



Department of Justice

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MAGYAR TELEKOM AND DEUTSCHE TELEKOM RESOLVE FOREIGN CORRUPT PRACTICES ACT INVESTIGATION AND AGREE TO PAY NEARLY \$64 MILLION IN COMBINED CRIMINAL PENALTIES

Parallel Enforcement Actions by Department of Justice and SEC Result in Penalties of More Than \$95 Million

WASHINGTON – Magyar Telekom Plc., a Hungarian telecommunications company, and Deutsche Telekom AG, a German telecommunications company and majority owner of Magyar Telekom, have agreed to pay a combined \$63.9 million criminal penalty to resolve a Foreign Corrupt Practices Act (FCPA) investigation into activities by Magyar Telekom and its subsidiaries in Macedonia and Montenegro, announced Assistant Attorney General Lanny A. Breuer of the Justice Department’s Criminal Division and U.S. Attorney Neil H. MacBride for the Eastern District of Virginia.

The department filed a criminal information against Magyar Telekom and a two-year deferred prosecution agreement in U.S. District Court for the Eastern District of Virginia today. The three-count information charges Magyar Telekom with one count of violating the anti-bribery provision of the FCPA and two counts of violating the books and records provisions of the FCPA. At the time of the charged conduct, Magyar Telekom’s American Depository Receipts (ADRs) traded on the New York Stock Exchange (NYSE). As part of the deferred prosecution agreement, Magyar Telekom agreed to pay a \$59.6 million penalty for its illegal activity, implement an enhanced compliance program, and submit annual reports regarding its efforts in implementing the enhanced compliance measures and remediating past problems.

According to court documents, Magyar Telekom’s scheme in Macedonia stemmed from potential legal changes being made to the telecommunications market in that country. In early 2005, the Macedonian government tried to liberalize the Macedonian telecommunications market in a way that Magyar Telekom deemed detrimental to its Macedonian subsidiary, Makedonski Telekomunikacii AD Skopje (MakTel). Throughout the late winter and spring of 2005, Magyar Telekom executives, with the help of Greek intermediaries, lobbied Macedonian government officials to prevent the implementation of the new telecommunications laws and regulations.

Magyar Telekom eventually entered into an agreement with certain high-ranking Macedonian government officials to resolve its concerns about the legal changes. In the secret

agreement, a so-called “protocol of cooperation,” Macedonian government officials agreed to delay the entrance of a third mobile license into the Macedonian telecommunications market, as well as other regulatory benefits. Magyar Telekom executives signed two copies of the protocol of cooperation, each with high-ranking officials of the different ruling parties of Macedonia. The Magyar Telekom executives then kept the only executed copies outside of Magyar Telekom’s company records.

According to court documents, in order to secure the benefits in the protocol of cooperation, the Magyar Telekom executives engaged in a course of conduct with consultants, intermediaries and other third parties, including through sham consultancy contracts with entities owned and controlled by a Greek intermediary, to pay €4.875 (approximately \$6 million) under circumstances in which they knew, or were aware of a high probability that circumstances existed in which, all or part of such payment would be passed on to Macedonian officials. The sham contracts were recorded as legitimate on MakTel’s books and records, which were consolidated into Magyar Telekom’s financials. Deutsche Telekom, which owned approximately 60 percent of Magyar Telekom, reported the results of Magyar Telekom’s operations in its consolidated financial statements.

Additionally, the criminal information charges Magyar Telekom with falsifying its books and records in regard to its activity in Montenegro. According to the court filing, Magyar Telekom made improper payments in connection with its acquisition of a state-owned telecommunications company in Montenegro. These payments were documented on Magyar Telekom’s books and records through the execution of four bogus contracts. For example, two of the contracts were backdated and concealed the true counterparties, and no legitimate services were provided under the contracts even though the contracts were for €4.47 million.

The department today also entered into a two-year non-prosecution agreement with Magyar Telekom’s parent company, Deutsche Telekom, for its failure to keep books and records that accurately detailed the activities of Magyar Telekom. Deutsche Telekom, which is headquartered in Germany, agreed to pay a \$4.36 million penalty in connection with the inaccurate books and records and to enhance its compliance program. At the time of the conduct, Deutsche Telekom’s ADRs traded on the NYSE.

Both agreements acknowledge Magyar Telekom and Deutsche Telekom’s voluntary disclosure of the FCPA violations to the department and the leadership of Magyar Telekom’s audit committee in pursuing a “thorough global internal investigation concerning bribery and related misconduct.” In addition, the agreements highlight that the companies have already undertaken remedial measures and have committed to further remedial steps through the implementation of an enhanced compliance program.

In a related matter, the U.S. Securities and Exchange Commission (SEC) announced civil charges against Magyar Telekom and Deutsche Telekom as well as three former Magyar Telekom executives. Magyar Telekom and Deutsche Telekom consented to the entry of a permanent injunction against FCPA violations. Magyar Telekom agreed to pay \$31.2 million in disgorgement and prejudgment interest.

The case is being prosecuted by Trial Attorney Liam Brennan of the Criminal Division's Fraud Section and Assistant U.S. Attorneys Charles Connolly and Robert Wiechering of the U.S. Attorney's Office for the Eastern District of Virginia. The department also acknowledges the significant contributions to this investigation by Assistant U.S. Attorney Jerrob Duffy, formerly of the Fraud Section. Significant assistance was provided by the FBI Washington Field Office's dedicated FCPA squad, the SEC Division of Enforcement, the Criminal Division's Office of International Affairs, and international legal partners in Switzerland, Germany, Greece, Hungary and the Republic of Macedonia.

Additional information about the Justice Department's FCPA enforcement efforts can be found at www.justice.gov/criminal/fraud/fcpa.