HUNGARIAN TELEPHONE & CABLE CORP
Form DEFM14A
February 03, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Hungarian Telephone and Cable Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

¨ Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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3) Filing Party: Invitel Holdings A/S

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4) Date Filed: November 28, 2008

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Hungarian Telephone and Cable Corp.

1201 Third Avenue

Suite 3400

Seattle, WA 98101-3034

February 2, 2009

Dear Stockholder:

You are cordially invited to join us at a Special Meeting of Stockholders of Hungarian Telephone and Cable Corp. to be held at 10 a.m. (New York City time) on February 24, 2009. The meeting will be held at the offices of Simpson Thacher & Bartlett LLP located at 425 Lexington Avenue, New York, NY10017-3954, U.S.A.

We are pleased to present for your approval a proposal for reorganizing your company and effectively changing its place of incorporation from Delaware to Denmark.

When the reorganization is completed, the shares you own of Hungarian Telephone and Cable Corp. (HTCC Delaware) will automatically be converted into the right to receive American depositary shares (Invitel Denmark ADSs) of Invitel Holdings A/S (Invitel Denmark), evidenced by American depositary receipts (Invitel Denmark ADRs), representing ordinary shares of Invitel Denmark, provided that you may elect to receive ordinary shares instead of Invitel Denmark ADSs. Invitel Denmark is a Danish corporation that we recently formed for purposes of effecting the reorganization and is a wholly owned subsidiary of HTCC Delaware. Each Invitel Denmark ADS will represent one ordinary share of Invitel Denmark. The number of Invitel Denmark ordinary shares you will own, either directly or through Invitel Denmark ADSs, will be the same as the number of HTCC Delaware shares you own immediately prior to the completion of the reorganization, and your relative economic ownership in the company will remain unchanged. After completion of the reorganization, Invitel Denmark and its subsidiaries will continue to conduct the business conducted by HTCC Delaware and its subsidiaries.

The reorganization will be accomplished through the following steps:

- the transfer of HTCC Delaware s assets to, and assumption of HTCC Delaware s liabilities by, Invitel Denmark in exchange for newly issued ordinary shares of Invitel Denmark,
- the merger of HTCC Delaware with and into a newly formed Delaware limited liability company, Invitel Sub LLC (MergeCo), which will be the surviving company in the merger and a wholly owned subsidiary of Invitel Denmark, and
- after completion of the merger, the transfer by MergeCo of its then remaining assets to and the assumption of its then remaining liabilities by its parent, Invitel Denmark, and the dissolution of MergeCo.

As a result of these transactions, it is intended that Invitel Denmark will be the successor to, and be substituted for, HTCC Delaware, as the holding company for the group of companies that currently are subsidiaries of HTCC Delaware.

The accompanying proxy statement/prospectus contains detailed information about the merger and the Special Meeting. This document is also a prospectus for the Invitel Denmark ordinary shares underlying the Invitel Denmark ADSs that will be delivered in connection with the merger. **HTCC Delaware s stockholders are encouraged to read this proxy statement/prospectus carefully before voting, including the section entitled Risk Factors beginning on page 19.**

The board of directors of HTCC Delaware has unanimously approved the agreement and plan of merger providing for the merger and related steps, and recommends that you vote FOR adoption of the agreement and plan of merger.

The merger requires the affirmative vote of a majority of our outstanding common stock, including the common stock owned by TDC A/S, a Danish corporation (TDC). On February 2, 2009, TDC owned 10,499,782 shares of our common stock, representing approximately 63.9% of our outstanding common stock on that date. TDC has informed us that it intends to vote its shares of our outstanding common stock in favor of the adoption of the agreement and plan of merger. TDC owns sufficient shares of our common stock to approve the adoption of the agreement and plan of merger and, therefore, no action by any other stockholder of HTCC Delaware is required for the merger and reorganization to be completed.

HTCC Delaware s common stock is currently traded on the NYSE Alternext stock exchange (formerly known as The American Stock Exchange) under the symbol HTC . We intend to apply to list the Invitel Denmark ADSs on the NYSE Alternext stock exchange under the symbol IHO , effective upon the merger.

Holders of HTCC Delaware common stock will not be entitled to dissenters or appraisal rights under the Delaware General Corporation Law in connection with the merger.

Please vote your proxy by completing, signing and dating the enclosed proxy card and returning it promptly, whether or not you expect to attend the Special Meeting. You may revoke your proxy and vote in person if you decide to attend the meeting.

We urge you to join us in supporting this important opportunity.

Sincerely,

Henrik Scheinemann

Chairman

These securities have not been approved or disapproved by the Securities and Exchange Commission, any State Securities Commission or the Securities Regulatory Authority of any other jurisdiction nor has the Securities and Exchange Commission, any State Securities Commission or any Securities Regulatory Authority of any other jurisdiction passed upon the accuracy or adequacy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated February 2, 2009 and is expected first to be mailed to stockholders on or about February 3, 2009.

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Hungarian Telephone and Cable Corp.

1201 Third Avenue

Suite 3400

Seattle, WA 98101-3034

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On February 24, 2009

To the Stockholders of Hungarian Telephone and Cable Corp.:

Notice is hereby given that a Special Meeting of the Stockholders of Hungarian Telephone and Cable Corp., a Delaware corporation (HTCC Delaware or the company), will be held at 10 a.m. (New York City time) on February 24, 2009 at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY10017-3954, U.S.A. for the following purposes:

1. To adopt the agreement and plan of merger, a conformed copy of which is attached to and described in the accompanying proxy statement/prospectus as Annex A, among HTCC Delaware, Invitel Sub LLC, a Delaware limited liability company (MergeCo), and Invitel Holdings A/S, a Danish corporation (Invitel Denmark), whereby the company will effectively change its place of incorporation from Delaware to Denmark by merging HTCC Delaware with and into MergeCo, which will be the surviving entity and become a wholly owned, direct subsidiary of Invitel Denmark, and pursuant to which each share of HTCC Delaware will automatically be converted into the right to receive one American depositary share of Invitel Denmark representing one ordinary share of Invitel Denmark, provided that you may elect to receive ordinary shares instead of Invitel Denmark ADSs; and

2. To transact such other business as may properly come before the Special Meeting or any adjournment or postponement thereof.

The board of directors of HTCC Delaware has fixed the close of business on February 2, 2009 as the record date for determination of stockholders entitled to notice of, and to vote at, the Special Meeting and any adjournments or postponements thereof.

To ensure that your shares of common stock are represented at the meeting, you should vote your proxy by completing, signing and dating the enclosed proxy card and returning it promptly in the enclosed envelope, whether or not you expect to attend the Special Meeting. You may revoke your proxy and vote in person if you decide to attend the meeting.

By Order of the Board of Directors,

Peter T. Noone

General Counsel and Secretary

Seattle, Washington, February 2, 2009.

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In this proxy statement/prospectus, we refer to Hungarian Telephone and Cable Corp. as HTCC Delaware, and to Invitel Holdings A/S as Invitel Denmark. We refer to HTCC Delaware, Invitel Denmark and our operating subsidiaries, collectively, as HTCC or the HTCC group. Except where indicated otherwise, we refer to HTCC Delaware and Invitel Denmark, which will be HTCC Delaware s successor following the reorganization, together, as the company, we, us or our. Invitel Denmark ordinary shares and Invitel Denmark ADSs are also referred to collectively as Invitel Denmark securities. American depositary receipts evidencing Invitel Denmark ADSs are referred to herein as Invitel Denmark ADRs.

Unless otherwise noted, all monetary amounts are stated in United States dollars.

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this proxy statement/prospectus in connection with the transactions described in this proxy statement/prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us.

Neither the delivery of this proxy statement/prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs since the date hereof. This proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy securities other than those specifically offered hereby or of any securities offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. The information contained in this proxy statement/prospectus speaks only as of the date of this proxy statement/prospectus unless the information specifically indicates that another date applies.

This proxy statement/prospectus has been prepared based on information provided by us and by other sources that we believe are reliable. This proxy statement/prospectus summarizes certain documents and other information in a manner we believe to be accurate, but we refer you to the actual documents, if any, for a more complete understanding of what we discuss in this proxy statement/prospectus. In deciding how to vote, you must rely on your own examination of our company and the terms of the reorganization and Invitel Denmark securities, including the merits and risks involved and other matters discussed in this document.

We are not making any representation to you regarding the legality of an investment in the Invitel Denmark securities by you under any legal investment or similar laws or regulations. You should not consider any information in this proxy statement/prospectus to be legal, business, tax or other advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Invitel Denmark securities.

ADDITIONAL INFORMATION

HTCC Delaware files annual, quarterly and other reports and other information with the Securities and Exchange Commission, or SEC. For a listing of the documents available from the SEC, please see the section entitled Where You Can Find More Information beginning on page 179.

HTCC Delaware will provide you with copies of the information relating to HTCC Delaware or Invitel Denmark, without charge, upon written or oral request to Mr. Peter T. Noone, HTCC Delaware General Counsel and Secretary, at 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034 or at +1 (206) 654-0204. In order to receive timely delivery of the documents in advance of the HTCC Delaware special meeting, we should receive your request no later than February 16, 2009.

ENFORCEABILITY OF CIVIL LIABILITIES

Invitel Denmark is incorporated under the laws of Denmark and none of its directors or registered managers is a resident of the United States. Furthermore, substantially all of Invitel Denmark s assets and almost all of the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon Invitel Denmark or those persons, or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws.

If a judgment is obtained in a U.S. court against Invitel Denmark or any such persons, investors will need to enforce such judgment in jurisdictions where Invitel Denmark or such person has assets. Under applicable Danish law, a judgment by a state or federal court of the United States in respect of the reorganization or exchange of HTCC Delaware shares for Invitel Denmark ADSs or Invitel Denmark ordinary shares will neither be recognized nor enforced by the courts of Denmark without a review of the merits underlying the judgment. You should consult with your own advisers in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

MARKET AND INDUSTRY DATA

Market data used in this proxy statement/prospectus was obtained from internal company estimates, government sources and various trade associations which monitor the industries in which we compete. We have not independently verified this market data. Similarly, internal company estimates, while believed by us to be reliable, have not been verified by any independent sources, and neither we nor any other person makes any representation as to the accuracy of the information. While we are not aware of any misstatements regarding any industry or similar data presented herein, such data involve risks and uncertainties and is subject to change based on various factors, including those discussed under Risk Factors in this proxy statement/prospectus.

CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS

This proxy statement/prospectus contains forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties, which could cause actual results to differ materially from those expressed or implied in the statements. Words such as believes, anticipates, estimates, expects, intends and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously.

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PART I

QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION

Q. What am I being asked to vote on?

A. You are being asked to vote in favor of a reorganization of HTCC Delaware, a Delaware corporation, listed on the NYSE Alternext stock exchange (NYSE Alternext, formerly known as The American Stock Exchange), in which it will effectively change its place of incorporation from Delaware to Denmark. The reorganization will be accomplished through the transfer of HTCC Delaware s assets to, and the assumption of HTCC Delaware s liabilities by, Invitel Denmark, followed by the merger of HTCC Delaware with and into a newly formed Delaware limited liability company, Invitel Sub LLC (MergeCo), which will be the surviving entity in the merger and a wholly owned subsidiary of Invitel Denmark. Invitel Denmark is a Danish corporation that we recently formed for the purposes of effecting the reorganization and is a wholly owned subsidiary of HTCC Delaware. After completion of the merger, the remaining assets and liabilities of MergeCo will be transferred to and assumed by its parent, Invitel Denmark, and MergeCo will be dissolved. As a result of the merger, you will own shares in Invitel Denmark, which will be the new holding company for the HTCC group.

Q. What will I receive in the merger?

A. In the reorganization merger, each share of HTCC Delaware common stock will automatically convert into the right to receive one Invitel Denmark ADS representing one ordinary share of Invitel Denmark, provided that you may elect to receive ordinary shares instead of Invitel Denmark ADSs.

Q. What is an Invitel Denmark ADS?

A. An American depositary share, or ADS, is a security that allows shareholders in the United States to hold and trade interests in foreign-based companies more easily. ADSs are often evidenced by certificates known as American depositary receipts, or ADRs. Invitel Denmark is a Danish corporation that issues ordinary shares. Each Invitel Denmark ADS represents one Invitel Denmark ordinary share. For a description of the rights attaching to Invitel Denmark ADSs, see Description of Invitel Denmark American Depositary Shares on page 153. For a description of the rights attaching to each ordinary share of Invitel Denmark, see Description of Ordinary Shares of Invitel Denmark on page 149.

Q. Will Invitel Denmark ADSs be publicly traded in the United States?

A. Yes. We intend to list Invitel Denmark ADSs publicly in the United States on the NYSE Alternext stock exchange (formerly known as The American Stock Exchange) under the symbol IHO and quoted in United States dollars. NYSE Alternext is the stock exchange on which the common stock of HTCC Delaware is currently listed.

Q. Will Invitel Denmark ordinary shares be publicly traded in the United States or elsewhere?

A. No. However, we may consider seeking a listing of the Invitel Denmark ordinary shares on a stock exchange in Europe, where the HTCC group s operating businesses are located, at some future time.

Q. How do I make the choice to receive Invitel Denmark ordinary shares instead of Invitel Denmark ADSs?

A. Prior to the merger, an exchange agent will be appointed for the purpose of exchanging HTCC Delaware common stock for, as applicable, Invitel Denmark ADSs or Invitel Denmark ordinary shares. The exchange agent will mail to each holder of record of HTCC Delaware common stock a letter of transmittal for use in

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effecting delivery of certificates representing these shares to the exchange agent. The letter of transmittal will enable each holder of HTCC Delaware common stock to make an election to receive Invitel Denmark ordinary shares instead of Invitel Denmark ADSs, by way of a cancellation of Invitel Denmark ADSs within 30 days from the date of issuance, at no cost to the holder. If a holder of HTCC Delaware common stock does not make an election, the holder will automatically receive one Invitel Denmark ADS for each share of HTCC Delaware common stock. If a holder of HTCC Delaware common stock elects to receive Invitel Denmark ordinary shares, the holder will receive the Invitel Denmark ordinary shares in dematerialized form, subject to compliance with the requirements to receive Invitel Denmark ordinary shares. Invitel Denmark issues its shares through the Danish central securities depository, VP Securities Service (Værdipapircentralen A/S). In order to receive ordinary shares of Invitel Denmark, you will have to appoint a bank, broker or other nominee who is a clearing member of VP Securities Service or who has an agreement with a clearing member of VP Securities Service, and establish an account with VP Securities Service through such bank, broker or other nominee. You must follow the instructions of such bank, broker or nominee in order to receive Invitel Denmark ordinary shares.

If you hold your shares of HTCC Delaware common stock in street name through a stockbroker, bank or other nominee rather than directly in your own name, you are considered the beneficial owner of those shares, and the letter of transmittal should be forwarded to you by your stockbroker, bank or other nominee. You should note, if you intend to elect to receive Invitel Denmark ordinary shares, that the Invitel Denmark ordinary shares will not be publicly traded, and may not become publicly traded in the future. For more information on the exchange of the HTCC Delaware common stock for HTCC Denmark securities, see The Reorganization Share Election; Exchange of Shares on page 135.

YOU SHOULD NOT SEND YOUR HTCC DELAWARE STOCK CERTIFICATES TO THE EXCHANGE AGENT UNTIL YOU HAVE RECEIVED TRANSMITTAL MATERIALS FROM THE EXCHANGE AGENT. DO NOT RETURN HTCC DELAWARE STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD.

Q. What are the implications to HTCC Delaware stockholders of Invitel Denmark being a foreign private issuer ?

A. Following completion of the merger, Invitel Denmark will be subject to the reporting requirements under the U.S. Securities Exchange Act of 1934 (the Exchange Act) applicable to foreign private issuers. Under current regulations, Invitel Denmark will be required to file an annual report on Form 20-F with the SEC within six months after the end of each fiscal year. Invitel Denmark s current fiscal year begins on January 1 and ends on December 31. In addition, Invitel Denmark will be required to furnish reports on Form 6-K to the SEC regarding any information required to be publicly disclosed by Invitel Denmark in Denmark or filed with any stock exchange where its ordinary shares may be listed, or distributed or required to be distributed by Invitel Denmark to its shareholders. Invitel Denmark will remain subject to the disclosure rules of NYSE Alternext. Invitel Denmark will be subject to the mandates of the Sarbanes-Oxley Act applicable to foreign private issuers. Invitel Denmark will be exempt from certain rules under the Exchange Act, including the proxy rules which impose certain disclosure and procedural requirements for proxy solicitations under Section 14 of the Exchange Act, and will not be required to comply with Regulation FD, which addresses certain restrictions on the selective disclosure of material information. In addition, among other matters, Invitel Denmark s officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of Invitel Denmark securities. If Invitel Denmark loses its status as a foreign private issuer, it will no longer be exempt from such rules and, among other things, will be required to file periodic reports and financial statements as if it were a company incorporated in the United States. In addition, Invitel Denmark is considering preparing its financial reporting in accordance with International Financial Reporting Standards (IFRS) and may also change its reporting currency from U.S. dollars to euros. See Invitel Denmark will be a Foreign Private Issuer on page 139.

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Q. How will the reorganization be accomplished?

A. HTCC Delaware will transfer its assets to, and will have its liabilities assumed by, its wholly owned subsidiary Invitel Denmark in exchange for newly issued shares of Invitel Denmark. HTCC Delaware will subsequently merge with and into, a new Delaware limited liability company, MergeCo, a wholly owned direct subsidiary of Invitel Denmark, which was formed specifically for the merger. MergeCo will be the surviving entity in the merger. After completion of the merger, any remaining assets and liabilities of MergeCo will be transferred to and assumed by its parent, Invitel Denmark, and MergeCo will be dissolved. As a result of the merger, each share of HTCC Delaware common stock outstanding immediately prior to the effective time of the merger will automatically convert into the right to receive one Invitel Denmark ADS representing one ordinary share of Invitel Denmark, provided that you may elect to receive ordinary shares instead of Invitel Denmark ADSs. This procedure allows you to become a holder, either through Invitel Denmark ADSs or directly, of ordinary shares of Invitel Denmark, the new Danish parent company of the entire HTCC group. After this merger, you will own an interest in a Danish holding company which, together with its subsidiaries, will continue to be engaged in the same business that HTCC Delaware and its subsidiaries were engaged in before the merger. The additional steps in the reorganization are more fully described in The Reorganization Structure of the Reorganization on page 131.

Q. Will the reorganization dilute my ownership interest?

A. No. The reorganization will not dilute your ownership interest. Immediately after the reorganization is consummated, you will, either through Invitel Denmark ADSs or directly, own the same percentage of Invitel Denmark ordinary shares as you owned of HTCC Delaware common stock immediately prior to the completion of the reorganization, and your relative economic ownership in the company will remain unchanged. After completion of the reorganization, the total number of outstanding ordinary shares of Invitel Denmark will be equal to the number of shares of common stock of HTCC Delaware that were outstanding immediately prior to the effective time of the merger. As of February 2, 2009, HTCC Delaware had 16,425,733 shares of common stock outstanding.

Q. Do I have to change my stock certificates?

A. Yes. The exchange agent will send you a letter of transmittal, which will instruct you how to surrender your certificates of common stock of HTCC Delaware. Upon surrender of the certificate with a duly executed letter of transmittal, you will be entitled to receive in exchange the whole number of Invitel Denmark ADSs or, if you so elect, Invitel Denmark ordinary shares that you have the right to receive pursuant to the merger agreement. If you surrender a HTCC Delaware stock certificate and request the new Invitel Denmark ADSs or Invitel Denmark ordinary share in dematerialized form, as the case may be, to be issued in a name other than the one appearing on the surrendered certificate, you must endorse the stock certificate or otherwise prepare it to be in proper form for transfer. HTCC Delaware certificates that are surrendered will be cancelled. No interest will be paid or accrued on any amount payable upon surrender of stock certificates. No holder of unsurrendered certificates will receive any dividends or other distributions with respect to Invitel Denmark ADSs or Invitel Denmark ordinary shares to which the holder is entitled under the merger agreement, or be entitled to exercise voting power with respect to such holder s interest in Invitel Denmark ordinary shares, until the HTCC Delaware certificate registered to the holder is surrendered to the exchange agent. For further information, please see The Reorganization The Merger Agreement Share Election; Exchange of Shares on pages 133 and 135.

YOU SHOULD NOT SEND YOUR HTCC DELAWARE STOCK CERTIFICATES TO THE EXCHANGE AGENT UNTIL YOU HAVE RECEIVED TRANSMITTAL MATERIALS FROM THE EXCHANGE AGENT. DO NOT RETURN HTCC DELAWARE STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD.

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Q. Will HTCC Delaware stockholders be taxed as a result of the reorganization?

A. No. Generally, if you are a United States person and not a Danish resident, you should not recognize gain or loss when you exchange your shares of HTCC Delaware common stock solely for Invitel Denmark ADSs or Invitel Denmark ordinary shares pursuant to the reorganization. Your aggregate tax basis in Invitel Denmark ADSs or Invitel Denmark ordinary shares that you receive in the reorganization should equal your aggregate tax basis in shares of HTCC Delaware common stock you surrender. Your holding period for Invitel Denmark ADSs or Invitel Denmark ordinary shares that you receive in the reorganization should include your holding period for the shares of HTCC Delaware common stock that you surrender. If you acquired different blocks of HTCC Delaware common stock at different times and at different prices, your tax basis and holding period in your Invitel Denmark ADSs or Invitel Denmark ordinary shares may be determined with reference to each block of HTCC Delaware common stock. See Material Income Tax Consequences of the Reorganization Material United States Federal Income Tax Consequences United States Federal Income Tax Consequences of the Reorganization Tax Consequences to HTCC Delaware Stockholders on page 144. See also Material Income Tax Consequences of the Reorganization Material Danish Income Tax Consequences to Stockholders and Material Income Tax Consequences of the Reorganization Material Hungarian Income Tax Consequences to Stockholders. **You should consult your own tax advisors concerning the United States federal income tax consequences to you of the reorganization in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

Q. Will HTCC Delaware be taxed as a result of the reorganization?

A. We believe that HTCC Delaware should not incur a material amount of United States federal income tax liability as a result of the reorganization. However, there can be no assurance that the U.S. Internal Revenue Service (IRS) will not challenge the position taken by us with respect to the valuation of our assets. If the IRS were to successfully challenge the valuation of the company s assets, this could have a material adverse effect on Invitel Denmark as a successor to HTCC Delaware.

Q. When do you expect to complete the reorganization?

A. We hope to complete the reorganization (subject to the satisfaction or waiver of the conditions to the merger) shortly after the special meeting of HTCC Delaware stockholders, which we will hold on February 24, 2009.

Q. Will the proposal affect current operations? What about the future?

A. The reorganization will have no immediate major impact on how we conduct day-to-day operations. The location of future operations will depend on the needs of our business, independent of our place of incorporation.

Q. Will I be able to trade my shares during the time it takes to complete the reorganization?

A. Yes.

Q. How do I vote if my shares are registered in my name?

A. By completing, signing and returning your proxy card in the enclosed postage-prepaid envelope, you will authorize the persons named on the proxy card to vote your shares according to your instructions.

Q. How do I vote if my broker holds my shares in street name ?

A. If you hold your shares in street name through a stockbroker, bank or other nominee rather than directly in your own name, you are considered the beneficial owner of shares, and the proxy materials are being

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forwarded to you by your stockbroker, bank or other nominee together with a voting instruction card. Please carefully consider the information contained in this proxy statement/prospectus and, whether or not you plan to attend the special meeting, please follow the instructions provided to you by your stockbroker, bank or other nominee so that your shares may be voted in accordance with your wishes. To vote at the meeting, beneficial owners will need to contact the broker, bank, or other nominee that holds their shares to obtain a proxy issued in your name to bring to the special meeting.

Q. What if I don t vote or abstain?

SHARES FOR WHICH NO VOTES ARE CAST EFFECTIVELY WILL BE TREATED AS THOUGH THEY WERE VOTED AGAINST THE AGREEMENT AND PLAN OF MERGER. ABSTENTIONS WILL BE COUNTED AS VOTES AGAINST THE AGREEMENT AND PLAN OF MERGER.

Our majority stockholder, TDC, owns sufficient shares of our common stock to approve the adoption of the agreement and plan of merger and, therefore, no action by any other stockholder of HTCC Delaware is required for the merger and reorganization to be completed.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. You may revoke your proxy at any time before its exercise. Proxies may be revoked by (i) sending a written notice of revocation dated later than the proxy to our proxy agent, Continental Stock Transfer & Trust Company, before the special meeting, (ii) duly executing a subsequent proxy relating to the same shares and delivering it to Continental Stock Transfer & Trust Company before the special meeting, or (iii) attending the special meeting and voting in person (although attendance at the special meeting will not in and of itself constitute revocation of a proxy). Any written notice revoking a proxy should be delivered to Continental Stock Transfer & Trust Company before the special meeting. If you are a beneficial stockholder, you must contact your broker, bank or other nominee to determine how to change your vote.

Q: Who will bear the cost for soliciting votes for the special meeting?

A: HTCC Delaware will bear all expenses in conjunction with the solicitation of the enclosed proxy, including the charges of brokerage houses and other custodians, nominees or fiduciaries for forwarding documents to security owners. In addition, proxies may be solicited by mail, in person, or by telephone or fax by certain officers, directors and employees of HTCC Delaware.

Q: Whom should I call with other questions?

A: If you have additional questions about this proxy statement, the special meeting, the reorganization or the merger, please contact: Hungarian Telephone and Cable Corp., 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034, Attention: Peter T. Noone, General Counsel and Secretary, Telephone: +1 (206) 654-0204.

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SUMMARY

This document is a prospectus of Invitel Denmark and a proxy statement of HTCC Delaware. This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the reorganization, the merger and other transactions more fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document, including the Annexes and the other documents we have referred you to. See Where You Can Find More Information on page 179. The agreement and plan of merger is attached as Annex A to this document. The articles of association that will govern our company once we are domiciled in Denmark are attached as Annex B.

Parties to the Merger

Hungarian Telephone and Cable Corp. (HTCC Delaware)

Hungarian Telephone and Cable Corp. was incorporated in Delaware in 1992 as a holding company to acquire concessions from the government of the Republic of Hungary to own and operate local fixed line telecommunications networks in Hungary as Hungary privatized its telecommunications industry. Today, we are the second largest fixed line telecommunications services provider in Hungary and the incumbent provider of fixed line telecommunications services to residential and business customers in our 14 historical concession areas, where we have a dominant market share. We are also the number one alternative fixed line operator in Hungary outside our historical concession areas, and we are also the number one independent regional wholesale provider of data and capacity services in Central and South Eastern Europe.

Our historical concession areas in Hungary are geographically clustered and cover an estimated 2.1 million people, representing approximately 21% of Hungary s population. Outside our historical concession areas, we believe that we are well positioned to continue to grow our revenue and market share based on our owned state-of-the-art backbone network, our experienced sales force and our comprehensive portfolio of services. Our extensive national fiber optic backbone network comprising approximately 8,500 route kilometers of fiber, provides us with nationwide reach, allowing business customers to be connected directly to our network to access voice, data and Internet services.

Outside Hungary we are the leading independent provider of wholesale data and capacity services throughout Central and South Eastern Europe. Our regional fiber optic backbone network comprises approximately 19,000 route kilometers of fiber with 40 points of presence in 14 countries. Our clients include the incumbent telecommunications services providers in these countries as well as alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers. We also provide services to telecommunication services providers from Western Europe and the United States, enabling them to meet the regional demands of their corporate clients.

We operate in the following four markets:

- *Mass Market Voice.* We provide a full range of basic and value-added voice-related services to our residential and small office and home office customers both inside and outside our historical concession areas. These services include local, national and international calling, voicemail, fax, ISDN and directory assistance services.

- *Mass Market Internet.* We provide DSL broadband and dial-up Internet services to our Mass Market customers in Hungary, and have recently introduced an IPTV service aimed initially at DSL broadband customers within our traditional concession areas.

Business. We provide fixed line voice, data, Internet and server hosting services to business (comprised of small and medium-sized enterprises and larger corporations), government and other institutional customers in Hungary.

Wholesale. We provide voice, data and network capacity services on a wholesale basis, both within Hungary and throughout Central and South Eastern Europe, to a number of other telecommunications and Internet Service Providers.

Invitel Holdings A/S (Invitel Denmark)

Invitel Denmark is a newly formed Danish corporation and is a wholly owned direct subsidiary of HTCC Delaware. Invitel Denmark has no significant assets or capitalization and has not engaged in any business or other activities other than in connection with its formation and the reorganization and related transactions. Invitel Denmark is the direct parent company of MergeCo. After completion of the reorganization, Invitel Denmark and its subsidiaries will continue to conduct the business now conducted by HTCC Delaware and its subsidiaries. See Business of HTCC Delaware on page 42 and Where You Can Find More Information on page 179.

The registered office of Invitel Denmark is located at Teglholmsgade 1, 2450 Copenhagen, Denmark. The principal executive offices of Invitel Denmark are currently located at Puskas Tivadas, u.8-10 u.8-10, H-2040 Budaörs, Hungary and its telephone number at that address is +36 (1) 801-1500. Invitel Denmark, however, currently does not conduct any business or other activities from these executive offices, other than to the extent required in connection with the reorganization.

Invitel Sub LLC (MergeCo)

MergeCo is a newly formed Delaware limited liability company and a wholly owned direct subsidiary of Invitel Denmark. MergeCo was organized to accomplish the proposed merger. MergeCo will merge with HTCC Delaware to facilitate the reorganization, and will be the surviving entity in the merger. Following completion of the merger, MergeCo s assets and liabilities will be transferred to and assumed by Invitel Denmark, and MergeCo will be dissolved. See The Reorganization Structure of the Reorganization on page 131. MergeCo has no significant assets or capitalization unrelated to the merger and has not engaged in any business or other activities except in connection with its formation and the reorganization and related transactions.

The principal U.S. executive offices of HTCC Delaware and MergeCo are located at 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034. The telephone number of each such party at that address is +1 (206) 654-0204.

Recent Developments

We are in the process of conducting an internal reorganization of our operating subsidiaries to better reflect the business segments of the HTCC group. The final steps by which this reorganization will be implemented are still under review. We expect to complete the internal reorganization by the end of 2009.

In connection with this reorganization, in December 2008 HTCC Delaware transferred all of its shares in its wholly owned subsidiary, HTCC Holdco I B.V., to a newly formed Hungarian limited liability company, Invitel Hungary Holdings Kft., in exchange for newly issued shares of that company.

We are in discussions with several financing sources to refinance our senior credit facilities agreement and our bridge loan agreement. Repayment of the bridge loan is due on March 5, 2009. There can be no assurance regarding the outcome or the scope of these refinancing discussions. If we choose not to refinance our bridge loan or the market conditions make a refinancing prohibitive, we intend to convert the bridge loan to term loans maturing in 2016, which conversion is permitted, subject to certain conditions, pursuant to the bridge loan agreement. For more details about our bridge loan agreement, see HTCC Delaware Management Discussion and Analysis of Financial Condition and Result of Operations Liquidity and Capital Resources The Bridge Loan Agreement on page 121. For more details about our senior credit facilities agreement, see HTCC Delaware Management Discussion and Analysis of Financial Condition and Result of Operations Liquidity and Capital Resources The Amended Facilities Agreement on page 118. For more information about our on-going discussions regarding a refinancing, see Indicative Terms of 2009 Refinancing on page 123.

We are currently negotiating with three Hungarian municipalities with a view to reaching a final settlement with respect to the totality of certain claims regarding municipal taxes. We have made a provision for this contingent liability in the amount of HUF 2.2 billion (approximately $13 million). For more details regarding the legal proceedings with respect to these claims, see Legal Proceedings Local Business Tax on page 78.

The Reorganization (see page 131)

Our board has unanimously approved and recommends that you adopt the agreement and plan of merger which effectively changes your company s place of incorporation from Delaware to Denmark. HTCC Delaware has incorporated Invitel Denmark under the laws of Denmark, and Invitel Denmark has organized MergeCo as a Delaware limited liability company. The reorganization will be accomplished as follows:

- a transfer of HTCC Delaware s assets to, and assumption of HTCC Delaware s liabilities by, Invitel Denmark in exchange for newly issued shares of Invitel Denmark,

- a merger of HTCC Delaware with and into MergeCo, which will be the surviving company in the merger and will be a wholly owned, direct subsidiary of Invitel Denmark. The terms of the merger are set forth in the agreement and plan of merger attached as Annex A to this proxy statement/prospectus. As a result of the merger, your shares of HTCC Delaware common stock will automatically convert into the right to receive Invitel Denmark ADSs representing ordinary shares of Invitel Denmark, provided that you may elect to receive ordinary shares instead of Invitel Denmark ADSs. As a result, you will own, either directly or through the Invitel Denmark ADSs, shares in a Danish corporation rather than a Delaware corporation. For a description of the terms of the Invitel Denmark ordinary shares, please see Description of Ordinary Shares of Invitel Denmark on page 149, and for a description of the Invitel Denmark ADSs, see Description of Invitel Denmark American Depositary Shares on page 153. For a more detailed description of the differences between your rights under Delaware law and under Danish law, please see Comparison of Rights of Stockholders/Shareholders beginning on page 164, and

- after completion of the merger, the transfer by MergeCo of its remaining assets to, and the assumption of its liabilities by, its parent, Invitel Denmark, and the dissolution of MergeCo.

After completion of the reorganization, Invitel Denmark and its subsidiaries will continue to conduct the business that HTCC Delaware and its subsidiaries now conduct.

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Below is a graphic representation of the structure of HTCC group immediately before and after the reorganization:

After the merger occurs, our exchange agent will send a letter of transmittal to HTCC Delaware stockholders that will provide instructions on how to elect Invitel Denmark ordinary shares instead of Invitel Denmark ADSs, and on how to exchange your HTCC Delaware stock certificates for Invitel Denmark securities. PLEASE DO NOT SEND ANY STOCK CERTIFICATES AT THIS TIME.

Background and Reasons for the Reorganization (see page 131)

Our current business is conducted entirely in Hungary and elsewhere in Central and South Eastern Europe. As we announced on June 30, 2008, our board conducted a review of the company s strategic alternatives, which included the possibility of a sale of the company. As a result of such review, we believe that a reorganization of HTCC Delaware as a Danish corporation will allow us to better take advantage of certain financial and business opportunities that may arise in the future. We have outlined below what we believe to be the benefits of the reorganization.

Enhancement of the company s structuring flexibility with respect to a potential sale of the company or asset dispositions. Although we are not currently engaged in any negotiations with third parties with respect to a sale of the company or a significant portion of its assets, we believe that any future sale of the company or asset dispositions by the company will mainly attract interest from European buyers. For these investors, purchasing the shares of a Delaware corporation whose assets are entirely located in Europe or acquiring such assets from a Delaware corporation may not be efficient from a legal or tax perspective. HTCC Delaware, as a U.S. corporation, is subject to the full U.S. tax regime. A foreign buyer of HTCC Delaware may incur U.S. withholding tax on dividends paid by HTCC Delaware, which may prevent such buyer from efficiently structuring its acquisition of the company and the financing thereof.

Reduction of SEC reporting requirements and related expenses because the company would become a foreign private issuer.

Potential increased competitiveness regarding European acquisition opportunities, because Invitel Denmark ordinary shares may be a more attractive consideration than shares of common stock of a Delaware corporation.

Simplification and rationalization of the company s tax position and increased efficiency by reorganizing the company in a jurisdiction outside the United States at a time when we believe this should not result in a significant U.S. tax cost. All of our operating income is generated outside the United States and is subject to the primary taxing jurisdiction of the countries in Central and South Eastern Europe in which those operations take place. However, as a U.S. corporation, HTCC Delaware is subject to the full U.S. tax regime, potentially causing incremental U.S. tax on distributions of earnings from its foreign subsidiaries. In addition, internal group restructurings may generate U.S. tax to be paid by the company, even if no economic gain is recognized by the company. As a result of our review of the company s strategic alternatives, we believe that most prospective investors in the company or its assets will perceive the potential future U.S. tax burden (or the cost of structuring their investment in order to minimize such tax burden) as inefficient, which may prevent us from taking advantage of certain strategic or other business opportunities in the future. Although the Danish and Hungarian tax regimes have some counterparts to these U.S. tax provisions, we believe those regimes are better suited to the current and prospective operations of the company and prospective investors in the company or its assets. In particular, with a U.S. corporation as the direct or indirect parent of the foreign subsidiaries, we must consider whether each possible restructuring, borrowing, or foreign tax minimization option may result in taxable income and incremental tax cost at the U.S. parent level. By contrast, Denmark and Hungary have exemption systems for foreign subsidiary earnings and gains on foreign subsidiary shares. Therefore, we believe that reincorporating HTCC Delaware in Denmark will allow more flexibility in pursuing strategies to maximize shareholder value with less concern for potential adverse tax consequences at the level of Invitel Denmark.

We believe these benefits should enhance stockholder value. However, we cannot predict what impact, if any, the reorganization will have in the long-term in light of the fact that the achievement of our objectives depends on many things, including, among other things, future tax and other laws and regulations, as well as the development of our business.

For a discussion of the risk factors associated with the reorganization, please see the discussion under Risk Factors beginning on page 19. For further discussion regarding the factors considered by the board of directors in connection with the reorganization, see Recommendation of the Board of Directors on page 15.

Reason for the Reincorporation of HTCC Delaware in Denmark

Under the U.S. federal income tax regime, reincorporating HTCC Delaware in a jurisdiction where the HTCC expanded affiliated group (which, for these purposes, should include the ultimate parent company of HTCC Delaware and all of that parent company s subsidiaries) does not have substantial business activities, would result in HTCC Delaware s successor corporation continuing to be taxed as a U.S. corporation, despite the reorganization. TDC A/S is a Danish corporation that owns more than 50% of HTCC Delaware common stock, with the result that the HTCC expanded affiliated group should include TDC and all of TDC s subsidiaries. Reincorporating HTCC Delaware in Denmark, where TDC has substantial business activities, should avoid the adverse United States federal income tax consequences mentioned above, because the HTCC expanded affiliated group should be considered to have substantial business activities in Denmark. See Material Income Tax Consequences of the Reorganization Material United States Federal Income Tax Consequences United States Federal Income Tax Consequences of the Reorganization Tax Consequences to HTCC Delaware and Invitel Denmark Section 7874 Inversion Rules on page 142.

Conditions to Consummation of the Reorganization (see page 133)

The consummation of the reorganization is conditioned on several factors, including the affirmative vote of the holders of a majority of the outstanding shares of common stock of HTCC Delaware entitled to vote at the special meeting, that none of the parties to the agreement and plan of merger is subject to any governmental authority which prohibits the consummation of the reorganization, and the receipt of any required waivers from lenders under certain credit agreements. We are not aware of any regulatory requirements or approvals (other than those under the U.S. federal securities laws) that must be complied with or obtained in connection with the consummation of the reorganization.

For additional factors, please see The Reorganization The Merger Agreement Conditions to Consummation of the Reorganization on page 133.

Credit Facilities

As a result of the merger, we may fail to comply with certain covenants contained in our senior credit facilities agreement, as amended and restated. In particular, the merger may be considered a change in control under this facility. If the merger were considered a change of control thereunder, in the absence of a waiver from our lenders, it would cause a default. For more details about our senior credit facilities agreement, see HTCC Delaware Management Discussion and Analysis of Financial Condition and Result of Operations Liquidity and Capital Resources The Amended Facilities Agreement on page 118.

We are in discussions with several financing sources to refinance our senior credit facilities agreement and our 100 million bridge loan agreement with BNP Paribas and Merrill Lynch, dated March 3, 2008, and intend to seek any required waivers permitting the merger as part of such refinancing. We do not currently believe that any waivers under our bridge loan agreement will be necessary to enable us to complete the merger. There can be no assurance regarding the outcome or the scope of these refinancing discussions. If we choose not to refinance our bridge loan or the market conditions make a refinancing prohibitive, we intend to convert the bridge loans to term loans maturing in 2016, which conversion is permitted, subject to certain conditions, pursuant to the bridge loan agreement. For more information about our on-going discussions regarding a refinancing, see Indicative Terms of 2009 Refinancing on page 123.

In the absence of any required waivers described above or a refinancing that includes such waivers, we may reconsider or abandon the implementation of the company s reorganization.

Material United States Federal Income Tax Consequences to Stockholders (see page 141)

As set forth in further detail in the discussion under the heading Material Income Tax Consequences of the Reorganization Material United States Federal Income Tax Consequences on page 141, which, subject to the qualifications set forth therein, constitutes the opinion of Simpson Thacher & Bartlett LLP, our special United States tax counsel, for United States federal income tax purposes, HTCC Delaware stockholders who are United States persons and are not Danish residents should not recognize gain or loss when they exchange their shares of HTCC Delaware common stock solely for Invitel Denmark ADSs or Invitel Denmark ordinary shares. The aggregate tax basis in Invitel Denmark ADSs or Invitel Denmark ordinary shares received in the reorganization should equal the aggregate tax basis in the shares of HTCC Delaware common stock that such HTCC Delaware stockholders surrender. Such stockholders holding periods for Invitel Denmark ADSs or Invitel Denmark ordinary shares received in the reorganization should include their holding periods for the shares of HTCC Delaware common stock that they surrender. If HTCC Delaware stockholders acquired different blocks of HTCC Delaware common stock at different times and at different prices, their tax bases and holding periods in their Invitel Denmark ADSs or Invitel Denmark ordinary shares may be determined with reference to each block of HTCC Delaware common stock.

HTCC Delaware stockholders should consult their own tax advisors concerning the United States federal income tax consequences of the reorganization in light of their particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

An opinion of our special United States tax counsel confirming the opinion set forth under the heading Material Income Tax Consequences of the Reorganization Material United States Federal Income Tax Consequences on page 137 will be filed as an exhibit to the registration statement that includes this proxy statement/prospectus.

Material Danish Income Tax Consequences to Stockholders (see page 147)

As set forth in further detail in the discussion under the heading Material Income Tax Consequences of the Reorganization Material Danish Income Tax Consequences to Stockholders on page 147, which, subject to the qualifications set forth therein, constitutes the opinion of Kromann Reumert, our special Danish tax counsel, it is likely that the reorganization will not trigger Danish capital gains taxation for Danish resident stockholders of HTCC Delaware. No Danish income taxes should be triggered for stockholders resident in other countries.

Dividend distributions from Invitel Denmark to shareholders are generally subject to Danish withholding tax at a rate of 28%. This withholding tax may be reduced according to the double taxation treaty between Denmark and the country in which the shareholder is resident. Pursuant to the double taxation treaty between Denmark and the United States, the dividend withholding tax is reduced to 15% unless the shareholder owns more than 10% of the share capital of Invitel Denmark, in which case the dividend withholding tax is reduced to 5%.

Given that Invitel Denmark is considered tax resident in Hungary, the withholding tax rate is reduced to 0%. Invitel Denmark has obtained a Danish ruling that, subject to the facts and assumptions presented by the company, the company is, from the perspective of Danish tax laws, resident in Hungary for corporate income tax purposes and, assuming that this ruling remains in effect, Invitel Denmark will not be taxable in Denmark for corporate income tax purposes and no Danish withholding taxes on dividends should be withheld. Invitel Denmark intends to request a ruling from the Hungarian tax authorities confirming that the company is only resident in Hungary for corporate income tax purposes. Any statements made in this proxy statement/prospectus with respect to certain Danish and Hungarian income tax consequences of the reorganization assume a favorable ruling by the Hungarian tax authorities and the continued effectiveness of such rulings.

An opinion of our special Danish tax counsel confirming the opinion set forth under the heading Material Income Tax Consequences of the Reorganization Material Danish Income Tax Consequences to Stockholders on page 147 will be filed as an exhibit to the registration statement that includes this proxy statement/prospectus.

Material Hungarian Income Tax Consequences to Stockholders (see page 148)

As set forth in further detail in the discussion under the heading Material Income Tax Consequences of the Reorganization Material Hungarian Income Tax Consequences to Stockholders on page 148, which, subject to the qualifications set forth therein, constitutes the opinion of Réczicza White & Case LLP, our special Hungarian tax counsel, payments to stockholders made by companies incorporated outside Hungary that are tax resident in Hungary are subject to Hungarian rules regarding taxation.

Under Hungarian tax law, no withholding tax is payable on dividends paid to a person who is not a private individual. Hungarian dividend withholding tax would be payable on dividends paid to private individuals who hold ordinary shares directly. Provided that the depositary is the legal owner of the Invitel Denmark ordinary shares, no Hungarian withholding tax would be due on dividends paid to holders of Invitel Denmark ADSs.

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Capital gains earned by a non-Hungarian resident (whether a private individual or otherwise) are not subject to withholding taxes. However, capital gains earned by Hungarian tax residents would be subject to Hungarian tax, unless such gains qualify for the reported participation exemption which exempts gains realized by corporate shareholders under certain conditions. Under this rule, capital gains earned on participations that represent at least 30% ownership and have been reported to the tax authority (APEH) within 30 days of acquisition are tax exempt provided that they have been held for at least one year. This exemption is not applicable to private individuals.

There is currently no wealth tax in Hungary.

An opinion of our special Hungarian tax counsel confirming the opinion set forth under the heading Material Income Tax Consequences of the Reorganization Material Hungarian Income Tax Consequences to Stockholders on page 148 will be filed as an exhibit to the registration statement that includes this proxy statement/prospectus.

Comparison of Rights of Stockholders/Rights of Shareholders (see page 164)

There are differences between the rights of stockholders under Delaware law and shareholders under Danish law. In addition, there are differences between HTCC Delaware s current certificate of incorporation and by-laws and Invitel Denmark s memorandum of incorporation and articles of association. We encourage you to read the section titled Comparison of Rights of Stockholders/Shareholders on page 164 for a more detailed discussion of these differences.

There are also differences between the rights presently enjoyed by holders of HTCC Delaware common stock and the rights to which the holders of Invitel Denmark ADSs will be entitled following the merger. In some cases, the holders of Invitel Denmark ADSs to be delivered in connection with the merger may not be entitled to important rights to which they would have been entitled as holders of HTCC Delaware common stock. The rights and terms of the Invitel Denmark ADSs are designed to replicate, to the extent reasonably practicable, the rights attendant to Invitel Denmark ordinary shares, for which there is no active trading market in the United States. However, because of aspects of Danish law, the articles of association of Invitel Denmark and the terms of the deposit agreement under which the Invitel Denmark ADSs will be issued, the rights of holders of Invitel Denmark ADSs will not be identical to and, in some respects, may be less favorable than, the rights of holders of Invitel Denmark ordinary shares. For more information regarding the characteristics of, and differences between, HTCC Delaware common stock, Invitel Denmark ordinary shares and Invitel Denmark ADSs, please refer to Description of Ordinary Shares of Invitel Denmark, Description of Invitel Denmark American Depositary Shares, and Comparative Rights of Stockholders/Shareholders beginning on page 164.

Stock Exchange Listing; Recent Stock Prices

We intend to apply to list the Invitel Denmark ADSs on the NYSE Alternext stock exchange under the symbol IHO effective upon the merger. NYSE Alternext is the stock exchange on which the common stock of HTCC Delaware is currently listed. We may consider seeking a listing of Invitel Denmark ordinary shares on a stock exchange in Europe, where the HTCC group s operating businesses are located, at some future time. We may also seek a dual listing. In addition, we may in the future seek a delisting of the Invitel Denmark ADSs from NYSE Alternext or a deregistration from the U.S. Securities Exchange Act of 1934, if and when permitted under applicable laws and regulations.

On November 26, 2008, the last trading day before the public announcement of the reorganization, the closing price per HTCC Delaware share on the NYSE Alternext was $8.95, and the high and low sales prices were $8.95 and $8.35. On January 29, 2009, the closing price on the NYSE Alternext was $7.43.

No Rights of Dissenting Stockholders (see page 137)

Under Delaware law, you will not have dissenters or appraisal rights in connection with the merger and the reorganization.

Accounting Treatment of the Reorganization

The accounting for the reorganization of HTCC Delaware, MergeCo, and Invitel Denmark, which are all entities under common control, is addressed by Statement of Financial Accounting Standards (FAS) No. 141. Pursuant to FAS No. 141, this reorganization will be accounted for at carryover bases at the date of transfer and as such, there will be no changes in the historical consolidated carrying amounts of assets, liabilities and stockholders equity (deficit).

Effect on Stock Compensation Plans and Employment Arrangements with Officers and Directors (see page 137)

When the reorganization is completed, unless agreed otherwise with each option holder, we expect to amend and revise our employee and director stock option and other stock-based plans and arrangements to (1) provide that Invitel Denmark will continue the sponsorship of the existing awards under employee and director stock-based plans and arrangements, (2) provide that Invitel Denmark ordinary shares will be issued upon the exercise of any options under the plans and arrangements, and (3) otherwise appropriately reflect (x) the substitution of HTCC Delaware common stock for a number of ordinary shares of Invitel Denmark and (y) an exercise price per share, in each case, sufficient to retain the current intrinsic value of the outstanding options.

On December 23, 2008, the existing service contracts with respect to the management services provided to us by our Chief Executive Officer, Martin Lea (the CEO Service Agreement), and our Chief Financial Officer, Robert Bowker (the CFO Service Agreement), were amended. In particular, the provisions relating to a special one-time lump sum bonus payment in the event of a sale of the company or a sale of all or substantially all of its assets have been amended and a bonus may also be due in the event of a transaction or series of transactions resulting in the sale of a material portion of the company s assets or businesses that does not constitute a sale of all or substantially all assets. A detailed summary of these provisions is set forth under Executive Officer Compensation on page 81.

These service contracts have also been amended to provide for a special one-time lump sum bonus in the amount of 250,000 for the benefit of each of our Chief Executive Officer and our Chief Financial Officer, conditioned upon, and paid following the successful completion of a refinancing of the company s obligations under the bridge loan agreement with Merrill Lynch and BNP Paribas, dated March 3, 2008.

The company has agreed to award Peter T. Noone, HTCC Delaware s General Counsel and Secretary, a discretionary cash bonus in the amount of $100,000, which bonus is contingent upon, and payable following, the completion of the reorganization. The company has also agreed to provide Mr. Noone with a loyalty/retention bonus in the amount of $100,000. In addition, the company has amended Mr. Noone s employment agreement to increase the severance benefits by 25%.

Special Meeting (see page 175)

Time, Date, Place. The special meeting of stockholders will be held at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY10017-3954, U.S.A., at 10 a.m. local time, on February 24, 2009.

Record Date. Only stockholders of record at the close of business on February 2, 2009, as shown in our records, will be entitled to vote, or to grant proxies to vote, at the special meeting.

Quorum. The presence, in person or by proxy, of stockholders holding a majority of the outstanding shares of HTCC Delaware that are entitled to vote will constitute a quorum.

Recommendation of the Board of Directors

At a meeting of HTCC Delaware s board of directors held on November 27, 2008, the board of HTCC Delaware considered the proposal to reincorporate the company in Denmark and discussed the potential benefits of the reorganization, which have been summarized above under Background and Reasons for the Reorganization. The board also noted potential disadvantages with respect to the reorganization. In particular, the board considered certain differences between Delaware and Danish corporate law. Under Danish law certain corporate transactions, such as a sale of all shares in the company by way of a merger, require the approval of at least two thirds of votes cast as well as two thirds of the share capital represented at a shareholders meeting. By contrast, a merger under Delaware law would only require a simple majority of shareholder votes. The board concluded, however, that, while an increased voting threshold for the sale of the company by way of a merger could limit its negotiation flexibility, it would also enhance the powers of minority shareholders. See Comparison of Rights of Stockholders/Shareholders on page 164. The board also considered the reporting requirements of Invitel Denmark as a foreign private issuer. In particular, Invitel Denmark will not be required to file quarterly financial statements under the Exchange Act, will be exempt from the SEC s proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations, and will not be required to comply with Regulation FD, which addresses certain restrictions on the selective disclosure of material information. However, Invitel Denmark will file an annual report on Form 20-F, and will be subject to the mandates of the Sarbanes-Oxley Act applicable to foreign private issuers as well as the disclosure requirements of the NYSE Alternext stock exchange. See Invitel Denmark will be a Foreign Private Issuer on page 139. The board also considered the potential tax liability the company could incur as a result of the reorganization and concluded that these risks were not material. See Risks Relating to the Reorganization on page 19.

The board of directors has determined that the potential advantages of the reorganization substantially outweigh its risks and the differences described above. Accordingly, the board of HTCC Delaware unanimously approved the agreement and plan of merger, declared it advisable and in the best interest of all of HTCC Delaware s stockholders, and recommends that you vote FOR its adoption.

Vote Required

Adoption of the agreement and plan of merger requires the affirmative vote of holders of a majority of the shares of HTCC Delaware common stock outstanding on February 2, 2009. Abstentions and broker non-votes will effectively be counted as votes against adoption of the merger agreement.

As of the February 2, 2009 record date, there were 16,425,733 HTCC Delaware shares outstanding and entitled to vote. As of the record date, our directors and executive officers and their affiliates directly owned or are entitled to vote, in the aggregate, approximately 962,160 shares of HTCC Delaware common stock, which represents approximately 6% of the outstanding shares of HTCC Delaware common stock. As of February 2, 2009, TDC owns 10,499,782 shares of our common stock, representing approximately 63.9% of our outstanding common stock. TDC has informed the company that it intends to vote its shares of outstanding common stock of HTCC Delaware in favor of the adoption of the agreement and plan of merger. TDC owns sufficient shares of common stock to approve the adoption of the agreement and plan of merger and, therefore, no action by any other stockholder of HTCC Delaware is required for the merger and reorganization to be completed.

We do not believe that the interests of our majority stockholder, TDC, or its affiliates, differ from those of other stockholders or the company in connection with the reorganization. However, we cannot anticipate whether, or in what form, any differing interests may arise in the future. Conflicts between TDC and minority stockholders may arise with respect to, among other things, the company s strategic direction and significant corporate transactions, conflicts related to corporate opportunities that could be pursued by us on the one hand, or by TDC, on the other hand, or other contractual relationships between us and TDC or its affiliates. If we enter into a loan agreement with TDC in connection with a refinancing of our senior credit facilities agreement and/or our bridge loan agreement, similar conflicts of interest may occur. For more details about this refinancing, see Indicative Terms of 2009 Refinancing on page 123.

For more information see The Special Meeting Vote Required on page 175.

Proxies (see page 176)

Stockholders of record may vote by marking, signing and mailing their proxy card in the enclosed postage-prepaid envelope.

If you hold your HTCC Delaware shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares. To be effective, a form of proxy must be received by us prior to the beginning of voting at the special meeting.

There are three ways in which you may revoke your proxy and change your vote:

- First, you may send a written notice to our proxy agent, Continental Stock Transfer & Trust Company, stating that you would like to revoke your proxy of an earlier date. This notice must be received prior to the special meeting.

- Second, you may complete and submit a new, later-dated proxy to our proxy agent. The latest dated proxy actually received by the company prior to the special meeting will be the one that is counted, and all earlier proxies will be revoked.

- Third, you may attend the special meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy. At the special meeting, the chairman of the meeting will announce instructions for you to follow if you wish to revoke your proxy and vote in person at the meeting.

If you have instructed a broker to vote your shares, you must follow directions received from your broker to change or revoke your proxy.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data of HTCC Delaware in the table below was derived from HTCC Delaware s audited consolidated financial statements as of and for each of the years in the five year period ended December 31, 2007, as well as unaudited data for the nine months ended September 30, 2008 and 2007. This data should be read in conjunction with the audited consolidated financial statements of HTCC Delaware, including the notes to the financial statements. The audited consolidated financial statements of HTCC Delaware for the years ended December 31, 2007, 2006 and 2005 and certain unaudited financial data for the nine months ended September 30, 2008 and 2007 are included in this proxy statement/prospectus, beginning on page F-1.

We have not included data for Invitel Denmark or MergeCo because they did not conduct business during any of the periods discussed below.

	Nine months ended September 30 (unaudited)		Year ended December 31,				
(in thousands, except per share amounts)	**2008**	**2007**	**2007**	**2006 (1)**	**2005 (1)**	**2004**	**2003**
Income Statement Data							
Revenues	$ 432,605	$ 258,127	$ 385,193	$ 189,260	$ 179,643	$ 69,007	$ 69,391
Net Income (Loss)	(43,862)	(81,951)	(96,472)	16,527	1,392	11,417	10,451
Basic Earnings (Loss) Per Share from Continuing Operations (2)	(2.68)	(5.40)	(6.23)	1.28	0.10	0.91	0.85
Balance Sheet Data							
Total Assets	1,343,387	1,077,303	1,110,191	333,384	298,817	192,285	176,556
Long-Term Debt (Excluding Current Installments) (3)	947,027	788,643	813,337	116,219	159,394	71,715	90,839
Cash Dividends Per Share							

(1) See Note 1(c) in Notes to the Consolidated Financial Statements for the year ended December 31, 2007, beginning on page F-11.

(2) Net Income (Loss) per basic common share is net income (loss) divided by the weighted average number of basic common shares outstanding.

(3) Long-term obligations include long-term debt, capital leases and redeemable preferred stock but excludes current installments of long-term debt.

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SUMMARY PRO FORMA FINANCIAL INFORMATION

A pro forma condensed consolidated balance sheet for Invitel Denmark is not presented in this proxy statement/prospectus because there would be no significant pro forma adjustments required to be made to the historical consolidated financial statements of HTCC Delaware as of December 31, 2007 or September 30, 2008 because the transaction will be accounted for at carryover basis. See The Reorganization Accounting Treatment of the Reorganization on page 139.

A pro forma condensed consolidated income statement for Invitel Denmark is not presented in this proxy statement/prospectus because there would be no significant pro forma adjustments required to be made to income from operations in the historical consolidated income statements of HTCC Delaware for the year ended December 31, 2007 or for the nine months ended September 30, 2008.

Reference is made to the consolidated financial statements of HTCC Delaware, beginning with the index thereto on Page F-1.

We estimate that the costs incurred in connection with the reorganization (excluding the cost of refinancing our existing senior credit facilities agreement and our bridge loan agreement) will amount to approximately 3.5 million euros.

RISK FACTORS

In considering whether to vote for adoption of the agreement and plan of merger, you should consider carefully the following risks or investment considerations related to the reorganization, in addition to the other information in this proxy statement/prospectus. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of the following risks actually occur, our business could be adversely affected. In those cases, the trading price of the Invitel Denmark ADSs could decline, and you may lose all or part of your investment.

Risks Relating to the Reorganization

HTCC Delaware may be required to pay taxes as a result of the reorganization.

If the fair market value of HTCC Delaware s assets exceeds its adjusted tax basis in such assets, the reorganization should be taxable to HTCC Delaware unless such gain could be reduced by available tax losses. Although the management of HTCC Delaware does not believe that the amount of any such gain would exceed the amount of net operating losses available to offset it, there can be no assurance that the U.S. Internal Revenue Service (the IRS) will accept HTCC Delaware s determination of the value of its assets or net operating losses. If the IRS were to successfully challenge the valuation of the company s assets or net operating losses, Invitel Denmark as a successor to HTCC Delaware could incur a material amount of United States federal income tax liability as a result of the reorganization. A more detailed discussion of the material United States federal income tax consequences of the reorganization to HTCC Delaware and Invitel Denmark is set forth under the heading Material Income Tax Consequences of the Reorganization Material United States Federal Income Tax Consequences United States Federal Income Tax Consequences of the Reorganization Tax Consequences to HTCC Delaware and Invitel Denmark on page 142.

Based on the current provisions and interpretation of Danish tax legislation, we expect that the reorganization will not result in any material Danish income tax liability to any of HTCC Delaware, Invitel Denmark or MergeCo. Also, we expect that we will not be required to pay any material taxes in Hungary as a result of the reorganization. The Danish tax authorities (Skatteministeriet, or SKAT), the Hungarian tax authorities (Adó- és Pénzügyi Ellenorzési Hivatal, or APEH) and the local Hungarian tax authorities, however, could disagree with this view and could take the position that material taxes are payable by any one or more of these companies as a result of the reorganization.

Changes in foreign laws, including tax law changes, could adversely affect Invitel Denmark, its subsidiaries and its shareholders.

Changes in tax laws, treaties or regulations or the interpretation or enforcement thereof could adversely affect the tax consequences of the reorganization to Invitel Denmark, its subsidiaries and its shareholders. In addition, the IRS, SKAT, APEH, the local Hungarian tax authorities or other taxing authorities may not agree with our assessment of the effects of such laws, treaties and regulations, which could have a material adverse effect on the tax consequences of the reorganization.

WE STRONGLY URGE YOU TO CONSULT YOUR TAX ADVISORS REGARDING YOUR PARTICULAR TAX CONSEQUENCES OF THE REORGANIZATION.

We may not realize the benefits, if any, described in this proxy statement/prospectus, if the board of HTCC Delaware chooses to defer or abandon the reorganization.

The reorganization may be deferred or abandoned, at any time, by action of the board of directors of HTCC Delaware, whether before or after the special stockholders meeting. While we currently expect the reorganization to take place as soon as practicable after adoption of the agreement and plan of merger at the special stockholders meeting, the board may defer the reorganization for a significant time after the stockholders meeting or may abandon the reorganization because of, among other reasons, an increase in the estimated cost of the reorganization, including U.S. tax costs or other costs, the failure to obtain any necessary waivers from certain lenders, changes in existing or proposed tax legislation or a determination by the board that the reorganization would not be in the best interests of the HTCC group or its stockholders or that the reorganization would have material adverse consequences to the HTCC group or its stockholders.

We may not benefit from the reorganization because of changes in tax laws and other factors.

We have presented in this proxy statement/prospectus the anticipated benefits of the reorganization. See Background and Reasons for the Reorganization on page 131. Many factors could affect the outcome of the reorganization, and some or all of the anticipated benefits of the reorganization may not occur. The anticipated enhancement to the company s structuring flexibility with respect to a potential sale of the company or asset dispositions may not prove valuable if such sale or dispositions do not take place. In addition, the anticipated reduction of SEC reporting requirements and related expenses may not be achieved in the event of changes to the SEC rules applicable to foreign private issuers. If opportunities for the company to acquire additional European assets using its shares as consideration do not materialize, the reorganization may not prove as useful for this purpose as we anticipate. With regard to the simplification of the company s tax position, we have obtained a ruling from the Danish authorities that, subject to the facts and assumptions presented by the company, Invitel Denmark will not be taxable in Denmark. We intend to apply for a ruling from the Hungarian tax authority that Invitel Denmark will only be resident in Hungary for corporate income tax purposes. If we should not obtain such ruling (or if this ruling request is withdrawn on determining that it is not reasonably achievable), we may find that the company s overall tax position would not be materially improved as compared to the current tax structure and the board may choose to abandon the reorganization before completion. Similarly, changes in existing or proposed tax laws in Hungary, Denmark or the United States may result in the reorganization not achieving some or all of its anticipated benefits or make it inadvisable to proceed with the completion of the reorganization.

The enforcement of civil liabilities against Invitel Denmark may be more difficult.

Because Invitel Denmark is a Danish corporation, investors could experience more difficulty enforcing judgments obtained against Invitel Denmark in U.S. courts than would currently be the case for U.S. judgments obtained against HTCC Delaware. In addition, it may be more difficult to bring some claims against Invitel Denmark in Danish courts than it would be to bring similar claims against a U.S. company in a U.S. court.

Your rights as a shareholder will change if the reorganization is completed. The rights of holders of Invitel Denmark securities to be issued in the merger will not be the same as the rights of holders of HTCC Delaware common stock, and the rights of a holder of Invitel Denmark ADSs may be less favorable than the rights of a holder of Invitel Denmark ordinary shares.

HTCC Delaware is a corporation organized under the laws of Delaware and Invitel Denmark is a corporation organized under the laws of Denmark. The rights of holders of HTCC Delaware common stock are governed by the Delaware General Corporation Law, and the certificate of incorporation and by-laws of HTCC Delaware. The rights of holders of Invitel Denmark ordinary shares are governed by the Danish Public Limited Companies Act (the Companies Act) and the memorandum of incorporation and articles of association of Invitel Denmark. Upon completion of the merger, the holders of HTCC Delaware common stock will receive either Invitel Denmark ADSs, which represent Invitel Denmark s ordinary shares, or Invitel Denmark ordinary shares.

Because of the differences between Delaware law and Danish law and certain differences between the governing documents of HTCC Delaware and Invitel Denmark, your rights as a stockholder will change when the merger is completed, and the rights of holders of Invitel Denmark securities will not be identical to and, in some respects, may be less favorable than, the rights you currently have as a stockholder of HTCC Delaware.

The rights of holders of Invitel Denmark ADSs will be governed by Danish Law, Invitel Denmark s articles of association and the deposit agreement pursuant to which the Invitel Denmark ADSs will be issued. The rights of holders of Invitel Denmark ordinary shares will also be governed by the Companies Act. There are differences between the rights presently enjoyed by holders of HTCC Delaware common stock and the rights to which the holders of Invitel Denmark ADSs will be entitled following the merger. As an Invitel Denmark ADS holder, Invitel Denmark will not treat you as one of its shareholders and you will not have shareholder rights. Danish law and Invitel Denmark s articles of association govern shareholder rights. The depositary will be the holder of the Invitel Denmark ordinary shares underlying the Invitel Denmark ADSs. As a registered holder of Invitel Denmark ADSs, you will have ADS registered holder rights. A deposit agreement among Invitel Denmark, the depositary Invitel Denmark ADS registered holder, and all other persons indirectly holding Invitel Denmark ADSs sets out ADS registered holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the Invitel Denmark ADSs. In some cases, the holders of Invitel Denmark ADSs to be issued in the merger may not be entitled to important rights to which they would have been entitled as holders of HTCC Delaware common stock, and the rights of holders of Invitel Denmark ADSs will not be identical to and, in some respects, may be less favorable than, the rights of holders of Invitel Denmark ordinary shares.

In the case of a future increase of Invitel Denmark s share capital for payment in cash, holders of Invitel Denmark s ordinary shares are generally entitled to preemptive rights pursuant to the Companies Act and the articles of association of Invitel Denmark. To the extent that preemptive rights are granted, U.S. and certain other non-Danish holders of Invitel Denmark ordinary shares and holders of Invitel Denmark ADSs may not be able to exercise preemptive rights for their ordinary shares, including in connection with an offering of ordinary shares below market value, unless Invitel Denmark decides to comply with applicable laws, regulations and other requirements in the relevant countries and, in the case of U.S. holders, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirements thereunder is available. No assurance can be given that any steps will be taken in any jurisdiction or that any registration statement will be filed to enable the exercise of such holders preemptive rights.

In addition, although they may vote through a broker depositary, holders of Invitel Denmark s ordinary shares outside Denmark and holders of Invitel Denmark ADSs may face difficulties exercising their rights to vote at General Meetings of Invitel Denmark. For example, the rights of holders of Invitel Denmark ADSs will be governed by the deposit agreement. The notice period agreed with the depositary of 30 days may under certain circumstances exclude the ADS holders from taking part in shareholders meetings of the company.

For more information regarding the characteristics of, and differences between, HTCC Delaware common stock, Invitel Denmark ADSs and Invitel Denmark ordinary shares, please refer to Description of Ordinary Shares of Invitel Denmark on page 149, Description of Invitel Denmark American Depositary Shares, beginning on page 153 and Comparison of Rights of Stockholders/Shareholders beginning on page 164.

Invitel Denmark ADSs may not be as liquid as HTCC Delaware common stock.

There is a possibility that Invitel Denmark ADSs will be less liquid than HTCC Delaware common stock or, if we decide to list the Invitel Denmark ordinary shares on a European stock exchange, than the market for such ordinary shares. In addition, investors may incur higher transaction costs when buying and selling Invitel Denmark ADSs than they would incur in buying and selling HTCC Delaware common stock.

After the completion of the merger, the market price of Invitel Denmark ADSs may not be identical, in U.S. dollar terms, to the market price of Invitel Denmark ordinary shares.

In the event that we decide to list Invitel Denmark ordinary shares on a European exchange, while the market price of Invitel Denmark ADSs is expected to fluctuate according to the market price of Invitel Denmark ordinary shares and according to changes in the U.S. dollar euro exchange rate, there is no guarantee that this relationship will be observed at all times, or at any time. The market price of Invitel Denmark ADSs may differ from the market price of Invitel Denmark ordinary shares in U.S. dollar terms for a number of reasons, including the relative liquidity of Invitel Denmark ADSs and Invitel Denmark ordinary shares.

As a result of increased shareholder approval requirements, Invitel Denmark may have less flexibility than HTCC Delaware with respect to certain business combinations.

Under Danish law, certain corporate transactions, such as a sale of all shares in the company by way of a merger, require the approval of at least two thirds of votes cast as well as two thirds of the share capital represented at the shareholder s meeting. By contrast, a merger under Delaware law would only require a simple majority of shareholder votes. These increased shareholder approval requirements may limit our flexibility to enter into or complete certain business combinations that may be beneficial to shareholders. See Comparison of Rights of Stockholders/Shareholders on page 164.

The reorganization will result in additional cost to us, some of which will be incurred whether or not the reorganization is completed.

The completion of the reorganization will result in an increase in some of our ongoing expenses and require us to incur some new expenses. For example the costs of holding board meetings, which must be held in Hungary in order to maintain our tax residence in Hungary, are expected to be higher than was the case for board meetings of HTCC Delaware, which could be held anywhere in the world or by telephone. We also expect to incur new expenses, including the addition of professional fees to comply with Danish corporate law and Hungarian tax laws. In addition, we will incur certain transaction costs in connection with the reorganization whether or not the reorganization is completed. The reorganization may also result in indirect costs by diverting attention of management and employees from our business.

As a result of the merger, we may fail to comply with certain covenants under our senior credit facilities agreement, which may result in a default.

As a result of the merger, we may fail to comply with certain covenants contained in our senior credit facilities agreement, as amended and restated.

We are in discussions with several financing sources to refinance our senior credit facilities agreement and our bridge loan agreement, and intend to seek any required waivers permitting the merger as part of such refinancing. There can be no assurance regarding the outcome or the scope of these refinancing discussions. If we choose not to refinance our bridge loan or the market conditions make a refinancing prohibitive, we intend to convert the bridge loan to term loans maturing in 2016, conversion of which is permitted, subject to certain conditions, pursuant to the bridge loan agreement.

In the absence of any required waivers described above or a refinancing that includes such waivers, we may reconsider or abandon the implementation of the company s reorganization.

Risks Relating to Our Business

We have experienced substantial net losses and may need additional liquidity in the foreseeable future.

During the nine months ended September 30, 2008, we incurred substantial net losses (approximately $44 million) and used a substantial amount of cash for capital investments and acquisitions. We currently anticipate a net loss for the fourth quarter of 2008 in line with those reported in prior quarters of 2008. We also may require additional financing in the foreseeable future. Although we expect that we will continue to be in compliance with the debt covenants contained in our financing agreements (provided that we obtain any necessary waivers in connection with the reorganization merger under our senior credit facilities agreement), based on current projected results of operations, it is possible that we will not be able to comply with certain debt covenants. However, we cannot assure you that we will be able to obtain a waiver for any non-compliance with any debt covenant or that we will be able to improve our results of operations or obtain additional financing.

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The global capital and credit markets have been experiencing extreme volatility and disruption during the past year, which could limit the availability and increase the cost of financing. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit, as well as the possibility that lenders could develop a negative perception of the prospects of our company, the industry generally or the geographic markets where we operate. It may be difficult or impossible to obtain financing in the event that the company needs additional liquidity in the near future.

Our revenue and cash flow will be adversely affected if the Hungarian fixed line market further declines and our Mass Market Voice business declines at a higher rate than we expect.

Our business strategy depends, in part, on our ability to manage our Mass Market Voice operations, in terms of both our revenue and our market share. The Mass Market Voice market in Hungary has continued to decline, in terms of both the number of lines and total voice traffic. However, the rate of decline of the Mass Market Voice market has slowed. We experienced a decline in the number of Mass Market Voice lines in our historical concession areas from approximately 474,000 lines, 424,000 lines, and 405,000 as at December 31, 2005, 2006, and 2007, respectively, to 389,000 lines as at September 30, 2008.

We believe that the declines in the number of our fixed lines and in the Hungarian fixed line market in general have been caused primarily by competition from mobile operators and, to a lesser extent, cable television operators. Although fixed-to-mobile churn, or the percentage of customers that disconnect or are terminated from service relative to the customer base, has decreased due to the very high mobile penetration in Hungary of over 100% by the end of 2007, continued fixed-to-mobile substitution is likely to continue to have a negative impact on the fixed line market. We are also facing, and will likely continue to face, additional competition in our historical concession areas from T-Com, the largest incumbent fixed line operator, and from cable television operators (most significantly UPC Kabelcom and T-Kabel, a cable television operator affiliated with T-Com) offering voice services in triple play (combined cable television, Internet and voice) service packages, which could further affect our operations. We do not provide mobile services to the residential market. However, we have grown our DSL activities faster than the market in 2006, 2007 and during the first nine months of 2008. We believe that the growth of our DSL customer base could help increase line retention and stimulate fixed line Average Revenue Per User (ARPU) growth, and thereby help mitigate the decline in our Mass Market Voice business. Furthermore, in June 2008 we launched our InviTV IPTV service, whereby we are now also offering TV service over DSL (in both triple and dual play bundles) to mass market customers in most of our historical concession areas. We plan to introduce IPTV services in our remaining historical concession areas in February of 2009. We believe that this will further encourage broadband usage and thereby potentially reduce fixed line churn. Nonetheless, a decline in our Mass Market Voice business at a rate greater than we anticipate, through a decrease in the number of lines and/or traffic could have a material adverse effect on our business, operating results and financial condition.

Our failure to increase revenue in the Mass Market Internet market may adversely affect our results of operations and reduce our market share.

Our strategy includes increasing our market penetration in a growing Mass Market Internet market. The Hungarian government has been promoting Internet usage throughout Hungary with the goal of making Hungary the logical regional hub for Central and Eastern Europe based on a knowledge-based economy, innovation and high-tech industries. We are planning on increasing our revenue from Internet services to offset our decreased revenue from our Mass Market Voice services. If Hungary s Internet usage does not grow as expected, or if our competitors are more successful at obtaining new customers or the competition negatively affects pricing more than we expect, we may not be able to increase our revenue in the Mass Market Internet market as planned, which could have a material adverse effect on our results of operations and reduce our market share.

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If we are not able to manage costs while effectively responding to competition and changing market conditions, our cash flow may be reduced and our ability to service our debt or implement our business strategies may be adversely affected.

Our business plan is dependent on our ability to effectively manage the costs associated with running our business. If we need to respond to actions by our competitors or unanticipated changes in our markets, we may be required to make investments in our business and other expenditures which would reduce our cash flow available for other purposes. This could have a negative impact on our ability to service existing debt and our business, results of operations and financial condition could be adversely affected.

We are subject to increased competition due to the liberalization of the telecommunications sector, the business strategies of our competitors, prevailing market conditions and the effect of E.U. regulation on the Hungarian telecommunications market, which may result in the loss of customers and market share.

Competition in the Hungarian telecommunications sector has increased since 2001 as a result of market liberalization measures introduced by Act XL of 2001 on Communications (the 2001 Communications Act) and more recently the 2004 Communications Act. The 2004 Communications Act promotes competition in fixed line and mobile telecommunications services through, among other things, the transposition of relevant E.U. directives and regulations and the imposition of universal service obligations (USO), cost accounting, price controls, Carrier Pre-Selection, Carrier Selection, Local Loop Unbundling and number portability. The 2004 Communications Act also grants powers to the regulatory authority to impose obligations on market participants to remedy competitive deficiencies. As a result, we have faced, and could continue to face, increasing competition.

Our competitors include mobile and fixed line telecommunications services providers in both the Mass Market and Business markets and cable television operators (offering triple play packages comprised of television, Internet and voice services) specifically in the Mass Market. The scope of competition and its effect on our business, operating results and financial condition will depend on a variety of factors that we currently cannot assess with precision and that are for the most part outside of our control. Such factors include, in addition to the regulatory measures described above, the business strategies and capabilities of potential competitors, prevailing market conditions and the effect of E.U. regulation on the Hungarian telecommunications market (where fixed line penetration is significantly lower than in Western Europe), as well as the effectiveness of our efforts to address increased competition.

Competition in any or all of our services has led to, and may continue to lead to:

- price erosion;
- loss of market share;
- loss of existing customers and greater difficulty in obtaining new customers;
- the need for more rapid deployment of new technologies as existing technologies are becoming obsolescent at a more rapid pace; and
- other developments that could have a material adverse effect on our financial condition and results of operations.

Increased competition has led to, and may continue to lead to, increased customer churn. Customer churn is a measure of customers who stop purchasing our services, as manifested by the loss of either voice traffic (as measured in minutes) or lines, leading to reduced revenue. Fixed-to-mobile substitution has increased customer churn in both the Mass Market and Business markets in the past, although we believe that the rate of fixed-to-mobile substitution has decreased since the beginning of 2005 as a result of Hungary s very high mobile

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penetration rate, which reached over 100% by the end of 2007. Further, we continue to face increasing competition from cable television operators. Although we try to control customer churn by improving our customer service, introducing new customized service offerings, utilizing effective advertising and through other means, if we are unsuccessful in any of these initiatives, our customer churn could further increase and our business could be materially adversely affected.

We may seek to grow our business through additional acquisitions, which could entail a number of risks.

We may seek to grow the company and businesses by making further acquisitions of, or entering into partnerships and joint ventures with, other fixed line carriers, mobile operators, Internet operators or cable television operators in order to maintain our competitive position. Any current or future acquisition, partnership or joint venture may require that we make significant cash investment, issue stock or incur substantial debt. In addition, acquisitions, partnerships or investments may require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our businesses. Furthermore, any future acquisitions of businesses or facilities could entail a number of additional risks, including, problems with effective integration of operations, inability to maintain key pre-acquisition business relationships, increased operating costs, exposure to unanticipated liabilities, and difficulties in realizing projected efficiencies, synergies and cost savings.

The current global financial crisis may result in the deterioration of economic conditions in our operating areas, which may impact demand for our services and affect our ability to refinance our existing debt or obtain additional financing. Austerity measures introduced by the Hungarian government may similarly impact demand for our services.

Our business is affected by general economic conditions in Hungary and internationally. There are many factors that influence global and regional economies which are outside of our control. A cautious or negative business outlook may cause our Business customers to delay or cancel investment in information technology and telecommunications systems and services, which may adversely and directly affect our revenue and, in turn, slow the development of new services that could become future revenue sources for us. Although our revenue does not appear to have been significantly adversely affected during the last quarter of 2008, a further deterioration of the global and regional economies could have a material adverse effect on our business, operating results and financial condition. The current global financial crisis may result in the deterioration of economic conditions in our operating areas. The impact of the credit crisis on our customers may adversely impact the overall demand for our products and services. This in turn may result in decreased revenue. In addition, a continued credit crisis may affect our ability to refinance our existing debt or obtain additional financing.

Budget deficits as a percentage of GDP have remained relatively high for Hungary over the last several years. The Updated Convergence Program, a government plan consisting of austerity measures to redress the Hungarian economy and which was endorsed by the European Commission in September 2006, contemplates a reduction in the general government budget deficit.

In an effort to halt the growth of the budget deficit and generate additional government revenue, the Hungarian Parliament adopted certain tax law amendments, taking effect as of September 2006 (such as a 4% solidarity tax), and additional tax increases were introduced as of January 1, 2007. Such measures affect the vast majority of taxpayers in Hungary, including individuals and corporate entities. The austerity measures are likely to reduce the purchasing power of individuals in Hungary, which may result in a reduction in demand for our services. Since the austerity measures and tax increases were introduced, the company has noted a decrease in revenue from fixed lines. However, we are not in a position to determine whether this decrease is caused by the aforementioned measures.

In addition to a significant budget deficit, in recent years the Hungarian economy has been marked by a large current account deficit, rapid credit growth and a reliance of Hungarian businesses and consumers on foreign currency loans. These factors have left Hungary especially vulnerable to a financial crisis.

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Since December 23, 2008, the base interest rate of the National Bank of Hungary has been 10%. At the end of October 2008, the Hungarian government adopted a set of policies agreed upon with the E.U., the European Central Bank and the International Monetary Fund to bolster the Hungarian economy s near-term stability and improve its long-term growth potential by ensuring fiscal sustainability and strengthening the financial sector. In addition, the International Monetary Fund extended Hungary significant financial assistance. These challenging economic conditions, the continuing turmoil in the financial sector and macroeconomic policies made in response to these conditions could have a material adverse effect on our business, financing, operating results and financial condition.

Economic and political developments in other Central and Eastern European countries may also impact our business. For example, Bulgaria and Romania joined the E.U. on January 1, 2007. Turkey has applied for E.U. membership but is still being considered. Over the past two decades, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. The Turkish economy has experienced severe macroeconomic imbalances, including substantial budget deficits, significant balance of payment deficits, high rates of inflation and high real rates of interest (which are nominal interest rates less inflation).

The loss of key senior management could negatively affect our ability to implement our business strategy and generate revenue.

Our performance and continued success depends, in part, on our senior management. In particular, we depend in large part on the knowledge, expertise, reputation and services of our Chief Executive Officer Martin Lea and our Chief Financial Officer Robert Bowker. The familiarity of these individuals with our company and our business, their experience in management and with financial matters, and their combined experience in the telecommunications market generally make them important to our continued success. The loss of any members of our senior management could negatively affect our ability to implement our business strategy and generate revenue.

Technological changes and the shortening life cycles of our services and infrastructure may affect our operating results and financial condition and may require us to make unanticipated capital expenditures.

The telecommunications industry is characterized by rapidly changing technology, related changes in customer demands and the need for new services at competitive prices. Technological developments are also shortening life cycles of both services and the business infrastructure on which those services are based, and are facilitating convergence of different segments of the increasingly global information industry. In addition, competition based on alternative technologies, such as cable television networks or voice-over IP, wireless based technologies or radio-based alternative networks in our voice markets, could provide a lower cost solution or render our services obsolete or cost-inefficient in our markets.

Our future success will be impacted by our ability to anticipate, invest in and implement new technologies in order to provide services at competitive prices. Technological advances may also affect our operating results and financial condition by shortening the useful life of some of our assets or by requiring us to make additional unanticipated capital expenditures, particularly in connection with our network. If we need to respond to actions by our competitors or unanticipated changes in our markets or market conditions, we may be required to make investments in our business and other expenditures which would reduce our cash flow available for other purposes, including servicing our debt.

Network or system failures could result in reduced user traffic and revenue, or require unanticipated capital expenditures, and could harm our reputation.

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

Our IT systems are critical to our business and a failure of these systems could negatively affect our ability to service our customers.

We depend on our ability to store, retrieve, process and manage a significant amount of information. If our IT systems fail to perform as expected, or if we suffer an interruption, malfunction or loss of information processing capabilities, it could negatively affect our ability to service our customers.

We are dependent on third party vendors for our information, billing and network systems as well as IPTV service. Any significant disruption in our relationship with these vendors could increase our costs and affect our operating efficiencies.

Sophisticated information and billing systems are vital to our ability to monitor and control costs, bill customers, process customer orders, provide customer service and achieve operating efficiencies. We currently rely on internal systems and third party vendors to provide some of our information and processing systems as well as applications that support our IP services, including IPTV. Some of our billing, customer service and management information systems have been developed by third parties for us and may not perform as anticipated. In addition, our plans for developing and implementing our information systems, billing systems, network systems and IPTV service rely on the delivery of products and services by third party vendors. Our right to use these systems is dependent upon license agreements with third party vendors. Some of these agreements are cancelable by the vendor, and the cancellation or nonrenewable nature of these agreements could impair our ability to process orders or bill our customers. Since we rely on third party vendors to provide some of these services, any switch in vendors could be costly and affect operating efficiencies.

Our operations require substantial capital expenditures, which we may not be able to fund from cash generated from operations or financing facilities.

We require substantial capital to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and financing facilities, this may not be possible in the future and the other risks described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause capital not to be available when needed. This could adversely affect our ability to implement our business strategy and result in a reduction of revenue.

Capital expenditures as a percentage of cash generated from operating activities were 50% in 2005, 53% in 2006 and 63% in 2007 (based on cash flow statements in our year-end financial statements for 2007).

A significant amount of revenue from our wholesale segment is expected to be earned from a single customer.

We have entered into a 20 year agreement with Vodafone Turkey to provide telecommunication and network communication services. This contract is a significant portion of our wholesale segment revenue. Vodafone is a significant buyer of our services in Turkey under this contract. In order to provide services under this contract we have incurred significant capital expenditures. If Vodafone Turkey does not perform or provide payment for services as outlined in the contract, there may be a material effect on our results of operations and financial condition, which may include a write down for impairment of our network equipment in Turkey.

For the nine months ended September 30, 2008, revenue generated from Vodafone Turkey amounted to EUR 1.3 million (approximately $1.9 million) or approximately 1.3% of total wholesale revenue for the same period ($145.4 million). Going forward, we expect a larger percentage of our wholesale revenue (approximately 5.5% in 2009) to be attributable to the services we provide to Vodafone Turkey.

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If we expand into international markets, our inexperience outside Hungary would increase the risk that our international expansion efforts will not be successful, which would in turn limit our prospects for growth.

We may explore expanding our business to other countries. Expansion into international markets requires significant management attention and financial resources. In addition, we may face the following risks associated with any expansion outside Hungary:

- challenges caused by distance, language and cultural differences;
- legal, legislative and regulatory restrictions;
- currency exchange rate fluctuations;
- economic instability;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud;
- potentially adverse tax consequences; and
- higher costs associated with doing business internationally.

These risks could harm our international expansion efforts, which would in turn harm our business prospects.

Legal contingencies and liabilities could have a substantial negative impact on our financial condition, cash flows and profitability.

We are subject, in the ordinary course of business, to litigation and other legal claims. We cannot be certain that we will have a successful outcome or that our cash flow will be sufficient to cover all future claims against us. Any increase in the frequency and size of these claims, may adversely impact our profitability and cash flow. After originally prevailing in a suit brought against us before the Metropolitan Court of Budapest, the Metropolitan Court of Appeal recently ruled in favor of three Hungarian municipalities seeking payment in connection with a provision in some of our concession contracts regarding the payment of local municipality taxes. We have currently recorded a liability of HUF 2.2 billion (approximately $13 million). These factors may have a material adverse effect on our results of operations and financial condition. In addition, if these claims rise to a level of frequency or size that is significantly higher than similar claims made against our competitors, our reputation and business will likely be harmed. For further information regarding our legal proceedings, see the description on page 78.

Risks Relating to Regulatory Matters

The changing regulatory environment, the difficulty to predict the result of certain market analyses by the regulator, price regulations, and other regulatory initiatives and investigations could affect the results of our operations, our financial condition and the success and profitability of our business.

The 2004 Communications Act has resulted in significant changes to the Hungarian telecommunications sector and the regulatory environment is constantly changing. The National Communications Authority (the NHH) was established in 2004 and is now the sole agency responsible for oversight and monitoring of the Hungarian telecommunications industry, with the power to impose regulatory remedies. In 2006 the Ministry of Information Technology and Communications (the government department responsible for legislation relating to the Hungarian telecommunication industry) was incorporated into the Ministry of Economics and Transport. For a more detailed discussion of Hungary s telecommunications industry regulation, please see Business Hungarian Regulatory Environment on page 60.

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This regulatory regime entails a number of risks that may adversely impact our business:

The frequent changes in the telecommunications regulatory regime (including the fact that the NHH was only established in 2004), combined with the recent increased activity in the telecommunications industry by the Hungarian Competition Office (the GVH) and the National Consumer Protection Agency (the NFH), could cause or lead to inconsistent implementation and interpretation of laws governing the electronic communications industry, thereby hampering the stability of the regulatory environment. Such uncertainties in the regulatory environment could, in turn, negatively impact our future growth and profitability.

The NHH conducts market analysis exercises in order to determine the competitiveness of the market. However, the results of such analyses are often difficult to predict and the process is constantly being reviewed and modified both on the national and the international level pursuant to the E.U. Framework Review. If we are unable to respond effectively to the evolving regulatory policies implemented by the NHH, our ability to compete and the profitability of our business may be impaired.

Although the regulatory findings of the NHH may be challenged before the courts, the resolutions imposed by the NHH are immediately enforceable unless injunctive relief is granted by the courts. Due to the lengthy nature of Hungarian court proceedings, therefore, even if a court decision is ultimately favorable to us, our business may already be adversely affected.

If the NHH does not respond effectively to changes in the market environment by changing the regulatory obligations imposed on us or on other incumbents in step with changes in the market, our ability to operate competitively in our industry may be adversely affected.

The NHH has designated us as a service provider with significant market power (SMP). As a result, the NHH issued resolutions forcing us to adopt changes in our pricing models. As an operator with SMP, we have been required to submit a Reference Interconnection Offer (RIO) and a Reference Unbundling Offer (RUO) to the NHH, which reviews the cost-based models submitted by us, and evaluates them by comparison to a hypothetical efficient company. On the basis of such review, the NHH may intervene and regulate the wholesale prices included in our RIOs and RUOs which may adversely affect our business and results of operations.

Our universal service fees and our residential and non-residential access fees are subject to price regulation such as price caps, which have previously been applied with retroactive effect. As a result, we cannot predict with certainty that our current pricing strategy will not result in penalties or in adverse changes to our price caps. Any such changes in the price caps could restrict our ability to determine our retail voice tariffs and could thereby reduce our profitability.

The NHH and the GVH regularly conduct investigations regarding market participants compliance with applicable laws and regulations. The NHH has the power to impose severe penalties for market participants failure to comply with applicable laws and regulations, including penalties based on a company s annual revenue. The GVH is also empowered to impose significant penalties (up to 10% of a company s annual revenue) in the event of a breach of competition laws. In 2006, both regulatory bodies issued strategy and position papers that may result in conflicting obligations on operators. In addition, both regulatory authorities have increased their consumer protection efforts. Therefore, given the increasing complexity and consequences of regulatory investigations and the indeterminate amounts at stake, regulatory disputes could have a material adverse effect on our operating results or cash flows.

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The power of the NFH has been increased due to the adoption of the Unfair Commercial Practices Directive (the UCP), which created a new regulatory environment with conflicting or unclear rules whose application may be unpredictable. The NFH may impose a penalty of up to HUF 2 billion (approximately $9.9 million).

In October 2006, the NHH published a new resolution regarding the regulation of the wholesale market for call termination in individual mobile networks, as a result of which all three mobile carriers in Hungary had to decrease their termination fees to cost level plus a reasonable return above cost by January 1, 2009. According to the NHH s own cost model, the average cost-based termination fee, independent of the time of day, is HUF 16.84 per-minute. In addition, the NHH published a subsequent draft resolution in 2008 that prescribes a gradual, yearly decrease to HUF 11.86 by December 1, 2010. However, there is no guarantee that the NHH will succeed in this regard because mobile operators can build different cost models to maintain higher fees or they may appeal this regulation in court. The mobile operators have challenged prior regulatory changes to their termination fees in the courts and these cases are still pending. The mobile termination fee is an important element of our business model and uncertainties in this area could adversely affect our business.

We are required to reduce the universal telephone package tariffs for calls to mobile networks in accordance with a gradual reduction of mobile termination charges. As the compliance with these pass-on obligations in 2003, 2004, 2005, 2007 and 2008 has been complicated by ongoing legal proceedings initiated by mobile operators seeking to restore the previous termination fees, we tried to offset the cumulative effect of the pass-on obligation with other retail price decreases. The NHH accepted this solution but we still have to prove, in a market surveillance balance, that we met this obligation through price reductions and the NHH might require us to further cut the retail price of fixed-to-mobile calls.

The NHH may introduce new regulatory policies in the future (for example, regarding wholesale line rental, new interconnection models such as bill-and-keep, next generation network regulation, functional separation, or geographic segmentation) that may have a negative impact on our business and affect our profitability.

There are strong indications that the NHH will not be regulating the cable television industry. Whether or not the NHH ultimately decides to regulate the cable television industry could affect our market share and pricing in the future. There is also a risk that either the NHH or the GVH will stop us from using certain defensive marketing strategies with respect to the cable television industry, which could similarly affect our market share and pricing in the future.

In addition to Hungary, we are also subject to the regulatory regimes in Austria, Turkey and certain Eastern European countries. Lack of clarity with respect to Turkish telecommunications law, the Turkish legal system and/or the regulatory framework governing the Turkish telecommunications industry could impede our ability to operate effectively and have a detrimental effect on our business and operational results.

Changes in E.U. law and implementation thereof as well as new laws in Bulgaria, Romania and Turkey could result in adverse consequences for our business, results of operations and financial condition.

Before joining the E.U. in 2004, Hungary revised its telecommunications laws to further promote competition and harmonize its telecommunications laws with the current E.U. framework. Our business, results of operations and financial condition could be adversely affected by changes in E.U. laws and regulations which may require Hungary to revise its telecommunications laws in a manner that increases competition, decreases revenue or requires us to expend additional resources.

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In addition, we are also exposed to evolving legislation in newer member states such as Bulgaria and Romania. Further, Turkey s accession talks with the E.U. may require further modifications in the regulatory framework governing the Turkish telecommunications industry, any or all of which may be detrimental to our competitive position or our operational results.

Risks Relating to Our Existing Debt

We are in discussions regarding the refinancing of our senior credit facilities agreement and our bridge loan agreement, the outcome of which could adversely affect our financial position.

We are in discussions with several financing sources to refinance our senior credit facilities agreement and our bridge loan agreement. If we choose not to refinance our bridge loan or the market conditions make a refinancing prohibitive, we intend to convert the bridge loan to term loans maturing in 2016, which conversion is permitted, subject to certain conditions, pursuant to the bridge loan agreement. The senior facility term loans are amortizing loans with a maturity date of June 30, 2011. No amount repaid or prepaid in relation to the term loans may be redrawn.

There can be no assurance regarding the outcome or the scope of these refinancing discussions and the terms of any refinancing may adversely affect our financial position.

Recent disruptions in the credit markets have resulted in decreased availability of credit and increased interest rates. Since refinancing or payment of the loans is uncertain, illiquidity in the credit markets could negatively affect the outcome of discussions or the terms of refinancing.

Our substantial debt could adversely affect our financial position and may limit our ability to take certain actions. Our debt also requires us to dedicate a large portion of our cash flow from operations to fund debt payments, reducing our ability to use such cash flows to fund working capital or capital expenditures.

We have a significant amount of debt and significant debt service obligations. As of September 30, 2008, our total third-party debt was approximately $800 million. Our substantial debt could have important adverse consequences for us. For example, our substantial debt:

- will require us to dedicate a large portion of our cash flows from operations to fund payments on our debt, thereby reducing the availability of our cash flows to fund working capital, capital expenditures and other general corporate needs;
- will increase our vulnerability to adverse general economic or industry conditions;
- could limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- could limit our ability to raise additional debt or equity capital in the future;
- could restrict us from making strategic acquisitions or exploiting business opportunities;
- could make it more difficult for us to satisfy our obligations with respect to our debt; and
- could place us at a competitive disadvantage compared to our competitors that have less debt.

We may be able to incur substantially more debt in the future which would increase our leverage risks.

We may be able to incur substantial additional debt in the future. Although the indentures governing our outstanding notes and our credit agreement governing our credit facilities contain restrictions as to the incurrence

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of additional debt, these restrictions are subject to a number of significant qualifications and exceptions and additional debt incurred albeit in compliance with these restrictions could be substantial. To the extent new debt is added to our current debt level, the substantial leverage risks described above would increase.

Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate sufficient cash to service our debt.

Our ability to pay or refinance our debt will depend upon our future operating performance, which will be affected by general economic, financial, competitive, regulatory and business factors, some of which may be beyond our control.

We anticipate that our operating cash flows, together with the money we can borrow under our credit facilities, will be sufficient to meet anticipated future operating expenses and to fund capital expenditures. However, we cannot assure you that our business will generate sufficient cash flows from operations, that currently anticipated revenue growth and operating improvements will be realized, or that future borrowings will be available to us under our credit facilities in amounts sufficient to enable us to pay our debt or to fund our other liquidity needs. If we are unable to meet our debt service obligations or fund our other liquidity needs, we may be required to:

- reduce or delay capital expenditures;
- limit our growth;
- seek additional debt financing or equity capital;
- forego opportunities, such as the acquisitions of other businesses;
- sell assets; or
- restructure or refinance our debt.

If we are required to reduce or delay capital expenditures, limit our growth, seek additional debt or equity capital, forego opportunities, sell assets or restructure or refinance our debt in order to meet our debt service obligations or fund our other liquidity needs, we cannot assure you that any of these actions could be effected on favorable terms or at all.

The indentures governing our outstanding notes and our credit agreement governing our credit facilities impose restrictions on our ability to take certain actions and require us to comply with financial covenants, the terms of which we may fail to satisfy.

We cannot assure you that the operating and financial restrictions and covenants in our debt instruments, including the indentures governing our notes and the credit agreement governing our credit facilities, will not adversely affect our ability to finance our future operations or capital needs, or engage in other business activities that may be in our interest. Our senior credit agreement requires us to maintain certain financial ratios. In addition, we are required to comply with certain negative financial and other covenants. Our ability to meet these tests and comply with these covenants may be affected by events beyond our control and, as a result, we may be required to seek waivers or consents in the future in respect of our credit facilities. We cannot assure you that these waivers or consents will be granted. A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under our credit facilities.

In addition, the credit agreement and the indentures governing our notes contain restrictions that substantially limit the financial and operational flexibility of our subsidiaries. In particular, these agreements place limits on our ability to incur additional debt, grant security interests to third persons, dispose of material

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assets, undertake organizational measures such as mergers, changes of corporate form, joint ventures or similar transactions, and enter into transactions with related parties. Other limitations of our credit agreement and the indentures governing our notes restrict our ability to pay dividends. Our ability to comply with these provisions may be affected by changes in economic or business conditions or other events beyond our control.

If we do not comply with the covenants and restrictions in our credit agreement and the indentures governing our notes, we could be in default under those agreements. In the event of any default under the credit agreement, the lenders under such facilities will not be required to lend any additional amounts to us and could elect to declare all outstanding borrowings, together with accrued interest and other fees, to be due and payable, require us to apply all of our available cash to repay these borrowings or prevent us from making debt service payments on our notes, any of which would be an event of default under the notes. Any default under the credit agreement or the indentures governing our notes could lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross default provisions. If we are unable to repay any such borrowings when due, the lenders under the credit agreement could proceed against the collateral securing our notes, as well as other assets securing the credit agreement. If the debt under the credit agreement or the notes were to be accelerated, it is possible that this collateral would not be sufficient to repay such debt in full.

We are subject to currency exchange rate risks.

Since we generate a substantial amount of our revenue in Hungarian forints, our ability to repay debt and other liabilities denominated in currencies other than the Hungarian forint can be adversely affected by the weakening of the Hungarian forint against such non-Hungarian currencies. For example, our notes are euro-denominated debt. If the Hungarian forint were to weaken against the euro, we would need a greater amount of Hungarian forints to pay the same amount of euro-denominated debt. Therefore, changes in Hungarian forint/euro exchange rates could adversely affect our ability to service our debt.

We are subject to risks resulting from fluctuations in interest rates, which could adversely affect our ability to service our debt.

The interest rates on our bank credit facilities and some of our notes are variable rates tied to current market interest rates. An increase in market interest rates could adversely affect our ability to service our debt.

Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure.

We evaluate and review our risk management policies and procedures on a regular basis and expect to continue to do so in the future. Nonetheless, our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

Risks Relating to Our Reported Financial Results

The preparation of our financial statements in accordance with IFRS following the merger may have a significant effect on our reported financial results.

The SEC permits foreign private issuers to file financial statements in accordance with International Financial Reporting Standards or IFRS, as issued by the International Accounting Standards Board (IASB). At any time in the future, as a foreign private issuer, we may decide to prepare our financial statements in

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accordance with IFRS as issued by the IASB. The application by us of different accounting standards, a change in the rules of IFRS as issued by the IASB, or in the SEC s acceptance of such rules, could have a significant effect on our reported financial results.

We are subject to fluctuations in currency exchange rates which could have an adverse effect on our reported financial results.

As a Delaware incorporated company, we currently report our financial results in U.S. dollars, our reporting currency, while a substantial portion of our revenue and expenses and liabilities are in currencies other than the U.S. dollar, mainly Hungarian forints and euros. At any time in the future, as a foreign private issuer incorporated in Denmark, we may decide to adopt the euro as our reporting currency, while a substantial portion of our revenue and expenses and liabilities will be in other currencies, mainly Hungarian forint.

Effect on Revenue and Expense Translation in Our Statement of Operations. Changes in the Hungarian forint/U.S. dollar exchange rate will have an impact on the amounts reported by us in our financial statements when we translate such forint amounts into U.S. dollars for reporting purposes. For example, if we had the same amount of revenue in Hungarian forints during two consecutive financial reporting periods and the value of the Hungarian forint appreciates against the U.S. dollar during the second financial reporting period as compared to the first financial reporting period, we would report higher revenue in U.S. dollars during the second financial reporting period even though the amount of revenue in Hungarian forint remained the same during each of the two financial reporting periods. Conversely, if the Hungarian forint weakened against the U.S. dollar during the second financial reporting period as compared to the first financial reporting period, we would report lower revenue in U.S. dollars during the second financial reporting period even though the amount of revenue in Hungarian forint remained the same during each of the two financial reporting periods. Therefore, fluctuations in the Hungarian forint/ U.S. dollar exchange rate can have a material impact on our reported financial results.

Subsidiary Debt Denominated in a Currency Other than the Hungarian Forint Effect on Statement of Operations Our Hungarian subsidiaries functional currency for accounting purposes is the Hungarian forint. Invitel, our operating subsidiary, for example, has debt denominated in a currency other than the Hungarian forint (euro). When Invitel prepares its balance sheet, it must re-value debt amounts denominated in currencies other than the Hungarian forint into Hungarian forint at the exchange rate in effect at the balance sheet date. Therefore, if Invitel were to hold the same amount of euro-denominated debt on two consecutive balance sheet reporting dates, and if the Hungarian forint appreciated against the euro on the second balance sheet reporting date as compared to the first balance sheet reporting date, Invitel would report less debt in Hungarian forint on its balance sheet, with respect to the euro-denominated debt, even though the amount of euro-denominated debt was the same on both balance sheet reporting dates. The difference in the amount of Hungarian forints reported for the euro-denominated debt for the two periods would be translated back into U.S. dollars at the average Hungarian forint/U.S. dollar exchange rate for the second period and be recorded as a foreign exchange gain for the period on our Consolidated Statement of Operations. Conversely, if the Hungarian forint depreciated against the euro on the second balance sheet reporting date as compared to the first balance sheet reporting date, Invitel would report more debt in Hungarian forint on its balance sheet, with respect to the euro-denominated debt, even though the amount of euro-denominated debt was the same on both balance sheet reporting dates. In this case, the difference in the amount of Hungarian forint reported for the euro-denominated debt for the two periods would be translated back into U.S. dollars at the average Hungarian forint/U.S. dollar exchange rate for the second period and be recorded as a foreign exchange loss for the period on our Consolidated Statement of Operations.

As a result of the above, while our reported financial performance may change, a significant portion of such change may be due to currency fluctuations.

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Changes in accounting rules could have a material impact on our financial results.

U.S. Generally Accepted Accounting Principles (U.S. GAAP) are subject to interpretation by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board (PCAOB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. International Financial Reporting Standards are subject to interpretation by the International Accounting Standards Board. A change in these principles or interpretations could have a significant effect on our reported financial results.

Changes in accounting assumptions or regulations could affect our financial results.

Changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or applications, could result in an impact on our financial results.

The failure of our internal control over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States or, at some time in the future, IFRS. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the financial statements; providing reasonable assurance that receipts and expenditures of our assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud.

We, along with our independent registered public accounting firm, have identified one significant deficiency in our internal control over financial reporting as of December 31, 2007, which, if not properly remediated could result in misstatements in our financial statements in future periods.

We, along with our independent registered public accounting firm, have concluded that there is one significant deficiency in the operation of our internal control over financial reporting as of December 31, 2007. A significant deficiency is a deficiency or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant s financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. We and our independent registered public accounting firm specifically noted that our U.S. generally accepted accounting principles knowledge should be improved.

If the remedial policies and procedures that we implemented are not sufficient to address the control finding, or if additional control findings or other conditions relating to our internal controls are discovered in the future, we may fail to meet our future reporting obligations, the financial statements may contain misstatements and operating results may be adversely affected. Any such failure could also adversely affect the results of our periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting. We cannot guarantee that measures to remediate the existing control findings will be sufficient, nor can we guarantee that additional control findings will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting. Reported internal control deficiencies could cause investors to lose confidence in our reported consolidated financial information or other reported financial information and, as a result, the market price of our securities could suffer.

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The internal control over financial reporting of Tele2 Hungary, Invitel and Memorex and their respective subsidiaries has not yet been evaluated in accordance with the provisions of the Sarbanes Oxley Act of 2002, and any deficiencies in Tele2 Hungary, Invitel or Memorex s internal controls or disclosure controls and procedures that we may find would require us to spend resources to correct those deficiencies and could adversely affect market confidence in our reported consolidated financial information and the market price of our securities.

Maintaining effective internal control over financial reporting at Tele2 Hungary, Invitel and Memorex, including their respective subsidiaries, is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. We are subject to Sections 302, 404 and 906 of the Sarbanes-Oxley Act of 2002 and the related rules of the SEC which require, among other things, our management to assess annually the effectiveness of our internal control over financial reporting and our independent registered public accounting firm to issue a report on the assessment of our management in our annual report. Because Invitel and Memorex were previously private companies, they have not been subject to the Sarbanes-Oxley Act of 2002. As independent companies, Tele2 Hungary, Invitel and Memorex and their respective subsidiaries did not operate under a fully documented system for accounting and internal control over financial reporting and were not required to maintain the disclosure controls and procedures applicable to public companies. Tele2 Hungary and Invitel will need to confirm and document that control structure as of December 31, 2008 and Memorex will need to document and improve it as of December 31, 2009. If we are unable to sufficiently integrate Tele2 Hungary s, Invitel s or Memorex s control structure and our own existing control structure or correct any deficiencies identified in a timely manner, we may conclude that our disclosure controls and procedures are not effective or that these circumstances constitute a material weakness in our internal control over financial reporting. If we were to reach such a conclusion, our management and independent registered public accounting firm would be unable to conclude in their reports that our internal control over financial reporting was effective. Investors could lose confidence in our reported consolidated financial information or other public disclosures and, as a result, the market price of our securities could suffer.

We have a substantial amount of intangible assets, including goodwill, which may require an impairment adjustment in the future which could have a significant negative effect on our profitability.

A substantial amount of intangible assets, including goodwill, have been recorded in connection with the accounting for our previous acquisitions. This goodwill will be subject to assessments of impairments on at least an annual basis. If an impairment is identified and an adjustment is required, it may have a material adverse effect on our profitability, which could adversely affect the market price of our common stock or other securities.

Other Risks

Invitel Denmark shareholders will be subject to exchange rate risk.

Invitel Denmark s ordinary shares will be denominated in euros. Accordingly, the value of the ordinary shares and the Invitel Denmark ADSs will be likely to fluctuate as the exchange rate between the local currency of the country in which an investor is based and the euro fluctuates. If the value of the euro decreases against the local currency of the country in which a holder of Invitel Denmark ordinary shares or Invitel Denmark ADSs is based, the value of such holder s ordinary shares and Invitel Denmark ADSs will decrease when measured in the local currency.

Our business is subject to increasingly complex corporate governance, public disclosure, accounting, and tax requirements that have increased both our costs and the risk of noncompliance.

Following the merger, we will remain subject to rules and regulations of the U.S. federal government and will become subject to the rules and regulations of the Danish government as well as the NYSE Alternext stock exchange on which our American depositary shares will be listed. These entities, including the Public Company Accounting Oversight Board (PCAOB), the SEC and NYSE Alternext, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years. Various entities within and outside the United States federal government continue to develop additional regulations and requirements in response to laws enacted by the United States Congress, most notably the Sarbanes-Oxley Act of 2002. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, increased expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

We are subject to periodic audits or other reviews by such governmental agencies as well as governmental agencies in Hungary and other countries in Central and South Eastern Europe in which we operate. The SEC periodically reviews our public company filings. Any such examination or review requires management s time and a diversion of internal resources and, in the event of an unfavorable outcome, may result in additional liabilities or adjustments to our historical financial results.

We have a majority shareholder whose interests may be different from the minority shareholders with respect to some matters.

On February 2, 2009, TDC owned approximately 63.9% of the outstanding HTCC Delaware common stock, and will hold approximately 63.9% of Invitel Denmark ordinary shares after completion of the reorganization, subject to a possible increase in its shareholding as a result of a conversion of Series A Preferred Stock into 300,000 shares of HTCC Delaware common stock, after which it would hold approximately 64.6% of outstanding HTCC Delaware common stock. Four officers of TDC currently serve on HTCC Delaware s board of directors and, after completion of the merger, these officers will serve on the board of Invitel Denmark. TDC has, and will continue to have, directly or indirectly, the power to affect our business through their ability to control actions that require shareholder approval and through their representatives on our board of directors. They are not obligated to provide us with financial support. The interests of the majority shareholder and those of the minority shareholders may differ with respect to some matters. Conflicts between TDC and minority stockholders may arise with respect to, among other things, the company s strategic direction and significant corporate transactions, conflicts related to corporate opportunities that could be pursued by us on the one hand, or by TDC, on the other hand, or other contractual relationships between us and TDC or its affiliates. If we enter into a loan agreement with TDC in connection with a refinancing of our senior credit facilities agreement and/or our bridge loan agreement, similar conflicts of interest may occur. For more details about this refinancing, see Indicative Terms of 2009 Refinancing on page 123. We cannot anticipate in what form such differing interests may arise. However, we do not believe that the interests of TDC or its affiliates differ from those of other shareholders or the company in connection with the reorganization.

The low trading volume in our shares and the small public float of our shares subjects our shares to volatile trading.

One shareholder of the company, TDC, owned approximately 63.9% of our outstanding common stock as of February 2, 2009, and will hold approximately 63.9% of Invitel Denmark ordinary shares after completion of the reorganization, subject to a possible increase in its shareholding as a result of a conversion of Series A Preferred Stock into 300,000 shares of HTCC Delaware common stock, after which it would hold approximately 64.6% of outstanding HTCC Delaware common stock. The company s board of directors and management own approximately 6% of our outstanding common stock, and will hold approximately 6% of Invitel Denmark ordinary shares after completion of the reorganization. The remaining approximately 30% of our outstanding common stock is held in the public markets. Our common stock is traded on the NYSE Alternext stock exchange under the symbol HTC. We intend to apply to list the Invitel Denmark ADSs on the NYSE Alternext stock exchange under the symbol IHO . There has been, and we expect that there will continue to be, only a limited number of our securities available on the market and limited trading volume of our securities. Accordingly, the market price of our securities may not be reflective of its underlying value. Limited trading volume can also increase the volatility of the market price of our securities.

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Our financial condition and prospects may be materially adversely affected by further ratings downgrades.

On October 24, 2008, our Corporate Credit Rating was lowered by Standard & Poor s from B+/Stable to B/Negative. A (further) downgrade in our credit rating or other adverse actions by rating agencies could increase our borrowing costs for future financings and signal an increase in the risk of default on our debt obligations. If Standard & Poor s or Moody s were to (further) downgrade our long-term debt ratings, our ability to borrow would be adversely affected and our future borrowing costs would likely increase with resulting reductions in net income in future periods or increases in net losses.

Cautionary Statement Concerning Forward-Looking Statements

This proxy statement/prospectus contains forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties, which could cause actual results to differ materially from those expressed or implied in the statements. Words such as believes, anticipates, estimates, expects, intends and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously.

The following important factors, along with those factors discussed elsewhere in this proxy statement/prospectus could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- Our inability to execute our business strategy;
- Costs or difficulties related to the reorganization and related transactions, which could be greater than expected;
- Changes in the growth rate of the overall Hungarian, E.U. and Central and South Eastern European economies such that inflation, interest rates, currency exchange rates, business investment and consumer spending are impacted;
- Our ability to continue to integrate Memorex s operations and to realize the anticipated benefits from the acquisition;
- Our ability to effectively manage and otherwise monitor our operations, costs, regulatory compliance and service quality;
- Changes in consumer preferences for different telecommunication technologies, including trends toward mobile and cable substitution;
- Our ability to generate growth or profitable growth;
- Material changes in available technology and the effects of such changes including product substitutions and deployment costs;
- Our ability to retain key employees;
- Political changes in Hungary;

Changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on our financial results;

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- Our ability to successfully complete the integration of any businesses or companies that we may acquire into our operations; and

- The factors referred to in the Risk Factors section of this proxy statement/prospectus beginning on page 19.

You should consider these important factors in evaluating any forward-looking statements in this proxy statement/prospectus or otherwise made by us or on our behalf. We urge you to read the entire proxy statement/prospectus for a more complete discussion of the factors that could affect our reorganization and our future performance. In light of these risks, uncertainties and assumptions, the events described or suggested by the forward-looking statements in this proxy statement/prospectus may not occur.

Except as required by law or applicable stock exchange rules or regulations, we undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this proxy statement/prospectus.

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HTCC DELAWARE VOTING SECURITIES

The only outstanding voting security of HTCC Delaware is common stock. Only holders of record of such common stock at the close of business on February 2, 2009, are entitled to notice of and to vote at the special meeting. On February 2, 2009 there were 16,425,733 shares of HTCC Delaware common stock outstanding. A majority of the shares of common stock entitled to vote at the special meeting, present in person or represented by proxy, is necessary to constitute a quorum. Each share of common stock is entitled to one vote. The merger of HTCC Delaware with and into MergeCo cannot be completed unless the holders of a majority of the outstanding shares of common stock of HTCC Delaware entitled to vote at the special meeting vote to adopt the agreement and plan of merger. See The Special Meeting Vote Required on page 175.

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MARKET FOR HTCC DELAWARE COMMON STOCK, DIVIDEND POLICY AND OTHER MATTERS

Market Information

Our common stock trades on the NYSE Alternext exchange under the symbol HTC. The following table sets forth the high and low sale prices for the common stock of HTCC Delaware as reported by the NYSE Alternext stock exchange for each quarter in 2008, 2007 and 2006.

Quarter Ended	2008		2007		2006	
	High	Low	High	Low	High	Low
March 31	$ 18.50	$ 12.76	$ 21.85	$ 14.76	$ 16.50	$ 14.51
June 30	19.80	14.93	25.48	19.76	16.63	14.10
September 30	23.40	16.22	22.50	19.25	16.25	12.00
December 31	19.00	5.75	21.00	15.00	15.80	13.51

On November 26, 2008, the trading day before the announcement of the reorganization, the closing sale price for the common stock of HTCC Delaware on the NYSE Alternext was $8.95. On January 29, 2009, the closing sale price on the NYSE Alternext was $7.43. NYSE Alternext, formerly known as The American Stock Exchange, was acquired by NYSE Euronext in October 2008.

Stockholders

As of February 2, 2009, we had 16,425,733 shares of common stock outstanding held by approximately 62 holders of record. We believe that we have approximately 1,400 beneficial owners who hold their shares in street names.

Dividend Policy

We have not paid any dividends on our common stock. Our credit facilities and indentures limit our ability to pay dividends. It is our current policy to retain earnings, if any, to finance the development and growth of our businesses. Accordingly, we do not anticipate that cash dividends will be paid on the Invitel Denmark securities in the foreseeable future.

HTCC Delaware has 30,000 shares of Series A Preferred Stock with a liquidation value of $70 per share outstanding which are currently held by TDC, our majority stockholder. The holder of such Preferred Shares is entitled to receive cumulative cash dividends at the annual rate of 5%, compounded annually, on the liquidation value. We have only paid one preferred dividend. As of December 31, 2008, the total arrearage on the Preferred Shares was approximately $960,000. TDC has informed us that it intends to convert its 30,000 Series A Preferred Shares into 300,000 shares of HTCC common stock immediately prior to the merger.

At present, HTCC Delaware s only source of cash is payments under its management service agreements with its subsidiaries, and dividends, if any, from its subsidiaries. Our Hungarian and other foreign subsidiaries ability to pay dividends or make other capital distributions is governed by Hungarian law and other relevant local laws, and is also significantly restricted by our credit facility and indentures.

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BUSINESS OF HTCC DELAWARE

In this section, the words we, us and our generally refer to HTCC Delaware and its operating subsidiaries.

Glossary of Business Terms

Our industry uses many terms and acronyms that may not be familiar to you. To assist you in reading this document, we have provided below definitions of some of these terms.

Carrier Selection (CS). The ability to select the telecommunications service provider for certain calls on a call-by-call basis, whereby a telecommunications service provider different from the default telecommunications service provider may be selected by the customer by dialing a prefix when making certain calls.

Carrier Pre-Selection (CPS). The ability to select the telecommunications service provider for certain calls on a pre-set basis so that the selected telecommunications service provider is the default telecommunications service provider on such calls without having to dial a prefix.

Dark Fiber. Unused fiber optic cable. Fiber optic cables convey information in the form of light pulses so that dark fiber means that no light pulses are being sent over the fiber optic cable.

Dense Wavelength Division Multiplexing (DWDM). A way of increasing the capacity of fiber optic networks. DWDM carries multiple colors of light, or multiple wavelengths on a single strand of fiber.

Ethernet. A local area network architecture. It is the most common type of connection computers use in a local area network. An Ethernet port looks much like a regular phone jack, but is slightly wider. This port can be used to connect a computer to another computer, a local network, or an external DSL or cable modem.

Fiber Optic Cable. A type of cable made from hair-thin glass (rather than copper) through which information travels as light. Fiber optic cables have a much greater bandwidth capacity than metal cables. Fiber optic cables form the basis for telecommunication providers backbone networks in transmitting information long distances.

Frame Relay. A high speed switching technology, primarily used to interconnect multiple local area networks.

Integrated Services Digital Network (ISDN). A telecommunications standard that uses digital transmission technology to support voice, video and data communication applications over regular telephone lines.

Internet Protocol (IP). A protocol for transferring information across the Internet in packets of data.

Last Mile. The telecommunications technology that connects the customer s premises directly to the network of the telecommunications provider, traditionally a wired connection through a twisted pair copper wire telephone cable (in the case of the telecommunications provider) or a coaxial cable (in the case of a cable television operator) but it can also be a fixed wireless connection.

Leased Lines. A telephone line (a direct circuit or channel) specifically dedicated to an end-user organization for the purpose of directly connecting two or more of that organization s sites. They are used to transmit voice, data or video between the sites.

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Local Loop. The telephone line that runs from the local telephone company s equipment to the end user s premise. The local loop can be made up of fiber, copper or wireless media. It usually refers to the wired connection from a telephone company s central office in a local area to its customer s premises.

Local Loop Unbundling (LLU). The process of making the local loop available to the local loop owner s competitors.

Metropolitan Area Network (MAN). A network that covers a metropolitan area such as a portion of a city. The area is larger than that covered by a local area network but smaller than the area covered by a wide area network.

Multiplexing. The combination of multiple analog or digital signals for transmission over a single line.

Point of Presence (POP). The physical location where the line from a long distance carrier or the server of an Internet Service Provider connects to the line of the local telecommunications service provider (usually at the local telephone company s central office).

Point to Multipoint (PMP). Refers to the use of microwave technology to link the telecommunications service provider s point-of-presence with a number of remote customer locations.

Point to Point (PP). Refers to the use of microwave technology to link the telecommunications service provider s point-of-presence directly with one single customer location.

Synchronous Digital Hierarchy (SDH). The international standard for synchronous data transmission over fiber optic cables. The North American equivalent of SDH is SONET.

Transit Services. An interconnection service whereby a carrier provides transportation services for information (voice, data and video) by linking two networks that are not directly interconnected.

Universal Mobile Telecommunications System (UMTS). A third generation (3G) wireless system designed to provide a wide range of voice, high speed data and multimedia services.

Virtual Private Network (VPN). A private network that operates securely within a public network (such as the Internet) by means of encrypting transmissions. It provides the functions and features of a private network without the need for dedicated private lines between different end-user organization s sites. Each end-user organization s site connects to the network provider s network rather than directly to the end-user s other sites.

Worldwide Interoperability for Microwave Access (WiMAX). A telecommunications technology that provides for the wireless transmission of data using a variety of transmission modes.

Wireless Local Loop. A wireless connection between the customer s premises and the telephone company s central office.

Company Overview

We were incorporated in Delaware in 1992 as a holding company to acquire concessions from the government of the Republic of Hungary to own and operate local fixed line telecommunications networks in Hungary as Hungary privatized its telecommunications industry.

We are the second largest fixed line telecommunications services provider in Hungary and the incumbent provider of fixed line telecommunications services to residential and business customers in our 14 historical concession areas, where we have a dominant market share. We are also the number one fixed line operator outside our historical concession areas in Hungary, and we are the number one independent wholesale provider of data and capacity services in Central and South Eastern Europe.

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We provide telecommunications services in Hungary and in the region through our Hungarian and other operating subsidiaries under our common brand: Invitel. We also provide Internet and data services to business customers in Romania through our Romanian subsidiary, Euroweb Romania.

Our historical concession areas are geographically clustered and cover an estimated 2.1 million people, representing approximately 21% of Hungary s population. Outside our historical concession areas, we believe that we are well positioned to continue to grow our revenue and market share using our fully owned state-of-the-art backbone network, our experienced sales force and our comprehensive portfolio of services. Our extensive fiber optic backbone network (comprising approximately 8,500 route kilometers in Hungary) provides us with nationwide and international reach. It allows business and wholesale customers in particular, to be connected directly to our network to access voice, data and Internet services.

Outside Hungary, we are the leading independent provider of wholesale data and capacity services throughout Central and South Eastern Europe. Our regional fiber optic backbone network comprises 19,000 route kilometers of fiber with 40 points of presence in 14 countries. Our clients include the incumbent telecommunications services providers in these countries as well as alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers. We also provide services to telecommunication services providers from Western Europe and the United States, enabling them to meet the regional demands of their corporate clients.

We operate in the following four markets:

Mass Market Voice. We provide a full range of basic and value-added voice-related services to our residential and small office and home office (SoHo) customers both inside and outside our historical concession areas. These services include local, national and international calling, voicemail, fax, Integrated Services Digital Network (ISDN) and directory assistance services.

Mass Market Internet. We provide Digital Subscriber Line (DSL) broadband and dial-up Internet services to our Mass Market customers nationwide. Since June 2008, we have also provided IPTV (TV delivered over DSL broadband connections) services to customers in most of our historical concession areas, and plan to introduce these services in our remaining historical concession areas in February.

Business. We provide fixed line voice, data Internet and server hosting services to business (comprised of small and medium-sized enterprises (SMEs) and larger corporations), government and other institutional customers nationwide.

Wholesale. We provide voice, data and network capacity services on a wholesale basis to a number of other telecommunications and Internet service providers both within Hungary and across the Central and South Eastern Europe region.

We have a diversified revenue and cash flow base, reducing our susceptibility to market pressures in any particular market segment. For the nine months ended September 30, 2008, we derived approximately 30% of our revenue from Mass Market Voice, 10% from Mass Market Internet, 27% from Business and 33% from Wholesale.

As of September 30, 2008, we had approximately 389,000 telephone lines connected to our network within our historical concession areas to service Mass Market Voice customers and we had approximately 526,000 Mass Market Voice customers outside our historical concession areas connected through Carrier Pre-Selection (CPS), Carrier Selection (CS) or Local Loop Unbundling (LLU). This is compared to December 31, 2007 when we had approximately 405,000 telephone lines in service within our historical concession areas to service Mass Market Voice customers and approximately 662,000 active Mass Market Voice customers connected through indirect access outside our historical concession areas. The decrease in the number of active Mass Market Voice customers outside our historical concession areas from 662,000 as of December 31, 2007 to 526,000 as of September 30, 2008 is due to churn of low value CS customers.

As of September 30, 2008, we had approximately 135,000 Mass Market broadband DSL customers, of which approximately 109,000 were connected directly to our networks within our historical concession areas and 26,000 were outside our historical concession areas and serviced principally by our purchasing wholesale DSL services from the incumbent local telephone operator, primarily T-Com. T-Com is the brand name under which Magyar Telekom Plc. operates its fixed line telecommunications business in Hungary. The number of IPTV customers increased to 1,380 as of September 30, 2008 since the beginning of May, when we introduced this service.

As of September 30, 2008, we had approximately 47,000 voice telephone lines connecting business customers within our historical concession areas, similar to the approximately 47,000 lines at 2007 year end. Outside our historical concession areas, we had approximately 59,000 direct access voice telephone lines and approximately 12,000 indirect access voice telephone lines as of September 30, 2008, compared to approximately 58,000 direct access voice telephone lines and approximately 13,000 indirect access voice telephone lines as of December 31, 2007. As of September 30, 2008, we had approximately 18,000 DSL lines and approximately 15,000 leased lines compared to approximately 16,000 DSL lines and approximately 12,000 leased lines at 2007 year end.

In the Wholesale market, we had over 570 customers as of September 30, 2008, which customers include telecommunication services providers from Western Europe and the United States, incumbent telecommunications services providers, alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers.

Our current business is a result of the recent combination of Invitel, Memorex and the Hungarian business of Tele2 with our existing business. On April 27, 2007, we acquired Invitel for a total consideration, including the assumption of net indebtedness on closing, of 470 million (approximately $639 million at closing). Invitel was the second largest fixed line telecommunications services provider in Hungary and the incumbent provider of fixed line telecommunications services in nine historical concession areas while we were the third largest fixed line telecommunications services provider in Hungary and the incumbent provider of fixed line telecommunications services in five historical concession areas. We are now better able to compete against T-Com, the former national monopoly, which is the largest fixed line telecommunications services provider in Hungary. We have realized approximately 17 million (approximately $21.8 million at current exchange rates) in annualized operating expense synergies as a result of the Invitel Acquisition at the end of 2008. This exceeds our original estimate of 14 million (approximately $18.0 million at current exchange rates) that we estimated when we announced that we had agreed to purchase Invitel in January 2007.

We were providing and marketing services in Hungary through our Hungarian subsidiaries Hungarotel, PanTel and PanTel Technocom and internationally through PanTel, while Invitel was providing and marketing services in Hungary through Invitel and Euroweb Hungary and internationally through Invitel. Invitel was also providing and marketing Internet and data services to business customers in Romania through its Romanian subsidiary, Euroweb Romania. Following the Invitel Acquisition, we decided to market all of our products and services under a single unified brand name Invitel (except in Romania, where we maintain the Euroweb brand).

On October 18, 2007, we purchased the Hungarian business of Tele2, the Swedish-based alternative telecom operator, by purchasing the entire equity interest in Tele2 s Hungarian subsidiary (Tele2 Hungary) for 4 million in cash (approximately $5.7 million at closing). Tele2 Hungary (renamed Invitel Telecom Kft.) provides Carrier Selection and Carrier Pre-Selection fixed line telecommunications services to the Mass Market as a reseller using the network facilities of other operators pursuant to regulated resale agreements.

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As of January 1, 2008, we completed the legal consolidation of some of our Hungarian operating subsidiaries. Hungarotel, PanTel and Euroweb Hungary have merged into Invitel. This merger legally completed the consolidation process and we now market our products principally under a single unified brand name Invitel. With the legal merger complete, we are benefiting from improved efficiencies and reduced administrative costs.

We had $385 million in total revenue in 2007. Including Invitel s and Tele2 Hungary s full year 2007 revenue (including pre-closing revenue), we had $505 million in pro-forma total revenue in 2007.

On March 5, 2008, we acquired 95.7% of the outstanding equity in Austrian-based Memorex Telex Communication AG (the Memorex Acquisition). The total purchase consideration for Memorex (subsequently re-named Invitel International AG) was 102.9 million (approximately $156.4 million at closing) including the assumption of debt and transaction costs and other directly related expenses. On August 28, 2008 we also acquired the remaining 4.3% of Memorex from the minority shareholders in Memorex, which gave us 100% ownership of the equity in Memorex. The final purchase price for the Memorex minority interest was 1.9 million (approximately $2.9 million at closing). Memorex was one of the leading alternative telecommunications providers in the Central and South Eastern European region. Memorex provides wholesale data and capacity services to leading global telecommunications providers and Internet companies between a number of countries in the region including Austria, Bulgaria, the Czech Republic, Italy, Romania, Slovakia, Turkey, and Ukraine. Memorex operated over 12,500 route kilometers of fiber optic cable in the region which enabled it to provide high quality wholesale services to large international carriers. Memorex invested approximately 54 million (approximately $69.5 million at current exchange rates) in its network over the two years prior to the acquisition. Following the completion of the Memorex Acquisition, we are the leading provider of wholesale capacity and data services in Central and South Eastern Europe.

Our goal is to provide customers with good value telecommunications services coupled with exceptional service and to be a cost efficient telecommunications service provider. Our primary risk is our ability to retain existing customers and attract new customers in a competitive market. Our success depends upon our operating and marketing strategies, as well as market acceptance of our telecommunications services within Hungary and the region.

We will continue to explore other strategic merger, acquisition or alliance opportunities. In addition, we will also continuously review our service portfolio to identify service opportunities that can enhance our competitive position.

Our principal office in Hungary is located at Puskas Tivadar u. 8-10 u. 8 10, H-2040 Budaörs; telephone +34 (1) 801-1500. Our United States office is located at 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034; telephone +1 (206) 654-0204. Our web site address is http://www.htcc.hu and it contains a link to our filings with the SEC.

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On the following pages, you will find: (i) a map showing Hungary s location within Europe; (ii) a diagram showing our historical concessions areas in Hungary, along with our Hungarian telecommunications backbone network; (iii) a diagram showing our international wholesale network; and (iv) a diagram showing our current corporate structure.

Hungary and Surrounding Countries

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HTCC s Hungarian Telecommunications Backbone Network and Historical Concession Areas

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International Wholesale Network

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Organizational Structure of the HTCC group as of January 8, 2009.

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Company History

We acquired the right to operate fixed line telecommunications networks in five historical concession areas from the Hungarian government and purchased the existing telecommunications infrastructure, including 61,400 telephone lines, from T-Com in 1995 and 1996. The acquired telecommunications infrastructure was somewhat antiquated (manual exchanges and analog lines). We overhauled the existing infrastructure with a major capital expenditures program. The results of this investment are expanded and modern telecommunications networks in these five historical concession areas deploying Siemens and Ericsson technology. We were able to provide connections to our customers who had waited years (in some cases, for over 20 years) for telephone service and offer modern telecommunications services beyond traditional voice services to all of our customers. We now own and operate all public telephone exchanges and local loop telecommunications network facilities in these five historical concession areas and were, until the expiration of our exclusivity rights in 2002, the sole provider of non-cellular local voice telephone services in such areas. Until recently, we operated and marketed this business through our Hungarian subsidiary Hungarotel, which was merged into Invitel as of January 1, 2008. The five Hungarotel historical concession areas cover a population of approximately 668,000 with approximately 280,000 residences.

The PanTel Acquisition

We purchased an initial 25% interest in PanTel in November 2004 and acquired the remaining 75% from Royal KPN NV, the Dutch telecommunications provider (KPN), on February 28, 2005. PanTel was Hungary s leading alternative telecommunications provider with a nationwide fiber optic backbone telecommunications network linking every county in Hungary. PanTel provided voice, data and Internet services to businesses throughout Hungary in competition with other telecommunications services providers including T-Com. PanTel s subsidiary, PanTel Technocom, provided telecommunications services to MOL (the Hungarian oil company) and operated and maintained various parts of MOL s telecommunications network.

PanTel also used its network capacity to transport voice, data and Internet traffic on a wholesale basis for other telecommunications services providers and Internet Service Providers in Hungary. PanTel s network also crossed Hungary s borders and, using a combination of owned and leased capacity, extended PanTel s wholesale services into other countries of the Central and South Eastern European region. As of January 1, 2008, we merged PanTel into Invitel and changed PanTel Technocom s name to Invitel Technocom.

PanTel was founded in 1998 by KPN, MÀV Rt. (MAV, the Hungarian state railroad company) and KFKI Investment Ltd. (a Hungarian entity) to compete with T-Com, the former State-controlled telecommunications company which had a government-protected monopoly in the Hungarian domestic and international long distance fixed line voice telecommunications market. Following a tender process, the Hungarian government awarded PanTel licenses to provide data transmission and other services that were not subject to T-Com s government-protected monopoly rights for long distance voice services. In 1999, PanTel began building, along MAV s railroad rights-of-way, what became a 3,700 kilometer long state-of-the-art fiber optic backbone telecommunications network. PanTel also built metropolitan area networks, including a metropolitan area network covering Budapest, which connect to PanTel s backbone network. PanTel also acquired a license for the 3.5 GHz wireless frequency block.

Until 2002, PanTel was only allowed to offer data and Voice over IP (VoIP) services in Hungary. When the Hungarian government ended T-Com s monopoly rights for long distance voice services, PanTel was able to compete with T-Com and offer all modern telecommunications services including traditional voice services.

The Invitel Acquisition

In 2007 we combined our operations with Invitel following the acquisition of Invitel Távközlesi Zrt. (Invitel), a Hungarian company, on April 27, 2007, by way of the acquisition of the shares of Invitel s parent company, Matel Holdings N.V.

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Invitel began its operations in Hungary in 1994. Invitel initially owned and operated two Hungarian telecommunication companies which had the right to operate in four historical concession areas in the Csongrad and Pest counties. In 1996 and 1997, Invitel developed its network infrastructure within those areas and in 1998 established a joint venture for the provision of data services in and out of its historical concession areas, especially in Budapest. In 1999, Invitel acquired Jásztel ZRt., a regional telephone operating company operating in the Jászberény historical concession area (east of Budapest). In the same year, Invitel also acquired Corvin Telecom Távközlesi Zrt., a Hungarian company, which was an optical network operator specializing in data transmission which allowed Invitel to further the development of its Budapest joint venture. In 2000, Invitel acquired four additional historical concession areas (Dunaújváros, Esztergom, Veszprém and Szigetszentmiklós) through the acquisition of United Telecom International B.V. from Alcatel of France.

In 2000 and 2001, Invitel developed its national telecommunications backbone network to connect major centers outside the Invitel historical concession areas as well as metropolitan area networks, particularly in Budapest. In 2001, Invitel was granted one of five national 3.5 GHz licences over which it deployed a point-to-multipoint microwave network. In the same year, Invitel also began its Internet access activity nationwide.

Utilizing its Hungarian national backbone and its metropolitan networks, Invitel provided wholesale domestic and international voice and data transit services to Hungarian and international telecommunications services providers. Invitel was among the first telecom operators to provide services in and out of Serbia, both in terms of data capacity and voice traffic. Invitel also generated significant revenue leasing its fiber backbone towards Romania.

On May 23, 2006, Invitel acquired Euroweb International Corporation s two Internet and telecom related operating subsidiaries, Euroweb Hungary and Euroweb Romania. Euroweb provided Internet access and additional value-added services including international/national leased line and voice services primarily to Business customers.

This proxy statement/prospectus includes the Audited Financial Statements of Matel Holdings N.V. (Invitel s parent company) for the years ended December 31, 2006 and 2005, beginning on page F-130.

The Tele2 Hungary Acquisition

On October 18, 2007 we purchased the Hungarian business of Tele2 Hungary, the Swedish-based alternative telecom operator, by purchasing the entire equity interests in Tele2 Hungary s Hungarian subsidiary for 4 million in cash (approximately $5.7 million at closing). Tele2 Hungary provided Carrier Selection and Carrier Pre-Selection fixed line telecommunications services to the Mass Market as a reseller using the network facilities of other operators pursuant to regulated resale agreements. At closing Tele2 Hungary (since renamed Invitel Telecom Kft.) had approximately 460,000 active Mass Market customers.

The Memorex Acquisition

On March 5, 2008 we acquired 95.7% of the outstanding equity in Austrian-based Memorex Telex Communications AG (Memorex). On August 28, 2008 we also acquired the remaining 4.3% stake of Memorex from the minority shareholders in Memorex, which gave us 100% ownership of the equity in Memorex. The final purchase price for the Memorex minority interest was 1.9 million (approximately $2.9 million at closing). Memorex (now re-named Invitel International AG) was one of the leading alternative telecommunications providers in the Central and South Eastern European region. Memorex provided wholesale data and capacity services to leading global telecommunications providers and Internet companies between 14 countries in the region including Austria, Bulgaria, the Czech Republic, Italy, Romania, Slovakia, Turkey, and Ukraine. Memorex operated over 12,500 route kilometers of fiber optic cable in the region which enabled it to provide high quality wholesale services to large international carriers. This proxy statement/prospectus includes the Audited Consolidated Financial Statements of Memorex for the nine-month period ended December 31, 2007 and the Unaudited Pro Forma Condensed Statement of Operations as of December 31, 2007, beginning on page F-121.

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Strategy

Invitel Denmark intends to continue the strategy pursued by HTCC Delaware, which is based on the following objectives:

Fully integrating the operations of Invitel and maximizing the potential synergies from Invitel and from the Memorex Acquisition.

We intend to continue to maximize the synergy benefits resulting from the Invitel Acquisition. We have realized approximately 17 million (approximately $21.8 million at current exchange rates) in annualized operating expense synergies due to the Invitel Acquisition at the end of 2008. We have derived significant synergies as a result of integrating Invitel s and our existing operations, mainly from the reduction of headcount, the elimination of overlapping operations, the integration of IT systems, and the optimization of the combined networks. Further, we have also realized marketing synergies through the integration of the Invitel, Hungarotel and PanTel businesses under one unified brand Invitel. We have also realized capital expenditure synergies as a result of the reduction of duplicate investments and the greater purchasing power of a larger company. We have also reduced our need to purchase network capacity from third party network operators.

Following the acquisition of Memorex, which has been renamed Invitel International AG, we are the leading provider of wholesale data and capacity services in the Central and South Eastern European market with a particularly strong presence in Turkey. In addition, because of our presence in the Wholesale market in the region prior to the acquisition, we intend to benefit from cost synergies, with expected annual ongoing operating cost savings of 3 million (approximately $3.9 million at current exchange rates) and capital expenditure synergies of approximately 2.4 million (approximately $3.1 million at current exchange rates) within the first two years.

Maximizing voice revenue and cash flow in our historical concession areas.

We intend to maximize the revenue and cash flow derived from the provision of voice services within our historical concession areas through the continued migration of customers from traffic-based to subscription-based packages with higher monthly fees and lower usage charges, the ongoing introduction of targeted, innovative and flexible service offerings and by continuously improving our customer service. In addition, we have focused on, and will continue focusing on, formulating effective strategies to retain customers and defend against churn in our historical concession areas resulting from competition from operators using Carrier Selection and Carrier Pre-Selection, as well as from cable television operators. Examples of these strategies include:

- Pricing our service offerings to limit the incentive to switch to a competitor;
- Offering new commercial packages with a higher monthly fee but with local and off-peak calls included in the base subscription or with low call charges in all directions or various combinations of bundled minutes;
- Launching win-back activities aimed at Carrier Pre-Selection, Carrier Selection and cable users with new promotional offers;
- Establishing and developing loyalty programs, which will offer exclusive benefits to our customers;
- Offering attractive bundled packages (voice and Internet and IPTV) to counter bundled service offerings by cable television operators; and
- Conducting programs to proactively migrate existing customers to more attractive packages via our telesales channels in combination with targeted promotional campaigns.

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Capitalizing on growth opportunities for Mass Market DSL services, both in and outside our historical concession areas.

We believe that there is potential for continued growth of DSL services in Hungary due to market growth and the expected eventual convergence of personal computer and Internet penetration with Western European levels. Furthermore, DSL continues to maintain a higher market share than cable for broadband Internet access in Hungary. Broadband Internet usage has grown significantly in Hungary with penetration estimated to have increased from 0.7% of the households in Hungary as of December 31, 2002 to an estimated 38% as of June 30, 2008. In comparison, broadband Internet penetration in Western Europe was estimated at approximately 54% of households as of June 30, 2008.

We intend to continue to capitalize on the above trend by continuing to grow our DSL customer base both inside and outside our historical concession areas. We grew our DSL business faster than the total DSL market in 2007 and again in the first half of 2008. The growth in our DSL customer base is a key business priority as we believe it will increase line retention and stimulate fixed line revenue growth. For example, we have acquired the majority of our new fixed line contracts through bundled voice/DSL offerings. We intend to continue to grow our DSL business principally through the following initiatives:

- The recent introduction of IPTV to enable us to offer triple play (telephone, broadband Internet and TV) and dual play packages (broadband Internet and TV) initially in our historical concession areas;

- The use of unbundled local loops in T-Com s area to offer increasingly attractive and profitable higher speed Internet and bundled voice/Internet services;

- The use of WiMAX technology (and our existing 3.5Ghz licences) to provide broadband access in those in historical concession areas where there is no copper network today;

- Maintaining a broad mix of distribution channels such as our own and outsourced telesales, owned shops, third party channels and points of sale, and agent networks;

- Quarterly promotions supported by targeted television, radio and billboard advertising campaigns; and

- Developing innovative bundled packages with progressively increased broadband access speeds.

Expanding our Business revenue and market share nationwide.

We will continue to focus on expanding our business customer base and growing our share of the national business to business (B2B) market. We intend to capitalize on our extensive national backbone network, which means that in many cases business customers can be connected directly to our network, resulting in higher margins and more competitive pricing through lower access costs. Up until now, business customers have been connected directly to our backbone network mainly through the use of metropolitan fiber, line-of-site microwave, or leased circuits. Increasingly, in the future, we plan to add new customers through local loop unbundling, or the use of WiMAX technology. Lower value/volume business customers outside our historical concession areas are served through indirect methods such as Carrier Pre-Selection voice, and by buying DSL wholesale capacity from the incumbent. We plan to grow our revenue and increase our share in the business market through the following actions:

- Focusing principally on new customer acquisitions in the small and medium enterprises market through attractively priced, easily understood, voice, data, Internet and value added services, sold through an efficient direct sales organization and complemented by high quality customer care;

Capitalizing on our traditional strength in the high-end corporate market and utilizing our extensive infrastructure, to selectively pursue a number of larger new corporate business customers;

Retaining existing customers through effective account management, attractive renewal packages and continued customer care enhancement, such as the recent introduction of our Top 100 program;

Taking advantage of more extensive local loop unbundling and WiMAX opportunities to enhance service offerings and reduce access costs outside our historical concession areas;

Cross selling new services to existing customers; and

The introduction of a broader range of value added services such as server hosting, which we have successfully provided.

Continuing to leverage our modern national and regional backbone networks and our position as the number one independent data and capacity services carrier in the Central and South Eastern European region to continue to grow our revenue in the Wholesale market.

We intend to continue to leverage our modern backbone telecommunications network in the wholesale market in Hungary, selling capacity on our network to other service providers for the national and international transmission of their voice, data and Internet traffic. We believe that our ability to offer bandwidth capacity at competitive prices provides us with a competitive edge in the Wholesale market.

After the successful acquisition of Memorex, we have become the leading independent, infrastructure based wholesale provider of data and capacity services in Central and South-Eastern Europe. We have an extensive regional network with points of presence in Budapest and more than 40 other major urban centers across 14 countries in Central and South Eastern Europe via a fiber network of 19,000 route kilometers. The regional market is expected to continue to grow, being driven by growth in Internet traffic, general economic development and increasing mobile presentation. We believe that we are ideally positioned to take advantage of this growth, based on our leadership position and being strategically located between Central and South Eastern Europe and Western Europe.

Continuing to identify and evaluate further opportunities for consolidation.

We believe that we are well positioned to participate in any further consolidation of the Hungarian telecommunications sector as a result of our market position as the number one alternative fixed line operator in Hungary, our significant understanding of the competitive environment in Hungary, both as an incumbent and as an alternative operator, and our solid track record of improving efficiency, achieving operating cost savings and realizing synergies from bolt-on acquisitions.

Hungary

Hungary is located in Central Europe bordering on Austria, Slovenia, Croatia, Serbia, Romania, Ukraine and Slovakia. It has approximately 10 million inhabitants, approximately 1.8 million of whom reside in Hungary s capital, Budapest.

For nearly 40 years, Hungary had a one-party government and a centrally planned economy. Democracy was restored and the foundations of a market economy were built between 1988 and 1990. Free elections were held in 1990. Today, Hungary has a parliamentary democracy with a single-chamber National Assembly. As a result of a large scale privatization effort, private enterprise has become the basis of the Hungarian economy.

Since 1990, foreign direct investment into Hungary has been approximately 65 billion. Hungary, Poland and the Czech Republic are the recipients of more than 50% of the total foreign direct investment into the former communist countries in the region. Since 1995, the Hungarian government has embarked on an economic stabilization effort aimed at putting the economy on a sustainable path of low-inflation growth. The unemployment rate has decreased from 10.3% in 1995 to 7.4% at December 31, 2007.

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On May 1, 2004, Hungary joined the E.U., together with nine other countries. Hungary plans to adopt the euro as its currency between 2011 and 2014, although no official deadline has been declared by the government. Hungary joined the North Atlantic Treaty Organization in 1999. Hungary is also a member of the Organization for Economic Co-operation and Development and the World Trade Organization.

In addition to a significant budget deficit, in recent years the Hungarian economy has been marked by a large current account deficit, rapid credit growth and a reliance of Hungarian businesses and consumers on foreign currency loans. These factors have left Hungary especially vulnerable to a financial crisis.

On October 22, 2008, the National Bank of Hungary raised its base interest rate from 8.5% to 11.5% in an effort to support the forint foreign exchange rate. At the end of that month, the Hungarian government adopted a set of policies agreed upon with the E.U., the European Central Bank and the International Monetary Fund to bolster the Hungarian economy s near-term stability and improve its long-term growth potential by ensuring fiscal sustainability and strengthening the financial sector. In addition, the International Monetary Fund extended Hungary significant financial assistance.

The following table sets out Hungary s annual GDP growth and inflation rates since 2003.

	Annual GDP Growth Rate (%)	Annual Inflation Rate (%)
2003	3.4	4.7
2004	5.2	6.8
2005	4.1	3.6
2006	3.9	3.9
2007	1.0	8.5
2008	0.8%*	6.1%

* *Figure for the first three quarters of 2008.*

Hungarian Telecommunications Industry

In 1989, the Hungarian state owned Post, Telegraph and Telephone was divided into three separate companies: the Hungarian Broadcasting Company, the Hungarian Post Office and Magyar Távközlési Vállalat (the former Hungarian Telecommunications Operator which was privatized in 1992 and is now Magyar Telekom Plc. and operates its fixed line telecommunications business in Hungary under the T-Com brand name, T-Com).

As a result of Act LXXII of 1992 on Telecommunications (the 1992 Telecommunications Act), the Hungarian government divided Hungary in 1993 into 54 geographically defined concession areas for local public fixed line voice telephony services (each, a historical concession area). Although the geographic concession areas set forth by the 1992 Telecommunications Act were repealed by the 2001 Communications Act, the currently operating telecommunications services providers are still the primary operators in those geographic areas of Hungary, which previously constituted their historical concession areas as defined by the 1992 Telecommunications Act.

In August 1993, the Ministry of Transport, Telecommunications and Water Management (the Ministry) announced an international tender for the right to provide international and domestic long distance telephony services throughout Hungary and to provide local public fixed line voice telephony services in 29 out of the 54 historical concession areas, including Budapest. The Ministry selected T-Com as the winner of this tender.

In September 1993, the Ministry announced a second competitive bid for the exclusive right to provide local public fixed line voice telephony services in the remaining 25 of the 54 historical concession areas. The Ministry awarded 23 out of the 25 concession areas offered in the second tender. The rights to operate 15 of those historical concession areas were distributed among 12 local telephone operators (each a Local Telephone

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Operator or LTO). T-Com, either directly or through predecessor companies, was awarded eight historical concession areas and was additionally chosen as the default provider in the two concession areas where there was no successful bidder. Each of the LTOs (including the company and its predecessors) received 25-year licenses to provide local basic telephony services with exclusive rights in their respective historical concession areas until 2002. Each of the LTOs, other than T-Com, negotiated a separate asset purchase agreement with T-Com to acquire each historical concession area s existing telephony plant and equipment.

The liberalization of the fixed line telecommunications market in Hungary could only be launched following the expiration of T-Com s exclusive right to provide international and domestic long distance telephony services in December 2001 and the expiration of each LTO s exclusive concession rights in their respective historical concession areas in 2002. In connection with Hungary s accession into the E.U., in order to transpose the E.U. regulatory framework into the Hungarian legal system, the 2004 Communications Act was adopted and restructured the regulatory authorities responsible for the supervision of the liberalized telecommunications market, with the primary supervisory authority being the National Communications Authority. See -Hungarian Regulatory Environment.

Hungarian Fixed Line Telecommunications Industry Today

We are the second largest incumbent fixed line telecommunications operator with 14 of the above mentioned historical concession areas. In addition to us, the two other incumbent fixed line telecommunications services providers operating in Hungary today are T-Com and Monortel:

T-Com: T-Com is the largest provider of fixed line telecommunications services in Hungary. T-Com is the successor company of the former monopoly provider of long distance and international telephony services in Hungary, and the provider of local telephony services in 39 historical concession areas. T-Com has an estimated 74% national residential market share and an estimated 70% national business market share. T-Com is listed on both the Budapest Stock Exchange and the New York Stock Exchange (its parent company is Deutsche Telekom AG, which owns 59.5% of T-Com).

Monortel: Monortel, an affiliate of UPC Telekom, provides local telephony services in one historical concession area. Monortel has an estimated 2% national residential market share and an estimated 1% national business market share.

The Hungarian Telecommunications Markets

Fixed Line Voice

The fixed line telecommunications market in Hungary has been characterized by a slow decline in the number of subscriber lines in recent years. The penetration of fixed lines has fallen from a peak of approximately 38% in 2000 to approximately 31% as of September 30, 2008 (expressed as a proportion of the overall population), primarily as a result of the rapid increase in mobile penetration from approximately 10% of the population in 1998 to over 100% as of December 31, 2007 (and the resulting migration of both residential and Business traffic from fixed to mobile networks) as well as increased competition from cable television operators (offering triple play packages comprised of television, Internet and voice services). The fixed line penetration per household as of September 30, 2008 was approximately 62%. However, in terms of subscribers, the contraction of the fixed line market has slowed as the mobile penetration growth has also slowed and broadband penetration has increased. The number of fixed lines decreased by 3% from the end of 2006 to the end of 2007 while the increase in the mobile penetration rate was 7.8% from the end of 2006 to the end of 2007.

Internet

The most significant fixed line Internet service providers in Hungary in addition to us are T-Online (part of T-Com), GTS-Datanet, and Enternet, each providing both residential (dial-up and DSL) and Business (DSL and leased line) Internet services. Incumbent fixed line operators also benefit from the telecommunications traffic generated by dial-up customers and from providing the DSL wholesale services to reseller Internet Service Providers. As an alternative to DSL based broadband services, cable television operators (subject to the technical conditions of their networks) make available broadband Internet access services through cable modems connected to the cable television network. Cable television based broadband access offers substantially the same speed and quality as the DSL technology, for a price comparable to DSL prices. Both T-Com (through its cable television operator, T-Kábel) and UPC, the two largest cable television operators, offer broadband Internet access services in certain parts of our historical concession areas. As of the end of September 2008, the percentage of the Mass Market broadband Internet access market attributable to DSL was approximately 55% with the remaining 45% attributable to cable broadband.

Data

The provision of data services has been liberalized in Hungary since 1992, with no regulatory barriers to entering into the market. This factor, together with Hungary s expected economic growth and central location, attracted significant investment into the data communications sector. Not only did incumbent fixed line operators expand their existing networks but alternative service providers emerged and established backbone and access networks (the part of the telecommunications network that connects the end users to the backbone), providing both wholesale broadband data transmission and data services (including voice over IP) primarily targeting the Business market in Budapest and in large business centers in other parts of Hungary. Alternative service providers typically benefit from the combined use of existing third party incumbent networks and state of the art new networks (typically fiber optical based) and agreements with international telecommunications operators. Currently, the most important providers of data transmission services in Hungary other than us are T-Com and GTS Datanet.

Mobile

Hungary was the first country in Central and Eastern Europe to introduce public mobile telecommunications services. Currently there are three mobile operators providing mobile voice telephone services in Hungary: T-Mobile (part of T-Com); Pannon GSM (a Telenor affiliate operating since 1993); and Vodafone (operating since 1999). These mobile operators provide GSM services in both the 900 and 1800 MHz band and, pursuant to licenses awarded by the government in 2004, 3G Universal Mobile Telecommunications System (UMTS) services.

The mobile communications market in Hungary is highly competitive and characterized by successive promotional campaigns and price competition. Historically, mobile telephony, due in part to limited fixed line penetration in the 1980s and early 1990s, increased rapidly in penetration in Hungary which has led to a mobile penetration rate which is significantly higher than that of fixed lines. As of September 30, 2008, mobile penetration was over 117% as compared with a fixed line penetration rate of 31% (in each case expressed as a proportion of the population) and as compared with a fixed line household penetration of 62%. Mobile operators have also successfully introduced new tariff structures for voice (such as pre-payment). The financial success of mobile operators has been further supported by the relatively high prices which they have been able to charge to fixed line operators for terminating voice calls originated on fixed line networks on their own networks.

Currently, there are no virtual mobile network operators in Hungary and it is unclear at present whether future regulations would require existing mobile operators to open their networks for this purpose.

Competition

Our most significant fixed line competitor is T-Com, the largest provider of fixed line telecommunications services in Hungary, with its historical concession areas covering an estimated 77% of Hungary s population. We also compete with Hungarian alternative telecommunications services providers such as GTS-Datanet, Hungarian cable TV operators and, to a lesser extent, with foreign telecommunications services providers operating in Hungary such as BT plc.

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Mass Market Voice

In the Mass Market Voice market in our historical concession areas, the competitive positioning is mainly based on quality of service, perceived value added of bundled product offerings, and price. Outside our historical concession areas, price is the main basis for competition.

In our historical concession areas, our competitors may offer services on a Carrier Selection basis, which requires the subscriber to key in a prefix before dialing a telephone number, or on a Carrier Pre-Selection basis, which automatically routes all of a subscriber s outgoing calls to a competitor s network without the need for the use of a prefix. Outside our historical concession areas, we compete with the local incumbent network operators as well as with other alternative operators. We have focused mainly on providing Carrier Pre-Selection based voice services outside our historical concession areas, as Carrier Pre-Selection ensures a higher quality and sustainability of revenues than Carrier Selection.

We also compete with mobile network operators. The mobile subscriber base in Hungary has grown very rapidly since the 1990s, partly due to low pre-existing levels of fixed line penetration. As a result, the mobile penetration rate in Hungary is significantly over 100% of the population (there were over 10 million active mobile subscriptions according to the National Communications Authority report of December 31, 2007), and the number of mobile subscriptions is more than three times the number of fixed lines (3.25 million fixed lines according to the National Communications Authority report of December 31, 2007). Mobile telecommunications services have contributed to the decline of the fixed line subscriber base and led to fixed-to-mobile churn.

We have seen increased competition from cable television operators in the Mass Market Voice market. Under current regulations, cable companies can cross-finance services (TV, Internet and Voice services) in their product offers, enabling them to aggressively price and market the voice portion of their product offering. The cable television operators unique selling points are their low monthly fees for voice and free calls inside their own network. However, the Hungarian cable market is very fragmented and impacts our business differently in each of our historical concession areas. The principle cable television operators we compete with in our Mass Market Voice market are UPC and T-Kábel (the cable arm of T-Com), who have introduced triple play solutions in our historical concession areas.

We also face increased competition from providers of VoIP services such as Skype. According to the latest survey data, approximately 7% of residential customers and 11% of business customers in Hungary use VoIP services. We are also marketing a VoIP service.

Mass Market Internet

We compete in the Internet services market with ISPs throughout Hungary, including T-Online (T-Com s Internet Service Provider) and GTS-Datanet. Competition in this market is primarily on the basis of price and brand.

In our historical concession areas, we are able to offer DSL services to substantially all of our addressable households, which gives us a very strong competitive position in these areas. Since June 2008 we have also been offering IPTV services over broadband DSL to customers in most of our historical concession areas as part of a triple play or dual play package. We plan to introduce IPTV services in our remaining historical concession areas in February 2009. Outside of our historical concession areas, we provide DSL based broadband Internet services principally by buying the service on a wholesale basis from the incumbent operators, primarily T-Com. In some cases, we provide this service through Local Loop Unbundling and we expect the use of this technology to increase in the future.

We are experiencing competition from cable television network operators, such as UPC, which can utilize their cable networks to provide broadband Internet services and Voice over IP. Currently, an estimated 55% of Hungarian households subscribe to cable television but this figure is lower in our historical concession

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areas where the penetration is estimated to be only 40% to 45%. As many cable television network operators already offer broadband services, cable broadband may pose a more significant threat in the longer term. In addition, the possibility of future competition from the development of digital terrestrial television services in Hungary may force cable television operators to shift the focus of their business to non-television markets such as cable broadband and voice services.

Business

Our main fixed line competitors in the Business market are T-Com and GTS. The basis of competition includes network reach, proximity to customer premises, price and customer service. Operators who rent networks from the incumbent provider of the area cannot compete as effectively as those with network presence in the area already. Margin per customer is closely correlated with how much traffic is carried or how much capacity is provided on the operators own network infrastructure.

We believe that our national network gives us a relatively strong competitive position when selling voice, data and Internet access solutions to Business customers outside our historical concession areas. In most urban centers, we have a point of presence on our own fiber optic backbone network and, therefore, are able to connect customers directly to our backbone network using our metropolitan fiber, line of sight microwave, Local Loop Unbundling or leased lines. We are now deploying WiMAX technology in certain areas as another method of directly connecting business customers to our backbone network.

We also compete with the mobile operators who target business customers, which has led to fixed-to-mobile substitution in the Business voice market.

Wholesale

Inside our historical concession areas, we currently experience limited competition for Wholesale services because these services are typically provided by the primary incumbent local telephone operator. Outside our historical concession areas in Hungary, our competition is comprised primarily of the incumbent operators, mainly T-Com, and other international providers. In the international portion of the Wholesale market, the Central and South Eastern European international wholesale services market is becoming increasingly more competitive as more networks are built by international carriers, which is increasing the availability of capacity and dark fiber. Our competitors include the incumbent telecommunications services providers in the various countries as well as the alternative telecommunications services providers such as GTS and Interoute. While the incumbent telecommunications services providers generally have stronger national coverage in their home countries, our position as a complete supplier of wholesale services across the geographic region, along with our focus on speed and flexibility, gives us a competitive advantage.

Hungarian Regulatory Environment

The current regulation of telecommunications services in Hungary is based on the 2004 Communications Act, which came into effect on January 1, 2004 and resulted in far reaching changes within the Hungarian telecommunications sector. The 2004 Communications Act was enacted to facilitate E.U. harmonization and promote competition.

The 2004 Communications Act fundamentally changed the structure of the regulatory authorities responsible for supervision of the liberalized telecommunications market by establishing the National Communications Authority (the NHH) as the top supervisory authority in Hungary. The NHH reports to the Minister of Transport, Telecommunications and Energy (the Minister) and the Hungarian government.

Unlike previous laws, the 2004 Communications Act adopted the general principle, accepted throughout the E.U., that the NHH may only intervene in the telecommunications sector by issuing certain forward-looking regulations, if competition in a specific telecommunications market is, and is likely to remain, ineffective in the absence of a direct regulatory intervention. The NHH has the power to impose certain obligations upon telecommunications services providers on the retail market, such as price caps (except for Universal Service).

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The current rules governing the telecommunications sector in the E.U. were put in place in 2002. In November 2007, the European Commission published a proposal package regarding the amendment of the 2002 regulatory framework, with the aim to further promote the single European market, modernize existing regulation and increase consumer benefits. The proposal has since been and currently is being debated in the European Parliament and by E.U. member state governments in the Council. Upon adoption at the E.U. level, the revised rules must be incorporated into national law before taking effect. The European Commission expects the new framework to be in place by 2010.

Market Analysis and Regulatory Obligations

Pursuant to the 2004 Communications Act, the NHH is required to conduct periodic market analyses to determine, in line with conventional competition law principles, whether a certain market is effectively competitive and, if not, to designate operators with significant market power (SMP) and impose certain forward-looking obligations on them.

The 2004 Communications Act provides a list of obligations, at least one of which must be imposed on operators deemed as having SMP. These obligations are:

- transparency;
- non-discrimination;
- accounting separation;
- access to specific network facilities; and
- cost orientation and price control.

The NHH has completed a market analysis with respect to 17 out of the 18 electronic communication markets defined in Decree 16/2004 issued by the Ministry of Informatics and Communications. We were found to have SMP in our historical concession areas and, as such, are subject to certain obligations in the following markets:

Retail markets:

- access to the public telephone network at a fixed location for (i) residential and (ii) non-residential customers;
- publicly available local and/or national telephone service provided at a fixed location for (i) residential and (ii) non-residential customers; and
- publicly available international telephone service provided at a fixed location for (i) residential and (ii) non-residential customers.

With respect to the markets regarding access to the public telephone network at a fixed location for residential and non-residential customers, the NHH imposed a price cap on our services, which seeks to prohibit unreasonably high price increases. In respect of the other markets related to retail telephone traffic services, the NHH imposed Carrier Selection and Carrier Pre-Selection obligations on us.

The NHH is currently carrying out a new market analysis with respect to the retail fixed line voice telephony markets. Based on the new regulatory regime introduced by the EU Framework Review, there will be only one access market (access to the public telephone network at a fixed location for both residential and non-residential customers) and no markets regarding publicly available telephone services provided at a fixed location. However, we do not expect that these regulatory changes will result in any changes in the current obligations imposed upon us with respect to our Carrier Selection and Carrier Pre-Selection business.

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Wholesale markets:

- call origination on the public telephone network provided at a fixed location;
- call termination on individual public telephone networks provided at a fixed location;
- wholesale unbundled access to metallic loops and sub-loops for the purpose of providing broadband and voice services; and
- wholesale broadband access.

The NHH has imposed an obligation for us to implement accounting separation (in order to enable the assessment of cross-financing between service lines) with respect to all the wholesale markets listed above.

With respect to the markets regarding call origination on the public telephone network provided at a fixed location and call termination on individual public telephone networks provided at a fixed location, the NHH also imposed transparency (including the submission to the NHH and publication of reference interconnection offers, (RIO)), cost orientation, and access and interconnection related obligations.

With respect to the market regarding call termination on individual public telephone networks provided at a fixed location, we are also subject to non-discrimination obligations.

With respect to the markets regarding wholesale unbundled access to metallic loops and sub-loops for the purpose of providing broadband and voice services and wholesale broadband access, the obligations imposed on us included transparency (requiring us to prepare and publish to the NHH a reference unbundling offer (RUO)), cost orientation, access related and non-discrimination obligations.

Explanation of Regulatory Obligations Imposed on Us by the NHH as a Result of the Market Analyses

Reference Interconnection Offer

The terms of our RIO are used whenever a telecommunications operator wants to interconnect with our telephone network in order to provide telephone service to our subscribers through Carrier Selection or Carrier Pre-Selection, or to terminate calls on our network. The parties may agree on the terms of the interconnection services that are not covered by the RIO.

Tariffs on interconnection traffic services (origination and termination) offered in the RIO must be based on cost plus a reasonable profit. The cost is calculated by a Long Run Incremental Costing (LRIC) model with a current cost accounting approach. The reasonable profit is defined by a weighted average cost of capital figure of which the regulated percentage is 18%. The cost calculation must be approved by the NHH, which has the right to overrule it if it finds that the calculation does not reflect the costs of an efficient operator. In such a case the NHH may define the appropriate interconnection tariffs by benchmarking or using a bottom-up cost model.

Auxiliary services (such as interconnect link and co-location) offered in the RIO are also required to be based on cost plus a reasonable profit (based on a bottom-up cost model).

Our currently approved RIOs have been in place since April 2008 and we expect our new RIO to be in place in February 2009.

Accounting Separation

As noted, the NHH requires us to implement accounting separation on several wholesale markets (call origination, call termination, wholesale unbundled access and wholesale broadband access). We are required to

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prepare separate income statements, balance sheets and profitability calculations for both our retail and wholesale arms, and within the retail arm for certain retail services. Service transfers between the different business lines are required to be settled at the regulated price.

In 2008, the NHH approved our most recent accounting separation model. The NHH is currently evaluating the results and implications of the model and, pending such review, may refine its regulatory approach towards us.

Reference Unbundling Offer and Wholesale Bitstream-Access General Terms and Conditions

The terms of our RUO are used whenever another operator wants to rent the last mile of our network which connects the subscribers to the telephone network (Local Loop Unbundling (LLU)). By renting the last mile of our network, alternative operators are able to provide telephone and broadband Internet access services without the need for significant investment into an access network. In addition, by using RUO services, alternative operators may develop complete telephone packages which subscribers are able to pay for through a single bill issued by the alternative operators. In this case the incumbent operator does not have a direct contact with the subscriber.

The RUO is required to include contractual terms for full and partial unbundling of the local loop and local bitstream access. The terms of the RUO must be approved by the NHH.

The tariff on access services offered in the RUO must be based on cost plus a reasonable profit. The cost of the monthly fee for the LLU is calculated using a Long Run Incremental Costing (LRIC) model with a current cost accounting approach The reasonable profit is defined by a weighted average cost of capital figure, the regulated measure of which is 18%. The cost calculation must be approved by the NHH, which has the right to overrule the results if the cost calculation applied by the operator does not comply with the related regulations. In such a case the NHH may define the appropriate access prices.

Auxiliary services offered in the RUO are also required to be based on cost plus a reasonable profit (based on a bottom-up cost model).

Our currently approved RUOs have been in place since April 2008 and we expect our new RUO to be in place in February 2009.

In the market for wholesale broadband access, the NHH has also imposed on us the obligations of non-discrimination, pricing regulation and transparency. In order to comply with these obligations, we must apply equivalent conditions to others in relation to the provision of wholesale broadband services as we do for our own retail services, or those of our subsidiaries or partners. Furthermore, we must provide national bitstream access, meaning that we must offer at least one access point through which all DSL subscribers of the alternative operators can be served. The tariff of single point bitstream service is calculated by a retail minus method whereby the NHH defines the applicable retail margin, whereas we calculate our average retail prices. The current tariffs were set by the NHH based on market data for the first half of 2008. There is an ongoing approval procedure to set current prices based on already-submitted market data for the second half of 2008. The wholesale tariffs are recalculated twice a year and, therefore, closely follow the retail price trends. The terms and conditions of contracts for the provision of local and single point bitstream access must be disclosed on our website in the form of a wholesale bitstream-access general terms and conditions.

Retail Price Regulation

In the retail markets for calls, the NHH has not imposed obligations other than Carrier Selection and Carrier Pre-Selection. In the retail markets for access, the NHH imposed price caps on us, because, according to the NHH, in the absence of competition only a safeguard cap over the subscription fee can avoid excessive price increases. The permitted price increase is the historical consumer price index 0%, which prohibits us from increasing our subscription fees over the rate of inflation. The historical consumer price index 0% price cap applies to all residential and business packages.

Call-by-Call Carrier Selection and Carrier Pre-Selection

The obligation of Carrier Selection enables telephone operators to offer retail call services (but not access services) to subscribers other than their own, through the use of specific prefixes. According to the 2004 Communications Act, the opportunity to use Carrier Selection service must be offered to each subscriber.

In the case of Carrier Pre-Selection, the selected alternative operator is set as the default carrier, and subscribers have three options for making calls through the selected alternative operator: (i) international calls; (ii) all national calls, including long distance, local and calls to mobile networks; or (iii) options (i) and (ii) together. Carrier Pre-Selection of Internet calls is established through call number allocation.

Other Statutory Obligations Imposed on Us

Number Portability

Pursuant to the 2004 Communications Act, all fixed line and mobile telephone service providers are required to ensure that their subscribers can keep their existing telephone numbers when they change service providers. Porting may only be refused if an outstanding debt is associated with the subscriber s account.

Universal Service Obligations

The 2004 Communications Act defines universal service as a set of basic communications services which must be made available to all customers at an affordable price. Universal service includes providing access to the fixed line telephone network at a specified minimum quality, operating public payphones with regulated density, issuing a public directory of subscribers, providing operator services, and providing free emergency calls.

Operators are entitled to compensation in relation to any unfair burden arising from the universal service obligation. The amount of compensation is calculated as the avoidable cost that would not have occurred if the operator had no universal service related obligations, less the possible gains (such as increasing brand equity) from offering the universal services. Operators who decide to apply for compensation prepare a financial model once a year and submit it to the NHH for examination and the Minister of Economics and Transport for approval.

We became a universal service provider in our historical concession areas on the basis of the universal service agreements concluded with the legal predecessor of the current Minister in 2002, which agreements have since been revised to comply with the current E.U. regulatory regime. The agreements proclaimed that an unfair burden in relation to the universal service obligation has to be compensated for by the Universal Service Fund (the Fund). All voice telephone operators and Internet Service Providers using dial up telephone connections are required by law to contribute to the Fund. The annual amount of the contribution is determined on the basis of the actual financing needs of the Fund, however, the contribution may not exceed 0.5% of the net revenue of the operator from voice telephony and dial-up Internet services.

Prior to 2004, the amount of the universal service obligation compensation was calculated as the income lost due to the fact that the regulated monthly fee of the universal service package was lower than that of the normal subscription packages. The 2003 in-payment obligations were challenged by the mobile service operators in court. Due to the pending legal proceedings, no further payments were made from the Fund.

In the meantime, the calculation in force was criticized by the non-fixed operators and the European Commission and was amended under the 2004 Communications Act to reflect the net avoidable cost of the

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universal service provider. Since then, although we have submitted the due calculations for the years 2004 and 2005, each of these calculations have been rejected by the authorities. We have contested such decisions in court and the proceedings are currently still pending. Nevertheless, no further compensation has been accrued since 2004 due to the ongoing legal proceedings surrounding the legislation regarding the Fund.

Our Universal Service Contract expired at the end of 2008. The Minister has initiated negotiation about a new contract. We cannot predict the outcome of the negotiations but the ministry already agreed on a much lighter regime that imposes less financial burden on the service providers.

Price Regulation

Pursuant to regulatory burdens imposed by the NHH and applicable law, we are currently subject to three retail pricing restrictions; (i) a price cap under the Universal Service Tariff Decree on universal service packages, (ii) an obligation imposed by the Universal Service Tariff Decree to pass on our gains from the gradual reduction of mobile termination charges in our universal service tariff packages to our customers (the Passing Over Obligation), and (iii) a price cap over retail fixed-line access services.

We have been making significant efforts to comply with the above requirements, however, uncertainties in the calculation of the price caps and the Passing Over Obligation, as well as the developing practice of the NHH, often makes compliance difficult. Although we are periodically subject to NHH investigations of our compliance with the above requirements, we believe that the risks that the NHH finds us as non-compliant are relatively low due to (i) our internal calculations and analyses, (ii) the joint efforts of Invitel and the NHH in 2007 to define a common and acknowledged calculation methodology, and (iii) the recent and planned retail tariffs changes remaining within the boundaries of the retail price cap (and incorporating the Passing Over Obligation).

Hungarian Taxation

Corporate Income Tax. The operations of our Hungarian subsidiaries are subject to the Hungarian corporate income tax rate of 16%. The Hungarian government introduced an additional 4% solidarity tax effective September 2006.

Local Tax. Our Hungarian subsidiaries are subject to local taxes by local municipal governments. The largest local tax is the local business tax, which cannot exceed 2%. The base of the local business tax is revenues less certain allowable costs. When a company is subject to more than one local municipal taxing authority, the base of the local business tax must be allocated between the local municipal taxing authorities. The local business taxes are fully deductible from the corporate income tax base.

Innovation Contribution. In 2007, Hungarian companies were subject to a 0.3% levy to fund research and development activities. The base for this tax is the same base as the local business tax.

Value Added Tax (VAT). The Hungarian VAT system is based on E.U. regulations. VAT is a consumption tax which is fully borne by the final consumer of a product or service. The current standard rates of VAT is 20%. There is a reduced rate of 5% applicable to certain products.

Social Insurance Contributions. Hungarian employers are required to pay the state 29% of an employee s gross salary as a social security contribution, 3.0% of an employee s gross salary as the employer s contribution to the unemployment fund, and 1.5% of an employee s gross salary in training fund contributions.

Our Markets and Services

Inside Our Historical Concession Areas

Through the Hungarian government s tender process and subsequent acquisitions, we acquired exclusive licenses to provide local fixed line voice telephony services within our 14 historical concession areas until the end of 2002. Our historical concession areas are geographically clustered and cover an estimated 2.1 million people, representing approximately 21% of Hungary s population. We have developed a full range of telecommunications services in our historical concession areas where we have a strong presence in the Mass Market Voice, Mass Market Internet, Business and Wholesale markets.

Outside Our Historical Concession Areas in Hungary

Prior to the Invitel Acquisition, we expanded beyond the Hungarotel historical concession areas by offering Carrier Selection and Carrier Pre-Selection and Internet services in the Mass Market outside the Hungarotel historical concession areas. Following our acquisition of PanTel in 2005, we expanded our Out-of-Concession offerings in the Mass Market and significantly increased our presence in the Business Market, by using PanTel s nationwide fiber optic backbone network linking every county in Hungary. The network provided fiber optic access to every major city within each Hungarian county. Within a number of these cities, we have microwave access networks which enable us to directly connect Business customers to our backbone fiber network. PanTel also built a metropolitan area network in Budapest, which connects to the backbone network, allowing city-wide coverage in Budapest.

In 2000, Invitel commenced the build-out of its national network infrastructure, and upon the liberalization of the Hungarian fixed line voice telecommunications market and the abolition of the concession monopolies (beginning with T-Com s concession areas in December 2001), Invitel began to provide fixed line voice telecommunications services outside the Invitel historical concession areas. Outside the Invitel historical concession areas, Invitel built a national network which provided Business customers in Budapest and 16 other major urban centers with the ability to be connected directly to Invitel s network, enabling Invitel to deliver voice, data and Internet services, primarily through its point-to-multipoint (PMP) microwave networks and metropolitan fiber, or through unbundled local loops and leased lines. Invitel also provided voice and Internet services to Mass Market customers outside the Invitel historical concession areas using Carrier Pre-Selection and Wholesale DSL services.

The acquisition of Tele2 Hungary in October 2007 further expanded our Mass Market voice customer base outside our historical concession areas. The number of Carrier Selection and Carrier Pre-Selection customers outside our historical concession areas was approximately 526,000 as of September 30, 2008 compared to 220,000 as of September 30, 2007, as a result of this acquisition.

International Wholesale Market

Using its Hungarian national backbone network, PanTel developed a significant presence in the Wholesale market in Hungary providing services to other fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers. Given Hungary s geographic location bordering six developing countries, PanTel s international operations began by providing an alternative connection to Western Europe to the incumbent and alternative providers of telecommunications services in those countries. Beginning with Romania, Slovakia and Slovenia in 2001, followed by Ukraine and Croatia in 2002, PanTel began providing Western European and United States companies with connections to these countries enabling our clients to provide connectivity to their own corporate clients. In 2004, PanTel expanded further abroad and was the first international company to provide alternative wholesale capacity into Serbia and Bulgaria. In 2006 and 2007, we expanded our international business with large wholesale service contracts to provide connections to Turkey, Macedonia, Montenegro, Bosnia, Albania and Georgia.

Utilizing its Hungarian national backbone, its metropolitan networks and its regional connectivity, Invitel provided wholesale domestic and international voice and data transit services to Hungarian and international telecommunications services providers. Invitel was among the first telecom operators to provide services in and out of Serbia, both in terms of data capacity and voice traffic. Invitel also generated significant revenue leasing its fiber backbone towards Romania. In 2006 Invitel acquired Euroweb International

Corporation s two Internet and telecom related operating subsidiaries, Euroweb Hungary and Euroweb Romania. Euroweb provided Internet access and additional value-added services including international/national leased line and voice services primarily to Business customers.

Following the acquisition of Memorex and the integration of the Memorex network and organization together with our network and organization, we have created the leading provider of wholesale data and capacity services in the region, based on an extensive 19,000 route kilometer network.

Our Markets Today

Today we offer fixed line telecommunications services on a retail basis to residential and Business customers and on a wholesale basis to other operators. We operate in four market segments: Mass Market Voice, Mass Market Internet, Business and Wholesale. We are continually seeking to develop and improve our overall service through improving the quality of our customer care and developing new service packages and offerings.

Mass Market Voice

We offer our Mass Market customers a full range of basic and value-added voice services, both inside and outside our 14 historical concession areas. Our basic services in our historical concession areas include access to analog and ISDN2 lines for local, long distance, fixed to mobile and international calling, a full set of operator services, directory services and public telephones. Our value-added services include voicemail, a variety of special calling features such as call waiting, call forwarding and caller ID. New services include a variety of bundled voice, Internet and IPTV packages. Outside our historical concession areas, we provide a full range of basic and value added voice services to Mass Market customers. We have been offering Carrier Pre-Selection based voice services since early 2002, after Hungary s telecommunications market was liberalized. We also have some Carrier Selection customers, mainly as a result of the Tele2 Hungary acquisition, but have focused mainly on Carrier Pre-Selection outside our historical concession areas, as we believe that Carrier Pre-Selection ensures a higher quality and sustainability of revenues than Carrier Selection. These services enable customers who have fixed line voice access provided by other operators (primarily T-Com) to use our voice services. Carrier Pre-Selection and Carrier Selection packages include call charges only, since the monthly access fees are paid to the incumbent provider. The recent acquisition of Tele2 Hungary has added significantly to our Mass Market voice customer base outside our historical concession areas.

Mass Market Internet

We generate Mass Market Internet revenue inside our historical concession areas by providing DSL broadband access, Internet and IPTV services over our own network. Outside our historical concession areas, we provide broadband Internet services mainly by purchasing DSL services on a wholesale basis from the incumbent operator and acting as a third party Internet Service Provider. Outside our historical concession areas, we have also recently begun offering higher speed Internet access services using Local Loop Unbundling, in which case we rent the basic copper telephone line from the incumbent operator.

We provide this service on a flat fee basis at three different standard bandwidths (1 Mbps, 4 Mbps and 8 Mbps) inside and outside our historical concession areas.

In our historical concession areas we offer DSL through our own network. Substantially all of our network is already capable of providing DSL services. We expect revenue from DSL services to grow as the result of a number of factors, including:

- a gradual increase in personal computer penetration and demand for Internet access in Hungary;
- DSL continuing to maintain its higher market share than that of cable-based Internet services;

continuous DSL development in new residential housing and other areas; and

focused marketing campaigns which have previously proved successful.

Although we still have some dial-up access Internet customers, we have stopped to actively market dial-up access services. The number of our dial-up access Internet customers has declined sharply since the beginning of 2005 and we expect that this product will continue to be used by only a small number of customers in the future.

Business

We offer fixed line voice, data, Internet and server hosting services to SME businesses, larger corporations and governmental and other institutional customers nationwide. Our Business customers are defined as enterprises with over five employees. Inside our historical concession areas, we provide these services directly through our incumbent network. Outside our historical concession areas, we can provide Business customers throughout Hungary with direct access to our voice, data and Internet services by directly connecting them to our national backbone network by using our own point-to-point (PP) and point-to-multipoint microwave network or metropolitan fiber, or by using unbundled local loops or through leased lines. Recently we have also started to deploy WiMAX technology in certain areas in order to directly connect business customers.

Our nationwide voice services include a full range of basic and value added voice services, including operator services, call waiting, call forwarding and toll-free numbers through analog PSTN, ISDN2, and ISDN30 connections.

Our nationwide Business data services include managed leased line services, IP-Virtual Private Network (VPN) services, and national frame relay Asynchronous Transfer Mode (ATM) services, which is a broadband, network transport service that provides an efficient means of moving large quantities of information. Our managed leased line service consists of analog and digital point-to-point leased lines which businesses and institutions can use to establish direct digital connections between each other on a closed network, enabling the exchange of audio, data and multimedia files. We provide nationwide IP-VPN services from 64 Kbps to 1 Gbps. Our IP-VPN network uses MPLS technology that allows unified, flexible, secure and value added voice, data and Internet services. Our national frame relay service enables high-speed switched digital data communication and can transport voice and data at the same time.

Our nationwide Business Internet services consist primarily of Internet access and server-hosting services. Our Internet access services are provided through leased lines and DSL services nationwide. Business DSL services are available in four standard bandwidths (1 Mbps, 4 Mbps, 8 Mbps and 18 Mbps). We also offer Business customers the IP Sec feature, which allows Business customers to work from home via secure broadband Internet access.

We offer these services individually or on a bundled basis to Business customers nationwide, including voice and Internet packages for smaller enterprises and voice, data and Internet packages for larger businesses. We have introduced business loyalty programs under which we offer discounts on either the full portfolio or certain designated services, according to individual user profiles. We believe that these loyalty programs increase usage, decrease churn, and enable us to capture a higher proportion of our Business customers expenditure on telecommunications services.

Outside our historical concession areas, we also provide lower-volume Business customers with voice services using Carrier Pre-Selection and DSL Internet services by purchasing wholesale DSL services from the incumbent local telephone operator.

Wholesale

We provide voice, data and bandwidth capacity services on a wholesale basis to other operators and service providers. These services typically generate revenue in the form of rental payments for capacity or managed bandwidth services and traffic-based charges for voice transit services to and from other Hungarian and international telecommunication service providers. Capacity services generate revenue based on the bandwidth of the service and the distance between the endpoints of the customers. Internationally, we transport voice, data and Internet traffic into, and out of, Hungary and within the Central and South Eastern European region. We have interconnection agreements with carriers to transport voice, data and Internet traffic worldwide.

Our Wholesale business consists of four product lines: providing managed bandwidth services; providing dark fiber; providing IP capacity; and providing wholesale voice services.

We provide managed bandwidth services with speeds up to 10 Gbps for a wide range of United States and European telecommunications service providers. This means, for example, that for a large U.S.-based telecom company we can provide and manage entirely the leased line connections to the endpoints of a network which they are providing for one of their corporate clients. These endpoints can be corporate premises or regional telecommunications hubs. We also provide lateral support services such as co-location and managed router services.

Providing dark fiber entails renting fiber optic cables to cable television operators, mobile operators and government institutions allowing them to manage their own networks. We provide co-location facilities in addition to repair and maintenance services to these customers.

Providing IP capacity entails providing connectivity to the Internet at a guaranteed minimum bandwidth to Internet Service Providers and cable television operators which are providing Internet services. Our service is fully protected and routed on two independent routes back to tier 1 providers points-of-presence in Frankfurt.

Our wholesale voice services involve routing voice calls to worldwide destinations. We have over 120 international connections to incumbent telecommunications services providers, alternative fixed line telecommunications services providers, mobile operators and cable television operators, enabling us to route their calls globally. While this service is somewhat of a commodity business, we focus on new operators in developing countries. This enables us to establish relationships with these clients which often leads to our providing more profitable data services.

Pricing and Tariffs

Mass Market in Concession Fees

We charge our Mass Market Voice customers a monthly subscription fee and measured service fees for local, mobile, long distance and international calls. With respect to our Mass Market Internet customers, we generally charge a fixed monthly fee.

Competition in the Mass Market Voice market in our historical concession areas from mobile operators, fixed line operators and, more recently, cable television companies has driven down the pricing of our Mass Market Voice service packages. In response, we were the first fixed line operator in Hungary to introduce voice packages that provided customers with the flexibility to choose between different price options. For example, our customers can choose between packages with a higher monthly subscription fee bundled with cheaper off-peak calls or minutes included in the monthly subscription fee or more favorable tariffs in preferred call directions. In order to ensure that our service offerings remain highly competitive, we introduce new packages for all markets on a regular basis. The overall effect has been to increase the proportion of revenue derived from the monthly subscription fees, as opposed to revenue from individual call charges.

In addition to developing new pricing structures, we have initiated a bundling strategy. Our bundled offerings include extra voice minutes and Internet access and/or usage in voice package monthly fees. These packages can range from offers including dial-up minutes for beginners or low-end Internet users to high-end packages with unlimited DSL access. Our sales strategies emphasize our new commercial packages with higher

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monthly fees but with local and off-peak calls included in the base monthly subscription fee or with low call charges in all directions. We often run retention programs with DSL access to keep our customers from switching to cable television operators. We also target residences without any service by offering bundled voice and Internet packages. We believe that we currently achieve approximately 75% of new line subscription through bundled voice/DSL offerings. Furthermore since June 2008, we have also been offering IPTV to customers in most of our historical concession areas, and plan to introduce these services in our remaining historical concession areas in February. InviTV is offered bundled with voice service and Internet access as a triple play package, or with Internet access as a dual play package.

Mass Market Out-of-Concession Fees

Outside our historical concession areas, we offer Carrier Pre-Selection based voice services. While we have Carrier Selection customers (principally from the Tele2 Hungary acquisition), we are not actively marketing that service but instead are trying to convert those higher value Carrier Selection customers to Carrier Pre-Selection based services. For such services, we bill on the basis of usage (i.e. minutes), since the monthly subscription fees are paid by the customer to the incumbent provider to whose access network the customer is directly connected. Our pricing packages outside of our historical concession areas tend to be simpler, not differentiating so much between types of calls. Our Mass Market Voice customers outside of our historical concession areas tend to be more sensitive to price.

With respect to the Mass Market Internet market outside of our historical concession areas, we charge a fixed monthly fee with no usage fee. We face strong competition in the Mass Market Internet market outside our historical concession areas, and accordingly, re-evaluate the pricing of our services on a regular basis, creating customized packages in order to differentiate us from our competitors.

Business Fees

In the Business market, we price voice, Internet and data services individually or on a bundled basis. Business voice tariffs have decreased significantly since the beginning of 2004 as a result of increased competition from both fixed and mobile operators. In our historical concession areas, we have introduced retention offers providing competitive call charges to attract longer term customer commitment.

Outside our historical concession areas, we offer packages with volume based tariffs providing lower per-minute rates for higher levels of traffic.

Wholesale Fees

For managed bandwidth services, we charge our customers a fixed monthly fee for a guaranteed minimum bandwidth along with a service agreement.

When we provide dark fiber, we generally charge a monthly fee on a per kilometer basis. Customers often require us to extend our backbone network directly to their premises or to another city or, in the case of mobile operators, to one of their central switching locations. We generally charge our customers a one-time fee for extending our network to meet customer requirements.

For IP capacity services, we generally charge a monthly fee based on a guaranteed minimum bandwidth along with a service agreement. Customers can also pay for a committed amount of bandwidth and pay for more bandwidth, if available, as needed.

For wholesale voice services, we generally charge our customers a variable amount based on the length of the call, the time of day and the destination. In certain cases, we enter into bi-lateral agreements with other parties, pursuant to which we agree to send and receive a specified amount of voice traffic to each other. This reduces the variability in the wholesale voice business overall, but the percentage of business that may be traded on this basis is limited because the traffic flows can not be predicted with certainty.

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Interconnection Fees

A small portion of our revenue and a substantial portion of our cost of sales are derived from interconnection fees. Interconnection fees were introduced to ensure widespread provision and interoperability of telecommunications services. Operators of public telecommunications networks have a right and, when requested by other operators, an obligation to interconnect their networks to each other. Customers can choose any telecommunications services provider and still be able to call customers of other service providers. The telecommunications services provider that provides the initial connection and the telecommunications services provider that terminates the call, as well as any telecommunications services provider that transports the traffic between the two, share in the revenue collected from the call. Interconnection charges, like retail voice tariffs, are often dependent on the time of day that the call is placed, the length of the call and the distance covered. The settlements are done through wholesale arrangements and the fees are largely regulated.

We receive per minute call termination fees for completing calls, which are passed to us from other telecom operators (fixed line, mobile, cable television operators, whether within or outside Hungary), to our customers who are directly connected to our network. This applies to any of our directly connected customers, whether within, or outside, our historical concession areas. In our historical concession areas, our customer would be directly connected to our network. Outside our historical concession areas, the customer could be directly connected to our network through either a point-to-point or point-to-multipoint wireless connection, metropolitan fiber, a leased line, Local Loop Unbundling or over WiMAX.

We pay per minute call termination fees to other telecom operators for completing calls originating from our customers (including any of our directly connected voice customers, our customers using Carrier Pre-Selection and Carrier Selection services outside our historical concession areas and our wholesale carrier customers) to customers which are directly connected to the network of other telecom operators (fixed line, mobile or cable television operators, whether within or outside Hungary).

We receive per-minute call origination fees when any customer which is directly connected to our network elects to use a competing fixed line telecommunications services provider to make outgoing calls through the use of either Carrier Pre-Selection or Carrier Selection (in these cases we still collect a monthly subscription fee from the customer for the use of our fixed line connection).

We pay per minute call origination fees when a customer which is directly connected to another Hungarian fixed operator s network, elects to use our service to make outgoing calls through the use of either Carrier Pre-Selection or Carrier Selection (in these cases, the operator to whose network the customer is directly connected still collects a monthly subscription fee from the customer, for the use of the fixed connection). See Hungarian Regulatory Environment.

Local Loop Unbundling Fees

When we connect a customer to our network through a Local Loop Unbundling arrangement, we rent the connection to the customer from the incumbent local operator for a monthly fee. We then collect from our customer a monthly subscription fee and a traffic fee for service or a bundled fee. The incumbent operator loses the billing relationship with the customer. Conversely, when a competitor comes into one of our historical concession areas and connects a subscriber to their network through a Local Loop Unbundling arrangement with us, we receive a monthly fee for allowing the competitor to use the telephone line that we own. See Hungarian Regulatory Environment.

Our Customers

As of September 30, 2008, we had approximately 389,000 telephone lines connected to our network within our historical concession areas to service Mass Market Voice customers and we had approximately 526,000 Mass Market Voice customers outside our historical concession areas connected through CPS, CS or LLU. This is compared to December 31, 2007 when we had approximately 405,000 telephone lines in service within our historical concession areas to service Mass Market Voice customers and approximately 662,000 active Mass Market Voice customers connected through indirect access outside our historical concession areas. The decrease in the number of active Mass Market Voice customers outside our historical concession areas from 662,000 as of December 31, 2007 to 526,000 as of September 30, 2008 is due to churn of low value CS customers.

As of September 30, 2008, we had approximately 135,000 Mass Market broadband DSL customers, of which approximately 109,000 were connected directly to our networks within our historical concession areas and 26,000 were outside our historical concession areas and serviced principally by our purchasing wholesale DSL services from the incumbent local telephone operator (primarily T-Com). The number of IPTV customers has increased to 1,380 as of September 30, 2008 since the beginning of May, when we introduced this service.

As of September 30, 2008, we had approximately 47,000 voice telephone lines within our historical concession areas serving business customers which is the same as 2007 year end level. Outside our historical concession areas, we had approximately 59,000 direct access voice telephone lines and approximately 12,000 indirect access voice telephone lines as of September 30, 2008, compared to approximately 58,000 direct access voice telephone lines and approximately 13,000 indirect access voice telephone lines as of December 31, 2007. As of September 30, 2008, we had approximately 18,000 DSL lines and approximately 15,000 leased lines compared to approximately 16,000 DSL lines and approximately 12,000 leased lines at 2007 year end.

We have a diversified revenue and cash flow base, making us less susceptible to market pressures in any particular market segment. For the nine months ended September 30, 2008, we derived approximately 30% of our revenue from Mass Market Voice, 10% from Mass Market Internet, 27% from Business and 33% from Wholesale.

In the Wholesale market, we had over 570 customers as of September 30, 2008, which customers include telecommunication services providers from across Western Europe and the United States, incumbent telecommunications services providers, alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers.

Sales and Distribution Channels

Mass Market

In our historical concession areas, our Mass Market Voice and Mass Market Internet sales channels include walk-in shops, point-of-sale reseller and partner shops, independent third-party sales agents, our own telesales operations and our Internet web site. We have 17 walk-in shops that we manage in our historical concession areas. Our services are sold to Mass Market customers outside our historical concession areas through a non-exclusive network of agents and point-of-sale reseller and partner shops and our own and outsourced third-party telesales operations.

Business

Our direct sales force of new Business sales managers and corporate account managers is our primary Business sales channel. Corporate account managers are responsible for managing the relationship with and developing business with our larger corporate customers. Our new Business sales managers are responsible for driving new business acquisition in the SME market. This group also works with a specialized telesales group for contract renewals and for appointment setting, and for sales to lower-end SME customers.

We also use agents and resellers as indirect distribution channels, which allows us to expand the geographical range of our Business sales and improve our coverage of the small enterprise market. In the case of contracts originated by our resellers and strategic partners, we become the contracting party and the exclusive owner of the customer in respect of the telecommunication services.

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Wholesale

Our Wholesale sales efforts are split into separate international and domestic channels. Internationally, our business development and sales staff focuses on selling managed bandwidth services, IP capacity services and wholesale voice services directly to incumbent fixed line telecommunications services providers, alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers in the Central and South Eastern European region. Our sales staff are also focused on securing competitive and technically sound managed bandwidth solutions for Western European and U.S. telecommunications companies so that we can serve as a one-stop sub-provider in meeting their corporate customers regional needs.

Domestically, we have a dedicated business development and sales staff that focuses primarily on marketing our IP capacity and dark fiber services throughout Hungary to mobile operators, cable television operators and Internet Service Providers.

Our Network

Overview

Our telecommunications network is comprised of our original network in the Hungarotel historical concession areas, the national and international backbone network and access networks that we added when we acquired PanTel in 2005, the network acquired with the Invitel Acquisition in 2007, which network consisted of the network covering the Invitel historical concession areas as well as a national backbone network and access networks covering many of Hungary s urban centers, and the regional network added with the acquisition of Memorex in 2008. Today, our telecommunications network consists of a national backbone network and access networks throughout Hungary as well as an international backbone network in the Central and South Eastern European region.

Within our 14 historical concession areas, our network covers approximately 2.1 million people, or approximately 21% of Hungary s population. Our network allows us to offer DSL services to substantially all of the population in our historical concession areas and fully integrated voice, data and Internet services to all of our Business customers in our historical concession areas. Outside of our historical concession areas in Hungary, we have points of presence in Budapest and more than 40 other major urban centers.

Backbone Network

Our national fiber network comprises approximately 10,000 route kilometers of fiber (8,500 route kilometers in the backbone and 1,500 route kilometers of access network) and our international backbone network comprises approximately 19,000 route kilometers of fiber with approximately 40 points of presence in 14 different countries. Our network carries traffic between the major cities of Hungary, provides connectivity to and within our historical concession areas, connects major urban business centers outside our historical concession areas and provides international connectivity. Our backbone network consists of fiber rings that are on a par with Western European digital network standards and has been designed for an open architecture using Synchronous Digital Hierarchy (SDH) and Dense Wavelength Division Multiplexing (DWDM) technologies.

Access Networks Inside Our Historical Concession Areas

Within our historical concession areas, we have versatile modern telecommunications networks. The networks are designed to offer voice and broadband (DSL) services to substantially all of our customers as well as data services to our Business customers. The network is based on a combination of copper lines, wireless technologies (WiFi and Digital Enhanced Cordless Telecommunications (a wireless standard based on time division multiple access technology used for wireless local loop systems), which is now being replaced by WiMAX) and fiber optic cable for some major customers. The combination of conventional fiber and wireless local loop technology gives us flexibility with respect to the development of our network and the opportunity to target strategic capital expenditures.

Access Networks Outside Our Historical Concession Areas

Point-to-Multipoint Networks. We have developed the largest point-to-multipoint radio system in Hungary in the licensed 3.5 GHz frequency band. By covering Budapest, 20 other major urban centers and two other smaller cities outside our historical concession areas, we have gained a competitive advantage by creating an alternative access network independent of T-Com s local loops. These networks enable us to deliver a full complement of managed voice, data and Internet services to our Business customers.

Point-to-Point Networks. We use Point-to-Point microwave radio to provide high bandwidth connection to corporate clients and to a lesser extent as backhaul transmission to interconnect PMP sites to our network. The majority of our PP sites have been deployed in Budapest. We have installed more than 1,300 PP links to date for connection to corporate clients and approximately 150 links to provide connections between PMP and PP sites.

Metropolitan Areas Networks (MANs). In addition to the PMP and PP networks, we operate approximately 1,500 route kilometers of MANs in Budapest and eight of the urban centers outside our historical concessions areas. Our MANs provide a direct link between our backbone network and radio (PP and PMP) base stations. This allows the city rings to be fully integrated in a seamless manner with our overall network. Each MAN is built with fiber cable technology which is essentially the same as that used for our backbone network. Our Budapest MAN consists of more than 1,000 route kilometers and passes through areas of the capital with significant business potential.

The networks which we operate outside our historical concession areas also include network lines which we lease from other telecommunications operators and beginning in 2006 unbundled local loops (Local Loop Unbundling). This enables us to reach a wider geographical area beyond the coverage of our PMP and PP networks and MANs over which we have control. Local Loop Unbundling also provides us with a lower cost option for directly connecting smaller business customers. In addition, we have recently installed 29 WiMAX base stations on the outskirts of Budapest and 12 other cities to provide alternative low cost access methodology to directly connect principally smaller business customers.

Switched Voice Network

We have deployed a fully digital switching network hierarchy. A total of 19 Exchanges have been deployed in a hierarchical network. Local Exchanges handle the interconnection of customer lines and the switching of local traffic. Traffic for other areas is handed to the Primary Exchanges. Secondary Exchanges provide the transit functionality for switching traffic between different regions. Secondary Exchanges also handle interconnection of Business voice from outside our historical concession areas. The International Gateway Exchange is the point of interconnection for all international, national and mobile traffic in our network.

Data and Leased Line Network

Multi-service network. We have deployed an extensive multi-service network to provide advanced IP based services to corporate, SME and ISP clients. The range of services includes IP based VPN, virtual dial-up networks, VoIP, Internet access, VLAN and Extranet services. This enables us to provide tailored services to meet the customers needs. This multi-service network has been deployed throughout Budapest, our historical concession areas and 16 major cities in Hungary. The main nodes are interconnected by a 10 Gigabit Ethernet network which also extends nationally to the main centers in our historical concession areas. The smaller nodes are connected in a star or mesh configuration.

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Managed leased line network. The managed leased line network provides last mile access to leased line customers. The extensive network provides multiple POPs for MLL services. It also provides cross-connect capabilities to enable leased line networks to be remotely reconfigured. Leased Line services are provided through fiber, PP and PMP networks in more than 40 cities outside our historical concession areas.

Both the multi-service and the leased line networks are well designed and offer capacity and flexibility for the positioning of advanced data and leased line services.

The Memorex Network

We acquired Memorex in March 2008. Memorex (subsequently renamed Invitel International AG) operated over 12,500 route kilometers of fiber optic cable in the region which enabled it to provide high quality wholesale services to large international carriers. Memorex invested approximately 54 million (approximately $69.5 million at current exchange rates) in its network over the last two years. The Memorex Acquisition has further developed our position in the Wholesale market in the region. Following the acquisition of Memorex, we are the leading independent provider of wholesale data and capacity services in the Central and Eastern European market with a network now comprising around 19,000 route kilometers of fiber.

Interconnection Agreements with Other Operators

We have interconnection agreements with each of the major Hungarian fixed line, mobile and alternative operators, including, among others, T-Com, Monortel, T-Mobile, Pannon GSM, Vodafone and GTS-Datanet. The objective of these interconnection agreements is to enable the parties to access each other s networks and terminate traffic originated in the other party s network, which enables the two operators customers to connect with each other. These interconnection agreements are typically for indefinite terms and are based on, or incorporate the terms of, our RIOs. If the other interconnection party is considered to have SMP, then typically the terms of the other party s RIO are also incorporated. See -Hungarian Regulatory Environment beginning on page 60.

We also have interconnection agreements with foreign telecommunications network operators, including, among others, Belgacom, British Telecom, Cesky Telecom, Telekom Austria, Romania Data Systems and T-Systems (Germany). These interconnection agreements relate to interconnection and the provision of reciprocal international carrier services. These agreements are typically for indefinite terms. Under these agreements, we sell wholesale capacity (transit services) and purchase transit and termination services.

Network Access Agreements with Internet Service Providers

We partner with various ISPs under network management agreements to provide Mass Market Internet and Business Internet services nationally. These agreements provide for Internet access through our networks via DSL and dial-up access technologies. See -Hungarian Regulatory Environment beginning on page 60.

We have been a DSL services provider in our historical concession areas since 2001. We offer DSL services in our historical concession areas on a wholesale basis, mainly to T-Online (T-Com s Internet Service Provider) and Enternet.

Outside our historical concession areas, we have network access agreements with T-Com and Monortel for DSL services and dial-up access.

Additionally, in the Wholesale market, we act as a nationwide Internet Service Provider and purchase international peering services primarily through tier 1 carriers such as Telia and Verizon.

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Network Management

We monitor our voice network with continuously running systems, which has enabled us to improve our quality of service to an average fault rate per month which was below 0.0075% in 2007, which we believe is comparable to European benchmark operators and is significantly better than the threshold imposed by the Hungarian regulatory authorities. We are able to monitor and manage our ISDN 30 and Business data and Internet service, on our network. Monitoring provides us with the proactive management ability of network/service failures, allowing us to provide a high, guaranteed level of service availability, which is particularly important to and valued by our Business customers.

We also constantly monitor our IP network using a new network management system that runs on a Hewlett Packard (HP) platform using HP Openview. This HP platform provides integrated management of our operation and maintenance processes by our centralized network management staff and significantly reduces our network operating costs. These network monitoring systems, which also have back-up facilities, are located at our Service Management Center near our corporate headquarters in Budaörs near Budapest and can be accessed from other locations on our network.

In addition, we have a trouble ticketing system, which contains data on customer service level agreements. This ensures that we apply the appropriate priority and escalation levels to logged calls.

Billing and Customer Care Software Systems

We currently operate on a single monthly billing period. At the end of each billing period, the external systems provide metered data to the billing systems and an update is prepared for the general ledger. The majority of billing files are sent to a third party for printing and distribution. The vast majority of our customers pay their bills through the Hungarian Post Office s third party payment system. Under this system, customers fill out a payment order and pay the amount due to the Hungarian Post Office, which in turn transfers all amounts paid by our customers promptly to our account. The Hungarian Post Office s third party payment system has traditionally been the main means of bill payment for service providers in Hungary. A minority of our customers pay their bills through direct debit and bank transfers.

We currently operate four different billing systems:

- *CosmOSS*, a post-paid billing system that provides billing services to Mass Market and Business customers. CosmOSS bills for both voice and data services. CosmOSS is operated by Euromacc Kft.

- *Telema*x, a post-paid billing system that provides billing services to Mass Market and Business customers. Telemax bills for both voice and data services. The Telemax billing system is also used to bill for indirect Long Distance Voice Services. Telemax is operated by Hewlett Packard.

- *Infranet*, a post-paid billing system that provides data billing services.

- *FusionR,* a post-paid billing system that provides billing services for certain important Business customers, Wholesale services and Carrier Pre-Selection and Carrier Selection services.

We also operate four different customer administration systems:

- *Contract Management (CM)* is an order management application that provides a consolidated platform for the entire Business customer market. It also supports the entire sales cycle from prospect to contract.

- *Network Management Tool (NMT)* is an order management system serving Mass Market customers with voice services and automatic provisioning support for Mass Market and Business customers.

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Internet Administrator (IA) is an order management application serving Mass Market customers with Internet and bundled (Voice and IP) services with automatic provisioning support.

VITRIN is a workflow application providing provisioning workflow support for Business data services.

We believe that our billing and customer care systems are adequate to currently meet the functional requirement of invoicing our customer base.

Employees

As of the end of September 2008, the HTCC group had approximately 1,495 employees, of which approximately 1,250 were located within Hungary. A breakdown by job function is set forth in the table below. We consider our relations with our employees to be satisfactory.

Function	**Number of Employees**
Marketing	71
Sales	310
Operations	820
Finance	148
IT	76
Human Resources and Legal	37
General Management and Administration	33
Total	**1,495**

Description of Property

Our properties do not lend themselves to simple description by character and location. Our material properties include properties that we own that comprise part of our telecommunications infrastructure (telecom freehold properties), properties that we lease that comprise part of our telecommunications infrastructure (telecom leasehold properties) and properties that we lease in connection with the day-to-day operations of our business (other leasehold properties).

Our investment in property, plant, property and equipment was $1,093 million at September 30, 2008. Our investment in plant, property and equipment, net of depreciation consisted of the following at September 30, 2008 (in thousands):

Land and Buildings	$ 11,675
Telecommunications equipment	759,287
Other equipment	21,051
Construction in progress	27,555
Total	**$ 819,568**

Land and buildings consists of land and land improvements and central office buildings. Telecommunications equipment consists primarily of aerial cable, underground cable, conduit and wiring, wireless plant, telephone poles, switching equipment, transmission equipment and related facilities. Other equipment consists of vehicles, office furniture and equipment, computers and related accessories. Construction in progress consists of assets which are under construction as part of long-term projects and are expected to be put into operation within one year.

We have secured all the necessary rights-of-way with respect to our telecommunications networks. We believe that our properties are adequate for our present needs but we periodically review our future needs.

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All of these properties are subject to liens under our debt instruments.

We lease our principal executive offices just outside of Budapest, Hungary and also have a United States office located in Seattle, Washington.

Environmental

Our operations are subject to a variety of laws and regulations relating to land use and environmental protection. We have a good relationship with the environmental authorities. Our internal environmental protection activities are governed by certain internal rules on environmental protection issued by us, for the purpose of educating our employees about environmental protection and requiring them to be environmentally conscious. In the past five years, no environmental fines have been imposed on us. We believe that we are in substantial compliance with all applicable requirements.

Legal Proceedings

Local Business Tax

Three Hungarian municipalities initiated court proceedings against us in the Metropolitan Court of Budapest seeking payment in connection with an ambiguous provision in some of our concession contracts regarding the payment of local municipal taxes. On May 15, 2008 the Metropolitan Court ruled on our behalf and denied the claims of the municipalities. On October 30, 2008 the Metropolitan Court of Appeal overturned, in part, the lower court s ruling and awarded the municipalities HUF 919 million (approximately $5.4 million) plus interest and cost to the plaintiffs.

We have a right to apply to the Hungarian Supreme Court for a special review and a suspension of the judgment although there is no guarantee that the Hungarian Supreme Court will review this case. However, we are currently in the process of negotiating with the municipalities with a view to reaching a final settlement with respect to the totality of these claims. To be compliant with our accounting standards we have made a provision for this contingent liability in the amount of HUF 2.2 billion (approximately $13 million) for the period ended September 30, 2008 and it is included in income tax expense.

One municipality made a claim to us, which we rejected, for HUF 57 million (approximately $0.3 million) but has not initiated any formal legal proceedings. The other municipalities that made claims to us, which we rejected, did not initiate formal legal proceedings by the legal deadline and, therefore, lost their ability to initiate formal legal proceedings.

Fazis

During 1996 and 1997, one of our operating subsidiaries, Hungarotel, entered into several construction contracts with Fazis, a Hungarian contractor (Fazis), which totaled $59.0 million in the aggregate, $47.5 million of which was financed by a contractor financing facility. Fazis financed the facility through Postabank, a Hungarian bank. We have a disagreement with Fazis with respect to several issues relating to the quality and quantity of the work done by Fazis. We rejected invoices from Fazis in the amount of approximately HUF 700 million (approximately $3.5 million) and Fazis subsequently sought payment under separate invoices in the amount of approximately $24 million (at historical exchange rates), which we disputed because of quantity and quality issues and because of our counterclaim for breach of contract by Fazis, amounting to approximately $31 million (at historical exchange rates).

In order to resolve these issues, Hungarotel purchased from Postabank in 1999 some of Postabank s receivables owed by Fazis to Postabank (HUF 4.0 billion; approximately $20.1 million) with respect to the contractor financing facility. Hungarotel also purchased from Postabank some of the obligations which

Hungarotel owed to Fazis under the contractor financing facility which were assumed by Postabank (HUF 7.0 billion; approximately $35.2 million). Hungarotel then set off its remaining uncontested liabilities owed to Fazis (HUF 900 million; approximately $4.5 million) against the amounts owed to Hungarotel by Fazis (HUF 4.0 billion; approximately $20.1 million).

Fazis and Reorg Rt. (Reorg, a company responsible for collecting Postabank s debts) contested a number of actions in Hungarian court proceedings. In 2004, Hungarotel prevailed against both parties and both Fazis and Reorg s legal proceedings regarding these matters were terminated.

In January 2005, Fazis commenced proceedings against Hungarotel before the arbitration court that is a part of the Hungarian Chamber of Commerce alleging a new cause of action arising from the original construction contracts. Fazis new claim was for alleged unpaid invoices in the amount of HUF 1.7 billion (approximately $8.5 million), including interest and VAT. In January 2006, the Arbitration Court ruled in Hungarotel s favor. Fazis efforts to set aside or overturn this ruling have not been successful to date.

In March 2005, Hungarotel initiated legal proceedings against Fazis in the Budapest Metropolitan Court seeking HUF 3.5 billion (HUF 3.1 billion plus interest; approximately $17.6 million) for the debt Fazis owed Hungarotel following the set off against the receivable purchased from Postabank in 1999. The court rendered a judgment in Hungarotel s favor and ordered Fazis to pay HUF 3.5 billion ($17.6 million) plus late payment interest. Fazis may appeal. We do not expect to collect anything on this judgment but such judgment should protect us should Fazis ever obtain a successful judgment against us which we do not believe will ever occur.

Finally, Hungarotel, which we recently merged into our subsidiary Invitel, still has a larger claim against Fazis, $31 million, for breach of contract. We are reviewing our options with respect to this claim.

Other

Several of our operating subsidiaries are involved in various other legal actions arising in the ordinary course of business. We are contesting these legal actions in addition to the actions noted above; however, the outcome of individual matters is not predictable with assurance. Although the ultimate resolution of these actions (including the actions discussed above) is not presently determinable, we believe that any liability resulting from the current pending legal actions involving our operating subsidiaries, in excess of amounts provided therefor, will not have a material effect on our consolidated financial position, results of operations or liquidity.

Related Party Transactions

As of February 2, 2009, TDC A/S, the leading provider of communications solutions in Denmark owned approximately 63.9% of our outstanding common stock. Four out of the seven members of our board of directors are officers of TDC. TDC owns 30,000 shares of preferred stock which are convertible into 300,000 shares of our common stock. We have reciprocal commercial agreements in place with TDC pursuant to which we transport international voice, data and Internet traffic over our respective telecommunications networks for each other.

At December 31, 2006, the amount due to related parties totaling $2,881,000 represented cumulative preferred stock dividends in arrears, in the amount of $756,000, an accrual of $2,033,000 as an estimate of the costs for various individuals employed by TDC who performed work for us, including our then President and Chief Executive Officer and the head of Corporate Business Development (see below), for 2005 and for 2006 and an accrual related to uninvoiced directors and officers liability insurance costs amounting to $92,000. TDC owned warrants enabling it to purchase 2,500,000 shares of our common stock at $10 per share with a warrant expiration date of March 31, 2007. TDC also owned $25 million of notes issued by us which matured in March 2007. Interest was payable semi-annually at the applicable U.S. Dollar LIBOR rate for the interest period plus 3.5% (8.9% in total at December 31, 2006). During 2006, we paid TDC $1,961,000 in interest on the notes.

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At December 31, 2007, the net balance of receivables from and payables to related parties was a net payable to TDC in the amount of $1,400,000. This represented cumulative preferred stock dividends in arrears payable to TDC in the amount of $850,000, an accrual of $453,000 for strategic projects; $201,000 for the costs for various individuals employed by TDC who performed work for us and a net $104,000 receivable in connection with the transport of international voice, data and Internet traffic on our and TDC s respective telecommunications networks for each other and other items.

At September 30, 2008, the net balance of receivables from and payables to related parties was a net payable to TDC in the amount of $891,000. This represents cumulative preferred stock dividends in arrears payable to TDC in the amount of $934,000 and a net $43,000 receivable in connection with our agreements to transport telecommunications traffic for each other.

Torben V. Holm was an employee of TDC when he served as our President and Chief Executive Officer and as the head of management s executive committee from 2005 through April 2007. Alex Wurtz was also an employee of TDC when he served as our head of Corporate Business Development and as a member of management s executive committee from 2005 to April 2007.

For Mr. Holm, we paid TDC 981,371 (approximately $1.4 million) for his services for the period from May 2005 through April 2007. We were also responsible for paying other costs pertaining to Mr. Holm, including housing in Budapest and for certain of Mr. Holm s travel costs back to his home in Denmark.

For Mr. Wurtz, we paid TDC 501,707 (approximately $0.7 million) for his services for the period from June 2005 through April 2007. We were also responsible for paying Mr. Wurtz s housing in Budapest.

All of the directors of HTCC Delaware are covered by a directors and officers liability policy taken out by TDC. In 2006, we had approximately $308,000 in expenses for our portion of the overall premium paid by TDC. As of December 31, 2007, we had approximately $302,000 in expenses for our portion of the overall premium paid by TDC. As of September 30, 2008, we had approximately $125,000 in expenses for our portion of the overall premium paid by TDC.

We have agreements in place with TDC, pursuant to which we and TDC transport international voice, data and Internet traffic for each other over our respective telecommunications networks. For the years ended December 31, 2007 and 2006, we transported these services for TDC in the amount of approximately $2,117,000 and $1,825,000, respectively, pursuant to such agreements, and for these years, we agreed to pay TDC an amount of approximately $866,000 and $691,000, respectively, pursuant to such agreements. For the nine months ended September 30, 2008 and 2007, we transported these services for TDC and recorded revenue in the amount of approximately $808,000 and $1,707,000, respectively, pursuant to such agreements. For the nine months ended September 30, 2008 and 2007, TDC charged us approximately $497,000 and $641,000, respectively, pursuant to such agreements.

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DIRECTORS AND EXECUTIVE OFFICERS OF HTCC DELAWARE

The members of HTCC Delaware s current board of directors include: Henrik Scheinemann (Chairman), a Vice-President in TDC s Mergers & Acquisition department; Carsten Dyrup Revsbech (Vice-Chairman), a Senior Vice President and the Chief Financial Officer of TDC s Mobile Nordic group; Ole Steen Andersen, a recently retired member of the Executive Committee and Chief Financial Officer of Danfoss A/S, a Danish company; Robert R. Dogonowski, a director in TDC s Group Strategy department; Peter Feiner, the managing director of Spar Hungary, which operates supermarkets and hypermarkets throughout Hungary; Jens Due Olsen, who is currently a financial consultant and until the end of 2007 was an Executive Vice-President and the Chief Financial Officer of GN Store Nord A/S, a Danish company; and Morten Bull Nielsen, a director and attorney at TDC. Our executive officers are Martin Lea, President and Chief Executive Officer; Robert Bowker, Chief Financial Officer; and Peter T. Noone, General Counsel and Secretary. Messrs. Lea, Bowker and Noone comprise the Executive Committee of management of HTCC Delaware.

Executive Officer Compensation

The following table includes information concerning compensation for the fiscal years ended December 31, 2008 and 2007 in reference to Martin Lea, our President and Chief Executive Officer, Robert Bowker, our Chief Financial Officer, and Peter T. Noone, our General Counsel and Secretary (collectively, the Named Executive Officers). The Board has designated Messrs. Lea, Bowker and Noone as executive officers and members of management s executive committee. Certain compensation amounts reported in this table were paid in euros ( ) or Hungarian forint (HUF) and have been converted into U.S. dollars using the relevant average exchange rate correlating to the period in which the payments were made. The amounts reported for Messrs. Lea and Bowker include only amounts earned following our acquisition of Invitel on April 27, 2007.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensations ($)	Total ($)
Robert Bowker, Chief Financial Officer	2008	416,903	*				56,459 (3)	473,362
	2007	255,754	203,500		337,500		35,965	832,719
Martin Lea, President and Chief Executive Officer	2008	521,127	*				131,893 (4)	653,020
	2007	319,689	254,375		337,500		90,615	1,002,179
Peter T. Noone, General Counsel and Secretary	2008	253,131	*	173,000			3,939 (5)	430,070
	2007	242,061	61,500	169,800			3,939	477,300

(1) The accounting expense for 2007 and 2008 in connection with the grant of stock options to Mr. Noone in 2007 and 2008 was calculated in accordance with SFAS 123R and the valuations were made using the Black-Scholes option pricing model.

(2) The amounts reported for Messrs. Bowker and Lea are cash bonus awards which were based on incentive cash bonus plans established as part of the Invitel Acquisition, pursuant to which the company paid cash bonuses of 250,000 ($337,500) to each of the service companies that provide Mr. Lea s and Mr. Bowker s services upon the completion of the company s 200 million Floating Rate Note offering in connection with the Invitel Acquisition.

(3) The 2008 amount reported for Mr. Bowker consists of the value of the following perquisites and other personal benefits: the costs for us to rent an apartment in Budapest for Mr. Bowker and his family ($47,709), and the costs associated with the provision by the company of an automobile in Budapest for Mr. Bowker.

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(4) The 2008 amount reported for Mr. Lea consists of the value of the following perquisites and other personal benefits: the costs for us to rent a house in Budapest for Mr. Lea and his family ($70,680), the costs associated with the provision by the company of an automobile in Budapest for Mr. Lea, and amounts reimbursed by the company to the service company providing Mr. Lea s services for certain educational costs for Mr. Lea s children and some travel costs related thereto ($52,463).

(5) The amounts reported for Mr. Noone consist of payments to Mr. Noone for certain life insurance costs.

* Bonus compensation for the fiscal year ended December 31, 2008 for Messrs. Lea, Bowker and Noone will be determined during the first quarter of 2009.

Martin Lea:

Mr. Lea, age 51, has more than 25 years of experience in the data communications, telecommunications and support services sectors. He was appointed as HTCC Delaware s President and Chief Executive Officer on April 27, 2007 upon the Company s acquisition of Invitel. Mr. Lea served as Invitel s Chief Executive Officer since 2004. Prior to that, he was an Executive Vice President with Intertek Group plc from 2001 to 2003. Intertek is a leading global provider of testing, inspection and certification services. From 1998 to 2001, he was the Managing Director of Racal Telecom, a major UK alternative telecom services provider which was acquired by Global Crossing, whereupon he served as Managing Director of Global Crossing s UK operations.

The CEO Service Agreement was entered into in connection with the Invitel Acquisition. It currently provides for an annual management service fee of 359,219 ($455,999 at current exchange rates) paid monthly, which will be reviewed annually. HTCC Delaware is contractually obligated to pay an annual performance bonus up to a maximum of 50% of the annual management service fee. In February 2008 the Board approved a 2007 performance bonus in the amount of 171,875 ($219,395 at current exchange rates). We provide Mr. Lea with the use of a company car and pay for his housing costs in Budapest and, pursuant to the CEO Service Agreement, reimburse the educational costs of Mr. Lea s children (including certain transportation costs associated therewith). The CEO Service Agreement also provided for a special one-time lump sum bonus in 2007 in the amount of 250,000 ($319,159 at current exchange rates), conditioned upon, and paid following the successful completion of our 200 million Floating Rate Note offering in connection with the Invitel Acquisition.

In addition, the CEO Service Agreement provides for a special one-time lump sum bonus payment in the event of a Trigger Event. A Trigger Event generally means any transaction or series of transactions, including a consolidation or merger, following which HTCC Delaware s shareholders no longer own at least 50% of the combined voting power of the surviving entity (or its ultimate parent); or a sale of all or substantially all of the assets of the Company (other than to an affiliate). If a Trigger Event occurs and the per share consideration, determined on a fully diluted basis, to be received by the holders of the shares of HTCC Delaware s Common Stock (the Per Share Consideration) is at least $14.69, HTCC Delaware shall be required to pay a bonus under the CEO Service Agreement (the Trigger Event Bonus). The Trigger Event Bonus shall be calculated as follows: (a) 39.47% of $4 million (that is, $1,578,800), plus (b) 39.47% of 10% of the increase in the equity value of HTCC Delaware implied by the increase in the Per Share Consideration over $14.69, but not less than zero plus (c) 39.47% of $3,200,000 if the Per Share Consideration equals or exceeds $17, plus (d) 39.47% of $2,200,000 if the Per Share Consideration equals or exceeds $18. For this purpose, the implied increase in the equity value is determined by multiplying the Per Share Consideration by the total number of shares of HTCC Delaware s Common Stock outstanding, on a fully-diluted basis, on the date of the Trigger Event, and subtracting from the result the amount calculated by multiplying $14.69 by the total number of shares of HTCC Delaware s Common Stock outstanding, on a fully-diluted basis, on April 27, 2007. If HTCC Delaware achieves at least the minimum target equity value for HTCC Delaware s common stockholders upon the occurrence of a Trigger Event, HTCC Delaware will be obligated to pay a minimum bonus of $1,578,800.

The amendment to the CEO Service Agreement further states that, in the event of a transaction or series of transactions resulting in the sale by the company and/or its subsidiaries of a material portion of their collective assets or business that does not constitute a Trigger Event, the company shall be required to pay a bonus in an amount equal to the Trigger Event Bonus that would be payable if the Per Share Consideration was $17 if (i) the company terminates the CEO Service Agreement because it considers it no longer necessary or desirable or

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(ii) the service company terminates the CEO Service Agreement because the company has not offered it an equivalent position. The company does not expect that such termination will occur because the services of the CEO are expected to continue to be necessary and desirable following a sale of a material portion of the collective assets or business of the company and its subsidiaries.

The CEO Service Agreement has also been amended to provide for a special one-time lump sum bonus in the amount of 250,000, conditioned upon, and payable following the successful completion of a refinancing of the Company s obligations under the bridge loan agreement with Merrill Lynch and BNP Paribas, dated March 3, 2008.

Robert Bowker:

Mr. Bowker, age 41, was appointed as HTCC Delaware s Chief Financial Officer on April 27, 2007 upon HTCC Delaware s acquisition of Invitel. Mr. Bowker served as Invitel s Chief Financial Officer since 2004. Prior to Invitel, he served as the Chief Financial Officer of Eurotel Praha from 2000 to 2004. Eurotel Praha provides wireless voice and data services in the Czech Republic. Prior to Eurotel Praha, he was the Deputy Chief Financial Officer of Eurotel Slovakia. Prior to becoming a chief financial officer, he started his career in public accounting. Mr. Bowker is a South African Chartered Accountant and a Chartered Financial Analyst.

The CFO Service Agreement was entered into in connection with the Invitel Acquisition. It currently provides for an annual management service fee of 287,375 ($364,841 at current exchange rates) paid monthly, which will be reviewed annually. HTCC Delaware is contractually obligated to pay an annual performance bonus up to a maximum of 50% of the annual management service fee. In February 2008 the Board approved a 2007 performance bonus in the amount of 137,500 ($175,503 at current exchange rates). We provide Mr. Bowker with the use of a company car and pay for his housing costs in Budapest. The CFO Service Agreement also provided for a special one-time lump sum bonus in 2007 in the amount of 250,000 ($319,159 at current exchange rates), conditional upon, and paid following the successful completion of HTCC Delaware s 200 million Floating Rate Note offering in connection with the Invitel Acquisition.

In addition, the CFO Service Agreement, similar to the CEO Service Agreement, provides for a special one-time lump sum bonus payment in the event of a Trigger Event. The Trigger Event Bonus with respect to the services of Mr. Bowker shall be calculated as follows: (a) 24.27% of $4 million (that is $970,800), plus (b) 24.27% of 10% of the increase in the equity value of HTCC Delaware implied by the increase in the Per Share Consideration over $14.69, but not less than zero plus (c) 24.27% of $3,200,000 if the Per Share Consideration equals or exceeds $17, plus (d) 24.27% of $2,200,000 if the Per Share Consideration equals or exceeds $18. For this purpose, the implied increase in equity value shall be determined in the same manner as under the CEO Service Agreement. If HTCC Delaware achieves at the least the minimum target equity value for HTCC Delaware s common stockholders upon the occurrence of a Trigger Event, HTCC Delaware will be obligated to pay a minimum bonus of $970,800.

The amendment to the CFO Service Agreement further states that, in the event of a transaction or series of transactions resulting in the sale by the company and/or its subsidiaries of a material portion of their collective assets or business that does not constitute a Trigger Event, the company shall be required to pay a bonus in an amount equal to the Trigger Event Bonus that would be payable if the Per Share Consideration was $17 if (i) the company terminates the CFO Service Agreement because it considers it no longer necessary or desirable or (ii) the service company terminates the CFO Service Agreement because the company has not offered it an equivalent position. The company does not expect that such termination will occur because the services of the CFO are expected to continue to be necessary and desirable following a sale of a material portion of the collective assets or business of the company and its subsidiaries.

The CFO Service Agreement has also been amended to provide for a special one-time lump sum bonus in the amount of 250,000, conditional upon, and payable following successful completion of a refinancing of the Company s obligations under our bridge loan agreement with Merrill Lynch and BNP Paribas, dated March 3, 2008.

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Peter T. Noone:

Mr. Noone, age 46, has been HTCC Delaware s General Counsel and Secretary since 1996. Prior to joining HTCC Delaware, Mr. Noone practiced law with a law firm in New York and with a law firm in Washington, D.C. Mr. Noone is licensed to practice law in the states of New York, New Jersey and Washington, as well as Washington D.C. In addition to a law degree, Mr. Noone has a B.S. in accounting and an MBA with a concentration in finance and international business from New York University s Stern School of Business.

Mr. Noone s employment agreement provides for an indefinite term with a 2008 annual base compensation of $257,070. The agreement also provides for an annual award of immediately-vested ten-year options to purchase at least 20,000 shares of Common Stock at an exercise price equal to the market price of the Common Stock on the date of grant, with a ten-year exercise period. Mr. Noone is eligible to receive an annual performance bonus at HTCC Delaware s discretion consisting of either cash, stock, additional stock options or a combination thereof. In February 2008, the Board awarded Mr. Noone a discretionary performance bonus for 2007 in the amount of $61,500. In connection with the Reorganization, the company has agreed to award Mr. Noone a discretionary cash bonus in the amount of $100,000, which bonus is contingent upon, and payable following, the completion of the Reorganization. The company has also agreed to provide Mr. Noone with a loyalty/retention bonus in the amount of $100,000. In addition, the company has amended Mr. Noone s employment agreement to increase the severance benefits by 25%.

Director Compensation

The following table provides compensation information for the one-year period ended December 31, 2008 for each current member of the Board that received any form of compensation in 2008.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total ($)
Ole Steen Andersen	32,500	36,700 (1)					69,200
Peter Feiner	20,500	36,700 (2)					57,200
Jens Due Olsen	21,500	36,700 (3)					58,200

(1) At year-end 2008, Mr. Andersen held 2,000 shares of common stock that were awarded to him for his service as a director of HTCC Delaware.

(2) At year end 2008, Mr. Feiner held 2,000 shares of common stock that were awarded to him for his service as a director of HTCC Delaware.

(3) At year-end 2008, Mr. Olsen held 2,000 shares of common stock that were awarded to him for his service as a director of HTCC Delaware.

The directors who are employees of TDC, our majority stockholder, are prohibited by TDC policy from accepting compensation for serving on our Board. We compensate directors who are not TDC employees with a fixed quarterly fee of $2,500, a per meeting fee of $1,000 for meetings held in-person and a per meeting fee of $500 for meetings held via telephonic conference call. The eligible directors also receive an annual grant of 2,000 shares of common stock for their Board service. Such shares vested upon the completion of the one-year Board term. For Audit Committee meetings, the directors are paid a per meeting fee of $1,000 for meetings held in-person and a per meeting fee of $500 for meetings held via telephonic conference call. The Chairman of the Audit Committee also receives a $2,500 fixed quarterly fee. The company also reimburses the directors for their out-of-pocket expenses.

Henrik Scheinemann. (Age: 43; director since December 2006; Chairman) Mr. Scheinemann has been with TDC since 2004. He is currently a Vice-President in TDC s Mergers & Acquisition department. Prior to that, he was a Vice-President of TDC Mobile International from 2005 to 2007. From 2004 to 2005, he was a director in TDC s Corporate Business Development department. From 2002 to 2004, he was an independent

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business consultant. From 2000 to 2002, Mr. Scheinemann worked with some emerging technology start-up companies. From 1994 to 2000, Mr. Scheinemann was with the Industrial Fund for Developing Countries. Mr. Scheinemann is one of four representatives of TDC currently on the Board of Directors. Pursuant to an agreement with TDC, we are required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Directors and Executive Officers of HTCC Delaware Security Ownership of Executive Officers and Directors and Business of HTCC Delaware Related Party Transactions.

Carsten Dyrup Revsbech. (Age: 39; director since December 2006; Vice-Chairman) Mr. Revsbech has been with TDC since 2000. He is currently a Senior Vice-President and the Chief Financial Officer of TDC s Mobile Nordic Group. From 2000 to 2006, he was a director in TDC s Corporate Business Development department. From 2004 to 2005, he served as the head of Mergers & Acquisitions for QTel, the incumbent telecom operator in Qatar. Mr. Revsbech is one of four representatives of TDC currently on the Board of Directors. Pursuant to an agreement with TDC, we are required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Directors and Executive Officers of HTCC Delaware Security Ownership of Executive Officers and Directors and Business of HTCC Delaware Related Party Transactions.

Ole Steen Andersen. (Age: 62; director since September 2006) Mr. Andersen, a Danish citizen was, until his retirement on June 30, 2007, the Chief Financial Officer and a member of the Executive Committee of Danfoss A/S. Danfoss, based in Denmark, is a privately held global company with approximately 21,000 employees. Danfoss is a leader in the development and production of mechanical and electronic products and controls used to heat and cool homes and offices, refrigerate food and control production lines. Mr. Andersen was hired by Danfoss in 1994 and served as its Chief Financial Officer from 2000 until his 2007 retirement. Mr. Andersen currently serves on several boards of directors. He is the Chairman of the Board of Directors of BB Electronics A/S, a Denmark-based private equity-held company which provides electronic subassemblies. Mr. Andersen is the Chairman of the Board of Directors of Auriga Industries A/S, a global chemicals company. Mr. Andersen is the Chairman of the Board of Directors of Pharmexa A/S, a global biotechnology company. Mr. Andersen is the Chairman of the Board of Directors of Hedge Corp. A/S, an IT financial resources company. Mr. Andersen is also the Chairman of the Danish Association for Private Equity and Venture Capital. Mr. Andersen is also a director of SPEAS A/S, a funds-of-funds company; Sanistaal A/S, a wholesale company; and AVK Holdings A/S, a company which manufactures water valves. Auriga, Pharmexa, SPEAS and Sanistaal are all based in Denmark and are traded on the Nasdaq OMX Copenhagen stock exchange. In addition, Mr. Andersen is the Nordic advisor for CVC Capital, a Luxembourg-based private equity company and a member of the Advisory Board of Danish Merchant Capital, a financial service company.

Robert Dogonowski. (Age: 37; director since January 2007) Mr. Dogonowski has been with TDC since 2004. He is currently a director in TDC s Group Strategy department. Prior to joining TDC, Mr. Dogonowski was a principal at Cap Gemini (2000 to 2004) and a consultant with Accenture (1998 to 2000). Mr. Dogonowski is one of four representatives of TDC currently on the Board of Directors. Pursuant to an agreement with TDC, we are required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Directors and Executive Officers of HTCC Delaware Security Ownership of Executive Officers and Directors and Business of HTCC Delaware Related Party Transactions.

Peter Feiner. (Age 41; director since May 2007) Mr. Feiner is with SPAR Magyarország Kereskedelmi Kft. (SPAR Hungary). Spar Hungary is owned by Spar Austria. Spar Hungary operates supermarkets and hypermarkets throughout Hungary and is part of the world s largest retail food store chain operating under the brand name Spar . He has been the managing director of Spar Hungary since joining SPAR Hungary in 1998 and has been the head of Spar Hungary s Board of Directors since 2004. Mr. Feiner has been the President of the Hungarian Trade Association since 2005.

Morten Bull Nielsen. (Age 34; director since October 2008) Mr. Nielsen, an attorney, has been with TDC since 2000. He is currently a Director in Legal and regulatory of TDC and secretary to the board of TDC. Prior to rejoining TDC. Mr. Nielsen was an assistant attorney at Lind Cadovius law firm in Copenhagen (2003 to 2004).

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Jens Due Olsen. (Age: 45; director since March 2007) Mr. Olsen is currently a financial consultant. He was an Executive Vice-President and Chief Financial Officer of GN Store Nord A/S (G/N) until the end of 2007. Mr. Olsen was with GN since 2001. GN, a manufacturer of headsets and related products, is a Danish-based public company listed on the Nasdaq OMX Copenhagen stock exchange. Mr. Olsen currently serves on several boards of directors. Mr. Olsen is on the Board of Directors of NKT Holdings A/S, Danish-based public company listed on the Nasdaq OMX Copenhagen stock exchange, which is a manufacturer of cleaning devices, power cables and flex-pipers for the offshore industry. He is also on the Board of Directors of Industries Pension A/S, a Danish pension fund, and Cryptomathic, a privately held Danish company which provides e-security software and services. Mr. Olsen is also on the Board of Directors of Co+Høgh, a Danish based advertising company. He is also on the Board of Directors of Johnsen Oil A/S, which is an international provider of oil cleaning solutions to the equipment industry.

Security Ownership of Executive Officers and Directors

The following table sets forth the beneficial ownership of HTCC Delaware s common stock as of January 30, 2009, for each current director and each Named Executive Officer.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
	Named Executive Officers		
Common Stock	Robert Bowker, Chief Financial Officer	246,769 (2)	1.5%
Common Stock	Martin Lea, President and Chief Executive Officer	401,377 (3)	2.4%
Common Stock	Peter T. Noone, General Counsel and Secretary	169,610 (4)	1%
	Directors		
Common Stock	Ole Steen Andersen	5,500 (5)	*
Common Stock	Robert R. Dogonowski	0(6)	0
Common Stock	Peter Feiner	4,000 (7)	*
Common Stock	Morten Bull Nielsen	0(6)	0
Common Stock	Jens Due Olsen	4,500 (8)	*
Common Stock	Carsten Dyrup Revsbech	0(6)	0
Common Stock	Henrik Scheinemann	0(6)	0

* Less than one percent

(1) Shares Beneficially Owned includes shares held directly, as well as shares which such persons have the right to acquire within 60 days of January 30, 2009 and shares held by certain members of such persons families, over which such persons may be deemed to have sole or shared voting power or investment power. Percent of Class is calculated by dividing the Shares Beneficially Owned by the individual (or group) by the shares of Common Stock outstanding as of January 30, 2009 plus only those shares which the individual (or group) has the right to acquire within 60 days of January 30, 2009.

(2) Consists of shares of common stock held by Rob Investments Limited, over which Mr. Bowker has voting and investment power.

(3) Consists of shares of common stock held by Vision 10 Limited, over which Mr. Lea has voting and investment power.

(4) Includes 160,000 shares subject to currently exercisable stock options.

(5) Consists of 5,500 shares granted from our 2004 Long-Term Incentive Plan.

(6) Does not include shares reported to be beneficially owned by TDC A/S. Henrik Scheinemann, Robert R. Dogonowski, Carsten Dyrup Revsbech and Morten Bull Nielsen, directors of the company, serve as officers of TDC A/S.

(7) Consists of 4,000 shares granted from our 2004 Long-Term Incentive Plan.

(8) Consists of 4,500 shares granted from our 2004 Long-Term Incentive Plan.

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PRINCIPAL STOCKHOLDERS OF HTCC DELAWARE

On February 2, 2009 our officers and directors owned approximately 6% of HTCC Delaware common stock.

Approximately 30% of outstanding HTCC Delaware common stock is traded in the public markets. Our common stock is listed on the NYSE Alternext under the symbol HTC.

On February 2, 2009 TDC owned 10,499,782 shares or approximately 63.9% of our outstanding common stock.

TDC, based in Copenhagen, Denmark, is the leading provider of communications solutions in Denmark and a strong player in the Nordic business market. TDC has developed from a traditional provider of landline and mobile services into a provider of modern telecommunications solutions. TDC s largest shareholder is Nordic Telephone Company ApS (NTC), which owns approximately 88% of the outstanding equity in TDC. NTC is a Danish entity owned by five private equity firms.

At December 31, 2007, TDC had total assets of Danish kroner 79.5 billion (approximately $15.7 billion) and shareholders equity of Danish kroner 10.4 billion (approximately $2.1 billion). For 2007, TDC had net income of Danish kroner 8.17 billion (approximately $1.6 billion) on net revenues of Danish kroner 39.3 billion (approximately $7.8 billion).

Certain agreements with TDC provide TDC with certain preemptive rights to purchase, upon the issuance of common stock in certain circumstances to third parties, shares of HTCC Delaware common stock in order to maintain its percentage ownership interest of the outstanding common stock.

TDC has informed HTCC Delaware that it intends to convert its 30,000 Series A Preferred Shares into 300,000 shares of HTCC common stock immediately prior to the merger.

As of July 16, 2008, according to its statement of beneficial ownership on Schedule 13D filed with the SEC, Straumur-Burdaras Investment Bank hf., an Icelandic investor, owned 1,651,911 shares of common stock of HTCC Delaware, representing approximately 10.1% of our outstanding common stock.

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HTCC DELAWARE MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

In this section, the words we, us and our generally refer to HTCC Delaware and its operating subsidiaries.

Overview

We were incorporated in Delaware in 1992 as a holding company to acquire concessions from the government of the Republic of Hungary to own and operate local fixed line telecommunications networks in Hungary as Hungary privatized its telecommunications industry. We are the second largest fixed line telecommunications services provider in Hungary and the incumbent provider of fixed line telecommunications services to residential and business customers in our 14 historical concession areas, where we have a dominant market share. We are the number one alternative fixed line operator outside our historical concession areas. We also use our network capacity to transport voice, data and Internet traffic for other telecommunications service providers and Internet Service Providers (ISPs) on a wholesale basis. Our network extends into 14 countries in the Central and South Eastern European region where we have owned points of presence (POPs). We are a leading provider of wholesale data and capacity services in the Central and South Eastern European Region.

We provide telecommunications services in Hungary and in the region through our Hungarian and other operating subsidiaries under our common brand: Invitel. We also provide Internet and data services to business customers in Romania through our Romanian subsidiary, Euroweb Romania.

Our historical concession areas are geographically clustered and cover an estimated 2.1 million people, representing approximately 21% of Hungary s population. Outside our historical concession areas, we believe that we are well positioned to continue to grow our revenue and market share using our owned state-of-the-art backbone network, our experienced sales force and our comprehensive portfolio of services. Our extensive backbone network (comprising approximately 8,500 route kilometers in Hungary and 19,000 route kilometers outside Hungary) provides us with nationwide and international reach. It allows business customers to be connected directly to our network to access voice, data and Internet services. Our regional network allows us to offer telecommunications network capacity on a wholesale basis to large international carriers.

We have a diversified revenue and cash flow base, making us less susceptible to market pressures in any particular market segment. For the nine months ended September 30, 2008, we derived approximately 30% of our revenue from Mass Market Voice, 10% from Mass Market Internet, 27% from Business and 33% from Wholesale.

As of January 1, 2008, we completed the legal consolidation of some of our Hungarian operating subsidiaries. Hungarotel, PanTel and Euroweb Hungary have merged into Invitel. With the legal merger complete, we are benefiting from improved efficiencies and reduced administrative costs.

As of September 30, 2008, we had approximately 389,000 telephone lines connected to our network within our historical concession areas to service Mass Market Voice customers and we had approximately 526,000 active Mass Market Voice customers outside our historical concession areas connected through Carrier Pre-Selection (CPS), Carrier Selection (CS) or Local Loop Unbundling (LLU). This is compared to December 31, 2007 when we had approximately 405,000 telephone lines in service within our historical concession areas to service Mass Market Voice customers and approximately 662,000 active Mass Market Voice customers connected through indirect access outside our historical concession areas. The decrease in the number of active Mass Market Voice customers outside our historical concession areas is due to churn of low value CS customers.

The number of our Mass Market broadband DSL customers has increased from approximately 122,000 as of December 31, 2007 to approximately 135,000 as of September 30, 2008. The number of our IPTV customers increased to 1,380 as of September 30, 2008 since the beginning of May, the introduction of this service.

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In the Business segment, as of September 30, 2008, we had approximately 47,000 voice telephone lines within our historical concession areas, which is the same as the 2007 year-end level. Outside our historical concession areas, we had approximately 59,000 direct access voice telephone lines and approximately 12,000 indirect access voice telephone lines as of September 30, 2008, compared to approximately 58,000 direct access voice telephone lines and approximately 13,000 indirect access voice telephone lines as of December 31, 2007. As of September 30, 2008, we had approximately 18,000 DSL lines and approximately 15,000 leased lines compared to approximately 16,000 DSL lines and approximately 12,000 leased lines at 2007 year-end.

In the Wholesale market, we had over 570 customers as of September 30, 2008 compared to over 300 as of December 31, 2007. Wholesale customers include telecommunication services providers from Western Europe and the United States, incumbent telecommunications services providers, alternative fixed line telecommunications services providers, mobile operators, cable television operators and Internet Service Providers. The increase in the number of Wholesale customers is primarily due to the acquisition of Memorex.

We generated net income for the years 2005 and 2006. For the year ended December 31, 2007 we generated net losses in the amount of $96.5 million. Net losses generated for the year ended December 31, 2007 were mainly due to: (i) losses arising from fair value changes of our derivative financial instruments in the amount of $54.0 million; (ii) losses from the fair value change of warrants issued to TDC in the amount of $15.1 million; (iii) foreign exchange losses relating to our euro denominated debt and other liabilities in the amount of $6.5 million; and (iv) the loss on extinguishment of debt relating to the Invitel Acquisition in the amount of $5.1 million and an increase in our interest expense. For the nine months ended September 30, 2008 we generated net losses in the amount of $43.9 million, mainly due to losses arising from fair value changes of our derivative financial instruments in the amount of $31.1 million and our interest expense of $87.7 million. We expect that our net loss will decrease (or become positive net income) in the future mainly due to a decrease in our losses relating to derivative financial instruments, although no assurance can be given in this regard.

Our goal is to provide customers with good value telecommunications services coupled with exceptional service and to be a cost efficient telecommunications service provider. Our primary risk is our ability to retain existing customers and attract new customers in a competitive market. Our success depends upon our operating and marketing strategies, as well as market acceptance of our telecommunications services within Hungary and the region.

We will continue to explore other strategic merger, acquisition or alliance opportunities. In addition, we will also continuously review our service portfolio to identify service opportunities that can enhance our competitive position.

Critical Accounting Policies

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. This requires management to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. U.S. GAAP provides the framework from which to make these estimates, assumptions and disclosures. We choose accounting policies within U.S. GAAP that we believe are appropriate to accurately and fairly report our operating results and financial position in a consistent manner. We regularly assess these policies in light of current and forecasted economic and regulatory conditions. We believe the following accounting policies are critical to understanding our results of operations and the effect of the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition Revenues are primarily earned from providing access to and usage of our networks and facilities. Access revenue is billed one month in advance and recognized the following month when earned. Revenues based on measured traffic are recognized when the service is rendered.

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Wholesale data revenue from leased lines is based on the bandwidth of the service and the particular route involved and is recognized in the period of usage or when the service is available to the customer.

From time to time, we sell fiber optical assets to other telecommunications companies. Revenue is recognized as and when the transfer of ownership is complete.

Goodwill We assess the fair value of goodwill at each reporting unit at least once a year. To the extent that information indicates that the carrying amount of our net assets exceed the estimated fair value, we will recognize an impairment charge. The estimated fair value of the company is determined using two methods. The first method places a per access line fair value on each of our historical concession areas access lines and compares this to the book value of our net assets in our historical concession areas. The second method compares our market capitalization to the book value of our net assets. During 2007, we performed our annual impairment testing with respect to goodwill, and based upon the results, we concluded that there is no impairment to the carrying value of goodwill reported in our financial statements. Our estimate of fair value will be subject to revision as market conditions change.

Long-lived Assets Long-lived assets, consisting primarily of property, plant and equipment and intangible assets, including concession rights, property rights and software comprise a significant portion of our total assets. Changes in technology, changes in our intended use of these assets and/or changes in the regulatory environment may cause the estimated period of use or the value of these assets to change. These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Estimates and assumptions used in both setting depreciable lives and reviewing recoverability require both judgment and estimation by management. Impairment is deemed to have occurred if projected undiscounted cash flows related to the asset are less than its carrying value. If impairment is deemed to have occurred, the carrying values of the assets are written down, through a charge against earnings, to their fair value.

Contingent Liabilities We establish accruals for estimated loss contingencies when we determine that a loss is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liabilities are reflected in income in the period in which different facts or information become known or circumstances change that affect our previous assessments as to the likelihood of and estimated amount of loss. Accruals for contingent liabilities are based upon our assumptions and estimates, after giving consideration to the advice of legal counsel and other information relevant to the assessment of the probable outcome of the matter. Should the outcome differ from the assumptions and estimates, revisions to the estimated accruals for contingent liabilities would be required.

Income Taxes In assessing the reliability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider projected future taxable income and tax planning in making these assessments. Actual income taxes could vary from these estimates due to future changes in the income tax laws or the results from reviews of our tax returns by taxing authorities.

Restatements

We refer to Note 1(c) in Notes to the Consolidated Financial Statements for the year ended December 31, 2007, on page F-11.

Comparison of Three-months Ended September 30, 2008 to Three-months Ended September 30, 2007

The functional currency of our Hungarian subsidiaries is the Hungarian forint, the functional currency of Memorex and Memorex s subsidiaries is the euro and the functional currency of our other subsidiaries outside Hungary is the applicable local currency. The average Hungarian forint/U.S. dollar exchange rate for the three months ended September 30, 2008 was 157.15, compared to an average Hungarian forint/U.S. dollar exchange rate for the three months ended September 30, 2007 of 183.27. The average U.S. dollar/euro exchange rate for the three months ended September 30, 2008 was 1.50, compared to an average U.S. dollar/euro exchange rate for the three months ended September 30, 2007 of 1.37. When comparing the three months ended September 30, 2008 to the three months ended September 30, 2007, you should note that U.S. dollar reported amounts have been affected by the 17% appreciation of the Hungarian forint against the U.S. dollar and the 9% appreciation of the euro against the U.S. dollar. Certain amounts in functional currency terms have been reported in U.S. dollars using a fixed exchange rate for comparative purposes.

Our results have also been affected by the inclusion of Invitel s results since April 27, 2007, the date of the Invitel Acquisition; the results of Tele2 Hungary since October 18, 2007, the date of the Tele2 Hungary Acquisition; and the results of Memorex since March 5, 2008, the date of the Memorex Acquisition. Our results for the three months ended September 30, 2007 include the results of Invitel and do not include the results of Tele2 Hungary and Memorex.

Revenue

(dollars in millions)	**Three Months Ended September 30, 2008**	**2007**	**% change**
Mass Market Voice	$ 41.8	$ 33.3	26%
Business	40.4	34.6	17%
Mass Market Internet	14.9	11.6	28%
Wholesale	56.0	36.6	53%
Total Revenue	**153.1**	**116.1**	**32%**

Our revenue in U.S. dollar terms increased by $37.0 million, or 32% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. In functional currency terms, revenue increased by 14%. This increase is attributable to the factors described below.

Mass Market Voice

Our Mass Market Voice revenue for the three months ended September 30, 2008 was $41.8 million compared to $33.3 million for the three months ended September 30, 2007, representing an increase of $8.5 million or 26%. This increase is mainly due to: (i) the addition of Tele2 Hungary, which resulted in additional revenue of $6.1 million; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar during the three months ended September 30, 2008 compared to the prior year.

The number of Mass Market Voice telephone lines within our historical concession areas was approximately 389,000 as of September 30, 2008 compared to 412,000 as of September 30, 2007 and the number of Carrier Selection (CS) and Carrier Pre-Selection (CPS) customers that represents our customer base outside our historical concession areas was approximately 526,000 as of September 30, 2008 compared to 220,000 as of September 30, 2007. The significant increase in the number of Mass Market Voice CPS customers between September 30, 2008 and 2007 is due to the acquisition of Tele2 Hungary on October 18, 2007. Tele2 Hungary had approximately 459,000 CPS customers as of September 30, 2007.

Business

Our Business revenue for the three months ended September 30, 2008 was $40.4 million compared to $34.6 million for the three months ended September 30, 2007, representing a $5.8 million or 17% increase. This increase was primarily due to: the 17% appreciation of the Hungarian forint against the U.S. dollar as Business revenue in functional currency terms was flat for the three months ended September 30, 2008 compared to the same period in 2007.

The number of Business voice telephone lines inside our historical concession areas was approximately 47,000 both as of September 30, 2008 and 2007. The number of direct access Business voice telephone lines outside our historical concession areas was approximately 59,000 as of September 30, 2008 compared to 55,000 as of September 30, 2007 and the number of indirect access Business voice telephone lines outside our historical concession areas was approximately 12,000 as of September 30, 2008 compared to approximately 13,000 as of September 30, 2007. In addition, we had approximately 18,000 DSL lines and approximately 15,000 leased lines as of September 30, 2008 compared to approximately 15,000 DSL lines and approximately 13,000 leased lines as of September 30, 2007.

Mass Market Internet

Our Mass Market Internet revenue increased by $3.3 million, or 28% from $11.6 million for the three months ended September 30, 2007 to $14.9 million for the three months ended September 30, 2008. This increase is primarily due to: (i) the increase in our broadband DSL customer base; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

As of September 30, 2008 we had approximately 135,000 broadband DSL customers compared to approximately 115,000 broadband DSL customers as of September 30, 2007, which represents a 17% increase.

Wholesale

Our Wholesale revenue increased by $19.4 million, or 53% from $36.6 million for the three months ended September 30, 2007 to $56.0 million for the three months ended September 30, 2008. This increase is primarily attributable to: (i) the inclusion of Memorex s Wholesale revenue, which resulted in an additional $16.6 million in Wholesale revenue and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

Cost of Sales

	Three Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment cost of sales	$ 43.6	$ 38.7

Cost of sales, at the segment level, was $43.6 million for the three months ended September 30, 2008 and $38.7 million for the three months ended September 30, 2007, which represents an increase of $4.9 million or 13%. This increase is mainly attributable to: (i) the inclusion of Memorex s cost of sales, which resulted in additional cost of sales of $1.8 million and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment cost of sales to cost of sales as per our Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for the three months ended September 30, 2008 and 2007:

	Three Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment cost of sales	$ 43.6	$ 38.7
Backbone rental expenses	6.3	4.6
Network operating expenses	6.4	5.3
Direct personnel expenses	5.5	8.8
Total cost of sales	**$ 61.8**	**$ 57.4**

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Memorex Acquisition.

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Segment Gross Margin

(dollars in millions)	**Three Months Ended September 30, 2008**	**2007**	**% change**
Mass Market Voice	$ 33.5	$ 27.1	24%
Business	31.0	26.5	17%
Mass Market Internet	12.4	9.5	31%
Wholesale	32.6	14.3	128%
Segment Gross Margin	**109.5**	**77.4**	**41%**
Segment Gross Margin %	71.6%	66.7%	
Backbone rental expenses	(6.3)	(4.6)	
Network operating expenses	(6.4)	(5.3)	
Direct personnel expenses	(5.5)	(8.8)	
Selling, general and administrative	(28.7)	(19.1)	
Depreciation and amortization	(34.1)	(26.3)	
Income from operations	**$ 28.5**	**$ 13.3**	

Segment gross margin is the measure used by our management in assessing our segment performance and how to allocate resources.

Our segment gross margin increased from $77.4 million for the three months ended September 30, 2007 to $109.5 million for the three months ended September 30, 2008, an increase of $32.1 million or 41%. This increase is attributable to the factors described below.

Our segment gross margin percentage increased from 66.7% in the three months ended September 30, 2007 to 71.6% in the three months ended September 30, 2008. This improvement in segment gross margin percentage is due to the Memorex Acquisition.

Mass Market Voice

Our Mass Market Voice segment gross margin for the three months ended September 30, 2008 was $33.5 million compared to $27.1 million for the three months ended September 30, 2007, representing an increase of $6.4 million or 24%. This increase is mainly due to: (i) the addition of Tele2 Hungary, which resulted in additional segment gross margin of $3.8 million; (ii) the change in our segment gross margin mix due to changes in our customer base as described below; and (iii) the 17% appreciation of the Hungarian forint against of the U.S. dollar.

Our segment gross margin for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was also affected by: (i) the decrease in Mass Market Voice revenue inside our historical concession areas; offset by (ii) the increase in Mass Market voice revenue outside our historical concession areas and (iii) the reduction in interconnect charges.

Business

Our Business segment gross margin for the three months ended September 30, 2008 was $31.0 million compared to $26.5 million for the three months ended September 30, 2007, representing a $4.5 million or 17% increase. The increase was primarily due to the 17% appreciation of the Hungarian forint against the U.S. dollar as in functional currency terms Business segment gross margin for the three months ended September 30, 2008 was flat compared to the same period in 2007.

Mass Market Internet

Our Mass Market Internet segment gross margin increased by $2.9 million, or 31% from $9.5 million for the three months ended September 30, 2007 to $12.4 million for the three months ended September 30, 2008.

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This increase is primarily due to: (i) the increase in our broadband DSL customer base; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

Wholesale

Our Wholesale segment gross margin increased by $18.3 million, or 128% from $14.3 million for the three months ended September 30, 2007 to $32.6 million for the three months ended September 30, 2008. This increase is primarily attributable to (i) the inclusion of Memorex s Wholesale segment gross margin, which resulted in an additional segment gross margin of $14.8 million; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

Selling, General and Administrative

	Three Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment selling, general and administrative	$ 46.9	$ 37.8

Our selling, general and administrative expenses at the segment level, increased by $9.1 million from $37.8 million for the three months ended September 30, 2007 to $46.9 million for the three months ended September 30, 2008. This increase is mainly attributable to: (i) the inclusion of Memorex s selling, general and administrative expenses, which resulted in an increase of $8.5 million; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment selling, general and administrative expenses to selling, general and administrative expenses as per our Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for the three months ended September 30, 2008 and 2007:

	Three Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment selling, general and administrative	$ 46.9	$ 37.8
Backbone rental expenses	(6.3)	(4.6)
Network operating expenses	(6.4)	(5.3)
Direct personnel expenses	(5.5)	(8.8)
Total selling, general and administrative	**$ 28.7**	**$ 19.1**

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Memorex Acquisition.

Depreciation and Amortization

	Three Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Depreciation and amortization	$ 34.1	$ 26.3

Depreciation and amortization increased by $7.8 million from $26.3 million for the three months ended September 30, 2007 to $34.1 million for the three months ended September 30, 2008. This increase is mainly due to: (i) the inclusion of Memorex s depreciation and amortization charges, which resulted in additional depreciation and amortization expense of $3.6 million; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

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Income from Operations

(dollars in millions)	Three Months Ended September 30, 2008	2007
Income from operations	$ 28.5	$ 13.3

As a result of the factors described above our income from operations increased by $15.2 million from $13.3 million for the three months ended September 30, 2007 to $28.5 million for the three months ended September 30, 2008.

Foreign Exchange Gains / (Losses), Net

(dollars in millions)	Three Months Ended September 30, 2008	2007
Foreign exchange gains (losses), net	$ (11.4)	$ (8.2)

Our foreign exchange losses of $11.4 million for the three months ended September 30, 2008 resulted primarily from: (i) unrealized losses relating to the revaluation of our euro denominated debt at period end amounting to $13.4 million; offset by (ii) foreign exchange gains on our receivables in the amount of $2.0 million. The increase in our foreign exchange losses for the three months ended September 30, 2008 compared to 2007 is due to the increase in our debt and the change in the HUF/EUR exchange rate.

Interest Expense

(dollars in millions)	Three Months Ended September 30, 2008	2007
Interest expense	$ 29.8	$ 19.2

Interest expense increased by $10.6 million from $19.2 million for the three months ended September 30, 2007 to $29.8 million for the three months ended September 30, 2008. This increase is mainly due to: (i) the interest expense on the Bridge Loans of $4.2 million relating to the Memorex Acquisition; and (ii) the 17% appreciation of the Hungarian forint against the U.S. dollar.

Interest Income

(dollars in millions)	Three Months Ended September 30, 2008	2007
Interest income	$ 1.0	$ 0.5

Our interest income was $1.0 million for the three months ended September 30, 2008 and $0.5 million for the three months ended September 30, 2007. Interest income was realized on our cash and cash equivalents balance during these periods.

Gains / (Losses) from Fair Value Changes of Derivative Financial Instruments

(dollars in millions)	Three Months Ended September 30, 2008	2007
Gains / (losses) from fair value changes of derivative financial instruments	$ 6.4	$ 6.6

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The $6.4 million gain on the fair value changes of derivative financial instruments for the three months ended September 30, 2008 and the $6.6 million gain on the fair value changes of derivative financial instruments for the three months ended September 30, 2007 is primarily due to the changes in the unrealized fair value of the hedges entered into in connection with the debt assumed as part of the Invitel Acquisition. See Quantitative and Qualitative Disclosures about Market Risks on page 128.

Income Tax Benefit / (Expense)

(dollars in millions)	Three Months Ended September 30, 2008	2007
Corporate tax	(0.1)	
Local business tax	(15.5)	(2.4)
Current tax benefit / (expense)	(15.6)	(2.4)
Deferred tax benefit / (expense)	(1.1)	(1.8)
Total income tax benefit / (expense)	**$ (14.5)**	**$ (4.1)**

Our income tax expense changed from $4.1 million for the three months ended September 30, 2007 to $14.5 million for the three months ended September 30, 2008, primarily due to: (i) an increase in local tax expense due to a $13.0 million payable in relation to a municipality tax court case decision (see Note 11 Subsequent Events); offset by (ii) the change in our deferred tax from an expense of $1.8 million for the three months ended September 30, 2007 to a benefit of $1.1 million for the three months ended September 30, 2008 due to an increase in our deferred tax asset realized resulting from generation of net operating losses.

Net Income / (Loss) Attributable to Common Stockholders

(dollars in millions)	Three Months Ended September 30, 2008	2007
Net income / (loss) attributable to common stockholders	$ (20.1)	$ (11.2)

As a result of the factors discussed above, we recorded a net loss attributable to common stockholders of $20.1 million, or $1.23 per basic share and $1.23 per share on a diluted basis, for the three months ended September 30, 2008 compared to a net loss attributable to common stockholders of $11.2 million, or $0.68 per basic share and $0.68 per share on a diluted basis, for the three months ended September 30, 2007.

Comparison of Nine-months Ended September 30, 2008 to Nine-months Ended September 30, 2007

The functional currency of our Hungarian subsidiaries is the Hungarian forint, the functional currency of Memorex and Memorex s subsidiaries is the euro and the functional currency of our other subsidiaries outside Hungary is the applicable local currency. The average Hungarian forint/U.S. dollar exchange rate for the nine months ended September 30, 2008 was 162.97, compared to an average Hungarian forint/U.S. dollar exchange rate for the nine months ended September 30, 2007 of 186.73. The average U.S. dollar/euro exchange rate for the nine months ended September 30, 2008 was 1.52, compared to an average U.S. dollar/euro exchange rate for the nine months ended September 30, 2007 of 1.34. When comparing the nine months ended September 30, 2008 to the nine months ended September 30, 2007, you should note that U.S. dollar reported amounts have been affected by the 15% appreciation of the Hungarian forint against the U.S. dollar and the 13% appreciation of the euro against the U.S. dollar. Certain amounts in functional currency terms have been reported in U.S. dollars using a fixed exchange rate for comparative purposes.

Our results have also been affected by the inclusion of Invitel s results since April 27, 2007, the date of the Invitel Acquisition; the results of Tele2 Hungary since October 18, 2007, the date of the Tele2 Hungary

Acquisition; and the results of Memorex since March 5, 2008, the date of the Memorex Acquisition. Our results for the nine months ended September 30, 2007 include the results of Invitel for five months and do not include the results of Tele2 Hungary and Memorex.

Revenue

(dollars in millions)	Nine Months Ended September 30, 2008	2007	% change
Mass Market Voice	$ 127.4	$ 67.5	89%
Business	116.7	79.4	47%
Mass Market Internet	43.1	21.0	105%
Wholesale	145.4	90.2	61%
Total Revenue	**432.6**	**258.1**	**68%**

Our revenue in U.S. dollar terms increased by $174.5 million, or 68% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. In functional currency terms, revenue increased by 46%. This increase is attributable to the factors described below.

Mass Market Voice

Our Mass Market Voice revenue for the nine months ended September 30, 2008 was $127.4 million compared to $67.5 million for the nine months ended September 30, 2007, representing an increase of $59.9 million or 89%. This increase is mainly due to: (i) the addition of Tele2 Hungary, which resulted in additional revenue of $21.2 million; (ii) the fact that for the nine months ended September 30, 2008 Invitel s Mass Market Voice revenue was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Mass Market Voice revenue was included for only five months; and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar compared to the prior year.

The number of Mass Market Voice telephone lines within our historical concession areas was approximately 389,000 as of September 30, 2008 compared to 412,000 as of September 30, 2007 and the number of Carrier Selection (CS) and Carrier Pre-Selection (CPS) customers that represents our customer base outside our historical concession areas was approximately 526,000 as of September 30, 2008 compared to 220,000 as of September 30, 2007. The significant increase in the number of Mass Market Voice CPS customers between September 30, 2008 and 2007 is due to the acquisition of Tele2 Hungary on October 18, 2007. Tele2 Hungary had approximately 459,000 CPS customers as of September 30, 2007.

Business

Our Business revenue for the nine months ended September 30, 2008 was $116.7 million compared to $79.4 million for the nine months ended September 30, 2007, representing a $37.3 million or 47% increase. The increase was primarily due to (i) the fact that for the nine months ended September 30, 2008 Invitel s Business revenue was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Business revenue was included for only five months; and (ii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

The number of Business voice telephone lines inside our historical concession areas was approximately 47,000 as of both September 30, 2008 and 2007. The number of direct access Business voice telephone lines outside our historical concession areas was approximately 59,000 as of September 30, 2008 compared to 55,000 as of September 30, 2007 and the number of indirect access Business voice telephone lines outside our historical concession areas was approximately 12,000 as of September 30, 2008 compared to approximately 13,000 as of September 30, 2007. In addition, we had approximately 18,000 DSL lines and approximately 15,000 leased lines as of September 30, 2008 compared to approximately 15,000 DSL lines and approximately 13,000 leased lines as of September 30, 2007.

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Mass Market Internet

Our Mass Market Internet revenue increased by $22.1 million from $21.0 million for the nine months ended September 30, 2007 to $43.1 million for the nine months ended September 30, 2008. This increase is primarily due to: (i) the fact that for the nine months ended September 30, 2008 Invitel s Mass Market Internet revenue was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Mass Market Internet revenue was included for only five months; and (ii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

As of September 30, 2008 we had approximately 135,000 broadband DSL customers compared to approximately 115,000 broadband DSL customers as of September 30, 2007, which represents a 17% increase.

Wholesale

Our Wholesale revenue increased by $55.26 million, or 61% from $90.2 million for the nine months ended September 30, 2007 to $145.4 million for the nine months ended September 30, 2008. This increase is primarily attributable to: (i) the fact that for the nine months ended September 30, 2008 Invitel s Wholesale revenue was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Wholesale revenue was included for only five months; (ii) the inclusion of Memorex s Wholesale revenue, which resulted in an additional $36.3 million in revenue and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

For the nine months ended September 30, 2008, revenue generated from Vodafone Turkey amounted to EUR 1.3 million (approximately $1.9 million) or approximately 1.3% of total wholesale revenue for the same period ($145.4 million).

Cost of Sales

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment cost of sales	$ 125.3	$ 87.4

Cost of sales, at the segment level, totaled $125.3 million for the nine months ended September 30, 2008 and $87.4 million for the nine months ended September 30, 2007, representing an increase of $37.9 million or 43%. This increase is mainly attributable to: (i) the fact that for the nine months ended September 30, 2008 Invitel s cost of sales was included for the entire period, compared to nine months ended September 30, 2007, when Invitel s cost of sales was included for only five months; (ii) the inclusion of Memorex s cost of sales, which resulted in additional cost of sales of $4.3 million and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment cost of sales to cost of sales as per our Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment cost of sales	$ 125.3	$ 87.4
Backbone rental expenses	17.0	11.8
Network operating expenses	19.0	10.9
Direct personnel expenses	15.7	14.2
Total cost of sales	**$ 177.0**	**$ 124.3**

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Memorex Acquisition.

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Segment Gross Margin

	Nine Months Ended September 30,		
(dollars in millions)	**2008**	**2007**	**% change**
Mass Market Voice	$ 101.0	$ 54.7	85%
Business	89.1	59.8	49%
Mass Market Internet	35.7	17.5	104%
Wholesale	81.5	38.7	111%
Segment Gross Margin	**307.3**	**170.7**	**80%**
Segment Gross Margin %	71.0%	66.2%	
Backbone rental expenses	(17.0)	(11.8)	
Network operating expenses	(19.0)	(10.9)	
Direct personnel expenses	(15.7)	(14.2)	
Selling, general and administrative	(90.1)	(52.6)	
Depreciation and amortization	(93.0)	(51.8)	
Income from operations	**$ 72.4**	**$ 29.5**	

Our segment gross margin changed from $170.7 million for the nine months ended September 30, 2007 to $307.3 million for the nine months ended September 30, 2008, representing an increase of $136.6 million or 80%. This increase is attributable to the factors described below.

Our segment gross margin percentage increased from 66.2% for the nine months ended September 30, 2007 to 71.0% for the nine months ended September 30, 2008. This improvement in segment gross margin percentage is due to the fact that Invitel has a higher segment gross margin percentage than we had prior to the Invitel Acquisition.

Mass Market Voice

Our Mass Market Voice segment gross margin for the nine months ended September 30, 2008 was $101.0 million compared to $54.7 million for the nine months ended September 30, 2007, representing an increase of $46.3 million or 85%. This increase is mainly due to: (i) the addition of Tele2 Hungary, which resulted in additional segment gross margin of $12.3 million; (ii) the fact that for the nine months ended September 30, 2008 Invitel s Mass Market Voice segment gross margin was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Mass Market Voice segment gross margin was included for only five months; and (iii) the 15% appreciation of the Hungarian forint against of the U.S. dollar.

Our segment gross margin for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 was also impacted by: (i) the decrease in Mass Market Voice revenue inside our historical concession areas; offset by (ii) the increase in Mass Market voice revenue outside our historical concession areas and (iii) the reduction in interconnect charges.

Business

Our Business segment gross margin for the nine months ended September 30, 2008 was $89.1 million compared to $59.8 million for the nine months ended September 30, 2007, representing a $29.3 million or 49% increase. The increase was primarily due to: (i) the fact that for the nine months ended September 30, 2008 Invitel s Business segment gross margin was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Business gross margin was included for only five months; and (ii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

Mass Market Internet

Our Mass Market Internet segment gross margin increased by $18.2 million from $17.5 million for the nine months ended September 30, 2007 to $35.7 million for the nine months ended September 30, 2008. This

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increase is primarily due to: (i) the fact that for the nine months ended September 30, 2008 Invitel s Mass Market Internet segment gross margin was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Mass Market Internet segment gross margin was included for only five months; and (ii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

Wholesale

Our Wholesale segment gross margin increased by $42.8 million or 111% from $38.7 million for the nine months ended September 30, 2007 to $81.5 million for the nine months ended September 30, 2008. This increase is primarily attributable to: (i) the fact that for the nine months ended September 30, 2008 Invitel s Wholesale segment gross margin was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s Wholesale segment gross margin was included for only five months; (ii) the inclusion of Memorex s Wholesale segment gross margin, which resulted in an additional segment gross margin of $32.0 million; and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

Selling, General and Administrative

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment selling, general and administrative	$ 141.8	$ 89.5

Our selling, general and administrative expenses at the segment level, increased by $52.3 million from $89.5 million for the nine months ended September 30, 2007 to $141.8 million for the nine months ended September 30, 2008. This increase is mainly attributable to: (i) the fact that for the nine months ended September 30, 2008 Invitel s selling, general and administrative expenses were included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s selling, general and administrative expenses were included for only five months; (ii) the inclusion of Memorex s selling, general and administrative expenses which resulted in an increase of $22.7 million; and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment selling, general and administrative expenses to selling, general and administrative expenses as per our Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Segment selling, general and administrative	$ 141.8	$ 89.5
Backbone rental expenses	(17.0)	(11.8)
Network operating expenses	(19.0)	(10.9)
Direct personnel expenses	(15.7)	(14.2)
Total selling, general and administrative	$ 90.1	$ 52.6

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Memorex Acquisition.

Depreciation and Amortization

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Depreciation and amortization	$ 93.0	$ 51.8

Depreciation and amortization increased by $41.2 million from $51.8 million for the nine months ended September 30, 2007 to $93.0 million for the nine months ended September 30, 2008. This increase is mainly due

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to: (i) the fact that for the nine months ended September 30, 2008 Invitel s depreciation and amortization expense was included for the entire period, compared to the nine months ended September 30, 2007, when Invitel s depreciation and amortization expense was included for only five months; (ii) the inclusion of Memorex s depreciation and amortization expense, which resulted in additional depreciation and amortization expense of $10.2 million; and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

Income from Operations

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Income from operations	$ 72.4	$ 29.5

As a result of the factors described above, income from operations increased by $42.9 million from $29.5 million for the nine months ended September 30, 2007 to $72.4 million for the nine months ended September 30, 2008.

Foreign Exchange Gains / (Losses), Net

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Foreign exchange gains (losses), net	$ 22.7	$ (1.7)

Our foreign exchange gains of $22.7 million for the nine months ended September 30, 2008 resulted primarily from: (i) $27.6 million of unrealized gains due to the revaluation of our euro denominated debt at period end as a result of the strengthening of the Hungarian forint against the euro during the nine months ended September 30, 2008; offset by (ii) $4.9 million of unrealized foreign exchange loss on the revaluation of our receivables.

Our foreign exchange losses of $1.7 million for the nine months ended September 30, 2007 resulted primarily from the period end revaluation of our euro denominated debt.

Interest Expense

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Interest expense	$ 87.7	$ 37.3

Our interest expense increased by $50.4 million from $37.3 million for the nine months ended September 30, 2007 to $87.7 million for the nine months ended September 30, 2008. This increase is mainly due to: (i) the inclusion of the interest expense attributable to our assumed debt from the Invitel Acquisition for the nine months ended September 30, 2008, which resulted in an additional $47.8 million of interest expense; (ii) the additional interest expense of $17.8 million as a result of the issuance of the 2007 Notes in connection with the Invitel Acquisition; (iii) interest expense on the Bridge Loan of $10.0 million relating to the Memorex Acquisition; and (iv) the 15% appreciation of the Hungarian forint against the U.S. dollar.

Interest Income

	Nine Months Ended September 30,	
(dollars in millions)	**2008**	**2007**
Interest income	$ 1.5	$ 1.0

Our interest income was $1.5 million for the nine months ended September 30, 2008 and $1.0 million for the nine months ended September 30, 2007. Interest income was realized on our cash balance during these periods.

Gains / (Losses) from Fair Value Changes of Derivative Financial Instruments

(dollars in millions)	Nine Months Ended September 30, 2008	2007
Gains / (losses) from fair value changes of derivative financial instruments	$ (31.2)	$ (59.3)

The losses of $31.2 million and $59.3 million loss on the fair value changes of derivative financial instruments for the nine months ended September 30, 2008 and 2007, respectively, are primarily the result of the changes in the unrealized fair value of the hedges entered into in connection with the debt assumed as part of the Invitel Acquisition. See Quantitative and Qualitative Disclosures about Market Risks on page 128.

Gains / (Losses) from Fair Value Change of Warrants

(dollars in millions)	Nine Months Ended September 30, 2008	2007
Gains / (losses) from fair value change of warrants	$	$ (15.1)

In May 1999, we issued notes (the Notes) in an aggregate amount of $25.0 million with detachable warrants (the Warrants) to purchase 2,500,000 shares of our common stock at a price of $10 per share. The Notes were canceled upon the exercise of the Warrants by TDC, our majority stockholder, on March 28, 2007. In accordance with Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, we recorded a loss of $15.1 million upon exercise of the Warrants.

Income Tax Benefit / (Expense)

(dollars in millions)	Nine Months Ended September 30, 2008	2007
Corporate tax	0.1	(0.2)
Local business tax	(19.5)	(5.7)
Current tax benefit / (expense)	(19.4)	(5.9)
Deferred tax benefit / (expense)	(0.1)	9.8
Total income tax benefit / (expense)	$ (19.5)	$ 3.9

Our income tax changed from a benefit of $3.9 million for the nine months ended September 30, 2007 to an expense of $19.5 million for the nine months ended September 30, 2008, primarily due to the increase in local tax expense due to a $13.0 million payable in relation to a municipality tax court case decision (see Note 11 Subsequent Events).

Net Income / (Loss) Attributable to Common Stockholders

(dollars in millions)	Nine Months Ended September 30, 2008	2007
Net income / (loss) attributable to common stockholders	$ (43.9)	$ (82.0)

As a result of the factors discussed above (mainly losses arising from the fair value changes of our derivative financial instruments in the amount of $31.1 million and our interest expense of $87.7 million), we recorded a net loss attributable to common stockholders of $43.9 million or $2.68 per basic share and $2.68 per share on a diluted basis, for the nine months ended September 30, 2008 compared to a net loss attributable to common stockholders of $82.0 million, or $5.40 per basic share and $5.40 per share on a diluted basis, for the nine months ended September 30,

2007. We expect that our net loss will decrease in the future, mainly due to a decrease in our losses relating to derivative financial instruments, although no assurance can be given in this regard.

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Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006

The functional currency of our Hungarian subsidiaries is the Hungarian forint and the functional currency of our subsidiaries outside Hungary is the applicable local currency. The average Hungarian forint/U.S. dollar exchange rate for year ended December 31, 2007 was 183.83, compared to an average Hungarian forint/U.S. dollar exchange rate for the year ended December 31, 2006 of 210.39. When comparing the year ended December 31, 2007 to the year ended December 31, 2006, you should note that U.S. dollar reported amounts have been affected by this 15% appreciation in the Hungarian forint against the U.S. dollar. Results have also been affected by the inclusion of Invitel s results since April 27, 2007, the date of the Invitel Acquisition, and the inclusion of the results of Tele2 Hungary from October 18, 2007, the date of the Tele2 Hungary Acquisition. Certain 2006 amounts have been restated. See note 1(c) in Notes to Consolidated Financial Statements.

Revenue

(dollars in millions)	Year Ended December 31, 2007	2006	% change
		(as restated)	
Mass Market Voice	$ 108.8	$ 33.5	225%
Business	125.9	70.7	78%
Mass Market Internet	33.6	3.3	918%
Wholesale	116.9	81.8	43%
Total Revenue	**385.2**	**189.3**	**103%**

Our revenue increased in U.S. dollar terms by $195.9 million, or 103%, between the year ended December 31, 2007 and the year ended December 31, 2006. In functional currency terms, revenue increased by 78%. This increase is attributable to the factors described below. (Certain amounts in functional currency terms have been reported in U.S. dollars using a fixed exchange rate of 183.83 Hungarian forint/U.S. dollar for comparative purposes.)

Mass Market Voice

Our Mass Market Voice revenue for the year ended December 31, 2007 was $108.8 million compared to $33.5 million for the year ended December 31, 2006, representing an increase of $75.3 million or 225%. This increase is mainly due to: (i) the inclusion of Invitel s and Tele2 Hungary s Mass Market Voice revenue of $71.3 million; and (ii) the 15% appreciation in the Hungarian forint against the U.S. dollar compared to the prior year.

The inclusion of Invitel s and Tele2 Hungary s revenue for the year ended December 31, 2007 added $71.3 million in Mass Market Voice revenue. The number of Mass Market Voice telephone lines within the Invitel historical concession areas was approximately 294,000 as of December 31, 2007 and the number of Invitel s and Tele2 Hungary s CS and CPS customers that represents the customer base outside our historical concession areas was approximately 694,000 as of December 31, 2007.

Our Mass Market Voice revenue, after eliminating the impact of the Invitel Acquisition and the Tele2 Hungary Acquisition, in functional currency terms decreased by 2% from $38.3 million for the year ended December 31, 2006 to $37.5 million for the year ended December 31, 2007 as a result of the decreased revenue inside the Hungarotel historical concession areas. We experienced an approximate 10% decrease in the number of Mass Market Voice telephone lines within the Hungarotel historical concession areas from approximately 125,000 as of December 31, 2006 to approximately 112,000 as of December 31, 2007. Furthermore, there was a reduction in traffic as a result of the continued competition from mobile telephone operators and the competition from other service providers, such as cable television operators. This decrease was partly offset by the increased revenue outside the Hungarotel historical concession areas. We experienced an increase in the number of our CS and CPS customers. As of December 31, 2007, we had approximately 60,000 customers compared to approximately 44,000 customers as of December 31, 2006, representing a 36% increase.

Business

Our Business revenue for the year ended December 31, 2007 was $125.9 million compared to $70.7 million for the year ended December 31, 2006, representing a $55.2 million or 78% increase. The increase was primarily due to the inclusion of Invitel s Business revenue of $57.5 million and the 15% appreciation in the Hungarian forint against the U.S. dollar, offset by a decrease in Business revenue in PanTel.

At Invitel, the number of voice telephone lines inside the Invitel historical concession areas was approximately 35,000 as of December 31, 2007. Invitel had approximately 13,000 direct access voice telephone lines and approximately 8,000 indirect access voice telephone lines outside our historical concession areas as of December 31, 2007. In addition, Invitel had approximately 13,000 DSL lines and approximately 7,000 leased lines as of December 31, 2007.

Our Business revenue in functional currency terms, without the effect of the Invitel Acquisition, has decreased by approximately 16% from $80.9 million for the year ended December 31, 2006 to $68.3 million for the year ended December 31, 2007, mainly due to: (i) a non-renewal of a government contract (effective January 1, 2007) and a price reduction on two significant contract renewals between the two periods that resulted in lost recurring revenue of $6.4 million during the year; and (ii) fixed-to-mobile substitution. The number of voice telephone lines within the Hungarotel historical concession areas changed from approximately 12,900 as of December 31, 2006 to approximately 12,600 as of December 31, 2007 and the number of direct and indirect access voice telephone lines outside of the Hungarotel historical concession has increased from approximately 49,000 as of December 31, 2006 to approximately 51,000 as of December 31, 2007.

Mass Market Internet

Our Mass Market Internet revenue increased by $30.3 million from $3.3 million for the year ended December 31, 2006 to $33.6 million for the year ended December 31, 2007. This increase is primarily due to: (i) the inclusion of Invitel s Mass Market Internet revenue, which resulted in $28.2 million of additional revenue and (ii) the 15% appreciation in the Hungarian forint against the U.S. dollar.

The $28.2 million of revenue, provided by the inclusion of Invitel s Mass Market Internet revenue was generated by the approximately 104,000 broadband DSL lines of Invitel as of December 31, 2007.

Our Mass Market Internet revenue in functional currency terms, without the effect of the Invitel Acquisition, increased by 42% from $3.8 million for the year ended December 31, 2006 to $5.4 million for the year ended December 31, 2007. This increase is due to the increase in the number of broadband DSL lines from approximately 10,000 as of December 31, 2006 to approximately 17,000 as of December 31, 2007, which represents a 70% increase.

Wholesale

Our Wholesale revenue increased by $35.1 million or 43% from $81.8 million for the year ended December 31, 2006 to $116.9 million for the year ended December 31, 2007. This increase is primarily attributable to the inclusion of Invitel s Wholesale revenue, which resulted in an additional $16.7 million in revenue, and the 15% appreciation in the Hungarian forint against the U.S. dollar.

Our Wholesale revenue in functional currency terms, without the effect of the Invitel Acquisition, increased from $93.7 million for the year ended December 31, 2006 to $100.2 million for the year ended December 31, 2007.

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Cost of Sales

Cost of sales, at the segment level, totaled $131.8 million and $73.3 million for the years ended December 31, 2007 and 2006, respectively, and showed an increase of $58.5 million or 80%. This increase is mainly attributable to: (i) the inclusion of Invitel s and Tele2 Hungary s cost of sales, which resulted in additional cost of sales of $46.8 million, and (ii) the 15% appreciation in the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment cost of sales to cost of sales as per our Consolidated Statement of Operations and Comprehensive income for the years ended December 31, 2007 and 2006:

	Year Ended December 31	
(dollars in millions)	**2007**	**2006**
Segment cost of sales	$ 131.8	$ 73.3
Backbone rental expenses	15.6	9.7
Network operating expenses	18.5	8.8
Direct personel expenses	18.7	6.2
Total cost of sales	**$ 184.6**	**$ 98.0**

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Tele2 Hungary Acquisition.

Segment Gross Margin

	Year Ended December 31		
(dollars in millions)	**2007**	**2006**	**% change**
		(as restated)	
Mass Market Voice	$ 86.7	$ 26.3	230%
Business	90.6	51.0	78%
Mass Market Internet	28.0	3.2	775%
Wholesale	48.1	35.4	36%
Segment Gross Margin	**253.4**	**115.9**	**119%**
Segment Gross Margin %	65.8%	61.2%	
Backbone rental expenses	(15.6)	(9.7)	
Network operating expenses	(18.5)	(8.8)	
Direct personal expenses	(18.7)	(6.2)	
Selling, general and administrative	(66.3)	(35.1)	
Severance expense	(9.1)	(0.7)	
Depreciation and amortization	(79.0)	(26.1)	
Income from operations	**$ 46.2**	**$ 29.3**	

Our segment gross margin increased from $115.9 million for the year ended December 31, 2006 to $253.4 million for the year ended December 31, 2007, an increase of $137.5 million or 119%. This increase is attributable to the factors described below.

Our segment gross margin percentage increased from 61.2% in 2006 to 65.8% in 2007. This improvement in segment gross margin percentage is due to the fact that Invitel has a higher segment gross margin percentage (73.1% on average for the year ended December 31, 2007) than we had prior to the Invitel Acquisition.

Mass Market Voice

Our Mass Market Voice segment gross margin for the year ended December 31, 2007 was $86.7 million compared to $26.3 million for the year ended December 31, 2006, representing an increase of $60.4 million or 230%. This increase is mainly due to the inclusion of Invitel s and Tele2 Hungary s Mass Market Voice segment gross margin of $56.7 and the 15% appreciation in the Hungarian forint against of the U.S. dollar.

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Our Mass Market Voice segment gross margin, after eliminating the impact of the Invitel Acquisition and the Tele2 Hungary Acquisition, in functional currency terms has decreased from $30.1 million for the year ended December 31, 2006 to $30.0 million for the year ended December 31, 2007. The level of segment gross margin in 2007 and 2006 is the result of the (i) the decrease in Mass Market Voice revenue inside our historical concession areas; offset by (ii) the increase in Mass Market voice revenue outside our historical concession areas and (iii) the reduction in interconnect charges, which resulted in lower cost of sales for the year ended December 31, 2007 than in the prior year.

Business

Our Business segment gross margin for the year ended December 31, 2007 was $90.6 million compared to $51.0 million for the year ended December 31, 2006, representing a $39.6 million or 78% increase. The increase was primarily due to the inclusion of Invitel s Business segment gross margin of $40.9 million and the 15% appreciation in the Hungarian forint against the U.S. dollar, offset by a decrease in Business segment gross margin in PanTel.

Our Business segment gross margin, after the elimination of the impact of the Invitel Acquisition, in functional currency terms has decreased by approximately 15% from $58.3 million for the year ended December 31, 2006 to $49.7 million for the year ended December 31, 2007, which is in line with the reduction of Business revenue between the two periods.

Mass Market Internet

Our Mass Market Internet segment gross margin increased by $24.8 million from $3.2 million for the year ended December 31, 2006 to: $28.0 million for the year ended December 31, 2007. This increase is primarily due to: (i) the inclusion of Invitel s Mass Market Internet segment gross margin, which resulted in $22.9 million of additional segment gross margin; and (ii) the 15% appreciation in the Hungarian forint against the U.S. dollar.

Our Mass Market Internet segment gross margin in functional currency terms, without the effect of the Invitel Acquisition, increased by 42% from $3.6 million for the year ended December 31, 2006 to $5.1 million for the year ended December 31, 2007. This increase is due to the increase in Mass Market Internet revenue during the period.

Wholesale

Our Wholesale segment gross margin increased by $12.7 million or 36% from $35.4 million for the year ended December 31, 2006 to $48.1 million for the year ended December 31, 2007. This increase is primarily attributable to (i) the inclusion of Invitel s Wholesale segment gross margin, which resulted in an additional segment gross margin of $6.4 million; and (ii) the 15% appreciation in the Hungarian forint against the U.S. dollar.

Our Wholesale segment gross margin, after the exclusion of the impact of the Invitel Acquisition, in functional currency terms, has increased by 3% from $40.6 million for the year ended December 31, 2006 to $41.7 million for the year ended December 31, 2007. This increase is mainly due to an increase in revenue generated from higher margin data network services, offset in part by a decrease of relatively low margin, high volume Wholesale voice revenue.

Selling, General and Administrative

(dollars in millions)	**Year Ended December 31,**	
	2007	**2006**
		(as restated)
Segment selling, general and administrative	$ 119.1	$ 59.8

Our selling, general and administrative expenses, at the segment level, increased by $59.3 million from $59.8 million for the year ended December 31, 2006 to $119.1 million for the year ended December 31, 2007.

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This 99% increase is mainly attributable to: (i) the inclusion of selling, general and administrative expenses of Invitel and Tele2 Hungary, which resulted in an increase of $51.9 million; (ii) expenses incurred as a result of the Invitel Acquisition and Tele2 Hungary Acquisition, including integration expenses of $13.2 million; and (iii) the 15% appreciation of the Hungarian forint against the U.S. dollar.

The following table presents a reconciliation of segment selling, general and administrative expenses to selling, general and administrative expenses as per our Consolidated Statement of Operations and Comprehensive income for the years ended December 31, 2007 and 2006:

(dollars in millions)	**Year Ended December 31, 2007**	**2006** *(as restated)*
Segment selling, general and administrative	$ 119.1	$ 59.8
Backbone rental expenses	(15.6)	(9.7)
Network operating expenses	(18.5)	(8.8)
Direct personnel expenses	(18.7)	(6.2)
Total selling, general and administrative	**$ 66.3**	**$ 35.1**

The change in the amounts of reconciling items is primarily due to the Invitel Acquisition and the Tele2 Hungary Acquisition.

Severance Expense

(dollars in millions)	**Year Ended December 31, 2007**	**2006**
Severance expense	$ 9.1	$ 0.7

Our severance expenses for year ended December 31, 2007, of $9.1 million, are primarily due to the termination costs related to our restructuring of operations following the Invitel Acquisition.

Our severance expenses for the year ended December 31, 2006, of $0.7 million, are primarily due to the termination costs related to an officer of the company, as well as other individually insignificant severance costs related to a workforce reduction.

Depreciation and Amortization

(dollars in millions)	**Year Ended December 31, 2007**	**2006**
Depreciation and amortization	$ 79.0	$ 26.1

Depreciation and amortization increased by $52.9 million from $26.1 million for the year ended December 31, 2006 to $79.0 million for the year ended December 31, 2007. This increase is mainly due to: (i) the inclusion of Invitel s and Tele2 Hungary s depreciation and amortization charges, which resulted in additional depreciation and amortization expense of $44.8 million; (ii) the depreciation of prior year capital expenditures of Hungarotel and PanTel, which resulted in $1.7 million higher depreciation and amortization charges; (iii) the impairment of the PanTel brand name in the amount of $1.2 million due to the fact that we decided to market our products under the Invitel brand name following the Invitel Acquisition; and (iv) the 15% appreciation in the Hungarian forint against the U.S. dollar.

Income from Operations

(dollars in millions)	**Year Ended December 31, 2007**	**2006** *(as restated)*

Income from operations	$ 46.2	$ 29.3

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As a result of the factors described above, income from operations increased by $16.9 million or 58% from $29.3 million for the year ended December 31, 2006 to $46.2 million for the year ended December 31, 2007.

Foreign Exchange Gains / (Losses), Net

(dollars in millions)	Year Ended December 31, 2007	2006
Foreign exchange gains (losses), net	$ (6.5)	$ 1.1

Our foreign exchange losses of $6.5 million for the year ended December 31, 2007 resulted primarily from unrealized losses due to the revaluation of our euro denominated borrowings at period end as a result of the weakening of the Hungarian forint against the euro during the year ended December 31, 2007.

Our foreign exchange gains for the year ended December 31, 2006 resulted primarily from the strengthening of the Hungarian forint against the euro on the company s average 123.3 million denominated debt outstanding during the period.

Interest Expense

(dollars in millions)	Year Ended December 31, 2007	2006
Interest expense	$ 58.7	$ 14.9

Interest expense increased by $43.8 million from $14.9 million for the year ended December 31, 2006 to $58.7 million for the year ended December 31, 2007. This increase is mainly due to: (i) the inclusion of Invitel s interest expense, which resulted in an additional $40.1 million of interest expense; (ii) the additional interest expense of $13.7 million as a result of the issuance of the 2007 Notes in connection with the Invitel Acquisition; and (iii) the 15% appreciation in the Hungarian forint against the U.S. dollar.

Interest Income

(dollars in millions)	Year Ended December 31, 2007	2006
Interest income	$ 1.3	$ 1.3

Interest income was $1.3 million for the year ended December 31, 2006 and $1.3 million for the year ended December 31, 2007. Interest income was realized on our cash balance during the period.

Gains / (Losses) from Fair Value Changes of Derivative Financial Instruments

(dollars in millions)	Year Ended December 31, 2007	2006 *(as restated)*
Gains / (losses) from fair value changes of derivative financial instruments	$ (54.0)	$ 2.3

The $54.0 million loss on the fair value changes of derivatives for the year ended December 31, 2007 is primarily due to: (i) changes in the unrealized fair value of the hedges entered into in connection with the debt assumed as part of the Invitel Acquisition; (ii) a realized loss on closed interest rate swap contracts of $7.5 million; and (iii) the depreciation of the Hungarian forint against the euro during the year.

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Gains / (Losses) from Fair Value Change of Warrants

(dollars in millions)	Year Ended December 31, 2007	2006 *(as restated)*
Gains / (losses) from fair value change of warrants	$ (15.1)	$ 3.3

In May 1999, we issued notes (the Notes) in an aggregate amount of $25.0 million with detachable warrants (the Warrants) to purchase 2,500,000 shares of our Common Stock at a price of $10 per share. The Notes were canceled upon the exercise of the Warrants by TDC, our majority stockholder, on March 28, 2007.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, we recorded a non-cash gain of $3.3 million for the year ended December 31, 2006, relating to the change in the fair value of the Warrants driven by the change in the company s stock price during the period and a loss of $15.1 million upon exercise of the Warrants.

Income Tax Benefit / (Expense)

(dollars in millions)	Year Ended December 31, 2007	2006 *(as restated)*
Corporate tax	(0.5)	(1.7)
Local business tax	(6.6)	(3.9)
Current tax benefit / (expense)	(7.1)	(5.6)
Deferred tax benefit / (expense)	3.8	0.3
Total income tax benefit / (expense)	**$ (3.3)**	**$ (5.3)**

Our income tax expense decreased by $2.0 million from an expense of $5.3 million for the year ended December 31, 2006 to an expense of $3.3 million for the year ended December 31, 2007, primarily due to the inclusion of Invitel s and Tele2 Hungary s current tax and the 15% appreciation in the Hungarian forint against the U.S. dollar offset by the deferred tax benefit recognized for the year.

Net Income / (Loss) Attributable to Common Stockholders

(dollars in millions)	Year Ended December 31, 2007	2006 *(as restated)*
Net income / (loss) attributable to common stockholders	$ (96.6)	$ 16.4

As a result of the factors discussed above, we recorded a net loss attributable to common stockholders of $96.6 million, or $6.23 per basic share and $6.23 per share on a diluted basis, for the year ended December 31, 2007 compared to a net gain attributable to common stockholders of $16.4 million, or $1.28 per basic share and $1.04 per share on a diluted basis, for the year ended December 31, 2006.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

The functional currency of our Hungarian subsidiaries is the Hungarian forint and the functional currency of our subsidiaries outside Hungary is the applicable local currency. The average Hungarian forint/U.S. dollar exchange rate for the year ended December 31, 2006 was 210.39, as compared to an average Hungarian forint/U.S. dollar exchange rate for the year ended December 31, 2005 of 199.59. When comparing the year ended December 31, 2006 to the year ended December 31, 2005, it should be noted that all U.S. dollar reported amounts have been affected by this 5% depreciation in the Hungarian forint against the U.S. dollar. When comparing the years it should be noted that the 2005 results include PanTel for ten months, while the 2006 results include PanTel for 12 months of operation. Certain 2006 and 2005 amounts have been restated. See Note 1(c) in notes to Consolidated Financial Statements.

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Revenue

(dollars in millions)	Year Ended December 31, 2006 (as restated)	2005	% change
Mass Market Voice	$ 33.5	$ 37.1	(10)%
Business	70.7	65.2	8%
Mass Market Internet	3.3	2.0	65%
Wholesale	81.8	75.3	9%
Total Revenue	**189.3**	**179.6**	**5%**

Our operating revenue increased by $9.7 million or 5% from $179.6 million for the year ended December 31, 2005 to $189.3 million for the year ended December 31, 2006. This increase is attributable to the factors described below.

Mass Market Voice

Mass Market Voice revenue for the year ended December 31, 2006 was $33.5 million compared to $37.1 million for the year ended December 31, 2005. This $3.6 million or 10% decrease in Mass Market Voice revenue reflects: (i) a significant number of disconnections due to tariff changes during the fourth quarter of 2005; (ii) continued mobile substitution; (iii) competition from other service providers, such as cable television operators providing voice services and (iv) increased competition from other telecommunications service providers offering CS and CPS inside the Hunagrotel historical concession areas offset in part by (v) an increase in the number of customers outside the Hungarotel historical concession areas.

We had a 4% decrease in total Mass Market Voice telephone lines within the Hungarotel historical concession areas from approximately 130,000 as of December 31, 2005, to approximately 125,000 as of December 31, 2006. This decrease was offset by an increase in the number of Mass Market Voice CS and CPS customers outside the Hungarotel historical concession areas from approximately 19,000 customers as of December 31, 2005 to approximately 44,000 customers as of December 31, 2006 due to an increase in the CS and CPS activities that were launched during the second quarter of 2005.

In response to regulatory and competitive pressures in the Hungarotel historical concession areas, we introduced new monthly tariff packages to our customers as of October 1, 2005. The newly introduced packages provided for a re-balancing between monthly subscription fees and calling tariffs, whereby monthly subscription fees were increased and calling tariffs were reduced. The newly introduced packages also included a certain number of free minutes per month for each customer. Between October 1, 2005, when the new monthly packages were introduced, and December 31, 2005, we lost approximately 20,400 Mass Market Voice telephone lines, or 14% of the Mass Market Voice telephone lines in the Hungarotel historical concession areas as of September 30, 2005. This disconnection rate was principally due to the package re-balancing. During 2006, the disconnection rate returned to levels similar to the months preceding Hungarotel s package re-balancing in October 2005.

Business

Business revenue increased from $65.2 million for the year ended December 31, 2005 to $70.7 million for the year ended December 31, 2006, mainly due to the inclusion of PanTel s results for the full year in 2006 while only 10 months were included in 2005, which had an impact of a $4.8 million increase in Business revenue in 2006.

In the Business segment we had approximately 13,000 voice telephone lines within the Hungarotel historical concession areas and approximately 43,000 direct access and approximately 7,000 indirect access voice telephone lines outside the Hungarotel historical concession areas as of December 31, 2006 compared to approximately 12,000 voice telephone lines within the Hungarotel historical concession areas and approximately

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46,000 direct access and approximately 7,000 indirect access voice telephone lines outside the Hungarotel historical concession areas as of December 31, 2005. Out of the total Business lines, we had approximately 700 DSL lines and approximately 6,000 leased lines as of December 31, 2006 compared to approximately 400 DSL lines and approximately 6,000 leased lines as of December 31, 2005.

Mass Market Internet

Our Mass Market Internet revenue increased by $1.3 million from $2.0 million for the year ended December 31, 2005 to $3.3 million for the year ended December 31, 2006. This increase is primarily due to the increase in the number of broadband DSL lines during the year. The number of broadband DSL lines increased from approximately 4,000 lines as of December 31, 2005 to approximately 10,000 lines as of December 31, 2006.

Wholesale

Wholesale revenue increased by $6.5 million or 9% from $75.3 million in 2005 to $81.8 million in 2006. The increase is primarily a result of the inclusion of PanTel s Wholesale revenue for the whole year in 2006, whereas only 10 months were included in 2005.

Cost of Sales

(dollars in millions)	**Year Ended December 31, 2006**	**2005**
Segment cost of sales	$ 73.3	$ 62.1

Cost of sales, at the segment level, totaled $73.3 million and $62.1 million for the years ended December 31, 2006 and 2005, respectively, and showed an increase of $11.2 million or 18%. This increase is mainly attributable to the inclusion of PanTel s cost of sales for the full year in 2006, while only 10 months were included in 2005.

The following table presents a reconciliation of segment cost of sales to cost of sales as per our Consolidated Statement of Operations and Comprehensive income for the years ended December 31, 2006 and 2005:

(dollars in millions)	**Year Ended December 31, 2006**	**2005**
Segment cost of sales	$ 73.3	$ 62.1
Backbone rental expenses	9.7	8.2
Network operating expenses	8.8	7.6
Direct personnel expenses	6.2	7.4
Total cost of sales	**$ 98.0**	**$ 85.3**

The change in the amounts of reconciling items is primarily due to the inclusion of PanTel s cost of sales for the full year in 2006, while only 10 months were included in 2005.

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Segment Gross Margin

(dollars in millions)	Year Ended December 31, 2006 *(as restated)*	2005	% change
Mass Market Voice	$ 26.3	$ 30.0	(12)%
Business	51.0	50.5	1%
Mass Market Internet	3.2	2.0	60%
Wholesale	35.4	35.0	1%
Segment Gross Margin	**115.9**	**117.5**	**(1)%**
Segment Gross Margin %	61.2%	65.4%	
Backbone rental expenses	(9.7)	(8.2)	
Network operating expenses	(8.8)	(7.6)	
Direct personnel expenses	(6.2)	(7.4)	
Selling, general and administrative	(35.1)	(37.8)	
Severance expense	(0.7)	(2.5)	
Depreciation and amortization	(26.1)	(24.0)	
Income from operations	**$ 29.3**	**$ 30.0**	

Our segment gross margin decreased from $117.5 million for the year ended December 31, 2005 to $115.9 million for the year ended December 31, 2006, a decrease of $1.6 million or 1%. This decrease is attributable to the factors described below.

Our segment gross margin percentage decreased from 65.4% in 2005 to 61.2% in 2006. The decrease is primarily due to the inclusion of PanTel s costs of sales for the full year in 2006 while only 10 months of cost of sales was included in 2005, which was offset by the reduction in interconnect rates during 2006. Segment gross margin percentage in PanTel is lower than that in Hungarotel due to the nature of its business.

Mass Market Voice

Our Mass Market Voice segment gross margin for the year ended December 31, 2006 was $26.3 million compared to $30.0 million for the year ended December 31, 2005, representing a decrease of $3.7 million or 12%. This decrease is primarily due to the decrease in Mass Market Voice revenues.

Business

Our Business segment gross margin for the year ended December 31, 2006 was $51.0 million compared to $50.5 million for the year ended December 31, 2005, representing a $0.5 million or 1% increase. This increase is in line with the increase in Business revenue between the two periods, mainly as a result of inclusion of PanTel s segment gross margin for the full year in 2006 while only 10 months of revenue were included in 2005.

Mass Market Internet

Our Mass Market Internet segment gross margin increased by $1.2 million from $2.0 million for the year ended December 31, 2005 to $3.2 million for the year ended December 31, 2006. This increase is primarily due to the increase in our broadband Internet customer base during the period.

Wholesale

Our Wholesale segment gross margin increased by $0.4 million or 1% from $35.0 million for the year ended December 31, 2005 to $35.4 million for the year ended December 31, 2006. This increase is primarily

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attributable to: (i) the increase in Wholesale revenue; (ii) the change in the revenue mix to higher margin Wholesale data business; (iii) the decrease in regulated interconnection prices; and (iv) the inclusion of PanTel s segment gross margin for the full year in 2006 while only 10 months were included in 2005.

Selling, General and Administrative

(dollars in millions)	**Year Ended December 31,** **2006** *(as restated)*	**2005**
Segment selling, general and administrative	$ 59.8	$ 61.0

Our selling, general and administrative expenses, at the segment level, decreased by $1.2 million or 2% for the year ended December 31, 2006 as compared to the year ended December 31, 2005. This decrease is mainly due to a $1.1 million reversal in 2006 of the provision booked in 2005 for amounts due from the Universal Service Fund, partly offset by the inclusion of PanTel s selling, general and administrative expenses for the full year for the year ended December 31, 2006 while only 10 months were included in 2005. The costs related to the Sarbanes Oxley Internal Control compliance project remained consistent at approximately $1.4 million in 2006 and 2005.

The following table presents a reconciliation of segment selling, general and administrative expenses to selling, general and administrative expenses as per our Consolidated Statement of Operations and Comprehensive income for the years ended December 31, 2007 and 2006:

(dollars in millions)	**Year Ended December 31,** **2006** *(as restated)*	**2005**
Segment selling, general and administrative	$ 59.8	$ 61.0
Backbone rental expenses	(9.7)	(8.2)
Network operating expenses	(8.8)	(7.6)
Direct personnel expenses	(6.2)	(7.4)
Total selling, general and administrative	**$ 35.1**	**$ 37.8**

The change in the amounts of reconciling items is primarily due to the inclusion of PanTel s cost of sales for the full year in 2006, while only 10 months were included in 2005.

Severance Expense

(dollars in millions)	**Year Ended December 31,** **2006**	**2005**
Severance expense	$ 0.7	$ 2.5

Our severance expenses for year ended December 31, 2006, of $0.7 million, are primarily due to the termination costs related to an officer of the company, as well as other individually insignificant severance costs related to a workforce reduction.

Our severance expenses for the year ended December 31, 2005 are related to a workforce reduction plan that we committed to in order to reduce operating expenses. The plan involved approximately 200 employees, primarily within the network and sales and marketing departments of Hungarotel. The cost of the plan amounted to $2.5 million and was based upon Hungarian statutory and union requirements.

Depreciation and Amortization

(dollars in millions)	Year Ended December 31, 2006	2005
Depreciation and amortization	$ 26.1	$ 24.0

Depreciation and amortization charges increased by $2.1 million or 9%. This increase is primarily due to the inclusion of PanTel s depreciation and amortization expenses for the full year in 2006, while only 10 months were included in 2005.

Income from Operations

(dollars in millions)	Year Ended December 31, 2006 *(as restated)*	Year Ended December 31, 2005
Income from operations	$ 29.3	$ 30.0

As a result of the factors discussed above, income from operations decreased by $0.7 million or 2% for the year ended December 31, 2006 as compared to the year ended December 31, 2005. Contributing to such a decrease was a lower segment gross margin and lower selling, general and administrative expenses and higher depreciation and amortization expenses.

Foreign Exchange Gains / (Losses), Net

(dollars in millions)	Year Ended December 31, 2006	Year Ended December 31, 2005
Foreign exchange gains / (losses), net	$ 1.1	$ (8.5)

Our foreign exchange gains for the year ended December 31, 2006 resulted primarily from (i) the strengthening of the Hungarian forint against the euro and U.S. dollar on our average 123.3 million denominated debt outstanding between December 31, 2005 and December 31, 2006. At December 31, 2006, the Hungarian forint had strengthened by approximately 0.2% against the euro as compared to the December 31, 2005 level, and by 11.5% against the U.S. dollar as compared to the December 31, 2005 level.

Our foreign exchange losses for the year ended December 31, 2005 resulted primarily from: (i) the weakening of the Hungarian forint against the euro on Hungarotel s average 80 million denominated debt outstanding between February 21, 2005 (refinancing date) and December 31, 2005; (ii) the weakening of the Hungarian forint against the euro on PanTel s average 64 million denominated debt outstanding between February 28, 2005 (refinancing date) and December 31, 2005; and by (iii) the weakening of the Hungarian forint against the U.S. dollar on the company s 9.5 million denominated inter-company loan between February 28, 2005 and December 31, 2005. At December 31, 2005, the Hungarian forint had weakened by approximately 3.6% against the euro as compared to the February 21, 2005 level, 4.2% against the euro as compared to the February 28, 2005 level and the U.S. dollar had strengthened by approximately 17% against the Hungarian forint as compared to the February 28, 2005 level.

Interest Expense

(dollars in millions)	Year Ended December 31, 2006	Year Ended December 31, 2005
Interest expense	$ 14.9	$ 12.6

Interest expense increased by 18% for the year ended December 31, 2006 as compared to the year ended December 31, 2005. This is due to higher average interest rates paid on our borrowings during the year ended December 31, 2006 compared to the year ended December 31, 2005, partially offset by lower average debt levels outstanding between the periods.

Interest Income

(dollars in millions)	Year Ended December 31, 2006	Year Ended December 31, 2005

Interest income	$ 1.3	$ 0.9

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Interest income increased 44% for the year ended December 31, 2006 as compared to the year ended December 31, 2005, due to higher interest rates on Hungarian forint deposits between the periods.

Gains / (Losses) from Fair Value Change of Derivative Financial Instruments

(dollars in millions)	**Year Ended December 31, 2006** *(as restated)*	**2005**
Gains/(losses) from Fair Value Change of Derivative Financial Instruments	$ 2.3	$ (0.3)

Gains / (losses) from fair value change of derivative financial instruments for the year ended December 31, 2006 relate to the fair value change of our interest rate swaps, which amounted to a gain of $2.3 million for the year ended December 31, 2006. The gain recorded in 2006 was the result of a favorable change in interest rates between the swap contract date and December 31, 2006.

Gains / (Losses) from Fair Value Change of Warrants

(dollars in millions)	**Year Ended December 31, 2006**	**2005**
Gains/(losses) from fair value change of warrants	$ 3.3	$ (1.5)

In May 1999, we issued notes (the Notes) in an aggregate amount of $25.0 million with detachable warrants (the Warrants) to purchase 2,500,000 shares of our Common Stock at a price of $10 per share. The Notes were canceled upon the exercise of the warrants by TDC, our majority stockholder, on March 28, 2007.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, we recorded a non-cash gain of $3.3 million for the year ended December 31, 2006, relating to the change in the fair value of the Warrants driven by the change in our stock price during the period. Fair value changes of Warrants resulted in a non-cash loss of $1.5 million for the year ended December 31, 2005.

Equity in Earnings of Affiliate

(dollars in millions)	**Year Ended December 31, 2006**	**2005**
Equity in earnings of affiliate	$	$ 0.9

Equity in earnings of affiliate for the year ended December 31, 2005, represented our 25% equity ownership of PanTel in January and February 2005, prior to our acquiring 100% of PanTel on February 28, 2005.

Income Tax Expense

(dollars in millions)	**Year Ended December 31, 2006** *(as restated)*	**2005**
Current tax expense:		
Corporate tax	$ (1.7)	$ (1.5)
Local business tax	(3.9)	(3.4)
Current tax benefit/(expense)	(5.6)	(4.9)
Deferred tax benefit/(expense)	0.3	(1.5)

Total income tax expense	**$ (5.3)**	**$ (6.4)**

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Total income tax expense decreased from $6.4 million for the year ended December 31, 2005 to $5.3 million for the year ended December 31, 2006. This is mainly due to the change in deferred taxes, which has changed to a deferred tax benefit of $0.3 million for the year ended December 31, 2006 from a deferred tax expense of $1.5 million for the year ended December 31, 2005.

Net Income Attributable to Common Stockholders

(dollars in millions)	**Year Ended December 31, 2006** *(as restated)*	**2005**
Net income attributable to common stockholders	$ 16.4	$ 1.3

As a result of the factors discussed above, we recorded restated net income attributable to common stockholders of $16.4 million, or $1.28 per basic share or $1.04 per share on a diluted basis, for the year ended December 31, 2006 as compared to net income attributable to common stockholders of $1.3 million, or $0.11 per basic share or $0.10 per share on a diluted basis, for the year ended December 31, 2005.

Liquidity and Capital Resources

Net cash provided by operating activities totalled $104.8 million for the year ended December 31, 2007, compared to $44.6 million for the year ended December 31, 2006. This increase is principally due to: (i) the inclusion of the operating cash provided by Invitel and Tele2 Hungary and (ii) the positive impact of the change in foreign exchange rates during the period.

Net cash provided by operating activities totalled $93.5 million for the nine months ended September 30, 2008, compared to $52.9 million for the nine months ended September 30, 2007. This increase is mainly due to additional cash generated due to the Invitel Acquisition and the Memorex Acquisition.

Net cash used in investing activities was $189.7 million for the year ended December 31, 2007, compared to $18.5 million for the year ended December 31, 2006. This increase is due to: (i) the Invitel Acquisition, which resulted in a $95.2 million increase in investing cash flows; (ii) the Tele2 Hungary Acquisition, which increased investing cash flows by $12.0 million; and (ii) an increase in capital expenditures of $42.1 million to $65.7 million during the year ended December 31, 2007 compared to the year ended December 31, 2006 due to the addition of Invitel.

Net cash used in investing activities was $144.4 million for the nine months ended September 30, 2008, and includes the acquisition of Memorex in the amount of $32.6 million, capital expenditure of $81.2 million and the settlement of derivative financial instruments of $32.8 million. Net cash used in investing activities was $147.3 million for the nine months ended September 30, 2007 and includes the acquisition of Invitel in the amount of $111.4 million and capital expenditures of $41.3 million.

Capital expenditure as a percentage of cash generated from operating activities was 50% in 2005, 53% in 2006 and 63% in 2007 (based on cash flow statements in our year-end financial statements for 2007).

Financing activities provided net cash of $84.5 million during the year ended December 31, 2007 compared to net cash used by financing activities of $24.4 million during the year ended December 31, 2006. Cash flows from financing activities for the year ended December 31, 2007 mainly resulted from the refinancing of our debt and the issuance of the 2007 Notes in connection with the Invitel Acquisition. Cash flow used in financing activities for the year ended December 31, 2006 reflects repayments of long-term debt.

Financing activities provided net cash of $54.5 million for the nine months ended September 30, 2008 compared to $98.7 million for the nine months ended September 30, 2007. Cash flows from financing activities for the nine months ended September 30, 2008 mainly resulted from the draw down of the Bridge Loan relating to the Memorex Acquisition in the amount of $151.8 million and the draw down of $14.7 million from our Amended Facilities Agreement offset by the repayment of Memorex s debt and partial repayment of the Amended Facilities Agreement of $99.6 million, payment under capital lease obligations of $4.8 million and refinancing costs of $7.6 million.

We have historically funded our capital requirements primarily through a combination of debt and cash flow from operations. The global financial crisis over the last several months has particularly affected the Hungarian economy. We cannot at this time predict with certainty the impact such conditions will have on our business both in Hungary and the Central and South Eastern European region with respect to consumer and business spending on our services. We do, however, believe that cash provided by our operating activities and our financing activities will provide adequate resources to satisfy our working capital requirements, scheduled principal and interest payments on debt and anticipated capital expenditure requirements. We also expect that we will continue to be in compliance with all of the financial covenants contained in our financing agreements; provided that we obtain any necessary waivers in connection with the reorganization merger under our senior credit facilities agreement. However, there is no assurance that we will continue to be able to comply with our financial covenants or that we will be able to obtain covenant relief if such relief should become necessary.

In addition to our internally generated cash flow from operations, we have additional liquidity provided by the Amended Facilities Agreement (as described below). Under the terms of the Amended Facilities Agreement, we have a revolving credit facility of EUR 4.2 million (approximately $5.4 million at current exchange rates) and HUF 200 million (approximately $1.0 million at current exchange rates), and a euro liquidity facility with EUR 15.0 million (approximately $19.1 million at current exchange rates) available for draw down. Both the revolving credit facility and the euro liquidity facility are committed lines of credit. We would be able to access these credit facilities should we need additional liquidity to meet our cash obligations position.

We intend to either refinance our Bridge Loan or, if we choose not to or the market conditions make a refinancing prohibitive, convert the Bridge Loan to term loans maturing in 2016, which conversion right is permitted, subject to certain conditions, pursuant to the Bridge Loan Agreement. Our 2004 Notes mature in 2012 and our 2006 PIK Notes and 2007 Notes mature in 2013.

The company or its subsidiaries may, subject to the terms of their credit facilities, from time to time purchase or otherwise acquire or retire the company s or its subsidiaries debt and take other steps to reduce the company s consolidated debt or otherwise change the company s capital structure. These actions may include open market purchases, negotiated transactions, tender offers, exchange offers or other transactions. The timing and amount of any debt purchases or acquisitions would depend on market conditions, trading levels of the debt from time to time, the company s cash position and the availability and terms of cash financing from other sources, and other considerations. Affiliates of the company may also purchase or otherwise acquire the company s or its subsidiaries debt from time to time, through open market purchases, negotiated transactions, tender offers, exchange offers or other transactions.

We will continue to evaluate our capital structure and the capital markets in the future in making our capital financing decisions.

In order to lower our effective interest rates on our debt and to enhance our ability to refinance debt, we entered into numerous transactions pursuant to which we effectively terminated a substantial portion of our hedging agreements. This unwinding of a substantial portion of our hedging arrangements should also enhance our ability to meet the financial covenants in our various financing agreements. See Note 5 Derivative Financial Instruments and Note 11 Subsequent Events of Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended September 30, 2008 and Quantitative and Qualitative Disclosures About Market Risks on page 128.

2007 Refinancing

In connection with the Invitel Acquisition on April 27, 2007, we completed, through our subsidiary Magyar Telecom B.V. (Matel), the issuance of 200 million aggregate principal amount of floating rate senior notes maturing in 2013 (the 2007 Notes), the proceeds of which were used to partly finance the Invitel

Acquisition and to refinance the Credit Facility. As part of the Invitel Acquisition, we also assumed an estimated net indebtedness on closing of 389 million (approximately $525 million at closing, the Assumed Debt). The Assumed Debt consists primarily of (i) 133 million in aggregate principal amount and accrued interest of Floating Rate Senior PIK Notes due 2013 (the 2006 PIK Notes), (ii) 145 million in aggregate principal amount of 10 3/4% Senior Notes due 2012 (the 2004 Notes), and (iii) a Facilities Agreement in the amount of 116 million, which was amended and restated in connection with the Invitel Acquisition and further amended and restated in March 2008 in connection with the Memorex Acquisition (the Amended Facilities Agreement). In order to clarify the rights of the creditors under the various debt instruments, we entered into an amended and restated Intercreditor Agreement (the Intercreditor Agreement). Summaries of the terms and condition of the 2007 Notes, the 2006 PIK Notes, the 2004 Notes, the Amended Facilities Agreement and the Intercreditor Agreement are set forth below. The summaries do not purport to be complete and are qualified in their entirety by reference to the full text of such documents, copies of which are filed with the Securities and Exchange Commission.

The Amended Facilities Agreement

In connection with the Invitel Acquisition on April 27, 2007, an amendment was made to the Facilities Agreement, dated August 6, 2004 between Matel and Invitel, as borrowers, certain subsidiary companies as original guarantors, and certain financial institutions and a further amendment was made in March 2008 in connection with the Memorex Acquisition. The Amended Facilities Agreement provides for facilities of up to EUR 145 million, comprised of (i) a euro amortizing term loan of EUR 96.9 million, (ii) a Hungarian forint amortizing term loan of HUF 4,628 million (approximately EUR 18.5 million), (iii) a revolving credit facility of EUR 4.2 million and HUF 200 million (approximately EUR 0.8 million), and (iv) a euro liquidity facility of EUR 25 million. As of September 30, 2008 we had undrawn lines of credit of EUR 4.2 million (approximately $6.0 million) and HUF 200 million (approximately $1.2 million) under the revolving credit facility and EUR 15 million (approximately $21.6 million) under the euro liquidity facility.

Advances under the Amended Facilities Agreement bear interest for each interest period at annual rates equal to EURIBOR (currently 4.96%) or BUBOR (currently 8.83%, based on the Budapest interbank offer rates) plus an applicable margin. The applicable margin (currently 1.5%) is set based on the ratio of all of our senior debt, as defined in the Amended Facilities Agreement, to EBITDA, based on our most recently delivered quarterly management accounts and financial statements. Under the Amended Facilities Agreement, we are obligated to pay customary fees to the lenders (annual facility agency fee of EUR 100,000 and security trustee fee of EUR 8,000) including an up-front fee and a commitment fee (currently 0.75%) in relation to available and undrawn commitments under the revolving credit facility and the liquidity facility.

Our obligations under the Amended Facilities Agreement are guaranteed and are collateralized on a senior basis by (i) a first ranking pledge of all the share capital of the obligors, (ii) assignments of intercompany loans and any relevant cross guarantees of the obligors from time to time, (iii) a pledge of accounts by the obligors, and (iv) floating charges over all assets. Such security interests also collateralize, on a *pari passu* basis, all hedging obligations with respect to the Amended Facilities Agreement, the 2007 Notes and the 2004 Notes.

The Amended Facilities Agreement contains certain negative covenants that restrict us (subject to certain agreed upon exceptions) from, among other things, (i) creating or permitting to subsist any security interest over any part of our assets, (ii) merging or consolidating with or into any other person, (iii) selling, transferring, leasing, lending or otherwise disposing of any assets, (iv) incurring or permitting to be outstanding any financial indebtedness (including guarantees), (v) reducing capital or purchasing any class of our shares, (vi) making any investment, including (1) loans to any person, (2) the acquisition of indebtedness or capital or securities of any person, (3) the acquisition of the assets, property or business of any other person, or (4) the creation or acquisition of a subsidiary, (vii) entering into any derivative instruments, (viii) changing the nature of our business or amending our constitutive documents, (ix) entering into any agreement or arrangement other than on an arm s-length basis, (x) paying dividends or making any repayment, prepayment or redemption of principal under any subordinated finance documents including the 2004 Notes, the 2007 Notes and the Bridge Loan Agreement except in accordance with the Intercreditor Agreement, (xi) changing our ownership structure, and (xii) maintaining any bank account that has a credit balance with any person that is not a lender under the Amended Facilities Agreement.

Additionally, the Amended Facilities Agreement requires us to maintain specified consolidated financial ratios, such as leverage ratios (total senior debt to EBITDA and total debt to EBITDA), an interest coverage ratio (EBITDA to total debt interest charges) and a fixed charge coverage ratio (EBITDA minus capital expenditure and cash taxes to total debt charges).

Under the terms of the Amended Facilities Agreement, we are required to observe certain affirmative undertakings, including, but not limited to, undertakings relating to (i) maintenance of all relevant consents, authorizations and licenses, (ii) conduct of business, (iii) periodic financial statements, management accounts and reports, (iv) auditors and information, (v) insurance and inspection, (vi) notification of environmental claims and expenditures, (vii) compliance with laws, (viii) taxes, and (ix) maintenance of a cost capitalization policy and an interest rate hedging policy.

The term facilities are amortizing term loans with a maturity date of June 30, 2011. No amount repaid or prepaid in relation to the term facilities may be redrawn.

The revolving facility is repayable in an amount equal to 100% of the principal amount outstanding on June 29 and December 30 of each calendar year until the maturity date of June 30, 2010. The liquidity facility is repayable in an amount equal to 100% of the principal amount outstanding at its maturity on June 30, 2010.

Subject to certain exceptions, all loans under the Amended Facilities Agreement will be required to be prepaid upon the occurrence of certain change of control events. Voluntary prepayments and cancellations are permitted.

The Amended Facilities Agreement contains certain events of default customary for senior debt financings as well as an event of default related to Matel Holdings engaging in non-holding company-related activities, the occurrence of which would preclude further borrowings under the revolving facility and permit the lenders to accelerate all outstanding loans and terminate their commitments under the facilities.

We are in discussions with several financing sources to refinance our Amended Facilities Agreement, as further described under Indicative Terms of 2009 Refinancing on page 123.

The 2007 Notes

Upon the completion of the Invitel Acquisition on April 27, 2007, we completed, through our subsidiary Matel, the issuance of the 2007 Notes pursuant to an Indenture, dated as of April 27, 2007 (the 2007 Notes Indenture). We received EUR 189 million following the payment of financing costs associated with the issuance of the 2007 Notes in the amount of EUR 11 million, which costs were deferred and are amortized to interest expense using the effective interest method over the term of the 2007 Notes. The proceeds from the issuance of the 2007 Notes were used to partly finance the Invitel Acquisition and to refinance our credit facility.

The 2007 Notes mature on February 1, 2013, and bear interest at a rate of EURIBOR plus 3.0% per annum, payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning on August 1, 2007. The 2007 Notes are guaranteed by some of our subsidiaries. The 2007 Notes and subsidiary guarantees are collateralized by second-priority liens over certain inter-company funding loans, the capital stock of some of our subsidiaries, which liens rank *pari passu* with the liens over such assets securing our obligations under the 2004 Notes described below.

We have the option to redeem the 2007 Notes, as a whole or in part, at any time or from time to time, at redemption prices specified in the 2007 Notes Indenture. In the event of certain change of control events, we must make an offer to purchase the 2007 Notes at a purchase price equal to 101% of the principal amount thereof. We are also required to offer to purchase the 2007 Notes with the excess proceeds following certain asset sales at a purchase price equal to 100% of the principal amount thereof.

The 2007 Notes Indenture contains covenants restricting our ability to, among other things, (i) incur additional indebtedness or issue preferred shares, (ii) make investments and certain other restricted payments, (iii) issue or sell shares in subsidiaries, (iv) agree to restrictions on the payment of dividends by subsidiaries, (v) enter into transactions with affiliates, (vi) create certain liens, (vii) merge, consolidate or combine with other entities, (viii) layer debt, (ix) designate subsidiaries as unrestricted subsidiaries, (x) engage in unrelated business activities and (xi) impair any security interests. The 2007 Notes Indenture also contains customary events of default, including non-payment of principal, interest, premium or other amounts, violation of covenants, bankruptcy events, cross-defaults, material judgments and invalidity of any guarantee, security document or security interest.

The 2006 PIK Notes

On October 30, 2006, Invitel Holdings N.V., a subsidiary of the company, issued the 2006 PIK Notes pursuant to an Indenture, dated as of October 30, 2006 (the 2006 PIK Notes Indenture). In connection with the closing of the Invitel Acquisition on April 27, 2007, we entered into a supplemental indenture with Invitel Holdings and the 2006 PIK Notes Indenture trustee, pursuant to which we replaced Invitel Holdings as the issuer of the 2006 PIK Notes and assumed, through our subsidiary HTCC Holdco I B.V., all of the rights and obligations of the issuer under the 2006 PIK Notes Indenture.

Interest on the 2006 PIK Notes is payable quarterly in cash or in the form of additional 2006 PIK Notes at an annual rate of EURIBOR plus 8.25%, reset quarterly, plus a ratchet margin, on January 15, April 15, July 15 and October 15 of each year beginning January 15, 2007. The ratchet margin is zero for the period to but excluding October 15, 2009 and 2.00% if the consolidated leverage ratio of our subsidiary, Matel, is greater than 2.50 to 1.00 for any interest period beginning on or after October 15, 2009. The maturity date of the 2006 PIK Notes is April 15, 2013.

Our obligations under the 2006 PIK Notes are general unsubordinated obligations and are collateralized by a first priority lien over the shares of Matel Holdings and effectively subordinated to all existing and future debt of our subsidiaries.

We have the option to redeem the 2006 PIK Notes, as a whole or in part, at any time or from time to time, at redemption prices specified in the 2006 PIK Notes Indenture. In the event of certain change of control events, we must make an offer to purchase the 2006 PIK Notes at a purchase price equal to 101% of the principal amount thereof. We are also required to make an offer to purchase the 2006 PIK Notes with the excess proceeds following certain asset sales at a purchase price equal to 100% of the principal amount of thereof.

The 2006 PIK Notes Indenture contains covenants restricting our ability to, among other things, (i) incur additional indebtedness or issue preferred shares, (ii) make investments and certain other restricted payments, (iii) enter into transactions with affiliates, (iv) create certain liens, (v) enter into sale and leaseback transactions, (vi) issue or sell shares of subsidiaries, (vii) merge, consolidate or combine with other entities, (viii) designate subsidiaries as unrestricted subsidiaries, (ix) engage in unrelated business activities and (x) impair any security interests. The 2006 PIK Notes Indenture also contains customary events of default, including, among other things, non-payment of the principal, interest or premium, if any, on any 2006 PIK Notes, certain failures to comply with any covenant of the 2006 PIK Notes Indenture, certain defaults under other indebtedness, failure to pay certain indebtedness or judgments, bankruptcy or insolvency events and invalidity of any security document or security interest.

The 2004 Notes

In August 2004, Magyar Telecom B.V. (Matel), a subsidiary of Matel Holdings N.V., issued the 2004 Notes pursuant to an Indenture, dated as of August 6, 2004, (the 2004 Notes Indenture) with some of Matel s subsidiaries as guarantors. This proxy statement/prospectus includes the Unaudited Consolidated Interim Financial Statements of Matel for the three months ended March 31, 2007, beginning on page F-194.

The 2004 Notes mature on August 15, 2012. Interest on the 2004 Notes is payable semi-annually at an annual rate of 10.75% on February 15 and August 15 of each year, beginning on February 15, 2005.

We have the option to redeem the 2004 Notes, as a whole or in part, at any time or from time to time, at redemption prices specified in the 2004 Notes Indenture. Upon certain change of control events, we are required to make an offer to purchase all of the 2004 Notes, at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. We are also required to offer to purchase the 2004 Notes with the excess proceeds from certain sales of assets at 100% of the principal amount of the 2004 Notes, plus accrued and unpaid interest to the date of repurchase.

Our obligations under the 2004 Notes are guaranteed on a senior subordinated basis by some of our subsidiaries that guaranteed our obligations under the 2007 Notes and are collateralized by the same collateral securing the 2007 Notes.

The 2004 Notes Indenture contains covenants which, among other things, limit the ability of Matel and its restricted subsidiaries to (i) incur additional indebtedness and issue preferred shares, (ii) make certain restricted payments and investments, (iii) transfer or sell assets, (iv) enter into transactions with affiliates, (v) create certain liens, (vi) create restrictions on the ability of some of our subsidiaries to pay dividends or other payments to Matel, (vii) guarantee other indebtedness, (viii) enter into sale and leaseback transactions, (ix) issue or sell shares of certain restricted subsidiaries, (x) merge, consolidate, amalgamate or combine with other entities, (xi) designate restricted subsidiaries as unrestricted subsidiaries, and (xii) engage in any business other than a permitted business.

The 2004 Notes Indenture contains customary events of default, including, among others, the non-payment of principal, interest or premium on the 2004 Notes, certain failures to perform or observe any other covenant in the 2004 Notes Indenture, the occurrence of certain defaults under other indebtedness, failure to pay certain indebtedness or judgments, bankruptcy or insolvency events and invalidity of any guarantee, security document or security interest.

The Bridge Loan Agreement

In connection with the Memorex Acquisition, we entered into a EUR 100 million (approximately $152.0 million at exchange rate at the date of draw down) Bridge Loan Agreement on March 3, 2008 with our subsidiary Matel as borrower and our subsidiaries Invitel, Invitel Telecom, Invitel Technocom, Memorex and Memorex s Turkish subsidiary as guarantors. The Bridge Loan Agreement was arranged by Merrill Lynch and BNP Paribas, who are the original lenders. On March 5, 2008, the closing date of the Memorex Acquisition, we borrowed the full EUR 100 million pursuant to which we used EUR 30.1 million (approximately $43.3 million) to fund the purchase price for 95.7% of the outstanding equity in Memorex and EUR 46.6 million (approximately $70.0 million) to refinance some of Memorex s existing debt that we assumed at closing. We used EUR 7.6 million (approximately $10.9 million) to pay fees and expenses in connection with the Bridge Loan Agreement and transaction costs in connection with the Memorex Acquisition and we set aside the remaining EUR 15.7 million (approximately $22.6 million) for working capital purposes. In addition, EUR 12.1 million (approximately $17.4 million) of the EUR 30.1 million purchase price was paid into escrow. Following settlement, EUR 11.2 million (approximately $16.1 million) of the escrow balance was returned to us and added to our working capital.

The Bridge Loan Agreement loans (the Bridge Loans) mature one year following the completion of the Memorex Acquisition, on March 5, 2009 (the Initial Maturity Date). The Bridge Loans bear interest at a rate per annum equal to the sum of EURIBOR plus the applicable margin plus the Mandatory Cost (if any, as defined in the Bridge Loan Agreement), which is set at the beginning of each three month interest period. The applicable margin for the first six months is the greater of 4.25% per annum and 0.50% per annum over the 2007 Notes Spread to Maturity (the quoted spread over EURIBOR to maturity). For the next three months, the applicable margin is the greater of 4.75% per annum and 0.50% per annum over the 2007 Notes Spread to

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Maturity. For the three months up to the Initial Maturity Date, the applicable margin is the greater of 5.25% per annum and 0.50% per annum over the 2007 Notes Spread to Maturity. The interest rate may not exceed 11.5% per annum for any interest period. The current interest rate on the Bridge Loans is 9.71% per annum.

Subject to certain conditions, including our not being in default under certain provisions of the Bridge Loan Agreement at the Initial Maturity Date, we may convert the Bridge Loans to term loans (Term Loans) with a maturity date of seven years following the Initial Maturity Date (March 5, 2016, the Extended Maturity Date). The terms of the Bridge Loan Agreement will generally govern the Term Loans, provided that certain covenants and events of default under the Bridge Loan Agreement will be replaced by covenants and events of default from the 2007 Notes Indenture. From the Initial Maturity Date (March 5, 2009) until the Extended Maturity Date (March 5, 2016), the applicable margin shall be 6.25% per annum, provided the interest rate for any three month interest period shall not exceed 11.5%. If we elect to convert the Bridge Loans to Term Loans, a lender may, upon the sale of its Term Loan to a third party, subject to certain conditions, exchange all or any portion of its Term Loan into one or more exchange notes (the Exchange Notes), which Exchange Notes will be governed by an indenture, which indenture shall contain covenants, events of default, repayment and other provisions based on those contained in the indenture governing the 2007 Notes. The Exchange Notes shall bear interest at a rate equal to 11.5% per annum.

Upon a change in our control (as defined in the Bridge Loan Agreement), each lender may require us to prepay an amount equal to 100% of the Bridge Loans outstanding plus any accrued and unpaid interest and 101% of any Term Loan outstanding plus any accrued and unpaid interest.

We may prepay the Bridge Loans, and any accrued and unpaid interest and any breakage costs, without penalty. We may prepay the Term Loans within the first four years following the Initial Maturity Date by paying the outstanding principal, and any accrued and unpaid interest and any breakage costs, plus the greater of (i) 1% of the outstanding principal amount of the Term Loan and (ii) the excess of (a) the present value at such redemption date of (x) the redemption price of such Term Loan four years after the Initial Maturity Date (March 5, 2013), plus (y) all required interest payments that would otherwise be due to be paid on such Term Loan during the period between the redemption date and the date four years after the Initial Maturity Date (March 5, 201