

# Presentation

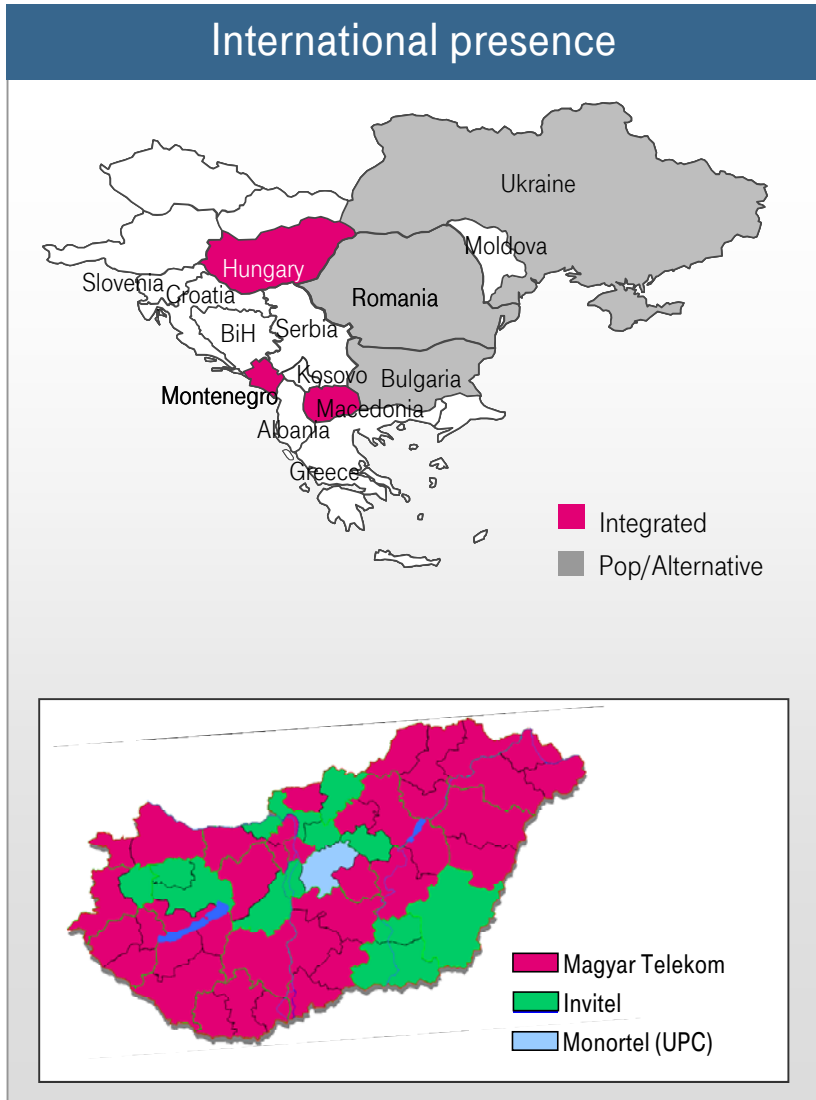
## Magyar Telekom First Half 2010 results



Strong cash flow generation despite continued top line pressure; guidance revised



# Overview – Magyar Telekom Group at a glance



Integrated operations in Hungary, Macedonia and Montenegro

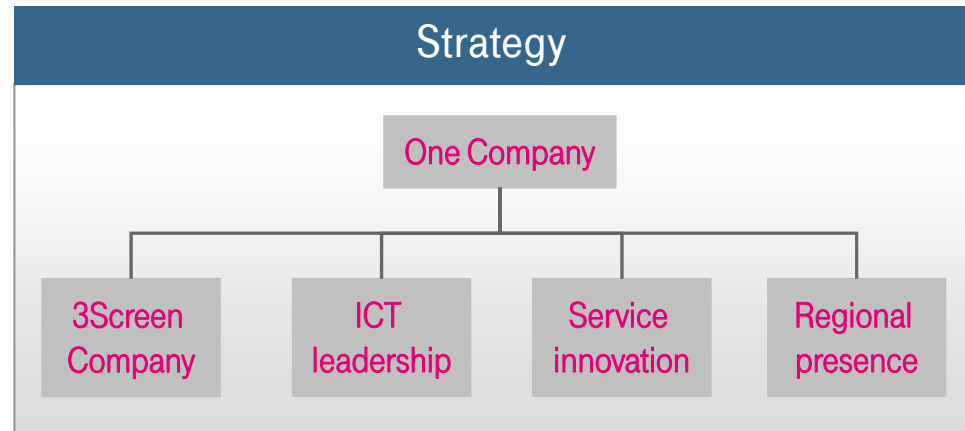
- leading telecommunications service provider in all three countries
- leading SI/IT service provider in Hungary

EUR 2.5bn market capitalization

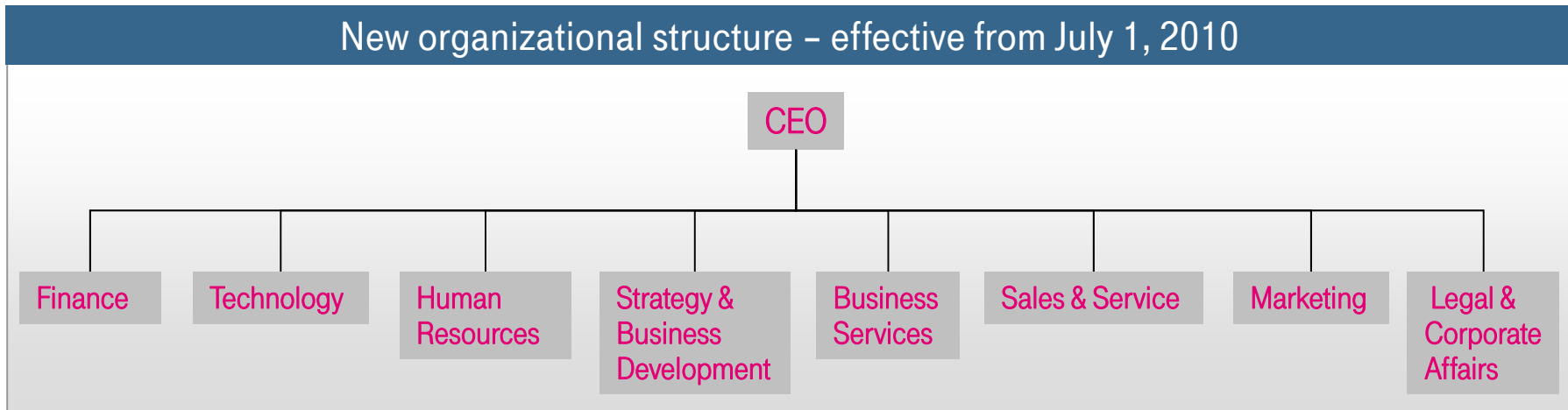
Stock exchange listings

- listed on NYSE and Budapest Stock Exchange
- delisting from NYSE to start before end 2010

Majority owned by Deutsche Telekom (59.2%)



# Change in organizational structure

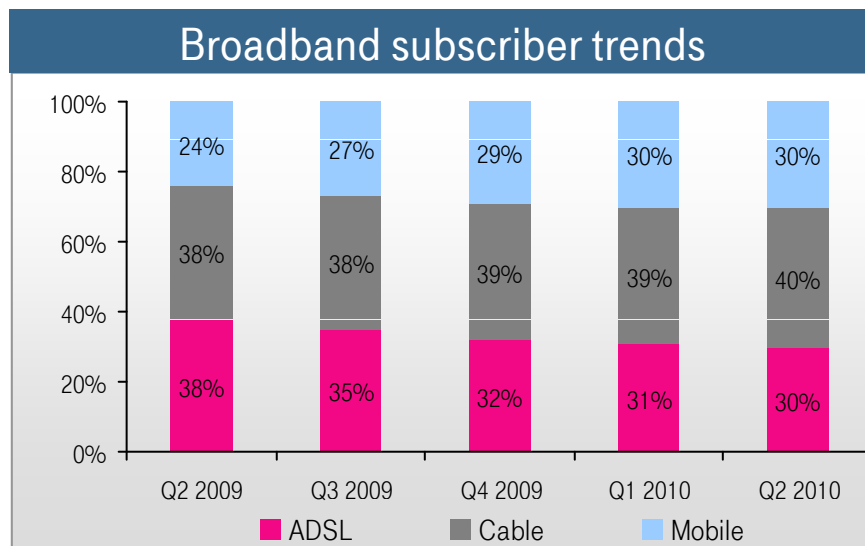
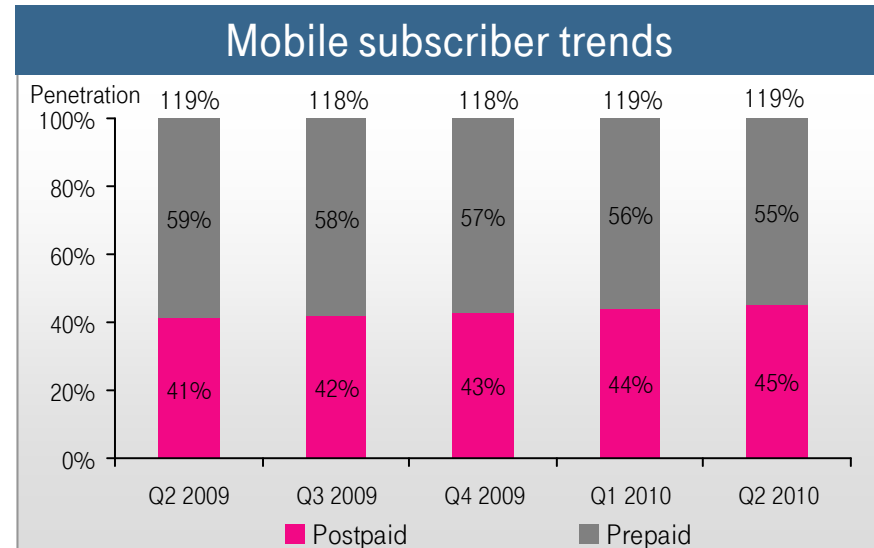
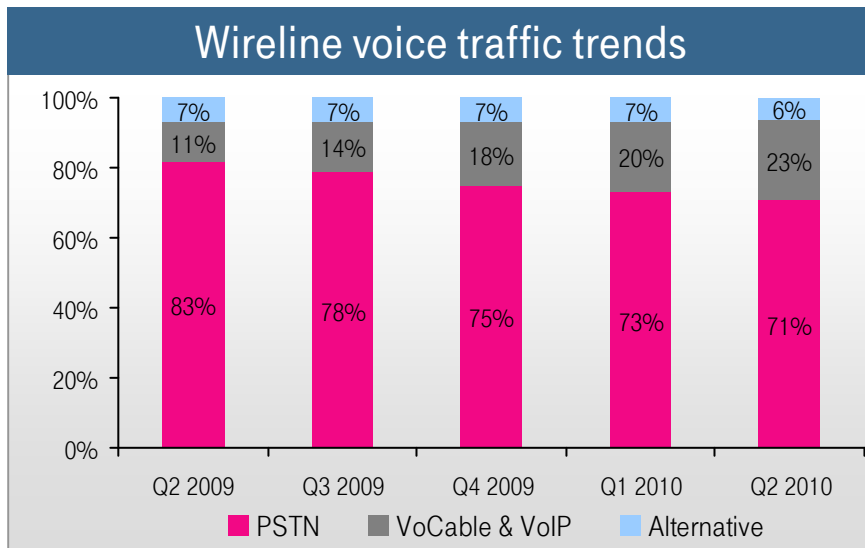


## Rationale:

- improved effectiveness in responding to rapidly changing market and economic conditions
- enhanced cooperation between marketing, sales and technology areas
- streamlining of the Finance function through the integration of finance areas of the Business Units to capitalize on rationalization and cost saving opportunities
- new areas:
  - Marketing: all mass market product management, communications, market research and branding
  - Sales & Service: sales, customer service, provisioning and logistics for customer premise equipment
  - Legal & Corporate Affairs: legal and regulatory, public affairs, internal audit, compliance, security



# Hungarian market – infrastructure based-competition



## Competing infrastructures

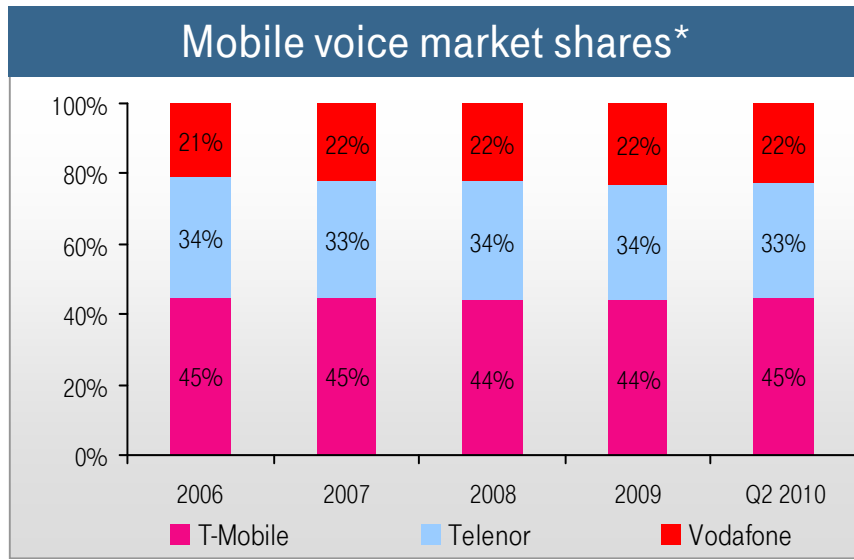
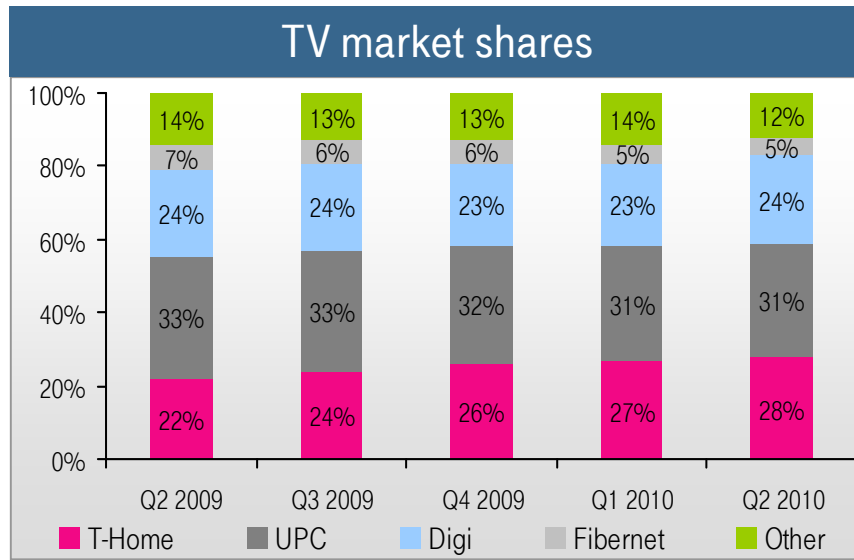
- **Copper network:** LTO structure, 80% of households served by Magyar Telekom
- **Cable network:** over 70% household coverage, most upgraded to high-speed broadband service
- **Mobile network:** three quality networks with UMTS capability
- **Fiber rollout:** not just LTOs but other start-up/cable companies also rolling out fiber networks

Strong infrastructure based competition with triple play services offered on copper, fiber, cable and mobile networks

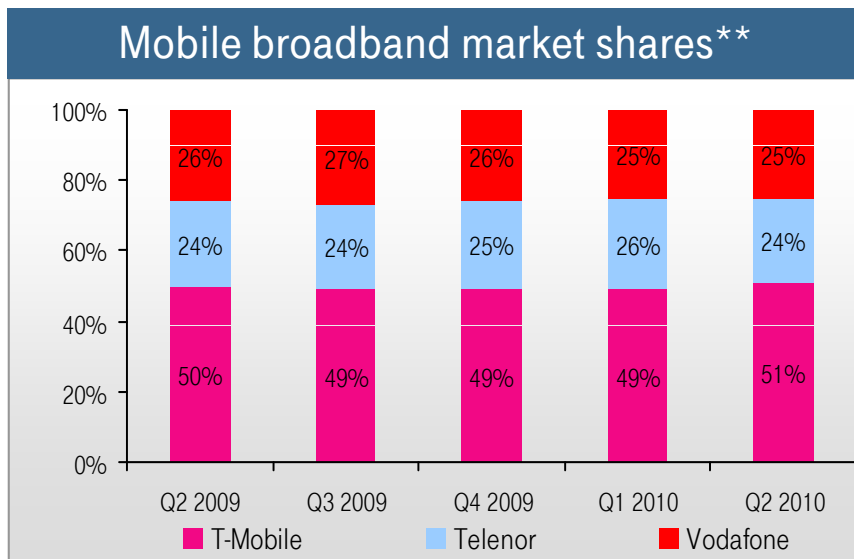
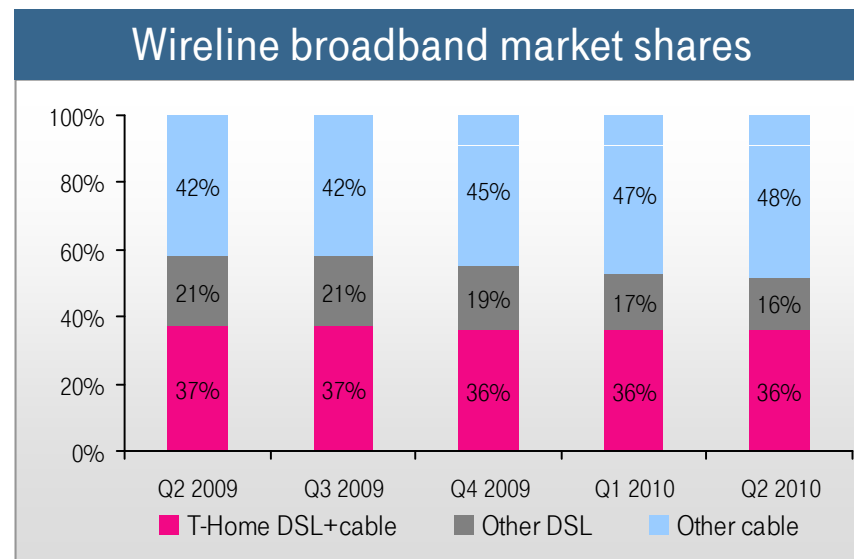
Source: NRA



# Strong positions in all segments of the Hungarian market



\*based on active SIM cards

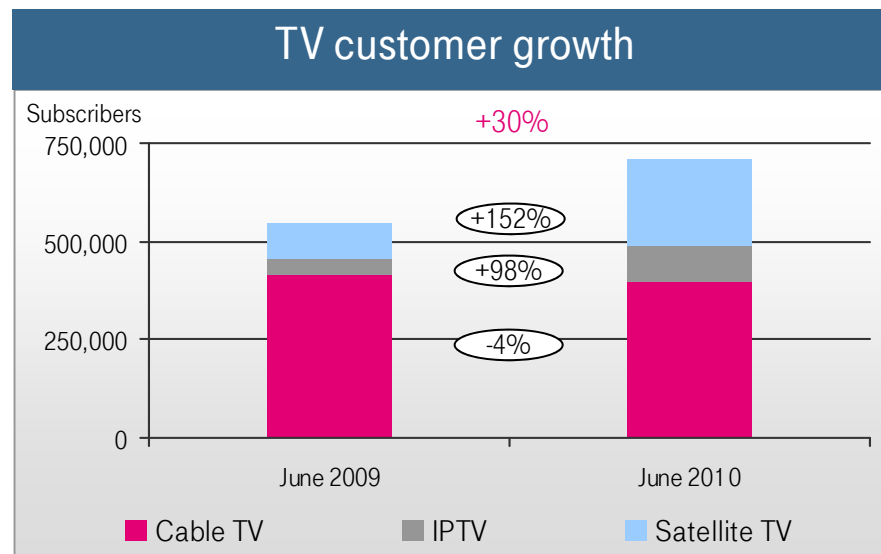
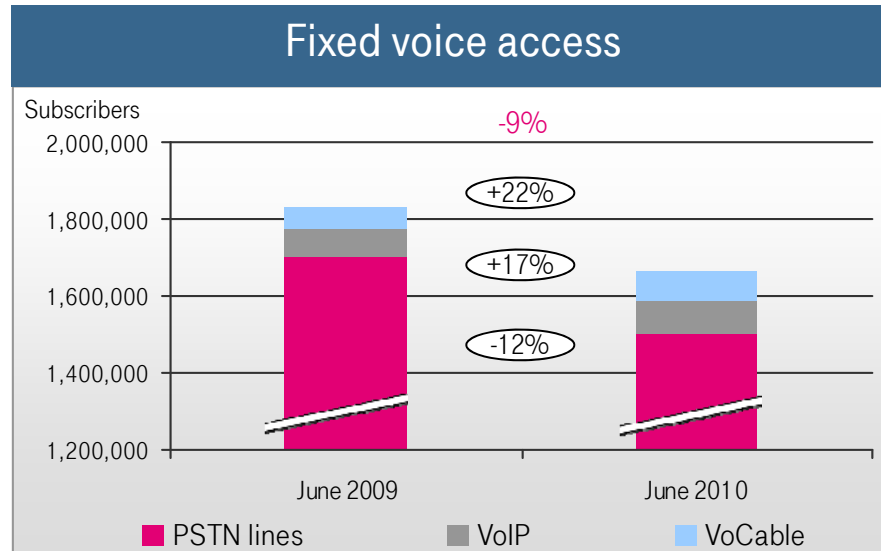


\*\*based on traffic generating subs.

Source: NRA



# 3Play as growth engine & retention tool in the residential segment



Strong focus on triple play on all networks (fixed line, cable and mobile)



- new packages include more favorable VoIP solutions
- triple play offers start from HUF 5,340/month (~EUR 19)
- ratio of xPlay customers ~38%
- launch of quadruple play packages including mobile voice services as well

## T-Home Sat TV launch

- service launched in November 2008
- number of customers over 220,000
- retention benefit: more than two-thirds of satellite TV customers subscribe to a 2Play or 3Play package

## New generation network rollout

- 5-year plan to cover ~30% or 1.2mn of Hungarian households with bandwidth of up to 100 Mbps
- household coverage by end H1 2010: 215,000 fiber and 565,000 Docsis 3.0
- household coverage plan by end-2010: 220,000 fiber and 600,000 Docsis 3.0
- total investment requirement of HUF 40 billion (of which HUF 8 billion spent in 2009 and HUF 5 billion planned for 2010)



# Regulatory snapshot

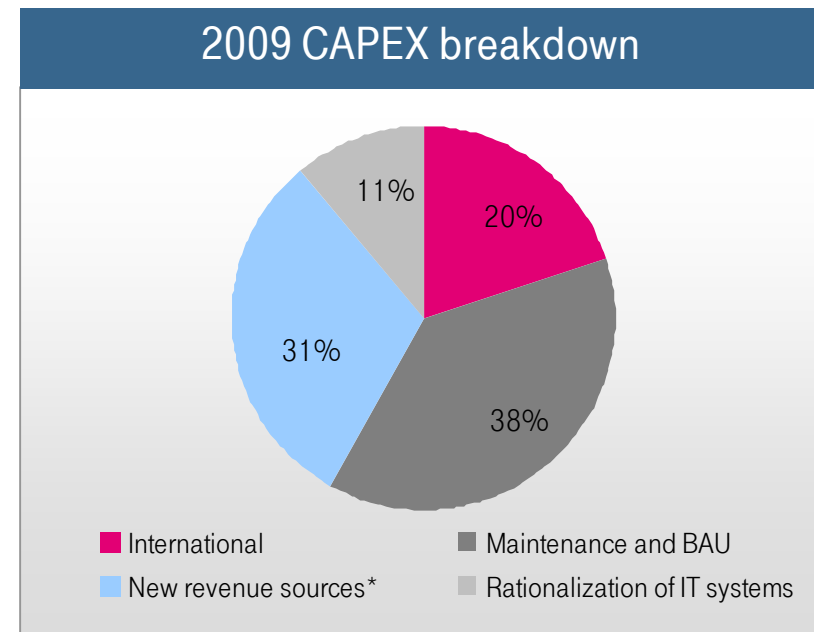
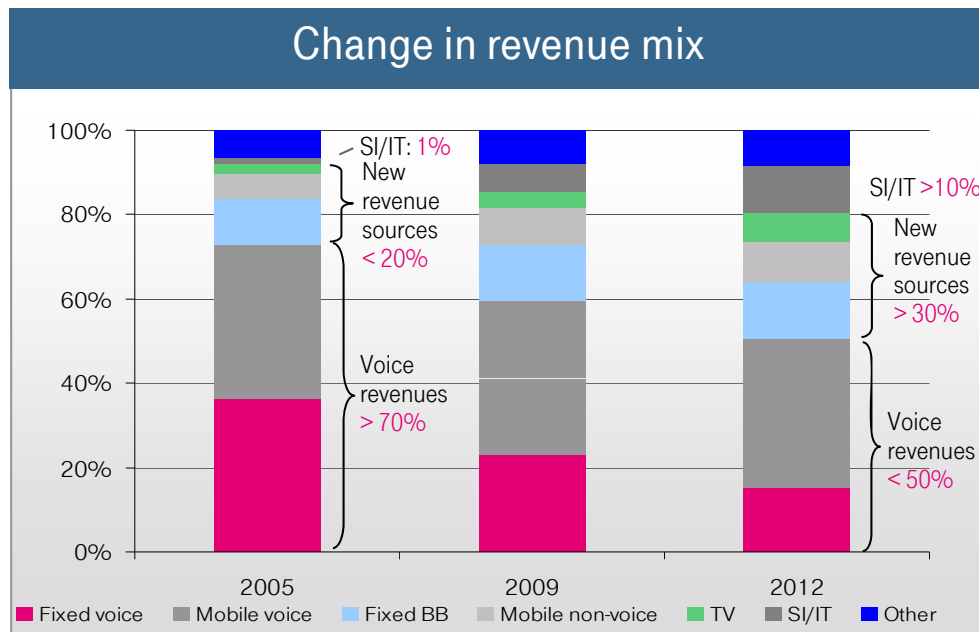
Regulation in line with EU recommendations in all three countries

- Hungary: fully in line with the EU Regulatory Framework
- Macedonia: liberalization of fixed line market in progress, regulated mobile termination rates
- Montenegro: new telecommunication law adopted in 2008 – full liberalization expected in 2010

	Hungary	Macedonia	Montenegro
Reference interconnection offer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reference unbundling offer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Wholesale line rental	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Bitstream access	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Number portability (fixed and mobile)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Regulated mobile termination rates	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
EU mobile voice roaming regulation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>



# Magyar Telekom's major challenges



\*DVB-S, NGA, mobile BB, ICT, other

## Dynamic change in revenue mix

- continued decline of voice revenues
- pronounced growth in revenues from non-traditional services such as SI/IT and TV services

## New revenue sources have lower EBITDA margin

- pressure on profitability eased by efficiency improvement measures

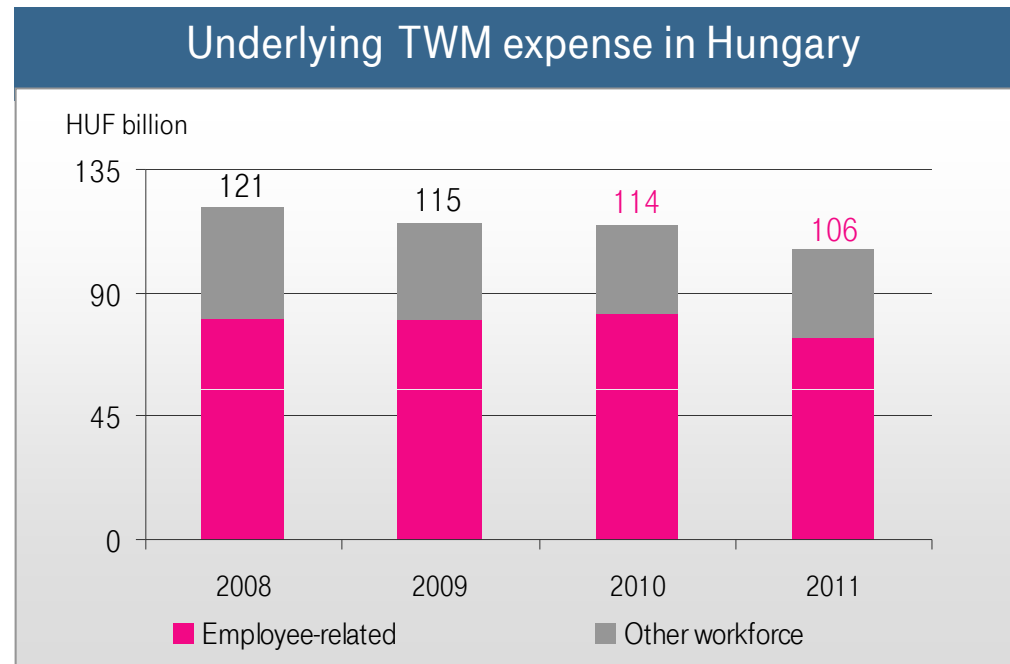
## Focus on CAPEX rationalization

- infrastructure based competition necessitates focus on network investments
- 2009 Capex spending on new revenue sources:
  - DVB-S: HUF 11.5bn
  - NGA: HUF 8.8bn
  - 3G: HUF 6.2bn
  - ICT: HUF 1.9bn
  - Other: HUF 2.4bn
- ~50% of Capex is FX denominated





# Changing trends require continued efficiency improvements



## Headcount reduction in 2010

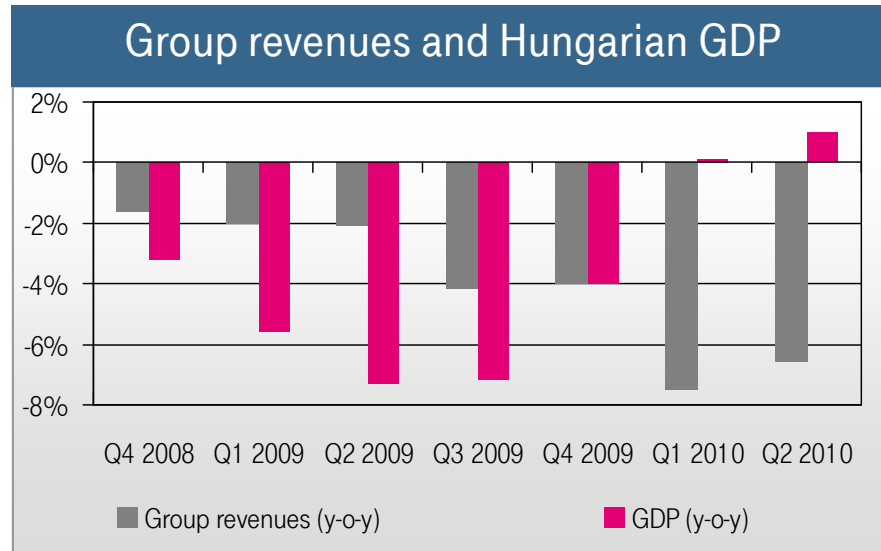
- 400+ employee redundancies at the parent company in 2010
- goal is to reduce underlying TWM-related expenses by 5% (HUF 6.5bn) by 2010 compared to 2008 level despite wage increases
- 1.5% bonus budget was replaced by share allocation program
  - ~858,000 treasury shares will be distributed among the best performing employees
  - ~HUF 800 million FCF improvement in 2010

## Headcount reduction in 2011

- 300+ employee redundancies at the parent company in 2011
- goal is to reduce underlying TWM-related expenses by 8% (HUF 9.5bn) by 2011 compared to 2009 despite wage increases
- severance-related expenses of HUF 3.5bn (majority will be accounted in Q4 2010)
- 4% wage increase for parent company employees from July 2011, but only 2% for higher paid employees typically in managerial positions
- wage increase to be financed either from EBITDA overachievement or decrease in regular bonus payments



# Economic environment continues to affect Magyar Telekom

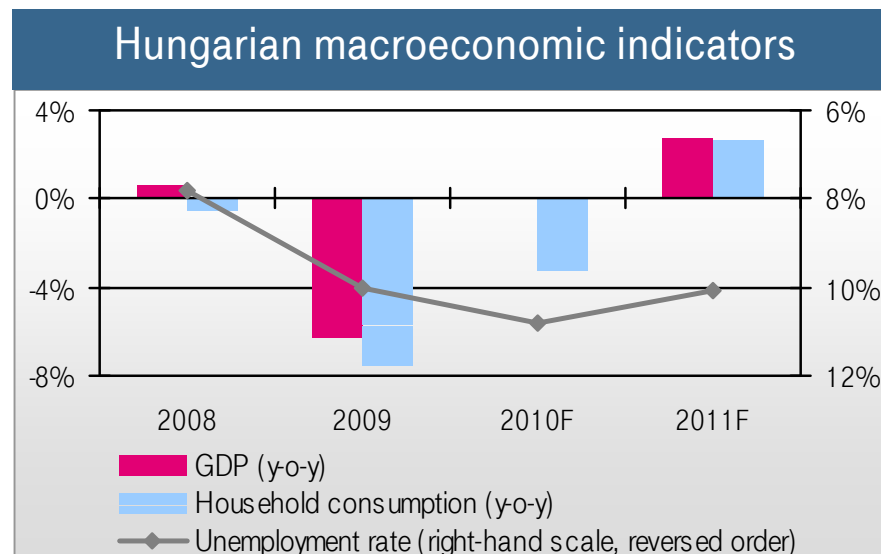


Economic indicators influence telecommunication spending in different ways

- in 2009 all components of economic activity suffered a meaningful decline in Hungary
- telecommunication spending lags GDP trend
- demand for telecommunication services is more closely correlated with trends in employment, disposable income and household consumption

Economic recession is putting significant pressure on business performance

- customers across all sectors are heavily rationalizing their telecommunication spending
- churn rates have increased and usage has decreased, both in residential and business segment
- bad-debt ratio increased to 1.7% by end-June 2010 (from 1.0% at end-June 2009)



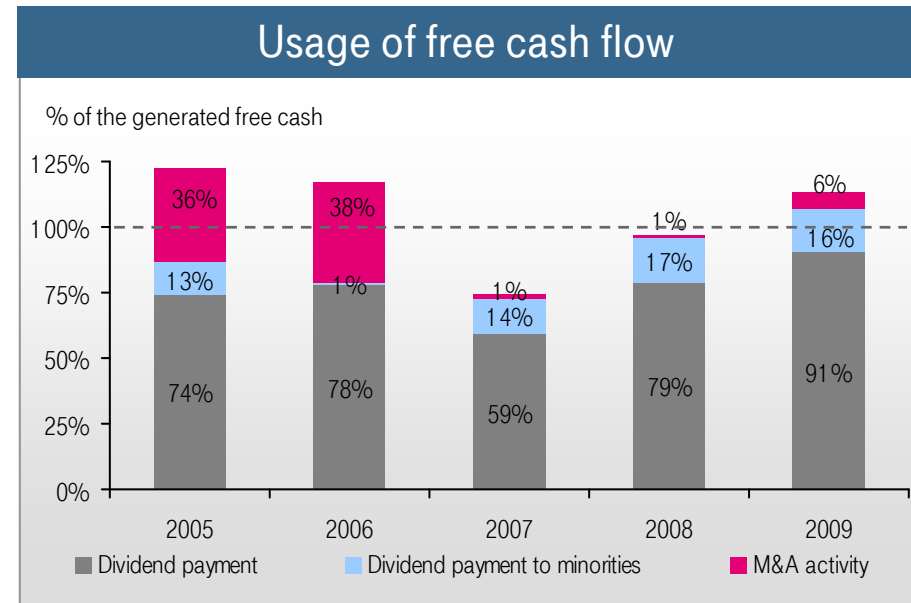
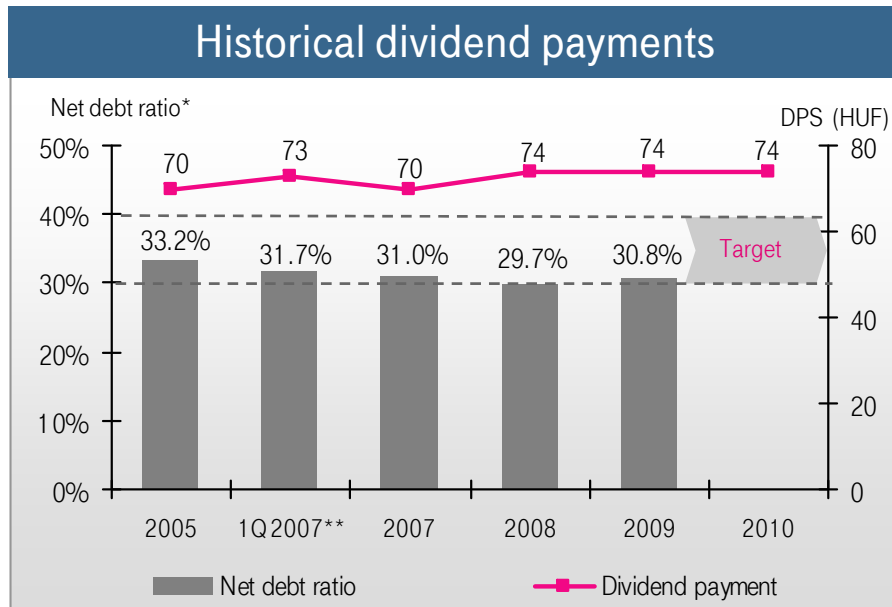
Source: European Commission May-2010 forecasts

Continued pressure on telecommunication spending expected in H2 2010

- despite stabilizing GDP, other lagging indicators set to remain weak in 2010
- unemployment to remain high in H2 2010
- contained wage and disposable income development
- continued relatively tight credit conditions



# Dividend policy



Net debt ratio was 34.1% at the end of June 2010

Dividend policy driven by targeted balance sheet structure

- keep net debt ratio within 30-40% range
- maintain a flexible balance sheet in case value-creating acquisition opportunities arise

Dividend yield of 11%\*\*\*

\* net debt / (net debt + total equity)

\*\* 2006 dividend payment (for 2005 financials) was delayed to January 2007

\*\*\* yield calculation is based on the share price of HUF 695 (February 26, 2010)

Free cash flow of HUF 53.4bn in H1 2010

Two acquisitions signed in 2010

- Modultechnika - regional cable company
  - purchase price approx. HUF 1.5bn
  - closing in Q3 2010
- DK Group - IT applications company
  - purchase price of max HUF 1.4bn
  - closing is subject to Competition Office approval

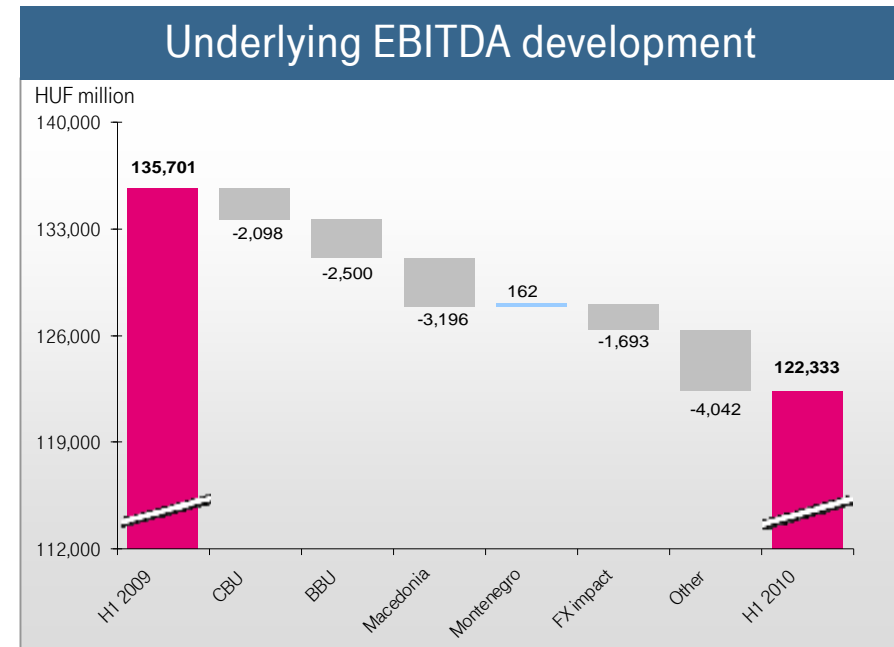
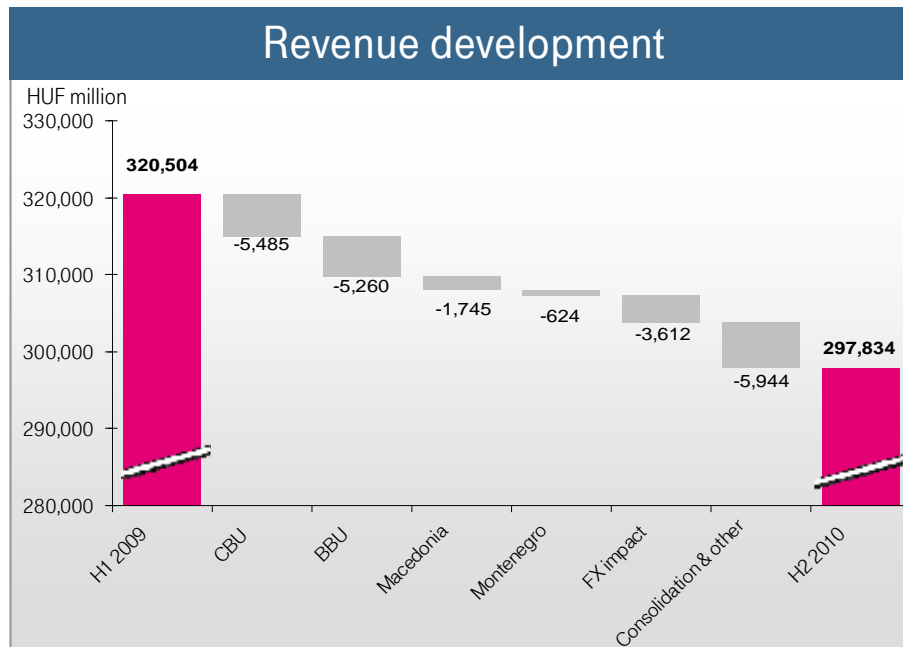


# Public targets for 2010 revised

	revised 2010 public targets	2010 H1 results
<p>Revenue</p>	<p>6-8% decline (prev. 5-7% )</p> <ul style="list-style-type: none"> <li>decreasing consumer spending</li> <li>rationalization in the business sector</li> <li>stronger forint compared to average 2009 FX rates</li> <li>potential negative impact on revenues from governmental cost saving measures</li> </ul>	<p>7.1% decline</p> <ul style="list-style-type: none"> <li>continued recessionary impacts</li> <li>intense competition</li> <li>saturated core markets</li> <li>significant forint strengthening</li> </ul>
<p>Underlying* EBITDA</p> <p><i>*Excluding special influences</i></p>	<p>7-9% decline (prev. 5-7%)</p> <ul style="list-style-type: none"> <li>intense competition and adverse economic environment negatively impacting margins</li> <li>margin pressure due to higher portion of SI/IT revenues</li> <li>potential negative impact on EBITDA from governmental cost saving measures</li> </ul>	<p>9.9% decline</p> <ul style="list-style-type: none"> <li>cost cutting initiatives could not fully offset the negative trends in high margin voice revenues</li> <li>significant forint strengthening</li> </ul>
<p>Capex</p>	<p>10% decline (prev. 5%)</p> <ul style="list-style-type: none"> <li>focus on free cash flow and cost discipline</li> <li>higher portion of less Capex intensive SI/IT revenues</li> </ul>	<p>26% decrease</p> <ul style="list-style-type: none"> <li>expected to increase during H2 2010 resulting in annual decline of 10%</li> </ul>



# H1 2010 results – Business Unit analysis



7.1% revenue decline driven by economic recession, competition and regulation

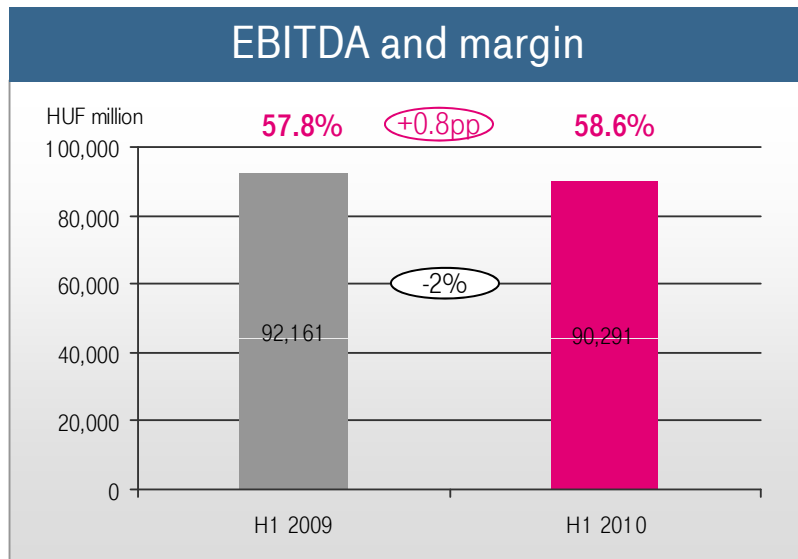
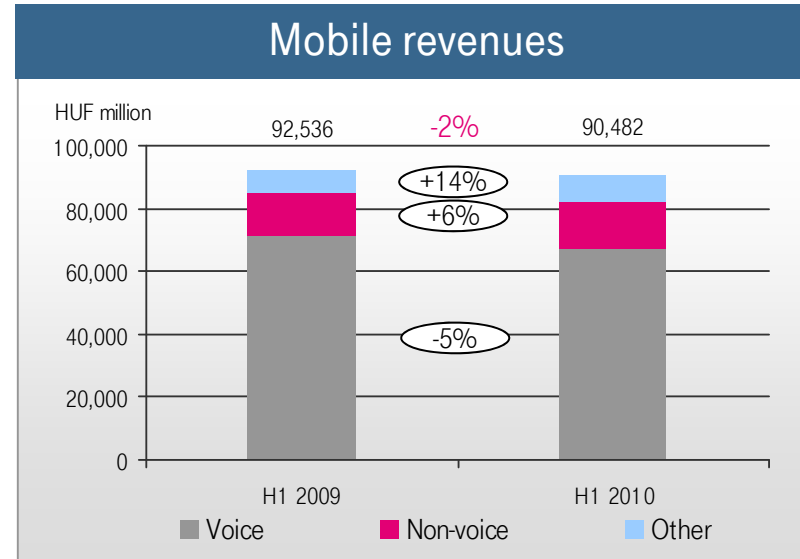
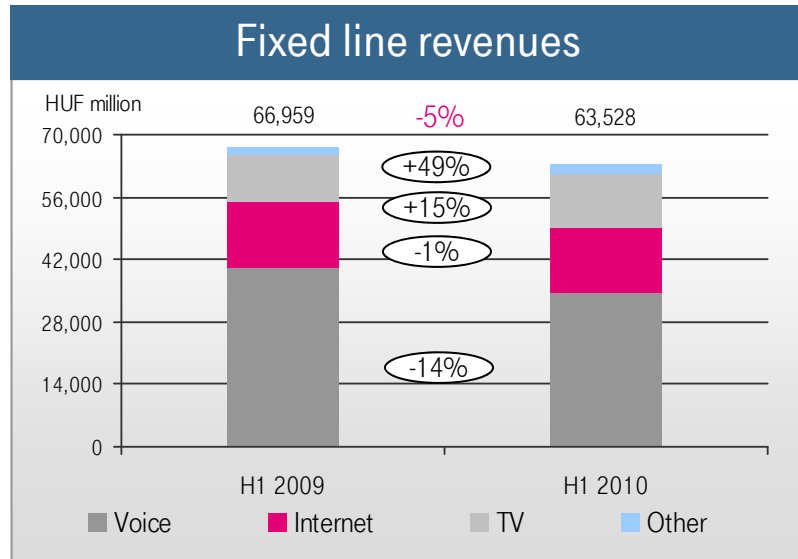
- CBU revenues declined primarily due to continuing intense competition and depressed household consumption
- BBU revenues down driven by decline in both private and public sector spending and lower SI/IT revenues
- international revenues were negatively impacted by unfavorable FX translation impact

9.9% underlying EBITDA decline driven by changing revenue mix and economic recession

- business unit results under pressure due to further erosion of high-margin voice revenues
- cost cutting measures to mitigate margin pressure
- Q2 2009 EBITDA helped by a one-time gain realized on the sale of IKO-Telekom Media Holding (HUF 1.4bn)
- negative FX impact on result of international subsidiaries



# Consumer Services Business Unit (CBU) - Financials



Revenue decline principally driven by economic recession

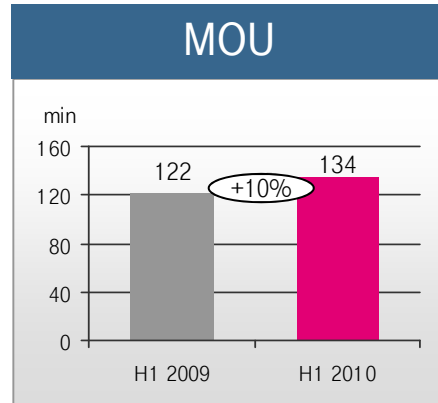
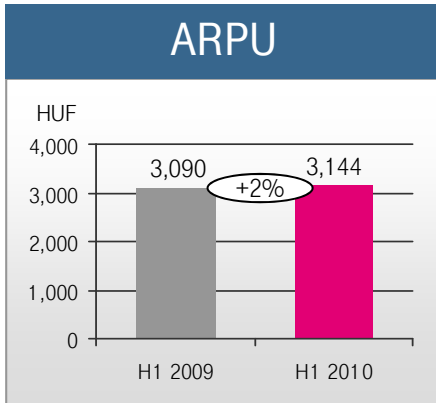
- depressed consumer spending and intense competition remain the most significant negative drivers
- voice migration towards IP-based solutions
- Internet revenues down due to price reductions
- regulatory impacts on mobile revenues (cut in mobile termination rates and roaming tariffs)

Improvement in EBITDA margin

- strong cost reductions counterbalanced the negative revenue trend



# CBU – mobile operations



## Mobile voice market remains under pressure

- customers are cost sensitive
- churn levels are declining but still above pre-crisis levels
- in Q2 2010 customer numbers continued to increase moderately while penetration remained constant at 119%
- ARPU stabilized on the back of higher usage

## Tariff erosion

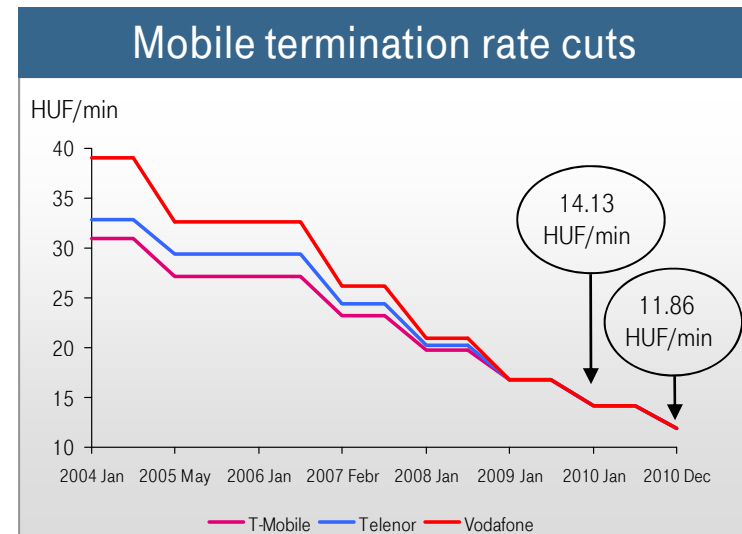
- average voice revenue per minute decline of 10%
- more conscious package selection
- wide use of closed-user-group services
- annual cuts in mobile termination rates
- EU-regulated roaming tariffs

## Mobile internet development

- leading market position with 51% market share
- number of subscribers exceeded 500,000 at the end of H1 2010
- 3G/HSDPA network covering ~75% of population

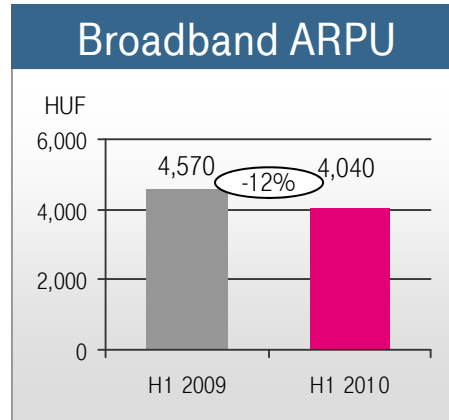
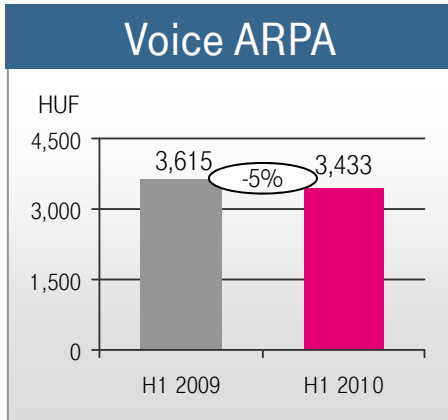
## Mobile termination rate regulation

- asymmetry eliminated from beginning of 2009
- further 16% cuts in Jan-2010 and Dec-2010
- current rates are 14 HUF/min (EUR 0.05)

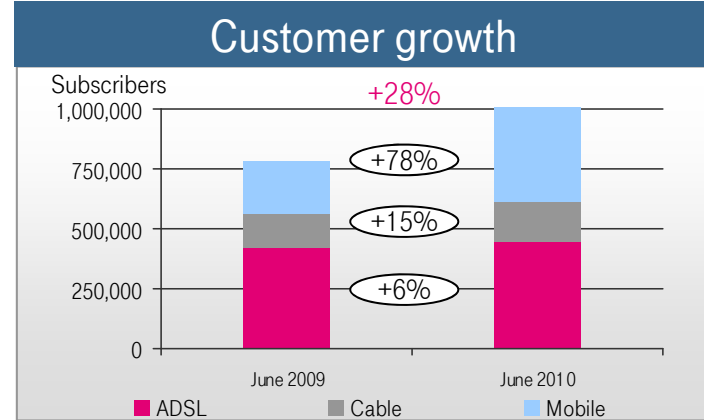


# CBU KPIs

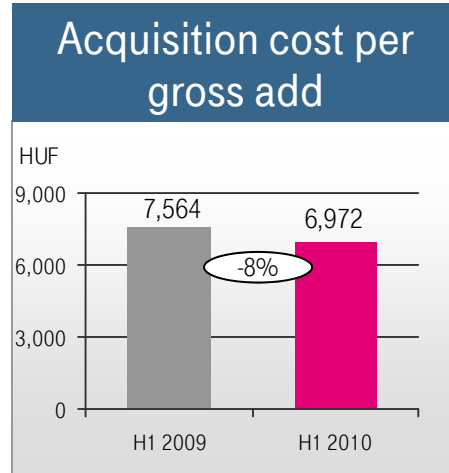
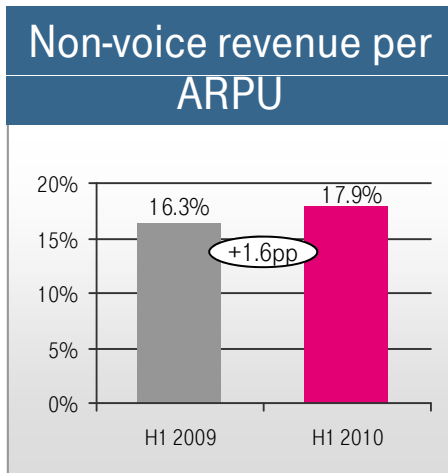
## Fixed



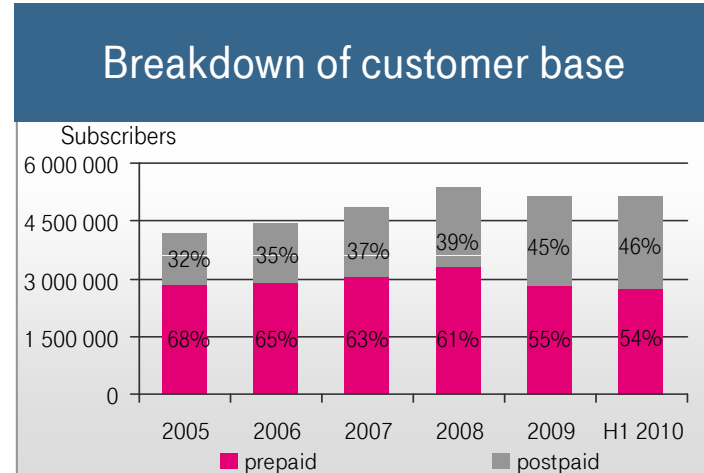
## Fixed & mobile broadband



## Mobile

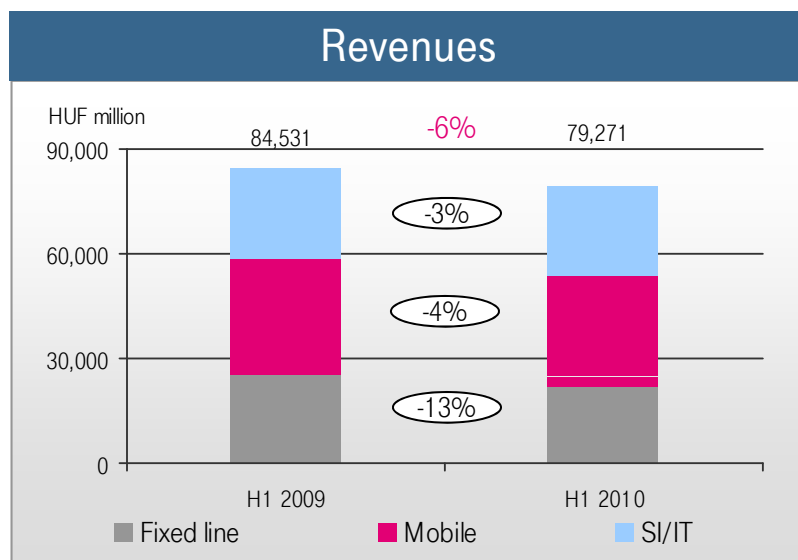


## T-Mobile Hungary





# Business Services Business Unit (BBU) - Financials

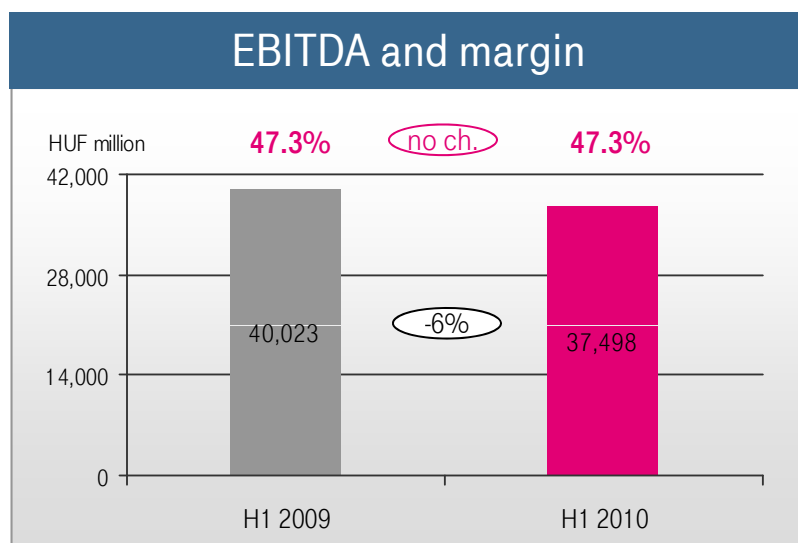


## Falling voice and data revenues

- rationalization and cost cutting initiatives at our key corporate clients resulting in reduction in telecom spending
- strong pressure on clients to renegotiate contract terms
- high churn among fixed voice, data and Internet customers
- continued pressure on mobile tariffs resulting in lower ARPU level

## SI/IT revenue decline

- leading market position maintained
- project driven business, fluctuations in quarterly revenues
- private and public sector projects delayed/cancelled due to cost restrictions

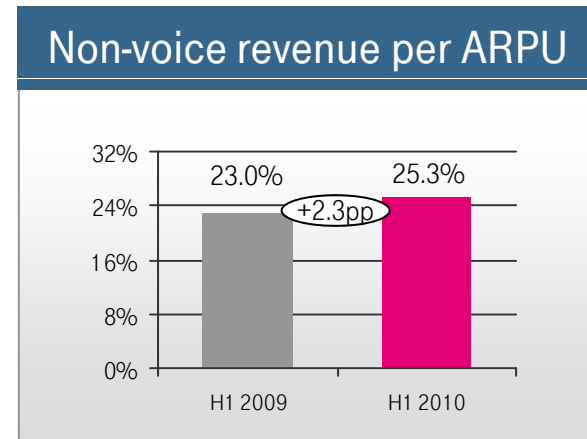
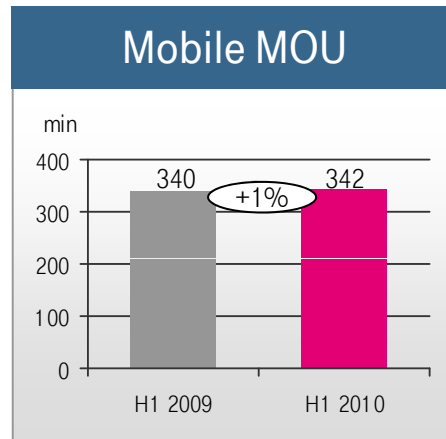
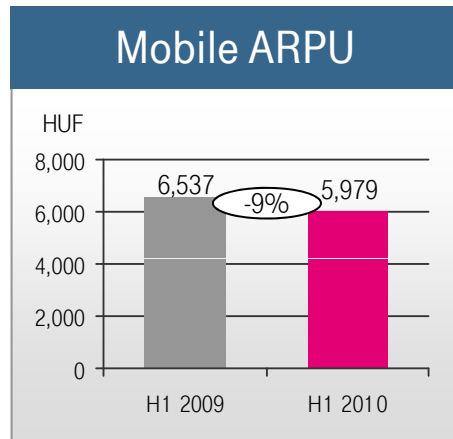
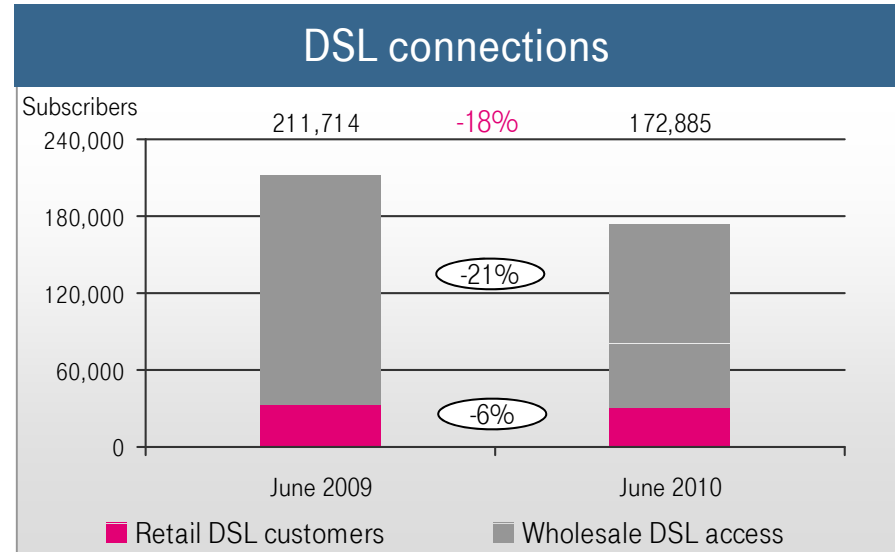
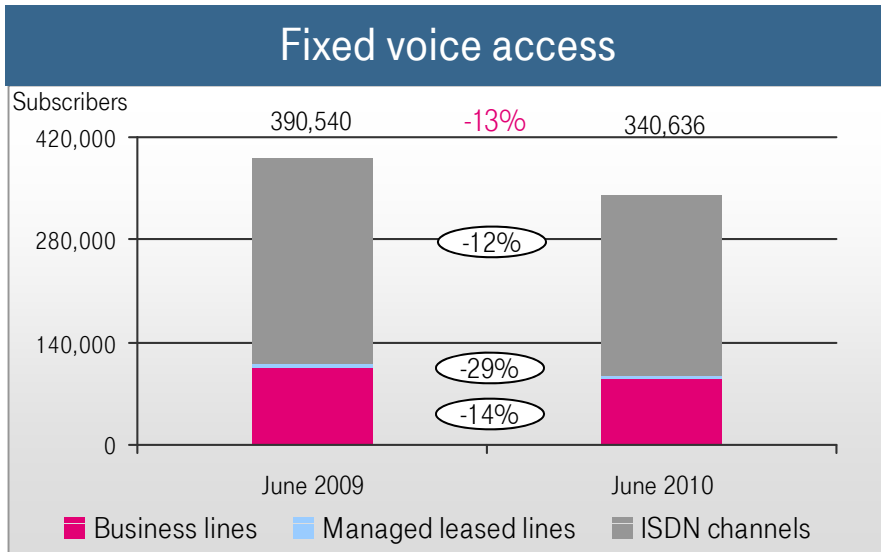


## Change in revenue mix puts pressure on EBITDA margin

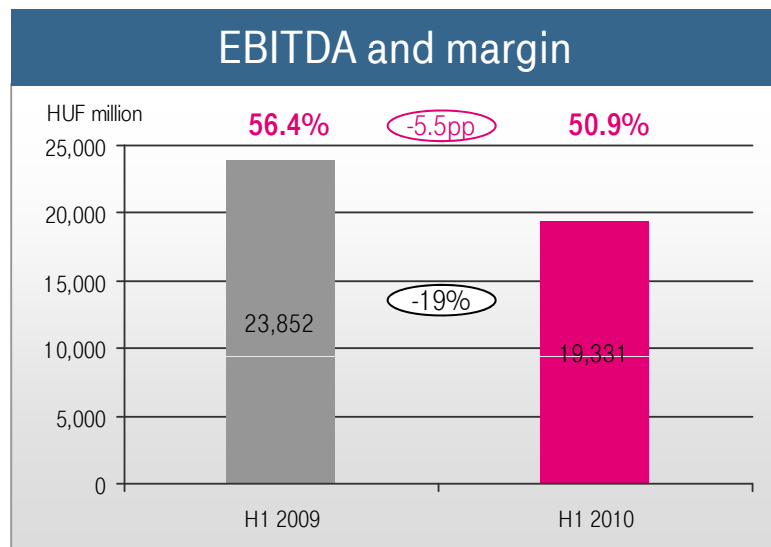
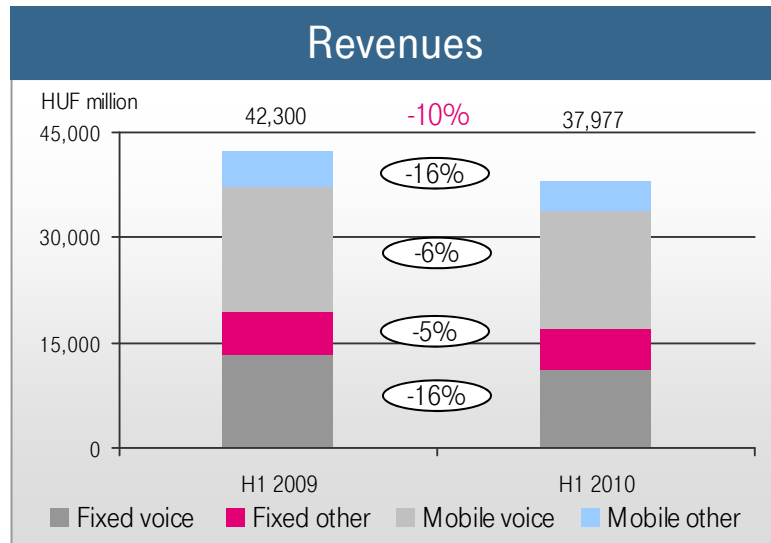
- ratio of lower-margin SI/IT revenues is continuously increasing, while high-margin voice revenues are declining
- however, due to their lower Capex-intensity SI/IT services have similar return characteristics
- despite structural pressures H1 2010 EBITDA margin was kept flat reflecting the results of the cost cutting initiatives



# BBU KPIs



# Macedonia - Financials



## Results negatively impacted by FX trend

- HUF strengthened on average by 6.4% to the Macedonian Denar in H1 2010
- excluding FX impact revenues were down by 4% and EBITDA was down by 14%

## Declining fixed line revenues

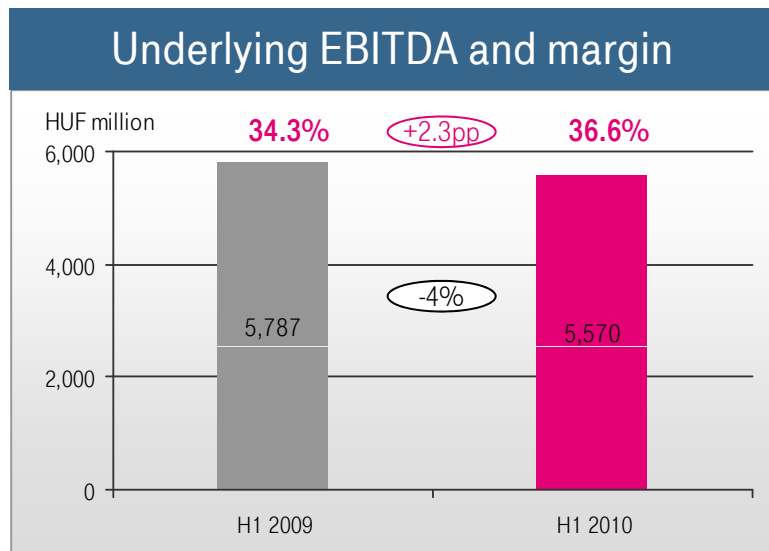
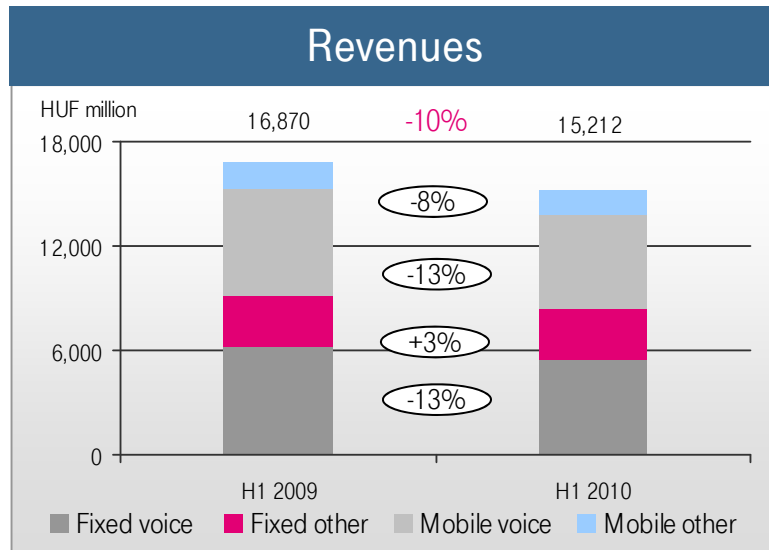
- decreasing fixed voice revenues due to competition from altnets and cable companies and strong mobile substitution
- churn remained relatively high and outgoing traffic volumes declined further
- higher wholesale voice revenues driven by higher incoming traffic and higher prices for international traffic termination
- increasing demand for 2Play/3Play packages
- positive contribution from revenues related to broadband and TV services

## Mobile competition intensified further

- lower number of subscribers and competition-driven tariff reductions
- postpaid share within RPC up 3.0ppt YTD to 31.9%
- MOU at 129 in H1 2010 (up by 18% YTD)
- ARPU of HUF 2,597 in H1 2010 (~EUR 9)



# Montenegro - Financials



## Results negatively impacted by FX trend

- HUF strengthened on average by 6.4% to the Euro in H1 2010
- excluding FX impact, revenues were down by 4% but underlying EBITDA increased by 3%
- HUF 0.9bn special influences due to headcount-reduction related severance expenses in Q1 2010
- reversal of previously recognized mobile revenues of EUR 0.8mn and provision of EUR 0.4mn in connection with mobile fill-up voucher misappropriation

## Fixed voice revenues under pressure

- deterioration in retail voice revenues driven by high mobile substitution
- lower international incoming traffic volume affecting wholesale voice revenues
- growing internet and TV revenues thanks to strong increases in the number of ADSL and IPTV customers

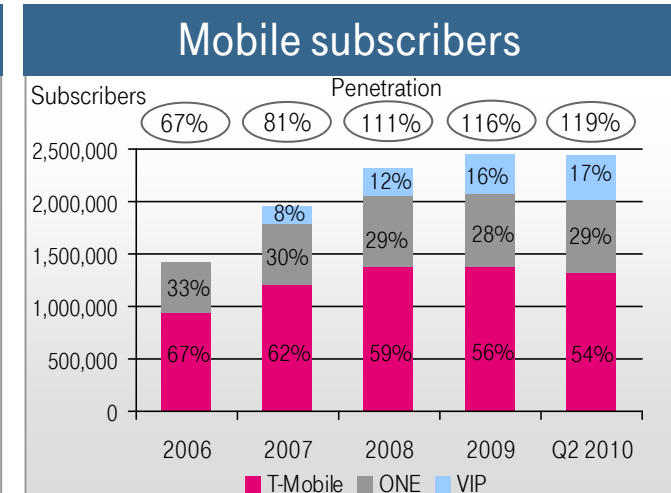
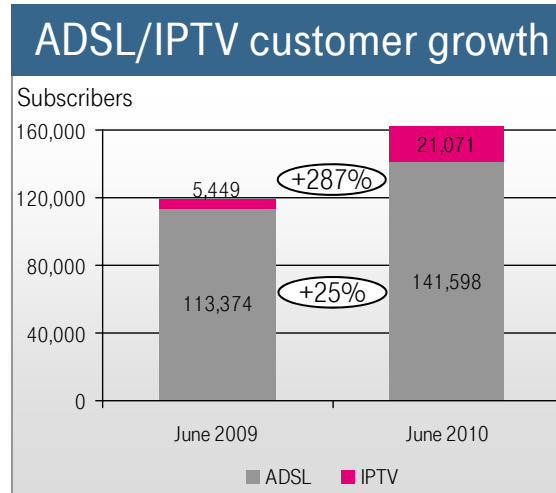
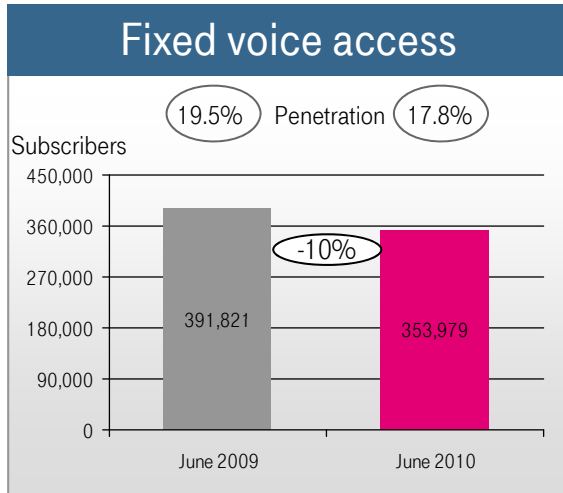
## Mobile revenue erosion driven by strong competition

- intense competition resulting in lower tariff levels
- focus on the postpaid segment
- MOU at 104 in H1 2010 (up by 18% YTD)
- ARPU of HUF 2,215 in H1 2010 (~EUR 8)

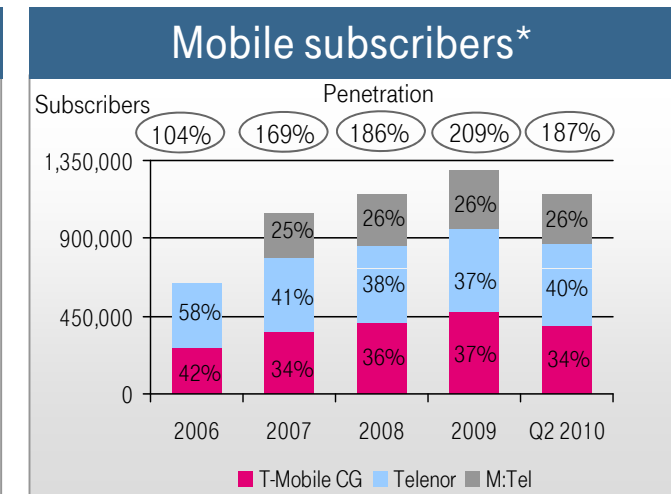
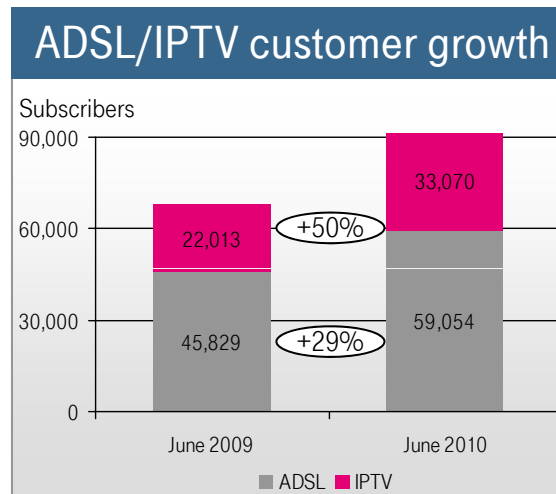
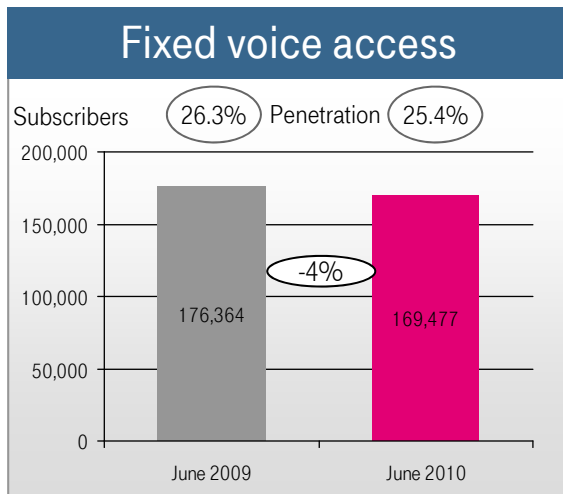


# International KPIs

## Macedonia



# Montenegro



\*Data based on the active SIM cards published by the Montenegrin Telecom Agency



# Magyar Telekom - Consolidated Income Statement

HUF million	Jan-June 2009	Jan-June 2010	Change
Fixed line revenues	139,712	123,969	-11.3%
Mobile revenues	158,872	152,445	-4.0%
System Integration/Information Technology revenues	21,920	21,420	-2.3%
<b>Revenues</b>	<b>320,504</b>	<b>297,834</b>	<b>-7.1%</b>
Total expenses directly related to revenues	(76,263)	(36,668)	-51.9%
Employee-related expenses	(48,242)	(46,400)	-3.8%
Depreciation and amortization	(50,961)	(49,425)	-3.0%
Other operating expenses - net	(64,905)	(58,475)	-9.9%
<b>Total operating expenses</b>	<b>(240,371)</b>	<b>(227,753)</b>	<b>-5.2%</b>
<b>Operating profit</b>	<b>80,133</b>	<b>70,081</b>	<b>-12.5%</b>
Net financial expenses	(15,262)	(14,286)	-6.4%
Share of associates' profits	(141)	(18)	-87.2%
<b>Profit before income tax</b>	<b>64,730</b>	<b>55,777</b>	<b>-13.8%</b>
Income tax	(11,430)	(16,902)	47.9%
<b>Profit for the period</b>	<b>63,523</b>	<b>51,135</b>	<b>-19.5%</b>
Minority interests	11,522	10,146	-11.9%
<b>Equity holders of the Company (Net income)</b>	<b>52,001</b>	<b>40,989</b>	<b>-21.2%</b>



# Magyar Telekom - Consolidated Balance Sheet

HUF million	31 Dec 2009	30 June 2010	Change
<b>Current assets</b>	<b>249,366</b>	<b>234,736</b>	<b>-5.9%</b>
Cash and cash equivalents	34,270	33,679	-1.7%
Other current financial assets	87,611	75,871	-13.4%
<b>Non current assets</b>	<b>917,011</b>	<b>908,988</b>	<b>-0.9%</b>
Property, plant and equipment - net	550,745	549,630	-0.2%
Intangible assets - net	335,615	330,723	-1.5%
<b>Total assets</b>	<b>1,166,377</b>	<b>1,143,724</b>	<b>-1.9%</b>
<b>Equity</b>	<b>605,420</b>	<b>573,735</b>	<b>-5.2%</b>
<b>Current liabilities</b>	<b>238,323</b>	<b>266,210</b>	<b>11.7%</b>
Financial liabilities to related parties	62,898	95,047	51.1%
Other financial liabilities	35,193	48,220	37.0%
<b>Non current liabilities</b>	<b>322,634</b>	<b>303,779</b>	<b>-5.8%</b>
Financial liabilities to related parties	266,998	241,651	-9.5%
Other financial liabilities	26,221	21,682	-17.3%
<b>Total equity and liabilities</b>	<b>1,166,377</b>	<b>1,143,724</b>	<b>-1.9%</b>



# Magyar Telekom - Consolidated Cashflow Statement

HUF million	Jan-June 2009	Jan-June 2010	Change
<b>Net cash generated from operating activities</b>	<b>89,008</b>	<b>92,353</b>	<b>3.8%</b>
Investments in tangible and intangible assets	(49,194)	(36,176)	-26.5%
Adjustments to cash purchases	(10,226)	(3,797)	-62.9%
Purchase of subsidiaries and business units	(300)	(96)	-68.0%
Cash acquired through business combinations	0	0	-
Proceeds from / (Payments for) other financial assets - net	(874)	17,120	-
Proceeds from disposal of subsidiaries	0	780	-
Proceeds from disposal of PPE and intangible assets	707	361	-48.9%
<b>Net cash used in investing activities</b>	<b>(59,887)</b>	<b>(21,808)</b>	<b>-63.6%</b>
Dividends paid to shareholders and minority interest	(90,419)	(77,031)	-14.8%
Net payments of loans and other borrowings	45,497	5,028	-88.9%
Other	0	0	-
<b>Net cash used in financing activities</b>	<b>(44,922)</b>	<b>(72,003)</b>	<b>60.3%</b>





Abbreviations:

3G: third generation, ARPU: average revenue per user, BB: broadband, CBC: call-by-call, CPS: carrier pre-selection, HQ: headquarters, HSDPA: high-speed downlink packet access, IC: interconnection, IP: internet protocol, IT: information technology, LTO: local telecommunication operator, MOU: minutes of use, NGN: next generation network, NRA: National Regulatory Authority, POP: point of presence, RIO: reference interconnection offer, RPC: revenue producing customer, SI: system integration, SIM: subscriber identity module, SMP: significant market power, Special influences: investigation- and headcount reduction-related expenses, Tetra: Terrestrial Trunked Radio, TWM: Total Workforce Management, UMTS: Universal Mobile Telecommunication System, VAS: value added services, VoCaTV: Voice over Cable TV, WiMax: Worldwide Interoperability for Microwave Access, WS: wholesale HUF/EUR exchange rate: 271.3 (average H1 2010)

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

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

For further information about the internal and governmental investigations, please refer to the Company's quarterly reports for the first, second and third quarters of 2009 and the first quarter of 2010 furnished under cover of Form 6-K and the Company's annual report on Form 20-F for the year ended December 31, 2009.

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 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. These governmental investigations are continuing, and the Company continues to cooperate with those investigations.

The Company, through its external legal counsel, has recently 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 June 30, 2010 with respect to the investigations.

Magyar Telekom incurred HUF 1.4 bn expenses relating to the investigations in the first half of 2010, which are included in other operating expenses of Group Headquarters.

Magyar Telekom recently became aware of misstatements at T-Mobile Macedonia relating to the recognition of certain deferred (prepaid) revenues for the first and second quarters of 2010, the years ended December 31, 2007, 2008 and 2009, and periods prior to 2007. Based on the results of the internal review to date, in light of the known amount of the misstatements and the lack of any indication that senior Magyar Telekom executives directed or knew of the misstatements, the Company has reached the conclusion that the misstatements were immaterial to the Company's previously reported consolidated financial statements and are immaterial to the Company's current consolidated financial statements and to its prior assessment that internal controls over financial reporting were effective. The Company has adjusted the remaining balance sheet misstatement in the current period.

The Company has extended its internal review to other accounts in relation to T-Mobile Macedonia. The Company has informed its Audit Committee, its independent external auditor, the DOJ and the SEC of the commencement of the internal review relating to T-Mobile Macedonia. We cannot predict when the internal review will be concluded, what the final outcome of the review will be, or the further impact, if any, the review may have on our previously issued or future financial statements or results of operations and on our prior assessment that internal controls over financial reporting were effective.



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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](http://www.telekom.hu/investor_relations).

