

Annual Report on the Operations
of MKT Group Internal Audit Department for the Y 2011

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Internal Audit results in Y 2011

- Group Internal Audit Department fulfilled the Annual Operational Plan for the year 2011 (Annual Audit Plan 2011/AAP 2011) with 19 performed audits (14 planned and 5 ad-hoc audits). The audits were performed in the planned time.
- There were two changes in the AAP 2011 as follows:
 1. The audit 'MKT – Internal Control System and Efficiency of Regional Operation Centers (RoCs)' was canceled because a new concept is planned to be developed.
 2. The audit 'MKT– Compliance Real Estate Project' is postponed to 2012 because the project is not finished.All changes were confirmed by the Audit Committee.
- From the audits performed in 2011, 75 measures were proposed, out of which 36 (48%) were fulfilled. The remaining measures have deadlines for realization in 2012.
- Other performed activities:
 - i. Ernst & Young performed a Quality Assessment Review of MKT Group Internal Audit Department (GIAD). The review verified that (1) GIAD is in compliance with the standards of Institute of Internal Auditors (IIA) and (2) according to Best in-Class assessment GIAD is in eight of nine audit categories leading/advanced level. With the implementation of the audit system 'Team Mate' the quality of the category 'tools and technology' will be increased.
 - ii. Participation in the Common Deutsche Telekom (DT) Project 'International Audit IT - Team Mate' with the goal to implement a single audit IT system. This audit system will support the audit management process (plan, schedule, document, analyze, track and report) in end-to-end manner, resulting in carrying out audit tasks more efficiently and effectively.
 - iii. Group Internal Audit Department participated in the Common International Audit Planning process with result that five common international audits will be performed in DT Group.
 - iv. There were two auditors successfully certified in 2011. One in CIA - Certified Internal Auditor and one in CISA - Certified Information Systems Auditor.



Overview of performed audits in 2011 (1/8)

ICS category	Subject	Results
<p>Financial Reporting no. of reports: 4</p>	<p>“Management Data Reports”</p>	<ul style="list-style-type: none"> ➤ Scope To assess the management data of both companies in terms of reliability, objectivity and validity. ➤ Finding Audited management data and reports are reliable, objective and valid. Exception is one business data, which could not be reproduced with the same result. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls of checked management data are appropriate. ➤ Proposed measures and assessment of their implementation The two agreed measures are implemented.
	<p>“CAPEX Management”</p>	<ul style="list-style-type: none"> ➤ Scope To analyze the compliance, efficiency and transparency of CAPEX planning and approval processes, including Business Cases on sample basis in the period from April 2010 to March 2011. ➤ Finding MKT CAPEX management is regulated, transparent and well performed. CAPEX implementation and Business Case processes must be harmonized within the Group. ➤ Assessment of the adequacy and efficiency of the internal control systems Checked internal controls are adequate and operating efficiently. ➤ Proposed measures and assessment of their implementation The five agreed measures are implemented.



Overview of performed audits in 2011 (2/8)

ICS category	Subject	Results
<p>Financial Reporting no. of reports: 4</p>	<p>“ICS Transaction Level Controls”</p>	<ul style="list-style-type: none"> ➤ Scope To confirm the appropriateness of design and operating effectiveness of ICS TLCs (15). ➤ Finding In the audit, 13 controls were evaluated as 'adequate' (green), one control as 'not adequate' (red) and one control is 'not eventuated'. The 'not adequate' control was inappropriately designed. ➤ Assessment of the adequacy and efficiency of the internal control systems Operating effectiveness of controls is appropriate, one control design needs to be changed. ➤ Proposed measures and assessment of their implementation Change control design is finished. Follow up audit on not eventuated controls was performed with no findings.
	<p>“ICS Principles”</p>	<ul style="list-style-type: none"> ➤ Scope To confirm the appropriateness of design and operating effectiveness of ICS requirements (20). ➤ Finding In the audit 19 controls were evaluated as 'effective' and one as 'not effective' due to not appropriate designee and operating effectiveness. ➤ Assessment of the adequacy and efficiency of the internal control systems Except for the above control, other internal controls are adequate and functioning. ➤ Proposed measures and assessment of their implementation Agreed measure should be completed by 13th April 2012.



Overview of performed audits in 2011 (3/8)

ICS category	Subject	Results
<p>Compliance no. of reports: 5</p>	<p>“Disclosure Controls and Procedures of the 2010 Annual Report on Form 20-F”</p>	<ul style="list-style-type: none"> ➤ Scope Magyar Telekom (MT), as a company listed on the New York Stock Exchange, prepares an Annual Report (in Form 20-F) to inform its investors. For the needs of 20-F, MKT/TMMK, as subsidiaries of MT, also have to submit information about business operations in 2010. The audit objective was the review of disclosure controls documented by the responsible area with regards to the design and operating effectiveness and related SOX regulations in 2010. ➤ Finding All reviewed items are supported with proper documentation and appropriate evidences. Internal Audit confirms the accuracy of the given data. ➤ Assessment of the adequacy and efficiency of the internal control systems Checked Internal Controls of 20-F Report are adequate. ➤ Proposed measures and assessment of their implementation No measures.
	<p>“Follow up: Protection of Business Data”</p>	<ul style="list-style-type: none"> ➤ Scope Follow up of measures from ‘Protection of Business Data’ audits performed in 2010 in both companies MKT and TMMK regarding administrators’ access to business data (as agreed with the Audit Committee) in the period from January 2011 to March 2011. ➤ Finding Measures are appropriately implemented. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal Controls regarding administrators’ access to business data are appropriate in MKT. ➤ Proposed measures and assessment of their implementation No measures.



Overview of performed audits in 2011 (4/8)

ICS category	Subject	Results
<p>Compliance no. of reports: 5</p>	<p>“Compliance of Procurement”</p>	<ul style="list-style-type: none"> ➤ Scope To assure that the new DT Global Procurement Policy is implemented in MKT/TMMK and that controls are designed and implemented to reduce the potential risk of inappropriate and/or cost-prohibitive vendor selection. Audit is performed with Group Internal Audit DT. ➤ Finding Local directives are in compliance with DT Procurement Policy and MT Group Procurement Directive. Procurement regulations in MKT and TMMK are different, which increases the risk of unintentional mistakes. Harmonization is necessary. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls within procurement are appropriately implemented. ➤ Proposed measures and assessment of their implementation The three agreed measures are implemented.
	<p>“Handling of Employee Data”</p>	<ul style="list-style-type: none"> ➤ Scope To evaluate the handling and protection level of confidential employee-related data, in accordance with the Law and Internal regulations in the period from June 2010 to June 2011. ➤ Finding Law requirements are implemented in MKT regulations. The protection of employee-related data must be increased. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls regarding protection of employee-related data will be strengthened by the implementation of the agreed measures. ➤ Proposed measures and assessment of their implementation Out of eight measures, six are implemented and the remaining two should be implemented by 30th June 2012.



Overview of performed audits in 2011 (5/8)

ICS category	Subject	Results
<p data-bbox="176 307 383 763">Compliance no. of reports: 5</p>	<p data-bbox="445 506 777 571">“Security of PKI System (Public Key Infrastructure)”</p>	<ul data-bbox="828 364 1916 714" style="list-style-type: none"><li data-bbox="828 364 1916 449">➤ Scope To evaluate technical, procedural and organizational internal and external PKI system activities in accordance with the Law and Internal regulations.<li data-bbox="828 449 1916 535">➤ Finding Law requirements are implemented in MKT regulations. Data protection in Sales processes and the Disaster Recovery must be improved. Internal PKI is well organized.<li data-bbox="828 535 1916 621">➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls in handling customer data, access security and PKI provisioning will be strengthened by the implementation of the agreed measures.<li data-bbox="828 621 1916 714">➤ Proposed measures and assessment of their implementation Out of 10 measures, seven are implemented and the remaining three should be implemented by 1st June 2012.



Overview of performed audits in 2011 (6/8)

ICS category	Subject	Results
<p>Operations no. of reports: 6</p>	<p>“Performance Verification of Technical Vendor Service”</p>	<ul style="list-style-type: none"> ➤ Scope To assess the transparency level of technical vendor service verification and confirmation in the period from October 2010 to July 2011. ➤ Finding Transparency of placing orders, performance verification and documentation of OPEX technical vendor services must be increased. ➤ Assessment of the adequacy and efficiency of the internal control systems With the implementation of the agreed measures, the internal controls of vendor service delivery, documentation and verification will be improved. ➤ Proposed measures and assessment of their implementation Out of five measures, four are implemented and the remaining one should be implemented by 30th April 2012.
	<p>“Incident Handling of Call Center (171) Outage”</p>	<ul style="list-style-type: none"> ➤ Scope To evaluate the reasons for the outage in Call Centre with the purpose to manage incidents appropriately in future. ➤ Finding The analysis of the audit ‘Incident Handling of Call Center (171) Outage’ shows deficiencies in managing IT incidents. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls will be defined by establishing incident reporting and incident management plan. ➤ Proposed measures and assessment of their implementation Out of nine measures, six are implemented and the remaining three should be implemented by 30th June 2012.



Overview of performed audits in 2011 (7/8)

ICS category	Subject	Results
<p>Operations no. of reports: 6</p>	<p>“Target Setting and Evaluation”</p>	<ul style="list-style-type: none"> ➤ Scope Compliance of MKT target setting process with MT/DT; Alignment of top and middle management target setting; Alignment of targets set with job descriptions; Transparency of target evaluation. Not in scope: Target setting and evaluation of Chief Officers. ➤ Finding No obligation for compliance with MT/DT regulations. Targets between top/middle management are aligned and in relation with job description. Some issues (for e.g. underachievement of targets, changing the target during the year) were not sufficiently regulated. Transparency of target evaluation needs improvement. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls regarding target setting and evaluation should be improved. ➤ Proposed measures and assessment of their implementation The five agreed measures should be fulfilled by 28th December 2012.
	<p>“Efficiency of Business Customer Process”</p>	<ul style="list-style-type: none"> ➤ Scope: To assess the success rate of Key Accounts Sales Office, Key Performance Indicators (KPI) setting, fulfillment and need for new KPIs and the quality of Key Account Management (incentive, training and staffing). ➤ Finding Efficiency of key account must be increased by quality improvements in the key account management and by solving the deficiencies in internal process. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls were not assessed in efficiency audit. ➤ Proposed measures and assessment of their implementation The 11 agreed measures should be fulfilled by 31st December 2012.



Overview of performed audits in 2011 (8/8)

ICS category	Subject	Results
<p>Operations no. of reports: 6</p>	<p>“Management Reporting”</p>	<ul style="list-style-type: none"> ➤ Scope The Audit objective was to assess the completeness, frequency and on time reporting regarding business data relevant for top management, including adequacy of report structure and style. ➤ Finding Inappropriate design of management reports. Cross area information flow needs to be improved and adjusted to the needs of Chief Officers. ➤ Assessment of the adequacy and efficiency of the internal control systems Internal controls were not assessed in management reporting audit. ➤ Proposed measures and assessment of their implementation Out of seven measures, one is implemented and the remaining six should be completed by 1st April 2012.
	<p>“IMS – Intrusion Incident”</p>	<ul style="list-style-type: none"> ➤ Scope To identify the security lacks of the new implemented IMS (IP Multimedia System). ➤ Finding Security lacks were identified during the IMS implementation. ➤ Assessment of the adequacy and efficiency of the internal control systems New internal controls will be introduced by defining new detection processes. ➤ Proposed measures and assessment of their implementation Out of nine measures, one is implemented and the remaining eight should be completed by 30th June 2012.

