STEPPING UP TO THE NEXT LEVEL
MAGYAR TELEKOM
THE 2012 FINANCIAL YEAR

EGYÜTT. VELED

CONTENTS

As the market leader, we uniquely bring together the needs of our customers with the latest in technology, whether in communications, information or entertainment.
Everything we do starts with the customer. Our goal is to turn modern communications into experience which makes a difference in people's lives.
We are here to make Magyar Telekom everybody's favorite service provider.

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

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered office is Krisztina körút 55., 1013 Budapest, Hungary. Name of the Court of Registration and the registration number of the Company: Metropolitan Court as Court of Registration, Cg. 01-10-041928.

Magyar Telekom Plc. is listed on the Budapest Stock Exchange and its shares are traded on the Budapest Stock Exchange. Magyar Telekom's American Depository Shares (ADSs) each representing five ordinary shares were also traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted. Magyar Telekom terminated the registration of its shares and ADSs in the US in February 2012. The Company maintains its American Depositary Receipt program on a Level I basis.

The immediate controlling shareholder of the Company is MagyarCom GmbH (MagyarCom) owning 59.21% of the issued shares, while the ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). Deutsche Telekom Group's consolidated annual report prepared by Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) includes Magyar Telekom Plc. as a subsidiary of Deutsche Telekom AG.

All financial numbers included in this document have been prepared in accordance with IFRS as issued by IASB and endorsed by the European Union (EU).

Magyar Telekom Plc.'s corporate website is www. telekom.hu

In this annual report the terms "Magyar Telekom", the "Group", the "Company", "we", "us" and "our" refer to Magyar Telekom Plc. and, its direct and indirect subsidiaries as a group; the term "Magyar Telekom Plc." refers to Magyar Telekom Plc. without its subsidiaries; the term "DT" refers to Deutsche Telekom AG; the term "DT Group" refers to DT and its subsidiaries as a group.

SELECTED FINANCIAL DATA OF MAGYAR TELEKOM GROUP

	Year ended December 31,		
	2010	**2011**	**2012**
CONSOLIDATED COMPREHENSIVE INCOME DATA	HUF millions	HUF millions	HUF millions
Revenues	609,579	597,617	607,128
Operating profit	112,094	63,167	87,921
Profit attributable to the owners of the parent	64,378	(7,457)	36,859
EBITDA (1)	212,966	196,082	194,818
EBITDA (adjusted for special items) (2)	248,304	244,983	234,284
EBITDA margin (%)	34.9	32.8	32.1
EBITDA margin (adjusted for special items) (%)	40.7	41.0	38.6
CONSOLIDATED FINANCIAL POSITION DATA			
Total assets	1,109,006	1,098,028	1,057,844
Net assets	594,712	556,091	522,083
Common stock	104,275	104,275	104,275
Total Equity of the owners of the parent	531,512	488,015	463,056
Net debt	289,446	288,377	273,132
CONSOLIDATED CASH FLOWS DATA			
Net cash from operating activities	164,670	168,781	145,227
Net cash used in investing activities	(52,848)	(77,752)	(72,875)
Free cash flow (3)	77,495	92,026	61,707
Net cash used in financing activities	(130,589)	(93,228)	(71,062)

	Year ended December 31,		
EMPLOYEES	**2010**	**2011**	**2012**
Number of employees (closing full equivalent)	10,258	10,111	11,653
MAGYAR TELEKOM SHARE – KEY FIGURES			
Weighted average number of shares (basic and diluted)	1,041	1,042	1,042
Earnings per share (basic and diluted in HUF)	61.83	(7.15)	35.36
Dividend per share (HUF)	50	50	50

(1) EBITDA: Earnings before net financial result, taxes, depreciation and amortization.
(2) EBITDA adjusted for special items: EBITDA excluding investigation-related costs, severance payments and accruals and the special telecommunications tax.
(3) Free cash flow: operating cash flow and investing cash flow excluding proceeds from / payments for other financial assets.

KEY OPERATING STATISTICS OF MAGYAR TELEKOM GROUP

	DEC 3, 2011	DEC 3, 2012	% CHANGE
TELEKOM HUNGARY			
MOBILE OPERATIONS			
Mobile penetration (1)	117.3%	116.5%	n.a.
Mobile SIM market share (2)	45.0%	45.9%	n.a.
Number of customers (RPC)	4,817,296	4,836,965	0.4%
Postpaid share in the RPC base	46.2%	47.3%	n.a.
MOU	161	160	-0.6%
ARPU (HUF)	3,587	3,455	-3.7%
Postpaid	5,930	5,698	-3.9%
Prepaid	1,619	1,414	-12.7%
Overall churn rate	19.5%	18.4%	n.a.
Postpaid	14.5%	14.5%	n.a.
Prepaid	23.6%	21.9%	n.a.
Ratio of non-voice revenues in ARPU	21.0%	23.5%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6,449	5,479	-15.0%
Average retention cost (SRC) per retained customer (HUF)	19,102	13,500	-29.3%
Number of mobile broadband subscriptions	971,469	1,362,750	40.3%
Mobile broadband market share based on total number of subscriptions (2)	48.7%	45.8%	n.a.
Population-based indoor 3G coverage (2)	66.0%	75.4%	n.a.
FIXED LINE OPERATIONS			
Voice services			
Total voice access	1,604,035	1,544,831	-3.7%
Total outgoing traffic (thousand minutes)	3,049,192	3,198,321	4.9%
Blended MOU (outgoing) (3)	166	181	9.0%
Blended ARPA (HUF) (3)	3,138	2,849	-9.2%
Data products			
Blended retail broadband market share (2)	36.6%	36.9%	n.a.
Number of retail DSL customers	499,923	497,217	-0.5%
Number of cable broadband customers	212,631	245,984	15.7%
Number of fiber optic connections	31,611	41,802	32.2%

(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) Including PSTN, VoIP and VoCable.
(4) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

	DEC 3, 2011	DEC 3, 2012	% CHANGE
Total retail broadband customers	744,165	785,003	5.5%
Blended broadband ARPU (HUF)	3,950	3,813	-3.5%
Number of wholesale DSL access	107,215	89,861	-16.2%
TV services			
Blended TV market share (2)	24.7%	25.4%	n.a.
Number of cable TV customers	289,693	230,323	-20.5%
Number of satellite TV customers	281,312	291,118	3.5%
Number of IPTV customers	226,385	313,285	38.4%
Total TV customers	797,390	834,726	4.7%
Blended TV ARPU (HUF)	3,048	3,069	0.7%
Energy services			
Electricity points of delivery	17,311	87,945	408.0%
Gas points of delivery	17,951	59,900	233.7%
T-SYSTEMS HUNGARY			
MOBILE OPERATIONS			
Number of customers (RPC)	447,930	483,104	7.9%
Overall churn rate	6.3%	8.8%	n.a.
MOU	288	281	-2.3%
ARPU (HUF)	4,918	4,441	-9.7%
Ratio of non-voice revenues in ARPU	35.6%	37.4%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,166	4,059	-21.4%
Number of mobile broadband subscriptions	77,045	93,036	20.8%
FIXED LINE OPERATIONS			
Voice services			
Business	42,137	39,358	-6.6%
Managed leased lines (Flex-Com connections)	2,360	1,715	-27.3%
ISDN channels	135,246	130,052	-3.8%
Total lines	179,743	171,125	-4.8%
Total outgoing traffic (thousand minutes)	282,873	245,550	-13.2%
MOU (outgoing)	188	176	-6.4%
ARPU (HUF)	4,578	4,315	-5.8%
Data products			
Number of retail broadband access	15,561	14,289	-8.2%
Retail DSL ARPU (HUF)	8,339	7,446	-10.7%

(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) Including PSTN, VoIP and VoCable.
(4) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

	DEC 3, 2011	DEC 3, 2012	% CHANGE
MACEDONIA			
MOBILE OPERATIONS			
Mobile penetration	122.8%	127.0%	n.a.
Market share of T-Mobile Macedonia	50.0%	45.1%	n.a.
Number of customers (RPC)	1,263,051	1,181,437	-6.5%
Postpaid share in the RPC base	31.8%	32.4%	n.a.
MOU	135	163	20.7%
ARPU (HUF)	2,206	2,062	-6.5%
FIXED LINE OPERATIONS			
Voice services			
Fixed line penetration	15.9%	14.9%	n.a.
Total voice access	311,240	291,328	-6.4%
Total outgoing traffic (thousand minutes)	811,824	667,333	-17.8%
Data and TV services			
Retail DSL market share (estimated)	83%	83%	n.a.
Number of retail DSL customers	137,563	145,263	5.6%
Number of wholesale DSL access	23,847	26,903	12.8%
Number of total DSL access	161,410	172,166	6.7%
Number of IPTV customers	40,129	66,140	64.8%

(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) Including PSTN, VoIP and VoCable.
(4) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

	DEC 3, 2011	DEC 3, 2012	% CHANGE
MONTENEGRO			
MOBILE OPERATIONS			
Mobile penetration [4]	186.9%	159.8%	n.a.
Market share of T-Mobile Crna Gora [4]	34.7%	34.3%	n.a.
Number of customers (RPC) [4]	401,958	340,032	-15.4%
Postpaid share in the RPC base	32.3%	40.2%	n.a.
MOU	135	161	19.3%
ARPU (HUF)	2,998	3,358	12.0%
FIXED LINE OPERATIONS			
Voice services			
Fixed line penetration	26.4%	26.0%	n.a.
Total voice access	168,361	165,620	-1.6%
Total outgoing traffic (thousand minutes)	325,504	300,312	-7.7%
Data and TV services			
Retail DSL market share	85%	83%	n.a.
Number of total DSL access	78,164	81,842	4.7%
Number of IPTV customers	48,834	54,248	11.1%

(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) Including PSTN, VoIP and VoCable.
(4) Data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

2012 was a challenging but fruitful year for Magyar Telekom. Despite a significant decline in general economic conditions, we managed to strengthen our presence in the majority of our key markets and deliver robust results. Top-line revenues increased by 1.6%, a significant achievement compared to the 0-2% decline we had predicted at the beginning of the year. Better-than-expected revenues from non-core businesses such as TV, mobile internet, SI/IT, and retail energy played a major role in this creditable performance. With a decline of 4.4% in underlying EBITDA (EBITDA excluding severance expenses, investigation-related costs and the special and new telecom taxes), we came out at the more optimistic end of our target range of a 4-6% decline. This was due to our stringent approach to expense management, which ultimately resulted in savings on a number of operating costs. Over the course of 2012, we continued with our internal efficiency programmes, made great progress in the mobile base station modernisation project, and also launched LTE. In addition to this, in 2012, we completed an efficiency review of our real estate assets in Macedonia and, as a result, sold four of our existing buildings and purchased a single modern one. Although this resulted in a considerable gain and no immediate cashflow impact, the book CAPEX accounted for the new building is equivalent to 11 billion forint. As a result of these initiatives, our CAPEX – excluding spectrum acquisitions – of HUF 92.4 billion was slightly ahead of our HUF 90 billion target for the year.

Hungary's mobile market continued to present significant challenges in 2012. Competition intensified with the entrance of new MVNO players and a voice and SMS/MMS usage-based tax was introduced in the second half of the year. I believe that Magyar Telekom rose to meet these challenges well; mobile revenues in the Telekom Hungary segment declined by only 1%, and our market share grew from 45% to 46% over the year. Magyar Telekom took advantage of market trends and continued to ride the wave of the smartphone boom as an increasing number of smartphone buyers purchase a mobile internet package along with the handset. Our continued investment in the mobile network has made a huge contribution to this success and kept the quality of voice and data transfer high. In 2012, we expanded our country-wide 3G network coverage to over 75% and also started an LTE rollout so that by the end of the year, we had 99% LTE coverage for Budapest and 27% for the rest of the population, providing a download speed of up to 60Mbps. I firmly believe that we will continue to reap the benefits of these investments for many years to come, not just confined to 2012, as they will give us the all-important edge over our competitors, particularly as the penetration of third and fourth generation devices increases.

In the Hungarian fixed market, our focus remains on retention and bundling. The majority of our customers are now taking at least two, rather than one, fixed services from us, as they come to recognize the value in both our original pricing plans and state-of-the-art services. The Hoppá package, a flat-priced fixed service we have been offering for two years, continued to attract customers in 2012 and as such, has contributed significantly to the slowdown in PSTN churn. We have also seen encouraging developments in internet subscriptions as we continue to grow in line with the market, and as our customers upgrade to faster connection speeds. We have also seen a remarkable rise in demand for our renewed interactive TV services such as video on demand and archive TV; in 2012, we also introduced a unique solution that allows our customers to enjoy interactive services via satellite and a low-speed internet connection. As a result of this, our customers can access a wide range of interactive services, regardless of the type and quality of connection they have. The 0.7 percentage point increase in our TV market share and the growth in ARPU clearly demonstrate that we are heading in the right direction.

Magyar Telekom also continued to expand its non-telco services in 2012. Businesses such as retail energy and insurance saw a boom and have made a strong contribution to the Group's results. Our energy business went nationwide in spring 2012 and we have more than doubled the number of subscribers since then; by the end of 2012, we supplied either electricity or gas to almost 150,000 delivery points. Although these services remain low margin activities, we continue to see further scope in these initiatives as both tools for customer retention and for the selling opportunities they present relating to our conventional high-margin telco services.

In the T-Systems Hungary segment, we saw a decrease of 3.6% in revenues in 2012 mainly attributable to the ailing corporate telecommunications environment, while the SI/IT part of the business grew by 6.8% compared to 2011. Underlying EBITDA remained flat, a great performance given the impact of macroeconomic conditions on corporates' telecom spending and the fact that there were virtually no large-scale SI/IT investments in the public sector. Although economic prospects remain weak, at least in the short term, I think that there is still considerable potential to be exploited in SI/IT.

Our Macedonian subsidiary continued to face severe headwinds in the mobile market in 2012 as competitive pressures intensified further. In the fixed business, IPTV remains our flagship product but a strong uptake in subscriptions was unable to compensate for the negative effect of fixed voice churn. As mentioned above, the Macedonian operation finalised a real estate deal in 2012 which involved exchanging four old buildings for a new state-of-the-art headquarters: this provided a material one-off boost to EBITDA, although with no immediate effect on cashflow.

Our Montenegrin subsidiary continued to deliver excellent results despite a deteriorating operating environment caused by a slowing economy, a muted summer tourist season and a tax on SIMs and TV access introduced from 1 July 2012.

Looking ahead, I do not expect 2013 to be any less challenging than 2012. Our operating environment is largely influenced by the weak economy, which continues to keep consumer and corporate spending power depressed. As well as the persisting pressures on disposable income, we expect broader market conditions to remain challenging due to continued intense competition, along with persistent negative impacts from recently introduced fiscal measures. In this uncertain environment however, I believe that we will continue to deliver solid results. I expect revenues to decline by up to 3%, and reported EBITDA to deteriorate by 4-7% year-on-year. Our CAPEX, excluding any spectrum acquisitions, is expected to decrease by approximately 5% in 2013 compared to 2012.

We continue our endeavor to provide an attractive level of remuneration for our shareholders. As such, our Board of Directors has proposed a dividend payment of HUF 50 per share for the financial year 2012, for approval at the Annual General Meeting.

Magyar Telekom has defied several negative country- and industry-specific trends in the past, and has invested heavily to be able to do that in the future. I am therefore confident that we will be able to withstand effectively the headwinds expected in 2013, much as we have done in 2012. Our strategy, which is based on supporting core services by exploiting the synergies and growth potential of non-core services, will gain new momentum in 2013, enhancing both our current results and future prospects.

Budapest, April 12, 2013

Christopher Mattheisen
Chairman and Chief Executive Officer

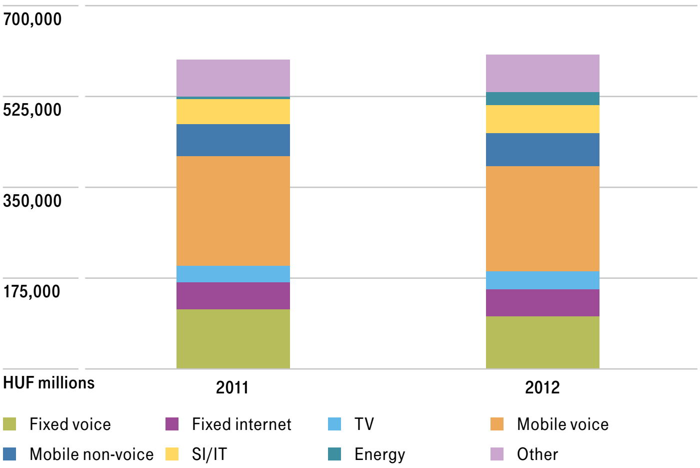
MANAGEMENT REPORT

Although both fixed and mobile voice and data revenues remained under pressure due to the recessionary macroeconomic environment, the strong revenue contribution of the energy service of HUF 25.5 billion more than offset the decline in these traditional services.

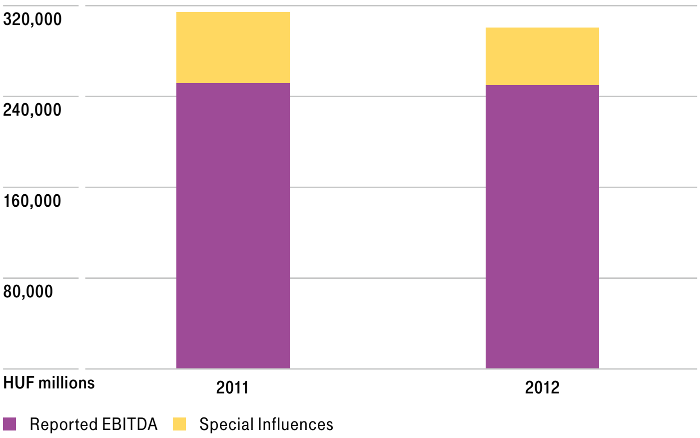
MANAGEMENT REPORT

Group revenues increased by 1.6% to HUF 607.1 billion in 2012 compared to 2011, surpassing our and the market's expectations. Although both fixed and mobile voice and data revenues remained under pressure due to the recessionary macroeconomic environment, the strong revenue contribution of the energy service of HUF 25.5 billion more than offset the decline in these traditional services. Furthermore, the growing TV revenues and higher mobile internet and mobile equipment revenues generated by higher smartphone sales also supported the positive revenue development.
EBITDA decreased slightly by 0.6% to HUF 194.8 billion with an EBITDA margin of 32.1%. While EBITDA in 2011 was negatively affected by HUF 16.2 billion one-off charge related to the settlement with the SEC and DOJ, in 2012 a newly introduced, traffic-based telecommunication tax reduced EBITDA by HUF 8.7 billion. Underlying EBITDA (i.e. EBITDA excluding investigation-related costs and provisions, severance expenses and the special and new telecom taxes) decreased by 4.4% to HUF 234.3 billion. In line with this development, the underlying EBITDA margin decreased by 2.4 percentage points to 38.6% reflecting the increasing portion of the lower margin services within our portfolio.
Profit attributable to owners of the parent company increased by HUF 44.3 billion to HUF 36.9 billion in 2012. The sharp rise was due to three one-off items negatively impacting the results in 2011: the settlement with the SEC and DOJ that had a total impact of HUF 21.9 billion; the impairment relating to the Macedonia segment amounting to HUF 31.4 billion; and the elimination of the enacted reduction of the Hungarian corporate tax rate from 19% to 10% effective from 2013 leading to an increase in deferred tax expense of HUF 15.0 billion in the fourth quarter of 2011. The main reason for the impairment loss relating to the goodwill on the Macedonia segment was a 15-25% reduction in the 10-year revenue growth plans for the Macedonia segment prepared in 2011, compared to the plans prepared a year before. This was due to the unfavourable economic environment and fiercer than expected mobile competition resulting in significant pricing pressure and increasing level of handset subsidies.
Excluding the 900 MHz spectrum license fee (amounting to HUF 10.9 billion) investment in tangible and intangible assets ("CAPEX") increased by HUF 8.6 billion, from HUF 83.8 billion to HUF 92.4 billion in 2012 compared to 2011, due principally to the higher investments in Macedonia related to the real estate exchange transaction. Although the book CAPEX accounted for the transaction was HUF 10.7 billion, a trade-in value of the old buildings in the amount of HUF 6.9 billion was accounted for and the difference is to be paid in six annual instalments. On a segmental basis, Telekom Hungary accounted for HUF 68.8 billion of total capex while HUF 5.2 billion is related to T-Systems Hungary. In Macedonia and Montenegro, capex for 2012 was HUF 24.6 billion and HUF 4.2 billion, respectively.

GROUP REVENUE



GROUP EBITDA

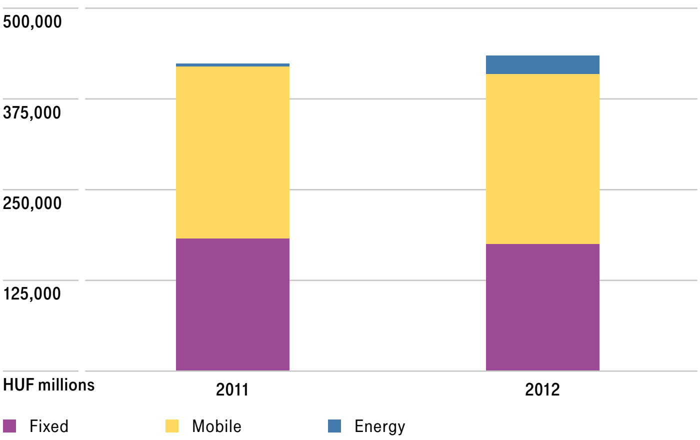


TELEKOM HUNGARY

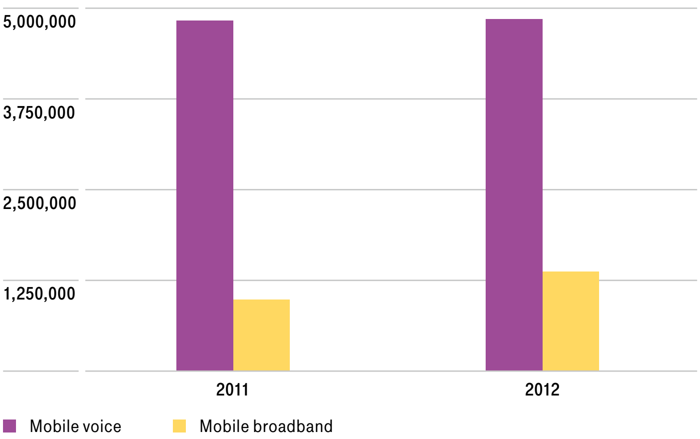
Telekom Hungary provides voice, broadband and TV services on both fixed line and mobile networks for residential, small office home office (SoHo), and small- and medium-sized business customers in Hungary. All of our energy operations are also included in this segment.

Revenues increased by 2.6% to HUF 433.6 billion in 2012 as growth in our energy revenues compensated for the losses in the traditional telecommunications services. Although reported EBITDA increased by 2.1%, as the 2011 performance was negatively affected by the one-off provision created for the SEC and DOJ settlement, underlying EBITDA actually declined by 4.5% to HUF 164.0 billion. Consequently, underlying EBITDA margin also decreased by 2.6 percentage points to 37.8% as the savings from our cost-cutting initiatives could not fully compensate for the impact of the increased proportion of lower margin businesses, such as energy.

TELEKOM HUNGARY
REVENUES



TELEKOM HUNGARY
MOBILE SUBSCRIBERS



Mobile revenues in the segment decreased by 1.1% to HUF 233.9 billion reflecting the combined impact of several developments. While the customer base grew by 0.4% and our post-paid ratio from 46.2% to 47.3%, these positive developments could only partially mitigate the unfavourable impact of the 3.7% decline in average monthly revenue per user ("ARPU"). The lower ARPU level was a result of lower average tariff levels coupled with a slight, 0.6% decrease in average monthly minutes of use per subscriber ("MOU") and 20% lower mobile termination rates that could not be fully offset by higher mobile internet usage. At the same time, however, we managed to extend our market leading position, to a SIM-based market share of 45.8% by the end of 2012.

The advance in smartphone and mobile internet penetration continued in 2012. Close to 70% of the total handsets sold during 2012 were smartphones, resulting in a rise in smartphone penetration among all T-Mobile handsets in circulation from 18% in 2011 to 31% at year-end 2012. Furthermore, 80% of post-paid smartphone buyers signed up to a mobile internet package, the number of which consequently rose to 1,456,000 by year-end. To further support the expansion of smartphones and mobile internet usage Magyar Telekom was the first to launch commercial LTE service in Hungary and by the end of 2012 we had full 4G coverage in Budapest as well as in 65 other towns across Hungary.

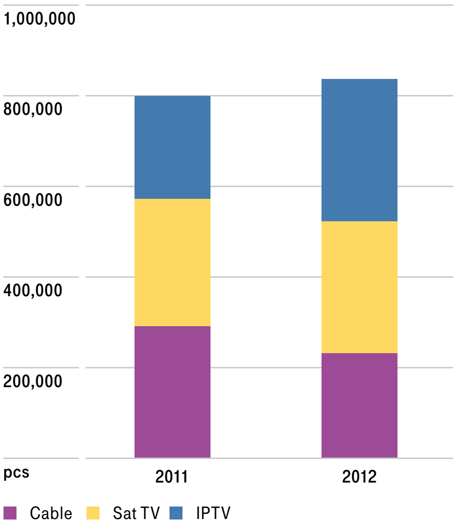
As the recessionary economic environment continued to weigh heavily on Hungarian households, fixed line voice revenues continued their decline, down by 12.5% in 2012. Nevertheless, the continued success of our flat-priced package, "Hoppá" and our multi-play strategy – including energy – had a significant impact on retention levels, with fixed voice churn down to below 4%. During 2012, we made our flat-priced package available across all platforms, including voice-over-IP and voice-over-cable. As a result, 36% of our fixed voice customers now subscribe to Hoppá with more than 90% of these on a 2-year loyalty contract. Hoppá also facilitates our bundling strategy: more than half of our fixed voice customers subscribed to a 2Play or 3Play package by the end of the year. Despite the improvement in churn figures, the average revenue per access declined by 9.2% driven by intense competition in the fixed line market, where the share of local multi-play offers with greater price discounts is increasing.

Fixed broadband revenues rose by 1.7% thanks to the 5.5% subscriber base growth. However, the enlarged subscriber base combined with greater upselling of more advanced ED3 and fibre technologies could not offset the negative effects of multi-play migration and local pricing pressure, as demonstrated by the 3.5% decrease in ARPU.

Although the pace of TV revenue growth has slowed down somewhat compared to previous years, the positive trend continued in 2012, as shown by the 6.3% increase in these revenues to HUF 30.0 billion. Interactivity continued to be the focus of our TV strategy leading to a 38.4% increase in the number of our IPTV customers to over 313,000 by year-end. In 2012, we also achieved nation-wide interactive TV service through our Hybrid TV product which does not require high speed internet or a cable connection. As a result, our overall market share on the TV market rose by 0.7 percentage points to 25.4%. Moreover, we see a steady uptake in our reframed Video on Demand, Archive TV, and other complementary services which also contributed to the 0.7% increase in the overall level of TV ARPU.

Within our retail energy business, sales activity continues to be remarkable. At the end of the year, we had close to 88,000 electricity and 60,000 gas points of delivery that generated HUF 25.5 billion of revenues. Although the low profitability of the energy business dilutes our group level margins, it serves as a great retention tool and improves the churn rates of higher-margin telecommunications services.

TELEKOM HUNGARY
TV SUBSCRIPTIONS

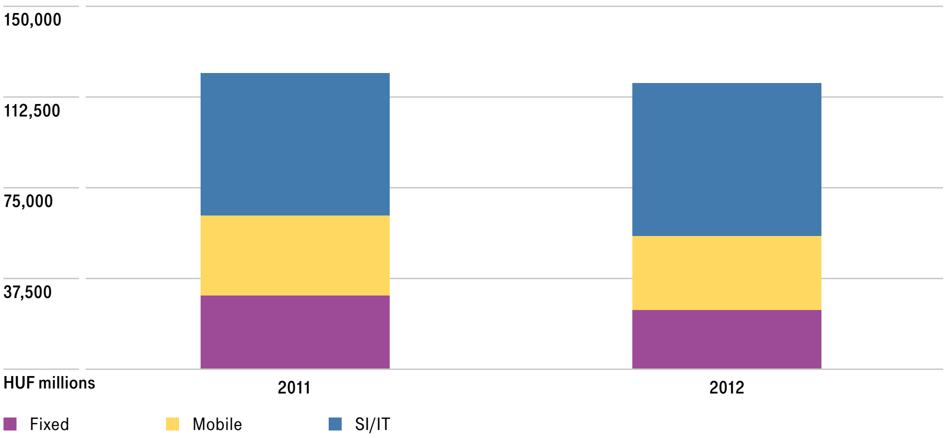


T-SYSTEMS HUNGARY

T-Systems Hungary offers fixed line services including fixed voice, data, system integration (SI) and IT, together with mobile services for corporate and public sector clients.

The difficult economic environment resulting in reduced spending in the Hungarian public and corporate sectors led to a 3.6% erosion in T-Systems Hungary's revenues to HUF 117.9 billion. Nevertheless, thanks to our cost-cutting measures and the positive contribution from the Pro-M sale, underlying EBITDA decreased by only 0.4% to HUF 22.4 billion and the underlying EBITDA margin increased by 60 basis points to 19.0%.

T-SYSTEMS HUNGARY
REVENUE BREAKDOWN



Mobile revenues in the segment declined by 7.5% to HUF 30.6 billion driven by lower voice revenues as well as the fallout of Pro-M revenues from September. Retail voice revenues declined by 4.8% despite the 7.9% increase in the number of customers as the adverse economic environment and intense competition lead to tariff pressure and the rising trend in usage also reversed. Reflecting these, MOU was lower by 2.3% and ARPU declined by 9.7%. Although the number of mobile broadband subscriptions has increased by 20.8%, revenues from mobile internet increased more moderately, reflecting the prevailing price pressure.

The 19.6% decline in fixed line revenues is partly attributable to continuing churn and pricing pressures on fixed voice reflected in the 4.8% decrease in our total fixed lines and 5.8% lower ARPU levels. However, the revenue decline is primarily due to a 22.6% fall in data revenues. Demand for data services was negatively affected by the increased insourcing of these services in the public sector whilst private sector customers impacted by the economic downturn renegotiated existing contracts on more favourable terms.

T-Systems Hungary's SI/IT revenues rose by 6.8% to HUF 63.1 billion. The increase was largely driven by equipment sales and installation projects. In addition, we were also successful in extending some major contracts, albeit on slightly less favourable terms. Consequently, there has been a shift in our revenue structure towards lower-margin services, leading to the dilution in direct margins in this segment.

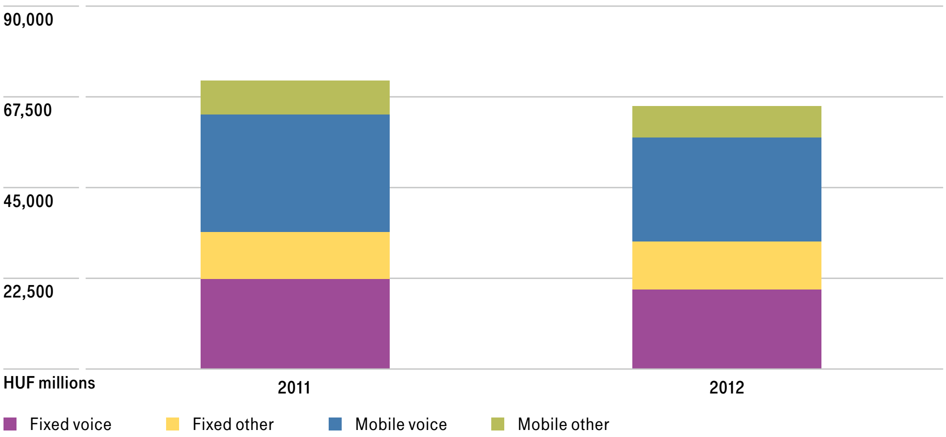
MACEDONIA

Although the results of our Macedonian operations in forint terms were positively impacted by the average 3.5% year-on-year weaker forint against the Macedonian denar, the unfavourable economic developments coupled with fierce competition negatively affected performance leading to a revenue decline of 8.8% to HUF 65.1 billion. Underlying EBITDA, including a positive HUF 3.8 billion contribution from real estate sales, decreased by 7.9%, thus the underlying EBITDA margin increased slightly to 53.8%.

Mobile revenues in Macedonia decreased by 10.5% to HUF 33.7 billion. The majority of the decline was due to lower voice retail revenues, down by 14.2% to HUF 20.3 billion as the strong competition put downward pressure on the tariff levels. Consequently, ARPU levels also declined by 6.5% despite the 20.7% increase in the MOU. Non-voice revenues decreased by 8.7% as higher mobile internet sales could not offset the decrease in messaging revenues.

Fixed line revenues declined by 6.9% to HUF 31.4 billion as the strong 43.7% increase in TV revenues, driven by the 64.8% rise in IPTV customers, and the broadly stable broadband revenues could not offset the negative results of the traditional voice and data segments. Fixed line retail voice revenues declined by 19.4% to HUF 10.7 billion, driven by strong competition from alternative and cable operators and increasing mobile substitution.

MACEDONIA
REVENUE BREAKDOWN



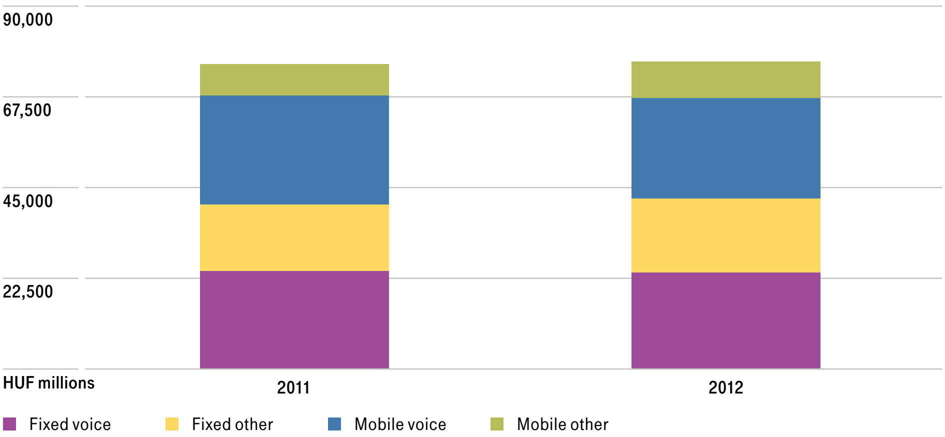
MONTENEGRO

Revenues in Montenegro in forint terms rose slightly by 0.9% to HUF 33.0 billion while underlying EBITDA increased by 1.0%, thus the underlying EBITDA margin remained stable at 38.6%. As the results from Macedonia, the Montenegrin results were also positively impacted by the average 3.5% year-on-year weaker forint against the euro.

Mobile revenues in Montenegro decreased by 2.5% to HUF 14.7 billion. The 7.5% decline in voice revenues was a result of lower revenues from tourists during the summer, decreasing effective price levels, as well as the two-step cut in mobile termination rates during 2011. This was partially compensated by the 17.7% increase in non-voice revenues thanks to higher mobile broadband usage. Although the reported mobile subscriber base decreased by 15.4%, this was due to the new requirement of the regulator to register all pre-paid users, and had little effect on our market position. Our overall market share remained roughly stable and was 34.3% at year-end 2012, while we further strengthened our leading market position in the post-paid segment.

Fixed line revenues were up by 3.8% to HUF 18.2 billion. Thanks to our focus on broadband and IPTV services, the number of customers grew by 4.7% and 11.1%, respectively, and revenues generated by these businesses increased at a similar rate, offsetting the decline in voice and data revenues. While retail voice revenues declined by 1.9%, data revenues were 8.0% lower than a year earlier.

MONTENEGRO
REVENUE BREAKDOWN



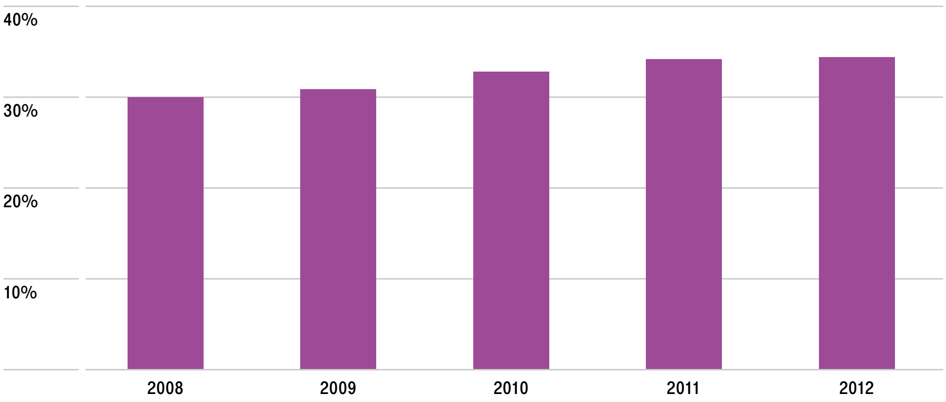
CASH FLOW GENERATION, DIVIDEND PAYMENT

Net cash generated from operating activities decreased from HUF 168.8 billion to HUF 145.2 billion in 2012, primarily driven by the payment of the SEC and DOJ settlement charge in January 2012. Free cash flow decreased from HUF 92.0 billion to HUF 61.7 billion due to lower operating cash flow and higher capital expenditures, the real estate sales in the first quarter of 2011 also contributed to the decline. This was partly offset by the proceeds from the sale of Pro-M in 2012.

Net debt decreased, from HUF 288.4 billion to HUF 273.1 billion by the end of 2012 compared to the end of 2011. The net debt ratio (net debt to equity and net debt) was 34.3% at the end of 2012.

The Board of Directors proposed a dividend payment of HUF 50 per ordinary share for the 2012 financial year for approval at the Annual General Meeting. The proposed dividend level is in line with Magyar Telekom's dividend policy of maintaining its net debt ratio within the targeted range of 30-40%.

NET DEBT
TO TOTAL CAPITAL RATIO



OUR MANAGEMENT
BOARD OF DIRECTORS

Under Hungarian laws, the Board of Directors is responsible for all matters relating to the Company's management and course of business not otherwise reserved for the General Meeting or for other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors is required to report annually to the shareholders at the General Meeting and quarterly to the Supervisory Board on our business administration, state of assets, financial situation and business policy.

Pursuant to our Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting of the shareholders for a term of three years. On December 31, 2012, there were nine members of the Board of Directors.

Meetings of the Board of Directors are held at least four times a year. Meetings of the Board of Directors require the presence of six members for a quorum. Each member has one vote. The Board of Directors passes resolutions by a simple majority vote.

On December 31, 2012, members of the Board of Directors, their principal occupations and the years of their original election were as follows:

name	born	principal occupation	member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Ferri Abolhassan	1964	Director Production and Member of the Executive Board, T-Systems Int. GmbH (DT)	2010
Dr. Mihály Patai	1953	Chairman-CEO of Unicredit Bank Plc.	2012
Günter Mossal	1961	Vice-President for Area Management, Europe (DT)	2012
György Mosonyi	1949	Chairman of the Supervisory Board of MOL	2012
Thilo Kusch	1965	Chief Financial Officer of Magyar Telekom Plc.	2006
Dr. Klaus Nitschke	1961	Vice President Content Development & Production at Products & Innovation, Deutsche Telekom AG	2010
Frank Odzuck	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	1960	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003

OTHER PRINCIPAL DIRECTORSHIPS
OF MEMBERS OF THE BOARD OF DIRECTORS:

Name	Position held	Company
Christopher Mattheisen	Member of the Board of Directors	Makedonski Telekom
	Member of the Board of Directors	T-Mobile Macedonia
Dr. Ferri Abolhassan	Member of the Executive Board	T-Systems International GmbH
Dr. Mihály Patai	Chairman of the Supervisory Board	Unicredit Leasing Zrt.
	Member of the Supervisory Board	Siemens Hungary Zrt.
Günter Mossal	None	
György Mosonyi	Chairman of the Board of Directors	TVK Plc.
	Chairman of the Supervisory Board	Slovnaft Sro.
	Vice-Chairman of the Supervisory Board	INA d.d.
Thilo Kusch	None	
Dr. Klaus Nitschke	None	
Frank Odzuck	Member of the Board of Directors	Zwack Unicum
Dr. Ralph Rentschler	Member of the Board of Directors	Slovak Telekom
	Member of the Supervisory Board	Hrvatski Telekom d.d.
	Member of the Supervisory Board	T-Mobile Netherlands Holding B.V.
	Member of the Board of Directors	T-Mobile Czech Republic, a.s.

BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS

CHRISTOPHER MATTHEISEN
Mr. Mattheisen studied economics at Indiana University of Bloomington and at Columbia University. He first came to Hungary in 1990 to start a strategic planning and business consulting company. In 1993, in his capacity as a marketing manager of U.S. West International, Mr. Mattheisen helped launch various Hungarian, Polish and Czech mobile service operators. He worked as the marketing and sales director of TMH between 1993 and 1996. Between 1997 and 1999, he ran sales and marketing activities of MediaOne in London and later worked in Britain as a business, sales and marketing director of BT's Cellnet. In September 2002, Mr. Mattheisen became Chief Officer of Residential Services of Magyar Telekom and in January 2005, Chief Officer of the Wireline Lines of Business ("T-Com", including Residential Services, Internet and Network divisions). From December 6, 2006, Mr. Mattheisen has been the Chief Executive Officer of Magyar Telekom, from December 21, 2006, he has been the Chairman of the Company's Board of Directors.

Dr. FERRI ABOLHASSAN
Dr. Abolhassan joined IBM in California in 1989 and completed his doctoral work in Research & Development in massive parallel computing at Saarland University in Saarbrucken. Between 1992 and 2000, he worked at SAP Retail Solutions as a Sales Director and as a Managing Director. Between 2001 and 2004, he was Co-Chairman and Chief Executive Officer at IDS Scheer AG. He was a member of top management at SAP AG as Executive Vice President. In 2008, he joined T-Systems International GmbH and he has been a Member of the Board of Directors of T-Systems and Chief of Systems Integration. From December 1, 2010, Dr. Abolhassan has been responsible for the New Production Unit as a member of the Executive Board at T-Systems.

Dr. MIHÁLY PATAI

Dr. Patai studied economics and obtained his doctorate at the University of Economics in Budapest. He studied in Moscow with the scholarship of Comecon in 1978, and at University of Vienna in 1981. He spent six months in London with the scholarship of a subsidiary of the Hungarian National Bank. He started his career in 1976 at Hungarian National Bank. From 1978 to 1988, he worked for the Ministry of Finance as a research fellow and, subsequently, as the deputy head of the Department for International Finances. From 1988, he worked for The World Bank in Washington DC for a period of five years, as the Executive Director's Assistant. He was the Managing Director of Kereskedelmi Bank Rt. in 1993, and he became the Chairman and CEO of Allianz Hungária Insurance Ltd. in 1996. From 1998 to 2006, he was member of the Board of Directors of Matáv Rt. (now Magyar Telekom Plc.). Since 2006, he has been the Chairman and CEO of UniCredit Bank Hungary Zrt.

GÜNTER MOSSAL

Mr. Mossal qualified with a degree in Electrical Engineering at the Rheinisch-Westfälisch-Technische Hochschule (RWTH) Aachen. He started his career in 1988 at Deutsche Telekom in a local branch office in Cologne. Between 1991 and 1995, he worked for the German Federal Ministry for Posts and Telecommunications. In 1995, he consulted the European Commission on the regulation for WLL applications. In 1996, he rejoined Deutsche Telekom. He was responsible for the business development in the UK and was member of the Board of Directors of the British Cable Company Eurobell. Between 2000 and 2002, he was Head of Investment Consulting for Western Europe. Since 2003, he has been Vice President for Area management. He was member of the Supervisory Board of T-Mobile Croatia, member of the Board of Directors of Makedonski Telekom and member of the Board of Directors of T-Mobile Macedonia.

GYÖRGY MOSONYI

Mr. Mosonyi obtained a degree in Chemical Engineering from the University of Veszprém in 1972. From 1974, he worked for the Hungarian representative office of Shell International Petroleum Co., where he held the position of commercial director from 1986. In 1991, he worked at the Shell headquarters in London. From 1992 to 1993, he was the managing director of Shell-Interag Ltd. and from 1994 to 1999, he was the Chairman and CEO of Shell Hungary Ltd. In 1997, he also held the positions of head of the Central & East European Regional unit of Shell and in 1998, he became the CEO of Shell Czech Republic. From 1999 to 2011, he was the CEO and member of the Board of Directors of MOL Hungarian Oil and Gas Company Plc. From 2006 to 2011, he was the Chairman, and since 2011, he has been a permanent invitee of the Sustainable Development Committee of the Board of Directors. Since 2011, he has been the Chairman of the Supervisory Board of MOL.

THILO KUSCH

Mr. Kusch studied communication engineering and business administration at Technische Universität Berlin. From 1989 to 1992, he successfully established and ran his own company selling PCs and PC networks to residential and small business customers. From 1992 to 1998, he worked in a leading position in Arthur D. Little's Telecoms, IT, media and entertainment practice as a management consultant and from 1998 to 2001, he was telecommunications equity analyst with Dresdner Kleinwort Wasserstein. He joined Deutsche Telekom Group in 2001 as Senior Director in charge of IPO preparations and investor relations for T-Mobile International. Since April 2002, he was a Senior Executive Vice president of Deutsche Telekom, in charge of investor relations. He was appointed Chief Financial Officer of Magyar Telekom in September 2006.

Dr. KLAUS NITSCHKE

Dr. Nitschke has a degree from Cologne University in Molecular Biology. He acquired a Bachelor of Arts degree from Boston University and in 1992, a PhD degree as Doctor rerum naturalium from the Max-Planck Institute in Cologne. His career started in 1992 as a Top Management Consultant at Dicke & Associates. In 1999, together with his Partners he sold the company to Deloitte Consulting. From 2000 to 2002, he continued his career with Bertelsmann AG as Chief Operating Officer of BOL AG and as Vice President, being responsible for building up a MVNO. In 2002, he joined Deutsche Telekom where he has been in various management positions. He was first assigned as Area Manager for the Central European subsidiaries of Deutsche Telekom: Magyar Telekom, Hrvatski Telekom and Slovak Telekom. Between 2003 and 2005, he led the Strategy department of Deutsche Telekom's fixed line business in Germany. From 2005 to 2009, he worked as a Managing Director to build up a Product & Development unit which was later reintegrated into Deutsche Telekom. He then was assigned to lead the Strategy department of Deutsche Telekom´s European Business, focused on substantial Pay TV- and ICT projects and was acting as Area Manager till 2011. He is heading the Pay TV activities in Deutsche Telekom´s European footprint. From December 1, 2012, he has assumed the position of Vice President Content Development & Prodaction at Products & Innovation, DT AG.

FRANK ODZUCK

Mr. Odzuck obtained an economics degree in 1983 in Budapest. He was the managing director of the Hungarian operations of Eduscho and Eduscho-Tchibo for 8 years and later the managing director of Nestlé-Schöller Hungary Ltd. Since 2003, he has been the CEO of Zwack Unicum Plc., listed on the Budapest Stock Exchange. The company, producing and marketing a genuine "Hungaricum", is one of the best-known international companies in Hungary (Underberg, Diageo).

Dr. RALPH RENTSCHLER

After receiving a doctorate degree in economics, Dr. Rentschler worked for four years for Robert Bosch GmbH as an expert advisor on business principles and methods. His areas of responsibility included investment analysis and cost accounting. He was Head of Group Controlling and Planning and Reporting Departments at Carl Zeiss from 1992 to 1997. His areas of responsibility included production and investment controlling, controlling of affiliated companies, M&A and strategic planning. Later he became Commercial Manager of the Brand Optics Division at Carl Zeiss, where he managed Accounting, Controlling, Data Processing and Purchasing. Dr. Rentschler joined Deutsche Telekom in 2001 and became CFO of the group-wide Fixed Net division. From July 2009, Dr. Rentschler has taken over the position as the Financial Director of the Board Division Southern and Eastern Europe in addition to his position as the CFO of the Fixed Net business. From July 2010, Dr. Rentschler took over the position of the Financial Director Europe.

MANAGEMENT COMMITTEE

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000. The Management Committee carries out its activities based on its Rules of Procedure approved by the Board of Directors, which is available on the Company's website.

Management Committee membership shall last from the date of the assignment or from the date, set forth therein as the dateof the assignment, to the termination of the assignment, due to any reasons.

On January 1, 2013, the members of the Management Committee and the years of their original election were as follows:

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer	2006
Attila Keszég	1966	Chief Commercial Officer Residential	2010
Thilo Kusch	1965	Chief Financial Officer	2006
Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Róbert Pataki	1971	Chief Business Development Officer	2009
Róbert Budafoki	1966	Chief Commercial Officer Enterprise	2011
Éva Somorjai	1966	Chief Human Resources Officer	2007
Walter Goldenits	1970	Chief Technology and IT Officer	2013
Péter Lakatos	1975	Chief Commercial Officer SMB	2012

OTHER PRINCIPAL DIRECTORSHIPS
OF MEMBERS OF MANAGEMENT COMMITTEE:

Name	Position held	Company
Christopher Mattheisen	See above	
Attila Keszég	None	
Thilo Kusch	See above	
Balázs Máthé	None	
Róbert Pataki	Member of the Supervisory Board	FHB Kereskedelmi Bank Co., Ltd.
	Chairman of the Board of Directors	Origo Zrt.
	Chairman of the Board of Directors	Telekom New Média Zrt.
	Chairman of the Board of Directors	Investel Zrt.
	Chairman of the Board of Directors	Cronogorski Telekom
	Member of the Board of Directors	Makedonski Telekom
	Member of the Board of Directors	T-Mobile Macedonia
Róbert Budafoki	Chief Executive Officer	T-Systems Hungary Zrt.
Éva Somorjai	None	
Walter Goldenits	None	
Péter Lakatos	None	

BIOGRAPHIES OF CHIEF OFFICERS

CHRISTOPHER MATTHEISEN

See “Biographies of Members of the Board of Directors” above.

ATTILA KESZÉG

Mr. Keszég graduated from the Budapest University of Technology and Economics as a qualified mechanical engineer before attending an MBA course specializing in financial and management studies. He started his career in 1992 at Hemingway Holding, then he worked for Dove Mid Europe. In 1994, he joined Pepsi Cola Hungary first as Key Accounts Director, then Project Manager, later Unit Manager Central Hungary managing field sales, delivery and warehousing. From 1999, he worked as Sales Director of Pepsi Cola Hungary and from 2001, as Sales Director for Traditional Trade Central and Eastern Europe responsible for the Hungarian, Polish, Czech and Slovak markets. From 2005, he was the General Manager of Red Bull Hungary. From September 1, 2010, he was appointed to the position of Chief Sales and Services Officer of Magyar Telekom. From January 1, 2013 he has been Chief Commercial Officer Residential of Magyar Telekom.

THILO KUSCH

See “Biographies of Members of the Board of Directors” above.

Dr. BALÁZS MÁTHÉ

Dr. Máthé received his law degree from Janus Pannonius University, Pécs in 1995. His previous studies included EU Law Studies at the Universitá degli Studi di Trento, Italy and a few semesters at the Faculty of Arts (History and Languages) of Janus Pannonius University. Prior to joining Magyar Telekom, he worked as an attorney at various international law firms for over a decade, including five years at one of the leading global law firms, Linklaters, where he was a Partner and the Head of the Corporate Department in Budapest. As an attorney, he specialized in cross border mergers and acquisitions and corporate governance matters. He joined Magyar Telekom as Group Legal Director in 2007. He was appointed Chief Legal and Corporate Affairs Officer of Magyar Telekom as of July 1, 2010.

RÓBERT PATAKI

Mr. Pataki graduated as an economist from the Corvinus University in Budapest and then completed studies in International Finances and Marketing Management at the University of Erasmus in Rotterdam. He started his career as an investment analyst at Project Finance International Ltd. in The Hague in 1995 and he worked as a financial analyst for Nutricia Netherlands BV in Rotterdam in 1996. He joined Accenture (Andersen Consulting) in 1996 and until 2001 he worked for Accenture's Strategic Services, first as a strategic consultant, later as a senior manager responsible for the telecommunications and e-commerce sectors. From 2001, he continued his professional career with A.T. Kearney as a dedicated account manager providing consultancy services to leading Hungarian telecommunications companies; later in 2003, he became senior manager of A.T. Kearney's European Telecommunications Team responsible for major European projects in the field of mobile communications and Internet services. He has been Chief Strategist of Magyar Telekom since September 2006. As of April 1, 2009, he was appointed Chief Operating Officer of Alternative Businesses and Corporate Development Business Unit by keeping his tasks as Chief Strategist of Magyar Telekom as well. Due to organizational changes within the company, he worked as Chief Strategy and Corporate Development Officer from September 2009. From January 1, 2013 he has been Chief Business Development Officer of Magyar Telekom.

RÓBERT BUDAFOKI

Mr. Budafoki graduated at the Budapest University of Technology in electrical engineering. He started his career at KFKI in 1991 as computer systems engineer. From 1992, he worked for Olivetti as systems engineer, later product and account manager. In 1995, he joined Cisco Systems Hungary as one of its founders and became General Manager in 2001 and General Manager Consumer Business and Marketing Central and Eastern Europe in 2006. From 2008, he was the founder CEO of Central Europe On-Demand (CEOD) which provides software and cloud computing services for business customers in eleven countries of the Central and South East European region (Austria, Bulgaria, Cyprus, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, Turkey). He was appointed to the Chief Operating Officer position in charge of heading the Business Services Business Unit (T-Systems) of Magyar Telekom, effective from June 1, 2011. From April 1, 2012, he was also appointed to the Chief Executive Officer position of T-Systems Hungary. From January 1, 2013 he has been Chief Commercial Officer Enterprise of Magyar Telekom.

ÉVA SOMORJAI

Ms. Somorjai completed her studies at the College for Commerce and Catering. From 1989, she worked at the international directorate of Magyar Hitelbank. From 1991 through 1994, she was the administrative and financial manager of a real estate investment company in Melbourne, Australia. Between 1994 and 2001, she worked in various management positions in the financial and human resources area of Pepsi Cola's Central European division. In 1999, she was appointed human resources director of the international organization and personnel development area, from 2000, she filled the position of human resources director of the Hungarian company. She has been working for Magyar Telekom since October 2001. Since 2002, she served as Director of the Group HR Branch. From April 1, 2007, she has been Chief Human Resources Officer of Magyar Telekom.

WALTER GOLDENITS

Mr. Goldenits received a technical mathematics degree from Technical University Vienna. He started his career at Mobilkom Austria in 1998 in the IT department, and then from 2003, as Head of IT. After 2007, he has held multiple executive positions in Telekom Austria group, first heading the IT and Network's division of si.mobil, and then served as Chief Technology Officer in Telekom Austria wireline, where he was responsible for optimisation of the organisation, technology lifecycle management and IT transformation. In 2010, upon the merger of Mobilkom Austria and Telekom Austria into a single entity to form A1 Telekom Austria, he was appointed as Chief Technology Officer, where his principal responsibilities involved the integration of the wireline and wireless technology units, rollout of LTE and fiber technology and IT hamonisation. From January 1, 2013 he has been Chief Technology and IT Officer of Magyar Telekom.

PÉTER LAKATOS

Mr. Lakatos received a mathematics and physics degree from Eötvös Loránd University of Budapest, then an economics degree from the University of Economic Sciences. He started his career at DSS Consulting in 1999 as head of data mining, then, from 2004, he worked for IBM Business Consulting Services as lead consultant in business development and CRM projects. In 2005 he joined Vodafone Hungary, where he spent 7 years and has held multiple executive positions in the field of business and consumer services, first heading Customer Segment Management, then Enterprise Marketing and later Commercial Strategy and Planning. Since 2009, he has worked in the Chief Officer position of Vodafone responsible for strategy, brand, communication and business development. From December 1, 2012 he has been Chief Commercial Officer SMB of Magyar Telekom.

MANAGEMENT OVERVIEW
BASIS OF PRESENTATION

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements.

The Consolidated Financial Statements of Magyar Telekom have been prepared in accordance with IFRS as issued by IASB and endorsed by the European Union (EU).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4 to the Consolidated Financial Statements.

We established our current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's operating segments are: Telekom Hungary, T-Systems Hungary, Macedonia and Montenegro.

The movement of HUF against the Macedonian Denar ("MKD") and EUR can significantly affect all revenue and expense lines of our Macedonian and Montenegrin subsidiaries.

EXCHANGE RATE
INFORMATION

The Euro depreciated by 6.4% against the Hungarian Forint ("HUF") year on year (from 311.13 HUF/EUR on December 31, 2011 to 291.29 HUF/EUR on December 31, 2012). The average HUF/EUR rate increased from 279.08 in 2011 to 288.87 in 2012.

The U.S. Dollar ("USD") weakened by 8.2% against the Hungarian Forint year on year (from 240.68 HUF/USD on December 31, 2011 to 220.93 HUF/USD on December 31, 2012). The average HUF/USD rate increased from 199.58 in 2011 to 223.78 in 2012.

The Macedonian Denar ("MKD") depreciated by 6.3% against the Hungarian Forint year on year (from 5.06 HUF/MKD on December 31, 2011 to 4.74 HUF/MKD on December 31, 2012). The average HUF/MKD rate increased from 4.54 in 2011 to 4.70 in 2012, affecting all revenue and expense lines of our Macedonian operations.

ECONOMIC ENVIRONMENT

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. These trends together with local specifics create new set-up in our eco-system both in terms of infrastructure, servicing and new types of business models.

Market delivers moderate growth with strong restructuring between segments that puts pressure on margin levels. We expect that the traditional telecommunications market will no longer deliver sizeable revenue growth in Hungary. The fixed voice market as a major revenue and profit source is declining; mobile is no longer able to compensate this decline. However, we expect that new core segments, especially mobile broadband, broadcasting and IT services will deliver sizable revenue growth in the coming years. The fixed market is characterized by 3Play bundles, with TV being a core element of service offerings, while the mobile market is driven by fierce competition in broadband and content services. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The battle for customer contacts has pushed prices down. We expect continued consolidation in the fixed arena, especially in the cable market. In mobile, new entrants are expected as virtual network operators (MVNOs), but a new infrastructure player may also enter the market

Latest macroeconomic forecasts lag significantly behind previous assumptions, especially in terms of consumer consumption and public spending. Market development is challenged by significant uncertainties in macroeconomic outlook putting further pressure on market players.

The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Decrease in corporate tax rate has not yet generated an increase in either consumption or investments. The new flat personal income tax rate system increased savings at higher income categories. The recently imposed utility tax is impacting telecom operators' investment intensity having a negative effect on overall telecom network development. GDP is expected to reach the pre-crisis level only after 2014.

REGULATORY DEVELOPMENTS

For description of the most significant regulatory developments in Hungary, Macedonia and Montenegro, see Note 1.3 to the Consolidated Financial Statements.

STRATEGY

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in 2012. Even under uncertain macroeconomic and market conditions we managed to deliver turnaround in revenues in 2012. We successfully improved customer retention and delivered strong volume figures. Also, we gradually extended our network and offering capabilities proactively leveraging various partnering models as well. The evolving external environment continues to drive the need for changes in our approach to our customers and our business.

We continue our transformation on a new basis to become the most highly regarded service company in an extended market of telecommunications and related industries. To accelerate our efforts, we developed a future-proof business and operating model based on our strategic imperatives to innovate the core, grow the core and extend the core business – thus growing revenue share whilst becoming a more agile organization. This enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities that secures stable cash generation in the long run. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. We aim to exploit our abilities to become a leader in all digital services around the home for both consumers and third parties. Our non-core areas, such as energy, e-health, finance and insurance services, support customer retention and new revenue streams.

OUTLOOK AND PUBLIC TARGETS

We have observed several long-term trends which are changing the structure of the Hungarian telecommunications market. These long-term trends include changes in technology (e.g., IP-based broadband products and solutions, emerging wireless broadband technologies), customer requirements (e.g., increase in mobile usability of content services and terminal devices, 4Play solutions and the growing need for customized content) and competition and regulation (e.g., low entry barriers, new business models, convergence in the telecommunications and media broadcast industry).

Magyar Telekom's current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless, we cannot predict the behavior of our competitors. Therefore, a stronger than assumed impact of other operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

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 has slowed down and shows signs of recession risk in 2013. Major uncertainties surrounding the future of the euro, the debt crisis escalated for several euro-zone members. The Hungarian economy impacted heavily by the second wave of the financial crisis. GDP projections for 2013 were reduced significantly, the Hungarian National Bank forecasts' indicate GDP growth about 0.5 percent in 2013. The unemployment rate remains very high, above ten percent, and the volatility of the Hungarian currency is expected to continue. The government experienced difficulties to finance the Hungarian budget deficit from the financial markets at the end of 2011. However, latest government measures and communication indicate that no treaty is expected 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 2.8 percent of GDP in 2013. Even though the special telecommunications tax, which came into effect in 2010, is terminated from 2013, the Parliament adopted an act imposing a new telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The tax imposed on fixed and mobile usage amounts to HUF 2 per minute and HUF 2 per SMS/MMS. The new tax is capped; for 2013 at HUF 700 per month per calling number for private individuals' subscriptions and HUF 2,500 per month per calling number for other subscribers' subscriptions. The new telecommunication tax payable by Magyar Telekom for 2013 is estimated around HUF 20 billion. The Parliament also adopted an act imposing a further tax to be levied on utility networks (e.g.: ducts, cables) from 2013. Our T-Systems Hungary segment was also affected by heavy spending cuts by the government, our largest business customer.

Hungary's government approved a cut in household energy prices by 10% from January 1, 2013, and may approve further cuts in the future. The move applies to electricity, natural gas and district heating prices. In the future we are shifting our business focus and concentrating more on the competitive segment.

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in section Risk factors.

REVENUES

The following reflects our current expectations with respect to our plans and initiatives:

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 2013. 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. Magyar Telekom - due to unfavourable economic and market processes - implemented a gradual tariff change effective from September and October 2012. Fixed line inter-connection tariffs are expected to be reduced by 30% in each half year from January of 2013 until 2016 January.

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 2013; 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 the Hungarian mobile market, penetration is now saturated, and we expect declining voice revenues in 2013. 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 25% in 2013. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator is not likely before mid 2013.

Magyar Telekom is continuously seeking business opportunities beyond core services. A significant step was made in this direction upon our entrance into the retail energy market. This new revenue stream enable us to lower the decrease of our Hungarian revenue in 2013, however these revenues are associated with lower margins and as such, we expect our margins to decline.

To sustain our 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 market. Our main competitors in the fixed line market 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 market 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 Montenegro, we are also anticipating a tough environment due to competitive and regulatory pressures 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.

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 efforts to increase cost efficiency. We have reached an agreement with trade unions on wage development, headcount reduction and decreases in additional employee allowances at the parent company for 2013. According to the terms of the agreement, the Company planned to make 500 employees redundant in 2013, the majority have left the Company by the end of 2012. There will be 4% general increase in the base salary for the parent company employees from April 2013, employer contribution to postponed pension fund will be reduced by 25%, as well. 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 rate of inflation. We expect energy prices to remain high in 2013, impacting us negatively.

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.

We will increase investments in the IT area to reach our goals to become an ICT leader in Hungary, while expansion into new segments will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority for 2013 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.

According to our strategy, we are committed to further strengthening and leveraging our presence in the South-Eastern Europe region. Therefore, we are continuously seeking further value-creating acquisition and investment targets.

REVENUE, EBITDA AND CAPEX TARGETS

In 2012, revenues increased by 1.6% surpassing the previously guided flat to -2%. This was partly driven by higher retail gas and electricity revenues, where we more than quadrupled the points of deliveries in 2012 to almost 150,000, while significant expansion of other products like TV, mobile internet and SI/IT services also significantly contributed to this achievement. We met our underlying EBITDA target of 4-6% decline at the more optimistic part of the range, at -4.4%. Besides our strong focus on cost-cutting measures, the efficiency review or our real estate assets in Macedonia and the gain realized on the sale of our Pro-M subsidiary also significantly contributed to the EBITDA performance. CAPEX for 2012 totalled HUF 92.4 billion without spectrum acquisitions, slightly higher than the HUF 90 billion we had aimed for. Besides the Macedonian real estate transaction we continued running our internal efficiency projects and modernized additional mobile base stations.

In the short-term, we expect market conditions to remain challenging due to sustained pressures on disposable income levels and continued intense competition, along with persistent negative impacts from recently introduced fiscal measures.

Whilst watchful cost management and identifying new revenue sources will, in this context, remain among our key priorities, we expect our overall profit margin to decline further in 2013. We estimate that our revenues will decline by up to 3%, our reported EBITDA by 4-7% and our capex (excluding any spectrum acquisitions) by approximately 5%.

DEVELOPMENT OF BUSINESS IN THE GROUP

REVENUES

THE FOLLOWING TABLES SET FORTH INFORMATION ON OUR REVENUES:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Mobile revenues	308,518	304,965	(1.2)
Fixed line revenues	236,038	222,421	(5.8)
SI/IT revenues	48,547	54,256	11.8
Revenue from Energy Services	4,514	25,486	464.6
Total revenues	597,617	607,128	1.6

Total revenues increased by 1.6% in 2012 as compared to 2011. The components of our revenues were the following:

MOBILE
REVENUES

	Year ended December 31, 2011	December 31, 2012	2012/2011
	(in HUF millions)		(% change)
Voice-retail	177,226	171,562	(3.2)
Voice-wholesale	31,728	28,339	(10.7)
Voice-visitor	3,590	3,347	(6.8)
Total voice	212,544	203,248	(4.4)
Non-voice	62,146	64,248	3.4
Equipment	25,999	29,843	14.8
Other mobile revenues	7,829	7,626	(2.6)
Total mobile revenues	308,518	304,965	(1.2)

The following table provides KPI information on our mobile services in Hungary, Macedonia and Montenegro:

	Year ended December 31, 2011	2012	2012/2011
			(% change)
HUNGARY			
Penetration (%)	117.3	116.5	n.a.
Total number of subscribers	5,265,226	5,320,069	1.0
SIM market share (%)	45.0	45.9	n.a.
Number of mobile broadband subscriptions	1,048,514	1,455,786	38.8
Mobile broadband market share based on total number of subscriptions (%)	48.7	45.8	n.a.
Population-based indoor 3G coverage (%)	66.0	75.4	n.a.
MACEDONIA			
Penetration (%)	122.8	127.0	n.a.
Total number of subscribers	1,263,051	1,181,437	(6.5)
SIM market share (%)	50.0	45.1	n.a.
MONTENEGRO			
Penetration (%)	186.9	159.8	n.a.
Total number of subscribers	401,958	340,032	(15.4)
SIM market share (%)	34.7	34.3	n.a.

Total mobile revenues decreased by 1.2% in 2012 compared to 2011, resulted mainly from lower voice revenues both in Hungary and both at our foreign subsidiaries. These decreases were partly offset by higher broadband and equipment revenues in Hungary.

VOICE-RETAIL REVENUE

Voice-retail revenues consist of revenues from subscriptions, voice traffic and roaming voice revenues.

Within mobile revenues, voice revenues represent the largest component. In 2012, voice-retail revenues decreased by 3.2%. The unfavorable macroeconomic environment and the lower average retail tariff levels forced by strong competition had negative impact on our voice-retail traffic revenues in Hungary and at our foreign subsidiaries. For more details, see segments analyses in section Development of business in the operating segments.

Mobile penetration reached 116.5% in Hungary and we accounted for 45.9% market share in the highly competitive mobile market at December 31, 2012 based on the total number of SIM cards. In Macedonia we maintained our leading market position. In Montenegro mobile market share remained fairly stable year over year.

VOICE-WHOLESALE REVENUES

Voice-wholesale revenues consist of domestic and international incoming traffic revenues.

The 10.7% decrease in voice-wholesale revenues is mainly caused by the lower termination fees in Hungary and in Montenegro due to regulated tariff reduction. In Macedonia, the decrease is driven by lower overall international traffic, although the international interconnection price increased. For more details, see segments analyses in section Development of business in the operating segments.

VOICE-VISITOR REVENUES

Visitor revenues decreased by 6.8% in 2012 compared to the previous year. The declined voice-visitor revenues at our foreign subsidiaries were due to lower volume of minutes, while in Hungary, visitor revenues remained stable year over year.

NON-VOICE REVENUES

The 3.4% higher non-voice revenues were primarily due to higher mobile Internet revenues in Hungary and at our foreign subsidiaries. This increase was partially offset by lower messaging revenues in Hungary and in Macedonia. By December 31, 2012, we had 1,455,786 mobile broadband customers and accounted for a 45.8% market share based on total number of subscriptions in the mobile broadband market in Hungary.

EQUIPMENT

Mobile equipment revenues increased by 14.8% in 2012. In Hungary, higher acquisition and retention revenues resulted from higher average handset prices reflecting an increased sales ratio of higher priced smartphones. This increase was offset by lower mobile equipment revenues at our foreign subsidiaries attributable to the decrease in the number of handsets sold.

OTHER MOBILE REVENUES

Other mobile revenues decreased by 2.6% in 2012, owing to the sale of Pro-M, which resulted in the fallout of Pro-M revenues from September 2012.

FIXED LINE REVENUES

	Year ended December 31,		
	2011	2012	2012/2011
		(in HUF millions)	(% change)
Voice-retail	91,798	80,848	(11.9)
Voice-wholesale	21,790	19,500	(10.5)
Internet	52,560	52,765	0.4
Data	27,050	22,512	(16.8)
TV	31,787	34,428	8.3
Equipment	3,852	4,064	5.5
Other fixed line revenues	7,201	8,304	15.3
Total fixed line revenues	236,038	222,421	(5.8)

The table below shows total revenue generating fixed access lines (PSTN, VoIP and VoCATV voice channels):

	Year ended December 31,		
	2011	2012	2012/2011
			(% change)
Hungary	1,792,254	1,723,584	(3.8)
Macedonia	312,122	291,988	(6.5)
Montenegro	168,361	165,620	(1.6)

VOICE-RETAIL REVENUES

Voice-retail revenues primarily consist of revenues from subscriptions, domestic and international outgoing traffic revenues generated on PSTN, VoIP, VoCable. Fixed line voice-retail revenues decreased by 11.9% in 2012 compared to the previous year, mainly driven by lower PSTN subscription fee revenues and lower outgoing traffic revenues. The decrease was due to lower number of our fixed line subscribers and lower average tariff levels, mainly in Hungary.

Domestic outgoing traffic revenues consist of traffic charges for local, domestic long distance and fixed line to mobile calls placed by our subscribers.

In 2012, the continuous decline in the number of revenue producing fixed lines and lower average prices (due to flat rate packages, such as Hoppá) led to lower domestic outgoing traffic revenues in Hungary, although the domestic outgoing traffic slightly increased. We offered several price discounts to customers choosing different flat-rate and optional tariff packages. Our Hoppá tariff package was very successful in 2012, generating more than 596,000 subscribers by the end of December 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 to decrease fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package exceeded 54,800 customers at December 31, 2012.

Domestic outgoing traffic revenues decreased also in Macedonia and in Montenegro throughout the period primarily due to decreased customer number and lower usage as a consequence of increasing mobile substitution.

International outgoing traffic revenues include charges for calls placed by our fixed line subscribers to foreign destinations. These revenues decreased in 2012 in Hungary and also at our foreign subsidiaries resulting from lower volumes of minutes and also due to the loss of lines.

VOICE-WHOLESALE REVENUES

Voice-wholesale revenues consist of domestic and international incoming traffic revenues. Fixed line voice-wholesale revenues decreased by 10.5% in 2012 compared to 2011, mainly due to the decrease in international incoming traffic revenues.

Domestic incoming fixed line traffic revenues decreased by 8.9% in 2012. The drop in revenue from other domestic fixed line operators is due to lower call origination and termination revenues in Hungary as a result of decreased traffic and reduced interconnection fees. These decreases were partly offset by higher revenue from other domestic fixed line operators in Macedonia resulting from higher termination fees of international traffic in its network due to deregulation. The decrease in revenues from mobile operators was mainly due to lower mobile-to-international traffic volume, and also driven by reduced termination fees in Hungary and in Macedonia too.

International incoming fixed line traffic revenues decreased by 11.4% in 2012 compared to the previous year. Lower international incoming traffic revenue in Hungary was driven by lower volume of incoming international minutes and decreased international termination fees. Incoming international voice traffic revenue expressed in MKD decreased also in Macedonia, primarily due to lower volume of incoming international traffic. In Montenegro, revenues from international incoming fixed line traffic remained stable in 2012.

INTERNET REVENUES

Internet revenues remained stable year over year. In Hungary, the lower number of retail and wholesale connections led to 3.4% decrease in the number of DSL connections in 2012. Cablenet customer base and the number of fiber connections increased and the broadband volume increase could compensate for the effect of lower average revenue per user ("ARPU") resulting from lower prices forced by intense competition. We accounted for an estimated 36.9% retail broadband market share in Hungary at December 31, 2012. In Macedonia, internet revenues decreased due to lower prices, partly compensated by higher number of DSL subscribers. In Montenegro, revenues from internet services remained stable in 2012.

The following table provides KPI information on our internet services in Hungary, Macedonia and Montenegro:

	Year ended December 31,		
	2011	2012	2012/2011
			(% change)
HUNGARY			
Retail DSL customers	514,276	510,227	(0.8)
Wholesale DSL access	107,215	89,861	(16.2)
Total DSL access	621,491	600,088	(3.4)
Cable broadband customers	212,631	245,984	15.7
Fiber optic connections	31,611	41,802	32.2
Blended retail broadband market share (%)	36.6	36.9	n.a.
MACEDONIA			
Retail DSL customers	137,563	145,263	5.6
Wholesale DSL access	23,847	26,903	12.8
Total DSL access	161,410	172,166	6.7
MONTENEGRO			
Retail DSL customers	78,164	81,842	4.7

DATA REVENUES

Data revenues decreased by 16.8% in 2012 compared to 2011. The decrease in revenues is mainly deriving from the termination of the EKG contract and lower scale of other contracts in Hungary. The decrease in Flex-Com leased lines revenues driven by volume decrease also contributed to the drop in revenues in Hungary. These decreases were partly offset by higher revenue at Combridge owing to the increased revenue of Combridge's operation in Serbia, which was launched in the second half of 2010.

TV REVENUES

TV revenues were up by 8.3% year over year. This increase is mainly attributable to much higher IPTV revenues driven by the growing IPTV subscriber base, both in Hungary and at our foreign subsidiaries in 2012. The fast growth of the IPTV customer base, helped by the development of our high speed Internet network, demonstrates the increasing popularity of interactive television. Growth in satellite TV revenues was due to the higher number of satellite TV customers in 2012 compared to the previous year. These increases were partly offset by lower Cable TV revenues owing to the fact that an increasing number of subscribers migrate to IPTV services.

The following table shows our TV customer numbers:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
Hungary	797,390	834,726	4.7
Macedonia	40,129	66,140	64.8
Montenegro	48,834	54,248	11.1

EQUIPMENT

Revenues from equipment sales increased by 5.5% in 2012 compared to 2011 resulting mainly from increased equipment revenues in Hungary due to the higher sale of Tablet PCs and TV sets in 2012.

SI/IT REVENUES

The following table shows the development of our SI/IT revenues:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
SI and IT revenues	48,547	54,256	11.8

System Integration ("SI") and IT revenues increased by 11.8% in 2012, due to higher infrastructure revenues, SI/IT equipment sale and application revenues owing to significant new projects in 2012. These increases were partly offset by lower outsourcing revenues mainly driven by the termination of the EKG contract.

REVENUE FROM ENERGY SERVICES

The following table shows the development of our revenues from energy services:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Revenue from energy services	4,514	25,486	464.6

The following table provides KPI information on our energy services in Hungary:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
Electricity points of delivery	17,311	87,945	408.0
Gas points of delivery	17,951	59,900	233.7

Revenue from energy services increased significantly in 2012 compared to 2011. The considerable growth resulted from the increasing demand for our energy retail services (introduced in 2010). Number of energy points of delivery increased by 408.0% and the number of gas clients grew by 233.7% year over year

OPERATING EXPENSES

The following table shows the breakdown of our direct costs:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Mobile revenue-related expenses	76,416	79,835	4.5
Fixed line revenue-related expenses	44,504	39,045	(12.3)
SI/IT revenue-related expenses	24,890	32,092	28.9
Energy revenue-related expenses	4,263	25,428	496.5
Agent commissions	10,974	10,826	(1.3)
Bad debt expense	6,255	6,752	7.9
Direct costs	**167,302**	**193,978**	15.9

MOBILE REVENUE-RELATED EXPENSES

Mobile revenue-related expenses increased by 4.5% in 2012 compared to 2011. Higher mobile equipment costs owing to the higher ratio of smartphones sold were partly offset by decreased mobile Internet and mobile voice payments.

FIXED LINE REVENUE-RELATED EXPENSES

Fixed line revenue-related expenses decreased by 12.3% in 2012 compared to the previous year. This decrease is mainly owing to lower voice-related payments in Hungary due to lower fees applied, both in domestic and international relations. The decrease was partly offset by higher TV revenue-related expenses driven by the increase in the number of our TV subscribers.

SI/IT REVENUE-RELATED EXPENSES

SI/IT revenue-related expenses increased by 28.9% in 2012 in line with higher revenues due to several large infrastructure and application projects in Hungary.

ENERGY REVENUE-RELATED EXPENSES

Energy revenue-related expenses grew in 2012 in line with the increasing customer base since the launch of our retail energy business.

AGENT COMMISSIONS

Agent commissions remained fairly stable in 2012 compared to 2011.

BAD DEBT EXPENSE

Bad debt expense was up by 7.9% in 2012, after the substantial decrease in 2011.

EMPLOYEE-RELATED EXPENSES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Employee-related expenses	91,823	94,084	2.5
Closing number of employees (FTE)	10,111	11,653	15.3
Average number of employees (FTE)	10,127	11,285	11.4

Employee-related expenses increased by 2.5% in 2012 compared to 2011. Higher expenses were mainly attributable to the higer average headcount in 2012. The increase was primarily due to the insource of temporary staff as of April 2012 previously hired to perform work in call center, customer care and customer experience services.

DEPRECIATION AND AMORTIZATION

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Depreciation and amortization	132,915	106,897	(19.6)

Depreciation and amortization decreased by 19.6% in 2012 compared to 2011. The significant decrease is primarily due to the HUF 31.4 billion goodwill impairment of our Macedonian goodwill in 2011. For more details on the 2011 impairment see Note 4.2 of the Consolidated Financial Statements.

The following table shows the breakdown of our other operating expenses:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Materials, maintenance and service fees	61,602	53,231	(13.6)
Crisis taxes	25,350	24,351	(3.9)
Telecom tax	-	8,741	n.a.
Rental and operating lease	13,794	14,693	6.5
DOJ criminal penalty and SEC disgorgement of profit	16,191	-	n.a.
Fees and levies	12,298	13,338	8.5
Marketing	12,895	12,696	(1.5)
Consulting, audit and other expert fees	5,406	4,514	(16.5)
Other expenses	1,266	2,854	125.4
Other operating expenses	**148,802**	**134,418**	(9.7)

MATERIALS, MAINTENANCE AND SERVICE FEES

Materials, maintenance and service fees decreased by 13.6% in 2012, mainly due to lower service fees as the previously outsourced labour force related to call center, customer care and customer experience services became permanent employees of the Company as of April 2012.

CRISIS TAXES

Crisis tax expense declined by 3.9% in 2012, owing to the lower tax base mainly driven by lower fixed line revenues.

TELECOM TAX

A new telecom tax was introduced in Hungary for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012. For more details on the new tax, see Note 25(b) of the Consolidated Financial Statements.

RENTAL AND OPERATING LEASE

Rental and operating lease increased by 6.5%, predominately due to higher rental fees of set top boxes in Hungary, in 2012.

DOJ CRIMINAL PENALTY AND SEC DISGORGEMENT OF PROFITS

During 2011 the Company made provisions related to the expected penalty to be paid to the DOJ and the disgorgement of profits expected to be paid to the SEC. For more details on the DOJ/SEC settlement, see Note 1.2 of the Consolidated Financial Statements.

FEES AND LEVIES

Fees and levies were up by 8.5% in 2012 compared to the previous year. The increase mainly related to frequency usage in Hungary, while in Montenegro related to the non-deductible VAT on subsidized handsets based on the decision of Tax Office we have been appealed against.

MARKETING EXPENSES

Marketing expenses remained fairly stable in 2012 compared to 2011.

CONSULTING, AUDIT AND OTHER EXPERT FEES

Consulting, audit and other expert fees decreased by 16.5% in 2012, owing to a provision reversal made for the fine to Hungarian Competition Authority, and to restrictions at the end of 2012.

OTHER OPERATING INCOME

The following table shows the breakdown of other operating income:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Gain on sale of PPE, Intangible assets and assets held for sale	1,940	4,012	106.8
Gain on sale of subsidiaries and associates	-	1,646	n.a.
Penalties received	964	983	2.0
Income received for the relocation and reconstruction of our own network	1,166	719	(38.3)
Government grants received/receivable for the compensation of expenses	811	378	(53.4)
Other operating income	1,511	2,432	61.0
Total other operating income	**6,392**	**10,170**	59.1

Other operating income increased by 59.1% in 2012 compared to 2011. The increase was mainly owing to a real estate transaction in Macedonia, where four old buildings were exchanged for a new one in 2012. The gain on the sale of the old buildings was HUF 3.8 billion. In addition, the gain on the sale of Pro-M in 2012 of HUF 1.6 billion also contributed to the increase of Other operating income.

OPERATING PROFIT

Operating margin for the year ended December 31, 2012 was 14.5% while operating margin for 2011 was 10.6%. The main reasons leading to the improved profitability are described above.

NET FINANCIAL RESULT

The following table shows the components of our net financial result:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Interest income	3,633	3,539	(2.6)
Interest expense	23,184	24,218	4.5
Other finance expense – net	12,911	7,919	(38.7)
Net financial result	**32,462**	**29,598**	(11.9)

Interest income remained fairly stable in 2012 compared to 2011.

The 4.5% increase in interest expenses in 2012 resulted mainly from higher interest paid on loans received due to the higher average balance of the loan portfolio as well as the higher average interest rates of our loans.

The decrease in net other finance expenses primarily resulted from the lower combined net loss on foreign exchange translation and fair valuation of derivatives in 2012, as the HUF strengthened by 6.38% against the EUR in 2012.

INCOME TAX — TOTAL

The following table shows the breakdown of our income tax expense:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Corporate income tax	4,336	4,578	5.6
Other income taxes	7,853	8,115	3.3
Deferred income taxes	15,349	775	(95.0)
Total income tax expense	**27,538**	**13,468**	(51.1)

Income tax expense decreased significantly despite the higher profit before tax of the Group in 2012. The main reason is the elimination of the enacted reduction of the Hungarian corporate tax rate from 19% to 10% effective from 2013, which resulted in a large one-off deferred tax expense in 2011 due to the recalculation of the long-term deferred tax balances.

For more details on tax rates, tax credits and deferred taxes see Note 9 to the Consolidated Financial Statements.

CASH FLOW ANALYSIS

The following table shows the components of our cash flows:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
NET CASH FLOWS			
Operating activities	168,781	145,227	(23,554)
Investing activities	(77,752)	(72,875)	4,877
Financing activities	(93,228)	(71,062)	22,166
Exchange gains on cash and cash equivalents	809	(530)	(1,339)
Change in cash and cash equivalents	**(1,390)**	**760**	2,150

Net cash generated from operating activities amounted to HUF 145.2 billion in 2012, compared to HUF 168.8 billion in 2011. The decrease was mainly due to the HUF 22.1 billion cash outflow in January 2012 with respect to the settlements with the DOJ and the SEC. See Note 1.2 of the Consolidated Financial Statements for more details on the settlement.

Net cash used in investing activities amounted to HUF 72.9 billion in 2012, compared to HUF 77.8 billion in previous year. The lower net Investing cash outflow is mainly due to the amount of the receipts from the 2012 sale of Pro-M that was recognized in the Investing cash flows (HUF 14.3 billion). See Note 5.4 of the Consolidated Financial Statements for more details. In addition, bank deposits were converted into cash in Macedonia and in Montenegro to finance their dividend-distribution in 2012, resulting in a significant net Investing cash inflow. The above described higher net cash inflows were partly counter-balanced by the increased cash outflows for Capex spending, primarily due to the 900 MHz spectrum license fee in an amount of HUF 10.9 billion in Hungary in the first quarter 2012 as well as the lower amount of proceeds from sale of PPE and intangible assets.

Free cash flow, defined as operating cash flow and investing cash flow excluding payments for / proceeds from other net financial assets, decreased from HUF 92.0 billion in 2011 to HUF 61.7 billion in 2012. This drop was mainly due to the DOJ and SEC settlements (adverse change in working capital) and the license acquisition (purchase of intangible assets) in 2012.

Net cash used in financing activities changed from HUF 93.2 billion in 2011 to HUF 71.1 billion in 2012, mainly due to the lower amount of net loan repayments primarily as a result of the need to finance the DOJ/SEC settlements in Q1 2012.

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

The Group's operating segments are Telekom Hungary, T-Systems, Macedonia and Montenegro.

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small businesses customers mainly 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 and Romania providing wholesale services to local companies and operators.

T-Systems operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services 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 operating segments of the Group.

The following tables show the revenues and EBITDA by segment, as reported to the Management Committee of the Company:

REVENUES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Total Hungary revenues	422,794	433,616	2.6
Less: Hungary revenues from other segments	**(35,506)**	**(28,548)**	(19.6)
Hungary revenues from external customers	387,288	405,068	4.6
Total T-Systems revenues	122,237	117,886	(3.6)
Less: T-Systems revenues from other segments	**(15,783)**	**(13,794)**	(12.6)
T-Systems revenues from external customers	106,454	104,092	(2.2)
Total Macedonia revenues	71,359	65,059	(8.8)
Less: Macedonia revenues from other segments	**(130)**	**(50)**	(61.5)
Macedonia revenues from external customers	71,229	65,009	(8.7)
Total Montenegro revenues	32,697	32,975	0.9
Less: Montenegro revenues from other segments	**(42)**	**(30)**	(28.6)
Montenegro revenues from external customers	32,655	32,945	0.9
Total consolidated revenue of the segments	597,626	607,114	1.6
Measurement differences to Group revenue	(9)	14	(255.6)
Total revenue of the Group	**597,617**	**607,128**	**1.6**
SEGMENT RESULTS (EBITDA)			
Hungary	128,223	130,928	2.1
T-Systems	18,444	16,838	(8.7)
Macedonia	37,914	34,628	(8.7)
Montenegro	11,453	12,325	7.6
Total EBITDA of the segments	**196,034**	**194,719**	**(0.7)**
Measurement differences to Group EBITDA	48	99	106.3
Total EBITDA of the Group	**196,082**	**194,818**	**(0.6)**

TELEKOM HUNGARY SEGMENT

The following table sets forth information regarding the Telekom Hungary segment:

	Year ended December 31,		
	2011	2012	2012/2011
	(in HUF millions)		(% change)
Voice revenues	157,147	157,044	(0.1)
Non-voice revenues	44,764	47,960	7.1
Other mobile revenues	34,680	28,886	(16.7)
Total mobile revenues	**236,591**	**233,890**	**(1.1)**
Voice revenues	71,425	62,471	(12.5)
Internet revenues	40,679	41,385	1.7
TV revenues	28,229	30,010	6.3
Energy revenues	4,514	25,486	464.6
Other fixed line and SI/IT revenues	41,356	40,374	(2.4)
Total fixed line and SI/IT revenues	**186,203**	**199,726**	**7.3**
Total revenues	422,794	433,616	2.6
EBITDA	128,223	130,928	2.1

The following tables set forth key non-financial information regarding the Telekom Hungary segment:

MOBILE
SERVICES

	Year ended December 31,		
	2011	2012	2012/2011
			(% change)
Number of customers (RPC)	4,817,296	4,836,965	0.4
Postpaid share in the customer base (%)	46.2	47.3	n.a.
MOU	161	160	(0.6)
ARPU (HUF)	3,587	3,455	(3.7)
Postpaid ARPU	5,930	5,698	(3.9)
Prepaid ARPU	1,619	1,414	(12.7)
Overall churn rate (%)	19.5	18.4	n.a.
Postpaid (%)	14.5	14.5	n.a.
Prepaid (%)	23.6	21.9	n.a.
Ratio of non-voice revenues in ARPU (%)	21.0	23.5	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6,449	5,479	(15.0)
Number of mobile broadband subscriptions	971,469	1,362,750	40.3

MOBILE SERVICES

FIXED LINE SERVICES

	Year ended December 31, 2011	2012	2012/2011 (% change)
VOICE SERVICES			
Total voice access	1,614,871	1,554,174	(3.9)
Total outgoing traffic (thousand minutes)	3,049,192	3,198,321	4.9
Blended MOU (outgoing)	166	181	9.0
Blended ARPU (HUF)	3,138	2,849	(9.2)
INTERNET SERVICES			
Number of retail DSL customers	499,923	497,217	(0.5)
Number of cable broadband customers	212,631	245,984	15.7
Number of fiber optic connections	31,611	41,802	32.2
Total retail broadband customers	744,165	785,003	5.5
Blended broadband ARPU (HUF)	3,950	3,813	(3.5)
Number of wholesale DSL access	107,215	89,861	(16.2)
TV SERVICES			
Number of cable TV customers	289,693	230,323	(20.5)
Number of satellite TV customers	281,312	291,118	3.5
Number of IPTV customers	226,385	313,285	38.4
Total TV customers	797,390	834,726	4.7
Blended TV ARPU (HUF)	3,048	3,069	0.7
ENERGY SERVICES			
Electricity points of delivery	17,311	87,945	408.0
Gas points of delivery	17,951	59,900	233.7

REVENUES

Total revenues in the Telekom Hungary segment increased by 2.6% year over year due to considerably higher revenues from energy services, as well as increased mobile equipment, non-voice and TV revenues. These increases were largely offset by the significantly lower fixed voice, other fixed line and other mobile revenues.
Mobile revenues decreased in 2012 compared to 2011 mainly due to lower other and voice-retail revenues. Decreased voice-retail revenues are due to strong competition-driven retail tariff erosion in Hungary. These decreases were partly offset by increased equipment and non-voice revenues reflecting the increased sales ratio of higher priced smartphones and increased Internet revenues.
Fixed line voice-retail revenues declined by 11.7% due to lower 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 ARPU.
We offered several price discounts to customers choosing different flat-rate and optional fixed line tariff packages. Our Hoppá tariff package was very successful, generating more than 596,000 subscribers by the end of December 2012. The vast majority of customers choosing this package signed a 2-year loyalty contract; therefore, this offer proved to be a very effective tool in decreasing fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package, exceeded 54,800 customers as at December 31, 2012.
Internet revenues slightly increased and amounted to HUF 41.4 billion in 2012. The slight increase was mainly owing to the higher number of fiber connections and to the increased Cablenet customer number. The positive impact of the higher retail broadband 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.
Driven by a larger customer base, IPTV and satellite TV revenues increased compared to last year. This increase was partly offset by lower Cable TV revenues influenced by the significantly lower customer base due to migration from Cable TV to IPTV technology.
Telekom Hungary has rapidly growing revenues from the retail energy service launched in Q2 2010. Revenue from Energy services increased by HUF 21.0 billion in 2012 comapred to 2011 due to the significant growth in the number of customers.

EBITDA

EBITDA of the Telekom Hungary segment increased by 2.1% in 2012 compared to 2011 mainly driven by increased total revenues and lower other operating expenses, partly offset by increased employee related expenses and higher operational tax expenses due to the introduction of the new telecom tax from July 1, 2012 (HUF 7,280 million in 2012).

T-SYSTEMS HUNGARY SEGMENT

The following tables set forth key financial information regarding the T-Systems Hungary segment:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Voice revenues	16,523	15,490	(6.3)
Non-voice revenues	9,112	9,180	0.7
Other mobile revenues	7,487	5,959	(20.4)
Total mobile revenues	**33,122**	**30,629**	(7.5)
Voice revenues	9,926	8,915	(10.2)
Data revenues	14,391	11,142	(22.6)
Other fixed line revenues	5,717	4,085	(28.5)
Total fixed line revenues	**30,034**	**24,142**	(19.6)
SI/IT revenues	59,081	63,115	6.8
Total revenues	122,237	117,886	(3.6)
EBITDA	18,444	16,838	(8.7)

The following tables set forth information regarding the key operating statistical figures of T-Systems Hungary segment:

MOBILE
SERVICES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
Number of customers (RPC)	447,930	483,104	7.9
ARPU (HUF)	4,918	4,441	(9.7)
Overall churn rate (%)	6.3	8.8	n.a.
Ratio of non-voice revenues in ARPU (%)	35.6	37.4	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,166	4,059	(21.4)
Number of mobile broadband subscriptions	77,045	93,036	20.8

FIXED LINE
SERVICES

	Year ended December 31,		Year ended December 31,
	2011	**2012**	**2012/2011**
			(% change)
VOICE SERVICES			
Business PSTN lines	42,137	39,358	(6.6)
Managed leased lines (Flex-Com connections)	2,360	1,715	(27.3)
ISDN channels	135,246	130,052	(3.8)
Total lines	**179,743**	**171,125**	(4.8)
Total outgoing traffic (thousand minutes)	282,873	245,550	(13.2)
MOU (outgoing)	188	176	(6.4)
ARPU (HUF)	4,578	4,315	(5.8)

REVENUES

The total revenue of T-Systems Hungary decreased by 3.6% in 2012 compared to 2011, mostly due to lower data, decreased other mobile and other fixed line revenues. Decreased mobile and fixed voice revenues also contributed to the decrease. These decreases were largely compensated by 6.8% higher SI/IT revenues.

Mobile voice revenues decreased by 6.3% in 2012 compared to 2011, predominantly due to lower voice-retail revenues as a result of a lower average price per minute and decreased MOU, partly compensated by the higher average customer base.

Fixed line voice-retail revenues decreased, reflecting the erosion both in the customer base and traffic. Fixed line data revenues were lower, as a result of the expiration of the EKG contract at the end of 2011, and lower revenues from other projects. Fixed line Internet revenues also declined, due to the lower number of DSL connections and lower ARPU.

The 6.8 % increase in SI/IT revenues resulted mainly from higher infrastructure, SI/IT equipment sales and application revenues owing to significantly higher project revenues in 2012. These increases were partly offset by lower outsourcing revenues mainly driven by the expiration of the EKG contract.

EBITDA

EBITDA decreased by 8.7%, mainly due to the decrease of high margin fixed line and mobile revenues, which could not be fully compensated by the increase of low margin SI/IT revenues. New telecom tax effective from July 2012 (HUF 1,461 million in 2012), also contributed to the decrease. These decreases were partly mitigated by increased other operating income from the sale of Pro-M and decreased other operating expenses.

MACEDONIA

The following table sets forth information regarding the Macedonian operations:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Total mobile revenues	37,626	33,658	(10.5)
Total fixed line and SI/IT revenues	33,733	31,401	(6.9)
Total revenues	**71,359**	**65,059**	(8.8)
EBITDA	37,914	34,628	(8.7)

The 3.5% stronger MKD against HUF on average in 2012 compared to last year had a positive impact on the results of the Macedonian operations in HUF terms. Revenues of our Macedonian segment decreased by 8.8% in HUF terms, mainly driven by the significant decrease in mobile and fixed voice revenues.

The following tables set forth information regarding the key operating statistical figures of Macedonia:

MOBILE
SERVICES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
MARKET DATA			
Mobile penetration (%)	122.8	127.0	n.a.
T-Mobile Macedonia's market share (%)	50.0	45.1	n.a.
MOBILE OPERATIONS			
Number of customers (RPC)	1,263,051	1,181,437	(6.5)
Postpaid share in the customer base (%)	31.8	32.4	n.a.
MOU	135	163	20.7
ARPU (HUF)	2,206	2,062	(6.5)

FIXED LINE
SERVICES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
MARKET DATA			
Fixed line penetration (%)	15.9	14.9	n.a.
Retail DSL market share (estimated) (%)	83.3	82.6	n.a.
Voice services			
Total voice access	312,122	291,988	(6.5)
Total outgoing traffic (thousand minutes)	811,824	667,333	(17.8)
INTERNET SERVICES			
Number of retail DSL customers	137,563	145,263	5.6
Number of wholesale DSL access	23,847	26,903	12.8
Total DSL access	161,410	172,166	6.7
TV SERVICES			
Number of IPTV customers	40,129	66,140	64.8

REVENUES

The decrease in mobile revenues was mainly due to lower voice-retail revenues. Higher outgoing minutes could not offset the lower subscription fees as a result of promotion for new subscribers, and the declining postpaid customer base. Non-voice revenues decreased by 8.7% as a result of lower content revenues due to the lower number of SMSs sent in 2012 compared to 2011, partly compensated by higher Internet revenues.
The decrease in total fixed line revenues was primarily the result of lower voice-retail revenues reflecting the loss of fixed lines and lower traffic impacted by mobile substitution and competition. The decline in data revenues is a result of the decreased domestic leased lines due to fewer contracts in 2012. Increasing TV revenues owing to the growing IPTV subscriber base slightly mitigated the decrease in fixed line revenues.

EBITDA

EBITDA of our Macedonian operations decreased by 8.7 % in 2012 compared to 2011 in HUF terms, deriving mainly from lower revenues, which was largely offset by higher other operating income in 2012, related to the real estate deal (see Note 26).

MONTENEGRO

The following table sets forth information regarding the Montenegrin operations:

	Year ended December 31,		
	2011	**2012**	**2012/2011**
	(in HUF millions)		(% change)
Total mobile revenues	15,121	14,736	(2.5)
Total fixed line and SI/IT revenues	17,576	18,239	3.8
Total revenues	**32,697**	**32,975**	0.9
EBITDA	11,453	12,325	7.6

The 3.5% stronger EUR against HUF on average in 2012 compared to 2011 had a positive impact on the results of our Montenegrin operations in HUF terms. Total revenue remained stable year over year and amounted to HUF 33.0 billion, as lower mobile and fixed voice, and data revenues were fully compensated by higher mobile non-vocie, fixed Internet and equipment as well as increased TV revenues.

The following tables set forth information regarding the key operating statistical figures of Montenegro:

MOBILE
SERVICES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
MARKET DATA			
Mobile penetration (%)	186.9	159.8	n.a.
T-Mobile Crna Gora's market share (%)	34.7	34.3	n.a.
MOBILE OPERATIONS			
Number of customers (RPC)	401,958	340,032	(15.4)
Postpaid share in the customer base (%)	32.3	40.2	n.a.
MOU	135	161	19.3
ARPU (HUF)	2,998	3,358	12.0

FIXED LINE
SERVICES

	Year ended December 31,		
	2011	**2012**	**2012/2011**
			(% change)
MARKET DATA			
Fixed line penetration (%)	26.4	26.0	n.a.
Retail DSL market share (estimated) (%)	84.9	82.9	n.a.
VOICE SERVICES			
Total voice access	168,361	165,620	(1.6)
Total outgoing traffic (thousand minutes)	325,504	300,312	(7.7)
INTERNET SERVICES			
Number of DSL access	78,164	81,842	4.7
TV SERVICES			
Number of IPTV customers	48,834	54,248	11.1

REVENUES

In 2012, mobile revenues in HUF terms decreased by 2.5% compared to 2011, mainly owing to lower voice revenues. Decreased voice-retail revenues were a result of the significantly lower tariff levels that could not be compensated by the slight increase in total minutes. Decreased voice-wholesale revenues are due to lower interconnection revenues, while decreased visitor revenues are mainly due to lower volume of minutes. Non-voice revenues increased by 17.7%, mainly due to higher Internet revenues caused by higher usage in the postpaid segment, and increased Internet subscription revenues due to increased number of subscribers.

Total fixed line revenues in HUF terms increased by 2.9%, mainly due to higher Internet and TV revenues owing to the higher customer number. Higher equipment revenues owing to the increasing number of TV-set and laptop sales also contributed to the increase. These increases were partly mitigated by the decrease in data and voice-retail revenues. Lower data revenues are mainly due to lower prices and decreased traditional leased lines revenue, while lower voice-retail revenues are owing to the decline in outgoing traffic and lower number of accesses.

EBITDA

The EBITDA of our Montenegrin operation in 2012 amounted to HUF 12.3 billion compared to HUF 11.4 billion in 2011, increased by 7.6%, mainly due to lower employee related expenses.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

A new Human strategy was elaborated that generates a complete structural change influencing the Company, the employees and the HR team.

CORPORATE GOVERNANCE REPORT

Magyar Telekom Plc. is a public limited company listed on the Budapest Stock Exchange. In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the "Recommendations") containing suggestions related to the corporate governance practice of companies listed on the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market as well as the Companies Act. The Recommendations were updated in 2007, 2008 and in 2012.

In line with the current regulations, the Board of Directors and the Supervisory Board of Magyar Telekom Plc. approved the Corporate Governance and Management Report of the Company prepared based on the Corporate Governance Recommendations and submitted it to the Annual General Meeting. The report – along with other corporate governance related documents - is posted on the Corporate Governance section of our website: http://www.telekom.hu/investor_relations/corporate_governance/corporate_governance_documents

The Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations, and in case of specific recommendations the possible deviations and their explanations are included in the report. Points 1 to 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Point 6 of the report includes a description of our internal controls and risk management procedures, while point 8 of the report describes our disclosure policies and insider trading guidelines.

The General Meeting of the shareholders has the sole right to approve and amend the Articles of Association (section 6.2. (a)) unless otherwise provided by law or the Articles of Association. According to the Articles of Association, the Board of Directors is entitled to make decisions regarding any change in the sites, branch offices and – except for the main activity – the scope of activities of the Company and in relation to this, to modify the Articles of Association (section 7.4.1.(p)).

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4. of our Articles of Association and in the Rules of Procedure of the Board of Directors, which are also posted on the Corporate Governance section of our website. The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 6.2 (b) and (s) as well as 7.4.1 (l) and (m) of our Articles of Association.

BOARD OF DIRECTORS

Under Hungarian laws, the Board of Directors is responsible for all matters relating to the Company's management and course of business not otherwise reserved for the General Meeting or for other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors is required to report annually to the shareholders at the General Meeting and quarterly to the Supervisory Board on our business administration, state of assets, financial situation and business policy.

See further information about the Board of Directors in section Our management.

MANAGEMENT COMMITTEE

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000, which is empowered to carry out the day-to-day operations in accordance with the annual business plan.

See further information about the Management Committee in section Our management.

SUPERVISORY BOARD

The Supervisory Board carries out its activities based on Section 8 of the Articles of Association and its Rules of Procedure approved by the General Meeting of the shareholders. The Supervisory Board has to examine every important report on business policy and every submission made on matters falling into the exclusive competence of the General Meeting. The General Meeting may pass resolution on the annual report prepared in accordance with the Act on Accounting and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board, whereas the proposal of the Board of Directors on the payment of dividends and the Company's corporate governance report can only be submitted to the General Meeting with the prior approval of the Supervisory Board.

Pursuant to the Company's Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the General Meeting for a term of three years. The Central Workers' Council nominates one third of the Supervisory Board members. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members are present.

On December 31, 2012, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

NAME	BORN	PRINCIPAL OCCUPATION	MEMBER SINCE
Dr. László Pap	1943	Budapest University of Technology, Professor	1997
Dr. János Bitó	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Attila Bujdosó	1967	President of the Telecommunications Trade Union	2010
Dr. János Illéssy	1962	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes	1948	Director of Institute of Environmental Sciences, Corvinus University Budapest	2006
Konrad Kreuzer	1948	Chairman of the Board of Directors of E.ON Hungary Zrt.	2006
Tamás Lichnovszky	1962	Chairman of the Central Workers' Council	2010
Martin Meffert	1960	Responsible for Corporate Governance issues of Magyar Telekom, Makedonski Telekom and Crnogorski Telekom at the Group Headquarters of Deutsche Telekom AG.	2009
Éva Őz	1957	Controlling Manager of Controlling Directorate Chairwoman of the Workers' Council of Central Functions	2012
Dr. Károly Salamon	1954	Chairman - Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt.	2010
Zsoltné Varga	1969	Quality Manager, Magyar Telekom Plc.	2008
Dr. Konrad Wetzker	1950	Chairman, Corvinus School of Management	2011

The members' mandate lasts until May 31, 2013.

Other principal directorships of members of the Supervisory Board

NAME	POSITION HELD	COMPANY
Dr. László Pap	Member of the Supervisory Board	Viking Zrt.
Dr. János Bitó	None	
Attila Bujdosó	None	
Dr. János Illéssy	None	
Dr. Sándor Kerekes	Chairman of the Advisory Board	Zöld Iránytű Alapítvány
	Member of the Supervisory Board	Tomori Pál Főiskola
	Member of the Advisory Board	Vezetőképzésért Alapítvány
	Member of the Advisory Board	Lélegzet Alapítvány
Konrad Kreuzer	Chairman of the Board of Directors	E.ON Slovensko
	Chairman of the Supervisory Board	E.ON Észak-dunántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Tiszántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Közép-dunántúli Gázhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Gázhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Gazdasági Szolgáltató Kft.
	Chairman of the Supervisory Board	E.ON Hálózati Szolgáltató Kft.
	Chairman of the Board of Directors	Zapadoslovenska Energetika, Slovakia
	Member of the Board of Directors	Budapest Airport Zrt.
Tamás Lichnovszky	None	
Martin Meffert	None	
Éva Őz	Member of the Supervisory Board	Communications Workers Welfare Foundation
	Member of the Supervisory Board	South Transdanubian Telecommunications Sports Club
	Member of the Financial Audit Committee	Telecommunications Trade Union
Dr. Károly Salamon	General director	MIS Kft.
Zsoltné Varga	None	
Dr. Konrad Wetzker	Member of the Board of Directors	Wildhorse Energy Ltd.

BIOGRAPHIES OF MEMBERS OF THE SUPERVISORY BOARD

Dr. LÁSZLÓ PAP

Dr. Pap graduated from the Budapest Technical University with a degree in telecommunications. He received a PhD in 1980 and Doctor of Sciences in 1992. He has been a professor in the Electrical Engineering and Informatics Faculty at Budapest Technical University since 1992. From 1992 to 2008 he served as Head of the Telecommunications Department and from 2001 to 2004 as Strategic Vice Rector. He is a full member of the Hungarian Academy of Sciences and has obtained numerous patents for his inventions. He is the Honorary President of the Scientific Society of Telecommunications, a member of the Telecommunications Systems Committee of the Hungarian Academy of Sciences, a member of the editorial board of the periodical World of Nature and Wireless Networks, an expert of the Hungarian Space Research Governmental Committee and the president of the Scientific Committee of Space Research.

Dr. JÁNOS BITÓ

Dr. Bitó graduated from the Faculty of Natural Sciences at József Attila University of Sciences in 1958, and received a Doctor rerum naturalium in 1960. In 1967, he received a PhD, and in 1971, a Doctor of Science in technical sciences. He has taught in many Hungarian and foreign universities. Between 1971 and 2002, he worked as a technical, research and development director, managing director or chief officer at a number of companies and institutions, and as senior advisor to a minister. Between 1965 and 2005, he accomplished considerable achievements in scientific research and development. He is a member of a number of scientific organizations, including the Committee on Information Science and the Committee on Automation and Computer Science of the Hungarian Academy of Sciences. At present he is the Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty.

ATTILA BUJDOSÓ

Mr. Bujdosó holds a degree in electrical engineering from Kandó Kálmán Technical College of Budapest, Faculty of Electrical Engineering. Since 1985, he has been working at Magyar Telekom and its legal predecessors. Until 1998, he worked as an exchange maintenance technician, then as a technical coordinator and an administrative operator. He has been a member of various trade unions since 1985: between 1985 and 1990 a member of the Postal Workers' Trade Union, between 1990 and 1993 a member of the Telecommunications Workers' Trade Union, between 1993 and 2004 a member of the Hungarian Telecommunications Branch Trade Union, from 2004 a member, and since July 1, 2008, the president of the Telecommunications Trade Union. Between 2005 and 2007, he was a member of the Workers' Council and between July 1, 2008 and December 31, 2010 he was a member of the Presidency of MSZOSZ (National Confederation of Hungarian Trade Unions).

Dr. JÁNOS ILLÉSSY

Dr. Illéssy is an electrical engineer with a degree from the Budapest Technical University and has received MBA and PhD degrees from the University of Pittsburgh, USA. He spent over 15 years with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, as consultant, controller, CFO and then Chairman-CEO. Between 2001 and 2003 he worked as CFO for the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the CFO and member of the Board of Directors of BorsodChem. Currently, he is the managing director of Lebona Kft. and teaches Financial Economics at the Institute of International Business Relations and also at the Business School of Central European University as an Adjunct Professor.

Dr. SÁNDOR KEREKES

Professor Kerekes holds an MSc in Chemistry and Economics. He received a PhD degree in Economics in 1984 and Doctor of Sciences (the highest degree awarded by the Hungarian Academy of Sciences) in 2003. In 1994, he participated in the Advanced Management Program at Harvard Business School. For 15 years, he was member or Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he has served as the Head of Department and later as the director of Corvinus University and its legal predecessors. Between 1994 and 1997 and between 2002 and 2006 he served as the Dean of Business Administration Faculty of Corvinus University. He is the Director of the Institute of Environmental Sciences and was Vice Rector of Academic Affairs of Corvinus University until December 14, 2011. He is member of the editorial boards of various papers (e.g., Economy and Society, Vezetéstudomány) and the author of many books and articles.

KONRAD KREUZER

Mr. Kreuzer is a lawyer with a degree in Business Administration. After serving in various positions at the Universities of Munich and Konstanz and in the Ministry of Domestic Affairs of the State of Bavaria, he joined Bayernwerke utilities as the Head of the Law and Property Department. Since 1997, he has served as the Chairman of the Board of Directors of E.ON in Hungary. His current responsibilities are Legal Affairs, Gas Business and International Affairs.

TAMÁS LICHNOVSZKY

Mr. Lichnovszky received a Bachelor’s degree as licensed signal officer and telecommunications engineer in 1984 from Zalka Máté Military Technical College and as manager engineer in 2002 from the Budapest Technical College. In 2010, he received a post-graduate degree in complementary legal studies from the Pázmány Péter Catholic University. He has been working at Magyar Telekom and its legal predecessor in technical and customer service areas since 1990. He has been an elected member of the Workers’ Council since 1998 and from March, 2011 he is the Chairman of the Central Workers’ Council.

MARTIN MEFFERT

Mr. Meffert holds a degree in Telecommunications Engineering from the University of Applied Sciences and a degree in Economics from the Business and Administration Academy in Koblenz, Germany. He started his career in 1985 as a telecommunications network planner and later satellite services specialist in the regional directorate of Deutsche Bundespost in Koblenz. Between 1990 and 1998 he served in the Ministry of Telecommunications in Bonn at the departments of satellite systems and international network projects. In 1999, he joined the fixed line business of Deutsche Telekom responsible for cooperation and alliance management for various regions in South and Eastern Europe. Since the formation of the Board Area Europe within the Group Headquarters of Deutsche Telekom in 2010, he takes care of the Corporate Governance of Magyar Telekom, Makedonski Telekom and Crnogorski Telekom.

ÉVA ŐZ

Ms. Éva Őz graduated as an engineer economist. Between 1978 and 1996 she worked as the leader of the architect planning group at the predecessor of Magyar Telekom Plc., at Pécs. From 1996 she took the position of leading the Investment Group of Real Estate Directorate at Pécs. After obtaining her second degree, since 1999 she has been working in the area of economy, she presently works as a controlling manager at the Controlling Directorate. She has been taking part in the work of the Central Workers’ Council since 1999. She has been elected as the Chairwoman of the Workers’ Council of Central Functions already for the fifth election period and she still fills this position.

Dr. KÁROLY SALAMON

Dr. Salamon graduated in 1977 from the Kandó Kálmán Technical College of Budapest with a bachelor of science of Electrical Engineering, and in 1983 from Eötvös Loránd University of Sciences with a master of science of Mathematics. He received an MBA degree at the University of Pittsburgh in 1991 and then he received a PhD from the University of Economics in Budapest in 1993. Between 1977 and 1990, he worked as a design engineer, then as a development engineer and later as a project leader at different companies. From 1990, he worked for Ernst and Young International Audit and Consulting Company as a partner. Between 1995 and 2005, he was the Chief Financial Officer, then from 2006 to 2008 the Chairman-Chief Executive Officer of Allianz Hungária Biztosító Zrt. From 2008, he is the general director of MIS Ltd. He has been the Chairman-Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt. since July 1, 2010.

ZSOLTNÉ VARGA

Mrs. Varga graduated from the College of Transport and Telecommunications at Győr in 1991. She has been working for Magyar Telekom (and its legal predecessor) since 1991. From 1991 to 1996, she was an engineer in the technical area, later she was head of a T-Pont shop. Currently, she works as a quality manager. In 1998, she became an elected member of the Workers' Council and she is member of the Central Workers' Council. Since 2004 she has been a member and from 2009 deputy chairwoman of Deutsche Telekom's European Workers' Council.

Dr. KONRAD WETZKER

Dr. Wetzker graduated from the University of Economic Science Karl Marx in Budapest in 1975, in mathematical analysis of the national economy. He earned his PhD in 1979, then in 1988 Doctor of Science. Between 1975 and 1989 he worked in applied research and was the leader of various research teams. Between 1989 and 1990 he was the President of the Institute for Applied Research in Berlin, and also a member of different Committees managing the economic part of the reunification in Germany. From 1991 until 2010 he worked for the Boston Consulting Group, in Düsseldorf, and from 1996 in Budapest, as Principal, Partner, Senior Partner and Chairman of Hungary, mainly for energy players, financial institutions, and in telecommunications and infrastructural industries. He worked for more than 50 international companies in strategy, organization and internationalization projects. He took part in supporting the market entry of Western European Players, especially in Hungary, Slovakia, and Czech Republic. He is the co-founder of the Corvinus School of Management in Budapest, and since 2005 he is its chairman. Since 2011 he is senior advisor at the Corvinus University of Budapest. He gives lessons at various universities (e.g. Harvard, University of Cambridge) and is the author of almost 100 publications (e.g. books and articles).

AUDIT COMMITTEE

The Audit Committee executes its duties pursuant to the Articles of Association Section 8.7, and its own Rules of Procedure. The members of the Audit Committee have been elected by the General Meeting from the independent members of the Supervisory Board for the same duration as the members of the Supervisory Board.

On December 31, 2012, the members of the Audit Committee, their principal occupation and the years of their original election were as follows:

NAME	BORN	PRINCIPAL OCCUPATION	MEMBER SINCE
Dr. János Illéssy	1962	Managing Director, Lebona Kft.	2006
Dr. János Bitó	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Dr. Sándor Kerekes	1948	Director of Institute of Environmental Sciences, Corvinus University Budapest	2006
Dr. László Pap	1943	Budapest University of Technology, Professor	1997
Dr. Károly Salamon	1954	Chairman - Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt.	2010

REMUNERATION COMMITTEE

The Remuneration Committee is established by the Board of Directors of the Company, to function as supporting body of the Board of Directors of the Company regarding the remuneration of the members of the corporate bodies and the top executives of the Company in accordance with the Rules of Procedure.

The Remuneration Committee makes recommendations to the Board of Directors on the establishment and termination of employment, as well as the remuneration package of executive officers, including setting and evaluating annual individual targets. The Remuneration Committee holds at least two meetings each year.

The Remuneration Committee consists of three members. The members are elected by the Board of Directors from among its members.

On December 31, 2012, the members of the Remuneration Committee, their principal occupation and the years of their original election were as follows:

NAME	PRINCIPAL OCCUPATION	MEMBER SINCE
Dr. Ralph Rentschler	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003
Günter Mossal	Vice President for Area Management, Deutsche Telekom AG	2012
Frank Odzuck	Chief Executive Officer of Zwack Unicum Plc.	2006

COMPENSATION OF DIRECTORS AND OFFICERS

In 2012, the total compensation of the members of the Board of Directors in their capacity as Board members was HUF 14.4 million in the following breakdown:

NAME	POSITION HELD	COMPENSATION
Dr. István Földesi	Member of the Board of Directors	HUF 1.39 million
Dr. Mihály Gálik	Member of the Board of Directors	HUF 1.39 million
Frank Odzuck	Member of the Board of Directors	HUF 4.80 million
György Imre Mosonyi	Member of the Board of Directors	HUF 3.41 million
Dr. Mihály Patai	Member of the Board of Directors	HUF 3.41 million

In 2012, the total compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 56.5 million in the following breakdown:

NAME	POSITION HELD	COMPENSATION
Dr. János Illéssy	Member of the Supervisory Board	HUF 3.53 million
	Chairman of the Audit Committee	HUF 5.28 million
Dr. Sándor Kerekes	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Dr. László Pap	Chairman of the Supervisory Board	HUF 5.38 million
	Member of the Audit Committee	HUF 2.64 million
Konrad Kreuzer	Member of the Supervisory Board	HUF 3.53 million
Zsoltné Varga	Member of the Supervisory Board	HUF 3.53 million
György Varju	Member of the Supervisory Board	HUF 1.02 million
Dr. János Bitó	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Dr. Károly Salamon	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Attila Bujdosó	Member of the Supervisory Board	HUF 3.53 million
Tamás Lichnovszky	Member of the Supervisory Board	HUF 3.53 million
Dr. Konrad Wetzker	Member of the Supervisory Board	HUF 3.53 million
Éva Őz	Member of the Supervisory Board (from April 2012)	HUF 2.51 million

In 2012, the total compensation expenses (including social security and other payroll related taxes) of the members of the Management Committee ("MC") was HUF 1,613 million.

Currently one of the MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the absence fee received for the remaining period is up to 12 months.

The notice period is two months for two of the undetermined contracts, while the severance payment is in accordance with the Hungarian legislation and the Collective Agreement. For the other contracts the notice period is six months, while the severance payment is between 10 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the ex-employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the ex-employee will be liable for a payment of compensation to the employer.

The MC members from foreign countries may be entitled to housing subsidies.

In line with the Company's remuneration guidelines, the company provides contribution-based personal pension scheme and the personal insurance scheme on behalf of the MC members. In addition, the MC members are entitled to the use of company cars.

For information about our Mid-term Incentive Plan ("MTIP"), see Note 24.1 to the Consolidated Financial Statements. For information about the Matching Share Plan, see Note 24.2 to the Consolidated Financial Statements. For further information about the compensation of key management and the participation in Deutsche Telekom's Stock Option Plan, see Note 34.4 to the Consolidated Financial Statements.

SHARE OF OWNERSHIP OF MANAGEMENT

The following table sets out information relating to holdings of ordinary shares by our directors and executive officers at December 31, 2012:

NAME	POSITION	NO. OF SHARES OWNED
Christopher Mattheisen	CEO, Chairman of the Board of Directors	60,136
Thilo Kusch	CFO, Member of the Board of Directors	17,000
Tamás Lichnovszky	Supervisory Board Member	7,790
Zsoltné Varga	Supervisory Board Member	1
Éva Somorjai	Chief Human Resources Officer	2,300
Total		**87,227**

HUMAN POLICY

In line with Magyar Telekom's corporate strategy we renewed our HR principles and strategic priorities. In 2011, we prepared for a total paradigm change in terms of all HR related activities. A new Human strategy was elaborated that generates a complete structural change influencing the Company, the employees and the HR team.

HUMAN STRATEGY FROM THE COMPANY'S ASPECT

- Efficient company – continuous and proportionate decrease of Total Workforce Management (TWM) cost
- Competitive company – competitive edge based on human capital through training development and career management
- Energized company – international, diverse and healthy organization that experiences success

HUMAN STRATEGY FROM THE EMPLOYEES' ASPECT

People development will be carried through enhancing employee experience that is a major element of our strategy. The stages of Telekom employment cycle were identified in 2011 and we matched appropriate HR tools with each stage in order to develop all of our employees:

- Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and attractive on the labor market. We are going to be among the "Top 3 Best Employer" and be among the "Top 5 Most Desired Employer" in Hungary.
- Selection – we create a diverse workplace with maintaining the healthy level of internal succession rate and encouraging atypical staffing. We also plan to increase the ratio of women in management to 30%.
- Agreements – we establish transparent, flexible and reliable frameworks of conditions. We maintain a balanced partnership with employee representative bodies and identical contracts will be concluded with people in identical employment pools.
- Orientation – we make our new colleagues real members of the team by sharing our knowledge, culture and experience with them. Our Orientation program will be renewed in order to have an informative and efficient event for the new employees. We introduce a buddy program to make assimilation into the corporate culture easier.
- Remuneration – We introduce a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.
- Training development, organizational development – our qualified employees provide us a competitive edge. Following the international best practice we spend two percent of personnel expenditure on training and development. Ten percent of all training will be provided from internal resources.
- Work – life balance – Our energized employees make us successful. We are going to introduce and run a complex stress management that helps preserving mental and physical condition of our employees.
- Fair dismissal – when we dismiss an employee, we do it in a fair manner. We make it clear for employees that retaining one's marketability is one's own responsibility.

Our company's practice is adapted to Hungarian legislative norms. The principles of justice and equal opportunities are set out in the basic standards articulated in our Code of Ethics published in 1997. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the practical implementation of equal opportunities.

HEADCOUNT

The following table provides information concerning the number of full-time employees, including full-time equivalents, of Magyar Telekom Plc. and its consolidated subsidiaries:

	At December 31,		
	2010	**2011**	**2012**
Magyar Telekom Plc.	6,076	6,097	7,474
Magyar Telekom Plc. and its consolidated subsidiaries	10,258	10,111	11,653

The following table provides information on the breakdown of Magyar Telekom's employees by segment:

	At December 31,		
	2010	**2011**	**2012**
Telekom Hungary	6,084	6,124	7,793
T-Systems Hungary	1,662	1,594	1,509
Macedonia	1,698	1,668	1,623
Montenegro	814	725	728
Total	**10,258**	**10,111**	**11,653**

TOTAL WORKFORCE MANAGEMENT

From 2009, Magyar Telekom introduced a Total Workforce Management ("TWM") system. This scheme focuses on the total labor cost and not solely on headcount number and employee-related expenses. As a result, it enables us to increase the flexibility and efficiency with which all human resource-related expenses are managed, including contracted or temporary employees as well as outsourcing and entrepreneurial contracts.

WORKFORCE REDUCTION AND REDEPLOYMENT

Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling (disregarding the technical effects of acquisitions and Total Workforce Management), the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

In order to simplify and streamline its organization, Magyar Telekom has already implemented several integration steps. The merger with T-Mobile Hungary in 2006, the integration of Emitel and the access business area of T-Online into the parent company in 2007 and the integration of T-Kábel in 2009 enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Group. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management started negotiations with the trade unions and reached an agreement in October 2012.

According to the terms of the agreement, the Company plans to make 500 employees redundant from 2013. The majority have left the Company by the end of 2012. This figure does not include – among others – the employment termination of executives and employees retiring. In addition, to achieve further efficiency improvements, organizational restructuring took place as of January 1, 2013 and one element of social benefits, the employer contribution to the employees' pension fund was reduced by 25%, as well. Total severance expenses related to the headcount reduction will be approximately HUF 6.0 billion and the majority of these were accounted for in the fourth quarter of 2012.

The agreement with the trade unions also states there will be four percent general increase in the base salary for the parent company employees from April 2013 to retain the real value of wages for those who stay with the Company.

Based on these measures, our goal is to reduce Total Workforce Management (TWM)-related costs excluding severance and capitalized employee expenses by HUF 5.8 billion in 2013, compared to 2011, representing a 5.6% decline over the two year period. Consequently, in the 5-year period of 2008-2013, TWM-related costs excluding severance and capitalized employee expenses and adjusted for technical changes in the TWM cost structure are set to decrease by 18.4%.

These efficiency improvement measures are necessary steps to mitigate the negative trends in the telecommunications industry being faced by Magyar Telekom. Increasing competition in all segments and a tougher regulatory (roaming regulation and reducing termination fees) and macroeconomic environment will put pressure on our performance in the coming years.

EMPLOYEE REPRESENTATION AND LABOR RELATIONS

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszevezet, "MATÁSZ"). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the agreement must be renegotiated annually. Under the agreement, employees are generally entitled to prior notice before termination. Furthermore, employees are entitled to a specific amount of severance pay, which depends on the tenure of the employee.

In addition to the collective bargaining agreement, employees of our Hungarian operations are generally covered by the Hungarian Labor Code, Act I of 2012, which imposes various restrictions on the involuntary termination of employment. The Hungarian Labor Code protects employee interests through two different labor organizations: the Trade Union and the Workers' Council.

The Trade Union, as the official representative of employee interests in negotiations relating to the terms of employment, has the right to be informed of all corporate measures that may significantly affect the interests of employees and to commence legal action against the Company for employment-related conduct that infringes an employment rule. In addition, the Workers' Council directly represents employee interests in dealings with management and decides jointly with management on matters involving employee welfare funds and institutions. The Workers' Council must be informed semi-annually on issues affecting our economic performance and changes in wages, employment conditions and working hours. The Workers' Council must also be consulted on corporate measures affecting employees.

Under the Act IV of 2006 on Business Associations (the "Companies Act"), employee representatives on the Supervisory Board are nominated by the Workers' Council in cooperation with the Trade Union. The composition of the Supervisory Board is approved by the AGM. At least one third of the members of the Supervisory Board must be employee representatives. On December 31, 2012, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Őz and Attila Bujdosó.

We believe that our relations with our employees are good. We have not experienced any labor strikes or disruptions since our formation.

PENSIONS AND BENEFIT PROGRAMS

Magyar Telekom's welfare and social benefits constitute an exceedingly wide-ranging pool. A part of them is granted to every employee, while others are available on certain conditions or are of an insurance nature, the basis of which is the employees' collective contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's executive officers and directors), discount holiday facilities and other fringe benefits. In addition to our statutory contributions to governmental health, retirement and unemployment schemes, we contribute to the employees' voluntary pension fund and supplementary benefits fund, which provide private pension and health insurance benefits supplementing government pension and health benefits. We do not, however, guarantee payment by the fund to its members. At the end of 2012, approximately 66% of all employees participated in the pension-, 47% in the self-help-, and 68% in the health fund.

SUSTAINABILITY

Our new Sustainability Strategy, encompassing five years (2011- 2015), has been harmonized with the strategies of other corporate divisions. The main objective of the strategy is to make sustainability part of Magyar Telekom's identity, thus providing a competitive edge to the Company in the long run.

We wish to achieve this objective on the basis of our performance demonstrated so far, the responsible investment ratings and the principles followed during the last three years, with a more intensive communication of our commitment to our stakeholders, new and ambitious goals, adopting best practices, as well as forceful and targeted communication.

The strategy will be implemented through the tasks of 22 topics, along the following key priorities:

- Brand management: our goal is to raise awareness to the concept of sustainability and to enhance the sustainability perception of Magyar Telekom
  - Knows the concept of sustainability: KPI: public: 20%, employees: 80%
  - Magyar Telekom's sustainability perception: KPI: 25% of the public, 50% of the employees name Telekom is the most sustainable company
- Innovation management: our goal is to increase innovations aimed at society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to reduce the CO_2 emission of the group by 20% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain process
- Effects of telecommunication services: our goal is to increase the ratio of sustainable products and services, and to keep our customers informed
  - Increase revenue from services of sustainable nature, KPI: 20% of annual sales
  - Sustainable products, KPI: their ratio in the portfolio: 25%

Trends influencing the sustainability strategy, adopted in 2011

- Professional evaluation of the previous strategic period (mainly based on Dow Jones Sustainability Index results)
- The European Union's 'Europe 2020' strategy
- The EU's 3x20 climate package that lasts until 2020
- EU recommendation for the ICT sector: 20% CO_2 reduction by 2015
- Corporate trends, e.g. Climate Groups' 30 percent initiative
- Deutsche Telekom sustainability requirements
- Responsible investments and increase of their value
- Changing customer requirements

PERFORMANCE OF THE STRATEGY

We measure our sustainability position by the Dow Jones Sustainability Index (DJSI) and by various prizes, while the visibility of our leading role is measured by residential and employee surveys.

In the professional evaluation, on the basis of the DJSI in 2012 with 72 points we earned a position in the top third league worldwide and also topped this position with several awards.

Awards and ratings in 2012:

- Best Workplace Award - 2nd place (Aon Hewitt)
- CEERA (Central European Environmental Reporting Award) - Green Frog Prize
- CEERIUS sustainability index membership
- CSR Hungary Award: CSR best practices - corporate category

The awards we won during the term of the strategy are available on the following website:
http://www.telekom.hu/society_and_environment/prizes_ratings

In 2012 in the residential survey 9% of the respondents name Magyar Telekom and its offered brands as leading sustainability company and products, but 82% of the respondents cannot specifically name any company. In the employee survey 84% name the Company as leading player, but 33% cannot name any company at all. Knowing the concept of sustainability in residential survey is 29%, in employee survey 75%.

ENVIRONMENT PROTECTION

Magyar Telekom Group as the leading info-communication service provider of the region - in harmony with its Mission - is committed to the idea of sustainable development and within it to the environmental issues. The Company, realizing its role and potential in the information society, contributes to the decrease of negative environmental impacts in Hungary by performing our activities in a regulated and controlled way, fulfilling the EU requirements and complying with the international standards. Magyar Telekom Group's environmental commitment and taken responsibilities are published in the Magyar Telekom Group Environmental Policy which contains obligations for the group-members individually and for the Group all together:
http://www.telekom.hu/static/sw/download/Magyar_Telekom_environmental_policy.pdf

ENVIRONMENT AND CLIMATE PROTECTION PERFORMANCE

In 2012 Magyar Telekom Plc. purchased 54 GWh renewable energy from E.ON, as part of its total electric energy consumption, which accounts for almost 25% of the total volume used by the Company. In the 5-year strategy, the goal in order to achieve the defined KPI is maintaining at least 46 GWh per year of green energy.

The two 100% electric cars purchased in 2011have been in operation since January 2012 in Magyar Telekom's fleet. One of the vehicles supports the mechanics of the Technical Services Directorate in their work, while the other one is available to the employees of Telekom, as a so-called key car. One of the important benefits of electric cars is that no hazardous substances are emitted during their operation (0 g/km emission), and their fuel consumption is also low (electric energy equal to 1–1.5 liters of gas for 100 kilometers).

Magyar Telekom now uses recycled packaging materials for all deliveries of products ordered online and replaced nylon bags with recycled paper bags for products sold in its T-Shops, where up to 800,000 bags per year were given to customers in the past. Both moves significantly reduce the impact of the waste generated on the environment.
To replace the previous paper-based documentation, technicians at Magyar Telekom who are responsible for troubleshooting and configuring services were provided with tablet PCs featuring applications developed by their specific unit (scanning, electronic signing features, etc.). This not only helps them to organize their work better but also results in cost, time and energy savings and reduces paper consumption.

In 2012, Magyar Telekom continued with its fresh air cooling system program of data centers and remote subscriber units. This reduces the need for air conditioning and hence electricity consumption. Moreover, the company initiated a smart cooling technology pilot project to optimize air conditioning systems so that they consume less energy. A battery cooling pilot project is also being implemented with aim of safeguarding batteries so they can tolerate greater fluctuations in temperature. In order to save energy from gas and distance heating Magyar Telekom once again replaced some furnaces and modernized heating centers as well using the waste heat from some datacenters for heating purposes.

INITIATIVES CONCERNING STAKEHOLDERS

In 2012 we organized the Sustainability Roundtable Discussion for the 13th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom Group, discussing the arising problems, and to provide a suitable background for thinking together and co-operating in building a sustainable future.

In 2008 our Company founded the DELFIN award, which in Hungarian stands for Award for a Committed, Sustainable, Innovative Generation. With the DELFIN award Magyar Telekom wants to promote the idea of a sustainable development and recognize efforts made towards this goal. The award is given to suppliers offering outstanding performance in the field of sustainability, in four categories:

- Support of equal opportunity and promotion of non-discrimination inside and outside the Company;
- Innovation realized in the interest of sustainability;
- Sustainability education and awareness raising;
- Investment and development related to climate protection.

The award is given on the basis of applications judged by a board of professionals. The fifth award ceremony was held on June 4, 2012, in the Sustainability Roundtable. In 2012 one sustainable innovation prize was awarded to Ericsson Hungary Communication Systems for its EARTH project, which delivers solutions to the question of how to reduce the energy consumption of wireless infocommunication networks and enhance their energy efficiency.

In order to integrate sustainability into sales activities Magyar Telekom publishes a mobile device catalog that provides information about the sustainability aspects of different products and labels the mobile devices' sustainability features. These sustainability features include:

- Mercury- and arsenic-free display;
- PVC-free;
- Free of nickel, brominated or chlorinated elements and antimony tri-oxide;
- Packaging made of 100% reusable materials;
- Charger more energy-efficient than even the highest standards;
- Energy-saving mode;
- Made of 100% reusable materials;
- Reminder to pull out the charger;
- Designed for disadvantaged people (e.g. the elderly, people with disabilities, etc.).

Being a responsible company, Telekom deems it important to take active part in the Earth Hour initiative. We took part for the first time in 2009, and since then we take action each year to draw others' attention to the link between excessive consumption and climate change and the threat posed thereby. We participated in the worldwide initiative in 2012, too: we switched off the lights of our shops, office buildings and billboards, as well as switched origo.hu over to a black background for the duration of the event.

On September 29th 2012, the 5th Sustainability Day was organized, the purpose of which is that Magyar Telekom present the new ideas and solutions that have evolved in the past year in the subject matter of sustainable development, and thus help the widest audience possible to establish conscious lifestyles. The panel discussions focused again on the three pillars of sustainability by addressing specific subject matters in the context of each, which was the topic of Active Citizens in the Society Section, Sustainable Settlements in the Environment Section and Green Economy in the Economy Section. Our extra topic this year was Green Festivals.

In 2012 we increased the social sensitivity of our employees by organizing voluntary programs. For those interested the hello holnap! Volunteer Day and T-Shops voluntary program offered voluntary work opportunities all over the country. Furthermore, we have encouraged the spreading of corporate volunteering by organizing charity team buildings. During the year 596 of our colleagues did 4,622 working hours of voluntary work, within the frame of which we granted to the society 21.7 million HUF of theoretical voluntary contribution.

In 2012, Magyar Telekom invited NGO projects to three donation themes. This year's themes were Sustainable Cities, Settlements, The Power of Community and Sustainable Awareness. When selecting the themes, Telekom's brand positioning (community engine), the planned themes for the Sustainability Day event and social issues characteristic of Hungary (elimination of cultural centers, too few community spaces, overworked pedagogues, alienation, regions getting poorer, etc.) were taken into account.

ANNUAL SUSTAINABILITY REPORT

One of Magyar Telekom Group's commitments is that it annually publishes a report about its sustainability performance. Reports are prepared in accordance with the GRI G3 principles of Global Reporting Initiative (GRI) published in 2006, thus meeting the expectation that the reports comply with the principles of transparency and international comparability. Each year since 2007 Magyar Telekom achieved the highest compliance in accordance with the international principles, so its Sustainability Report for the year 2011 continued to apply the principles on A+ level for the fifth time already. In 2012 independent assurance report with the GRI criteria was completed and certified by PricewaterhouseCoopers in accordance with ISAE 3000 international standard. Further details on the sustainability performance of the company can be found in the annual reports available on the site: http://www.telekom.hu/society_and_environment/sustainability_reports.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2012, Magyar Telekom successfully adapted the new R+D+I regulations environment effective from January 1, 2012 and efficiently participated in the Research and Technology Innovation Fund's R&D tenders. This resulted in 292 million non-repayable tender resources to realize various R&D projects, which will be paired with Magyar Telekom's own fund HUF 326 million (according to the actual spending, the total of HUF 618 million project value can be reduced by keeping the rules of the tender). Thirty R&D committee pre-selected topics will be realized during the project, with the active cooperation of innovative Hungarian SMEs, research institutes, universities and companies. The research topics were selected in accordance with Magyar Telekom's strategic goals considering further utilization factors. They incorporate the whole R+D+I process from the basic research through industrial research to experimental development. The various research projects include not only outside partners, but researchers, product and service developers from Magyar Telekom as well.

Besides, Magyar Telekom also participated in international R&D projects, such as the Optical Access Seamless Evolution. This project started in 2010 and finished in 2012 with participation of various telecommunication companies, technology providers and European universities supported by the European Union (FP7: Seventh Framework Program).

The company exploits the synergy between the internal and external knowledge base and seek partnerships with well-known innovation centers and universities. Our main partners are prestigious Hungarian universities and research institutes like Budapest University of Technology and Economics, Corvinus University of Budapest, University of Szeged, and the Hungarian Academy of Sciences.

Magyar Telekom is in professional partnership with the University of Szeged in its R&D project "The Infocommunication technologies and the society of the future (FuturICT.hu)".

Moreover, supporting R&D knowledge transfer is meaningful for Magyar Telekom, therefore became partner in the EIT ICT Labs KIC EU knowledge transfer project in 2012. This program aims to make research capacity from ELTE and BME PhD students and researchers accessible to the industry stakeholders. Magyar Telekom will be the PhD research supervisor during the EIT ICT Labs projects in 2013.

THE COMPANY'S RISKS AND RELATED UNCERTAINTIES

RISK MANAGEMENT POLICIES

It is our policy that all disclosures made by us to our security holders and the investment community be accurate and complete, and fairly present our financial condition and results of operations in all material respects. Such disclosures should be made on a timely basis as required by applicable laws, rules and regulations. To achieve these objectives, we formed the Disclosure Committee and developed and have continuously enhanced our risk management policies.

Our risk management includes identification, assessment and evaluation of risks, development of necessary action plans, and monitoring of performance and results. For risk management to be effective, we must ensure that management make business decisions with full understanding of all relevant risks.

In 1999, we established a formal risk management system. This system was integrated into the risk management system of Deutsche Telekom in 2002.

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and internal regulation on risk management were published. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly throughout the Group. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After evaluation of these risks, results are reported to our management, to the Board of Directors, to the Audit Committee, to the Disclosure Committee and to Deutsche Telekom.

As part of the integration into DT's risk management process, we enhanced our risk management procedures with a new element. For the sake of prompt disclosure of all risk items influencing investors' decisions, we complemented our quarterly risk reporting system with a continuous reporting procedure which requires all of our departments and subsidiaries to report on a real-time basis any new material fact, information or risk that comes to their knowledge. Information thus submitted is monitored and evaluated by the risk management area and CFO is notified when a new material risk or information is identified.

An internal regulation has been issued to define responsibilities of each employee in risk monitoring and management.

We established the Disclosure Committee on July 31, 2003. The Disclosure Committee acts both in plenary meetings and through its members acting individually. It supports CEO and CFO in fulfilling their responsibility to oversee processes designed to ensure accuracy and timeliness of our disclosures.

RISK FACTORS

We have identified several risk factors which may affect our financial condition or results of operations or the trading prices of our securities in the future. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities. The summary of our principal risks and uncertainties are described below:

Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations.

The Electronic Communications Act of 2003 (''Electronic Communications Act''), which came into force in January 2004, was enacted by the Hungarian Parliament to achieve harmonization of the telecommunications regulatory regime in Hungary with the New Regulatory Framework (''NRF'') of the EU for electronic communications adopted in 2002, and to encourage further competition in the market.

The NRF has been subject to review by the EU since 2007. The agreed reforms to the NRF accepted in November 2009 are the result of three years of discussions with stakeholders, national regulators and users. Changes to the NRF were required to be implemented by national legislation by May, 2011. The Hungarian Electronic Communications Act was modified and entered into force August 3, 2011. The significant executive decrees were already published by the National Media and Infocommunications Authority of Hungary by the first quarter of 2012.

The National Media and Infocommunications Authority of Hungary (''NMIAH'') was officially established on August 11, 2010 to ensure the undisturbed operation, in compliance with applicable legislation, of the media and the markets for electronic communications, postal and information technology services in Hungary in accordance with the Electronic Communications Act and Act I of 1996 on Television Broadcasting, as amended. The new, converged regulator performs the tasks of its predecessors: the National Communications Authority (''NCA'') and the National Radio and Television Commission (''NRTC''). According to the official announcement, the purpose of the merger, among others, is cost efficiency, more rational allocation of resources, more cost effective work, avoidance of duplication of work and better cooperation of the supporting activities within a single organizational structure. One of the primary responsibilities of the NMIAH is to perform market analysis procedures under which it defines ''relevant markets,'' or markets subject to the regulatory framework. The NMIAH analyzes such markets for the level of competition and, if it finds a lack of sufficient competition in such markets, identifies service providers with significant market power (''SMP''), and imposes appropriate regulatory obligations on such providers to encourage competition.

The relevant markets examined by NMIAH are the same as the relevant markets listed in the revised Recommendation of the European Commission on relevant product and service markets within the electronic communications sector (2007/879/EC, relevant markets 1-7/2007). As a result of the EU review, the number of relevant markets decreased from 18 to 7. Related to these relevant markets several market analysis procedures have been closed by NMIAH. According to the current regulation, the NMIAH must analyze the relevant markets once in three years. The following market analysis round has begun by the data provision requests. The current relevant product and service markets are: access to the public telephone network at a fixed location for residential and non-residential customers (1/2007); call origination on the public telephone network provided at a fixed location (2/2007); call termination on individual public telephone networks provided at a fixed location (3/2007); wholesale (physical) network infrastructure access at a fixed location (4/2007); wholesale broadband access (5/2007); wholesale terminating segments of leased lines (6/2007) and voice call termination on individual mobile networks (7/2007). Magyar Telekom is currently identified as having SMP in all of the 7 relevant markets.

The NMIAH places the utmost importance on safeguarding customers' rights. One objective of the market surveillance procedures started by NMIAH is the strengthening of consumer protection between electronic communication service providers and their consumers. During the NRF implementation, the regulations related to the general terms and conditions and the detailed rules of subscriber contracts were modified and became more rigorous. Due to stricter consumer protection rules further market surveillance procedures are expected.

The Hungarian Government wants to undertake a greater role in domestic ICT market through the following intentions: government purpose network and services, national mobile payment system, new mobile market entrant as a consortium of the state owned Hungarian Post Office (Magyar Posta), the Hungarian Electricity Works (MVM) and a unit of the Hungarian Development Bank (MFB). The Government intends to develop and restructure the operation of Government-related networks in order to be able to operate a high quality and safe electronic public administration. On November 7, 2011 the government announced its decision that MVM will take over the operation of the EKG Network (Uniformed Government Backbone Network) from Magyar Telekom. Services were switched over to the new network continuously starting from December, 2011. According to the new operation model, services are provided by National Infocommunications Services Zrt.

The European Commission (the "Commission") has issued a recommendation on mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the national regulatory authorities ("NRAs"). The latest final mobile termination resolution was published in August 2011 setting fees till Dec 2013.

On June 30, 2007 an EU regulation, the Roaming Regulation I. entered into force which regulates international roaming tariffs for wholesale and retail customers on the basis of a capped pricing system. After the first review of roaming prices development, the European Commission published a stricter Roaming Regulation II. on June 29, 2009. It applied to voice, SMS and data roaming fees and resulted in significant price decreases. Latest Roaming Regulation III. was published on June 13, 2012 (EU Regulation No 531/2012) and applies decreased retail and wholesale price caps to voice, SMS and data services. Furthermore the regulation obliges operators to structurally separate their roaming services from their domestic services as of July 1, 2014. The method of the structural separation of roaming services is still unclear, as there is no final BEREC guideline and standardized process as such.

In addition, our businesses in Macedonia and Montenegro are also subject to various regulatory developments. In 2011 relevant markets were defined by the Agency for Electronic Communications and Postal Services ("EKIP") in Montenegro. New obligations from 2012 are publication of cost based reference offer and accounting separation submissions. These requirements may have an impact on the profitability of the company.

In Macedonia, the SMP status of Makedonski Telekom in various markets may lead to additional obligations. We assume to have lowering fixed and mobile termination rates, and access to ducts and specific network elements, universal service and requirements to publish general conditions and quality parameters of services. The activities of the Agency for Electronic Communications (''AEC'') related to retail price control will be enhanced.

We cannot fully anticipate the combined impact of these and other regulatory developments on our business and results of operations. Our business and results of operations may be adversely affected by these changes or similar regulatory developments or changes by our regulators.

We are subject to more intense competition.

The scope of competition and any adverse effect on our results depend on a variety of factors that we cannot assess with precision and are for the most part not within our control. Among such factors are business strategies and capabilities of new competitors, prevailing market conditions, as well as the effectiveness of our efforts to prepare for new market conditions. Specific risks in the fixed line market include continuous downward pressure on tariff levels, loss of customers as a result of unbundled access to the local loop, loss of fixed line customers as a result of introducing "naked" ADSL (i.e., without a subscription for a PSTN line), competition from alternative operators using new technologies (e.g., VoIP, VoCable) and migration to lower priced Internet price plans as a result of speed upgrades. In addition, the declining prices of mobile telecommunications services also lead to the migration of fixed line customers.

The most significant trend in the fixed line market is the increasing share of 2Play or 3Play offers (bundling voice, Internet and television services into one package) which usually results in discounts on purchased services for customers. In Hungary, cable penetration is above the European average. From a competition point of view, the unregulated cable television operators may be able to offer more flexible price structures to customers than the regulated market players can, such as Magyar Telekom. In the case of increasing price competition, this may narrow our ability to give adequate market responses against the competitors' actions.

In the mobile communications business, we already face intense competition. As all telecommunications markets have become increasingly saturated, the focus of competition has shifted from customer acquisition to retention. Significant customer defections could have an adverse effect on our results of operations, and customer acquisition and retention expenses are substantial. Due to the increased level of competition and new price plans, prices for mobile telephone services have been declining over the past several years and may continue to decline.

New market models using Internet-based messaging and communication services may adversely affect both of our fixed line and mobile voice and messaging services. Entry by MVNOs into the mobile telecommunications market may intensify the competition in Hungary. MVNOs are mobile operators that do not own their own spectrum or network infrastructure, and instead buy the use of the spectrum and network infrastructure from traditional mobile operators and provide mobile telecommunications services to consumers based on the purchased capacity. MVNOs are likely to target the lower segment of the market and such development will likely increase price-based competition. Currently there is no regulation in Hungary where incumbents would be obliged to provide regulation based access prices for MVNOs. We do not expect changes in this field in the near future.

For example, on November 20, 2009, Vodafone, in cooperation with Magyar Posta, launched a branded reseller mobile service, “Postafon”, which is offered by Magyar Posta in several post offices. Also, on February 1, 2012 Lidl (discount supermarket chain) launched branded mobile services under the name “Blue Mobile” in co-operation with Magyar Telekom, and Tesco (retailer chain) launched “Tesco Mobile” MVNO service partnering with Vodafone on March 1, 2012. The entry pressure from other interested parties to the mobile market may increase in the future. If an MVNO is hosted by one of our competitors, Magyar Telekom could lose revenue as customers may be lost to the MVNO and the tariff level in the Hungarian mobile market may significantly decrease.

There is a frequency spectrum allocation risk and national roaming obligation risk due to the current frequency tenders/auctions announced by NMIAH. As a consequence to the frequency tenders, mobile market competition may increase

- **900 MHZ**
  The Office of the NMIAH launched the bidding procedure for the right of use of a total amount of 10.8 MHz of unused spectrum in the 900 MHz frequency band in August, 2011. Due to the implementation of the modified GSM Directive, the spectrum can be utilized in a technology-neutral manner. Based on the final and non-appealable decision of the authority on March 9, 2012, there could be a new market entrant in the mobile market, which would be a consortium of the state-owned Hungarian Post Office (Magyar Posta), the Hungarian Electricity Works (MVM) and a unit of the Hungarian Development Bank (MFB) (Aforementioned in the risk factors, the Hungarian Government wants to undertake a greater role in domestic ICT market). The new entrant won 5 MHz in the 900 MHz band, and an option for 15 MHz in the 1800 MHz band and 15 MHz in the 2100 MHz. Pursuant to the final decision, Magyar Telekom won the right of use of two duplex frequency blocks of 1 MHz. Vodafone secured 2 MHz spectrum, while Telenor won 1.8 MHz. The Metropolitan Court, by its judgment announced on September 17, 2012 annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court. Accordingly, the NMIAH’s administrative decision closing the 900 MHz frequency auction is annulled in a final, binding and non-appealable manner.

- **26 GHZ**
  NMIAH registered the five applicants for the tender of 26 GHz, among of them Magyar Telekom. The announced frequency package contained 26 blocks which support the build-up of 3G and 4G mobile networks and able to establish other data connection between network elements. Based on the authority’s announcement on March 20, 2012, all applicants obtained authorizations for a range of the frequency band for a period of 15 years.

- **450 MHZ**
  The NMIAH decree of the 7th of January, 2013 on the Radio Application Table changed the status of the 450 MHz band from „assignable” to „planned (non-assignable)” until 30th of June, 2013.

Hungary asked for 2-years derogation from licensing of the 800 MHz band by January 1, 2013 but the NMIAH is planning to execute the Digital Switchover by January 1, 2014 and licensing the 800 MHz DD1 band for mobile service by that date.

We also face intense competition in the market for Internet services, as well as in the data communications markets from other fixed line, mobile and cable television service providers. The share of Magyar Telekom DSL net additions has declined against competitors' cable Internet offerings. This could adversely affect our further broadband growth prospects and may lead to further tariff erosion.

Competitors' cable network acquisition activity was more intense than ours in 2012, they acquired more hybrid fiber coax (HFC) customers and integrated them into their network. The competition for cable networks has increased, and may result in higher acquisition costs and longer return on investment periods.

Competition posed by new entrants in Macedonia and Montenegro may result in a downward pressure on pricing, sales volume and profitability, which would have an adverse effect on our financial condition and results of operations.

Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with, TV, Internet, SI/IT and retail energy revenues

In fixed line operations, we expect continued decline in fixed line 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. To mitigate this decrease in fixed line voice revenues, we are now moving from pure fixed line voice offers to integrated 2Play, 3Play, 4Play packages and energy (electricity, natural gas) services, which allow us to partially substitute declining voice traffic revenues with content, entertainment and bundled access revenues. In the mobile operations in Hungary, market penetration has now reached full saturation levels, and we expect declining voice revenues in 2013. We may not be able to sustain our revenue targets, if we are unsuccessful in offsetting the effect of our declining voice and messaging revenues with new services.

We may be unable to adapt to technological changes in the telecommunications market.

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of various segments of the increasingly global industry. Our future success will largely depend on our ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Technological advances may also affect our level of earnings and financial condition by shortening the useful life of some of our assets or potentially requiring their impairment. Further, the tough economic situation in Hungary in the past years has affected our ability to invest in and deploy new technology.

The future of our current operational model is subject to currently unforeseeable changes in the future business environment.

The telecommunications industry is undergoing a major change globally with an effect on the Hungarian market as well. We have considered these market trends including changes in technology, customer requirements, competition and regulation, and accordingly, we have planned our operational restructuring to be in line with these market trends. Our operational model effective from 2008 is based on customer segments and also provides a solid basis to capture long-term growth. We have designed our operational model according to our most current knowledge of market trends and our business needs; however, the future business environment might evolve into currently unforeseen directions that will require us to adjust our operational model.

At its meeting held on June 18, 2012, Magyar Telekom's Board of Directors approved the mid- and long-term strategic direction of the company's operations. One of the first steps is the establishment of a new management structure. The changes, to start from January 2013, will enable Magyar Telekom to exploit the new, innovative service and business opportunities by responding more flexibly to changes in customer demand and to market challenges. The company's new organizational structure is also designed to enable Magyar Telekom to serve its customers in a high-quality, state-of-the-art and efficient way.

Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets.

Developments in the technology and telecommunications sectors, including significant declines in stock prices, market capitalization and credit ratings of market participants may result in impairments of our tangible, intangible and financial assets. Future changes in these areas could lead to further impairments at any time. Recognition of impairment of tangible, intangible and financial assets could adversely affect our financial condition and results of operations and might lead to a drop in the trading price of our shares. We review on a regular basis the value of each of our subsidiaries and their assets. The value of goodwill is reviewed annually. In addition to our regular impairment tests, whenever we identify any indication (including changes in the economic, regulatory, business or political environments) that goodwill, intangible assets or fixed assets may have been impaired, we consider the necessity of performing certain valuation tests which may result in an impairment charge.

Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies.

Hungary based its EMF (ElectroMagnetic Field) limits on ICNIRP (International Commission on Non-Ionizing Radiation Protection) following the approach of most European countries as well as the EU Commission Recommendation. Media reports have suggested that radio frequency emissions from mobile telephones are linked to medical conditions such as cancer. In addition, a number of consumer interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital mobile technologies pose health risks and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on our mobile business or will not lead to additional government regulations. Our ability to install new mobile telecommunications base stations and other infrastructure may also be adversely affected, and related cost may increase, due to regulations or consumer action in response to concerns over health risks and adverse effect on the value of properties adjacent to such facilities. The actual or perceived health risks of mobile communications devices could adversely affect mobile communications service providers, including us, through increased barriers to network development, reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the mobile communications industry.

System failures could result in reduced user traffic and revenue and could harm our reputation.

Our technology infrastructure (including our network infrastructure for fixed network services and mobile telecommunications services) is vulnerable to damage and interruption from information technology failures, power loss, floods, windstorms, fires, intentional wrongdoing and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures or computer viruses could affect the quality of our services and cause service interruptions.

In addition, we face continuous pressure on the operating expenses of our network. Each year, we cut the resources spent on network maintenance. As a result, we also have to reduce the value of our support contracts, which is a significant part of our costs. The reduction of support fees, in most cases, can be realized by renegotiating our contracts by the reduction of services ordered from suppliers, and the reduction of the amount and quality of the support activities. Both of these actions cause significant risk related to the quality levels of operated equipment and the services provided by these equipment, as well. The amount of preventive maintenance has reduced significantly, causing the aging of our equipment. Due to the permanent decrease of vendor support and the aging technologies, we face increasing risk in the number of failures and the probability of longer fault repair time, which may result in revenue losses and increasing number of penalties.

Any of these occurrences could also result in reduced user traffic and revenue and could harm our reputation.

Loss of key personnel could weaken our business.

Our operations are managed by a small number of directors and key executive officers. The loss of directors or key executive officers could significantly impede our financial, marketing and other plans. We believe that the growth and future success of our business will depend in large part on our continuing ability to attract and retain highly skilled and qualified personnel at all levels; however, the competition for qualified personnel in the telecommunications industry is intense. We can give no assurances that we will be able to hire or retain necessary personnel.

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

See Note1.2 in the Consolidated Financial Statements.

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 Hungarian equity market is relatively small and illiquid compared to major global markets. As a result of the limitations of the Hungarian equity market and the volatility of the telecommunications sector in general, the price of our shares and ADSs may be relatively volatile and you may have difficulty selling your shares in the event of unfavorable market conditions.

The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries.

Our business depends on general economic conditions in Hungary and abroad. 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. A cautious or negative business outlook may cause our customers to delay or cancel investment in information technology and telecommunications systems and services, which would adversely affect our revenues directly and, in turn, slow down the development of new services and applications that could become future revenue sources.

Our T-Systems Business Unit was also affected by heavy spending cuts by the government, our largest business customer. In addition, our businesses in Macedonia and Montenegro are also affected by similar factors.

A significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries is held in local banks and in connection with these deposits the counterparty risk may be higher, due to the small number of internationally substantial financial institutions in these countries, however, all of our deposits are covered with bank guarantees issued by banks from the European Union. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely change the cashflows from these instruments.

We may also experience higher financing costs in the future as higher fluctuations of interest rates seem to be more likely due to the increased volatility in the international capital and money markets after the financial crisis. For additional information about our financial risk management, see Note 3 of the Consolidated Financial Statements.

We are subject to unpredictable changes in Hungarian tax regulations.

In October 2010, the Hungarian government imposed special “crisis” taxes on the telecommunications, energy and retail sectors. The taxes were introduced with a retroactive effect for the fiscal year 2010. The special telecommunications tax was a progressive tax to be calculated on the revenues from electronic telecommunication services. Tax rates were: 0% (on revenues below HUF 500 million), 4.5% (on revenues between HUF 500 million and HUF 5 billion) and 6.5% (on revenues exceeding HUF 5 billion). The total special telecommunications tax paid by the Company in 2012 amounted to HUF 24.4 billion. Pursuant to the relevant legislation, these special taxes were in effect until the end of 2012;

On March 14, 2011, the European Commission announced that it had decided to send a request for information to Hungary, in the form of a ‘letter of formal notice’, thereby opening an infringement procedure against Hungary in relation to the special telecommunications tax. The Commission raised concerns that this tax is incompatible with EU telecommunications rules. On September 29, 2011 the European Commission requested Hungary to abolish the telecoms tax in the form of a ‘reasoned opinion’ under EU infringement procedures. The Hungarian Foreign Ministry sent a letter on November 29, 2011 to the European Commission, in which it insisted that the tax did not run counter to EU law. As a result of this, on March 22, 2012 the European Commission referred Hungary to the European Court of Justice (ECJ). over its special telecommunications sector tax. The case has effectively been sent to the ECJ where it has been registered with an ECJ number (C-462/2012). Parallel with the infringement initiated by DG INFSO, on 21 November 2012, DG TAXUD in a reasoned opinion, also requested Hungary to amend its legislation on the sectorial taxes saying that these taxes are discriminatory.

On May 18, 2012, the Parliament adopted an act imposing a telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The tax imposed on fixed and mobile usage amounts to HUF 2 per minute and HUF 2 per SMS/MMS.The tax was capped at HUF 400 per month per calling number for private individuals’ subscriptions and HUF 1400 per month per calling number for other subscribers’ subscriptions in 2012. This resulted in a tax liability of HUF 8.7 billion in the second half of 2012 for Magyar Telekom Group. From 2013 the respective caps are HUF 700 and 2500. On January 24, 2013 the European Commission opened the infringement procedure against Hungary by sending a “letter formal of notice”.

On November 20, 2012 the Parliament of Hungary adopted an act imposing tax on utility networks, effective from January 1, 2013 for an indefinite period of time. The act provides that a tax of HUF 125 per meter is to be levied on the owners of ducts providing for electricity, telecommunication, natural gas, heating, water and wastewater services. For telecommunication networks, the level of tax levied depends on the length of ducts: 20% of the HUF 125 per meter is levied on the first 170,000 meter length of ducts, 40% is levied between 170,000 and 250,000 meters, 80% is levied between 250,000 and 300,000 meters, while the total HUF 125 per meter has to be paid for all ducts above 300,000 meters.

These uncertain and unforeseeable changes to tax legislation in Hungary has had, and in the future may continue to have a material effect on our results of operations and financial condition.

Fluctuations in the currency exchange rate could have an adverse effect on our results of operations.

We are subject to currency translation risks, mainly relating to the results of our Macedonian and Montenegrin operations. Devaluation of the Macedonian denar or appreciation of the Hungarian forint may have a negative impact on Makedonski Telekom's results when converted into HUF. The conversion of Crnogorski Telekom's results into HUF depends on the value of the HUF against the EUR. This is mainly a reporting risk, but through the dividend payments it has direct financial (cashflow) effects on us as well. The recent financial crisis increased the volatility of exchange rate fluctuations, which affect our purchasing costs of goods and services. While the vast majority of our revenues are denominated in the functional currency of the pertinent Group company, part of our operating expenses and capital expenditures are denominated in EUR and USD.

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party, or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or could be involved (or settlements thereof), may have a material adverse effect on our results of operations or financial condition.

SHARE INFORMATION

In the medium-term, our strategic priority remains finding further value-creating acquisitions, which require a flexible balance sheet to be maintained by keeping the net debt ratio (net debt divided by equity and net debt) in the range of 30-40%.

MAJOR SHAREHOLDERS

The share capital of Magyar Telekom Plc. is HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares with a nominal value of HUF 100 each at December 31, 2012.

Information concerning our ownership structure as of December 31, 2012 is set out in the following table:

Shareholder	Number of shares	Percentage of share capital
MagyarCom [(1)]	617,436,759	59.21
Publicly traded	424,914,922	40.75
Treasury stock	390,862	0.04
	1,042,742,543	**100.00**

(1) MagyarCom is a wholly owned subsidiary of Deutsche Telekom.

MagyarCom does not have different voting rights than our other shareholders and, as with our other shareholders, MagyarCom is entitled to one vote per each ordinary share that it owns.

PROSPECTIVE SHARE REPURCHASE PROGRAM

On February 28, 2013, the Board of Directors resolved to propose to the General Meeting to provide a new authorization for the repurchase of ordinary Magyar Telekom shares. The purpose of the authorization is to supplement Magyar Telekom's current shareholder remuneration policy in line with international practice. The purchased shares might also be used for management remuneration.

According to the Board of Directors' proposal, the General Meeting would authorize the Board of Directors to purchase a total of up to 104,274,254 ordinary shares (with a face value of HUF 100 each) of Magyar Telekom Plc. The authorization will be valid for 18 months starting from the date of approval of this General Meeting resolution. The shares to be purchased on the basis of this authorization together with the treasury shares already held by Magyar Telekom shall not at any time exceed 10% of the share capital effective at the date of granting this authorization (i.e. up to 104,274,254 ordinary shares with a face value of HUF 100 each) of Magyar Telekom Plc. The shares can be purchased through the stock exchange. The equivalent value per share paid by Magyar Telekom Plc. may not be more than 5% above the market price of the share determined by the opening auction on the trading day at the Budapest Stock Exchange. The minimum value to be paid for one share is HUF 1. The authorization may be exercised in full or in part, and the purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume has been reached.

DIVIDEND POLICY

Under Hungarian law, the Company is permitted to pay annual dividends out of profits and profit reserves, determined on the basis of the standalone financial statements prepared in accordance with the Hungarian Accounting Act, following a declaration by the AGM of shareholders. Prior to the approval of the standalone financial statements, the Company's shareholders at the General Meeting may also declare a dividend advance on the basis of an interim set of financial statements. The General Meeting of shareholders may decide to declare a higher or lower dividend than that recommended by the Board of Directors, provided that shareholders' equity under Hungarian Accounting Act would still meet the statutory requirements following the dividend payment.

Our shareholders may also decide not to declare dividends, even if the Board of Directors recommends such a declaration. The Company distributes dividends to holders of shares duly registered in the shareholders' register as the legal owners of shares on the date determined by our shareholders at the AGM to be the dividend record date.

The determination of whether to pay dividends and the amount of dividends paid depends upon, among other things, the Company's earnings, financial condition and cash requirements, applicable restrictions on the payment of dividends under Hungarian law and any other factors the Board of Directors may consider relevant. As of December 31, 2012, the reserves available for dividend distribution were HUF 209,666 million.

The Company will declare any cash dividends in Hungarian forints. In the case of shares represented by ADRs, cash dividends are paid to the depository and converted into and paid in U.S. dollars at the prevailing rate of exchange, net of conversion expenses of the depository and applicable Hungarian withholding tax.

Fluctuations in exchange rates will affect the amount of dividends that ADR holders receive. Dividends paid to non-Hungarian holders, including U.S. holders, of shares or ADRs may be converted into foreign currency and repatriated, subject to Hungarian withholding tax.

In the medium-term, our strategic priority remains finding further value-creating acquisitions, which require a flexible balance sheet to be maintained by keeping the net debt ratio (net debt divided by equity and net debt) in the range of 30-40%. The dividend payments are not only dependent on the acquisition opportunities that might arise, but also on the future profitability and financial position of the Group.

The Board of Directors of the Company proposed a HUF 50 per ordinary share dividend distribution to be approved by the Annual General Meeting of the Company on April 12, 2013. The Board of Directors proposes the first day of dividend disbursement to be on May 16, 2013.

CONSOLIDATED FINANCIAL STATEMENTS

Magyar Telekom Telecommunications
Public Limited Company

Consolidated Financial Statements

for the year ended December 31, 2012

Prepared in accordance with
International Financial Reporting Standards
(IFRS)

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Magyar Telekom Nyrt.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Magyar Telekom Nyrt. and its subsidiaries (together "the Group") which comprise the consolidated statement of financial positions as of 31 December 2012 (in which the statement of financial positions total is HUF 1,057,844 million, the total comprehensive income for the year is HUF 32,067 million), the consolidated statement of comprehensive income and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

PricewaterhouseCoopers Könyvvizsgáló Kft. 1077 Budapest, Wesselényi u. 16. Hungary
T: (+36 1) 461 9100, F: (+36 1) 461 9101, www.pwc.hu

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. and its subsidiaries as of 31 December 2012, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the consolidated business report

We have examined the accompanying consolidated business report of Magyar Telekom Nyrt. and its subsidiaries (together "the Group") for the financial year of 2012.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements. Our work in respect of the consolidated business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Group. In our opinion the 2012 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2012.

Budapest, March 5, 2013.

Manfred Krawietz
Partner
PricewaterhouseCoopers Könyvvizsgáló Kft.
1077 Budapest, Wesselényi u. 16.
Licence Number: 001464

Balázs Árpád
Statutory auditor
Licence number: 006931

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At December 31, 2011	At December 31, 2012
		(in HUF millions)	
ASSETS			
Current assets			
Cash and cash equivalents	6	14,451	15,211
Trade and other receivables	7	124,663	130,709
Other current financial assets	8.1	65,286	53,966
Current income tax receivable	9.1	927	821
Inventories	10	9,904	12,400
Non current assets held for sale	11	5,165	2,816
Total current assets		220,396	215,923
Non current assets			
Property, plant and equipment	12	536,224	510,962
Intangible assets	13	308,313	311,066
Investments in associates and joint ventures	14	-	-
Deferred tax assets	9.4	750	532
Non current financial assets	8.2	31,590	18,862
Other non current assets	15	755	499
Total non current assets		877,632	841,921
Total assets		1,098,028	1,057,844
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	16	49,865	35,344
Other financial liabilities	17	70,155	40,341
Trade payables	18	101,119	115,723
Current income tax payable	9.1	1,335	762
Provisions	19	3,703	5,668
Other current liabilities	20	29,213	37,069
Total current liabilities		255,390	234,907
Non current liabilities			
Financial liabilities to related parties	16	230,166	261,126
Other financial liabilities	17	17,928	5,498
Deferred tax liabilities	9.4	26,270	22,428
Provisions	19	11,236	10,858
Other non current liabilities	21	947	944
Total non current liabilities		286,547	300,854
Total liabilities		541,937	535,761
EQUITY			
Equity of the owners of the parent			
Common stock		104,275	104,275
Capital reserves		27,379	27,383
Treasury stock		(307)	(307)
Retained earnings		325,709	310,452
Accumulated other comprehensive income		30,959	21,253
Total Equity of the owners of the parent		488,015	463,056
Non-controlling interests		68,076	59,027
Total equity		556,091	522,083
Total liabilities and equity		1,098,028	1,057,844

These consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2013 and signed on their behalf by:

Christopher Mattheisen
Chief Executive Officer, Chairman of the Board

Thilo Kusch
Chief Financial Officer, Board member

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2011	2012
		(in HUF millions, except	per share amounts)
Revenues	22	597,617	607,128
Expenses directly related to revenues	23	(167,302)	(193,978)
Employee related expenses	24	(91,823)	(94,084)
Depreciation and amortization	12, 13	(132,915)	(106,897)
Other operating expenses	25	(148,802)	(134,418)
Operating expenses		(540,842)	(529,377)
Other operating income	26	6,392	10,170
Operating profit		63,167	87,921
Interest income	27	3,633	3,539
Interest expense	28	(23,184)	(24,218)
Other finance expense - net	29	(12,911)	(7,919)
Net financial result		(32,462)	(28,598)
Share of associates' and joint ventures' profits	14	12	-
Profit before tax		30,717	59,323
Income tax expense	9.2	(27,538)	(13,468)
Profit for the year		3,179	45,855
Exchange differences on translating foreign operations		22,816	(13,755)
Revaluation of available-for-sale financial assets		(21)	(33)
Other comprehensive income for the year, net of tax		22,795	(13,788)
Total comprehensive income for the year		25,974	32,067
Profit attributable to:			
Owners of the parent		(7,457)	36,859
Non-controlling interests		10,636	8,996
		3,179	45,855
Total comprehensive income attributable to:			
Owners of the parent		8,620	27,153
Non-controlling interests		17,354	4,914
		25,974	32,067
Earnings per share (EPS) information:			
Profit attributable to the owners of the Company		(7,457)	36,859
Weighted average number of common stock outstanding (thousands) used for basic and diluted EPS		1,042,352	1,042,352
Basic and diluted earnings per share (HUF)		(7.15)	35.36

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended December 31, 2011	2012
		(in HUF millions)	
Cashflows from operating activities			
Profit for the year		3,179	45,855
Depreciation and amortization		132,915	106,897
Income tax expense		27,538	13,468
Net financial result		32,462	28,598
Share of associates' and joint ventures' profits		(12)	-
Change in assets carried as working capital		(9,068)	(12,828)
Change in provisions		(5,702)	947
Change in liabilities carried as working capital		23,277	4,507
Income tax paid		(10,999)	(13,128)
Dividend received		24	15
Interest and other financial charges paid		(24,153)	(26,816)
Interest received		3,650	3,123
Other cashflows from operations		(4,330)	(5,411)
Net cash generated from operating activities		168,781	145,227
Cashflows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	30	(80,074)	(96,614)
Purchase of subsidiaries and business units	31	(2,675)	(2,388)
Cash acquired through business combinations	5.1	468	48
Proceeds from / (Payments for) other financial assets – net		(997)	10,645
Proceeds from disposal of subsidiaries and associates – net	5.4	-	14,388
Proceeds from disposal of PPE and intangible assets		5,526	1,046
Net cash used in investing activities		(77,752)	(72,875)
Cashflows from financing activities			
Dividends paid to shareholders and Non-controlling interest		(64,626)	(66,104)
Proceeds from loans and other borrowings		159,812	235,346
Repayment of loans and other borrowings		(188,414)	(240,304)
Net cash used in financing activities		(93,228)	(71,062)
Exchange differences on cash and cash equivalents		809	(530)
Change in cash and cash equivalents		(1,390)	760
Cash and cash equivalents, beginning of year		15,841	14,451
Cash and cash equivalents, end of year	6	14,451	15,211

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for AFS financial assets – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2010	1,042,742,543	104,275	27,379	–	(307)	385,283	14,933	(51)	531,512	63,200	594,712
Dividend (i)						(52,117)			(52,117)	–	(52,117)
Dividend declared to Non-controlling interests (j)									–	(12,478)	(12,478)
Total comprehensive income for the year						(7,457)	16,089	(12)	8,620	17,354	25,974
Balance at December 31, 2011	1,042,742,543	104,275	27,379	–	(307)	325,709	31,022	(63)	488,015	68,076	556,091
Dividend (i)						(52,116)			(52,116)	–	(52,116)
Dividend declared to Non-controlling interests (j)									–	(13,951)	(13,951)
Disposal of subsidiary (k)									–	(12)	(12)
Equity settled share based transactions (c)				4					4	–	4
Total comprehensive income for the year						36,859	(9,687)	(19)	27,153	4,914	32,067
Balance at December 31, 2012	1,042,742,543	104,275	27,379	4	(307)	310,452	21,335	(82)	463,056	59,027	522,083
Of which treasury stock	(390,862)										
Shares of common stock outstanding at December 31, 2012	1,042,351,681										

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

NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2012. The number of authorized ordinary shares on December 31, 2012 is 1,042,742,543.

(b) Additional paid in capital represents the amount above the nominal value of the shares that was received by the Company during capital increases.

(c) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The December 31, 2012 balance of this reserve of HUF 4 million represents the amount reserved for the Matching Share Plan (Note 24.2).

(d) Treasury stock represents the cost of the Company's own shares repurchased.

(e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2012 amounted to approximately HUF 211 billion (HUF 233 billion at December 31, 2011).

(f) Cumulative translation adjustment represents the foreign exchange differences arising on the consolidation of foreign subsidiaries.

(g) Revaluation reserve for available-for-sale (AFS) financial assets includes the unrealized gains and losses net of tax on available-for-sale financial assets.

(h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries, in which the Group has less than 100% ownership.

(i) In 2012 Magyar Telekom Plc. declared HUF 50 dividend per share (HUF 50 in 2011).

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

(k) In 2012 Magyar Telekom disposed of its 80% owned subsidiary, Compargo Kft.. As a result of the transaction the non-controlling interest related to this company was eliminated in an amount of HUF 12 million (Note 5.4.2).

Together with the approval of these financial statements for issue, the Board of the Company proposes a HUF 50 per share dividend distribution (in total HUF 52,117 million) to be approved by the Annual General Meeting of the Company in April 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

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

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered office is Krisztina körút 55., 1013 Budapest, Hungary. Name of the Court of Registration and the registration number of the Company: Metropolitan Court as Court of Registration, Cg. 01-10-041928.

Magyar Telekom Plc. is listed on the Budapest Stock Exchange and its shares are traded on the Budapest Stock Exchange. Magyar Telekom's American Depository Shares (ADSs) each representing five ordinary shares were also traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted. Magyar Telekom terminated the registration of its shares and ADSs in the US in February 2012. The Company maintains its American Depositary Receipt program on a Level I basis.

The immediate controlling shareholder of the Company is MagyarCom GmbH (MagyarCom) owning 59.21% of the issued shares, while the ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). Deutsche Telekom Group's consolidated annual report prepared by Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) includes Magyar Telekom Plc. as a subsidiary of Deutsche Telekom AG.

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

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

Magyar Telekom Plc.'s corporate website is: www. telekom.hu

1.2 Investigation 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 totalled 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. 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 during 2011, and the provision was reclassified as Other financial liability as at December 31, 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, totalling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

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, the Hungarian Central Investigating Chief Prosecutor's Office and the First Instance Prosecutor's Office of Athens commenced investigations into certain of the activities that were the subject of the internal investigation. These governmental investigations are continuing, and the Company and its relevant subsidiaries continue to cooperate with these investigations. We do not expect any material financial impacts of these continuing investigations.

1.3 Public service concession and license arrangements

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

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

1.3.1 Hungarian Fixed line

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. The Implementation of the EU New Regulatory Framework (NRF) Review package had been completed by the amendment of the Act C of 2003 on Electronic Communications (hereinafter: Communications Act). Amendments of the Communications Act came into effect on August 3, 2011. The National Media and Infocommunications Authority of Hungary (NMIAH) is the supreme supervisory body and is responsible for secondary legislation making and the preparation of relevant decrees. In 2011 and 2012, as the result of secondary legislation making process, the NMIAH published some important decrees, such as Decree on subscriber contracts issues, Decree on Numbering related issues as well as the Decree on Service Quality requirements and the Decree on Number Portability.

Universal services are basic communications services (including access to communication services at a fixed location, public payphones, directory and directory enquiry services) that should be available to all customers at an affordable price. Magyar Telekom Plc. was a Universal Service Provider from 2002 to 2008, for which a universal service contract was valid until December 31, 2008. The necessary modifications of the telecommunications law and the concerning governmental and ministerial decrees entered into force in the first half of 2010. The new legislation provides favorable conditions - in line with market changes – than the earlier regime. Magyar Telekom's universal service contract was signed on July 29, 2011, with a retrospective effect from January 1, 2011. The universal service contract expired on December 31, 2011. Even though there is no universal service contract in place as at December 31, 2012, the Company continues to comply with the provisions of the expired contract. According to the latest Communications Act amendment (June 2012), NMIAH is responsible for ensuring the universal service in Hungary. In the near future the Authority will publish the detailed rules on the public tender procedure and on the technical and quality requirements of universal services. Public tender procedure is expected instead of universal service contract (in case of an unsuccessful public tender procedure, designation process is possible).

In the electronic communications field Magyar Telekom was designated as an SMP operator (a service provider with significant market power) on the regulated markets. The current 7 relevant markets include retail and wholesale telephony and broadband services stipulated by the EU (according to the second recommendation on the relevant markets).

Magyar Telekom Plc's retail tariffs are regulated in two ways:

- 1) there is a price cap regulation based on SMP resolutions on retail residential and business fixed voice markets which limits price increases of monthly fees and
- 2) price squeeze is prohibited on the markets where Magyar Telekom is designated as SMP as well (i.e. retail prices should be set in accordance with wholesale tariffs providing an acceptable level of retail margins).

Magyar Telekom is Hungary's leading fixed line broadband service provider in the wholesale market and one of the leading ones in the retail market. In 2011, the NMIAH designated the Company again as an SMP operator on the wholesale broadband access market. In accordance with the effective resolution, all retail fixed products shall be 'reproducible' by competitors based on the wholesale service. Consequently, the full retail portfolio shall have a wholesale equivalent compliant to the pricing regulations (retail minus methodology) set forth by the NMIAH. The Company has a non-discrimination obligation, which means that the same terms and conditions shall be granted in terms of wholesale services to competitors under identical circumstances.

SMP operators are obliged to prepare reference unbundling offers for access to (physical) passive network infrastructure (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NMIAH. The price setting of these services has to be cost based and calculated by a Top-Down Long Run Incremental Costs (TD-LRIC). It is expected that the new RUO will be approved by the NMIAH in 2013.

SMPs are also obliged to prepare reference offers for interconnection (RIO), containing applicable fees, and to provide these services in accordance with the reference offer when there is a request for them by other telecommunications service providers. The reference offers of the SMPs must be approved by the NMIAH, and prices have to be based on LRIC. Fees in the currently effective reference offers are applicable from December 23, 2011. It is expected that the new RIO will be approved by the NMIAH in 2013.

SMP operators are obliged to enable carrier selection to their subscribers. Consequently, voice telephony customers have the right to select different service providers for each call directions by dialing a pre-selected number or by using a call-by-call pre-fixed number. The requirements for carrier selection are set out in the RIO based interconnection agreements between the affected service providers.

Fixed line telecommunications service providers are obliged to provide number portability on their networks starting January 1, 2004. This means that service providers must enable subscribers to change service provider without changing their fixed telephone numbers within the same geographical area. In the above mentioned Decree on Number Portability the NMIAH implemented the 2 working days number portability obligation which was specified in the EU NRF Review package.

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, Makedonski Telekom AD Skopje (MKT). MKT is the largest fixed line service provider in Macedonia. The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2005 as primary legislation and rulebooks as secondary legislation.

During 2012, there were several amendments in the ECL and also most of the existing Rulebooks were implemented or amended by the Agency for Electronic Communications (the Agency or AEC) relating to

- retail price regulation;
- technical, usage and other conditions for relevant types of electronic communication networks and infrastructure, associate infrastructure capacities and facilities;
- determination of calculation method for number usage and annual fees;
- assignment of numbers and series of numbers from the numbering plan; general terms and conditions;
- cultural SMS and educations (school info) SMS's;
- "underground cabling";
- Local Bitstream access;
- wholesale leased lines;
- minimal set of leased lines.

In December 2012, AEC announced launching a new round market analysis on wholesale markets: 4-Call origination, 5-Call termination and 6-Call transit services in public telephone networks on fixed location. Final document is expected to be published in the first quarter of 2013.

On April 5, 2012 the Agency published the general Regulatory strategy for the period of the next 5 years (2012-2016). The official document is "Five years regulatory strategy of AEC". Main focuses of the strategy are: fostering of wholesale and retail services regulation, introduction of methodology of pure Long Run Incremental Costs (LRIC) for fixed and mobile voice services, SMS etc, Next Generation Access (NGA) and Fiber To The Home (FTTH) regulation in line with NGA recommendation and refarming and frequency allocation for 4G services.

With amendments of the Rulebook for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephone networks and services of the operator with significant market power on relevant retail markets. Ex-ante retail regulation shall be based on price squeeze methodology. These activities have resulted in price decrease of some wholesale and retail services of MKT. On retail side, standard monthly subscription for business customers was decreased (on equal level with residential one). On wholesale side there were changes in fees for interconnection (termination and origination), Unbundled Local Loop (ULL), Bitstream access and wholesale line rental (WLR).

MKT has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology (LRIC). In August 2012 the Agency published draft results from its own developed LRIC Bottom-up costing model for Local Bitstream (cost based) and for retail and wholesale Leased Lines, ducts and dark fiber and minimal set of leased lines (cost based). As a result, on January 15, 2013 AEC brought a decision for decrease of fees and approved the changed Reference offer for provision of physical access and usage of electronic communication infrastructure and associated facilities (ducts and dark fiber). New fees will be implemented as of February 1, 2013. AEC also approved the Reference offers for WS DLL, Local bitstream access and minimal set of leased lines and new changed methodologies of calculation of prices (length dependent) are implemented. WS DLL and Local bitstream access fees are decreased from December 1, 2012 and fees for minimal set of leased lines from January 1, 2013.

In line with the public switched telephone network (PSTN) migration of MKT's network, process that will last until the end of 2013, the Agency approved proposed modifications of MKT's Wholesale Line Rental Reference Offer (WLR) and Bitstream Access Service and Bitstream service resale offer (BSA) applicable as of January 1, 2012. In parallel MKT is trying to harmonize the process of PSTN migration with Wholesale operators. Additional changes of Reference Interconnection offer and Wholesale Line rental offers are expected.

1.3.3 Montenegrin Fixed line

The Group's Montenegrin subsidiary, Crnogorski Telekom (CT) is registered to provide fixed line telecommunications services in Montenegro as well as to provide domestic voice and data services as well as VoIP, leased line, IPTV, value added services, etc. The telecommunications sector in Montenegro is regulated by the Law on Electronic Communications (the eLaw) that came into force in August 2008. The eLaw is based on the 2002 regulatory framework of the EU. The new eLaw draft aligned with EU 2009 framework is already in the Government procedure, its enactment is expected in Q1 2013.

As a result of the market analysis, completed in 2010, CT was designated as an SMP operator at all seven EU standard relevant markets. Local loop unbundling, bitstream access, wholesale leased line and carrier pre-selection were introduced in February 2011, when CT published updated RIOs and ROs. Carrier selection was already implemented by CT in 2008. Number portability was introduced in October 2011. RIO rates have been determined by the Resolution of the Agency for Electronic Communications and Postal Services (NRA) based on international benchmarks.

In 2011 the NRA designated CT as SMP on the markets: 1. Retail market for local and long-distance calls, for business and residential, provided on fixed location 2. Retail market for international calls, for business and residential, provided on fixed location 3. Wholesale market of trunk segments of leased lines. Standard EU remedies (also prescribed in the Montenegrin Law) are imposed to CT.

In May 2011, the NRA adopted Cost Accounting methodology which will be applied by CT. First (revised) regulatory reports were submitted on August 30, 2012. The Document was approved by the NRA in November 2012.

In December 2010 Montenegro obtained EU candidate status. In accordance with the previously signed Stabilization and Association Agreement with the EU, the harmonization of the telecommunications regulations with the regulatory framework of the EU should be completed within three years of the ratification of the Agreement that is by the end of 2013.

1.3.4 Hungarian Mobile

The Company is also the market leader in the Hungarian mobile market through the brand T-Mobile.

The initial duration of the concession regarding the GSM 900 public mobile radio telephone service was a period of 15 years starting from the execution of the concession agreement (November 4, 1993 to November 4, 2008). On October 7, 1999 an amended concession contract was signed with the Ministry of Transport, Communications and Water Management and allowed the Company to provide mobile radio telephone service also in the 1800 MHz band in Hungary until October 7, 2014. The duration of the concession regarding the DCS 1800 public mobile radio telephone service is 15 years starting from the execution of the new concession agreement (October 7, 1999 to October 7, 2014). As stipulated in the concession contracts, the Minister is entitled to extend the concession period for both services upon their expiration for another 7.5 years without the invitation of a tender. On November 8, 2007, the Company signed the renewed Concession Contract along with the Cooperation Agreement with the Minister that is effective from November 2008. The new Concession Contract prolonged the duration of the 900 MHz frequency usage right until May 4, 2016. The decree on frequency fees was changed from April 1, 2011 which made the modification of the concession contract necessary. The modification was made on March 31, 2011 allowing the introduction of band fees in the concessionary 900 MHz and 1800 MHz bands. The concession contract was modified again on December 14, 2011 allowing the technology-neutral (GSM, UMTS, LTE and WiMAX) use of the concessionary 900 MHz and 1800 MHz bands. According to the Act on Electronic Communications entering into force on July 25, 2012 the Company initiated the transformation of the concession contract into authority contract, which happened on November 30, 2012 leaving the possibilities for prolongations of frequency usage rights unchanged.

In June 2012, the Hungarian Parliament adopted the modification of the Electronic Communications Law extending the scope of competence and tasks of the NMIAH. Pursuant to the amendment, all spectrum related issues are dealt by the NMIAH, including the management of concession contracts.

On December 7, 2004, the Company obtained the exclusive right of use of certain frequency blocks for the deployment and operation of an IMT2000/UMTS mobile telecommunications system (3G system). The duration of the frequency usage right is 15 years (until December 7, 2019) with an option to extend it for another 7.5 years.

The Company is subject to number portability regulation since 2004, applicable only in case of other mobile operators. The 2 working days number portability obligation is also applicable for mobile services (as well as for fixed line) from September 30, 2012. In 2005 and 2006 the Company was designated as an SMP in the mobile wholesale call termination market, and it is currently subject to regulatory obligations regarding the termination charge of calls into its network. At the end of August 2011, NMIAH made its three new market analysis decisions, which affect the SMP operators' next half-year commitments. On the mobile voice market the three mobile operators have to cut their wholesale prices by 40% in three steps.

Since June 30, 2007, an EU regulation has been regulating international roaming tariffs for wholesale and retail customers on the basis of a price cap system. The Regulation prescribed a glide-path that mandates further annual reductions of wholesale and retail prices in the forthcoming years. As of July 2009 the EU introduced regulated tariffs for SMS and data roaming similarly to the regulation of voice roaming. The European Commission introduced Roaming Regulation III which came into force on July 1, 2012.

The Company won a tender for a spectrum usage right license for a 26 GHz block on April 30, 2009. On May 14, 2012 the NMIAH granted frequency assignment decision to Magyar Telekom for 4 pieces of basic spectrum blocks (2 x 28 MHz each) in the 26 GHz band.

The Company filed an auction bid in December 2011 with the NMIAH for the right of use of unused spectrum in the 900 MHz frequency band, related to the provision of mobile telecommunications services. The spectrum can be utilized in a technology-neutral manner, allowing for the installation and operation of GSM, UMTS, LTE and/or WiMAX mobile networks. The NMIAH announced its first-instance decision on the result of the 900 MHz auction ("Auction") on January 31, 2012. A 5 MHz slot in the 900 MHz band was awarded to a state consortium. The three incumbent mobile network operators also won spectrum blocks. Magyar Telekom won the right of use of two duplex frequency blocks of 1 MHz each for a period of 15 years. The Company, like other incumbent operators, filed an appeal to the President of the NMIAH concerning the designation of the state-owned consortium as an auction winner and certain relating requirements of the first instance decision. On March 9, 2012, the final and non-appealable decision of the NMIAH Vice-President dismissed the appeals. Accordingly, the decision closing the Auction became final. On March 12, 2012 Magyar Telekom filed a petition with the Metropolitan Court, requesting that the Court annul the designation of the Consortium as an auction winner and certain relating requirements of the final decision. In addition to Magyar Telekom, Telenor Magyarország Zrt. and Vodafone Magyarország Zrt. also filed petitions against certain provisions of the final decision. The Metropolitan Court, by its final judgment announced on September 17, 2012, annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court. Accordingly, the NMIAH's administrative decision closing the 900 MHz frequency auction is annulled in a final, binding and non-appealable manner. See also note 37.2.

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), Magyar Telekom's subsidiary, is the leading mobile service provider in Macedonia. With the changes of the ECL published on August 4, 2008, the existing Concession Contract of T-Mobile MK ceased to be valid as of August 5, 2008. On September 5, 2008 the Agency, ex officio, issued a notification to T-Mobile MK for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile MK with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until September 5, 2018, which can be renewed up to an additional 20 years in accordance with the ECL. Due to changes in the bylaws the 900 MHz band was opened for UMTS technology and based on T-Mobile MK's request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology. This is also the case with the T-Mobile MK radiofrequency license in the 1800 MHz band.

After the analysis of the market 16 "Call termination services in public mobile communication networks" the Agency on November 26, 2007 brought a decision by which T-Mobile MK was designated with SMP status on Market 16. T-Mobile MK published a RIO with regulated termination rate effective from August 1, 2008.

On September 2, 2008 a decision for granting three 3G licenses was published. T-Mobile MK started commercial operations of the 3G services on June 11, 2009. The validity of the license is 10 years i.e. December 17, 2018, with a possibility for extension for 20 years in accordance with the ECL.

In March 2011 the Agency published the final market analysis for SMS termination, and in May 2011 all 3 mobile operators were designated with SMP status on the SMS termination market. In June 2011 all 3 mobile operators submitted draft RIOs with the SMS termination service included, and in July 2011 the RIOs were approved by the Agency.

In October 2012, the Agency requested changes of T-Mobile MK's RIO in direction of allowing termination of transit traffic into T-Mobile MK's network. This Agency intervention was made in the RIOs of all operators in order to enable wider space for transit of traffic.

The Electronic Communications Law was amended in January 2012. The changes are: obligation for sending location data for the subscribers when dialing the emergency numbers, obligations for free of charge SMS for promotion of cultural heritage of Republic of Macedonia upon a written request from the relevant state institutions, Agency discretion for Accounting separation obligations imposition. The Agency brought a Bylaw for control and measurement of the quality parameters of the public communications services which shall come into force on April 15, 2013, by which date the Agency plans to procure a quality parameters measurement system.

Several bylaws were enacted or amended in the third quarter of 2012; relating to free-of-charge provision of SMSs for promotion of the national and cultural heritage of a relevant state body; general terms and conditions for usage of electronic communication services; control and measurement of quality of services parameters by the Agency.

In October 2012, a tender procedure for awarding one LTE license at 800 MHz was concluded unsuccessfully due to the fact that no mobile operator submitted any bid on the tender.

1.3.6 Montenegrin Mobile

Crnogorski Telekom, the Group's Montenegrin subsidiary is also providing mobile services under the T-Mobile brand (T-Mobile CG). CT is registered as one of three GSM/UMTS providers in Montenegro. T-Mobile CG, as the second mobile operator, was launched in 2000. The third mobile operator entered the market in 2007. T-Mobile CG started 3G operations in 2007.

As a result of the market analysis of the NRA in 2010 and 2011, T-Mobile CG is designated as an SMP in the market of termination of voice calls in its own network and on the Wholesale market on access and origination of calls in mobile networks. Interconnect rates have been determined by the Regulator based on benchmarks. Beside standard remedies, carrier selection was also imposed. Updated RIO was published in February 2011 and Mobile Access RO in April 2012. Mobile number portability was also introduced in the mobile sector in October 2011.

The NRA launched a tender for the 4th Mobile license in Montenegro at the end of 2011. There was no interest from new operators but Telenor participated and won the tender. Obliged by the NRA Decision, Telenor offered the transfer of right of 1/3 of granted frequency resources to each of the other two competitors. Only CT expressed its interest for the offered range and a transfer of right for usage of 1/3 of available frequency resources was approved by the NRA in January 2012.

In September 2012, the NRA adopted Cost Accounting Methodology for mobile networks to be applied by all three operators. First Regulatory reports (revised) need to be submitted by June 30, 2013.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) effective as at December 31, 2012 and applicable to Magyar Telekom had been endorsed by the EU. Therefore the consolidated financial statements also comply with IFRS as issued by the IASB and also comply with the Hungarian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The consolidated financial statements are presented in millions of HUF.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.1.1Standards, amendments and interpretations effective and adopted by the Group in 2012

IFRS 7 (amended) – The IASB published an amendment to IFRS 7 – Amendments 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 Group adopted the amended standard as of January 1, 2012. The amended standard did not have any impact on the disclosures in the Group's financial statements.

2.1.2 Standards, amendments and interpretations effective in 2012 but not relevant for the Group

IAS 12 (amended) - In December 2010, the IASB issued the pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12". The new pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12" sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment superseded SIC 21. As Magyar Telekom does not have investment properties or non-depreciable asset measured using the revaluation model in IAS 16, the amended standard did not have any impact on the Group's financial statements.

2.1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

IAS 1 (amended) – The IASB published amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be reclassified to the profit or loss section of the income statement (recycled) and those elements that will not. The application of the amendment is required for annual periods beginning on or after July 1, 2012. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendments of the standard.

IAS 19 (amended) – The IASB published amendments to IAS 19 – Employee Benefits in June 2011. The amendments focus on the following key areas:

- Recognition (only defined benefit plans) – elimination of the "corridor approach"
- Presentation (only defined benefit plans) – gains and losses that arises from remeasurements should be presented (only) in other comprehensive income (elimination of the remaining options)
- Disclosures – enhancing of disclosure requirements, e.g.
    - the characteristics of a company's defined benefit plans,

    - amounts recognized in the financial statements,
    - risks arising from defined benefit plans and
    - participation in multi-employer plans
- Improved / clarified guidance relating to several areas of the standard, e.g.
    - classification of benefits,
    - recognition of termination benefits and
    - interest rate relating to the expected return on the plan assets.

The application of the amendment is required for annual periods beginning on or after January 1, 2013. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendments of the standard.

IAS 32 (amended) – The IASB published amendments to IAS 32 – Financial Instruments: Presentation in December 2011. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The application of the amendment is required for annual periods beginning on or after January 1, 2014. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendment of the standard.

IFRS 7 (amended) – The IASB published amendments to IFRS 7 – Amendments to IFRS 7 Financial Instruments: Disclosures in December 2011. The IASB and the Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help assessing better the effect or potential effect of offsetting arrangements on a company's financial position. The common disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of collateral pledged or received. The application of the amendment is required for annual periods beginning on or after January 1, 2013. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements disclosures of the Group. The European Union has endorsed the amended standard.

IFRS 9 Financial Instruments - The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 – Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

Financial assets – At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

Financial liabilities – IFRS 9 "Financial Instruments" sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 "Financial Instruments: Recognition and Measurement". The new pronouncement

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

The IASB issued amendments to IFRS 9 in December 2011 and deferred the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The adoption of the new standard will likely result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has not yet endorsed either the standard or its amendment.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended) – The IASB published IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities and amendments to IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures in May 2011.

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 – Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 – Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 – Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

An entity shall apply this package of five new and revised standards for annual periods beginning on or after January 1, 2014. We do not expect that their adoption would result in significant changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has endorsed the new standards and the 2011 May amendments.

IFRS 13 - The IASB published IFRS 13 – Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. We do not expect that the adoption of the new standard would result in significant changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has endorsed the new standard.

2.1.4 Standards, amendments and interpretations that are not yet effective and not relevant for the Group’s operations

IFRS 1 - In 2012, the IASB published amendments to IFRS 1. As Magyar Telekom already adopted IFRS, the amendments will not have any impact on the Group’s financial statements.

IFRS 10, IFRS 12, IAS 27 (amended) – The IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012. The amendments apply to a particular class of business that qualify as investment entities. As Magyar Telekom does not have investment entities, the amended standards will not have any impact on the Group’s financial statements. The European Union has not yet endorsed the amended standards.

IFRIC 20 - In October 2011, the IASB published IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine. As Magyar Telekom does not have mining activity, the interpretation will not have any impact on the Group’s financial statements.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies to obtain benefit from its activities, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are also considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are no longer consolidated from the date control ceases. The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition whereby costs directly attributable to the acquisition are expensed for transactions closed after January 1, 2010. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Profit for the year (Other operating income).

If applicable, the Group recognizes at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it is recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill for acquisitions concluded after January 1, 2010. For acquisitions concluded before, the difference between the contingent consideration recognized at the acquisition date and the actual contingent consideration paid is recognized as an adjustment to goodwill.

As for the measurement of non-controlling interest, from January 1, 2010, the Group may recognize 100% of the goodwill of the acquired entity, not only the Group's portion of the goodwill. This is elected on a transaction-by-transaction basis. Before that date, the Group could only recognize its own share of the goodwill. The Group attributes their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance since January 1, 2010. Before that date, the balance of the Non controlling interests could not be a negative amount and thus these losses would be allocated to the Group.

In a step acquisition, the fair values of the acquired entity's assets and liabilities, including goodwill, are measured on the date when control is obtained. Accordingly, goodwill is measured as the difference at the acquisition date between the fair value of any investment the business held before the acquisition, the consideration transferred and the fair value of the net asset acquired and non-controlling interest is recorded at fair value when the Group elects the fair value option.

In case of acquisitions where the transaction takes place between companies under common control (i.e. with other Deutsche Telekom Group companies), the transaction is recorded at the carrying amounts as recorded in the selling owner's accounts, and any gains, losses or differences between the carrying amount and the sale-purchase price are recognized in Retained earnings.

A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, therefore gain or loss is not recognized in profit or loss for disposals concluded since January 1, 2010. Before that date, the gain or loss was recognized as a current year income.

A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss since January 1, 2010. Before that date, no such re-measurement took place.

Inter-company transactions, balances and unrealized gains or losses on transactions between the Magyar Telekom Group companies are eliminated. Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

At December 31, 2012 and 2011 the principal operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31, 2011	2012		Activity
Incorporated in Hungary:				
Dataplex Kft., Budapest	100.00%	-	a)	IT hardware co-location service provider
Origo Zrt., Budapest	100.00%	100.00%		Internet and TV content provider
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%	b)	System integration and IT services
IQSYS Zrt., Budapest	100.00%	-	a)	System integration and IT services
Pro-M Zrt., Budapest	100.00%	-	c)	Professional Mobile Radio network
ISH Informatika Kft., Budapest	100.00%	-	a)	Integrated healthcare IT services
Daten-Kontor Kft., Budapest	100.00%	100.00%		Software development
Telekom New Media Zrt., Budapest	100.00%	100.00%		Interactive service provider of telecommunications applications
Incorporated in Macedonia:				
Makedonski Telekomunikacii A.D., Skopje (MKT)	56.67%	56.67%		Fixed line telecom service provider
T-Mobile Macedonia A.D., Skopje (T-Mobile MK)	56.67%	56.67%		Mobile telecom service provider
Stonebridge A.D., Skopje	100.00%	100.00%		Holding company
Incorporated in Montenegro:				
Crnogorski Telekom AD, Podgorica (CT)	76.53%	76.53%		Telecom service provider
Incorporated in Romania:				
Combridge S.R.L., Bucharest	100.00%	100.00%		Wholesale telecommunications service
Incorporated in Bulgaria:				
Novatel EOOD, Sofia	100.00%	100.00%		Wholesale telecommunications service

(a) Dataplex Kft., IQSYS Zrt. and ISH Informatika Kft. were merged into T-Systems Magyarország Zrt. in September 2012.

(b) KFKI Zrt. was renamed to T-Systems Magyarország Zrt. in April 2012.

(c) Pro-M Zrt. was sold in August 2012. See also Notes 5.4.1 and 26.

The Group's interest in the capital of the above subsidiaries equals the voting rights therein.

2.2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally reflecting a voting right between 20% and 50%. Joint ventures are entities in which the Group has a voting right of 50% with and equivalent external partner holding the other 50% of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill arising on acquisitions, and net of any accumulated impairment loss.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the Profit for the year (Share of associates' and joint ventures' profits). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the company, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the company. Accounting policies of associates and joint ventures are adjusted where necessary to ensure consistency with the policies adopted by the Group.

At December 31, 2012 and 2011 the Group had no associates or joint ventures.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in millions of HUF, as the Group's presentation currency is the Hungarian Forint.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Profit for the year (Other finance expense – net).

2.3.3 Group companies

The income and financial position of all of the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- For the initial consolidation of foreign subsidiaries acquired, their assets and liabilities at the acquisition date are incorporated into the consolidated financial statements after translating the balances into HUF using the exchange rate prevailing at the date of acquisition. The fair value adjustments resulting from the purchase price allocation and goodwill are accounted for in HUF for acquisitions before March 31, 2004, after which date these adjustments arising on consolidation are accounted for in the functional currency of the subsidiary.
- Assets and liabilities for each Statement of financial position presented are translated at the closing rate at the date of that Statement of financial position.
- Statements of comprehensive income are translated at cumulated average exchange rates.
- All resulting exchange differences are recognized directly in the consolidated equity (Cumulative translation adjustment). When a foreign operation is fully or partially disposed of so that control is given up, exchange differences that were recorded in equity until the date of the sale are recognized in the Profit for the year as part of the gain or loss on sale.

2.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets of the Group include cash and cash equivalents, equity instruments of another entity (available-for-sale) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity (derivatives).

Financial liabilities of the Group include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives); or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity (derivatives).

Financial liabilities, in particular, include liabilities to banks and related parties, finance lease payables, trade payables and derivative financial liabilities.

Finance lease receivables and liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases. See Note 2.17.

The fair value of traded financial instruments is determined by reference to their market prices at the end of the reporting period. This typically applies to available-for-sale (AFS) financial instruments.

The fair value of financial instruments that are not traded in an active market (e.g. derivative financial instruments) is determined by using discounted cash flow valuation technique. The fair value of forward foreign exchange contracts is determined using quoted spot exchange rates and appropriate interest rates at the end of the reporting period.

The fair value of other financial instruments is also determined by using discounted cash flow valuation technique. The expected quarterly cash inflows or outflows are discounted by market based interest rates interpolated from the official Budapest and EUR Interest Rate Swap.

The fair value of long term fixed-rate financial liabilities (Financial liabilities to related parties, Bank loans and Nonconvertible bonds and debentures) is also determined by using discounted cash flow valuation technique. The cash flows of the liabilities are discounted by interest rates, which are reasonable to the Group for similar financial instruments. The carrying amount of floating-rate financial liabilities or those expiring within one year approximate the fair values at the end of the reporting period.

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Group's financial instruments are provided in Note 3.

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:

- at fair value through profit or loss
- loans and receivables
- available-for-sale (AFS)
- held-to-maturity

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at their initial recognition.

Standard purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Profit for the year.

The Group assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets are recognized in the Profit for the year against allowance accounts to reduce the carrying amount until the derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the Statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the (net) carrying amount derecognized.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.4.1.1 Financial assets at fair value through profit or loss

The "financial assets at fair value through profit or loss" measurement category includes the following financial assets:

- Financial assets that are designated as "at fair value through profit or loss" using the fair value option as per IAS 39
- Financial assets incurred for the purpose of selling immediately or in the near term and thus classified as "held for trading"
- Derivative financial assets are classified as "held for trading"

Assets in this category are normally classified as current assets (Other current financial assets). Derivatives aimed to hedge the cash flow risk of non current financial instruments are classified as non current assets (Non current financial assets).

No reclassification between categories has been made in the past and no reclassifications are expected in the future.

Assets in this category are initially recognized and subsequently carried at fair value. Gains or losses arising from changes in the fair value and impairment losses or their reversals are recognized in the Profit for the year (Other finance expense – net) in the period in which they arise. The Group only classifies derivative financial instruments in this category.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and their fair values are re-measured at subsequent financial statement dates. Magyar Telekom does not apply hedge accounting for its financial instruments, therefore all gains and losses are recognized in the Profit for the year (Other finance expense – net).

2.4.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are included in current assets, except those with maturities over 12 months after the financial statement date. These are classified as Non-current financial assets.

The following items are assigned to the "loans and receivables" measurement category:

- cash and cash equivalents
- bank deposits with original maturities over 3 months
- trade receivables
- other receivables
- employee loans
- loans granted to related parties and third parties

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method, less any impairment.

The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts.

Should an impairment on cash and cash equivalents occur, it would be recognized in the Profit for the year (Other finance expense – net).

(b) Bank deposits with original maturities over 3 months

Bank deposits with original maturities over 3 months include bank deposits and other liquid deposits and securities with original maturities over three months.

Should an impairment on bank deposits with original maturities over 3 months occur, it would be recognized in the Profit for the year (Other finance expense – net).

(c) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Profit for the year (Expenses directly related to revenues – Bad debt expense).

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, Magyar Telekom includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

The Group's benchmark policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

Individual valuation is carried out for customers under litigation; bankruptcy proceedings and for the total receivables of customers with more than 1 year overdue receivables. Itemized valuation is also performed in special circumstances, if there is an overdue receivable from any designated customer with different credit risk attributes.

When a trade or an other receivable is established to be uncollectible, it is written off with a parallel release of cumulated impairment against Expenses directly related to revenues in the Profit for the year (Bad debt expense). Subsequent recoveries of amounts previously written off are credited against the same line of the Statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the Profit for the year as a reduction to Expenses directly related to revenues (Bad debt expense).

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as interconnection receivables and payables).

(d) Employee loans

Employee loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment loss.

The difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits. Interest income on the loan granted calculated by using the effective interest method is recognized as Interest income, while the prepaid employee benefits are amortized to Employee related expenses evenly over the term of the loan.

Impairment losses on Employee loans are recognized in the Profit for the year (Employee related expenses).

(e) Loans granted to related parties and third parties

Loans granted to related parties and third parties include short term loans and deposits made with DTAG or other trading partners.

Impairment losses on Loans granted to related parties and third parties are accounted for in the Profit for the year (Other finance expense – net).

2.4.1.3 Available-for-sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in Non current financial assets unless management intends to dispose of the investment within 12 months of the financial statement date. In this latter case they are included in Other current financial assets.

The “available-for-sale financial assets” measurement category includes:

- listed equity instruments that are neither consolidated nor included using the equity method in the consolidated financial statements
- unlisted equity instruments that are neither consolidated nor included using the equity method in the consolidated financial statements
- debt instruments

AFS financial assets are initially recognized and also subsequently carried at fair value. The unrealized changes in the fair value of available-for-sale financial assets are recognized in equity (Revaluation reserve for AFS financial assets).

Interest on available-for-sale debt securities calculated using the effective interest method is recognized in the Profit for the year (Interest income). Dividends on available-for-sale equity instruments are recognized in the Profit for the year (Interest income) when the Group’s right to receive payments is established.

The Group assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If any such evidence exists for AFS financial assets, the cumulative unrealized gain or loss is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Other finance expense – net). Impairment losses recognized on equity instruments are not reversed through the Profit for the year, while impairment losses recognized on debt instruments are reversed through the Profit for the year.

When AFS financial assets are sold or redeemed, therefore derecognized, the fair value adjustments accumulated in equity are reclassified from Other comprehensive income to Profit for the year (Other finance expense – net).

2.4.1.4 Held-to-maturity investments

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group does not classify any of its financial instruments in this category.

2.4.2 Financial liabilities

There are two measurement categories for financial liabilities used by the Group:

- Financial liabilities carried at amortized cost
- Financial liabilities at fair value through profit or loss

No reclassification between categories has been made in the past and no reclassifications are expected in the future. Both types of financial liabilities are initially recognized at fair value, while subsequent measurements are different (see below). We remove a financial liability (or a part of a financial liability) from the Statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expired.

2.4.2.1 Financial liabilities carried at amortized cost

The measurement category for “financial liabilities measured at amortized cost” includes all financial liabilities not classified as “at fair value through profit or loss”.

(a) Loans and other borrowings

Loans and borrowings are recognized initially at fair value less transaction costs, and subsequently measured at amortized costs using the effective interest rate method. The effective interest is recognized in the Profit for the year (Interest expense) over the period of the borrowings.

(b) Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The carrying values of trade and other payables approximate their fair values due to their short maturity.

2.4.2.2 Financial liabilities at fair value through profit or loss

Since the Group currently has no intention of measuring non-derivative financial liabilities at fair value, only derivative financial instruments are assigned to this category.

The Group does not designate any derivatives as hedging instruments, therefore, all derivatives are classified as “held for trading”.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and their fair values are re-measured at subsequent financial statement dates. Magyar Telekom does not apply hedge accounting for its financial instruments, therefore all gains and losses are recognized in the Profit for the year (Other finance expense – net).

The Group considers only those contracts as a separable host contract and an embedded derivative which are denominated neither in the functional currency of either of the contracting parties nor in a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place (e.g. a relatively stable and liquid currency that is commonly used in local business transactions or external trade). The Group has identified EUR and USD as currencies commonly used in the Group’s operating area except Montenegro, where USD is not commonly used.

2.5 Inventories

Inventories are stated at the lower of cost or net realizable value using the historical cost method of accounting, and are valued on a weighted average basis. The cost of inventories comprises all costs of purchase, cost of construction and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods (Note 4.6). Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Impairment losses on Inventories are recognized in Other operating expenses (Materials, maintenance and service fees).

2.6 Non current assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Group, and has been identified for sale, which is highly probable to take place within 12 months. These assets are accounted for at the lower of carrying value or fair value less cost to sell. Depreciation is discontinued from the date of designation to the held for sale status. When an asset is designated for sale, and the fair value is determined to be lower than the carrying amount, the difference is recognized in the Profit for the year (Depreciation and amortization) as an impairment loss.

2.7 Property, plant and equipment (PPE)

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the costs if the obligation incurred can be recognized as a provision according to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Government grants relating to the purchase of PPE are deducted from the original cost of the items and are recognized in the Profit for the year through the reduced amount of depreciation of the related assets over their useful lives. Investment tax credits relating to qualifying investment projects (Note 9.5) are also recognized in this manner.

Cost in the case of telecommunications equipment comprises of all expenditures including the cabling within customers' premises and borrowing costs of related loans.

Subsequent expenditure on an asset that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Profit for the year (Depreciation and amortization).

When assets are sold, the cost and accumulated depreciation are removed from the accounts and any related gain or loss is recognized in the Profit for the year (Other operating income).

Depreciation is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives and residual values for consistency with current development plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 12. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

2.8 Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use. These costs are amortized over the estimated useful life of the software. Costs associated with developing or maintaining computer software programs are generally recognized as an expense as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee related costs and an appropriate portion of relevant overhead and borrowing costs. Computer software development costs recognized as assets are amortized over their estimated useful lives. Most computer software capitalized include acquired elements representing the majority of the cost and own costs incurred to a lesser extent. These are considered as non self developed software. Computer software fully developed by own resources represent an immaterial portion of all software, therefore these are not disclosed separately.

Costs associated with the acquisition of long term frequency licenses are capitalized including any related borrowing costs. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life.

Amortization is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives for consistency with current development and replacement plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 13. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets and contingent liabilities of the acquired subsidiary or business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Impairment testing is carried out on an annual basis for all goodwill in the last quarter of the year based on the carrying values as at September 30 of the year. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or business include the carrying amount of goodwill relating to the entity or business sold.

In determining whether an asset that incorporates both intangible and tangible elements should be treated under IAS 16 – Property, Plant and Equipment or as an intangible asset under IAS 38 – Intangible Assets, management uses judgment to assess which element is more significant and recognizes the assets accordingly.

2.9 Impairment of PPE and intangible assets

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – CGUs).

The fair values of the individual tangible and intangible assets of the Group in most cases cannot be determined as individual assets do not generate cash flows. Instead, the Group determines CGUs to which the individual assets are allocated and the fair values can only be determined at CGU level, primarily by using discounted cash flow analyses. See also Note 4.3. Corporate assets which have the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs when conducting impairment tests.

Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred. When conducting the impairment tests, Magyar Telekom allocates goodwill to its cash generating units determined at operating segment level. See also Note 4.2. Operating segments may include one clearly identifiable company or a group of companies, or components of one company and other companies as well.

The Group establishes the segments' recoverable amounts by determining their fair value less cost to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values determined as described above are used as a basis when establishing the need for an impairment of any goodwill allocated to the operating segments. See also Note 4.2. If the calculated fair value less cost to sell is lower than the carrying amount of the operating segment, goodwill is impaired.

The impairment losses of PPE and intangible assets are accounted for in the Depreciation and amortization line of the Statement of comprehensive income.

2.10 Provisions and contingent liabilities

Provisions are recognized when Magyar Telekom has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the financial statement date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. Expenses for provisions are recognized in the statement of comprehensive income line where the actual expense is expected to be incurred. When a provision is released unused, it is released to the same line of the statement of comprehensive income where it was originally provided for. Provisions made for liabilities expected to be incurred in foreign currency are recognized in the functional currency at the spot FX rate, and any change in the provision in the functional currency as a result of a subsequent change in the FX rate is recognized in Other finance expense – net.

Provisions for obligations expected to fall due after 12 months are generally recognized at their present value and are accreted (against Interest expense) until utilization or reversal.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.11 Treasury stock

When the Company or its subsidiaries purchase the Company's equity shares, the consideration transferred including any attributable incremental external costs are deducted from the Equity of the owners of the parent as Treasury stock until they are re-sold or cancelled. When such shares are subsequently sold, the treasury share balance decreases by the original cost of the shares, thereby increasing equity, while any gains or losses are also recognized in equity (Retained earnings). Treasury stock transactions are recorded on the transaction date.

2.12 Revenues

Revenues for all services and equipment sales (Note 22) are shown net of VAT, discounts and excluding sales within the Group. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group and all other specific recognition criteria of IAS 18 or IAS 11 on the sale of goods and rendering of services are met.

Customers of the Group are granted loyalty awards (credit points) based on their usage of the Group's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. call credits, handset discounts, etc.) from the operators of the Group. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

Revenues from operating leases are recognized on a straight line basis over the period the services are provided. Operating lease revenues are primarily included in the System integration and IT revenues.

2.12.1 Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to Magyar Telekom's customer subscribers and other third parties using Magyar Telekom's telecommunications network, and equipment sales.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group considers the various elements of these arrangements to be separate earnings processes and classifies the revenue for each of the deliverables into the categories as disclosed in Note 22 using the residual method for each of the elements. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Group recognizes revenues for all of these elements using the residual method, i.e. the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement.

Advertising revenues are recognized in the period that the advertisements are exhibited.

Revenues from premium rate services (Voice and Non-voice) are recognized on a gross basis when the delivery of the service over Magyar Telekom's network is the responsibility of the Group, the Group determines the prices of these services and bears substantial risks of these services; otherwise these revenues are presented on a net basis.

Customers may also purchase prepaid mobile, public phone and internet credits ("cards") which allow those customers to use Magyar Telekom's telecommunications network for a selected amount of time. Customers must pay for such services at the date when the card is purchased. Revenues from the sale of cards are recognized when used by the customers or when the credits expire with unused traffic.

Third parties using Magyar Telekom's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on Magyar Telekom's network. These wholesale (incoming) traffic revenues included in Voice and Non-voice (Data and Internet) revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these transit calls are stated gross in the Financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and recognized in the period of related usage.

2.12.2 System integration (SI) and IT revenues

Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of 2-3 years. Revenues for voice and data services are recognized under such contracts when used by the customer.

Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. The contracts are analyzed based on the requirements of IFRIC 4 – Determining whether an Arrangement contains a Lease, and if they include embedded lease elements, the revenues attributable to these are recognized according to IAS 17 – Leases as described in Note 2.17.

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by one of the following types of contracts: fixed-price or time and material-based. For fixed-price contracts, revenue is generally recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. In the case of contracts billed on the basis of time and material, revenue is recognized as the services are rendered.

Revenue from maintenance services (generally fixed fee per month) is recognized over the contractual period or as the services are provided. Revenue from repairs, which are not part of the maintenance contract, billed on the basis of time and material used is recognized as the services are provided.

Revenue from hardware and software sales or sales-type leases is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the Statement of financial position as Trade receivables. If the total actual and estimated expenses exceed revenues for a particular contract, the total expected loss is recognized immediately (Expenses directly related to revenues) against a provision.

2.12.3 Energy retail revenues – gas and electricity

Magyar Telekom Plc. entered the liberalized Hungarian gas and electricity retail market in 2010. The purpose of Magyar Telekom Plc.'s participation in the energy market is providing more integrated services to its residential and business customers. Magyar Telekom offers a fixed percentage discount on the energy bills of its residential telecommunications service customers compared to the incumbent service providers' offers at the location of the customers, thereby also ensuring customer retention. We usually offer individual prices to our business customers.

The annual quantity of the electricity and natural gas consumption is estimated based on the actual customer number and their expected consumption as well as historic weather inputs. These estimates are calculated and continuously updated by customer segment in the energy market: universal residential, universal small business and competitive market clients. These segments are further broken down to sub-groups based on their pricing characteristics so that energy costs and revenues can be estimated with adequate reliability. As time goes by during the year, more and more accurate estimates are available for both costs and revenues. Costs and revenues are continuously updated on a year-to-date basis.

Revenues from large business customers (competitive market) are recognized and invoiced based on their actual consumption. Revenues from universal customers are invoiced at flat fee for 11 months, based on the previous year's consumption and the difference between the flat fees charged and the metered annual consumption is settled in the 12th month. Revenues, however are recognized based on estimated actual consumption throughout the customer year, the beginning of which may be at any time in the year depending on the customer contract date. Due to the large number of customers and sufficient historical data (portfolio effect), the estimated consumption and the resulting costs and revenues are not materially different from the actual amounts.

Revenues from energy retail services are recognized on a gross basis as the delivery of the service is the responsibility of the Company as we determine the prices of these services and bear substantial risks of estimating and purchasing the gas and electricity quantities, resulting in significant “inventory” risks of under or over purchasing the consumed quantities.

2.13 Employee benefits

2.13.1 Short term employee benefits

Short term employee benefits are recognized as a current expense in the period when employees render their services. These include wages, social security contributions, bonuses, paid holidays, discounted telephone bills, meal and holiday contributions and other fringe benefits and the tax charges thereon.

Payments to defined contribution pension and other welfare plans are recognized as an expense in the period in which they are earned by the employees.

2.13.2 Share based compensation

Magyar Telekom recognizes the costs of services received from its employees in a share based payment transaction when services are received. Magyar Telekom recognizes a corresponding increase in its equity reserves (Reserve for equity settled share based transactions) if the services are received in an equity-settled share based payment transaction. When the share based compensation program is completed, i.e. the shares are transferred to the employees’ ownership or the share options have forfeited, the respective reserve is transferred to Retained earnings. If the services are received in a cash-settled share based payment transaction, the Group recognizes the expense against a provision, re-measured at each financial statement date.

Fair values are determined using option pricing models (such as Black–Scholes and Monte Carlo simulation) and other relevant techniques. As Magyar Telekom Plc. is listed and actively traded on the Budapest Stock Exchange, the share price and its history is readily available as a basis for fair value calculations.

Bonuses tied to the long term performance of the Magyar Telekom share are recognized in the Profit for the year at their time-proportioned fair value (Note 24.1) against an accumulating balance in Provisions.

2.13.3 Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.13.4 Post-employment defined benefits

Magyar Telekom does not have significant post-employment defined benefit schemes.

2.14 Research and Marketing expenses

Research as well as marketing costs are expensed as incurred. Research costs are not material, while marketing expenses are disclosed in Note 25.

2.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. Borrowing costs include interest and other costs that the Group incurs in connection with the borrowing of funds. The borrowing costs eligible for capitalization are capitalized applying the weighted average of the borrowing costs applicable to the general borrowings of the Group that are outstanding during the period. A qualifying asset is an asset that necessarily takes a substantial period of time, in general over 12 months, to get ready for its intended use.

2.16 Income taxes

2.16.1 Corporate income taxes

Corporate income taxes are payable to the central tax authorities of the countries in which the Group's consolidated entities operate. The basis of the tax is the taxable entities' accounting profit adjusted for non-deductible and non-taxable items. The nominal tax rates and the determination of the tax bases vary among the countries in which the Group operates.

2.16.2 Other income taxes

Other income taxes include certain local and central taxes levied in Hungary on the companies' net margins, usually determined at a substantially higher level than the corporate tax base, but applying a significantly lower tax rate.

2.16.3 Deferred taxes

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax is also provided on taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Leases

2.17.1 Operating lease – Group as lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the Statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognized as revenue on a straight-line basis over the lease term.

2.17.2 Finance lease – Group as lessor

Leases of assets where Magyar Telekom transfers substantially all the benefits and risks of ownership are recognized and disclosed as revenue against a finance lease receivable. The revenue equals the estimated present value of the future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). The cost of the asset sold in a finance lease transaction is recognized at the inception of the lease. Each lease receipt is then allocated between the receivable and interest income so as to achieve a constant rate of return on the finance receivable balance outstanding. The interest element of the lease receipt is recognized in Interest income.

2.17.3 Operating lease – Group as lessee

Costs in respect of operating leases are charged to the Profit for the year (Operating expenses) on a straight-line basis over the lease term.

2.17.4 Finance lease – Group as lessee

Leases of property, plant and equipment where Magyar Telekom assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the fair value of the asset or if lower, at the estimated present value of the future minimum lease payments against a finance lease payable. Each lease payment is allocated between the finance lease liability and interest expense so as to achieve a constant rate of interest on the outstanding balance payable. The finance lease obligations, net of finance charges, are included in the Statement of financial position (Other financial liabilities). The interest element of the lease payments is charged to the Profit for the year (Interest expense) over the lease period. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the lease term or the useful life of the asset.

2.17.5 Sale and leaseback transactions

Sale and leaseback transactions involve the sale of an asset by Magyar Telekom and the leasing of the same asset or part of it back to Magyar Telekom. When sale and leaseback transactions qualify as finance leases any gain on the sale is deferred and recognized in the Profit for the year over the lease term through lower depreciation expense. If the leaseback qualifies as an operating lease, any gains or losses on the sale are recognized in the Profit for the year (Other operating income) at the time of the sale as the sales price reflects the fair value of the asset, while the lease payments are recognized in the Profit for the year (Operating expenses) on a straight line basis over the period of the lease.

2.18 Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the owners of the Company for the period by the weighted average number of common stocks outstanding. Diluted earnings per share is calculated considering the weighted average number of diluting share options (if any) in addition to the number of common stocks outstanding.

2.19 Dividends

Dividends payable to the Company's shareholders and to Non-controlling shareholders of the Group's subsidiaries are recorded as a liability and debited against equity (Retained earnings or Non-controlling interests) in the Group's financial statements in the period in which the dividends are approved by the shareholders.

2.20 Segments

The Group's segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, the members of the Management Committee (MC) of Magyar Telekom Plc. The MC is responsible for allocating resources to, and assessing the performance of, the operating segments on a monthly basis. The accounting policies and measurement principles of the operating segments are very similar to those applied for the Group described in the previous sub-notes of the Summary of significant accounting policies. The differences primarily originate from the fact that the operating segments' annual results are determined and closed at an earlier stage, around January 8–10 each year, than these Financial statements. Any items discovered and requiring adjustment between the closing date of the segment results and the approval date of the Financial statements are reflected in the next year's segment results.

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from other segments for telecommunications and SI/IT, to a lesser extent, from inter-segment support services. In order to concentrate on real performance achieved on third party transactions, the number of overhead related inter-segment cross-charges applied within the organizations of Magyar Telekom Plc. operating in different segments is fairly limited.

The operating segments' results are monitored by the MC down to EBITDA (Earnings before interest, tax, depreciation and amortization) level, which is defined by the Group as Operating profit without Depreciation and amortization expense.

The MC does not monitor the assets and liabilities at segment level.

Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the gross additions to PPE and Intangible assets, excluding those due to business combinations.

2.21 Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant Notes. In 2012 the Group changed its income statement disclosures so that Bad debt expense was reclassified from Other operating expenses to Expenses directly related to revenues. The previous year's income statement disclosure was modified to be comparable to the current year's presentation.

3 Financial risk management

3.1 Financial risk factors

Magyar Telekom is primarily exposed to credit risks related to its financial assets. In addition, the Group is also exposed to risks from movements in exchange rates, interest rates that affect the fair value and/or the cash flows arising from financial assets and liabilities.

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are also used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Group's cash flows, no hedges are concluded to hedge fair values. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with leading Hungarian or international financial institutions or Deutsche Telekom. Nevertheless, hedge accounting is not applied to such transactions, considering that not all the criteria in IAS 39 are met.

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. These sensitivity analyses calculate with reasonably possible changes in the relevant risk variables and their impact on profit before tax. The impacts disclosed below for the reported periods are subject to an average effective income tax rate of approximately 25% (2011: approximately 25%) in the Group, i.e. the impact on Profit for the year would be approximately 75% of the pre tax amount in a year that is free from significant one-off non-deductible pre-tax impacts and significant changes in the tax legislations. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

There were no major changes in these risks compared to the previous reporting period.

3.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- foreign currency risk
- interest rate risk
- other price risk

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2011 and 2012 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 1.76 in 2012 (2011: 1.88), the allowed maximum of which would be 2.5 and EBITDA to Interest Expense ratio of 6.81 in 2012, (2011: 6.04), the allowed minimum of which would be 3.0. The Group's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury department continuously.

Magyar Telekom is exposed to interest and foreign exchange (FX) rate risk associated with its interest bearing assets and liabilities and anticipated transactions. As the vast majority of the revenues and expenses of the Hungarian entities arise in HUF, the functional currency of Magyar Telekom is HUF. Consequently, Magyar Telekom's objective is to minimize the level of its financial risk in HUF terms.

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2012) and the preceding reporting period (2011). The balances at the end of the reporting period are usually representative for the year as a whole, therefore the impacts are calculated using the year end balances as though the balances had been constant throughout the reporting period. The methods and assumptions used in the sensitivity calculations did not change significantly compared to the previous period. As a result of the still rather volatile international capital and securities markets, higher fluctuations of the FX and interest rates are also possible.

3.1.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in FX rates. Currency risks primarily arise on financial instruments denominated in a currency that is not the functional currency of the given operating segment of the Group. Differences resulting from the translation of the foreign subsidiaries' financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Magyar Telekom has financial instruments.

Due to the free-float of the HUF introduced in 2008, the Group is exposed to FX risk in case of FX denominated financial instruments of the Hungarian entities to a higher degree than before. In order to mitigate this risk, Magyar Telekom minimized its foreign currency borrowings in the past years, or covered them with derivative instruments to substantially reduce FX risk.

(a) FX risks arising on loans from DTIF and related swaps with DT AG

From 2009 not all new related party loans taken from DT were denominated in HUF. In agreement with Deutsche Telekom, several new related party loans taken to finance general corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) from June 2009 are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG to fix the actual cash flows of Magyar Telekom in HUF for the whole nominal amount and interest payments of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. As of December 31, 2012, a 15% weaker HUF would cause an FX loss of approximately HUF 14 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 15 billion. As of December 31, 2012, a 15% stronger HUF would cause an FX gain of approximately HUF 14 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 15 billion. As of December 31, 2011, a 20% weaker HUF would have caused an FX loss of approximately HUF 20 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 22 billion. As of December 31, 2011, a 20% stronger HUF would have caused an FX gain of approximately HUF 20 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 22 billion.

(b) FX risks arising on third party loans and related swaps

Magyar Telekom also has third party loans denominated in EUR, for the majority of which we also concluded cross-currency interest rate swap agreements with one of the substantial Hungarian banks to eliminate FX risk in connection with these loans and hedge the whole foreign currency denominated cash flows of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has no significant (net) impact on Profit before tax related to the hedged loans and the swaps together.

(c) Other FX exposure

The remaining FX exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from, and payments to, international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency. In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated assets (primarily held by the Group's foreign subsidiaries), however, exceed the Group's foreign currency denominated liabilities (other than the above described loans), therefore changes of the functional currencies' exchange rates would have the following impact on the profit of the Group. Compared to the spot FX rates as of December 31, 2012, a 15% weaker functional currency HUF against the EUR and a 20% weaker HUF against the USD would have caused an unrealized loss of less than HUF 2.5 billion on this net balance (2011: HUF 1.6 billion loss). The same amount of gain would have been caused by a 15% stronger functional currency HUF against the EUR and a 20% stronger HUF against the USD. Compared to the spot FX rates as of December 31, 2012, a 10% weaker functional currency MKD against the EUR and USD would have caused HUF 1.8 billion unrealized gain on this net balance (2011: HUF 2.3 billion gain). The same amount of loss would have been caused by a 10% stronger functional currency MKD against the EUR and USD.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The fair value of the open short term forward positions was HUF 0.6 billion liability as of December 31, 2012 (2011: HUF 3.5 billion asset). These positions were opened to hedge the FX risks of future FX payments exceeding FX income. Compared to the spot FX rates as of December 31, 2012, a 15% weaker functional currency HUF against the EUR and a 20% weaker HUF against the USD would have caused HUF 6.7 billion unrealized gain on this net balance while a 15% stronger HUF against the EUR and a 20% stronger HUF against the USD would have caused HUF 7.9 billion unrealized loss.

As a result of the volatile international capital and securities markets, even a more than 15% fluctuation of the functional currency HUF against EUR ,a more than 20% fluctuation of the functional currency HUF against USD and a more than 10% fluctuation of the functional currency MKD against the EUR and USD is possible as extraordinary market conditions may cause extreme volatility on FX markets.

3.1.1.2 Interest rate risk

Magyar Telekom is also exposed to interest rate fluctuations. This is due to the fact that changing interest rates affect the fair value of the fixed rate instruments and also affect the cash flows through the floating rate instruments.

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. On the other hand, all financial instruments with fixed interest rates (which are carried at amortized cost) are not subject to cash flow interest rate risk.

Changes in the market interest rate of interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect financial income or expense (net gain/loss from re-measurement of the financial assets to fair value).

Changes in market interest rates affect the interest income or expense of non-derivative floating-interest financial instruments for which no cash flow hedges are in place.

(a) Financial assets

Excess cash of the Group's Hungarian operations is primarily used to repay loans, however, significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries are held in local banks. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely affect the cash flows from these instruments.

The Group had no significant HUF denominated bank deposits at the end of 2012 and 2011.

The Group's MKD denominated bank deposits amounted to HUF 10.1 billion at the end of 2012 (2011: HUF 19.3 billion). A 1 percentage point higher interest rate throughout 2012 (assuming the year-end 2012 balance throughout 2012) would have resulted in HUF 0.1 billion higher interest income in 2012 (2011: HUF 0.2 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

The Group's EUR denominated bank deposits amounted to HUF 37.7 billion at the end of 2012 (2011: HUF 40.5 billion). A 1 percentage point higher interest rate throughout 2012 (assuming the year-end 2012 balance throughout 2012) would have resulted in HUF 0.4 billion higher interest income in 2012 (2011: HUF 0.4 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible, the exposure to which is mitigated by the balanced portfolio of fixed and floating interest rate deposits (see above). Sensitivities have been disclosed for a movement of 1 percentage point for EUR and MKD, but extraordinary market conditions may cause extreme volatility on money markets, which can result in even higher percentage point change in interest rates.

(b) Financial liabilities

Financial liabilities exposed to interest rate risk are primarily the related party (DTIF, DT AG) and third party loans and the related swap agreements in place. These loans are almost exclusively taken by the Company as the financing of the Group is managed centrally. The analysis below describes the Group's net exposure to the net interest rate risks related to the loans and the related swap agreements.

As the vast majority of debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 69% of the Group's total debt as of December 31, 2012 (2011: 58%).

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 31% of the Group's total debt as of December 31, 2012 (2011: 42%). A 2 percentage point higher interest rate throughout 2012 (assuming the year-end 2012 balance throughout 2012) would have resulted in HUF 2.1 billion higher interest expense in 2012, while the same decrease of interest rates would cause the same decrease in interest payments (2011: HUF 2.9 billion).

The fair value of the swap agreements contracted with DT is also exposed to changes in the HUF and EUR interest rates. Assuming an unchanged HUF interest but an increase of 1% in the EUR interest rates, the fair value of the swap agreements would also change causing a loss of HUF 2.6 billion, while a 1% decrease in the EUR rates would result in an income of HUF 2.7 billion. Similarly, assuming an unchanged EUR interest but an increase of 2% in the HUF interest rates, the fair value of the swap agreements would also change resulting in an income of HUF 3.0 billion, while a 2% decrease in the HUF rates would cause a loss of HUF 3.1 billion.

3.1.1.3 Other price risk

As of the end of the reporting periods, Magyar Telekom did not hold investments, which could be materially affected by risk variables such as stock exchange prices or other indices, therefore, the Group's exposure to such price changes is very limited. See also Note 8.2.

3.1.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk as at the end of the reporting period are represented by the carrying amounts of the financial assets in the Statement of financial position. Guarantee agreements reducing the maximum exposure to credit risk as at the end of the reporting period are described later in this section.

The following table presents Magyar Telekom's maximum exposure to credit risk as at December 31, 2011 and 2012.

In HUF millions	At December 31,	
	2011	2012
Cash and cash equivalents	14,451	15,211
Bank deposits with original maturities over 3 months	54,926	39,632
Trade receivables	113,350	121,362
Reclaimable frequency auction price	-	10,923
Finance lease receivables	16,783	3,535
Employee loans and receivables	5,441	4,514
Derivative financial instruments	14,325	6,652
Trade receivables over one year	1,696	4,215
Financial assets available for sale	278	244
RDC receivables	620	383
Other current	1,451	1,045
Other non-current	1,356	1,685
	224,677	209,401

The vast majority of credit risks may arise in respect of Cash and cash equivalents, Bank deposits with original maturities over 3 months and Trade receivables, all of which have short term maturities.

According to the Group's risk management policy Magyar Telekom Group companies deposit the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar

Telekom prefers to deposit in banks which grants loans to Magyar Telekom to make the compensation of debts and loans possible in case of the default of the bank.

In case of Cash and cash equivalents and Bank deposits with maturities over 3 months held in Hungary concentrations of credit risk are limited as Magyar Telekom places its cash in Hungary with substantial credit institutions. Further, excess HUF cash is also used for repayment of the HUF denominated loans and borrowings, or is deposited at partner banks which grant loans to Magyar Telekom, therefore, the credit risk related to cash held in HUF is very limited.

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Macedonia are primarily denominated in MKD and EUR, while the Cash and cash equivalents and Bank deposits with maturities over 3 months held in Montenegro are primarily denominated in EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in these countries run higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. The bank deposits of the Montenegrin subsidiary of HUF 15.7 billion as at December 31, 2012 (2011: HUF 14.1 billion) and those in Macedonia of HUF 32.1 billion as at December 31, 2012 (2011: HUF 45.7 billion) are fully covered with bank guarantees issued by international financial institutions rated at BBB or above, or Magyar Telekom has the right to net the deposits with loans taken from the guarantor, in case of default of the bank. Credit risk related to bank deposits is further limited by the diversification of the deposits among several independent credit institutions determinant on the local market.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Group's customer base and their dispersion across many different geographic areas and industries.

No financial assets other than trade and other receivables had to be impaired in the reported years, as they are neither past due nor are there any signs of impairment.

The following table contains the carrying amount of trade receivables broken down by country of operation.

In HUF millions	At December 31,	
	2011	2012
Hungary	92,902	103,429
Macedonia	13,998	12,486
Montenegro	5,205	4,534
Other	1,245	913
	113,350	121,362

The amounts in the table above are shown net of provisions for impairment losses of HUF 30.0 billion as at December 31, 2012 (2011: HUF 34.6 billion). The annual bad debt expense of the Group in 2012 was 1.1% (2011: 1.0%) of the consolidated revenues. Adverse changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.1 billion in 2012 (2011: HUF 6.0 billion).

There are varying credit checking practices applied across the members of the Group as described below.

Hungary

Credit checking at the time of the service request is carried out automatically by the credit checking application. A variety of checks including checking the bankruptcy list, the internal database of risky installation locations, the collection history of the past 6 months, the outstanding debt and the joint database of debtors of the Hungarian mobile operators are performed depending on the service to be used. The Fraud Detecting System monitors extreme usage and fraudulent behavior of customers for mobile, fixed-line and Internet services. In case of business customers, account managers check if the customer has outstanding debts.

Dunning procedures are run automatically by the billing systems and include various reminder tools like SMS, telephone calls, reminder letters, restricted service, termination letters and disconnections. In case of medium and large enterprises dunning process starts manually (first reminder letter) on a weekly basis. After the first step, this process is also automated. Based on the effective laws and regulations and over a minimum overdue amount we apply varying and customized reminder procedures with specific deadlines to the different customer groups. After the termination of the contract and depending on the expected success of the process, we combine the different collection steps of involving external partners, selling the outstanding debt or initiating legal proceedings. All parts of the process are regulated by internal directives.

Macedonia

The process of managing the credit risk from operating activities includes preventive measures such as credibility checking and prevention barring, corrective measures during legal relationship (reminding and disconnection activities), collaboration with collection agencies, court proceedings, involvement of the executive unit and factoring. The overdue payments are monitored through a debt escalation procedure based on customer type, credit class and amount of debt, as well as average invoiced amount and number of disconnections. The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customers' credit worthiness and through preventive barring – which determines the credit limit based on the usual level of the customer's previous traffic revenues. There is no concentration of risk in Macedonia either with any single customer or group of customers with similar characteristics. The procedures in Macedonia ensure on a permanent basis that sales are made to customers with an appropriate credit history and that an acceptable level of credit exposure is not exceeded.

Montenegro

In order to manage receivables, control credit risk, as well to manage anti-fraud and revenue assurance activities, Customer finance department was formed in 2010. A large number of processes were changed which gave good results in 2010, 2011 and 2012. The focus on receivables and credit control was even higher in 2012 in order to mitigate the negative effects of the prolonged economic crisis. There were further improvements introduced in the credit checking area and in the dunning/collection process.

3.1.3 Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 88.9 billion as at December 31, 2012 (2011: HUF 51.4 billion), and the Company also had uncommitted credit lines from several Hungarian Banks as at December 31, 2012 and 2011. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2014.

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2012 and 2011. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

December 31, 2012 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	115,723	115,723	-	-
Financial liabilities to related parties	353,904	53,032	285,313	15,559
Bank loans	38,076	38,076	-	-
Finance lease liabilities	6,726	1,282	3,300	2,144
Other financial liabilities	5,676	2,161	3,514	1
Total other financial liabilities	50,478	41,519	6,814	2,145
Total cash flows	520,105	210,274	292,127	17,704
Open swap positions' cash flows				
Gross cash inflow in EUR million	364	23	289	52
Gross cash inflow in HUF million (at spot rate)	106,343	6,842	84,288	15,213
Gross cash outflow in HUF million	(108,722)	(9,902)	(84,802)	(14,018)
Net cash (outflow)/inflow in HUF million	(2,379)	(3,060)	(514)	1,195
Open forward positions' cash flows				
Gross cash inflow in EUR million	182	182	-	-
Gross cash inflow in USD million	3	3	-	-
Gross cash inflow in HUF million	4,985	4,985	-	-
Total gross cash inflow in HUF million (at spot rate)	58,612	58,612	-	-
Gross cash outflow in HUF million	(59,716)	(59,716)	-	-
Net cash outflow in HUF million	(1,104)	(1,104)	-	-

December 31, 2011 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	101,119	101,119	-	-
Financial liabilities to related parties	334,153	64,835	243,751	25,567
Bank loans	65,250	48,759	16,491	-
Finance lease liabilities	8,877	1,537	4,484	2,856
Payable to the SEC and the DOJ	21,857	21,857	-	-
Other financial liabilities	1,824	1,208	612	4
Total other financial liabilities	97,808	73,361	21,587	2,860
Total cash flows	533,080	239,315	265,338	28,427
Open swap positions' cash flows				
Gross cash inflow in EUR million	383	23	281	79
Gross cash inflow in HUF million (at spot rate)	119,286	7,290	87,527	24,469
Gross cash outflow in HUF million	(119,033)	(10,244)	(87,429)	(21,360)
Net cash inflow / (outflow) in HUF million	253	(2,954)	98	3,109
Open forward positions' cash flows				
Gross cash inflow in EUR million	100	100	-	-
Gross cash inflow in USD million	103	103	-	-
Total gross cash inflow in HUF million (at spot rate)	55,831	55,831	-	-
Gross cash outflow in HUF million	(52,803)	(52,803)	-	-
Net cash inflow in HUF million	3,028	3,028	-	-

The average maturity of Magyar Telekom's debt portfolio was 2.5 years as at December 31, 2012 (2011: 2.6 years), both of which are in line with the predefined liquidity management limit range of keeping the average maturity of the debt portfolio between 2 and 3 years.

The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2012 and 2011.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be achieved primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as Net debt divided by Equity (including Non-controlling interest) and Net debt. Net debt is calculated as follows:

- Current and non current financial liabilities to related parties – Note 16
- plus Other current and non current financial liabilities – Note 17
- less Cash and cash equivalents – Note 6
- less Other current financial assets – Note 8.1

During 2011 and 2012, the Group's strategy as approved by the Board was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2012 was 34.3% (2011: 34.1%).

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company's Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. The Company is in compliance with this regulation, and no such statutory regulation exists for consolidated equity.

The equity capital, which the Group manages, amounted to HUF 522 billion on December 31, 2012 (2011: HUF 556 billion).

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. As an example, if Magyar Telekom was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately HUF 11 billion (2011: HUF 10 billion). See Notes 12 and 13 for the changes made to useful lives in 2012.

The Group constantly introduces a number of new services or platforms including, but not limited to, the UMTS and 4G based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services or assets are designed to co-exist with the existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

4.2 Estimated impairment of goodwill

Goodwill is not amortized, but tested for impairment annually or more frequently. The recoverable amounts of the operating segments are calculated based on fair value less cost to sell determined by the discounted projected cash flows of the operating segments over the next ten years with a terminal value. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate. The Group has an implemented policy to make the impairment test based on a 10-year cash flow projection on reasonable and supportable assumptions that present the management's best estimate on market participants' assumptions and expectations. We use 10 year cash flow projections as the payback period of our investments in the telecommunications operations often exceeds 5 years.

In order to determine the recoverable amounts of the operating segments, the Group calculates the operating segments' fair values less cost to sell. In the calculations, Magyar Telekom uses a range of weighted average cost of capital (WACC) and estimated perpetual growth rate (PGR) depending on the country of operations and the characteristics of the markets the Group's segments operate in. The WACCs are determined based on CAPM (capital asset pricing model) using the average betas of the peer group, 10 year zero coupon yields and a debt ratio in line with the usual indebtedness of listed peer telecommunications companies, while the PGRs used are in line with the long-term average growth rate for the particular segment.

Costs of certain central functions that are not cross charged are also considered in the fair value calculations, when conducting the goodwill impairment tests. The costs of these central functions are allocated to the operating segments based on the segments' revenue share of the Group's total revenue.

Goodwill is allocated to the operating segments of the Group: Telekom Hungary, T-Systems, Macedonia and Montenegro.

No goodwill had to be impaired in 2012. In 2011, no goodwill allocated to the segments other than Macedonia had to be impaired.

The tables below show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2012 and 2011. The tables below also include sensitivity analyses that show how much impairment (or additional impairment in case of Macedonia in 2011) would have been recognized as at December 31, 2012 or 2011 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In case of the WACCs we disclose what impact a 2 percentage point increase of the WACC would have on the goodwill. In case of the PGRs we disclose what impact a 5 percentage point decrease of the PGR would have on the goodwill. In case of the cash flow projections we disclose what impact a 10% or a 20% lower than projected cash flow stream would have on the goodwill.

2012	Telekom Hungary	T-Systems	Macedonia	Montenegro
WACC				
Used in the calculation	9.32%	9.74%	9.02%	7.85%
If changed to	11.32%	11.74%	11.02%	9.85%
Potential impairment (HUF million)	20,773	-	-	-
PGR				
Used in the calculation	0.0%	1.0%	0.0%	0.0%
If changed to	-5.0%	-4.0%	-5.0%	-5.0%
Potential impairment (HUF million)	10,896	-	-	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	-	-	-	-
If changed by	-20%	-20%	-20%	-20%
Potential impairment (HUF million)	36,394	-	-	-

2011	Telekom Hungary	T-Systems	Macedonia (after impairment)	Montenegro
WACC				
Used in the calculation	12.99%	13.27%	12.11%	10.54%
If changed to	14.99%	15.27%	14.11%	12.54%
Potential impairment (HUF million)	33,969	-	9,170	-
PGR				
Used in the calculation	1.0%	1.5%	0.5%	0.0%
If changed to	-4.0%	-3.5%	-4.5%	-5.0%
Potential impairment (HUF million)	15,771	-	7,240	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	8,595	-	6,777	-
If changed by	-20%	-20%	-20%	-20%
Potential impairment (HUF million)	74,621	-	13,576	-

As a result of the impairment testing carried out in 2011, using the above described valuation techniques, we identified and recognized an impairment loss on the goodwill of the Macedonia segment. The main reason for the impairment was that the revenue plans of the Macedonia segment prepared in 2011 had to be reduced by 7-19% compared to the plans prepared a year before due to the unfavorable economic environment and fiercer than expected mobile competition resulting in significant pricing pressure and increasing level of handset subsidies. Even though management is trying to compensate the loss in cash inflows with stricter control on cash outflows, this foreseen decrease in revenues was not found possible to be fully compensated by the planned reduction of operating expenses and the planned reduction of capital expenditures. In addition to the decrease in expected cash flows, the increase of the applied WACC from 10.96% to 12.11% (from 2010 to 2011) also resulted in additional reduction of the enterprise value of the Macedonia segment in 2011. Further, due to the above described reasons, the PGR used in the 2010 calculations had to be decreased from 1.7% to 0.5% in the 2011 calculations.

Due to the above described changes in the economic circumstances an impairment loss of HUF 31,390 million was recognized for the Macedonia segment based on the fair value less cost to sell (FVLCS) calculations in 2011. Magyar Telekom's management believes that preparing the value in use (VIU) calculation was unnecessary, since it would have resulted in a lower enterprise value than the FVLCS. The VIU method is assuming a model without future investments, meaning that additional capex and related revenues and gains to be recognized in the future cannot be considered in the calculations. Assuring the revenues on long term in a telecom business very much depends on future investments. In Magyar Telekom on average only approximately 20% of the capex spent in a year is related to maintenance. Others are new investments, also related to providing new connections to the network. It is obvious, that without this the revenue generation would start to sharply decline on a long term. Consequently, we did not prepare the value in use calculations for the Macedonia or any other segments.

4.3 Estimated impairment of property, plant and equipment, and intangibles

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations.

4.4 Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts receivable based on estimated losses resulting from the inability of our customers to make required payments. For the largest customers and other telecommunications service providers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our accounts receivable balance and our historical write-off experience, customer credit-worthiness and recent and expected changes in our customer payment terms. These factors are reviewed periodically, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile, internet, cable TV, etc.) and the environment in which the Group's entities operate in the various markets. The estimates also involve assumptions about future customer behavior and the resulting future cash collections. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far. See also Note 3.1.2.

4.5 Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than fifty percent, the Group provides for the total amount of the estimated liability (see also Notes 2.10, 19 and 36.2). The assessment of the probability is highly judgmental, as – for example – in Hungary there are very few cases where the appealed NMIAH decisions have been finally concluded by the Supreme Court. Further, in Macedonia, there is also a lack of sufficient history for Competition Office or Agency decisions appealed against at the Administrative Court. In order to determine the probabilities of an adverse outcome, the Group uses internal and external legal counsel.

4.6 Subscriber acquisition and retention costs

Subscriber acquisition and retention costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition and retention costs. The up-front fees collected from customers for activation or connection are marginal compared to the incremental acquisition and retention costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition and retention costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. Among these, net losses on equipment sales of the Group amounted to HUF 14.0 billion in 2012 (2011: HUF 14.7 billion), while agent fees amounted to HUF 9.2 billion in 2012 (2011: HUF 10.1 billion). The Group's marketing costs amounted to HUF 12.7 billion in 2012 (2011: HUF 12.9 billion).

5 Business combinations and disposals of subsidiaries

5.1 Acquisitions in 2012

5.1.1 Cable TV network and operations

Magyar Telekom signed a share purchase agreement to acquire 100% of M-Kábel Kft. on April 27, 2012. At the same time the Group also acquired a cable TV network from the same seller. The closing of the combined transaction took place on May 31, 2012. The initial purchase price of HUF 2.1 billion was paid in May 2012, and additional HUF 118 million was paid in August 2012 based on the actual net debt of M-Kábel at the closing of the transaction. M-Kábel is the exclusive internet service provider in a western region of Hungary operating on the network acquired at the same time. M-Kábel has been a consolidated subsidiary of the Group since May 31, 2012, included in the Telekom Hungary operating segment.

The carrying values and the fair values of assets and liabilities acquired as well as the consideration transferred are disclosed in the table below.

In HUF millions	Fair values	Carrying values
Consideration transferred	2,168	
Less: Net assets acquired	(1,281)	
Goodwill	887	
Net assets acquired:		
Cash and cash equivalents	48	48
Trade and other receivables	80	80
Property, plant and equipment	534	534
Intangible assets	699	-
Trade and other payables	(10)	(10)
Net deferred tax liability	(70)	-
	1,281	652

The total purchase price was paid in cash in 2012.

The customer contract value recognized as an intangible asset only represents the customers and services rendered to them existing on the acquisition date, while the majority of the goodwill represents the value of, and the future expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

In Hungarian GAAP, there is also no goodwill amortization, but in case of impairment, the total amount of goodwill (HUF 1,532 million) recognized is tax deductible according to the corporate tax law prevailing in 2012.

5.1.2 Other network acquisitions

In 2012 the Group acquired a number of cable TV networks for HUF 23 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The total purchase price was paid in cash in 2012.

5.2 Acquisitions in 2011

5.2.1 Daten-Kontor

Magyar Telekom signed a share purchase agreement to acquire 100% of Daten-Kontor Kft. on July 20, 2010. The closing of the transaction was subject to the approval of the Competition Office. The maximum purchase price of HUF 1.4 billion is dependent on the 2011 and 2012 financial performance and was adjusted with the net debt at the closing of the transaction on February 28, 2011, when the Group obtained control over Daten-Kontor. Daten-Kontor develops, installs and operates IT applications in Hungary. In 2010 the revenue of Daten-Kontor Kft. was HUF 2.7 billion and its EBITDA was HUF 340 million. Daten-Kontor has been a consolidated subsidiary of the Group since February 28, 2011, included in the T-Systems operating segment.

The carrying values and the fair values of assets and liabilities acquired as well as the considerations transferred are disclosed in the table below.

In HUF millions	Fair values	Carrying values
Initial purchase price	900	
Additional estimated contingent purchase price	498	
Consideration transferred	1,398	
Less: Net assets acquired	(1,332)	
Goodwill	66	
Net assets acquired:		
Cash and cash equivalents	455	455
Trade and other receivables	701	701
Inventories	5	5
Property, plant and equipment	93	93
Intangible assets	619	79
Trade and other payables	(312)	(312)
Income tax payable	(2)	(2)
Provision	(173)	(173)
Net deferred tax liability	(54)	-
	1,332	846

The initial purchase price in a total amount of HUF 900 million and HUF 173 million of the estimated additional purchase price were paid in cash in 2011. HUF 100 million was paid as part of the contingent purchase price in 2012 while the remaining amount is expected to be payable in 2013 and 2015. The currently estimated remaining amounts payable are HUF 70 million higher than originally estimated. The difference was recognized as Other operating expense in 2012.

The goodwill arising on this acquisition (fully allocated to the T-Systems segment) mostly represents the assembled workforce that cannot be recognized as a separable asset.

In Hungarian GAAP, there is also no goodwill amortization, but in case of impairment, the total amount of goodwill (HUF 429 million) recognized is tax deductible according to the corporate tax law.

5.2.2 Globe

In May 2011, Magyar Telekom signed a sale purchase agreement to acquire the ownership rights of the Globe Banking Software (Globe) in a value of HUF 1 billion, and entered into a 7-year IT outsourcing service contract with the clients applying Globe. Globe is a software system applied as central administration system of finance institutions in Hungary. Globe was used by 14 Hungary-based finance institutions and their branches as central administration system of financial service activity at the date of acquisition. The transaction qualified as a business combination.

Globe is a market-leader system in its customer segment and the revenue generated from the services provided to the Savings banks amounts to approximately HUF 320 million per annum. The Globe software system and the related revenues and expenses have been consolidated from June 2011, included in the T-Systems operating segment of the Group.

The fair values of assets acquired as well as the consideration transferred are disclosed in the table below.

In HUF millions	Fair values
Software	300
Customers	563
Goodwill	137
Assets acquired / Total consideration transferred	1,000

The purchase price of HUF 1,000 million was paid in cash in 2011.

The customer value recognized as an intangible asset represents the customer base and services rendered to them existing on the acquisition date, while goodwill (fully allocated to the T-Systems segment) represents the value of, and the future expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

In Hungarian GAAP no goodwill was recognized.

5.2.3 Budakalász

Magyar Telekom acquired the remaining 75% of Budakalász Kábel TV Kft. on November 30, 2011. Budakalász is a cable TV service provider in Hungary, which had approximately 1.7 thousand subscribers at the acquisition date. The purchase price was HUF 239 million. Budakalász has been a consolidated subsidiary of the Group since that day included in the Telekom Hungary operating segment. Budakalász was an associate of Magyar Telekom before the acquisition, the disposal of which resulted in a net profit of HUF 58 million.

The carrying values and the estimated fair values of assets and liabilities acquired as well as the considerations transferred are disclosed in the table below.

In HUF millions	Fair values	Carrying values
Purchase price of the remaining 75%	239	
Fair value of the 25% ownership	80	
Consideration transferred	319	
Less: Net assets acquired	(199)	
Goodwill	120	
<u>Net assets acquired:</u>		
Cash and cash equivalents	13	13
Trade and other receivables	7	7
Income tax receivable	7	7
Inventories	1	1
Property, plant and equipment	72	72
Intangible assets	112	1
Trade and other payables	(2)	(2)
Net deferred tax liability	(11)	-
	199	99

The purchase price of HUF 239 million was paid in cash in 2011.

The customer value recognized as an intangible asset represents the customer base and services rendered to them existing on the acquisition date, while goodwill (fully allocated to the Telekom Hungary segment) represents the value of, and the future expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

In Hungarian GAAP, there is also no goodwill amortization, but in case of impairment, the total amount of goodwill (HUF 185 million) recognized is tax deductible according to the corporate tax law.

5.3 Pro forma information on business combinations

The following pro forma information shows the most important financial data of the Group, including the subsidiaries and businesses acquired as if they had been consolidated from the beginning of the year of acquisition, and also how much the business combinations contributed to the reported figures since the acquisition date in the year of acquisition.

In HUF millions	2011	2012
Revenues		
Reported	597,617	607,128
Pro forma – if consolidated from beginning of year	598,030	607,398
Current year contribution	2,818	380
Profit for the year		
Reported	779	36,859
Pro forma – if consolidated from beginning of year	861	36,901
Current year contribution	319	60

5.4 Disposals of subsidiaries

In 2012 Magyar Telekom sold two of its investments in subsidiaries. These subsidiaries were not considered separate cash generating units, therefore they did not constitute discontinued operations.

5.4.1 Pro-M

In August 2012, the Company signed a share purchase agreement for the sale of the total of its 100% shareholding in Pro-M Zrt. to National Infocommunications Service Zrt., a Hungarian state-owned company. The initial purchase price was HUF 19.9 billion which was adjusted with the value of the working capital of Pro-M at the closing of the transaction. The buyer withheld HUF 1 billion in order to offset the possible difference between the preliminary and final working capital calculation of Pro-M. The calculation was agreed on October 15, 2012 which resulted in HUF 967 million additional consideration transferred.

The result of the disposal was recognized as Other operating income. (See also note 26).

In HUF millions	Fair values
Agreed purchase price	19,900
less working capital of Pro-M	(1,698)
Consideration received	18,202
Net assets disposed of	(16,602)
Income on sale	1,600
<u>Net assets disposed of:</u>	
Cash and cash equivalents	(7)
Finance lease receivables	(11,264)
Trade and other receivables	(7,480)
Inventories	(15)
Property, plant and equipment	(364)
Intangible assets	(33)
Trade and other payables	1,692
Income tax liabilities	42
Provisions	3
Net deferred tax liability	824
	(16,602)

HUF 3,891 million of the total cash payment received (HUF 18,202 million) is included in the Consolidated Statement of Cash Flows as part of the Change in assets carried as working capital considered as collection of trade receivables outstanding from the state-owned buyer of Pro-M at the date of the transaction while the remaining HUF 14,304 million (net of the cash balance of HUF 7 million disposed of) is disclosed as Proceeds from disposal of subsidiaries and associates - net in the Consolidated Statement of Cash Flows.

5.4.2 Compargo Kft.

In March 2012, Magyar Telekom signed a sale-purchase agreement for the total of its 80% investment in Compargo Kft. for HUF 84 million (net of the cash balance disposed of), resulting in a gain of HUF 46 million.

6 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts. These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. No impairment had to be recognized for any of these balances in the reported years.

In HUF millions	At December 31,	
	2011	2012
Cash on hand	196	189
Cash in bank (demand deposits)	9,145	6,648
Bank deposits with original maturities less than 3 months	5,110	8,374
	14,451	15,211

Average interest rates	At December 31,	
	2011	2012
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.74%	1.36%
Bank deposits with original maturities less than 3 months	1.28%	2.56%
Average interest rate	0.92%	2.01%

Cash and cash equivalents by currency	At December 31,	
In HUF millions	2011	2012
EUR	6,373	9,616
HUF	2,342	2,389
MKD	3,254	2,045
USD	2,179	1,076
Other	303	85
	14,451	15,211

Cash and cash equivalents by country of location	At December 31,	
In HUF millions	2011	2012
Montenegro	651	7,701
Hungary	7,625	4,551
Macedonia	5,691	2,643
Other countries	484	316
	14,451	15,211

7 Trade and other receivables

7.1 Trade and other receivables – carrying amounts

In HUF millions		At December 31, 2011	2012
Trade receivables from third parties		105,017	112,602
Trade receivables from Deutsche Telekom Group companies		8,333	8,760
Total trade receivables	(a)	113,350	121,362
Prepayments and advance payments		8,275	6,253
Other taxes receivable		2,650	2,343
Other		388	751
Total other receivables		11,313	9,347
		124,663	130,709

(a) Age profile of Trade receivables

The following tables show the age profile of the Group's trade receivables by country of operation by days outstanding (past due). The carrying amounts of past due receivables are shown net of impairment losses charged as of the financial statement dates.

In HUF millions	Carrying amount as of Dec 31, 2012	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	103,429	85,655	11,619	2,164	649	976	993	1,373
Macedonia	12,486	9,443	1,173	483	294	555	274	264
Montenegro	4,534	3,317	540	205	117	221	131	3
Other countries	913	769	42	34	32	9	27	-
Total	121,362	99,184	13,374	2,886	1,092	1,761	1,425	1,640

In HUF millions	Carrying amount as of Dec 31, 2011	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	92,902	77,627	9,234	1,714	587	1,071	1,029	1,640
Macedonia	13,998	9,700	2,192	724	288	458	220	416
Montenegro	5,205	3,316	811	284	127	296	69	302
Other countries	1,245	1,027	42	35	13	17	22	89
Total	113,350	91,670	12,279	2,757	1,015	1,842	1,340	2,447

The vast majority of trade receivables is impaired on a portfolio basis. The vast majority of past due trade receivables are partly or fully impaired depending on the period of delay of payments. Only insignificant amounts of past due trade receivables are not impaired based on past experience of payment behavior of certain business and governmental customers. As these amounts are not significant, these are not disclosed separately.

Non past due receivables are not assessed collectively for impairment, but in case of bankruptcy of the customer non past due receivables may have to be partly or fully impaired, the amount of which is not significant, therefore, not disclosed separately. The non past due trade receivables represent approximately 2.0 months of revenue (2011: 1.8 months of revenue). As disclosed in Note 3.1.2, the annual bad debt expense of the Group is approximately 1.1 percent of the annual consolidated revenue, therefore, we can estimate that approximately this percentage of the non past due portion of trade receivables will not be collected, i.e. will have to be impaired in future periods, but are not impaired at the end of the reporting period.

The Group has no significant collaterals related to its trade receivables.

7.2 Impairment losses of trade and other receivables

The table below shows the impairment loss and changes therein for 2011 and 2012.

In HUF millions	At December 31,	
	2011	2012
Impairment loss, beginning of period	34,486	34,568
Charged to expense – net (included in Expenses directly related to revenues)	6,255	6,752
Translation difference	1,433	(878)
Utilized	(7,606)	(10,402)
Impairment loss, end of period	34,568	30,040

The carrying amount of trade and other receivables that would otherwise be past due or impaired whose terms have been renegotiated is not material therefore no separate disclosure is provided on those.

The amount of trade and other receivables that are individually determined to be impaired is not material, therefore, these are not disclosed separately.

The table below includes the impairment losses and the changes therein in 2011 and 2012 for the countries of operation of the Group.

In HUF millions	At December 31, 2010	Charged to expense	Translation difference	Utilized	At December 31, 2011
Hungary	21,286	5,829	-	(6,246)	20,869
Macedonia	8,569	1	942	(530)	8,982
Montenegro	4,574	411	484	(830)	4,639
Other countries	57	14	7	-	78
Group	34,486	6,255	1,433	(7,606)	34,568

In HUF millions	At December 31, 2011	Charged to expense	Translation difference	Utilized	At December 31, 2012
Hungary	20,869	6,040	-	(9,959)	16,950
Macedonia	8,982	249	(569)	(414)	8,248
Montenegro	4,639	432	(292)	(29)	4,750
Other countries	78	31	(17)	-	92
Group	34,568	6,752	(878)	(10,402)	30,040

See also Note 3.1.2 for further analysis of credit risks related to Trade and other receivables.

8 Other financial assets

Other financial assets include receivables due within 12 months from the financial statement date (current) and due after 12 months from the financial statement date (non current). These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. The impairment loss accounted for other current and non current financial assets is not material therefore its reversal is also insignificant.

8.1 Other current financial assets

In HUF millions		At December 31, 2011	2012
Bank deposits with original maturities over 3 months	(a)	54,926	39,632
Reclaimable frequency auction price	(b)	-	10,923
Finance lease receivable	(c)	4,267	799
Loans and receivables from employees	(d)	727	505
RDC receivable	(e)	222	190
Derivative financial instruments contracted with related parties	(f)	193	480
Derivative financial instruments contracted with third parties	(g)	3,500	392
Other		1,451	1,045
		65,286	53,966

(a) The table below shows the Bank deposits with original maturities over 3 months by country of location.

In HUF millions	At December 31, 2011	At December 31, 2012
Macedonia	40,785	30,306
Montenegro	14,121	4,952
Germany	-	4,369
Hungary	20	5
	54,926	39,632

8.2 Other non current financial assets

In HUF millions		At December 31, 2011	At December 31, 2012
Finance lease receivable	(c)	12,516	2,736
Loans and receivables from employees	(d)	4,714	4,009
RDC receivable	(e)	398	193
Trade receivables over one year	(h)	1,696	4,215
Derivative financial instruments contracted with related parties	(f)	10,291	5,780
Derivative financial instruments contracted with third parties	(g)	341	-
Financial assets available for sale	(i)	278	244
Other		1,356	1,685
		31,590	18,862

(b) The Company challenged the decision closing the 900 MHz frequency auction in Hungary before court in March 2012. The final court decision announced on September 17, 2012, which was subsequently upheld on February 26, 2013 annulled the decision closing the 900 MHz frequency auction, as a result of which the carrying amount of the right of use of the frequency as at December 31, 2012 was derecognized. As the auction price paid for the right of use of the frequency awarded to the Company in 2012 has become reclaimable as a result of the court decision, the Company recognized a financial receivable in an amount equivalent to the auction price paid for the right of use of the frequency in March 2012 (excluding VAT). See also Notes 13 and 37.2.

(c) See Note 33.3 for more information on Finance lease receivable.

(d) Loans and receivables from employees primarily represent the housing loans provided to the employees of the Group. There are no past due employee receivables, and the loans are pledged with mortgage.

(e) RDC receivable represents Crnogorski Telekom's receivable from the Government of Montenegro originating from the Share Transfer Agreement on the sale of ownership in the Radio Difuzni Centar (RDC) entered into in 2004.

(f) Derivative financial instruments contracted with related parties include the fair value of open currency forwards and cross-currency interest rate swaps (see more details in Note 3.1.1.1).

(g) Derivative financial instruments contracted with third parties include the fair value of open currency forwards, cross-currency interest rate swaps and commodity price swaps (see more details in Note 3.1.1.1).

(h) Trade receivables over one year includes receivables from customers paying over 1-2 years in installments for telecommunications equipment sold, as well as installment payments on software and hardware implementation services.

(i) Financial assets available for sale include insignificant investments in equity securities.

9 Income tax

9.1 Current income tax receivable and payable

Current income tax receivable and payable in the Statement of financial position represent the amount of corporate and other income taxes receivable from, and payable to, the tax authorities of the countries in which the Group operates.

9.2 Income tax expense

The table below shows the income tax expenses charged in the Profit for the year.

	For the year ended December 31,	
In HUF millions	**2011**	**2012**
Corporate income tax	4,336	4,578
Other income taxes	7,853	8,115
Deferred income taxes	15,349	775
Total income tax expense	27,538	13,468

9.3 Tax rate reconciliation

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

		For the year ended December 31,	
In HUF millions		**2011**	**2012**
Consolidated IFRS profit before income tax		30,717	59,323
Tax at 19%	(a)	(5,836)	(11,271)
Impact of different tax rates	(a)	4,901	4,554
Tax on items not subject to income tax	(b)	973	1,909
Tax on non deductible items	(c)	(4,035)	(547)
Other income taxes	(d)	(7,853)	(8,115)
Impact of tax deductibility of other income taxes	(e)	1,492	1,542
Withholding tax on dividends	(f)	(3,011)	(2,990)
(De)/recognized deferred tax on tax losses	(g)	(527)	166
Investment tax credit accretion	(h)	1,365	1,284
Change in the Hungarian corporate tax rate	(j)	(15,007)	-
Income tax expense		(27,538)	(13,468)
Effective tax rate		89.7%	22.7%

(a) Impact of different tax rates

The corporate tax rate in Hungary was 19% in 2012 and in 2011. In 2010, an amendment was made to the corporate tax law, introducing a lower rate of corporate tax (10%) as of July 1, 2010 for the first HUF 500 million tax base (on an annual basis) of the legal entities, above which the regular rate of 19% applies. The impact of the lower tax rate applicable to the Hungarian legal entities of the Group is included in this line of the reconciliation.

This line of the reconciliation also includes the tax impacts of the different tax rates of the foreign countries where the Group is also present through its subsidiaries. The tax rate in Macedonia is 0% for undistributed profits. The corporate tax rate is 9% in Montenegro, 16% in Romania, and 10% in Bulgaria in the reported years. This line of the reconciliation includes the tax impacts of the above differences compared to the 19% theoretical tax rate applied to the profit before tax.

(b) Tax on items not subject to income tax

Items not subject to income tax includes primarily the positive effect of the tax incentive related to sport and film donations as well as the deductible depreciation of assets subject to investment tax credits. This item also includes the tax effect of donation for non-profit organizations and R&D cost deductible from the corporate income tax base.

(c) Tax on non deductible items

This line of the reconciliation shows the negative tax impact of the non deductible expenses, including primarily the premature receivable write-downs, certain impairment losses as well as non deductible penalties. Non deductible penalties in 2011 included the amount of the criminal penalty payable to the DOJ, which qualified as a non deductible expense in 2011 in an amount of HUF 14,345 million, the negative tax impact of which at 19% is HUF 2,726 million in this line of the reconciliation in 2011.

(d) Other income taxes

Other income taxes include certain local and central taxes levied in Hungary on the companies' net margins, determined usually at a substantially higher level than the corporate tax base, but with substantially lower tax rates. As the first line of the reconciliation calculates theoretical tax expense calculated using the corporate tax rate, the Hungarian local business tax, energy supplier tax and the innovation fee impose additional income tax expenses for the Hungarian entities of the Group, included in this line of the reconciliation.

(e) Deductibility of other income taxes from the corporate tax base

The above described Hungarian other income taxes are deductible expenses for corporate tax purposes, the positive impact of which is included in this line of the reconciliation.

(f) Withholding tax

Macedonia and Montenegro levy a 5% withholding tax on dividend distribution to Hungary. In addition, according to the Macedonian tax law Macedonian companies have to pay "corporate income tax" on their annual profits if they distribute those profits as dividends to foreign companies (or Macedonian individuals) at 10%. We assess that the Macedonian corporate tax in 2011 and 2012 is in fact a withholding tax that is levied at the dividend distributions from Macedonia to Hungary, which imposes additional tax expenses for the Group related to the 2011 and 2012 profits of the Macedonian subsidiaries.

The reconciliation includes the amount of withholding tax accruing on the current year's profits to be distributed from the foreign subsidiaries to the Company. Dividends received by the Hungarian parent companies (from Macedonia and Montenegro as well) are eliminated on consolidation, therefore, the Group's profit before tax excludes these dividends. As these dividends are not subject to corporate tax in Hungary, this line of the reconciliation includes the Company's withholding tax burden expected on the annual profits of the Macedonian and Montenegrin subsidiaries.

(g) (De)/recognized deferred tax on tax losses

Deferred tax asset is recognized on tax losses only to the extent that the realization of the related tax benefit is probable. Deferred tax assets on tax losses that will probably not be recovered are un-recognized in the period of the loss or de-recognized in subsequent periods. On the other hand, when the recoverability of the previously un/derecognized tax losses becomes probable, these deferred tax assets are recognized.

(h) Investment tax credit accretion

Investment tax credit accretion shows the increase of the net present value of the investment tax credit deriving from the utilization of the tax credits in year(s) subsequent to the year of recognition. See also Note 9.5.

(i) Change in the Hungarian tax rate

In 2010, an amendment was made to the Hungarian corporate tax law, introducing a lower rate of corporate tax (10%) as of July 1, 2010 for the first HUF 500 million tax base of the legal entities (HUF 250 million in 2010), above which the regular rate of 19% applies. A further amendment was made to the Hungarian tax law in 2010, which stated that the corporate tax rate from January 1, 2013 would be 10%. Deferred tax balances were recalculated accordingly, the positive impact of which was recognized in 2010.

In 2011, the amendment made to the corporate tax law to lower the corporate tax rate from January 1, 2013 uniformly to 10% was eliminated. As a result after January 1, 2013 the 19% of corporate tax rate has to be applied to the part of the tax base which exceeds HUF 500 million. Deferred tax balances were recalculated accordingly in 2011.

9.4 Deferred taxes

Magyar Telekom's deferred tax balances are as follows:

In HUF millions	Balance at Dec. 31, 2010	Effect on profit	Other move-ments	Balance at Dec. 31, 2011	Effect on profit	Other move-ments	Balance at Dec. 31, 2012
Deferred tax assets and (liabilities)							
Investment tax credits	16,032	(526)	-	15,506	(4,184)	3,626	14,948
Net operating loss carry-forward	995	(39)	-	956	155	-	1,111
Investments in subsidiaries	(934)	5,968	-	5,034	(5,597)	-	(563)
Withholding tax	(6,305)	(1,919)	-	(8,224)	382	-	(7,842)
Other financial assets	318	(3,009)	-	(2,691)	1,477	-	(1,214)
Impairment of receivables and inventory	2,843	484	-	3,327	(729)	-	2,598
Property, plant and equipment and intangible assets	(19,673)	(8,772)	(160)	(28,605)	2,352	773	(25,480)
Goodwill	(6,226)	(6,992)	-	(13,218)	4,299	-	(8,919)
Trade and other payables	58	9	-	67	46	-	113
Loans and other borrowings	121	192	-	313	(29)	-	284
Deferred revenue	(350)	26	-	(324)	80	-	(244)
Provisions for liabilities and charges	3,110	(771)	-	2,339	973	-	3,312
Total net deferred tax liability	(10,011)	(15,349)	(160)	(25,520)	(775)	4,399	(21,896)
Of which deferred tax liability	(10,924)			(26,270)			(22,428)
Of which deferred tax asset	913			750			532

Items included in other movements	2011	2012
Investment tax credit recognized against cost of PPE	-	3,626
Currency translation adjustment arising on consolidation	(95)	19
Arising on business combinations and disposal of subsidiaries	(65)	754
	(160)	4,399

The Group consists of a number of legal entities, most of which have deferred tax assets and liabilities. The assets and liabilities are netted by legal entity so that one legal entity has either a deferred tax asset or a liability and the consolidated Statement of financial position includes these items accordingly.

The Group's net deferred tax liability balance is HUF 21,896 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 3,951 million net deferred tax asset is expected to reverse in 2013 (deferred tax asset of HUF 4,564 million and deferred tax liability of HUF 613 million). The above items exclude deferred tax items expected to arise in 2013.

The Group's net deferred tax liability balance was HUF 25,520 million at December 31, 2011 which included a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 2,701 million net deferred tax asset was expected to reverse in 2012 (deferred tax asset of HUF 5,723 million and deferred tax liability of HUF 3,022 million). The above items excluded deferred tax items expected to arise in 2012.

Deferred tax assets arising on investment tax credits are recognized against the cost of the related investment.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 14,262 million at December 31, 2012 (2011: temporary differences of HUF 5,376 million).

If the Group's Macedonian and Montenegrin subsidiaries distribute their distributable reserves in the form of a dividend, the amounts paid to Hungary are subject to withholding tax. We recognize a deferred tax liability for the total amount of reserves distributable to the Company, considering our share of ownership.

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. There is no tax loss expiring in 2013 for which a deferred tax asset has been recognized. As of December 31, 2012, the balance of recognized tax losses is HUF 6,073 million of which HUF 279 million is subject to statutory limitations (2011: HUF 10,434 million of which HUF 117 million is subject to statutory limitations). The Group recognized deferred tax asset on tax losses for HUF 1,111 million as at December 31, 2012 (2011: HUF 5,167 million).

9.5 Investment tax credits

In order to increase broadband internet penetration in Hungary, companies investing over HUF 100 million in a year in broadband assets (e.g. DSL lines, UMTS assets) from 2003 could apply for a corporate tax reduction. MT accomplished such tax credit programs between 2003 and 2008. The tax credit program commenced in 2012 is a „large investment" program, which enables companies to invest not only in broadband related assets, if the investment value exceeds HUF 3 billion and certain special criteria (i.e. headcount increase) are met. In case of both types of tax credit programs, the potential reduction of the corporate tax charge is defined as a percentage of the companies' capital investment in qualifying assets. As both of these investment tax credits are of a government grant nature, Magyar Telekom recognized the deferred tax asset against the cost of the related investment. If the tax credits are not utilized in the year when earned, the amount of tax credits carried forward can be utilized at a higher amount as outstanding amounts can be accreted. This accretion is recognized as an increase in the investment tax credit balance against a reduction in the current year deferred tax expense.

The following table shows the details of the tax credits in HUF millions:

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2012	Expires in year
2003	6,194	2,592	1,143	(3,735)	-	
2004	6,876	2,984	1,857	(4,841)	-	
2005	13,860	5,598	2,683	(2,912)	5,369	2015
2006	14,952	4,131	2,737	(392)	6,476	2016
2007	10,681	2,865	1,417	(106)	4,176	2017
2008	2,172	453	612	-	1,065	2018
2012	12,071	3,626	-	(1)	3,625	2021
Total	66,806	22,249	10,449	(11,987)	20,711	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group's entities, they have to comply with strict requirements as set out in the relevant tax regulations. The most important requirement for all investment tax credits is that the relevant assets have to be operated for at least 5 years. However, for those earned in 2012 certain increase in headcount and/or salary has to be maintained for at least 4 subsequent years following the first year of tax credit utilization. The headcount of the Company has to be increased by 150 and maintained in the subsequent 4 years from the first utilization of the investment tax credit (which is 2012). The base year is the year before starting the investments, i.e. 2011. Management strongly believes that the headcount criterion is not a substantive requirement. There was a significant headcount increase in 2012 due to insourcing of certain activities carried out by subcontractors before and there are further insourcing plans in place. Based on the above, management believes that the Group has complied and will be able to comply with the requirements to recognize these as deferred tax assets.

9.6 Tax reviews

The tax authorities may at any time inspect the books and records within five years from the end of the year when tax declarations were submitted and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

9.7 Dividends paid by Magyar Telekom Plc.

The dividends paid and payable by Magyar Telekom Plc. to its owners may be subject to withholding or income taxes of the owners, which do not have an impact on the amount of the dividend declared or on the Company's tax expense as these taxes – if any – are levied on the owners.

10 Inventories

	At December 31,	
In HUF millions	**2011**	**2012**
Inventory for resale	7,574	10,252
Other inventory and advances	2,657	2,465
Subtotal	10,231	12,717
Less allowances for obsolete inventory	(327)	(317)
	9,904	12,400

The impairment loss accounted for inventories is not material therefore any reversal is also insignificant.

The Group has no inventory pledged as security as at December 31, 2012 or December 31, 2011.

11 Non current assets held for sale

Non current assets held for sale include primarily land and buildings identified for sale or exchange, which is expected within 12 months, as a result of the continuing improvement of utilization of properties and headcount reductions.

12 Property, plant and equipment

In HUF millions	Land and equivalent rights	Buildings	Telecom. equipment	Other equipment	Total
At January 1, 2011					
Cost	7,979	137,403	1,204,746	102,834	1,452,962
Accumulated depreciation	(1,869)	(39,384)	(779,545)	(80,260)	(901,058)
Carrying amount	6,110	98,019	425,201	22,574	551,904
Of which held for sale					(2,152)
					549,752
Carrying amount – January 1, 2011	6,110	98,019	425,201	22,574	551,904
Exchange differences	142	2,123	7,493	1,192	10,950
Additions due to business combinations	-	-	221	36	257
Additions due to and revisions of asset retirement obligations	-	234	44	-	278
Investments	4	2,904	53,521	6,180	62,609
Disposals	(101)	(1,961)	(160)	(245)	(2,467)
Depreciation charge	(114)	(3,787)	(69,681)	(7,079)	(80,661)
Reclassifications	118	(118)	(1,481)	-	(1,481)
Carrying amount – December 31, 2011	6,159	97,414	415,158	22,658	541,389
At December 31, 2011					
Cost	8,140	139,553	1,236,234	101,473	1,485,400
Accumulated depreciation	(1,981)	(42,139)	(821,076)	(78,815)	(944,011)
Carrying amount	6,159	97,414	415,158	22,658	541,389
Of which held for sale					(5,165)
					536,224
Carrying amount – January 1, 2012	6,159	97,414	415,158	22,658	541,389
Exchange differences	(87)	(1,142)	(4,473)	(685)	(6,387)
Additions due to business combinations	-	14	527	11	552
Additions due to and revisions of asset retirement obligations	-	(24)	(33)	-	(57)
Investments	7	15,337	47,798	6,370	69,512
Disposals	(5)	(3,328)	(166)	(441)	(3,940)
Decrease due to sale of subsidiary	-	(114)	(154)	(114)	(382)
Depreciation charge	(105)	(4,889)	(71,368)	(7,231)	(83,593)
Reclassifications	(339)	523	(4,912)	1,412	(3,316)
Carrying amount – December 31, 2012	5,630	103,791	382,377	21,980	513,778
At December 31, 2012					
Cost	7,706	148,505	1,217,053	92,188	1,465,452
Accumulated depreciation	(2,076)	(44,714)	(834,676)	(70,208)	(951,674)
Carrying amount	5,630	103,791	382,377	21,980	513,778
Of which held for sale					(2,816)
					510,962

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 41,737 million as at December 31, 2012 (2011: HUF 44,252 million). In the table above the assets in course of construction are shown in the categories where the asset is expected to be classified when placed into service.

Additions due to business combinations include the fair value of the assets acquired by Magyar Telekom through business combinations in the reported years. Differences between the preliminary and the final purchase price allocations are also included in this line.

Additions due to and revisions of asset retirement obligations represent the amounts recognized as part of the carrying amounts of the constructed assets against a provision for asset retirement obligation in the reported year (see also Note 19.5).

Investments represent the regular investing activity in PPE assets. These additions are shown net of the investment tax credit related to broadband investments. For more details, see Note 9.5.

The reclassifications between asset categories or their impact on depreciation expense was not material.

No impairment was identified in 2012 and 2011.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2012 the gross book value of the leased back assets is HUF 2,413 million (2011: HUF 2,595 million) and the net book value is HUF 1,182 million (2011: HUF 1,590 million).

Included mainly in buildings and telecom equipment are also assets leased under finance lease conditions other than sale and lease back. At December 31, 2012 the gross book value of the finance leased assets is HUF 1,183 million (2011: HUF 1,360) and the net book value is HUF 587 million (2011: HUF 590 million).

Included in telecommunications equipment at December 31, 2012 are assets leased under operating lease contracts to customers with a gross book value of HUF 854 million (2011: HUF 943 million) and net book value of HUF 17 million (2011: HUF 35 million). The future minimum lease payments receivable under these contracts are disclosed in Note 33.4.

HUF 1,769 million of PPE has restricted titles as at December 31, 2012 (2011: HUF 2,180 million), which are included in our assets as finance leases. The Group has no PPE pledged as security as at December 31, 2012 or December 31, 2011.

The reviews of the useful lives (and residual values) of property, plant and equipment during 2012 affected the lives of a large number of assets including primarily radio equipment, telephone switches, and other telecommunication equipment. The revisions primarily resulted in the reduction of the useful lives of the assets as a result of earlier expected replacement of the affected assets than originally estimated. The revisions result in the following change in the original trend of depreciation in the current and future years.

In HUF millions	**2012**	**2013**	**2014**	**2015**	**After 2015**
Increase / (decrease) in depreciation expense	3,883	(957)	(1,002)	(322)	(1,449)

The useful lives assigned to different types of property, plant and equipment are as follows:

	Years
Buildings	5–50
Duct, cable and other outside plant	3–38
Other telecommunications equipment	2–25
Other equipment	2–12

13 Intangible assets

In HUF millions

	Goodwill	Software	Concessions and licenses	Other	Total
At January 1, 2011					
Cost	247,493	182,250	50,357	27,520	507,620
Accumulated amortization	-	(134,753)	(21,713)	(18,161)	(174,627)
Carrying amount	247,493	47,497	28,644	9,359	332,993
Carrying amount – January 1, 2011	247,493	47,497	28,644	9,359	332,993
Exchange differences	833	1,068	605	369	2,875
Additions due to business combinations	323	462	-	1,251	2,036
Investments	-	20,908	139	140	21,187
Disposals	-	-	-	(5)	(5)
Impairment	(31,390)	-	-	-	(31,390)
Amortization charge	-	(13,748)	(4,403)	(2,713)	(20,864)
Reclassifications	-	1,481	-	-	1,481
Carrying amount – December 31, 2011	217,259	57,668	24,985	8,401	308,313
At December 31, 2011					
Cost	217,259	206,520	51,469	20,292	495,540
Accumulated amortization	-	(148,852)	(26,484)	(11,891)	(187,227)
Carrying amount	217,259	57,668	24,985	8,401	308,313
Of which held for sale					-
					308,313
Carrying amount – January 1, 2012	217,259	57,668	24,985	8,401	308,313
Exchange differences	(437)	(683)	(369)	(352)	(1,841)
Additions due to business combinations	887	20	-	684	1,591
Investments	-	22,355	11,232	216	33,803
Disposals	-	(72)	(10,705)	-	(10,777)
Decrease due to sale of subsidiary	-	(35)	-	-	(35)
Impairment	-	-	-	-	-
Amortization charge	-	(16,658)	(4,619)	(2,027)	(23,304)
Reclassifications	-	3,316	-	-	3,316
Carrying amount – December 31, 2012	217,709	65,911	20,524	6,922	311,066
At December 31, 2012					
Cost	217,709	217,596	51,102	18,881	505,288
Accumulated amortization	-	(151,685)	(30,578)	(11,959)	(194,222)
Carrying amount	217,709	65,911	20,524	6,922	311,066
Of which held for sale					-
					311,066

Additions due to business combinations include the fair value of assets acquired by Magyar Telekom through business combinations in the reported years and the goodwill arising on these business combinations. Differences between the preliminary and the final purchase price allocations are also included in this line.

Investments represent the regular investing activity in intangible assets. Additions to Concessions and licenses in 2012 also include the cost of the right of use of two duplex frequency blocks of 1 MHz each awarded to the Company for HUF 10,923 million in 2012 for a period of 15 years in Hungary.

Disposals in 2012 also include the derecognition of the carrying amount of the above described right of use in an amount of HUF 10,705 million. The Company challenged the decision closing the 900 MHz frequency auction in Hungary before court in March 2012. The final court decision announced on September 17, 2012, which was subsequently upheld on February 26, 2013 annulled the decision closing the 900 MHz frequency auction, as a result of which the carrying amount of the right of use of the frequency as at December 31, 2012 was derecognized. See also Notes 8.1 and 37.2.

The amortization expense as well as the impairment losses of intangible assets including also goodwill are accounted for in the depreciation and amortization line of the Statement of comprehensive income. The reclassifications between asset categories or their impact on amortization expense was not material.

Other than goodwill, the Group has no intangible assets with indefinite useful life. Intangible assets other than goodwill are amortized over their respective economic useful lives, as indicated below.

	Years
Software	2–24
Concessions and licenses	3–25
Other intangible assets	3–10

The reviews of the useful lives of intangible assets during 2012 affected the lives of a large number of assets including primarily software and server user rights. The revisions primarily resulted in the extension of the useful lives as a result of later expected replacement of the affected assets than originally estimated. The revision results in the following change in the original trend of depreciation in the current and future years.

In HUF millions	2012	2013	2014	2015	After 2015
(Decrease) / increase in depreciation expense	(289)	(677)	(463)	(187)	1,616

The most significant intangible assets of the Group are the goodwill arising on business combinations. For the goodwill impairment tests, the total amount of goodwill was allocated to the operating segments of the Group as follows.

In HUF millions	As at December 31,	
	2011	2012
Telekom Hungary	162,661	163,546
T-Systems	27,952	27,928
Macedonia	20,199	20,199
Montenegro	6,447	6,036
Total goodwill	217,259	217,709

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. During the annual impairment test conducted in the last quarter of 2012 no goodwill impairment was established for any goodwill of the Group. As a result of the impairment testing carried out in 2011 we identified and recognized an impairment loss of HUF 31,390 million on the goodwill of the Macedonia segment. No goodwill allocated to the other segments had to be impaired in 2011. For more details, see Note 4.2.

Besides goodwill, the most significant individual intangible assets are the concessions and licenses, the carrying values of which are listed in the table below. For the useful life and remaining amortization period of these assets, please see Note 1.3.

In HUF millions	As at December 31,	
	2011	2012
Hungarian GSM licenses	8,466	6,186
Hungarian UMTS license	9,508	8,317
Macedonian UMTS license	2,289	1,838
Other	4,722	4,183
Total concessions and licenses	24,985	20,524

The Group has no intangible assets with restricted title or pledged as security as at December 31, 2012 or December 31, 2011.

14 Investments in associates and joint ventures

The Group had no associates or joint ventures at December 31, 2011 and 2012.

15 Other non current assets

Other non current assets mainly include long-term prepaid employee benefits.

16 Financial liabilities to related parties

Financial liabilities to related parties include HUF and EUR denominated loans taken from DT Group. In addition, for the whole nominal amount and interest payment of loans denominated in EUR granted by DTIF we have cross-currency interest rate swap agreements in place so that Magyar Telekom's exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis. These loans were primarily taken for significant acquisitions and dividend payments. Some of these loans, when expiring, are also refinanced by DT Group, depending on the actual cash position of Magyar Telekom.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2012 and 2011.

December 31, 2012	Carrying amount in HUF millions	Currency	Interest rate (%)	Fixed / floating	Maturity
	9,596	HUF	6.98	floating	Jan 2013
	25,329	HUF	7.25	fixed	Oct 2013
Due within 1 year	34,925				
Derivatives	419				
Total current	35,344				
	22,613	EUR	3.76	fixed	Jun 2014
	48,430	EUR	4.46	fixed	Jan 2015
	53,041	HUF	8.30	fixed	May 2015
	35,686	HUF	8.00	floating	Mar 2016
	35,738	HUF	7.66	fixed	Sep 2016
	28,495	HUF	6.32	fixed	Dec 2016
	14,062	HUF	6.39	fixed	Dec 2016
	7,310	EUR	3.71	fixed	May 2017
	14,911	EUR	4.08	fixed	Nov 2018
Total	260,286				
Derivatives	840				
Total non current	261,126				

December 31, 2011	Carrying amount in HUF millions	Currency	Interest rate (%)	Fixed / floating	Maturity
	9,594	HUF	6.53	floating	Jan 2012
	40,271	HUF	7.75	floating	May 2012
Due within 1 year	49,865				
Derivatives	-				
Total current	49,865				
	9,594	HUF	6.54	floating	Jan 2013
	25,326	HUF	7.25	fixed	Oct 2013
	24,298	EUR	3.76	fixed	Jun 2014
	51,553	EUR	4.46	fixed	Jan 2015
	53,038	HUF	8.30	fixed	May 2015
	28,487	HUF	6.23	fixed	Dec 2016
	14,059	HUF	6.30	fixed	Dec 2016
	7,842	EUR	3.71	fixed	May 2017
	15,969	EUR	4.08	fixed	Nov 2018
Total	230,166				
Derivatives	-				
Total non current	230,166				

The table below shows the carrying amounts and fair values of the related party loans.

In HUF millions	At December 31, 2011		2012	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	120,910	118,758	156,665	165,462
At floating rate	59,459	59,459	45,282	45,282
	180,369	178,217	201,947	210,744
EUR denominated loans				
At fixed rate	99,662	108,254	93,264	101,774
At floating rate	-	-	-	-
	99,662	108,254	93,264	101,774
Swaps	-	-	1,259	1,259
Total related party financial liabilities	280,031	286,471	296,470	313,777

The weighted average interest rate on related party loans was 6.47% in 2012 (6.23% in 2011). The fixed interest rate loans are exposed to fair value risk as it can be seen in the table above. Any decrease of market interest rates will result in an increase of the fair value of the fixed interest rate liabilities.

Derivatives contracted with related parties include cross-currency interest rate swaps and FX forwards concluded with DT AG to change the Group's exposure to HUF in case of the EUR denominated loans and to cover FX needs of expected future foreign currency outflows.

There were no defaults and breaches in connection with the financial liabilities to related parties.

17 Other financial liabilities

In HUF millions		At December 31, 2011	2012
Bank loans	(a)	46,510	36,780
Third party derivatives	(b)	-	903
Finance lease payable (Note 33.1)		580	497
Payable to the SEC and the DOJ	(c)	21,857	-
Other	(d)	1,208	2,161
Total other financial liabilities – current		70,155	40,341
Bank loans	(a)	14,579	-
Finance lease payable (Note 33.1)		2,733	1,983
Other	(d)	616	3,515
Total other financial liabilities – non current		17,928	5,498

(a) Bank loans

In HUF millions	As at December 31, 2011	2012
Due within 1 year	46,510	36,780
Due in 1-2 years	3,576	-
Due in 2-3 years	11,003	-
Due after 3 years	-	-
Total bank loans	61,089	36,780

Loans totaling HUF 20,422 million at December 31, 2012 are revolving loans (2011: HUF 37,970 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The weighted average interest rate on bank loans was 6.07% in 2012 (6.98% in 2011).

The following table compares the carrying values and the fair values of the Group's bank loans.

In HUF millions	At December 31, 2011		2012	
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	-	-	-	-
At floating rate	53,286	53,286	31,491	31,491
	53,286	53,286	31,491	31,491
EUR denominated bank loans				
At fixed rate	4,667	4,699	2,944	2,958
At floating rate	2,708	2,708	1,952	1,952
	7,375	7,407	4,896	4,910
Accrued interest	428	428	393	393
Total bank loans	61,089	61,121	36,780	36,794

Floating interest rate loans are subject to interests calculated based on mostly BUBOR (Budapest Inter-Bank Offered Rate) and EURIBOR (Euro Inter-Bank Offered Rate) plus a margin interest formula.

The majority of the Group's third party loans and borrowings are subject to floating interest rates, which are exposed to cash flow risks. If interest rates are rising, it results in higher cash outflows through interest payments.

There were no defaults and breaches in connection with other financial liabilities.

(b) Third party derivatives

Third party derivatives include the fair value of FX forwards, cross currency interest rate and commodity price swaps.

(c) Payable to the SEC and the DOJ

During 2011 the Company made provisions related to the expected penalty to be paid to the DOJ and the disgorgement of profits and the related prejudgment interest expected to be paid to the SEC (see also Note 19) . As the agreements signed in December 2011 were approved by the relevant courts in early January 2012, the amounts provided for were reclassified as Other current financial liabilities in 2011. These amounts were paid to the DOJ and the SEC on January 6, 2012 and January 23, 2012 respectively. See also Note 1.2 for more details.

(d) Other

The increase of the balances is due to a real estate transaction in Macedonia, where four old buildings were exchanged for a new one in 2012. The difference between the cost of the new building (HUF 10.7 billion) and the trade-in value of the old buildings (HUF 6.9 billion) is payable in six yearly instalments, the remaining balance of which is included in these lines. See also Note 26 (a).

18 Trade payables

	At December 31,	
In HUF millions	**2011**	**2012**
Payable to DT Group companies	7,972	9,169
Other trade payables	93,147	106,554
	101,119	115,723

19 Provisions

In HUF millions	Severance	MTIP	Other employee related	Employee related Subtotal	DOJ/ SEC	Other legal cases	ARO	Other	Total
January 1, 2011	6,210	73	95	6,378	-	6,301	5,686	1,655	20,020
Amounts reversed	(577)	-	(14)	(591)	-	(1,153)	-	(560)	(2,304)
Acquired through business combinations	-	-	-	-	-	-	-	173	173
Additions	4,269	661	345	5,275	16,191	485	278	1,260	23,489
Accretion / interest	-	-	-	-	1,119	303	151	5	1,578
Exchange rate difference	12	-	-	12	4,547	287	-	63	4,909
Amounts utilized	(7,332)	-	-	(7,332)	-	(1,440)	(26)	(1,735)	(10,533)
Reclassified to liabilities	-	(536)	-	(536)	(21,857)	-	-	-	(22,393)
December 31, 2011	2,582	198	426	3,206	-	4,783	6,089	861	14,939
Of which current	1,563	-	20	1,583	-	1,492	56	572	3,703
Of which non current	1,019	198	406	1,623	-	3,291	6,033	289	11,236
January 1, 2012	2,582	198	426	3,206	-	4,783	6,089	861	14,939
Amounts reversed	(377)	(190)	(5)	(572)	-	(1,409)	(118)	(563)	(2,662)
Additions	5,041	-	576	5,617	-	1,862	61	689	8,229
Accretion / interest	-	-	22	22	-	345	157	-	524
Exchange rate difference	(7)	-	(14)	(21)	-	(183)	-	(18)	(222)
Amounts utilized	(2,612)	-	(20)	(2,632)	-	(1,132)	(96)	(422)	(4,282)
December 31, 2012	4,627	8	985	5,620	-	4,266	6,093	547	16,526
Of which current	3,907	-	183	4,090	-	1,125	61	392	5,668
Of which non current	720	8	802	1,530	-	3,141	6,032	155	10,858

The Accretion / interest lines in the table include the subsequent unwinding of the discount applied at initial recognition and the interest element of any provision recognized, as well as the release of the interest / accretion element in case of reversal of provisions.

Magyar Telekom does not expect any reimbursement with regards to the provisions recognized, therefore, no related assets have been recognized in the financial statements.

19.1 Severance

The majority of the provision for severance as at December 31, 2012 relates to the stand-by-pool and the employee terminations in 2013 in relation to the further efficiency improvement in Magyar Telekom Plc. The stand-by-pool of employees include people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them for maximum 4 years. This is a way of severance that is not paid in one lump sum but in maximum 48 installments following the discontinuation of services. The majority of the provision for severance as at December 31, 2011 related to the stand-by-pool and the employee terminations in 2012 in relation to the further efficiency improvement in Magyar Telekom Plc.

182 employees were dismissed in 2012 (2011: 588) from the Group, related to which severance payments were made. The balance of provision as at December 31, 2012 relates to 719 employees and former employees in the stand-by-pool (2011: 347).

The total payments made in relation to employee termination in 2012 amounted to HUF 4,253 million (2011: HUF 9,627 million) at Group level.

19.2 MTIP

For more details on the Mid-term Incentive Plan see Note 24.1.

19.3 DOJ/SEC

During 2011 the Company made provisions related to the expected penalty to be paid to the DOJ and the disgorgement of profits and the related prejudgment interest expected to be paid to the SEC. When the expected payments became probable and estimable, the Company recognized the provisions in USD as the payments were expected to be agreed in USD terms. From the initial recognition of the provisions, the provided amounts were exposed to FX fluctuation, which was reflected in the exchange rate difference line of the table. As the agreements signed in December 2011 were approved by the relevant courts in early January 2012, the amounts provided for were reclassified as Other current financial liabilities as at December 31, 2011. See Note 1.2 for more details.

19.4 Other legal cases

Provisions for other legal cases mainly include amounts expected to be paid to regulatory and competition authorities as well as to ex-employees and trading partners as a result of legal disputes. There are numerous legal cases for which provisions were recognized, most of which are individually not material.

The most significant individual legal case is related to claims related to agreements for the operation of the Company's call centers. A lawsuit was launched against the Company as a result of the termination by the Company of its agreements for the operation of the Company's call centers. In December 2012, the Metropolitan Court, in a first-instance, non-binding judgment, held, among other things, that the Company was liable in connection with the termination of the agreements and ordered that the Company pay compensation for damages and other amounts. Both the Company and its counterparties have appealed against the judgment, and the Company continues to vigorously defend its position in the case. Without admitting any breach of contract or liability for any other acts, the Company made a provision in relation to the case in previous years, and the amount of the provision has been adjusted regularly to reflect the best estimate of the Company of the expected outcome of the legal case. The disclosure of further information can be expected to seriously prejudice the outcome of the proceedings.

19.5 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year. The revisions did not result in material changes in 2012 or 2011.

19.6 Other provisions

Other provisions include guarantee obligations, onerous contracts and further other individually small items.

20 Other current liabilities

	At December 31,	
In HUF millions	**2011**	**2012**
Deferred revenue and advances received	10,739	10,697
Other taxes and social security	9,069	15,300
Salaries and wages	6,884	8,883
Other liabilities	2,521	2,189
	29,213	37,069

21 Other non current liabilities

Other non current liabilities primarily include deferred revenues related to long term projects and customer loyalty programs.

22 Revenue

	For the year ended December 31,	
In HUF millions	**2011**	**2012**
Mobile revenues		
Voice retail	177,226	171,562
Voice wholesale	31,728	28,339
Voice visitor	3,590	3,347
Non voice	62,146	64,248
Equipment	25,999	29,843
Other mobile revenues	7,829	7,626
Total Mobile revenue	308,518	304,965
Fixed line revenues		
Voice retail	91,798	80,848
Voice wholesale	21,790	19,500
Internet	52,560	52,765
Data	27,050	22,512
TV	31,787	34,428
Equipment	3,852	4,064
Other fixed line revenues	7,201	8,304
Total Fixed line revenue	236,038	222,421
System integration and IT revenue	48,547	54,256
Revenue from energy services	4,514	25,486
Total revenue	597,617	607,128

None of the Group's customers represent a significant source of revenue. Revenues from transactions with a single external customer (or group of entities that – knowingly to us – are under common control of a third party or government) do not exceed 10 per cent of the Group's revenues.

23 Expenses directly related to revenues

In HUF millions	For the year ended December 31, 2011	2012
Mobile revenue-related	76,416	79,835
Fixed line revenue-related	44,504	39,045
SI/IT revenue–related	24,890	32,092
Energy revenue–related	4,263	25,428
Agent commissions	10,974	10,826
Bad debt expense	6,255	6,752
	167,302	193,978

The Group has changed the disclosure of its Expenses directly related to revenues compared to the previously issued financial statements. Previous year's comparative items were reclassified to be comparable to the current year's presentation. Bad debt expenses included in the table above were included in the Other operating expenses caption of the previous years' income statements.

24 Employee related expenses

In HUF millions	For the year ended December 31, 2011	2012
Short term benefits	92,203	95,730
Share based payments – MTIP (Note 24.1)	661	(190)
Share based payments – Matching Share Plan (Note 24.2)	-	4
Termination benefits (Note 19.1)	5,987	6,305
Total before capitalization	98,851	101,849
Expenses capitalized	(7,028)	(7,765)
	91,823	94,084
Total costs expensed in relation to defined contribution plans	19,978	20,176
Average number of employees (full time equivalent)	10,127	11,285
Closing number of employees (full time equivalent)	10,111	11,653

24.1 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP is a cash settled long term incentive instrument which was planned to cover five years, with a new package being launched in each year, and with each tranche lasting for three years. In 2009, 2010 and 2011, Magyar Telekom decided to prolong the original program by one additional year respectively, with the same concept. At the beginning of the plan each participant has an offered bonus. This bonus will be paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target. Depending on the achievement of the targets, 0%, 50% or 100% of the bonus is paid if neither, one or both of the targets are met, respectively.

The relative performance target is linked to the Total Return of the Magyar Telekom share compared to the performance of the Dow

Jones Euro STOXX Total Return Index during the vesting period, each at the last 20 trading days. Measurement is the un-weighted average Magyar Telekom share price plus dividend payments. The absolute performance target is achieved when the Magyar Telekom share price, adjusted for dividends paid during the tenure, is more than 35 percent higher at the end of the lock-up period than at the beginning of the plan. The basis of the calculation is the un-weighted average closing price of the Magyar Telekom share at the Budapest Stock Exchange during the last 20 trading days before the beginning and the end of the plan.

The share price calculated according to the above are included in the table below. When determining the Group's liability, these target figures are weighted with the fair value factors of achieving these targets. The fair value factors are calculated using the Monte Carlo technique. The target figures are multiplied by the relevant fair value factors and these amounts are then accrued for the given tranche period. This technique aims to determine the fair values of the incentive granted and present it in accordance with the accruals concept.

Tranche	Vesting period	MT Share price at the beginning of the vesting period (HUF)	Fulfillment
2009	January 1, 2009 – December 31, 2011	561	Only relative target met
2010	January 1, 2010 – December 31, 2012	725	Neither targets met
2011	January 1, 2011 – December 31, 2013	524	-

The provision for the payments in relation to the MTIP program and the movements thereof are disclosed in Note 19.

24.2 Matching Share Plan of Magyar Telekom

In December 2011 the Board of Directors approved the implementation of the revolving Matching Share Plan of Magyar Telekom. The program is implemented for the CEO of Magyar Telekom starting in 2012. In order to ensure the long-term incentive effect and orientation toward the sustained development of the Company, an amount of minimum 10% of the gross annual variable bonus is to be invested in shares of Magyar Telekom. The investment must be made from the net payout. The CEO has the option of voluntary increase to a maximum of 33.3% of his bonus. These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period of 4 years has passed, one additional share („matching share") will be granted for every share acquired as part of the aforementioned personal investment. The program is planned to be revolving in 5 consecutive years starting in 2012. As the vesting period of the program started with the first purchase of shares by the CEO in 2012, no expenses were recognized for the program in 2011, while HUF 4 million was recognized in 2012.

25 Other operating expenses

In HUF millions		For the year ended December 31, 2011	2012
Materials, maintenance and service fees		61,602	53,231
Crisis taxes	(a)	25,350	24,351
Telecom tax	(b)	-	8,741
Rental and operating lease		13,794	14,693
DOJ criminal penalty and SEC disgorgement of profits	(c)	16,191	-
Fees and levies		12,298	13,338
Marketing		12,895	12,696
Consulting, audit and other expert fees	(d)	5,406	4,514
Other expenses		1,266	2,854
		148,802	134,418

The Group has changed the disclosure of its Operating expenses compared to the previously issued financial statements. Previous year's comparative item has been reclassified to be comparable to the current year's presentation. Bad debt expenses are included in Expenses directly related to revenues while they were included in the Other operating expenses of the previous years' financial statements.

(a) Crisis taxes

On October 18, 2010 the Hungarian Parliament passed an act imposing special "crisis" taxes on telecommunications services, retail sales and energy sales as of January 1, 2010. These taxes were enacted for a defined period of 2010-2012.

Although Magyar Telekom is also engaged in energy and retail sales, the tax burden on those are either not applicable to the Group (energy) or not material (retail). The amount included in the table above relates to the revenues earned from electronic telecommunications services provided by the Hungarian members of the Group in the years presented. The tax is defined as a certain percentage of the revenue generated from the services defined as electronic telecommunications. The tax is progressive, i.e. the more revenue is generated the higher the applicable tax rate is. Due to the high amount of revenues generated by the Group, the vast majority of the Group's Hungarian revenues are in the highest tax band subject to a tax rate of 6.5%.

The classification of these taxes requires judgment. Management believes that these taxes are not taxes on consumption of services by end customers but rather taxes on entities operating in selected industries. These taxes were levied retrospectively in 2010, the taxes are calculated on the combined revenues of groups using graduated tax rates and the calculation ignores whether the revenues are collected from end customers or not. Therefore management believes that there are strong indicators that these taxes are not sales taxes collected on behalf of the government, but rather taxes on the operations of the companies, and consequently these taxes are classified as operating expense in the consolidated financial statements.

(b) Telecom tax

A new tax was introduced in Hungary for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012. The tax imposed on fixed and mobile usage amounts to HUF 2 per minute and HUF 2 per SMS/MMS. The tax is capped at HUF 400 per month per calling number for private individuals' subscriptions and HUF 1400 per month per calling number for other subscribers' subscriptions in 2012. The caps starting from 2013 are HUF 700 per month per calling number for private individuals' subscriptions and HUF 2,500 per month per calling number for other subscribers' subscriptions.

The classification of this new tax also requires judgment. Management believes that there are strong indicators that these taxes are not sales taxes collected on behalf of the government, but rather taxes on the operations of the companies, including – among others - the capped nature of the tax and the differentiation of the cap by customer type. Consequently these taxes are also classified as operating expense in the consolidated financial statements.

(c) DOJ criminal penalty and SEC disgorgement of profits

During 2011 the Company made provisions related to the expected penalty to be paid to the DOJ and the disgorgement of profits expected to be paid to the SEC. The amount in the table above includes these items recognized as Operating expenses during 2011. See Note 1.2 for more details.

(d) Audit costs included in Consulting, audit and other expert fees

Consulting, audit and other expert fees among others include expenses incurred in relation to the audit of the standalone and consolidated financial statements of the Company as well as other services provided by PricewaterhouseCoopers (PwC) as follows.

	For the year ended December 31,	
In HUF millions	**2011**	**2012**
Audit of the financial statements	308	326
Other audit related fees	151	77
Other non audit related fees	25	14
Total expenses payable to PwC	484	417

Audit of the financial statements in the above table are the aggregate fees of PwC in connection with the audit of our annual financial statements and services performed in relation to legal obligations and submissions required by regulatory provisions. In 2012, fees of PwC for reviews of quarterly reports were reclassified to Other audit-related fees according to the decision of the Audit Committee. 2011 comparatives were reclassified accordingly.

Other audit-related fees in the above table are the aggregate fees of PwC for reviews of quarterly reports and services which are normally performed by the external auditor in connection with the auditing of the annual financial statements, e.g. advice on issues of accounting and reporting, which were not classified as audit services, and support with the interpretation of new accounting and reporting standards.

Other non audit related fees in the above table are fees of PwC primarily related to tax advisory and consulting services and services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC.

26 Other operating income

	For the year ended December 31,	
In HUF millions	**2011**	**2012**
Gain on the sale of PPE, Intangible assets and assets held for sale .... (a)	1,940	4,012
Gain on sale of subsidiaries and associates .... (b)	-	1,646
Penalties received........	964	983
Income received for the relocation and reconstruction of our own network	1,166	719
Government grants received/receivable for the compensation of expenses	811	378
Other operating income	1,511	2,432
	6,392	10,170

(a) Gain on the sale of PPE, Intangible assets and assets held for sale

In 2012, the increase in Gain on the sale of PPE, Intangible assets and assets held for sale is due to a gain of HUF 3.8 billion realized on a real estate transaction in Macedonia, where four old buildings were exchanged for a new one. The trade-in value of the four old buildings (based on independent property valuations) was HUF 6.9 billion, while the book value was HUF 3.1 billion, resulting in the aforementioned gain. The fair value of the newly acquired building was HUF 10.7 billion, recognized as investment in Property, plant and equipment. See also Note 17 (d).

(b) Gain on sale of subsidiaries and associates

In 2012 HUF 1,600 million income was realized on the sale of Pro-M (note 5.4.1) and HUF 46 million on the sale of Compargo Kft. (note 5.4.2).

27 Interest income

In HUF millions	For the year ended December 31, 2011	2012
Interest income on loans and receivables	2,468	2,474
Finance lease interest income	1,150	649
Reversal of interest element of provisions	-	401
Dividend income	15	15
	3,633	3,539

28 Interest expense

In HUF millions	For the year ended December 31, 2011	2012
Interest expense to DT	17,492	18,664
Other interest expense	3,476	4,547
Finance lease interest expense	922	891
Accretion / interest on provisions	1,578	925
less: borrowing costs capitalized	(284)	(809)
	23,184	24,218

In 2011 accretion / interest on provisions included HUF 1,119 million of prejudgment interest related to the disgorgement of profits as approved in the Final judgment filed by the SEC against the Company. For more details see Note 1.2.

Total Interest expense is shown net of borrowing costs capitalized using an average borrowing rate of 6.36% in 2012 (2011: 5.78%). When calculating the borrowing costs capitalized, Other finance expenses (included in Note 29) are also considered, however, for disclosure purposes, we included the borrowing costs capitalized in the table above.

29 Other finance expense – net

In HUF millions	For the year ended December 31, 2011	2012
Fee expense	4,174	3,124
Net foreign exchange losses / (gains) on financial instruments	20,857	(8,939)
Other net foreign exchange losses	238	287
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(11,303)	5,578
Losses / (gains) on the subsequent measurement of derivatives contracted with third parties	(4,359)	4,351
Losses on the derecognition of derivatives contracted with related parties	2,581	3,829
Losses / (gains) on the derecognition of derivatives contracted with third parties	723	(311)
Losses / (gains) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)	-	-
	12,911	7,919

30 Purchase of property, plant and equipment and intangible assets

In HUF millions		For the year ended December 31, 2011	2012
Investments in property, plant and equipment (Note 12)		62,609	69,512
Investments in intangible assets (Note 13)		21,187	33,803
Total investments in PPE and intangible assets		83,796	103,315
Recognition of investment tax credit (Note 9.5)	(a)	-	3,626
Trade-in value of buildings sold	(b)	-	(6,837)
Change in payables relating to capital expenditures	(c)	(3,722)	(3,490)
Cash payments for purchases of PPE and intangible assets		80,074	96,614

(a) Investment tax credit

Total investments in PPE and intangible assets are recognized net of the related investment tax credits which are in fact paid in cash to acquire PPE and intangible assets. These tax credits are collected in subsequent years through reduced income tax payments.

(b) Trade-in value of buildings sold

There was a real estate transaction in Macedonia, where four old buildings were exchanged for a new one in 2012. The 2012 investments in PPE and intangible assets include the fair value of the new building, however, the trade-in value of the four old buildings did not and will not result in cash payment.

(c) Change in payables relating to capital expenditures

Change in payables relating to capital expenditures includes the effect that the actual cash settlement of the vendor invoices is made subsequent to the recognition of the investment. Further, the acquisition of PPE or intangible assets on finance lease terms or on long term installment payment terms will not result in investing cashflows, as these payments are included in the financing cashflows (Repayment of loans and other borrowings).

Other than the building exchange transaction in 2012, the Group had no significant non cash transactions in the reported years.

31 Purchase of subsidiaries and business units

In HUF millions	For the year ended December 31, 2011	2012
Cable TV network and operations (Note 5.1.1)	-	2,168
Daten-Kontor (Note 5.2.1)	1,073	100
Modultechnika	41	97
Other network acquisitions	212	23
Globe (Note 5.2.2)	1,000	-
Budakalász (Note 5.2.3)	239	-
ISH	110	-
Cash payments for purchases of subsidiaries and business units	2,675	2,388

Cash payments related to the purchases of subsidiaries and business units also include amounts paid as additional contingent purchase prices disbursed in years following the year of the business combination.

32 Reportable segments and information about geographical areas

32.1 Reportable segments

The Group's operating segments are Telekom Hungary, T-Systems, Macedonia and Montenegro.

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small businesses customers mainly 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 and Romania providing wholesale services to local companies and operators.

T-Systems operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services 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 operating segments of the Group.

32.1.1 Information regularly provided to the MC

The following tables present the segment information by reportable segment regularly provided to the Management Committee of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude. Management believes that EBITDA is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Revenues	For the year ended December 31,	
In HUF millions	2011	2012
Total Telekom Hungary revenues	422,794	433,616
Less: Telekom Hungary revenues from other segments	(35,506)	(28,548)
Telekom Hungary revenues from external customers	387,288	405,068
Total T-Systems revenues	122,237	117,886
Less: T-Systems revenues from other segments	(15,783)	(13,794)
T-Systems revenues from external customers	106,454	104,092
Total Macedonia revenues	71,359	65,059
Less: Macedonia revenues from other segments	(130)	(50)
Macedonia revenues from external customers	71,229	65,009
Total Montenegro revenues	32,697	32,975
Less: Montenegro revenues from other segments	(42)	(30)
Montenegro revenues from external customers	32,655	32,945
Total consolidated revenue of the segments	597,626	607,114
Measurement differences to Group revenue	(9)	14
Total revenue of the Group	**597,617**	**607,128**

Segment results (EBITDA)	For the year ended December 31,	
In HUF millions	2011	2012
Telekom Hungary	128,223	130,928
T-Systems	18,444	16,838
Macedonia	37,914	34,628
Montenegro	11,453	12,325
Total EBITDA of the segments	196,034	194,719
Measurement differences to Group EBITDA	48	99
Total EBITDA of the Group	**196,082**	**194,818**
Depreciation and amortization of the Group	(132,915)	(106,897)
Total Operating profit of the Group	63,167	87,921
Net financial result	(32,462)	(28,598)
Share of associates' and joint ventures' profits	12	-
Total Profit before income tax of the Group	30,717	59,323
Income tax expense	(27,538)	(13,468)
Total Profit for the year of the Group	3,179	45,855

Capital expenditure (Capex) on PPE and Intangible assets	As at December 31,	
In HUF millions	**2011**	**2012**
Telekom Hungary	65,559	57,791
T-Systems	4,289	5,172
Macedonia	9,961	24,591
Montenegro	4,135	4,202
Total capital expenditure of the segments	83,944	91,756
Acquisition of the new 900 MHz frequency band license (Notes 1.3.4 and 37.2)	-	10,923
Other measurement differences to capital expenditure of the Group	(148)	636
Total investments of the Group in PPE and Intangible assets	**83,796**	**103,315**

Total investments of the Group in PPE and Intangible assets correspond to the "Investments" lines disclosed in Notes 12, 13 and 30.

32.2 Information about geographical areas

The table below shows the revenues generated from external customers in the countries where the Group operates, using the same measurement principles as for the corresponding Group numbers.

Revenues	For the year ended December 31,	
In HUF millions	**2011**	**2012**
Hungary	489,691	504,184
Macedonia	71,229	65,009
Montenegro	32,655	32,945
Romania	3,274	4,029
Bulgaria	768	961
Total revenue of the Group	597,617	607,128

The table below shows the Non current assets of the Group located in the countries of operations (including goodwill allocated to operating segments operating in these countries) and the reconciliation to the total Non current assets of the Group, using the same measurement principles as for the corresponding Group numbers.

Non current assets	**As at December 31,**	
In HUF millions	**2011**	**2012**
Hungary	696,693	678,508
Macedonia	99,870	101,345
Montenegro	43,301	38,189
Bulgaria	3,361	2,868
Romania	2,059	1,617
Ukraine	8	-
Total excluding Non current financial assets and Deferred tax assets	845,292	822,527
Non current financial assets (Note 8.2)	31,590	18,862
Deferred tax assets (Note 9.4)	750	532
Total Non current assets of the Group	877,632	841,921

33 Leases and other commitments

33.1 Finance lease – Group as lessee

Finance leases in 2011 and 2012 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contracts are denominated in EUR, the term of the leases is 5–10 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2011 and 2012 are as follows:

	At December 31, 2011			**At December 31, 2012**		
In HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	354	858	1,212	356	736	1,092
1–5 years	1,518	2,512	4,030	1,050	1,976	3,026
After 5 years	596	1,916	2,512	436	1,430	1,866
Total	2,468	5,286	7,754	1,842	4,142	5,984

Finance leases other than sale and lease back in 2011 and 2012 mainly relate to vehicles and IT equipment. In most cases the contract term of the leases is 3–5 years with renewal and purchase options.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2011 and 2012 are as follows:

In HUF millions	At December 31, 2011			At December 31, 2012		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	226	99	325	141	58	199
1–5 years	331	123	454	264	84	348
After 5 years	288	56	344	233	45	278
Total	845	278	1,123	638	187	825

The Group has no contingent rents related to its finance leases. The Group does not sub-lease any of the assets leased in a finance lease contract.

33.2 Operating lease – Group as lessee

Operating lease commitments are mainly in respect of the rental of mobile cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities and equipment.

In HUF millions	At December 31, 2011	At December 31, 2012
Within 1 year	8,017	10,265
1–5 years	19,746	26,337
After 5 years	13,057	9,414
Total	40,820	46,016

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 3 to 20 years with renewal options in most cases, but no purchase options.

33.3 Finance lease – Group as lessor

Finance leases mainly include equipment provided to business customers as part of our outsourcing contracts where the Group is the service provider. However, the 2011 balance primarily included the private mobile Tetra network constructed for the exclusive use of the Hungarian State, which was sold in 2012 (note 5.4.1).

Future lease receivables under finance leases at December 31, 2011 and 2012 are as follows:

In HUF millions	At December 31, 2011			At December 31, 2012		
	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	4,267	1,140	5,407	799	223	1,022
1–5 years	12,147	1,715	13,862	2,105	452	2,557
After 5 years	369	98	467	631	83	714
Total	16,783	2,953	19,736	3,535	758	4,293

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Non current financial assets. The finance income accruing to the Group over the lease term is recognized in the Profit for the year (Interest income).

The unguaranteed residual values accruing to the benefit of the Group are insignificant.

33.4 Operating lease – Group as lessor

The following table includes the future minimum lease payments receivable by the Group for the operating leases of towers and PBX (private business exchange) equipment where Magyar Telekom is the lessor.

	At December 31,	
In HUF millions	**2011**	**2012**
Within 1 year	1,340	739
1–5 years	1,901	1,652
After 5 years	949	719
Total	4,190	3,110

33.5 Purchase commitments for tangible and intangible assets

The table below summarizes Magyar Telekom's contractual purchase commitments for tangible and intangible assets with the majority falling due within one year.

	At December 31,	
In HUF millions	**2011**	**2012**
Property, plant and equipment	4,150	4,269
Intangible assets	9,825	5,357
Total	13,975	9,626

34 Related party transactions

No provision was recognized for doubtful debts related to the amount of outstanding balances; and no expense was incurred during the periods presented in respect of doubtful debts due from related parties.

34.1 Deutsche Telekom Group and the Federal Republic of Germany

34.1.1 Deutsche Telekom Group

Deutsche Telekom AG is the ultimate controlling owner of Magyar Telekom Plc. holding 59.21% of the issued shares. Deutsche Telekom Group has a number of fixed line, mobile and IT service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

The Company is directly owned by MagyarCom GmbH, which is a holding subsidiary of DTAG. Magyar Telekom pays dividends annually to its owners including MagyarCom GmbH.

Deutsche Telekom International Finance (DTIF) is the treasury center of DT Group, which typically provides loan financing across the DT Group including Magyar Telekom.

The table below summarizes the above related party transactions with DT Group.

In HUF millions	2011	2012
Revenues from services provided to DT Group companies	25,594	25,857
Costs of services provided by DT Group companies	(15,751)	(15,946)
Interest expense to DTIF	(17,492)	(14,455)
Interest expense to DTAG	-	(4,209)
Dividend paid to MagyarCom GmbH	(30,872)	(30,872)
Accounts receivable from DT Group companies	8,333	8,760
Accounts payable to DT Group companies	(7,972)	(9,169)
Loans payable to DT Group companies	(280,031)	(295,211)
Fair value of swap agreements with DTAG – asset	10,484	6,260
Fair value of swap agreements with DTAG – liability	-	(1,259)

Deutsche Telekom has pledged its support for Magyar Telekom's budgeted financing needs through to June 30, 2014.

34.1.2 The Federal Republic of Germany

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of DTAG, and consequently of Magyar Telekom as well.

DTAG and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2012 or 2011 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

34.2 Associates and joint ventures

The Group has no associates or joint ventures.

34.3 Board and Supervisory Board members

	For the year ended December 31,	
In HUF millions	2011	2012
Remuneration of the members of the Board of Directors	14	14
Remuneration of the members of the Supervisory Board	56	57
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	2	6

Loans granted to the members of the Supervisory Board are limited to the employee delegates and had been granted to them in their capacity as employees.

34.4 Key management

Key management has been identified as the members of the Company's Management Committee, which is the chief operating decision making body of Magyar Telekom.

The table below shows in total the compensation expenses (including social security and other payroll related taxes) incurred by the Group in relation to the key management.

In HUF millions	For the year ended December 31, 2011	2012
Salaries and other short-term employee benefits	1,521	1,462
Contractual termination expense	-	460
Share based compensation (Note 24)	216	(84)
	1,737	1,838

The Group does not provide loans to its key management.

The Company's Chief Financial Officer (CFO) was a participant of certain share option programs of DTAG, and all of these options expired unexercised by December 31, 2012. Magyar Telekom did not recognize any expenses or liabilities in relation to these options as these were not in the scope of IFRS 2 and IFRIC 11 according to the transitional rules.

35 Additional disclosures on financial instruments

35.1 Financial assets and liabilities

The tables below include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2012 and 2011.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2)
- inputs for the asset or liability that are not based on observable market data (Level 3)

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety.

There was no transfer between Level 1 and Level 2 financial instruments. Loans and receivables and most of the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

35.1.1 Financial assets – Carrying amounts and fair values

December 31, 2012 In HUF millions	Carrying amount Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (Level 2)	Total	Fair value
Cash and cash equivalents	15,211	-	-	-	15,211	15,211
Bank deposits with original maturities over 3 months	39,632	-	-	-	39,632	39,632
Trade receivables within one year	121,362	-	-	-	121,362	121,362
Reclaimable frequency auction price	10,923	-	-	-	10,923	10,923
Trade receivables over one year	4,215	-	-	-	4,215	4,217
Loans and receivables from employees	4,514	-	-	-	4,514	4,597
Derivative financial instruments contracted with related parties	-	-	-	6,260	6,260	6,260
Derivative financial instruments contracted with third parties	-	-	-	392	392	392
RDC receivables	383	-	-	-	383	393
Financial assets AFS	-	-	244	-	244	244
Other current	1,045	-	-	-	1,045	1,045
Other non current	1,685	-	-	-	1,685	1,958
Total	198,970	-	244	6,652	205,866	206,234

December 31, 2011 In HUF millions	Carrying amount Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (Level 2)	Total	Fair value
Cash and cash equivalents	14,451	-	-	-	14,451	14,451
Bank deposits with original maturities over 3 months	54,926	-	-	-	54,926	54,926
Trade receivables within one year	113,350	-	-	-	113,350	113,350
Trade receivables over one year	1,696	-	-	-	1,696	1,554
Loans and receivables from employees	5,441	-	-	-	5,441	3,864
Derivative financial instruments contracted with related parties	-	-	-	10,484	10,484	10,484
Derivative financial instruments contracted with third parties	-	-	-	3,841	3,841	3,841
RDC receivables	620	-	-	-	620	566
Financial assets AFS	-	-	278	-	278	278
Other current	1,451	-	-	-	1,451	1,451
Other non current	1,356	-	-	-	1,356	1,084
Total	193,291	-	278	14,325	207,894	205,849

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

The carrying values of assets with short times to maturity approximate their fair values.

Financial assets available for sale include insignificant investment in equity instruments, all measured at fair value.

Finance lease receivables meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 33.3.

35.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2012	**Carrying amount**		**Total**	**Fair value**
In HUF millions	**Measured at amortized cost**	**Held for trading (Level 2)**		
Financial liabilities to related parties	295,211	1,259	296,470	313,777
Bank loans	36,780	-	36,780	36,794
Trade payables	115,723	-	115,723	115,723
Derivative financial instruments contracted with third parties	-	903	903	903
Other current	2,161	-	2,161	2,161
Other non current	3,515	-	3,515	3,508
Total	453,390	2,162	455,552	472,866

December 31, 2011	**Carrying amount**		**Total**	**Fair value**
In HUF millions	**Measured at amortized cost**	**Held for trading (Level 2)**		
Financial liabilities to related parties	280,031	-	280,031	286,471
Bank loans	61,089	-	61,089	61,120
Trade payables	101,119	-	101,119	101,119
Payable to the SEC and the DOJ	21,857	-	21,857	21,857
Other current	1,168	-	1,168	1,168
Other non current	616	-	616	598
Total	465,880	-	465,880	472,333

Derivatives are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the financial liabilities is provided in Notes 16 and 17.

The carrying values of the current financial liabilities approximate their fair values.

Finance lease liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 33.1.

35.2 Items of income, expense, gains and losses arising on financial instruments

The tables below include income, expense, gains and losses arising on financial instruments in 2012 and 2011.

2012 **In HUF millions**	**From interest**	**From subsequent measurement**			**From derecog-nition**	**From fee expense**	**Total net gain / (loss)**
		At fair value	**Currency translation**	**Impair-ment loss**			
Available-for-sale financial assets (Level 1)	-	(31)	-	-	-	-	(31)
Financial instruments held for trading (Level 2)	-	(9,929)	-	-	(3,518)	-	(13,447)
Loans and receivables	2,474	-	(519)	(6,752)	-	(2,987)	(7,784)
Financial liabilities measured at amortized cost	(23,211)	-	9,458	-	-	(137)	(13,890)
Net gain/(loss) on financial instruments	(20,737)	(9,960)	8,939	(6,752)	(3,518)	(3,124)	(35,152)

2011 **In HUF millions**	**From interest**	**From subsequent measurement**			**From derecog-nition**	**From fee expense**	**Total net gain / (loss)**
		At fair value	**Currency translation**	**Impair-ment loss**			
Available-for-sale financial assets (Level 1)	-	(21)	-	-	-	-	(21)
Financial instruments held for trading (Level 2)	-	15,662	-	-	(3,304)	-	12,358
Loans and receivables	2,468	-	1,378	(6,255)	-	(4,033)	(6,442)
Financial liabilities measured at amortized cost	(20,968)	-	(22,235)	-	-	(141)	(43,344)
Net gain/(loss) on financial instruments	(18,500)	15,641	(20,857)	(6,255)	(3,304)	(4,174)	(37,449)

The tables above include the amounts before capitalization of borrowing costs (See Note 28). In previous years' financial statements, the capitalized borrowing cost was deducted from the interest expense on financial liabilities measured at amortized cost. In order to keep consistency with current year's disclosure, the 2011 table was modified accordingly.

Impairment losses on Loans and receivables includes all expenses incurred or expected to be incurred in relation to the default of our customers. Before writing off or factoring, we impair the receivables to their recoverable amounts through the use of an impairment provision account, as a result of which the actual write-off or factoring of these receivables results in no derecognition gains or losses.

35.3 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 6.4 billion as at December 31, 2012 (2011: HUF 17.7 billion). These guarantees were issued by Hungarian banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees happened in 2012 or 2011, and is not expected to happen in the future.

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for derecognition.

The Group does not have compound financial instruments with multiple embedded derivatives.

36 Contingent assets and liabilities

36.1 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. These assets are not recognized in the statement of financial position.

The Group has no contingencies where the inflow of economic benefits would be probable and material.

36.2 Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases 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.

36.2.1 Macedonia

36.2.1.1 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 4.6 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.

36.2.1.2 Alleged breach of certain deadlines

MKT and T-Mobile MK have contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to 18 requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request and related to alleged abuse of dominant position on the market. The maximum possible fine for each individual case is 4% - 10% of the annual revenue (HUF 38-45 billion) of the companies for the year preceding the misdemeanor, in accordance with the local legislation. Management believes, based on legal advice, that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating of these misdemeanor procedures.

36.2.2 Hungary

36.2.2.1 Public lawsuits relating to transaction fee

Two similar lawsuits were launched against the Company by the Hungarian Authority for Consumer Protection and the National Federation of Associations for Consumer Protection claiming that charging customers with transaction fee for invoices to be settled by yellow postal payment orders or in person at the cash-desk is unlawful. According to the Company's firm position charging the transaction fee at the time of introduction was not in breach of any law, while it was subsequently prohibited by a modification of the Act on Electronic Communications. The Company discontinued charging the fee on the effective date of the modification, and continues to comply with the provisions of the Act.

36.2.2.2 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees for which see more details in Note 35.3.

37 Events after the reporting period

37.1 Utility tax from 2013

On November 20, 2012 the Hungarian Parliament adopted an act imposing tax on utility networks, effective from January 1, 2013 for an indefinite period of time. The act provides that a tax of HUF 125 per meter will be levied on the owners of ducts providing for electricity, telecommunication, natural gas, heating, water and wastewater services. For telecommunication networks, the level of tax levied will depend on the length of ducts: 20% of the HUF 125 per meter is levied on the first 170,000 meter length of ducts, 40% is levied between 170,000 and 250,000 meters, 80% is levied between 250,000 and 300,000 meters, while the total HUF 125 per meter has to be paid for all ducts above 300,000 meters.

The tax expense and liability, the expected amount of which cannot be reliably estimated yet, will be recognised in the first quarter of 2013 as the full annual tax liability is payable based on the taxable infrastructure in place on January 1, 2013.

37.2 Curia decision

In relation to the auction for the right of use of a total amount of 10.8 MHz of unused spectrum related to the provision of mobile telecommunications services in the 900 MHz frequency band (disclosed in note 1.3.4), on March 12, 2012 Magyar Telekom filed a petition with the Metropolitan Court, requesting that the Court annul the designation of a consortium of Magyar Posta Zrt., MFB Invest Zrt. and Magyar Villamos Művek Zrt. as an auction winner and certain relating requirements of the final decision closing the auction, rendered by the Vice-President of the National Media and Infocommunications Authority. The Metropolitan Court, by its judgment announced on September 17, 2012 annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court. Accordingly, the NMIAH's administrative decision closing the 900 MHz frequency auction is annulled in a final, binding and non-appealable manner. The accounting impacts of the final decision have been reflected in these financial statements. See Notes 8.1 and 13.

FURTHER INFORMATION

GLOSSARY

Explanation of abbreviations used throughout the report

Abbreviation	Term
3G, 4G	Third/Fourth-generation mobile technology
2Play, 3Play, 4Play	double-play, triple-play, quadruple-play
ADR	American Depository Receipt
ADSL	Asymmetrical Digital Subscriber Line
ARPU	Average monthly Revenue per User
CRM	Customer Relationship Management
DG INFSO	DG Information Society and Media
DG TAXUD	DG Taxation and Customs Union
DSL	See at ADSL
DVB-S	Digital Video Broadcasting Satellite
ED3	EuroDOCSIS 3.0 technology
EMF	ElectroMagnetic Field
FTE	Full time equivalent
FTTx	Fiber to the x
GSM	Global System for Mobile communications
HFC	Hybrid Fiber Coax
ICNIRP	International Commission on Non-Ionizing Radiation Protection
ICT	Information and Communications Technology
IPTV	Internet Protocol-based TV
IP-VPN	Internet Protocol-based Virtual Private Network
ISDN	Integrated Services Digital Network
IT	Information Technology
LTE	Long Term Evolution
MOU	Average monthly Minutes of Use per subscriber
MTR	Mobile Traffic Recording
MVNO	Mobile Virtual Network Operator
NMIAH	National Media and Infocommunications Authority of Hungary
PC	Personal Computer
PSTN	Public Switched Telephone Network
RPC	Revenue Producing Customer
R&D	Research and Development

Abbreviation	Term
Sat TV	Satellite TV
SI	System Integration
SIM	Subscriber Identity Module
SMS	Short Message Service
SOHO	Small Office/Home Office
VoCable	Voice over Cable television
VoIP	Voice over Internet Protocol

FINANCIAL CALENDAR 2013

February 28, 2013	Release of 2012 full year results
April 12, 2013	Annual General Meeting
May 8, 2013 *	Release of 2013 1st quarter results
August 8, 2013 *	Release of 2013 1st half results
November 7, 2013 *	Release of 2013 1st nine months results

* Planned date.

FORWARD-LOOKING STATEMENTS

This report 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 you should not place undue reliance on 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.

MAGYAR TELEKOM
TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

MAGYAR TELEKOM GROUP HEADQUARTERS:
Krisztina krt. 55., Budapest I.
Mailing address: 1541 Budapest, Hungary
Phone: (+36 1) 458 0000, 458 7000, 457 4000
Telefax: (+36 1) 458 7176, 458 7177
Internet: www.telekom.hu

INVESTOR INFORMATION
MAGYAR TELEKOM INVESTOR RELATIONS DEPARTMENT
Postal address: 1541 Budapest, Hungary
Phone: (+36 1) 458 0437, 458 0424
Fax: (+36 1) 458 0443
E-mail: investor.relations@telekom.hu

MAGYAR TELEKOM STOCK TICKER SYMBOL
Budapest Stock Exchange (BSE): MTELEKOM HB (Bloomberg); MTEL.BU (Reuters)

STOCK REGISTRATION
Keler Zrt.
Address: Asbóth u. 9–11., 1075 Budapest, Hungary
Phone: (+36 1) 483 6100
Fax: (+36 1) 342 3539

PUBLISHED BY:

Corporate Communications Directorate
Budapest 2013

MANAGEMENT PHOTOS: