007 MTIP programs of Magyar Telekom; and all of them are participants in the 2008 and 2009 MTIP program of Magyar Telekom. Some members of the former Key management were also participants of the 2006 MTIP program of Magyar Telekom. One performance target of the 2007 MTIP program of Magyar Telekom had been achieved. Consequently, 50% of the MTIP reward (HUF 104 million in total) will be paid out by Magyar Telekom in 2010 to the present and former members of Key management. As of December 31, 2008, one performance target of the 2006 MTIP program of Magyar Telekom had been achieved. Consequently, 50% of the MTIP reward (HUF 55 million in total) was paid out in 2009 by Magyar Telekom to the present and former members of Key management. See also note 24.1.1.

In 2001 and 2002, Deutsche Telekom granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options. Magyar Telekom employees only participated in the

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2001 program. Each individual SAR entitles the plan participant to receive an amount in cash subject to these terms and conditions. Magyar Telekom does not have any potential obligation deriving from that contract, since Deutsche Telekom will pay the compensation, if any, to the participants, and further, the fair value of the SARs as at December 31, 2009 is estimated to be zero. No member of the current key management is a participant of the SAR program, but former members of the key management were participants of the 2001 SAR program.

34 Additional disclosures on financial instruments

34.1 Financial assets and liabilities

The tables below include the carrying amounts and fair values of the Group s financial assets and liabilities as at December 31, 2009 and 2008.

34.1.1 Financial assets Carrying amounts and fair values

December 31, 2009

	Carrying amount					
In HUF millions	**Loans and receivables**	**Held-to-maturity**	**Available-for-sale**	**Held for trading**	**Total**	**Fair value**
Cash and cash equivalents	34,270				34,270	34,270
Bank deposits with original maturities over 3 months	50,660				50,660	50,660
Trade receivables	100,524				100,524	100,524
Trade receivables over one year	1,487				1,487	1,486
Employee loans	4,870				4,870	4,228
Derivative financial instruments contracted with related parties				662	662	662
Derivative financial instruments contracted with third parties				623	623	623
Loans to Deutsche Telekom Group companies	29,587				29,587	29,587
Loans to third parties	580				580	580
RDC receivables	839				839	795
Dividend rec. from joint ventures						
Financial assets AFS			276		276	276
Other current	1,626				1,626	1,626
Other non current	552				552	552

Total	224,995	276	1,285	226,556	225,869

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December 31, 2008

	Carrying amount					
In HUF millions	**Loans and receivables**	**Held-to-maturity**	**Available-for-sale**	**Held for trading**	**Total**	**Fair value**
Cash and cash equivalents	66,680				66,680	66,680
Bank deposits with original maturities over 3 months	59,300				59,300	59,300
Trade receivables	93,201				93,201	93,201
Trade receivables over one year	414				414	396
Employee loans	4,383				4,383	4,148
Derivative financial instruments contracted with third parties				1,011	1,011	1,011
Loans to third parties	779				779	779
RDC receivables	952				952	876
Dividend rec. from joint ventures	2,033				2,033	2,033
Financial assets AFS			282		282	282
Other current	2,186				2,186	2,186
Other non current	170				170	170
Total	230,098		282	1,011	231,391	231,062

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

Cash and cash equivalents, trade receivables, dividend receivable from joint ventures, loans to Deutsche Telekom Group companies and other current financial assets mainly have short times to maturity. For this reason, their carrying amounts at the end of the reporting period approximate their fair values.

Financial assets available for sale include investment in equity instruments, all measured at fair value.

Finance lease receivables (2009: HUF 23,531 million, 2008: HUF 23,082 million) meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 Leases, therefore not included in the tables above, but in Note 32.3.

34.1.2 Financial liabilities Carrying amounts and fair values

December 31, 2009

	Carrying amount			
In HUF millions	**Measured at amortized cost**	**Held for trading**	**Total**	**Fair value**
Financial liabilities to related parties (including accrued interest)	334,521	3,050	337,571	351,017
Bank loans (including accrued interest)	57,265		57,265	58,507
Trade payables	85,874		85,874	85,874
Dividend payable	303		303	303
Nonconvertible bonds and debentures	191		191	160
Derivative financial instruments contracted with third parties		179	179	179
Other current	1,279		1,279	1,279
Total	479,433	3,229	482,662	497,319

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December 31, 2008

	Carrying amount			
In HUF millions	**Measured at amortized cost**	**Held for trading**	**Total**	**Fair value**
Financial liabilities to related parties (including accrued interest)	339,428		339,428	344,138
Bank loans (including accrued interest)	53,805		53,805	54,875
Trade payables	92,340		92,340	92,340
Dividend payable	290		290	290
Nonconvertible bonds and debentures	193		193	193
Other current	4,988		4,988	4,988
Other non current	386		386	345
Total	491,430		491,430	497,169

Derivatives are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the financial liabilities is provided in Notes 16 and 17.

Trade payables, dividend payable and other current financial liabilities generally have short times to maturity, therefore the carrying values approximate the fair values.

Finance lease liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 Leases, therefore not included in the tables above, but in Note 32.1.

34.2 Items of income, expense, gains and losses arising on financial instruments

The tables below include income, expense, gains and losses arising on financial instruments in 2009 and 2008.

2009

		From subsequent measurement						
In HUF millions	From interest	At fair value	Currency translation	Impairment loss	Recalculation	From derecognition	From fee expense	Net gain / loss
Loans and receivables	7,048		(82)	(9,071)			(4,056)	(6,161)
Held-to-maturity investments								
Available-for-sale financial assets		(6)						(6)
Financial instruments held for trading		(2,955)				(582)		(3,537)
Financial liabilities measured at amortized cost	(32,569)		358				(14)	(32,225)
Net gain/loss of financial instruments under the scope of IAS 39	(25,521)	(2,961)	276	(9,071)		(582)	(4,070)	(41,929)
Net gain/loss related to finance lease (out of scope of IAS39)	678		(66)					612

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2008

			From subsequent measurement					Net
In HUF millions	**From interest**	**At fair value**	**Currency translation**	**Impairment loss**	**Recalculation**	**From derecognition**	**From fee expense**	**gain / loss**
Loans and receivables	6,611		1,190	(5,866)			(3,554)	(1,619)
Held-to-maturity investments								
Available-for-sale financial assets		(348)						(348)
Financial instruments held for trading		789				(477)		312
Financial liabilities measured at amortized cost	(32,728)		(1,753)		(743)		(96)	(35,320)
Net gain/loss of financial instruments under the scope of IAS 39	(26,117)	441	(563)	(5,866)	(743)	(477)	(3,650)	(36,975)
Net gain/loss related to finance lease (out of scope of IAS39)	692		(85)	1,500				2,107

Impairment losses on Loans and receivables includes all expenses incurred or expected to be incurred in relation to the default of our customers. Before writing off or factoring, we impair the receivables to their recoverable amounts through the use of an impairment provision account, as a result of which the actual write-off or factoring of these receivables results in no derecognition gains or losses.

34.3 Other disclosures about financial instruments

Magyar Telekom Plc. is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 16.4 billion as at December 31, 2009 (2008: HUF 17.0 billion). These guarantees were issued by Hungarian banks on behalf of Magyar Telekom as collaterals to secure the fulfillment of the Group s certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future.

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

The Group does not have compound financial instruments with multiple embedded derivatives.

35 Contingent assets and liabilities

35.1 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. The Group has no such contingencies where the inflow of economic benefits would be probable and material.

35.2 Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past

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events would result in any material economic outflows from the Group.

35.2.1 Macedonia

35.2.1.1 Compensation for termination of a service contract by T-Mobile MK

In January 2002, T-Mobile MK signed an agreement with a subcontractor, including a 3-month trial period, for the collection of T-Mobile MK s overdue receivables. After the expiration of the 3-month trial period, T-Mobile MK terminated this contract in April 2002 due to breaches of the contractual obligations by the subcontractor. The subcontractor initiated a lawsuit in April 2003 requesting damage compensation for foregone profit and compensation for services already rendered. Management estimates it unlikely that the subcontractor would win the court case against T-Mobile MK. The potential loss from the claim is approximately HUF 4.3 billion. The first instance decision will be made by a primary court of Macedonia, the timing of which is uncertain.

35.2.1.2 T-Mobile MK s dispute with the Agency on frequency fees

T-Mobile MK paid the invoices issued by the Agency for the 2004 and 2005 radio frequency fees, however, the Agency issued further invoices for the same periods in May 2007, which T-Mobile MK is disputing as the management believes that there is no valid legal base for invoicing additional fees. The potential exposure is about HUF 0.8 billion.

35.2.1.3 MKT s dispute on fixed-to-mobile termination fees

In 2005, MKT changed the retail prices for the traffic from fixed to mobile network. According to the interconnection agreements with the mobile operators the change in retail prices automatically decreased the interconnection fees for termination in the mobile networks. In February 2006, one of the Macedonian mobile operators, Cosmofon, submitted to the Agency a request for dispute resolution with reference to the termination prices. The Agency rejected the requests of Cosmofon as ungrounded . This decision of the Agency was appealed by Cosmofon by filing a lawsuit at the Administrative Court of Macedonia. The potential loss from the claim is approximately HUF 0.4 billion, but the management estimates it unlikely that this would result in any material cash outflows. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

35.2.1.4 Prices offered at a Government bid for fixed line telephony services in Macedonia

Based on the Law on Electronic Communications (the Law) and upon Cosmofon s request, the Agency made an inspection at Makedonski Telekom regarding the Government s tender for procuring fixed line telephone services on September 24, 2009. In its request Cosmofon stated that Makedonski Telekom had submitted an offer with prices that are predatory and not published in its official pricelist. In its written answer, Makedonski Telekom pointed out that the official pricelist contains only the standard prices excluding the special discounts and tariff models. We believe that Makedonski Telekom offered these prices in accordance with the conditions of the relevant bid, taking care that those are not predatory, i.e. the allegations are groundless. The Agency has not responded yet. Should Makedonski Telekom be found in breach of the Law, the potential fine can be as high as 7% of the total annual revenue of Makedonski Telekom for 2008, i.e. the maximum amount of the fine may reach HUF 3.0 billion.

35.2.2 Montenegro

35.2.2.1 Employee salary dispute in Montenegro

405 employees initiated a legal proceeding against CT and T-Mobile CG, requesting the payment of compensation for not increasing salaries from 2005 until June 2008. The plaintiffs are referring to the

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regulation of this matter by the Collective Bargaining Agreement (CBA). Management s view is that automatic salary increase is not established in the CBA, therefore management believes that the Group will not be subject to any compensations payable. The maximum exposure is approximately HUF 0.4 billion.

35.2.3 Hungary

35.2.3.1 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees for which see more details in Note 34.3.

35.2.3.2 Investigation

Please see Note 1.2

36 Events after the reporting period

36.1 Sale of Orbitel

In January 2010 the Company closed the sale of Orbitel (Note 5.5). The final sale price was EUR 3,628,000, received in January 2010. As the expected sales price was lower than the original carrying value of Orbitel, an impairment was charged in 2009 on the goodwill arising on the original acquisition of Orbitel, consequently, there will be no additional gains or losses to be recognized in 2010, when the sale was concluded.

Business Report of Magyar Telekom

for 2009

Introduction

This Business Report covers the analysis of our results as well as all additional information necessary to evaluate our operations, including, among others, our outlook with the accompanying risk factors, the introduction of our management, our HR and risk management policies, and our R+D activities.

Share Capital

As of December 31, 2009, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series A ordinary shares. All Series A ordinary shares have a nominal value of HUF 100.

Shareholder	Number of shares	Percentage of share capital
MagyarCom	617,436,759	59.21
Publicly traded	423,802,243	40.65
Treasury shares	1,503,541	0.14
	1,042,742,543	100.00

Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders register at least six working days prior to the date of the General Meeting may participate at the General meeting with voting right. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Associations, which shall require at least a three-quarters majority of the votes cast. If the General Meeting decides to override a resolution of the Board of Directors, such shareholders resolution shall be binding only if a three-quarter majority of the votes of the shareholders that are present vote in favor of such a resolution. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares.

Transfer of Shares

The consent of the shareholders holding at least a simple majority of the outstanding voting stock of the Company shall be required to approve the acquisition, directly or indirectly, of the shares of the Company which, on a cumulative basis, would result in any person, or persons acting in concert, holding 10% or more, directly or indirectly, of the outstanding voting stock of the Company.

In the event of transfer of shares the new shareholder shall ask for registering as shareholder in the Shareholders Register. The shareholder shall provide evidence to the registrar that he acquired the shares in accordance with the conditions set forth in the Articles. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company may refuse the request for registration into the Shareholders Register by a person acquiring shares who omits to provide the supporting evidence or statement that such a person is obliged to submit in accordance with the Articles. The registration into the Shareholders Register based on untrue, false or misleading statements may be deleted by a reasoned resolution of the Board of Directors. Only shareholders registered in the Company s register may exercise shareholder rights vis-a-vis the Company. If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Shareholders Register.

Board of Directors

Pursuant to our amended Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected at the Annual General Meeting of the shareholders for a term of three years.

On December 31, 2009, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

Name	Principal Occupation	Member since
Christopher Mattheisen	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. István Földesi	International business consultant	2003
Dr. Mihály Gálik	Professor and Head of the Media, Marketing communication and Telecommunications Department at the Faculty of Business Administration of the Corvinus University of Budapest	2006
Wolfgang Hetlinger	T-Systems Austria GesmbH, International Operations & Services, Central Eastern Europe Ing.	2009
Guido Kerkhoff	Member of the Board of Management of Deutsche Telekom AG to manage the subsidiaries in South Eastern Europe	2009
Thilo Kusch	Chief Financial Officer of Magyar Telekom Plc.	2006
Mechthilde Maier	Senior Vice President Corporate Diversity Management at Deutsche Telekom	2009
Frank Odzuck	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	Member of the Board of Management, Financial Director SEE	2003
Dr. Steffen Roehn	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

Management Committee

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

On December 31, 2009, the members of the Management Committee were as follows:

Name	Current position	Member since
Christopher Mattheisen	Chairman and Chief Executive Officer	2006
Thilo Kusch	Chief Financial Officer	2006
István Maradi	Chief Technology and IT Officer	2007
István Papp	Chief Operating Officer, Business Services BU	2007
Róbert Pataki	Chief Operating Officer, Strategic and Corporate Development BU	2009
Éva Somorjai	Chief Human Resources Officer	2007
János Winkler	Chief Operating Officer, Consumer Services BU	2006

Supervisory Board

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

On December 31, 2009, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Principal Occupation	Member since
Attila Csizmadia	Ministry of Finance, Chief Counsellor	2003
Dr. János Illéssy	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes	Director of Institute of Environmental Sciences, Corvinus University Budapest	2006
István Koszorú	Chairman of Magyar Telekom s Central Workers Council	2007
Konrad Kreuzer	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Martin Meffert	Country manager for Hungary, Head office of T-Home, Deutsche Telekom AG	2009
Dr. László Pap	Budapest University of Technology, Professor	1997
Zsoltné Varga	Business Process Manager of the Customer Care Directorate at Magyar Telekom	2008
György Varju	Chairman of the Workers Council at Residential Services, member of the Central Workers Council	2005

3

Compensation of Directors, Officers and Employees

For the year ended December 31, 2009, the aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 13 million.

For the year ended December 31, 2009, the aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 42 million.

For the year ended December 31, 2009, the aggregate compensation of the members of the Management Committee (MC) was HUF 1,043 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.

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszervezet, MATÁSZ). The agreement, which can be terminated by either party with three months notice, applies to all Magyar Telekom Plc. employees except the Chief Executive Officer, 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.

Corporate governance report

In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the Recommendations) containing suggestions related to the corporate governance practice of companies listed in the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market. The Recommendations were updated in 2007 and 2008.

In line with the current regulations, the Board of Directors and the Supervisory Board of Magyar Telekom approved the Corporate Governance Report of the Company and submitted it to the Annual General Meeting. The report along with other corporate governance related documents - is posted on the Corporate Governance section of our website:
http://www.telekom.hu/investor_relations/corporate_governance/corporate_governance_documents

The Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations included in the report.

Points 1, 2, 3, 4 and 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Point 6 of the report includes a description of our internal controls and risk management procedures, while point 8 of the report includes our disclosure policies and insider trading guidelines.

Pursuant to Section 6.2. (g) of our Articles of Association, the members of the Board of Directors the Supervisory Board and the Audit Committee are elected at the Annual General Meeting of the shareholders for a term of three years.

The General Meeting of the shareholders has the sole right to approve and amend the Articles of Association (section 6.2. (a)) unless otherwise provided by law.

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4. of our Articles of Association and in the Rules of Procedure of the Board of Directors, which are also posted on the Corporate Governance section of our website. The rules of competence regarding the capital increase and purchase of treasury shares are detailed in 7.4.1 (l) and (m) of our Articles of Association.

Human policy

In alignment with Magyar Telekom s strategy for 2008-2010 the HR area has also updated its strategic objectives.

The strategy published in the spirit of Let us shape future together contains the following objectives for 2008-2010, in line with DT s HR strategic focuses:

- Implementing the HR concept, the HR area contributes significantly to the achievement of the Group level financial targets, through the optimization of personnel expenditure.

- We shall bring about a performance based company culture, for which we shall improve our performance management system.

- In jobs of a key importance for the management and the company we intend to ensure succession primarily from internal sources, which is supported by the career management system.

- We shall place management development on a new foundation with its focus being the training content and structure in the service of business effectiveness.

- We intend to turn Magyar Telekom into a more attractive place of work, for which we have restructured our trainee program.

- We use an updated measurement system to measure HR s contribution to company targets.

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

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

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

Magyar Telekom s welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature, the basis of which is the employees collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

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

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

Magyar Telekom pays special attention to the high level of the employees occupational safety and provides them the conditions of safe work and a working environment, which does not harm health.

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

Research and development

Research and development (R&D) activities within Magyar Telekom are coordinated by the R&D Committee (the Committee), which has the possibility and the exclusive right to coordinate every innovation research originated from business units. Each business unit is represented by relevant decision-makers in the Committee. Furthermore, this Committee ensures that all R&D activities are performed in accordance with the strategic goals of Magyar Telekom and avoid overlapping of scopes. The Committee convenes regularly in order to discuss and decide about the approval of individual R&D proposals, initiated and executed within a project framework by the respective Business Units. During 2009, the Committee reviewed 98 proposals, out of which 65 have been approved, accounting for a total investment of HUF 721 million.

We are a founder member of the Mobility & Multimedia Cluster, a group of Hungarian companies, many of them being local subsidiaries of well-known multinational companies and universities. The aim of the cluster is 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.

Real estate

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 21 percent are owned by the Company, 40 percent jointly owned and 39 percent leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have approximately 3,000 base stations, of which five percent is owned by Magyar Telekom Plc. and 95 percent is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2009 was approximately 634,000 m^2. The majority of sites used in our operations are smaller than 100 m^2. 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.

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.

Financial risk management

Magyar Telekom is primarily exposed to credit risks related to its financial assets. In addition, the Group is also exposed to risks from movements in exchange rates, interest rates that affect the fair value and/or the cashflows arising from financial assets and liabilities.

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Group s cash flow, no hedges are concluded to hedge fair values. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with Deutsche Telekom or leading Hungarian financial institutions.

The detailed descriptions of risks, the management thereof is provided below.

1. Market risk

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

The fundamentals of Magyar Telekom s financing strategy are established each year by the Board of Directors. The Group s policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2008 and 2009 Magyar Telekom fulfilled both criteria. The Group s Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group Treasurer continuously.

Magyar Telekom is exposed to interest and foreign exchange rate risk associated with its interest bearing assets and liabilities and anticipated transactions. As the vast majority of the revenues and expenses of the Hungarian entities arise in HUF, the functional currency of Magyar Telekom is HUF. Consequently, Magyar Telekom s objective is to minimize the level of its financial risk in HUF terms.

(a) Foreign currency risk

Due to the free-float of the HUF introduced in 2008, the Group is exposed to FX risk in case of FX denominated financial instruments of the Hungarian entities to a higher degree than before. In order to mitigate this risk, Magyar Telekom minimized its foreign currency borrowings in the past years, or covered it with derivative instruments to completely eliminate FX risk.

The FX exposure of Magyar Telekom is mostly related to

(i) FX risks arising on loans from DTIF and related swaps with DT AG;

(ii) FX risks arising on third party loans and related swaps;

(iii) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region;

(iv) operating activities through revenues from, and payments to, international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group s foreign currency denominated assets (primarily held by the Group s foreign subsidiaries), however, exceed the Group s foreign currency denominated liabilities (other than the above described loans), therefore changes of the functional currencies exchange rates would have significant impact on the profit of the Group.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts.

Due to the global financial crisis, even a more than 20 percent fluctuation of the functional currencies against the EUR is possible as extraordinary market conditions may cause extreme volatility on FX markets.

(b) Interest rate risk

Magyar Telekom is also exposed to interest rate fluctuations. This is due to the fact that changing interest rates affect the fair value of the fixed rate instruments and also affect the cashflows through the floating rate instruments.

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. On the other hand, all financial instruments with fixed interest rates (which are carried at amortized cost) are not subject to cashflow interest rate risk.

(c) Other price risk

As of December 31, 2009, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The vast majority of credit risks may arise in respect of Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables.

According to the Group s risk management policy Magyar Telekom Group companies deposit the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar Telekom prefers to deposit in banks which grants loans for Magyar Telekom to make possible the compensation of debts and loans in case of the default of the bank.

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Hungary are primarily denominated in HUF and concentrations of credit risk are limited as Magyar Telekom places its cash in Hungary with substantial credit institutions. Further, excess HUF cash is also used for repayment of the HUF denominated loans and borrowings, or is deposited at partner banks which grant loans for Magyar Telekom, therefore, the credit risk related to cash held in HUF is very limited.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Group s customer base and their dispersion across many different geographic areas and industries.

3. Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury s management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, DT confirmed its readiness to finance Magyar Telekom Group s budgeted financing needs until the end of June 2011. Despite the fact that this has not been formulized in a contract, it can be considered as a quasi shelf facility .

4. Capital risk management

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

The Company s management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company s equity capital in order to optimize the capital structure of the Group. This can be effectuated primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as Net debt divided by Equity (including Non-controlling interest) and Net debt.

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company s Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. The Company is far in compliance with this regulation, and no such statutory regulation exists for consolidated equity.

Risk management policies

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

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

In 1999, we established a formal risk management system. This system was integrated into the risk management system of 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. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly throughout the Group. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the 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, 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 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 regulation has been issued to define responsibilities of each employee in risk monitoring and management. In addition, an e-learning course was introduced to train our employees on requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures. Completion of this course has been made compulsory for all of our employees.

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

Risk factors

Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks. 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.

- Our operations (both in Hungary and abroad) are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;

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

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

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

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

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

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

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

- Loss of key personnel could weaken our business;

- 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;

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

- 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.

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

Analysis of our results

Revenues

Fixed line voice-retail revenues decreased by 15.2% in 2009 compared to 2008, mainly driven by lower domestic outgoing traffic revenues and lower subscription fee revenues.

Subscription fee revenues decreased due to the lower number of our fixed line subscribers mainly in Hungary, but also abroad. However, the significant weakening of HUF against MKD and EUR positively affected subscription fee revenues expressed in HUF.

Domestic outgoing fixed line traffic revenues decreased in 2009 compared to 2008 mainly as a consequence of lower fixed to mobile (F2M) revenues in Hungary due to the reversal of HUF 8.5 bn provision booked on F2M termination fees in June 2008. In addition, the continuous decline in the number of revenue producing PSTN lines and lower traffic due to strong competition and mobile substitution led to lower domestic outgoing traffic revenues. Magyar Telekom Plc. offered several price discounts to customers choosing different tariff packages. The proportion of flat-rate packages was 27.9% within the total PSTN customer base of Magyar Telekom Plc. at December 31, 2009. Domestic outgoing traffic revenues in local currencies decreased also at Makedonski Telekom and at Crnogorski Telekom primarily due to lower usage reflecting the effect of mobile substitution. These decreases were mitigated by the favorable foreign exchange rate effect.

International outgoing fixed line traffic also declined primarily due to lower volume of outgoing international traffic and loss of lines both at Magyar Telekom Plc. and at Makedonski Telekom.

Value added and other services revenues showed a decrease in 2009 as compared to the previous year mainly due to lower usage of value added services (directory assistance, audiofix, etc.) at Magyar Telekom Plc. and at Makedonski Telekom.

Internet revenues of the fixed line operations decreased to HUF 55.1 bn in 2009 compared to HUF 59.8 bn in 2008. In Hungary, the number of DSL connections remained broadly stable and reached 629,186 at December 31, 2009, while Cablenet customer base increased by 19.7% to 152,878 by the end of December 2009 compared to a year earlier. Magyar Telekom Plc. accounted for an estimated 58% retail DSL market share and an approximately 19% cable broadband market share at December 31, 2009. The broadband volume increase could not fully compensate the effect of lower prices forced by fierce competition. Since the rebranding in September 2008, the number of T-Home double- and triple-play packages has been increasing resulting in further decrease in tariffs. In Hungary, lower advertisement revenues affected by economic crisis also contributed to the decrease in Internet revenues. These decreases were slightly compensated by a strong increase in the number of DSL connections at our foreign subsidiaries.

Data revenues amounted to HUF 30.8 bn in 2009 compared to HUF 28.8 bn in 2008. Higher revenues at Crnogorski Telekom resulted mainly from higher number of leased line customers and increased Global Internet Access (GIA) wholesale broadband revenues. This increase was largely intensified by the significant weakening of HUF against EUR. The increase in Makedonski Telekom s broadband data revenues was primarily attributable to the favorable foreign exchange translation effect and, to a lesser extent, to higher number of domestic leased line customers and new contracts for digital leased lines. 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).

TV revenues amounted to HUF 23.8 bn in 2009 as compared to HUF 18.8 bn in 2008. The increase is mainly due to the introduction of satellite TV service in Hungary in November 2008. The number of satellite TV customers has been dynamically increasing and reached 156,142 at December 31, 2009. The growth in IPTV revenues driven by enlarging IPTV subscriber base both in Hungary and at our foreign subsidiaries 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 (ARPU) and lower subscriber base in Hungary.

Revenues from fixed line equipment decreased by 32.8% for the year ended December 31, 2009 compared to 2008. The decline in equipment revenues relates primarily to lower revenues at Combridge in connection with sale of network in April 2008. Lower telecommunications equipment rental revenue at CBU reflects the strong decrease in the number of rented telephone sets. At Makedonski Telekom, the decrease was due to the combined effect of lower sales volume of computers, ADSL modems and higher sales volume of TV sets. ADSL modem wholesale decreased also at Headquarters. These decreases were partially compensated by higher equipment sale revenue at CBU in line with higher sales volume of personal computers (LaptopNet campaigns) in 2009.

Other fixed line revenues decreased by 19.8% in 2009 compared to the previous year. Other revenues include construction, maintenance, rental and miscellaneous revenues. The decrease partly resulted from lower other revenues at EPT due to decreased number of contact centre 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.

Revenues from mobile telecommunications services amounted to HUF 326.0 bn for the year ended December 31, 2009 compared to HUF 331.8 bn in 2008 (a 1.7% decrease). The small decrease in mobile revenues resulted mainly from significantly lower voice revenues at the mobile operations of Magyar Telekom Plc. (T-Mobile Hungary, TMH), mostly offset by higher non-voice revenues at TMH as well as higher voice revenues at T-Mobile Macedonia (T-Mobile MK) strongly affected by favorable movement of average HUF/MKD rate.

Within mobile telecommunications services, voice revenues represent the largest portion of revenues. It amounted to HUF 239.2 bn in 2009 as compared to HUF 249.2 bn in 2008. At TMH, the positive effect of higher average customer base could not fully compensate the decline in outgoing per minute fees forced by strong competition. The significant decrease in voice-wholesale revenues reflects decreased termination fees (15% decrease from January 1, 2009) and lower incoming MOU, while declining roaming revenues show primarily the decrease in roaming usage, and, to a lesser extent, the impact of EU roaming regulation. Besides favorable foreign exchange movements, the increase at T-Mobile MK was mainly due to higher voice-retail revenues resulting from higher average customer base and higher MOU, partly offset by decrease in average per minute fees and lower subscription fees.

TMH s blended average usage per customer per month measured in MOU slightly increased to 155 minutes in 2009. TMH s monthly ARPU decreased by 7.9% from HUF 4,087 in 2008 to HUF 3,764 in 2009, mainly as a result of lower average per minute fees forced by strong competition as well as lower termination and roaming rates.

Mobile penetration reached 117.7% in Hungary and TMH accounts for 43.4% market share in the highly competitive mobile market at December 31, 2009 based on the total number of SIM cards. TMH s customer base decreased by 4.5% year over year. The proportion of postpaid customers increased to 45.0% at December 31, 2009 from 38.5% a year earlier.

Higher non-voice revenues were primarily due to TMH s increased access revenues boosted by mobile Internet but higher content revenues also contributed to the increase. These increases were partly offset by lower messaging and visitor non-voice revenues. Non-voice revenues already represent 19.4% of total ARPU in 2009. By the end of December 2009, TMH had 428,545 mobile broadband customers and accounted for a 45.9% market share in the mobile broadband market. At T-Mobile MK, the increase resulted from expanding mobile Internet and content services, somewhat compensated by lower number of SMSs.

Mobile equipment and activation revenues showed a slight increase in 2009 compared to the previous year mainly due to the increase at T-Mobile MK driven by higher number of handsets sold in retention despite lower equipment sales ratio and lower average price of handsets. Declining equipment revenues at TMH mostly offset this increase due to decreased number of handsets sold affected by both the economic crisis and high mobile penetration in Hungary. Average sales price per handset increased due to high-end offers (iPhone and multimedia packages), but it did not fully compensate the loss on transaction number.

System Integration (SI) and IT revenues increased by 6.1% from HUF 41.4 bn in 2008 to HUF 43.9 bn in 2009 as a result of higher outsourcing revenues at BBU and also driven by increased application revenues, partly offset by lower infrastructure and prime contracting revenues.

Operating Expenses

Voice-, data- and Internet-related payments decreased to HUF 71.6 bn in 2009 compared to HUF 79.1 bn in 2008 predominantly resulting from lower voice-related payments to domestic mobile operators in Hungary driven by lower mobile termination fees applied from January 1, 2009. The payments to domestic mobile operators decreased also at Makedonski Telekom due to lower interconnection fees and decreased traffic.

The material cost of telecommunications equipment in 2009 amounted to HUF 44.0 bn compared to HUF 45.1 bn in 2008. The small decrease is mainly due to declining cost at Pro-M in line with lower TETRA-related revenues in 2009. Lower number of handsets sold in the mobile prepaid segment at CBU, cost of sale of network at Combridge in 2008 and lower number of ADSL modems sold on wholesale basis also contributed to the decrease. These decreases were largely counterbalanced by higher cost of equipment at T-Mobile MK resulting from higher number of handsets sold in retention campaigns.

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

Employee-related expenses in 2009 amounted to HUF 101.9 bn compared to HUF 100.3 bn in 2008 (an increase of 1.6%). The increase in employee-related expenses was predominantly attributable to higher severance expenses at Magyar Telekom Plc. in 2009. Higher average employee number (due to the insourcing of rented workforce) and a 5.6% average wage increase from April 1, 2009 also contributed to the increase. These increases were largely mitigated by decreased severance expenses at Makedonski Telekom and at Crnogorski Telekom, where significant amount of expense was recorded in 2008. The group headcount number increased from 10,439 on December 31, 2008 to 10,828 on December 31, 2009.

Depreciation and amortization decreased by 4.0% to HUF 101.9 bn in 2009 from HUF 106.1 bn in 2008. Lower amount of depreciation is mainly driven by the decrease at Magyar Telekom Plc. due to change in the useful life of a number of assets during 2008 and 2009.

Other net operating expenses decreased year over year and amounted to HUF 132.4 bn in 2009. Other operating expenses - net include HUF 37.2 bn materials and maintenance expenses, HUF 34.4 bn service fees, HUF 16.2 bn marketing expenses, HUF 14.7 bn fees and levies, HUF 11.2 bn consultancy and HUF 18.7 bn other expenses in 2009. Lower other net operating expenses reflect mainly the significant decrease in marketing expenses at CBU due to less intensive advertising activity in 2009 (cost cutting) and the expenses related to T-Home brand campaign last year. In the third quarter of 2009, Crnogorski Telekom reversed approximately HUF 1 bn provision made in 2007 for litigation in connection with the voluntary leave program. The considerable gain realized on the IKO-Telekom Media Holding M-RTL transaction also contributed to the decrease in 2009. These decreases were partly compensated by lower other operating income in 2009 at Makedonski Telekom due to the sale of its fully owned subsidiary, Montmak in February 2008. Higher consultancy fees accounted in relation to the ongoing investigation at Headquarters further offset the decrease in 2009.

Outlook

The telecommunications industry is undergoing a major change globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. Key drivers of the long-term trends include changes in technology (i.e., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (i.e., increase in mobile usability of content services and terminal devices, 4Play solutions, growing need for customized content), competition and regulation (i.e., low entry barriers, new business models, telecommunications and media broadcast industry convergence).

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 the behavior of our competitors can hardly be predicted completely. Therefore a stronger than assumed impact of alternative operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

We should emphasize that each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. The peak of global economic crisis is calmed down, but the recovery is slow continuing and painful, particularly in Hungary. After the seven percent GDP decline in 2009, the analyst consent and government forecasts do not show growth for 2010. The unemployment rate remains very high, above 10 percent.

In order to secure the balance of the budget, the government implemented several measures and planning to decrease the deficit to 3.8 percent to the GDP in 2010. The most negative measure to our business was the five percentage point increase of VAT, effective from July 2009. The business market was also hit by the heavy spending cuts in every governmental sector. Despite the restrictive government measures and negative business environment, we expect that our core business units will be able to continue to generate strong cash flows.

Revenues

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

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from VoIP or VoCATV providers. The weakening demand as a result of restrictive government measures (especially the VAT increase) is expected to drive up the churn, because more customer currently holding both fixed and mobile subscription tending to give up their fixed lines entirely. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from pure voice offers to integrated 2Play and 3Play packages, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Fixed line interconnection tariffs are expected to be reduced gradually further in 2010 and in the years after, having additional negative impact on our fixed line revenue streams.

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

We aim to move further towards content and media businesses to support traditional access services, build new revenue streams and exploit new revenue sources. We are combining our product portfolio in order to provide all services for every customer demand on every platform (three-screen approach), where all customer screens (computer, mobile, TV) are provided by Magyar Telekom.

In the mobile operations in Hungary, market penetration is now saturated, and we expect flat development in the following year. 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.

In December 2008, the NCA enforced the regulation for mobile termination fee decrease within the networks of all three Hungarian mobile operators in three steps, starting from January 2009 until December 2010, by approximately 40 percent compared to current rates.

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

In Macedonia, competition has been increasing both in the fixed line and mobile segment. Main competitors in the fixed line segment, Telekom Slovenia and two major CaTV operators (Telekabel and CableTel), are targeting the retail voice market with 3play offers, aggressive pricing and marketing communication. Our fast growth in fixed broadband, the roll-out of new platforms (FTTx) and combined fixed-mobile products can only partially off-set the decline in fixed voice revenues.

In Macedonia, we expect more intensive regulatory measures in the future. Beside currently existing obligations (RIO, RUO, Naked DSL, Number Portability, Cost based pricing, Accounting separation, access to specific network elements, Wholesale Line Rental, WS Digital Leased Line, Minimal set of leased lines, Bitstream Access), new regulations will take into effect (asymmetric termination, control of retail prices). Further decline in wholesale fees (IC, leased lines, WLR, etc) are expected.

In the mobile segment the competition is also very strong with three players on the market. Mobile voice revenues are expected to be also under pressure. Fast growth of mobile broadband is expected on the new 3G technology. The government is still trying to increase further competition, although the tender for a third 3G license in 2009 failed due to lack of interest.

In Crnogorski Telekom, we are also expecting difficulties due to competition and regulation in the near future. The fixed wholesale revenues face the hardest hit by regulatory actions (reducing international termination rates to national level), while mobile revenues are 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. The competitors are also putting pressure on prices with 2Play and 3Play offers.

In the Montenegrin market, the new cost-based wholesale pricing model will be introduced from 2010. As a result, fixed, mobile and international termination fees are expected to decline.

Expenses

We are entirely committed to improve internal operational efficiency in all business segments. To accomplish our goals despite the intensifying competitive environment, the decreasing revenue potential should be compensated with strict cost control. In 2009, a new group-wide efficiency project was launched: save for service (S4S). This multi-year project yielded substantial savings already in 2009, and will be continued in the coming years.

We also would like to exploit the synergies coming from the integrated fixed and mobile operation. In 2010, we are planning synergy projects in several areas with the main goal for further unify the activities and increase efficiency.

We have reached an agreement with trade unions on the wage development, headcount reduction and decrease in additional employee allowances at the parent company for 2010. The key elements of the agreement are the following: reduction of headcount by 400 in addition to executive termination and retiring, no wage increase but 1.5 percent bonus budget set (significantly below inflation), gradual reduction of surplus severance payments in the Collective Agreement. These measures will reduce our TWM (Total Workforce Management) related costs.

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 2010, impacting us negatively.

Total investments in tangible and intangible assets

Comparing to 2009, the key priorities of the CAPEX spending are not changed for 2010. Investments in new products and platforms (DVB-S, FTTx) 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 with 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 ICT Leader in Hungary, while expansion into new segments will also demand additional investments.

Striving for further improvement in the customer orientation, the strategic priority for 2010 and beyond is the successful implementation of 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 the outdated billing systems but to bring a new approach to the entire customer management process with integrating fixed and mobile portfolios.

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

Subsequent events between the end of the year and the release of the report

On February 2, 2010 Magyar Telekom announced that it had closed the sale transaction of its fully owned subsidiary, Orbitel on January 28, 2010. Magyar Telekom signed a contract with Spectrum Net AD in November 2009 on the sale of Orbitel and the financial closing of the transaction took place upon obtaining the necessary approvals of the Bulgarian authorities.

Budapest, March 10, 2010.

	Christopher Mattheisen Chairman and Chief Executive Officer	Thilo Kusch Chief Financial Officer

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Supervisory Board

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Supervisory Board

Report of the Supervisory Board of Magyar Telekom Plc.

for the General Meeting of the Company

In Y2009, the Supervisory Board of Magyar Telekom Plc. (the Company) has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In Y2009, the Supervisory Board held meetings on 6 occasions, and furthermore, it made resolutions without holding a meeting, via written (fax) voting on 4 occasions.

The Supervisory Board kept in regular contact with the Chairman-Chief Executive Officer, the Chief Financial Officer, the Chief Legal Counsel and the Head of Internal Audit of the Company.

The Supervisory Board regularly discussed the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the group acquisition activities.

The Supervisory Board approved the Y2009 Workplan of the independent internal audit organization, requested and received regular information on the findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were regularly answered by the Head of Internal Audit at the Supervisory Board meetings.

Internal Audit supported the SOX compliance, audited the documentation and procedures of financial reporting, transfer prices, project management. Internal Audit identified measures to increase the efficiency of receivable management, sales channels, product development processes, to strengthen the operation of the post merger integration processes, to increase the IT system security, to improve the effectiveness of the marketing communication in the integrated organization.

Internal Audit supported the work of Group Compliance Committee in the whistleblower cases with special ad-hoc investigations.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities supporting the work of the Supervisory Board with respect to the proper supervision of the financial reporting system.

With respect to the request submitted to the Supervisory Board during Y2009 with regard to the operation of the Company, the Supervisory Board conducted the necessary investigation and delivered the appropriate information to the person making the request.

In case of shareholders notifications submitted to the Supervisory Board, the Supervisory Board also delivered the appropriate information to the persons making the notifications.

The Supervisory Board examined every important report on the business policy and every submission that is made on matters falling into the exclusive competence of and is on the agenda of the General Meeting.

According to the point of view of the Supervisory Board, Magyar Telekom Group maintained its favorable market position even in the intense competitive environment, despite the fact that economic environment had an adverse impact on revenues.

The Supervisory Board has not discovered anything to disapprove in the Company s activities in Y2009, with regard to the Company s compliance with statutory operation.

The Supervisory Board, with the involvement of the Audit Committee and the independent external auditor, discussed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU, to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their acceptance.

In the opinion of the Supervisory Board, the above mentioned financial statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2009 consolidated annual financial statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) as endorsed by the EU with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee and the independent external auditor, discussed the 2009 annual stand alone financial statements prepared in accordance with requirements of the Accounting Act (HAR) to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their acceptance.

In the opinion of the Supervisory Board, the above mentioned financial statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2009 annual stand alone financial statements of the Company prepared according to the Hungarian Accounting Regulations (HAR) with Balance Sheet Total Assets and After-tax Net Income in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 74 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2009.

The Supervisory Board pre-approves the proposal of the Board of Directors with respect to dividend payment and proposes the proposal to the General Meeting for approval.

The Supervisory Board discussed the Corporate Governance Report of the Company and, with its pre-approval, proposes it to the General Meeting for approval.

Budapest, March 12, 2010

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap

Chairman of the Supervisory Board

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Audit Committee

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Audit Committee

Report of the Audit Committee of Magyar Telekom Plc.

for the General Meeting of the Company

on its 2009 activities in relation to the approval of

the 2009 consolidated annual financial statements of the Company prescribed by the

Accounting Act according to the requirements of the International Financial Reporting

Standards (IFRS),

of the 2009 annual stand alone financial statements of the Company prepared in accordance

with requirements of the Accounting Act (HAR),

and the use of the profit after tax earned in 2009

In Y2009, the Audit Committee of Magyar Telekom Plc. (the Company) has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Audit Committee, based on its accepted Working Schedule, and in case of the occurrence of an extraordinary case, with a focus on its discussion without delay and on the interest of making the appropriate decision. In Y2009, the Audit Committee held meetings on 9 occasions, and furthermore, it made resolutions without holding a meeting, via written (fax) voting on 21 occasions.

The Audit Committee kept in continuous contact with the Chief Financial Officer of the Company, the Head of Internal Audit, the Group Compliance Director and the Chief Legal Counsel of the Company, and the independent external auditor.

The Company, by the direction of the Audit Committee, has conducted an independent internal investigation with the involvement of an independent outside counsel, regarding certain contracts and conduct involving the Company and certain of its affiliates (the Independent Investigation). The Audit Committee, in relation to the Independent Investigation, has supervised the work of the independent outside counsel involved in the Independent Investigation.

The Audit Committee regularly discussed the issues with respect to the Independent Investigation, and the appropriateness of the remedial actions taken in response to the deficiencies revealed during the Independent Investigation.

On December 2, 2009 the Audit Committee delivered the report titled Report of Investigation to the Audit Committee of Magyar Telekom Plc. , dated November 30, 2009 (the Final Report) to the Board of Directors of the Company.

The Audit Committee considered that with the preparation of the Final Report based on currently available facts, the independent outside counsel has completed those aspects of its mandate related to conducting an Independent Investigation and to reporting the factual results of that Independent Investigation to the Audit Committee.

After the presentation to the Audit Committee of the remedial actions proposed in light of the Final Report, the Company is considering, in consultation with the Audit Committee, whether and to what extent the Final Report warrants additional personnel remedial actions to address the findings of the Final Report.

The Audit Committee, in accordance with its purpose, oversaw 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, the qualifications and independence of the Company s independent external auditor and the performance of the Company s internal audit function and independent external auditor.

In the course of overseeing the work and performance of the independent outside auditor, the Audit Committee reviewed and evaluated the Management Letter, and regularly monitored the services provided by the independent external auditor and their fees. The auditor, with the general or specific pre-approval of the Audit Committee, provided audit and audit-related, and on one occasion other type of IFRS training - service for the Company in 2009.

In the course of overseeing the performance of the Internal Audit, the Audit Committee regularly reviewed and evaluated the reports on the activities of the Internal Audit, reviewed and approved the Audit Workplan of the Internal Audit.

The Audit Committee quarterly reviewed and commented upon the Group Compliance Director s reports on

- the progress of the implementation of the compliance program;
- the Y2009 compliance risk assessment;
- the status of the implementation of the measures proposed on the bases of the Y2008 compliance risk assessment;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

In the course of overseeing the Company s internal controls over financial reporting, the Audit Committee has continuously monitored the Company s SOX 404 compliance.

The Audit Committee reviewed and evaluated the reports to be submitted to the stock exchanges and the financial authorities, including the Form 20-F annual report of the Company, the quarterly reports and the relevant press releases, and the quarterly reports of the Company s Disclosure Committee. (In relation to the Q3 financial statements of the Company, the Audit Committee was advised that the independent external auditor of the Company has stated that it was not in the position to issue its opinion, and in the absence of such an opinion, the Audit Committee could not express a view.)

The Audit Committee reviewed and evaluated the changes in the risk management system of the Magyar Telekom Group, and quarterly, the risk management reports.

There was no shareholder notification to the Audit Committee in Y2009.

The Audit Committee reviewed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU to be submitted to the General Meeting by the Board of Directors, the proposal of the Board of Directors for their acceptance, and listened to the relevant report of the independent external auditor.

The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee

proposes to the General Meeting for approval the 2009 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) as endorsed by the EU, including Balance Sheet Total Assets of HUF 1,166,377 million and Profit for the year of HUF 93,253 million.

The Audit Committee reviewed the 2009 annual stand alone financial statements prepared in accordance with requirements of the Accounting Act (HAR) to be submitted to the General Meeting by the Board of Directors, the proposal of the Board of Directors for their acceptance, and listened to the relevant report of the independent external auditor.

The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the General Meeting for approval the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 968,412 million and After-tax Net Income of HUF 74,227 million.

The Audit Committee reviewed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 74 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2009. The Audit Committee agrees with the proposal and proposes to the Supervisory Board for pre-approval and to the General Meeting for approval.

Budapest, March 11, 2010

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy

Chairman of the Audit Committee

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Decision on the approval of the 2009 annual stand alone financial statements of the Company prepared in accordance with requirements of the Accounting Act (HAR); presentation of the relevant report of the Supervisory Board, the Audit Committee and the Auditor

Budapest, April 7, 2010

According to Section 302 e) of the Companies Act and Section 6.2. (i) of the Articles of Association, approving the report prepared according to the Accounting Act belongs to the exclusive authority of the General Meeting.

Resolution proposal:

The General Meeting approves the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including

Balance Sheet Total Assets of HUF 968,412 million and

After-tax Net Income of HUF 74,227 million.

MAGYAR TELEKOM NYRT.

ANNUAL REPORT

31 DECEMBER 2009

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HUNGARY

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INDEPENDENT AUDITOR S REPORT

(Free translation)

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

We have audited the accompanying financial statements of Magyar Telekom Nyrt. (the Company) which comprise the balance sheet as of 31 December 2009 (in which the balance sheet total is HUF 968,412 million, the profit per balance sheet is HUF 74,227 million, the related profit and loss account for the year then ended, and the notes to the financial statement including a summary of the main accounting policies as well as other disclosures.

Management s Responsibility for the Financial Statements

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

Auditor s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work in respect of the business report was limited to checking it in within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

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

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the financial statements of Magyar Telekom Nyrt. in accordance with the Hungarian and International Standards on auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provision of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2009, and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the financial statements.

Without qualifying our opinion we draw your attention to the fact that the attached financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and, as such, do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

Budapest, March 11, 2010

Manfred Krawietz
Partner
PricewaterhouseCoopers Kft.
1077 Budapest, Wesselényi u. 16.
License Number: 001464

Hegedűsné Sz cs Márta
Statutory auditor
Licence number: 006838

Translation note:

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

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS

PUBLIC LIMITED COMPANY

BALANCE SHEET AND PROFIT AND LOSS STATEMENT

TO THE 2009 ANNUAL REPORT

Magyar Telekom Plc.

BALANCE SHEET AS OF DECEMBER 31, 2009

(All amounts in millions of HUF)

ASSETS

	Note	December 31, 2008	Self-revision	December 31, 2009
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		**827,970**	**(2,458)**	**835,103**
I. Intangible assets	5	**212,582**	**(83)**	**201,746**
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		60,561	(80)	57,982
Intellectual property		3,600	(3)	4,044
Goodwill		148,421	0	139,720
Advance payments on intangible assets		0	0	0
II. Tangible assets	6	**421,738**	**(529)**	**440,377**
Land and buildings and related rights		228,367	3,550	242,792
- Land		*2,437*	*(1)*	*2,338*
- Buildings		*63,793*	*1,914*	*65,175*
- Telecommunication network		*151,134*	*1,319*	*164,343*
- Other properties		*9,761*	*290*	*9,897*
- Real estate related rights		*1,242*	*28*	*1,039*
Technical equipment, machinery and vehicles		155,165	3,904	160,917
- Telecommunication equipment and machinery		*153,230*	*3,814*	*159,141*
- Other technical equipment, machinery and vehicles		*1,935*	*90*	*1,776*
Other equipment and vehicles		12,720	2,580	13,243
Construction-in-progress		25,486	(10,563)	23,418
Advance payments on construction-in-progress		0	0	7
III. Financial investments		**193,650**	**(1,846)**	**192,980**
Non current investments in related parties	7	173,211	(1,846)	174,974
Non current loans granted to related parties	8	15,798	0	13,147
Other investments		0	0	0
Other non current loans granted	9	4,641	0	4,859
Non current bonds and other securities		0	0	0
B. CURRENT ASSETS		**108,069**	**443**	**100,098**

I. Inventories	10	**8,267**	**(199)**	**6,912**
Raw materials		882	0	1,072
Work in progress and semi-finished products		149	0	212
Finished products		0	0	0
Goods resale		7,236	(199)	5,628
Advance payments on inventories		0	0	0
II. Receivables		**61,995**	**642**	**81,827**
Accounts receivable	11	36,596	413	39,664
Receivables from subsidiaries	12	18,123	32	6,893
Bills receivable		0	0	0
Receivables from other related companies	13	0	0	29,500
Other receivables	14	7,276	197	5,770
III. Securities	15	**1,179**	**0**	**1,179**
Investments in related parties		0	0	0
Other investments		0	0	0
Treasury stock, quotas		1,179	0	1,179
Marketable securities		0	0	0
IV. Liquid assets		**36,628**	**0**	**10,180**
Cash and cheques		96	0	106
Bank deposits		36,532	0	10,074
C. PREPAYMENTS	16	**29,213**	**(249)**	**33,211**
Accrued income		28,133	(213)	31,098
Prepayments for costs and expenses		1,080	(36)	2,113
Deferred expenses		0	0	0
TOTAL ASSETS		**965,252**	**(2,264)**	**968,412**

Budapest, March 10, 2010

Christopher Mattheisen Chairman and Chief Executive Office, Chairman of the Board	Thilo Kusch Chief Financial Officer, Board member

The supplement forms an integral part of these financial statements.

Magyar Telekom Plc.

BALANCE SHEET AS OF DECEMBER 31, 2009

(All amounts in millions of HUF)

LIABILITIES AND SHAREHOLDER S EQUITY

	Note	December 31, 2008	Self-revision	December 31, 2009
D. SHAREHOLDER S EQUITY	17	**358,437**	**(1,061)**	**432,054**
I.Common stock		104,275	0	104,274
- of this treasury stock at par value		*150*	*0*	*150*
II.Unpaid share capital (-)		0	0	0
III.Capital reserves		58,289	0	58,952
IV.Retained earnings		172,244	0	191,922
V.Restricted reserves		2,056	0	2,679
VI.Valuation reserves		0	0	0
VII.Net income		21,573	(1,061)	74,227
E. PROVISIONS	18	**20,082**	**0**	**19,495**
Provision for expected obligations		18,948	0	18,972
Provision for expected expenses		988	0	447
Other provisions		146	0	76
F. LIABILITIES		**536,772**	**(440)**	**468,594**
I.Subordinated liabilities		0	0	0
II.Non current liabilities		**262,481**	**0**	**291,056**
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		122	0	121
Investment and development loans		0	0	0
Other non current loans	19	18,326	0	23,120
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	20	242,531	0	267,017
Other non current liabilities		1,502	0	798
III.Liabilities		**274,291**	**(440)**	**177,538**
Current borrowings		71	0	70
- of this convertible bonds		*0*	*0*	*0*
Current loans	21	32,541	0	32,809
Advances received		274	5	311
Accounts payable		32,555	(271)	29,534
Bills of exchange payable		0	0	0

Current liabilities to related parties	22	29,279	0	43,314
Current liabilities to other related parties	23	87,486	0	59,799
Other current liabilities	24	92,085	(174)	11,701
- of this dividends payable		*77,052*	*0*	*0*
G. ACCRUED EXPENSES	25	**49,961**	**(763)**	**48,269**
Deferred income		4,259	40	4,821
Accrued expenses		45,367	(820)	43,151
Other deferred revenue		335	17	297
TOTAL LIABLITIES AND SHAREHOLDER S EQUITY		**965,252**	**(2,264)**	**968,412**

Budapest, March 10, 2010

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

Thilo Kusch
Chief Financial Officer,
Board member

The supplement forms an integral part of these financial statements.

Magyar Telekom Plc.

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER, 2009

(All amounts in millions of HUF)

		Note	2008	Self-revision	2009
1.	Domestic sales	26	482,529	163	456,437
2.	Export sales	27	18,275	31	18,832
I.	**Sales revenues**		**500,804**	**194**	**475,269**
3.	Change in self-manufactured inventories		117	0	63
4.	Capitalised value of self-manufactured assets		21,413	22	21,417
II.	**Own work capitalized**		**21,530**	**22**	**21,480**
III.	**Other revenues**	28	**26,698**	**-27**	**24,633**
	of which: reversal of impairment		0	0	0
5.	Costs of raw material		30,000	-12	27,664
6.	Costs of services	30	99,065	-1,160	96,628
7.	Costs of other services		13,782	14	13,994
8.	Cost of goods sold		34,605	1	34,126
9.	Costs of services sold (intermediated)	31	79,138	-48	73,595
IV.	**Material-type expenses**		**256,590**	**-1,205**	**246,007**
10.	Salaries and wages	32	45,070	-3	47,276
11.	Other payroll related costs	32	13,266	-108	13,408
12.	Payroll related contributions		17,794	-125	17,753
V.	**Payroll and related expenses**		**76,130**	**-236**	**78,437**
VI.	**Depreciation**		**87,828**	**527**	**82,132**
VII.	**Other expenses**	34	**34,805**	**31**	**40,573**
	of which: impairment		3,219	49	11,120
A.	**PROFIT FROM OPERATING ACTIVITIES**		**93,679**	**1,072**	**74,233**
13.	Dividends and profit sharing (received or due)		37,476	0	31,409
	of which: received from related parties		*37,476*	*0*	*31,409*
14.	Foreign exchange gains on sale of investments		0	0	0
	of which: received from related parties		*0*	*0*	*0*
15.	Interest income and gains on financial investments		1,689	0	1,352
	of which: received from related parties		*1,689*	*0*	*1,352*
16.	Other interest income received		1,788	0	3,565
	of which: received from related parties		*895*	*0*	*1,940*
17.	Other revenues from financial activities		8,648	-196	6,898
VIII.	**Revenues from financial transactions**		**49,601**	**-196**	**43,224**
18.			3	0	0

Loss on the sale of financial investments				
of which: related to related parties		*0*	*0*	*0*
19. Interest expense		33,256	-13	33,980
of which: related to related parties		*891*	*0*	*966*
related to other related party		*26,684*	*0*	*28,801*
20. Impairment of investments, securities and bank deposits		196	0	476
21. Other expenses refinancial activities		4,121	-157	4,199
IX. Expenses from financial transactions		**37,576**	**-170**	**38,655**
B. FINANCIAL RESULTS	35	**12,025**	**-26**	**4,569**
C. PROFIT FROM ORDINARY ACTIVITIES		**105,704**	**1,046**	**78,802**
X. Extraordinary revenues	36	**5,233**	**360**	**1,933**
XI. Extraordinary expenses	37	**9,504**	**2,688**	**4,320**
D. PROFIT FROM EXTRAORDINARY ACTIVITIES		**-4,271**	**-2,328**	**-2,387**
E. PROFIT BEFORE TAXES		**101,433**	**-1,282**	**76,415**
XII. Corporate income tax	39	**2,808**	**-221**	**2,188**
F. NET INCOME		**98,625**	**-1,061**	**74,227**
22. Use of retained earnings for dividends		0	0	0
23. Dividend paid (approved)	40	77,052	0	0
G. BALANCE SHEET NET INCOME		**21,573**	**-1,061**	**74,227**

Budapest, March 10, 2010

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

Thilo Kusch
Chief Financial Officer,
Board member

The supplement forms an integral part of these financial statements.

Magyar Telekom Plc.

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

NOTES

TO THE 2009 ANNUAL REPORT

Magyar Telekom Plc.

Notes to the Financial Statements prepared
in accordance with the Hungarian Act on Accounting
As of December 31, 2009

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

0. <u>Note Added For Translation</u>

This annual report for December 31, 2009 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C/2000 on accounting and with generally accepted accounting principles in Hungary.

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

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

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

Magyar Telekom Plc.

Notes to the Financial Statements prepared
in accordance with the Hungarian Act on Accounting
As of December 31, 2009

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

1. Background and General Information

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

Short name of the Company: Magyar Telekom Plc.

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

The Company s main activity is telecommunication.

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

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

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

In June 1999, the State Privatization and Holding Company sold its remaining stake (5.75 per cent) through a secondary offering. After this transaction, the proportion of publicly traded shares increased to 40.47 per cent. Share of MagyarCom Holding GmbH (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) in the Company decreased to 59.53 per cent.

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

In 2002, the Company carried out an additional increase in common stock in the amount of HUF 490 million, which shares were repurchased. As a result of this transaction, the proportion of publicly traded shares changed to 40.32 per cent, the proportion of repurchased treasury stock to 0.47 per cent and MagyarCom s ownership decreased to 59.21 per cent. MagyarCom is 100 per cent owned by Deutsche Telekom A.G.

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

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

Persons authorised to sign the annual report:

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

The Company s bookkeeping services are provided by EurAccount Pénzügyi és Számviteli Szolgáltató Kft. (its register number is 01-09-737269, its taxation number is 13477541-2-42).

The accounting services provided by EurAccount Kft. are supervised by Beáta Bálintné Pál Managing Director (her certificate number: 132224. Area of speciality: entrepreneurial activity. State: registered. Residence: Budapest).

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Magyar Telekom Plc.

Notes to the Financial Statements prepared
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(All amounts in millions of HUF, unless otherwise indicated)

The Company is subject to compulsory audit. The Company s auditor is PricewaterhouseCoopers Kft. (its register number is 01-09-063022, its taxation number is 10256121-2-44). The person authorized to represent the auditor is

Márta Hegedűsné Szűcs (her certificate number: 006838, legal status: full-time. Residence: Páty).

Magyar Telekom Plc. s corporate website: www.magyartelekom.hu

Investigation into certain consultancy contracts

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.

For further information about the internal and governmental investigations, please refer to the Company s quarterly reports for the first, second and third quarters of 2009 and the Company s annual reports on Form 20-F for the year ended December 31, 2008 filed with the SEC.

Findings and conclusions relating to the internal investigation of the Audit Committee

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 preparation 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 MakTel 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 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.

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Magyar Telekom Plc.

Notes to the Financial Statements prepared
in accordance with the Hungarian Act on Accounting
As of December 31, 2009

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

• 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 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.

Other related issues

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

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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As of December 31, 2009

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

internal investigation. Also, as previously announced, the Hungarian National Bureau of Investigation (NBI) has begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with the Company s ongoing internal investigation and the possible misuse of personal data of employees in the context of the internal investigation. These governmental investigations are continuing, and the Company continues to cooperate with those investigations. The Company cannot predict what the final outcome of those investigations may be or the impact, if any, they may have on its financial statements or results of operations. Furthermore, government authorities could seek criminal or civil sanctions, including monetary penalties, against the Company or its affiliates as well as additional changes to its business practices and compliance programs.

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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As of December 31, 2009

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

2. Effect of merger on the comparability of figures in 2009

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2009 decided to merge T-Kábel Magyarország Kft. and Dél-Vonal Kft. into Magyar Telekom Plc. The merger was registered by the Court of Registry with effect from September 30, 2009.

In the course of the merger T-Kábel Magyarország Kft. and Dél-Vonal Kft. prepared Annual reports according to the Hungarian Act on Accounting as of September 30, 2009 by closing their analytical and general ledgers. Magyar Telekom Plc. managed the takeover of assets and liabilities (including provisions, accruals and deferred incomes and expenses as well) and the resulting shareholders equity being the difference, with continuous bookkeeping.

Due to the takeover of assets and liabilities the balance sheet lines of December 31, 2008 and 2009 are not completely comparable. In order to ensure comparability the merger balance sheets disclosed in summarised form in the Notes.

Due to the merger the income statement of Magyar Telekom Plc. contains the revenues and expenses of the activities taken over for the period started October 1, 2009 ended on December 31, 2009. As a consequence, the income statements as of 2008 and 2009 are not completely comparable. For the purpose of ensuring the comparison the income statements of T-Kábel Magyarország Kft. and Dél-Vonal Kft. for the period started January 1, 2009 ended September 30, 2009 are disclosed in summarised forms in the Notes. Compared to Magyar Telekom Plc. s result for the period January-December, 2009 the two merged companies result for the period January-September, 2009 is not significant neither in total nor in composition.

3. Accounting policies

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

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

The closing day of the Company s business year is December 31. In 2009 the balance sheet preparation date is the first working day of the following year.

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

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

Since January 1, 2005 the Company has complied with its obligation to prepare consolidated annual report in such a way that it prepares its consolidated annual report in accordance with the International Financial Reporting Standards.

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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As of December 31, 2009

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

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

Definition of the accounting principles, guidelines and methods

Classification of accounting matters:

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

Material error

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

Significant error

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

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

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

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

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

Valuation methods used for the preparation of the Balance Sheet

ASSETS

Recognition and measurement of non current assets

Intangible and tangible fixed assets

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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(All amounts in millions of HUF, unless otherwise indicated)

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

Costs connected directly to loans taken for acquisition or production of the asset are capitalized.

Depreciation policy

In case of tangible fixed assets the depreciation is based on the gross value of the asset reduced by its residual value.

The method of depreciation: straight-line based on gross value using rates originated from useful lives.

Depreciation is based on a daily calculation and recorded once in a month.

Depreciation starts on the day when the asset was placed into operation and it is over when the useful life of the asset elapsed or the day the asset cancelled from the books for any reason. The Company recorded the depreciation monthly in proportion to the days of the given month.

The Company determines residual values for those groups of assets where the residual values are considered to be significant. Residual value is considered to be significant if the expected realizable value exceeds the expected scrap value when the asset is taken out of service. The Company determines residual value for buildings and vehicles. Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets.

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

Applied residual value:

Buildings:	Determined individually based on the location of the building as well as the expected future useful life and usage of the building.
Vehicles:	personal cars for personal use: 30 per cent of the acquisition cost passenger cars for business use: 30 per cent of the acquisition cost trucks under 3.5 tons: 30 per cent of the acquisition cost trucks above 3.5 tons: 20 per cent of the acquisition cost transport vehicles: 10 per cent of the acquisition cost.

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

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

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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(All amounts in millions of HUF, unless otherwise indicated)

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

Capitalized value of foundation and restructuring

The Company does not capitalize foundation and restructuring costs.

Capitalized value of research and development

The Company does not capitalize research and development costs.

Goodwill

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

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

Intellectual property

Since 2005 only those assets have been recorded as intellectual property which are in the ownership of the Company.

The useful life of intellectual property is generally 5 years.

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

Own work capitalized

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

Financial investments

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

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

Magyar Telekom Plc.

Notes to the Financial Statements prepared
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Recognition and measurement of current assets

Inventories

Goods are valued at cost using standard price method and raw materials using the weighted average cost formula. Inventories include materials and assets whose future usage can not be determined at the time of purchase (i.e. whether they will be used for an investment project or maintenance). Inventories also include advance payments on inventories and assets held for sale reclassified from tangible fixed assets.

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

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

Measure of impairment on new materials:

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

Measure of impairment on used or repaired materials:

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

Trade receivables and other receivables

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

Impairment of trade receivables is assessed on two levels. Trade receivables that are individually significant and the ones that are not individually significant are separated. Magyar Telekom Plc. decided to consider items above HUF 200 million to be individually significant for the purposes of assessing accounts receivables for impairment.

In case of items that are individually not significant it is also assessed individually whether objective evidence of impairment exists. These items have to be assessed individually and amount of impairment have to be calculated on them.

Magyar Telekom Plc. considers the following items to be included in this category:

- receivables from domestic and international fixed line service providers
- receivables from domestic and international mobile service providers (roaming, interconnect, interworking)
- receivables under liquidation, bankruptcy proceedings
- other (non trade) receivables

Based on the Section 55. (2) of Act C/2000 on accounting the amount of loss in value may also be established as a percentage of the amount of such receivables registered in the books (collective assessment of impairment). Magyar Telekom Plc. evaluates the telecommunications customers - concerning their high volume - with the method of collective assessment (ageing) and the impairment is set out in percentages.

The Company set up the impairment categories according to customer groups with similar credit risk exposure.

Magyar Telekom Plc.

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As of December 31, 2009

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

In case of invoices with instalments the amount of impairment is based on due dates of each instalment.

The Company does not impair receivables from related parties and non current loans granted to related parties except in case an individual item having an objective evidence for impairment.

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

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

Securities

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

LIABILITIES AND SHAREHOLDER S EQUITY

Valuation reserve

Until further decision, Magyar Telekom Plc. does not apply the allowed alternative treatment in the Hungarian Accounting Regulations for the recognition of the valuation reserve.

Restricted reserve

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

Provisions

Main items include:

- early retirement payment liabilities
- severance payment liabilities
- contingent liabilities and commitments
- environmental liabilities
- guarantee liabilities determined by law
- future demolition or recovery liabilities deriving from a contract
- provision related to valuation of derivatives

Valuation of items in foreign currencies

Receivables and liabilities denominated in foreign currencies are valued at the official exchange rate of MNB on December 31.

Derivatives

The Company records derivatives (forward F/X deals and swap deals) among off-balance sheet items as commitments or future receivables on transaction price.

The Company calculates the fair value of every derivatives as of the balance sheet date and discloses it in the Notes. In addition the Company creates provision for expected losses related to commitments from derivatives, represented by the negative fair value of the transactions.

Magyar Telekom Plc.

Notes to the Financial Statements prepared

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As of December 31, 2009

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

Measurement principles applied in the preparation of the Income Statement

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

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

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

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

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

Extraordinary items are disclosed in the Notes.

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

OTHER

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

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

4. Summary of the Company s financial position and liquidity

The Company s financial position and liquidity as of December 31, 2008 and 2009 are represented by the following financial ratios:

	2008	2009
Liquidity ratio (= current assets / current liabilities)	0.39	0.56
Operating margin (= operating profit / (sales revenues + other revenues))	0.18	0.15
Operating return on assets (= operating profit / total assets)	0.1	0.08
Leverage ratio (= non current liabilities / (non current liabilities + equity))	0.42	0.40

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The favorable change in liquidity ratio is due to the not yet recorded dividend for the current year which will be recorded after the decision of the General Meeting.

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The following is the cashflow statement for the years ended on December 31, 2008 and 2009:

		2008	**2009**
I. Cash flows from operating activities (lines 1-14)		**57,074**	**29,874**
1. Profit before income tax (before dividend received)	(+/-)	65,225	43,724
2. Depreciation and amortization	(+)	88,104	82,659
3. Impairment losses charged and reversed	(+/-)	3,245	11,169
4. Change in provisions	(+/-)	-1,966	-587
5. Profit or loss on the sale of non current assets	(+/-)	-2,323	-172
6. Change in accounts payable (1)	(+/-)	3,559	4,518
7. Change in other current liabilities (1)	(+/-)	-9,625	-74,623
8. Change in accruals	(+/-)	-1,655	-1,692
9. Change in accounts receivable	(+/-)	1,627	-10,505
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	-7,860	-16,952
11. Change in prepayments	(+/-)	2,920	-3,998
12. Income tax paid	(--)	-3,046	-1,900
13. Dividend paid/payable	(--)	-77,052	0
14. Other non cash items	(+/-)	-4,079	-1,767
II. Cash flows from investing activities (lines 15-17)		**-42,141**	**-68,524**
15. Acquisition of fixed assets and financial investments	(--)	-85,589	-100,437
16. Proceeds from sale of non current assets	(+)	5,972	504
17. Dividends and advanced dividends received	(+)	37,476	31,409
III. Cash flows from financing activities (lines 18-29)		**17,783**	**12,202**
18. Proceeds from issue of shares	(+)	0	0
19. Proceeds from the issuance of bonds	(+)	0	0
20. Loans received	(+)	139,979	198,952
21. Redemption from non current loans granted and bank deposits	(+)	19,287	11,348
22. Non-repayable liquid assets received	(+)	0	0
23. Share capital decrease	(--)	0	0
24. Treasury stock repurchases	(--)	0	0
25. Repayment of bonds	(--)	0	0
26. Repayment of loans	(--)	-124,467	-188,880
27. Non current loans granted and bank deposits	(--)	-14,445	-8,474
28. Non-repayable donations given	(--)	-129	-7
29. Change in liabilities to founders and other non current liabilities	(+/-)	-2,442	-737
IV. Change in liquid assets (lines I. + II. + III.)	(+/-)	**32,716**	**-26,448**

Cash at the beginning of the year	**3,912**	**36,628**
Cash at year-end	**36,628**	**10,180**

(1) The change in suppliers of assets in course of construction related to subsidiaries amounted to HUF 1,247 million increase in 2008 and HUF 42 million increase in 2009 are corrected in the caption of Change in other current liabilities in 2008. In 2009 this was reviewed and corrected from the caption of Change in accounts payable . For the purpose of ensuring the comparison the 2008 year s data was modified accordingly.

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5. Intangible fixed assets

The following table is a summary of intangible fixed asset movements between January 1, 2008 and December 31, 2009:

	Capitalized costs of R&D	Rights	Intellectual property	Goodwill	Total
GROSS BOOK VALUE					
Opening balance as of January 1, 2008	**0**	**146,333**	**12,267**	**218,346**	**376,946**
Additions	0	13,311	949	1,374	15,634
Disposals	0	4,967	0	0	4,967
Reclassifications	0	-72	24	0	-48
Balance as of December 31, 2008	**0**	**154,605**	**13,240**	**219,720**	**387,565**
Additions	0	12,192	634	1,585	14,411
Additions due to merger	0	2,952	796	100	3,848
Disposals	0	2,591	13	0	2,604
Reclassifications	0	510	-15	0	495
Balance as of December 31, 2009	**0**	**167,668**	**14,642**	**221,405**	**403,715**
AMORTIZATION					
Opening balance as of January 1, 2008	**0**	**83,802**	**8,765**	**60,279**	**152,846**
Charge for the year	0	15,175	875	10,137	26,187
Impairment	0	0	0	883	883
Disposals	0	4,929	0	0	4,929
Reclassifications	0	-4	0	0	-4
Balance as of December 31, 2008	**0**	**94,044**	**9,640**	**71,299**	**174,983**
Charge for the year	0	16,212	562	10,130	26,904
Impairment	0	0	0	256	256
Additions due to merger	0	1,959	408	0	2,367
Disposals	0	2,528	12	0	2,540
Reclassifications	0	-1	0	0	-1
Balance as of December 31, 2009	**0**	**109,686**	**10,598**	**81,685**	**201,969**
NET BOOK VALUE as of December 31, 2008	**0**	**60,561**	**3,600**	**148,421**	**212,582**
NET BOOK VALUE as of December 31, 2009	**0**	**57,982**	**4,044**	**139,720**	**201,746**

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Rights

The gross value of rights increased by HUF 15,144 million in the current year. Significant part of this increment (HUF 10,621 million) was caused by capitalizations and additional capitalizations of IT systems software rights of use (HUF 5,027 million), other software rights of use (HUF 2,332 million) and other rights (HUF 466 million), as well as the increases from the merger of T-Kábel into Magyar Telekom Plc. (Rights in the amount of HUF 2,225 million and Other rights in the amount of HUF 571 million).

The decrease is mainly due to inventory shortage of service supporting systems (gross value is HUF 747 million, net value is zero), the scrapping of obsolete software rights not to be used for other purposes (gross value is HUF 1,170 million, net value is zero) and software of centers linked to operating base stations (NOC-NIS) (gross value is HUF 360 million, net value is zero).

Intellectual properties

The increase is mainly due to the capitalization of other own software in the amount of HUF 600 million and the increment resulting from the merger of T-Kábel into Magyar Telekom Plc. in the amount of HUF 796 million under the same class of assets.

In 2009, the Company reviewed the useful lives of intangible assets similar to previous years and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 1,032 million less amortization was charged for 2009.

Goodwill

In 2009, the Company purchased 100 per cent of the shares of KFKI Direkt Kft., ISH Informatikai Kft. and ISH Kft. In these transactions HUF 45 million (KFKI Direkt Kft.) and HUF 1,424 million (ISH Informatika Kft.) goodwill were recognized.

Also in 2009, connected to the subsequent correction of the purchase price of KFKI Rendszerintegrációs Zrt., IWIW Szolgáltató Kft. and M-Factory Kft. further HUF 78 million, HUF 13 million and HUF 25 million goodwill were recognized, respectively.

Goodwill was increased by HUF 100 million due to the merger of T-Kábel into Magyar Telekom Plc. as of September 30, 2009 in relation to Dél-Vonal Kft.

During 2009 HUF 10,130 million amortization was charged on goodwill.

Impairment in the amount of HUF 256 million was recorded on goodwill of which HUF 206 million comes from the reduction of M-Factory Kft. s goodwill to the market value calculated on the basis of a DFC model based on a ten-year business plan and HUF 50 million comes from the reduction of Orbitel E.A.D. s goodwill (purchased in 2007) to the return value calculated from the purchase offer on the investment.

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The movements in gross value and amortization of goodwill in 2008 and 2009 are summarized as follows:

Description	Remaining useful life (month)	Gross book value as of December 31, 2008	Accumulated amort n as of December 31, 2008	Net book value as of December 31, 2008	Goodwill recorded in 2009	Amort n and reclass. charge in 2009	Net book value as of December 31, 2009
T-Mobile Távközlési Magyarország Rt.	144	181,948	-63,725	118,223	0	-9,115	109,108
KFKI Rendszerintegrációs Zrt.	0	8,718	0	8,718	78	0	8,796
EMITEL Távközlési Zrt.	113	10,501	-4,367	6,134	0	-589	5,545
Stonebridge Communication A.D.	162	7,507	-1,833	5,674	0	-392	5,282
Dataplex Kft.	0	4,793	0	4,793	0	0	4,793
IWIW Szolgáltató Kft.	0	1,142	0	1,142	13	0	1,155
IQSYS Zrt.	0	1,132	0	1,132	0	0	1,132
Orbitel A.D.	0	933	-883	50	0	-50	0
Combridge S.R.L.	0	818	0	818	0	0	818
Novatel EOOD	0	447	0	447	0	0	447
M-Factory Kft.	0	977	0	977	25	-206	796
Adnetwork Online Marketing Kft.	0	174	0	174	0	0	174
Integris-Rendszerház Kft. (Rába Szolgáltatóház Kft.)	37	306	-167	139	0	-34	105
Alba Internet Adatbank és Informatikai Kft.	0	70	-70	0	0	0	0
KIBU Innováció Kft.	0	58	-58	0	0	0	0
Telemacedonia A.D.	0	3	-3	0	0	0	0
BCN Rendszerház Kft.	0	193	-193	0	0	0	0
KFKI Direkt Kft.	0	0	0	0	45	0	45
Dél-Vonal Kft.	0	0	0	0	100	0	100
ISH Informatikai Kft.	0	0	0	0	1,424	0	1,424
Total		**219,720**	**-71,299**	**148,421**	**1,685**	**-10,386**	**139,720**

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6. Tangible fixed assets

The following table is a summary of tangible fixed asset movements without construction in progress and advance payments for construction in progress between January 1, 2008 and December 31, 2009:

	Real estate and related rights	Technical equipment, machinery and vehicles	Other equipment and vehicles	Total
GROSS BOOK VALUE				
Opening balance as of January 1, 2008	**368,606**	**599,215**	**74,690**	**1,042,511**
Additions	11,972	38,278	5,935	56,185
Disposals	6,462	18,009	3,125	27,596
Reclassifications	-6,350	6,892	-661	-119
Balance as of December 31, 2008	**367,766**	**626,376**	**76,839**	**1,070,981**
Additions	20,841	39,236	5,448	65,525
Additions due to merger	14,181	12,980	720	27,881
Disposals	1,154	13,333	2,822	17,309
Reclassifications	-780	341	-355	-794
Balance as of December 31, 2009	**400,854**	**665,600**	**79,830**	**1,146,284**
DEPRECIATION				
Opening balance as of January 1, 2008	**132,352**	**441,461**	**61,819**	**635,632**
Charge for the year	12,868	43,232	5,393	61,493
Impairment	9	1	1	11
Disposals	3,019	16,624	2,740	22,383
Reclassifications	-2,811	3,141	-354	-24
Balance as of December 31, 2008	**139,399**	**471,211**	**64,119**	**674,729**
Charge for the year	13,457	36,963	4,888	55,308
Impairment	450	1	2	453
Additions due to merger	5,930	8,811	402	15,143
Disposals	826	12,541	2,573	15,940
Reclassifications	-348	238	-251	-361
Balance as of December 31, 2009	**158,062**	**504,683**	**66,587**	**729,332**
NET BOOK VALUE as of December 31, 2008	**228,367**	**155,165**	**12,720**	**396,252**
NET BOOK VALUE as of December 31, 2009	**242,792**	**160,917**	**13,243**	**416,952**

Further details are disclosed in Appendix 1.

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Real estate and related rights

Increase in real estate and related rights amounted to HUF 35,022 million in gross value of which the most significant items are:

Buildings and other real estates increased by HUF 4,680 million in gross value (see Appendix 1) of which the antenna towers built on land not owned by the Company amounted to HUF 1,775 million and renovating/improving the long-life structured buildings amounted to HUF 1,311 million were the most significant. The increase due to the merger of T-Kábel into Magyar Telekom Plc. is HUF 98 million.

Gross value of telecommunication networks increased by HUF 30,003 million (see Appendix 1) of which the significant items are:

- cable TV covered house-network (from merger of T-Kábel into Magyar Telekom Plc.) amounted to HUF 9,030 million,
- cable TV coaxial house-network (from merger of T-Kábel into Magyar Telekom Plc.) amounted to HUF 3,468 million,
- cable TV optical network (from merger of T-Kábel into Magyar Telekom Plc.) amounted to HUF 976 million,
- copper wire overground telecom cables for local network amounted to HUF 3,262 million,
- DVB-S infrastructure (Digital Video Broadcasting-Satellite) amounted to HUF 3,086 million,
- fiber optic telecom cables of local network pulled in ducts amounted to HUF 2,614 million,
- copper wire telecom cables of local network pulled in ducts amounted to HUF 1,486 million,
- ducts amounted to HUF 1,316 million,
- inground copper wire telecom cables for local network amounted to HUF 1,044 million,
- fiber optic overground telecom cables for local network amounted to HUF 1,042 million.

The decrease in real estate and related rights is mainly due to

• the sale of

• rental right of international connection - United Kingdom-United States of America-France - (gross value: HUF 166 million, net value: HUF 14 million)

• scrapping and partial scrapping of which the significant items are:

• copper wire overground telecom cables for local network (gross value: HUF 364 million, net value: HUF 147 million),

• telephone booths (gross value: HUF 126 million, net value: HUF 1 million),

• construction works on rented buildings (gross value: HUF 112 million, net value is zero).

Impairment was recorded in the amount of HUF 450 million of which the most significant item is the rental right of international connections (HUF 303 million). The reason of impairment is the cancellation of connections namely their technical detachment from the network of Magyar Telekom Plc. Connected to these assets revenues will no longer incur for Magyar Telekom Plc.

The most significant item in reclassifications was the reclassification of long-life structured buildings held for sale to current assets amounting to HUF 646 million in gross value (its amortization is HUF 268 million).

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Technical equipment, machinery and vehicles

Increase is due the capitalization and extension of telecommunication equipment of HUF 52,216 million of which the significant items are:

• DVBS-STB (set top box) amounted to HUF 7,076 million,

• CE routers and 3 play equipment amounted to HUF 4,035 million,

• BTS-GSM (900-1800) radio communications equipment amounted to HUF 2,407 million,

• routers amounted to HUF 2,130 million,

• BTS-UMTS radio communications equipment amounted to HUF 2,128 million,

• GSM access network control device amounted to HUF 1,609 million,

• control and management of mobile central network amounted to HUF 1,556 million

• construction engineering equipment amounted to HUF 1,422 million.

Significant increasing items from the merger of T-Kábel into Magyar Telekom Plc.:

• cable TV coaxial covered active and passive components amounted to HUF 6,350 million,

• cable TV house network active and passive equipment amounted to HUF 3,133 million,

• optical cable TV transmission equipment amounted to HUF 2,717 million.

Decrease is mainly due to scrapping of obsolete assets amounted to HUF 13,333 million in gross value of which the significant items are:

• point-to-multipoint structured subscriber microwave equipment in the 1.5 GHz frequency band serving telephony and data transmission purposes (gross value: HUF 1,277 million, net value is zero),

• hardware of centers linked to operating base stations (NOC-NIS) (gross value: HUF 933 million, net value is zero),

• BTS-GSM (900-1800) radio communications equipment (gross value: HUF 884 million, net value: HUF 174 million),

• onground microwave telecommunication equipment (gross value: HUF 828 million, net value: HUF 6 million),

• construction engineering equipment (gross value: HUF 616 million, net value: HUF 67 million).

Other equipment and vehicles

From the HUF 6,168 million increase of other equipment and vehicles HUF 720 million is due to the merger of T-Kábel into Magyar Telekom Plc. Further significant items are the capitalization and extension of servers (HUF 1,038 million), the capitalization of IT system hardware (HUF 930 million) and the capitalization of computer peripherals not serving the core activities (HUF 721 million).

The HUF 2,822 million decrease in gross value of other equipment and vehicles is due to the sale and scrapping of equipment of which the significant items are:

• sale of passenger cars (gross value: HUF 434 million, net value: HUF 158 million),

• scrappings:

- computer peripherals not serving directly the core activities (gross value: HUF 362 million, net value: HUF 4 million),
- IT systems hardware (mobile) (gross value: HUF 340 million, net value: HUF 1 million),
- equipment with development and testing purposes (gross value: HUF 232 million, net value is zero),
- instruments (gross value: HUF 144 million, net value: HUF 2 million),
- servers and system support IT equipment (gross value: HUF 252 million, net value is zero),
- furniture (gross value: HUF 240 million, net value: HUF 5 million).

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In 2009, the Company reviewed the useful life of tangible assets similar to previous years and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 2,220 million less depreciation was charged for 2009.

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7. Non current investments in related parties

As of December 31, 2008 and 2009, the Company s non current investments are summarized as follows (further details on investments (ownership, voting rights, owners equity data) are disclosed in Appendix 2):

	Ownership direct (%)	Ownership indirect (%)	Net book value	
	2009		2008	2009
Stonebridge Communication A.D. (under liquidation)	100.00		94,546	94,764
Crnogorski Telekom A.D.	76.53		38,539	39,413
Investel Zrt.	100.00		9,029	9,029
Pro-M Zrt.	100.00		8,200	8,200
KFKI Rendszerintegrációs Zrt.	100.00		5,155	5,155
Origo Zrt. (previously T-Online Zrt.)	100.00		2,049	3,549
ViDaNet Zrt.	67.50	22.50	2,836	2,836
Dataplex Kft.	100.00		2,005	2,005
Combridge S.R.L.	100.00		1,959	2,004
Telekom Média Holding Zrt.	100.00		0	1,745
ISH Informatikai Kft.	100.00		0	1,587
Orbitel A.D.	100.00		1,724	1,421
IQSYS Zrt.	100.00		1,375	1,375
Novatel E.O.O.D	100.00		662	677
EurAccount Kft.	99.00	1.00	446	446
EPT Nyrt.	97.20		304	304
KFKI Direkt Kft.	100.00		0	264
M-Factory Zrt.	100.00		63	63
HUNSAT Zrt.	50.00		50	50
Telemacedonia A.D.	100.00		22	22
Tele-Data Kft.	50.98		20	20
Budakalász KTV Kft.	25.00		0	20
KIBU Innováció Kft. (X-Byte Kft.)	99.20	0.80	86	19
Mindentudás Egyeteme Tudományos Közhasznú Nonprofit Kft.	60.00		3	3
ISH Kereskedelmi Kft.	100.00		0	3
T-Kábel Magyarország Kft.	0	0	2,359	0
IKO-Telekom Zrt.	0	0	1,600	0
ViaBridge Telecommunications H. L. (liquidation concluded)	0	0	106	0
Novatel Ukraine L.L.C.	99.94	0.06	73	0
Total			**173,211**	**174,974**

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Significant changes of Non current investments in subsidiaries in 2008 and in 2009

In 2008, certain companies were cancelled from the Company s books because of mergers (T-Systems Hungary Kft., Integris Rendszerház Kft. and BCN Rendszerház Kft.).

During 2008 certain subsidiaries increased their capitals (Dataplex Kft. by HUF 950 million, Combridge S.R.L. by HUF 1,726 million).

The Company purchased further IQSYS shares in the amount of HUF 1,456 million.

Gabriele 17 GmbH was sold and the investment with a net book value of HUF 7 million was cancelled from the books. Because of liquidation ProMoKom Zrt. was also cancelled from the books in the amount of HUF 18 million.

In 2009 there were new acquisitions. Magyar Telekom Plc. purchased KFKI Direkt Kft. which increased the amount of investments by HUF 264 million. 100 per cent shares of International System House Infromatikai Kft. and International System House Kereskedelmi és Szoftverfejlesztő Kft. were also acquired. The two investments together increased the amount of investments by HUF 1,590 million.

Magyar Telekom Plc. as a shareholder retired from IKO-Telekom Média Holding Zrt. and the investment was cancelled from the books. After the secession Telekom Média Holding Zrt. was established which is solely owned by Magyar Telekom Plc. The new investment increased the balance of non current investments by HUF 1,745 million.

In 2009, the book value of investment in Origo Zrt. increased by HUF 1,500 million due to capital increase.

In 2009, ViaBridge Telecommunications H.L. s liquidation procedure was closed and the investment was cancelled from the Company s books.

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2009 decided on the merger of T-Kábel Magyarország Kft. into Magyar Telekom Plc. The transformation was registered by the Court of Registry with effect from September 30, 2009. After the merger the Company cancelled the investment in T-Kábel Magyarország Kft. from its books.

After the merger Budakalász KTV Kft. - which was earlier an investment of T-Kábel Magyarország Kft. - was recorded in the books of Magyar Telekom Plc. with a book value of HUF 20 million.

As a consequence of some statements in the minutes of investigation into certain consultancy contracts (mentioned in Note 1) the book value of the investment in Stonebridge Communications A.D. decreased by HUF 1,862 million.

HUF 3,045 million was recorded as foreign exchange difference on foreign investments at the balance sheet date. This amount increased the book value of non current investments.

During 2009 HUF 475 million impairment was recorded related to investments of which the most significant item is the impairment of Orbitel A.D. in the amount of HUF 335 million. Further impairment was recorded relating to the investments in Novatel Ukraine L.L.C. (HUF 73 million) and in KIBU Innováció Kft. (HUF 67 million).

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Stonebridge Communications A.D. (Stonebridge A.D.)

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of MakTel on its privatization. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed on January 16, 2001 to a newly established Macedonian holding company, Stonebridge A.D., which is a holding company residing in Skopje. Magyar Telekom Plc. s has 100 per cent share in Stonebridge A.D. since 2004.

Crnogorski Telekom A.D.

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

Crnogorski Telekom A.D. is the leading telecommunication service provider of Montenegro. The share purchase agreement was signed on March 15, 2005 in the amount of EUR 114 million.

In 2005, Magyar Telekom Plc. acquired a further 25.41 per cent share for EUR 27 million based on an agreement with minority shareholders.

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

Investel Zrt. was established in 1991 with the majority ownership of Magyar Telekom Plc. Currently it performs proprietorial and trustee tasks in certain subsidiaries of Magyar Telekom Plc.

In 2007 EGERTEL Zrt. merged into Investel Zrt.

Pro-M Professzionális Mobilrádió Zrt. (Pro-M Zrt.)

Magyar Telekom Plc. took a decision in 2005 to establish Pro-M Professzionális Mobilrádió Zrt. (Pro-M Zrt.) and it was registered at Court of Registry in 2006. The company was established to design, implement and install a wireless network (EDR) using TETRA technology and provides this service for exclusively to certain organizations (e.g. police, ambulance, etc.). The EDR agreement with the Prime Minister s Office is for a period of ten years.

KFKI Rendszerintegrációs Zrt.

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI (KFKI-LNX) Zrt. The company had further two subsidiaries: ICON Zrt. and IQSYS Zrt. All three were significant in Hungary s IT service sector. BCN Rendszerház Kft. and ICON Zrt. merged into the company with effect of December 31, 2007. In 2008 KFKI Zrt. sold its investment in IQSYS Zrt. to Magyar Telekom Plc.

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

ViDaNet Zrt. was established in 2003 by the merger of several companies for providing cable television services. Magyar Telekom Plc. s direct and indirect ownership in total is 90 per cent and has 49 per cent voting right in the company.

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

In 1998, Magyar Telekom Plc. established MatávkábelTV Kft. to provide cable television services.

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MatávkábelTV Kft. changed its name to T-Kábel Magyarország Kábeltelevíziós Szolgáltató Kft. (T-Kábel Magyarország Kft.) in 2005 and continued its activities under that name. In 2009 the company merged into Magyar Telekom Plc.

Origo Média és Kommunikációs Szolgáltató Zrt. (Origo Zrt.) - previously T-Online Magyarország Internet Szolgáltató Zrt.

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

The internet and content providing business line of T-Online Magyarország Zrt. continues its activities under the name of Origo Média és Kommunikációs Szolgáltató Zrt. In 2009, Magyar Telekom Plc. decided to increase its share capital by private placement of 179,870 pieces of shares with face value of HUF 100 (on HUF 8,339.40 issue amount). After this transaction the company s share capital changed to HUF 300 million.

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

On December 12, 2005, Magyar Telekom Plc. signed an agreement on purchasing the 100 per cent ownership of Dataplex Kft. The company is a major player in Hungary s IT service sector.

After the approval of the Hungarian Competition Authority the Court of Registry registered the transaction on April 20, 2006.

Combridge S.R.L.

The company is an alternative telecommunication service provider of Romania. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination. In 2007, Magyar Telekom Plc. purchased the share of Combridge S.R.L from ViaBridge Ltd.

Orbitel E.A.D.

The company is an alternative telecommunication service provider of Bulgaria and purchased by Magyar Telekom Plc. through ViaBridge Ltd. in 2006. Its main activities are: voice service, providing connection between sites, leased line and IPVPN services and system (network) integration. In 2007, Magyar Telekom Plc. purchased the share of Orbitel A.D. from ViaBridge Ltd. In 2009 Magyar Telekom Plc. notified the Bulgarian Competiton Authority about the intention to sell its investment in the company. The Authority approved the transaction in January, 2010 and so the contract of sale on the investment successfully concluded on January 28, 2010.

IKO-TELEKOM Média Holding Zrt. (IKO-TELEKOM Zrt.)

IKO-Telekom Zrt. was established in 2005. The company is jointly controlled by Magyar Telekom Plc. and IKO Productions Kft. with the aim of merging their interests in Magyar RTL Televízió Rt. and providing interactive and premium rate content services. In April, 2008 the owners decided to demerge the company by separation which was made in 2009. Magyar Telekom Plc. as a shareholder demerged from IKO-Telekom Média Holding Zrt. and the investment was cancelled from the books in 2009.

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IQSYS Informatikai Zrt. (IQSYS Zrt.)

IQSYS Zrt. was established in 1990. The company s main activities are: releasing software, wholesale of computers and software, reproduction of computer storage media, data processing and repair of office computers.

In 2007 Magyar Telekom Plc. purchased 0.3 per cent direct ownership in the amount of HUF 15 million. T-Systems Hungary Kft. and Integris Rendszerház Kft. merged into IQSYS Zrt. with effect from December 31, 2007.

In 2008 the Magyar Telekom Plc. purchased further shares and acquired 100 per cent ownership in the company.

Novatel E.O.O.D.

The company was established in 2004 with headquarters in Bulgaria. The company s main activities are: international and domestic leased line connection, international internet access and IPVPN services, roaming services, infocommunication business solutions and international call termination. The company was owned by ViaBridge Ltd. until Magyar Telekom Plc. purchased it in 2007.

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

EurAccount Kft. was established on March 1, 2005 by Magyar Telekom Plc. The company provides booking and accounting services for Magyar Telekom Plc. and its subsidiaries.

Első Pesti Telefontársaság Nyrt. (EPT Nyrt.)

EPT Nyrt. was established in 1992. At present the company provides IP based international and domestic telecommunication and call center services.

ViaBridge Telecommunications Holding Limited (ViaBridge Ltd.)

The company was established in 2004 with headquarter in Malta owned by Magyar Telekom Plc. s 100 per cent direct and indirect ownership in total. Its aim was to manage Magyar Telekom Plc. s small foreign investments as a holding. In 2007 Magyar Telekom Plc. purchased the company s investments acquiring 100 per cent direct ownership in them.

In 2008 Magyar Telekom Plc. decided on the liquidation of the company which was completed in 2009. The investment was cancelled from Magyar Telekom Plc. s books in 2009.

KIBU Innováció Kft.

The company was established in 1989 under the name of X-Byte Kft. Magyar Telekom Plc. has become 100 per cent owner of the company in 2005. The company changed its name to KIBU Innováció Kft. in 2007. Its activity is technical research and development as a nonprofit organization. KIBU is the Magyar Telekom Plc. s innovation labor for young researchers who are interested in the convergence of mobile communication, online communities and urban space and are passionate about creating experimental projects in cross-disciplinary teams.

Novatel UKRAINE LLC

Magyar Telekom Plc. established NOVATEL Ukraine Limited Liability Company in 2005. The company s main activity is to sale certain products of Magyar Telekom Plc. in Ukraine.

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M-Factory Kommunikációs Szolgáltató Zrt.

In January 2007 Magyar Telekom Plc. purchased 100 per cent of Mobilpress Zrt. s shares and 75.05 per cent share in M-Factory Kommunikációs Szolgáltató Kft. During 2007 the M-Factory Kft. merged into Mobilpress Zrt. The successor company s name was changed to M-Factory Kommunikációs Szolgáltató Zrt. As a result of the transformation, Magyar Telekom Plc. s ownership in the company changed to 92 per cent. In 2008 Magyar Telekom Plc. purchased the remaining 8 per cent of shares and increased its ownership to 100 per cent.

Mindentudás Egyeteme Tudományos Közhasznú Nonprofit Kft.

The company was established in 2004 (under the name of Mindentudás Egyeteme Kht.) by Magyar Telekom Plc., the Hungarian Academy of Sciences and T-Online Magyarország Zrt. The purpose of its public activity is to organize public courses through media and other telecommunication means to help spreading knowledge of highly interesting scientific topics. The company conducts its business activities to accomplish its main purposes without endangering it.

The proportion of Magyar Telekom Plc. s direct share in the company changed from 40 per cent to 60 per cent subsequent to the merger of T-Online Zrt. s access business line into Magyar Telekom Plc in 2007.

ISH International System House Informatika Kft. (ISH Informatika Kft.) and International System House Kereskedelmi és Szoftverfejlesztő Kft. (ISH Kft)

Main activity of ISH Kft. (established in 1996) and ISH Informatika Kft. (established in 2009 by demerge from ISH Kft.) is computer programming. ISH Informatika Kft. provides complex medical IT solutions, IT systems and services for its domestic and foreign customers. In 2009, Magyar Telekom Plc. acquired the 100 per cent shares of ISH Informatika Kft. and ISH Kft. and so became the sole owner of the companies. The transaction was approved by the Hungarian Competition Authority.

Telekom Média Holding Zrt.

In 2009, Magyar Telekom Plc. as shareholder retired from IKO-Telekom Média Holding Zrt. After the secession Telekom Média Holding Zrt. was established which is solely owned by Magyar Telekom Plc. The members of the holding are Telekom New Media Kft. and Telekom Content & Rights Kft.

Telekom New Media (as part of Telekom Media Holding) is the leading participant of the premium rated interactive market in Hungary. The company is a producer of television programs based on own license.

Telekom Content & Rights Kft. s main activity is mobile content marketing.

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8. Non current loans granted to related parties

As of December 31, 2008 and 2009 non current loans granted to related parties are the following:

	2008	2009
Pro-M Zrt.	8,100	6,700
Dataplex Kft.	3,250	2,850
NOVATEL E.O.O.D.	2,148	2,197
IQSYS Zrt.	0	1,400
KFKI Rendszerintegrációs Zrt.	1,000	0
ViDaNet Zrt.	700	0
Origo Zrt.	600	0
Total	**15,798**	**13,147**

The amount of loans does not include the instalments due within one year. These instalments are disclosed as short term receivables from related parties (see Note 12).

9. Other non current loans granted

This caption contains long term loans granted to employees (HUF 3,928 million), the long term part of instalment receivables of cell phone sales (HUF 858 million), the non current deposit connected to acquiring KFKI Direkt Kft. investment (HUF 47 million) and deposits given (HUF 26 million) totalling HUF 4,859 million.

10. Inventories

Inventories mainly include network maintenance materials, while the majority of goods are telecommunication goods and fixed assets held for sale.

The following is a movement table of inventories between January 1, 2008 and December 31, 2009:

	2008	**2009**
Opening balance	7,161	8,267
Change in inventories	1,216	-1,834
Impairment loss	-110	-308
Increase due to the merger	0	787
Closing balance	**8,267**	**6,912**

The decrease of inventories is due to the decrease of mobile phone and accessories and the decrease of service materials of mobile phones.

Further details of inventory impairment are disclosed in Appendix 3.

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11. Accounts receivable

As of December 31, 2008 and 2009 accounts receivable include the following:

	2008	**2009**
Domestic accounts receivable	44,650	52,626
Foreign accounts receivable	2,069	1,532
Impairment of receivables	-10,123	-14,494
Total	**36,596**	**39,664**

The significant increase in domestic accounts receivable and impairment is mainly due to the increase in proportion and quantity of overdue receivables.

Further details on receivables impairment are disclosed in Appendix 3.

12. Receivables from related parties

Receivables from related parties as of December 31, 2008 and 2009 are summarized as follows:

	2008	**2009**
Receivables from IQSYS Kft.(1)	676	2,079
Loans to ViDaNet Zrt.	540	900
Loans to Dataplex Kft.	1,000	800
Receivables from Pro-M Zrt.(2)	3,099	684
Receivables from Origo Zrt.	26	553
Receivables from Combridge S.R.L.	893	408
Loans to EPT Nyrt.	445	340
Loans to M-Factory Zrt.	220	220

Loans to KFKI Rendszerintegrációs Zrt.	0	200
Receivables from Novatel Ukraine L.L.C.	236	195
Receivables from Makedonski Telekom A.D.	420	107
Loans to Novatel E.O.O.D.	481	86
Receivables form EurAccount Kft.	354	64
Loans to Orbitel A.D.	0	7
Receivables from T-Kábel Kft.(3)	7,279	0
Dividend receivable from IKO-Telekom Media Holding Zrt.(4)	2,033	0
Other	421	250
Total	**18,123**	**6,893**

(1) In 2009, the increase is due to the HUF 1,640 million loan granted to IQSYS Zrt.

(2) The decrease is due to the redemption of the HUF 2,400 million loan granted to Pro-M Zrt.

(3) The decrease is due to the merger of T-Kábel Kft. into Magyar Telekom Plc. with effect from September 30, 2009.
(4) Collected in 2009.

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13. Receivables from other related parties

This caption contains two loans granted (HUF 20,000 million and HUF 9,500 million) to Deutsche Telekom A.G.

14. Other receivables

The Company s other receivables as of December 31, 2008 and 2009 are summarized as follows:

	2008	2009
Tax receivables	1,743	1,751
Advance payments given	2,672	1,560
Receivables from employees	1,364	1,302
Receivables from the government	84	86
KFKI deposit	413	0
Other	1,000	1,071
Total	**7,276**	**5,770**

15. Securities

The amount of HUF 1,179 million represents the value of repurchased treasury stock. On July 3, 2002 the Company issued new shares through CIB Bank Zrt. to cover its management stock option plan. In 2007 shares with a book value of HUF 325 million were sold within the frame of the above mentioned plan.

There was no change in the facts compared to the previous year s Note whereas there was no treasury stock sale in 2009.

16. Prepayments and accrued income

	2008	2009
Accrued income related to telecommunication activities	25,728	29,164
Accrued income related to related parties	1,698	911
Other	707	1,023
Accrued income	**28,133**	**31,098**
Accrued amount of value correction paid related to loans	0	738
Rental fees	632	453
Insurance fees	2	142
Other	446	780
Prepaid costs and expenses	**1,080**	**2,113**
Total	**29,213**	**33,211**

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

HUF 738 million is the accrued amount (on December 31, 2009) of value correction paid related to EUR 161 million loan taken up from Deutsche Telekom Finance B.V. in June, 2009. Of this amount HUF 146 million charges the years results between 2010 and 2014 annually and HUF 8 million charges the result of the year 2015.

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17. Shareholder s Equity

Shareholder	Number of shares	Nominal value (HUF per share)	Total value (HUF 000)	Ownership percentage (%)
MagyarCom Holding GmbH	617,436,759	100	61,743,676	59.21%
Free float	423,802,143	100	42,380,214	40.65%
Repurchased treasury stock	1,503,541	100	150,354	0.14%
State-owned	100	100	10	0.00%
Total	**1,042,742,543**		**104,274,254**	**100.00%**

According to the decisions taken on the General Meeting of Magyar Telekom Plc. held on June 29, 2009 the number of the shareholders who do not wish to take part in the legal successor company (established after the merger of T-Kábel Kft. and Dél-Vonal Kft. into Magyar Telekom Plc.) is two, with 3,072 shares, Consequently, the equity of Magyar Telekom Plc. is decreased with the nominal value of the shares owned by the shareholders who do not wish to participate in the legal successor company, accordingly, the equity of the Company changed to HUF 104,274,254,300 and the number of Series A ordinary shares of HUF 100 face value is decreased by the number of shares owned by these shareholders.

The capital decrease was registered by the Court of Registry with effect from September 30, 2009.

Changes in the equity items during 2008 and 2009 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves (1)	Balance Sheet Net Profit
Opening balance as of January 1, 2008	**104,275**	**58,289**	**171,525**	**1,556**	**0**
Increases	0	0	1,347	0	21,573
Decreases	0	0	128	0	0
Reclassifications	0	0	-500	500	0
Balance as of December 31, 2008	**104,275**	**58,289**	**172,244**	**2,056**	**21,573**
Increases	0	0	0	0	74,227
Increase due to merger	0	4,049	2,306	500	0
Decreases	1	0	1,067	0	0
Decrease due to merger	0	3,386	3,011	0	0

Reclassifications	0	0	21,450	123	-21,573
Balance as of December 31, 2009	**104,274**	**58,952**	**191,922**	**2,679**	**74,227**

(1) Restricted reserves contain amount of own shares (HUF 1,179 million) and development reserve in the amount of HUF 1,500 million.

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Changes in the retained earnings due to the merger are summarized as follows:

	2009
Decrease	
Due to the cancellation of investment in T-Kábel Kft.	2,208
Due to the takeover of T-Kábel Kft. s retained earnings	499
Due to the cancellation of investment in Dél-Vonal Kft.	303
Due to the payment of the member leaving T-Kábel Kft.	1
Total decrease due to the merger	**3,011**
Increase	
Due to the takeover of T-Kábel Kft. s result for the period January-September, 2009	2,190
Due to the takeover of Dél-Vonal Kft. s retained earnings	112
Due to the takeover of T-Kábel Kft. s result for the period January-September, 2009	4
Total increase due to the merger	**2,306**

Capital reserves decreased by HUF 3,386 million due to the payment of the member leaving T-Kábel Kft. related to the merger and increased by HUF 4,049 million due to the takeover of T-Kábel Kft. s capital reserves.

18. <u>Provisions</u>

	Early retirement and severance payments (1)	Contingent liabilities	Other	Total
Opening Balance as of January 1, 2008	**14,145**	**6,474**	**1,430**	**22,049**
Reclassification at opening	0	27	-27	0
Increase	4,603	5,887	551	11,041
Decrease	9,790	2,689	529	13,008
Closing Balance as of December 31, 2008	**8,958**	**9,699**	**1,425**	**20,082**
Increase	7,300	6,839	195	14,334
Increase due to merger	14	37	2	53
Decrease	8,256	5,619	1,099	14,974
Closing Balance as of December 31, 2009	**8,016**	**10,956**	**523**	**19,495**

(1) In 2009, HUF 7,300 million provision was recognized and HUF 8,256 million was reversed in connection with headcount reduction.

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

Titles	2008	2009
Customer loyalty program	1,812	2,565
Payment obligation due to EKG agreement	0	1,453
Legal cases	150	325
Environmental liabilities	58	300
Employees bonuses	70	272
Penalties	0	260
Royalties	0	257
Contractual obligation on dismissal expenses of employees	14	132
Guarantee liabilities	44	48
Contractual (asset retirement) obligation	0	7
Local business tax default	355	0
Amount transferred to Dimenzió Biztosító Egyesület	180	0
Forgiveness of employee loans	6	0
Total reversals	**2,689**	**5,619**

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

Titles	2008	2009
Derivatives (1)	0	3,229
Customer loyalty program	1,562	2,253
Contractual (asset retirement) obligation	2,324	569
Legal cases	14	311
Employees bonuses	352	163
Penalties	50	156
Environmental liabilities	1,285	88
Guarantee liabilities	48	46
Local business tax default	-519	0
Royalties	230	0
Liability increase due to EKG agreement	541	0
Other	0	24
Total increases	**5,887**	**6,839**

(1) Provision created in 2009 for the expected loss related to forward and swap deals still open on the balance sheet date and disclosed on negative fair value among off-balance sheet contingent liabilities. In 2008 there were no expected losses on such deals at the Company.

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19. Other non current loans

The Company had long term loan liabilities in the amount of HUF 23,120 million as of December 31, 2009.

During 2009, HUF 11,000 million was drawn down and HUF 5,437 million was reclassified to current loans. The Company repaid HUF 854 million during 2009.

HUF 25 million non-realized foreign exchange loss and HUF 60 million realized foreign exchange loss was recognized on loans denominated in foreign currency.

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

The Company does not have any assets pledged for loans.

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

Due dates	Amount
2011	17,120
2012	6,000
Further instalments in total (1)	121
Total	**23,241**

(1) Debt from issuance of bonds

20. Non current liabilities to other related parties

This caption contains the non current portion of other related party loans received from Deutsche Telekom Finance B.V. The closing balance of these loans as of December 31, 2009 is HUF 267,017 million.

HUF 44,446 million were drawn down in June 2009 repayable until 2015 (fix interest rate of 4.075250 per cent) and HUF 20,075 million loan was drawn down in October 2009 repayable until 2014 (fix interest rate of 4.450250 per cent).

The short term portion of related party loans (HUF 39,486 million) is disclosed in Note 23.

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

Maturity	Amount
2011	68,486
2012	49,486
2013	34,487
2014	20,313
2015	94,245
Total	**267,017**

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21. Current loans

The Company had current loans received from banks in the amount of HUF 32,809 million as of December 31, 2009.

During 2009, HUF 50,600 million was drawn down and HUF 5,437 million was reclassified from long term loans. The Company repaid HUF 55,764 million during 2009.

HUF 124 million non-realized foreign exchange loss, HUF 78 million realized foreign exchange loss and HUF 207 million realized foreign exchange gain was recognized on loans denominated in foreign currency.

22. Current liabilities to related parties

The current liabilities to related parties as of December 31, 2008 and 2009 are summarized as follows:

	2008	2009
Loan payable to Stonebridge A.D.	14,989	16,000
Advance dividend received (Crnogorski Telekom A,D.) (1)	0	9,852
Liabilities to Investel Zrt.(2)	1,858	7,175
Liabilities to KFKI Zrt.	5,983	4,424
Liabilities to IQSYS Zrt.	1,342	1,619
Loan payable to Telekom Média Holding Zrt.(3)	0	1,600
Liabilities to T-Kábel Kft.(4)	2,043	0
Other (5)	3,064	2,644
Total	**29,279**	**43,314**

(1) Received interim dividend in 2009.

(2) The changes are mainly due to the increase by HUF 6,580 million loans received in 2009 and the decrease by HUF 1,350 million as the settlement of interim dividend concerning the year 2008.

(3) Loan received in 2009.

(4) The change is due to the merger of T-Kábel Kft. into Magyar Telekom Plc. with effect from September 30, 2009.

(5) The category Other contains other loans payable to the companies not mentioned above in the amounts of HUF 929 million in 2008 and HUF 833 million in 2009. In addition it contains interest pool liabilities to companies not mentioned above in the amounts of HUF 1,306 million in 2008 and HUF 965 million in 2009. It also includes accounts payable liability and not invoiced services in the amounts of HUF 818 million in 2008 and HUF 846 million in 2009.

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23. Current liabilities to other related parties

This caption contains HUF 39,486 million (short term portion) of other related party loans described in Note 20 and HUF 20,313 million short term loan from Deutsche Telekom AG.

The maturities and interests of current liabilities to other related parties are as follows:

Maturity	Interest	Amount
January 29, 2010	3 month EURIBOR +0.6%	20,313
January 31, 2010	3 month BUBOR +0.17525%	9,486
July 6, 2010	Fix 8.17%	10,000
July 6, 2010	Fix 8.18%	20,000
Total		**59,799**

Deutsche Telekom AG has pledged its support for financing the Company s needs through to the end of June 2011.

24. Other current liabilities

Other current liabilities as of December 31, 2008 and 2009 are summarized as follows:

	2008	2009
Liability from topping up the universal balance	2,677	2,920
Value Added Tax	2,679	2,838
Payables to employees and related contributions	3,278	2,005
Liabilities to government	684	555
Personal income tax	677	215
Solidarity tax	51	159
Purchase price of KFKI Zrt. - second instalment	413	0
Dividends payable 2008	77,052	0

Dividends payable 2009 (1)	0	0
Other (2)	4,574	3,009
Total	**92,085**	**11,701**

(1) Dividend payable for 2009 has not been decided yet.

(2) The category Other includes HUF 99 million and HUF 102 million unpaid dividends approved for 2008 and 2009, respectively. The category also includes liabilities due to the EKG agreement in the amounts of HUF 2,156 million in 2008 and HUF 0 million in 2009. It contains vehicle leasing liabilities in the amounts of HUF 575 million in 2008 and HUF 514 million in 2009. Further element is the customer overpayment liability amounting to HUF 1,001 million in 2008 and HUF 1,444 million in 2009.

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25. Accrued expenses and deferred income

	2008	2009
Deferred subscription and traffic fees	3,864	3,665
Deferred income from related parties	0	552
Deferred income of rebranding (1)	362	297
Other	33	307
Deferred income	**4,259**	**4,821**
Vendor accruals	19,246	19,163
Accrued interest on owners loan	8,845	7,674
Accrued payroll related expenses	5,904	6,292
Accrued frequency usage fee	4,346	4,322
Accruals to related parties	2,307	2,252
Accrued roaming related expenses	2,902	2,093
Accrued interests	1,223	1,106
Accrued value added services	594	249
Accrued expenses	**45,367**	**43,151**
Other deferred revenue	**335**	**297**
Total	**49,961**	**48,269**

(1) The reimbursement received from the parent company in connection with rebranding-related capitalized expenditures is shown as deferred income, and recognized in other revenues in line with the depreciation of the related assets.

26. Domestic sales

Domestic sales in the years ending December 31, 2008 and 2009 are as follows:

	2008	2009
Mobile traffic revenues	204,800	183,536
	152,994	152,873

Subscriptions, connections and other charges relating to voice and data services (1)		
Leased lines and data transmission	39,262	37,296
Fixed line traffic revenues	49,951	36,648
Handset revenues	17,022	16,512
Revenues entirely from TV services (1)	1,670	10,239
Revenues from equipment sales	1,052	931
Other revenues (1)	15,778	18,402
Total domestic sales	**482,529**	**456,437**

(1) Revenues entirely from TV services were disclosed in Other revenues (HUF 1,539 million) and in Subscriptions, connections and other charges relating to voice and data services (HUF 131 million) lines in the Note as of 2008.

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27. Export sales by geographical areas

Export sales by geographical areas in the years ending December 31, 2008 and 2009 are summarized as follows (sales are solely connected with services provided):

	2008	%	2009	%
Europe (within the EU)	15,021	82.19%	15,949	84.70%
Europe (outside the EU)	2,261	12.37%	1,991	10.57%
Asia	459	2.51%	468	2.48%
America	463	2.53%	333	1.77%
Australia	60	0.33%	73	0.39%
Africa	11	0.06%	18	0.10%
Total export sales	**18,275**	**100.00%**	**18,832**	**100.00%**

28. Other revenues

Other revenues in the years ending December 31, 2008 and 2009 are as follows:

	2008	2009
Reversal of provisions (1)	13,008	14,974
Discount received subsequently	3,960	3,695
Default interest, penalties, compensations	2,045	2,220
Other revenues in connection with impairment (2)	364	2,097
Revenue from sale of intangible and tangible fixed assets (3)	5,963	493
Revenue from receivable factoring	434	161
Renaming and rebranding	169	113
Other	755	880
Total	**26,698**	**24,633**

(1) The increase is mostly due to the HUF 1,453 million reversal of provision on payment obligation due to EKG agreement. Provisions are detailed in the Note 18.

(2) The change is due to the increase in the received amounts of overdued and impaired receivables in relation to the previous year.

(3) The Company sold less real estates in 2009.

29. Import purchases

Import purchases by geographical areas in the years ending December 31, 2008 and 2009 are summarized as follows:

	2008			2009		
	Services	**Products**	**Total**	**Services**	**Products**	**Total**
Europe (within the EU)	13,016	19,377	32,393	19,317	13,086	32,403
America	5,850	248	6,098	6,341	71	6,412
Europe (outside the EU)	2,053	40	2,093	2,788	314	3,102
Asia	1,129	162	1,291	1,120	904	2,024
Australia	44	0	44	41	0	41
Africa	350	0	350	263	0	263
Total	**22,442**	**19,827**	**42,269**	**29,870**	**14,375**	**44,245**

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30. Cost of services

Cost of services in the years ending December 31, 2008 and 2009 are as follows:

	2008	2009
Repair and maintenance costs	21,774	21,041
Rental fees	10,720	11,614
Expenses of rented workforce and operator activities	12,718	10,389
Consultancy	10,121	10,287
Marketing expenses	13,882	9,579
Commissions paid	6,981	9,227
Fees paid to entrepreneurs (1)	7,560	7,859
Payments to international network operators	5,034	6,109
Postage	2,604	2,451
Bookkeeping services	1,909	1,701
Property operating costs	1,718	1,663
Education, training expenses	1,359	1,327
Services related to other revenues	386	967
Travel and accommodation costs	627	512
Fleet management	480	468
Brand license fee (1)	359	411
Payments to Internet service providers (2)	196	158
Other	637	865
Total	**99,065**	**96,628**

(1) Brand license fee contains T-Mobile Royalty Fee and T-Home brand license fee amounted to HUF 182 million and HUF 177 million in 2008, HUF 187 million and HUF 224 million in 2009, respectively. T-Home brand license fee was disclosed in Fees paid to entrepreneurs line in 2008.

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

31. Costs of services sold (intermediated)

Costs of intermediated services sold in the years ending December 31, 2008 and 2009 are as follows:

	2008	2009
Payment to mobile operators (1)	57,128	48,875
Costs of intermediated RI/IT services	6,714	6,276
Payment to other fixed line network operators	5,664	5,075
Charges for network use paid to Cable TV companies	2,919	4,583
Costs of content providing and mobile trade services sold	4,802	4,294
Costs of TV services (2)	109	3,151
Other (2)	1,802	1,341
Total	**79,138**	**73,595**

(1) Decrease of payment to mobile operators is due to the decrease in call termination charges and the significant decrease of average price of roaming traffic fees owing to the EU regulation introduced on July 1, 2009.

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(2) Costs of TV services were disclosed in Other line in 2008 in the amount of HUF 109 million. The increase in 2009 is due to the costs of TV services taken over by the merger of T-Kábel Kft. into Magyar Telekom Plc.

32. Employees

The average number of employees in 2008 and 2009 are as follows:

		December 31, 2008		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	938	2,876	1,053
	white collar	5,036	38,876	5,881
	total	5,974	41,752	6,934
Part-time employees				
	blue collar	6	16	9
	white collar	265	716	311
	total	271	732	320
Employees total				
	blue collar	944	2,892	1,062
	white collar	5,301	39,592	6,192
	total	6,245	42,484	7,254
Employees not in headcount (1)		0	2,586	6,012
Total		**6,245**	**45,070**	**13,266**

		December 31, 2009		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	912	2,966	1,230
	white collar	5,483	41,920	8,206

	total	6,395	44,886	9,436
Part-time employees				
	blue collar	2	3	2
	white collar	68	198	83
	total	70	201	85
Employees total				
	blue collar	914	2,969	1,232
	white collar	5,551	42,118	8,289
	total	6,465	45,087	9,521
Employees not in headcount (1)		0	2,189	3,887
Total		**6,465**	**47,276**	**13,408**

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

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33. Remuneration of Board of Directors and Supervisory Board

The remuneration of members of the Board of Directors and Supervisory Board of the Company in the years ending December 31, 2008 and 2009 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2008	13	46	59
2009	13	42	55

The members of Board of Directors have not received any advance payments or loans from the Company. The members of Supervisory Board have received advance payments or loans in the current year as follows:

Description	Supervisory Board
Advance payments	
Opening balance	0
Payments in the current year	0
Payments repaid	0
Closing balance	0
Loans	
Opening balance	4
Disbursements in the current year	0
Loans repaid in the current year	1
Closing balance	3

The loans are to be reimbursed monthly, the average repayment term left is 42 months. All advance payments and loans are free of interest.

The Company did not offer guarantees on behalf of the members of the Board of Directors and Supervisory Board and has no retirement pension liability to them.

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34. Other expenses

Other expenses in the years ending December 31, 2008 and 2009 are as follows:

	2008	**2009**
Provisions (1)	11,553	14,331
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets (2)	3,219	11,120
Government taxes	8,632	8,161
Discount granted subsequently on roaming traffic	1,785	1,838
Withholding tax (3)	1,536	1,276
Factored receivables	1,528	639
Write-off of uncollectible receivables	1,683	457
Net book value of fixed assets sold (4)	3,661	362
Loss of intangible and tangible fixed assets and inventory shortage (5)	753	356
Other (6)	455	2,030
Total	**34,805**	**40,573**

(1) In 2009, HUF 7,300 million provisions were recognized for early retirement, exemption salaries and related social security.

(2) The change is manly due to the significant extra impairment on receivables (see Note 11).

(3) Withholding tax was disclosed in Other line in 2008.

(4) The Company sold less real estates in 2009.

(5) Expense from car damages amounted to HUF 229 million in 2008 and HUF 260 million in 2009 was reclassified from Other to Loss of intangible and tangible fixed assets and inventory shortage line.

(6) Increase in Other is mainly due to the other expenses related to EKG agreements amounted to HUF 1,429 million.

35. Results of financial activities

The main driver in revenues from financial activities (HUF 43,224 million) is the dividend received in 2009 related to year 2008 (HUF 31,409 million). The most significant items are the dividends received from Stonebridge A.D. (HUF 23,177 million), from KFKI Zrt. (HUF 3,500 million), from Crnogorski Telekom AD (HUF 2,158 million) and from Investel Zrt. (HUF 1,350 million).

Further significant item is the interest on loans given to subsidiaries disclosed as interest income on financial investments (HUF 1,352 million) and as other interest income received (HUF 1,940 million).

The revenues from financial activities mainly contains non-realized (HUF 2,385 million) and realized (HUF 4,395 million) foreign exchange gain.

The majority of the HUF 38,655 million financial expenses is the HUF 33,980 million interest expense in 2009. This includes the amount of the interest payable on owners loans and bank loans. Impairment loss of HUF 476 million was recorded on investments in 2009. Other expenses from financial transactions is HUF 4,199 million of which the most significant item is the other foreign exchange loss in the amount of HUF 3,898 million.

In 2009, realized foreign exchange gain in the amount of HUF 492 million and foreign exchange loss in the amount of HUF 999 million were recorded in connection with closed forward transactions. All of the

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closed forward F/X deals were contracted on the OTC market with the original aim of delivery, which was closed by reverse transaction.

36. Extraordinary revenues

Extraordinary revenues in the years ending December 31, 2008 and 2009 are summarized as follows:

	2008	**2009**
Assets received free of charge	4	4
Extraordinary revenues adjusting tax base	***4***	***4***
Revenues related to investments in subsidiaries:		
- Cancellation of IKO-Telekom share (separation)	0	1,745
- Cancellation of Viabridge share (liquidation)	0	106
- Merger of BCN Kft. into KFKI Zrt.	3,932	0
- Merger of Integris Kft. into IQSYS Zrt.	915	0
- Merger of TSH into IQSYS Zrt.	120	0
- Merger of IWIW Kft. into [origo] Zrt.	103	0
- Merger of Adnetwork Kft. into [origo] Zrt.	59	0
- Liquidation of ProMoKom Zrt.	18	0
Development contributions	65	29
Dividends expired	6	14
Assets received free of charge (not adjusting tax base)	10	6
Other extraordinary revenues	1	29
Extraordinary revenues not adjusting tax base	***5,229***	***1,929***
Total	**5,233**	**1,933**

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37. Extraordinary expenses

The extraordinary expenses of the Company in the years ending December 31, 2008 and 2009 are summarized as follows:

	2008	**2009**
Dimenzió contributions	2,991	1,144
Donation to foundations, charities and other organizations	1,194	708
Forgiveness of loans to subsidiaries	0	660
Net book value of assets contributed free of charge	71	58
Net book value of receivables waived	51	44
Extraordinary losses adjusting tax base	**4,307**	**2,614**
Expenses related to investments in subsidiaries:		
- Cancellation of IKO-Telekom share (separation)	0	1,600
- Cancellation of Viabridge share (liquidation)	0	106
- Merger of BCN Kft. into KFKI Zrt.	2,864	0
- Merger of TSH into IQSYS Zrt.	1,693	0
- Merger of Integris Kft. into IQSYS Zrt.	594	0
- Liquidation of ProMoKom Zrt.	18	0
- Merger of IWIW Kft. into [origo] Zrt.	11	0
- Merger of Adnetwork Kft. into [origo] Zrt.	4	0
Assets contributed free of charge based on Law	1	0
Other extraordinary losses	12	0
Extraordinary losses not adjusting tax base	**5,197**	**1,706**
Total	**9,504**	**4,320**

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38. Transactions with related parties and subsidiaries of Deutsche Telekom Group

Balances of transactions with related parties not disclosed in the balance sheet and income statement are detailed as follows.

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

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

Transactions with related parties and subsidiaries of Deutsche Telekom in the years ending December 31, 2008 and 2009 are summarized as follows:

	2008	2009
Net domestic sales	**482,529**	**456,437**
- of which: related parties	7,778	8,045
- of which: subsidiaries of Deutsche Telekom Group	589	583
Net export sales	**18,275**	**18,832**
- of which: related parties	1,751	1,383
- of which: subsidiaries of Deutsche Telekom Group	10,668	12,033
Other revenues	**26,698**	**24,633**
- of which: related parties	81	60
- of which: subsidiaries of Deutsche Telekom Group	1,363	2,830
Accounts receivable	**36,596**	**39,664**
- of which: subsidiaries of Deutsche Telekom Group	1,070	758
Receivables from other related companies	**0**	**29,500**
- of which: subsidiaries of Deutsche Telekom Group	0	29,500
Other receivables	**7,276**	**5,770**
- of which: subsidiaries of Deutsche Telekom Group	0	2
Accrued income	**28,133**	**31,098**
- of which: subsidiaries of Deutsche Telekom Group	4,354	3,990
Prepaid expenses	**1,080**	**2,113**
- of which: subsidiaries of Deutsche Telekom Group	46	820

Accounts payable	**32,555**	**29,534**
- of which: subsidiaries of Deutsche Telekom Group	1,731	1,477
Current liabilities to other related parties	**87,486**	**59,799**
- of which: subsidiaries of Deutsche Telekom Group	87,486	59,799
Deferred Income	**4,259**	**4,821**
- of which: subsidiaries of Deutsche Telekom Group	0	552
Accrued expenses	**45,367**	**43,151**
- of which: subsidiaries of Deutsche Telekom Group	12,323	10,726

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39. Corporate Income Tax

The differences between profit before tax and the tax base for the years ending December 31, 2008 and 2009 are presented below:

	2008	2009
Profit before tax	**101,433**	**76,415**
Depreciation according to the Act on Accounting	88,722	82,840
Recognition of provisions	11,553	14,334
Impairment of receivables	2,042	8,648
Non-repayable donations, assets and services given free of charge, assumed liabilities	4,283	2,600
Derecognition of intangible and tangible assets, reclassification to current assets	5,328	2,279
Recoverable, waived and expired receivables	267	145
Other increasing items	2,647	525
Tax base increasing items	**114,842**	**111,371**
Depreciation according to the Tax Law	138,509	116,012
Dividend income	37,476	31,409
Reversal of provisions	13,008	14,974
Local business tax	7,463	7,073
Non realized foreign exchange gain	6,176	3,030
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	1,896	2,733
Derecognition of intangible and tangible assets, reclassification to current assets	4,983	1,834
Donations	2,489	612
Development reserve	500	500
Utilization of tax loss carried forward	0	320
R&D costs	372	333
Subsidies received	5	75
Realized gain on termination of investments	1,046	0
Other decreasing items	51	1
Tax base decreasing items	**213,974**	**178,906**
Tax base	**2,301**	**8,880**
Calculated amount of tax	**368**	**1,421**
Tax credit	294	1,137
Solidarity tax	2,734	1,904
Corporate Income Tax	**2,808**	**2,188**

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Other tax related information

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

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

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

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

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

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

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

2004 is the last year closed by comprehensive audit by the Hungarian Tax Authority (APEH) at the Company. In July, 2009 the APEH started a complex inspection at Magyar Telekom Plc. concerning all kinds of taxes relating to the years 2005 and 2006. The inspection has not yet been closed but the Company created provision in the amount of HUF 153 million for the expected tax differential and tax penalty. Tax authorities may at any time inspect the books and records until the end of the 6th year following the year when the tax declarations were submitted and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which could result in a significant liability in this respect.

40. Dividend

The current year s dividend payable of Magyar Telekom Plc. has not yet been decided.

41. Off-balance sheet items

Off-balance sheet items are mainly contractual commitments (rental contracts, contracted construction-in-progress and other development commitments, guarantee obligations, obligations related to acquisition of a company, environmental, restoration and other expected obligations).

Off-balance sheet items are detailed (including the off-balance sheet receivables and liabilities related to forward and swap deals not closed until the balance sheet closing day) in Appendix 4.

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42. Hazardous waste, Research & Development costs

The following table shows the movement of hazardous waste at the Company in 2009 (data in kilograms):

	Hazardous waste (kg)
December 31, 2008	0
Increase	
Lead batteries	242,500
Soil and rocks containing hazardous substance	93,235
Other	10,483
Increase in total	**346,218**
Decrease	
Lead batteries	242,500
Soil and rocks containing hazardous substance	93,235
Other	10,483
Decrease in total	**346,218**
December 31, 2009	**0**

Environmental expenses amounted to HUF 323 million in 2008, and HUF 272 million in 2009.

Research and development costs amounted to HUF 721 million at Magyar Telekom Plc. in 2009.

43. Self-revisions

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

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

Errors related to prior years, that were discovered in 2009 exceeded the HUF 500 million limit (irrespective of their profit increasing or decreasing nature), therefore they are presented next to previous year s figures in the balance sheet and income statement.

The total (profit increasing) impact of self-revisions is HUF 1,061 million and is broken down by corresponding years as follows:

Year	**Self-revision (in millions of HUF)**
1999	9
2001	-1,718
2002	65
2003	-199
2004	220
2005	-52
2006	56
2007	335
2008	176
January - September, 2008 (T-Kábel)	47

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

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I. Sales revenue		**194**
Subscriptions, connections and other charges relating to voice and data services	298	
Revenues entirely from TV services	65	
International leased lines	27	
Revenues from asset sale	5	
Other export revenues	5	
Fixed line traffic revenues	-7	
Leased lines and data transmission revenues	-119	
Other	-80	
II. Own work capitalized		**22**
Capitalized value of self-manufactured assets	22	
III. Other revenues		**-27**
Rebranding	-42	
Fixed assets sold and construction in progress	11	
Other	4	
IV. Material-type expenses		**-1,205**
Consultant fees	-950	
Rental fees	-84	
Intermediated services	-48	
Advertisement and marketing costs	-69	
Postage	-68	
Other	14	
V. Payroll and related expenses		**-236**
PIT on other contributions in kind	-111	
Social Security	-121	
Other	-4	
VI. Depreciation		**527**
Depreciation related to prior years	527	
VII. Other expenses		**31**
Shortages and damages of tangible and intangible assets	48	
Tangible and intangible assets sold and construction in progress	-20	
Other	3	
VIII. Revenues from financial transactions		**-196**
Correction of investments revaluation	-204	
Other	8	
IX. Expenses from financial transactions		**-170**
Correction of investments revaluation	-220	
Reimbursement of outstanding interest	54	
Other	-4	
D. PROFIT FROM EXTRAORDINARY ACTIVITIES		**-2,328**
Investment and cost corrections	-2,688	
Vodafone rental fee	375	
Other	-15	
XII. Corporate income tax		**-221**
Corporate income tax	-240	

Solidarity tax	19	
Impact on net income		**-1,061**

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44. Remuneration of auditor

Fees charged by the auditors in the years ending December 31, 2008 and 2009 are summarized as follows (disclosed from 2008 in accordance with the laws in force):

	2008	**2009**
Audit	240	282
Other assurance services	163	135
Other non-audit services	107	208
Total	**510**	**625**

Budapest, March 10, 2010

Christopher Mattheisen
Chairman and Chief Executive Officer,

Chairman of the Board

Thilo Kusch
Chief Financial Officer,

Board member

Appendix 1A Magyar Telekom Plc. 2009

Real estate and related rights

(in HUF millions)

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value (1)						
11. Opening gross value (on January 1, 2009)	**2,437**	**82,252**	**261,306**	**16,621**	**5,150**	**367,766**
12. Additions in gross value	5	3,979	15,927	603	327	**20,841**
13. Additions due to merger	4	98	14,076	0	3	**14,181**
14. Disposals in gross value	9	170	619	148	208	**1,154**
Reclassifications	-99	-587	-5	-90	1	**-780**
15. Closing gross value (on December 31, 2009)	**2,338**	**85,572**	**290,685**	**16,986**	**5,273**	**400,854**
2. Accumulated depreciation (1)						
21. Opening depreciation (on January 1, 2009)	**0**	**18,459**	**110,172**	**6,860**	**3,908**	**139,399**
22. Annual depreciation	0	2,153	10,645	447	212	**13,457**
23. Extraordinary depreciation	0	137	0	10	303	**450**
24. Additions due to merger	0	33	5,893	0	4	**5,930**
25. Disposals in depreciation	0	134	363	138	191	**826**
Reclassifications	0	-251	-5	-90	-2	**-348**
26. Closing depreciation (on December 31, 2009)	**0**	**20,397**	**126,342**	**7,089**	**4,234**	**158,062**
3. Net book value (on December 31, 2009) (1)	**2,338**	**65,175**	**164,343**	**9,897**	**1,039**	**242,792**
Of which residual value	**0**	**170**	**0**	**5**	**0**	**175**
4. Other data						
Annual depreciation (January - December, 2009)	**0**	**2,153**	**10,645**	**447**	**212**	**13,457**
Extraordinary depreciation	**0**	**137**	**0**	**10**	**303**	**450**
Reversal of Extraordinary depreciation	**0**	**0**	**0**	**0**	**0**	**0**

(1) Excludes the assets below HUF 50,000

Appendix 1B Magyar Telekom Plc. 2009

Technical and Other Equipment, Machinery and Vehicles

(in HUF millions)

Description	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value (1)						
11. Opening gross value (on January 1, 2009)	**622,636**	**3,740**	**626,376**	**76,839**	**703,215**	**34**
12. Additions in gross value	39,044	192	39,236	5,448	**44,684**	0
13. Additions due to merger	12,977	3	12,980	720	**13,700**	0
14. Disposals in gross value	12,908	425	13,333	2,822	**16,155**	0
Reclassifications	122	219	341	-355	**-14**	0
15. Closing gross value (on December 31, 2009)	**661,871**	**3,729**	**665,600**	**79,830**	**745,430**	**34**
2. Accumulated depreciation (1)						
21. Opening depreciation (on January 1, 2009)	**469,405**	**1,806**	**471,211**	**64,119**	**535,330**	**28**
22. Annual depreciation	36,573	390	36,963	4,888	**41,851**	2
23. Extraordinary depreciation	0	1	1	2	**3**	0
24. Additions due to merger	8,808	3	8,811	402	**9,213**	0
25. Disposals in depreciation	12,147	394	12,541	2,573	**15,114**	0
Reclassifications	91	147	238	-251	**-13**	0
26. Closing depreciation (on December 31, 2009)	**502,730**	**1,953**	**504,683**	**66,587**	**571,270**	**30**
3. Net book value (on December 31, 2009) (1)	**159,141**	**1,776**	**160,917**	**13,243**	**174,160**	**4**
Of which residual value	**32**	**992**	**1,024**	**1,676**	**2,700**	**0**
4. Other data						
Annual depreciation (January - December, 2009)	**36,573**	**390**	**36,963**	**4,888**	**41,851**	**2**
Extraordinary depreciation	**0**	**1**	**1**	**2**	**3**	**0**
Reversal of Extraordinary depreciation	**0**	**0**	**0**	**0**	**0**	**0**

(1) Excludes the assets below HUF 50,000

Appendix 2 Magyar Telekom Plc. 2009

Direct and indirect investments of Magyar Telekom Plc.

(in HUF millions)

Description	Headquarter	Owner-ship Direct (%)	Owner-ship Indirect (%)	Owner-ship (%)	Voting Rights	Common Stock	Capital Reserves	Net Income	Owner s Equity
Budakalász Kábel TV Kft.	2011 Budakalász, Szentendrei út 9.	25.00%		25.00%	25.00%	70	18	29	117
Combridge S.R.L. (1)	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100.00%		100.00%	100.00%	1,906	545	248	2,699
Crnogorski Telekom A.D. Podgorica (1)	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76.53%		76.53%	76.53%	38,187	1,529	24,068	63,784
Dataplex Infokommunikációs Infrastrúktúra Szolgáltató és Ingatlanhasznosító Kft.	1087 Budapest, Asztalos Sándor u. 13	100.00%		100.00%	100.00%	1,850	342	165	2,357
Első Pesti Telefontársaság Nyrt.	1183 Budapest, Haladás út 5.	97.20%		97.20%	97.20%	777	-217	65	625
EurAccount Pénzügyi és Számviteli Szolgáltató Kft.	1077 Budapest, Kéthly Anna tér 1.	99.00%	1.00%	100.00%	100.00%	450		-58	392
HUNSAT Magyar Űrtávközlés Zrt.	1016 Budapest, Krisztina krt. 93-99.	50.00%		50.00%	50.00%	100	1	190	291
Investel Magyar Távközlési Befektetési Zrt.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	4,453	976	2,669	8,098
IQSYS Informatikai és Tanácsadó Zrt.	1135 Budapest, Hun u 2.	100.00%		100.00%	100.00%	1,000	839	133	1,972
ISH Kft.	1125 Bp Fogaskerekű u. 4-6	100.00%		100.00%	100.00%	3	0	214	217
ISH Informatikai Kft.	1125 Bp Fogaskerekű u. 4-6	100.00%		100.00%	100.00%	3	1,584	305	1,892
KFKI Rendszerintegrációs Zrt.	1135 Budapest, Hun u 2.	100.00%		100.00%	100.00%	2,000	3,121	2,452	7,573
KFKI-Direkt Kft.	1111 Budapest, Budafoki út	100.00%		100.00%	100.00%	30	83	112	225

	10/A								
KIBU Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	25	6	-11	20
M Factory Kommunikációs Szolgáltató Zrt.	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	20	48	20	88
Mindentudás Egyeteme Tudományos Közhasznú Társaság	1105 Budapest, Zágrábi út 1-3.	60.00%		60.00%	60.00%	5	13	-4	14
Novatel E.O.O.D. (1)	1680 Sofia, Bulgaria blvd 98, bulding Astra, entrance D, fl. 3, office 5G	100.00%		100.00%	100.00%	719	265	78	1,062
Novatel UKRAINE L.L.C. (1)	Pymonenka Str. 13, building 7, office 7B/36, - Kiew, 04050 Ukraine	99.94%	0.0006	100.00%	100.00%	39	-108	-77	-146
Orbitel A.D. (1)	1 Makedonia Sq. Floor 18, Sofia 1000, Bulgaria	100.00%		100.00%	100.00%	1,774	-626	19	1,167
Origo Média és Kommunikációs Szolgáltató Zrt.	1117 Budapest, Gábor Dénes u. 2.	100.00%		100.00%	100.00%	300	1,893	-1,235	958
Pro-M Professzionális Mobilrádió Zrt.	1107 Budapest, Száva u. 3-5.	100.00%		100.00%	100.00%	5,200	3,211	521	8,932
Stonbridge AD under liquidation (1), (2)	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	93,892	10,495	16,505	120,892
TELE-DATA Távközlési Adatfeldolgozó és Hirdetésszervező Kft.	2040 Budaörs, Baross u. 89.	50.98%		50.98%	50.98%	39	39	39	117
Telekom Média Holding Zrt.	1117 Budapest, Gábor Dénes u.2.	100.00%		100.00%	100.00%	1,670	75	61	1,806
Telemacedonia A.D. Skopje (1)	1000 Skopje, Orce Nikolov bb.	100.00%		100.00%	100.00%	3	292	13	308
ViDaNet Kábeltelevíziós Szolgáltató Zrt.	1036 Budapest, Dereglye út 5/B	67.50%	22.50%	90.00%	50.00%	2,000	2,394	501	4,895
Axelero Kereskedelmi és Szolgáltató Kft. (3)	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-2	-1	1
Matáv Kereskedelmi és Szolgáltató Kft. (3)	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-2	-1	1
T-Kábel Magyarország Kft. (on its company name before December 2, 2009: MatávkábelTV Kft.) (3)	1013 Budapest, Krisztina krt. 55.	10.00%	90.00%	100.00%	100.00%	4	-2	-1	1

Data of indirect owned companies which are not in the investments balance sheet caption of Magyar Telekom Plc. (1)

CompArgo Kft.	1126 Budapest, Hollósy S. u. 26.		80.00%	80.00%	80.00%	3	54	37	94

Makedonski Telekom AD - Skopje (1)	1000 Skopje, Orce Nikolov bb.	56.67%	56.67%	56.67%	42,457	24,467	31,489	98,413
T-Mobile Macedonia A.D. (1)	1000 Skopje, Orce Nikolov bb.	56.67%	56.67%	56.67%	10,386	5,548	18,596	34,530
Telekom New Média Szolgáltató Kft.	1222 Budapest, Nagytétényi út 29.	100.00%	100.00%	100.00%	50	603	100	753
Telekom Content & Rights Kft.	1222 Budapest, Nagytétényi út 29.	100.00%	100.00%	100.00%	3	4	-1	6

All data in the table related to the capital is the last known figures by Magyar Telekom Plc. and not yet audited.

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

(1) The common stock figures of foreign subsidiaries and indirect owned companies are based on IFRS reports were revalued using foreign exchange rates as of December 31, 2009.

(2) Under liquidation.

(3) Book values of investmens are lower than HUF 1 million so they are not disclosed in Note 7.

Appendix 3 Magyar Telekom Plc. 2009

Impairment

(in HUF millions)

Description	For Financial Investments Investments	Loans granted	Securities	Inventories	For Current Assets Receivables (1)	Securities
Opening balance	275	0	0	3,403	10,348	0
Increase	475	0	0	308	8,648	0
Decrease/Cancellation	193	0	0	0	4525	0
Increase due to merger	0	0	0	11	155	0
Closing balance	**557**	**0**	**0**	**3,722**	**14,626**	**0**

(1) Contains the impairment of receivables, loans to related parties and other receivables.

Off-balance Sheet Liabilities

	Total	2010	2011	2012	2013	2014	2015
Rental contracts	38 415	7 259	6 243	5 487	4 464	3 882	11 080
Rental contracts with related parties	85	85	0	0	0	0	0
Guarantee obligation	16 638	15 773	368	270	125	40	62
Commitment for capital expenditure and other developments	2 599	2 112	487	0	0	0	0
Commitment for capital expenditure with related parties	915	560	355	0	0	0	0
Environmental protection, restoration and other obligations	395	59	62	64	67	70	73
Commitments to acquisitions	123	123	0	0	0	0	0

Forward and swap deals

Opened forward F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2009. (1)

ID	Date	Off-balance sheet liability (HUF millions)	F/X	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
Deutsche Telekom AG / / D-53113 Bonn	09.21. 2009.	20,730	HUF	75,000,000	EUR	01.29. 2010.	276.40	-322.79
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	1,377	HUF	5,000,000	EUR	01.04. 2010.	275.42	-22.04
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	1,379	HUF	5,000,000	EUR	01.11. 2010.	275.71	-21.92
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	1,379	HUF	5,000,000	EUR	01.19. 2010.	275.87	-20.99
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	1,381	HUF	5,000,000	EUR	01.25. 2010.	276.13	-21.01
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	829	HUF	3,000,000	EUR	02.01. 2010.	276.37	-12.45
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	830	HUF	3,000,000	EUR	02.08. 2010.	276.62	-12.32
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.09. 2009.	1,108	HUF	4,000,000	EUR	02.16. 2010.	276.92	-16.30
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	828	HUF	3,000,000	EUR	02.22. 2010.	276.05	-8.90
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	829	HUF	3,000,000	EUR	03.01. 2010.	276.31	-8.84
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	830	HUF	3,000,000	EUR	03.08. 2010.	276.55	-8.74
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	831	HUF	3,000,000	EUR	03.16. 2010.	276.84	-8.69
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	831	HUF	3,000,000	EUR	03.22. 2010.	277.05	-8.65
ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.23. 2009.	832	HUF	3,000,000	EUR	03.29. 2010.	277.30	-8.62
Total		**33,994**	**HUF**	**123,000,000**	**EUR**			**-502.26**

Opened swap F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2008. (1)

ID	Date	Off-balance sheet liability (HUF million)	F/X	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
SWAP 2007	03.22. 2007.	1,649	HUF	6,666,667	EUR	03.12. 2010.	247.29	
Total		1,649		6,666,667				173
SWAP 2008	05.21. 2008.	1,005	HUF	4,133,333	EUR	05.21. 2010.	243.10	
SWAP 2008	05.21. 2008.	1,005	HUF	4,133,333	EUR	11.23. 2010.	243.10	
SWAP 2008	05.21. 2008.	1,005	HUF	4,133,333	EUR	05.23. 2011.	243.10	
Total		3,015		12,399,999				450
DTAG_20090626_30 mrd	06.25. 2009.	30,000	HUF	-107,066,533	EUR	01.19. 2015.	280.20	-2,236
DTAG_20090626_5mrd	07.01. 2009.	5,000	HUF	-18,470,632	EUR	01.19. 2015.	270.70	-203
DTAG_20090626_9,6 mrd	07.02. 2009.	9,595	HUF	-35,661,451	EUR	01.19. 2015.	269.05	-287
Total		44,595		-161,198,616				-2,726
DTAG_20091007_5 mrd_59592	09.15. 2009.	5,000	HUF	-18,368,847	EUR	06.02. 2014.	272.20	139
DTAG_20091007_5 mrd_52619	09.15. 2009.	5,000	HUF	-18,382,353	EUR	06.02. 2014.	272.00	143
DTAG_20091007_5 mrd_52629	09.16. 2009.	5,000	HUF	-18,511,662	EUR	06.02. 2014.	270.10	185
DTAG_20091007_5 mrd_52637	09.16. 2009.	5,335	HUF	-19,737,138	EUR	06.02. 2014.	270.30	194
Total		20,335		-75,000,000				661
Total		**69,594**		**-217,131,950**				**-1442**

(1) Profit or loss was not recored related to these deals in the current year.

Appendix 5. Summarized form Magyar Telekom Plc. s final merger balance sheet as of September 30, 2009 (in HUF millions)

Description	Magyar Telekom Plc.	T-Kábel	Dél-Vonal	Total	Differences	Magyar Telekom Plc. Final merger balance sheet of the transformed company	The effect of transformation on Magyar Telekom Plc. s balance sheet as of September 30, 2009
A. Fixed assets and financial investments	**824,001**	**15,590**	**138**	**839,729**	**-2,665**	**837,064**	**13,063**
I. Intangible assets	200,497	1,481	0	201,978	0	201,978	1,481
II. Tangible assets	428,884	13,783	138	442,805	0	442,805	13,921
III. Financial investments	194,620	326	0	194,946	-2,665	192,281	-2,339
B. Current assets	**128,503**	**6,710**	**27**	**135,240**	**-14,976**	**120,264**	**-8,239**
I. Inventories	5,085	787	0	5,872	0	5,872	787
II. Receivables	85,409	5,922	27	91,358	-14,976	76,382	-9,027
III. Securities	1,179	0	0	1,179	0	1,179	0
IV. Liquid assets	36,830	1	0	36,831	0	36,831	1
C. Prepayments	**33,561**	**149**	**0**	**33,710**	**-6**	**33,704**	**143**
Total assets	**986,065**	**22,449**	**165**	**1,008,679**	**-17,647**	**991,032**	**4,967**
D. Shareholder s equity	**422,354**	**7,161**	**119**	**429,634**	**-6,822**	**422,812**	**458**
I. Common stock	104,275	920	3	105,198	-923	104,275	0
of this treasury stock at par value	*150*	*0*	*0*	*150*	*0*	*150*	0
II. Unpaid share capital (-)	0	0	0	0	0	0	0
III. Capital reserves	58,289	4,050	0	62,339	-3,386	58,953	664
IV. Retained earnings	257,734	1,691	116	259,541	-2,513	257,028	-706
V. Restricted reserves	2,056	500	0	2,556	0	2,556	500
E. Provisions	**23,251**	**53**	**0**	**23,304**	**0**	**23,304**	**53**
F. Liabilities	**491,545**	**13,477**	**32**	**505,054**	**-10,819**	**494,235**	**2,690**
II. Non current liabilities	271,952	0	0	271,952	0	271,952	0
III. Current liabilities	219,593	13,477	32	233,102	-10,819	222,283	2,690
G. Accrued expenses	**48,915**	**1,758**	**14**	**50,687**	**-6**	**50,681**	**1,766**
Total liabilities and shareholder s equity	**986,065**	**22,449**	**165**	**1,008,679**	**-17,647**	**991,032**	**4,967**

Appendix 6. Summarized form of T-Kabel Magyaroszag Kft. s income statemet as of September 30, 2009 (in HUF millions)

Description	January - December, 2008 (1)	January - September, 2009 (1)	Period January - September, 2009 in percentage of Magyar Telekom Plc. s relevant figures
1.Domestic sales	19,131	23,584	5.17%
2. Export sales	103	95	0.50%
I. Sales revenues	19,234	23,679	4.98%
II. Own work capitalized	2,000	942	4.39%
III. Other revenue	195	271	1.07%
IV. Material-type expenses	11,789	17,271	7.02%
V. Payroll and related expenses	1,853	1,156	1.47%
VI. Depreciation	3,546	2,641	3.22%
VII. Other expenditures	733	128	0.31%
A. PROFIT FROM OPERATING ACTIVITIES	**3,508**	**3,696**	**4.98%**
VIII. Revenues from financial transactions	180	560	1.30%
IX. Expenses from financial transactions	591	1,226	3.17%
B. FINANCIAL RESULTS	**-411**	**-666**	**-14.58%**
C. PROFIT FROM ORDINARY ACTIVITIES	**3,097**	**3,030**	**3.85%**
D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES	**-6**	**18**	**-0.75%**
E. PROFIT BEFORE TAXES	**3,091**	**3,048**	**3.99%**
XII. Corporate income tax	253	858	39.21%
F. NET INCOME	**2,838**	**2,190**	**2.95%**
22. Retained earnings used for dividends and profit-sharing	55	0	0.00%
23. Dividends and profit-sharing paid	2,893	0	0.00%
G. BALANCE SHEET NET INCOME	**0**	**2,190**	**2.95%**

Appendix 6. Summarized form of Del-Vonal Kft. s income statemet as of September 30, 2009 (in HUF millions)

Description	January - December, 2008 (1)	January - September, 2009 (1)	Period January - September, 2009 in percentage of Magyar Telekom Plc. s relevant figures
1.Domestic sales	81	18	0.004%
2. Export sales	0	0	0.000%
I. Sales revenues	81	18	0.004%
II. Own work capitalized	0	0	0.000%
III. Other revenue	185	0	0.000%
IV. Material-type expenses	67	3	0.001%
V. Payroll and related expenses	0	0	0.000%
VI. Depreciation	13	10	0.012%
VII. Other expenditures	45	0	0.000%
A. PROFIT FROM OPERATING ACTIVITIES	**141**	**5**	0.007%
VIII. Revenues from financial transactions	0	0	0.000%
IX. Expenses from financial transactions	2	2	0.005%
B. FINANCIAL RESULTS	**-2**	**-2**	-0.044%
C. PROFIT FROM ORDINARY ACTIVITIES	**139**	**3**	0.004%
D. PROFIT FROM ON EXTRAORDINARY ACTIVITIES	**2**	**2**	-0.084%
E. PROFIT BEFORE TAXES	**141**	**5**	0.007%
XII. Corporate income tax	27	1	0.046%
F. NET INCOME	**114**	**4**	0.005%
G. BALANCE SHEET NET INCOME	**114**	**4**	0.005%

Business Report of Magyar Telekom Plc.

for 2009

Introduction

This Business Report covers the analysis of our results as well as all additional information necessary to evaluate our operations, including, among others, our outlook with the accompanying risk factors, the introduction of our management, our HR and risk management policies, and our R+D activities.

Share Capital

As of December 31, 2009, the share capital of Magyar Telekom Plc. (the Company) was HUF 104,274,254,300, consisting of 1,042,742,543 Series A ordinary shares. All Series A ordinary shares have a nominal value of HUF 100.

Shareholder	Number of shares	Percentage of share capital
MagyarCom	617,436,759	59.21
Publicly traded	423,802,243	40.65
Treasury shares	1,503,541	0.14
	1,042,742,543	100.00

Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders register at least six working days prior to the date of the General Meeting may participate at the General meeting with voting right. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Associations, which shall require at least a three-quarters majority of the votes cast. If the General Meeting decides to override a resolution of the Board of Directors, such shareholders resolution shall be binding only if a three-quarter majority of the votes of the shareholders that are present vote in favor of such a resolution. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares.

Transfer of Shares

The consent of the shareholders holding at least a simple majority of the outstanding voting stock of the Company shall be required to approve the acquisition, directly or indirectly, of the shares of the Company which, on a cumulative basis, would result in any person, or persons acting in concert, holding 10% or more, directly or indirectly, of the outstanding voting stock of the Company.

In the event of transfer of shares the new shareholder shall ask for registering as shareholder in the Shareholders Register. The shareholder shall provide evidence to the registrar that he acquired the shares in accordance with the conditions set forth in the Articles. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company may refuse the request for registration into the Shareholders Register by a person acquiring shares who omits to provide the supporting evidence or statement that such a person is obliged to submit in accordance with the Articles. The registration into the Shareholders Register based on untrue, false or misleading statements may be deleted by a reasoned resolution of the Board of Directors. Only shareholders registered in the Company s register may exercise shareholder rights vis-a-vis the Company. If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Shareholders Register.

Board of Directors

Pursuant to our amended Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected at the Annual General Meeting of the shareholders for a term of three years.

On December 31, 2009, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

Name	Principal Occupation	Member since
Christopher Mattheisen	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. István Földesi	International business consultant	2003
Dr. Mihály Gálik	Professor and Head of the Media, Marketing communication and Telecommunications Department at the Faculty of Business Administration of the Corvinus University of Budapest	2006
Wolfgang Hetlinger	T-Systems Austria GesmbH, International Operations & Services, Central Eastern Europe Ing.	2009
Guido Kerkhoff	Member of the Board of Management of Deutsche Telekom AG to manage the subsidiaries in South Eastern Europe	2009
Thilo Kusch	Chief Financial Officer of Magyar Telekom Plc.	2006
Mechthilde Maier	Senior Vice President Corporate Diversity Management at Deutsche Telekom	2009
Frank Odzuck	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	Member of the Board of Management, Financial Director SEE	2003
Dr. Steffen Roehn	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

Management Committee

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

On December 31, 2009, the members of the Management Committee were as follows:

Name	Current position	Member since
Christopher Mattheisen	Chairman and Chief Executive Officer	2006
Thilo Kusch	Chief Financial Officer	2006
István Maradi	Chief Technology and IT Officer	2007
István Papp.	Chief Operating Officer, Business Services BU	2007
Róbert Pataki	Chief Operating Officer, Strategic and Corporate Development BU	2009
Éva Somorjai	Chief Human Resources Officer	2007
János Winkler	Chief Operating Officer, Consumer Services BU	2006

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the shareholders for a term of three years. The Works Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members are present.

On December 31, 2009, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Principal Occupation	Member since
Attila Csizmadia	Ministry of Finance, Chief Counsellor	2003
Dr. János Illéssy	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes	Director of Institute of Environmental Sciences, Corvinus University Budapest	2006
István Koszorú	Chairman of Magyar Telekom s Central Workers Council	2007
Konrad Kreuzer	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Martin Meffert	Country manager for Hungary, Head office of T-Home, Deutsche Telekom AG	2009
Dr. László Pap	Budapest University of Technology, Professor	1997
Zsoltné Varga	Business Process Manager of the Customer Care Directorate at Magyar Telekom	2008
György Varju		2005

	Chairman of the Workers Council at Residential Services, member of the Central Workers Council

Compensation of Directors, Officers and Employees

For the year ended December 31, 2009, the aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 13 million.

For the year ended December 31, 2009, the aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 42 million.

For the year ended December 31, 2009, the aggregate compensation of the members of the Management Committee (MC) was HUF 1,043 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.

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszervezet, MATÁSZ). The agreement, which can be terminated by either party with three months notice, applies to all Magyar Telekom Plc. employees except the Chief Executive Officer, 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.

Corporate governance report

In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the Recommendations) containing suggestions related to the corporate governance practice of companies listed in the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market. The Recommendations were updated in 2007 and 2008.

In line with the current regulations, the Board of Directors and the Supervisory Board of Magyar Telekom Plc. approved the Corporate Governance Report of the Company and submitted it to the Annual General Meeting. The report along with other corporate governance related documents - is posted on the Corporate Governance section of our website:

http://www.telekom.hu/investor_relations/corporate_governance/corporate_governance_documents

The Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations included in the report.

Points 1, 2, 3, 4 and 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Point 6 of the report includes a description of our internal controls and risk management procedures, while point 8 of the report includes our disclosure policies and insider trading guidelines.

Pursuant to Section 6.2. (g) of our Articles of Association, the members of the Board of Directors the Supervisory Board and the Audit Committee are elected at the Annual General Meeting of the shareholders for a term of three years.

The General Meeting of the shareholders has the sole right to approve and amend the Articles of Association (section 6.2. (a)) unless otherwise provided by law.

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4. of our Articles of Association and in the Rules of Procedure of the Board of Directors, which are also posted on the Corporate Governance section of our website. The rules of competence regarding the capital increase and purchase of treasury shares are detailed in 7.4.1 (l) and (m) of our Articles of Association.

Human policy

In alignment with Magyar Telekom Plc. s strategy for 2008-2010 the HR area has also updated its strategic objectives.

The strategy published in the spirit of Let us shape future together contains the following objectives for 2008-2010, in line with DT s HR strategic focuses:

- Implementing the HR concept, the HR area contributes significantly to the achievement of the Company level financial targets, through the optimization of personnel expenditure.

- We shall bring about a performance based company culture, for which we shall improve our performance management system.

- In jobs of a key importance for the management and the company we intend to ensure succession primarily from internal sources, which is supported by the career management system.

- We shall place management development on a new foundation with its focus being the training content and structure in the service of business effectiveness.

- We intend to turn Magyar Telekom Plc. into a more attractive place of work, for which we have restructured our trainee program.

- We use an updated measurement system to measure HR s contribution to company targets.

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

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

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

Magyar Telekom Plc. s welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature, the basis of which is the employees collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

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

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

Magyar Telekom Plc. pays special attention to the high level of the employees occupational safety and provides them the conditions of safe work and a working environment, which does not harm health.

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

Research and development

Research and development (R&D) activities within Magyar Telekom Plc. are coordinated by the R&D Committee (the Committee), which has the possibility and the exclusive right to coordinate every innovation research originated from business units. Each business unit is represented by relevant decision-makers in the Committee. Furthermore, this Committee ensures that all R&D activities are performed in accordance with the strategic goals of Magyar Telekom Plc. and avoid overlapping of scopes. The Committee convenes regularly in order to discuss and decide about the approval of individual R&D proposals, initiated and executed within a project framework by the respective Business Units. During 2009, the Committee reviewed 98 proposals, out of which 65 have been approved, accounting for a total investment of HUF 721 million.

We are a founder member of the Mobility & Multimedia Cluster, a group of Hungarian companies, many of them being local subsidiaries of well-known multinational companies and universities. The aim of the cluster is 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.

Real estate

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 21 percent are owned by the Company, 40 percent jointly owned and 39 percent leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have approximately 3,000 base stations, of which five percent is owned by Magyar Telekom Plc. and 95 percent is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2009 was approximately 634,000 m^2. The majority of sites used in our operations are smaller than 100 m^2. 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.

Environment protection

The Management Committee of Magyar Telekom Plc. adopted the Sustainability Strategy of the Company in January 2005 to strengthen our commitment to sustainable development.

As a part of our commitment to sustainability, we developed a sustainability section for Magyar Telekom Plc. 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.

Financial risk management

Magyar Telekom Plc. is primarily exposed to credit risks related to its financial assets. In addition, the Company is also exposed to risks from movements in exchange rates, interest rates that affect the fair value and/or the cashflows arising from financial assets and liabilities.

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. Magyar Telekom Plc. only hedges the risks that affect its cash flow, no hedges are concluded to hedge fair values. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with Deutsche Telekom (DT) or leading Hungarian financial institutions.

The detailed descriptions of risks, the management thereof is provided below.

1. Market risk

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

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

(a) Foreign currency risk

Due to the free-float of the HUF introduced in 2008, the Company is exposed to foreign exchange (FX) risk in case of FX denominated financial instruments to a higher degree than before. In order to mitigate this risk, Magyar Telekom Plc. minimized its foreign currency borrowings in the past years, or covered it with derivative instruments to completely eliminate FX risk.

In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities.

In order to reduce the above exposure, Magyar Telekom Plc.occasionally enters into derivative contracts.

(b) Interest rate risk

Magyar Telekom Plc. is also exposed to interest rate fluctuations. This is due to the fact that changing interest rates affect the fair value of the fixed rate instruments and also affect the cashflows through the floating rate instruments.

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. On the other hand, all financial instruments with fixed interest rates (which are carried at amortized cost) are not subject to cashflow interest rate risk.

(c) Other price risk

As of December 31, 2009, Magyar Telekom Plc. did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The vast majority of credit risks may arise in respect of Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables.

According to the Company s risk management policy Magyar Telekom Plc. deposits the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar Telekom Plc. prefers to deposit in banks which grants loans for Magyar Telekom Plc. to make possible the compensation of debts and loans in case of the default of the bank.

Cash and cash equivalents and Bank deposits with maturities over 3 months are primarily denominated in HUF and concentrations of credit risk are limited as Magyar Telekom Plc. places its cash with substantial credit institutions. Further, excess HUF cash is also used for repayment of the HUF denominated loans and borrowings, or is deposited at partner banks which grant loans for Magyar Telekom Plc., therefore, the credit risk related to cash held in HUF is very limited.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Company s customer base and their dispersion across many different geographic areas and industries.

3. Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group Treasury s management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, DT confirmed its readiness to finance Magyar Telekom Plc. s budgeted financing needs until the end of June 2011. Despite the fact that this has not been formulized in a contract, it can be considered as a quasi shelf facility .

4. Capital risk management

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

The Company s management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company s equity capital in order to optimize the capital structure of the Company. This can be effectuated primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as Net debt divided by Equity (including Non-controlling interest) and Net debt.

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company s Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. The Company is far in compliance with this regulation, and no such statutory regulation exists for consolidated equity.

Risk management policies

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

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

In 1999, we established a formal risk management system. This system was integrated into the risk management system of 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. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly. All of our business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the 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, 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 to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is 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 regulation has been issued to define responsibilities of each employee in risk monitoring and management. In addition, an e-learning course was introduced to train our employees on requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures. Completion of this course has been made compulsory for all of our employees.

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

Risk factors

Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks. 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.

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

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

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

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

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

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

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

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

- Loss of key personnel could weaken our business;

- 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;

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

- 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.

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

Analysis of results

Magyar Telekom Plc. is Hungary s principal provider of telecom services. It provides a full range of telecommunications and infocommunications (ICT) services including fixed line and mobile telephony, data transmission and non-voice as well as IT and systems integration services.

Revenues. Our sales revenues decreased from HUF 500,804 million in 2008 to HUF 475,269 million in 2009 mainly driven by lower mobile and fixed line traffic revenues. Lower mobile revenues resulted primarily from significant retail and wholesale tariff erosion. The decrease in fixed line traffic revenues was partly due to the reversal of HUF 8.5 bn provision booked on fixed to mobile termination fees in 2008. Further decrease related to the continuous decline in the number of revenue producing fixed lines and lower traffic due to mobile substitution. These decreases were partially offset by higher revenues from TV services in line with enlarged satellite TV and IPTV customer base.

Other revenues declined by 7.7 percent in 2009 as compared to 2008 influenced mainly by lower revenues from sale of intangible and tangible fixed assets due to less real estate sold in 2009. This decrease was somewhat offset by increased reversal of provisions mostly due to the HUF 1,453 million reversal of provision on payment obligation due to EKG agreement. Higher other revenues in connection with impairment also mitigated the decrease.

Expenses. Material-type expenses decreased from HUF 256,590 million in 2008 to HUF 246,007 million in 2009 primarily due to the decrease in costs of services sold reflecting lower payments to mobile operators due to the decrease in termination fees from January 1, 2009 and the significant decrease of average roaming fees due to the EU regulation.

Payroll and related expenses increased by 3.0 percent. The main driver of the increase is higher amounts of severance expenses in relation to the headcount reduction in 2009.

Depreciation and amortization decreased by 6.5 percent. Lower amount of depreciation is mainly due to change in the useful life of certain group of assets during 2008 and 2009.

Other expenses increased by 16.6 percent to HUF 40,573 million mainly as a result of the significant impairment accounted on receivables due to the increase in the proportion and quantity of overdue receivables. Besides this, HUF 7,300 million provisions were recognized for early retirement exemption salaries, severance and related social security in 2009 compared to HUF 4,603 million in 2008. These increases were partly compensated by lower net book value of fixed assets sold driven by less real estate sold in 2009.

Financial results. Financial results decreased from HUF 12,025 million in 2008 to HUF 4,569 million in 2009. The decrease mainly resulted from lower dividend received from related parties.

Magyar Telekom established its current management structure based on customer segmentation which requires different technology and marketing strategies, and support functions. Our operating segments are: Consumer Services Business Unit (CBU), Business Services Business Unit (BBU), Media Business Unit (MBU), Group Headquarters and Shared services (Headquarters) and Technology Business Unit (Technology).

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

The Business Services Business Unit (BBU) provides 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 customers and public sector) as well as small and medium businesses (SMB). BBU s customer portfolio includes approximately

5,000 key and over 40,000 SMB customers.

The Group Headquarters (Headquarters) is responsible for the wholesale mobile and fixed line, and 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.

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.

The following table sets forth information regarding the key operating fixed line statistical figures relating to the major services provided by CBU:

	At December 31,	
	2008	**2009**
Voice services		
Total PSTN lines	1,821,393	1,591,184
Payphone	16,274	14,788
Total PSTN outgoing traffic (thousand minutes)	3,467,198	3,005,821
Blended average monthly Minutes of Use (MOU) per subscriber (outgoing) (1)	151	159
Blended Average monthly Revenue per Access (ARPA) (HUF) (1)	3,650	3,630
Data products		
Retail DSL market share (estimated) (%) (2)	54	58
Cable broadband market share (estimated) (%) (2)	18	19
Number of retail DSL customers	404,878	435,558
Number of cable broadband customers	107,769	124,684
Number of fiber optic connections	0	7,247
Total retail broadband customers	512,647	567,489
Blended broadband ARPU (HUF) (1)	5,103	4,427
TV services		
Number of cable TV customers	317,803	312,068
Number of satellite TV customers	5,338	156,142
Number of IPTV customers	28,496	67,430
Total TV customers	351,637	535,640
Blended TV ARPU (HUF) (1)	3,537	3,280

(1) Includes also the data of Magyar Telekom Plc. s subsidiaries within CBU

(2) Data relates to Magyar Telekom Plc., not only to CBU

The following table sets forth information regarding the key operating mobile statistical figures of CBU:

	At December 31,	
	2008	2009
Mobile penetration (%)(1)	121.8	117.7
Mobile SIM market share (%)(1)	43.9	43.4
Number of customers	4,648,323	4,343,672
Postpaid share in the customer base (%)	29.1	35.2
Average MOU per subscriber	127	126
ARPU (HUF)	3,397	3,164
Postpaid	7,265	6,454
Prepaid	1,862	1,670
Overall churn rate (%)	16.9	27.5
Postpaid (%)	12.1	15.1
Prepaid (%)	18.8	33.1
Ratio of non-voice revenues in ARPU (%)	15.2	16.7
Average acquisition cost per gross add (HUF)	6,813	7,680
Number of mobile broadband subscriptions	182,687	326,384
Mobile broadband market share (%)(1)	53.4	45.9
Population-based indoor 3G coverage (1)	n.a.	65.4

(1) Data relates to Magyar Telekom Plc., not only to CBU

The following table sets forth information regarding the key operating fixed line statistical figures for the major services provided by BBU:

	At December 31,	
	2008	2009
Voice services		
Business	110,389	100,172
Managed leased lines (Flex-Com connections)	6,037	4,745
ISDN channels	288,338	270,466
Total	404,764	375,383
Total outgoing traffic (thousand minutes)	798,157	656,372
MOU (outgoing)	191	178
ARPU (HUF)	5,457	5,162
Data products		
Number of leased line Internet subscribers	617	558
Number of retail DSL customers	31,805	32,358
Number of wholesale DSL access	196,776	161,270
Number of total DSL	228,581	193,628
Retail DSL ARPU (HUF)	13,743	12,712

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

	At December 31,	
	2008	2009
Number of customers	713,469	775,912
Overall churn rate (%)	5.8	8.0
MOU	325	336
ARPU (HUF)	7,655	6,458
Number of mobile broadband subscriptions	81,339	102,161
Ratio of non-voice revenues in ARPU (%)	20.2	23.6
Average subscriber acquisition cost per gross add (HUF)	9,092	8,280

Outlook

The telecommunications industry is undergoing a major change globally. We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. Key drivers of the long-term trends include changes in technology (i.e., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (i.e., increase in mobile usability of content services and terminal devices, 4Play solutions, growing need for customized content), competition and regulation (i.e., low entry barriers, new business models, telecommunications and media broadcast industry convergence).

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

We should emphasize that each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are yet unforeseen or beyond our control. The peak of global economic crisis is calmed down, but the recovery is slow continuing and painful, particularly in Hungary. After the seven percent GDP decline in 2009, the analyst consent and government forecasts do not show growth for 2010. The unemployment rate remains very high, above 10 percent.

In order to secure the balance of the budget, the government implemented several measures and planning to decrease the deficit to 3.8 percent to the GDP in 2010. The most negative measure to our business was the five percentage point increase of VAT, effective from July 2009. The business market was also hit by the heavy spending cuts in every governmental sector. Despite the restrictive government measures and negative business environment, we expect that our core business units will be able to continue to generate strong cash flows.

Revenues

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

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and the increased competition in the fixed line market, including competition from VoIP or VoCATV providers. The weakening demand as a result of restrictive government measures (especially the VAT increase) is expected to drive up the churn, because more customer currently holding both fixed and mobile subscription tending to give up their fixed lines entirely. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from pure voice offers to integrated 2Play and 3Play packages, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Fixed line interconnection tariffs are expected to be reduced gradually further in 2010 and in the years after, having additional negative impact on our fixed line revenue streams.

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

We aim to move further towards content and media businesses to support traditional access services, build new revenue streams and exploit new revenue sources. We are combining our product portfolio in order to provide all services for every customer demand on every platform (three-screen approach), where all customer screens (computer, mobile, TV) are provided by the Company.

In the mobile operations, market penetration is now saturated, and we expect flat development in the following year. 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.

In December 2008, the NCA enforced the regulation for mobile termination fee decrease within the networks of all three Hungarian mobile operators in three steps, starting from January 2009 until December 2010, by approximately 40 percent compared to current rates.

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

Expenses

We are entirely committed to improve internal operational efficiency in all business segments. To accomplish our goals despite the intensifying competitive environment, the decreasing revenue potential should be compensated with strict cost control. In 2009, a new efficiency project was launched: save for service (S4S). This multi-year project yielded substantial savings already in 2009, and will be continued in the coming years.

We also would like to exploit the synergies coming from the integrated fixed and mobile operation. In 2010, we are planning synergy projects in several areas with the main goal for further unify the activities and increase efficiency.

We have reached an agreement with trade unions on the wage development, headcount reduction and decrease in additional employee allowances for 2010. The key elements of the agreement are the following: reduction of headcount by 400 in addition to executive termination and retiring, no wage increase but 1.5 percent bonus budget set (significantly below inflation), gradual reduction of surplus severance payments in the Collective Agreement. These measures will reduce our Total Workforce Management (TWM) related costs.

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 2010, impacting us negatively.

Total investments in tangible and intangible assets

Comparing to 2009, the key priorities of the CAPEX spending are not changed for 2010. Investments in new products and platforms (DVB-S, FTTx) 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 with 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 ICT leader in Hungary, while expansion into new segments will also demand additional investments.

Striving for further improvement in the customer orientation, the strategic priority for 2010 and beyond is the successful implementation of 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 he replacement of the outdated billing systems but to bring a new approach to the entire customer management process with integrating fixed and mobile portfolios.

Subsequent events between the end of the year and the release of the report

On February 2, 2010 Magyar Telekom Plc. announced that it had closed the sale transaction of its fully owned subsidiary, Orbitel on January 28, 2010. Magyar Telekom Plc. signed a contract with Spectrum Net AD in November 2009 on the sale of Orbitel and the financial closing of the transaction took place upon obtaining the necessary approvals of the Bulgarian authorities.

Budapest, March 10, 2010.

Christopher Mattheisen Chairman and Chief Executive Officer	Thilo Kusch Chief Financial Officer

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Supervisory Board

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Supervisory Board

Report of the Supervisory Board of Magyar Telekom Plc.

for the General Meeting of the Company

In Y2009, the Supervisory Board of Magyar Telekom Plc. (the Company) has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In Y2009, the Supervisory Board held meetings on 6 occasions, and furthermore, it made resolutions without holding a meeting, via written (fax) voting on 4 occasions.

The Supervisory Board kept in regular contact with the Chairman-Chief Executive Officer, the Chief Financial Officer, the Chief Legal Counsel and the Head of Internal Audit of the Company.

The Supervisory Board regularly discussed the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the group acquisition activities.

The Supervisory Board approved the Y2009 Workplan of the independent internal audit organization, requested and received regular information on the findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were regularly answered by the Head of Internal Audit at the Supervisory Board meetings.

Internal Audit supported the SOX compliance, audited the documentation and procedures of financial reporting, transfer prices, project management. Internal Audit identified measures to increase the efficiency of receivable management, sales channels, product development processes, to strengthen the operation of the post merger integration processes, to increase the IT system security, to improve the effectiveness of the marketing communication in the integrated organization.

Internal Audit supported the work of Group Compliance Committee in the whistleblower cases with special ad-hoc investigations.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities supporting the work of the Supervisory Board with respect to the proper supervision of the financial reporting system.

With respect to the request submitted to the Supervisory Board during Y2009 with regard to the operation of the Company, the Supervisory Board conducted the necessary investigation and delivered the appropriate information to the person making the request.

In case of shareholders notifications submitted to the Supervisory Board, the Supervisory Board also delivered the appropriate information to the persons making the notifications.

The Supervisory Board examined every important report on the business policy and every submission that is made on matters falling into the exclusive competence of and is on the agenda of the General Meeting.

According to the point of view of the Supervisory Board, Magyar Telekom Group maintained its favorable market position even in the intense competitive environment, despite the fact that economic environment had an adverse impact on revenues.

The Supervisory Board has not discovered anything to disapprove in the Company s activities in Y2009, with regard to the Company s compliance with statutory operation.

The Supervisory Board, with the involvement of the Audit Committee and the independent external auditor, discussed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU, to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their acceptance.

In the opinion of the Supervisory Board, the above mentioned financial statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2009 consolidated annual financial statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) as endorsed by the EU with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee and the independent external auditor, discussed the 2009 annual stand alone financial statements prepared in accordance with requirements of the Accounting Act (HAR) to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their acceptance.

In the opinion of the Supervisory Board, the above mentioned financial statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2009 annual stand alone financial statements of the Company prepared according to the Hungarian Accounting Regulations (HAR) with Balance Sheet Total Assets and After-tax Net Income in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 74 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2009.

The Supervisory Board pre-approves the proposal of the Board of Directors with respect to dividend payment and proposes the proposal to the General Meeting for approval.

The Supervisory Board discussed the Corporate Governance Report of the Company and, with its pre-approval, proposes it to the General Meeting for approval.

Budapest, March 12, 2010

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap

Chairman of the Supervisory Board

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Audit Committee

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Audit Committee

Report of the Audit Committee of Magyar Telekom Plc.

for the General Meeting of the Company

on its 2009 activities in relation to the approval of

the 2009 consolidated annual financial statements of the Company prescribed by the

Accounting Act according to the requirements of the International Financial Reporting

Standards (IFRS),

of the 2009 annual stand alone financial statements of the Company prepared in accordance

with requirements of the Accounting Act (HAR),

and the use of the profit after tax earned in 2009

In Y2009, the Audit Committee of Magyar Telekom Plc. (the Company) has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Audit Committee, based on its accepted Working Schedule, and in case of the occurrence of an extraordinary case, with a focus on its discussion without delay and on the interest of making the appropriate decision. In Y2009, the Audit Committee held meetings on 9 occasions, and furthermore, it made resolutions without holding a meeting, via written (fax) voting on 21 occasions.

The Audit Committee kept in continuous contact with the Chief Financial Officer of the Company, the Head of Internal Audit, the Group Compliance Director and the Chief Legal Counsel of the Company, and the independent external auditor.

The Company, by the direction of the Audit Committee, has conducted an independent internal investigation with the involvement of an independent outside counsel, regarding certain contracts and conduct involving the Company and certain of its affiliates (the Independent Investigation). The Audit Committee, in relation to the Independent Investigation, has supervised the work of the independent outside counsel involved in the Independent Investigation.

The Audit Committee regularly discussed the issues with respect to the Independent Investigation, and the appropriateness of the remedial actions taken in response to the deficiencies revealed during the Independent Investigation.

On December 2, 2009 the Audit Committee delivered the report titled Report of Investigation to the Audit Committee of Magyar Telekom Plc. , dated November 30, 2009 (the Final Report) to the Board of Directors of the Company.

The Audit Committee considered that with the preparation of the Final Report based on currently available facts, the independent outside counsel has completed those aspects of its mandate related to conducting an Independent Investigation and to reporting the factual results of that Independent Investigation to the Audit Committee.

After the presentation to the Audit Committee of the remedial actions proposed in light of the Final Report, the Company is considering, in consultation with the Audit Committee, whether and to what extent the Final Report warrants additional personnel remedial actions to address the findings of the Final Report.

The Audit Committee, in accordance with its purpose, oversaw 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, the qualifications and independence of the Company s independent external auditor and the performance of the Company s internal audit function and independent external auditor.

In the course of overseeing the work and performance of the independent outside auditor, the Audit Committee reviewed and evaluated the Management Letter, and regularly monitored the services provided by the independent external auditor and their fees. The auditor, with the general or specific pre-approval of the Audit Committee, provided audit and audit-related, and on one occasion other type of IFRS training - service for the Company in 2009.

In the course of overseeing the performance of the Internal Audit, the Audit Committee regularly reviewed and evaluated the reports on the activities of the Internal Audit, reviewed and approved the Audit Workplan of the Internal Audit.

The Audit Committee quarterly reviewed and commented upon the Group Compliance Director s reports on

- the progress of the implementation of the compliance program;
- the Y2009 compliance risk assessment;
- the status of the implementation of the measures proposed on the bases of the Y2008 compliance risk assessment;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

In the course of overseeing the Company s internal controls over financial reporting, the Audit Committee has continuously monitored the Company s SOX 404 compliance.

The Audit Committee reviewed and evaluated the reports to be submitted to the stock exchanges and the financial authorities, including the Form 20-F annual report of the Company, the quarterly reports and the relevant press releases, and the quarterly reports of the Company s Disclosure Committee. (In relation to the Q3 financial statements of the Company, the Audit Committee was advised that the independent external auditor of the Company has stated that it was not in the position to issue its opinion, and in the absence of such an opinion, the Audit Committee could not express a view.)

The Audit Committee reviewed and evaluated the changes in the risk management system of the Magyar Telekom Group, and quarterly, the risk management reports.

There was no shareholder notification to the Audit Committee in Y2009.

The Audit Committee reviewed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU to be submitted to the General Meeting by the Board of Directors, the proposal of the Board of Directors for their acceptance, and listened to the relevant report of the independent external auditor.

The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee

proposes to the General Meeting for approval the 2009 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) as endorsed by the EU, including Balance Sheet Total Assets of HUF 1,166,377 million and Profit for the year of HUF 93,253 million.

The Audit Committee reviewed the 2009 annual stand alone financial statements prepared in accordance with requirements of the Accounting Act (HAR) to be submitted to the General Meeting by the Board of Directors, the proposal of the Board of Directors for their acceptance, and listened to the relevant report of the independent external auditor.

The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the General Meeting for approval the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 968,412 million and After-tax Net Income of HUF 74,227 million.

The Audit Committee reviewed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 74 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2009. The Audit Committee agrees with the proposal and proposes to the Supervisory Board for pre-approval and to the General Meeting for approval.

Budapest, March 11, 2010

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy

Chairman of the Audit Committee

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Proposal of the Board of Directors for the use of the profit after tax earned in 2009

Budapest, April 7, 2010

According to Section 220(3) of the Companies Act and Section 6.2. (i) of the Articles of Association deciding on the utilisation of after-tax earnings belongs to the exclusive scope of authority of the General Meeting.

Resolution proposal:

A dividend of HUF 74 per ordinary share (with a face value of HUF 100) shall be paid to the shareholders from the profit of 2009.

The HUF 77,051,686,148 to be disbursed as dividends shall be paid from the after-tax profits of HUF 74,227,074,181 based on HAR figures and the remaining amount of HUF 2,824,611,967 shall be paid from retained earnings.

May 7th, 2010 shall be the first day of dividend disbursement. The record date shall be April 30th, 2010.

On April 21st, 2010, the Board of Directors of Magyar Telekom Plc. shall publish a detailed announcement on the order of dividend disbursement on the homepage of the Company and the Budapest Stock Exchange.

In compliance with Magyar Telekom s assignment, KELER Ltd. shall disburse dividends.

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Supervisory Board

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Supervisory Board

Report of the Supervisory Board of Magyar Telekom Plc.

for the General Meeting of the Company

In Y2009, the Supervisory Board of Magyar Telekom Plc. (the Company) has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In Y2009, the Supervisory Board held meetings on 6 occasions, and furthermore, it made resolutions without holding a meeting, via written (fax) voting on 4 occasions.

The Supervisory Board kept in regular contact with the Chairman-Chief Executive Officer, the Chief Financial Officer, the Chief Legal Counsel and the Head of Internal Audit of the Company.

The Supervisory Board regularly discussed the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the group acquisition activities.

The Supervisory Board approved the Y2009 Workplan of the independent internal audit organization, requested and received regular information on the findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were regularly answered by the Head of Internal Audit at the Supervisory Board meetings.

Internal Audit supported the SOX compliance, audited the documentation and procedures of financial reporting, transfer prices, project management. Internal Audit identified measures to increase the efficiency of receivable management, sales channels, product development processes, to strengthen the operation of the post merger integration processes, to increase the IT system security, to improve the effectiveness of the marketing communication in the integrated organization.

Internal Audit supported the work of Group Compliance Committee in the whistleblower cases with special ad-hoc investigations.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities supporting the work of the Supervisory Board with respect to the proper supervision of the financial reporting system.

With respect to the request submitted to the Supervisory Board during Y2009 with regard to the operation of the Company, the Supervisory Board conducted the necessary investigation and delivered the appropriate information to the person making the request.

In case of shareholders notifications submitted to the Supervisory Board, the Supervisory Board also delivered the appropriate information to the persons making the notifications.

The Supervisory Board examined every important report on the business policy and every submission that is made on matters falling into the exclusive competence of and is on the agenda of the General Meeting.

According to the point of view of the Supervisory Board, Magyar Telekom Group maintained its favorable market position even in the intense competitive environment, despite the fact that economic environment had an adverse impact on revenues.

The Supervisory Board has not discovered anything to disapprove in the Company s activities in Y2009, with regard to the Company s compliance with statutory operation.

The Supervisory Board, with the involvement of the Audit Committee and the independent external auditor, discussed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU, to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their acceptance.

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Budapest, March 12, 2010

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap

Chairman of the Supervisory Board

Magyar Telekom Telecommunications Public Limited Company

Submission

to the General Meeting of Magyar Telekom Plc.

Subject: Report of the Audit Committee

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Audit Committee

Report of the Audit Committee of Magyar Telekom Plc.

for the General Meeting of the Company

on its 2009 activities in relation to the approval of

the 2009 consolidated annual financial statements of the Company prescribed by the

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The Audit Committee regularly discussed the issues with respect to the Independent Investigation, and the appropriateness of the remedial actions taken in response to the deficiencies revealed during the Independent Investigation.

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The Audit Committee considered that with the preparation of the Final Report based on currently available facts, the independent outside counsel has completed those aspects of its mandate related to conducting an Independent Investigation and to reporting the factual results of that Independent Investigation to the Audit Committee.

After the presentation to the Audit Committee of the remedial actions proposed in light of the Final Report, the Company is considering, in consultation with the Audit Committee, whether and to what extent the Final Report warrants additional personnel remedial actions to address the findings of the Final Report.

The Audit Committee, in accordance with its purpose, oversaw 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, the qualifications and independence of the Company s independent external auditor and the performance of the Company s internal audit function and independent external auditor.

In the course of overseeing the work and performance of the independent outside auditor, the Audit Committee reviewed and evaluated the Management Letter, and regularly monitored the services provided by the independent external auditor and their fees. The auditor, with the general or specific pre-approval of the Audit Committee, provided audit and audit-related, and on one occasion other type of IFRS training - service for the Company in 2009.

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The Audit Committee quarterly reviewed and commented upon the Group Compliance Director s reports on

- the progress of the implementation of the compliance program;
- the Y2009 compliance risk assessment;
- the status of the implementation of the measures proposed on the bases of the Y2008 compliance risk assessment;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

In the course of overseeing the Company s internal controls over financial reporting, the Audit Committee has continuously monitored the Company s SOX 404 compliance.

The Audit Committee reviewed and evaluated the reports to be submitted to the stock exchanges and the financial authorities, including the Form 20-F annual report of the Company, the quarterly reports and the relevant press releases, and the quarterly reports of the Company s Disclosure Committee. (In relation to the Q3 financial statements of the Company, the Audit Committee was advised that the independent external auditor of the Company has stated that it was not in the position to issue its opinion, and in the absence of such an opinion, the Audit Committee could not express a view.)

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There was no shareholder notification to the Audit Committee in Y2009.

The Audit Committee reviewed the 2009 consolidated annual financial statements prescribed by the Accounting Act according to the requirements of the International Financial Reporting Standards (IFRS) as endorsed by the EU to be submitted to the General Meeting by the Board of Directors, the proposal of the Board of Directors for their acceptance, and listened to the relevant report of the independent external auditor.

The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee

proposes to the General Meeting for approval the 2009 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) as endorsed by the EU, including Balance Sheet Total Assets of HUF 1,166,377 million and Profit for the year of HUF 93,253 million.

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The Audit Committee, based on its activities performed during the year, its own investigations and the report of the independent external auditor, agrees with the content of the financial statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the General Meeting for approval the Y2009 Annual Report of the Company prepared according to the Hungarian Accounting Regulations (HAR), including Balance Sheet Total Assets of HUF 968,412 million and After-tax Net Income of HUF 74,227 million.

The Audit Committee reviewed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 74 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2009. The Audit Committee agrees with the proposal and proposes to the Supervisory Board for pre-approval and to the General Meeting for approval.

Budapest, March 11, 2010

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy

Chairman of the Audit Committee

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Proposal of the Board of Directors for the authorization for the purchase of Magyar Telekom ordinary shares

Budapest, April 7, 2010

Resolution proposal:

The General Meeting authorizes the Board of Directors to purchase a total of up to 104,274,254 ordinary shares (with a face value of HUF 100 each) of Magyar Telekom Plc. The purpose of the authorization is to be able to supplement Magyar Telekom s current shareholder remuneration policy to be more in line with international practice. At the same time the Board of Directors believes dividend should remain the main method for shareholder remuneration.

The authorization will be valid for 18 months starting from the date of approval of this General Meeting resolution. The shares to be purchased on the basis of this authorization may not at any time account for more than 10% of the share capital of Magyar Telekom Plc.

The shares can be purchased through the stock exchange. The equivalent value per share paid by Magyar Telekom Plc. may not be more than 5% above the market price of the share determined by the opening auction on the trading day at the Budapest Stock Exchange. The minimum value to be paid for one share is HUF 1.

The authorization may be exercised in full or in part, and the purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume has been reached.

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Decision on the approval of the Corporate Governance and Management Report

Budapest, April 7, 2010

Pursuant to Section 312 of the Companies Act, if the shares of the publicly operating companies are listed on the Budapest Stock Exchange, the Board of Directors must submit the corporate governance and management report to the Annual General Meeting of the company, together with the annual financial statements prepared according to the Accounting Act. The Act also provides that the report can only be submitted to the General Meeting upon its prior approval by the Supervisory Board. The report and its Annex were prepared on the basis of the provisions of the Companies Act and the Corporate Governance Recommendations of the Budapest Stock Exchange (BSE).

The Corporate Governance Recommendations of the Budapest Stock Exchange are available at the website of the BSE: www.bet.hu.

Resolution proposal:

The General Meeting has reviewed and approves the Corporate Governance and Management Report Y2009 of the Company.

CORPORATE GOVERNANCE REPORT OF

MAGYAR TELEKOM PLC.

Approved by the Board of Directors of Magyar Telekom Plc. on 10 March, 2010 with Resolution No. 4/2 (03.10.2010.)

and the Supervisory Board on 12 March, 2010 with Resolution No. 2/13 (03.12.2010.)

The Audit Committee reviewed and evaluated the Report at its March 5, 2010 meeting (resolution no. 8/7 (03.05.2010))

Corporate Governance Report

of Magyar Telekom Plc.

The Board of Directors of Magyar Telekom Telecommunications Public Limited Company (hereinafter Magyar Telekom or Company)

based on

- the Corporate Governance Recommendations of the Budapest Stock Exchange Zrt., published in October, 2007, and amended in May, 2008, and
- the provisions of Act IV of 2006 on Business Associations (Companies Act) (especially Section 312),

taking into account

- the Recommendations of the European Commission (Commission) fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), and
- and the Commission s Recommendations on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC),

approves and submits to the Annual General Meeting the below Corporate Governance Report.

1. A brief presentation of the operation of the Board of Directors, and a description of the division of responsibility and duties between the Board and the executive management

Magyar Telekom s Board of Directors (Board or Board of Directors) is the Company s executive body that represents the Company towards third parties and before courts and other authorities. The Board of Directors exercises its rights and performs its obligations as an independent body.

The members of the Board of Directors shall act with due care as it is generally expected from persons in such positions and - unless it is otherwise provided in the Companies Act must give priority to the interest of the company. The members of the Board shall be liable towards the Company pursuant to the general provisions of the civil law in case of causing damage to the Company through breaching the laws, the Articles of Associations (Articles), the resolutions of the General Meeting (General Meeting) of the Company and their managerial duties. The indemnification liability of the members of the Board towards the Company is joint and severable according to the provisions of the Civil Code on jointly causing damage. If the damage was caused by the resolution of the management as a body, those members are exempted from such liabilities who did not participate in the voting or voted against the resolution in question. The members of the Board of Directors shall bear unlimited and joint liability for those damages that arise from the announcement of false data, rights or facts to the Company Register or the late announcement of the same in addition to failing to file such announcement at all.

The Board of Directors is not an operative management body. In other words, the Board of Directors is not involved in the Company s daily business. The Board acts in all matters that do not fall in the competence of the General Meeting or other corporate bodies. Among other responsibilities, it approves the Company s strategy, business plan, major organizational changes and key transactions, concludes employment agreements with and removes the Chief Executive Officer (CEO) and Chief Officers, and determines the remuneration and target tasks on the basis of which it evaluates the their performance.

For the purpose of the operative control and effective day-to-day management of the Company the Board of Directors established the Management Committee the members of which are the Chief Executive Officer, the Chief Human Resources Officer, the Chief Financial Officer (CFO), the Chief Technical Officer, the Chief Strategic and Corporate Development Officer, the Chief Operating Officer Consumer Services Business Unit and the Chief Operating Officer Business Services Business Unit. The Management Committee acts within the scope of competences assigned to it by the Board of Directors. The Management Committee reports to the Board of Directors on the operation and status of Magyar Telekom Group at each Board meeting.

Due to the fact that in line with the above, the Board of Directors delegates several competences to the Management Committee we answered No to several questions in the declaration to this Corporate Governance Report, because in these cases the Company does comply with the given recommendation but based on the decision of the Board of Directors the procedure / decision to comply with the given recommendation is within the Management Committee s scope of competence delegated to it by the Board of Directors.

The detailed rules on the tasks, competences and operation of the Management Committee are contained in the Rules of Procedure approved by the Board of Directors:

http://www.telekom.hu/static/sw/download/ugyvezbiz_ugyrend_2010_eng.pdf

2. The introduction of the members of the Board of Directors, the Supervisory Board and the executive management (in the case of Board members, including the status of independence of the different members), a description of the structure of committees.

For more details with regard to the members of the Board of Directors, the supervisory board of Magyar Telekom (Supervisory Board) and the Management Committee please visit the web site of Magyar Telekom:

- http://www.telekom.hu/investor_relations/corporate_governance/board_of_directors
- http://www.telekom.hu/investor_relations/corporate_governance/supervisory_board
- http://www.telekom.hu/investor_relations/corporate_governance/management_committee

The Board of Directors is comprised of a minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. Currently the Board of Directors of Magyar Telekom has ten members. The assignment of the members of the Board of Directors lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof. The assignment of new Board members, elected within this period, shall expire at the same date when the assignment of the other Board members expires. The members of the Board of Directors can be recalled or re-elected by the General Meeting at any time. The Board of Directors operates in line with the Rules of Procedure, in compliance with the laws and the Articles of Association.

The Companies Act does not include requirements with regard to the independency of the members of the board of directors if besides the board of directors there is also a supervisory board operating at the company. Currently 3 members of the Board of Directors meet the independency criteria set forth in the Recommendations: Frank Odzuck, dr. Mihály Gálik, dr. István Földesi.

According to the Articles of Association of the Company the Supervisory Board of the Company is comprised of at least three (3) but maximum fifteen (15) members. The members of the Supervisory Board are elected by the Annual General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to the date of their election with the exception, that if the Annual General Meeting in the year of the expiry of their assignment is held prior to May 31, then their assignment lasts until the date thereof. The assignment of new Supervisory Board members, elected within this period, shall expire at the same date when the assignment of the other Supervisory Board members expires. Currently the Supervisory Board of Magyar Telekom has nine members. The Supervisory Board acts as a body. The Supervisory Board elects a Chairman from among its members and makes resolutions with simple majority. The Supervisory Board carries out its tasks according to its Rules of Procedure that is established by the Supervisory Board and approved by the General Meeting.

Independent members of the Supervisory Board according to the Companies Act: Dr. László Pap, Dr. János Illéssy, Dr. Sándor Kerekes, Attila Csizmadia and Konrad Kreuzer.

- http://www.telekom.hu/static/sw/download/Igazgatosag_Ugyrendje_20091215_ENG.pdf
- http://www.telekom.hu/static/sw/download/SB_rules_25Apr2008.pdf

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3. The number of meetings held in the relevant period by the Board of Directors, Supervisory Board and committees, including the number of members attending

Section 5 discusses the work of the individual committees in detail therefore we analyzed here the above parameters with regard to the Board of Directors and the Supervisory Board.

In 2009 the Board of Directors held four meetings in accordance with its Preliminary Meeting Schedule, at which the overall rate of attendance of the members (either personally or by telephone conference) was 95%. The Board of Directors adopted resolutions without holding a meeting in seventeen cases in writing through the procedure of voting by fax as regulated in the Rules of Procedure.

The most important issues discussed by the Board of Directors in 2009 were as follows:

- Monitoring financial and non-financial KPIs;
- Decisions on the bonus achievement for the management in 2008 based on recommendation of the Remuneration Committee;
- Proposal to the General Meeting on the approval of the Y2008 financial statements, the use of the profit after tax and the dividend;
- Proposal to the extraordinary General Meeting regarding the upstream merger of T-Kábel Magyarország Kft. and Dél-Vonal Kft.;
- Setting targets for the management for 2010;
- Approval of the mid-term strategy and business planning for years 2010-2012;
- M&A decisions;
- Risk management of Magyar Telekom Group;
- Review of the compliance program.

The Supervisory Board held 6 meetings in business year 2009 at which the average rate of participation was 77% and adopted written resolutions without holding a meeting in 4 cases.

The most important issues discussed by the Supervisory Board in 2009 were as follows:

- Reports, submissions on the agenda of the General Meeting;

- Strategy of the Magyar Telekom Group 2009-2011;
- Business Plan of the Magyar Telekom Group 2009-2011;
- Reports of the Board of Directors on its key business policy decisions;
- Magyar Telekom Group s Executive Financial Reports;
- Reports on the decisions of the Management Committee;
- Reports on the activity of the Internal Audit and the Audit Plan of the Internal Audit;
- Progress of the Compliance program;
- Reports on the acquisition activities of Magyar Telekom Group;
- Reports on the activities of the Audit Committee.

4. The presentation of viewpoints considered when evaluating the work of the Board of Directors, the Supervisory Board, the executive management, as well as of the different members. Reference to whether evaluation carried out in the relevant period has resulted in any changes

The Y2009 self assessment of the Board of Directors is published on the web site of the Company. The self assessment primarily focused on

- the shareholder relations,
- the enforcement of the strategic and business plans of the Company,
- compliance and
- the assessment of the legal and ethical requirements.

Within the framework of the Y2009 performance evaluation of the Supervisory Board the following viewpoints among others - were taken into account:

- whether the organization and members of the Supervisory Board, the operation of the Supervisory Board was ensured in business year 2009 as prescribed in the Rules of Procedure of the Supervisory Board;
- whether the Supervisory Board, based on its legal status, scope of authorities and responsibilities as included in its Rules of Procedure, properly fulfilled its tasks in business year 2009;
- whether the Supervisory Board deems it necessary to take further actions or follow-up steps in the individually assessed cases.

Within the framework of the evaluation of the Y2009 performance of the Supervisory Board the following viewpoints were taken into account at the assessment of the individual members and also whether based on these viewpoints their relevant competence was ensured:

- Dr. László Pap: Independence, expertise in technical telecommunications technology field, experience as member of the Audit Committee and as member of the board of directors of an international company.
- Dr. János Illéssy: Independence, expertise in technical field and economy, experience as chief financial officer of quoted companies, as member of the Audit Committee.
- Dr. Sándor Kerekes: Independence, expertise in economy and business management, experience as member of the Audit Committee.
- Konrad Kreuzer: Independence, expertise and experience in law and business affairs.
- Attila Csizmadia: Independence, expertise in telecommunications and regulations, experience in economy, finance and regulations, at government bodies, also as member of the EU Governmental Expert Committee for Post and Telecommunications.

- Martin Meffert: Expertise in telecommunications and economics, experience in technical field and as country manager of Hungary.

- István Koszorú: Experience as employees   representative, an official and chairman of the Workers   Council and chairman of the Central Workers   Council.

- György Varju: Experience as employees   representative and as Chairman of the Workers   Council and member of the Central Workers Council.

- Zsoltné Varga: Expertise in the technical field, experience in sales and customer care, as employees   representative, official of the Workers   Council and member of the Central Workers   Council.

5. Report on the operation of different committees, including the introduction of the members of the committees (professional background), the number of meetings held, the number of members attending the meetings, as well as the most important issues discussed at the meetings and the general operation of the committee. If the Board of Directors has passed a resolution on an issue contrary to the recommendations of the audit committee, the presentation of the operations of the Audit Committee shall include that fact (as well as the reasons of the Board of Directors for doing so). It is recommended that reference be made to the company s website, where the tasks delegated to the committees, the rules of procedure of the committees and the date of appointing the members should be disclosed.

Audit committee of Magyar Telekom (Audit Committee)

Chairman of the Audit Committee:

- Dr. János Illéssy

Members of the Audit Committee:

- Dr. László Pap
- Dr. Sándor Kerekes

There is more detailed information on the members of the Audit Committee on the following web site of the Company:

http://www.telekom.hu/investor_relations/corporate_governance/audit_committee

The members of the Audit Committee are assigned from April 26, 2007 until May 31, 2010.

The purpose of the Committee is, inter alia, 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 Committee,
- the qualifications and independence of the Company s independent external auditor,

- the performance of the Company s internal audit function and independent auditors.

The Audit Committee acts independently within its scope of authority provided in the Companies Act, in Hungarian Act CXX of 2001 on the Capital Market and in the Articles of Association, and in compliance with the rules and regulations of the Budapest Stock Exchange, the New York Stock Exchange (the NYSE) and the US Securities and Exchange Commission (SEC), as well as the provisions and rules of the US Securities Exchange Act of 1934.

The Audit Committee held 9 meetings in the previous business year of 2009, with 94% average participation rate. The Audit Committee made further written resolutions without holding a meeting on 21 occasions.

The Chief Financial Officer of the Company, the leader of the Internal Audit, the Group Compliance Director, the General Counsel and the representative of the independent external auditor, PricewaterhouseCoopers Kft. (PwC) participated at the meetings of the Audit Committee except for the discussion of agenda items discussed within the framework of closed meetings by the decision of the Audit Committee.

The Company, by the direction of the Audit Committee, has conducted an independent internal investigation with the involvement of an independent outside legal counsel regarding certain contracts and conduct involving the Company and certain of its affiliates (the Independent Investigation). The Audit Committee, in relation to the Independent Investigation has supervised the work of the independent outside legal counsel involved in the Independent Investigation.

The Audit Committee, during the supervision of the independent auditor - inter alia - discussed the below subject matters with the auditor:

- PwC s internal quality control system, the results of the quality control reviews, and PwC s independence practices;
- formal written statement of PwC specifying its relationship with the Company in accordance with the Securities Acts administrated by the US Securities and Exchange Commission (SEC), and the requirements of the Independence Standards Board;
- Y2008 audit;
- independent auditor opinions on the Y2008 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards (IFRS) and the Y2008 Annual Report of the Company prepared according to the Hungarian Accounting Standards (HAR);
- audit according to the Sarbanes-Oxley Act of 2002 (SOX or SOX 404) Magyar Telekom s internal controls over financial reporting;
- independent auditor s report on the management s assessment and on the effectiveness of the Company s internal controls over financial reporting as of December 31, 2008;
- proposal on the election of the independent auditor and the determination of its remuneration;
- enforcement of the professional requirements and conflict of interest stipulations towards the independent auditor;
- Y2008 Management Letter and the response of the management of the Company;
- Y2009 audit;
- specific pre-approval of the audit and audit related services to be provided by PwC.

The Audit Committee inter alia discussed the below important issues at its meetings:

- the services of the independent external auditor and their fees;
- reports on the activities of the Internal Audit, Audit Plan of the Internal Audit;
- reports on the activities of the Group Compliance Director;
- Y2008 Consolidated Financial Statements of Magyar Telekom Group prepared according to the IFRS and the Y2008 Annual Report of the Company prepared according to the HAR;

- SOX 404 compliance, status of significant SOX compliance deficiencies, Management s overall assessment of the Company s internal controls over financial reporting Y2008 (in compliance with SOX 404)

- 20-F annual report (prepared pursuant to the US Securities and Exchange Act of 1934) of Magyar Telekom Plc. for the fiscal year ending on December 31, 2008;

- the risk management system of Magyar Telekom Group, quarterly risk management reports;

- reports on the acquisition activities of Magyar Telekom Group;

- issues pertaining to the Independent Investigation;

- adequacy of the remedial actions taken in response to the findings of the Independent Investigation and the implementation of the compliance program;

- evaluation of the Y2009 performance of the Audit Committee.

In the spring of 2009 the Board of Directors originally made a decision that was contrary to the recommendations of the Audit Committee in connection with a disclosure requested by the Audit Committee with respect to a letter that was sent by the US Department of Justice (the DOJ) on February 27, 2009 to the Audit Committee s legal advisors (the DOJ letter) and the steps taken by the Audit Committee in response thereto. The reason given by the Board of Directors for such decision was that, based on external legal advice, it was of the opinion that the DOJ Letter did not contain any new information that would have required disclosure under the relevant Hungarian and US stock exchange regulations. However, following further discussion and review of the matter, the Company made an extraordinary disclosure in connection with the

DOJ Letter on March 18, 2009, prior to the Annual General Meeting of the Company and by doing so the Audit Committee s request was fully met.

The Rules of Procedure of the Audit Committee, approved on February 15, 2008, - including the tasks delegated to the Audit Committee is accessible on the following web site of the Company:

http://www.telekom.hu/static/sw/download/Audit_Bizottsag_Ugyrend_20080215_eng.pdf

Remuneration committee of Magyar Telekom (Remuneration Committee):

The Remuneration Committee is comprised of three members elected by the Board of Directors. The assignment of the members is the same period as their assignment as members of the Board of Directors.

The current members are:

- Frank Odzuck
- Guido Kerkhoff
- Dr. Ralph Rentschler

The professional experience of the members is accessible in detail on the following web site of the Company: http://www.telekom.hu/investor_relations/corporate_governance/compensation

The rules of the operation of the committee is contained in its Rules of Procedure:

http://www.telekom.hu/static/sw/download/JavBizUgyrend_eng.pdf

In 2009 the Remuneration Committee held four meetings and two votings by fax.

The issues discussed were as follows:

- February, 2009: assessment of the Y2008 targets of the top management of Magyar Telekom Group and their Y2009 target, labor contract extensions, proposal for Y2006-2008 MTIP payment (participation rate: 100%)
- March, 2009: proposal for personnel changes (voting by fax, voting participation rate: 100%)
- April, 2009: Y2009 remuneration of the top management of Magyar Telekom Group (voting by fax, voting participation rate: 100%)
- May, 2009: proposal for MTIP program starting in Y2009 (participation rate: 100%)
- September, 2009: proposal for and appointment of the new chairman of the committee, proposal on appointments according to the organizational changes of Magyar Telekom and specification of the Y2009 targets of the top managers of Magyar Telekom Group (participation rate: 100%)

- December, 2009: proposal for the Y2010 targets of the top managers of Magyar Telekom Group (participation rate: 67%).

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6. The presentation of the system of internal controls and the evaluation of the activity in the relevant period. Report on the efficiency and effectiveness of risk management procedures. (Information on where the report on internal controls by the Board of Directors may be viewed by shareholders.)

The presentation of the system of **internal controls**, evaluation of the activity in the relevant period.

Magyar Telekom, as a company registered in the U.S., is subject to the provisions of the Sarbanes-Oxley Act of 2002. As required by section 404 of the Sarbanes-Oxley Act, the management of Magyar Telekom is responsible for establishing and maintaining adequate internal control over financial reporting that ensures the reliability of the financial reports. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. Our internal control system is based on the method established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management has established and regularly oversees the operation of internal controls over financial reporting that ensure the reliability of the report. The internal control system has been grouped into two levels of documentation:

- The company-level controls include the following (in line with PCAOB Audit Standard No. 5):

- controls related to the control environment
- controls over management override
- the company s risk assessment process
- controls to monitor results of operations
- controls to monitor other controls, including the activities of the internal audit function, the Audit Committee and self-assessment programs
- controls over the period-end reporting process
- policies that address significant business control and risk management practices.

- Transaction Level Controls describe the controls built into our business processes that have been designed and operated to ensure that material misstatements in each significant financial account and disclosure within the financial statements are prevented or detected in a timely manner.

The operation of the internal control system is supported by the independent internal audit function that, beyond tasks regarding the risk based internal audit work plan, contributes to the enhancement of the internal control processes and to the reduction of existing risks through ad-hoc audits. The Supervisory Board and the Audit Committee receives regular reports on the findings of the audits; measures, based on the findings and fulfillment of tasks.

In line with the criteria of the adopted internal control framework, management evaluates the effectiveness of internal control system within each financial year. Management s assessment for 2009 is still in progress, but based on the already available information, we believe that internal control system has been operating effectively to prevent material misstatements in the financial statements.

The Company discloses its report on the internal controls with regard to the reliability of financial reports in the 20-F annual report.

The management and Board of Directors of Magyar Telekom are committed to conduct all business activities of Magyar Telekom Group according to the highest legal and ethical standards. Based on this commitment the Board of Directors established the Corporate compliance program of Magyar Telekom.

The Corporate compliance program is applicable to all bodies, organizations, employees, advisors, agents, representatives as well as to all persons and organizations that work on behalf of the Company or its subsidiary.

The Corporate compliance program of Magyar Telekom ensures that the business activities of the Group are conducted with observing and in compliance with the relevant laws to the outmost extent, according to the highest standards of training and commitment. It requires the realization of guidelines and processes that manage potential compliance risks and implement specific processes in order to report, investigate, monitor and correct suspected or actual lack of compliance.

Risk management policies

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

In 1999, we established a formal risk management system. This system has been operating in an integrated way with the risk management system of Deutsche Telekom since 2002.

All material 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 manual and an internal regulation on risk management were prepared. 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 units, departments, subsidiaries and other organizations are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, the Board of Directors, the Disclosure Committee, the Audit Committee and to Deutsche Telekom.

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

There is an effective internal regulation at the Company that covers the responsibilities of each employee in risk monitoring and management. We introduced the requirements of the Sarbanes-Oxley Act, our enhanced reporting and corporate governance obligations and the enhanced risk reporting procedures to our colleagues through e-learning. The personnel scope of the training covered all employees.

7. Information on whether the auditor has carried out any activities not related to auditing

Based on the effective Pre-approval Policy of the Audit Committee the independent external auditor upon the general pre-approval or the specific pre-approval of the Audit Committee provided the below service for the Company in Y2009 besides the audit type of services:

- audit related services,
- training service.

8. A detailed presentation of the company s disclosure policy, and its policy on trading by insiders

Disclosure policy of the Company

It is Magyar Telekom s policy that all disclosures made by the Company to its shareholders or the investment community should be accurate and complete, and fairly present the Company s financial condition and results of operations in all material respects, and such disclosures should be made on a timely basis as required by applicable laws and requirements of the Budapest Stock Exchange (BSE) the NYSE, the SEC and the Hungarian Financial Supervisory Authority (HFSA).

The controls and procedures currently used by the Company are designed to ensure that: information required by BSE, NYSE, SEC and HFSA to be disclosed by the Company (Annual and Quarterly Reports, Registrations Statements, 20-F Filings and 6-K Submissions) as well as any and all other written information that the Company discloses from time to time to the investment community (presentations to rating agencies and information contained on the Magyar Telekom website for investors: www.telekom.hu) is recorded, processed, summarized, and reported accurately and on a timely basis as well as that the information is collected and transferred to the management to ensure that timely decisions are made on the disclosure.

Since July 3, 2003 a Disclosure Committee has been operating at the Company the tasks of which include among others to elaborate and monitor processes and control procedures described above. The Disclosure Committee is comprised of such managers who are jointly well informed on the significant and complex aspects of the business and financial activities as well as the risks of the Company.

The Disclosure Committee of the Company supports the Chief Executive Officer and the Chief Financial Officer in fulfilling their respective duties, i.e. to have an oversight on the processes ensuring the accuracy and timeliness of disclosures.

An external legal firm is retained by the Company as an advisor to monitor the changes of SEC and NYSE rules and to notify the Company if such changes occur. Within the framework of an internal audit the Company reviews its disclosure processes each year.

Policy in connection with the prohibition of insider trading

The shares of Magyar Telekom are traded on both the Budapest Stock Exchange and New York Stock Exchange. Therefore, the trading of Magyar Telekom securities is regulated by the Hungarian legislation and government (including the Hungarian FSA) as well as the United States legislation and government (including SEC).

With the aim of ensuring compliance with the requirements of the legal environment Magyar Telekom created its own regulation which applies to all organizations of Magyar Telekom and those affiliated companies in which Magyar Telekom has 25% or more direct or indirect ownership or voting rights.

The Hungarian securities laws and United States federal and state securities laws prohibit: (a) the direct or indirect purchase or sale of securities while in possession of inside information and (b) the disclosure of inside information to others who then trade in securities (hereinafter: tip or tipping).

The regulation defines insider information, insider trading as well as the scope of insider persons.

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Magyar Telekom does encourage investment in Magyar Telekom securities by its employees and directors. However, it states some general trading guidelines as well as specific restrictions regarding the timing of trading in Magyar Telekom securities.

Trading guidelines:

- Magyar Telekom strongly recommends that all insider persons refrain from any transactions in Magyar Telekom securities other than during the period beginning on the commencement of the third (3rd) trading day following the release of quarterly or annual financial results and ending ten calendar days later (so called window period).

- The safest period for trading in Magyar Telekom securities, assuming the absence of inside information, is generally the first few days of the window period. Periods other than window periods are more highly sensitive for transactions in Magyar Telekom securities from the perspective of compliance with applicable securities laws. However, trading in Magyar Telekom securities during a window period should not be considered a safe harbor.

- Even after inside information is disclosed, sufficient time must pass to permit the market and outside investors to digest the information and make investment decisions before insider persons can trade in Magyar Telekom securities. Even during a window period, any person possessing inside information may not engage in any transactions in Magyar Telekom securities until the commencement of the third trading day after inside information is publicly disclosed.

- Regulatory authorities scrutinize securities trading with special attention. Consequently, before trading in Magyar Telekom securities, you should carefully consider how the authorities, in the future, might view your concluded transactions with special attention.

- Every insider person has the individual responsibility to comply with the relevant internal rules, regardless of whether Magyar Telekom has recommended a window period to that insider person or any other insider person. The guidelines set forth in Magyar Telekom s internal rules are guidelines only, and appropriate judgment should be exercised in connection with any transaction in Magyar Telekom securities.

- An insider person may, from time to time, have to forego a proposed transaction in Magyar Telekom securities even if he or she planned to make the transaction before learning of the inside information and even though the insider person believes he or she may suffer an economic loss or forego anticipated profit by waiting.

In addition to the aforementioned trading guidelines the internal rule also states that specific restriction periods, which are prescribed in the Capital Markets Act also apply to specific categories of insider persons described therein.

Magyar Telekom in its internal rules draws the attention that insider persons, in addition to being forbidden from using inside information to trade in securities for their own advantage, are also prohibited from tipping inside information to an outsider (any person other than a Magyar Telekom employee, officer or director, and includes friends, business associates, spouses or family members), who then trades on that information.

In certain cases transactions must be immediately announced to the authority or to the public by the insider person and/or by the issuer. In order to support compliance with the announcement obligations insider persons shall without delay fill in and send a form if they concluded a transaction with Magyar Telekom shares and Magyar Telekom shall file the necessary announcements and disclosures on behalf of certain insider persons.

9. A detailed demonstration of the methods of exercising shareholders rights

The holder of each Series A Share shall be entitled to one vote at the General Meeting of the Company and to all such rights attributed to such shareholder by the Companies Act or the Articles. The owner of the security unless the contrary is proved shall be the person on whose account the security is registered. The transfer of registered or interim share certificates shall be effective with respect to the Company when the name of the new owner of the shares has been entered in the shareholders register.

The Board of Directors of the Company through the registrar assigned by the Board according to Section 202 (2) of the Act, maintains a shareholders register of the holders of registered shares (including holders of interim share certificates or preliminary share certificates) and shareholders proxies by the class of shares, in which the name - in case of a joint representative the relevant data of the joint representative respectively - and address (seat) of each shareholder (shareholder s proxy) as well as the shareholding of each shareholder by the share series is recorded. The Company maintains a computerized shareholders register.

Whenever a dividend or interim dividend is declared by the General Meeting, shareholders shall be entitled to such dividend or interim dividend in proportion to the nominal value of their shares.

In the event of dissolution of the Company, the assets of the Company shall be distributed, after satisfying creditors, among all of the shareholders of the Company, such distribution to occur in accordance with the ratio of the nominal value of each shareholder s shares to the total registered capital of the Company.

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

If the General Meeting establishes that the company has made profit and determines that dividends should be paid, only those shareholders or shareholder representatives shall be entitled to such dividends who are owners with respect to the record date of identification of beneficial owner and the statutory required data of which are available for the payment of dividends.

The General Meeting shall be convened if shareholders representing at least five percent of the votes request the Board of Directors in writing to convene the General Meeting, stipulating the reason for and the object of their request. The court of registration shall convene the General Meeting if the convocation of the General Meeting is requested in compliance with the above outlined procedure and the Board of Directors fails to act within a period of 30 days or fails to convene the General Meeting within the shortest notice period required by the law or the Articles after such action.

Each shareholder has the right to attend the General Meeting, request information and comment on issues at the General Meeting. Holders of voting shares have the right to make proposals and to vote.

The Board of Directors shall provide the necessary information to any shareholder with respect to any matter on the agenda of the General Meeting upon the request of such shareholder submitted in writing to the Board of Directors at least 8 days prior to the General Meeting. The Board of Directors may refuse to provide such information only if that would violate a substantial business interest or business secret of the Company. As part of the rights of shareholders to information shareholders may not have access to the business books and other business documents of the Company.

The condition of participating at the General Meeting is that the shareholder or the nominee (except proxy holders acting on the basis of the authorization of the shareholder issued in the form of a public instrument or a private document of full probative force) is registered as such in the shareholders register at least six (6) working days prior to the date of the General Meeting.

The detailed rules of exercising shareholder s rights are contained in the Articles of Association of the Company that is available on the web site of the Company:

http://www.telekom.hu/static/sw/download/alapszabaly_20090629_eng.pdf

10. A brief presentation of rules on the conducting of the General Meeting

The General Meeting is the highest decision-making body of the Company, comprised of all of the shareholders. The decisions of the General Meeting, which are referred to as resolutions, are binding upon the shareholders, the other organs and the officers of the Company.

The Company shall hold an Annual General Meeting at least once each year (the Annual General Meeting) where the report of the Company, prepared according to the Accounting Act, is approved. The Annual General Meeting shall occur no later than four months immediately subsequent to the business year in question. In addition to the Annual General Meeting, the Company may hold extraordinary General Meetings at any time, if necessary.

Notice of each General Meeting of the Company unless otherwise provided by the Companies Act - shall be published in the manner stipulated by the applicable law and the Articles for the publication of the Company s notices and advertisements at least 30 days prior to the date of such General Meeting. The public notice of the General Meeting of the Company shall be published by the body responsible for the convocation of the General Meeting either by law or by the Articles.

The General Meeting shall be properly constituted with a quorum if shareholders representing more than half of the shares carrying voting rights at such General Meeting are present in person or by proxy - within 60 minutes of the time stipulated in the public notice convening the General Meeting. A second General Meeting convened and held on the same day and within two hours from the time of the original General Meeting without a sufficient number of shares present to constitute a quorum shall have a quorum for the purposes of considering items on the agenda of the postponed General Meeting regardless of the voting rights represented at such meeting.

Votes for or against a proposed resolution or amendment cast in accordance with the provisions of the Articles shall be regarded as votes duly cast. Abstentions shall not be considered as votes duly cast. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles in Section 6.2. (a)-(f), (k), (m), (p), (q) and (t), which shall require at least a three-quarters majority of the votes cast. Notwithstanding anything herein to the contrary, if the General Meeting decides to override a resolution of the Board of Directors, such shareholders resolution shall be binding only if a three-quarter majority of the votes of the shareholders that are present vote in favor of such a resolution.

The detailed rules of conducting the General Meeting are contained in Section 6 of the Articles of Association of the Company that is published on the web site of the Company:

http://www.telekom.hu/static/sw/download/alapszabaly_20090629_eng.pdf

11. Remuneration statement

Compensation of Board Members, Supervisory Board Members and Audit Committee Members

1. Board of Directors

- The members of the Board of Directors receive a fee
- The amount of the fee is determined by the General Meeting
- The fee is specified on the basis of domestic benchmark data
- The fee can be revised upon the initiative of the Remuneration Committee
- Members, elected from the management of the strategic investor, waive their entitlement to the fee whereas members, elected from the management of the Company, offer their fee for charity purposes
- The Board of Directors annually assesses its own activity according to predefined criteria (strategy, business performance, compliance, efficiency, dividend policy, information flow). Within the framework of the assessment the individual members self assessment is also reviewed according to predefined criteria.

2. Supervisory Board

- The members of the Supervisory Board receive a fee
- The amount of the fee is determined by the General Meeting
- The fee is specified on the basis of domestic benchmark data
- The fee can be revised upon the initiative of the Remuneration Committee
- Members, elected from the management of the strategic investor, waive their entitlement to the fee
- The Supervisory Board, based on the itemized review of the tasks specified in its Rules of Procedure, concretely assesses the work of the respective year that was carried out to fulfill the tasks contained in the Rules of Procedure and defines those activities that need to be improved. Within the framework of this activity the Supervisory Board assesses the abilities, experience of the individual members that are necessary to perform their respective duties.

3. Audit Committee

- The members of the Supervisory Board receive a fee
- The amount of the fee is determined by the General Meeting
- The fee is specified on the basis of domestic benchmark data
- The fee can be revised upon the initiative of the Remuneration Committee
- The Audit Committee, based on the itemized review of the tasks specified in its Rules of Procedure, concretely assesses the work of the respective year that was carried out to fulfill the tasks contained in the Rules of Procedure and defines those activities that need to be improved.

According to the resolutions passed on the General Meeting in April 2007 the remuneration of Board Members, Supervisory Board Members and Audit Committee Members at the Company are as follows:

The Chairman of the Board of Directors:	HUF 546 000 per month
The Members of the Board of Directors:	HUF 364 000 per month
The Chairman of the Supervisory Board:	HUF 448 000 per month

The Members of the Supervisory Board:	HUF 294 000 per month
The Chairman of the Audit Committee:	HUF 294 000 per month
The Members of the Audit Committee:	HUF 147 000 per month

4. Management (the term of management means the members of the Management Committee of the Company)

- With respect to the size of each element of the compensation package the Remuneration Committee submits its proposals in consideration of domestic benchmark surveys.
- Final decision is taken by Magyar Telekom s Board of Directors.
- The compensation package is reviewed once each year.

The compensation package consists of the following elements:

Base wage

Its size varies depending on the incumbent s position, a fixed wage amount tailored to the individual payable in monthly equal installments.

Variable pay

The annual bonus is a specific proportion of the base wage, paid on the basis of the achievement of the individual goals derived from the Magyar Telekom Group strategic goals, specified prior to the given business year. In the case of each individual goal the concrete threshold of under,- and overperformance are also determined and within that the concrete terms of payment are linked to performance targets.

The annual targets and the assessment of their performance, are approved by the Board of Directors on the basis of the submission of the Remuneration Committee.

Other benefits and perks

Other compensation elements have been designed in consideration of domestic benchmark data with a view to cost efficiency (e.g. cars for personal use, mobile phone, managers insurance, etc.)

Other benefits and perks have been guided by Magyar Telekom s Collective Agreement and regulations.

The performance of the members of the management are individually assessed each year, on the basis of predefined criteria and processes.

For the year ended December 31, 2009, the aggregate compensation of the members of the management was HUF 1043 million.

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Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations

R 1.1.1 The Managing Body ensured that shareholders received access to information in time to enable them to exercise their rights.

Yes (Complies) No (Please explain)

R 1.1.2 The company applies the one share - one vote principle.

Yes (Complies) No (Please explain)

R 1.2.8 The company ensures that shareholders must meet the same requirements in order to attend at the General Meeting.

Yes (Complies) No (Please explain)

R 1.2.9 Items on the General Meeting agenda only include subjects which are correctly detailed and summarized clearly and unambiguously.

Yes (Complies) No (Please explain)

The proposals included the suggestions of the Supervisory Board and a detailed explanation of the effects of the decision.

Yes (Complies) **No** (Please explain)

Though the General Meeting of the Company did not explain in details the effect of all decisions in case of each resolution but it did so prior to making such resolutions when due to the importance or complexity of the decision it could have an effect on the ongoing processes at the Company.

R 1.2.10 Shareholders comments on and supplements to the items on the agenda were published at least two days prior to the General Meeting.

Yes (Complies) **No** (Please explain)

No comments, supplements were received prior to the Y2009 General Meetings.

R 1.3.8 Comments on the items of the agenda were made available to shareholders simultaneously with registration at the latest.

Yes (Complies) **No** (Please explain)

No comments, supplements were received prior to the Y2009 General Meetings.

Written comments made on the items on the agenda were published two working days prior to the General Meeting.

Yes (Complies) **No** (Please explain)

No comments, supplements were received prior to the Y2009 General Meetings.

R 1.3.10 The election and dismissal of executives took place individually and by separate resolutions.

Yes (Complies) No (Please explain)

R 2.1.1 The responsibilities of the Managing Body include those laid out in 2.1.1.

Yes (Complies) **No** (Please explain)

The Articles of Association and the Rules of Procedure of the Board of Directors set forth that all matters fall into the competence of the Board of Directors (or into that of the Management Committee delegated to it by the Board of Directors) that according to the laws or the Articles of Association do not fall into the exclusive competence of the General Meeting or other corporate body. The list of competences in the Articles of Associations and in the Rules of Procedure of the Board of Directors does not fully cover the list set forth in the explanation of the recommendations.

R 2.3.1 The Managing Body held meetings regularly, at times designated in advance.

Yes (Complies) No (Please explain)

The Supervisory Board held meetings regularly, at times designated in advance.

Yes (Complies) No (Please explain)

The rules of procedure of the Managing Body provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies) No (Please explain)

The rules of procedure of the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies) No (Please explain)

R 2.5.1 The Management Board of the company has a sufficient number of independent members to ensure the impartiality of the board.

Yes (Complies) No (Please explain)

R 2.5.4 At regular intervals (in connection with the CG Report) the Managing Body requested a confirmation of their independent status from those members considered independent.

Yes (Complies) No (Please explain)

R 2.5.5 At regular intervals (in connection with the CG Report) the Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes (Complies) No (Please explain)

R 2.5.7 The company disclosed on its website the guidelines on the independence of the Managing Body and the Supervisory Board, as well as the criteria applied for assessing independence.

Yes (Complies) **No** (Please explain)

The Rules of Procedure of the Supervisory Board that is accessible on the web site of the Company includes the criteria on independency but as far as the Board of Directors is concerned the Company did not set such independency criteria.

R 2.6.1 Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a close relationship to them) had a significant personal stake in a transaction of the company (or the company s subsidiary).

Yes (Complies) **No** (Please explain)

No such personal stake did exist.

R 2.6.2 Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted according to general rules of practice of the company, but with stricter transparency rules in place.

Yes (Complies) **No** (Please explain)

No such transaction took place at the Company in 2009

Transactions which according to 2.6.2, fell outside the normal course of the company s business, and their terms and conditions were approved by the Supervisory Board (Audit Committee).

Yes (Complies) **No** (Please explain)

No such transaction took place at Magyar Telekom in 2009.

R 2.6.3 Board members informed the Supervisory Board/Audit Committee (Nomination Committee) if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes (Complies) **No** (Please explain)

The Company is not aware of such request.

R 2.6.4 The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitored compliance with those guidelines.

Yes (Complies) **No** (Please explain)

A CEO level internal regulation was issued at the Company on this subject matter.

The Managing Body established its guidelines regarding insiders trading in securities and monitored compliance with those guidelines.

Yes (Complies) **No** (Please explain)

A CEO level internal regulation was issued at the Company on this subject matter.

R 2.7.1 The Managing Body formulated remuneration guidelines regarding the evaluation and remuneration of the work of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies) No (Please explain)

The guidelines regarding the remuneration for the Managing Body and the Supervisory Board and the changes in those guidelines were approved by the General Meeting, as a separate item on the agenda.

Yes (Complies) No (Please explain)

R 2.7.2 The Managing Body prepared an evaluation of the work it carried out in the given business year.

The Supervisory Board prepared an evaluation of the work it carried out in the given business year.

Yes (Complies) No (Please explain)

R 2.7.3 It is the responsibility of the Managing Body to monitor the performance of and determine the remuneration for the executive management.

Yes (Complies) No (Please explain)

The frameworks of benefits due to members of the executive management that do not represent normal practice, and the changes in those benefits were approved by the General Meeting as a separate agenda item.

Yes (Complies) **No** (Please explain)

The members of the management do not have benefits that do not represent normal practice and there were no such events in 2009.

R 2.7.4 The structure of share-incentive schemes were approved by the General Meeting.

Yes (Complies) **No** (Please explain)

The current cash program linked to share performance (MTIP), which is disclosed in our Annual Report, the success criteria of which depends on the share-price of Magyar Telekom has been approved by the Board of Directors.

Prior to the decision by the General Meeting on share-incentive schemes, shareholders received detailed information (at least according to those contained in 2.7.4).

Yes (Complies) **No** (Please explain)

The current cash program linked to share performance (MTIP), which is disclosed in our Annual Report, the success criteria of which depends on the share-price of Magyar Telekom has been approved by the Board of Directors.

R 2.7.7 The Remuneration Statement was prepared by the company and submitted to the General Meeting.

Yes (Complies) No (Please explain)

The Remuneration Statement includes information about the remuneration of individual members of the Managing Body, the Supervisory Board, and the executive management.

Yes (Complies) **No** (Please explain)

The Remuneration Statement includes information about the remuneration of individual members of the Board of Directors and the Supervisory Board but due to data protection reasons the remuneration data of the management contains aggregate figures.

R 2.8.1 The Managing Body or the committee operated by it is responsible for monitoring and controlling the company s entire risk management.

Yes (Complies) No (Please explain)

The Managing Body requests information on the efficiency of risk management procedures at regular intervals.

Yes (Complies) No (Please explain)

The Managing Body took the necessary steps to identify the major risk areas.

Yes (Complies) No (Please explain)

R 2.8.3 The Managing Body formulated the principles regarding the system of internal controls.

Yes (Complies) No (Please explain)

The Board of Directors regularly assesses and approves the elements of the internal control system, established according to the BÉT Recommendations.

The system of internal controls established by the executive management guarantees the management of risks affecting the activities of the company, and the achievement of the company s performance and profit targets.

Yes (Complies) No (Please explain)

R 2.8.4 When developing the system of internal controls, the Managing Body took into consideration the viewpoints included in 2.8.4.

Yes (Complies) No (Please explain)

R 2.8.5 It is the duty and responsibility of the executive management to develop and maintain the system of internal controls.

Yes (Complies) No (Please explain)

R 2.8.6 The company created an independent Internal Audit function which reports to the Audit Committee.

Yes (Complies) No (Please explain)

The Internal Audit reported at least once to the Audit Committee on the operation of risk management, internal control mechanisms and corporate governance functions.

Yes (Complies) No (Please explain)

R 2.8.7 The internal audit activity is carried out by the Internal Audit function based on authorization from the Audit Committee.

Yes (Complies) No (Please explain)

As an organization, the Group Audit function is independent from the executive management.

Yes (Complies) **No** (Please explain)

The Group Audit Directorate is directly reporting to the Chief Executive Officer from an organizational point of view.

R 2.8.8 The Internal Audit schedule was approved by the Managing Body (Supervisory Board) based on the recommendation of the Audit Committee.

Yes (Complies) No (Please explain)

R 2.8.9 The Managing Body prepared its report for shareholders on the operation of internal controls.

Yes (Complies) **No** (Please explain)

In line with the Sarbanes-Oxley Act, the Company s Management Committee and the Board each year evaluate the effectiveness of internal control over financial reporting. The report on the evaluation is approved by the Management Committee and the Board. The result of the evaluation is available for shareholders in the Company s 20-F report within section Controls and procedures .

The Managing Body developed its procedures regarding the receipt, processing of reports on the operation of internal controls, and the preparation of its own report.

Yes (Complies) **No** (Please explain)

Though the Rules of Procedure of the Board of Directors does not explicitly include the task contained in the Recommendations, the Management Committee of the Company and the Board of Directors, in compliance with the Sarbanes-Oxley Act, annually assess the efficiency of the internal control environment of the preparation of the financial statement.

R 2.8.11 The Managing Body identified the most important deficiencies or flow in the system of internal controls, and reviewed and re-evaluated the relevant activities.

Yes (Complies) No (Please explain)

R 2.9.2 The Managing Body, the Supervisory Board and the Audit Committee were notified in all cases when an assignment given to the auditor may have resulted in significant additional expense, caused a conflict of interest, or affected normal business practices significantly in any other way.

Yes (Complies) **No** (Please explain)

In view of the fact that Magyar Telekom is also listed on the New York Stock Exchange, in compliance with the extremely strict provisions of the Sarbanes-Oxley Act, the Audit Committee is responsible for the oversight of the work of the independent external auditor of the Company. All audit-relevant and non-audit-relevant services to be performed by the independent external auditor for the Company and their fees are subject to the Audit Committee s pre-approval in order to ensure that the independent external auditor does not impair his independence from the Company. For this activity the Pre-approval policy of Magyar Telekom Plc. s Audit Committee is applicable.

R 2.9.3 The Managing Body informed the Supervisory Board of any assignment given to the external auditor or an external advisor in connection with any event which held significant bearing on the operations of the company.

Yes (Complies) **No** (Please explain)

The Audit Committee is responsible for the oversight of the work of the independent external auditor of the Company. All audit-relevant and non-audit-relevant services to be performed by the independent external auditor for the Company and their fees are subject to the Audit Committee s pre-approval in order to ensure that the independent external auditor does not impair his independence from the Company. For this activity the Pre-approval policy of Magyar Telekom Plc. s Audit Committee is applicable.

The Managing Body pre-determined in a resolution what circumstances constitute significant bearing .

Yes (Complies)	**No** (Please explain)

The Audit Committee is responsible for the oversight of the work of the independent external auditor of the Company. All audit-relevant and non-audit-relevant services to be performed by the independent external auditor for the Company and their fees are subject to the Audit Committee s pre-approval in order to ensure that the independent external auditor does not impair his independence from the Company. For this activity the Pre-approval policy of Magyar Telekom Plc. s Audit Committee is applicable.

R 3.1.6 On its website, the company disclosed duties delegated to the Audit Committee, the Nomination Committee and the Remuneration Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies) No (Please explain)

There is no Nomination Committee operating at the Company but as far as the other bodies are concerned the information is available on the web site of the Company.

R 3.2.1 The Audit Committee monitored the efficiency of risk management, the operation of internal controls, and the activity of the Internal Audit.

Yes (Complies) No (Please explain)

R 3.2.3 The Audit Committee received accurate and detailed information on the work schedule of the Internal Auditor and the independent auditor, and received the auditor s report on problems discovered during the audit.

Yes (Complies) No (Please explain)

R 3.2.4 The Audit Committee requested the new candidate for the position of auditor to submit the disclosure statement according to 3.2.4.

Yes (Complies) No (Please explain)

R 3.3.1 There is a Nomination Committee operating at the company.

Yes (Complies) **No** (Please explain)

Certain tasks and competences that in line with the Recommendations are the competences of the Nomination Committee are delegated to other bodies, for example the Remuneration Committee makes a proposal on the conclusion and modification of the work contract of the CEO.

R 3.3.2 The Nomination Committee provided for the preparation of personnel changes.

Yes (Complies) **<u>No</u>** (Please explain)

There is no Nomination Committee at the Company.

The Nomination Committee reviewed the procedures regarding the election and appointment of members of the executive management.

Yes (Complies) **<u>No</u>** (Please explain)

There is no Nomination Committee at the Company.

The Nomination Committee evaluated the activity of board and executive management members.

Yes (Complies) **<u>No</u>** (Please explain)

There is no Nomination Committee at the Company.

The Nomination Committee examined all the proposals regarding the nomination of board members which were submitted by shareholders or the Managing Body.

Yes (Complies) **No** (Please explain)

There is no Nomination Committee at the Company.

R 3.4.1 There is a Remuneration Committee operating at the company.

Yes (Complies) No (Please explain)

R 3.4.2 The Remuneration Committee made a proposal for the system of remuneration for the boards and the executive management (individual levels and the structure of remuneration), and carries out its monitoring.

Yes (Complies) No (Please explain)

R 3.4.3 The remuneration of the executive management was approved by the Managing Body based on the recommendation of the Remuneration Committee.

Yes (Complies) No (Please explain)

The remuneration of the Managing Body was approved by the General Meeting based on the recommendation of the Remuneration Committee.

Yes (Complies) No (Please explain)

The Remuneration Committee also monitored the share option, cost reimbursement and other benefits in the remuneration system.

Yes (Complies) No (Please explain)

R 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines and the remuneration of individual persons.

Yes (Complies) No (Please explain)

The Remuneration Committee reviewed the terms and conditions of contracts concluded with the members of the executive management.

Yes (Complies) No (Please explain)

The Remuneration Committee ascertained whether the company fulfilled its disclosure obligations regarding remuneration issues.

Yes (Complies) **No** (Please explain)

Currently the Remuneration Committee does not have such duty.

R 3.4.7 The majority of the members of the Remuneration Committee are independent.

Yes (Complies) **No** (Please explain)

There is one independent member among the members of the 3-member Remuneration Committee.

R 3.5.1 The Managing Body disclosed its reasons for combining the Remuneration and Nomination Committees.

Yes (Complies) **No** (Please explain)

The Remuneration and Nomination Committees are not combined at the Company (there is no Nomination Committee at the Company).

R 3.5.2 The Managing Body carried out the duties of the Remuneration and Nomination Committees and disclosed its reasons for doing so.

Yes (Complies) **No** (Please explain)

There is a separate Remuneration Committee at the Company the members of which were elected by the Board of Directors from among its own members.

R 4.1.1 In its disclosure guidelines, the Managing Body established those principles and procedures which ensure that all relevant information about the operations of the company and circumstances influencing its share price are disclosed and made available accurately, in a timely fashion and in full.

Yes (Complies) **No** (Please explain)

Currently there are no disclosure guidelines at the Company. The Company issued internal regulations regarding the Disclosure Committee and disclosure processes. The tasks of the individual organizational units regarding disclosure are contained in the relevant internal regulation.

R 4.1.2 The company ensured in its disclosure activities that all shareholders and market participants were treated equally.

Yes (Complies) No (Please explain)

R 4.1.3 The company s disclosure guidelines include the procedures governing electronic, on-line disclosure.

Yes (Complies) **No** (Please explain)

Currently there are no disclosure guidelines at the Company (please see the explanation at R.4.1.1.)

The company develops its website taking into consideration disclosure guidelines and the provision of information to investors.

Yes
(Complies)
No (Please explain)

R 4.1.4 The Managing Body assessed the efficiency of disclosure processes.

Yes
(Complies)
No (Please explain)

The efficiency of disclosure processes is monitored by the Audit Committee and the Supervisory Board.

R 4.1.5 The company published its corporate events calendar on its website.

Yes
(Complies)
No (Please explain)

R 4.1.6 In the annual report and on the website of the company, the public was informed about the company s corporate strategy, its main business activities, business ethics and its policies regarding other stakeholders.

Yes
(Complies)
No (Please explain)

R 4.1.8 In the annual report the Managing Body disclosed the character and size of any other assignments given by the company or its subsidiaries to the auditing firm responsible for auditing the financial statements.

Yes
(Complies)
No (Please explain)

R 4.1.9 In the annual report and on the website the company discloses information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes
(Complies)
No (Please explain)

R 4.1.10 The company provided information on the internal organization and operation of the Managing Body and the Supervisory Board and on the criteria considered when evaluating the work of the Managing Body, the executive management and the individual members thereof.

Yes
(Complies)
No (Please explain)

R 4.1.11 In the annual report and in the Remuneration Statement on the company s website, the company informed the public about the applied remuneration guidelines, including the remuneration and fees provided for members of the Managing Body, the Supervisory Board and the executive management.

Yes
(Complies)
No (Please explain)

R 4.1.12 The Managing Body disclosed its risk management guidelines, including the system of internal controls, the applied risk management principles and basic rules, as well as information about major risks.

Yes
(Complies)
No (Please explain)

The risk management guidelines of the Company were published by the management and not by the Board of Directors on the web site of the Company under Investor relations/Corporate Governance/Corporate governance documents menu item. The main risks are discussed in details in Item 3 of the 20-F report (Risk Factors).

R 4.1.13 In order to provide market participants with information, the company publishes its report on corporate governance at the same time that it publishes its annual report.

Yes
(Complies)
No (Please explain)

R 4.1.14 The company discloses its guidelines governing insiders trading in the company s securities on its website.

Yes
(Complies)
No (Please explain)

The company published in the annual report and on its website ownership in the company s securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes
(Complies)
No (Please explain)

R 4.1.15 In the annual report and on its website, the company disclosed any relationship between members of the Managing Body and the executive management with a third party, which might have an influence on the operations of the company.

Yes
(Complies)
No (Please explain)

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No)

S 1.1.3	The company has an investor relations department.	**Yes** / No
S 1.2.1	The company published on its website the summary document regarding the conducting of the General Meeting and the exercise of shareholders rights to vote (including voting via proxy)	**Yes** / No
S 1.2.2	The company s articles of association are available on the company s website.	**Yes** / No
S 1.2.3	The company disclosed on its website information according to 1.2.3 (on the record date of corporate events).	**Yes** / No
S 1.2.4	Information and documents according to 1.2.4 regarding General Meetings (invitations, proposals, draft resolutions, resolutions, minutes) were published on the company s website.	**Yes** / No
S 1.2.5	The General Meeting of the company was held in a way that ensured the greatest possible shareholder participation.	**Yes** / No
S 1.2.6	Additions to the agenda were published within 5 days of receipt, in the same manner as the publication of the original invitation for the General Meeting. (**There were no motions to amend the agenda items)**	Yes / **No**
S 1.2.7	The voting procedure applied by the company ensured unambiguous, clear and fast decision-making by shareholders.	**Yes** / No
S1.2.11	At the shareholders request, the company also provided information on the General Meeting electronically.	Yes / **No**
S 1.3.1	The identity of the chairman of the General Meeting was approved by the company s General Meeting prior to the discussion of the items on the agenda. (**The Articles of Association of the Company that is approved by the General Meeting determines that the Chairman of the General Meeting shall be the Chairman of the Board of Directors or the person nominated by the Board of Directors without a separate voting.**)	Yes / **No**
S 1.3.2	The Managing Body and the Supervisory Board were represented at the General Meeting.	**Yes** / No
S 1.3.3	The company s articles of association render possible that at the initiation of the chairman of the Managing Body or the shareholders of the company, a third party be invited to the company s General Meeting and be granted the right of participation in the discussion of	Yes / **No**

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	the relevant items on the agenda. **(Though the Articles of Association of the Company does not contain a specific provision on this matter the practice is that the Company does not exclude the participation of third parties at the General Meeting.)**	
S 1.3.4	The company did not prevent shareholders attending the General Meeting from exercising their rights to request information, make comments and proposals, and did not set any pre-requisites to do so.	**Yes** / No
S 1.3.5	The company published on its website within three days its answers to those questions which it was unable to answer satisfactorily at the General Meeting. Where the company declined to give an answer it published its reasons for doing so**. (The Company published the answer to unanswered question on April 20, 2009 following the General Meeting.)**	Yes / **No**
S 1.3.6	The chairman of the General Meeting and the company ensured that in answering the questions raised at the General Meeting, national laws and regulations of the Stock Exchange pertaining to disclosure were complied with.	**Yes** / No
S 1.3.7	The company published a press release and held a press conference on the decisions passed at the General Meeting.	**Yes** / No
S1.3.11	The company s General Meeting decided on the different amendments of the articles of association in separate resolutions.	**Yes** / No
S1.3.12	The minutes of the General Meeting containing the resolutions, the presentation of draft resolutions, as well as the most important questions and answers regarding the draft resolutions were published by the company within 30 days of the General Meeting. (**The minutes of the annual general meeting were published on April 30, 2010, however, the minutes of the extraordinary general meeting were published on August 19, 2009, i.e. not within 30 days.**)	Yes / **No**
S 1.4.1	The dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.	**Yes** / No
S 1.4.2	The company disclosed its policy regarding anti-takeover devices. **(No such policy was elaborated by the Company.)**	Yes / **No**
S 2.1.2	The rules of procedure define the composition of the Managing Body and all procedures and protocols for the preparation and holding of meetings, the drafting of resolutions and other related matters.	**Yes** / No
S 2.2.1	The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation and duties, as well as procedures and processes which the Supervisory Board followed.	**Yes** / No
S 2.3.2	Board members had access to the proposals of a given meeting at least five days prior to	**Yes** / No

	the board meeting.	
S 2.3.3	The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.	**Yes** / No
S 2.4.1	The election of the members of the Managing Body took place in a transparent way, information on candidates was made public at least five days prior to the General Meeting.	**Yes** / No
S 2.4.2	The composition of boards and the number of members complies with the principles specified in 2.4.2.	**Yes** / No
S 2.4.3	Newly elected, non-executive board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members through a tailored induction program.	**Yes** / No
S 2.5.2	The separation of the responsibilities of the Chairman of the Managing Body from those of the Chief Executive Officer has been outlined in the basic documents of the company.	Yes / **No**
S 2.5.3	The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the executive management s work where the functions of Chairman and CEO are combined.	Yes / **No**
S 2.5.6	The company s Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the three years prior to his nomination.	**Yes** / No
S 2.7.5	The development of the remuneration system of the Managing Body, the Supervisory Board and the executive management serves the strategic interests of the company and thereby those of the shareholders.	**Yes** / No
S 2.7.6	In the case of members of the Supervisory Board, the company applies a fixed amount of remuneration and does not apply a remuneration component related to the share price.	**Yes** / No
S 2.8.2	The Managing Body developed its risk management policy and regulations with the cooperation of those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company s daily operations.	**Yes** / No
S2.8.10	When evaluating the system of internal controls, the Managing Body took into consideration the aspects mentioned in 2.8.10.	Yes / **No**
S2.8.12	The company s auditor assessed and evaluated the company s risk management systems and the risk management activity of the executive management, and submitted its report on the matter to the Audit Committee.	**Yes** / No

S 2.9.1	The rules of procedure of the Managing Body, the Supervisory Board and the committees cover the procedure to be followed when employing an external advisor.	**<u>Yes</u>** / No
S 2.9.4	The Managing Body may invite the company s auditor to participate in those meetings where it debates General Meeting agenda items.	**<u>Yes</u>** / No
S 2.9.5	The company s Internal Audit function co-operated with the auditor in order to help it successfully carry out the audit.	**<u>Yes</u>** / No
S 3.1.2	The chairmen of the Audit Committee, Nomination Committee, Remuneration Committee (and any other committees operating at the company) regularly inform the Managing Body about the meetings of the committee, and the committees prepared at least one report for the Managing Body and the Supervisory Board in the given business year. (**There is no Nomination Committee at the Company the answer was provided with regard to the other bodies.)**	**<u>Yes</u>** / No
S 3.1.4	The company s committees are made up of members who have the capabilities, professional expertise and experience required to perform their duties.	**<u>Yes</u>** / No
S 3.1.5	The rules of procedure of committees operating at the company include those aspects detailed in 3.1.5.	**<u>Yes</u>** / No
S 3.2.2	The members of the Audit Committee were fully informed about the accounting, financial and operational peculiarities of the company.	**<u>Yes</u>** / No
S 3.3.3	The Nomination Committee prepared at least one evaluation for the chairman of the Managing Body on the operation of the Managing Body and the work and suitability of the members of the Managing Body. **(There is no Nomination Committee at the Company.)**	Yes / **<u>No</u>**
S 3.3.4	The majority of the members of the Nomination Committee are independent. **(There is no Nomination Committee at the Company.)**	Yes / **<u>No</u>**
S 3.3.5	The rules of procedure of the Nomination Committee includes those details contained in 3.3.5. **(There is no Nomination Committee at the Company.)**	Yes / **<u>No</u>**
S 3.4.5	The Remuneration Committee prepared the Remuneration Statement.	**<u>Yes</u>** / No
S 3.4.6	The Remuneration Committee exclusively consists of non-executive members of the Managing Body.	**<u>Yes</u>** / No
S 4.1.4	The disclosure guidelines of the company at least extend to those details contained in 4.1.4.	Yes / **<u>No</u>**

	The Managing Body informed shareholders in the annual report on the findings of the investigation into the efficiency of disclosure procedures.	Yes / **No**
S 4.1.7	The company s financial reports followed IFRS guidelines.	**Yes** / No
S4.1.16	The company also prepares and releases its disclosures in English.	**Yes** / No

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Decision on granting relief from liability to the members of the Board of Directors

Budapest, April 7, 2010

According to Section 30 (5) of the Companies Act, the Articles of Association may contain provisions for the general meeting to put on the agenda the evaluation of the work of the senior officers in the previous financial year and to decide on granting relief from liability to the senior officers. According to Section 6.2 (r) of the Articles of Association, decision on granting liability relief is within the exclusive authority of the General Meeting.

Resolution proposal:

The General Meeting of Magyar Telekom Plc. - having evaluated the work in the previous financial year of the Board members of the Company - hereby decides to grant the relief from liability for the members of the Board of the Company with respect to the 2009 business year in accordance with Section 30 (5) of the Companies Act. By granting this relief, the General Meeting confirms that the members of the Board have performed their work in 2009 by giving priority to the interests of the Company. The relief from liability granted by this resolution shall be cancelled in the event of a subsequent binding court ruling declaring the information based on which the relief of liability was granted was false or insufficient.

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposals

to the General Meeting of Magyar Telekom Plc.

Subject**:** Decision on the amendments of the Articles of Association of Magyar Telekom Plc.: **1.4. Sites and Branch Offices of the Company; 1.6.2. Other activities; 1.8. Legal Succession (1.8.4. and 1.8.5.); 2.4. Transfer of Shares (b), (c); 5.1. Mandatory Dissemination of Information; 6.2. Matters within the Exclusive Scope of Authority of the General Meeting (l); 6.3. Passing Resolutions; 6.6. Occurrence and Agenda of a General Meeting; 6.8. Notice of General Meetings; 6.9. Supplements of the agenda of a General Meeting; 6.11. Quorum; 6.12. Opening the General Meeting; 6.14. Election of the Officials of the General Meeting; 6.18. Passing Resolutions; 6.19. Minutes of the General Meeting (6.19.1.); 7.2. Members of the Board of Directors; 7.4.1. The Board of Directors (l), 8.2 Members of the Supervisory Board (8.2.1.); 15.5. Miscellaneous**

Budapest, April 7, 2010

Resolution proposal:

The Board of Directors proposes the modification of the Articles of Association of Magyar Telekom Plc. according to the Annex enclosed to this resolution proposal and submits it to the Annual General Meeting of the Company for approval.

According to Section 231 (2) of the Companies Act and Section 6.2. (a) of the Articles of Association the decision on the amendment of the Articles of Association falls into the exclusive scope of authority of the General Meeting of the Company.

The reasons for the modification of the Articles of Association of Magyar Telekom Plc. are as follows:

1. Due to the change of the sites and branch offices of the Company the following sites and branch offices have to be deleted from Section **1.4.** of the Articles of Association.

(a) Sites of the Company:

1117 Budapest, Gábor Dénes u. 2.

~~1013 Budapest, Krisztina krt. 32.~~

1107 Budapest, Bihari u.6.

1117 Budapest, Magyar tudósok krt.9.

1073 Budapest, Dob u. 76-78.

1051 Budapest, Petőfi Sándor u. 17-19.

1117 Budapest, Kaposvár u. 5-7

1117 Budapest, Budafoki u. 103-107

1107 Budapest, Száva u. 3-5.

~~1089 Budapest, Baross u. 133.~~

~~1133 Budapest, Kórház u. 6-12.~~

~~1152 Budapest, Szilaspark u. 10.~~

~~1182 Budapest, Üllői út 661~~.

1148 Budapest, Örs vezér tere 48.

~~1033 Budapest, Vöröskereszt u. 11.~~

(b) Branch Offices of the Company:

4026 Debrecen, Bethlen u. 1.

3525 Miskolc Régiposta u. 9.

9400 Sopron, Széchenyi tér 7-10.

7601 Pécs, Rákóczi út 19.

8174 Balatonkenese, Parti sétány 51.

6722 Szeged, Tisza Lajos krt. 41.

5600 Békéscsaba, Andrássy u. 44.

~~5600 Békéscsaba, Andrássy u. 51.~~

~~6721 Szeged, Csongrádi sgt. 12.~~

6723 Szeged, Etelka sor 1.

~~2030 Érd, Bajcsy Zsilinszky u. 158.~~

~~2500 Esztergom, Aradi vértanúk tere 2.~~

Resolution proposal:

The General Meeting approves the amendment of Section 1.4. of the Articles of Association according to the submission.

2. Due to the introduction of the 2008 TEÁOR codes, some technical corrections have been made in Section **1.6.2. (Other activities)** in the Hungarian version of the Articles of Association concerning the names of activities enlisted as in some cases the name of the activity in the Articles of Association was different from the names specified in the Company Registry. (In the unofficial English translation of the Articles of Association the names of the activities are correct, so they remain unchanged.)

The Company plans to sell electric power and natural gas and filed the necessary request for licence to the Hungarian Energy Office. Due to this it is necessary to supplement the scope of activities in the Articles of Association of the Company with 35.14 08 Trade of electricity and 35.23 08 Trade of gas through mains.

It is necessary to supplement the scope of activities in the Articles of Association of the Company with 80.10 08 Private security activities as a further activity regarding the ability of invoicing on security protection services provided by Magyar Telekom Plc. for real estates used jointly by Magyar Telekom Plc. and by its subsidiaries and other external companies.

1.6.2. Other activities:

Activities regarding to technical correction only in the Hungarian Articles (while in the unofficial English translation of the Articles of Association the names of the activities remain unchanged).

26.30 08~~ Hirad~~ásH*í*radás-technikai berendezés gyártása

41.10 08 Épületépítés~~i projec~~t proje*k*t szervezése

41.20 08 Lakó- és nem lak~~ó terüle~~t ***épület*** ~~előkészíté~~se***építése***

42.22 08 Elektromos, h*í*iradás-technikai célú közmű építése

45.11 08 Személygépjármű-, könnyűgépjá~~rmű-keresked~~elmekereskedel***em***

45.19 08 Egyéb gépjárm~~ű-kereskedel~~mekereskedel***em***

46.52. 08 Elektronikus, ~~-~~hi*í*radás-technikai berendezés és alkatrészei nagykereskedelme

47.54 08 Villamos háztartási készülék ***kis***kereskedelme

55.20 08 Üdülési, egyéb átmeneti szálláshely -szolgáltatás

56.10. 08 Étterm~~i~~i-, mozgó vendéglátás

59.20 08 Hangfelvétel készítése***, kiadása***

60.10 08 Rádió műsor-szolgáltatás

62.03 08 Számítógép-üzemeltetés

63.11 08 Adatfeldolgozás***, web-hoszting***~~-~~i szolgáltatás

63.12 08 Világháló-portáli szolgáltatás

63.99 08 M.n.s. egyéb információ*s* szolgáltatás

68.31 08 Ingatlanügynökségi tevékenység

71.12 08 Mérnöki tevékenység, ***műszaki*** tanácsadás

72.19 08 Egyéb természettudományi , műszaki kutatás, fejlesztés

73.12 08 Médiaa***reklám***tevékenység

85.60 08 OktatásiOktatást kiegészítő tevékenység

The scope of activities is supplemented with the activity as follows:

35.14 08 Trade of electricity

35.23 08 Trade of gas through mains

80.10 08 Private security activities

Resolution proposal:

The General Meeting approves the amendment of Section 1.6.2. of the Articles of Association according to the submission.

3. Section **1.8. (Legal Succession)** of the Articles of Association sets out the legal succession procedures due to earlier transformations of the Company. The transformation decided and approved by the Extraordinary General Meeting held on June 29, 2009 (Sections 1.8.4 and 1.8.5. of the Articles of Association) was registered by the Court of Registration with the effect as of September 30, 2009. In order to complete the

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descriptions it is necessary to include the date of the merger of the merging companies in the text.

Sections 1.8.4. and 1.8.5. of the Articles of Association are supplemented as follows:

1.8.4. Magyar Telekom ~~Távközlési Nyilvánosan Működő Részvénytársaság~~***Telecommunications Public Limited Company*** is the general legal successor of T-Kábel Magyarország Kábeltelevíziós Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 133., ~~Cg.~~***Corporate Registry No.***: 01-09-674638) ***that was merged into the Company on September 30, 2009.***

1.8.5. Magyar Telekom ***Telecommunications Public Limited Company*** ~~Távközlési Nyilvánosan Működő Részvénytársaság~~ is the general legal successor of Dél-Vonal Informatikai Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 1~~33.,~~ Cg. ***Corporate Registry No.***: 01-09-908030) ***that was merged into the Company on September 30, 2009.***

Resolution proposal:

The General Meeting approves the amendment of Section 1.8.4. of the Articles of Association according to the submission.

Resolution proposal:

The General Meeting approves the amendment of Section 1.8.5. of the Articles of Association according to the submission.

4. Section **2.4. (Transfer of Shares) b)** is deleted to be more precisely align and harmonized with the provisions of the Companies Act. The numbering of the following Subsections and the references to these Subsections in Section 2.4.(e) change accordingly. Further, the reference in Section 2.4.(c) of the Articles of Association to Section 2.4.(b) shall be deleted and it is amended to be more precisely align and harmonized with the provisions of the Companies Act.

~~(b) The consent of the shareholders holding at least a simple majority of the outstanding voting stock of the Company (excluding the shares the acquisition of which is subject to such approval under this section) shall be required to approve the acquisition, directly or indirectly, of the shares of the Company which, on a cumulative basis, would result in any person, or persons acting in concert (by virtue of agreement, ownership or otherwise), holding 10% or more, directly or indirectly, of the outstanding voting stock of the Company. The foregoing notwithstanding, no consent shall be required for: (i) acquisitions directly from the persons holding 10% or more of the Company s outstanding voting stock as at September 29, 1997 (Existing Shareholders), (ii) acquisitions directly from the transferees of the Existing Shareholders, (iii) acquisitions by an internationally recognised underwriter acquiring the Company s shares for the exclusive purpose of distributing such shares in a public offering, (iv) acquisitions by depositories for the Company s shares or certificates representing such shares appointed by the Company (but only (a) to the extent that the acquisition of such shares by the person or persons ultimately exercising shareholder s rights attached to the shares held by the depositories do not require the consent set forth in this Section 2.4(b) and (b) on the condition that such depository undertakes to provide the list of such persons to the Company upon request), or (v) direct or indirect sales or transfers of interest in any Existing Shareholder. No holder of any shares shall exercise any rights in respect of any shares acquired in violation of this Section and the Company shall not register such acquisition in the Shareholders Register of the Company~~.

(~~e~~***b***) ~~In the event of transfer of shares the new owner of the share shall notify the registrar as to the transfer within two days upon such event (i.e. transfer of shares to the securities account.) If the shareholder wishes so the custodian will not announce the said data. The shareholder shall provide evidence that he acquired the shares in accordance with the conditions set forth in these Articles in Section 2.4.b). In the event that the new owner of the shares provides~~ ***If any request regarding the registration at the registrar is justified by***

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the appropriate documents, ***and*** the Company shall, within a period of fifteen (15) days, examine such documents and decide whether the new owner acquired the shares in accordance with the provisions of these Articles. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company shall promptly notify the new owner of its reasoned decision and the new owner shall have the right to request, within thirty (30) days of the rendering of such decision, the competent court to review the decision.

Resolution proposal:

The General Meeting approves the amendment of Section 2.4. of the Articles of Association according to the submission.

5. Act CXXI of 2009 on the modification of Act IV of 2006 on Business Associations (Companies Act) and Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings entered into force on December 11, 2009. According to the modification of the law, limited companies must implement the provisions of the modifications into their Articles of Associations latest until May 31, 2010. Regarding to these provisions some Sections of the Articles of Association must be amended.

According to the amended Section 304 (1) of the Companies Act Section **5.1. (Mandatory Dissemination of Information)** of the Articles of Association is amended as follows:

In accordance with the rules of these Articles governing the publication of notices the ***draft*** ~~report~~ ***financial statements*** prepared according to the Accounting Act, the summaries of the Board and Supervisory Board reports, ***the aggregated number of shares and voting rights (including the separate aggregation of the different classes of shares) at the time of convocation*** the summary of the submissions regarding the agenda items, the resolution proposals and the extract of the company governance and management report shall be published at least ***twenty-one***~~15~~ days prior to the date of the GM.

Resolution proposal:

The General Meeting approves the amendment of Section 5.1. of the Articles of Association according to the submission.

6. Due to deleting Section 2.4.(b) of the Articles of Association, it is necessary to delete Section 6.2 (**Matters within the Exclusive Scope of Authority of the General Meeting) (l)** from the Articles of Association. The numbering of the following Subsections changes accordingly.

The following matters shall be within the exclusive scope of authority of the General Meeting: [ ]

~~(l) decision with respect to an approval pursuant to Section 2.4 (b) of the Articles;~~

Resolution proposal:

The General Meeting approves the amendment of Section 6.2. of the Articles of Association according to the submission.

7. Section 6.3 (**Passing Resolution)** of the Articles of Association in accordance with Section 6.18. of the Articles of Association is amended as follows:

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The General Meeting shall adopt resolutions by means of the casting of votes ~~by voting shareholders~~ in the manner stipulated by Sections 6.17. and 6. 18. of these Articles.

Resolution proposal:

The General Meeting approves the amendment of Section 6.3. of the Articles of Association according to the submission.

8. Section **6.6. (Occurence and Agenda of a General Meeting)** of the Articles of Association is amended to be more precisely align with the terminology of the Companies Act.

The Company shall hold a General Meeting at least once each year (the Annual General Meeting) where the ~~annual balance sheet~~ ***financial statements prepared according to the Accounting Act*** of the Company ~~shall be approved~~ ***are approved***. The Annual General Meeting shall occur no later than April 30 of the year immediately subsequent to the business year in question.

In addition to the Annual General Meeting, the Company may hold extraordinary General Meetings at any time, if necessary.

Resolution proposal:

The General Meeting approves the amendment of Section 6.6. of the Articles of Association according to the submission.

9. According to the amended Section 303 (4) of the Companies Act Section **6.8. (Notice of General Meetings)** of the Articles of Association is amended follows:

The public announcement of each General Meeting shall contain:

(a) the name and the registered office of the Company;

(b) the date and the venue of such General Meeting;

(c) the way of holding the General Meeting;

(~~c~~d) the items on the agenda of such General Meeting;

(~~d~~e) the place and the date of the reconvened General Meeting to be held if the first General Meeting does not have a quorum;~~ and~~

(~~e~~f) the conditions for the exercise of the voting rights at such General Meeting ***set out in the Articles of Association, including the indication of the latest date until the name of the shareholder or the nominee intending to take a part on the general meeting can be registered in the shareholders register;***

(g) the date according to the provisions of Section 304 (2) of the Companies Act and the information concerning the provisions of Section 304 (3) of the Companies Act;

(h) the conditions set out in the Articles regarding the exercise of the right to request information and supplement to the agenda of the general meeting;

(i) the information related to the date, place and method (including the website of the Company) of the availability of the submissions and resolution proposals on the agenda of the general meeting

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Resolution proposal:

The General Meeting approves the amendment of Section 6.8. of the Articles of Association according to the submission.

10. According to the amended Section 300 (1) of the Companies Act Section **6.9. (Supplements of the agenda of a General Meeting)** of the Articles of Association is amended follows:

Shareholders representing at least one percent of the votes may, within eight days from the publication of the Announcement on the convocation of the General Meeting, request the Board of Directors in writing to include any issue in the agenda of the General Meeting ***and submit resolution proposals related to the agenda items***.

Resolution proposal:

The General Meeting approves the amendment of Section 6.9. of the Articles of Association according to the submission.

11. According to the amended Section 305 (1) of the Companies Act Section **6.11. (Quorum)** of the Articles of Association is amended as follows:

The General Meeting shall be properly constituted with a quorum if shareholders representing more than half of the shares carrying voting rights at such General Meeting are present in person or by proxy within 60 minutes of the time stipulated in the public notice convening the General Meeting. ***If the General Meeting does not have a quorum, the General Meeting reconvened with the same agenda shall be held after a period of at least ten (10) days after the convocation of the reconvened General Meeting.***~~A second General Meeting convened and held within two hours from the time of the original General Meeting~~ ***The reconvened General Meeting*** ~~without a sufficient number of shares present to~~ constitute***s*** a quorum ***with regard to the agenda items of the original General Meeting*** ~~shall have a quorum for the purposes of considering items on the agenda of the postponed General Meeting~~ regardless of the voting rights represented ~~at~~***at the reconvened*** ~~such m~~***M***eeting.

Resolution proposal:

The General Meeting approves the amendment of Section 6.11. of the Articles of Association according to the submission.

12. In order to harmonize Section **6.12. (Opening of the General Meeting)** of the Articles of Association with Section 6.14. of the Articles of Association Section 6.12. is amended as follows:

Either the Chairman of the Board of Directors or the person elected by the General Meeting on the basis of the proposal of the Board of Directors shall open and chair the General Meeting.

~~The General Meeting shall be opened by the Chairman of the Board of Directors or the person designated by the Board of Directors for such purpose and such person shall be the Chairman of the General Meeting. In the absence of such person, any shareholder may make a nomination for the Chairman of the General Meeting. Nominations shall not be discussed in detail by the General Meeting but the Chairman of the General Meeting shall be elected by simple majority vote by reference to the nominal value of shares held by those present.~~

Resolution proposal:

The General Meeting approves the amendment of Section 6.12. of the Articles of Association according to the submission.

13. In order to harmonize Section **6.14. (Election of the Officials of the General Meeting)** of the Articles of Association with Section 6.12. of the Articles of Association, so Section 6.14. is amended as follows:

The General Meeting shall elect ~~its Chairman~~ the keeper of the minutes, the person who shall certify the minutes, and, in case of non-computerised voting, the tellers***, and the Chairman of the General Meeting in case of the proposal of the Board Directors.***

Resolution proposal:

The General Meeting approves the amendment of Section 6.14. of the Articles of Association according to the submission.

14. Section **6.18. (Passing Resolutions)** of the Articles of Association shall be amended as follows. The amendment shall enter into force following the end of the General Meeting held on April 7, 2010.

• due to the deletion of Section 6.2.(l) and amending the numbering of the following subsections,

• due to regulating the voting ratio in compliance with the Companies Act in case of acquiring treasury shares there is no need for qualified majority therefore the acquisition of treasury shares is deleted from Section 6.18. (6.2. (t)) as a three-quarter majority decision, and

• in line with the Companies Act and in order to be more precisely align with the terminology of the Companies Act the text regarding passing resolutions has been updated.

~~Votes for or against a proposed resolution or amendment cast in accordance with the provisions of these Articles shall be regarded as votes duly cast. Abstentions shall not be considered as votes duly cast.~~ The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in Section 6.2. (a)-(f), (k), (~~m~~***l***), (~~p~~***o***), ***and*** (~~q~~***p***)~~and (t)~~, which shall require at least a three-quarters majority of the votes~~ cast~~***of the shareholders present***. ~~Notwithstanding anything herein to the contrary, if the General Meeting decides to override a resolution of the Board of Directors, such shareholders resolution shall be binding only if a three-quarter majority of the votes of the shareholders that are present vote in favour of such a resolution.~~

~~Disadvantageous resolutions regarding rights related to a series of shares can only be made by the General Meeting if the shareholders of the affected share series give their separate consent thereto. During this, provisions related to possible limitation or exclusion of share related voting rights – including the exclusion from own shares – shall not apply~~.

Resolution proposal:

The General Meeting approves the amendment of Section 6.18. of the Articles of Association according to the submission. The amendment shall enter into force following the end of the General Meeting held on April 7, 2010.

15. According to the amended Section 306 (1) of the Companies Act Section **6.19.1. (6.19. Minutes of the General Meeting)** of the Articles of Association is amended as follows:

6.19.1. Minutes shall be taken of the General Meeting which shall contain:

- the business name and registered seat of the Company;
- the venue and date ***and the way of holding*** ~~of~~ the General Meeting;

- ***information related to ownership-ratio of the share capital represented by the votes;***
- the names of the Chairman of the General Meeting, the minute keeper, the shareholder certifying the minutes and the tellers;
- material events of the General Meeting and the proposals made;
- the resolution proposals, the number of votes in favour and against each resolution proposals and the number of abstentions;
- the objections of shareholders, members of the Board of Directors or Supervisory Board against a resolution if so requested by the objecting person, and all matters expressly requested by the shareholders, the Chairman of the Supervisory Board or the Auditor.

Resolution proposal:

The General Meeting approves the amendment of Section 6.19.1. of the Articles of Association according to the submission.

16. Section **7.2. (Members of the Board of Directors)** of the Articles of Association is amended to ensure more flexible operation of the Company and it is supplemented in accordance with Section 25 (1) as follows:

The Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. The assignment of the members of the Board of Directors lasts for a term of three years ~~from the date of the annual General Meeting~~ until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof. Members of the Board of Directors can be removed or re-elected at any time by the General Meeting. Unless otherwise provided by a separate arrangement, the removal of, or failure to re-elect, a member of the Board of Directors shall not affect the employment rights of such person in respect of the Company where such member of the Board of Directors is also an employee of the Company.

The provisions of the relevant act regarding the conflict of interest of the members of the Board of Directors shall apply, except that apply except that the members of the Board of Directors may be executive officers in an other company whose main activity is identical to that of the Company and this shall not constitute a conflict of interest with being a member of the Board of Directors.

Resolution proposal:

The General Meeting approves the amendment of Section 7.2. of the Articles of Association according to the submission.

17. Section **7.4.1. (The Board of Directors) l)** of the Articles of Association is amended to be more precisely align with the terminology of the Companies Act as follows.

(l) Ensures the purchase of own shares on the basis of the authorization of the General Meeting and ~~shall~~ arrange***s*** for the alienation of the Company s own shares;

Resolution proposal:

The General Meeting approves the amendment of Section 7.4.1. l) of the Articles of Association according to the submission.

18. Section **8.2.1. (8.2. Members of the Supervisory Board)** of the Articles of Association is amended to ensure more flexible operation of the Company.

8.2.1. The Supervisory Board shall be comprised of 3-15 members. The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years ~~from the date of the annual General Meeting~~ until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.

Resolution proposal:

The General Meeting approves the amendment of Section 8.2.1. of the Articles of Association according to the submission.

19. Due to the amendments accepted by the General Meeting, reference to General Meeting resolution no. 20/2010 (VI.29) is not appropriate any more, therefore Section **15.5. (Miscellaneous)** of the Articles of Association is amended as follows:

~~In line with Resolution 20/2009 (VI.29.) of the General Meeting t~~***T***his Articles of Association shall supersede and replace the former Articles of Association of the Company. Consequently, on the effective date of this ~~amendment of the~~ Articles, all prior versions of the Articles and all resolutions of the Company inconsistent with these Articles shall have no effect. Issues not regulated herein shall be subject to the provisions of the Companies Act and other relevant laws.

Resolution proposal:

The General Meeting approves the amendment of Section 15.5. of the Articles of Association according to the submission.

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Unofficial Translation of the Amended and Restated Articles of Association of Magyar Telekom Telecommunications Public Limited Company

The actual changes proposed to the Annual General Meeting for adoption are included with track changes (colored), while technical corrections to improve the English translation compared to the Hungarian version are indicated with underlined / strikethrough text (where applicable).

Articles of Association of Magyar Telekom Plc.

Contents

1. The Company Data

1.1. The Registered Name of the Company

The registered name of the Company is Magyar Telekom Távközlési Nyilvánosan Működő Részvénytársaság

The Company s abbreviated name is Magyar Telekom Nyrt.

1.2. The Company s name in English

The Company s name in English is Magyar Telekom Telecommunications Public Limited Company

The Company s abbreviated name: Magyar Telekom Plc.

1.3. The Registered Office of the Company

1013 Budapest, Krisztina krt. 55.

1.4. Sites and Branch Offices of the Company

(a) Sites of the Company:

1117 Budapest, Gábor Dénes u. 2.

~~1013 Budapest, Krisztina krt. 32.~~

1107 Budapest, Bihari u.6.

1117 Budapest, Magyar tudósok krt.9.

1073 Budapest, Dob u. 76-78.

1051 Budapest, Petőfi Sándor u. 17-19.

1117 Budapest, Kaposvár u. 5-7

1117 Budapest, Budafoki u. 103-107

1107 Budapest, Száva u. 3-5.

~~1089 Budapest, Baross u. 133.~~

~~1133 Budapest, Kórház u. 6-12.~~

~~1152 Budapest, Szilaspark u. 10.~~

~~1182 Budapest, Üllői út 661~~.

1148 Budapest, Örs vezér tere 48.

~~1033 Budapest, Vöröskereszt u. 11.~~

(b) Branch Offices of the Company:

4026 Debrecen, Bethlen u. 1.

3525 Miskolc Régiposta u. 9.

9400 Sopron, Széchenyi tér 7-10.

7601 Pécs, Rákóczi út 19.

8174 Balatonkenese, Parti sétány 51.

6722 Szeged, Tisza Lajos krt. 41.

5600 Békéscsaba, Andrássy u. 44.

~~5600 Békéscsaba, Andrássy u. 51.~~

~~6721 Szeged, Csongrádi sgt. 12.~~

6723 Szeged, Etelka sor 1.

~~2030 Érd, Bajcsy-Zsilinszky u. 158.~~

~~2500 Esztergom, Aradi vértanúk tere 2.~~

1.5. The Duration of the Company

The Company is established for an indefinite period of time.

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1.6. The Scope of Activities of the Company

1.6.1. Main activity:

61.10	08	Wired telecommunications activities

1.6.2. Other activities:

18.13	08	Pre-press and pre-media services
18.14	08	Binding and related services
18.20	08	Reproduction of recorded media
26.30	08	Manufacture of communication equipment
33.20	08	Installation of industrial machinery and equipment
35.11	08	Production of electricity
35.14.	***08***	***Trade of electricity***
35.23	***08***	***Trade of gas through mains***
35.30	08	Steam and air conditioning supply
41.10	08	Development of building projects
41.20	08	Construction of residential and non-residential buildings
42.21	08	Construction of utility projects for fluids
42.22	08	Construction of utility projects for electricity and telecommunications
42.99	08	Construction of other civil engineering projects n.e.c.
43.11	08	Demolition
43.12	08	Site preparation
43.21	08	Electrical installation
43.22	08	Plumbing, heat and air-conditioning installation
43.29	08	Other construction installation
43.99	08	Other specialised construction activities n.e.c.
45.11	08	Sale of cars and light motor vehicles
45.19	08	Sale of other motor vehicles
46.14	08	Agents involved in the sale of machinery, industrial equipment, ships and aircraft
46.43	08	Wholesale of electrical household appliances
46.49	08	Wholesale of other household goods
46.52	08	Wholesale of electronic and telecommunications equipment and parts
46.69	08	Wholesale of other machinery and equipment
46.90	08	Non-specialised wholesale trade
47.19	08	Other retail sale in non-specialised stores
47.41	08	Retail sale of computers, peripheral units and software in specialised stores
47.42	08	Retail sale of telecommunications equipment in specialised stores
47.43	08	Retail sale of audio and video equipment in specialised stores
47.54	08	Retail sale of electrical household appliances in specialised stores
47.59	08	Retail sale of furniture, lighting equipment and other household articles in specialised stores
47.61	08	Retail sale of books in specialised stores
47.62	08	Retail sale of newspapers and stationery in specialised stores
47.63	08	Retail sale of music and video recordings in specialised stores
47.65	08	Retail sale of games and toys in specialised stores
47.78	08	Other retail sale of new goods in specialised stores
47.91	08	Retail sale via mail order houses or via Internet
47.99	08	Other retail sale not in stores, stalls or markets
52.10	08	Warehousing and storage

55.10	08	Hotels and similar accommodation
55.20	08	Holiday and other short-stay accommodation
55.90	08	Other accommodation
56.10	08	Restaurants and mobile food service activities
56.21	08	Event catering activities
56.29	08	Other food service activities
58.11	08	Book publishing
58.12	08	Publishing of directories and mailing lists
58.13	08	Publishing of newspapers

58.14	08	Publishing of journals and periodicals
58.19	08	Other publishing activities
58.21	08	Publishing of computer games
58.29	08	Other software publishing
59.20	08	Sound recording and music publishing activities
60.10	08	Radio broadcasting
60.20	08	Television programming and broadcasting activities
61.20	08	Wireless telecommunications activities
61.30	08	Satellite telecommunications activities
61.90	08	Other telecommunications activities
62.01	08	Computer programming activities
62.02	08	Computer consultancy activities
62.03	08	Computer facilities management activities
62.09	08	Other information technology and computer service activities
63.11	08	Data processing, hosting and related activities
63.12	08	Web portals
63.99	08	Other information service activities n.e.c.
64.20	08	Activities of holding companies
68.20	08	Renting and operating of own or leased real estate
68.31	08	Real estate agencies
68.32	08	Management of real estate on a fee or contract basis
69.20	08	Accounting, bookkeeping and auditing activities; tax consultancy
70.21	08	Public relations and communication activities
70.22	08	Business and other management consultancy activities
71.11	08	Architectural activities
71.12	08	Engineering activities and related technical consultancy
71.20	08	Technical testing and analysis
72.19	08	Other research and experimental development on natural sciences and engineering
72.20	08	Research and experimental development on social sciences and humanities
73.11	08	Advertising agencies
73.12	08	Media representation
74.30	08	Translation and interpretation activities
74.90	08	Other professional, scientific and technical activities n.e.c.
77.11	08	Renting and leasing of cars and light motor vehicles
77.12	08	Renting and leasing of trucks
77.21	08	Renting and leasing of recreational and sports goods
77.22	08	Renting of video tapes and disks
77.29	08	Renting and leasing of other personal and household goods
77.33	08	Renting and leasing of office machinery and equipment (including computers)
77.39	08	Renting and leasing of other machinery, equipment and tangible goods n.e.c.
79.11	08	Travel agency activities
79.12	08	Tour operator activities
79.90	08	Other reservation service and related activities
80.10	***08***	***Private security activities***
80.20	08	Security systems service activities
81.10	08	Combined facilities support activities
82.11	08	Combined office administrative service activities
82.19	08	Photocopying, document preparation and other specialised office support activities
82.20	08	Activities of call centres
82.30	08	Organisation of conventions and trade shows
82.91	08	Activities of collection agencies and credit bureaus
82.99	08	Other business support service activities n.e.c.
85.32	08	Technical and vocational secondary education

85.51	08	Sports and recreation education
85.59	08	Other education n.e.c.
85.60	08	Educational support activities
95.11	08	Repair of computers and peripheral equipment
95.12	08	Repair of communication equipment

1.7. The Company s Registered Share Capital

The share capital of the Company is HUF 104,274,254,300 (that is one hundred and four billion two hundred and seventy-four million two hundred and fifty-four thousand three hundred forint), comprised of HUF 46,008,065,300 (that is forty-six billion eight million and sixty-five thousand three hundred forints) cash contribution and HUF 58,266,189,000 (that is fifty eight billion two hundred and sixty six million one hundred and eighty nine thousand forint) in-kind contribution.

1.8 Legal Succession

1.8.1. Magyar Telekom Telecommunications Public Limited Company is the general legal successor of T-Mobile Hungary Telecommunications Company Limited by Shares (1117 Budapest, Kaposvár u. 5-7.; Corporate Registry No.: 01-10-042361) that was merged into the Company on February 28, 2006.

1.8.2. Magyar Telekom Telecommunications Public Limited Company is the general legal successor in respect of the demerged corporate assets of T-Online Hungary Internet Service Provider Private Company Limited (registered seat: 1117 Budapest, Neumann J. u 1/b.; Corporate Registry No.: 01-10-044389) that was merged into the Company on September 30, 2007.

1.8.3. Magyar Telekom Telecommunications Public Limited Company is the general legal successor of EMITEL Telecommunications Company Limited (registered seat: 6722 Szeged, Tisza Lajos krt. 41., Corporate Registry No.: 06-10-000154) that was merged into the Company on September 30, 2007.

1.8.4. Magyar Telekom ***Telecommunications Public Limited Company*** ~~Távközlési Nyilvánosan Működő Részvénytársas~~ág is the general legal successor of T-Kábel Magyarország Kábeltelevíziós Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 133~~.,~~ Cg ***Corporate Registry No.:*** 01-09-674638)***that was merged into the Company on September 30, 2009.***

1.8.5. Magyar Telekom ~~Távközlési Nyilvánosan Működő Részvénytársas~~ág***Telecommunications Public Limited Company*** ~~shall~~ beis the general legal successor of Dél-Vonal Informatikai Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság (registered seat: 1089 Budapest, Baross u. 133., ~~Cg~~ ***Corporate Registry No.:*** 01-09-908030)***that was merged into the Company on September 30, 2009.***

2. The Shares of the Company

2.1. The Shares~~Capital~~

The share capital of the Company in comprised of 1,042,742,543 ~~–~~A series ~~–A– regi~~steredordinary shares, each with the face value of HUF 100.

The shares of the Company are dematerialized shares.

Dematerialized shares are registered shares that have no serial number and the name of the owner as well as other identification data are contained in the securities account.

2.2. Series A Ordinary Shares

The holder of each Series A ordinar~~y~~ sShare shall be entitled to one vote at the General Meeting of the Company and to all such rights attributed to such shareholder by Act IV of 2006 on Business Associations (hereinafter: the Companies Act) or these Articles.

2.3. The Nominal Value of Shares and the Certificate issued on the Dematerialized Share

Shares belonging to the same share type shall have the same nominal value.

The security account of the owner of dematerialized shares must include the data specified by the relevant laws:

A certificate which does not qualify as a security - shall be issued on each type of dematerialized share and deposited in the central treasury, bearing the signatures of two members of the Board of Directors.

2.4. Transfer of Shares

(a) The acquisition and transfer of the dematerialized share shall only be effected through crediting or debiting the securities account. The owner of the security unless the contrary is proved shall be the person on whose account the security is registered. The transfer of registered or Interim Share Certificates shall be effective with respect to the Company when the name of the new owner of the shares has been entered in the Shareholders Register.

~~(b) The consent of the shareholders holding at least a simple majority of the outstanding voting stock of the Company (excluding the shares the acquisition of which is subject to such approval under this section) shall be required to approve the acquisition, directly or indirectly, of the shares of the Company which, on a cumulative basis, would result in any person, or persons acting in concert (by virtue of agreement, ownership or otherwise), holding 10% or more, directly or indirectly, of the outstanding voting stock of the Company. The foregoing notwithstanding, no consent shall be required for: (i) acquisitions directly from the persons holding 10% or more of the Company s outstanding voting stock as at September 29, 1997 (Existing Shareholders), (ii) acquisitions directly from the transferees of the Existing Shareholders, (iii) acquisitions by an internationally recognised underwriter acquiring the Company s shares for the exclusive purpose of distributing such shares in a public offering, (iv) acquisitions by depositories for the Company s shares or certificates representing such shares appointed by the Company (but only (a) to the extent that the acquisition of such shares by the person or persons ultimately exercising shareholder s rights attached to the shares held by the depositories do not require the consent set forth in this Section 2.4(b) and (b) on the condition that such depository undertakes to provide the list of such persons to the Company upon request), or (v) direct or indirect sales or transfers of interest in any Existing Shareholder. No holder of any shares shall exercise any rights in respect of any shares acquired in violation of this Section and the Company shall not register such acquisition in the Shareholders Register of the Company~~.

(~~c~~***b***) ~~In the event of transfer of shares the custodian shall notify the registrar as to the transfer. within two days upon such event (i.e. transfer of shares to the securities account). If the shareholder wishes so the custodian will not announce the said data. . The shareholder shall provide evidence that he acquired the shares in accordance with the conditions set forth in these Articles in Section 2.4.b). In the event that the new owner of the shares provides~~ ***If any request regarding the registration at the registrar is justified by*** the appropriate documents, ***and*** the Company shall, within a period of fifteen (15) days, examine such documents and decide whether the new owner acquired the shares in accordance with the provisions of these Articles. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company shall promptly notify the new owner of its reasoned decision and the new owner shall have the right to request, within thirty (30) days of the rendering of such decision, the competent court to review the decision.

(~~d~~***c***) Those shareholders who wish so, shall not be registered in the Shareholders Register in addition to those who obtained the shares in violation of laws or this Articles regarding the transfer of shares.

(~~e~~***d***) The registrar, except in case set forth in Section 2.4. (~~c~~***b***) and (~~d~~***c***), shall not refuse prompt registry and shall promptly delete such shareholder who wishes so.

(~~f~~e) If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Shareholders Register.

(~~g~~*f*) The shareholder may review the Shareholders Register and may request a copy on parts relevant to him from the Board of Directors or from the representative thereof. Such requests shall be met within five days by the registrar. Third parties may review the Shareholders Register as well.

2.5. Shareholders Register

2.5.1. The Board of Directors of the Company through the registrar assigned by the Board according to Section 202.§ (2) of the Act, maintains a Shareholders Register of the holders of registered shares (including holders of Interim Share Certificates or Preliminary Share Certificates) and shareholders proxies by the class of shares, in which the name - in case of a joint representative the relevant data of the joint representative respectively - and address (seat) of each shareholder (shareholder s proxy) as well as the shareholding of each shareholder by the share series is recorded. The Company maintains a computerized Shareholders Register.

2.5.2. The registrar, assigned by the Board of Directors of the Company according to Section 202.§ (2) of the Companies Act, fulfils the written requests of the not-yet-registered acquirer or his representative on registering the transfer of shares in the Shareholders Register - if it was not requested by the custodian if the acquirer of the shares or his representative produces the securities account statement under his name that certifies the ownership of the share towards third parties at the time of its issuance and complies with the provisions of Section 2.4 of these Articles.

2.5.3. The condition of participating at the General Meeting is that the shareholder or the nominee (except proxy holders acting on the basis of the authorization of the shareholder issued in the form of a public instrument or a private document of full probative force) is registered as such in the Shareholders Register at least six (6) working days prior to the date of the General Meeting. The registry of shareholders in the Shareholders Registry may be at the record date of identification of beneficial owner prior to the GM or at the shareholder s individual request. Those shareholders can exercise their voting rights at the GM who are entered into the Shareholders Registry. No entry in the Shareholders Register shall be made in the period of six (6) business days prior to the General Meeting.

2.5.4. The registrar, assigned by the Board of the Company may refuse the request for registration into the Shareholders Register by a person acquiring shares who omits to provide the supporting evidence that such a person is obliged to submit to the Company in accordance with Section 2.4 of these Articles. The registration into the Shareholders Register based on untrue, false or misleading statements may be deleted by a reasoned resolution of the Board of Directors.

2.6. Interim Share Certificates

Upon registration of an increase in the capital of the Company by the Court of Registration, the Company may issue Interim Share Certificates (ideiglenes részvény) if the amount of the contribution either undertaken to be acquired or registered by the shareholder until the shares are fully paid. The Interim Shares are securities, subject to the same rules that are applicable to shares. The transfer of Interim Shares are effected when the shareholder is registered in the Shareholders Register. Subsequent to the full payment of the share value and the production of new shares, the Board of Directors invalidates the Interim Shares in accordance with the provisions of the Companies Act.

3. Payment for shares

3.1. Effecting Payment for Shares

Unless otherwise provided by the resolution of the General Meeting regarding an increase in the Company s capital,

a) in the case of increase of share capital by way of closed issue the subscribers for shares shall be obliged to pay at least 25% of the subscription price

b) in the case of increase of share capital by way of the public issue of new shares if the issue price of shares exceeds their face value the subscribers must fully pay the difference to the Company at subscription and provide written proof thereof, within a period of 15 days after the subscription for shares.

3.2. Recognition of Payment

Unless otherwise provided by the resolution of the General Meeting, cash payment for shares subscribed for shall be recognized when the total amount of the issue price has been credited to the Company s account with a bank that is registered in Hungary.

3.3. Contributions in Kind

Subscribers shall be obliged to transfer any asset comprising contribution in-kind to the Company or place such assets at the Company s disposal before the request for the registration of the Company is filed with the Court of Registration.

3.4. Recognition of Contributions in Kind

The Board of Directors shall issue a receipt in respect of any contributions in kind.

3.5. Delay in Payment for Shares and Contributions in Kind

Should a shareholder fail to make the contribution due to be paid to the Company as stipulated by Section 3.6, the Board of Directors shall set a 30-day deadline and call on the shareholder for compliance.

3.6. Full Payment for Shares

Subject to the provisions of Section 3.1., each shareholder shall be obliged to pay up the full amount of the issue price of the shares subscribed by it to the Company as per Section 3.2 and 3.2. within one year from the registration date of the capital increase by the Court of Registration, unless the General Meeting provides for a shorter period at the commencement of the subscription period.

Shareholders shall be obliged to pay up the requested amount prior to the expiration of such one year period only if the Board of Directors, acting in accordance with the provisions of these Articles, or the resolution of the General Meeting increasing the capital of the Company, calls upon the shareholders to do so by means of a public announcement. In such cases shareholders shall perform their obligations to pay up the issue price of shares within the applicable deadline set forth in such notice. Any notice issued under this paragraph shall be published by the Company in accordance with these Articles governing the publication of notices and advertisements. The stipulated period for payment shall commence upon the publication of the related notice.

Any notice issued under this paragraph shall contain a warning to shareholders of the consequences of delay in payment, non-payment or the failure to make a contribution in kind as set out in Section 3.7.

Subject to the provisions of Section 3.7, shareholder rights with respect to shares not fully paid for shall be exercised proportionately to the amount of payment made.

3.7. Termination of Shareholders rights

Should any shareholder fail to observe the deadline set under Section 3.5 herein, his membership (respectively his shareholder rights on the share(s) not paid up) shall cease on the following day and if no other person assumes the obligation of paying his financial contribution, the share capital of the company shall be lowered by the General Meeting by the amount of the financial contribution.

The conditions of assuming such obligation shall be determined at the same time when adopting a General Meeting resolution on capital increase, considering the provisions of Section 11 of the Company s Articles of Association.

The defaulting shareholder is entitled to redemption of his paid up financial contribution either when his successor shareholder has paid his financial contribution to the company or after the decrease of the share capital.

4. Rights of Shareholders and the Means of Exercising Shareholders Rights

4.1. Dividends

Whenever a dividend or interim dividend is declared by the General Meeting, shareholders shall be entitled to such dividend or interim dividend in proportion to the nominal value of their shares pursuant to Section 4.5. herein.

4.2. Distribution of Assets in Case of ~~the Termination~~ Voluntary Dissolution of the Company

In the event of voluntary dissolution (végelszámolás) of the Company, the assets of the Company shall be distributed, after satisfying creditors, among all of the shareholders of the Company, such distribution to occur in accordance with the ratio of the nominal value of each shareholder s shares to the total registered capital of the Company.

4.3. Voting Rights

Shareholders shall be entitled to voting rights attaching to their shares as described in Section 2 of these Articles.

4.4. Limitation of the Rights of Shareholders

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

4.5. Payment of Dividends

If the Annual General Meeting establishes that the company has made profit and determines that dividends should be paid, only those shareholders or shareholder representatives shall be entitled to such dividends who are owners with respect to the record date of identification of beneficial owner and the statutory required data of which are available for the payment of dividends. The record date of identification of beneficial owner shall not be earlier than the fifth stock market trade day subsequent to the date of the General Meeting.

The Company pays the dividends to the shareholders from the date specified by the relevant resolution of the GM via wire transfer. The dividend payment period commences at the date specified by the resolution of the GM that decides on the approval of the report according to the Accounting Act and the use of the profit after tax, however, at least 10 working days must lapse between the first publication of the GM resolution regarding the commencement date of the dividend payment and the first day of paying the dividends.

Shareholders may claim dividends during the lapse period specified in the Civil Code (5 years). After that time their claim for dividends will lapse. Dividends not claimed by the shareholders shall be added to the capital reserve of the Company.

An interim dividend may be disbursed between the approval of two consecutive reports under the Accounting Act, if on the basis of the interim balance it can be stated that the Company possesses sufficient coverage to pay the interim dividend and ~~that the sum to be paid~~ such payments do not exceed the amount of profits earned after the closing of the books of the financial year to which the last annual report pertains, calculated in accordance with the Accounting Act, ~~or~~and the amount supplemented with the available profit reserves and the payment of such interim dividends do not result in the company s equity capital - adjusted in accordance with the Accounting Act - to drop below its registered share capital~~does~~ ~~not exceed the profit generated since closing the books according to the last business year s annual report under the Accounting Act plus the unused profit reserve, and subsequent to the said outpayment the own capital of the share company adjusted according to the Accounting Act must not fall under the registered capital~~, and ~~S~~the shareholders undertake to return the interim dividend if later, according to the report under the Accounting Act - and pursuant to the provisions~~pursuant to Section 223 (1)~~ of the Companies Act ~~on Business Associations~~ concerning the protection of the ~~equity~~assets of the Company the law would not allow th~~e ou~~tpayment of such dividend.

No dividend shall be paid the Company for its own shares, at specifying the amount due to the shareholders entitled to dividends the Company does not take the dividend of own shares into account.

4.6. Right to Convene the General Meeting

The General Meeting shall be convened if shareholders representing at least five percent of the votes request the Board of Directors in writing to convene the General Meeting, stipulating the reason for and the object of their request. The Court of Registration shall convene the General Meeting if the convocation of the General Meeting is requested in compliance with the above outlined procedure and the Board of Directors fails to act within a period of 30 days or fails to convene the General Meeting within the shortest notice period required by the law or these Articles after such action.

4.7. Conditions for a General Meeting resolution resulting in the delisting of shares from the stock exchange

The General Meeting may only make a resolution resulting in the delisting of shares from the stock exchange including the decision resulting in the delisting a series of shares as a sanction - if any shareholder previously undertakes the obligation to submit a public bid for purchasing the shares in relation to delisting, according to the Regulations of the Budapest Stock Market for Listing, Continued Trading and Disclose.

5. Rights to Information and Closing of the Shareholders Register

5.1. Mandatory Dissemination of Information

In accordance with the rules of these Articles governing the publication of notices the ***draft*** ~~report~~ ***financial statements*** prepared according to the Accounting Act, the summaries of the Board and Supervisory Board reports, ***the aggregated number of shares and voting rights (including the separate aggregation of the different classes of shares) at the time of convocation*** the summary of the submissions regarding the agenda items, the resolution proposals and the extract of the company governance and management report shall be published at least ***twenty-one***~~15~~ days prior to the date of the GM.

5.2. Shareholders Rights to Information

Each shareholder has the right to attend the General Meeting, request information and comment on issues at the General Meeting. Holders of voting shares have the right to make proposals and to vote.

The Board of Directors shall provide the necessary information to any shareholder with respect to any matter on the agenda of the General Meeting upon the request of such shareholder submitted in writing to the Board of Directors at least 8 days prior to the General Meeting. The Board of Directors may refuse to provide such information only if that would violate a substantial business interest or business secret of the Company.

As part of the rights of Shareholders to information shareholders may not have access to the business books and other business documents of the Company.

5.3. Closing of the Shareholders Register

Shareholders, or shareholders proxies shall be entitled to exercise their voting rights at any General Meeting if they have been duly registered as owners of shares or shareholders representatives in the Shareholders Register at least 6 (six) business days prior to such General Meeting.

6. The General Meeting of the Company

6.1. Supremacy of the General Meeting

The General Meeting is the highest decision-making body of the Company. The decisions of the General Meeting, which are referred to as resolutions, are binding upon the shareholders, the other organs and the officers of the Company.

6.2. Matters within the Exclusive Scope of Authority of the General Meeting

The following matters shall be within the exclusive scope of authority of the General Meeting:

(a) to draw up and amend these Articles, unless otherwise provided by the law;

(b) unless otherwise provided by the law, the increase or decrease of the registered capital of the Company;

(c) to amend the rights attached to individual series of shares;

(d) any merger into, consolidation with another company or de-merger of the Company, or any termination, dissolution, liquidation, or transformation of the Company into another corporate form. In the process of transformation if the Board of Directors prepares the documents necessary for the transformation, the General Meeting of the Company according to 71 (1) Section of the Companies Act - may adopt a final decision on the transformation with holding only one meeting. In this case, draft transformation asset balance- and asset inventory pertaining to the reference date specified by the Board of Directors, within the preceding six months, and approved by the auditor, shall be presented for the meeting;

(e)to decide on the approval of a public offer on own shares;

(f) decision on issuing convertible or subscription right bonds, unless otherwise provided by the law;

(g) to elect, remove and determine the remuneration of the members of the Supervisory Board, the Audit Committee and the Board of Directors;

(h) to elect, remove and determine the remuneration of the Auditor of the Company and to define the contents of the essential elements of the contract to be concluded with the auditor;

(i) to approve the report pursuant to the Act on Accounting, including the company governance and management report and to decide on the utilisation of after-tax earnings;

(j) to approve any change in the Company s registered scope of activities;

(k) subject to Section 11.2, to appoint the person(s), pursuant to Section 251 of the Companies Act, that are authorized to subscribe for shares in any private increase of the Company s capital;

~~(l) decision with respect to an approval pursuant to Section 2.4 (b) of the Articles;~~

(~~m~~***l***) to approve the registering of the Company s shares on a stock exchange;

(~~n~~***m***) transfer, assignment, lease or the granting of permanent right to the use of, the creation of an encumbrance or security interest in a valuable right enabling the continuation of a specific activity of the Company to another business entity - i.e. rights granted in the Contract that was concluded for the purpose of providing universal electronic telecommunications services pursuant to Articles 117-118 of Act C of 2003 on electronic communications;

(~~o~~***n***) transfer of the total or substantial assets of the Company. For the purposes of this Section substantial shall mean the transfer of assets which would render the Company incapable of performing its obligations performing its universal service providing obligations as defined in the Contract regarding the provision of Universal Telecommunications Services;

(~~p~~***o***) to decide on measures that are capable of disturbing the relevant process in case of obtaining information on a public offer based on and in accordance with a separate Act;

(~~q~~***p***) decision on request to delist the Company s shares from a stock exchange (see Section 4.7.);

(~~r~~***q***) to evaluate the work of the members of the Board of Directors in the previous business year, decision on granting relief to the members;

(~~s~~***r***) decision on the payment of interim dividends, unless otherwise provided by the law;

(~~t~~***s***) decision on the acquisition of the Company s own shares;

(~~u~~***t***) decision on the exclusion of subscription preference right,

(~~v~~***u***) decision on any other issue that is referred to the authority of the General Meeting by the law or these Articles.

6.3. Passing Resolutions

The General Meeting shall adopt resolutions by means of the casting of votes ~~by voting shareholders~~ in the manner stipulated by Sections 6.17. and 6. 18. of these Articles.

6.4. Right to Convene General Meetings

(a) The General Meeting shall be convened by persons authorized by the Companies Act and these Articles.

(b) In addition to cases stipulated by the Companies Act, the General Meeting also shall be convened:

(i) if the number of the members of the Board of Directors falls below six (6);

(ii) if the number of the members of the Supervisory Board falls below six (6); and

(iii) if the number of the members of the Audit Committee falls below three (3);

(iv) if the auditor and the Board fails to conclude the assignment contract regarding the auditing activities within 90 days upon the date of the GM that elects the auditor.

6.5. Notification of the Supervisory Board on the convocation of the General Meeting

If the General Meeting is convened by the Board of Directors, the Supervisory Board shall be informed of the items on the agenda prior to the publication of the notice of the General Meeting and the Supervisory Board may (acting within its statutory scope of activity), within eight days of being so informed, propose that further items be added to the agenda provided that it delivers to the Board draft resolutions proposed by it. The Board of Directors shall include such items in the agenda and shall publish the related notice accordingly.

6.6. Occurrence and Agenda of a General Meeting

The Company shall hold a General Meeting at least once each year (the Annual General Meeting) where the annu~~al balance sh~~eet ***financial statements prepared according to the Accounting Act*** of the Company ~~shall be approved~~***are approved***. The Annual General Meeting shall occur no later than April 30 of the year immediately subsequent to the business year in question.

In addition to the Annual General Meeting, the Company may hold extraordinary General Meetings at any time, if necessary.

6.7. Convocation of the General Meeting

Notice of each General Meeting of the Company unless otherwise provided by the Act on Business Associations - shall be published in the manner stipulated by the applicable law and these Articles for the publication of the Company s notices and advertisements 30 days prior to the date of such General Meeting. The public notice of the General Meeting of the Company shall be published by the body responsible for the convocation of the General Meeting either by law or by these Articles.

The members of the Board of Directors and the Supervisory Board as well as the Auditor of the Company shall also be notified of the convocation of any General Meeting in writing by registered mail within eight days after the publication of the announcement of such General Meeting.

6.8. Notice of General Meetings

The public announcement of each General Meeting shall contain:

(a) the name and the registered office of the Company;

(b) the date and the venue of such General Meeting;

(c) the way of holding the General Meeting;

(~~c~~***d***) the items on the agenda of such General Meeting;

(~~d~~***e***) the place and the date of the reconvened General Meeting to be held if the first General Meeting does not have a quorum;~~ and~~

(~~e~~***f***) the conditions for the exercise of the voting rights at such General Meeting ***set out in the Article of Association, including the indication of the latest date until the name of the shareholder or the nominee intending to take a part on the general meeting can be registered in the shareholders register***

(g) the date according to the provisions of Section 304 (2) of the Companies Act and the information concerning the provisions of Section 304 (3) of the Companies Act;

(h) the conditions set out in the Articles regarding the exercise of the right to request information and supplement to the agenda of the general meeting;

(i) the information related to the date, place and method (including the website of the Company) of the availability of the submissions and resolution proposals on the agenda of the general meeting.

6.9. Supplements to the agenda of a General Meeting

Shareholders representing at least one percent of the votes may, within eight days from the publication of the Announcement on the convocation of the General Meeting, request the Board of Directors in writing to include any issue in the agenda of the General Meeting ***and submit resolution proposals related to the agenda items.***

6.10. Attendance List

The Company shall draw up an attendance list of shareholders attending the General Meeting. The attendance list shall contain the names of shareholders or their proxies or representatives, their addresses (registered offices), the number of shares of each series held by them and the number of votes that each is entitled to cast. The attendance list shall be certified by the Chairman of the General Meeting as well as the minute keeper of such meeting.

6.11. Quorum

The General Meeting shall be properly constituted with a quorum if shareholders representing more than half of the shares carrying voting rights at such General Meeting are present in person or by proxy within 60 minutes of the time stipulated in the public notice convening the General Meeting. ***If the General Meeting does not have a quorum, the General Meeting reconvened with the same agenda shall be held after a period of at least ten (10) days after the convocation of the reconvened General Meeting.*** ~~A second General Meeting convened and held within two hours from the time of the original General Meeting~~ ***The reconvened General Meeting*** ~~without a sufficient number of shares present to~~ constitute***s*** a quorum ***with regard to the agenda items of the original General Meeting*** ~~shall have a quorum for the purposes of considering items on the agenda of the postponed General Meeting~~ regardless of the voting rights represented ***at the reconvened*** ~~such m~~***M***eeting.

6.12. Opening of the General Meeting

Either the Chairman of the Board of Directors or the person elected by the General Meeting on the basis of the proposal of the Board of Directors shall open and chair the General Meeting.

~~The General Meeting shall be opened by the Chairman of the Board of Directors or the person designated by the Board of Directors for such purpose and such person shall be the Chairman of the General Meeting. In the absence of such person, any shareholder may make a nomination for the Chairman of the General Meeting. Nominations shall not be discussed in detail by the General Meeting but the Chairman of the General Meeting shall be elected by simple majority vote by reference to the nominal value of shares held by those present.~~

6.13. The Chairman of the General Meeting

The Chairman of the General Meeting:

(a) shall determine the number of shares carrying voting rights represented by shareholders attending the General Meeting and shall determine whether the General Meeting has a quorum;

(b) shall arrange for the preparation of the minutes of the General Meeting and the attendance list in accordance with the Companies Act;

(c) shall make recommendations for the minute keeper of the General Meeting, for the shareholder, or its proxy to certify the minutes, and, in the event of non-computerised voting, for the tellers. In the event of computerised voting, the Chairman of the General Meeting shall act as teller;

(d) shall have the General Meeting adopt the sequence in which items on the agenda, including items duly added to the agenda, shall be discussed;

(e) shall chair discussions in the General Meeting and shall grant speakers the right to take the floor in the order corresponding to the sequence of their application for the floor;

(f) may stipulate a time limit for contributions to the discussion;

(g) shall put issues to a vote in order to adopt resolutions;

(h) shall determine the total number of votes cast in respect of, including the number of abstentions, votes for and against, each proposed resolution or amendment;

(i) shall state the result of each vote and shall declare the resolution of the General Meeting;

(j) shall call for breaks;

(k) may propose the suspension of the General Meeting; and

(l) shall declare the General Meeting closed if each resolution on the agenda has been voted on.

6.14. Election of the Officials of the General Meeting

The General Meeting shall elect ~~its Chairman~~ the keeper of the minutes, the person who shall certify the minutes, and, in case of non-computerised voting, the tellers***, and the Chairman of the General Meeting in case of the proposal of the Board of Directors*.**

6.15. Order and Discussion of Items on the Agenda

By the vote of a simple majority of the holders of voting shares cast at the General Meeting, shareholders may change the order in which items on the agenda are discussed but may not eliminate any item from the agenda.

The General Meeting may be suspended on one occasion and it must be resumed within 30 days from the date of the General Meeting.

6.16. Suspended General Meeting

Stipulations in relation to the originally convened General Meeting shall continue to apply to any suspended General Meeting, provided that it shall be ascertained whether the suspended General Meeting is properly constituted with a quorum. In all other respects, the rules pertaining to the original General Meeting shall be applied, with the exception of those on the convocation of the General Meeting and the election of the officials of the General Meeting.

6.17. Voting Procedures

6.17.1. At the General Meeting the voting shall be computerised. The Chairman of the General Meeting may propose that some or all of the items of the agenda be voted upon in lieu of computerised voting by the show of the voting cards. The Chairman s motion shall be decided by a simple majority vote of the General Meeting.

6.17.2. At the venue of the General Meeting prior to commencement the Company shall issue a voting card or a remote-control for computerised voting (the voting machine) to each holder of voting shares after verification that the shareholder is duly registered in the Shareholders Register.

Voting machines or voting cards shall also be issued at the General Meeting to any shareholder in respect of newly-issued shares who has paid the subscription price in accordance with the resolution of the General Meeting and has been registered in the Shareholders Register in connection with a capital increase approved by the General Meeting. Holders of Interim Share Certificates may exercise their voting rights only in proportion to the consideration already contributed. If any shareholder fails to meet the above conditions, such a shareholder shall not be issued a voting card or a voting machine.

6.17.3 In the event of computerised voting, the tally of the votes shall proceed electronically. Prior to the voting taking place, the General Meeting shall be advised by the Chairman or the person designated by him with respect to the technical details of the computerised voting. The shareholders shall be advised of the results of the vote by the Chairman.

6.17.4 In the event of non-computerised voting, each shareholder shall receive a voting card. Voting cards shall contain the name (business name) of the shareholder or shareholder representative address (seat), as well as the number and series of shares held by such shareholder and the votes such shareholder is entitled to cast. The voting shall proceed by the show of the voting cards.

6.18. Passing Resolutions

~~Votes for or against a proposed resolution or amendment cast in accordance with the provisions of these Articles shall be regarded as votes duly cast. Abstentions shall not be considered as votes duly cast.~~ The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in Section 6.2. (a)-(f), (k), (~~m~~***l***), (~~p~~***o***) ***and*** (~~q~~***p***) ~~and (t)~~, which shall require at least a three-quarters majority of the votes ~~cast~~ ***of the shareholders present***. ~~Notwithstanding anything herein to the contrary, if the General Meeting decides to override a resolution of the Board of Directors, such shareholders resolution shall be binding only if a three-quarter majority of the votes of the shareholders that are present vote in favour of such a resolution.~~

~~Disadvantageous resolutions regarding rights related to a series of shares can only be made by the General Meeting if the shareholders of the affected share series give their separate consent thereto. During this, provisions related to possible limitation or exclusion of share related voting rights – including the exclusion from own shares - shall not apply~~.

6.19. Minutes of the General Meeting

6.19.1. Minutes shall be taken of the General Meeting which shall contain:

- the business name and registered seat of the Company;
- the venue and date ***and the way of holding*** ~~of~~ the General Meeting;
- ***information related to ownership-ratio of the share capital represented by the votes;***
- the names of the Chairman of the General Meeting, the minute keeper, the shareholder certifying the minutes and the tellers;
- material events of the General Meeting and the proposals made;
- the resolution proposals, the number of votes in favour and against each resolution proposals and the number of abstentions;
- the objections of shareholders, members of the Board of Directors or Supervisory Board against a resolution if so requested by the objecting person, and all matters expressly requested by the shareholders, the Chairman of the Supervisory Board or the Auditor.

6.19.2. The minutes shall be signed by the minute keeper and the Chairman of the General Meeting and shall be certified by one shareholder present elected for such purpose.

6.19.3.Any shareholder shall have the right to request the Board of Directors to issue a copy or an extract of the minutes of the General Meeting.

6.20. Attendance by Officials of the Company

The members of the Board of Directors and those of the Supervisory Board as well as the Auditor of the Company shall be invited to attend the General Meeting of the Company and shall respond to questions raised thereat by the shareholders. The above-mentioned officials of the Company shall have the right to participate in the discussions.

7. Board of Directors

7.1. Status of the Board of Directors

The Board of Directors shall be the management body of the Company and the Board of Directors shall represent the Company with regard to third parties, in court and before other authorities.

7.2. Members of the Board of Directors

The Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. The assignment of the members of the Board of Directors lasts for a term of three years ~~from the date of the annual General Meeting~~ until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof. Members of the Board of Directors can be removed or re-elected at any time by the General Meeting. Unless otherwise provided by a separate arrangement, the removal of, or failure to re-elect, a member of the Board of Directors shall not affect the employment rights of such person in respect of the Company where such member of the Board of Directors is also an employee of the Company.

The provisions of the relevant act regarding the conflict of interest of the members of the Board of Directors shall apply, except that the members of the Board of Directors may be executive officers in an other company whose main activity is identical to that of the Company and this shall not constitute a conflict of interest with being a member of the Board of Directors.

7.3. Interim Election

If before the end of term the General Meeting increases in the number of the members~~hip~~ of the Board of Directors or elects a new Board member ~~of the Board of Directors~~ as a result of ~~an increase in the membership of the Board of Directors, or on~~ removal or becoming incapacitated of a member of the Board of Directors, the term of office of the ~~new, interim~~ such newly elected member shall be identical to the original term of office of the remainder of the Board of Directors.

7.4. Rules of Procedure and Chairman of the Board of Directors

Subject to the provisions of applicable law and these Articles, the Board of Directors shall draw up its own Rules of Procedure.

Member of the Board of Directors shall elect the Chairman of the Board in accordance with the provisions of the Rules of Procedure of the Board of Directors. The Chairman shall perform such duties as described in the law, these Articles and the Rules of Procedure of the Board.

7.4.1. The Board of Directors shall:

(a) be responsible for all matters relating to the Company s management and course of business not otherwise reserved to the General Meeting or to other corporate bodies by these Articles or by the Companies Act;

(b) cause a report including the balance sheet and the profit and loss statement of the Company to be prepared pursuant to the Act on Accounting together with the responsible company governance and management report and submit such reports to the General Meeting with a proposal on the utilisation of after-tax earnings;

(c) have the books of the Company, including accounting records and the Shareholders Register, maintained in compliance with applicable regulations;

(d) make such filings with the Court of Registration and publish such information as may be required by applicable law and these Articles;

(e) draw up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company;

(f) adopt an annual business plan which shall contain specific authorisations to management relating to the operation of the business of the Company;

(g) have the authority to create committees of the Board consisting exclusively of Board members and to delegate part of its authority to such committees

(h) have the authority to create committees of Board members and non-Board members~~, to designate the individuals who will serve on these committees,~~ and to delegate authority to such committees;

(i) exercise employer s rights towards the employees of the Company pursuant to the Rules on Organisation and Operation;

(j) have the authority to initiate and approve on behalf of the Company any amendment to the contract regarding the provision of the Universal Electronic Telecommunications Services.

(k) prepare quarterly reports for the Supervisory Board on the management financial status and the business policy of the Company;

(l) Ensures the purchase of own shares on the basis of the authorization of the General Meeting and ~~shall~~ arranges for the alienation of the Company s own shares

(m) decide on such increasing of the registered capital of the Company that is allocated to its scope of authority and the related amendment of the Articles of Association

(n) concludes the relevant contract with the auditor to carry out the relevant activities within 90 days upon making the resolution on the election of the auditor by the General Meeting.

7.4.2. Any transaction having a value of USD 100,000 or more between the Company and a controlling shareholder or its parent or subsidiary shall promptly be reported to the Board of Directors.

7.5. Quorum, Passing Resolutions

(a) The quorum for meetings of the Board of Directors shall be at least six (6) Directors.

(b) Each member of the Board of Directors shall have one vote. The rules of the voting procedure shall be described in details by the Rules of Procedure of the Board of Directors.

7.6. Minutes

(a) Minutes shall be kept of each meeting of the Board of Directors, in accordance with the provisions of the Rules of Procedure of the Board of Directors.

(b) The minutes shall be signed by the Chairman of the meeting of the Board of Directors as well as the keeper of the minutes. The minutes shall be certified by another participating Director. The minutes of each meeting shall be distributed to the members of the Board of Directors and the Chairman of the Supervisory Board irrespective of whether or not they attended the meeting.

7.7. Resignation, Death

If the resignation of a member of the Board of Directors or the death of a member results in a decrease in its membership below six (6), then the Board of Directors shall within the shortest possible time period from the occurrence of such an event convene a General Meeting. Should the Board of Directors fail to do so, the General Meeting shall be convened by the Supervisory Board.

7.8. Liability of Directors

The members of the Board of Directors shall act with due care as it is generally expected from persons in such positions and - unless it is otherwise provided in the Act on Business Associations must give priority to the interest of the company. The members of the Board shall be liable towards the Company pursuant to the general provisions of the civil law in case of causing damage to the Company through breaching the laws, the Articles, the resolutions of the General Meeting and their managerial duties. The indemnification liability of the members of the Board towards the Company is joint and severable according to the provisions of the Civil Code on jointly causing damage. If the damage was caused by the resolution of the management as a body, those members are exempted from such liabilities who did not participate in the voting or voted against the resolution in question.

The members of the Board of Directors shall bear unlimited and joint liability for those damages that arise from the announcement of false data, rights or facts to the Company Register or the late announcement of the same in addition to failing to file such announcement at all including where the annual report prescribed in the Accounting Act and the relating business report is drawn up and published not in compliance with the relevant provisions of the Accounting Act.

8. The Supervisory Board

8.1. Status of the Supervisory Board

The Supervisory Board oversees the management of the Company for the General Meeting. Within its scope of authority provided by the statutes, the Supervisory Board may request information from any member of the Board of Directors or from senior officials of the Company and may examine the books and documents of the Company.

8.2. Members of the Supervisory Board

8.2.1. The Supervisory Board shall be comprised of 3-15 members. The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years ~~from the date of the annual General Meeting~~ until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.

8.2.2. The majority of the members of the acting SB must be independent. The SB member is independent if he has no other legal relationship with the Company than his SB membership.

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8.2.2. The majority of the members of the acting SB must be independent. The SB member is independent if he has

8.2.3. The SB member shall not be regarded as an independent member, if

a) he is an employee or an ex-employee of the Company, in the latter case the conflict of interest exists for five years from the termination of the employment;

b) provides advisory services or other activities as a retained advisor for the Company or its senior managers in return of remuneration;

c) he is a shareholder of the Company who either directly or indirectly owns at least 30% of the votes or is a close relative [Ptk. 685. § (b)],or~~/~~ common-law spouse to such person~~ [Ptk. 685. § b)~~;

c) he is a shareholder of the Company who either directly or indirectly owns at least 30% of the votes or is a close r

d) he is a close relative of any - non-independent - executive officer or executive employee of the Company~~he is a close relative to a non-independent – senior manager of the Company~~;

e) on the basis of his membership in the SB he is entitled to receive remuneration in case of the profitable operation of the Company or receives any other remuneration besides his fee as a SB member from the Company or an affiliated business association to the Company;

e) on the basis of his membership in the SB he is entitled to receive remuneration in case of the profitable operation

f) he is in a legal relationship with a non-independent member of the Company in another business association on the basis of which the non-independent member has controlling or supervisory rights;

g) he is the independent A~~a~~uditor of the Company or an employee / partner thereof for three years from the termination of this legal relationship;

h) he is an executive officer or executive employee~~senior manager~~ in a business association where the independent Board member is the senior manager of the public company.

8.2.4. The employees representatives in the Supervisory Board are appointed for election by the Works Council after consultation with the trade unions.

8.2.5. If a new member of the Supervisory Board is elected by the General Meeting, ~~or~~either as a result of an increase in the membership of the Supervisory Board, or due to the removal or resignation of a member of the Supervisory Board, the term of newly elected members shall be identical to the original term of office of the remainder of the Supervisory Board.

8.3. Duties

The Supervisory Board shall examine every material report of business policy that is on the agenda of the General Meeting and every submission on issues within the exclusive sphere of authority of the General Meeting. The General Meeting may pass a resolution on a report pursuant to the Accounting Act and the use of the profit after income tax only upon receipt of the written report of the SB. The proposal of the Board of Directors on the payment of dividend and on the company governance and management report can only be submitted to the GM upon the receipt of the prior approval of the SB. The Chairman (Deputy Chairman), in his absence, a member of the Supervisory Board presents the report of the Supervisory Board during the discussion of the given agenda item.

8.4. Rules of Procedure

8.4.1. The Supervisory Board acts as a body. The SB elects a chairman (if necessary, a deputy chairman) from among its members. The Supervisory Board sets its own Rules of Procedures, which are approved by the General Meeting.

8.4.2. Meetings of the Supervisory Board may be convened by the Chairman of the Supervisory Board. Any member of the Supervisory Board may immediately call a Supervisory Board meeting, stipulating in writing the reason for and the objective of such meeting if the Chairman of the Supervisory Board fails to fulfil such request within 8 days of receipt thereof and does not convene a meeting to a date within 30 days.

8.4.3. The Supervisory Board shall have a quorum if 2/3 (two-thirds) of its elected members are present. If the Supervisory Board is comprised of three members or if 2/3 of the members is less than 3 (three) persons, the presence of three members shall be necessary to constitute a quorum. If the number of Supervisory Board members falls below three or there is no one to convene its meeting the Board of Directors shall convoke the General Meeting to restore the proper operation of the Supervisory Board.

8.4.4. The meetings of the Supervisory Board shall be chaired by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board shall appoint the keeper of the minutes and that Supervisory Board member who will certify the minutes of the meeting, will put issues to the vote, and will declare the result of votes.

8.4.5. Minutes shall be kept of each meeting of the Supervisory Board, in accordance with the provisions of the Rules of Procedure of the Supervisory Board.

8.5. Convocation of the General Meeting by the Supervisory Board

The SB may convene an extraordinary General Meeting with an agenda proposed by itself, if, in its opinion, the activities of the management infringe the Statutes, the Articles of Association or the resolutions passed by the General Meeting; or otherwise interfere with the interests of the Company or its shareholders.

8.6. Liabilities of Members of the Supervisory Board

The members of the Supervisory Board shall bear unlimited, joint and several liability according to the provisions of the Civil Code regarding jointly causing damage - for all and any damage caused to the Company by non-compliance with their supervisory obligations, including any infringement of the obligation relating to the preparation and publication of the annual report prescribed in the Accounting Act and the relating business report.

8.7. Audit Committee

8.7.1. The General Meeting elects a 3-5 member Audit Committee (AC) from the independent members of the Supervisory Board (SB) for the same period as the membership of the relevant members in the SB. The Audit Committee shall act independently within its scope of authorities provided in the Companies Act and these Articles and in compliance with the rules and regulations of the Budapest Stock Exchange and the New York Stock Exchange (NYSE) and the US Securities and Exchange Commission (SEC) as well as the provisions and rules of the US Securities Exchange Act of 1934 (the Exchange Act).

8.7.2. The purpose of the Audit Committee is, inter alia, to oversee (1) the integrity of the Company s financial statements, (2) the Company s compliance with legal and regulatory requirements falling within the scope of authorities and responsibilities of the Audit Committee, as set forth in detail in Section 8.7.5 below, (3) the qualifications and independence of the Company s independent external auditor (the Auditor) and (4) the performance of the Company s internal audit function and independent auditors.

8.7.3. Only such SB member can be elected to be an AC member who complies with the independency rules and regulations of the SEC and the NYSE, the Companies Act, the Exchange Act and the Act CXX of 2001 on the Capital Market. At least one member must comply with the SEC requirements on being a financial expert and at least one Audit Committee member must have a qualification in accountancy and/or be a qualified auditor. The Chairman and the financial expert of the Audit Committee is elected by the members of the Audit Committee.

8.7.4. If the number of the AC members falls below three the Board shall convene the GM to restore the proper operation of the body. The Audit Committee shall establish its own Rules of Procedure and its Pre-approval Policy. The Audit Committee s secretarial tasks shall be performed by its own Secretariat. The Audit Committee shall inform the Supervisory Board about its activity periodically in accordance with its Rules of Procedure.

8.7.5. The Audit Committee shall, in particular, in addition to the scope of competence set forth in Section 311 (2) of the Companies Act:

i. Be directly responsible for the oversight of the work of the Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;

ii. Make recommendations directly to the General Meeting of shareholders with respect to the appointment, compensation and recall of the Auditor;

iii. Pre-approve the audit and non-audit related services provided by the Auditor to the Company and the related fees, with the exception of fees within the exclusive scope of authority of the General Meeting, to ensure that the Auditor s independence from the Company is maintained;

iv. Monitor the reasonableness of audit fees and quality of work performed by the Auditor (e.g. staffing, experience of auditing personnel, man hours expected, timeliness);

v. Monitor enforcement of the Auditor s professional requirements and the Auditor s compliance with the rules regarding conflict of interest, cooperate with the Auditor and, if necessary, propose measures to be taken by the Supervisory Board, the Board of Directors or the General Meeting regarding the Auditor;

vi. At least annually, and every time before making a proposal with respect to the election of an Auditor, obtain and review a written report from the Auditor describing (a) the internal quality-control procedures of the Auditor s firm, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the Auditor s firm, or by any inquiry or investigation by government or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Auditor s firm, and any steps taken to deal with any such issues, and (c) all relationships between the Auditor, any of the individuals appointed to undertake audit work for the Company or any of its affiliates on behalf of the Auditor or any of the partners in the Auditor s firm or any of their close relatives (as defined in the Hungarian Civil Code)and (i) the Company or any of its affiliates, or (ii) any member of the Board of Directors, the Supervisory Board or the Management Committee of the Company or any of its affiliates;

vii. Review with the Auditor any problems or difficulties regarding the Company s audit, and the response of the Company s management to any such problems raised by the Auditor;

viii. Facilitate the resolution of any disagreement between the Company s management and the Auditor with respect to financial reporting;

ix. Determine the circumstances in which, and conditions subject to which, employees and former employees of the Auditor may be hired by the Company or its affiliates;

x. Review and evaluate (a) financial reports prepared according to the Accounting Act and (b) proposals regarding the acceptance of such reports and the use of after-tax profits prior to their submission to the Supervisory Board;

xi. Review and evaluate the financial reports prepared according to International Financial Reporting Standards (IFRS) and the Auditor s audit report, especially in connection with changes to accounting guidelines or practice of the IFRS, accounting adjustments, profitability preconditions, etc.;

xii. Meet with the Auditor and the Company s management to discuss and comment upon the reports referred to in the previous two points;

xiii. Review and evaluate the Management Letter;

xiv. Review and evaluate reports to be submitted to the stock exchanges, the SEC and other financial authorities;

xv. Discuss the Company s earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;

xvi. Review and evaluate the internal audit environment, the internal control environment influencing the preparation of financial reports and the processes applied during the preparation of financial reports and, if necessary, propose measures to be taken by the Supervisory Board or the Board of Directors regarding the preparation of financial reports;

xvii. Review and evaluate the effectiveness of the internal audit function;

xviii. Review and evaluate the internal audit workplan;

xix. Review and evaluate the report on the activity of the internal audit function;

xx. Review and evaluate the first priority (A) internal audit reports on financial subjects;

xxi. Review, evaluate and, if appropriate, consent to proposals submitted to the Audit Committee by the Board of Directors or the management of the Company in relation to the appointment, compensation and recall of the Group Compliance Director, and oversee the work of the Group Compliance Director in accordance with the scope described in the Group Compliance Manual and the related directives and policies.

xxii. Review, discuss and comment upon the Company s policies with respect to risk assessment and risk management;

xxiii. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;

xxiv. If necessary, conduct an independent internal investigation into (a) agreements of, and/or payments made by, the Company, (b) matters that relate to the accuracy and reliability of the books and records of the Company, (c) matters and suspects identified by the Auditor, the Group Compliance Director and/or the internal audit function, and/or (d) matters that relate to the potential liability of the Company and/or any of its employees or officers under the US Foreign Corrupt Practices Act, Sections 258/B to 258/F of the Hungarian Criminal Code, the Exchange Act, the US Sarbanes-Oxley Act of 2002, or (e) any similar legislation in any other relevant jurisdiction;

xxv. Within the scope of such investigation, (a) inspect, subject to applicable data privacy laws, the books, records, contracts and documents of the Company (including documents in printed and electronic form, including all emails, documents and other data found on the systems and devices of the Company), and (b) interview employees, officers and directors of the Company, or any other third parties, who may have information relevant to the investigation;

xxvi. If necessary, report, subject to applicable data privacy laws, the facts and circumstances giving rise to, and the findings of, such investigation to the Auditor and to competent law enforcement and regulatory authorities (including, without limitation, the Hungarian Financial Supervisory Authority, the SEC, the US Department of Justice and any other authority to whom reporting is necessary under applicable law or otherwise in the interests of the Company);

xxvii. Depending on the findings of such investigation (a) forward remedial actions proposed by management, outside counsel and/or the Audit Committee to the Board of Directors, (b) review and evaluate the implementation of such remedial actions, (c) report its findings with respect to the implementation of such remedial actions to competent law enforcement and regulatory authorities and (d) report its findings to the Auditor.

8.7.6. The Audit Committee may, if it deems necessary for the fulfillment of its duties, engage external advisor(s). Specifically, the Audit Committee may engage outside counsel and other advisors to conduct independent investigations referred to in Section 8.7.5 above, and to represent the Audit Committee before the authorities.

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8.7.7. The Company shall provide appropriate funding for the following purposes: (a) fees payable to the independent external auditor responsible for preparing and issuing the audit report, performing other audit, review or attest services for the Company, (b) remuneration of external advisors engaged by the Audit Committee and (c) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee shall determine the fees and costs identified in (b) and (c) above at its own discretion, and shall provide the General Meeting with a recommendation with respect to the fees and costs identified in (a) above and within the exclusive scope of authority of the General Meeting.

9. The Auditor

9.1. Election

The Annual General Meeting of the Company appoints the auditor for a specified period not exceeding two years in duration. The auditor s assignment is deemed accepted if the auditor concludes an assignment contract with the Company within 90 days upon the auditor s election. If the above deadline lapses without the any result the election of the auditor becomes void and the GM has to elect another auditor.

9.2. Duties of the Auditor

(a) The Auditor shall be obliged to audit each report prepared pursuant to the Act on Accounting including the balance sheet and profit and loss statement, as well as every material report to be submitted to the General Meeting, with regard to the authenticity of data contained therein and their compliance with Hungarian statutes in force. The Auditor shall submit a report comprising its findings on such matters to the General Meeting.

(b) The Auditor shall provide all necessary professional support to the activities of the Board of Directors and the Supervisory Board.

9.3. The rights and the responsibilities of the Auditor

The Auditor shall have access to all information relating to the activities of the Company. In connection with the performance of its duties, the Auditor:

(a) may request information from the members of the Board of Directors, of the Supervisory Board and from the employees of the Company;

(b) may verify and examine the cash in hand, ledgers, the securities portfolio, the inventory, the contracts and the bank account of the Company;

(c) shall attend the General Meeting that discusses the report of the Company prepared according to the Accounting Act;

(d) if required, may attend the meetings of the Board of Directors and the Supervisory Board with the right to confer.

(e) shall be obliged to inform the Supervisory Board and the Audit Committee and request the Board of Directors to convene a General Meeting, if:

(i) the Auditor becomes aware that a significant decrease in the Company s assets is expected; or

(ii)the Auditor becomes aware of a fact that entails the liability of the Board of Directors or the Supervisory Board as set forth in the Companies Act.

(f) If the General Meeting is not convened or the General Meeting does not pass the resolutions required by the statutes the Auditor shall inform the Court of Registration carrying out legality supervision to this end.

9.4. Auditor s Conflict of Interest

The founder, shareholders, members of the Board of Directors or the Supervisory Board and their relatives (Section 685(b) of the Civil Code), their common law spouse or any employee of the Company may not be elected as Auditor at any time during their association with the Company and for a period of three years after such association or employed by the Auditor, or have ownership interests in the Auditor, during the term of their association with the Company and for a period of three years thereafter. Persons included in the register of auditors in accordance with the relevant legal regulations may be elected as an auditor. Further requirements for auditors in terms of qualifications and conduct, and conflict of interest shall be laid down in specific other legislation.

10. Signature on Behalf of the Company

(1) The firm shall be bound by the signature of (i) two members of the Board of Directors, or (ii) by a member of the Board of Directors and an employee of the Company authorized for this purpose by two members of the Board of Directors, or (iii) by two employees of the Company authorised for this purpose by two members the Board of Directors. Such authorized signatories shall jointly sign their full names under the stamped, hand-written, typed or printed name of the company in the same way, that such signature appears in the signature book of the Company deposited with the Court of Registration.

11. Increase in the Registered Capital of the Company

11.1. Cases of the Increase in the Registered Capital

Any increase in the registered capital of the Company shall be implemented in accordance with the resolution of the General Meeting by means of a new issue of new shares either through the public offering or the private placement of shares, by the conversion of the Company s reserves in excess of the registered capital into authorised capital or through conversion of convertible bonds into shares.

The holders of the types or classes of shares which are directly affected by the capital increase, or the holders of shares which are deemed affected by the articles of association is required to vote for the increase of the share capital as a pre-condition for the general meeting resolution adopted for the increase of share capital to take effect. During this, provisions related to possible limitation or exclusion of share related voting rights including the limitations related to own shares - shall not apply.

If the three-quarters majority can not be obtained in case of any share type the proposal on increasing the registered capital must be withdrawn from the agenda. This provision shall be applied ~~properly~~as the case may be if the General Meeting authorizes the Board of Directors for such increase.

11.2. Subscription preference right

11.2.1. Where the share capital is increased by way of contribution of cash, within the company s shareholders first the holders of shares belonging to the same series of issue, and then the holders of convertible bonds and the holders of bonds with subscription rights in tandem shall be granted preferential rights in this sequence for the subscription of shares subject to the conditions laid down in this articles of association.

11.2.2. The Company shall inform the shareholders and the holders of convertible bonds and bonds with subscription rights concerning their options and the procedure to exercise the preferential right for the subscription of shares, including the face value or issue price of shares which may be acquired, and the first and last days of the 15 days period during which such right can be exercised.

11.2.3. Exercising the subscription or take-over preference rights can be excluded by the General Meeting on the basis of the written submission of the Board of Directors. In this case the said submission of the Board of Directors must present the reasons of submitting the proposal on excluding subscription preference rights and the planned issuing value of the shares.

Content of the submission and its discussion:

The Board of Directors shall discuss and decide on the approval of the submission according to the rules set out in its Rules of Procedure than submits it to the General Meeting for approval.

The following must be defined in the submission:

- nominal value, pieces and series of the shares,
- in case of issuing new shares in a ~~closed circle the declaration~~ private placement specifying the person(s) making declaration on undertaking the obligation to take-over of the shares, ~~specifying the person(s) making the declaration~~,
- method of the increase of the registered capital,
- subscription minimum,
- draft modification of the Articles of Associations,
- issuance value of the shares and the conditions of their payment,
- in case of non-cash contributions the data related to their provision,
- other significant data.

11.3. ~~Prohibited~~Invalid Subscription

Any subscription, by exercise of subscription preference rights, by a shareholder ~~for shares of a Series which may not be held by such person according to these Articles,~~ shall not be effective if it violates any provisions of these Articles.

11.4. Private Placement

The General Meeting or the Board of Directors with respect to the authorizing resolution of the GM may resolve that new shares to be issued in connection with an increase in the capital of the Company may be subscribed for exclusively by persons, or shareholders stipulated by the resolution of the General Meeting or in accordance with the resolution of the Board of Directors authorising such increase in capital. If such persons or shareholders determined by the General Meeting or the Board of Directors have not subscribed for the volume of shares appropriate for the subscription minimum by the closing date of the subscription period, the capital increase shall be deemed to have failed.

11.5. Conversion of Capital Reserves into Registered Capital

The Company may increase its registered capital with its assets above the registered capital or a part thereof if according to the previous year s report under the Act of Accounting or the interim balance the sufficient coverage of the capital increase is available and subsequent to the capital increase the amount of registered capital does not exceed its own capital, adjusted according to the Act of Accounting. The statement on the availability of the sufficient coverage from the assets above the registered capital, the figures of the annual report and the interim balance can be applied within six months upon the turning date of the above documents.

Shares falling on the increased registered capital shall be granted to the shareholders of the share company free of charge, in proportion to the nominal value of the shares of such shareholders.

11.6. Conditional ~~capital stock~~ increase in the registered capital by means of converting the convertible bonds to sshares~~tocks~~

11.6.1. The General Meeting may decide on a conditional capital increase through the issue of convertible bonds. Bond owners may apply for bonds against the conditionally increased capital in line with the resolution of the General Meeting. The applications must be forwarded in writing to the Board of Directors with a simultaneous submission of the bonds, identifying the number and face value of the stocks applied for. If the bonds were issued at an amount below the face value or issue price of the shares, simultaneously with their declaration, bond holders shall pay the difference between the face value of the bond and the face value or issue price of the share to the private limited company. Upon the provision of such statement the bond holder shall be entitled to receive share certificates.

Specific terms for issuing bonds shall be set forth in a resolution by the General Meeting.

11.6.2. The resolution of the General Meeting accepting the conditional capital increase shall specify:

a) the method of issuing bonds (closed, public)

b) the number and face value of the bonds to be issued, as well as the value at issue, the series of bonds and the place and time of subscription

c) the terms under which the bonds can be converted into shares and the date

d) maturity of the bond, terms of payment of interest and other yields

e) procedures to be followed in the case of under or over subscription as well as the rules of allocation

f) in case of issuing privately held bonds the persons, the number of bonds that they can subscribe and other features thereof.

12. Decrease of the Registered Capital of the Company

The Company is entitled to decrease its registered capital.

The prevailing rules of decreasing the registered capital are set out in Title 2 and 3 of Chapter X of the Act on Business Associations.

The validity of the resolution aiming to decrease the registered capital is subject to the separate consent of the affected series share owners, in each case with three-quarters majority of the votes cast. During this, provisions related to possible limitation or exclusion of share related voting rights including the limitations related to own shares - shall not apply. If the three-quarters majority can not be obtained, the proposal on decreasing the registered capital must be withdrawn from the agenda.

The detailed conditions of exercising shareholder rights must be included in the resolution of the General Meeting regarding the decrease of the registered capital.

13. Conflict of Interest

Members of the Board of Directors and the Supervisory Board and the Auditor, as well as their close relatives defined in Section 685(b) of the Civil Code, or any business entity within which the above persons hold an interest exceeding 10%, may not hold an ownership interest exceeding 5% in, be employed by, be officers of or have any contractual arrangement with any business entity competing with the Company unless it is permitted by the law and the General Meeting grants, with a three-quarter majority voting, an appropriate waiver from the provisions of this paragraph.

Members of the Board and the Supervisory Board as well as their close relatives (Section 685 (b) of the Civil Code) may on their behalf and to their benefit conclude agreements with the Company relating to the use of public purpose telecommunications services available to anyone.

In compliance with the authorization specified in paragraph (1) of Article 25 of the Act on Business Associations, the members of the Board of Directors and of the Supervisory Board may be elected as executive officer or members of the supervisory board of businesses that pursue activities identical with those of the Company and in which the Company holds at least 25 % ownership stake and/or voting rights.

Members of the Board and the Supervisory Board as well as their close relatives (Section 685 (b) of the Civil Code) may on their behalf and to their benefit conclude agreements with the Company relating to the use of public purpose telecommunications services available to anyone. The above provisions are not affecting the rules on the matter included in the Act on Business Associations.

14. Indemnification of Members of the Board of Directors and the Supervisory Board

14.1. Indemnification

The Company shall, to the fullest extent permitted by law, indemnify any member or former member of the Board of Directors or any member or former member of the Supervisory Board who 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 current or former position at the Company against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he 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 conduct was unlawful.

14.2. Advancing Expenses

Expenses (including reasonable attorney s fees) incurred by a member of the Board of Directors or the Supervisory Board in defending any civil, criminal or administrative action, suit or proceeding may be paid by the Company in advance of the final disposition of such proceedings upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company pursuant to Section 13.1.

14.3. Insurance

The Company shall have the power to purchase and maintain insurance on behalf of any person who is or was a member of the Board of Directors or the Supervisory Board against any liability asserted against him and incurred by him in any such capacity, whether or not the Company would have the right to indemnify him against such liability under the provisions of Sections 13.1. and 13.2. or any other provisions of law.

15. Other Provisions

15.1. Financial Year

The financial year of the Company shall correspond to the calendar year.

15.2. Notices

Notices and advertisements of the Company shall be published on the home page of the Company (www.telekom.hu) and in the official publication space of the Budapest Stock Exchange Closed Limited Company (i.e. home page of the Stock Exchange) and the Official Gazette (Cégközlöny) in cases required by applicable law.

15.3. Interest

The Company shall not be liable for interest on the payment of dividends.

15.4. Modification of Law

If the provisions of the Companies Act in force at the date of the restating of these Articles, specifically Part I (General Provisions on Business Associations) and Section X of Part II (Regulations Pertaining to the Various Forms of Business Associations) are amended the review of these Articles and necessary changes shall be placed on the agenda of the General Meeting to be held immediately after the amendment of the Companies Act, to avoid any violation of the rights of shareholders as a result of the amendment of the Companies Act.

15.5. Miscellaneous

~~In line with Resolution 20/2009 (VI.29.) of the General Meeting t~~***T***his Articles of Association shall supersede and replace the former Articles of Association of the Company. Consequently, on the effective date of this ~~amendment of the~~ Articles, all prior versions of the Articles and all resolutions of the Company inconsistent with these Articles shall have no effect. Issues not regulated herein shall be subject to the provisions of the Companies Act and other relevant laws.

Budapest, April 7, 2010

This consolidated version of the Articles of Association reflects the prevailing version of the Articles of Association based on the modifications thereof. This consolidated version of the Articles of Association has been prepared, and the amendments to sections ***1.4., 1.6.2., 1.8.4., 1.8.5., 2.4., 5.1., 6.2., 6.3.; 6.6., 6.8., 6.9., 6.11., 6.12., 6.14., 6.18., 6.19.1., 7.2.; 7.4.1. l); 8.2.1. and 15.5.*** countersigned by:

dr. Balázs Máthé
Chief Legal Counsel

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Amendment of the Rules of Procedure of the Supervisory Board

Budapest, April 7, 2010

According to Section 34. § (4) of Act IV of 2006 on Business Associations (Companies Act) the Supervisory Board establishes its own Rules of Procedure that is approved by the General Meeting.

Taking into account the provisions of the amended Section 304(1) of the Companies Act, it is necessary to amend Sections 5.4. and 5.5. of the Rules of Procedure of the Supervisory Board accordingly. The modifications concerning the Rules of Procedures are indicated with tracks in the text.

Resolution proposal

The General Meeting approves the amended and restated Rules of Procedure of the Supervisory Board with the modifications set out in the submission.

AMENDED AND RESTATED RULES OF PROCEDURE

OF THE SUPERVISORY BOARD OF

MAGYAR TELEKOM PLC.

April ~~25~~7, 20~~08~~10

1. General Rules

1.1. The Supervisory Board (hereinafter: SB) supervises the management of Magyar Telekom Nyrt. (Company). Within the framework of this activity the SB supervises the control, management and business activities of the Company as well as compliance with the laws and the Articles of Association.

The SB carries out its activities pursuant to Act IV of 2006 on Business Associations (hereinafter: Companies Act or CA), the Articles of Association of Magyar Telekom Nyrt. in force (hereinafter: Articles) and this Rules of Procedure.

1.2. Within its scope of authority provided by the statutes the SB may request information from the Company s senior officials and employees; and may examine the books and documents of the Company, if necessary, with the involvement of an advisor. (CA Section 35 (2), Articles: Section 8.1). The information must be provided as requested by the SB within the relevant deadline.

2. Organization of the SB

2.1. The SB consists of 3-15 members. (CA Section 34 (1), Articles 8.2.1.)

The members are elected by the annual General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years from the date of the annual General Meeting until May, 31 of the third year subsequent to their election, however, if the General Meeting in the third year is held prior to May 31, than their assignment lasts until the date of the General Meeting. (Articles 8.2.1.)

2.2. The majority of the members of the acting SB must be independent. The SB member is independent if he has no other legal relationship with the Company than his SB membership. (CA Section 310)

2.3. The SB member shall not be regarded as an independent member, if (CA Section 309 (3))

2.3. The SB member shall not be regarded as an independent member, if (CA Section 309 (3))

a. he is an employee or an ex-employee of the Company, in the latter case the conflict of interest exists for five years from the termination of the employment;

b. provides advisory services or other activities as a retained advisor for the Company or its senior managers in return of remuneration;

c. he is a shareholder of the Company who either directly or indirectly owns at least 30% of the votes or is a close relative/common-law spouse to such person [Civil Code, Section 685. § b);

d. he is a close relative to a non independent senior manager of the Company;

d. he is a close relative to a non independent senior manager of the Company;

e. he is entitled to receive remuneration in case of the profitable operation of the Company or receives any other remuneration besides his fee as a SB member from the Company or an affiliated business association to the Company;

f. he is in a legal relationship with a non-independent member of the Company in another business association on the basis of which the non-independent member has controlling or supervisory rights;

g. he is the independent auditor of the Company or an employee/partner of the auditor within three years from the termination of this legal relationship;

h. he is a senior manager in a business association where the independent Board member is the senior manager of the Company.

2.4. The Works Council - after hearing the opinion of the trade union - nominates for election the employee representatives (CA Section 39 (1); Articles 8.2.4.)

At the nomination of the employee representatives of the SB, the Works Council specifies the order of nominees with taking the prevailing number of SB members into account. The members are elected by the annual General Meeting for the same period as the members of the non-employee bodies are elected.

2.5. SB membership terminates with:

- expiration of the assignment period;
- recall;
- resignation;
- death;
- termination of employment of the employee delegate (the employee delegate can only be recalled by the General Meeting upon the proposal of the Work Council, except if the Work Council does not meet its legal obligations to propose the recall of the delegate or the nomination of a new delegate in spite of the existence of a cause that triggers the recall of such delegate according to the provisions of the Act. (CA Section 39 (6);
- the occurrence of any disqualifying event set forth in the CA (the involved SB member shall inform in writing the Chairman of the SB within 15 days of the occurrence of the event);
- in other case specified by a separate Act.

An SB member may resign at any time, but if the operation of the Company so necessitates, the resignation will only take effect on the sixtieth day from its announcement, except if the General Meeting has already /could have arranged for the selection of the new SB member prior to the expiry of this deadline. Until the resignation s entry into force the SB member shall participate in making and realizing those decisions that can not be postponed (CA Section 36 (3) 31 (1)-(2)).

If the number of the members of the SB falls below the minimum number required by the Articles of Association the SB must notify the Board of Directors that it must convoke the General Meeting to restore the proper operation of the Supervisory Board.

3. Operation of the SB

3.1. The SB acts as a body and works according to its annual work plan. The SB holds its meetings as necessary but at least four (4) times per year. At its first meeting the SB elects a chairman (if necessary, a deputy chairman or deputy chairmen from among its members). The SB shall establish its own Rules of Procedure that is subject to the approval of the General Meeting (CA Section 34 (2) (4); Articles 8.4.1.).

It may assign certain supervisory tasks to any of its members, or may divide supervisory tasks among its members on a permanent basis (CA Section 35 (1)).

3.2. The Chairman of the CB convenes the SB meetings.

Any SB member, specifying the reason and the purpose, may at any time request in writing to call a meeting, if the Chairman fails to take the necessary steps within eight (8) days upon receipt of such written request and fails to convene such meeting to be held within thirty (30) days. (Articles 8.4.2.).

3.3. Notice of the meeting shall be sent to the SB members seven (7) days before the date of the meeting by courier (express mail) or electronic mail (with the use of an e-mail attachment encryption program) or telefax to the address or fax number specified by the SB member concerned.

If there is no such address the notice shall be sent to the last known address of fax number of the member concerned.

The notice shall contain the agenda, venue and date of the meeting.

Discussion materials must be attached to the notice in Hungarian or English.

3.4. The SB meeting has a quorum if 2/3 of the elected members are present. If the Supervisory Board is comprised of three members or if the above mentioned 2/3 of the members is less than three persons the presence of three persons is necessary to constitute a quorum. If the number of the members of the SB falls below 3 or if there is no one to convene a meeting the Board shall convoke the General Meeting in order to restore the proper operation of the SB. (CA Section 34 (2) (5); Articles 8.4.3).

3.5. If the meeting does not have a quorum it shall be re-convened within 15 days.

3.6. SB meetings shall be chaired by the Chairman of the SB. The Chairman shall nominate the Minute Keeper and the member who authenticates the Minutes, puts issues on the vote and announces the result of the voting (Articles 8.4.4.).

3.7. In case of his absence or if he is prevented - the Chairman shall be substituted by the Deputy Chairman, in case of lacking a Deputy Chairman, the Chairman requests a member to preside over the meeting.

3.8. The meetings are held in Hungarian and English.

Comments made in Hungarian shall be simultaneously translated into English, whereas, comments made in English shall be simultaneously translated into Hungarian.

3.9. The SB passes resolutions by open voting, with simple majority. In the event of a tie vote, the proposal supported by the Chairman, or, in case of his absence, the proposal supported by the Deputy Chairman shall be approved. If the Chairman (Deputy Chairman) is not present at the meeting a proposal cannot be considered approved in the event of a tie vote, and the item must be discussed again at the next meeting.

3.10. The members of the SB shall act in person; no representation is permitted (CA Section 34 (3).

3.11. If any of the members is prevented and there is an appropriate reason, upon the decision of the Chairman (Deputy Chairman, Presiding Chairman) the meeting may be held by means of a conference call, if the communication equipment makes it possible for all members to hear each other simultaneously.

Such participation at the meeting is to be considered as presence.

3.12. The SB may pass resolutions on any issue without holding a meeting if SB Members received the submission requiring a decision beforehand and the majority of the SB members cast their affirmative votes in writing (by fax). Fax voting can be initiated by the Chairman of the SB or if no Chairman is elected yet by any member of the Supervisory Board. The general rules apply to the validity of the resolution. The resolution and its approval by the respective SB Members shall be handled according to the rules on the minutes. If any SB member requests to convoke an SB meeting, the meeting must be held.

3.13. At the proposal of the Chairman (Deputy Chairman-Presiding Chairman), with a simply majority vote of the members present, a closed meeting may be held. Besides the SB Members only those invited for a given issue may be present at closed meetings.

3.14. To prepare its position on certain issues the SB may set up committees comprised from its own members on a permanent or an ad hoc basis. The rules of procedure of the permanent committee (rules of operation) shall be established by such committee and shall become effective upon its approval by the Supervisory Board. To prepare a position requiring special expertise the SB may commission external experts at the expense of the Company.

3.15. Permanent invitees to the SB meetings are:

- the Chairman of the Board of Directors or the member of the Board of Directors appointed by him;
- the Chairman and the Deputy Chairman of the Management Committee or the member of the Management Committee appointed by them;
- head of the Company s internal audit unit;

- general counsel of the Company;

3.16. Ad hoc invitees to the SB meetings:

- the auditor of the Company if the SB initiated his hearing at the meeting, or

- if the auditor requests to participate the SB meeting with consultation rights (CA Section 43 (2);
- expert, if his invitation is initiated by SB members to the meeting or certain agenda items of the meeting.

3.17. The SB s secretarial tasks shall be performed by its own secretariat (Secretariat). The administrative - technical conditions required for the operation of the SB (keeping of minutes, interpretation, meeting room, tape recorder, overhead projector, etc.) will be provided by the Secretariat and their costs will be borne by the Company.

4. Minutes

4.1. Minutes of every SB meeting shall be taken in Hungarian that must be translated to English prior to its authentication. Both Minutes shall be authenticated. In case of any conflict between the Hungarian and the English version, the Hungarian version shall prevail.

4.2. The minutes shall contain:

- the venue and date of the meeting;
- the names of the participants;
- the agenda;
- the names of the Chairman of the meeting, the Keeper of the Minutes and the Authenticator of the Minutes;
- the main issues questioned during the discussion of the individual agenda items and the answers to such questions;
- transcription of individual SB Members contributions to the discussion, provided that the respective SB Member requests so;
- the resolutions, the number of votes cast for and against the resolutions and the abstentions;
- objections to the resolutions (provided the objecting SB Member requests the objection be entered into the Minutes).

4.3. At the request of any participant the contributions, opinions and objections shall be recorded in the minutes verbatim.

4.4. The meetings of the Supervisory Board shall be recorded unless otherwise decided by the SB - on tape. The Secretariat shall ensure that the recordings are kept in a safe place, at least for 5 (five) years. Such voice recordings shall be confidential, and shall not be disclosed to any person without the Chairman s consent, other than to current members of the SB, to persons who were members of the SB at the time when a particular recording was made and to persons who attended the meeting of which such recording was made.

4.5. The minutes are signed by the Chairman and the Minute Keeper and are certified by an SB member present.

4.6. Following certification the minutes shall be sent in English and Hungarian to all SB members and to persons who were invited to the discussion of specific agenda items. SB members may query the accuracy of the Minutes, including its translation, within fifteen (15) days upon receipt.

4.7. The authenticated minutes of closed meetings can only be distributed with the consent of the Chairman to other persons than the members of the SB and the invitees to the closed meeting.

5. Tasks relating to the General Meeting

5.1. Members of the SB participate at the General Meeting without the right to vote. (CA Section 34 (3); Articles 6.5, 6.20.)

5.2. The SB convenes an extraordinary General Meeting if, in its opinion, the activities of the management

- infringe a statute, the Articles of Association or the resolutions passed by the General Meeting; or
- offend the interests of the Company or its shareholders (CA 35 (4); Articles 8.5.)

The SB makes a proposal as to the agenda of the extraordinary General Meeting called with the aforementioned purpose.

5.3. The SB shall examine every important report on the business policy and every submission that is made on matters falling into the exclusive competence of the General Meeting. (CA Section 32 (3), Articles 8.5.) The General Meeting may pass a 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 dividend and the company governance and management report can only be submitted to the GM - simultaneously with the report in accordance with the Act on Accounting with the prior approval of the SB. (CA Section 35 (3), 220 (3), 312 (3), Articles 8.3).

5.4. The Board of Directors shall make available to the SB its submissions to the General Meeting at least ~~25~~29 days prior to the General Meeting.

5.5. The SB shall forward its report set forth under Section 5.3. in time to allow the publication of the main data contained in the report within at least ~~fifteen~~ twenty-one ~~(15)~~(21) days prior to the General Meeting. (CA Section 304 (1); Articles 5.1.)

5.6. At the General Meeting, the Chairman or Deputy Chairman of the SB - or in case of his absence or prevention the SB member designated by him - verbally presents the report of the SB in full during the discussion of the given agenda item, or, if this is impossible because of the length of the report, he provides a summary of it. (Articles 8.3.)

6. Tasks related to the management of the Company

The Supervisory Board shall review, discuss and evaluate:

- the quarterly report of the Board of Directors prepared for the SB on the management, the financial status and the business policy of the Company (CA Section 244 (3); Articles 7.4.1 (k);
- the annual self-evaluation of the Board of Directors;
- matters related to the strategy and business plans of the Company;
- remuneration processes employed by the Company;
- matters falling into the competence of the Management Committee concerning the most important current issues regarding the operation of the Company.

7. Liability of the members of the SB

7.1. The SB members According to the provisions of the Civil Code on jointly causing damage - have an unrestricted and joint and several liability towards the Company for damages caused by a breach of their supervisory obligations, including those related to the statement prepared according to the Accounting Act and the related business report as well as their disclosure (CA Section 36. (4); Articles 8.6.).

7.2. The SB members are obliged to keep in strictest confidence the information obtained by them on the Company s business (CA Section 36 (3) and 27 (1)) during their membership and at least for five (5) years upon their recall/resign from the said post.

8. Conflict of Interest

The members of the SB, their close relatives as defined in Section 685. (b) of the Civil Code or any business association in which these persons hold an interest of over 10 percent, may not hold a stake of over 5 percent in, may not be employed by, may not be officials of and may not enter into a contractual agreement with any business association that is a competitor of the Company, except if permitted by law and the General Meeting, with a 3/4 majority, gives exemption from the provisions of this paragraph. (Articles Section 13.)

Pursuant to the authorization, set forth in CA Section 25 (1), SB members may be elected to posts or to be Members of Supervisory Boards of such other companies that do similar activity to that of the Company, in which the Company holds at least 25% ownership and/or voting right.

Members of the Supervisory Board and their close relatives (Civil Code Section 685 (b)) may on their own behalf and to their benefit conclude agreements with the Company relating to the use of public purpose telecommunications services available to anyone (CA Section 36 (3), 25 (2)). The above rules shall not have an effect on the provisions regarding conflict of interest set forth in the Companies Act and other laws.

9. Indemnification of SB members

9.1. Indemnification

To the extent permitted by law the Company shall indemnify any present or former member of the Supervisory Board who was or is threatened to be a party to any threatened, pending or concluded civil, criminal or administrative procedure by reason of his above position at the Company for costs (including attorney s costs) ordered by the court, fines or amounts paid in settlement actually and reasonably incurred by him in connection with the above proceedings or suits if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal proceeding, he had no reasonable cause to believe that his conduct was unlawful. (Articles, Section 14.)

9.2. Advancement of costs

The Company may reimburse the costs borne by a member of its Supervisory Board in any civil, criminal or administrative proceeding or action (including reasonable attorney s fees) to the given person prior to the conclusion of the procedure, if the SB member undertakes to pay back the amount if it is decided that he is not entitled to indemnification by the Company as defined under paragraph 9.1.

9.3. Insurance

The Company has the right to take out and maintain insurance to the benefit of the current and former members of the Supervisory Board in respect of the liability borne by or imputed to them by reason of or in connection with such position, irrespective of whether or not the Company is entitled to indemnify them because of the given liability in accordance with the above 9.1. and 9.2 paragraphs of these Rules of Procedure or the statutes.

10. Miscellaneous

10.1 **The Supervisory Board maintains an orientation program for new members of the Supervisory Board. The orientation program includes comprehensive information about the Company s business and operations, general information about the Supervisory Board, including a summary of members of the Supervisory Board compensation and benefits and a review of members of the Supervisory Board duties and responsibilities.**

10.2 **The Supervisory Board maintains a continuing education program for all members of the Supervisory Board. The Supervisory Board recognizes the importance of continuing education for its members and is committed to provide such education in order to improve the performance of the Supervisory Board. It is the responsibility of the Chairman of the Supervisory Board to**

10.2 The Supervisory Board maintains a continuing education program for all members of the Supe

advise the members of the Supervisory Board about their continuing education, including relevant leading-edge corporate governance issues. The members of the Supervisory Board are encouraged to participate in continuing Supervisory Board member education programs.

10.3. The SB approves the Internal Audit Work Plan of the Company. A report on internal audit activities must be submitted to the SB meeting on a regular basis.

10.4. Members of the SB may not be instructed by the members of the Company or his employer with respect to their activities carried out as part of such positions. (CA Section 34 (3)).

10.5. The senior officials and employees of the Company are obliged, in the course of the supervisory activities of the SB, to supply all information and make the necessary documents and files available to the SB. If the above persons do not comply with their such obligation the SB shall inform the Board of Directors about such failure without delay.

10.6. The management of the Company provides the members of the SB the possibility of entering the official premises of the Company to facilitate fulfillment of their tasks.

10.7. The General Meeting may provide remuneration to the members of the SB.

10.8. A person elected to be a Supervisory Board member shall, within fifteen (15) days as of acceptance of his new office, inform in writing the business associations where he is already an SB member. (CA Section 36 (3) and 24 (3)). SB members shall notify the SB within fifteen (15) days in the event they are offered a membership in a supervisory board or a board of directors or offered an executive management position at another company and also whether they accepted the position.

10.9. The employee representative Supervisory Board member shall inform with the exception of confidential information - the community of employees on the activities of the SB through the Work s Council. (CA Section 38 (4))

11. Annual Evaluation of the Supervisory Board

The Supervisory Board shall perform an annual comprehensive self-evaluation of its performance. This self-evaluation should include a review of the Supervisory Board s contribution as a whole and should specifically review areas in which the Supervisory Board believes a better contribution could be made. Its purpose is to increase the effectiveness of the Supervisory Board and the evaluation of the individual Supervisory Board members. The Supervisory Board shall meet annually to discuss the results of this critical self-evaluation.

Final clause

This Rules of Procedure was approved by the Annual General Meeting of Magyar Telekom Plc. with Resolution No. ~~18~~ /2~~00~~810 (IV~~.2~~57.).

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposals

to the General Meeting of Magyar Telekom Plc.

Subject: Election of Members of the Board of Directors and determination of their remuneration

Budapest, April 7, 2010

The General Meeting shall elect a new Board of Directors, as the mandate of Magyar Telekom Plc. s Board of Directors terminates on the day of the AGM, April 7, 2010 in accordance with Sections 7.2. and 7.3. of the Articles of Association.

In accordance with the provisions of the Articles of Association the Board of Directors shall comprise minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. The assignment of the members of the Board of Directors lasts for a term of three years until May 31 of the third year subsequent to the date of the said General Meeting, provided that if the General Meeting in the third year is held prior to May 31, then their assignment lasts until the date of the General Meeting.

The Board of Directors proposes the following persons to be elected by the General Meeting with respect to agenda item no. 11. (Election of Members of the Board of Directors and determination of their remuneration):

1. dr. Ferri Abolhassan
2. dr. István Földesi
3. Dietmar Frings
4. dr. Mihály Gálik
5. Guido Kerkhoff
6. Thilo Kusch
7. Christopher Mattheisen
8. dr. Klaus Nitschke
9. Frank Odzuck
10. dr. Ralph Rentschler
11. dr. Steffen Roehn

Biographies of the candidates:

Dr. Ferri Abolhassan (born in 1964) in 1989 joined IBM in California and completed his doctoral work in Research & Development in massive parallel computing. From 1992 to 2000 worked at SAP Retail Solutions as a Sales Director and after as a Managing Director. From 2001 to 2004 he was Co-Chairman and CEO at IDS Scheer AG. Dr. Ferri Abolhassan at SAP AG was a member of top management, and filled the position of Executive Vice President. In 2008 he joined T-Systems International GmbH, in a position of Member of the Board of Directors T-Systems and Chief Systems Integration.

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 Organisation 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 (born in 1959) degreed in Business and Administration at Federal University for Applied Services in Mainz. From 1982 to 1986 Dietmar Frings worked in managing functions in Regional Office Branches at German Railways (Deutsche Bahn) and from 1986 to 1989 at Federal Ministry of Transport, finally as consultant of the Parliamentary State Secretary. He joined Deutsche Telekom in 1991 as a specialist for Human Resource issues, responsible for HR services, recruitment and organizational change at DT Headquarters. Subsequently, he took on several positions within HR. From 1998 to 2001, he was responsible for the Labor Relations Management in Germany within the HR 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. Dietmar Frings, Vice President and Head of the German Employer Association, has been appointed as Vice President Human Resources Compensation & Benefits and Labor Law, with effect from April 1, 2010. In his new function, he will have the Management responsibility for all international compensation & benefits and labor law issues.

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 (1998-2002). Since January 1, 2008, he has been a Professor and Head of the Media, Marketingcommunication and Telecommunications Department at the Corvinus University of Budapest.

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 in 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 March 1, 2009 he has been serving as a member of the Board of Management of Deutsche Telekom AG to manage the subsidiaries in South Eastern Europe.

Thilo Kusch. (born in 1965) 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 network 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.

Christopher Mattheisen. (born in 1961) Mr. Mattheisen studied economics at Indiana University 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. Klaus Nitschke was born in Hannover, Germany in 1961. He qualified with a diploma degree at the Cologne University, majoring in Biochemistry and Molecular Biology. Additionally he achieved a Bachelor of Arts degree from the Boston University and in 1992, a Ph.D degree as Dr. rer nat. from the Max-Planck-Instituite in Cologne His career started in 1992 as a Top Management Consultant for Dicke & Associates Management Consultants (a McKinsey spin-off company). As one of the shareholders, he participated in 1999 with his partners in the decision to sell the company to Deloitte Consulting, where he continued to work for another year. From 2000 till 2002, he continued his career with Bertelsmann AG as COO of BOL AG (e-commerce book and CD retailer) and as Vice President, responsible for building up a Mobile Virtual Network Operator (MVNO). In 2002, Klaus Nitschke joined Deutsche Telekom (DTAG) where he has since had various management positions: He was first assigned as Area Manager for the DTAG central european subsidiaries MT (Hungary), HT (Croatia) and ST (Slovakia). From 2003-2005, as SEVP he lead the Strategy department of DTAG´s fixed line business in Germany. From 2005-2009, he moved as a Managing Director to Berlin, building up a Product & Development unit which was later reintegrated into Deutsche Telekom. Focus of this entity is to this day to develop and run innovative non access internet services.Today, Klaus Nitschke is working in the DTAG General Headquarters. As SVP he is leading the South Eastern European Strategy and in addition, he is acting as Area Manager for the MT Group.

Frank Odzuck. (born in 1959) Mr. Odzuck obtained an economist 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. (born in 1960) 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 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 With July 2009 Dr. Rentschler has taken over the position as the Financial Director of the new based Board Division Southern and Eastern Europe additionally to his position as the CFO of the fixed net business.

Dr. Steffen Roehn. (born in 1964) Dr. Roehn graduated in Physics from the Universities of Kaiserslautern, Karlsruhe and Mainz. In 1991, he achieved a PhD degree at the European research facility 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 is the Chief Information Officer (CIO) of Deutsche Telekom Group.

Resolution proposal:

The General Meeting elects dr. Ferri Abolhassan to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. István Földesi to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Dietmar Frings to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Mihály Gálik to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Guido Kerkhoff to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Thilo Kusch to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Christopher Mattheisen to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Klaus Nitschke to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until

the date of the General Meeting.

The General Meeting elects Mr. Frank Odzuck to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General

Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Ralph Rentschler to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Steffen Roehn to the members of the Board of Directors of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The remuneration of the Board of Directors was last determined in 2007 for Magyar Telekom Plc. The Remuneration Committee makes proposal regarding the remuneration of the Board of Directors for the General Meeting in accordance with Section 2.1. of the Rules of Procedure of the Remuneration Committee.

The Remuneration Committee proposes the following resolution proposal to the General Meeting:

Resolution proposal:

The General Meeting determines the remuneration of the members of the Board Directors as follows:

Chairman of the Board Directors:	**HUF 546,000 /month**
Members of the Board Directors:	**HUF 364,000 /month**

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposals

to the General Meeting of Magyar Telekom Plc.

Subject: Election of Members of the Supervisory Board and determination of their remuneration

Budapest, April 7, 2010

The General Meeting shall elect a new Supervisory Board, as the mandate of Magyar Telekom Plc. s Supervisory Board members terminates on the day of the AGM, April 7, 2010 in accordance with Sections 8.2.1. and 8.2.5. of the Articles of Association.

The Supervisory Board shall comprise of 3-15 members. The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board lasts for a term of three years until May, 31 of the third year subsequent to the date of the said General Meeting provided, that if the General Meeting in the third year is held prior to May 31 then their assignment lasts until the date of the General Meeting. The majority of members of the Supervisory Board must be independent. A Supervisory Board member is independent if he they have no other legal relationship with the Company than their Supervisory Board membership.

The employees representatives in the Supervisory Board are appointed for election by the Central Workers Council after consultation with the trade unions.

The Board of Directors proposes the following persons to be elected by the General Meeting with respect to agenda item no. 12. (Election of Members of the Supervisory Board and determination of their remuneration):

1. dr. János Bitó (independent)

2. Attila Bujdosó (employees representative, upon Central Workers Council appointment)

3. dr. János Illéssy (independent)

4. dr. Sándor Kerekes (independent)

5. Konrad Kreuzer (independent)

6. Tamás Lichnovszky (employees representative, upon Central Workers Council appointment)

7. Martin Meffert

8. dr. László Pap (independent)

9. dr. Károly Salamon (independent)

10. Mrs. Zsoltné Varga (employees representative, upon Central Workers Council appointment)

11. György Varju (employees representative, upon Central Workers Council appointment)

Biographies of the candidates:

Dr. János Bitó (born in 1936) graduated from the faculty of natural sciences at József Attila University of Sciences (Szeged) in 1958, then got a Dr. Rer. Nat. in 1960. In 1967 he gained a PhD, and in 1971 a D. Sc. in technical sciences. He taught in many 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 the minister in a ministry. He accomplished considerable achievements in robotics, and between 1965 and 2005 in the foundation and introduction of scientific researches and developments in Hungary. He is a member of a number of scientific organizations, he is the member of the Hungarian Academy of Sciences Committee on Information Science and of the Hungarian Academy of Sciences Committee on Automation and Computer Science. He was a member of the board of directors or the supervisory board, or the chairman of the supervisory board, at many companies. At present he is the chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty. A lot of publications are connected to his name (articles, university notes, books), he is the owner of many prizes and awards.

Attila Bujdosó (born in 1967), holds the highest education: degree in electrical engineering obtained from, BMF Kandó Kálmán Faculty of Electrical Engineering. He has been working at Magyar Telekom and its legal predecessors since 1985. Until 1998 he worked as an exchange maintenance technician, then as a technical coordinator, and an administrative operator. He has been a member of the trade union since 1985. From 2005 until 2007 he was a member of the Workers Council and since July 1, 2008 he has been president of the Telecommunications Trade Union.

Dr. János Illéssy (born in 1962) is an electric engineer (BME) with an MBA and PhD from the University of Pittsburgh, USA. He spent over 15 years with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, in consultant, controller, Chief Financial Officer and Chairman and Chief Executive Officer positions. Between 2001 and 2003 he worked as CFO of the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the Chief Financial Officer and member of the Board of Directors of Borsodchem. Currently he is the managing director of Lebona Ltd, and teaching Financial Economics at the Institute of International Business Relations and the Business School of Central European University, as adjunct professor.

Dr. Sándor Kerekes (born in 1948) holds an MSc in chemistry and economics. He got a PhD Degree in Economics in 1984 and a Doctor of Sciences (top degree awarded by the Hungarian Academy of Sciences) in 2003. In 1994 he participated in the Advanced Management Program of Harvard Business School. For 15 years, he was the member or the Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he served as the Head of Department and later as the director of Corvinus University and its legal predecessors. Between 1994-97 and 2002-2006 for 8 years he served as the Dean of Business Administration Faculty of the Corvinus University of Budapest. He is the Director of the Institute of Environmental Sciences of Corvinus University. From 2008 he is the vice rector of academic affairs of CUB. He is the member of the editorial boards of various papers, among them the Economy and Society and the Vezetéstudomány (science of management) and the author of many books and articles.

Konrad Kreuzer (born in 1948) 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 a Head of the Department ´Law and Property´. Since 1997 he has been serving E.ON in Hungary as the Chairman of the Board of Directors. His current responsibilities are Legal Affairs, Gas Business and International Affairs. He is also the Chairman of the Board of Directors of Západoslovenska energetika, Slovakia.

Tamás Lichnovszky (born in 1962), took a degree in communications engineering in 1984 and in engineering management in 2002 in Budapest. 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 (born in 1960) Holds a degree in telecommunications engineering of the university of applied science in Koblenz, Germany and a degree in economics from the business and administration academy in Koblenz. 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 in the departments for satellite systems and international network projects. From 1999 on he joined the fixed line business of Deutsche Telekom taking care of cooperations and alliance management. Since 2003 he is country manager for Hungary in the head office of T-Home.

Dr. László Pap (born in 1943) graduated from the Technical University of Budapest as a Telecommunications major. He earned his Ph.D. in 1980 and Doctor of Sciences (top degree awarded by the Hungarian Academy of Sciences) in 1992. He is a full member of the Hungarian Academy of Sciences. He has been a professor of the Faculty of Electrical Engineering and Informatics since 1992. He was the Head of the Department of Telecommunications at the Budapest University of Technology and Economics from 1992 to 2008, between 2001 and 2004 he was strategic vice rector of the University. He has obtained numerous patents for his inventions. He is 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 (born in 1954) graduated in 1977 at the Kandó Kálmán College as a bachelor of science of Electrical Engineering, and in 1983 at Eötvös Lóránd University of Sciences as a master of science of Mathematics. He participated at an MBA training at the University of Pittsburgh (USA) in 1991, then he got a PhD at the University of Economics in 1993. Between 1977 and 1995 he worked as a design engineer, then as a development engineer and later as a project leader, and a partner, at different companies. Between 1995 and 2006, he was the chief financial officer, then from 2006 to 2008 the chairman-chief executive officer of Allianz Hungária Biztosító Zrt. At present he is the general director of MIS Ltd. Between 2003 and 2008 he was a member or the chairman of the Board of Directors, or a member of the supervisory board of a number of banks. Since 2006 he is a member of the Board of Directors of the Hungarian Mortgage Bank, and from 2007 a member of the Board of the German - Hungarian Chamber of Commerce.

Mrs. Zsoltné Varga (born in 1969) graduated from KTMF (College of Transport and Telecommunications) at Győr in 1991. She has been working for Magyar Telekom (and its legal predecessor) since 1991. From 1991 till 1996, she was employed as an engineer in the technical area; later she was the Head of a T-Pont shop; at present, she works as a quality manager. In 1998, she became an elected member of the Workers Council; she is a member of the Central Workers Council. Since 2004 she is a member, from 2009 deputy chairwoman of DT s European Workers Council.

György Varju (born in 1946) 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 the Chairman of the Central Workers Council.

Resolution proposals:

The General Meeting elects dr. János Bitó to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Attila Bujdosó to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting

is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. János Illéssy to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting in the third year is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Sándor Kerekes to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Konrad Kreuzer to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Tamás Lichnovszky to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. Martin Meffert to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. László Pap to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Károly Salamon to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mrs. Zsoltné Varga to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects Mr. György Varju to the members of the Supervisory Board of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The remuneration of the Supervisory Board was last determined in 2007 for Magyar Telekom Plc. Proposal shall be made by the Board of Directors to the General Meeting regarding the remuneration of the Supervisory Board.

Resolution proposal:

The General Meeting determines the remuneration of the members of the Supervisory Board as follows:

Chairman of the Supervisory Board:	**HUF 448,000 /month**
Members of the Supervisory Board:	**HUF 294,000 /month**

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposals

to the General Meeting of Magyar Telekom Plc.

Subject: Election of Members of the Audit Committee and determination of their remuneration

Budapest, April 7, 2010

The General Meeting shall elect a new Audit Committee, as the mandate of Magyar Telekom Plc. s Audit Committee members terminates on the day of the AGM, April 7, 2010 in accordance with Sections 8.2.1. and 8.7.1. of the Articles of Association.

In accordance with the provisions of the Articles of Association the General Meeting elects a 3-5 member Audit Committee from the independent members of the Supervisory Board (SB) for the same period as the membership of the relevant members in the SB.

The Board of Directors proposes the following persons to be elected by the General Meeting with respect to agenda item no. 13. (Election of Members of the Audit Committee and determination of their remuneration):

1. dr. János Bitó
2. dr. János Illéssy
3. dr. Sándor Kerekes
4. dr. László Pap
5. dr. Károly Salamon

Biographies of the candidates:

Dr. János Bitó (born in 1936) graduated from the faculty of natural sciences at József Attila University of Sciences (Szeged) in 1958, then got a Dr. Rer. Nat. in 1960. In 1967 he gained a PhD, and in 1971 a D. Sc. in technical sciences. He taught in many 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 the minister in a ministry. He accomplished considerable achievements in robotics, and between 1965 and 2005 in the foundation and introduction of scientific researches and developments in Hungary. He is a member of a number of scientific organizations, he is the member of the Hungarian Academy of Sciences Committee on Information Science and of the Hungarian Academy of Sciences Committee on Automation and Computer Science. He was a member of the board of directors or the supervisory board, or the chairman of the supervisory board, at many companies. At present he is the chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty. A lot of publications are connected to his name (articles, university notes, books), he is the owner of many prizes and awards.

Dr. János Illéssy (born in 1962) is an electric engineer (BME) with an MBA and PhD from the University of Pittsburgh, USA. He spent over a 15 years with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, in consultant, controller, Chief Financial Officer and Chairman and Chief Executive Officer positions. Between 2001 and 2003 he worked as CFO of the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the Chief Financial Officer and member of the Board of Directors of Borsodchem. Currently he is managing director of Lebona ltd, and teaching Financial Economics at the Institute of International Business Relations and the Business School of Central European University, as adjunct professor.

Dr. Sándor Kerekes (born in 1948) holds an MSc in chemistry and economics. He got a PhD Degree in Economics in 1984 and a Doctor of Sciences (top degree awarded by the Hungarian Academy of Sciences) in 2003. In 1994 he participated in the Advanced Management Program of Harvard Business School. For 15 years, he was the member or the Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he served as the Head of Department and later as the director of Corvinus University and its legal predecessors. Between 1994-97 and 2002-2006 for 8 years he served as the Dean of Business Administration Faculty of the Corvinus University of Budapest. He is the Director of the Institute of Environmental Sciences of Corvinus University. From 2008 he is the vice rector of academic affairs of CUB. He is the member of the editorial boards of various papers, among them the Economy and Society and the Vezetéstudomány (science of management) and the author of many books and articles.

Dr. László Pap (born in 1943) graduated from the Technical University of Budapest as a Telecommunications major. He earned his Ph.D. in 1980 and Doctor of Sciences (top degree awarded by the Hungarian Academy of Sciences) in 1992. He is a full member of the Hungarian Academy of Sciences. He has been a professor of the Faculty of Electrical Engineering and Informatics since 1992. He was the Head of the Department of Telecommunications at the Budapest University of Technology and Economics from 1992 to 2008, between 2001 and 2004 he was strategic vice rector of the University. He has obtained numerous patents for his inventions. He is 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 (born in 1954) graduated in 1977 at the Kandó Kálmán College as a bachelor of science of Electrical Engineering, and in 1983 at Eötvös Lóránd University of Sciences as a master of science of Mathematics. He participated at an MBA training at the University of Pittsburgh (USA) in 1991, then he got a PhD at the University of Economics in 1993. Between 1977 and 1995 he worked as a design engineer, then as a development engineer and later as a project leader, and a partner, at different companies. Between 1995 and 2006, he was the chief financial officer, then from 2006 to 2008 the chairman-chief executive officer of Allianz Hungária Biztosító Zrt. At present he is the general director of MIS Ltd. Between 2003 and 2008 he was a member or the chairman of the Board of Directors, or a member of the supervisory board of a number of banks. Since 2006 he is a member of the Board of Directors of the Hungarian Mortgage Bank, and from 2007 a member of the Board of the German - Hungarian Chamber of Commerce.

Resolution proposals:

The General Meeting elects dr. János Bitó to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. János Illéssy to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Sándor Kerekes to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. László Pap to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held

prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The General Meeting elects dr. Károly Salamon to the members of the Audit Committee of Magyar Telekom Plc. until May 31, 2013, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then their assignment lasts until the date of the General Meeting.

The remuneration of the Audit Committee was last determined in 2007 for Magyar Telekom Plc. Proposal shall be made by the Board of Directors to the General Meeting regarding the remuneration of the Audit Committee.

Resolution proposal:

The General Meeting determines the remuneration of the members of the Audit Committee as follows:

Chairman of the Audit Committee:	**HUF 440,000 /month**
Members of the Audit Committee:	**HUF 220,000 /month**

Magyar Telekom Telecommunications Public Limited Company

Submission and resolution proposal

to the General Meeting of Magyar Telekom Plc.

Subject: Election of the Company s Auditor and determination of its remuneration. Designation of the Auditor who will be personally responsible for the audit of the Company and designation of the deputy auditor.

Budapest, April 7, 2010

Magyar Telekom Telecommunications Public Limited Company

Audit Committee

Proposal of the Audit Committee of Magyar Telekom Plc.

for the General Meeting of the Company

in relation to the election and determination of the remuneration of the auditor of the Company, and the designation of the auditor who will be personally responsible for the audit of the Company and designation of the deputy auditor

The Audit Committee, having reviewed and evaluated the performance, qualifications, internal quality-control system and independence of the independent external auditor of Magyar Telekom Plc. (the Company), submits the following resolution proposal to the General Meeting in relation to the election and determination of the remuneration of the independent external auditor of the Company, and the designation of the natural person auditor personally responsible for carrying out the audit and the deputy auditor:

The General Meeting elects as auditor of Magyar Telekom Plc. (the Company)

PricewaterhouseCoopers Ltd. (1077 Budapest, Wesselényi u. 16**; company registration number: 01-09-063022; registration number: 001464)**

personally Márta Hegedűsné Szűcs as registered auditor

Chamber membership number: 006838

Address: 2071 Páty, Várhegyi u. 6.

Mother s maiden name: Julianna Hliva

to perform audit services for the year 2010, i.e. for the period ending May 31st 2011 or if the Annual General Meeting closing the 2010 fiscal year will be held prior to May 31st 2011 then on the date thereof.

In the event that Márta Hegedűsné Szűcs is incapacitated, the General Meeting elects Nikoletta Róka (chamber membership number: 005608, mother s maiden name: Györgyi Soós, address: 1163 Budapest, Gutenberg u. 17.) to act as responsible auditor.

The General Meeting approves HUF 89,700,000 + VAT + max 5% related costs + VAT (excluding the audit of internal controls as required by the Sarbanes-Oxley Act of 2002), be the Auditor s annual compensation, covering the audit of the annual financial statements of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the annual consolidated financial statements of the Magyar Telekom Group prepared in accordance with International Financial Reporting Standards (IFRS).

Budapest, March 5, 2010

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy

Chairman of the Audit Committee

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Magyar Telekom Plc.
(Registrant)

By:

Szabolcs Czenthe
Director
Capital Markets and Acquisitions

Date: March 18, 2010