

Magyar Telekom Plc.
Form 6-K
April 18, 2011

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934**

Report on Form 6-K dated April 18, 2011

Magyar Telekom Plc.

(Translation of registrant's name into English)

Budapest, 1013, Krisztina krt. 55, Hungary

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes No

If is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Magyar Telekom Telecommunications

Public Limited Company

Consolidated Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2010

Magyar Telekom Telecommunications

Public Limited Company

Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2010

Prepared in accordance with

International Financial Reporting Standards (IFRS)

MAGYAR TELEKOM

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF MAGYAR TELEKOM PLC.**

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INDEPENDENT AUDITOR S REPORT

To the Shareholders of Magyar Telekom Nyrt.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Magyar Telekom Nyrt. (the Company), which comprise the consolidated statement of financial position as of 31 December 2010 (in which total of statement of financial position is HUF 1,109,006 million and the total comprehensive income for the year is HUF 84,008 million) the consolidated statements of comprehensive income, consolidated statements of changes in equity, and the consolidated statements of cash flows, for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor s Responsibility

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

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

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

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Magyar Telekom Nyrt. in accordance with Hungarian Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2010, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the business report

We have examined the accompanying consolidated business report of Magyar Telekom Nyrt. (the Company) for the financial year of 2010.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements.

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Our work in respect of the consolidated business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2010 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2010.

Budapest, March 7, 2011

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

/s/ Hegedüsne Szücs Márta
Hegedüsne Szücs Márta
Statutory auditor
Licence number: 006838

Note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

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MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At December 31,		2010
		2009	2010	(Note 2.1)
		(in HUF millions)		(million USD)
ASSETS				
Current assets				
Cash and cash equivalents	6	34,270	15,841	76
Trade and other receivables	7	110,353	114,625	549
Other current financial assets	8.1	87,611	56,560	271
Current income tax receivable	9.1	4,075	1,804	9
Inventories	10	9,783	9,592	46
Non current assets held for sale	11	3,269	2,152	10
Total current assets		249,366	200,574	961
Non current assets				
Property, plant and equipment	12	550,745	549,752	2,635
Intangible assets	13	335,615	332,993	1,596
Investments in associates and joint ventures	14	186	77	
Deferred tax assets	9.4	1,890	913	4
Other non current financial assets	8.2	27,682	24,033	115
Other non current assets	15	893	664	3
Total non current assets		917,011	908,432	4,354
Total assets		1,166,377	1,109,006	5,315
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	16	70,573	72,208	346
Other financial liabilities	17	36,332	46,647	224
Trade payables	18	85,874	86,613	425
Current income tax payable	9.1	624	661	3
Provisions	19	12,692	7,722	37
Other current liabilities	20	32,228	30,966	148
Total current liabilities		238,323	246,817	1,183
Non current liabilities				
Financial liabilities to related parties	16	266,998	234,164	1,122
Other financial liabilities	17	26,221	8,828	42
Deferred tax liabilities	9.4	18,594	10,924	52
Provisions	19	9,721	12,298	59
Other non current liabilities	21	1,100	1,263	6
Total non current liabilities		322,634	267,477	1,282
Total liabilities		560,957	514,294	2,465
EQUITY				
Equity of the owners of the parent				
Common stock		104,275	104,275	500
Additional paid in capital		27,379	27,379	131
Treasury stock		(1,179)	(307)	(1)

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Retained earnings	398,250	385,283	1,847
Accumulated other comprehensive income	9,755	14,882	71
Total Equity of the owners of the parent	538,480	531,512	2,547
Non-controlling interests	66,940	63,200	303
Total equity	605,420	594,712	2,850
Total liabilities and equity	1,166,377	1,109,006	5315

These consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2011 and signed on their behalf by:

Christopher Mattheisen
Chairman and Chief Executive Officer

ThiloKusch
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements.

MAGYAR TELEKOM

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended December 31,			2010
	Note	2008	2009	2010	(Note 2.1)
		(in HUF millions, except per share amounts)			(million USD)
Revenue	22	673,056	643,989	609,579	2,922
Expenses directly related to revenues	23	(167,558)	(160,576)	(157,427)	(755)
Employee related expenses	24	(100,320)	(101,918)	(93,884)	(450)
Depreciation and amortization		(106,120)	(101,920)	(100,872)	(483)
Other operating expenses	25	(141,049)	(135,305)	(148,750)	(713)
Operating expenses		(515,047)	(499,719)	(500,933)	(2,401)
Other operating income	26	4,249	2,863	3,448	17
Operating profit		162,258	147,133	112,094	537
Interest income	27	7,227	8,526	4,938	24
Interest expense	28	(33,188)	(33,465)	(23,784)	(114)
Other finance expense - net	29	(4,347)	(7,874)	(9,267)	(44)
Net financial result		(30,308)	(32,813)	(28,113)	(135)
Share of associates and joint ventures profits / (losses)	14	1,341	(109)	(27)	
Profit before income tax		133,291	114,211	83,954	402
Income tax expense	9.2	(27,698)	(20,958)	(6,583)	(32)
Profit for the year		105,593	93,253	77,371	371
Exchange differences on translating foreign operations		8,851	6,159	6,617	32
Revaluation of available-for-sale financial assets before tax		(348)	(6)	20	
Revaluation of available-for-sale financial assets tax effect		35			
Other comprehensive income for the year, net of tax		8,538	6,153	6,637	32
Total comprehensive income for the year		114,131	99,406	84,008	403
Profit attributable to:					
Owners of the parent		93,008	77,618	64,378	309
Non-controlling interests		12,585	15,635	12,993	62
		105,593	93,253	77,371	371
Total comprehensive income attributable to:					
Owners of the parent		99,316	81,586	69,505	333
Non-controlling interests		14,815	17,820	14,503	70
		114,131	99,406	84,008	403
Earnings per share (EPS) information:					
Profit attributable to the owners of the Company		93,008	77,618	64,378	309
		1,041,242	1,041,241	1,041,290	1,041,290

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Weighted average number of common stock
outstanding (thousands) used for basic and
diluted EPS

Basic and diluted earnings per share (HUF and USD)	89.32	74.54	61.83	0.30
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The accompanying notes form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,			
Note	2008	2009	2010	2010
		(in HUF millions)		(Note 2.1)
				(million USD)
Cashflows from operating activities				
Profit for the year	105,593	93,253	77,371	371
Depreciation and amortization	106,120	101,920	100,872	483
Income tax expense	27,698	20,958	6,583	32
Net financial result	30,308	32,813	28,113	135
Share of associates and joint ventures profits / (losses)	(1,341)	109	27	
Change in assets carried as working capital	1,481	(1,427)	(8,364)	(40)
Change in provisions	(10,265)	(3,918)	(4,194)	(20)
Change in liabilities carried as working capital	1,886	(4,231)	(3,009)	(14)
Income tax paid	(20,768)	(16,053)	(11,419)	(55)
Dividend received	127	2,149	95	
Interest and other financial charges paid	(34,119)	(38,627)	(27,426)	(131)
Interest received	7,923	8,453	4,919	24
Other cashflows from operations	(4,354)	(1,604)	1,102	5
Net cash generated from operating activities	210,289	193,795	164,670	789
Cashflows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	30	(116,039)	(110,228)	(418)
Purchase of subsidiaries and business units	31	(762)	(5,193)	(7)
Cash acquired through business combinations (Payments for) / Proceeds from other financial assets net		(4,075)	460	6
		(18,547)	34,327	165
Proceeds from disposal of subsidiaries and associates	26	1,233	2,074	780
Proceeds from disposal of PPE and intangible assets		6,194	1,135	873
Net cash used in investing activities		(113,449)	(130,299)	(52,848)
				(253)
Cashflows from financing activities				
Dividends paid to shareholders and Non-controlling interest		(95,343)	(93,640)	(91,819)
Proceeds from loans and other borrowings		143,014	190,617	190,797
Repayment of loans and other borrowings		(126,901)	(193,537)	(229,545)
Change in Non-Controlling interests			(22)	(22)
Net cash used in financing activities		(79,230)	(96,560)	(130,589)
				(626)
Exchange gains on cash and cash equivalents		1,404	654	338
				2
Change in cash and cash equivalents		19,014	(32,410)	(18,429)
				(88)
Cash and cash equivalents, beginning of year		47,666	66,680	34,270
Cash and cash equivalents, end of year	6	66,680	34,270	15,841
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The accompanying notes form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces						In HUF millions			
	Shares of	Common	Additional	Treasury	Retained	Cumulative	Revaluation	Reserve for	Equity of the	Non-
	common stock (a)	stock	paid in	stock	earnings	translation	reserve for AFS	equity settled	owners of the	controlling
	(a)	(a)	capital	(c)	(d)	adjustment	financial assets	share based	parent	interests (h) To
			(b)			(e)	net of tax	transactions (g)		total
							(f)			
Balance at December 31, 2007	1,042,745,615	104,275	27,379	(1,179)	381,727	(688)	118	49	511,681	66,217
Dividend (i)					(77,051)				(77,051)	
Dividend declared to Non-controlling interests (j)										(18,431)
Total comprehensive income for the year					93,008	6,485	(177)		99,316	14,815
Balance at December 31, 2008	1,042,745,615	104,275	27,379	(1,179)	397,684	5,797	(59)	49	533,946	62,601
Dividend (i)					(77,052)				(77,052)	
Dividend declared to Non-controlling interests (j)										(13,481)
Reduction in capital as a result of merger with T-Kábel and Dél-Vonal (k)	(3,072)									
Total comprehensive income for the year					77,618	3,971	(3)		81,586	17,820
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
Dividend (i)					(77,053)				(77,053)	
Dividend declared to Non-controlling interests (j)										(18,243)
Share based compensation program (l)				872	(292)				580	

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Total comprehensive income for the year					64,378	5,165	11	(49)	69,505	14,503
Balance at December 31, 2010	1,042,742,543	104,275	27,379	(307)	385,283	14,933	(51)		531,512	63,200
Of which treasury stock	(390,862)									
Shares of common stock outstanding at December 31, 2010	1,042,351,681									

The accompanying notes form an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

-
- (a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2010. The number of authorized ordinary shares on December 31, 2010 is 1,042,742,543.
- (b) Additional paid in capital represents the amount above the nominal value of the shares that was received by the Company during capital increases.
- (c) Treasury stock represents the cost of the Company's own shares repurchased.
- (d) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2010 amounted to approximately HUF 253,793 million (HUF 266,149 million at December 31, 2009).
- (e) Cumulative translation adjustment represents the foreign exchange differences arising on the consolidation of foreign subsidiaries.
- (f) Revaluation reserve for available-for-sale (AFS) financial assets includes the unrealized gains and losses net of tax on available-for-sale financial assets.
- (g) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The December 31, 2009 balance of this reserve of HUF 49 million represented the amount reserved for the 103,530 options (granted in 2000) to Magyar Telekom's ex-CEO. Since these options lapsed unexercised in 2010, the balance of the reserve was released to Profit for the year in 2010 (Note 24.2).
- (h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries, in which the Group has less than 100% ownership.
- (i) In 2010, 2009 and 2008 Magyar Telekom Plc. declared HUF 74 dividend per share.

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(j) The amount of dividends declared to Non-controlling interests includes predominantly the dividends declared to the Non-controlling owners of Makedonski Telekom (MKT) and Crnogorski Telekom (CT), the Group's subsidiaries.

(k) In 2009 Magyar Telekom Plc. merged with T-Kábel and Dél-Vonal, its 100% subsidiaries. During the merger, the owners of 3,072 shares expressed their intention not to participate as owners in the merged Company. Consequently, the Company withdrew these shares and settled with these owners with a corresponding decrease in Common stock, Additional paid in capital and Retained earnings. These amounts did not exceed HUF 1 million. The merged Company was registered with 3,072 less shares as of September 30, 2009.

(l) In 2010 Magyar Telekom launched a share allocation program under which Magyar Telekom shares were awarded to the Company's selected employees. In total, 1,112,679 treasury shares were granted to employees for free in December 2010. (Note 24.3). The fair value of the treasury shares at the grant date was HUF 580 million, which was recognized as employee expense in 2010. The loss on the re-issuance of the treasury shares (measured as the difference between the original cost of re-acquisition and the grant date stock exchange price of the treasury shares) was recognized in Retained earnings in an amount of HUF 292 million.

Together with the approval of these financial statements for issue, the Board of the Company proposes a HUF 50 per share dividend distribution (in total HUF 52,118 million) to be approved by the Annual General Meeting of the Company in April 2011.

The accompanying notes form an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal supplier of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria, Romania and in the Ukraine. These services are subject to various telecommunications regulations depending on the countries of operations (Note 1.3).

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered address is Krisztina körút 55, 1013 Budapest, Hungary.

Magyar Telekom Plc. is listed on the Budapest stock exchange and its shares are traded on the Budapest Stock Exchange. Magyar Telekom's American Depository Shares (ADSs) each representing five ordinary shares were also traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted.

The immediate controlling shareholder of the Company is MagyarCom GmbH owning 59.21% of the issued shares, while the ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG).

The consolidated financial statements are prepared and presented in millions of Hungarian Forints (HUF), unless stated otherwise.

These consolidated financial statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, has the right to require amendments before acceptance. As the controlling shareholders are represented in the Board of the Company that approved these financial statements for issuance, the probability of any potential change required by the AGM is extremely remote, and has never happened in the past.

On June 29, 2009, Magyar Telekom's Extraordinary General Meeting approved the merger of Magyar Telekom Plc., T-Kábel Kft. and Dél-Vonal Kft., two 100% subsidiaries of Magyar Telekom Plc. As the merger occurred between the parent company and its 100% owned subsidiaries, the transaction did not have any impact on the Consolidated financial position of the Group or its operating segments other than as disclosed in the notes to the Consolidated statements of changes in equity. The merger was registered by the Hungarian Court of Registration as of

September 30, 2009.

1.2 Investigation into certain consultancy contracts

In the course of conducting their audit of the Company's 2005 financial statements, PricewaterhouseCoopers, the Company's auditors, identified two contracts the nature and business purposes of which were not readily apparent to them. In February 2006, the Company's Audit Committee retained White & Case, as its independent legal counsel, to conduct an internal investigation into whether the Company had made payments under those, or other contracts, potentially prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (FCPA) or internal Company policy. The Company's Audit Committee also informed the United States Department of Justice (DOJ), the United States Securities and Exchange Commission (SEC) and the Hungarian Financial Supervisory Authority of the internal investigation.

Based on the documentation and other evidence obtained by it, White & Case preliminarily concluded that there was reason to believe that four consulting contracts entered into in 2005 were entered into to serve improper objectives, and further found that during 2006 certain employees had destroyed evidence that was relevant to the investigation. White & Case also identified several contracts at our Macedonian subsidiary that warranted further review. In February 2007, our Board of Directors determined that those contracts should be reviewed and expanded the scope of the internal investigation to cover these additional contracts and any related or similarly questionable contracts or payments.

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

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

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

- As previously disclosed, with respect to Montenegrin contracts, there is insufficient evidence to establish that the approximately EUR 7 million in expenditures made pursuant to four consultancy contracts ... were made for legitimate business purposes, and there is affirmative evidence that these expenditures served improper purposes. These contracts were not appropriately recorded in the books and records of the Company and its relevant subsidiaries. As previously disclosed, the Company has already reclassified, in the Company's financial statements, the accounting treatment relating to certain of these contracts to more accurately account for these expenditures.

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

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

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

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

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

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

Nothing in the Final Report implicates any current senior executive or Board member of the Company in

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

connection with any wrongdoing.

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

Due to these measures, no modifications to the Corporate Compliance Program were viewed as necessary in response to the Final Report. This conclusion has been discussed with the Audit Committee and the Audit Committee has not made recommendations either relating to the Company's compliance program or internal controls.

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

As previously announced, the DOJ, the SEC and the Ministry of Interior of the Republic of Macedonia have commenced investigations into certain of the Company's activities that were the subject of the internal investigation. Further, in relation to certain activities that were the subject of the internal investigation, the Hungarian Central Investigating Chief Prosecutor's Office has commenced a criminal investigation into alleged corruption with the intention of violating obligations in international relations and other alleged criminal offenses. Also, as previously announced, the Hungarian National Bureau of Investigation (NBI) has begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with the Company's ongoing internal investigation and the possible misuse of personal data of employees in the context of the internal investigation. In addition, the Montenegrin Supreme State Prosecutor is also investigating the activities of the Company's Montenegrin subsidiary that were the subject of the internal investigation and has requested information from the Company's Montenegrin subsidiary in relation to the relevant contracts. These governmental investigations are continuing, and the Company continues to cooperate with these investigations.

As previously disclosed, the Company, through its external legal counsel, is engaged in discussions with the DOJ and the SEC regarding the possibility of resolving their respective investigations as to the Company through negotiated settlements. The Company has not reached any agreement with either the DOJ or the SEC regarding resolution of their respective investigations, and discussions with both agencies are continuing. We may be unable to reach a negotiated settlement with either agency. Any resolution of the investigations could result in criminal or civil sanctions, including monetary penalties and/or disgorgement, against the Company or its affiliates, which could have a material effect on the Company's financial position, results of operations or cash flows, as well as require additional changes to its business practices and compliance programs. The Company cannot predict or estimate whether or when a resolution of the DOJ or SEC investigations will occur, or the terms, conditions, or other parameters of any such resolution, including the size of any monetary penalties or disgorgement, the final outcome of these investigations, or any impact such resolution may have on its financial statements or results of operations. Consequently, the Company has not made any provisions in its financial statements as of December 31, 2010 with respect to the investigations.

1.3 Public service concession and license arrangements

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary, Macedonia and Montenegro. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee, which is capitalized and amortized over the original duration of license or concession, and also requires annual payments, which are recognized as Other operating expenses (included in Fees and levies) in the year the payment obligation refers to.

The most important features of the regulations of these services are described below.

1.3.1 Hungarian Fixed line

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. Act C of 2003 on Electronic Communications (hereinafter: Communications Act), the latest act on the telecommunications sector, came

MAGYAR TELEKOM