Magyar Telekom Telecommunications Public Limited Company

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2011

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the Shareholders of Magyar Telekom Nyrt.

Report on the financial statements

We have audited the accompanying financial statements of Magyar Telekom Nyrt. ("the Company") which comprise the balance sheet as of 31 December 2011 (in which the balance sheet total is HUF 918,414 million, the profit per balance sheet is HUF 0), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provision of the Accounting Act and accounting principles generally accepted in Hungary and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

During our work we have audited the components and disclosures along with the accounting records and supporting documentation underlying the financial statements of Magyar Telekom Nyrt. in accordance with the Hungarian Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provision of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the accompanying financial statements give a true and fair view of the financial position Magyar Telekom Nyrt. as of 31 December 2011, and of the results of its operations for the year then ended.

Other reporting requirements regarding the business report

We have examined the accompanying business report of Magyar Telekom Nyrt. ("the Company") for the financial year of 2011.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act and accounting principles generally accepted in Hungary. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it in within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2011. business report is consistent with the disclosures in the financial statements as of 31 December 2011.

Budapest, April 16, 2012

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

Hegedűsné Szűcs Márta
Statutory auditor
Licence number: 006838

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

Company Registry Number: 01-10-041928
Statistical Code: 10773381-6110-114-01

Magyar Telekom Plc.

MAGYAR TELEKOM PLC.'S

2011 ANNUAL REPORT

ACCORDING TO THE HUNGARIAN

ACT ON ACCOUNTING

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

BALANCE SHEET AND PROFIT AND LOSS STATEMENT TO THE 2011 ANNUAL REPORT

Magyar Telekom Plc.

BALANCE SHEET AS OF DECEMBER 31, 2011
(All amounts in millions of HUF)

ASSETS

	Note	December 31, 2010	Self-revision	December 31, 2011
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		817 906	-1 537	810 689
I. Intangible assets	4	191 655	-191	184 668
Capitalised costs of foundation and restructuring		0	0	0
Capitalised costs of research and development		0	0	0
Rights		55 838	-188	60 333
Intellectual property		4 566	-3	4 595
Goodwill		131 251	0	119 720
Advance payments on intangible assets		0	0	20
II. Tangible assets	5	434 931	-1 346	421 801
Land and buildings and related rights		241 419	3 329	238 409
- Land		*2 756*	*0*	*2 632*
- Buildings		*64 453*	*351*	*61 659*
- Telecommunication network		*163 828*	*2 893*	*163 863*
- Other properties		*9 437*	*47*	*9 430*
- Real estate related rights		*945*	*38*	*825*
Technical equipment, machinery and vehicles		149 469	5 230	138 742
- Telecommunication equipment and machinery		*147 502*	*4 459*	*134 778*
- Other technical equipment, machinery and vehicles		*1 967*	*771*	*3 964*
Other equipment and vehicles		9 981	929	7 282
Construction-in-progress		33 991	-10 834	37 350
Advance payments on construction-in-progress		71	0	18
III. Financial investments		191 320	0	204 220
Non current investments in related parties	6	179 244	0	194 525
Non current loans granted to related parties	7	8 250	0	5 600
Other investments		0	0	0
Other non current loans granted	8	3 826	0	4 095
Non current bonds and other securities		0	0	0
B. CURRENT ASSETS		73 584	253	71 134
I. Inventories	9	7 019	-80	6 399
Raw materials		826	-54	628
Work in progress and semi-finished products		149	-26	2
Finished products		0	0	0
Goods resale		6 044	0	5 769
Advance payments on inventories		0	0	0
II. Receivables		60 585	330	60 109
Accounts receivable	10	36 632	102	35 044
Receivables from subsidiaries	11	14 735	13	16 315
Bills receivable		0	0	0
Receivables from other related companies		0	0	0
Other receivables	12	9 218	215	8 750
III. Securities	13	307	0	307
Investments in related parties		0	0	0
Other investments		0	0	0
Treasury stock, quotas		307	0	307
Marketable securities		0	0	0
IV. Liquid assets		5 673	3	4 319
Cash and cheques		96	0	114
Bank deposits		5 577	3	4 205
C. PREPAYMENTS	14	30 257	-72	36 591
Accrued income		28 725	-72	31 678
Prepayments for costs and expenses		1 532	0	4 913
Deferred expenses		0	0	0
TOTAL ASSETS		921 747	-1 356	918 414

Budapest, April 16, 2012

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

Thilo Kusch
Chief Financial Officer,
Board member

The supplement forms an integral part of these financial statements.

BALANCE SHEET AS OF DECEMBER 31, 2011
(All amounts in millions of HUF)

LIABILITIES AND SHAREHOLDER'S EQUITY

	Note	December 31, 2010	Self-revision	December 31, 2011
D. SHAREHOLDER'S EQUITY	15	**367 209**	**-1 231**	**345 535**
I. Common stock		104 274	0	104 274
- of this treasury stock at par value		*39*	*0*	*39*
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		58 952	0	58 952
IV. Retained earnings		188 864	0	180 002
V. Restricted reserves		2 307	0	2 307
VI. Valuation reserves		0	0	0
VII. Net income		12 812	-1 231	0
E. PROVISIONS	16	**18 700**	**0**	**11 835**
Provision for expected obligations		18 700	0	11 835
Provision for expected expenses		0	0	0
Other provisions		0	0	0
F. LIABILITIES		**488 054**	**39**	**514 349**
I. Subordinated liabilities		0	0	0
II. Non current liabilities		**236 094**	**0**	**239 172**
Non current borrowings		0	0	0
Convertible bonds		0	0	0
Debt from issuance of bonds		121	0	120
Investment and development loans		0	0	0
Other non current loans	17	6 181	0	14 556
Non current liabilities to related parties		0	0	0
Non current liabilities to other related parties	18	228 817	0	223 714
Other non current liabilities		975	0	782
III. Liabilities		**251 960**	**39**	**275 177**
Current borrowings		70	0	70
- of this convertible bonds		*0*	*0*	*0*
Current loans	19	43 068	0	46 081
Advances received		310	-2	408
Accounts payable		26 999	-62	37 489
Bills of exchange payable		0	0	0
Current liabilities to related parties	20	46 451	0	54 693
Current liabilities to other related parties	21	68 486	0	49 486
Other current liabilities	22	66 576	103	86 950
- of this dividends payable		*52 117*	*0*	*52 117*
G. ACCRUED EXPENSES	23	**47 784**	**-164**	**46 695**
Deferred income		4 521	0	4 839
Accrued expenses		43 027	-161	41 227
Other deferred revenue		236	-3	629
TOTAL LIABLITIES AND SHAREHOLDER'S EQUITY		921 747	-1 356	918 414

Budapest, April 16, 2012

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

Thilo Kusch
Chief Financial Officer,
Board member

Magyar Telekom Plc.
INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER, 2011
(All amounts in millions of HUF)

		Note	2010	Self-revision	2011
	1. Domestic sales	24	442 832	-143	434 297
	2. Export sales	25	15 913	64	16 757
I.	**Sales revenues**		458 745	-79	451 054
	3. Change in self-manufactured inventories		41	-26	-121
	4. Capitalised value of self-manufactured assets		18 498	-41	22 079
II.	**Own work capitalized**		18 539	-67	21 958
III.	**Other revenues**	26	19 450	-8	29 816
	of which: reversal of impairment		0	0	0
	5. Costs of raw material		24 736	-8	27 733
	6. Costs of services	28	87 435	-129	83 292
	7. Costs of other services		14 400	11	14 289
	8. Cost of goods sold		33 703	0	39 104
	9. Costs of services sold (intermediated)	29	70 865	1	71 186
IV.	**Material-type expenses**		231 139	-125	235 604
	10. Salaries and wages	30	44 128	0	44 483
	11. Other payroll related costs	30	11 522	74	10 921
	12. Payroll related contributions		14 124	4	14 305
V.	**Payroll and related expenses**		69 774	78	69 709
VI.	**Depreciation**		82 647	691	77 523
VII.	**Other expenses**	32	60 700	613	81 937
	of which: impairment		12 170	21	10 125
A.	PROFIT FROM OPERATING ACTIVITIES		52 474	-1 411	38 055
	13. Dividends and profit sharing (received or due)		39 099	0	20 653
	of which: received from related parties		*39 099*	*0*	20 653
	14. Foreign exchange gains on sale of investments		56	0	0
	of which: received from related parties		*0*	*0*	0
	15. Interest income and gains on financial investments		692	0	450
	of which: received from related parties		*692*	*0*	450
	16. Other interest income received		969	0	1 121
	of which: received from related parties		*780*	*0*	958
	17. Other revenues from financial activities		6 116	0	5 693
VIII.	**Revenues from financial transactions**		46 932	0	27 917
	18. Loss on the sale of financial investments		0	0	0
	of which: related to related parties		*0*	*0*	*0*
	19. Interest expense		23 057	0	22 151
	of which: related to related parties		*883*	*0*	*1 121*
	related to other related party		*19 151*	*0*	*17 941*
	20. Impairment of investments, securities and bank deposits		2 397	0	2 231
	21. Other expenses refinancial activities		7 607	0	8 572
IX.	**Expenses from financial transactions**		33 061	0	32 954
B.	FINANCIAL RESULTS	33	13 871	0	-5 037
C.	PROFIT FROM ORDINARY ACTIVITIES		66 345	-1 411	33 018
X.	**Extraordinary revenues**	34	740	5	390
XI.	**Extraordinary expenses**	35	1 915	4	1 577
D.	RESULT FROM EXTRAORDINARY ACTIVITIES		-1 175	1	-1 187
E.	PROFIT BEFORE TAXES		65 170	-1 410	31 831
XII.	**Corporate income tax**	37	241	-179	156
F.	NET INCOME		64 929	-1 231	31 675
	22. Use of retained earnings for dividends		0	0	20 442
	23. Dividend paid (approved)	38	52 117	0	52 117
G.	BALANCE SHEET NET INCOME		12 812	-1 231	0

Budapest, April 16, 2012

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

Thilo Kusch
Chief Financial Officer,
Board member

MAGYAR TELEKOM PLC.

NOTES

TO THE 2011 ANNUAL REPORT

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0. Note Added For Translation

This annual report for December 31, 2011 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C/2000 on accounting and with generally accepted accounting principles in Hungary.

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

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

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

1. Background and General Information

Official name of the Company: Magyar Telekom Telecommunications Public Limited Company
Short name of the Company: Magyar Telekom Plc.
Headquarter of the Company: 1013 Budapest, Krisztina krt. 55.
The Company's main activity is telecommunication.

The Hungarian Telecommunications Company, the legal predecessor of Magyar Telekom Telecommunications Public Limited Company ("Magyar Telekom Plc." or the "Company") was founded by the Ministry of Transport, Communications and Construction on January 1, 1990. The Company was transformed by the Board of directors of State Asset Holding Ltd. into a wholly owned company limited by shares as of December 31, 1991.
The Company was privatized on December 22, 1993, when the MagyarCom consortium acquired a 30.1 per cent stake in the Company. At the second stage of the privatization, which took place in December 1995, MagyarCom became the majority owner.

On November 14, 1997 the Company was listed on both the Budapest and the New York Stock Exchanges.

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

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

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

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

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

Persons authorised to sign the annual report:
Christopher Mattheisen - Chairman and Chief Executive Officer, Board Director (residence: Budapest)
Thilo Kusch - Chief Financial Officer and Board member (residence: Budapest)

In Magyar Telekom Plc., the accounting services are supervised by Mihály Németh (certificate number: 0008208. Area of speciality: entrepreneurial activity. Status: registered. Residence: Budapest).

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Könyvvizsgáló Tanácsadó Kft. (its register number is 01-09-063022, its taxation number is 10256121-2-44). The natural person auditor personally responsible for the audit activities is Márta Hegedűsné Szűcs (certificate number: 006838, legal status: full-time).

Magyar Telekom Plc.'s corporate website: www. telekom.hu

The Company has started its electricity and natural gas retail activities in 2010. The natural gas services are available for public consumers since June 1, 2010, the electricity services since July 1, 2010. The sale for business counterparties has started on July 1, 2010 after the date on which the commercial licences and business regulations approved by Hungarian Energy Office entered into force.

The purpose of Magyar Telekom Plc.'s participation in the energy market is providing a more integrated domestic services in case of public customers and office services in case of business counterparties for its existing customers.

Magyar Telekom Plc. worked out the rules for accounting separation based on the Act LXXXVI of 2007 on electricity and on the Act XL of 2008 on natural gas supply and these rules are recorded in the accounting policies. The Company prepared the balance sheet and income statement related to electricity and natural gas supply which is disclosed in Appendix 1.

Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether the Company and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation. The Company's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. For further information regarding the internal investigation, see the Company's annual report for the year ended December 31, 2010.

In 2011, the Company entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to the Company. The settlements concluded the DOJ's and the SEC's investigations.

The Company has entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ, under which the Company was charged with a violation of the anti-bribery provisions of the FCPA and two violations of the books and records provisions of the FCPA. In accordance with the DPA, on December 29, 2011, the DOJ filed a criminal information (the "Information") setting out these charges in the U.S. District Court for the Eastern District of Virginia. The Company has agreed to admit to the DOJ's allegations and to acknowledge responsibility for the acts as charged in the Information. The Company has agreed to pay a criminal penalty of USD 59.6 million to cooperate with the DOJ in future investigations, to refrain from any violations of U.S. federal criminal law, to continue to operate a compliance program and to report to the DOJ annually regarding the compliance program during the term of the DPA. The DOJ will seek to dismiss the charges upon conclusion of the two-year term, unless the Company violates the terms of the DPA.

On December 29, 2011, the SEC filed in the U.S. District Court for the Southern District of New York a Complaint (the "Complaint") and a proposed Final Judgment against the Company (the "Final Judgment"). Without admitting or denying the allegations in the Complaint, the Company consented to the filing of the Complaint and entry of the Final Judgment to resolve the SEC's investigation. The Complaint alleged civil violations of the FCPA's anti-bribery, books and records and internal control provisions. The Final Judgment, which was approved by the U.S. District Court for the Southern District of New York on January 3, 2012, permanently enjoined the Company from violating these provisions and required the Company to pay USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest thereon.

The final settlements recognize the DOJ's and the SEC's consideration of the Company's self-reporting, thorough internal investigation, remediation and cooperation with the DOJ's and the SEC's investigations. The Company has undertaken several remedial measures to address the issues identified during the course of these investigations. These measures include steps designed to revise and enhance the Company's internal controls, as well as the establishment of the Corporate Compliance Program. The Corporate Compliance Program promotes awareness of the

Company's compliance policies and procedures through training, the operation of a whistleblower hotline, and monitoring of, and communications with, employees and subsidiaries of the Company. The Company remains fully committed to responsible corporate behavior.

The aggregate amount of USD 90.8 million (HUF 21,857 million) payable by the Company in settlement of the DOJ's and SEC's investigations was recorded as other current liability against other expenses at the end of 2011.

On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million (HUF 7,366 million) of prejudgment interest pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

In addition to the DOJ's and the SEC's investigations, the Ministry of Interior of the Republic of Macedonia, the Montenegrin Supreme State Prosecutor and the Hungarian Central Investigating Chief Prosecutor's Office commenced investigations into certain of the activities that were the subject of the internal investigation. These governmental investigations are continuing, and the Company and/or its relevant subsidiaries continue to cooperate with these investigations.

2. Accounting policies

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

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

The closing day of the Company's business year is December 31. In 2011 the balance sheet preparation date is the first working day of the following year.

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

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

From 2010, Magyar Telekom Plc.'s activity expanded with providing electricity and natural gas services based on individual authorization. Connected to this activity the Company performs an accounting separation under which discloses its balance sheet and income statement related to electricity and natural gas services separately as part of the Notes.

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

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

Definition of the accounting principles, guidelines and methods

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

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

Significant error
Items must be considered as significant in every case if in the year when discovered, the aggregate amount of all errors (whether negative or positive) for the same year and the aftereffects thereof - increasing or decreasing the equity - exceeds 2 per cent of the balance sheet total of the year audited, or HUF 500 million, if such 2 per cent of the balance sheet total exceeds HUF 500 million.

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

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

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

In previous years the Company qualified the unrealized foreign exchange rate differences resulting from the year-end revaluation of receivables and liabilities in foreign currency as significant, therefore these items were set out in its records. The change of recording the unrealized foreign exchange rate difference in the Hungarian Act on Accounting as of 2011 is in accordance with the Company's former policy, therefore there is no change in the settlements of these items.

Basic principles connected to the unbundling of accounts related to energy supply

On one hand, the transactions of energy activities (electricity and natural gas services) are recorded on separate general ledger accounts, on the other hand (if there are no dedicated subledgers for electricity and natural gas energy separately) the items are allocated based on one of the following principles:

- proportion of revenues from energy and other activities,
- proportion of expenditures from energy and other activities,
- proportion of fixed assets of energy and other activities,
- proportion of headcount of energy and other activities,
- proportion of direct margin on energy and other activities,
- proportion of direct margin on electricity and gas energy.

These separation principles applied uniformly to the general ledger accounts of balance sheet and income statement.

Valuation methods used for the preparation of the Balance Sheet

ASSETS

Recognition and measurement of non-current assets

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

Borrowing costs connected directly to loans taken for acquisition or production of assets are capitalized.

Depreciation policy
In case of tangible fixed assets the depreciation is based on the gross value of the asset reduced by its residual value. The method of depreciation: straight-line based on gross value using rates originated from useful lives.

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

(All amounts in millions of HUF unless otherwise indicated)

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

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

Applied residual value:

Buildings:	Determined individually based on the location of the building as well as the expected future useful life and usage of the building.
Vehicles:	passenger cars for personal use: 25 per cent of the acquisition cost passenger cars for business use: 30 per cent of the acquisition cost trucks under 3.5 tons: 30 per cent of the acquisition cost trucks above 3.5 tons: 20 per cent of the acquisition cost transport vehicles: 10 per cent of the acquisition cost.

Useful lives are determined based on generally accepted international telecommunication industry practices and development potentials. Magyar Telekom Plc. regularly reviews the useful lives of fixed assets and modifies them if necessary.

Since January 1, 2011 the Company does not use the option given in the Section 80. (2) of Act on Accounting which declares that the acquisition value of intangible and tangible assets with an individual purchase cost below HUF 100,000 may be charged in one sum as depreciation upon the commencement of use.
Earlier, the Company applied the limit of HUF 50,000 except for those assets that are served the operation of the telecom network directly; are part of the subscriber network; for those installed telecom software operating solely on telecom hardware and in addition the categories of assets defined in the asset accounting module of SAP. This change in the accounting policies did not apply to the records of assets taken into use before 2011. The effect of this change is disclosed in the Notes.

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

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

Capitalized value of foundation and restructuring
The Company does not capitalize foundation and restructuring costs.

Capitalized value of research and development
The Company does not capitalize research and development costs.

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

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

Intellectual property
Since 2005 only those assets have been recorded as intellectual property which are in the ownership of the Company. The useful life of intellectual property is generally 5 years.
Those intellectual properties where the Company has only the rights of use are recorded as Rights. Their useful life are those of intellectual property.

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

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

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

Recognition and measurement of current assets

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

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

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

Measure of impairment on new materials:

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

Measure of impairment on used or repaired materials:

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

Trade receivables and other receivables

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

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

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

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

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

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

The Company set up the impairment categories according to customer groups with similar credit risk exposure.
In case of invoices with instalments the amount of impairment is based on due dates of each instalment.

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

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

Securities

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

LIABILITIES AND SHAREHOLDER'S EQUITY

Valuation reserve

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

Restricted reserve

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

Provisions

Main items include:

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

Valuation of items in foreign currencies

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

Derivatives

The Company records derivatives (forward F/X deals and swap deals) among off-balance sheet items as commitments or future receivables on transaction price.
The Company calculates the fair value of every derivatives as of the balance sheet date and discloses it in the Notes. In addition the Company creates provision for expected losses related to commitments from derivatives, represented by the negative fair value of the transactions.

Measurement principles applied in the preparation of the Income Statement

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

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

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

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

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

(All amounts in millions of HUF unless otherwise indicated)

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

OTHER

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

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

3. Summary of the Company's financial position and liquidity

The Company's financial position and liquidity as of December 31, 2010 and 2011 are represented by the following financial ratios:

	2010	2011
Liquidity ratio (= current assets / current liabilities)	0.29	0.26
Operating margin (= operating profit / (sales revenues + other revenues))	0.11	0.08
Operating return on assets (= operating profit / total assets)	0.06	0.04
Leverage ratio (= non-current liabilities / (non-current liabilities + shareholder's equity))	0.39	0.41

(All amounts in millions of HUF unless otherwise indicated)

The following is the cash-flow statement for the years ended on December 31, 2010 and 2011:

		2010	2011
I. Cash flows from operating activities (lines 1-14)		**45,663**	**63,735**
1. Profit before income tax (before dividend received)	(+/-)	25,531	9,724
2. Depreciation and amortization	(+)	83,037	78,214
3. Impairment losses charged and reversed	(+/-)	12,284	10,147
4. Change in provisions	(+/-)	-795	-6,865
5. Profit or loss on the sale of non-current assets	(+/-)	-236	-2,074
6. Change in accounts payable	(+/-)	-4,013	20,315
7. Change in other current liabilities	(+/-)	-30,553	19,661
8. Change in accruals	(+/-)	-485	-1,089
9. Change in accounts receivable	(+/-)	-7,538	-5,159
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	18,419	-270
11. Change in prepayments	(+/-)	2,955	-6,335
12. Income tax paid	(–)	444	168
13. Dividend and shares paid/payable	(–)	-52,117	-52,117
14. Other non cash items	(+/-)	-1,270	-585
II. Cash flows from investing activities (lines 15-17)		**-27,969**	**-42,054**
15. Acquisition of fixed assets and financial investments	(–)	-67,748	-64,787
16. Proceeds from sale of non-current assets	(+)	680	2,080
17. Dividends and advanced dividends received	(+)	39,099	20,653
III. Cash flows from financing activities (lines 18-29)		**-22,201**	**-23,035**
18. Proceeds from issue of shares	(+)	0	0
19. Proceeds from the issuance of bonds	(+)	0	0
20. Loans received	(+)	220,690	170,526
21. Redemption from non-current loans granted and bank deposits	(+)	6,580	2,817
22. Non-repayable liquid assets received	(+)	0	44
23. Share capital decrease	(–)	0	0
24. Treasury stock repurchases	(–)	0	0
25. Repayment of bonds	(–)	0	0
26. Repayment of loans	(–)	-248,304	-194,143
27. Non-current loans granted and bank deposits	(–)	-1,344	-2,086
28. Non-repayable donations given	(–)	0	0
29. Change in liabilities to founders and other non-current liabilities	(+/-)	177	-193
IV. Change in liquid assets (lines I. + II. + III.)	(+/-)	**-4,507**	**-1,354**
Cash at the beginning of the year		**10,180**	**5,673**
Cash at year-end		**5,673**	**4,319**

(All amounts in millions of HUF unless otherwise indicated)

4. Intangible fixed assets

The following table is a summary of intangible fixed asset movements between January 1, 2010 and December 31, 2011:

GROSS BOOK VALUE	*Rights*	*Intellectual property*	*Goodwill*	*Advances on intangible assets*	*Total*
Opening balance as of January 1, 2010	167,668	14,642	221,405	0	403,715
Additions	14,347	1,285	1,660	0	17,292
Disposals	1,030	53	933	0	2,016
Reclassifications	120	-323	0	0	-203
Closing balance as of December 31, 2010	181,105	15,551	222,132	0	418,788
Additions	17,085	667	724	20	18,496
Disposals	8,584	86	0	0	8,670
Reclassifications	215	-207	0	0	8
Closing balance as of December 31, 2011	189,821	15,925	222,856	20	428,622
AMORTIZATION					
Opening balance as of January 1, 2010	109,686	10,598	81,685	0	201,969
Charge for the year	16,266	737	10,129	0	27,132
Impairment	0	0	0	0	0
Disposals	984	51	933	0	1,968
Reclassifications	299	-299	0	0	0
Closing balance as of December 31, 2010	125,267	10,985	90,881	0	227,133
Charge for the year	12,505	647	10,130	0	23,282
Impairment	0	0	2,125	0	2,125
Disposals	8,504	82	0	0	8,586
Reclassifications	220	-220	0	0	0
Closing balance as of December 31, 2011	129,488	11,330	103,136	0	243,954
NET BOOK VALUE as of December 31, 2010	55,838	4,566	131,251	0	191,655
NET BOOK VALUE as of December 31, 2011	60,333	4,595	119,720	20	184,668

Rights

The gross value of rights increased by HUF 17,085 million in the current year. Significant part of this increment was caused by capitalizations and additional capitalizations of other software rights of use (HUF 3,165 million), general-purpose software rights of use (HUF 2,895 million), other rights (HUF 2,494 million) and IT systems rights of use (HUF 1,798 million).

The decrease is mainly due to the scrapping of EKG rights (gross value is HUF 6,098 million, net value is zero) and the Dealer network marketing rights (gross value is HUF 1,500 million, net value is zero).

Intellectual properties

The increase is mainly due to the other own software upgrades such as JAZZ software (HUF 516 million), KÁBELINFO-system (HUF 62 million) and TLOG-Navigator (HUF 26 million).

In 2011, the Company reviewed the useful lives of rights and intellectual properties and executed the changes in useful lives where the Company deemed it necessary. Due to the changes HUF 2,523 million less amortization was charged for 2011 on the assets concerned of the two categories above.

Goodwill

In 2011, the Company purchased 100 per cent of the shares of DATEN-KONTOR Kft. In this transaction HUF 429 million goodwill was recognized.

In 2011, Magyar Telekom Plc. purchased the 75 per cent share in Budakalász Kft. from the Municipality of Budakalász. In this transaction HUF 185 million goodwill was recognized.

Also in 2011, connected to the payment of further purchase price instalment of ISH Informatika Kft. HUF 110 million goodwill was recognized.

During 2011, HUF 10,130 million amortization was charged on goodwill for those items which were recognized before January 1, 2005. The goodwill in the investment of Origo Zrt. was written off in full amount of HUF 2,125 million which contained the goodwill in IWIW Kft., Adnetwork Kft. and M-Factory Kft. recognized at the acquisitions of these companies and merged into Origo Zrt. in the previous years. The reason of the write off was that the company value of Origo Zrt. – due to the unfavourable development of the market – did not cover for the value of goodwill.

(All amounts in millions of HUF unless otherwise indicated)

The movements of goodwill in 2011 are summarized as follows:

Description	Net book value as of December 31, 2010	Goodwill recorded in 2011	Amortization charge in 2011	Net book value as of December 31, 2011
T-Mobile Magyarország Távközlési Rt.	99,993	0	-9,116	90,877
KFKI Zrt.	8,851	0	0	8,851
EMITEL Távközlési Zrt.	4,956	0	-589	4,367
Stonebridge A.D.	4,891	0	-391	4,500
Dataplex Kft.	4,793	0	0	4,793
Origo Zrt.	2,125	0	-2,125	0
IQSYS Zrt.	1,132	0	0	1,132
IQSYS Zrt.(Integris Rendszerház Kft. -Rába Szolgáltatóház Kft.)	71	0	-34	37
Combridge S.R.L.	818	0	0	818
Novatel E.O.O.D.	447	0	0	447
Dél-Vonal Kft.	100	0	0	100
ISH Informatika Kft.	1,597	110	0	1,707
MODULTECHNIKA Kft.	1,477	0	0	1,477
Budakalász Kft	0	185	0	185
DATEN-KONTOR Kft.	0	429	0	429
Total	**131,251**	**724**	**-12,255**	**119,720**

(All amounts in millions of HUF unless otherwise indicated)

5. Tangible fixed assets

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2010 and December 31, 2011:

GROSS BOOK VALUE	*Real estate and related rights*	*Technical equipment, machinery and vehicles*	*Other equipment and vehicles*	*Total*
Opening balance as of January 1, 2010	**400,854**	**665,600**	**79,830**	**1,146,284**
Additions	14,918	25,082	1,980	41,980
Disposals	2,082	26,561	4,603	33,246
Reclassifications	-698	1,683	-1,492	-507
Closing balance as of December 31, 2010	**412,992**	**665,804**	**75,715**	**1,154,511**
Additions	15,653	26,693	2,080	44,426
Disposals	5,379	38,063	8,192	51,634
Reclassifications	-682	5,223	-3,858	683
Closing balance as of December 31, 2011	**422,584**	**659,657**	**65,745**	**1,147,986**
DEPRECIATION				
Opening balance as of January 1, 2010	**158,062**	**504,683**	**66,587**	**729,332**
Charge for the year	15,195	36,074	4,431	55,700
Impairment	58	2	5	65
Disposals	1,478	25,390	4,319	31,187
Reclassifications	-264	966	-970	-268
Closing balance as of December 31, 2010	**171,573**	**516,335**	**65,734**	**753,642**
Charge for the year	15,128	36,212	3,532	54,872
Impairment	2	1	4	7
Disposals	2,498	35,275	7,851	45,624
Reclassifications	-30	3,642	-2,956	656
Closing balance as of December 31, 2011	**184,175**	**520,915**	**58,463**	**763,553**
NET BOOK VALUE as of December 31, 2010	**241,419**	**149,469**	**9,981**	**400,869**
NET BOOK VALUE as of December 31, 2011	**238,409**	**138,742**	**7,282**	**384,433**

Further details are disclosed in Appendix 2.

Real estate and related rights

Increase in real estate and related rights is HUF 15,653 million in gross value, of which the most significant items are: Buildings and other real estates increased by HUF 2,052 million in gross value (see Appendix 2) of which antenna towers built on land not owned by the Company is HUF 878 million and renovating/improving the long-life structured and welfare buildings is HUF 518 million.

Gross value of telecommunication networks increased by HUF 13,538 million (see Appendix 2) of which the significant items are:

- copper wire overground telecom cables for local network (HUF 2,441 million)
- fiber optic telecom cables of local network pulled in ducts (HUF 1,771 million),
- ducts (HUF 1,680 million),
- DVB-S (Digital Video Broadcasting-Satellite) infrastructure (HUF 1,309 million),
- copper wire telecom cables of local network pulled in ducts (HUF 1,308 million),
- fiber optic overground telecom cables for local network (HUF 1,220 million),
- inground copper wire telecom cables for local network (HUF 880 million).

The decrease in real estate and related rights is mainly due to sales and partial scrapping of which the significant items are:

Sales:

- Miskolc Régiposta utca 9 telephone exchange (gross value is HUF 1,160 million, net value is HUF 800 million),
- Budapest III. Kiscelli út Óbuda telephone exchange (gross value is HUF 461 million, net value is HUF 217 million),
- Tapolca Gyulakeszi utca Host exchange (gross value is HUF 297 million, net value is HUF 219 million).

Partial scrapping:

- copper wire overground telecom cables for local network (gross value is HUF 549 million, net value is HUF 337 million).
- fiber optic telecom cables of local network pulled in ducts (gross value is HUF 225 million, net value is HUF 111 million).

Technical equipment, machinery and vehicles

Increase is due to the capitalization and extension of telecommunication equipment of HUF 26,693 million in gross value, of which the significant items are:

- routers (HUF 3,504 million),
- CE routers and 3 play equipment (HUF 1,555 million),
- DVBS Set Top Box (HUF 1,119 million),
- Internet KTV modems (HUF 1,024 million),
- WDM equipment (HUF 996 million),
- BTS-GSM radio communications equipment (HUF 806 million),
- Optical KTV transmission equipment (HUF 759 million),
- BTS-UMTS radio communications equipment (HUF 716 million),
- Internet providing equipment (HUF 621 million),
- mobile center network control (HUF 547 million).

(All amounts in millions of HUF unless otherwise indicated)

Decrease is mainly due to scrapping of obsolete assets of HUF 38,063 million in gross value, of which the significant items are:

- mobile center network control (gross value is HUF 14,542 million, net value is HUF 531 million),
- BTS-UMTS radio communications equipment (gross value is HUF 3,841 million, net value is HUF 11 million),
- WDM equipment (gross value is HUF 3,120 million, net value is HUF 48 million),
- direct current power supply equipment (gross value is HUF 1,138 million, net value is HUF 6 million),
- Packed Core Network (gross value is HUF 1,188, net value is HUF 348 million),
- ADSL node equipment (gross value is HUF 1,119, net value is HUF 103 million),
- batteries (gross value is HUF 1,054 million, net value is HUF 22 million),
- PDH transport network transmission equipment (gross value is HUF 932 million, net value is HUF 41 million),
- IN Pre IN equipment (gross value is HUF 769 million, net value is HUF 4 million).

Other equipment and vehicles

Other equipment and vehicles increased by HUF 2,080 million in gross value, of which the significant items are: capitalization and extension of servers (HUF 661 million), capitalization of computer peripherals not serving the core activities (HUF 323 million), furthermore the capitalization of furniture (HUF 116 million) and passenger cars (HUF 172 million).

The HUF 8,192 million decrease in gross value of other equipment and vehicles is due to the sales and scrapping of equipment of which the significant items are:

- sale of computer peripherals not serving the core activities (gross value is HUF 238 million, net value is HUF 5 million), transport vehicles (gross value is HUF 125 million, net value is HUF 2 million),
- scrappings:
    - servers (gross value is HUF 2,744 million, net value is HUF 124 million),
    - IT systems hardware (mobile) (gross value is HUF 1,898 million, net value is HUF 5 million),
    - computer peripherals not serving directly the core activities (gross value is HUF 347 million, net value is HUF 2 million),
    - internal purpose telecom equipment (gross value is HUF 388 million, net value is HUF 17 million).
    - security services equipment (gross value is HUF 350 million, net value is HUF 4 million).

In 2011, the Company reviewed the useful life of tangible assets and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 1,545 million less depreciation was charged for 2011.

Due to the changes in accounting policies the Company does not claim in one lump sum the assets valued less than HUF 50,000 as depreciation upon the commencement of use. In 2011, due to this change HUF 48 million less depreciation was recorded.

Assets	Depreciation effect of the change in 2011
Technical equipment, machinery and vehicles	24
Other equipment and vehicles	24
Total	**48**

(All amounts in millions of HUF unless otherwise indicated)

6. Non-current investments in related parties

As of December 31, 2010 and 2011, the Company's non-current investments are summarized as follows (further details on investments (ownership, voting rights, owners' equity data) are disclosed in Appendix 3):

	Ownership direct (%) 2011	Ownership indirect (%) 2011	Net book value 2010	Net book value 2011
Stonebridge A.D. Skopje (under liquidation)	100.00		97,743	109,207
Crnogorski Telekom A.D.	76.53		40,554	45,224
Pro-M Zrt.	100.00		8,200	8,200
Investel Zrt.	100.00		6,633	6,633
KFKI Zrt.	100.00		5,778	5,778
Origo Zrt.	100.00		5,802	3,741
IQSYS Zrt.	100.00		2,875	2,875
ViDaNet Zrt.	67.50	22.50	2,836	2,836
Combridge SRL	100.00		2,063	2,303
Dataplex Kft.	100.00		2,005	2,005
Telekom New Média Zrt.	100.00		1,745	1,745
ISH Informatika Kft.	100.00		1,587	1,587
DATEN-KONTOR Kft.	100.00		0	847
Novatel E.O.O.D.	100.00		697	778
EurAccount Kft. „v.a." (under liquidation)	99.00	1.00	446	446
MODULTECHNIKA Kft.	100,00		127	127
Budakalász Kft.	100.00		20	74
KIBU Innováció Nonprofit Kft.	99.20	0.80	34	34
Novatel Ukraine LLC.	99.94	0.06	0	33
Telemacedonia A.D.Skopje	100.00		23	26
TeleData Kft.	50.98		20	20
ISH Kft.	100.00		3	3
Mindentudás Egyeteme Nonprofit Kft.	60.00		3	3
HUNSAT Magyar Űrtávközlési Zrt. (under liquidation)	0.00		50	0
Total			**179,244**	**194,525**

<u>Significant changes of Non-current investments in subsidiaries in 2010 and in 2011</u>

In 2010, Magyar Telekom Plc. acquired the 100 per cent shares of MODULTECHNIKA Kft. resulting HUF 127 million increase in the book value of investments. (In these transactions HUF 1,477 million goodwill were recognized.)

In 2010, Magyar Telekom Plc. made a voluntary public take-over bid for the shares of Első Pesti Telefontársaság Nyrt. After the transaction has been settled Magyar Telekom Plc. became the 100 per cent owner of the company and its legal form changed to Private Company Limited by Shares.

In 2010 there were more transformations among the investments of Magyar Telekom Plc. The Boards of Directors of EPT Zrt. and KFKI Zrt. have decided on the merger of the two companies with the result that EPT Zrt. merged into KFKI Zrt. After the transaction has been settled, the book value of EPT Zrt. (HUF 325 million) was cancelled from Magyar Telekom Plc.'s books and at the same time the book value of KFKI Zrt. increased by HUF 398 million according to the final merger balance sheet.

Also based on the merger contract concluded with KFKI Zrt. in 2009 the KFK Direkt Kft. merged into KFKI Zrt. in 2010. After the transaction has been settled KFKI Direkt Kft. was cancelled from Magyar Telekom Plc.'s books (HUF 264 million). This transaction increased the book value of KFKI Zrt. by HUF 225 million.

In 2010, in case of Origo Zrt. and M-Factory Zrt. a further transformation took place with the result that M-Factory Zrt. merged into Origo Zrt. subsequent to the merger contract of the two companies. After the merger the M-Factory Zrt. was cancelled from Magyar Telekom Plc.'s investments (HUF 63 million) and the book value of Origo Zrt. increased by HUF 53 million according to the final merger balance sheet.

In 2010, the Company sold its exclusively owned subsidiary, Orbitel E.A.D., as a result of this transaction HUF 1,421 million net book value was cancelled from Magyar Telekom Plc.'s books.

In 2010, subscribed capitals increased by issuing new shares at Origo Zrt. (on nominal value of HUF 220 thousand with issue value of HUF 2,200 million) and at IQSYS Zrt. (on nominal value of HUF 1.5 million with issue value of HUF 1,500 million). The difference between nominal value and issue value was recorded in the companies' capital reserves. KIBU Kft.'s capital was increased by HUF 15 million. As a result of these transactions the Company's investments increased by HUF 3,715 million in 2010.

In 2011, after the approval of Hungarian Competition Authority the Company purchased 100 per cent shares of DATEN-KONTOR Kft. Acquisition cost was HUF 1,276 million, of which the investment increased by HUF 847 million and HUF 429 million goodwill was recognized.

In 2011, Magyar Telekom Plc. purchased 75 per cent shares of Budakalász Kábel TV Kft. (HUF 239 million) and became 100 per cent owner of the company. As a result of this transaction the net book value of the company increased by HUF 54 million and the further HUF 185 million was recognized as goodwill.

HUF 16,484 million was recorded as foreign exchange difference on foreign investments at the balance sheet date. This amount increased the book value of non-current investments.

In 2011, impairment recorded on investments decreased the book value of non-current investments by HUF 2,254 million. The most significant item (HUF 2,060 million) was recorded on Origo Zrt.'s investment due to the company's unfavourable development on the market. Impairments on investments are detailed in Appendix 4.

Short descriptions of companies in which Magyar Telekom Plc. has significant shares:

Stonebridge Communications A.D. (Stonebridge A.D.) (under liquidation)

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of Makedonski Telekomunikacii AD (MakTel) on its privatization. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed on January 16, 2001 to a newly established Macedonian holding company, Stonebridge A.D., which is a holding company residing in Skopje. Magyar Telekom Plc.'s has 100 per cent share in Stonebridge A.D. since 2004 and has 51 per cent share in MakTel as a solely owner. As a result of this the mediation by Stonebridge A.D. became unnecessary so the operation of company is no longer needed. For this reason Magyar Telekom Plc. initiated the liquidation procedure according to Macedonian laws.

Crnogorski Telekom A.D.

In 2004, the Montenegrin Privatization Agency issued a tender for the sale of a 51.12 per cent stake in the Montenegrin Telecommunications Company (TCG). Magyar Telekom Plc. won the tender.
Crnogorski Telekom A.D. is the leading telecommunication service provider of Montenegro. The share purchase agreement was signed on March 15, 2005 in the amount of EUR 114 million.
In 2005, Magyar Telekom Plc. acquired a further 25.41 per cent share for EUR 27 million based on an agreement with minority shareholders.

Pro-M Professzionális Mobilrádió Zrt. (Pro-M Zrt.)

Magyar Telekom Plc. took a decision in 2005 to establish Pro-M Professzionális Mobilrádió Zrt. (Pro-M Zrt.) and it was registered at Court of Registry in 2006. The company was established to design, implement and install a wireless network (EDR) using TETRA technology and provides this service for exclusively to certain organizations (e.g. police, ambulance, etc.). The EDR agreement with the Prime Minister's Office is for a period of ten years.

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

Investel Zrt. was established in 1991 with the majority ownership of Magyar Telekom Plc.
Currently it performs proprietorial and trustee tasks in certain subsidiaries of Magyar Telekom Plc.

KFKI Rendszerintegrációs Zrt.

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI (KFKI-LNX) Zrt. The company had further two subsidiaries: ICON Zrt. and IQSYS Zrt. All three were significant in Hungary's IT service sector. BCN Rendszerház Kft. and ICON Zrt. merged into the company with effect of December 31, 2007. In 2008 KFKI Zrt. sold its investment in IQSYS Zrt. to Magyar Telekom Plc.

In 2010, based on the merger contracts, KFKI Direkt Kft. and then EPT Zrt. merged into KFKI Zrt.

Origo Média és Kommunikációs Szolgáltató Zrt. (Origo Zrt.) - previously T-Online Magyarország Internet Szolgáltató Zrt.

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the merger of the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc.
The internet and content providing business line of T-Online Magyarország Zrt. continues its activities under the name of Origo Média és Kommunikációs Szolgáltató Zrt. In 2010, M-Factory Zrt. merged into the company based on the merger contract with M-Factory Zrt.

IQSYS Informatikai Zrt. (IQSYS Zrt.)

IQSYS Zrt. was established in 1990. The company's main activities are: releasing software, wholesale of computers and software, reproduction of computer storage media, data processing and repair of office computers.
In 2007 Magyar Telekom Plc. purchased 0.3 per cent direct ownership in the amount of HUF 15 million. In 2008 the Magyar Telekom Plc. purchased further shares and acquired 100 per cent ownership in the company.

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

ViDaNet Zrt. was established in 2003 by the merger of several companies for providing cable television services. Magyar Telekom Plc.'s direct and indirect ownership in total is 90 per cent and has 49 per cent voting right in the company.

Combridge S.R.L.

The company is an alternative telecommunication service provider of Romania. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination. In 2007, Magyar Telekom Plc. purchased the share of Combridge S.R.L from ViaBridge Ltd.

Dataplex Infokommunikációs Infrastruktúra Szolgáltató és Ingatlanhasznosító Kft. (Dataplex Kft.)

Magyar Telekom Plc. acquired 100 per cent share in Dataplex Kft. by the registration at Court of Registry as of April 20, 2006. The company is a major player in Hungary’s IT service sector.

Telekom New Media Szolgáltató Zártkörűen Működő Részvénytársaság (Telekom New Média Zrt.)

In 2009, Magyar Telekom Plc. as shareholder retired from IKO-TELEKOM Zrt. After the secession Telekom Média Holding Zrt. was established which is solely owned by Magyar Telekom Plc. The members of the holding are Telekom New Media Kft. and Telekom Content & Rights Kft.

With effect from July 31, 2010 - based on the merger contract – Telekom New Media Kft. and Telekom Content & Rights Kft. merged into Telekom New Média Holding Zrt. After the merger the company continues its activities under the name of Telekom New Media Szolgáltató Zártkörűen Működő Részvénytársaság (Telekom New Média Zrt.).

Telekom New Média Zrt. is the leading participant of the premium rated interactive market because of its international experience and own developed solutions.

ISH International System House Informatika Kft. (ISH Informatika Kft.) and International System House Kereskedelmi és Szoftverfejlesztő Kft. (ISH Kft)

Main activity of ISH Kft. (established in 1996) and ISH Informatika Kft. (established in 2009 by demerge from ISH Kft.) is computer programming. ISH Informatika Kft. provides complex medical IT solutions, IT systems and services for its domestic and foreign customers. In 2009, Magyar Telekom Plc. acquired the 100 per cent shares of ISH Informatika Kft. and ISH Kft. and so became the sole owner of the companies.

DATEN-KONTOR Számítástechnikai Fejlesztő és Szolgáltató Kft. (DATEN-KONTOR Kft.)

In 2010, after the approval of Hungarian Competition Authority, Magyar Telekom Plc. signed a contract on the purchase of 100 per cent of shares in DATEN-KONTOR (DK) group. The DK group members were the following companies: DATEN-KONTOR Kft., DK Telecom Zrt, and DK Consulting Zrt. The group's activities included development, installation and operation of IT applications.

The transaction was closed at the end of February, 2011 but before this date the three companies merged into one legal unit under the name of DATEN-KONTOR Kft. with the same activities as the group.

Through this acquisition Magyar Telekom Plc. wants to strengthen further its position on the market of IT services.

Novatel E.O.O.D.

The company was established in 2004 with headquarters in Bulgaria. The company's main activities are: international and domestic leased line connection, international internet access and IPVPN services, roaming services, infocommunication business solutions and international call termination. The company was owned by ViaBridge Ltd. until Magyar Telekom Plc. purchased it in 2007.

EurAccount Pénzügyi és Számviteli Szolgáltató Kft. (EurAccount Kft.) under liquidation

EurAccount Kft. was established on March 1, 2005 by Magyar Telekom Plc. The company provided booking and accounting services for Magyar Telekom Plc. and its subsidiaries. The company's activities were insourced into Magyar Telekom Plc. as of January 1, 2011. The liquidation procedure of the company was finished and the appropriation of assets expected to be at the beginning of 2012.

MODULTECHNIKA Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság (MODULTECHNIKA Kft.

MODULTECHNIKA Kft. provided cable tv and internet services through its modern cable tv network in Ajka and in the neighborhood. So far Magyar Telekom Plc. has not been present with fixed line services in this service area. By this purchase – with the result that Magyar Telekom Plc. became the 100 per cent owner of MODULTECHNIKA Kft. – the Company's aim is to strengthen its position on the fixed line telecommunication market.

Budakalász Kábel TV Szolgáltató Kft. (Budakalász Kábel TV Kft).

In 2009, the Company acquired 25 per cent share in Budakalász Kábel TV Kft. during the merger of T-Kábel into Magyar Telekom Plc. In 2011, Magyar Telekom Plc. became the sole owner of the company by purchasing further 75 per cent.

KIBU Innováció Kft.

The company was established in 1989 under the name of X-Byte Kft. Magyar Telekom Plc. has become 100 per cent owner of the company in 2005. The company changed its name to KIBU Innováció Kft. in 2007. Its activity is technical research and development as a nonprofit organization. KIBU is the Magyar Telekom Plc.'s innovation labor for young researchers who are interested in the convergence of mobile communication, online communities and urban space and are passionate about creating experimental projects in cross-disciplinary teams.

Novatel UKRAINE LLC (under liquidation)

Magyar Telekom Plc. established NOVATEL Ukraine Limited Liability Company in 2005. The company's main activity was to sale certain products of Magyar Telekom Plc. in Ukraine. Currently the company is under liquidation because Magyar Telekom Plc. intends to withdraw from the Ukrainian telecommunication market.

Mindentudás Egyeteme Tudományos Közhasznú Nonprofit Kft.

The company was established in 2004 (under the name of Mindentudás Egyeteme Kht.) by Magyar Telekom Plc., the Hungarian Academy of Sciences and T-Online Magyarország Zrt. The purpose of its public activity is to organize public courses through media and other telecommunication means to help spreading knowledge of highly interesting scientific topics. The company conducts its business activities to accomplish its main purposes without endangering it.

(All amounts in millions of HUF unless otherwise indicated)

7. Non-current loans granted to related parties

As of December 31, 2010 and 2011 non-current loans granted to related parties are the following:

	2010	2011
Pro-M Zrt.	6,200	5,600
Dataplex Kft.	2,050	0
Total	**8,250**	**5,600**

The amount of loans does not include the instalments due within one year. These instalments are disclosed as short term receivables from related parties (see Note 11).

8. Other non-current loans granted

This caption contains long term loans granted to employees (HUF 3,696 million), the long term part of instalment receivables of devices sales (HUF 330 million), the non-current deposit connected to acquiring KFKI Direkt Kft. investment (HUF 29 million) and other deposits given (HUF 40 million) totalling HUF 4,095 million.

9. Inventories

Inventories mainly include network maintenance materials, while the majority of goods are telecommunication goods and unused fixed assets held for sale.
The following is a movement table of inventories between January 1, 2010 and December 31, 2011:

	2010	2011
Opening balance	6,912	7,019
Change in inventories	403	-337
Impairment loss	-296	-283
Closing balance	**7,019**	**6,399**

Further details of inventory impairment are disclosed in Appendix 4.

(All amounts in millions of HUF unless otherwise indicated)

10. Accounts receivable

As of December 31, 2010 and 2011 accounts receivable include the following:

	2010	2011
Domestic accounts receivable	54,911	52,574
Foreign accounts receivable	1,322	1,362
Impairment of receivables	-19,601	-18,892
Total	**36,632**	**35,044**

Further details on impairment of receivables are disclosed in Appendix 4.

11. Receivables from related parties

Receivables from related parties as of December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Receivables from IQSYS Kft. [1]	2,949	4,359
Loans to KFKI Zrt.	3,400	4,100
Loans to Novatel E.O.O.D.	2,372	2,524
Receivables from Origo Zrt. [1]	802	1,952
Loans to Dataplex Kft. [1]	800	1,850
Receivables from Pro-M Zrt. [2]	2,993	1,052
Loans to ViDaNet Zrt.	450	250
Receivables from Combridge S.R.L.	536	62
Receivables from Makedonski Telekom A.D.	82	34
Receivables from Novatel Ukraine L.L.C.	161	0
Receivables form EurAccount Kft.	45	0
Other	145	132
Total	**14,735**	**16,315**

[1] The change in receivables mainly due to the loans given during 2011 (HUF 1,431 million to IQSYS Zrt, HUF 1,770 million to Origo Zrt. and HUF 1,050 million to Dataplex Kft.)

[2] Decrease is mainly due to the repayment of loan in 2011 (HUF 1,700 million).

(All amounts in millions of HUF unless otherwise indicated)

12. Other receivables

The Company's other receivables as of December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Roaming discount receivables	3,054	3,391
Tax receivables	1,693	1,559
Advance payments given	1,618	1,356
Receivables from employees	1,273	1,222
Receivables from the government	61	48
Other	1,519	1,174
Total	**9,218**	**8,750**

13. Securities

The amount of HUF 307 million represents the value of repurchased treasury stock.

14. Prepayments and accrued income

	2010	2011
Accrued income related to telecommunication activities [1]	27,149	27,973
Accrued income related to electricity and gas retail services [1]	118	1,525
Accrued income related to related parties	543	1,078
Accrued income related to rental fees	0	25
Other	915	1,077
Accrued income	**28,725**	**31,678**
Prepaid costs and expenses related to electricity and gas retail services [2]	15	2,419
Rental fees [3]	542	1,280
Accrued amount of value correction paid related to loans	603	455
Insurance fees	2	7
Other [2]	370	752
Prepaid costs and expenses	**1,532**	**4,913**
Total	**30,257**	**36,591**

[1] Accrued income related to electricity and natural gas retail services that started in the second half of 2010 was HUF 118 million in 2010 which increased to HUF 1,525 million in 2011. These items were disclosed in Accrued income related to telecommunication activities line in 2010.

[2] Prepaid costs and expenses related to electricity and gas retail services were disclosed in Other line in 2010.

[3] Increase in rental fee accruals is mainly due to the HUF 700 million accrual related to operating leasing of real estates in the current year. This leasing accrual will be released proportionally during the repayment period.

(All amounts in millions of HUF unless otherwise indicated)

15. Shareholder's Equity

Shareholder	Number of shares	Nominal value (HUF per share)	Total value (HUF'000)	Ownership percentage (%)
MagyarCom Holding GmbH	617,436,759	100	61,743,676	59.21%
Free float	424,914,822	100	42,491,482	40.75%
Repurchased treasury stock	390,862	100	39,086	0.04%
State-owned	100	100	10	0.00%
Total	**1,042,742,543**		**104,274,254**	**100.00%**

Changes in the equity items between January 1, 2010 and December 31, 2011 are summarized as follows:

	Common stock	*Capital reserves*	*Retained earnings*	*Restricted reserves* [1]	*Balance Sheet Net Profit*
Opening balance as of January 1, 2010	**104,274**	**58,952**	**189,097**	**2,679**	**0**
Increases	0	0	0	0	64,929
Decreases	0	0	605	0	52,117
Reclassifications	0	0	372	-372	0
Balance as of December 31, 2010	**104,274**	**58,952**	**188,864**	**2,307**	**12,812**
Increases	0	0	0	0	31,675
Decreases	0	0	21,674	0	31,675
Reclassifications	0	0	12,812	0	-12,812
Balance as of December 31, 2011	**104,274**	**58,952**	**180,002**	**2,307**	**0**

[1] Restricted reserves contain amount of own shares (HUF 307 million) and development reserve (HUF 2,000 million).

(All amounts in millions of HUF unless otherwise indicated)

16. Provisions

	Early retirement and severance payments [1]	*Contingent liabilities*	*Other*	*Total*
Opening Balance as of January 1, 2010	**8,016**	**10,956**	**523**	**19,495**
Increase	3,544	4,893	0	8,437
Decrease	5,917	3,315	0	9,232
Reclassification	0	523	-523	0
Closing Balance as of December 31, 2010	**5,643**	**13,057**	**0**	**18,700**
Increase	4,268	2,329	0	6,597
Decrease	7,533	5,929	0	13,462
Closing Balance as of December 31, 2011	**2,378**	**9,457**	**0**	**11,835**

[1] In 2011, HUF 4,268 million provision was recognized and HUF 7,533 million was reversed in connection with headcount reduction.

The main items of provision reversals for contingent liabilities during the year are as follows:

Titles	2010	2011
Derivatives	1,332	2,850
Customer loyalty program	1,321	1,946
Penalties	173	459
Legal cases	55	327
Obligation on invention	0	128
Employees' bonuses	201	53
Guarantee liabilities	46	45
Contractual (asset retirement) obligation	11	25
Environmental liabilities	101	3
Remitted employee loans	5	0
Other	70	93
Total reversals	**3,315**	**5,929**

(All amounts in millions of HUF unless otherwise indicated)

The main items of increase of provision for contingent liabilities during the year are as follows:

Titles	2010	2011
Customer loyalty program	1,789	1,221
Contractual (asset retirement) obligation	721	333
Employees' bonuses	17	324
Legal cases	661	169
Environmental liabilities	71	96
Guarantee liabilities	45	52
Derivatives	953	0
Penalties	458	0
Obligation on invention	128	0
Other	50	134
Total increases	**4,893**	**2,329**

17. Other non-current loans

The Company's long term loan liabilities were HUF 14,556 million as of December 31, 2011. During 2011, contract has amended in case of a loan whereupon its maturity date extended. As a result HUF 8,213 million was reclassified from current loans. HUF 162 million non-realized foreign exchange loss was recognized on loans denominated in foreign currency. The short term parts of other non-current loans are disclosed among current loans (see Note 19).
The Company does not have any assets pledged for loans.

The maturities of non-current loans are as follows (including debt from issuance of bonds):

Due dates	Amount
2013	3,556
2014	11,000
Further instalments in total [1]	120
Total	**14,676**

[1] Debt from issuance of bonds

(All amounts in millions of HUF unless otherwise indicated)

18. Non-current liabilities to other related parties

This caption contains the non-current portion of other related party loans received from Deutsche Telekom Finance B.V. The closing balance of these loans as of December 31, 2011 is HUF 223,714 million. HUF 14,023 million were drawn down in January 2011 repayable in 2016 (fix interest rate of 6.15825 per cent), EUR 23 million were drawn down in July 2011 repayable in 2017 (fix interest rate of 5.20025 per cent) and EUR 50 million were drawn down also in July repayable in 2018 (fix interest rate of 4.45025 per cent).
The short term portion of related party loans (HUF 49,486 million) is disclosed in Note 21.
The maturities of non-current owner's loans are as follows:

Maturity	Amount
2013	34,487
2014	23,335
2015	100,740
2016	42,440
2017	7,156
2018	15,556
Total	**223,714**

19. Current loans

The Company's current loans received from banks were HUF 46,081 million as of December 31, 2011.
During 2011, HUF 133,013 million was drawn down. The Company repaid HUF 122,392 million during 2011 which contains HUF 156 million realized foreign exchange loss and HUF 114 million foreign exchange gain. HUF 8,213 million was reclassified to long term loans due to the amendments to contracts mentioned in Note 17.
In addition HUF 605 million non-realized foreign exchange loss was recognized on loans denominated in foreign currency.

(All amounts in millions of HUF unless otherwise indicated)

20. Current liabilities to related parties

The current liabilities to related parties as of December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Loan payable to Stonebridge A.D. [1]	30,123	34,988
Liabilities to KFKI Zrt. [2]	4,991	7,212
Liabilities to Investel Zrt.	4,840	4,518
Liabilities to IQSYS Zrt.	2,131	2,373
Loan payable to Telekom Média Holding Zrt.	1,765	1,200
Loan payable to MODULTECHNIKA Kft. [3]	0	1,130
Other [4]	2,601	3,272
Total	**46,451**	**54,693**

[1] In 2011 HUF 2,668 million loan was drawn down, HUF 1,985 million was repaid and HUF 522 million interest was capitalized. In addition HUF 3,764 million non-realized foreign exchange loss and HUF 104 million non-realized foreign exchange gain were recognized.

[2] The change is mainly due to the change in accounts payable (HUF 3,849 million in 2010 and HUF 6,473 million in 2011).

[3] HUF 1,350 million loan was drawn down in 2011 and HUF 220 million was repaid.

[4] The category 'Other' contains loans payable to other related companies not listed above (HUF 369 million in 2010 and HUF 409 million in 2011). In addition it contains interest pool liabilities to other related companies not listed above (HUF 1,417 million in 2010 and HUF 1,310 million in 2011). It also includes accounts payable liability and not invoiced services (HUF 815 million in 2010 and HUF 1,553 million in 2011).

21. Current liabilities to other related parties

This caption contains the short term part of the loans from Deutsche Telekom Finance B.V.

Maturity	Interest	Amount
January 31, 2012	3 month BUBOR +0.17525%	9,486
May 29, 2012	3 month BUBOR +0.794%	40,000
Total		**49,486**

Deutsche Telekom AG has expressed its intention for financing the Company's needs at least until the end of June 2013.

(All amounts in millions of HUF unless otherwise indicated)

22. Other current liabilities

Other current liabilities as of December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Penalty (disgorgement) [1]	0	21,857
Liability from topping up the universal balance	3,362	3,533
Discount granted subsequently on roaming traffic [1]	2,083	2,271
Payables to employees and related contributions	1,208	1,933
Personal income tax	1,221	1,255
Value Added Tax	3,905	928
Liabilities to government	171	491
Dividends payable 2010	52,117	0
Dividends payable 2011	0	52,117
Other [2]	2,509	2,565
Total	**66,576**	**86,950**

[1] The full amount of penalty (disgorgement) related to the SEC/DOJ investigation. Further information are detailed in "Investigation into certain consultancy contracts" part.

[2] The category "Other" includes HUF 100 million and HUF 101 million unpaid dividends approved for 2010 and 2011, respectively. The category also contains vehicle leasing liabilities (HUF 528 million in 2010 and HUF 417 million in 2011) and customer overpayment liability (HUF 1,342 million in 2010 and HUF 1,466 million in 2011).

(All amounts in millions of HUF unless otherwise indicated)

23. Accrued expenses and deferred income

	2010	2011
Deferred subscription and traffic fees	3,247	2,640
Deferred income from related parties	694	1,383
Deferred income related to Energy services [1]	3	459
Deferred income of rebranding [2]	273	124
Other [1]	304	233
Deferred income	**4,521**	**4,839**
Vendor accruals [1]	20,503	20,325
Accrued interest on owners' loan	7,281	6,248
Accrued payroll related expenses	5,566	5,979
Accrued frequency usage fee [3]	4,729	3,061
Accruals to related parties	3,011	2,619
Accrued expenses from Energy services [1]	209	1,921
Accrued roaming related expenses	545	511
Accrued value added services	281	354
Accrued interests	902	209
Accrued expenses	**43,027**	**41,227**
Other deferred revenue	**236**	**629**
Total	**47,784**	**46,695**

[1] The Company's electricity and natural gas retail services that started in the second half of 2010 increased significantly in 2011 so the accrued expenses and deferred income have also changed appreciably. These deferred income items were in Other line and accruals were in Vendor accruals line in the previous year's report.
[2] The reimbursement received from the parent company in connection with rebranding-related capitalized expenditures is shown as deferred income, and recognized in other revenues in line with the depreciation of the related assets.
[3] The accrued amount decreased due to the changes in fees and billing periods as defined in the new frequency regulation entered into force on April 1, 2011.

(All amounts in millions of HUF unless otherwise indicated)

24. Domestic sales

Domestic sales in the years ending December 31, 2010 and 2011 are as follows:

	2010	2011
Subscriptions, connections and other charges relating to voice and data services	154,093	155,716
Mobile traffic revenues	164,362	150,854
Leased lines, data transmission and IT revenues	33,350	31,431
Fixed line traffic revenues	32,496	26,499
Revenues entirely from TV services	22,805	26,011
Revenues from sale of handsets and other devices	17,936	19,920
Energy revenues [1]	425	4,602
Revenues from equipment sales	1,103	1,529
Other revenues [1]	16,262	17,735
Total domestic sales	**442,832**	**434,297**

[1] The Company's electricity and natural gas retail services that started in the second half of 2010 increased significantly in 2011 so the domestic sales related to these services have also changed appreciably. These items were disclosed in Other line in the previous year's report.

25. Export sales by geographical areas

Export sales by geographical areas in the years ending December 31, 2010 and 2011 are summarized as follows (sales are solely connected with services provided):

	2010		2011	
		%		%
Europe (within the EU)	12,717	79.92%	13,716	81.85%
Europe (outside the EU)	2,366	14.87%	2,008	11.98%
Asia	383	2.41%	494	2.95%
America	306	1.92%	361	2.16%
Australia	99	0.62%	102	0.61%
Africa	42	0.26%	76	0.45%
Total export sales	**15,913**	**100.00%**	**16,757**	**100.00%**

(All amounts in millions of HUF unless otherwise indicated)

26. Other revenues

Other revenues in the years ending December 31, 2010 and 2011 are as follows:

	2010	2011
Reversal of provisions [1]	9,232	13,462
Revenue from sale of intangible and tangible fixed assets	680	5,021
Discount received subsequently	3,028	3,460
Other revenues in connection with impairment [2]	2,713	3,148
Default interest, penalties, compensations	2,499	3,099
Revenue from receivable factoring	145	436
Renaming and rebranding	107	73
Other	1,046	1,117
Total	**19,450**	**29,816**

[1] The change in reversal of provisions compared to the previous year is mostly due to the increases of the following: early retirement pension and severance payment provisions (HUF 1,616 million), reversal of previous year's provision for derivatives (HUF 1,518 million), the customer loyalty program reversal (HUF 625 million) and reversals related to penalties (HUF 286 million). Provisions are detailed in the Note 16.
[2] The change is due to the increase in the received amounts of overdue and impaired receivables in relation to the previous year.

27. Import purchases

Import purchases by geographical areas in the years ending December 31, 2010 and 2011 are summarized as follows:

	2010			2011		
	Services	Products	Total	Services	Products	Total
Europe (within the EU)	18,668	14,627	33,295	17,559	18,192	35,751
Asia	2,136	2,391	4,527	2,116	3,843	5,959
Europe (outside the EU)	3,183	664	3,847	2,136	337	2,473
America	2,954	60	3,014	1,622	180	1,802
Africa	339	0	339	232	0	232
Australia	43	0	43	49	0	49
Total	**27,323**	**17,742**	**45,065**	**23,714**	**22,552**	**46,266**

(All amounts in millions of HUF unless otherwise indicated)

28. Cost of services

Cost of services in the years ending December 31, 2010 and 2011 are as follows:

	2010	2011
Repair and maintenance costs	19,936	18,565
Rental fees	11,490	12,839
Fees paid to entrepreneurs [1]	8,886	10,659
Expenses of rented workforce and operator activities	8,097	8,243
Commissions paid	8,582	7,642
Marketing expenses	8,481	7,234
Payments to international network operators	4,917	4,813
Consultancy [2]	6,622	4,810
Postage	2,538	2,713
Property operating costs	1,530	1,492
Services related to other revenues [3]	557	1,080
Education, training expenses	1,352	1,018
Brand license fee	840	889
Travel and accommodation costs	447	406
Fleet management	295	119
Payments to Internet service providers	86	106
Bookkeeping services [4]	1,528	0
Other [5]	1,251	664
Total	**87,435**	**83,292**

[1] The change is mainly due to the increase in other material-type services (HUF 824 million in 2010 and HUF 1,993 million in 2011).

[2] The decrease in consultancy is mainly due to the decrease of legal consultancy (HUF 2,534 million in 2010 and HUF 1,243 million in 2011).

[3] Services related to other revenues increased significantly mainly due to the insurance fees related to mobile customers. The current year's amount of the fees (HUF 591 million) increased by HUF 488 million compared to the previous year's figure (HUF 103 million).

[4] EurAccount Kft. provided bookkeeping services for Magyar Telekom group until December 31, 2010 but the company's activity was insourced into Magyar Telekom Plc. by January 1, 2011. Due to this insourcing there was no any cost recorded under this title in the current year.

[5] In 2010, Other line contains a one-time HUF 635 million services used related to EKG contract. In 2011 no such cost was recorded in this line under this title.

(All amounts in millions of HUF unless otherwise indicated)

29. Costs of services sold (intermediated)

Costs of intermediated services sold in the years ending December 31, 2010 and 2011 are as follows:

	2010	2011
Payment to mobile operators [1]	42,278	38,103
Costs of TV services	8,253	9,544
Costs of intermediated RI/IT services	7,646	8,742
Payment to other fixed line network operators	6,821	6,897
Costs of content providing and mobile trade services sold	4,425	5,643
System usage and other charges related to electricity and gas retail services [2]	95	1,188
Charges for network use paid to Cable TV companies	265	188
Other [2]	1,082	881
Total	**70,865**	**71,186**

[1] Decrease of payment to mobile operators is due to the significant decrease in regulated call termination charges.
[2] The Company's electricity and natural gas retail services started in the second half of 2010 increased significantly in 2011 so the related system usage charges have also changed appreciably. These items were in Other line in the previous year's report.

30. Employees

The average number of employees in 2010 and 2011 are as follows:

		December 31, 2010		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	946	3,171	1,601
	white collar	5,078	38,236	8,916
	total	6,024	41,407	10,517
Part-time employees				
	blue collar	3	6	4
	white collar	116	262	135
	total	119	268	139
Employees total				
	blue collar	949	3,177	1,605
	white collar	5,194	38,498	9,051
	total	6,143	41,675	10,656
Employees not in headcount [1]		0	2,453	866
Total		**6,143**	**44,128**	**11,522**

(All amounts in millions of HUF unless otherwise indicated)

		December 31, 2011		
		Average number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	960	3,205	1,462
	white collar	5,010	38,511	8,384
	total	5,970	41,716	9,846
Part-time employees				
	blue collar	1	3	2
	white collar	158	364	163
	total	159	367	165
Employees total				
	blue collar	961	3,208	1,464
	white collar	5,168	38,875	8,547
	total	6,129	42,083	10.011
Employees not in headcount [1]		0	2,400	910
Total		**6,129**	**44,483**	**10,921**

[1] Includes employees on maternity leave, who are excluded from the average statistical number of employees.

31. Remuneration of Board of Directors and Supervisory Board

The remuneration of members of the Board of Directors and Supervisory Board of the Company in the years ending December 31, 2010 and 2011 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2010	13	48	61
2011	14	56	70

The members of Board of Directors have not received any advance payments or loans.
The members of Supervisory Board have not received any advance payments or loans in the current year. The change in existing loans in 2011 as follows:

Description	Supervisory Board
Loans	
Opening balance	3
Disbursements in the current year	0
Loans repaid in the current year	1
Closing balance	2

The loans are to be reimbursed monthly, the average repayment term left is 68 months. All advance payments and loans are free of interest.
The Company did not offer guarantees on behalf of the members of the Board of Directors and Supervisory Board and has no retirement pension liability to them.

(All amounts in millions of HUF unless otherwise indicated)

32. Other expenses

Other expenses in the years ending December 31, 2010 and 2011 are as follows:

	2010	2011
Taxes, contributions, fees (Government taxes)	34,231	32,573
Penalties (disgorgement) [1]	327	21,923
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets	12,170	10,125
Provisions [2]	8,440	6,597
Loss and shortage of intangible and tangible assets [3]	356	3,124
Net book value of fixed assets sold [4]	427	2,947
Discount granted subsequently on roaming traffic	1,890	2,075
Factored receivables	686	992
Withholding tax	1,598	817
Write-off of uncollectible receivables	368	334
Other [1]	207	430
Total	**60,700**	**81,937**

[1] Penalty related to SEC/DOJ investigation is HUF 21,857 million in 2011. Further information is detailed in "Investigation into certain consultancy contracts" part. Amounts of penalties were disclosed in Other line in 2010.
[2] HUF 4,893 million provision was recorded for contingent liabilities in 2010, this liability decreased to HUF 2,329 million in 2011. Provisions are detailed in Note 16.
[3] Loss and shortage of intangible and tangible assets increased mainly due to the cancellation of telephone exchanges and telecommunication equipment from the books.
[4] The change in Net book value of fixed assets sold is mostly due to that the net book value of real estates was HUF 82 million in 2010 however HUF 2,439 million was recorded under this title in the current year.

(All amounts in millions of HUF unless otherwise indicated)

33. Results of financial activities

	2010	2011
Dividends received from Stonebridge A.D.	13,268	12,537
Dividends received from Telekom Crna Gora	18,723	3,708
Dividends received from KFKI Zrt.	3,500	2,500
Dividends received from Telekom Média Holding Zrt.	0	1,000
Dividends received from Investel Zrt.	2,600	540
Dividends received from Pro-M Zrt.	700	0
Other	308	368
Dividends and profit sharing received	*39,099*	*20,653*
Interest from Pro-M Zrt.	437	442
Interest from Dataplex Kft.	185	0
Other	70	8
Interest income on financial investments	*692*	*450*
Interest from KFKI Zrt.	185	235
Interest from IQSYS Zrt.	182	228
Interest from Dataplex Kft. [1]	58	174
Interest from banks	163	135
Interest from Deutsche Telekom A.G.	182	59
Other	199	290
Other interest income received	*969*	*1,121*
Realized foreign exchange gain	4,186	4,441
Non-realized foreign exchange gain	1,736	938
Other	194	314
Other revenues on financial activities	*6,116*	*5,693*
Other	56	0
Revenues from financial transactions	**46,932**	**27,917**
Interest paid to Deutsche Telekom	19,051	17,788
Interests of banks	3,433	3,251
Other interests	573	1,112
Interest expense	*23,057*	*22,151*
Origo Zrt. write-off	0	2,060
Novatel UKRAINE L.L.C. write-off	0	171
Investel Zrt. write-off	2,397	0
Write-off of investments	*2,397*	*2,231*
Realized foreign exchange loss	7,273	8,424
Other	334	148
Other expenses on financial activities	*7,607*	*8,572*
Expenditures from financial transactions	**33,061**	**32,954**
Financial results	**13,871**	**-5,037**

[1] In 2010 interest from Dataplex Kft. was in Other line.

(All amounts in millions of HUF unless otherwise indicated)

In 2011, HUF 2,651 million realized foreign exchange gain and HUF 5,956 million foreign exchange loss were recorded in connection with closed derivative transactions. All of the closed derivative foreign exchange deals were contracted on the OTC market with the original aim of delivery.

34. Extraordinary revenues

Extraordinary revenues in the years ending December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Extraordinary revenues adjusting tax base	**0**	**0**
Revenues related to investments in subsidiaries:		
- Merger of EPT Zrt. into KFKI Zrt.	398	0
- Merger of KFKI Direkt into KFKI Zrt.	225	0
- Merger of M-Factory into Origo Zrt.	53	0
- Other investments	0	1
Assets received free of charge	5	200
Development contributions	38	77
Other extraordinary revenues	21	112
Extraordinary revenues not adjusting tax base	**740**	**390**
Total	**740**	**390**

35. Extraordinary expenses

The extraordinary expenses of the Company in the years ending December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Donation to foundations, charities and other organizations	482	305
Net book value of assets contributed free of charge and service provided	0	121
Net book value of receivables waived	0	48
Extraordinary losses adjusting tax base	**482**	**474**
Assets contributed and service provided free of charge	431	585
Expenses related to investments in subsidiaries:		
- Merger of EPT Zrt. into KFKI Zrt.	326	0
- Merger of KFKI Direkt into KFKI Zrt.	264	0
- Merger of M-Factory into Origo Zrt.	63	0
- Cancellation of Hunsat Zrt. share (liquidation)	0	49
Dimenzió contributions	291	271
Receivables waived	44	198
Forgiveness of loans to subsidiaries	10	0
Other extraordinary losses	4	0
Extraordinary losses not adjusting tax base	**1,433**	**1,103**
Total	**1,915**	**1,577**

(All amounts in millions of HUF unless otherwise indicated)

36. Transactions with related parties and subsidiaries of Deutsche Telekom Group

Balances of transactions with related parties not disclosed in the balance sheet and income statement are detailed as follows.

Loans received from owners are disclosed as Non-current liabilities to other related parties or Current liabilities to other related parties. Their interests are disclosed separately as expenses from financial transactions in the income statement.

Revenues and expenses (mainly relating to telecommunication services) from the subsidiaries of Deutsche Telekom Group were not disclosed separately as transactions with related parties.

Transactions with related parties and subsidiaries of Deutsche Telekom in the years ending December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Net domestic sales	**442,832**	**434,297**
- of which: related parties	5,229	5,218
- of which: subsidiaries of Deutsche Telekom Group	802	2,365
Net export sales	**15,913**	**16,757**
- of which: related parties	1,128	805
- of which: subsidiaries of Deutsche Telekom Group	9,665	10,300
Other revenues	**19,450**	**29,816**
- of which: related parties	276	222
- of which: subsidiaries of Deutsche Telekom Group	4,585	3,382
Accounts receivable	**36,632**	**35,044**
- of which: subsidiaries of Deutsche Telekom Group	534	1,070
Other receivables	**9,218**	**8,750**
- of which: subsidiaries of Deutsche Telekom Group	3,075	3,553
Accrued income	**28,725**	**31,678**
- of which: subsidiaries of Deutsche Telekom Group	947	1,030
Prepaid expenses	**1,532**	**4,913**
- of which: subsidiaries of Deutsche Telekom Group	603	531
Accounts payable	**26,999**	**37,489**
- of which: subsidiaries of Deutsche Telekom Group	1,870	2,205
Current liabilities to other related parties	**68,486**	**49,486**
- of which: subsidiaries of Deutsche Telekom Group	68,486	49,486
Other current liabilities	**66,576**	**86,950**
- of which: subsidiaries of Deutsche Telekom Group	32,921	33,090
Deferred Income	**4,521**	**4,839**
- of which: subsidiaries of Deutsche Telekom Group	694	1,383
Accrued expenses	**43,027**	**41,227**
- of which: subsidiaries of Deutsche Telekom Group	8,967	8,266

(All amounts in millions of HUF unless otherwise indicated)

37. Corporate Income Tax

The differences between profit before tax and the tax base for the years ending December 31, 2010 and 2011 are presented below:

	2010	2011
Profit before tax	**65,170**	**31,831**
Depreciation according to the Act on Accounting	82,685	79,648
Penalty, sanction	0	14,415
Impairment of receivables	10,207	7,713
Recognition of provisions	8,440	6,597
Write-off of intangible and tangible fixed assets, reclassification to current assets	2,494	5,500
Non-repayable donations, assets and services given free of charge, assumed liabilities	470	141
Recoverable, waived and expired receivables	13	18
Other increasing items	2,631	1,601
Tax base increasing items	**106,940**	**115,633**
Depreciation according to the Tax Law	93,975	74,664
Dividend income	39,099	20,653
Non-realized foreign exchange gain	4,199	16,461
Reversal of provisions	9,232	13,462
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	4,342	4,986
Write-off of intangible and tangible fixed assets, reclassification to current assets	1,889	3,860
R&D costs	380	254
Utilization of tax loss carried forward	859	0
Development reserve	500	0
Subsidies received	107	0
Donations	4	0
Other decreasing items	1	73
Tax base decreasing items	**154,587**	**134,413**
Tax base	**17,523**	**13,051**
Calculated amount of tax	**3,307**	**2,435**
Tax credit	3,068	2,289
Solidarity tax	0	0
Corporate Income Tax [1]	**239**	**146**

[1] Corporate Income Tax liability is HUF 156 million in the income statement which contains HUF 10 million income tax obligation for energy service companies in 2011.

Other tax related information

552/2004 Ministry of Finance Resolution: "Tax credit in connection with improvement program cannot exceed HUF 5,908 million at present value."

19/2005 Ministry of Finance Resolution: "Tax credit in connection with improvement program cannot exceed HUF 2,614 million at present value."

Tax credit on broadband Internet investments announced for 2006: "Tax credit cannot exceed HUF 2,292 million at present value."

Tax credit on broadband Internet investments announced for 2007: "Tax credit cannot exceed HUF 1,318 million at present value."

12.724/2005 Ministry of Finance Resolution: "The tax credit is applicable in connection with construction of WLAN put into service by T-Mobile Magyarország Rt. which also provides broadband internet service and cannot exceed HUF 334 million at present value."

The tax credit is applicable in connection with construction of UMTS network announced by T-Mobile on 18 August, 2005 which also provides broadband internet service and cannot exceed HUF 4,215 million at present value.

Tax credit on broadband Internet investments announced for 2006 by T-Mobile. The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

In July, 2009 the Hungarian Tax Authority (APEH) started a complex inspection at Magyar Telekom Plc. concerning all kinds of taxes relating to the years 2005 and 2006. The inspection was closed in 2010. 2006 is the last year closed by comprehensive tax audit by APEH at the Company. Tax authorities may at any time inspect the books and records until the end of the 6th year following the year when the tax declarations were submitted and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which could result in a significant liability in this respect.

In October, 2010 the Hungarian Parliament adopted a law on crisis tax imposed on some industrial sectors. Based on this law Magyar Telekom Plc. had to pay crisis tax after its telecommunication and retail revenues as of 2010. The amounts of crisis tax were HUF 26,155 million in 2010 and HUF 24,552 million after telecommunication revenue, HUF 19 million in 2010 and HUF 22 million after retail revenue in 2011. Based on the law these were recorded as expense and decreased the profit before taxes.

38. Dividend

At the General Meeting held on April 16, 2012, Magyar Telekom Plc. decided on paying dividend of HUF 50 after each shares with nominal values of HUF 100, resulting in a current year's dividend payable of HUF 52,117 million.
HUF 30,872 million is due to the parent company – MagyarCom Holding GmbH – from the approved dividend for the year 2011.

(All amounts in millions of HUF unless otherwise indicated)

39. Off-balance sheet items

Off-balance sheet items are mainly contractual commitments (rental contracts, contracted construction-in-progress and other development commitments, guarantee obligations, obligations related to acquisition of a company, environmental, restoration and other expected obligations).
Off-balance sheet items are detailed (including the off-balance sheet receivables and liabilities related to forward and swap deals not closed until the balance sheet day) in Appendix 5.

40. Hazardous waste, Research & Development costs

The following table shows the movement of hazardous waste at the Company in 2011 (data in kilograms):

	Hazardous waste (kg)
December 31, 2010	**0**
Increase	
Lead batteries	57,009
Soil and rocks containing hazardous substance	72
Other	15,680
Increase in total	**72,761**
Decrease	
Lead batteries	57,009
Soil and rocks containing hazardous substance	72
Other	15,680
Decrease in total	**72,761**
December 31, 2011	**0**

HUF 188 million environmental expenses were recorded in 2010 and HUF 283 million in 2011.
In 2011, HUF 512 million research and development costs were recorded in Magyar Telekom Plc. (in 2010, HUF 737 million was recorded under this title).

(All amounts in millions of HUF unless otherwise indicated)

41. Self-revisions

At Magyar Telekom Plc., financial events that are related to prior years are recorded in the current year through self-revision.

According to the Hungarian Accounting Regulations, if the impact of the self-revision exceeds the 2 per cent of the total assets of the current year, or at least HUF 500 million, such items must be disclosed in a separate column in both the balance sheet and the income statement.

Errors related to prior years, that were discovered in 2011 exceeded the HUF 500 million limit (irrespective of their profit increasing or decreasing nature), therefore they are presented next to previous year's figures in the balance sheet and income statement.

The total (profit decreasing) impact of self-revisions is HUF 1,231 million and is broken down by corresponding years as follows:

Year	Self-revision
2003	9
2004	36
2005	8
2006	8
2007	-48
2008	-136
2009	-38
2010	-1,070

(All amounts in millions of HUF unless otherwise indicated)

The major items based on the „A" type income statement lines are the following:

I. Sales revenue		**-79**
Leased lines and data transmission revenues	170	
International leased lines	39	
Subscriptions, connections and other charges relating to voice and data services	-217	
Revenues entirely from TV services	-70	
Fixed line traffic revenues	-38	
Revenues from asset sale	-13	
Other revenues	26	
Other export revenues	24	
II. Own work capitalized		**-67**
Change in self-manufactured inventories	-26	
Capitalized value of self-manufactured assets	-41	
III. Other revenues		**-8**
Fixed asset sale	12	
Penalty	-11	
Subsidies received compensating costs	-5	
Other	-4	
IV. Material-type expenses		**-125**
Advertisement and marketing costs	-34	
Rental fees	-33	
Material costs	-16	
Consultant fees	-13	
Education, conference, travel, accommodation	-12	
Repair and maintenance	-5	
Other	-12	
V. Payroll and related expenses		**78**
VAT payment after employers	74	
Contributions in kind and related charges	4	
VI. Depreciation		**691**
Depreciation related to prior years	691	
VII. Other expenses		**613**
Shortages, damages and impairment of tangible and intangible assets	759	
Taxes	-200	
Other	54	
D. PROFIT FROM EXTRAORDINARY ACTIVITIES		**1**
XII. Corporate income tax		**-179**
Solidarity tax	-11	
Corporate income tax	-168	
Impact on net income		**-1,231**

(All amounts in millions of HUF unless otherwise indicated)

42. Remuneration of auditor

Fees charged by the auditors in the years ending December 31, 2010 and 2011 are summarized as follows:

	2010	2011
Audit	222	242
Other assurance services	169	82
Other non-audit services	4	16
Total	**395**	**340**

Budapest, April 16, 2012

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

Thilo Kusch
Chief Financial Officer,
Board member

data in millions of HUF

ASSETS	December 31, 2010				Self Revision				December 31, 2011			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	**115**	**338**	**817 453**	**817 906**	**88**	**80**	**-1 705**	**-1 537**	**379**	**343**	**809 967**	**810 689**
I. Intangible assets	**86**	**281**	**191 288**	**191 655**	**87**	**79**	**-357**	**-191**	**314**	**286**	**184 068**	**184 668**
Capitalised costs of foundation and restructuring	0	0	0	0	0	0	0	0	0	0	0	0
Capitalised costs of research and development	0	0	0	0	0	0	0	0	0	0	0	0
Rights	86	281	55 471	55 838	87	79	-354	-188	314	286	59 733	60 333
Intellectual property	0	0	4 566	4 566	0	0	-3	-3	0	0	4 595	4 595
Goodwill	0	0	131 251	131 251	0	0	0	0	0	0	119 720	119 720
Advance payments on intangible assets	0	0	0	0	0	0	0	0	0	0	20	20
II. Tangible assets	**23**	**42**	**434 866**	**434 931**	**1**	**1**	**-1 348**	**-1 346**	**41**	**36**	**421 724**	**421 801**
Land and buildings and related rights	19	33	241 367	241 419	0	0	3 329	3 329	36	32	238 341	238 409
- Land	*1*	*1*	*2 754*	*2 756*	*0*	*0*	*0*	*0*	*2*	*2*	*2 628*	*2 632*
- Buildings	*17*	*30*	*64 406*	*64 453*	*0*	*0*	*351*	*351*	*31*	*28*	*61 600*	*61 659*
- Telecommunication network	*0*	*0*	*163 828*	*163 828*	*0*	*0*	*2 893*	*2 893*	*0*	*0*	*163 863*	*163 863*
- Other properties	*1*	*2*	*9 434*	*9 437*	*0*	*0*	*47*	*47*	*3*	*2*	*9 425*	*9 430*
- Real estate related rights	*0*	*0*	*945*	*945*	*0*	*0*	*38*	*38*	*0*	*0*	*825*	*825*
Technical equipment, machinery and vehicles	0	0	149 469	149 469	0	0	5 230	5 230	0	0	138 742	138 742
- Telecommunication equipment and machinery	*0*	*0*	*147 502*	*147 502*	*0*	*0*	*4 459*	*4 459*	*0*	*0*	*134 778*	*134 778*
- Other technical equipment, machinery and vehicles	*0*	*0*	*1 967*	*1 967*	*0*	*0*	*771*	*771*	*0*	*0*	*3 964*	*3 964*
Other equipment and vehicles	3	6	9 972	9 981	1	1	927	929	5	4	7 273	7 282
Construction-in-progress	1	3	33 987	33 991	0	0	-10 834	-10 834	0	0	37 350	37 350
Advance payments on construction-in-progress	0	0	71	71	0	0	0	0	0	0	18	18
III. Financial investments	**6**	**15**	**191 299**	**191 320**	**0**	**0**	**0**	**0**	**24**	**21**	**204 175**	**204 220**
Non current investments in related parties	0	0	179 244	179 244	0	0	0	0	0	0	194 525	194 525
Non current loans granted to related parties	3	5	8 242	8 250	0	0	0	0	4	3	5 593	5 600
Other investments	0	0	0	0	0	0	0	0	0	0	0	0
Other non current loans granted	3	10	3 813	3 826	0	0	0	0	20	18	4 057	4 095
Non current bonds and other securities	0	0	0	0	0	0	0	0	0	0	0	0
B. CURRENT ASSETS	**39**	**113**	**73 432**	**73 584**	**0**	**0**	**253**	**253**	**215**	**837**	**70 082**	**71 134**
I. Inventories	**0**	**0**	**7 019**	**7 019**	**0**	**0**	**-80**	**-80**	**0**	**0**	**6 399**	**6 399**
Raw materials	0	0	826	826	0	0	-54	-54	0	0	628	628
Work in progress and semi-finished products	0	0	149	149	0	0	-26	-26	0	0	2	2
Finished products	0	0	0	0	0	0	0	0	0	0	0	0
Goods resale	0	0	6 044	6 044	0	0	0	0	0	0	5 769	5 769
Advance payments on inventories	0	0	0	0	0	0	0	0	0	0	0	0
II. Receivables	**37**	**110**	**60 438**	**60 585**	**0**	**0**	**330**	**330**	**212**	**834**	**59 063**	**60 109**
Accounts receivable	31	97	36 504	36 632	0	0	102	102	175	817	34 052	35 044
Receivables from subsidiaries	4	8	14 723	14 735	0	0	13	13	10	9	16 296	16 315
Bills receivable	0	0	0	0	0	0	0	0	0	0	0	0
Receivables from other related companies	0	0	0	0	0	0	0	0	0	0	0	0
Other receivables	2	5	9 211	9 218	0	0	215	215	27	8	8 715	8 750
III. Securities	**0**	**0**	**307**	**307**	**0**	**0**	**0**	**0**	**0**	**0**	**307**	**307**
Investments in related parties	0	0	0	0	0	0	0	0	0	0	0	0
Other investments	0	0	0	0	0	0	0	0	0	0	0	0
Treasury stock, quotas	0	0	307	307	0	0	0	0	0	0	307	307
Marketable securities	0	0	0	0	0	0	0	0	0	0	0	0
IV. Liquid assets	**2**	**3**	**5 668**	**5 673**	**0**	**0**	**3**	**3**	**3**	**3**	**4 313**	**4 319**
Cash and cheques	0	0	96	96	0	0	0	0	0	0	114	114
Bank deposits	2	3	5 572	5 577	0	0	3	3	3	3	4 199	4 205
C. PREPAYMENTS	**45**	**90**	**30 122**	**30 257**	**0**	**0**	**-72**	**-72**	**233**	**3 703**	**32 655**	**36 591**
Accrued income	45	74	28 606	28 725	0	0	-72	-72	197	1 328	30 153	31 678
Prepayments for costs and expenses	0	16	1 516	1 532	0	0	0	0	36	2 375	2 502	4 913
Deferred expenses	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	**199**	**541**	**921 007**	**921 747**	**88**	**80**	**-1 524**	**-1 356**	**827**	**4 883**	**912 704**	**918 414**

data in millions of HUF

LIABILITIES AND SHAREHOLDER'S EQUITY	December 31, 2010				Self Revision				December 31, 2011			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
D. SHAREHOLDER'S EQUITY	**-145**	**-428**	**367 782**	**367 209**	**0**	**0**	**-1 231**	**-1 231**	**-579**	**-848**	**346 962**	**345 535**
I. Common stock	0	0	104 274	104 274	0	0	0	0	0	0	104 274	104 274
- of this treasury stock at par value	*0*	*0*	*100*	*100*	*0*	*0*	*0*	*0*	*0*	*0*	*39*	*39*
II. Unpaid share capital (-)	0	0	0	0	0	0	0	0	0	0	0	0
III. Capital reserves	0	0	58 952	58 952	0	0	0	0	0	0	58 952	58 952
IV. Retained earnings	0	0	188 864	188 864	0	0	0	0	-145	-428	180 575	180 002
V. Restricted reserves	0	0	2 307	2 307	0	0	0	0	0	0	2 307	2 307
VI. Valuation reserves	0	0	0	0	0	0	0	0	0	0	0	0
VII. Net income	-145	-428	13 385	12 812	0	0	-1 231	-1 231	-434	-420	854	0
E. PROVISIONS	**0**	**0**	**18 700**	**18 700**	**0**	**0**	**0**	**0**	**0**	**0**	**11 835**	**11 835**
Provision for expected obligations	0	0	18 700	18 700	0	0	0	0	0	0	11 835	11 835
Provision for expected expenses	0	0	0	0	0	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0	0	0	0	0	0	0
F. LIABILITIES	**164**	**344**	**487 546**	**488 054**	**0**	**0**	**39**	**39**	**479**	**-98**	**513 968**	**514 349**
I. Subordinated liabilities	0	0	0	0	0	0	0	0	0	0	0	0
II. Non current liabilities	**78**	**140**	**235 876**	**236 094**	**0**	**0**	**0**	**0**	**158**	**144**	**238 870**	**239 172**
Non current borrowings	0	0	0	0	0	0	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0	0	0	0	0	0	0
Debt from issuance of bonds	0	0	121	121	0	0	0	0	0	0	120	120
Investment and development loans	0	0	0	0	0	0	0	0	0	0	0	0
Other non current loans	2	4	6 175	6 181	0	0	0	0	10	9	14 537	14 556
Non current liabilities to related parties	0	0	0	0	0	0	0	0	0	0	0	0
Non current liabilities to other related parties	76	136	228 605	228 817	0	0	0	0	148	135	223 431	223 714
Other non current liabilities	0	0	975	975	0	0	0	0	0	0	782	782
III. Current liabilities	**86**	**204**	**251 670**	**251 960**	**0**	**0**	**39**	**39**	**321**	**-242**	**275 098**	**275 177**
Current borrowings	0	0	70	70	0	0	0	0	0	0	70	70
- of this convertible bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Current loans	15	26	43 027	43 068	0	0	0	0	31	27	46 023	46 081
Advances received	0	0	310	310	0	0	-2	-2	0	0	408	408
Accounts payable	42	99	26 858	26 999	0	0	-62	-62	126	124	37 239	37 489
Bills of exchange payable	0	0	0	0	0	0	0	0	0	0	0	0
Current liabilities to related parties	13	24	46 414	46 451	0	0	0	0	30	27	54 636	54 693
Current liabilities to other related parties	23	40	68 423	68 486	0	0	0	0	32	30	49 424	49 486
Other current liabilities	-7	15	66 568	66 576	0	0	103	103	102	-450	87 298	86 950
- of this dividends payable	*0*	*0*	*52 117*	*52 117*	*0*	*0*	*0*	*0*	*0*	*0*	*52 117*	*52 117*
G. ACCRUED EXPENSES	**77**	**196**	**47 511**	**47 784**	**0**	**-2**	**-162**	**-164**	**332**	**2 439**	**43 924**	**46 695**
Deferred income	0	3	4 518	4 521	0	0	0	0	33	428	4 378	4 839
Accrued expenses	77	193	42 757	43 027	0	-2	-159	-161	299	2 011	38 917	41 227
Other deferred revenue	0	0	236	236	0	0	-3	-3	0	0	629	629
DIFFERENCE BECAUSE OF SEPARATION	103	429	-532	0	88	82	-170	0	595	3 390	-3 985	0
TOTAL LIABLITIES AND SHAREHOLDER'S EQUITY	**199**	**541**	**921 007**	**921 747**	**88**	**80**	**-1 524**	**-1 356**	**827**	**4 883**	**912 704**	**918 414**

data in HUF millions

	2010				Self Revision				2011			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
1. Domestic sales	153	272	442 407	442 832	0	0	-143	-143	1 205	3 399	429 693	434 297
2. Export sales	0	0	15 913	15 913	0	0	64	64	0	0	16 757	16 757
I. Sales revenues	**153**	**272**	**458 320**	**458 745**	**0**	**0**	**-79**	**-79**	**1 205**	**3 399**	**446 450**	**451 054**
3. Change in self-manufactured inventories	0	0	41	41	0	0	-26	-26	0	0	-121	-121
4. Capitalised value of self-manufactured assets	3	10	18 485	18 498	0	0	-41	-41	13	12	22 054	22 079
II. Own work capitalized	**3**	**10**	**18 526**	**18 539**	**0**	**0**	**-67**	**-67**	**13**	**12**	**21 933**	**21 958**
III. Other revenues	**0**	**0**	**19 450**	**19 450**	**0**	**0**	**-8**	**-8**	**42**	**19**	**29 755**	**29 816**
of which: reversal of impairment	0	0	0	0	0	0	0	0	0	0	0	0
5. Costs of raw material	4	13	24 719	24 736	0	0	-8	-8	32	30	27 671	27 733
6. Costs of services	74	202	87 159	87 435	0	0	-129	-129	228	213	82 851	83 292
7. Costs of other services	1	2	14 397	14 400	0	0	11	11	13	16	14 260	14 289
8. Cost of goods sold	89	203	33 411	33 703	0	0	0	0	532	2 613	35 959	39 104
9. Costs of services sold (intermediated)	55	40	70 770	70 865	0	0	1	1	467	721	69 998	71 186
IV. Material-type expenses	**223**	**460**	**230 456**	**231 139**	**0**	**0**	**-125**	**-125**	**1 272**	**3 593**	**230 739**	**235 604**
10. Salaries and wages	41	139	43 948	44 128	0	0	0	0	199	180	44 104	44 483
11. Other payroll related costs	5	18	11 499	11 522	0	0	74	74	42	38	10 841	10 921
12. Payroll related contributions	13	44	14 067	14 124	0	0	4	4	58	53	14 194	14 305
V. Payroll and related expenses	**59**	**201**	**69 514**	**69 774**	**0**	**0**	**78**	**78**	**299**	**271**	**69 139**	**69 709**
VI. Depreciation	**7**	**25**	**82 615**	**82 647**	**0**	**0**	**691**	**691**	**53**	**49**	**77 421**	**77 523**
VII. Other expenses	**4**	**9**	**60 687**	**60 700**	**0**	**0**	**613**	**613**	**40**	**135**	**81 762**	**81 937**
of which: impairment	2	1	12 167	12 170	0	0	21	21	10	18	10 097	10 125
A. PROFIT FROM OPERATING ACTIVITIES	**-137**	**-413**	**53 024**	**52 474**	**0**	**0**	**-1 411**	**-1 411**	**-404**	**-618**	**39 077**	**38 055**
13. Dividends and profit sharing (received or due)	0	0	39 099	39 099	0	0	0	0	0	0	20 653	20 653
of which: received from related parties	0	0	39 099	39 099	0	0	0	0	0	0	20 653	20 653
14. Foreign exchange gains on sale of investments	0	0	56	56	0	0	0	0	0	0	0	0
of which: received from related parties	0	0	0	0	0	0	0	0	0	0	0	0
15. Interest income and gains on financial investments	0	0	692	692	0	0	0	0	0	0	450	450
of which: received from related parties	0	0	692	692	0	0	0	0	0	0	450	450
16. Other interest income received	0	1	968	969	0	0	0	0	1	1	1 119	1 121
of which: received from related parties	0	0	780	780	0	0	0	0	1	1	956	958
17. Other revenues from financial activities	1	2	6 113	6 116	0	0	0	0	1	225	5 467	5 693
VIII. Revenues from financial transactions	**1**	**3**	**46 928**	**46 932**	**0**	**0**	**0**	**0**	**2**	**226**	**27 689**	**27 917**
18. Loss on the sale of financial investments	0	0	0	0	0	0	0	0	0	0	0	0
of which: related to related parties	0	0	0	0	0	0	0	0	0	0	0	0
19. Interest expense	8	14	23 035	23 057	0	0	0	0	16	13	22 122	22 151
of which: related to related parties	0	1	882	883	0	0	0	0	1	1	1 119	1 121
related to other related party	6	11	19 134	19 151	0	0	0	0	12	11	17 918	17 941
20. Impairment of investments, securities and bank deposits	0	0	2 397	2 397	0	0	0	0	0	0	2 231	2 231
21. Other expenses refinancial activities	1	2	7 604	7 607	0	0	0	0	11	10	8 551	8 572
IX. Expenses from financial transactions	**9**	**16**	**33 036**	**33 061**	**0**	**0**	**0**	**0**	**27**	**23**	**32 904**	**32 954**
B. FINANCIAL RESULTS	**-8**	**-13**	**13 892**	**13 871**	**0**	**0**	**0**	**0**	**-25**	**203**	**-5 215**	**-5 037**
C. PROFIT FROM ORDINARY ACTIVITIES	**-145**	**-426**	**66 916**	**66 345**	**0**	**0**	**-1 411**	**-1 411**	**-429**	**-415**	**33 862**	**33 018**
X. Extraordinary revenues	**0**	**0**	740	740	**0**	**0**	5	5	**0**	**0**	390	390
XI. Extraordinary expenses	**0**	**0**	1 915	1 915	**0**	**0**	4	4	**0**	**0**	1 577	1 577
D. RESULT FROM EXTRAORDINARY ACTIVITIES	**0**	**0**	-1 175	-1 175	**0**	**0**	1	1	**0**	**0**	-1 187	-1 187
E. PROFIT BEFORE TAXES	**-145**	**-426**	**65 741**	**65 170**	**0**	**0**	-1 410	-1 410	**-429**	**-415**	**32 675**	**31 831**
XII. Corporate income tax	**0**	**2**	**239**	**241**	**0**	**0**	-179	-179	**5**	**5**	**146**	**156**
F. NET INCOME	**-145**	**-428**	**65 502**	**64 929**	**0**	**0**	-1 231	-1 231	**-434**	**-420**	**32 529**	**31 675**
22. Use of retained earnings for dividends	0	0	0	0	0	0	0	0	0	0	20 442	20 442
23. Dividend paid (approved)	0	0	52 117	52 117	0	0	0	0	0	0	52 117	52 117
G. BALANCE SHEET NET INCOME	**-145**	**-428**	**13 385**	**12 812**	**0**	**0**	-1 231	-1 231	**-434**	**-420**	**854**	**0**

Real estate and related rights

(in HUF millions)

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value [1]						
11. Opening gross value (on January 1, 2011)	2 756	86 678	301 738	16 481	5 339	412 992
12. Additions in gross value	0	1 760	13 538	292	63	15 653
13. Additions due to merger	0	0	0	0	0	0
14. Disposals in gross value	99	3 719	1 181	286	94	5 379
Reclassifications	-25	-359	-699	402	-1	-682
15. Closing gross value (on December 31, 2011)	2 632	84 360	313 396	16 889	5 307	422 584
2. Accumulated depreciation [1]						
21. Opening depreciation (on January 1, 2011)	0	22 225	137 910	7 044	4 394	171 573
22. Annual depreciation	0	2 074	12 433	439	182	15 128
23. Extraordinary depreciation	0	2	0	0	0	2
24. Additions due to merger	0	0	0	0	0	0
25. Disposals in depreciation	0	1 477	764	164	93	2 498
Reclassifications	0	-123	-46	140	-1	-30
26. Closing depreciation (on December 31, 2011)	0	22 701	149 533	7 459	4 482	184 175
3. Net book value (on December 31, 2011) [1]	2 632	61 659	163 863	9 430	825	238 409
Of which residual value	0	179	0	5	0	184
4. Other						
Ordinary depreciation (Months 1-12, 2011) [1]	0	2 074	12 433	439	182	15 128
Impairment	0	2	0	0	0	2
Reversal of impairment	0	0	0	0	0	0

[1] Excludes the assets below HUF 50,000

Technical and Other Equipment, Machinery and Vehicles

(in HUF millions)

Description	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value [1]						
11. Opening gross value (on January 1, 2011)	660 897	4 907	665 804	75 715	741 519	33
12. Additions in gross value	24 206	2 486	26 692	2 080	28 772	0
13. Additions due to merger	0	0	0	0	0	0
14. Disposals in gross value	37 369	694	38 063	8 192	46 255	0
Reclassifications	4 339	884	5 223	-3 858	1 365	0
15. Closing gross value (on December 31, 2011)	652 073	7 583	659 656	65 745	725 401	33
2. Accumulated depreciation [1]						
21. Opening depreciation (on January 1, 2011)	513 395	2 940	516 335	65 734	582 069	32
22. Annual depreciation	35 728	484	36 212	3 532	39 744	0
23. Extraordinary depreciation	0	1	1	4	5	0
24. Additions due to merger	0	0	0	0	0	0
25. Disposals in depreciation	34 687	588	35 275	7 851	43 126	0
Reclassifications	2 859	782	3 641	-2 956	685	0
26. Closing depreciation (on December 31, 2011)	517 295	3 619	520 914	58 463	579 377	32
3. Net book value (on December 31, 2011) [1]	134 778	3 964	138 742	7 282	146 024	1
Of which residual value	29	1 481	1 510	765	2 276	0
4. Other						
Ordinary depreciation (Months 1-12, 2011) [1]	35 728	484	36 212	3 532	39 744	0
Impairment	0	1	1	4	5	0
Reversal of impairment	0	0	0	0	0	0

[1] Excludes the assets below HUF 50,000

Direct and indirect investments of Magyar Telekom Plc.

(in HUF millions)

Description	Headquarter	Owner-ship Direct (%)	Owner-ship Indirect (%)	Owner-ship (%)	Voting Rights	Common Stock	Capital Reserves	Net Income	Owner's Equity
Budakalász Kábel TV Kft.	2011 Budakalász, Szentendrei út 9.	100,00%		100,00%	100,00%	70	1	11	82
Combridge S.R.L. [1]	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100,00%		100,00%	100,00%	1 948	1 037	148	3 133
Crnogorski Telekom A.D. Podgorica [1]	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76,53%		76,53%	76,53%	34 851	12 038	4 613	51 502
Dataplex Infokommunikációs Infrastrúktúra Szolgáltató és Ingatlanhasznosító Kft.	1087 Budapest, Asztalos Sándor u. 13	100,00%		100,00%	100,00%	1 850	1 171	707	3 728
Daten-Kontor Kft.	1115 Budapest, Bartók Béla út 105-113.	100,00%		100,00%	100,00%	200	715	237	1 152
EurAccount Pénzügyi és Számviteli Szolgáltató Kft. [2]	1077 Budapest, Kéthly Anna tér 1.	99,00%	1,00%	100,00%	100,00%	450	16	21	487 [3]
Investel Magyar Távközlési Befektetési Zrt.	1013 Budapest, Krisztina krt. 55.	100,00%		100,00%	100,00%	4 453	754	236	5 443
IQSYS Informatikai és Tanácsadó Zrt.	1135 Budapest, Hun u 2.	100,00%		100,00%	100,00%	1 001	2 535	363	3 899
ISH Kft.	1033 Budapest, Huszti út 32.	100,00%		100,00%	100,00%	3	-1	2	4
ISH Informatikai Kft.	1033 Budapest, Huszti út 32.	100,00%		100,00%	100,00%	3	2 437	567	3 007
KFKI Rendszerintegrációs Zrt.	1135 Budapest, Hun u 2.	100,00%		100,00%	100,00%	2 001	2 842	3 029	7 872
KIBU Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99,20%	0,80%	100,00%	100,00%	40	10	11	61
Mindentudás Egyeteme Tudományos Közhasznú Nonprofit Kft.	1105 Budapest, Zágrábi út 1-3.	60,00%		60,00%	60,00%	5	12	-12	5
Novatel E.O.O.D. [1]	1680 Sofia, Bulgaria blvd 98, bulding Astra, entrance D, fl. 3, office 5G	100,00%		100,00%	100,00%	669	715	-116	1 268
Novatel UKRAINE L.L.C. [1, 2]	Pymonenka Str. 13, building 7, office 7B/36. - Kiew, 04050 Ukraine	99,94%	0,06%	100,00%	100,00%	70	-3	-31	36
Modultechnika Kft.	1013 Budapest, Krisztina krt. 55.	100,00%		100,00%	100,00%	1	120	1 085	1 206
Origo Média és Kommunikációs Szolgáltató Zrt.	1117 Budapest, Gábor Dénes u. 2.	100,00%		100,00%	100,00%	300	1 555	-1 490	365
Pro-M Professzionális Mobilrádió Zrt.	1107 Budapest, Száva u. 3-5.	100,00%		100,00%	100,00%	5 200	2 569	-153	7 616
Stonbridge A.D. [1, 2]	1000 Skopje, Orce Nikolov bb.	100,00%		100,00%	100,00%	92 410	-72 462	15 444	35 392
TELE-DATA Távközlési Adatfeldolgozó és Hirdetésszervező Kft.	2040 Budaörs, Baross u. 89.	50,98%		50,98%	50,98%	39	45	-5	79
Telekom New Média Zrt.	1222 Budapest Nagytétényi út 29.	100,00%		100,00%	100,00%	1 670	46	351	2 067
Telemacedonia A.D. Skopje [1]	1000 Skopje, Orce Nikolov bb.	100,00%		100,00%	100,00%	3	340	-170	173
ViDaNet Kábeltelevíziós Szolgáltató Zrt.	9024 Győr, Orgona u. 10.	67,50%	22,50%	90,00%	50,00%	2 000	3 038	26	5 064

Data of indirect owned companies which are not in the investments balance sheet caption of Magyar Telekom Plc. [1]

CompArgo Kft.	1023 Budapest, Zsigmond tér 13.		80,00%	80,00%	80,00%	3	55	4	62
Makedonski Telekom A.D. - Skopje [1]	1000 Skopje, Orce Nikolov bb.		56,67%	56,67%	56,67%	41 771	26 040	24 871	92 682
T-Mobile Macedonia A.D. [1]	1000 Skopje, Orce Nikolov bb.		56,67%	56,67%	56,67%	9 880	12 534	13 923	36 337

All data in the table related to the capital is the last known figures by Magyar Telekom Plc. and not yet audited.

The indicated voting rights define unambiguously the significant (more than 25%), the majority (more than 50%) and the direct control (more than 75%) according to the Companies Act.

[1] The common stock figures of foreign subsidiaries and indirect owned companies are based on IFRS reports were revalued using foreign exchange rates as of December 31, 2011.

[2] Under liquidation.

[3] Data are based on the Annual Report after the liquidation as of September 30, 2011

Impairment

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables [1]	Securities
Opening balance	**2 615**	**0**	**0**	**4 018**	**19 733**	**0**
Increase	2 254	0	0	283	7 737	0
Decrease/Cancellation	1	0	0	0	8 446	0
Increase due to merger	0	0	0	0	0	0
Closing balance	**4 868**	**0**	**0**	**4 301**	**19 024**	**0**

[1] Contains the impairment of receivables, loans to related parties and other receivables.

Off-balance Sheet Liabilities

	Total	2012	2013	2014	2015	2016	2017
Rental contracts	39 905	8 142	6 643	5 728	4 773	3 747	10 872
Rental contracts with related parties	419	419	0	0	0	0	0
Guarantee obligation	15 777	13 516	1 501	58	564	45	93
Commitment for capital expenditure and other developments	9 146	679	8 467	0	0	0	0
Commitment for capital expenditure with related parties	701	246	455	0	0	0	0
Environmental protection, restoration and other obligations	360	60	60	60	60	60	60
Commitments to acquisitions	200	100	100	0	0	0	0

Forward and swap deals

Opened forward F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2011.[1]

ID	Date	Off-balance sheet liability (HUF millions)	Off-balance sheet receivable	F/X	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
910BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	03.31.2011	-2 054	7 500 000	EUR	01.11.2012	273.91	282
927BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	04.27.2011	-2 052	7 500 000	EUR	04.11.2012	273.56	304
1039BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	09.28.2011	-2 224	7 500 000	EUR	07.11.2012	296.56	151
1071BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	11.30.2011	-2 386	7 500 000	EUR	10.09.2012	318.13	20
1100Deutsche Telekom AG / / D-53113 Bonn	12.22.2011	-1 534	5 000 000	EUR	01.03.2012	306.83	34
895ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	02.23.2011	-2 116	7 500 000	EUR	01.11.2012	282.18	221
971K&H Bank Nyrt. / Vigadó tér 1 / 1051 Budapest	06.23.2011	-2 067	7 500 000	EUR	04.11.2012	275.58	289
1002K&H Bank Nyrt. / Vigadó tér 1 / 1051 Budapest	07.28.2011	-2 067	7 500 000	EUR	07.11.2012	275.61	304
1059MKB Bank Nyrt. / / 1056 Budapest	10.27.2011	-2 331	7 500 000	EUR	10.09.2012	310.82	72
888OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	02.10.2011	-2 119	7 500 000	EUR	01.11.2012	282.57	218
948OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	05.02.2011	-2 042	7 500 000	EUR	04.11.2012	272.25	314
946OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	05.02.2011	-1 357	5 000 000	EUR	03.05.2012	271.43	209
1021OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	08.30.2011	-2 088	7 500 000	EUR	07.11.2012	278.35	284
1101OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	12.22.2011	-2 377	7 500 000	EUR	10.09.2012	316.98	28
1074Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.02.2011	-446	2 000 000	USD	01.03.2012	223.15	35
1092Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.19.2011	-2 339	10 000 000	USD	01.17.2012	233.85	75
1105Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.22.2011	-425	1 800 000	USD	02.13.2012	236.09	11
1104Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapes	12.22.2011	-472	2 000 000	USD	02.06.2012	235.85	12
1102Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.22.2011	-471	2 000 000	USD	01.17.2012	235.49	12
1090ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.19.2011	-1 169	5 000 000	USD	01.24.2012	233.86	38
1093ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.19.2011	-2 339	10 000 000	USD	01.17.2012	233.93	74
1094ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.19.2011	-2 341	10 000 000	USD	01.17.2012	234.12	72
1095ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.19.2011	-2 334	10 000 000	USD	01.17.2012	233.37	79
1103ING Bank Zrt. / Dózsa György út 84/B / 1068 Budapest	12.22.2011	-472	2 000 000	USD	01.30.2012	235.75	12
1075MKB Bank Nyrt. / / 1056 Budapest	12.02.2011	-380	1 700 000	USD	01.17.2012	223.82	30
1088MKB Bank Nyrt. / / 1056 Budapest	12.19.2011	-2 338	10 000 000	USD	01.24.2012	233.82	77
1086OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	12.19.2011	-3 788	16 200 000	USD	01.24.2012	233.81	125
1091OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	12.19.2011	-2 339	10 000 000	USD	01.17.2012	233.89	74
1096OTP Bank Nyrt. / Nádor u. 21 / 1051 Budapest	12.19.2011	-2 335	10 000 000	USD	01.17.2012	233.54	78
			100 000 000	**Total EUR**			
			102 700 000	**Totel USD**			
	Total	**-52 802**					**3 534**

Opened swap F/X deals were contracted on the OTC market with the original aim of delivery in the 31st December 2011.[1]

ID	Date	Off-balance sheet liability (HUF million)	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
DTAG_20090626_30 mrd	06.25.2009	-30 000	107 066 533	EUR	01.19.2015	280.20	1 415
DTAG_20090626_5mrd	07.01.2009	-5 000	18 470 632	EUR	01.19.2015	270.70	441
DTAG_20090626_9,6 mrd	07.02.2009	-9 595	35 661 451	EUR	01.19.2015	269.05	945
DTAG_20091007_5 mrd_59592	09.15.2009	-5 000	18 368 846	EUR	06.02.2014	272.20	736
DTAG_20091007_5 mrd_52619	09.15.2009	-5 000	18 382 353	EUR	06.02.2014	272.00	741
DTAG_20091007_5 mrd_52629	09.16.2009	-5 000	18 511 662	EUR	06.02.2014	270.10	788
DTAG_20091007_5 mrd_52637	09.16.2009	-5 335	19 737 138	EUR	06.02.2014	270.30	836
2010-es K&H swap	06.30.2010	-4 305	15 000 000	EUR	07.01.2013	287.00	341
DTAG_20110711_50 mEUR	07.11.2011	-13 250	50 000 000	EUR	11.20.2018	265.00	2 808
DTAG_20110711_23 mEUR	07.11.2011	-6 095	23 000 000	EUR	05.19.2017	265.00	1 582
			324 198 615	**Total EUR**			
	Total	**-88 580**					**10 633**

[1] Profit or loss was not recored related to these deals in the current year.

Management Report of Magyar Telekom Plc. for 2011

Introduction

This Business Report covers the analysis of our results as well as all additional information necessary to evaluate our operations, including, among others, our outlook with the accompanying risk factors, the introduction of our management, our HR and risk management policies, and our R+D activities. The Company's activities are described in the general information section of the notes to the Financial Statement (section 1).

1. The Company's share capital, voting rights and transfer of shares

As of December 31, 2011, the share capital of Magyar Telekom Plc. (the "Company") was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares is described in detail in the Articles of Association Section 4. Information concerning our ownership structure as of December 31, 2011 is described in the following table:

Shareholder	Number of shares	Percentage of share capital
MagyarCom	617,436,759	59.21
Publicly traded	424,914,922	40.75
Treasury stock	390,862	0.04
	1,042,742,543	100.00

1.1. Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders' register at least two working days prior to the date of the General Meeting may participate at the General meeting with voting right. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Associations, which shall require at least a three-quarters majority of the votes cast. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares. There is no limitation of voting rights for ordinary shares in the Articles of Association. The Company has no shares assigned with special management rights.

1.2. Transfer of Shares

(a) The acquisition and transfer of the dematerialized share shall only be effected through crediting or debiting the securities account. The owner of the security – unless the contrary is proved – shall be the person on whose account the security is registered. The transfer of registered or Interim Share Certificates shall be effective with respect to the Company when the name of the new owner of the shares has been entered in the Shareholders' Register.

(b) If any request regarding the registration at the registrar is justified by the appropriate documents, the Company shall make a prompt entry into the Shareholders' Register. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company shall promptly notify the new owner of its reasoned decision and the new owner shall have the right to request, within thirty (30) days of the rendering of such decision, the competent court to review the decision.

(c) Those shareholders who wish so, shall not be registered in the Shareholders' Register in addition to those who obtained the shares in violation of laws or these Articles regarding the transfer of shares.

(d) The registrar, except in case set forth in Section 2.4. (b) and (c) of the Articles of Association, shall not refuse prompt registry and shall promptly delete such shareholder who wishes so.

(e) If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Shareholders' Register.

The transfer of any Series "A" ordinary shares is not bound to any restriction or attainment of agreement.

2. Corporate governance report

Magyar Telekom Plc. is a public limited company listed on the Budapest Stock Exchange. In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the "Recommendations") containing suggestions related to the corporate governance practice of companies listed in the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market as well as the Companies Act. The Recommendations were updated in 2007 and 2008.

In line with the current regulations, the Board of Directors and the Supervisory Board of Magyar Telekom Plc. approved the Corporate Governance Report of the Company prepared based on the Corporate Governance Recommendations and submitted it to the Annual General Meeting. The report – along with other corporate governance related documents - is posted on the Corporate Governance section of our website:

http://www.telekom.hu/investor_relations/corporate_governance/corporate_governance_documents

The Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations, and in case of specific recommendations the possible deviations and their explanations are included in the report. Points 1, 2, 3, 4 and 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Point 6 of the report includes a description of our internal controls and risk management procedures, while point 8 of the report describes our disclosure policies and insider trading guidelines.

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

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4. of our Articles of Association and in the Rules of Procedure of the Board of Directors, which are also posted on the Corporate Governance section of our website. The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 6.2 (b) and (s) as well as 7.4.1 (l) and (m) of our Articles of Association.

2.1. Board of Directors

Under Hungarian laws, the Board of Directors is responsible for all matters relating to the Company's management and course of business not otherwise reserved for the General Meeting or for other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors is required to report annually to the shareholders at the General Meeting and quarterly to the Supervisory Board on our business administration, state of assets, financial situation and business policy.

Pursuant to our Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting of the shareholders for a term of three years. On December 31, 2011, there were nine members of the Board of Directors.

Meetings of the Board of Directors are held at least four times a year. Meetings of the Board of Directors require the presence of six members for a quorum. Each member has one vote. The Board of Directors passes resolutions by a simple majority vote.

On December 31, 2011, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Ferri Abolhassan....................	1964	Director Production and Member of the Board of Management, T-Systems Int. GmbH, Deutsche Telekom AG	2010
Dr. István Földesi..........................	1949	International business consultant	2003
Dietmar Frings..............................	1959	Vice President Human Resources Compensation and Benefits and Labor Law, Deutsche Telekom AG	2010
Dr. Mihály Gálik............................	1946	Professor of the Media, Marketing Communication and Telecommunications Department at the Faculty of Business Administration of the Corvinus University of Budapest	2006
Thilo Kusch...................................	1965	Chief Financial Officer of Magyar Telekom Plc.	2006
Dr. Klaus Nitschke	1961	Senior Vice President, Head of the Pay TV activities in Deutsche Telekom AG's European footprint	2010
Frank Odzuck...............................	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	1960	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003

2.2. Management Committee

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000. The Management Committee carries out its activities based on its Rules of procedures approved by the Board of Directors, which is available on the Company's website.

Members of the Management Committee are elected for an indefinite period.

On December 31, 2011, the Management Committee consisted of nine chief officers of Magyar Telekom. The members and the years of their original election were as follows:

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer	2006
Attila Keszég......................................	1966	Chief Sales and Services Officer	2010
István Király..	1965	Chief Marketing Officer	2010
Thilo Kusch...	1965	Chief Financial Officer	2006
István Maradi	1964	Chief Technology and IT Officer	2007
Balázs Máthé.....................................	1968	Chief Legal and Corporate Affairs Officer	2010
Róbert Pataki.....................................	1971	Chief Strategy and Corporate Development Officer	2009
Róbert Budafoki................................	1966	Chief Operating Officer, Business Services Business Unit	2010
Éva Somorjai	1966	Chief Human Resources Officer	2007

2.3. Supervisory Board

The Supervisory Board carries out its activities based on Section 8 of the Articles of Association and its Rules of Procedures approved by the General Meeting of the shareholders. The Supervisory Board has to examine every important report on business policy and every submission made on matters falling into the exclusive competence of the General Meeting. The General Meeting may pass resolution on the annual report prepared in accordance with the Act on Accounting and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board, whereas the proposal of the Board of Directors on the payment of dividends and the Company's corporate governance report can only be submitted to the General Meeting with the prior approval of the Supervisory Board.

Pursuant to the Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the General Meeting for a term of three years. The Workers' Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members are present.

On December 31, 2011, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. László Pap	1943	Budapest University of Technology, Professor	1997
Dr. János Bitó	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Attila Bujdosó	1967	President of the Telecommunications Trade Union	2010
Dr. János Illéssy	1962	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes	1948	Director of Institute of Environmental Sciences Corvinus University Budapest	2006
Konrad Kreuzer	1948	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Tamás Lichnovszky	1962	Chairman of the Central Workers' Council	2010
Martin Meffert	1960	Country manager for Hungary, Head office of T-Home, Deutsche Telekom AG	2009
Dr. Károly Salamon	1954	Chairman - Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt.	2010
Zsoltné Varga	1969	Quality Manager, Magyar Telekom Plc.	2008
György Varju	1946	Central Workers' Council expert	2005
Dr. Konrad Wetzker	1950	Chairman, Corvinus School of Management	2011

The members' mandate lasts until May 31, 2013.

2.4. Audit Committee

The Audit Committee executes its duties pursuant to the Articles of Association Point 8.7, and its own Rules of Procedures. The members of the Audit Committee have been elected from the independent members of the Supervisory Board.

On December 31, 2011, the members of the Audit Committee, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. János Illéssy............................	1962	Managing Director, Lebona Kft.	2006
Dr. János Bitó................................	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Dr. Sándor Kerekes	1948	Director of Institute of Environmental Sciences Corvinus University Budapest	2006
Dr. László Pap	1943	Budapest University of Technology, Professor	1997
Dr. Károly Salamon.......................	1954	Chairman - Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt.	2010

2.5. Remuneration Committee

The Remuneration Committee makes proposals to the Board of Directors with respect to appointment and dismissal, as well as remuneration of chief officers, including establishment and assessment of bonus targets. The Remuneration Committee meets at least three times a year.

The Remuneration Committee consists of three members. The members are elected by the Board of Directors from its members.

On December 31, 2011, the members of the Remuneration Committee, their principal occupation and the years of their original election were as follows:

Name	Principal Occupation	Member since
Dr. Ralph Rentschler..........	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003
Dietmar Frings...............................	Vice President Human Resources Compensation and Benefits and Labor Law, Deutsche Telekom AG	2011
Frank Odzuck................................	Chief Executive Officer of Zwack Unicum Plc.	2006

3. Human policy

In line with Magyar Telekom's corporate strategy we renewed our HR principles and strategic priorities. In 2011 we prepared for a total paradigm change in terms of all HR related activities. A new Human strategy was elaborated that generates a complete structural change influencing the Company, the employees and the HR team.

1. Human strategy from the Company's aspect

- Efficient company – continuous and proportionate decrease of Total Workforce Management (TWM) cost
- Competitive company – competitive edge based on human capital through training development and career management
- Energized company – international, diverse and healthy organization that results success

2. Human strategy from the employees' aspect

People development will be carried through enhancing employee experience which is a major element of our strategy. The stages of Telekom employment cycle were identified in 2011 and we matched appropriate HR tools with each stage in order to develop all of our employees:

- Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and attractive on the labor market. . We are going to be among the "Top 3 Best Employer" and be among the "Top 5 Most Desired Employer" in Hungary.
- Selection – we create a diverse workplace with maintaining the healthy level of internal succession rate and encouraging atypical staffing. We also plan to increase the ratio of women in management to 30%.
- Agreements – we establish transparent, flexible and reliable frameworks of conditions. We maintain a balanced partnership with employee representative bodies and identical contracts will be concluded with people in identical employment pools.
- Orientation – we make our new colleagues real members of the team by sharing our knowledge, culture and experience with them. Our Orientation program will be renewed in order to have an informative and efficient event for the new employees. We introduce a buddy program to make assimilation into the corporate culture easier.
- Remuneration – We introduce a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.
- Training development, organizational development – our qualified employees provide us a competitive edge. Following the international best practice we spend two percent of personnel expenditure on training and development. Ten percent of all training will be provided from internal resources.
- Work – life balance – Our energized employees make us successful. We are going to introduce and run a complex stress management that helps preserving mental and physical condition of our employees.
- Fair dismissal – when we dismiss an employee, we do it in a fair manner. We make it clear for employees that retaining one's marketability is one's own responsibility.

Our Company's practice is adapted to Hungarian legislative norms. The principles of justice and equal opportunities are set out in the basic standards articulated in our Code of Ethics published in 1997, which complies with the S-OX (Sarbanes-Oxley) act. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the practical implementation of equal opportunities.

3.1. Headcount

We had 6,097 employees as of December 31, 2011. The following table provides information concerning the number of full-time employees, including full-time equivalents, of Magyar Telekom Plc.

	At December 31,		
	2009	2010	2011
Magyar Telekom Plc.	6,459	6,076	6,097

3.2. Total Workforce Management

From 2009, Magyar Telekom introduced a Total Workforce Management ("TWM") system. This scheme focuses on the total labor cost and not solely on headcount number and employee-related expenses. As a result, it enables us to increase the flexibility and efficiency with which all human resource-related expenses are managed, including contracted or temporary employees as well as outsourcing and entrepreneurial contracts.

3.3. Workforce Reduction and Redeployment

Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling (disregarding the technical effects of acquisitions and Total Workforce Management), the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

In order to simplify and streamline its organization, Magyar Telekom has already implemented several integration steps. The merger with T-Mobile Hungary in March 2006, the integration of Emitel and the access business area of T-Online into the parent company from October 2007 and the integration of T-Kábel from October 2009 enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Company. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management started negotiations with the trade unions and reached an agreement in October 2011.

According to the terms of the agreement, the Company plans to make 250 employees redundant in 2012. The majority have left the Company by the end of 2011. This figure does not include – among others – the employment termination of executives and employees retiring. In addition, to achieve further efficiency improvements, the organization will be simplified and the number of directors will be cut by 24%. Total severance expenses related to the headcount reduction will be approximately HUF 2.6 bn and the majority of these were accounted for in the fourth quarter of 2011. Furthermore due to change of the structure of the remuneration system HUF 1.0 bn was accounted.

The agreement with the trade unions also states there will be no general increase in the base salary for employees in 2012. However, to meet the Government's expectation to compensate employees with below average wages for adverse tax law changes, benefits in kind will be increased for effected employees. These additional employee benefits will be cut at managerial positions.

These efficiency improvement measures are necessary steps to mitigate the negative trends in the telecommunications industry being faced by Magyar Telekom. Increasing competition in all segments and a tougher regulatory (roaming regulation and reducing termination fees) and macroeconomic environment will put pressure on our performance in coming years.

3.4. Employee Representation and Labor Relations

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszevezet, "MATÁSZ"). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the agreement must be renegotiated annually. Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee. Employees are also entitled to welfare benefits as discussed below.

In addition to the collective bargaining agreement, our employees are generally covered by the Hungarian Labor Code, Law XXII of 1992, as amended, which imposes various restrictions on the involuntary termination of employment. The Hungarian Labor Code protects employee interests through two different labor organizations: the Trade Union and the Workers' Council.

The Trade Union, as the official representative of employee interests in negotiations relating to the terms of employment, has the right to be informed of all corporate measures that may significantly affect the interests of employees and to commence legal action against us for employment-related conduct that infringes an employment rule. In addition, the Workers' Council directly represents employee interests in dealings with management and decides jointly with management on matters involving employee welfare funds and institutions. The Workers' Council must be informed semi-annually on issues affecting our economic performance and changes in wages, employment conditions and working hours. The Workers' Council must also be consulted on corporate measures affecting employees.

Under the Act IV of 2006 on Business Associations (the "Companies Act"), employee representatives on the Supervisory Board are nominated by the Workers' Council in cooperation with the Trade Union. The composition of the Supervisory Board is approved by the AGM. At least one third of the members of the Supervisory Board must be employee representatives. On December 31, 2011, three members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga and György Varju.

We believe that our relations with our employees are good. We have not experienced any labor strikes or disruptions since our formation.

3.5. Pensions and Benefit Programs

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

We provide employees with discounted telephone services, subsidized meals, interest-free loans to purchase real estate (such loans are not offered or extended to the Company's executive officers and directors), discount holiday facilities and other fringe benefits. In addition to our statutory contributions to governmental health, retirement and unemployment schemes, we contribute to the employees' voluntary pension fund and supplementary benefits fund, which provide private pension and health insurance benefits supplementing government pension and health benefits. We do not, however, guarantee payment by the benefits fund to its members. At the end of 2011, approximately 79% of all employees participated in the pension plan, 53% in the self-help plans and 80% in the health fund.

4. Compensation of Directors, Officers and Employees

At December 31, 2011, the aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 14.0 million.

At December 31, 2011, the aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 55.5 million.

At December 31, 2011, the aggregate compensation of the members of the Management Committee ("MC") was HUF 1,064 million.

Currently two of the MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the average compensation received by the employee prior to such termination is payable for the remaining period up to 12 months. In case an employment contract for an undetermined duration is terminated, the notice period is normally six months, and severance is between 10 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the employee will be liable for a payment of compensation to the employer.

The MC members from foreign countries may be entitled to housing subsidies.

In line with the Company's remuneration guidelines, the Company provides contribution-based personal pension scheme and personal insurance scheme on behalf of the MC members. In addition, the MC members are entitled to the use of company cars.

4.1. Mid Term Incentive Plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP is a cash settled long term incentive instrument which was planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years. In 2009, 2010 and 2011, Magyar Telekom decided to prolong the original program by one additional year respectively, with the same concept. At the beginning of the plan each participant has an offered bonus. This bonus will be paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target. Depending on the achievement of the targets, 0%, 50% or 100% of the bonus is paid if neither, one or both of the targets are met, respectively.

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

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

Tranche	Vesting period	MT Share price at the beginning of the vesting period	Fulfillment
2008	January 1, 2008 – December 31, 2010	912	Only relative target met
2009	January 1, 2009 – December 31, 2011	561	Only relative target met
2010	January 1, 2010 – December 31, 2012	725	-
2011	January 1, 2011 – December 31, 2013	524	-

4.2. Matching Share Plan of Magyar Telekom

In December 2011 the Board of Directors approved the implementation of the revolving Matching Share Plan of Magyar Telekom. The program is implemented for the CEO of Magyar Telekom starting in 2012. In order to ensure the long-term incentive effect and orientation toward the sustained development of the Company, an amount of minimum 10% of the gross annual variable bonus is to be invested in shares of Magyar Telekom. The investment must be made from the net payout. The CEO has the option of voluntary increase to a maximum of 33.3% of his bonus. These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period of 4 years has passed, one additional share („matching share") will be granted for every share acquired as part of the aforementioned personal investment. The program is planned to be revolving in 5 consecutive years starting in 2012. As the vesting period of the program starts with the first purchase of shares by the CEO in 2012, no expenses have been recognized for the program in 2011.

5. Research and development

In 2011 Magyar Telekom continued to strengthen the alignment of its innovation processes with the corporate strategy under the governance of the Innovation and Corporate Development Directorate. The cross-functional R&D Committee devised the R&D priorities based on the Company's Strategy. The R&D Committee assesses and approves the research topics proposed by the business units according to this priority set.

The R&D Committee convenes regularly in order to discuss and decide on the approval of individual R&D proposals, initiated and executed within a project framework by the respective business units. During 2011, the R&D Committee reviewed more than 100 proposals, out of which 55 have been approved, accounting for a total investment of HUF 512 million (including HUF 470 million reflected as operating expenses and HUF 42 million reflected as employee-related expenses).

The Company leverages the synergy effect of external and internal knowledge base by collaborating to well known innovation centers both within Hungary and abroad. Our main partners are the well known Hungarian Universities (Budapest University of Technology and Economics, Corvinus University of Budapest, University of Szeged) and the Hungarian Academy of Sciences.

Magyar Telekom has also participated in several international R&D projects, for example:

- the NAPA-WINE project, which started in 2008 and finished in 2011, supported by the European Union (FP7: Seventh Framework Program) together with established universities (e.g., Politecnico di Torino, Budapest University of Technology and Economics) and other significant telecommunications companies (e.g. France Telecom, Telekom Polska).
- The Optical Access Seamless Evolution which started in 2010 and will end in 2012 as a collaboration between major telecommunication operators, technology providers and universities from Europe supported also by the European Union (FP7: Seventh Framework Program).

6. Real estate, sites of operation

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

- The registered office of the Company:
  1013 Budapest, Krisztina krt. 55.

- Sites of the Company:
  1117 Budapest, Gábor Dénes u. 2.
  1107 Budapest, Bihari u.6.
  1117 Budapest, Magyar tudósok krt.9.
  1073 Budapest, Dob u. 76-78.
  1051 Budapest, Petőfi Sándor u. 17-19.
  1117 Budapest, Kaposvár u. 5-7
  1117 Budapest, Budafoki u. 103-107
  1107 Budapest, Száva u. 3-5.
  1077 Budapest, Kéthly Anna tér 1.
  1117 Budapest, Szerémi út 4.

- Branch Offices of the Company:
  4026 Debrecen, Bethlen u. 1.
  3525 Miskolc, Régiposta u. 9.
  9400 Sopron, Széchenyi tér 7-10.
  7601 Pécs, Rákóczi út 19.
  8174 Balatonkenese, Parti sétány 51.
  6722 Szeged, Tisza Lajos krt. 41.
  5600 Békéscsaba, Andrássy u. 44.
  6723 Szeged, Etelka sor 1.
  6721 Szeged, Csongrádi sgt. 12.

The number of sites used by Magyar Telekom Plc. is approximately 2,500, out of which approximately 22% are owned by the Company, 40% jointly owned and 38% leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of base stations. We have 3,522 base stations, of which five percent is owned by Magyar Telekom Plc. and 95% is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2011 was 576,154 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building located at Krisztina krt. 55. in Budapest, with floor space of over 30,000 m^2. In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties.

7. Environment protection, sustainability

7.1. Sustainability strategy

7.1.1 Sustainability strategy 2008-2010

The Company's 3-year sustainability strategy was closed last year. The key strategic objective of 2008-2010 was: 'While maintaining its position, Magyar Telekom's leading sustainability role should become clear and visible for employees and customers'. This was implemented alongside the following key challenges:

- Corporate governance and risk management: Magyar Telekom strives to maintain transparent and accountable operations, while ensuring compliance, anti-corruption and efficient risk management. Its goals include, for example, the development of our compliance system, as well as the improvement of environmental and social performance of our suppliers.
- Customer relations: The Company aims to increase awareness among its customers about its efforts made in order to promote sustainable development. The relevant set of objectives include, among others, popularizing electronic product and service order placement solutions, an increasing quality of service provision to customers, as well as familiarizing customers with the Company's sustainability initiatives.
- Strengthening the communication means available to society: It is important for Magyar Telekom that in addition to following technological development trends, the benefits offered by ICT solutions would be available for everyone. The Company's objectives include the continuance and development of its programs aimed at eliminating the digital divide, the provision of ICT services of special relevance in the context of sustainability, as well as the communication of the sustainability impacts of our products and strengthening our customers' sense of responsibility.
- Decreasing the environmental footprint: Telecommunication products and services - while enabling raw material and energy savings - also burden the environment. The Company's aim is to further decrease this burden. The key task is fighting climate change: the Company has set the target of decreasing its CO2 emission by 10% by 2011. Magyar Telekom also wishes to help customers to decrease their emissions, while it supports them in adapting to the climate change.
- Human resources management: "Committed, professionals ready to take the initiative are the key success factor to Magyar Telekom's business effectiveness." (Magyar Telekom's HR Vision). In this spirit, the Company strives to further develop its human capital, attract and retain talent, as well as ensure equal opportunities and promote the establishment of work-life balance.
- Maintaining trust and credibility: In order to maintain social trust, every company must conduct its business transparently and upon consideration of all stakeholders' expectations. In light of this concept, Magyar Telekom's goal, among others, is to further strengthen the protection of children from adult content, as well as to join and to start major sustainability initiatives.

We determined 34 tasks as part of the strategy, which we further broke down to sub-tasks. Overall, the tasks were implemented with 94% success rate.

We measure our sustainability position by the Dow Jones Sustainability Index (DJSI) and by various prizes, while the visibility of our leading role is measured by residential and employee surveys. These help establish the following:

- In the professional evaluation, on the basis of the DJSI (in 2010, 72 points) we earned a position in the top third league worldwide and also topped this position with several awards. Besides, in the CSR 24/7 rating we took the first place in 2009 both in Hungary and in Central Europe. In 2010 we maintained our first place in Hungary, but OMV from Austria was better than us in the region. It is also a warning sign that, although we do not know their points, another Hungarian company has also made it to the DJSI.
- Awards in 2011: Green HR Award, CSR 24/7 Rating 1st place, "Business World for the Environment" (HBLF) 2nd place, Employee Volunteering Award, CEERIUS sustainability index membership
  The awards we won during the term of the strategy are available on the following website: http://www.telekom.hu/society_and_environment/prizes_ratings
- In the residential survey 6-7% of the respondents name Magyar Telekom and its offered brands as leading sustainability company and products, but 90% of the respondents cannot specifically name any company. In the employee survey 18% name the Company as leading player, but 60% cannot name any company at all. In view of this, we do not consider this part of the main objective implemented.

7.1.2 Trends influencing the new sustainability strategy, adopted in 2011

- Professional evaluation of the previous strategic period
- The European Union's 'Europe 2020' strategy
- The EU's 3x20 climate package that lasts until 2020
- EU recommendation for the ICT sector: 20% CO_2 reduction by 2015
- Corporate trends, e.g. Climate Groups' 30 percent initiative
- Deutsche Telekom sustainability requirements
- Responsible investments and increase of their value
- Changing customer requirements

7.1.3 Sustainability strategy 2011-2015

Our new Sustainability Strategy, encompassing five years (2011- 2015), has been harmonized with the strategies of other corporate divisions. The main objective of the strategy is to make sustainability part of Magyar Telekom's identity, thus providing a competitive edge to the Company in the long run.

We wish to achieve this objective on the basis of our performance demonstrated so far, the responsible investment ratings and the principles followed during the last three years, with a more intensive communication of our commitment to our stakeholders, new and ambitious goals, adopting best practices, as well as forceful and targeted communication.

The strategy will be implemented through the tasks of 22 topics, along the following key priorities:

- Brand management: our goal is to raise awareness to the concept of sustainability and to enhance the sustainability perception of Magyar Telekom
- Innovation management: our goal is to increase innovations aimed at society and environment
- Climate strategy: our goal is to reduce the CO_2 emission of the group by 20% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain process
- Effects of telecommunication services: our goal is to increase the ratio of sustainable products and services, and to keep our customers informed

Magyar Telekom as the leading info-communication service provider of the region - in harmony with its Mission - is committed to the idea of sustainable development and within it to the environmental issues. The Company, realising its role and potential in the information society, contributes to the decrease of negative environmental impacts in Hungary by performing our activities in a regulated and controlled way, fulfilling the EU requirements and complying with the international standards. The Magyar Telekom's environmental commitment and taken responsibilities are published in the Magyar Telekom Environmental Policy (http://www.telekom.hu/static/sw/download/Magyar_Telekom_environmental_policy.pdf), which contains obligations for the Company.

7.2. Climate protection

- In 2011 Magyar Telekom purchased 34 GWh renewable energy from E.ON, as part of its total energy consumption. In the new 5-year strategy, the goal in order to achieve the defined KPI is 46 GWh of green energy.
- In 2011, two 100% electric cars were purchased; they have been in operation since January 2012 in Magyar Telekom's fleet. One of the vehicles supports the mechanics of the Technical Services Directorate in their work, while the other one is available to the employees of Telekom, as a so-called key car. One of the important benefits of electronic cars is that no hazardous substances are emitted during their operation (0 g/km emission), and their fuel consumption is also low (electric energy equal to 1 – 1.5 liters of gas for 100 kilometers).
- Besides a five percent reduction of fuel consumption, the Sustainability Strategy for the 2011-2015 period defines two basic objectives: by the end of 2015, the average CO2 emission of the vehicles must not exceed 157.7 g/km, and the ratio of hybrid and electronic cars among all vehicles of personal use should be increased to 20%. In order to promote the achievement of the above objectives, Magyar Telekom issued a regulation and subsidizes the procurement of hybrid benefit cars by a special allocated budget and has elaborated a system of incentives (bonus-malus) aimed at encouraging people to opt for low-CO2 cars.
- In order to achieve its climate protection objectives, Magyar Telekom has launched a research and development project on its base station located in Iszkahegy, based on the utilization of wind and solar energy. During the project a wind-wheel with vertical axis will be mounted on the tower (planned implementation by the end of March 2012), and a solar cell following the sun was installed on the roof of the container near the tower. An additional goal is to continuously monitor the green power generation results and to analyze the possibility of expansion.

7.3. Voluntary programs

In 2011, the European Year of Volunteering we increased the social sensitivity of our employees by organizing voluntary programs. Similarly to previous years, the Jövő/Menő program offered voluntary work opportunities for those interested. The objective of the program is to ensure sustainable development for the handicapped small regions (the first location is the Mezőcsát small region). The objective of the Digital Bridge in Small Settlements program is to introduce and disseminate the achievements and opportunities of information and communications technology in regions where digital divide is present. Furthermore, as of 2011 we have encouraged the spreading of corporate volunteering by organizing charity team buildings. During the year 389 of our colleagues did 480 working days (3840 working hours) of voluntary work, within the frame of which we granted to the society 19.9 million HUF of theoretical voluntary contribution.

7.4. Initiatives concerning stakeholders

- The stakeholders of Magyar Telekom include all those groups, which have an influence on, or hold an interest in the implementation of the objectives of the Company. The Company earlier identified its stakeholders through review of its management systems and making benchmark studies, and keeps continuous contact with them to ensure that their interests are taken into consideration in the course of its operations. Our most important stakeholders are regulators, investors, customers, employees, communities, NGOs, suppliers and partners, as well as the future generations.
- In 2011 we organized the Sustainability Roundtable Discussion for the twelfth time, the objective of which is to have an open dialogue for the sake of understanding the demands towards Magyar Telekom, discussing the arising problems, and to provide a suitable background for thinking together and co-operating in building a sustainable future.
- In 2008 our Company founded the DELFIN award, which in Hungarian stands for Award for a Committed, Sustainable, Innovative Generation. With the DELFIN award Magyar Telekom wants to promote the idea of a sustainable development and recognize efforts made towards this goal. The award is given to suppliers offering outstanding performance in the field of sustainability, in four categories: Support of equal opportunity and promotion of non-discrimination inside and outside the Company; Innovation realized in the interest of sustainability; Sustainability education and awareness raising; Investment and development related to climate protection. The award is given on the basis of applications judged by a board of professionals. The fourth award ceremony was held on June 24, 2011, in the Sustainability Roundtable.

- The objective of Magyar Telekom's Digital Bridge in Small Settlements program is to introduce the achievements and opportunities of information and communications technology in regions where digital divide is present and may deepen to a ravine over time. In 2011 we arranged 8 Digital Bridge events, including 2 Digital Bridge Fests (event including a talent seeking contest), and the program was also arranged this year in the Valley of Arts, Kapolcs. Until the end of 2011 we organized a total of 159 events. The events in 2011 were visited by about 1000 spectators, and their orientation on the worldwide web was helped by 300 Magyar Telekom employees in total.
- The Egalnet program was launched in 2006. This is an initiative offering support to organizations dealing with handicapped groups to create their own websites in a simple and cost-free way. In addition, the program provides the opportunity for the organizations to maintain relations among each other and to share their experiences, which may significantly improve the efficiency of their operation. Until the end of 2011 73 organizations have joined to the program.
- The Company further developed its vendor prequalification system, which now ensures registered suppliers to complete the sustainability-focused questionnaire, and also its evaluation. The results ensure the identification of risks and the possibility of joint improvement with the suppliers. In order to develop a sustainable supplier chain, Magyar Telekom continues to treat the regular evaluation of its top suppliers as priority with the help of the detailed supplier self-evaluation questionnaire developed by Global e-Sustainability Initiative ("GeSI"), which, in addition to environmental queries, also contains questions concerning compliance with human rights, occupational health, security and business ethics requirements. So far 38 supplier evaluations have been completed. We ensure compliance with the statutory and corporate expectations by including sustainability clauses in the supplier contracts.
- Since 2008 Magyar Telekom has joined to the world's largest voluntary environmental campaign, the Earth Hour. In 2011, within the frame of the 'hello holnap!' (meaning 'hello tomorrow') movement, Magyar Telekom joined to the international movement with an event of its own. In the evening, the Company's large flashers, the lights in its T-Pont shops and office buildings went off for an hour and, during the day certain environmentally friendly products were available at a 50% discount. From 7 p.m. various programs and concerts were offered to the audience in Budapest, in the Millenáris Park to increase their awareness of sustainability and climate protection.
- At the initiative of Magyar Telekom, a Sustainability Media Club has been set up in the framework of the 'hello holnap!' movement, with the participation of leading Hungarian printed, electronic and online media groups. The purpose of the Club is to help familiarize with the concept of sustainability, its practical implications and everyday examples by an increasingly broader audience in Hungary. In every quarter of the year civil organizations ("NGO"s) may apply for support of their own sustainability projects in the topic of definition, importance and goals of sustainable development. Winning applications are selected by the members of the Media Club within the frame of a personal meeting, whereas the implementation is financed by Magyar Telekom. In 2011 the Media Club also established a Sustainability Press Prize to recognize journalists, editors and broadcasters who have contributed most to communicating the topic in the given period of time. The one million HUF prize granted by Magyar Telekom is handed over once a year. The first winner was announced in September 2011 on the 4th Sustainability Day.
- On September 24th 2011, the 4th Sustainability Day was organized with the participation of more than 1700 young people, who got closer to understanding the concept of sustainability. Professional talks were built on the three pillars of sustainability – society, economy and environmental protection – to which volunteering was added as a reference to the European Year of Volunteering 2011. In the discussions about poverty, the participants evaluated the possibilities of integration and recovery. In relation to the topic of water – in addition to the Danube Strategy – the participants – including the ombudsman of future generations, as well as other renowned specialists - discussed the impact of the climate change on the water reserves. The role of the 'hello holnap!' Press Prize was also brought up in the section discussion about press communication, where the participants brought the attention to various advertising tricks and pseudo-Hungarian products. Besides the professional discussions, visitors had the chance to test drive alternative vehicles, to taste fair trade coffee and tea, to watch creative objects made of waste and even to participate in a flashmob. During the intermissions of section talks, participants of the festival conference had the chance to have a look on works made for the 4th Sustainability day.

7.5. Annual Sustainability Report

One of Magyar Telekom Group's commitments is that it annually publishes a report about its sustainability performance. Reports are prepared in accordance with the GRI G3 principles of Global Reporting Initiative (GRI) published in 2006, thus meeting the expectation that the reports comply with the principles of transparency and international comparability. Each year since 2007 Magyar Telekom achieved the highest compliance in accordance with the international principles, so its Sustainability report for the year 2010 continued to apply the principles on A+ level for the fourth time already. In 2011 independent assurance report with the GRI criteria was completed and certified by PricewaterhouseCoopers in accordance with ISAE 3000 international standard. Further details on the sustainability performance of the Company can be found in the annual reports available on the site: http://www.telekom.hu/society_and_environment/sustainability_reports.

8. Economic environment

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. These trends together with local specifics create new set-up in our eco-system both in terms of infrastructure, servicing and new types of business models.

Market delivers moderate growth with strong restructuring between segments that puts pressure on margin levels. We expect that the traditional telecommunications market will no longer deliver sizeable revenue growth in Hungary. The fixed voice market as a major revenue and profit source is declining; mobile is no longer able to compensate this decline. However, we expect that new core segments, especially mobile broadband, broadcasting and IT services will deliver sizable revenue growth in the coming years. The fixed market is characterized by 3Play bundles, with TV being a core element of service offerings, while the mobile market is driven by fierce competition in broadband and content services. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The battle for customer contact has pushed prices down. We expect continued consolidation in the fixed arena, especially in the cable market. In mobile, new entrants are expected as virtual network operators (MVNOs), but also, based on the first instance decision of the National Media and Infocommunications Authority in the spectrum auction process, a new infrastructure player, the consortium of Magyar Posta, MFB and Magyar Villamos Művek, is also very likely to enter the market.

Latest macroeconomic forecasts lag significantly behind previous assumptions, especially in terms of consumer consumption and public spending. Market development is challenged by significant uncertainties in macroeconomic outlook putting further pressure on market players.

The introduction of the tax reform resulted in a rather unfavorable investment climate. The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Decrease in corporate tax rate has not yet generated an increase in either consumption or investments. The new flat personal income tax rate system increased savings at higher income categories. The crisis taxes are impacting telecom operators' financial stability and investment intensity having a negative effect on overall telecom market growth. GDP is expected to reach the pre-crisis level only after 2014.

9. The Company's targets and strategy

9.1. Outlook

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

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

Magyar Telekom's current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless, we cannot predict the behavior of our competitors. Therefore, a stronger than assumed impact of alternative operators, new market entrants and new solutions could result in a negative impact on our business performance.

Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. The European economy has slowed down and shows signs of recession risk in 2012. Major uncertainties surrounding the future of the euro, the debt crisis escalated for several euro-zone members. The Hungarian economy impacted heavily by the second wave of the financial crisis. GDP projections for 2012 were reduced significantly, analyst and government forecasts indicate GDP growth about half percent in 2012. The unemployment rate remains very high, above ten percent, and the volatility of the Hungarian currency is expected to continue. The government experienced difficulties to finance the Hungarian budget deficit from the financial markets at the end of 2011. As a result, negotiations were reopened with international financial institutions, such as the International Monetary Fund ("IMF") and the European Central Bank ("ECB") to receive precautionary loan facilities.

In order to balance the government budget, the government implemented several measures to decrease the deficit to 2,5 percent of GDP in 2012. The most significant of these was the 2 ppt VAT increase, from 25% to 27%. The special telecommunications tax, which came into effect in 2010, expected to have a negative impact of more than HUF 24 billion on our EBITDA in 2012. Our T-Systems segment was also affected by heavy spending cuts by the government, our largest business customer. Despite these measures and a negative business environment, we expect that our core business units will be able to continue to generate strong cash flows from the operations, although the special telecommunications tax will impact our dividend policy.

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in Section 10.2 Risk factors.

9.2. Revenue and EBITDA targets

In 2011 our revenues and underlying EBITDA decreased more moderately than our previous estimates of a 3-5 percent and 4-6 percent, respectively. The revenue decline was 2.0 percent and underlying EBITDA was down by 1.3 percent, primarily due to our strong focus on cost efficiency. We also over performed our capex plans of a 5 percent decrease and reached a saving of 8.7 percent.

For this year, however, expectations for a deteriorating economic environment, recession and declines in disposable income are strengthening. In addition, while our initiatives for finding new revenue sources are showing results and we expect to stabilise revenues, these new revenues have lower profitability and will dilute our profit margins. Therefore, while we foresee revenues to only decline by up to 2%, underlying EBITDA is expected to deteriorate by 4-6% in 2012. CAPEX spending is expected to remain on the same level as in 2011 to support our internal efficiency projects and the ongoing network modernization.

9.3. Strategy

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in 2011. We successfully improved customer retention and delivered strong volume figures. Also, we gradually extended our network and offering capabilities proactively leveraging various partnering models as well. We continue our transformation to become the most highly regarded service company in an extended market of telecommunications and related industries.

Even with foreseen macroeconomic and market challenges we believe our corporate strategy –FIX, TRANSFORM, INNOVATE– will deliver turnaround in financials and continued stable cash generation in the long run. Our strategy enables us to exploit and develop our extended customer base, significantly improve efficiency and capture growth opportunities. The strategic objective in the short/mid-term is to fix critical factors within the core business (simplified and focused lean operation, lower cost structure, end-to-end responsibilities) and to further strengthen our positions in core connectivity segments (voice, broadband, interactive TV), while conscious revenue restructuring efforts secure sustainable revenue mix. Innovation clearly supports monetization of our customer contacts and new services. Growth in our new core segments, such as mobile broadband, broadcasting and IT services, is expected to gradually compensate for lower revenues from traditional telecommunications, while non-core areas, such as energy, e-health, finance and insurance services, support customer retention and new revenue streams.

10. The Company's risks and related uncertainties

10.1. Risk management policies

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

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

In 1999, we established a formal risk management system. This system was integrated into the risk management system of Deutsche Telekom in 2002.

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and internal regulation on risk management were published. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly throughout the Company. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the Board of Directors, to the Audit Committee, to the Disclosure Committee and to Deutsche Telekom.

As part of the integration into DT's risk management process, we enhanced our risk management procedures with a new element. For the sake of prompt disclosure of all risk items influencing investors' decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is monitored and evaluated by the risk management area and CFO is notified when a new material risk or information is identified.

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

10.2. Risk factors

Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities.

- Our operations in Hungary are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition due to the liberalization of the telecommunications sector;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets;
- We depend on a limited number of suppliers for equipment and maintenance services;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. The results of those procedures may have a material adverse effect on our results of operations and financial condition.
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries.
- We are subject to unpredictable changes in Hungarian tax regulations.

10.3. Financial risk management

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

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

The detailed descriptions of risks, and their mitigation is provided below.

10.3.1 Market risk

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Company's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2010 and 2011 Magyar Telekom fulfilled both criteria. The Company's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Company Treasurer continuously.

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

(a) Foreign currency risk

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

The FX exposure of Magyar Telekom is mostly related to

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

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

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

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

(b) Interest rate risk

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

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

(c) Other price risk

As of December 31, 2011, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

10.3.2 Credit risk

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

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

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

10.3.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Company Treasury's management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, DT confirmed its readiness to finance Magyar Telekom's budgeted financing needs until the end of June 2013.

10.3.4 Capital risk management

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

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

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

11. Analysis of financial results for 2011

Magyar Telekom is Hungary's principal provider of telecom services. It provides a full range of telecommunications and infocommunications (ICT) services including fixed line and mobile telephony, data transmission and non-voice as well as IT and systems integration services.

Revenues: Our sales revenues decreased from HUF 458,745 million in 2010 to HUF 451,054 million in 2011 mainly driven by lower mobile and fixed line traffic revenues. Lower mobile revenues resulted primarily from significant retail and wholesale tariff erosion. The drop in fixed line traffic revenues was mainly related to the continuous decline in the number of revenue producing fixed lines and lower traffic due to the unfavorable economic environment and also competition with VoCable and VoIP service providers. These decreases were partly offset by the significant revenues generated from the retail energy trade business introduced in 2010 as well as higher revenues from TV services in line with enlarged satellite TV and IPTV customer base.

Other revenues increased by 53.3% in 2011 as compared to 2010 influenced mainly by higher reversal of provision due to increased early retirement pension and severance payment provisions, higher gains from disposal of real estates in 2011, higher reversal of previous year's provision for derivatives and increase in the customer loyalty program reversal. This effect was further intensified by higher amounts received for overdue and impaired receivables.

Expenses: Material-type expenses increased from HUF 231,139 million in 2010 to HUF 235,604 million in 2011 primarily due to higher cost of goods sold in line with the dynamic growth in sales of higher category phone sets (smart phones). This increase was partly offset by the decrease in costs of services reflecting lower consultancy fees in relation to the investigations, drop in expenses of bookkeeping services owing to the effect of insourcing.

Payroll and related expenses remained broadly stable and amounted to HUF 69,709 million in 2011 as the slight drop in headcount number and the lower income tax on fringe benefits due to modified legislation was mostly counterbalanced by higher bonus payments and higher provision made for the future lay-offs.

Depreciation and amortization decreased by 6.2%, mainly attributable to the amortization effect of the change in estimated useful life of certain assets and higher amount of assets fully written off.

Other expenses increased by 35.0% to HUF 81,937 million, predominantly due to the HUF 21,857 million provision booked for litigation in 2011 in connection with the investigation based on the agreement with the SEC and the DOJ. This increase was somewhat mitigated by lower amount of provision booked for contingent liabilities.

Financial results: Financial results decreased from HUF 13,871 million in 2010 to HUF -5,037 million in 2011. The decline mainly resulted from significantly lower dividend received from related parties as well as lower interest paid to Deutsche Telekom.

Magyar Telekom has introduced a new reporting structure from the beginning of 2011 following the introduction of its new management structure on July 1, 2010. The Company's new operating segments are Telekom Hungary (which includes the former CBU, the SMB customers of BBU and the relevant parts of the Headquarters and Technology Units) and T-Systems Hungary (which includes the former BBU, without the SMB customers, that have been classified within Telekom Hungary, as well as the relevant parts of the Headquarters and Technology Unit).

Comparative information has been provided for 2010, including a minimum level of estimates as the new structure was gradually introduced in the second half of 2010, going into effect in full from January 1, 2011.

The Telekom Hungary segment operates in Hungary providing mobile, fixed line telecommunications and TV distribution services (including marketing, sales and customer relations activities) to residential and small businesses telecommunications customers with several million customers mainly under the T-Mobile and T-Home brands. The Telekom Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions. In addition, the Telekom Hungary segment is responsible for the operations and development of the mobile, fixed line and cable TV network as well as IT management in Hungary.

T-Systems Hungary provides mobile and fixed line telecommunications, info-communications and system integration services (including marketing, sales and customer relations activities) mainly under the T-Systems and T-Mobile brands to key business partners (large corporate customers and public sector).

The following table sets forth information regarding the key operating fixed line statistical figures relating to the major services provided by Telekom Hungary:

	At December 31,	
	2010	2011
Voice services		
Total PSTN lines	1,517,329	1,374,261
Payphone	11,895	10,836
Total PSTN outgoing traffic (thousand minutes).	2,723,436	2,834,263
Blended average monthly Minutes of Use ("MOU") per subscriber (outgoing) (1)	144	166
Blended Average monthly Revenue per Access ("ARPA") (HUF) (1)	3,518	3,138
Data products		
Retail DSL market share (estimated) (%) (2)	63	64
Cable broadband market share (estimated) (%) (2)	20	22
Number of retail DSL customers	476,923	499,923
Number of cable broadband customers	181,056	212,631
Number of fiber optic connections	19,109	31,611
Total retail broadband customers	677,088	744,165
Blended broadband ARPU (HUF) (1)	4,243	3,950
TV services		
Number of cable TV customers (2)	370,212	289,693
Number of satellite TV customers (2)	254,188	281,312
Number of IPTV customers (2)	124,374	226,385
Total TV customers (2)	748,774	797,390
Blended TV ARPU (HUF) (1)	2,949	3,048

(1) Includes also the data of Magyar Telekom Plc.'s subsidiaries within Telekom Hungary
(2) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment

The following table sets forth information regarding the key operating mobile statistical figures of Telekom Hungary:

	At December 31,	
	2010	2011
Mobile penetration (%)[1]	120.2	117.3
Mobile SIM market share (%)[1]	43.4	45.0
Number of customers	4,779,227	4,817,296
Postpaid share in the customer base (%)	43.6	46.2
Average MOU per subscriber	154	161
ARPU (HUF)	3,492	3,393
Postpaid	6,071	5,695
Prepaid	1,635	1,535
Overall churn rate (%)	20.2	19.5
Postpaid (%)	14.9	14.5
Prepaid (%)	24.0	23.6
Ratio of non-voice revenues in ARPU (%)	18.8	21.0
Average acquisition cost per gross add (HUF)	6,616	6,449
Number of mobile broadband subscriptions	568,060	971,469
Mobile broadband market share (%)[1]	47.8	48.7
Population-based indoor 3G coverage [1]	65.4	66.0

(1) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment

The following table sets forth information regarding the key operating fixed line statistical figures for the major services provided by T-Systems Hungary:

	At December 31,	
	2010	2011
Voice services		
Business	43,795	42,137
Managed leased lines (Flex-Com connections)	3,454	2,360
ISDN channels	141,342	135,246
Total	188,591	179,743
Total outgoing traffic (thousand minutes)	331,189	282,873
MOU (outgoing)	206	188
ARPU (HUF)	4,983	4,578
Data products		
Number of retail broadband access	14,543	15,561
Retail DSL ARPU (HUF)	9,393	8,339

The following table sets forth information regarding the key operating mobile statistical figures of T-Systems Hungary:

	At December 31,	
	2010	2011
Number of customers	429,191	447,930
Overall churn rate (%)	4.4	6.3
MOU	289	288
ARPU (HUF)	5,354	4,918
Number of mobile broadband subscriptions	56,390	77,045
Ratio of non-voice revenues in ARPU (%)	33.1	35.6
Average subscriber acquisition cost per gross add (HUF)	3,537	5,166

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

12.1. Hungarian mobile spectrum auction

The Company filed an auction bid in December 2011 with the Hungarian National Media and Infocommunications Authority for unused spectrum in the 900 MHz frequency band, relating to the provision of radio communications services. The spectrum can be utilized in a technology-neutral manner, allowing for the installation and operation of GSM, UMTS, LTE and/or WiMAX mobile networks. On January 31, 2012, the Company received from the Authority the first instance, non-final decision closing the auction. Pursuant to the first instance decision, the Company won the right of use of two duplex frequency blocks of 1 MHz each (one EGSM-band duplex frequency block of 1 MHz plus one PGSM-band duplex frequency block of 1 MHz) for a period of 15 years.

12.2. Deregistration

The Company delisted its ADSs from the New York Stock Exchange effective November 12, 2010. On November 14, 2011 Magyar Telekom filed with the U.S. Securities and Exchange Commission (the "SEC") a Form 15F to terminate registration of its shares and American Depositary Shares ("ADSs") in the US. The deregistration became effective on February 12, 2012, 90 days after the filing of the Form 15F. The Company will maintain its American Depositary Receipt program on a Level I basis. The Company will maintain its primary listing on the Budapest Stock Exchange and will continue to make English translations of its annual reports, financial statements and investor releases.

Budapest, April 16, 2012.

Christopher Mattheisen
Chairman and Chief Executive Officer

Thilo Kusch
Chief Financial Officer

Declaration

We the undersigned declare that

- the attached condensed set of financial statements which have been prepared in accordance with the applicable set of accounting standards and to the best of our knowledge, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc., and
- the management report gives a fair view of the position, development and performance of Magyar Telekom Plc., together with a description of the principal risks and uncertainties of its business.

Budapest, April 16, 2012

Christopher Mattheisen
Chairman and Chief Executive Officer

Thilo Kusch
Chief Financial Officer