



Magyar Telekom

Interim financial report

**Analysis of the Financial Statements for the first quarter
ended March 31, 2012**

TABLE OF CONTENTS

1.	Highlights.....	3
2.	Operating and financial review – Group	5
2.1.	Exchange rate information	5
2.2.	Revenues	5
2.3.	Operating Expenses	6
2.4.	Operating Profit	7
2.5.	Net financial result	7
2.6.	Income tax	7
2.7.	Profit attributable to non-controlling interests.....	7
2.8.	Cash flow	7
3.	Segment information	8
3.1.	Telekom Hungary.....	8
3.2.	T-Systems Hungary.....	11
3.3.	Macedonia.....	12
3.4.	Montenegro.....	14
3.5.	Description of segments.....	15
4.	About Magyar Telekom.....	16
5.	Basis of preparation of the interim financial report.....	17
6.	Accounting policies	17
6.1.	Outlook.....	17
6.1.1	Revenues.....	17
6.1.2	Expenses	18
6.1.3	Total investments in tangible and intangible assets.....	18
6.2.	Risk factors.....	18
7.	Analysis of the Balance Sheet.....	19
7.1.	Property, plant and equipment.....	19
7.2.	Cash and cash equivalents	19
8.	Off-balance sheet items.....	19
8.1.	Contingent liabilities	19
8.1.1	Macedonia.....	19
8.1.2	Montenegro.....	20
8.2.	Commitments.....	20
9.	Other matters	20
9.1.	Investigations into certain consultancy contracts	20
9.2.	Lawsuit by minority shareholders - Annual General Meeting, April 2010	20
10.	Significant events between the end of the quarter and the publishing of the “Preliminary financial report”	21
11.	Declaration	21
12.	Key financial data	22



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Revenue growth driven by energy resale in Hungary; EBITDA margin under pressure

Budapest – May 10, 2012 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first quarter of 2012, in accordance with International Financial Reporting Standards (IFRS).

1. Highlights

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except per share amounts and margins)	2011 Q1 (Unaudited)	2012 Q1 (Unaudited)	% change	2011 YTD (Unaudited)	2012 YTD (Unaudited)	% change
Mobile revenues	72,449	72,614	0.2%	72,449	72,614	0.2%
Fixed line revenues	58,431	56,421	(3.4%)	58,431	56,421	(3.4%)
System Integration/Information Technology revenues	10,945	11,656	6.5%	10,945	11,656	6.5%
Revenue from Energy Services	682	5,957	n.m.	682	5,957	n.m.
Total revenues.....	142,507	146,648	2.9%	142,507	146,648	2.9%
Direct costs ⁽¹⁾	(37,175)	(43,006)	(15.7%)	(37,175)	(43,006)	(15.7%)
Employee-related expenses	(22,177)	(21,218)	4.3%	(22,177)	(21,218)	4.3%
Depreciation and amortization.....	(23,994)	(25,312)	(5.5%)	(23,994)	(25,312)	(5.5%)
Other operating expenses ⁽¹⁾	(32,036)	(31,647)	1.2%	(32,036)	(31,647)	1.2%
Total operating expenses	(115,382)	(121,183)	(5.0%)	(115,382)	(121,183)	(5.0%)
Other operating income.....	2,127	799	(62.4%)	2,127	799	(62.4%)
Operating profit.....	29,252	26,264	(10.2%)	29,252	26,264	(10.2%)
Net financial result	(8,440)	(7,600)	10.0%	(8,440)	(7,600)	10.0%
Share of associates' and joint ventures' losses.....	(1)	0	100.0%	(1)	0	100.0%
Profit before income tax.....	20,811	18,664	(10.3%)	20,811	18,664	(10.3%)
Income tax.....	(2,944)	(3,724)	(26.5%)	(2,944)	(3,724)	(26.5%)
Profit for the period	17,867	14,940	(16.4%)	17,867	14,940	(16.4%)
Profit attributable to:						
Owners of the parent	15,167	13,018	(14.2%)	15,167	13,018	(14.2%)
Non-controlling interests.....	2,700	1,922	(28.8%)	2,700	1,922	(28.8%)
	17,867	14,940	(16.4%)	17,867	14,940	(16.4%)
EBITDA.....	53,246	51,576	(3.1%)	53,246	51,576	(3.1%)
EBITDA margin.....	37.4%	35.2%	n.a.	37.4%	35.2%	n.a.
Special Influences (SI).....	8,238	6,550	(20.5%)	8,238	6,550	(20.5%)
Underlying EBITDA.....	61,484	58,126	(5.5%)	61,484	58,126	(5.5%)
Underlying EBITDA margin.....	43.1%	39.6%	n.a.	43.1%	39.6%	n.a.
Basic and diluted earnings per share (HUF)	14.55	12.49	(14.2%)	14.55	12.49	(14.2%)
CAPEX to Sales	8.6%	16.3%	n.a.	8.6%	16.3%	n.a.
ROA	5.5%	1.2%	n.a.	5.5%	1.2%	n.a.
ROE.....	11.3%	2.7%	n.a.	11.3%	2.7%	n.a.
Net debt	270,451	283,624	4.9%	270,451	283,624	4.9%
Net debt / total capital.....	31.0%	33.6%	n.a.	31.0%	33.6%	n.a.

⁽¹⁾ From January 1, 2012, Bad debt expenses are reported in Direct costs contrary to 2011, when they were reported in Other operating expenses. Data relating to 2011 are restated according to this..

- **Revenues increased by 2.9% in the first quarter of 2012, from HUF 142.5 bn to HUF 146.6 bn.** The significant contribution of energy resale revenues could more than offset the decline in fixed and mobile voice revenues. Growing TV, mobile Internet, and System integration/IT revenues also contributed to higher revenues, as well as the higher mobile equipment sales revenues generated by increasing smartphone sales. The depreciation in the Hungarian forint also had a positive effect on revenue contribution from international subsidiaries (the forint weakened on average by 8.6% relative to the Macedonian Denar and by 8.4% relative to the Euro in the first quarter of 2012 compared to the same period in 2011).
- **EBITDA declined by 3.1%, from HUF 53.2 bn to HUF 51.6 bn, with an EBITDA margin of 35.2%. Underlying EBITDA, excluding investigation-related costs and provisions, severance expenses and the telecom tax, decreased by 5.5%, from HUF 61.5bn to HUF 58.1 bn. Underlying EBITDA margin was 39.6%** in Q1 2012 compared to 43.1% in the same period last year. The decline reflects the increasing contribution of the low margin energy resale activity and a HUF 1.4 bn gain on real estate sales in Hungary accounted for in Q1 2011.

Details of special influences and EBITDA performance (HUF bn)*	Q1 2011	Q1 2012
Telecom tax	6.4	6.1
Severance expenses	1.5	0.4
Investigation-related costs	0.4	0.0
Total Special Influences	8.3	6.5
Reported EBITDA	53.2	51.6
Underlying EBITDA	61.5	58.1

- **Income tax expense increased by 26.5%** from Q1 2011 to Q1 2012 despite lower profit before tax. This is a result of tax law changes in Hungary, which reversed the previous reduction in the corporate tax rate from 19% to 10%, effective from 2013, on annual tax balances exceeding HUF 500 million. In line with this, a number of deferred tax balances were calculated based on a 19% rate in Q1 2012 as opposed to 10% in Q1 2011.
- Profit attributable to owners of the parent company (**net income**) **declined from HUF 15.2 bn to HUF 13.0 bn.** The decline was driven by the lower EBITDA and higher income tax, partly offset by lower net financial expense.
- **Net cash generated from operating activities decreased by HUF 22.3 bn, from HUF 44.6 bn to HUF 22.3 bn.** The decline is mainly driven by the decrease in liabilities carried as working capital due to the payment of the HUF 20.7 bn settlement charge to the U.S. Securities and Exchange Commission (the "SEC") and Department of Justice ("DOJ"), and the VAT payment related to the acquisition of the 900MHz spectrum license in Q1 2012. Higher interest expenses due to the higher interest rate and debt levels also contributed to the decline.
- **Investment in tangible and intangible assets (CAPEX) increased by HUF 11.5 bn, from HUF 12.3 bn to HUF 23.8 bn,** reflecting the payment of the 900MHz spectrum license fee in the amount of HUF 10.9 bn in Q1 2012. Telekom Hungary accounted for HUF 20.8 bn of total CAPEX (including the above mentioned license fee), while HUF 0.7 bn is related to T-Systems Hungary. In Macedonia and Montenegro, CAPEX was HUF 1.4 bn and HUF 0.9 bn, respectively.
- **Free cash flow** (operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets) **declined by HUF 42.2 bn,** from HUF 27.0 bn to HUF -15.2 bn in Q1 2012. In addition to the settlement charge and the spectrum license fee, Q1 2012 cash flow was negatively affected by higher payments to capex creditors relative to Q1 last year. However, higher proceeds from real estate sales in Q1 2011 helped mitigate these trends.
- **Net debt increased from HUF 270.5 bn** at the end of Q1 2011 **to HUF 283.6 bn** by the end of Q1 2012. The **net debt ratio** (net debt to total capital) was **33.6%** at the end of March 2012.

Christopher Mattheisen, Chairman and CEO commented: *"The first quarter results show promising trends in the retail market in terms of our customer numbers and market share data. Our fixed line churn rate has halved over the past year, thanks to our very popular Hoppá package, bundled offers and energy resale services. The number of energy resale delivery points is growing rapidly as more customers benefit from the discounts we offer on energy bills. There has been a steady growth in both fixed broadband and TV customer numbers as well, mainly as a result of bundled offers. By now more than half of our fixed customers are subscribing to a double or triple-play package. There have also been positive trends in the mobile market, as both our customer numbers and market share have increased year-on-year. Thanks to the positive trends in customer numbers, the price increase at the start of the year, and the energy resale service, T-Hungary revenues increased by 3% in the first quarter. The T-Systems segment was helped once again by increasing SI/IT revenues, and international operations benefitted from a weaker forint. Our changing revenue mix has, however, put pressure on margins which can only be partially offset by continuous cost management. As a result of this, and real estate gains accounted for last year, underlying EBITDA was down by almost 6% despite growth in Group revenues of 3%."*

▪ 2012 public guidance:

HUF mn	2011	Public Target 2012
Revenue	597 617	Flat to -2%
Reported EBITDA	196.082	
telecom tax	25.350	
severance expenses	6.066	
investigation-related costs	17.485	
Underlying EBITDA*	244.983	4-6% decline
CAPEX**	83.796	Flat

*EBITDA excluding telecom tax, severance expenses and investigation-related costs

**Excluding spectrum acquisitions

2. Operating and financial review – Group

2.1. Exchange rate information

Exchange rate	Q1 2011	Q1 2012	Change
HUF/EUR period-end	265.78	295.60	11.2%
HUF/EUR average	272.64	295.65	8.4%
HUF/MKD period-end	4.32	4.81	11.3%
HUF/MKD average	4.43	4.81	8.6%

2.2. Revenues

Total revenues amounted to HUF 146.6 bn in Q1 2012 as compared to HUF 142.5 bn in Q1 2011, representing a 2.9% increase quarter over previous year same quarter. The following developments helped drive this trend.

Mobile revenues amounted to HUF 72.6 bn in Q1 2012 compared to HUF 72.4 bn in Q1 2011 (0.2% increase). The slight increase resulted mainly from higher mobile Internet revenues in Hungary and at our Montenegrin subsidiary, and higher mobile equipment revenues at the Hungarian mobile operations. These increases were largely offset by lower voice revenues.

Mobile voice revenues declined by 2.4% to HUF 49.4 bn in Q1 2012 compared to HUF 50.6 bn in Q1 2011. Outgoing voice revenues decreased by 1.2%, mainly due to strong competition-driven retail tariff erosion in Hungary. In the prepaid segment, revenue declined as both MOU and the number of customers decreased. Despite the higher number of customers in the postpaid segment, revenue was flat due to lower tariffs and declining MOU. At Makedonski Telekom, lower outgoing mobile voice revenues resulted from the lower number of customers and average price per minute, which could only be partly offset by higher outgoing MOU. Voice-wholesale revenues are down by 8.3% due to mobile termination rate cuts, both in Hungary and Montenegro.

Higher non-voice revenues were primarily due to higher mobile Internet revenues in Hungary and at our foreign subsidiaries since both number of subscribers and usage increased in Q1 2012. Higher messaging and content revenues in Hungary and in Montenegro also contributed to the growth.

Mobile equipment and activation revenues increased by 10.7% in Q1 2012 compared to Q1 2011, mainly attributable to our Hungarian operation. Higher revenues resulted from higher average handset prices reflecting the increased sales ratio of higher priced smartphones and the lower prepaid handset subsidy. At our foreign subsidiaries, mobile equipment and activation revenues decreased in local currency terms, primarily attributable to the lower sales volume of handsets at Makedonski Telekom and change in the dynamics of marketing campaigns at Crnogorski Telekom.

The increase in other mobile revenues in Q1 2012 versus Q1 2011 is due to higher revenue from the sale of repair material and accessories, as well as higher service revenues from mobile phoneset repair at MT Plc. Hungary.

Fixed line revenues amounted to HUF 56.4 bn in Q1 2012, compared to HUF 58.4 bn in the same period of the previous year (3.4% decline). The decline was driven by falling voice and data revenues, partly offset by increasing internet and TV revenues.

Fixed line voice-retail revenues decreased by 10.6% HUF 21.2 bn in Q1 2012 compared to HUF 23.7 bn in Q1 2011, mainly driven by the continuous decline in the number of revenue producing fixed lines and lower average tariff level.

Fixed line voice-wholesale revenues decreased by 11.0% to HUF 4.5 bn in Q1 2012 compared to HUF 5.0 bn in Q1 2011, mainly due to lower traffic in both domestic and international relations.

Internet revenues of the fixed line operations increased by 4.6 % to HUF 13.4 bn in Q1 2012, compared to HUF 12.8 bn in Q1 2011. In Hungary, the 8.2% increase in our retail broadband customer base and the price increase from the beginning of the year offset the effect of lower ARPU, reflecting the migration towards T-Home double- and triple-play packages. At Makedonski Telekom, the ADSL subscriber figure grew by 5.6%, generating higher Internet broadband revenues. At Crnogorski Telekom, the number of ADSL customers increased by 10.9% quarter over previous year same quarter.

TV revenues amounted to HUF 8.5 bn in Q1 2012 as compared to HUF 7.7 bn in Q1 2011 (an increase of 10.2%). The increase is mainly attributable to much higher IPTV revenues driven by the growing IPTV subscriber base, both in Hungary and at our foreign subsidiaries. The fast growth of the IPTV customer base, helped by our development of high speed Internet access (mainly ED3), demonstrates the increasing popularity of interactive television. The growth in satellite TV revenues was due to the higher number of satellite TV customers, and due to the increased satellite TV ARPU quarter over previous year same quarter. These increases were partly offset by lower Cable TV revenues as an increasing number of subscribers migrate to IPTV services in Hungary.

Other fixed line revenues, which include construction, maintenance, rental and miscellaneous revenues, increased by 38.9% in Q1 2012 compared to the same period last year. The increase in other fixed line revenues at ISH Informatika was driven by revenue from an international development project. At MT Plc. Hungary, higher other sales revenue mainly refers to increased sales volume of waste materials and higher revenues from telephone book publishing.

System Integration ("SI") and IT revenues increased by 6.5 % from HUF 10.9 bn in the first quarter of 2011 to HUF 11.7 bn in the same period of 2012. Higher infrastructure and outsourcing revenues at KFKI were driven mainly by revenues from new projects in Q1 2012. The inclusion of Daten-Kontor revenues from March 2011 also contributed to the increase. These increases were partly offset by lower application revenue at IQSYS owing to the shortfall of the license sale and the ceased revenue from the sale of digital tables in Q1 2012.

Revenue from **Energy Services** increased significantly to HUF 6.0 bn in Q1 2012 compared to HUF 0.7 bn in Q1 2011. The significant growth is resulting from the increasing demand for our energy resale services (introduced in 2010). The number of electricity points of delivery reached close to 32,500, while the number of gas points of delivery exceeded 29,000, as at March 31, 2012.

2.3. Operating Expenses

Mobile services-related payments increased to HUF 17.7 bn in Q1 2012, from HUF 15.7 bn in Q1 2011, resulting in a 12.6% increase quarter over previous year same quarter. This increase is mainly owing to higher mobile equipment costs (HUF 8.8 bn in Q1 2012 vs. HUF 7.1 bn in Q1 2011), resulting from an increased ratio of higher priced smartphones sold.

Fixed line-related payments decreased by 13.3% quarter over previous year same quarter, to HUF 9.1 bn in Q1 2012, from HUF 10.5 bn in Q1 2011. The decrease is mainly owing to lower voice-related payments in Hungary and Montenegro due to lower fees applied, both in domestic and international relations. The decrease was partly compensated by the 20.0% higher TV payment in Hungary driven by the 6.9% higher TV subscriber base.

Energy-related payments in Hungary have been growing (from HUF 0.6 bn in Q1 2011 to HUF 5.7 bn in Q1 2012) in line with the increasing customer base since the launch of retail energy trade business.

Employee-related expenses in Q1 2012 amounted to HUF 21.2 bn compared to HUF 22.2 bn in Q1 2011. The 4.3% decline was mainly attributable to the 1.6% lower employee figure at MT Group-level quarter over previous year same quarter (10,006 as at March 31, 2012 vs. 10,170 as at March 31, 2011) and to the changes in wage policy from January 1, 2012 at Magyar Telekom Plc. At Crnogorski Telekom, lower severance payments in Q1 2012 also contributed to the decrease.

Depreciation and amortization increased by 5.5% in Q1 2012 compared to Q1 2011. In Hungary, the increase is due to the modified useful life of radio-technical equipment relating to mobile telecommunication network modernization projects undertaken in cooperation with Ericsson in Q1 2012. At Makedonski Telekom, the increase is a result of the shortened useful life of equipment, mainly related to the Radio Access Network ("RAN") modernization project.

Other operating expenses decreased by 1.2% to HUF 31.6 bn in Q1 2012 from HUF 32.0 bn in Q1 2011. The decrease is owing to several factors: consultancy fees showed a 42.2% decrease, while marketing expenses decreased by 16.2% as a result of savings on marketing campaigns in Hungary and Macedonia; at the same time, telecom tax expense decreased in line with the decline in the relevant revenues. These decreases were partly offset by the operating expense increase at Makedonski Telekom and higher rental fees in Hungary, predominantly owing to higher set top box fees.

On October 18, 2010 the Hungarian Parliament approved an act imposing a special tax ("crisis tax") on a number of sectors including telecommunications sector. According to the act, the tax will probably apply until the end of 2012. Special tax was recognized among other operating expenses.

Other operating income decreased from HUF 2.1 bn in Q1 2011 to HUF 0.8 bn in Q1 2012, mainly due to gains from the disposal of real estates in Q1 2011 in the amount of HUF 1.4 bn.

2.4. Operating Profit

Operating margin for the first quarter of 2012 was 17.9 % while the operating margin for Q1 2011 was 20.5%. The decrease was mostly driven by the increasing ratio of lower margin services, mostly energy resale revenues.

2.5. Net financial result

Net financial expenses decreased by 10.0% quarter over previous year same quarter, from HUF 8.4 bn in Q1 2011 to HUF 7.6 bn in Q1 2012. The decrease resulted primarily from the HUF 2.2 bn higher net foreign exchange gain realized in Q1 2012, due to more intensive strengthening of the HUF against EUR in Q1 2012. This decrease was partly offset by the HUF 1.0 bn higher loss on derivative transactions (mainly on forwards) and by the HUF 0.5 bn higher interest paid due to the higher average interest rate and higher average amount of loan received.

2.6. Income tax

Income tax expense increased despite the lower Group profit before tax as a result of tax law changes in Hungary. Following a change in the Hungarian corporate tax law which reduced the Hungarian corporate tax rate from 19% to 10% effective from 2013, a number of deferred tax balances were calculated based on a 10% rate in Q1 2011. However, after another tax law change in November 2011, instead of a universal 10% corporate tax rate, the 19% rate remains effective from 2013 on annual tax bases exceeding HUF 500 million. Consequently, deferred tax balances were calculated based on a 19% rate in Q1 2012 as opposed to 10% in Q1 2011. In addition to these changes, the effect of foreign exchange movements also contributed to the higher tax expense.

2.7. Profit attributable to non-controlling interests

Profit attributable to non-controlling interests in Q1 2012 decreased by 28.8% compared to the same period in 2011. The decrease was predominantly due to the lower results of the Macedonian subsidiaries, resulting from a 45.5% lower operating profit in MKD terms. Higher net profits at Crnogorski Telekom due to lower operating expenses in Q1 2012 versus Q1 2011 somewhat mitigated the decrease.

2.8. Cash flow

Net cash generated from operating activities amounted to HUF 22.3 bn in Q1 2012, against HUF 44.6 bn in Q1 2011. The decrease was mainly due to unfavorable changes in working capital reflecting the HUF 20.7 bn cash outflow due to the settlements with the DOJ and the SEC and the HUF 3.0 bn VAT payment related to the spectrum license purchase.

Net cash used in investing activities amounted to HUF 15.7 bn in Q1 2012, compared to HUF 25.8 bn in Q1 2011, mainly reflecting the change in other financial assets (at Makedonski Telekom, HUF 23.6 bn long term bank deposits were converted into cash deposits by March 31, 2012 in connection with the dividend payments in Q2 2012). Higher investments in tangible and intangible assets were mainly due to the 900 MHz spectrum license fee in the amount of HUF 10.9 bn. The interest expense related to the DOJ and SEC settlement is HUF 1.4 bn with the full amount of payments relating the investigation at HUF 22.1 bn.

Free cash flow, defined as operating cash flow and investing cash flow adjusted for payments for / proceeds from other financial assets, decreased from HUF 27.0 bn in Q1 2011 to HUF - 15.2 bn in Q1 2012. This drop was mainly due to unfavorable changes in working capital (DOJ and SEC settlements) and higher capex spending (license fee).

Net cash used in financing activities increased from HUF - 8.2 bn in Q1 2011 to HUF 21.4 bn in Q1 2012 due to the significantly higher amount of loan taken to finance the DOJ/SEC settlement and the license fee outpayments in Q1 2012.

3. Segment information

3.1. Telekom Hungary

HUF millions	2011 Q1	2012 Q1	Amount change	Change (%)	2011 YTD	2012 YTD	Amount change	Change (%)
Mobile voice revenues	37,593	37,049	(544)	(1.4%)	37,593	37,049	(544)	(1.4%)
Non-voice revenue.....	10,682	11,244	562	5.3%	10,682	11,244	562	5.3%
Other mobile revenues.....	7,646	6,730	(916)	(12.0%)	7,646	6,730	(916)	(12.0%)
Total mobile revenues	55,921	55,023	(898)	(1.6%)	55,921	55,023	(898)	(1.6%)
Fixed voice revenues.....	18,222	15,725	(2,497)	(13.7%)	18,222	15,725	(2,497)	(13.7%)
Internet revenues	9,888	10,309	421	4.3%	9,888	10,309	421	4.3%
TV revenues	6,888	7,434	546	7.9%	6,888	7,434	546	7.9%
Other fixed line revenues.....	9,354	9,719	365	3.9%	9,354	9,719	365	3.9%
Total fixed line revenues	44,352	43,187	(1,165)	(2.6%)	44,352	43,187	(1,165)	(2.6%)
SI/IT revenues	177	343	166	93.8%	177	343	166	93.8%
Revenue from Energy Services.....	682	5,957	5,275	n.m.	682	5,957	5,275	n.m.
Total revenues.....	101,132	104,510	3,378	3.3%	101,132	104,510	3,378	3.3%
EBITDA.....	38,294	35,704	(2,590)	(6.8%)	38,294	35,704	(2,590)	(6.8%)
Investments in tangible and intangible assets	9,782	20,824	11,042	112.9%	9,782	20,824	11,042	112.9%

Revenues in the Telekom Hungary segment increased by 3.3% quarter over previous year same quarter mainly driven by significantly higher revenue from energy services as well as increased TV and mobile non-voice revenues, partly offset by lower fixed-voice and other mobile revenues.

EBITDA of the Telekom Hungary segment decreased by 6.8% in Q1 2012 versus Q1 2011 as higher total revenues were more than offset by higher operating expenses (influenced by increased energy-related payments and higher mobile services-related payments) and lower other operating income.

The increase in investments in tangible and intangible assets is mainly due to the 900 MHz spectrum license fee in the amount of HUF 10.9 bn.

Mobile operations	Q1 2011	Q1 2012	% change
Mobile penetration ⁽¹⁾	119.1%	116.8%	n.a.
Mobile SIM market share ⁽²⁾	43.8%	45.3%	n.a.
Number of customers (RPC)	4,776,995	4,815,385	0.8%
Postpaid share in the RPC base	43.8%	46.2%	n.a.
MOU	154	159	3.2%
ARPU (HUF) ⁽³⁾	3,433	3,344	(2.6%)
Postpaid ⁽³⁾	5,826	5,606	(3.8%)
Prepaid ⁽³⁾	1,512	1,342	(11.2%)
Overall churn rate	18.6%	17.0%	n.a.
Postpaid	17.4%	15.4%	n.a.
Prepaid	19.5%	18.3%	n.a.
Ratio of non-voice revenues in ARPU	20.9%	23.3%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	4,888	5,569	13.9%
Average retention cost (SRC) per retained customer (HUF)	16,521	13,581	(17.8%)
Number of mobile broadband subscriptions	612,155	1,045,070	70.7%
Mobile broadband market share based on total number of subscriptions ⁽²⁾	48.3%	48.2%	n.a.
Population-based indoor 3G coverage ⁽²⁾	65.4%	66.0%	n.a.

(1) Data relates to the mobile penetration in Hungary, including customers of all three service providers.

(2) Data relates to Magyar Telekom Plc. based on NMHH reports.

(3) Restated. Refinement of calculation methodology.

Mobile revenues slightly decreased in Q1 2012 versus Q1 2011 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 January 1, 2012. 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.

Fixed line operations	Q1 2011	Q1 2012	% change
Voice services			
Total voice access	1,655,692	1,585,092	(4.3%)
Total outgoing traffic (thousand minutes)	740,393	857,137	15.8%
Blended MOU (outgoing) ⁽¹⁾	158	191	20.9%
Blended ARPA (HUF) ⁽¹⁾	3,246	2,927	(9.8%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice-retail revenues experienced a decline of 12.8% quarter over previous year same quarter due to lower PSTN subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also driven by lower outgoing traffic revenues due to the loss of lines and price discounts reflecting the unfavorable economic environment and competition with VoIP and VoCable operators. The increasing popularity of flat rate packages (e.g., Hoppá) led to lower ARPA but proved a successful tool in preventing PSTN churn. While PSTN revenues continued to decline, the increase in VoIP and VoCable revenues driven by a growing customer base and higher traffic slightly mitigated these decreases.

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 Q1 2012, generating almost 507,000 subscribers by the end of March 2012. The vast majority of customers choosing this package signed a 2-year loyalty contract; therefore this offer proved to be a very useful tool in decreasing fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package, exceeded 48,600 customers, as at March 31, 2012.

Data products	Q1 2011	Q1 2012	% change
Blended retail broadband market share ⁽¹⁾	36.3%	36.6%	n.a.
Number of retail DSL customers	489,599	498,879	1.9%
Number of cable broadband customers	187,564	221,911	18.3%
Number of fiber optic connections	21,579	35,013	62.3%
Total retail broadband customers	698,742	755,803	8.2%
Blended broadband ARPU (HUF)	3,952	3,862	(2.3%)
Number of wholesale DSL access	119,185	102,988	(13.6%)

(1) Data relates to Magyar Telekom Plc. based on NMHH reports.

Internet revenues increased by 4.3% in Q1 2012 compared to Q1 2011. The increase is mainly due to the higher number of fiber connections, the increased number of Cablenet customers and the higher retail DSL subscriber base. The positive impact of the higher subscriber base was somewhat mitigated by the lower number of wholesale connections and the effect of lower ARPU reflecting lower prices forced by strong competition. The migration towards double- and triple-play packages also had a negative effect on blended ARPU.

TV services	Q1 2011	Q1 2012	% change
Blended TV market share ⁽¹⁾⁽²⁾	23.8%	25.0%	n.a.
Number of cable TV customers	343,397	262,398	(23.6%)
Number of satellite TV customers	261,663	284,379	8.7%
Number of IPTV customers	146,135	256,434	75.5%
Total TV customers	751,195	803,211	6.9%
Blended TV ARPU (HUF)	3,012	3,061	1.6%

(1) Data relates to Magyar Telekom Plc. based on NMHH reports.

(2) Data relates to market share data at February 29, 2012.

IPTV and satellite TV revenues increased quarter over previous year same quarter driven by a larger customer base and higher ARPU. These increases were partly offset by lower Cable TV revenues influenced by the significantly lower customer base due to migration from Cable TV to IPTV technology.

Energy services	Q1 2011	Q1 2012	% change
Electricity points of delivery	6,307	32,467	414.8%
Gas points of delivery	4,773	29,049	508.6%

Telekom Hungary has growing revenues from the retail energy trade launched in Q2 2010 through a strategic partnership with E.on. Revenue from Energy services increased by HUF 5.3 bn in Q1 2012 versus Q1 2011 due to the rapid growth in the number of customers.

3.2. T-Systems Hungary

HUF millions	2011 Q1	2012 Q1	Amount change	Change (%)	2011 YTD	2012 YTD	Amount change	Change (%)
Mobile voice revenues	4,109	3,875	(234)	(5.7%)	4,109	3,875	(234)	(5.7%)
Non-voice revenue	2,163	2,261	98	4.5%	2,163	2,261	98	4.5%
Other mobile revenues	1,759	1,811	52	3.0%	1,759	1,811	52	3.0%
Total mobile revenues	8,031	7,947	(84)	(1.0%)	8,031	7,947	(84)	(1.0%)
Fixed voice revenues	2,629	2,378	(251)	(9.5%)	2,629	2,378	(251)	(9.5%)
Internet revenues	824	660	(164)	(19.9%)	824	660	(164)	(19.9%)
Data revenues	3,600	3,007	(593)	(16.5%)	3,600	3,007	(593)	(16.5%)
Other fixed line revenues	596	627	31	5.2%	596	627	31	5.2%
Total fixed line revenues	7,649	6,672	(977)	(12.8%)	7,649	6,672	(977)	(12.8%)
SI/IT revenues	12,391	13,214	823	6.6%	12,391	13,214	823	6.6%
Total revenues	28,071	27,833	(238)	(0.8%)	28,071	27,833	(238)	(0.8%)
EBITDA	3,853	4,948	1,095	28.4%	3,853	4,948	1,095	28.4%
Investments in tangible and intangible assets	423	738	315	74.5%	423	738	315	74.5%

Total revenues of T-Systems Hungary slightly decreased in Q1 2012 compared to Q1 2011 due to lower data revenues as well as lower fixed and mobile voice revenues. These decreases were partly offset by higher SI/IT and mobile Internet revenues.

EBITDA level increased by 28.4%. Lower fixed line-related payments, other operating expenses and bad debt expense also contributed to the increase, partly offset by higher SI/IT-related payments.

Mobile operations	Q1 2011	Q1 2012	% change
Number of customers (RPC)	433,949	456,613	5.2%
Overall churn rate	5.1%	6.0%	n.a.
MOU	280	284	1.4%
ARPU (HUF)	4,865	4,546	(6.6%)
Ratio of non-voice revenues in ARPU	34.6%	37.1%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	4,182	5,549	32.7%
Number of mobile broadband subscriptions	60,658	82,753	36.4%

Mobile voice revenues decreased by 5.7% in Q1 2012 versus Q1 2011, predominantly due to lower voice-retail revenues as a result of a lower average per minute fee, partly compensated by the higher average customer base and higher MOU. The increase in non-voice revenues was driven by higher Internet revenues, reflecting increased mobile broadband subscriptions. Equipment revenues also increased due to higher average handset prices boosted by the growing popularity of smartphones.

Fixed line operations	Q1 2011	Q1 2012	% change
Voice services			
Total lines	186,047	176,752	(5.0%)
Total outgoing traffic (thousand minutes).....	77,503	68,696	(11.4%)
MOU (outgoing).....	200	197	(1.5%)
ARPU (HUF)	4,766	4,575	(4.0%)
Data products			
Number of retail broadband access	16,219	15,132	(6.7%)
Retail DSL ARPU (HUF)	8,953	7,827	(12.6%)

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. Fixed line Internet revenues also declined, due to the lower number of retail DSL connections and lower retail ARPU.

The 6.6% increase in SI/IT revenues mainly resulted from higher infrastructure and outsourcing revenues at KFKI driven by new projects launched in Q1 2012. The inclusion of Daten-Kontor revenues from March 2011 also contributed to the increase. These increases were partly mitigated by the shortfall of the license sale and the ceased revenue from the sale of digital tables at IQSYS in Q1 2012.

3.3. Macedonia

HUF millions	2011 Q1	2012 Q1	Amount change	Change (%)	2011 YTD	2012 YTD	Amount change	Change (%)
Mobile voice revenues	6,889	6,365	(524)	(7.6%)	6,889	6,365	(524)	(7.6%)
Non-voice revenue	1,373	1,241	(132)	(9.6%)	1,373	1,241	(132)	(9.6%)
Other mobile revenues.....	490	542	52	10.6%	490	542	52	10.6%
Total mobile revenues	8,752	8,148	(604)	(6.9%)	8,752	8,148	(604)	(6.9%)
Fixed voice revenues.....	5,465	5,138	(327)	(6.0%)	5,465	5,138	(327)	(6.0%)
Internet revenues	1,394	1,546	152	10.9%	1,394	1,546	152	10.9%
Data revenues.....	684	602	(82)	(12.0%)	684	602	(82)	(12.0%)
Other fixed line revenues.....	735	819	84	11.4%	735	819	84	11.4%
Total fixed line revenues.....	8,278	8,105	(173)	(2.1%)	8,278	8,105	(173)	(2.1%)
SI/IT revenues	96	76	(20)	(20.8%)	96	76	(20)	(20.8%)
Total revenues.....	17,126	16,329	(797)	(4.7%)	17,126	16,329	(797)	(4.7%)
EBITDA.....	9,221	7,622	(1,599)	(17.3%)	9,221	7,622	(1,599)	(17.3%)
Investments in tangible and intangible assets	1,421	1,352	(69)	(4.9%)	1,421	1,352	(69)	(4.9%)

The results of our Macedonian operations in HUF terms were positively affected by the 8.6% strengthening of MKD against HUF on average quarter over previous year same quarter.

EBITDA of our Macedonian operations decreased in Q1 2012 versus Q1 2011 by 17.3% in HUF terms deriving mainly from lower total revenues, increased other operating expenses and higher mobile services-related payments.

Mobile operations	Q1 2011	Q1 2012	% change
Mobile penetration.....	124.0%	119.5%	n.a.
Market share of T-Mobile Macedonia.....	49.9%	49.9%	n.a.
Number of customers (RPC) ⁽¹⁾	1,273,092	1,229,303	(3.4%)
Postpaid share in the RPC base ⁽¹⁾	32.2%	32.0%	n.a.
MOU ⁽¹⁾	123	146	18.7%
ARPU (HUF) ⁽¹⁾	2,059	1,968	(4.4%)

(1) Restated. Data are presented after intersegment elimination.

Mobile revenues decreased mainly resulting from lower voice-retail revenues due to lower per minute fees and declining customer base. Non-voice revenues decreased as a result of lower messaging revenues due to the lower number of SMS sent and a decline in visitor non-voice revenue due to higher discounts given in Q1 2012. These decreases were somewhat compensated by higher voice-wholesale revenue in HUF terms, however in MKD terms voice-wholesale revenue remained broadly stable in Q1 2012 compared to Q1 2011. Higher equipment revenues in HUF terms were also driven by the translation effect.

Fixed line operations	Q1 2011	Q12012	% change
Voice services			
Fixed line penetration.....	16.8%	15.6%	n.a.
Total voice access.....	331,788	301,632	(9.1%)
Total outgoing traffic (thousand minutes).....	217,740	187,707	(13.8%)
Data and TV services			
Retail DSL market share (estimated).....	84%	83%	n.a.
Number of retail DSL customers.....	131,563	137,903	4.8%
Number of wholesale DSL access.....	21,892	24,099	10.1%
Number of total DSL access.....	153,455	162,002	5.6%
Number of IPTV customers.....	32,904	41,657	26.6%

Total fixed line 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 slightly offset by higher international incoming revenues, resulting from HUF/MKD currency translation. However, international incoming revenues in MKD terms slightly decreased due to the lower volume of mobile termination minutes. The higher ADSL subscriber figure at Makedonski Telekom, generating higher Internet broadband revenue and TV revenues due to the growing IPTV subscriber base, also slightly mitigated the decrease in fixed line revenues.

3.4. Montenegro

HUF millions	2011 Q1	2012 Q1	Amount change	Change (%)	2011 YTD	2012 YTD	Amount change	Change (%)
Mobile voice revenues	2,485	2,534	49	2.0%	2,485	2,534	49	2.0%
Non-voice revenue	634	749	115	18.1%	634	749	115	18.1%
Other mobile revenues	138	100	(38)	(27.5%)	138	100	(38)	(27.5%)
Total mobile revenues	3,257	3,383	126	3.9%	3,257	3,383	126	3.9%
Fixed voice revenues	2,466	2,456	(10)	(0.4%)	2,466	2,456	(10)	(0.4%)
Internet revenues	752	950	198	26.3%	752	950	198	26.3%
Data revenues	445	480	35	7.9%	445	480	35	7.9%
Other fixed line revenues	410	535	125	30.5%	410	535	125	30.5%
Total fixed line revenues	4,073	4,421	348	8.5%	4,073	4,421	348	8.5%
SI/IT revenues	29	66	37	127.6%	29	66	37	127.6%
Total revenues	7,359	7,870	511	6.9%	7,359	7,870	511	6.9%
EBITDA	1,872	3,195	1,323	70.7%	1,872	3,195	1,323	70.7%
Investments in tangible and intangible assets	400	927	527	131.8%	400	927	527	131.8%

The results of our Montenegrin operations were positively affected by the 8.4% strengthening of EUR against the HUF on average in Q1 2012 versus Q1 2011.

Mobile operations	Q1 2011	Q1 2012	% change
Mobile penetration ⁽¹⁾	176.8%	161.7%	n.a.
Market share of T-Mobile Crna Gora ⁽¹⁾	35.9%	34.6%	n.a.
Number of customers (RPC) ⁽¹⁾	393,735	349,814	(11.2%)
Postpaid share in the RPC base	30.1%	37.4%	n.a.
MOU ⁽²⁾⁽³⁾	118	151	28.0%
ARPU (HUF) ⁽³⁾	2,630	3,175	20.7%

(1) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

(2) Restated. Data are presented after intersegment elimination.

(3) Restated according to data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

Mobile revenues increased to a small extent from previous year same quarter as higher voice-retail and non-voice revenues were mainly counterbalanced by lower voice-wholesale and voice-visitor revenues.

Higher prepaid voice-retail revenues resulted from higher usage while revenues in the postpaid segment remained broadly stable in Q1 2012 versus Q1 2011, as higher subscriptions were offset by lower traffic revenues. Non-voice revenues increased owing to higher SMS revenues affected by higher usage in prepaid segment, as well as higher Internet usage.

Voice-wholesale revenues decreased mainly due to 29.0% lower interconnection tariffs for domestic mobile operators while incoming minutes decreased, as well. Visitor revenues decreased due to lower number of visitors and lower volume of minutes.

Fixed line operations	Q1 2011	Q1 2012	% change
Voice services			
Fixed line penetration.....	26.4%	26.2%	n.a.
Total voice access.....	169,903	166,730	(1.9%)
Total outgoing traffic (thousand minutes).....	84,745	80,377	(5.2%)
Data and TV services			
Retail DSL market share (estimated).....	85%	84%	n.a.
Number of DSL access.....	69,805	77,446	10.9%
Number of IPTV customers.....	41,357	49,321	19.3%

Total fixed line revenues remained broadly stable in Q1 2012 versus Q1 2011. Lower voice-retail revenues due to declined outgoing traffic and lower RPC as well as 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. Total fixed line revenues expressed in HUF slightly increased due to the positive FX change.

EBITDA of our Montenegrin operations largely increased expressed in HUF, since fixed line-related payments and employee-related expenses (due to one-off severance payments in 2011) decreased in line with the total revenue increase, partly offset by increased mobile services-related payments.

3.5. Description of segments

Magyar Telekom's operating segments are: Telekom Hungary, T-Systems Hungary, Macedonia and Montenegro. Internal reporting is provided upon this segmentation to the chief operating decision makers, the members of the Management Committee of Magyar Telekom Plc.

The Telekom Hungary segment operates in Hungary providing mobile, fixed line telecommunications, TV distribution and energy 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.

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

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional reporting segments of the Group. We hold a 100% interest in Stonebridge Communications AD, which controls Makedonski Telekom, the leading fixed line telecommunications services provider and T-Mobile Macedonia, the leading mobile telecommunications operator in Macedonia.

We also hold a 76.53% ownership in Crnogorski Telekom, the principal fixed line telecommunications services provider and the second largest mobile telecommunications operator in Montenegro.

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. The presented EBITDA of the Hungarian segments (Telekom Hungary and T-Systems Hungary), include the special telecommunications tax both in 2011 and 2012.

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	Q1 2011	Q1 2012
Total Telekom Hungary revenues	101,132	104,510
Less: Telekom Hungary revenues from other segments	(8,512)	(7,204)
Telekom Hungary revenues from external customers	92,620	97,306
Total T-Systems Hungary revenues	28,071	27,833
Less: T-Systems Hungary revenues from other segments	(2,633)	(2,680)
T-Systems Hungary revenues from external customers	25,438	25,153
Total Macedonia revenues	17,126	16,329
Less: Macedonia revenues from other segments	(30)	(24)
Macedonia revenues from external customers	17,096	16,305
Total Montenegro revenues	7,359	7,870
Less: Montenegro revenues from other segments	(12)	(5)
Montenegro revenues from external customers	7,347	7,865
Total consolidated revenue of the segments	142,501	146,629
Measurement differences to Group revenue	6	19
Total revenue of the Group	142,507	146,648
Segment results (EBITDA)		
Telekom Hungary	38,294	35,704
T-Systems Hungary.....	3,853	4,948
Macedonia	9,221	7,622
Montenegro	1,872	3,195
Total EBITDA of the segments	53,240	51,469
Measurement differences to Group EBITDA.....	6	107
Total EBITDA of the Group	53,246	51,576
Total depreciation and amortization of the Group	(23,994)	(25,312)
Total operating profit of the Group	29,252	26,264

4. About Magyar Telekom

Magyar Telekom is the principal provider of fixed line telecommunications services in Hungary, with approximately 1.8 million fixed voice access lines as March 31, 2012. We are also Hungary's largest mobile telecommunications services provider, with almost 5.3 million mobile subscribers (including users of prepaid cards) as of March 31, 2012. We are also the principal telecommunications service provider in Macedonia and Montenegro and alternative service provider in Bulgaria and Romania. We provide fixed line and mobile telecommunications, Internet and television products and services for consumers and information and communication technology ("ICT") solutions for business and corporate customers. In 2010, Magyar Telekom has entered the retail energy market offering electricity and gas services to its customers.

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 ("Magyar Telekom Plc.") 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 March 31, 2012, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares.

5. 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, 2011, 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.

6. 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, 2011, except as described below.

In 2012, the Group has adopted all IFRS amendments and interpretations which are effective from January 1, 2012 and which are relevant to its operations. Relevant standards, amendments or interpretations effective and adopted by the Group in 2012:

IFRS 7 (amended): The IASB published an amendment to IFRS 7 Financial Instruments: Disclosures in October 2010. The amendment requires quantitative and qualitative disclosures regarding transfers of financial assets that do not result in entire derecognition, or that result in continuing involvement. This is intended to allow users of financial statements to improve their understanding of such transactions (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken around the end of a reporting period. The application of the amendment is required for annual periods beginning on or after July 1, 2011. The revised standard has been applied since January 1, 2012, but it does not have a significant impact on the disclosures in the Group's financial reports.

6.1. Outlook

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 and 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 and analyst and government forecasts indicate GDP growth of just half percent in 2012. The unemployment rate remains very high, at above ten percent, and the volatility of the Hungarian currency is expected to continue. The Hungarian government has experienced difficulties in financing the budget deficit through 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% of GDP in 2012. The most significant of these was the 2 percentage point VAT increase, from 25% to 27% from the beginning of this year. The special telecommunications tax, which came into effect in 2010, is expected to have a negative impact of more than HUF 24 billion on our EBITDA in 2012. Additional taxation plans were announced however the exact form and timing is still uncertain. Our T-Systems Hungary segment was also affected by heavy spending cuts by the government, our largest business customer.

6.1.1 Revenues

In our fixed line operations, we expect further declines in 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 remains the main driver of churn and we expect that average mobile per minute fees will continue to be lower than average fixed line per minute fees in 2012. 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. By having the full range of telecommunications services, we are capable of offering 4Play packages, 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. We are aiming to expand further our RPC figures 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 decline in voice revenues. Mobile interconnection tariffs were reduced by 20% in 2012, and by an additional 25% reduction is expected in 2013. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator is expected at the end of 2012.

Magyar Telekom is continuously seeking business opportunities beyond our core services. A significant step was made in this direction upon our entrance into the retail energy market through a strategic partnership with E.on. This new revenue stream might enable us to maintain flat Hungarian revenue in 2012, however the margins will decline.

To maintain sustainable competitiveness in the corporate sector, we have committed to developing further our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing through consultant services to corporate customers.

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, which target the retail voice market with 3Play offers, aggressive pricing and marketing communication. We also expect more intensive regulatory measures in Macedonia in the future. 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.

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 revenues are also expected to decline due to gradual termination fee cuts. Growth in fixed and mobile broadband cannot entirely compensate for the losses in the voice market. Competitors are also putting pressure on prices with 2Play and 3Play offers.

6.1.2 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"). 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. These measures will reduce our Total Workforce Management ("TWM") related costs.

In line with global 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.

6.1.3 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 in Hungary.

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 in Hungary. We are targeting the complete overhaul of the current customer management system of the Company.

6.2. Risk factors

- Our operations 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.
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining fixed line voice revenues with data, TV, Internet, SI/IT and retail energy revenues and our ability to acquire telecommunications companies.
- 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.

- 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.
- Ongoing government investigations into contracts and activities in Montenegro and Macedonia may result in fines or other sanctions.
- 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.
- 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.
- 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.

7. Analysis of the Balance Sheet

7.1. Property, plant and equipment

Total investments in tangible and intangible assets amounted to HUF 23,8 bn in Q1 2012, from this HUF 10.9 bn is in connection with the 900 MHz spectrum license fee at MT Plc. Hungary. Magyar Telekom Plc. sold a number of real estate properties in Q1 2011, the total gain on which was HUF 1.4 bn. There was no significant individual sale of assets in Q1 2012.

7.2. Cash and cash equivalents

The cash and cash equivalents increased by HUF 26.9 bn from previous year same quarter and amounted to HUF 41.4 bn in Q1 2012. At our Macedonian subsidiaries approximately HUF 23.6 bn bank deposits were converted into cash deposits by March 31, 2012.

8. Off-balance sheet items

8.1. Contingent liabilities

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.

8.1.1 Macedonia

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 and second instance decisions were in favor of T-Mobile MK, but the plaintiff submitted a revision (an extraordinary legal remedy) to the Supreme Court therefore the timing of the final resolution is uncertain.

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 0.4 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.

8.1.2 Montenegro

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. The first instance procedure is ongoing. The potential exposure is HUF 1.5 billion.

8.2. Commitments

As announced earlier, the Company filed an auction bid in December 2011 with the Hungarian National Media and Infocommunications Authority for the 10.8 MHz unused spectrum in the 900 MHz frequency band, relating to the provision of radio communications services. Based on the final and non-appealable decision of the authority on March 9, 2012, the Company won the right of use of two duplex frequency blocks of 1 MHz each for a period of 15 years. Magyar Telekom was required to pay an auction price of 10.9 billion HUF plus VAT for these frequency blocks. The Company paid the auction price on March 22, 2012. Other than that, there has not been any material change in the nature and amount of our commitments in Q1 2012.

9. Other matters

9.1. Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether the Company and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation. For further information regarding the internal investigation, see the Company's annual report for the year ended December 31, 2011.

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).

9.2. 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.

10. Significant events between the end of the quarter and the publishing of the “Interim financial report”

On April 4, 2012 Magyar Telekom announced that its subsidiary, Makedonski Telekom AD – Skopje (MakTel), passed a decision at its General Meeting on a total dividend payment of MKD 6.16 billion (around HUF 29.5 billion at the April 3, 2012 HUF/MKD exchange rate of 4.78) for the financial year 2011.

On April 16, 2012, Magyar Telekom held its Annual General Meeting (the “AGM”). At the AGM, 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, 2011. For further details on the resolutions of the AGM, visit Magyar Telekom’s website.

11. 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, May 10, 2012

This investor news contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore should not have undue reliance placed upon them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

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 financial statements for the year ended December 31, 2011, available on our website at <http://www.telekom.hu> 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.

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.

12. Key financial data

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income - IFRS (HUF million, except per share amounts)	Q1 2011 (Unaudited)	Q1 2012 (Unaudited)	% change
Revenues			
Voice - retail	42,457	41,961	(1.2%)
Voice - wholesale	7,512	6,889	(8.3%)
Voice - visitor	614	542	(11.7%)
Non-voice	14,741	15,379	4.3%
Equipment and activation	5,266	5,830	10.7%
Other mobile revenues	1,859	2,013	8.3%
Mobile revenues	72,449	72,614	0.2%
Voice - retail	23,682	21,169	(10.6%)
Voice - wholesale	5,006	4,456	(11.0%)
Internet	12,809	13,402	4.6%
Data	6,652	6,017	(9.5%)
TV	7,703	8,487	10.2%
Equipment	984	674	(31.5%)
Other fixed line revenues	1,595	2,216	38.9%
Fixed line revenues	58,431	56,421	(3.4%)
System Integration/Information Technology revenues	10,945	11,656	6.5%
Revenue from Energy Services	682	5,957	n.m.
Total revenues	142,507	146,648	2.9%
Expenses			
Mobile services-related payments	(15,733)	(17,722)	(12.6%)
Fixed line-related payments	(10,461)	(9,073)	13.3%
SI/IT-related payments	(5,896)	(6,104)	(3.5%)
Energy-related payments	(617)	(5,650)	n.m.
Agent commissions	(2,064)	(2,391)	(15.8%)
Bad debt expense	(2,404)	(2,066)	14.1%
Direct costs	(37,175)	(43,006)	(15.7%)
Employee-related expenses	(22,177)	(21,218)	4.3%
Depreciation and amortization	(23,994)	(25,312)	(5.5%)
Other operating expenses	(32,036)	(31,647)	1.2%
Total operating expenses	(115,382)	(121,183)	(5.0%)
Other operating income	2,127	799	(62.4%)
Operating profit	29,252	26,264	(10.2%)
Net financial result	(8,440)	(7,600)	10.0%
Share of associates' and joint ventures' losses	(1)	0	100.0%
Profit before income tax	20,811	18,664	(10.3%)
Income tax	(2,944)	(3,724)	(26.5%)
Profit for the period	17,867	14,940	(16.4%)
Exchange differences on translating foreign operations	(9,749)	(11,279)	(15.7%)
Revaluation of available-for-sale financial assets - before tax	0	0	n.a.
Other comprehensive income for the period, net of tax	(9,749)	(11,279)	(15.7%)
Total comprehensive income for the period	8,118	3,661	(54.9%)
Profit attributable to:			
Owners of the parent	15,167	13,018	(14.2%)
Non-controlling interests	2,700	1,922	(28.8%)
	17,867	14,940	(16.4%)
Total comprehensive income attributable to:			
Owners of the parent	8,414	5,120	(39.1%)
Non-controlling interests	(296)	(1,459)	(392.9%)
	8,118	3,661	(54.9%)
Basic and diluted earnings per share (HUF)	14.55	12.49	(14.2%)

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

	Dec 31, 2011 (Audited)	Mar 31, 2012 (Unaudited)	% change
ASSETS			
Current assets			
Cash and cash equivalents	14,451	41,364	186.2%
Trade and other receivables	124,663	124,909	0.2%
Other current financial assets	65,286	38,259	(41.4%)
Current income tax receivable	927	2,057	121.9%
Inventories	9,904	11,648	17.6%
Non current assets held for sale	5,165	4,791	(7.2%)
Total current assets	220,396	223,028	1.2%
Non current assets			
Property, plant and equipment	536,224	521,526	(2.7%)
Intangible assets	308,313	315,305	2.3%
Investments in associates and joint ventures	0	0	n.a.
Deferred tax assets	750	774	3.2%
Other non current financial assets	31,590	25,490	(19.3%)
Other non current assets	755	609	(19.3%)
Total non current assets	877,632	863,704	(1.6%)
Total assets	1,098,028	1,086,732	(1.0%)
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	49,865	64,908	30.2%
Other financial liabilities	70,155	64,714	(7.8%)
Trade payables	101,119	81,090	(19.8%)
Current income tax payable	1,335	873	(34.6%)
Provisions	3,703	3,147	(15.0%)
Other current liabilities	29,213	39,194	34.2%
Total current liabilities	255,390	253,926	(0.6%)
Non current liabilities			
Financial liabilities to related parties	230,166	216,121	(6.1%)
Other financial liabilities	17,928	17,504	(2.4%)
Deferred tax liabilities	26,270	27,403	4.3%
Provisions	1,236	11,088	(1.3%)
Other non current liabilities	947	938	(1.0%)
Total non current liabilities	286,547	273,054	(4.7%)
Total liabilities	541,937	526,980	(2.8%)
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	325,709	338,727	4.0%
Accumulated other comprehensive income	30,959	23,061	(25.5%)
Total Equity of the owners of the parent	488,015	493,135	1.0%
Non-controlling interests	68,076	66,617	(2.1%)
Total equity	556,091	559,752	0.7%
Total liabilities and equity	1,098,028	1,086,732	(1.0%)

MAGYAR TELEKOM

Consolidated Statements of Cash Flows - IFRS (HUF million)	Q1 2011 (Unaudited)	Q1 2012 (Unaudited)	% change
Cash flows from operating activities			
Profit for the period	17,867	14,940	(16.4%)
Depreciation and amortization	23,994	25,312	5.5%
Income tax expense	2,944	3,724	26.5%
Net financial result	8,440	7,600	(10.0%)
Share of associates' and joint ventures' losses	1	0	(100.0%)
Change in assets carried as working capital	3,182	(1,828)	n.m.
Change in provisions	(2,960)	(657)	77.8%
Change in liabilities carried as working capital	419	(16,363)	n.m.
Income tax paid	(4,104)	(4,208)	(2.5%)
Interest and other financial charges paid	(5,221)	(7,599)	(45.5%)
Interest received	1,047	1,021	(2.5%)
Other cashflows from operations	(989)	313	n.m.
Net cash generated from operating activities	44,620	22,255	(50.1%)
Cash flows from investing activities			
Investments in tangible and intangible assets	(12,314)	(23,841)	(93.6%)
Adjustments to cash purchases	(8,097)	(13,974)	(72.6%)
Purchase of subsidiaries and business units	(941)	(23)	97.6%
Cash acquired through business combinations	455	0	(100.0%)
Payments for / Proceeds from other financial assets - net	(8,160)	21,781	n.m.
Proceeds from disposal of subsidiaries and associates	0	84	n.a.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	3,282	261	(92.0%)
Net cash used in investing activities	(25,775)	(15,712)	39.0%
Cash flows from financing activities			
Dividends paid to shareholders and Non-controlling interest	(10)	(27)	(170.0%)
Repayment of / proceeds from loans and other borrowings - net	(8,198)	21,395	n.m.
Net cash used in financing activities	(8,208)	21,368	n.m.
Exchange losses on cash and cash equivalents	(510)	(997)	(95.5%)
Change in cash and cash equivalents	10,127	26,914	165.8%
Cash and cash equivalents, beginning of period	15,841	14,451	(8.8%)
Cash and cash equivalents, end of period	25,968	41,365	59.3%
Change in cash and cash equivalents	10,127	26,914	165.8%



MAGYAR TELEKOM - Consolidated Statements of Changes in Equity (unaudited)

	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, 2010	1,042,742,543	104,275	27,379	(307)	385,283	14,933	(51)	0	531,512	63,200	594,712
Total comprehensive income					15,167	(6,753)			8,414	(296)	8,118
Balance at March 31, 2011	1,042,742,543	104,275	27,379	(307)	400,450	8,180	(51)	0	539,926	62,904	602,830
Dividend					(52,117)				(52,117)		(52,117)
Dividend declared to Non-controlling interests									0	(12,478)	(12,478)
Total comprehensive income					(22,624)	22,842	(12)		206	17,650	17,856
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
Total comprehensive income					13,018	(7,898)			5,120	(1,459)	3,661
Balance at March 31, 2012	1,042,742,543	104,275	27,379	(307)	338,727	23,124	(63)	0	493,135	66,617	559,752