Company name:	Magyar Telekom Plc.	Company address: e-mail address:	H-1013 Budapest Krisztina krt. 55. investor.relations@telekom.hu
IR contacts:	Position:	Telephone:	E-mail address:
Krisztina Förhécz Linda László Márton Teremi	Head of Investor Relations IR manager IR manager	+36-1-457-6029 +36-1-457-6084 +36-1-457-6229	forhecz.krisztina@telekom.hu laszlo.linda@telekom.hu teremi.marton@telekom.hu

Report on the full year 2011 results of Magyar Telekom

Public targets achieved, strong cost focus reflected in margins

Budapest – **February 23, 2012** – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the full year of 2011, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- **Revenues were down by 2.0% in 2011, from HUF 609.6 bn to HUF 597.6 bn.** Retail voice revenues, both fixed and mobile witnessed a decline but this was mostly offset by growing TV, mobile Internet, and System integration/IT revenues. Energy resale also contributed substantially to the increase in other fixed line revenues, while increasing smartphone sales generated higher mobile equipment sales revenues.

- **EBITDA declined by 7.9%, from HUF 213.0 bn to HUF 196.1 bn**, with an **EBITDA margin of 32.8%. Underlying EBITDA**, excluding investigation-related costs and provisions, severance expenses and the special telecom tax, **decreased by 1.3% to HUF 245.0 bn. Underlying EBITDA margin** was **41.0%** in 2011 compared to 40.7% in 2010. This slight increase reflects the cost-cutting measures shown in employee-related and other operating expenses (excluding the HUF 16.2 bn provisions booked in connection with the SEC/DOJ agreement).

Details of special influences and EBITDA performance (HUF bn)*	Q4 2010	FY 2010	Q4 2011	FY 2011
Investigation-related costs	0.3	2.3	0.7	17.5
Severance expenses	4.0	6.1	4.0	6.1
Telecom tax	27.0	27.0	6.3	25.4
Total Special Influence	31.2	35.3	11.0	48.9
Reported EBITDA	26.0	213.0	46.7	196.1
Underlying EBITDA	57.3	248.3	57.7	245.0

** Numbers may not add up due to rounding.*

- Magyar Telekom has been subjected to a **special telecom tax** charged on the company's annual revenues, retrospectively from January 1, 2010. As this was only introduced in Q4 2010, **the impact of the tax was only seen in the Q4 results of both the Group and its segments in 2010**. However, the reported EBITDA of the **Hungarian segments** (Telekom Hungary and T-Systems Hungary) now **includes the special telecom tax for all the quarters in 2010 and 2011** and enables a more accurate comparison of the year-on-year performance of these segments.

- On June 24, 2011 the Board of Directors of Magyar Telekom approved an **agreement in principle with the staff of the U.S. Securities and Exchange Commission** (the "SEC") to settle its investigation relating to the Company. In light of this agreement in principle with the SEC and the ongoing negotiations with the Department of Justice (the "DOJ"), the Company recognized **provisions** in connection with these investigations **in Q2 and Q3 of 2011**. (In Q2 HUF 11.5 bn was provided for, while in Q3 an additional HUF 8.2 bn provision was created.) **On December 29, 2011 Magyar Telekom entered into a final settlement with the DOJ and the SEC. The aggregate amount** payable by the Company in settlement of the DOJ's and SEC's investigations is **USD 90.8 million (HUF 21.9 bn)** and was fully provided for by the end of 2011.

Details of investigation expenses (HUF bn)*	Q4 2010	FY 2010	Q4 2011	FY 2011
Legal Costs	0.3	2.3	0.4	1.3
Provisions within Other operating expenses			0.4	16.2
Provisions within Net financial results			1.8	5.7
Total provision			2.2	21.9

** Numbers may not add up due to rounding.*

- **Depreciation and amortization increased by 31.8%** in 2011 compared to 2010. The main reason for the increase is that Magyar Telekom recognized an impairment loss of HUF 31.4 bn from the goodwill on the Macedonia segment based on the fair value less cost to sell calculations. The main reason for the impairment is a 15-25% reduction in the 10-year revenue growth plans of the Macedonia segment prepared in 2011, compared to the plans prepared a year before. This was due to the unfavorable economic environment and fiercer than expected mobile competition resulting in significant pricing pressure and increasing level of handset subsidies.
- **Income tax expense increased significantly to HUF 27.5 bn** due to tax law changes in Hungary. In Q4 2010, Magyar Telekom booked a one-off tax income of HUF 14.6 bn, driven by a change in the Hungarian corporate tax law which reduced the Hungarian corporate tax rate from 19% to 10% effective from 2013. In November 2011, the tax law was changed again so that instead of a universal 10% corporate tax rate, the 19% rate remains effective from 2013 on annual tax bases exceeding HUF 500 million. Consequently, the one-off decrease in deferred tax liabilities recognized in Q4 2010 was reversed in Q4 2011, increasing the income tax expense of the Group by HUF 15.0 bn.
- Profit attributable to owners of the parent company (**net income**) **declined from HUF 64.4 bn to HUF -7.5 bn**. Although underlying EBITDA declined only slightly, the three one-off items, the provisions related to the settlement with the SEC and DOJ, the impairment loss related to the Macedonia segment and the higher income tax expense due to changes in the Hungarian tax law resulted in a net loss for 2011.
- **Net cash generated from operating activities increased by HUF 4.1 bn to HUF 168.8 bn.** The lower underlying EBITDA and the lower other cashflows from operations (mainly reflecting realized FX losses) was more than offset by an increase in liabilities carried as working capital (excluding the amounts payable for the settlement with the SEC and DOJ) and lower interest paid.
- **Investment in tangible and intangible assets (CAPEX) decreased by HUF 8.0 bn to HUF 83.8 bn** in 2011 compared to 2010. Telekom Hungary accounted for HUF 65.6 bn of total CAPEX while HUF 4.3 bn is related to T-Systems Hungary. In Macedonia and Montenegro, CAPEX was HUF 10.0 bn and HUF 4.1 bn, respectively.
- **Free cash flow** (operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets) **increased by HUF 14.5 bn** to HUF 92.0 bn in 2011 compared to HUF 77.5 bn in 2010. Operating cash flow was HUF 4.0 bn higher year-on-year, which was further helped by lower CAPEX and higher real estate sales.
- **Net debt decreased from HUF 289.4 bn at** the end of 2010 **to HUF 288.4 bn** by the end of 2011. The **net debt ratio** (net debt to total capital) was **34.1%** at the end of 2011.

Christopher Mattheisen, Chairman and CEO commented: *"In 2011, revenues and underlying EBITDA declines were more moderate than expected and we have outperformed on our previously announced guidance of declines of 3-5% and 4-6%, respectively. The 2% revenue decline for 2011 was driven by a more favorable than anticipated market environment both in the traditional telco and SI/IT services, while the 1.3% decline in underlying EBITDA was primarily due to our strong focus on cost efficiency, coupled with higher margins in the SI/IT business compared to the previous year. Capex for 2011, which was down by 8.7% versus 2010, was also ahead of our anticipated saving of 5%.*
In fixed line revenues, we had strong support from the energy resale business, which together with the Hoppá flat rate package and the bundling offers, resulted in a significant improvement in the fixed line churn level from last year. The Christmas period was strong in terms of handset sales and upgrades, as customers' interest in smartphones with data packages attached remains undiminished. IPTV was also an important revenue driver as the growth in the number of our customers was coupled with stronger usage of our value added services. The strong performance of the SI/IT business in the last two quarters of 2011 also surpassed our previous expectations, where we had higher revenues after several quarters when businesses were reluctant to spend on IT projects.
For 2012, however, expectations for a deteriorating economic environment potentially leading to a recession, together with fears over the level of declines in disposable income are strengthening and we do not expect our results to remain

immune to these headwinds. In addition, while our initiatives for finding new revenue sources are now showing results and we expect a degree of Group-level revenue stabilisation for the full year, the new ancillary revenue streams have lower profitability and are expected to dilute our profit margins. Therefore, although we foresee revenues to be in the range of flat to a maximum decline of 2% year-on-year, underlying EBITDA is expected to deteriorate by 4-6% in 2012. CAPEX, excluding spectrum acquisitions, is expected to remain in line with 2011 to support our ongoing network modernisation and internal projects to improve efficiency."

Q4 2011 results analysis

Group

- **Revenues** were up by 1.6% in Q4 2011 compared to the same quarter in 2010. While the fixed voice revenue erosion slowed down, reflecting our retention efforts, energy resales already have resulted in significant revenue growth in Q4 2011. TV and non-voice mobile revenues show continuous growth along with increased mobile equipment revenues thanks to the strong smartphone sales. SI/IT revenues were up significantly driven by some major project wins. These were partly offset by lower mobile voice wholesale revenues in Hungary affected by the termination fee cut introduced in December 2010.
- **EBITDA** was up by 79.4% mainly as the telecom tax in 2010 was accounted for fully in the fourth quarter of that year. Underlying EBITDA increased by 0.8% in the fourth quarter of 2011 thanks to cost cutting initiatives aimed at reducing marketing and material and maintenance expenses. Underlying **EBITDA margin** was 36.2% in Q4 2011, compared to 36.5% in Q4 2010.

Telekom Hungary Segment

Revenues before inter-segment elimination were up by 0.5% to HUF 111.4 bn and EBITDA was down by 6.1% to HUF 28.8 bn in the fourth quarter of 2011 compared to the same quarter of 2010. The EBITDA margin was down from 27.7% to 25.9% driven by the dilution impact of energy resales. Underlying EBITDA declined by 2.9% and the underlying EBITDA margin was 34.6%.

- **Fixed line revenues** increased by 2.2% to HUF 49.7 bn in Q4 2011. Although fixed voice revenues have continued to decline, the retention impact of the energy resale and bundled offers, as well as the Hoppá package can be clearly seen as the churn rate slowed down to 5% instead of the 9% seen a year earlier. Also, the decline in fixed line internet revenues bottomed-out and showed a 0.5% increase, while growth in TV revenues remained strong at 6.3%. The total number of TV customers grew by 6.5% in the past year, with strong migration from cable TV to the IPTV service. The strong growth in other fixed line revenues is driven by the retail energy resales. The number of points of delivery (gas and electricity together) reached 35,000 by the end of the year and generated HUF 2.9 bn revenues in Q4 2011, up from HUF 0.4 bn in Q4 2010. (Full-year energy resales revenues reached HUF 4.5 bn in 2011, compared to only HUF 0.4 bn in 2010.)
- **Mobile revenues** were down by 1.1% to HUF 61.4 bn in the fourth quarter. The slight increase in the customer base, higher usage and the steady increase in the portion of postpaid customers could not counterbalance the decline in tariff levels. Voice wholesale revenues were negatively impacted by the 16% cut in mobile termination fees effective from December 2010. The number of mobile broadband subscriptions was up by 71.0% helped by the strong demand for smartphones. Accordingly equipment sales revenues were up by 16.9% with the average acquisition cost down by 2.5% year-on-year. Non-voice revenues were only up by 2.1% due to lower content revenues. T-Mobile's market share, based on active customers, was 45.4% at the end of the year up from 44.8% a year earlier.

T-Systems Hungary Segment

Revenues before inter-segment elimination were up by 12.9% to HUF 37.2 bn. EBITDA was up by 48.7% to HUF 5.9 bn in the fourth quarter of 2011 and the EBITDA margin was 15.9%. Underlying EBITDA increased by 18.8% to HUF 6.9 bn. The underlying EBITDA margin of 18.6%, up from 17.7% in the fourth quarter of 2010, reflected our efforts to improve efficiency in light of the drop in high-margin voice revenues.

- **Fixed line revenues** were down by 11.4% to HUF 7.5 bn driven by lower usage and continued erosion of our customer base, principally caused by mobile substitution, coupled with significant price pressure. Voice revenues declined by 11.4%.

- **Mobile revenues** were down by 11.3% to HUF 8.4 bn, driven by the decrease in other mobile revenues compared to the high levels seen in the fourth quarter of 2010 as the one-off negative financial impacts of the Governmental measures announced in August 2010 (and booked in Q3 2010) were partly reversed in the fourth quarter of 2010. Voice revenues too declined by 6.7%, as declining average tariff levels and lower levels of usage could not be offset by the increase in our customer base.
- **SI/IT revenues** were up by 42.0% to HUF 21.3 bn in the fourth quarter of 2011. While the restrictive measures imposed by the government are still blocking any new public IT deals, Q4 2011 revenues have benefitted from the contribution of some large infrastructure projects starting to come onstream in the corporate segment.

Macedonia

In Macedonia, revenues increased by a modest 0.9% to HUF 19.0 bn in the fourth quarter of 2011 compared to the same period in 2010, with EBITDA up by 4.4%. The depreciation of the Hungarian forint had a positive effect on the segment's contribution to Group results (on average, the Hungarian forint weakened by 9.3% against the Macedonian denar in the fourth quarter of 2011compared to 2010). The decline in revenue and EBITDA in local currency terms was due to the intense competition within the mobile market, resulting in significant pricing pressure which could not be offset by savings in employee related expenses.

- **Fixed line revenues** in local currency terms were down by 8.7%. The strong decline in voice retail revenues was coupled with lower wholesale and data revenues.
- **Mobile revenue**s in local currency terms were down by 6.8% due to the fiercely competitive environment in Macedonia. The competition driven tariff reductions put pressure on ARPU which declined by 5.8% despite higher usage. Nevertheless, T-Mobile Macedonia's market share has stabilized at 50.0% and remains the clear market leader. Non-voice revenues were up by 7.9% in local currency terms driven by higher content revenues.

Montenegro

Revenues of the Montenegrin subsidiary were up by 4.2% to HUF 8.4 bn in the fourth quarter of 2011, driven by favorable FX movements (on average, the Hungarian forint weakened by 9.3% against the euro in the fourth quarter of 2011 compared to the same quarter in 2010). Underlying EBITDA was up by 11.9% to HUF 2.9 bn and the underlying EBITDA margin increased from 32.1% to 34.5% due to significant cost cuts within other operating expenses and lower receivables provisions thanks to better collection.

- **Fixed line revenues** in local currency terms were down by 2.2% in the fourth quarter of 2011. The decrease in retail voice revenues was due to increased mobile substitution and discounts offered in flat-rate packages. The voice wholesale revenue decline was driven by decreased incoming and transit traffic from international operators. However, both Internet and TV revenues increased, driven by a strong focus on bundled services.
- **Mobile revenues** in local currency terms were down by 7.6%. Voice retail revenues declined driven by the lower number of customer numbers, while wholesale revenues were negatively impacted by two cuts in interconnection tariffs from April and November 2011. Growth in non-voice revenues could only partly offset these declines.

About Magyar Telekom

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. The business activities of Magyar Telekom are managed by two business units: Consumer Services (the home-related services brand T-Home and the mobile communications brand T-Mobile) and Business Services (T-Systems brand). Magyar Telekom is the majority owner of Makedonski Telekom, the leading fixed line and mobile operator in Macedonia and it holds a majority stake in Crnogorski Telekom, the leading telecommunications operator in Montenegro. Magyar Telekom's majority shareholder (59.21%) is MagyarCom Holding GmbH, fully owned by Deutsche Telekom AG.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Report on Form 20-F for the year ended December 31, 2010 filed with the U.S. Securities and Exchange Commission.

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, underlying EBITDA, underlying EBITDA margin and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Magyar Telekom's Investor Relations webpage at www.telekom.hu/investor_relations.

For detailed information on Magyar Telekom's Q4 2011 results please visit our website (www.telekom.hu/investor_relations) or the website of the Budapest Stock Exchange (www.bse.hu).

MAGYAR TELEKOM
Consolidated Statements of Financial Position - IFRS
(HUF million)

	Dec 31, 2010 (Audited)	Dec 31, 2011 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	15,841	14,451	(8.8%)
Trade and other receivables	114,625	124,663	8.8%
Other current financial assets	56,560	65,286	15.4%
Current income tax receivable	1,804	927	(48.6%)
Inventories	9,592	9,904	3.3%
Non current assets held for sale	2,152	5,165	140.0%
Total current assets	200,574	220,396	9.9%
Non current assets			
Property, plant and equipment	549,752	536,224	(2.5%)
Intangible assets	332,993	308,313	(7.4%)
Investments in associates and joint ventures	77	0	(100.0%)
Deferred tax assets	913	750	(17.9%)
Other non current financial assets	24,033	31,590	31.4%
Other non current assets	664	755	13.7%
Total non current assets	908,432	877,632	(3.4%)
Total assets	1,109,006	1,098,028	(1.0%)
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	72,208	49,865	(30.9%)
Other financial liabilities	46,647	70,155	50.4%
Trade payables	88,613	101,119	14.1%
Current income tax payable	661	1,335	102.0%
Provisions	7,722	3,703	(52.0%)
Other current liabilities	30,966	29,213	(5.7%)
Total current liabilities	246,817	255,390	3.5%
Non current liabilities			
Financial liabilities to related parties	234,164	230,166	(1.7%)
Other financial liabilities	8,828	17,928	103.1%
Deferred tax liabilities	10,924	26,270	140.5%
Provisions	12,298	11,236	(8.6%)
Other non current liabilities	1,263	947	(25.0%)
Total non current liabilities	267,477	286,547	7.1%
Total liabilities	514,294	541,937	5.4%
EQUITY			
Equity of the owners of the parent			
Common stock	104,275	104,275	0.0%
Additional paid in capital	27,379	27,379	0.0%
Treasury stock	(307)	(307)	0.0%
Retained earnings	385,283	325,709	(15.5%)
Accumulated other comprehensive income	14,882	30,959	108.0%
Total Equity of the owners of the parent	531,512	488,015	(8.2%)
Non-controlling interests	63,200	68,076	7.7%
Total equity	594,712	556,091	(6.5%)
Total liabilities and equity	1,109,006	1,098,028	(1.0%)

MAGYAR TELEKOM	Year ended Dec 31,		
Consolidated Statements of Comprehensive Income - IFRS	2010	2011	%
(HUF million, except per share amounts)	(Audited)	(Unaudited)	change
Revenues			
Voice - retail	106,623	91,798	(13.9%)
Voice - wholesale	21,317	21,790	2.2%
Internet	53,755	52,560	(2.2%)
Data	27,710	27,050	(2.4%)
TV	28,549	31,787	11.3%
Equipment	4,091	3,852	(5.8%)
Other fixed line revenues	7,588	11,715	54.4%
Fixed line revenues	249,633	240,552	(3.6%)
Voice - retail	185,967	177,226	(4.7%)
Voice - wholesale	36,815	31,728	(13.8%)
Voice - visitor	4,217	3,590	(14.9%)
Non-voice	57,789	62,146	7.5%
Equipment and activation	22,691	25,999	14.6%
Other mobile revenues	7,694	7,829	1.8%
Mobile revenues	315,173	308,518	(2.1%)
System Integration/Information Technology revenues	44,773	48,547	8.4%
Total revenues	609,579	597,617	(2.0%)
Expenses			
Voice-, data- and Internet-related payments	(65,247)	(60,598)	7.1%
Material cost of equipment sold	(41,037)	(44,595)	(8.7%)
SI/IT-related payments	(21,624)	(24,890)	(15.1%)
Other direct costs	(29,519)	(30,964)	(4.9%)
Direct costs	(157,427)	(161,047)	(2.3%)
Employee-related expenses	(93,884)	(91,823)	2.2%
Depreciation and amortization	(100,872)	(132,915)	(31.8%)
Other operating expenses	(148,750)	(155,057)	(4.2%)
Total operating expenses	(500,933)	(540,842)	(8.0%)
Other operating income	3,448	6,392	85.4%
Operating profit	112,094	63,167	(43.6%)
Net financial result	(28,113)	(32,462)	(15.5%)
Share of associates' and joint ventures' profit/ (losses)	(27)	12	n.m.
Profit before income tax	83,954	30,717	(63.4%)
Income tax	(6,583)	(27,538)	(318.3%)
Profit for the period	77,371	3,179	(95.9%)
Exchange differences on translating foreign operations	6,617	22,816	244.8%
Revaluation of available-for-sale financial assets – before tax	20	(21)	n.m.
Other comprehensive income for the period, net of tax	6,637	22,795	243.5%
Total comprehensive income for the period	84,008	25,974	(69.1%)
Profit attributable to:			
Owners of the parent	64,378	(7,457)	n.m.
Non-controlling interests	12,993	10,636	(18.1%)
	77,371	3,179	(95.9%)
Total comprehensive income attributable to:			
Owners of the parent	69,505	8,620	(87.6%)
Non-controlling interests	14,503	17,354	19.7%
	84,008	25,974	(69.1%)
Basic and diluted earnings per share (HUF)	61.83	(7.15)	n.m.

MAGYAR TELEKOM
Consolidated Statements of Comprehensive Income - IFRS
(HUF million, except per share amounts)

	3 months ended Dec 31, 2010 (Unaudited)	3 months ended Dec 31, 2011 (Unaudited)	% change
Revenues			
Voice - retail	25,471	22,955	(9.9%)
Voice - wholesale	5,532	5,494	(0.7%)
Internet	13,487	13,779	2.2%
Data	7,445	6,862	(7.8%)
TV	7,625	8,205	7.6%
Equipment	1,088	1,236	13.6%
Other fixed line revenues	2,859	5,271	84.4%
Fixed line revenues	63,507	63,802	0.5%
Voice - retail	45,683	44,002	(3.7%)
Voice - wholesale	8,998	7,946	(11.7%)
Voice - visitor	629	670	6.5%
Non-voice	15,169	16,185	6.7%
Equipment and activation	7,957	9,343	17.4%
Other mobile revenues	2,641	2,203	(16.6%)
Mobile revenues	81,077	80,349	(0.9%)
System Integration/Information Technology revenues	12,393	15,273	23.2%
Total revenues	156,977	159,424	1.6%
Expenses			
Voice-, data- and Internet-related payments	(15,632)	(15,343)	1.8%
Material cost of equipment sold	(13,981)	(16,053)	(14.8%)
SI/IT-related payments	(6,694)	(7,460)	(11.4%)
Other direct costs	(8,583)	(11,039)	(28.6%)
Direct costs	(44,890)	(49,895)	(11.1%)
Employee-related expenses	(25,967)	(27,476)	(5.8%)
Depreciation and amortization	(26,644)	(60,854)	(128.4%)
Other operating expenses	(61,177)	(37,693)	38.4%
Total operating expenses	(158,678)	(175,918)	(10.9%)
Other operating income	1,081	2,323	114.9%
Operating profit	(620)	(14,171)	n.m.
Net financial result	(6,632)	(11,784)	(77.7%)
Share of associates' and joint ventures' profit/ (losses)	(7)	8	n.m.
Profit before income tax	(7,259)	(25,947)	(257.4%)
Income tax	16,971	(12,728)	n.m.
Profit for the period	9,712	(38,675)	n.m.
Exchange differences on translating foreign operations	1,143	13,471	n.m.
Revaluation of available-for-sale financial assets – before tax	20	(5)	n.m.
Other comprehensive income for the period, net of tax	1,163	13,466	n.m.
Total comprehensive income for the period	10,875	(25,209)	n.m.
Profit attributable to:			
Owners of the parent	7,483	(40,323)	n.m.
Non-controlling interests	2,229	1,648	(26.1%)
	9,712	(38,675)	n.m.
Total comprehensive income attributable to:			
Owners of the parent	8,291	(30,796)	n.m.
Non-controlling interests	2,584	5,587	116.2%
	10,875	(25,209)	n.m.
Basic and diluted earnings per share (HUF)	7.19	(38.68)	n.m.

MAGYAR TELEKOM
Consolidated Statements of Cash Flows - IFRS
(HUF million)

	Year ended Dec 31, 2010 (Audited)	2011 (Unaudited)	% change
Cash flows from operating activities			
Profit for the period	77,371	3,179	(95.9%)
Depreciation and amortization	100,872	132,915	31.8%
Income tax expense	6,583	27,538	318.3%
Net financial result	28,113	32,462	15.5%
Share of associates' and joint ventures' profit/ (losses)	27	(12)	n.m.
Change in assets carried as working capital	(8,364)	(9,068)	(8.4%)
Change in provisions	(4,194)	(5,702)	(36.0%)
Change in liabilities carried as working capital	(3,009)	23,277	n.m.
Income tax paid	(11,419)	(10,999)	3.7%
Dividend received	95	24	(74.7%)
Interest and other financial charges paid	(27,426)	(24,153)	11.9%
Interest received	4,919	3,650	(25.8%)
Other cashflows from operations	1,102	(4,330)	n.m.
Net cash generated from operating activities	164,670	168,781	2.5%
Cash flows from investing activities			
Investments in tangible and intangible assets	(91,762)	(83,796)	8.7%
Adjustments to cash purchases	4,462	3,722	(16.6%)
Purchase of subsidiaries and business units	(1,534)	(2,675)	(74.4%)
Cash acquired through business combinations	6	468	n.m.
Payments for / Proceeds from other financial assets - net	34,327	(997)	n.m.
Proceeds from disposal of subsidiaries and associates	780	0	(100.0%)
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	873	5,526	n.m.
Net cash used in investing activities	(52,848)	(77,752)	(47.1%)
Cash flows from financing activities			
Dividends paid to shareholders and Non-controlling interest	(91,819)	(64,626)	29.6%
Proceeds from loans and other borrowings	190,797	159,812	(16.2%)
Repayment of loans and other borrowings	(229,545)	(188,414)	17.9%
Other	(22)	0	100.0%
Net cash used in financing activities	(130,589)	(93,228)	28.6%
Exchange gains on cash and cash equivalents	338	809	139.3%
Change in cash and cash equivalents	(18,429)	(1,390)	92.5%
Cash and cash equivalents, beginning of year	34,270	15,841	(53.8%)
Cash and cash equivalents, end of year	15,841	14,451	(8.8%)
Change in cash and cash equivalents	(18,429)	(1,390)	92.5%

MAGYAR TELEKOM - Consolidated Statements of Changes in Equity

	pieces	in HUF millions									
	Shares of common stock	Common stock	Additional paid in capital	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Reserve for equity settled share-based transactions	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2009	1,042,742,543	104,275	27,379	(1,179)	398,250	9,768	(62)	49	538,480	66,940	605,420
Dividend					(77,053)				(77,053)		(77,053)
Dividend declared to Non-controlling interests									0	(18,243)	(18,243)
Share-based compensation program				872	(292)				580		580
Total comprehensive income for the year					64,378	5,165	11	(49)	69,505	14,503	84,008
Balance at December 31, 2010	1,042,742,543	104,275	27,379	(307)	385,283	14,933	(51)	0	531,512	63,200	594,712
Dividend					(52,117)				(52,117)		(52,117)
Dividend declared to Non-controlling interests									0	(12,478)	(12,478)
Total comprehensive income					(7,457)	16,089	(12)		8,620	17,354	25,974
Balance at December 31, 2011	1,042,742,543	104,275	27,379	(307)	325,709	31,022	(63)	0	488,015	68,076	556,091
Of which treasury stock	(390,862)										
Shares of common stock outstanding at December 31, 2011	1,042,351,681										

Summary of key operating statistics

GROUP	Dec 31, 2010	Dec 31, 2011	% change
EBITDA margin	34.9%	32.8%	n.a.
Operating margin	18.4%	10.6%	n.a.
Net income margin	10.6%	(1.2%)	n.a.
CAPEX to Sales	15.1%	14.0%	n.a.
ROA	5.7%	(0.7%)	n.a.
ROE	12.0%	(2.8%)	n.a.
Net debt	289,386	288,377	(0.3%)
Net debt / total capital	32.7%	34.1%	n.a.
Number of employees (closing full equivalent)	10,258	10,111	(1.4%)

Telekom Hungary	Dec 31, 2010	Dec 31, 2011	% change
Fixed line operations			
Voice services			
Total voice access	1,688,405	1,604,035	(5.0%)
Total outgoing traffic (thousand minutes)	2,860,882	3,049,192	6.6%
Blended MOU (outgoing) (1)	144	166	15.3%
Blended ARPA (HUF) (1)	3,518	3,138	(10.8%)
Data products			
Retail DSL market share (estimated) (2)	63%	64%	n.a.
Cable broadband market share (estimated) (2)	20%	22%	n.a.
Number of retail DSL customers	476,923	499,923	4.8%
Number of cable broadband customers	181,056	212,631	17.4%
Number of fiber optic connections	19,109	31,611	65.4%
Total retail broadband customers	677,088	744,165	9.9%
Blended broadband ARPU (HUF)	4,243	3,950	(6.9%)
Number of wholesale DSL access	130,965	107,215	(18.1%)
TV services			
Number of cable TV customers	370,212	289,693	(21.7%)
Number of satellite TV customers	254,188	281,312	10.7%
Number of IPTV customers	124,374	226,385	82.0%
Total TV customers	748,774	797,390	6.5%
Blended TV ARPU (HUF)	2,949	3,048	3.4%
Mobile operations			
Mobile penetration (3)	120.2%	117.3%	n.a.
Mobile SIM market share (2)	43.4%	45.0%	n.a.
Number of customers (RPC)	4,779,227	4,817,296	0.8%
Postpaid share in the RPC base	43.6%	46.2%	n.a.
MOU (4)	154	161	4.5%
ARPU (HUF)	3,492	3,393	(2.8%)
Postpaid	6,071	5,695	(6.2%)
Prepaid	1,635	1,535	(6.1%)
Overall churn rate	20.2%	19.5%	n.a.
Postpaid	14.9%	14.5%	n.a.
Prepaid	24.0%	23.6%	n.a.
Ratio of non-voice revenues in ARPU	18.8%	21.0%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6,616	6,449	(2.5%)
Number of mobile broadband subscriptions	568,060	971,469	71.0%
Mobile broadband market share based on total number of subscriptions (2)	47.8%	48.7%	n.a.
Mobile broadband market share based on traffic generating subscribers (2)	48.6%	47.7%	n.a.
Population-based indoor 3G coverage (2)	65.4%	66.0%	n.a.

T-Systems Hungary	Dec 31, 2010	Dec 31, 2011	% change

Fixed line operations

Voice services			
Business	43,795	42,137	(3.8%)
Managed leased lines (Flex-Com connections)	3,454	2,360	(31.7%)
ISDN channels	141,342	135,246	(4.3%)
Total lines	188,591	179,743	(4.7%)
Total outgoing traffic (thousand minutes)	331,189	282,873	(14.6%)
MOU (outgoing)	206	188	(8.6%)
ARPU (HUF)	4,983	4,578	(8.1%)

Data products			
Number of retail broadband access	14,543	15,561	7.0%
Retail DSL ARPU (HUF)	9,393	8,339	(11.2%)

Mobile operations

Number of customers (RPC)	429,191	447,930	4.4%
Overall churn rate	4.4%	6.3%	n.a.
MOU	289	288	(0.3%)
ARPU (HUF)	5,354	4,918	(8.1%)
Ratio of non-voice revenues in ARPU	33.1%	35.6%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	3,537	5,166	46.1%
Number of mobile broadband subscriptions	56,390	77,045	36.6%

Macedonia	Dec 31, 2010	Dec 31, 2011	% change

Fixed line operations

Voice services			
Fixed line penetration	17.2%	15.9%	n.a.
Total voice access	343,019	311,240	(9.3%)
Total outgoing traffic (thousand minutes)	864,662	811,824	(6.1%)

Data and TV services			
Retail DSL market share (estimated)	84%	83%	n.a.
Number of retail DSL customers	130,127	137,563	5.7%
Number of wholesale DSL access	21,091	23,847	13.1%
Number of total DSL access	151,218	161,410	6.7%
Number of IPTV customers	30,123	40,129	33.2%

Mobile operations

Mobile penetration	122.8%	122.8%	n.a.
Market share of T-Mobile Macedonia	51.3%	50.0%	n.a.
Number of customers (RPC)	1,295,285	1,265,243	(2.3%)
Postpaid share in the RPC base	32.3%	32.0%	n.a.
MOU	135	142	5.2%
ARPU (HUF)	2,690	2,533	(5.8%)

Montenegro	Dec 31, 2010	Dec 31, 2011	% change

Fixed line operations

Voice services			
Fixed line penetration	26.6%	26.4%	n.a.
Total voice access	171,684	168,361	(1.9%)
Total outgoing traffic (thousand minutes)	369,511	332,934	(9.9%)

Data and TV services			
Retail DSL market share (estimated)	86%	85%	n.a.
Number of DSL access	68,540	78,164	14.0%
Number of IPTV customers	40,042	48,834	22.0%

Mobile operations

Mobile penetration [5]	199.5%	186.9%	n.a.
Market share of T-Mobile Crna Gora [5]	37.0%	34.7%	n.a.
Number of customers (RPC) [5]	457,813	401,958	(12.2%)
Postpaid share in the RPC base	33.4%	32.3%	n.a.
MOU	105	117	11.4%
ARPU (HUF)	2,430	2,521	3.7%

[1] Including PSTN, VoIP and VoCable.
[2] Data relates to Magyar Telekom Plc.
[3] Data relates to the mobile penetration in Hungary, including customers of all three service providers.
[4] Restated.
[5] Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

Preliminary financial report -

Analysis of the Financial Statements for the year ended December 31, 2011

1. General information

Magyar Telekom Távközlési Nyilvánosan Működő Részvénytársaság (in English, Magyar Telekom Telecommunications Public Limited Company) is a limited liability stock corporation incorporated and operating under the laws of Hungary.

Magyar Telekom Telecommunications Public Limited Company (the "Company" or "Magyar Telekom Plc." or "MT") with its subsidiaries form Magyar Telekom Group ("Magyar Telekom" or "the Group").

We operate under a commercial name, Magyar Telekom Nyrt. or Magyar Telekom Plc.

Our ordinary shares are listed on the Budapest Stock Exchange ("BSE") and the Company also maintains an American Depositary Receipt program on a Level I basis with American Depositary Shares ("ADSs") traded on OTC markets. The ADSs were delisted from the New York Stock Exchange on November 12, 2010. On November 14, 2011 Magyar Telekom also filed with the U.S. Securities and Exchange Commission (the "SEC") a Form 15F to terminate registration of its shares and ADSs in the US, which became effective on February 12, 2012. The Company maintains its primary listing on the BSE and continues to make English translations of its annual reports, financial statements and investor releases.

Our headquarters is located at 55 Krisztina krt., 1013 Budapest, Hungary.

As of December 31, 2011, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. On April 12, 2011, the shareholders approved the payment of cash dividends of HUF 52,117 million, equal to HUF 50 per share, for the year ended December 31, 2010.

This condensed consolidated interim financial information was approved for issue on February 23, 2012.

This consolidated interim financial information is not the Group's statutory accounts and has not been audited. The statutory accounts for December 31, 2010 have been filed with the BSE, the SEC and the Hungarian Financial Supervisory Authority ("HFSA"). The statutory accounts for December 31, 2010 have been audited and the audit report was unqualified.

2. Basis of preparation of the interim financial report

This condensed consolidated preliminary financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

3. Accounting policies

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2010, except as described below.

In 2011, the Group has adopted all IFRS amendments and interpretations which are effective from January 1, 2011 and which are relevant to its operations. Relevant standards, amendments or interpretations effective and adopted by the Group in 2011:

IAS 24 (revised). In November 2009, the IASB issued a revised version of IAS 24 Related Party Disclosures. Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. Furthermore, the IASB has simplified the definition of related party and removed inconsistencies. The revised standard has been applied since January 1, 2011, but it does not have a significant impact on the disclosures in the Group's financial statements.

4. Operating and financial review - Group

4.1. Exchange rate information

The Euro strengthened by 11.6% against the Hungarian Forint ("HUF") year on year (from 278.75 HUF/EUR on December 31, 2010 to 311.13 HUF/EUR on December 31, 2011). The average HUF/EUR rate increased from 276.46 in 2010 to 279.08 in 2011.

The U.S. Dollar ("USD") appreciated by 15.4% against the Hungarian Forint year on year (from 208.65 HUF/USD on December 31, 2010 to 240.68 HUF/USD on December 31, 2011). The average HUF/USD rate decreased from 209.33 in 2010 to 199.58 in 2011.

The Macedonian Denar ("MKD") strengthened by 0.9% against the Hungarian Forint year on year (from 4.53 HUF/MKD on December 31, 2010 to 5.06 HUF/MKD on December 31, 2011). The average HUF/MKD rate slightly increased from 4.50 in 2010 to 4.54 in 2011, affecting all revenue and expense lines of our Macedonian operations to a small extent.

4.2. Revenues

Total revenues amounted to HUF 597.6 bn in 2011 as compared to HUF 609.6 bn in 2010, representing a 2.0% decline year on year. The drivers of this decrease are the following:

Fixed line voice-retail revenues decreased by 13.9% and amounted to HUF 91.8 bn in 2011 compared to HUF 106.6 bn in 2010, mainly driven by lower PSTN subscription fee revenues and lower outgoing traffic revenues.

Subscription fee revenues decreased from HUF 64.4 bn in 2010 to HUF 55.3 bn in 2011 due to lower number of our fixed line subscribers mainly in Hungary.

Outgoing traffic revenues decreased mainly in Hungary as a result of the continuous decline in the number of revenue producing fixed lines and decreased ARPA (due to flat rate packages, such as Hoppá) while PSTN traffic slightly increased as higher traffic in F2M relation (thanks to Hoppá package) compensated the decrease in minutes in other relations.

Magyar Telekom Plc. offered several price discounts to customers choosing different flat-rate and optional tariff packages. Our Hoppá tariff package was very successful in 2011, generating more than 406,000 subscribers by the end of December 2011. The vast majority of customers choosing this package signed a 2-year loyalty contract, therefore this offer proved to be a very useful tool to decrease fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package reached 43,000 customers at December 31, 2011.

Outgoing traffic revenues decreased also at Makedonski Telekom and at Crnogorski Telekom primarily due to lower usage.

Value added and other service revenues showed a 50.6% increase and amounted to HUF 5.1 bn in 2011 compared to HUF 3.4 bn in 2010, mainly due to revenues from the reconnection of customers previously suspended due to non-payment. At Magyar Telekom Plc., the largest part of the provision made for KAP loyalty points was reversed based on experienced customer behavior related to the usage of these loyalty points in 2011, also contributing to the increase.

Fixed line voice-wholesale revenues increased by 2.2% reaching HUF 21.8 bn in 2011 compared to HUF 21.3 bn in 2010, mainly due to the increase in international incoming traffic revenues.

Domestic incoming fixed line traffic revenues decreased from HUF 8.1 bn in 2010 compared to HUF 7.9 bn in 2011. The drop in revenue from other domestic fixed line operators is due to lower call origination and termination revenues at Magyar Telekom Plc. as a result of decreased traffic in Hungary. These decreases were partly offset by higher revenue from other domestic fixed line operators at Makedonski Telekom resulting from higher termination fees of international traffic in its network due to deregulation. At Magyar Telekom Plc., the increase in revenues from mobile operators was mainly due to higher mobile-to-international traffic volume, partly compensated by reduced termination fees.

International incoming fixed line traffic revenues increased by 5.2% in 2011 and amounted to HUF 13.9 bn compared to HUF 13.2 bn in 2010. Higher international incoming traffic revenue at Makedonski Telekom was driven by higher international termination fees, which was slightly offset by lower settlement rate and decreased traffic. Incoming international voice traffic revenue increased also at Magyar Telekom Plc., primarily due to higher volume of incoming international minutes, partly compensated by lower average fees applied. These increases were somewhat offset by the decrease in international incoming traffic revenues at Crnogorski Telekom caused by lower volume of international incoming and transit traffic.

Internet revenues of the fixed line operations decreased to HUF 52.6 bn in 2011 compared to HUF 53.8 bn in 2010. In Hungary, the number of DSL connections slightly decreased from 623,723 at December 31, 2010 to 621,491 at December 31, 2011 as the lower number of wholesale connections was largely offset by the increase in the number of retail DSL subscribers. Cablenet customer base and the number of fiber connections increased but the broadband volume increase could not compensate the effect of lower average revenue per user ("ARPU") resulting from lower prices forced by strong competition. The migration towards T-Home double- and triple-play packages also put downward pressure on blended ARPU level. Magyar Telekom Plc. accounted for an estimated 64% retail DSL market share and 22% cable broadband market share at December 31, 2011. Decreased Internet revenues in Hungary were somewhat compensated by the higher revenues at Crnogorski Telekom due to increased number of DSL connections.

TV revenues amounted to HUF 31.8 bn in 2011 as compared to HUF 28.5 bn in 2010. The increase is mainly attributable to higher IPTV revenues driven by enlarging IPTV subscriber base both in Hungary and at our foreign subsidiaries in 2011. The fast growth of IPTV customer base was helped by our development of high speed Internet access (mainly ED3) and it demonstrates the increasing popularity of interactive television. The growth in satellite TV revenues was due to the higher number of satellite TV customers which reached 281,312 at December 31, 2011, and due to the increased satellite TV ARPU year over year. These increases were partly offset by lower Cable TV revenues driven by lower subscriber base and decreased ARPU in Hungary.

Revenues from fixed line equipment decreased by 5.8% in 2011 compared to 2010 resulting from decreased equipment revenues at Novatel EOOD as there were no IRU (long-term right of use) sales in 2011. The decrease at Makedonski Telekom was due to lower sales volume of computers, TV sets, ADSL modems and telephone sets. These decreases were partly mitigated by higher equipment sales revenues at Magyar Telekom Plc. due the higher sale of Tablet PCs and TV sets in 2011. Higher equipment sales revenue at Crnogorski Telekom as a result of introducing TV sets' sale from October 2011, also mitigated these decreases.

Other fixed line revenues increased by 54.4% in 2011 compared to 2010. Other revenues include construction, maintenance, rental, energy trade and miscellaneous revenues. The increase in Hungary was mainly due to the significant revenues generated from the retail energy trade business in 2011, slightly compensated by lower revenues from telephone book publishing.

Mobile revenues amounted to HUF 308.5 bn for the year ended December 31, 2011 compared to HUF 315.2 bn in 2010 (2.1% decrease). The decrease in mobile revenues resulted mainly from lower voice revenues at the mobile operations of Magyar Telekom (T-Mobile Hungary, "TMH") and at our foreign subsidiaries. These decreases were offset by higher broadband and equipment revenues at TMH.

Within mobile telecommunications services, voice revenues represent the largest portion of revenues, which amounted to HUF 212.5 bn in 2011. At TMH, lower customer base together with declined average usage per customer per month ("MOU") and lower retail tariffs forced by strong competition resulted in lower voice-retail traffic revenues in prepaid segment. Lower voice-retail revenues at T-Mobile Macedonia ("T-Mobile MK") were mainly resulting from lower customer number and lower average price per minute. The decrease in voice-wholesale revenues in Hungary reflects decreased termination fees (16% decrease from December 1, 2010), slightly offset by higher customer base and higher incoming MOU. At T-Mobile Crna Gora ("T-Mobile CG"), lower voice-wholesale revenues were due to lower interconnection tariffs towards domestic operators and also due to lower volume of incoming minutes in the postpaid segment. Visitor revenues declined at TMH due to regulated tariff reduction and lower usage. At our foreign subsidiaries decreased visitor revenues were driven by the higher discounts given.

TMH's blended MOU increased from 168 minutes in 2010 to 172 minutes in 2011. TMH's monthly ARPU decreased only by 2.1% from HUF 3,732 in 2010 to HUF 3,655 in 2011, as the effect of lower average tariffs were largely offset by higher usage and the increased proportion of postpaid customers.

Mobile penetration reached 117.3% in Hungary and TMH accounted for 45.0% market share in the highly competitive mobile market at December 31, 2011 based on the total number of SIM cards. TMH's customer base increased by 1.1% year over year. The proportion of postpaid customers increased to 50.8% at December 31, 2011 from 48.2% a year earlier.

Higher non-voice revenues were primarily due to TMH's higher mobile Internet revenues. This increase was partially offset by lower messaging revenues. Non-voice revenues represented 22.8% of total ARPU in 2011. By December 31, 2011 TMH had 1,048,514 mobile broadband customers and accounted for a 48.7% market share based on total number of subscriptions in the mobile broadband market.

Mobile equipment and activation revenues increased by 14.6% in 2011 compared to 2010, mainly at TMH. Higher retention revenues resulted from higher average handset prices reflecting increased sales ratio of higher priced smartphones and lower prepaid handset subsidy. The increase at our foreign subsidiaries was primarily attributable to higher number of handsets sold.

Other mobile revenues remained broadly stable year over year.

System Integration ("SI") and IT revenues increased by 8.4% from HUF 44.8 bn in 2010 to HUF 48.5 bn in 2011. Increased infrastructure revenues at Magyar Telekom Plc. driven mainly by significantly higher project revenues in 2011. The inclusion of Daten-Kontor revenues in 2011 and the higher application revenue at IQSYS due to revenues from sale of Digital table in 2011 also contributed to the increase. These increases were mitigated by considerably less government projects at KFKI in 2011 and declined outsourcing revenues at Dataplex mainly due to lower revenues from the invoicing of energy cost (reduced prices and consumption) in 2011.

4.3. Operating Expenses

Voice-, data- and Internet-related payments decreased to HUF 60.6 bn in 2011 compared to HUF 65.2 bn in 2010, predominantly resulting from lower voice-related payments to domestic mobile operators in Hungary driven by lower mobile termination fees applied from December 2010 and also by declined traffic. Drop in payments to mobile operators at Makedonski Telekom were mainly due to lower traffic volumes. At Crnogorski Telekom, the decrease is mainly due to lower traffic volumes and decreased tariffs from April 2011.

In 2011, dynamic growth in sales of higher category phonesets (smart phones) at Magyar Telekom Plc. and at our foreign subsidiaries resulted in higher cost of equipment sales. Other direct costs include HUF 0.9 bn content-related payments, HUF 10.9 bn TV-related payments, HUF 11.0 bn agent commissions and HUF 8.1 bn other revenue-related payments in 2011. Increased other direct costs at Magyar Telekom Plc. are mainly due to energy costs appearing in line with the launch of retail energy trade in H2 2010. Higher TV-related payments at Magyar Telekom Plc. and at Makedonski Telekom, due to higher TV subscriber base, also contributed to the increase. These increases were partly offset by lower agent commissions year over year. The decline in agent commissions at T-Mobile MK is due to decreased sale through dealers and at Magyar Telekom Plc. due to drop in agent activity and lower commission fees per transaction.

Employee-related expenses in 2011 amounted to HUF 91.8 bn compared to HUF 93.9 bn in 2010 (a decrease of 2.2%). Decrease was mainly attributable to the 1.4% lower employee figure on MT Group-level year over year (from 10,258 on December 31, 2010 to 10,111 on December 31, 2011) and decreased income tax on fringe benefits due to modified legislation in Hungary. The inclusion of the employees of Daten-Kontor after its consolidation in 3Q 2011 partially offset these decreases. Higher bonus payments and higher provision made for the future lay-offs at Magyar Telekom Plc. also mitigated these decreases.

Depreciation and amortization increased by 31.8% in 2011 compared to 2010. The significant growth is resulting from the HUF 31.4 bn goodwill impairment recognized in our Macedonian segment based on the fair value less cost to sell (FVLCS) calculations. The main reason for the impairment is that the 10-year revenue plans of the Macedonia segment prepared in 2011 had to be reduced by 15-25% compared to the plans prepared a year before due to the unfavorable economic environment and fiercer than expected mobile competition resulting in significant pricing pressure and increasing level of handset subsidies. This increase was slightly offset by decreased amortization at Magyar Telekom Plc., mainly due to the amortization effect of the change in estimated useful life of certain assets and higher amount of assets that were fully written off.

Other operating expenses increased by 4.2% to HUF 155.1 bn in 2011 from HUF 148.8 bn in 2010. The majority of the increase in other operating expenses is caused by the HUF 16.2 bn provision booked in 2011 in connection with the investigation based on the agreement with the SEC and the DOJ. Higher rental fees at Magyar Telekom Plc. were predominantly due to the rental fee of set top boxes from June 2010. These increases were partly offset by decreased consultancy fee due to lower expenses recognized relating to the CRM and Finance Streamlining projects and also due to lower investigation-related costs in 2011 at Magyar Telekom Plc. Decreased marketing expenses at Magyar Telekom Plc. are resulted from rescheduled marketing spending. Decreased bad debt expenses at Magyar Telekom Plc. are mainly the result of the substantial efforts made for debt collecting in 2011. Materials and maintenance decreased at Magyar Telekom Plc., predominantly driven by lower IT support costs (renegotiated hardware and software support contracts).

On October 18, 2010 the Hungarian Parliament approved an act imposing a special tax ("crisis tax") on a number of sectors including telecommunications sector. Special tax for the full year of 2010 (amounting to HUF 27.0 bn) was recognized in December 2010 among other operating expenses, while it is booked on a monthly basis in 2011 amounting to HUF 25.4 bn.

Other operating income increased from HUF 3.4 bn in 2010 to HUF 6.4 bn in 2011 mainly due to the gains from disposal of real estates at Magyar Telekom Plc. A government grant received for the Norwegian project at Mindentudás Egyeteme in 2011 also contributed to the increase. Higher other operating income at Makedonski Telekom was mainly due to release of provision for legal cases and also due to increased gain from sale of fixed assets in 2011.

4.4. Operating Profit

Operating margin for the year ended December 31, 2011 was 10.6% while operating margin for 2010 was 18.4%. The decrease was mainly due to the 2.0% revenue decline, the HUF 31.4 bn goodwill impairment and the HUF 16.2 bn provision made in relation to the investigation in 2011.

4.5. Net financial results

Net financial expenses increased by 15.5% year over year, from HUF 28.1 bn in 2010 to HUF 32.5 bn in 2011. The increase in net financial expenses is primarily resulting from higher net foreign exchange loss realized in 2011, as the weakening of HUF against EUR was more intensive in 2011. In 2011, Magyar Telekom Plc. booked HUF 1.1 bn as interest and HUF 4.5 bn forex loss on the provision for litigation in connection with the investigation. Lower interest received on loans given and on bank deposits mainly at our foreign subsidiaries in line with lower average amount of loans also had a negative effect on net financial results. Lower net forex gain at Makedonski Telekom and Stonebridge due to the less favorable movement of EUR/MKD also contributed to the increase in 2011. These impacts were partly offset by higher gain on derivative transactions due to change in interest and exchange rates at Magyar Telekom Plc. Lower interest paid on loans received is due to lower average interest rate and lower average amount of loans at Magyar Telekom Plc., which also positively effected net financial expenses.

4.6. Income tax

Income tax expense increased significantly despite of the lower profit before tax of the Group year over year. The main indicator is the elimination of the enacted reduction of the Hungarian corporate tax rate from 19% to 10% effective from 2013, which results a large one-off deferred tax expense. The non deductibility of the DOJ penalty from the corporate income tax base also increased the tax expense in 2011.

4.7. Profit attributable to non-controlling interests

Profit attributable to non-controlling interests in 2011 decreased by 18.1% compared to last year. The decrease was mainly due to the lower results of T-Mobile MK, driven by its much weaker performance in 2011. Lower net profits at Crnogorski Telekom and at Makedonski Telekom also contributed to the decrease.

4.8. Cash flow

Net cash generated from operating activities amounted to HUF 168.8 bn in 2011, while it was HUF 164.7 bn in 2010. The lower EBITDA was fully offset by the favorable changes in working capital.

Net cash used in investing activities amounted to HUF 77.8 bn in 2011, while it was HUF 52.8 bn in 2010 reflecting the change in other financial assets, partly offset by lower investments in tangible and intangible assets and higher proceeds from sale of real estates.

Free cash flow, defined as operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets, increased from HUF 77.5 bn in 2010 to HUF 92.0 bn in 2011. This increase was mainly due to the favorable changes in working capital and lower capex spending, partly offset by the lower EBITDA.

Net cash used in financing activities decreased from HUF 130.6 bn in 2010 to HUF 93.2 bn in 2011 due to significantly lower amount of dividend paid and lower amount of loan repayments were made in 2011.

4.9. Outlook

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

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

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

Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. The European economy is slowing down and showing 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 was impacted heavily by the second wave of the financial crisis. GDP projections for 2012 were reduced significantly. Analyst and government forecasts indicate GDP growth of 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 percent to 27 percent. 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 Hungary 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.

4.9.1 Revenues

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

In fixed line operations, we expect continued declines in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and increased competition in the fixed line market, including competition from VoIP or VoCable providers. Mobile substitution is still the main driver of the churn and we expect that average mobile per minute fees will be continue to be lower than average fixed line per minute fees in 2012. As indicated in our strategy, to mitigate the decrease in fixed line voice revenues we are now moving from a traditional traffic-based revenue structure to an access-based revenue structure, which will allow us to substitute declining traffic revenues with content, entertainment and bundled access revenues. Based on draft directives of National Media and Infocommunications Authority (“NMIA”), fixed line interconnection tariffs are expected to reduce further from December 2011 by 20 percent (ex post facto directive expected in May, 2012), and by an additional 20 percent in 2013 (with the extension to VoIP and VoCable), putting further pressure on our fixed line revenues.

We aim to move further toward content and media services to support traditional access services, build new revenue streams and exploit new revenue sources. As the market is shifting towards multiplay offers, we are combining our product portfolio in order to provide all services for every customer demand on every platform. Having full range of telecommunications services, we are capable to offer 4Play packages which are unique in the Hungarian market.

In the saturated fixed line market TV remains the key driver. Building on our large variety of platforms (cable, IP, DVB-S), we are targeting to reach those customers who currently have less than three of our services. In 2011, we increased the number of our Revenue Producing Customers ("RPC") more than our competitors, as a result, we gained additional market share. We are targeting further growth in the RPC figures to be continued in 2012; however margins are under pressure due to significant competition. To strengthen our position in the TV market, we are continuously innovating our product portfolio (such as interactive SAT TV).

In mobile operations in Hungary, market penetration is now saturated, and we expect declining voice revenues in 2012. We expect further growth in mobile broadband and future growth potential of value-added and data services, but this positive impact will not offset the voice revenue decline.

To satisfy customer demand with high quality mobile broadband services, Magyar Telekom filed an auction bid with the NMIA, for unused spectrum in the 900 MHz frequency band. The spectrum can be utilised in a technology-neutral manner, allowing for the installation and operation of GSM, UMTS, LTE and/or WiMAX mobile networks. The filing date of auction bids was December 8, 2011.

Mobile interconnection tariffs are expected to be reduced by 20 percent in 2012, and by an additional 25 percent in 2013. Fixed-to-mobile and mobile-to-mobile termination tariffs as well as mobile termination fees are expected to be further reduced.

Magyar Telekom is continuously looking for business opportunities beyond our core services. Significant step was made into this direction when we entered the retail energy market throughout a strategic partnership with E.on. This new revenue stream will enable us to maintain flat Hungarian revenue in 2012, however the margins will nevertheless decline.

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

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

We also expect more intensive regulatory measures in Macedonia in the future. In addition to currently existing obligations (RIO, RUO, Naked DSL, Number Portability, Cost-based pricing, Accounting separation, Access to specific network elements, Wholesale Line Rental, Wholesale Digital Leased Line, Minimal set of leased lines, Bitstream Access), new regulations are expected to come into effect in relation to asymmetric mobile termination (from the end of 2013, symmetric MTRs are expected) and ex ante control of retail prices. A further decline in wholesale fees (e.g., IC, leased lines, WLR) is also expected.

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

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

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

4.9.2 Expenses

We are entirely committed to improving internal operational efficiency in all of our business segments. To accomplish our goals despite the intensifying competitive environment, we expect to partially offset decreasing revenue with strict cost control. We will continue our group-wide efficiency project Save for Service ("S4S"). This multi-year project yielded substantial savings in 2011, and will be continued in the coming years. The target for S4S in 2012 is to overhaul cross-functional, end-to-end processes, and to exploit all cost saving opportunities with better optimization and re-organization of processes irrespective of current organizational borders.

We have reached an agreement with trade unions on wage development, headcount reduction and decreases in additional employee allowances at the parent company for 2012. The key elements of the agreement are the following: reduction of headcount by 250 employees in addition to executive termination and retirement and no wage increase 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 measures will reduce our Total Workforce Management ("TWM") related costs.

In line with world market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices above the inflation level. We expect energy prices to remain high in 2012, impacting us negatively.

4.9.3 Total investments in tangible and intangible assets

Compared to previous years, the key priorities of capex spending have not changed. Investments in new products and platforms (e.g., FTTx, LTE) remain our key strategic goals although the overall investment level is decreasing. Broadband expansion is supported by large scale modernization of the mobile network with Ericsson as the vendor. As part of the network modernization, Ericsson will replace the current 2G and 3G wireless base stations to unique, multi-standard equipments developed for GSM/EDGE, WCDMA/HSPA Evolution and LTE technologies.

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

Striving for further improvement in customer orientation, the strategic priority for 2012 and beyond is the successful implementation of a new CRM system. We are targeting the complete overhaul of the current customer management of the Company. The goals of the project include not just the replacement of outdated billing systems but to bring a new approach to the entire customer management process by integrating fixed and mobile portfolios.

In 2011, we succeeded in decreasing our total level of investments in tangible and intangible assets compared to 2010, despite the volatility of the Hungarian currency during the year.

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

4.10. Risk factors

Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by risks and uncertainties. Such factors are described, among others, in Item 3 of our Annual Report on Form 20-F for the year ended December 31, 2010 filed with the SEC, and remain valid for this interim report as well. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities. The summary of our principal risks and uncertainties are described below:

- Our operations (both in Hungary and abroad) are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition due to the liberalization of the telecommunications sector;

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

5. Segment information

5.1. Description of segments

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 Group'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). The Macedonia and Montenegro segments have not changed.

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.

5.2. Segment information provided to the Management Committee ("MC")

The following tables set forth revenues and Earnings before net financial result, taxes, depreciation and amortization ("EBITDA") by segment, as monitored by the Company's chief operating decision making body, the MC. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude. Management believes that EBITDA is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

The sum of the financial results of the segments presented below does not equal to the Group financial results because of intersegment eliminations.

In the financial statements, the Group's segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, the members of the MC of Magyar Telekom Plc. The MC is responsible for allocating resources to, and assessing the performance of the operating segments on a monthly basis. The accounting policies and measurement principles of the operating segments are very similar to those applied for the Group. The differences primarily originate from the fact that the operating segments' results are determined and closed at an earlier stage than the financial statements of the Group. Any items discovered and requiring adjustment between the closing date of the segment results and the approval date of the financial statements or this flash report are reflected in the next period's segment results from an MC reporting package perspective.

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

Magyar Telekom has been subject to special telecommunications tax introduced in Hungary in Q4 2010, charged on the companies' annual revenues, retrospectively from January 1, 2010. As introduced in Q4 2010, this tax in 2010 only hit the Q4 results of both the Group and the segments. The presented EBITDA of the Hungarian segments (Telekom Hungary and T-Systems Hungary), however, include the special telecommunications tax both in 2010 and 2011.

EBITDA for each segment, in principle, could be reconciled to the segment's operating profit, the most directly comparable financial measure according to IFRS, by adding depreciation and amortization. However, depreciation and amortization is not allocated to the segments (it is not a segment measure); therefore the reconciliation cannot be prepared and presented on a segment basis. Accordingly, we provide a reconciliation of the total segment EBITDA to consolidated profit for the period of the Group.

HUF millions	Year ended Dec 31, 2010	Year ended Dec 31, 2011
Total Telekom Hungary revenues	432,054	422,794
Less: Telekom Hungary revenues from other segments	(38,873)	(35,506)
Telekom Hungary revenues from external customers	393,181	387,288
Total T-Systems Hungary revenues	117,869	122,237
Less: T-Systems Hungary revenues from other segments	(11,780)	(15,783)
T-Systems Hungary revenues from external customers	106,089	106,454
Total Macedonia revenues	77,598	71,359
Less: Macedonia revenues from other segments	(134)	(130)
Macedonia revenues from external customers	77,464	71,229
Total Montenegro revenues	32,874	32,697
Less: Montenegro revenues from other segments	(44)	(42)
Montenegro revenues from external customers	32,830	32,655
Total consolidated revenue of the segments	609,564	597,626
Measurement differences to Group revenues	15	(9)
Total revenue of the Group	609,579	597,617
Segment results (EBITDA)		
Telekom Hungary	144,909	128,223
T-Systems Hungary	14,756	18,444
Macedonia	40,248	37,914
Montenegro	11,370	11,453
Total EBITDA of the segments	211,283	196,034
Measurement differences to Group EBITDA	1,683	48
Total EBITDA of the Group	212,966	196,082
Depreciation and amortization of the Group	(100,872)	(132,915)
Total Operating profit of the Group	112,094	63,167
Net financial result	(28,113)	(32,462)
Share of associates' and joint ventures' profit/ (losses)	(27)	12
Total Profit before income tax of the Group	83,954	30,717
Income tax expense	(6,583)	(27,538)
Total Profit for the period of the Group	77,371	3,179

HUF millions	3 months ended Dec 31, 2010	3 months ended Dec 31, 2011
Total Telekom Hungary revenues	110,877	111,428
Less: Telekom Hungary revenues from other segments	(9,765)	(9,100)
Telekom Hungary revenues from external customers	101,112	102,328
Total T-Systems Hungary revenues	32,908	37,161
Less: T-Systems Hungary revenues from other segments	(3,477)	(7,446)
T-Systems Hungary revenues from external customers	29,431	29,715
Total Macedonia revenues	18,828	18,989
Less: Macedonia revenues from other segments	(32)	(35)
Macedonia revenues from external customers	18,796	18,954
Total Montenegro revenues	8,106	8,447
Less: Montenegro revenues from other segments	(7)	(7)
Montenegro revenues from external customers	8,099	8,440
Total consolidated revenue of the segments	157,438	159,437
Measurement differences to Group revenues	(461)	(13)
Total revenue of the Group	156,977	159,424
Segment results (EBITDA)		
Telekom Hungary	30,691	28,806
T-Systems Hungary	3,966	5,897
Macedonia	8,867	9,261
Montenegro	2,600	2,675
Total EBITDA of the segments	46,124	46,639
Hungarian telecommunications and other crisis taxes (included retrospectively in Q4 2010)	(20,070)	0
Measurement differences to Group EBITDA	(30)	44
Total EBITDA of the Group	26,024	46,683
Depreciation and amortization of the Group	(26,644)	(60,854)
Total Operating profit of the Group	(620)	(14,171)
Net financial result	(6,632)	(11,784)
Share of associates' and joint ventures' profit/ (losses)	(7)	8
Total Profit before income tax of the Group	(7,259)	(25,947)
Income tax expense	16,971	(12,728)
Total Profit for the period of the Group	9,712	(38,675)

5.3. Operating and financial review - segments

5.3.1 Telekom Hungary

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 of the Group's management. This segment is also responsible for the Group's points of presence in Bulgaria, Romania and in Ukraine providing wholesale services to local companies and operators. 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.

HUF millions	Year ended December 31, 2010	Year ended December 31, 2011	Change (%)
Voice revenues	82,374	71,425	(13.3)
Internet revenues	41,886	40,679	(2.9)
TV revenues	25,551	28,229	10.5
Other fixed line and SI/IT revenues	42,799	45,870	7.5
Total fixed line and SI/IT revenues	192,610	186,203	(3.3)
Voice revenues	164,095	157,147	(4.2)
Non-voice revenue	41,767	44,764	7.2
Other mobile revenues	33,582	34,680	3.3
Total mobile revenues	239,444	236,591	(1.2)
Total revenues	432,054	422,794	(2.1)
Hungarian telecommunications and other crisis taxes	(22,834)	(21,485)	5.9
EBITDA	144,909	128,223	(11.4)
Investments in tangible and intangible assets	68,395	65,559	(4.1)

HUF millions	3 months ended December 31, 2010	3 months ended December 31, 2011	Change (%)
Voice revenues	19,780	17,720	(10.4)
Internet revenues	10,507	10,557	0.5
TV revenues	6,784	7,210	6.3
Other fixed line and SI/IT revenues	11,701	14,544	24.3
Total fixed line and SI/IT revenues	48,772	50,031	2.6
Voice revenues	40,721	38,891	(4.5)
Non-voice revenue	11,346	11,581	2.1
Other mobile revenues	10,038	10,925	8.8
Total mobile revenues	62,105	61,397	(1.1)
Total revenues	110,877	111,428	0.5
Hungarian telecommunications and other crisis taxes	(5,860)	(5,384)	8.1
EBITDA	30,691	28,806	(6.1)
Investments in tangible and intangible assets	25,241	29,811	18.1

Revenues in the Telekom Hungary segment decreased by 2.1% year over year mainly driven by lower fixed line and mobile voice revenues, declining fixed line Internet revenues, partly compensated by higher other fixed line and TV revenues as well as higher mobile Internet and equipment revenues.

Fixed line voice-retail revenues experienced a decline mainly due to lower PSTN subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also due to lower outgoing traffic revenues due to the loss of lines and price discounts reflecting unfavorable economic environment and also competition with VoIP and VoCable operators. The increasing popularity of flat rate packages (e.g., Hoppá) led to lower ARPA but, on the other hand, it proved to be a successful tool in preventing PSTN churn. While PSTN revenues continued to decrease, the increase in VoIP and VoCable revenues driven by an enlarging customer base and higher traffic slightly mitigated these decreases.

Internet revenues decreased by 2.9% in 2011 compared to 2010. The decrease reflects mainly the lower DSL revenues due to much lower number of wholesale connections and lower prices forced by fierce competition mainly from cable and mobile operators. The migration towards double- and triple-play packages also had a negative effect on blended ARPU level. This decrease was partly offset by the increase in retail DSL subscriber base and by the higher number of Cablenet customers.

Decreased fixed line voice and Internet revenues were partly compensated by higher other fixed line revenue at Magyar Telekom Plc. driven by significant revenues generated from the retail energy trade business (introduced in 2010).

Higher IPTV and satellite TV revenues driven by a larger customer base and higher ARPU also compensated the decrease. The IPTV customer base increased by 82.0% to 226,385-, while the number of satellite TV customers increased by 10.7% to 281,312- by the end of December 2011. These increases were partly offset by lower Cable TV revenues influenced by the decreased customer base due to migration from Cable TV to IPTV technology and, to a lesser extent, by lower ARPU.

Mobile revenues slightly decreased year over year due to lower voice-retail revenues mainly attributable to lower outgoing tariff levels and lower voice-wholesale revenues due to the decrease in wholesale termination fees applied from December 1, 2010. These decreases were mostly compensated by higher non-voice revenues in line with wider usage of mobile Internet and by the increase in equipment revenues driven by higher average handset prices in retention.

EBITDA of the Telekom Hungary segment decreased by 11.4% year over year as lower total revenues together with higher other operating expenses (influenced by the provision made in connection with the investigation in 2011) were only partially offset by declining voice-related payments and higher other operating income.

The decrease in investments in tangible and intangible assets is mainly due to lower investments related to satellite TV service and network development.

5.3.2 T-Systems 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).

HUF millions	Year ended December 31, 2010	Year ended December 31, 2011	Change (%)
Voice revenues	11,223	9,926	(11.6)
Data revenues	15,920	14,391	(9.6)
Other fixed line revenues	5,451	5,717	4.9
Total fixed line revenues	32,594	30,034	(7.9)
Voice revenues	17,759	16,523	(7.0)
Non-voice revenue	8,824	9,112	3.3
Other mobile revenues	7,411	7,487	1.0
Total mobile revenues	33,994	33,122	(2.6)
SI/IT revenues	51,281	59,081	15.2
Total revenues	117,869	122,237	3.7
Hungarian telecommunications and other crisis taxes	(4,136)	(3,865)	6.6
EBITDA	14,756	18,444	25.0
Investments in tangible and intangible assets	3,559	4,289	20.5

HUF millions	3 months ended December 31, 2010	3 months ended December 31, 2011	Change (%)
Voice revenues	2,678	2,372	(11.4)
Data revenues	4,481	3,587	(20.0)
Other fixed line revenues	1,255	1,495	19.1
Total fixed line revenues	8,414	7,454	(11.4)
Voice revenues	4,297	4,010	(6.7)
Non-voice revenue	2,248	2,313	2.9
Other mobile revenues	2,970	2,121	(28.6)
Total mobile revenues	9,515	8,444	(11.3)
SI/IT revenues	14,979	21,263	42.0
Total revenues	32,908	37,161	12.9
Hungarian telecommunications and other crisis taxes	(1,040)	(960)	7.7
EBITDA	3,966	5,897	48.7
Investments in tangible and intangible assets	1,283	2,277	77.5

Total revenues of T-Systems Hungary slightly increased in 2011 compared to 2010 due to higher SI/IT revenues, Internet and mobile equipment revenues. These increases were partly offset by lower data revenues and lower mobile voice revenues.

Fixed line voice-retail revenues decreased reflecting the erosion both in the customer base and traffic, while lower fixed line data revenues were influenced mainly by decreased prices due to fierce competition.

Mobile voice revenues decreased by 7.0% year over year predominantly due to lower voice-retail revenues as a result of lower average per minute fee and decreased outgoing MOU, partly compensated by higher average customer base. Increased non-voice revenues were driven by higher Internet revenues reflecting increased mobile broadband customer base. Equipment revenues also increased due to higher average handset prices boosted by the growing popularity of smartphones.

The 15.2% increase in SI/IT revenues mainly resulted from higher infrastructure revenues at Magyar Telekom Plc. T-Systems driven by significantly higher project revenues in 2011. The inclusion of Daten-Kontor revenues in 2011 and higher application revenues at IQSYS due to Digital table sale in 2011 also contributed to the increase. These increases were partly mitigated by considerably less government projects at KFKI in 2011.

The EBITDA level of T-Systems Hungary increased by 25.0% deriving mainly from significantly higher SI/IT revenues. Decreased voice-related payments, declined employee-related expenses and lower other operating expenses also contributed to the increase, partly offset by higher SI/IT-related payments.

5.3.3 Macedonia

HUF millions	Year ended December 31, 2010	Year ended December 31, 2011	Change (%)
Total fixed line and SI/IT revenues	35,194	33,733	(4.2)
Total mobile revenues	42,404	37,626	(11.3)
Total revenues	77,598	71,359	(8.0)
EBITDA	40,248	37,914	(5.8)
Investments in tangible and intangible assets	15,208	9,961	(34.5)

HUF millions	3 months ended December 31, 2010	3 months ended December 31, 2011	Change (%)
Total fixed line and SI/IT revenues	9,036	9,017	(0.2)
Total mobile revenues	9,792	9,972	1.8
Total revenues	18,828	18,989	0.9
EBITDA	8,867	9,261	4.4
Investments in tangible and intangible assets	7,960	5,646	(29.1)

The currency translation effect on the results of our Macedonian operations was relatively small (0.9% on average) year over year.

Excluding the currency translation effects, total fixed line and SI/IT revenues decreased primarily as a result of lower voice-retail revenues reflecting the loss of fixed lines and lower traffic affected by strong competition and mobile substitution. This decrease was largely offset by higher international incoming revenues due to higher volume of traffic and increased termination fees, and, to a smaller extent, by the increase in TV revenues due to the enlarging IPTV subscriber base.

Mobile revenues in local currency decreased mainly resulting from lower voice-retail revenues due to lower per minute fees. Visitor revenue decreased as a result of the discount given to other roaming partners. Non-voice revenues also decreased as the decline in visitor non-voice revenue due to lower usage and higher given discounts in 2011 and the lower data revenues due to SMS promotions were only partly compensated by higher mobile Internet revenues resulting from increased traffic. These decreases were somewhat compensated by higher equipment revenues mainly driven by increased number of handset sold in retention. Higher voice-wholesale revenue was primarily a result of increased traffic volume due to the larger subscriber base of VIP and higher price for international interconnection. T-Mobile MK had a 50.0% share in the Macedonian mobile market and mobile penetration was 122.8% at the end of 2011.

EBITDA of our Macedonian operations decreased by 6.1% in HUF terms deriving mainly from lower total revenues, largely offset by the decrease in other operating expenses, lower direct costs as well as decreased employee related expenses.

5.3.4 Montenegro

HUF millions	Year ended December 31, 2010	Year ended December 31, 2011	Change (%)
Total fixed line and SI/IT revenues	17,666	17,576	(0.5)
Total mobile revenues	15,208	15,121	(0.6)
Total revenues	32,874	32,697	(0.5)
EBITDA	11,370	11,453	0.7
Investments in tangible and intangible assets	4,639	4,135	(10.9)

HUF millions	3 months ended December 31, 2010	3 months ended December 31, 2011	Change (%)
Total fixed line and SI/IT revenues	4,427	4,732	6.9
Total mobile revenues	3,679	3,715	1.0
Total revenues	8,106	8,447	4.2
EBITDA	2,600	2,675	2.9
Investments in tangible and intangible assets	2,904	2,254	(22.4)

The results of our Montenegrin operations were positively affected by the 0.9% strengthening of EUR against the HUF on average year over year.

Excluding the currency translation effects, total fixed line revenues slightly decreased. Lower voice-retail revenues due to declining outgoing traffic and lower voice-wholesale revenues due to lower volume of terminated and transited international incoming traffic were mainly counterbalanced by higher Internet revenues driven by increased DSL connections and higher TV revenues thanks to the increased IPTV subscriber base.

Mobile revenues in EUR decreased to a small extent year over year as lower voice-wholesale revenues were mainly counterbalanced by higher non-voice revenues.

In the second quarter of 2010, it was determined that a number of prepaid mobile fill-up vouchers had been misappropriated at Crnogorski Telekom. Accordingly, we reversed previously recognized revenues of EUR 0.8 million and recognized a provision of EUR 0.4 million in relation to VAT and other costs associated with the misappropriated vouchers, resulting in a negative EBITDA impact totaling EUR 1.2 million.

Excluding this EUR 0.8 million one-off impact on mobile revenues, prepaid voice-retail revenues decreased due to lower customer base, while postpaid revenues declined due to lower ARPU. Voice-wholesale revenues also decreased resulting from the decrease in interconnection tariffs for domestic operators and lower incoming traffic in postpaid segment. Higher non-voice revenues due to increased usage of Internet and content services had a positive effect on total mobile revenues.

EBITDA of our Montenegrin operations remained broadly stable expressed in HUF, since total operating expenses decreased in line with the revenue decline.

6. Property, plant and equipment

Total investments in tangible and intangible assets amounted to HUF 83,796 million in 2011. There have not been any significant individual investments. Magyar Telekom Plc. sold a number of real estate properties in Q1 2011. The total gain on these transactions was HUF 1.6 bn. There has not been any significant individual sale of assets.

7. Borrowings

There has not been any material change in the nature and amount of our borrowings in 2011.

8. Commitments

There has not been any material change in the nature and amount of our commitments in 2011.

9. Contingencies

No provisions have been recognized for the cases described below as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group, or the amount of the obligation cannot be measured with sufficient reliability.

9.1. Macedonia

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

In January 2002, T-Mobile MK signed an agreement with a subcontractor, including a 3-month trial period, for the collection of T-Mobile MK's overdue receivables. After the expiration of the 3-month trial period, T-Mobile MK terminated this contract in April 2002 due to breaches of the contractual obligations by the subcontractor. The subcontractor initiated a lawsuit in April 2003 requesting damage compensation for foregone profit and compensation for services already rendered. Management estimates it unlikely that the subcontractor would win the court case against T-Mobile MK. The potential loss from the claim is approximately HUF 5.0 billion. The first instance decision in 2010 was in favor of T-Mobile MK, but the plaintiff submitted an appeal, therefore the timing of the final resolution is uncertain.

9.1.2 Makedonski Telekom's dispute on fixed-to-mobile termination fees

In 2005, MKT changed the retail prices for the traffic from fixed to mobile network. According to the interconnection agreements with the mobile operators the change in retail prices automatically decreased the interconnection fees for termination in the mobile networks. In February 2006, one of the Macedonian mobile operators, ONE, submitted to the Agency a request for dispute resolution with reference to the termination prices. The Agency rejected the requests of ONE as "ungrounded". This decision of the Agency was appealed by ONE by filing a lawsuit at the Administrative Court of Macedonia. The potential loss from the claim is approximately HUF 0.5 billion, but the management estimates it unlikely that this would result in any material cash outflows. The final decision will be made by the Administrative Court of Macedonia, the timing of which is uncertain.

9.2. Montenegro

9.2.1 Employee salary disputes in Montenegro

In July 2010, the Trade Union of Crnogorski Telekom submitted a claim to increase the salaries by 15.3% for the period between September 2009 and September 2010, based on the clause on minimum wage calculation in the Collective Bargaining Agreement (CBA). Management believes that the Trade Union is not entitled to submit such claim and also disagrees to the calculation methodology. There has not been any hearing yet in this case. The potential exposure is HUF 1.8 billion.

10. Related party transactions

There has not been any material change in the nature of our related party transactions in 2011. In 2011, our financial liabilities to related parties decreased.

11. Seasonality

The Group operates in an industry where significant seasonal or cyclical variations in operating income are not experienced.

12. 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. For further information regarding the internal investigation, see the Company's annual report for the year ended December 31, 2010.

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.

On December 29, 2011, the Company announced that it had 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 disclosed the key terms of the settlements with the DOJ and the SEC on December 29, 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 of prejudgment interest (HUF 7,366 million in total) 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.

The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011.

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.

Magyar Telekom incurred HUF 17,485 million operating expenses relating to the investigations in 2011 (HUF 1,294 million legal costs and HUF 16,191 million provision for the settlements) included in the Hungary segment, and additional losses and expenses of HUF 5,666 million included in the net financial results (HUF 1,119 million interest expense and HUF 4,547 million foreign exchange loss).

13. Lawsuit by minority shareholders - Annual General Meeting, April 2010

As previously disclosed, two Hungarian minority shareholders filed a lawsuit against the Company on May 6, 2010, requesting the Court to render ineffective the resolutions passed by the general meeting of the Company held on April 7, 2010. The Metropolitan Court dismissed the claim in its first instance judgment; subsequently, in its final judgment announced on May 31, 2011, the Metropolitan Court of Appeal upheld on the merits the first instance judgment, as requested by the Company. Accordingly, the judgment rejecting the minority shareholder plaintiffs' claim became binding.

On November 8, 2011, the Company took delivery of a request for judicial review submitted by the minority shareholder plaintiffs, in which they request, as an extraordinary remedy, that the Supreme Court annul the final judgment of the Metropolitan Court of Appeal.

The Company believes that the request for judicial review is unfounded. The Company will take all necessary actions to defend against the request in the judicial review procedure.

We cannot fully exclude that the Company will be required to take corporate actions in connection with this proceeding. Also, we cannot provide any assurance that this matter would not have other adverse effects on the Company that are not currently foreseeable.

14. Significant events between the end of the year and the publishing of the "Preliminary financial report"

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. Pursuant to the first instance decision, Magyar Telekom is required to pay an auction price of 10.9 billion HUF plus VAT for these frequency blocks.

15. Declaration

We the undersigned declare that to the best of our knowledge the attached report gives a true and fair view of the financial position and performance of Magyar Telekom and its controlled undertakings, contains an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of Magyar Telekom and its controlled undertakings.

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

Budapest, February 23, 2012