



SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

**DECISION ON THE APPROVAL OF THE 2014
STANDALONE ANNUAL REPORT OF THE
COMPANY PREPARED IN ACCORDANCE WITH
THE HUNGARIAN ACCOUNTING ACT (HAR);
PRESENTATION OF THE RELEVANT REPORT OF
THE SUPERVISORY BOARD, THE AUDIT
COMMITTEE AND THE AUDITOR**

BUDAPEST, APRIL 15, 2015



According to Section 3:109(2) of the Civil Code and Section 5.2.(i) of the Articles of Association, approving the financial statements prepared according to the Accounting Act belongs to the exclusive authority of the General Meeting.

Resolution proposal:

The General Meeting approves the 2014 standalone Annual Report of the Company prepared according to the Hungarian Accounting Act (HAR), including Balance Sheet Total Assets of HUF 1,016,916 million and After-tax Net Income of HUF 36,735 million.

Relevant part of the Report of the Supervisory Board related to this agenda item:

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2014 standalone Annual Report prepared in accordance with the Hungarian Accounting Act (HAR) to be submitted to the General Meeting by the Board of Directors, and the proposal of the Board of Directors for their approval.

In the opinion of the Supervisory Board, the standalone Annual Report is in compliance with the prescriptions of the law, the Supervisory Board agrees with its content. The Supervisory Board proposes to the General Meeting for approval the 2014 standalone Annual Report prepared in accordance with the Hungarian Accounting Act (HAR) with Balance Sheet Total Assets and After-tax Net Income in accordance with the proposal of the Board of Directors and the Audit Committee.



MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT AND BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

PREPARED IN ACCORDANCE WITH
THE HUNGARIAN ACCOUNTING LAW
(HAR)



INDEPENDENT AUDITOR'S REPORT (Free translation)

To the shareholders of Magyar Telekom Telecommunications PLC.

Report on the financial statements

We have audited the accompanying financial statements of Magyar Telekom Telecommunications PLC ("the Company") which comprise the balance sheet as of 31 December 2014 (in which the balance sheet total is MHUF 1.016.916, the profit per balance sheet is MHUF 36.735), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Accounting Act and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements give a true and fair view of the financial position of Magyar Telekom Telecommunications PLC. as of 31 December 2014, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.

Other Matters

We draw attention to the fact that the attached financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and, as such, do not reflect the effects, if any, of resolutions that might be adopted at that meeting. Our opinion is not qualified in respect of this matter.

Other reporting requirements regarding the business report

We have examined the accompanying business report of Magyar Telekom Telecommunications PLC ("the Company") for the financial year of 2014.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the 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 Company. In our opinion the 2014 business report is consistent with the disclosures in the financial statements as of 31 December 2014.

Budapest, March 4, 2015

Armin Krug
Partner
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
License Number: 001464

Balázs Árpád
Statutory auditor
Licence number: 006931

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

BALANCE SHEET AS OF DECEMBER 31, 2014
ASSETS

All amounts in millions of HUF

	Note	December 31, 2013	December 31, 2014
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		809,170	889,726
I. Intangible assets	4	240,738	345,781
3. Rights		137,414	255,533
4. Intellectual property		5,108	5,941
5. Goodwill		98,216	83,840
6. Advance payments on intangible assets		0	467
II. Tangible assets	5	378,939	373,187
1. Land and buildings and related rights		233,572	234,417
- Land		2,872	2,873
- Buildings		62,466	61,279
- Telecommunication network		159,176	161,370
- Other properties		8,437	8,367
- Real estate related rights		621	528
2. Technical equipment, machinery and vehicles		111,560	100,126
- Telecommunication equipment and machinery		109,944	98,895
- Other technical equipment, machinery and vehicles		1,616	1,231
3. Other equipment and vehicles		7,977	7,612
5. Construction-in-progress		25,825	31,026
6. Advance payments on construction-in-progress		5	6
III. Financial investments		189,493	170,758
1. Non-current investments in related parties	6	178,886	158,843
5. Other non-current loans granted	7	10,607	11,915
B. CURRENT ASSETS		85,434	85,974
I. Inventories	8	8,320	9,828
1. Raw materials		416	271
2. Work in progress and semi-finished products		62	15
5. Goods for resale		7,842	9,542
II. Receivables		71,913	72,992
1. Accounts receivable	9	47,834	48,653
2. Receivables from related parties	10	17,158	17,498
5. Other receivables	11	6,921	6,841
III. Securities	12	307	307
3. Treasury stock, quotas		307	307
IV. Liquid assets		4,894	2,847
1. Cash and cheques		218	267
2. Bank deposits		4,676	2,580
C. ACCRUALS	13	38,625	41,216
1. Accrued income		35,230	37,803
2. Prepaid costs and expenses		3,395	3,413
TOTAL ASSETS		933,229	1,016,916

Budapest, February 25, 2015

Christopher Mattheisen

 Chief Executive Officer,
Member of the Board

János Szabó

Chief Financial Officer

The Notes form an integral part of these financial statements.



BALANCE SHEET AS OF DECEMBER 31, 2014

LIABILITIES AND SHAREHOLDERS' EQUITY

All amounts in millions of HUF

	Note	December 31, 2013	December 31, 2014
D. SHAREHOLDERS' EQUITY	14	355,529	392,264
I. Common stock		104,274	104,274
- of this treasury stock at par value		39	39
II. Unpaid share capital (-)		0	0
III. Capital reserves		58,952	58,952
IV. Retained earnings		158,863	191,996
V. Restricted reserves		1,307	307
VI. Valuation reserves		0	0
VII. Net income		32,133	36,735
E. PROVISIONS	15	13,806	13,120
1. Provision for expected obligations		13,806	13,120
F. LIABILITIES		513,841	561,460
I. Subordinated liabilities		0	0
II. Non-current liabilities		255,924	318,691
5. Other non-current loans	16	4,454	1,574
7. Non-current liabilities to other related parties	17	232,562	240,428
8. Other non-current liabilities	18	18,908	76,689
III. Current liabilities		257,917	242,769
1. Current borrowings	16	189	179
- of this convertible bonds		0	0
2. Current loans	19	91,419	43,833
3. Advances received		535	614
4. Accounts payable	20	37,198	52,588
6. Current liabilities to related parties	21	46,015	10,185
7. Current liabilities to other related parties	22	57,268	106,346
8. Other current liabilities	23	25,293	29,024
- of this dividends payable		0	0
G. ACCRUALS	24	50,053	50,072
1. Deferred revenue		3,952	4,312
2. Accrued expenses		44,953	44,682
3. Other deferred income		1,148	1,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		933,229	1,016,916

Budapest, February 25, 2015


 Christopher Mattheisen
 Chief Executive Officer,
 Member of the Board


 János Szabó
 Chief Financial Officer

The Notes form an integral part of these financial statements.

INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2014

All amounts in millions of HUF

	Note	January-December, 2013	January-December, 2014
1. Net domestic sales	25	471,656	472,076
2. Net export sales	26	16,462	14,931
I. Sales revenues		488,118	487,007
3. Change in self-manufactured inventories		57	-47
4. Capitalized value of self-manufactured assets		21,721	24,020
II. Own work capitalized		21,778	23,973
III. Other income	27	26,482	22,132
of which: reversal of impairment		0	0
5. Costs of raw material		26,103	28,384
6. Costs of services	28	82,265	84,449
7. Costs of other services		13,377	9,296
8. Cost of goods sold	29	93,778	88,174
9. Costs of (mediated) services sold	30	65,966	63,687
IV. Material-type expenses		281,489	273,990
10. Salaries and wages	31	46,326	47,070
11. Other employee related expenses	31	7,029	7,133
12. Employee related contributions		14,754	14,917
V. Employee related expenses		68,109	69,120
VI. Depreciation and Amortization		85,744	82,926
VII. Other expenses	33	65,778	70,937
of which: impairment		12,416	15,996
A. PROFIT FROM OPERATING ACTIVITIES		35,258	36,139
13. Dividends and profit sharing (received or due)		25,260	24,793
of which: received from related parties		25,260	24,793
16. Other interest income received		966	649
of which: received from related parties		832	572
17. Other income from financial transaction		4,956	8,775
VIII. Income from financial transactions		31,182	34,217
19. Interest expense		21,793	20,020
of which: to related parties		721	651
to other related party		17,350	17,454
20. Impairment of investments, securities and bank deposits		67	0
21. Other expenses from financial transactions		8,484	8,455
IX. Expenses from financial transactions		30,344	28,475
B. RESULT FROM FINANCIAL TRANSACTIONS	34	838	5,742
C. PROFIT FROM ORDINARY ACTIVITIES		36,096	41,881
X. Extraordinary income		3,708	29,732
XI. Extraordinary expenses		6,270	33,161
D. RESULT FROM EXTRAORDINARY ACTIVITIES	35	-2,562	-3,429
E. PROFIT BEFORE TAXES		33,534	38,452
XII. Corporate income tax	37	1,401	1,717
F. PROFIT AFTER TAX		32,133	36,735
22. Use of retained earnings for dividends		0	0
23. Dividend paid (approved)	38	0	0
G. BALANCE SHEET NET INCOME		32,133	36,735

Budapest, February 25, 2015

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.



MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014



0 NOTE ADDED FOR TRANSLATION

This annual report for December 31, 2014 is the English translation of the Annual Report issued in Hungarian language and prepared in accordance with Act C of 2000 on Accounting and with generally accepted accounting principles in Hungary.

These principles may be different from International Financial Reporting Standards or accounting principles of any other country. No adjustments have been made to conform the Annual Report with any accounting principles other than Hungarian.

The Auditors' report is a translation of the Auditors' report issued in Hungarian language on the Hungarian Annual Report as outlined above.

In the event of any discrepancy, whether in the Auditors' report or in the Annual Report, the Hungarian original version prevails.

1 BACKGROUND AND GENERAL INFORMATION

1.1 General Information about Magyar Telekom Plc.

Official name of the Company: Magyar Telekom Telecommunications Public Limited Company

Abbreviated name of the Company: Magyar Telekom Plc.

Registered office of the Company: 1013 Budapest, Krisztina krt. 55.

Name of the Court of Registration: Metropolitan Court as Court of Registration. Registration number of the Company: Cg: 01-10-041928

The Hungarian Telecommunications Company, the legal predecessor of Magyar Telekom Telecommunications Public Limited Company ("Magyar Telekom Plc." or the "Company") was founded by the Ministry of Transport, Communications and Construction on January 1, 1990. The Company was transformed by the Board of Directors of the State Asset Holding Ltd. into a wholly owned company limited by shares as of December 31, 1991. The Company was privatized on December 22, 1993, when the MagyarCom consortium acquired a 30.1 per cent stake in the Company. At the second stage of the privatization, which took place in December 1995, MagyarCom became the majority owner.

On November 14, 1997 the Company was listed on both the Budapest and the New York Stock Exchanges.

In June 1999, the State Privatization and Holding Company sold its remaining stake (5.75 per cent) through a secondary offering. After this transaction, the proportion of publicly traded shares increased to 40.47 per cent. Share of MagyarCom in the Company decreased to 59.53 per cent.

In 2000, the Company increased its common stock through issuing new shares in the amount of HUF 63 million, which were held mainly within Magyar Telekom Group. As a result of this transaction, the proportion of publicly traded shares increased to 40.51 per cent and MagyarCom's ownership changed to 59.49 per cent.

In 2002, the Company carried out HUF 490 million additional increase in common stock, which shares were repurchased. As a result of this transaction, the proportion of publicly traded shares changed to 40.32 per cent, the proportion of repurchased treasury stock to 0.47 per cent and MagyarCom's ownership changed to 59.21 per cent.

The Extraordinary General Meeting of the Company held on February 22, 2005 approved the decision of the Board of Directors to change the official name of Magyar Telecommunications Company Ltd. into Magyar Telekom Telecommunications Company Ltd., with short name of Magyar Telekom Ltd. The change was registered by the Court of Registry on May 6, 2005.

In 2006 the name of Magyar Telekom Telecommunications Company Ltd. changed to Magyar Telekom Telecommunications Public Limited Company, with short name of Magyar Telekom Plc. The change was registered by the Court of Registry on February 28, 2006.

The Company's American Depository Shares (ADSs) were traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted. Magyar Telekom Plc. terminated the registration of its shares in the US in February 2012. The Company maintains its American Depository Receipt (ADR) program on a Level I basis.

On October 4, 2013 MagyarCom Holding GmbH owned by Deutsche Telekom AG merged into T-Mobile Global Holding Nr. 2 GmbH which is also owned by Deutsche Telekom AG in 100 per cent. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH contributed its shares as capital increase into its fully owned subsidiary, CMobil B.V. with headquarters in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands). As a result of this transaction CMobil B.V. became Magyar Telekom Plc.'s shareholder with direct voting right of 59.21 per cent (registered in Share Register on February 7, 2014). Considering that the CMobil B.V. is the 100 per cent subsidiary of T-Mobile Global Holding Nr. 2 GmbH and T-Mobile Global Holding Nr. 2 is the 100 per cent subsidiary of Deutsche Telekom AG, after the transaction the indirect voting right and influence of Deutsche Telekom AG in Magyar Telekom Plc. remained unchanged.

Persons authorized to sign the annual report:

Christopher Mattheisen - Chief Executive Officer, member of the Board (residence: Budapest)

János Szabó - Chief Financial Officer (residence: Budapest)

In Magyar Telekom Plc., the accounting services are supervised by the Director of Accounting and Tax, Melinda Modok (certificate number: 187110. Area of speciality: entrepreneurial activity. Status: registered. Residence: Budapest).

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Könyvvizsgáló Kft. (its register number is 01-09-063022, its taxation number is 10256161-2-44), the responsible person for carrying out the audit is Árpád Balázs (membership number at Chamber of Hungarian Auditors: 006931).

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

1.2 The Company's activity

Magyar Telekom Plc.'s primary activity is providing fixed line and mobile telecommunication services for public and business customers. The Company provides voice and non-voice (SMS, MMS, internet, data and content provision) within mobile services; voice, data, internet and TV services within fixed line services.

In addition, the Company sells equipment needed for using fixed line and mobile services (telephones, tablets, notebooks, TV sets etc.).

The Company started its electricity and natural gas retail activities in 2010.

The purpose of Magyar Telekom Plc.'s participation in the energy market is to provide more integrated domestic services in case of residential customers and business services in case of business customers.

1.3 Modifications of the Authority Contract related to frequency usage rights

On 6th of September, 2013 Magyar Telekom Plc. and the President of the National Media and Infocommunications Authority of Hungary (NMIAH) signed the modification of the Authority Contract („Modification”) on the use of the 900 MHz and 1800 MHz frequency bands. On the basis of this Modification, Magyar Telekom Plc.'s „concessionary” frequency usage rights in the 1800 MHz frequency band otherwise expiring on 7th of October, 2014 and in the 900 MHz frequency band otherwise expiring on 4th of May, 2016 were prolonged and harmonized until 7th and 8th of April, 2022, respectively. As a result of this, the frequency usage rights of all three Hungarian Mobile Network Operators (MNO's) will expire in 2022. The Modification creates a solid basis for the MNO's providing high quality public mobile services in the future.

On the basis of the Authority Contract, which was signed on 11th of October, 2013 between the General Director of the Office of the NMIAH and the three incumbent mobile operators, Magyar Telekom Plc. has frequency usage right until 8th of April, 2022 for the 2 pcs of 1 MHz wide spectrum blocks in the 900 MHz band, which were acquired in 2012 in the 900 MHz auction.

On October 15, 2014 Magyar Telekom Plc. and the General Director of the Office of the NMIAH signed the third Authority Contract based on the result of the tender for spectrum licenses related to broadband services. The Company won the rights of use of blocks in 800, 900, 1800 and 2600 MHz. Pursuant to the contract, Magyar Telekom Plc. is entitled to use the above listed frequency bands - considering that by fulfilling the respective conditions the term of rights of use for frequencies is extended by five years – until June 15, 2034.

As a result of this, Magyar Telekom Plc. presently has the following frequency blocks:

- in the 800 MHz frequency band 10 MHz continuous duplex frequency block;
- in the 900 MHz frequency band 12 MHz (9 MHz continuous and 3 MHz separate) duplex frequency block;
- in the 1800 MHz frequency band 25 MHz continuous duplex frequency block;
- in the 2100 MHz frequency band 15 MHz continuous duplex frequency block;
- in the 2600 MHz frequency band 30 MHz continuous duplex frequency block.

1.4 Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that 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

In particular, the Company disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on January 5, 2014, and, further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against the Company on February 5, 2014.

On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7,366 million in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC. The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011. No further provisions were made in 2012, 2013 or 2014 for these cases.

2 ACCOUNTING POLICIES

The accounting policies of Magyar Telekom Plc. include basic accounting principles, measurement methods and procedures as well as methods and tools used for enforcing the provisions of the Hungarian Accounting Regulations.

Magyar Telekom Plc. maintains its records both in accordance with the Hungarian Accounting Regulations (HAR) and International Financial Reporting Standards (IFRS). The differences between the two reports are solely due to differences in the respective accounting principles.

The closing day of the Company's business year is December 31. The balance sheet preparation date is January 5, 2015 in respect of the annual report for 2014.

Magyar Telekom Plc. uses version "A" of the balance sheet and version "A" of the income statement (total cost method) when preparing its annual report in accordance with the Hungarian Accounting Regulations. Amounts in the annual report are stated in HUF millions. The currency of accounting is the Hungarian Forint (HUF).

The Hungarian Act on Accounting allows for certain captions in the balance sheet to be broken-down or omitted so Magyar Telekom Plc. breaks down

- Land and buildings and related rights:
 - Land
 - Buildings
 - Telecommunication network
 - Other properties
 - Real estate related rights
- Technical equipment, machinery and vehicles:
 - Telecommunication equipment and machinery
 - Other technical equipment, machinery and vehicles

and the following captions are omitted:

- Adjusted value of intangible assets
- Breeding stock
- Adjusted value of tangible assets
- Non-current loans granted to independent undertakings
- Adjusted value of financial investments
- Valuation difference of invested financial assets
- Animals for breeding and fattening and other livestock
- Finished products
- Valuation difference of receivables
- Valuation difference of derivative instruments (positive)
- Valuation difference of securities
- Valuation reserve for adjustments
- Fair value reserve
- Subordinated liabilities to related parties
- Subordinated liabilities to independent undertakings
- Subordinated liabilities to other economic entities
- Valuation difference of liabilities
- Valuation difference of derivative instruments (negative)

Moreover the Company does not disclose in the balance sheet and in the income statement those captions marked with Arabic characters where there were no data either for the previous year or this year.

In 2014, these captions were as follows:

- Capitalized costs of foundation and restructuring
- Capitalized costs of experimental development
- Non current loans granted to related parties
- Non current loans granted to other associated parties
- Other investments (Financial investments)
- Non-current bonds and other securities
- Advance payments on inventories
- Receivables from other related companies
- Bills receivable
- Investments in related parties
- Other investments (Securities)
- Marketable securities
- Deferred expenses
- Provision for expected expenses
- Other provisions
- Non-current borrowings
- Convertible bonds
- Debt from issuance of bonds
- Investment and development loans
- Non-current liabilities to related parties
- Bills of exchange payable
- Gains on sale of investments
- Interest income and gains on financial investments
- Loss on the sale of financial investments

Since January 1, 2005 the Company has complied with its obligation to prepare the consolidated financial statements by preparing those in accordance with the International Financial Reporting Standards.

The consolidated financial statements of Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) also includes Magyar Telekom Plc. and its subsidiaries.

2.1 Definition of the accounting principles, guidelines and methods

Magyar Telekom Plc. interprets the significant error in preparing its annual report as follows:

Items must be considered significant in all cases if, in the year when discovered by any form of audit, the total of all errors (whether negative or positive) for a given financial year and the impacts thereof - increasing or decreasing the profit or loss or the equity - exceeds 2 per cent of the balance sheet total of the financial year. If the Company reveals a significant error through self-revision, then modifications relating to prior years are presented next to the prior years' figures for each balance sheet and income statement item.

The Company has set up regulations for valuation of assets and liabilities, scrapping, cost calculation, stocktaking, cash management, and system of documentation as required by the Hungarian Accounting Regulations.

Until further decision, the Company does not use the allowed alternative treatment in the Hungarian Accounting Regulations for the valuation of fixed assets at market value and valuation of certain financial instruments at fair value.

2.2 Basic principles applied to the separation of accounts related to energy supply

From 2010, Magyar Telekom Plc.'s activity expanded with providing electricity and natural gas services based on individual authorization.

Magyar Telekom Plc. worked out the rules for accounting separation based on the Act LXXXVI of 2007 on electricity and on the Act XL of 2008 on natural gas supply and the principles connected to this are recorded in its accounting policies. These principles are defined for each general ledger account in its chart of accounts.

Every general ledger account is assigned to one of the following four categories:

- Telecommunication or Other activity: those general ledger accounts which contain items connected exclusively to either telecommunication activity or non-telecommunication and non-energy supply activities (e.g. property rental fee revenues).
- Energy: contains items connected exclusively to energy supply activity and can be allocated definitely to electricity or to natural gas services activity.
- Not relevant: accounts which have no bookings or technical accounts
- To be allocated: settlements on these accounts are connected to telecommunication, to other and to energy supply activities. Amounts on these accounts are allocated to energy supply, telecommunication or other activities based on further allocation rules.

As a result of allocation, the difference between the Assets and Liabilities sides of the balance sheet is disclosed as "difference because of separation" in Liabilities.

The Company discloses its separated balance sheet and income statement in Appendix 1.

The allocation for electricity and natural gas services of the amounts booked directly to energy supply activity (however cannot be separated directly to electricity and natural gas services) and allocations during the separation process are based on the weighted proportion of the point of delivery (POD) numbers.

In case of those amounts which are related to telecommunication, other or energy activities, the allocation is based on proportion of corrected direct margin because of the different profit of telecommunication and energy products. The corrected direct margin is determined as follows: direct margin is the difference between revenues and direct costs related to it; corrected by the effect of utility costs reduction, the amount of discount related to energy services connected to telecommunication services and the result related to payment behavior of customers.

Determination of the corrected direct margin compared to previous years has changed by the impact of utility costs reduction and discount, however the realized gain from derivatives on energy activities are excluded from the ratio calculation.

Due to the change in allocation principles, the balance sheet and income statement for 2013 were re-allocated based on the allocation principles applied in 2014 to ensure the comparability of the 2013 and 2014 figures. The re-allocated amounts did not change significantly the allocated balance sheet total of the year 2013 or the difference because of separation, nor did it have a major effect on the income statement. Because of this, the change of principles does not affect the comparability of figures.

Magyar Telekom Plc.'s individual authorized activities also include the operation of gas-engine small power plant and related to this the following rules for accounting separation were applied:

Since the Company uses the gas-engine small power plant for its own purposes the volume of sales is very low and this economic activity is not meaningful. Because of this the comparability of assets and liabilities in the balance sheet cannot be ensured and neither the income statement would contain meaningful economic information. The amounts related to this activity are not significant compared to the figures disclosed in the balance sheet and income statement of the Company so in connection with the accounting separation of gas-engine small power plant only the main indicators are disclosed in the Notes.

2.3 Valuation methods used for the preparation of the Balance Sheet

2.3.1 Assets

2.3.1.1 Recognition and measurement of non-current assets

Intangible and tangible fixed assets

Magyar Telekom Plc. carries intangible and tangible fixed assets at historical cost less accumulated depreciation, in case of advance payments on intangible assets and on construction-in-progress at historical cost less impairment. Property, plant and equipment includes the capitalized value of improvements and refurbishment that extend the useful life of the asset, increase its capacity and/or functionality.

One-off and regular usage fees of the acquired frequency usage rights are payable by the Company. If the regular (monthly, quarterly or annual) charges are reliably estimable based on the related Authority Contract and the Company does not expect any further services for these charges in the future (meaning that the one-off and regular charges are paid for the same substance), the total amount of regular charges are considered part of the acquisition cost of the frequency usage rights. These charges are capitalized as part of the concession rights and recognized as current and non-current liabilities.

Otherwise the amount of usage fee paid regularly and proportionally to time is recognized as cost of other services in the income statement.

Borrowing costs connected directly to loans taken for the acquisition or production of fixed assets are capitalized by the Company.

Depreciation policy

In case of tangible and intangible fixed assets the depreciation is based on the gross value of the asset or in case a residual value is defined for tangible fixed asset then the gross value reduced by the residual value.

The method of depreciation is straight-line based on gross value using rates derived from useful lives.

Depreciation starts on the day when the asset is placed into operation and it is over when the useful life of the asset elapsed or the day the asset is derecognized from the books for any reason. The Company records depreciation monthly in proportion to the days of the given month.

The Company records depreciation of intangible and tangible fixed assets based on the useful lives as follows:

In case of intangible fixed assets:

	<u>Years</u>
Concession rights and licenses	8–25
Other intangibles	3–15

In case of tangible fixed assets:

	<u>Years</u>
Buildings	10–50
Networks and other real estate related rights	7–38
Technical equipment, machinery and vehicles	2–25
Other equipment	2–12

Useful lives are determined based on generally accepted international telecommunication industry practices and development potentials. Magyar Telekom Plc. regularly reviews the useful lives of fixed assets and modifies them if necessary.

The Company determines residual values for those groups of assets where the residual values are considered to be significant. Residual value is considered to be significant if the expected realizable value exceeds the expected scrap value when the asset is taken out of service. The Company determines residual value for buildings, vehicles and customer premises equipment (CE routers, 3play equipment etc.) installed at customer premises (purchased through closed-end lease contracts). Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets.

The Company applies residual values only for assets capitalized after January 1, 2001. No residual value is calculated for additional capitalization on assets purchased before January 1, 2001.

Since January 1, 2011 the Company does not use the option given in Section 80. (2) of Act on Accounting which allows that the acquisition value of intangible and tangible assets with an individual purchase cost below HUF 100,000 may be charged in one sum as depreciation upon the commencement of use.

The Company records extraordinary depreciation in cases where the value of the asset permanently decreased due to the fact that it is no longer needed, damaged or destroyed, or if the book value is permanently and significantly in excess of the market value.

If the reasons for the extraordinary depreciation of intangible and tangible assets on the basis of market value no longer exist or have changed, the recognized extraordinary depreciation shall be eliminated and the affected intangible and tangible assets shall be adjusted back to their market value (not to exceed their net value determined in consideration of the straight-line depreciation). The Company records the reversal of extraordinary depreciation as other income.

Capitalized value of foundation and restructuring

The Company does not capitalize foundation and restructuring costs.

Capitalized value of experimental development

The Company does not capitalize experimental development costs.

Goodwill

That part of the cost of an acquisition of a subsidiary with qualified majority (at least 75 per cent ownership), which is calculated as the difference between the fair value of the acquired assets less the assumed liabilities (valued according to the Hungarian Act on Accounting) and the acquisition cost, is recorded as goodwill if the acquisition cost is higher.

In case the acquisition cost is lower the Company records negative goodwill which is recognized as Deferred income and is amortized to Other income over a period of five years.

The Company does not record amortization on goodwill recognized after January 1, 2005 unless impairment is required. The Company applies the straight-line amortization method for goodwill recognized earlier.

Intellectual property

Since 2005 only those assets have been recorded as intellectual property which are in the ownership of the Company.

Those intellectual properties where the Company has only the rights of use are recorded as Rights. Their useful lives are the same as those of the intellectual property.

Own work capitalized

Direct costs incurred in the construction of property, plant and equipment constructed by the Company are capitalized. The Company records materials provided to subcontractors at delivery as construction in progress.

Financial investments

Long term investments in subsidiaries are recorded at cost when established or at original purchase price less goodwill when acquired. At the end of the financial year, the Company's investments are impaired if the market value of the equity investment is permanently and significantly lower than its book value. The impairment review is carried out on an individual basis.

Loans granted include loans to subsidiaries, associated companies and other companies as well as long term loans given to employees for housing purposes.

In case of accounts receivables with installments, the Company recognizes impairment on receivables not yet due (recorded as non current receivables) considering the amount estimated to be recovered. This impairment proportion is governed by the rules related to determining the proportion of impairment of receivables.

2.3.1.2 Recognition and measurement of current assets

Inventories

The Company discloses the purchased inventories in its balance sheet at purchase price.

The records are based on rolling average price in case of raw materials and on standard price plus variance in case of goods for resale.

Inventories include materials and assets whose future usage can not be determined at the time of purchase (i.e. whether they will be used for an investment project or maintenance). Inventories also include advance payments on inventories and assets held for sale reclassified from tangible and intangible fixed assets.

Tangible and intangible fixed assets reclassified to inventories are valued on an individual basis. Besides these assets Magyar Telekom Plc. considers its inventories as low value items.

The Company records impairment on inventories purchased if:

- the purchased inventories are of reduced value or
- the reliable current market price known at the balance sheet preparation date is permanently and substantially lower than the book value of the inventories or they have low turnover or none

The Company follows the valuation on individual basis for determination and recognition of impairment.

Phone sets are often sold below purchase price under campaigns for acquiring or retaining subscribers which requires commitments for a minimum period of time. However the defined selling price under these campaigns by itself gives no reason for impairment.

If the market value of the previously impaired inventory substantially and permanently exceeds its book value the Company reduces the difference with the reversal of the impairment recorded earlier.

Trade receivables and other receivables

The balance of trade receivables reflects invoiced and acknowledged amounts.

The Company discloses in the balance sheet only those receivables which are accepted by customers. If the customer does not (or only partly) accept the amount of the claim then the unaccepted part is not disclosed in the balance sheet.

In case of receivables under legal procedures when the debtor accepted the claim earlier but does not pay for some reason, the amount of the claim is disclosed in the balance sheet but its book value is 100 per cent impaired.

Impairment of trade receivables is assessed on two levels. Trade receivables that are individually significant and the ones that are not individually significant are separated. Magyar Telekom Plc. decided to consider items above HUF 200 million to be individually significant for the purposes of assessing accounts receivables for impairment. In case of these items the existence of objective evidence is assessed individually.

In case of items that are individually not significant it is also assessed individually whether objective evidence of impairment exists.

Based on the Section 55. (2) of Act on Accounting the amount of impairment may also be established as a percentage of the amount of such receivables recorded in the books (collective assessment of impairment). Magyar Telekom Plc. evaluates the telecommunications customers - concerning their high volume - using the method of collective assessment (ageing) and the impairment is applied in percentage terms.

The Company set up the impairment categories according to customer groups with similar credit risk exposure.

The Company does not impair receivables from related parties and non-current loans granted to related parties except an individual item has an objective evidence for impairment.

The Company uses the following rates for impairment:

Overdue	Rate of impairment ¹
Not due yet ²	0%-21%
1-30 days	0%-70%
31-60 days	0%-70%
61-90 days	0%-85%
91-180 days	0%-95%
181-360 days	0%-100%
361-720 days	50%-100%
more than 720 days	50%-100%
Customers in state of bankruptcy	100%

¹ The Company uses different impairment rates for different groups of customers. In 2014, considering the basis of impairment the installment receivables from equipment sales is treated as a separate group of customers and the used rates of impairment are generally in the higher sections of the indicated intervals.

² 21 per cent impairment is recognized on receivables not due yet in case of defaults on installment receivables from mobile equipment sales. In case of the other customer groups the Company does not recognize impairment on non-overdue receivables.

Securities

The Company discloses the original cost of bonds, shares, other securities held for sale and the repurchase value of treasury stock as Securities in current assets.

The Company discloses in all cases among current assets the following items:

- repurchased treasury stock
- debt securities with a maturity of less than one year

2.3.1.3 Accruals (asset)

Accrued income

The Company discloses the revenues which are only invoiced after the balance sheet date (revenues not yet accounted for as receivables) but are to be accounted for as revenue in respect of the period concluded by the balance sheet date as accrued income. In particular: revenues from current year traffic and international settlements etc. to be invoiced in the following period.

Prepayments for costs and expenses

The Company discloses the expenses incurred prior to the balance sheet date which can only be accounted for as costs or expenditures in respect of the period following the balance sheet date as prepayments. In particular: rental fees, insurance fees, subscription fees, etc.

2.3.2 Liabilities and Shareholders' equity

2.3.2.1 Valuation reserve

Until further decision, Magyar Telekom Plc. does not apply the allowed alternative treatment in the Hungarian Accounting Regulations for the recognition of a valuation reserve.

2.3.2.2 Restricted reserve

Magyar Telekom Plc. records restricted amounts from capital reserves and retained earnings as restricted reserve. These items include the acquisition cost of the repurchased treasury stock and the amount of development reserves according to the Corporate Tax Law.

2.3.2.3 Provisions

Provisions include the following uncertain liabilities and commitments:

- severance payments due to dismissals before retiring age,
- pending legal cases,
- environmental liabilities,
- guarantee liabilities determined by law,
- future demolition or recovery liabilities deriving from a contract,
- provision in respect of valuation of derivatives,
- liabilities related to customer loyalty program.

2.3.2.4 Accruals (liability)

Deferred revenue

Amounts received prior to the balance sheet date but not to be accounted for as income in the current year are disclosed as deferred revenue. In particular, revenues of monthly tariff packages collected (invoiced) in advance, unearned prepaid card traffic revenues which will be earned as revenues following the current year, etc.

Accrued expenses

Costs or expenditures recognized in the current period for which no invoice had been received by the balance sheet date are disclosed as accrued expenses. In particular: co-provider and roaming fees, commission fees, consultancy, maintenance expenses etc. related to the current year but not yet invoiced.

Deferred income

The Company accounts as deferred income among others the following items:

- financially settled amount of subsidies for development projects,
- amount of liability cancelled or assumed by a third party related to assets carried as fixed assets,
- market value of assets received without consideration or discovered as a surplus

The Company releases the deferred income to extraordinary revenue in proportion to the related asset accounted for as cost or expenditure.

2.3.3 Valuation of items in foreign currencies

Receivables and liabilities denominated in foreign currencies are valued at the official exchange rate of the Central Bank of Hungary (MNB) on December 31.

2.3.4 Derivatives

The Company records derivatives (forward, swap and energy swap deals) among off-balance sheet items as commitments of future receivables or liabilities on transaction price.

The Company calculates the fair value of every derivative (with the original aim of delivery and of non-deliverable/clearing transaction) as of the balance sheet date and discloses it in the Notes. In addition the Company creates provision for expected losses related to commitments from derivatives with the original aim of delivery, represented by the negative fair value of the transactions. In case of deals with the original aim of non-delivery the negative fair value of the transactions is accounted for as accrued expenses and disclosed as other expenses on financial transactions in the income statement.

2.4 Measurement principles applied in the preparation of the Income Statement

The Company discloses the consideration, excluding value added tax, received for the sale of inventories purchased and for services rendered during the period of contractual performance in the financial year, increased by any price subsidies and extra charges and reduced by discounts as net sales revenues.

Revenues corresponding to invoices issued to the customer based on performance under the conditions defined in the contract, as acknowledged or approved by the customer, or the consideration received in cash excluding any value added tax are recorded as revenue by the Company.

The Company discloses as domestic sales revenues in particular:

- sale of inventories purchased or own production for domestic customers,
- the value of services supplied to resident customers regardless of whether they are paid for in HUF, foreign exchange, foreign currency or by import purchases,
- the value of direct sales to a free zone company or to a company operating in a transit area.

Based on the Section 74. (2) of Act on Accounting the exports sales revenue includes the value of sales and services supplied to non-resident customers regardless of the location of the services provided, except the customer is non-residential in the territory of Hungary and has not officially informed Magyar Telekom Plc. (e.g. non-resident customer - whose registered office, place of abode or permanent residence is situated abroad - buys phone sets in the distribution network).

The Company discloses as export sales in particular:

- visitor fees invoiced for roaming partners,
- services provided for foreign vendors,
- revenues from international co-providers.

Revenues and expenses are recognized in line with the accrual concept of accounting.

Non-realized exchange rate differences are recognized as follows:

- if the net balance of non-realized foreign exchange gains and losses is a gain, it is recorded as other income from financial transactions,
- if the net balance is a loss, it is recorded as other expenses from financial transactions.

The Company recognizes dividends approved by the General Meeting of the subsidiaries and associates in the year when declared. Interim dividends paid by the subsidiaries and associates are recorded as liability until final approval.

The fees paid by Magyar Telekom Plc. to carrier, mobile and international service providers for call termination are invoiced to the customers by Magyar Telekom Plc. Therefore the payments for calls initiated in Magyar Telekom Plc.'s network and terminated by

carrier, mobile and international service providers as well as payments for leased lines (both domestic and international) are recorded and disclosed as Costs of mediated services sold.

Income and expenses not directly related to the ordinary operations are disclosed as extraordinary items. Extraordinary items are disclosed in the Notes.

2.5 Other

Magyar Telekom Plc. pays special attention to meeting environmental protection guidelines and regulations in its activities. The necessary power supply batteries used in switches and power generators and used cell phones are stored and neutralized in accordance with the applicable environmental protection laws.

The Company did not have penalty expenses due to environmental liabilities in 2014 or in any previous years.

3 SUMMARY OF THE COMPANY'S FINANCIAL POSITION AND LIQUIDITY

The Company's financial position and liquidity as of December 31, 2013 and 2014 are represented by the following financial ratios:

	<u>2013</u>	<u>2014</u>
Liquidity ratio (= current assets / current liabilities)	0.33	0.35
Operating margin (= operating profit / (sales revenues + other income))	0.07	0.07
Operating return on assets (= operating profit / total assets)	0.04	0.04
Leverage ratio (= non-current liabilities / (non-current liabilities + equity))	0.42	0.45

The following is the cash-flow statement for the years ended on December 31, 2013 and 2014:

	2013	2014
I. Cash flows from operating activities (lines 1-14)	37,136	102,461
1. Profit before taxes (before dividend received)	5,713	14,892
2. Depreciation and amortization	85,744	82,926
3. Impairment losses charged and reversed	12,483	15,996
4. Change in provisions	-4,172	-686
5. Profit or loss on the sale of non-current assets	-213	-1,028
6. Change in accounts payable	-8,717	12,419
7. Change in other current liabilities	-53,053	-2,150
8. Change in accruals (liability)	5,732	-105
9. Change in accounts receivable	-17,893	-10,068
10. Change in current assets (without accounts receivable and cash and cash equivalents)	1,178	-2,337
11. Change in accruals (asset)	-2,530	-2,591
12. Income tax paid (on profit and loss)	-1,493	-2,007
13. Dividend and shares paid/payable	0	0
14. Other non cash items	14,357	-2,800
II. Cash flows from investing activities (lines 15-17)	-77,314	-83,012
15. Acquisition of fixed assets and financial investments	-102,786	-98,559
16. Proceeds from sale of fixed assets and financial investments	212	1,026
17. Dividends and advance dividends received	25,260	14,521
III. Cash flows from financing activities (lines 18-29)	41,572	-21,496
18. Proceeds from issue of shares	0	0
19. Proceeds from the issuance of bonds	0	0
20. Loans received	333,997	512,944
21. Redemption from non-current loans granted and bank deposits	726	790
22. Non-repayable liquid assets received	249	367
23. Share capital decrease	0	0
24. Treasury stock repurchases	0	0
25. Repayment of bonds	0	-11
26. Repayment of loans	-292,525	-535,788
27. Non-current loans granted and bank deposits	-550	-547
28. Non-repayable donations given	0	0
29. Change in liabilities to founders and other non-current liabilities	-325	749
IV. Change in liquid assets (lines I. + II. + III.)	1,394	-2,047
Cash at the beginning of the year	3,500	4,894
Cash at year-end	4,894	2,847

4 INTANGIBLE ASSETS

The following table is a summary of intangible fixed asset movements between January 1, 2013 and December 31, 2014:

	GROSS BOOK VALUE				Total
	Rights	Intellectual property	Goodwill	Advances on intangible assets	
Opening balance as of January 1, 2013	216,415	16,314	222,956	0	455,685
Additions	83,156	802	100	0	84,058
Disposals	-4,643	-171	0	0	-4,814
Disposals due to in-kind contribution	-1,052	-309	0		-1,361
Reclassifications	-8,542	381	0	0	-8,161
Closing balance as of December 31, 2013	285,334	17,017	223,056	0	525,407
Additions	138,457	1,499	326	467	140,749
Disposals	-2,949	-351	-1,477	0	-4,777
Reclassifications	-5	-82	0	0	-87
Closing balance as of December 31, 2014	420,837	18,083	221,905	467	661,292
AMORTIZATION					
Opening balance as of January 1, 2013	140,984	11,535	114,742	0	267,261
Charge for the year	16,180	648	10,098	0	26,926
Impairment	0	0	0	0	0
Disposals	-297	-163	0	0	-460
Disposals due to in-kind contribution	-614	-285	0	0	-899
Reclassifications	-8,333	174	0	0	-8,159
Closing balance as of December 31, 2013	147,920	11,909	124,840	0	284,669
Charge for the year	20,247	664	10,096	0	31,007
Impairment	0	0	4,606	0	4,606
Disposals	-2,850	-351	-1,477	0	-4,678
Reclassifications	-13	-80	0	0	-93
Closing balance as of December 31, 2014	165,304	12,142	138,065	0	315,511
NET BOOK VALUE as of December 31, 2013	137,414	5,108	98,216	0	240,738
NET BOOK VALUE as of December 31, 2014	255,533	5,941	83,840	467	345,781

The main components of the changes in 2014:

Rights

The gross value of rights increased by HUF 138,457 million in the current year. Significant part of this increase was caused by the HUF 122,819 million increase of concession rights which is connected to the capitalized right of use related to the provision of mobile telecommunication services in the 900 MHz, 1,800 MHz and 2,600 MHz frequency band based on the modification of the Authority Contract concluded with the President of the NMIAH signed on October 15, 2014. (See further information on frequency usage rights in Note 1.3)

Further significant increase is caused by the software rights of use connected to the new, integrated customer relations and billing system (HUF 6,270 million) and the capitalization of the new generation CRM software (HUF 5,365 million).

The decrease is mainly due to the scrappings of other rights (gross value is HUF 925 million, net value is HUF 38 million) and the IT systems rights of use (gross value is HUF 164 million, net value is zero).

Intellectual properties

The increase is mainly due to the upgrades of the billing software for mobile services (HUF 1,154 million).

In 2014, the Company reviewed the useful life of rights and intellectual properties and changed the useful life where the Company deemed it necessary. Due to the changes HUF 172 million less amortization was charged in 2014.

Goodwill

The movements of goodwill in 2014 are summarized as follows:

Description	Net value as of December 31, 2013	Goodwill recorded in 2014	Amortization charge/ extraordinary amortization in 2014	Net value as of December 31, 2014
T-Mobile Magyarország Távközlési Rt. ¹	72,647	0	-9,115	63,532
T-Systems Magyarország Zrt. (KFKI Zrt.)	8,951	0	-4,606	4,345
Dataplex Kft. ¹	4,793	0	0	4,793
Stonebridge A.D.	3,718	0	-392	3,326
EMITEL Távközlési Zrt. ¹	3,189	0	-589	2,600
ISH Informatika Kft. ¹	1,707	0	0	1,707
IQSYS Zrt. ¹	1,132	0	0	1,132
Combridge S.R.L.	818	0	0	818
DATEN-KONTOR Kft. ¹	529	0	0	529
Novatel E.O.O.D.	447	0	0	447
Com.unique Kft.	0	326	0	326
KalászNet Kft. (Budakalász Kábel TV Kft.)	185	0	0	185
Dél-Vonal Kft. ¹	100	0	0	100
Total	98,216	326	-14,702	83,840

¹ On December 31, 2014 the marked companies did not operate as independent companies due to transformation but the market perception of their operations gave no reasons for impairing or derecognizing the goodwill.

In 2014, HUF 326 million goodwill was recognized due to the acquisition of Com.unique Telekommunikációs Szolgáltató Kft.

In 2014, goodwill was derecognized due to the liquidation of MODULTECHNIKA Kft. (gross value is HUF 1,477 million, net value is zero).

During 2014, HUF 10,096 million amortization was charged on goodwill for items recognized before 2005.

HUF 4,606 million extraordinary depreciation was recognized on T-Systems Magyarország Zrt.'s goodwill in 2014.

5 TANGIBLE FIXED ASSETS

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2013 and December 31, 2014:

GROSS BOOK VALUE	Land and buildings and related rights	Technical equipment, machinery and vehicles	Other equipment and vehicles	Total
Opening balance as of January 1, 2013	434,184	656,981	56,328	1,147,493
Additions	12,611	34,184	3,745	50,540
Disposals	-2,089	-73,904	-3,647	-79,640
Disposals due to in-kind contribution	0	-4,554	-79	-4,633
Reclassifications	2,025	-3,054	3,137	2,108
Closing balance as of December 31, 2013	446,731	609,653	59,484	1,115,868
Additions	16,579	22,638	3,360	42,577
Disposals	-2,689	-34,323	-4,489	-41,501
Reclassifications	11,619	-11,151	-1,263	-795
Closing balance as of December 31, 2014	472,240	586,817	57,092	1,116,149
DEPRECIATION				
Opening balance as of January 1, 2013	198,062	536,502	50,153	784,717
Charge for the year	16,636	38,894	3,288	58,818
Impairment	0	0	0	0
Disposals	-1,444	-72,546	-3,360	-77,350
Disposals due to in-kind contribution	0	-3,335	-75	-3,410
Reclassifications	-95	-1,422	1,501	-16
Closing balance as of December 31, 2013	213,159	498,093	51,507	762,759
Charge for the year	17,292	31,197	3,430	51,919
Impairment	0	0	0	0
Disposals	-1,563	-33,482	-4,381	-39,426
Reclassifications	8,935	-9,117	-1,076	-1,258
Closing balance as of December 31, 2014	237,823	486,691	49,480	773,994
NET BOOK VALUE as of December 31, 2013	233,572	111,560	7,977	353,109
NET BOOK VALUE as of December 31, 2014	234,417	100,126	7,612	342,155

Further details are disclosed in Appendix 2.

The main reasons of the changes in 2014 are as follows:

Land and buildings and related rights

The increase in buildings and other real estate (HUF 1,991 million) is mainly due to the expansion and capitalization of antenna towers (HUF 689 million), the expansion of rented real estate (HUF 411 million) and the renovating (HUF 223 million) and improving (HUF 134 million) of own office buildings.

The gross value of telecommunication networks increased by HUF 14,588 million (see Appendix 2) of which the significant items are:

- copper wire telecom cables of local network (HUF 4,978 million),
- client-side copper based network (HUF 4,336 million),
- fiber optic telecom cables of local network (1,390 million),
- cable TV coax network (HUF 1,184 million).

The decrease in real estate and related rights is mainly due to partial scrapping of which the significant items are:

- copper wire telecom cables of trunk, regional and backbone network (gross value is HUF 459 million, net value is HUF 28 million),
- copper wire telecom cables of local network (gross value is HUF 265 million, net value is HUF 76 million),
- cable TV coax network (gross value is HUF 52 million, net value is HUF 27 million).

Technical equipment, machinery and vehicles

The increase is due to the capitalization and extension of telecommunication equipment of HUF 22,638 million in gross value, of which the significant items are:

- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (HUF 5,074 million),
- IP network equipment - routers, used for IP network services (HUF 3,332 million),
- closed-end leased set-top boxes (HUF 1,978 million),
- data-transmission terminal equipment installed at customer premises for service provisioning - CE router (HUF 1,882 million),
- system of operation for networks using broadband, optical Wavelength-Division Multiplexing (HUF 1,127 million),
- DataCore Network control and switch equipment (Packed Core Network) (HUF 1,083 million),
- Internet cable TV modems (HUF 816 million).

HUF 34,323 million decrease in gross value of technical equipment is mainly due to the sales and scrappings because of redemptions related to the mobile network modernization project and scrappings of ADSL node equipment and EWSD customer exchanges, for example:

- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (gross value is HUF 7,239 million, net value is HUF 49 million),
- ADSL node equipment (gross value is HUF 3,881 million, net value is HUF 19 million),
- line multiplexers (gross value is HUF 2,622 million, net value is HUF 3 million),
- GSM network control system (gross value is HUF 2,366 million, net value is zero),
- recording systems (gross value is HUF 1,777 million, net value is zero),
- short message service exchanges (gross value is HUF 1,440 million, net value is zero),
- building engineering equipment (gross value is HUF 1,282 million, net value HUF 38 million),
- EWSD digital phone exchanges (gross value is HUF 1,246 million, net value is zero).

Other equipment and vehicles

Other equipment and vehicles increased by HUF 3,360 million in gross value, of which the significant items are:

- capitalization and extension of IT application and other servers (HUF 1,532 million),
- capitalization and extension of computers and peripheral devices not serving the core activities (HUF 542 million).

The HUF 4,489 million decrease in gross value of other equipment and vehicles is mostly due to scrapping, sales and inventory shortages discovered.

Scrappings mainly related to the following assets:

- intranet local and distance network equipment (gross value is HUF 451 million, net value is zero),
- development and experimental purpose equipment (gross value is HUF 225 million, net value is zero),
- fire-protection devices (gross value is HUF 128 million, net value is HUF 3 million),
- furniture (gross value is HUF 114 million, net value is HUF 5 million)

Sales mainly related to the following assets:

- computers and peripheral devices not serving the core activities (gross value is HUF 446 million, net value is zero),
- mobile handsets (gross value is HUF 241 million, net value is HUF 18 million),
- passenger cars for personal use (gross value is 183 million, net value is HUF 47 million),
- office equipment (gross value is 181 million, net value is zero).

Inventory shortages mainly related to the following assets:

- IT hardware (gross value is HUF 1,092 million, net value is zero),
- computers and peripheral devices not serving the core activities (gross value is HUF 162 million, net value is HUF 5 million)
- office equipment (gross value is HUF 119 million, net value is zero).

In 2014, the Company reviewed the useful life of tangible assets and changed the useful lives where the Company deemed it necessary. In consequence, HUF 800 million more depreciation was charged in 2014.

The significant increase in depreciation due to the changes in useful lives was caused by the following major projects:

- withdrawal of exchanges related to PSTN network (HUF 385 million),
- mobile network modernization project (HUF 101 million).

6 NON-CURRENT INVESTMENTS IN RELATED PARTIES

6.1 Changes of Non-current investments in 2014

As of December 31, 2013 and 2014, the Company's non-current investments are summarized as follows (further details on investments (ownership, voting rights, shareholders' equity data) are disclosed in Appendix 3):

	Ownership	Ownership	Net book value	
	direct (%)	indirect (%)	2013	2014
	2014			
Stonebridge A.D. ¹	100.00%		104,019	85,542
Crnogorski Telekom A.D. ¹	76.53%		43,173	40,203
T-Systems Magyarország Zrt.	100.00%		19,944	19,944
Origo Zrt.	100.00%		2,418	3,418
ViDaNet Zrt.	67.50%	22.50%	2,836	2,836
Combridge S.R.L. ¹	100.00%		2,197	2,330
Investel Zrt.	100.00%		1,658	1,658
KalászNet Kft.	100.00%		1,074	1,074
Novatel E.O.O.D. ¹	100.00%		742	788
Telekom New Media Zrt.	100.00%		700	700
Com.unique Kft.	100.00%		0	287
KIBU Innováció Nonprofit Kft.	99.20%	0.80%	34	34
Telemacedonia A.D. Skopje (under liquidation) ¹	100.00%		25	26
ISH Kft.	100.00%		3	3
MODULTECHNIKA Kft.	100.00%		62	0
TeleData Kft.	50.98%		1	0
			178,886	158,843

¹At the end of 2014, non-current investments increased by HUF 7,593 million due to the balance sheet date revaluation of the book value of investments.

In 2014, the Company decided to execute a capital decrease through disinvestment in Stonebridge A.D. and in Crnogorski Telekom A.D. After these transactions the non-current investments decreased by HUF 28,861 million.

The Company executed a capital increase in Origo Zrt. whereby 10 pieces of new shares were issued by private offering at their nominal value of HUF 100. The issue value of the shares was HUF 100 million per shares totaling HUF 1,000 million which increased the investment in Magyar Telekom Plc.'s books.

In 2014, the Company acquired the 100 per cent shares of Com.unique Telekommunikációs Szolgáltató Kft. for HUF 613 million. Goodwill was also recognized related to this investment in an amount of HUF 326 million, which resulted in a HUF 287 million increase of the book value of investments.

In 2014, the liquidation procedure of MODULTECHNIKA Kft. was finished. The termination of the company was registered at the Court of Registry on July 1, 2014. The investment was derecognized from the books.

6.2 Short descriptions of companies in which Magyar Telekom Plc. has significant shares

Stonebridge Communications A.D. Skopje (Stonebridge A.D.)

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of Makedonski Telekom A.D., the leading telecommunication provider of Macedonia. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed in 2001 to a newly established Macedonian holding company, Stonebridge A.D. residing in Skopje. Magyar Telekom Plc. has 100 per cent share in Stonebridge A.D. since 2004 and the company has 51 per cent share in Makedonski Telekom. The company suspended its liquidation procedure and restored its normal activities in January 2014.

Crnogorski Telekom A.D.

In 2004, Magyar Telekom Plc. won the tender for the sale of a 51.12 per cent stake in Crnogorski Telekom A.D. issued by the Montenegrin Privatization Agency. Crnogorski Telekom is the leading telecommunication service provider of Montenegro. The share purchase agreement was signed in 2005 in the amount of EUR 114 million. In 2005, Magyar Telekom Plc. acquired a further 25.41 per cent share for EUR 27 million based on an agreement with minority shareholders.

T-Systems Magyarország Zrt.

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI Zrt. Thereafter the company has undergone several transformations whereby ICON Zrt., BCN Rendszerház Kft., KFKI-DIREKT Kft. and EPT Zrt. were merged into the company. In 2012, the company changed its name and continues its activities under the name of T-Systems Magyarország Zrt. Also in 2012, the company concluded a merger contract with Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. and these companies merged into T-Systems Magyarország Zrt. In 2013, after the conclusion of another merger contract, DATEN-KONTOR Kft. merged into T-Systems Magyarország Zrt.

Origo Média és Kommunikációs Szolgáltató Zrt. (Origo Zrt.)

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the merger of the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc. The internet and content providing business line of T-Online Magyarország Zrt. continued its activities under the name of Origo Média és Kommunikációs Szolgáltató Zrt. In 2010, M-Factory Zrt. merged into the company based on the merger contract with M-Factory Zrt.

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

ViDaNet Zrt. was established in 2003 by the merger of several companies for providing cable television services. Magyar Telekom Plc.'s direct and indirect ownership in total is 90 per cent and has 49.995 per cent voting right in the company. In 2013, M-Kábel Kft. (100 per cent owned by the company) merged into ViDaNet Zrt.

Combridge S.R.L.

The company is an alternative telecommunication service provider of Romania. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination.

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

Investel Zrt. was established in 1991 with the majority ownership of Magyar Telekom Plc. Currently it performs holding and trustee tasks in certain subsidiaries of the Company.

Novatel E.O.O.D.

The company was established in 2004 with headquarters in Bulgaria. The company's main activities are: international and domestic leased line connection, international internet access and IPVPN services, roaming services, infocommunication business solutions and international call termination.

Telekom New Media Szolgáltató Zártkörűen Működő Részvénytársaság (Telekom New Media Zrt.)

The company was established by a merger of three companies when Telekom New Media Kft. and Telekom Content & Rights Kft. merged into Telekom New Média Holding Zrt. with effect from July 31, 2010. After the merger the company continues its activities under the name of Telekom New Media Szolgáltató Zártkörűen Működő Részvénytársaság (Telekom New Media Zrt.). Telekom New Media Zrt. is the leading participant of the premium rated interactive market.

Com.unique Telekommunikációs Szolgáltató Korlátolt Felelősségű Társaság (Com.unique Kft)

The Company acquired the 100 per cent shares of Com.unique Telekommunikációs Szolgáltató Kft. in October, 2014. The company provides high quality phone, Internet and television services in residential estates since 2002.

KalászNet Kábel TV Korlátolt Felelősségű Társaság (KalászNet Kft.)

In 2009, the Company acquired 25 per cent share in Budakalász Kábel TV Kft. during the merger of T-Kábel Magyarország Kft. into Magyar Telekom Plc. In 2011, Magyar Telekom Plc. became the sole owner of the company by purchasing further 75 per cent. The company performs cable TV and internet services in various regions of Hungary.

After the registration at the Court of Registry on April 22, 2013 the company continues its activities under the name of KalászNet Kábel TV Korlátolt Felelősségű Társaság (KalászNet Kft.).

KIBU Innováció Műszaki Kutató Fejlesztő Szolgáltató Nonprofit Kft. (KIBU Innováció Nonprofit Kft.)

The company has been operating with its current name and has been performing technical research and development activities as a nonprofit organization since 2007. KIBU Innováció Nonprofit Kft. is Magyar Telekom Plc.'s innovation lab for young researchers who are interested in the convergence of mobile communication, online communities and urban space and are passionate about conducting experimental projects in cross-disciplinary teams.

7 OTHER NON-CURRENT LOANS GRANTED

Other non-current loans granted as of December 31, 2013 and 2014 are summarized as follows:

	2013	2014
	<u> </u>	<u> </u>
Long term part of installment receivables from equipment sales ¹	7,169	8,690
Long term part of housing loans granted to employees	3,404	3,116
Other deposits given	<u>34</u>	<u>109</u>
Total	<u>10,607</u>	<u>11,915</u>

¹The increase is due to the increase of installment sales of smart phones, tablets, laptops and TV sets connected to multimedia packages.

8 INVENTORIES

Materials mainly include network maintenance materials, while the majority of goods are telecommunication goods and unused fixed assets held for sale.

The following is a movement table of inventories between January 1, 2013 and December 31, 2014:

	<u>2013</u>	<u>2014</u>
Opening balance	10,378	8,320
Change in inventories	-1,962	-1,711
Impairment loss	-96	-203
Closing balance	<u>8,320</u>	<u>9,828</u>

9 ACCOUNTS RECEIVABLE

As of December 31, 2013 and 2014 accounts receivable include the following:

	<u>2013</u>	<u>2014</u>
Domestic accounts receivable	61,170	64,894
Foreign accounts receivable	1,804	1,093
Impairment of receivables	-15,140	-17,334
Total	<u>47,834</u>	<u>48,653</u>

The impairments on receivables as of December 31, 2013 and 2014 are as follows:

	<u>2013</u>	<u>2014</u>
Opening balance	15,341	15,140
Current year increase	9,252	9,420
Current year decrease/disposal	-9,453	-7,226
Total	<u>15,140</u>	<u>17,334</u>

10 RECEIVABLES FROM RELATED PARTIES

Receivables from related parties as of December 31, 2013 and 2014 are summarized as follows:

	2013	2014
Receivables from T-Systems Magyarország Zrt. ¹	13,086	13,398
Receivables from Novatel E.O.O.D. ²	2,346	2,507
Receivables from Origo Zrt. ³	1,315	335
Receivables from IT Services Hungary Szolgáltató Kft.	0	316
Receivables from Deutsche Telekom AG	0	248
Receivables from T-Systems International GmbH	0	132
Receivables from GTS Hungary Kft.	0	130
Receivables from Com.unique Kft.	0	122
Receivables from ViDaNet Zrt.	239	99
Receivables from Combridge S.R.L.	73	59
Receivables from Makedonski Telekom A.D.	34	28
Other	65	124
Total	17,158	17,498

¹ The vast majority of the balance is the Cash-pool receivable from T-Systems Magyarország Zrt. (HUF 13,131 million).

² The major part of the receivables from Novatel E.O.O.D. is the loan granted (HUF 2,475 million).

³ The significant decrease of the receivables from Origo Zrt. is primarily due to the capital increase in the company during 2014.

11 OTHER RECEIVABLES

The Company's other receivables as of December 31, 2013 and 2014 are as follows:

	2013	2014
Roaming discount receivables	2,398	1,961
Receivables from employees	1,068	954
Tax receivables	705	899
Advance payments given	584	891
Receivables from dealers	568	418
Receivables from forward deals	166	291
Other	1,432	1,427
Total	6,921	6,841

12 SECURITIES

The amount of HUF 307 million includes the cost of the repurchased treasury stock. The number and face value of repurchased treasury stock are detailed in Note 14.

13 ACCRUALS (ASSETS)

	2013	2014
Accrued income from telecommunication activities	28,445	29,435
Accrued income from electricity and gas retail services	4,713	4,611
Accrued income from related parties ¹	876	2,020
Other	1,196	1,737
Accrued income	35,230	37,803
Rental fees	1,142	1,317
Prepaid costs and expenses related to electricity and gas retail services ²	1,446	996
License fees ³	242	550
Insurance fees	358	272
Accrued amount of value correction paid related to loans	159	11
Other ³	48	267
Prepaid costs and expenses	3,395	3,413
Total	38,625	41,216

¹ The change in accrued income from related parties is due to the annual accrued income related to financial, accounting and IT services used by them in 2014 while only a monthly fee was accrued in 2013.

² The decrease of accrued income from electricity and gas retail services is mainly due to the decrease of world market purchase prices, the change of fees regulated by authorities and the effect of utility cost reduction.

³ In 2013, license fees were disclosed in Other.

14 SHAREHOLDERS' EQUITY

The Company's owners' structure based on the shareholder registration in the Share Register as of December 31, 2014:

Shareholder	Number of shares	Nominal value (HUF/per share)	Total value (HUF million)	Ownership percentage (%)
CMobil B.V (Deutsche Telekom)	617,436,759	100	61,744	59.21%
Other foreign companies	229,391,907	100	22,939	22.00%
Domestic companies	53,143,319	100	5,314	5.10%
Domestic and foreign private persons	75,083,638	100	7,508	7.20%
Other (not named and nominees)	67,142,489	100	6,714	6.44%
Government in total	153,569	100	15	0.01%
Repurchased treasury stock	390,862	100	39	0.04%
Total	1,042,742,543		104,274	100.00%

Changes in the equity items between January 1, 2013 and December 31, 2014 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves ¹	Balance Sheet Net Income
Opening balance as of January 1, 2013	104,274	58,952	158,363	1,807	0
Reclassifications	0	0	500	-500	0
Profit of the year	0	0	0	0	32,133
Balance as of December 31, 2013	104,274	58,952	158,863	1,307	32,133
Reclassifications	0	0	33,133	-1,000	-32,133
Profit of the year	0	0	0	0	36,735
Balance as of December 31, 2014	104,274	58,952	191,996	307	36,735

¹ In 2014, HUF 1,000 million development reserve was released from restricted reserves and was reclassified to retained earnings. After this transaction it contains the cost of repurchased treasury stock (HUF 307 million) as of December 31, 2014.

15 PROVISIONS

Provisions were increased and reversed under the following titles between January 1, 2013 and December 31, 2014:

	Severance payments, employee bonuses	Asset retirement obligation and environmental liabilities	Customer loyalty program	Derivatives	Legal cases	Other	Total
Opening Balance as of January 1, 2013	4,779	6,092	1,494	2,162	3,307	144	17,978
Increase	2,083	241	1,304	1,287	273	69	5,257
Decrease	-3,526	-111	-1,192	-1,701	-2,836	-63	-9,429
Closing Balance as of December 31, 2013	3,336	6,222	1,606	1,748	744	150	13,806
Increase	2,179	544	953	94	86	441	4,297
Decrease	-1,699	-106	-945	-1,747	-386	-100	-4,983
Closing Balance as of December 31, 2014	3,816	6,660	1,614	95	444	491	13,120

16 OTHER NON-CURRENT LOANS

The following is a movement table of other non-current loans between January 1, 2013 and December 31, 2014:

	2013	2014
Opening balance	0	4,454
Drawdown	14,839	0
Reclassification	-10,460	-2,969
Foreign exchange difference	75	89
Closing balance	4,454	1,574

The Company does not have any assets pledged for loans.

The repayment of the non-current bank loan is due in 2016.

17 NON-CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the non-current portion of other related party loans received from Deutsche Telekom Finance B.V and Deutsche Telekom A.G. The closing balance of these loans as of December 31, 2014 is HUF 240,428 million. During the year, HUF 105,000 million was dawn down, HUF 98,447 million was reclassified to current liabilities to other related parties and HUF 1,313 million non-realized foreign exchange loss was recognized.

The short term portion of related party loans (HUF 106,346 million) is disclosed in Note 22.

The installments due over one year of non-current loans are as follows:

Maturity	Amount
2016	112,441
2017	7,242
2018	15,745
2019	105,000
Total	240,428

18 OTHER NON-CURRENT LIABILITIES

This caption mainly contains the non-current part (HUF 75,697 million) of the frequency fees to be paid by the Company until the end of the frequency usage rights term based on the conditions in the Authority Contract related to frequency usage rights concluded with the NMAIH. See detailed information related to the Authority Contract in Note 1.3.

In addition this caption contains HUF 912 million long term finance lease and HUF 80 million other liabilities.

19 CURRENT LOANS

The following is a movement table of current loans between January 1, 2013 and December 31, 2014:

	2013	2014
Opening balance	36,335	91,419
Drawdown	281,569	386,375
Increase due to factored accounts payable ¹	17,163	0
Repayment	-254,255	-437,317
Reclassification	10,460	2,969
Foreign exchange difference	147	387
Closing balance	91,419	43,833

¹ The amount of liability from factored vendor invoices as at December 31, 2013 was HUF 9,740 million. The Company has no liability under this title in 2014.

20 ACCOUNTS PAYABLE

The accounts payable as of December 31, 2014 contain the following main items:

	2013	2014
Domestic suppliers	33,152	46,288
Foreign suppliers	4,046	6,300
Total	37,198	52,588

On December 31, 2014, domestic suppliers contain HUF 9,922 million and foreign suppliers contain HUF 996 million such liabilities where the terms of payment exceeds the standard terms but maximum 365 days.

21 CURRENT LIABILITIES TO RELATED PARTIES

The current liabilities to related parties as of December 31, 2013 and 2014 are summarized as follows:

	2013	2014
Liabilities to T-Systems Magyarország Zrt. ¹	7,602	4,830
Liabilities to Crnogorski Telekom ^{2,3}	2	3,465
Liabilities to Combridge S.R.L.	376	699
Liabilities to Investel Zrt.	438	439
Liabilities to ViDaNet Zrt.	49	283
Liabilities to Origo Zrt.	263	259
Liabilities to Telekom New Media Zrt.	469	149
Liabilities to KalászNet Kft.	459	12
Liabilities to Stonebridge A.D. ⁴	36,335	0
Other ³	22	49
Total	46,015	10,185

¹ The decrease of liabilities to T-Systems Magyarország Zrt. is mainly due to the decrease in accounts payable.

² The increase is mostly due to the HUF 3,387 million loan drawn down in 2014.

³ In 2013, the liabilities to ViDaNet Zrt. and to Crnogorski Telekom were disclosed in Other.

⁴ In 2014, the liabilities to Stonebridge A.D. were settled by the capital decrease in Stonebridge A.D.

22 CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the short term part of the loans from Deutsche Telekom Finance B.V. and Deutsche Telekom A.G.

Maturity	Interest	Amount
January 8, 2015	2 weeks BUBOR +0.7%	5,000
January 19, 2015	fix 4.07525%	50,760
May 26, 2015	fix 8.29525%	50,586
Total		106,346

Deutsche Telekom AG has expressed its commitment to finance the Company's budgeted financing needs until the end of June, 2016.

23 OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2013 and 2014 are summarized as follows:

	<u>2013</u>	<u>2014</u>
Annual frequency fee ¹	3,351	7,169
Liabilities to government ²	5,939	6,122
Liability from topping up the universal balance	3,482	3,992
Discount granted subsequently on roaming traffic	3,540	3,586
Value Added Tax	4,873	2,940
Customer overpayments	1,787	1,767
Finance lease liabilities ³	31	1,023
Payables to employees and related contributions	795	934
Personal income tax	706	879
Other ^{3,4}	<u>509</u>	<u>612</u>
Total	<u>25,293</u>	<u>29,024</u>

¹ Contains the sum of frequency fees becoming due within one year based on the conditions in the Authority Contract related to frequency usage rights concluded with the NMIAH (see in Note 1.3 and 18).

² In 2014, the main part of liabilities to government is telecommunication tax (HUF 4,237 million) and social contribution (HUF 1,380 million).

³ In 2013, finance lease liabilities were disclosed in Other.

⁴ We do not expect that the General Meeting would declare dividend for 2014. Dividends payable for previous years unsettled financially are disclosed in Other.

24 ACCRUALS (LIABILITIES)

	2013	2014
Deferred subscription and traffic fees	2,027	1,949
Deferred revenue from related parties	1,038	824
Energy	0	589
Other	887	950
Deferred revenue	3,952	4,312
Interest on owners' loans	6,830	8,729
Accrued expenses to related parties ¹	3,241	7,502
Payroll related expenses ²	6,579	3,892
Rental fees	2,990	3,420
Expenses related to TV services	3,659	2,433
Expenses from energy services ³	5,581	2,241
Payments to mobile operators	2,147	2,206
Charges for public utility services	1,553	1,918
Marketing expenses	1,491	1,780
Commission fees	1,169	1,416
Consultancy fees	682	1,002
Expenses related to value added services and content provision	544	603
Maintenance expenses	618	602
Payment to other fixed line network operators	541	292
Mediated SI/IT services	262	311
Interests	174	57
Frequency usage fee ⁴	1,459	0
Other (vendor accruals)	5,433	6,278
Accrued expenses	44,953	44,682
Deferred income	1,148	1,078
Total	50,053	50,072

¹ The change is due to the higher volume of services rendered by T-Systems Magyarország Zrt. at the end of 2014.

² Until the end of 2014, bonuses for the year were paid to the employees of the Company in a greater proportion than in the previous year.

³ The decrease is mainly due to the decrease of world market purchase prices, the change of fees regulated by authorities and the effect of utility cost reduction.

⁴ Based on the conditions in the Authority Contract related to frequency usage rights concluded with the NMIAH the frequency fees to be paid until the end of the term of the frequency usage rights were capitalized as Rights in September, 2013. In previous years these fees were recognized as expenses and the amount in 2013 in accrued expenses relates to periods before September 2013. See detailed information in Note 1.3.

25 NET DOMESTIC SALES

Net domestic sales in the years ending December 31, 2013 and 2014 were as follows:

	<u>2013</u>	<u>2014</u>
Voice retail	140,327	137,049
Voice wholesale	16,056	18,848
Non-voice	62,756	69,351
Sale of handsets and other devices	33,257	35,756
Other mobile revenues	9,145	12,198
Revenues from mobile services¹	<u>261,541</u>	<u>273,202</u>
Voice retail	58,058	53,297
Voice wholesale	2,822	1,822
Internet	38,386	38,690
Data	11,651	10,643
TV	29,943	32,502
Sale of handsets and other devices	5,530	3,926
Other fixed line services	6,878	6,043
Revenues from fixed line services¹	<u>153,268</u>	<u>146,923</u>
System integration and IT revenues	6,512	6,054
Energy revenues	47,996	43,303
Other sales revenues	<u>2,339</u>	<u>2,594</u>
Total net domestic sales	<u>471,656</u>	<u>472,076</u>

¹ Sales of insurance services invoiced to customers (HUF 433 million) were included in Other fixed line services in the Notes as of 2013 while in 2014 these are included in Other mobile revenues.

26 NET EXPORT SALES BY GEOGRAPHICAL AREAS

Net export sales by geographical areas in the years ending December 31, 2013 and 2014 are summarized as follows (sales are solely connected with services provided):

	<u>2013</u>		<u>2014</u>	
		%		%
EU	12,336	74.94%	11,584	77.58%
Europe (outside the EU)	1,987	12.07%	1,197	8.02%
Asia	1,194	7.25%	1,121	7.51%
America	558	3.39%	548	3.67%
Africa	250	1.52%	392	2.62%
Australia	137	0.83%	89	0.60%
Total net export sales	<u>16,462</u>	<u>100.00%</u>	<u>14,931</u>	<u>100.00%</u>

27 OTHER INCOME

Other income in the years ending December 31, 2013 and 2014 are as follows:

	2013	2014
Default interest, penalties, damage compensations	7,668	7,616
Reversal of provisions ¹	9,429	4,983
Other income from reversal of impairment ²	3,779	2,879
Revenue from sale of intangible and tangible fixed assets ³	686	2,151
Discount received subsequently	2,605	2,039
Revenue from receivable factoring	711	660
Other	1,604	1,804
Total	<u>26,482</u>	<u>22,132</u>

¹ Details of provisions are disclosed in Note 15.

² Received amounts for overdue and impaired receivables.

³ The increase is due to the higher revenue from the sale of 2 real estate in 2014, of which certain parts are rented back by the Company.

28 COSTS OF SERVICES

Costs of services in the years ending December 31, 2013 and 2014 are as follows:

	2013	2014
Repair and maintenance costs	19,511	17,878
Rental fees	16,309	17,254
Commissions paid	7,991	7,717
Marketing expenses	7,448	7,437
Costs of outsourced sales and management services related to business customers	5,235	5,640
Other services related to revenues	3,114	5,160
Consultancy	4,312	4,865
Payments to international network operators	4,144	3,353
Property operating costs	2,669	2,908
Postage	1,899	2,141
Expenses of rented workforce and operator activities	1,029	1,225
Brand license fee	1,322	1,221
Costs of delivery and storage	1,071	1,148
Education, training expenses	862	754
Administrative services and related costs	667	675
Costs of property security and cash transport services	655	657
Payments to Internet and TV service providers	401	644
Travel and accommodation costs	394	429
Database and 'infodok' expenses	395	402
Membership fees, copyright payments	207	321
Costs of vehicle fleet	197	153
Translation and interpretation fees	114	108
Other	2,319	2,359
Total	<u>82,265</u>	<u>84,449</u>

29 COST OF GOODS SOLD

Cost of goods sold in the years of 2013 and 2014 contains the following major items:

	<u>2013</u>	<u>2014</u>
Fixed line and mobile equipment	55,121	55,426
Energy ¹	37,909	32,343
Other	<u>748</u>	<u>405</u>
Total	<u>93,778</u>	<u>88,174</u>

¹ The decrease is mainly due to the decrease of world market purchase prices, the change of fees regulated by authorities and the effect of utility cost reduction.

30 COSTS OF (MEDIATED) SERVICES SOLD

Costs of mediated services sold in the years ending December 31, 2013 and 2014 are as follows:

	<u>2013</u>	<u>2014</u>
Payment to mobile operators	25,829	25,497
Costs of TV services	12,622	13,480
System usage and other charges related to electricity and gas retail services	10,994	9,540
Costs of content providing and mobile trade services sold	7,029	7,321
Costs of mediated SI/IT services	3,951	3,808
Payment to other fixed line network operators	4,004	2,844
Other	<u>1,537</u>	<u>1,197</u>
Total	<u>65,966</u>	<u>63,687</u>

31 EMPLOYEES

The average statistical number of employees in 2013 and 2014 are as follows (by function):

		2013		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	853	3,221	818
	white collar	6,241	40,709	5,419
	total	7,094	43,930	6,237
Part-time employees				
	blue collar	1	3	1
	white collar	301	597	183
	total	302	600	184
Employees total				
	blue collar	854	3,224	819
	white collar	6,542	41,306	5,602
	total	7,396	44,530	6,421
Employees not in headcount ¹				
		0	1,796	608
Total		7,396	46,326	7,029
		2014		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	808	2,919	838
	white collar	6,219	42,714	5,877
	total	7,027	45,633	6,715
Part-time employees				
	blue collar	1	3	1
	white collar	324	657	216
	total	325	660	217
Employees total				
	blue collar	809	2,922	839
	white collar	6,543	43,371	6,093
	total	7,352	46,293	6,932
Employees not in headcount ¹				
		0	777	201
Total		7,352	47,070	7,133

¹ Includes employees absent permanently, who are excluded from the average statistical number of employees.

32 REMUNERATION OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The compensation granted to members of the Board of Directors and the Supervisory Board of the Company in the years ending December 31, 2013 and 2014 is summarized below:

	<u>2013</u>	<u>2014</u>
Board of Directors	14	16
Supervisory Board	57	61
Total	<u>71</u>	<u>77</u>

The members of the Board of Directors and the Supervisory Board have not received any advance payments or loans in 2014. 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. The changes in these loans in 2014 were as follows:

	<u>2014</u>
Balance as of December 31, 2013	6
Loans repaid	-1
Closing balance	<u>5</u>

The loans are repayable monthly, the average remaining payment term is 59 months. Interest rate of loans: 4.1 per cent or free of interest.

The Company did not offer guarantees on behalf of the members of the Board of Directors and the Supervisory Board and has no retirement pension liability to them.

33 OTHER EXPENSES

Other expenses in the years ending December 31, 2013 and 2014 were as follows:

	<u>2013</u>	<u>2014</u>
Taxes, contributions, fees (Government taxes)	40,084	42,664
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets	12,416	15,996
Provisions ¹	5,257	4,297
Discount granted subsequently on roaming traffic	3,343	3,157
Factored receivables	1,924	2,160
Net book value of fixed assets sold ²	474	1,126
Write-off of uncollectible receivables	120	221
Other ³	2,160	1,316
Total	<u>65,778</u>	<u>70,937</u>

¹ Details of provisions are disclosed in Note 15.

² The increase is due to the higher cost of the sale of 2 real estate, of which certain parts are rented back by the Company.

³ In 2014 there was no damage compensation related to legal cases and loss of intangible and tangible assets so the amounts (HUF 1,400 million and HUF 16 million) are now included in Other for 2013.

34 RESULTS FROM FINANCIAL ACTIVITIES

Results from financial activities in the years ending December 31, 2013 and 2014 were as follows:

	2013	2014
Dividends from Stonebridge A.D.	15,393	19,066
Dividends from Crnogorski Telekom A.D.	5,122	5,009
Dividends from Telekom New Media Zrt.	0	406
Dividends from T-Systems Magyarország Zrt.	4,000	0
Dividends from Investel Zrt.	213	0
Dividends from MODULTECHNIKA Kft.	90	0
Other	442	312
Dividends and profit sharing (received or due)	25,260	24,793
Interest from related parties ¹	832	572
Interest from banks	28	18
Other ¹	106	59
Other interest income received	966	649
Realized foreign exchange gain	4,204	5,825
Non-realized foreign exchange gain	356	2,626
Other	396	324
Other income from financial activities	4,956	8,775
Income from financial transactions	31,182	34,217
Interest to Deutsche Telekom	17,350	17,454
Interests to related parties	721	651
Other interests	3,841	2,240
Interest capitalized ²	-119	-325
Interest expense	21,793	20,020
Other impairments	67	0
Impairment of investments	67	0
Realized foreign exchange loss	8,336	8,297
Other	148	158
Other expenses from financial activities	8,484	8,455
Expenses from financial transactions	30,344	28,475
Results from financial activities	838	5,742

¹ The amount of Interest from related parties in 2013 contains the interest from T-Systems Magyarország Zrt. (HUF 643 million) which was disclosed separately in 2013 and also included the interests from other related parties (HUF 189 million) which were included in Other in the previous year.

² In 2013, interest capitalized was included in Other, and interest to banks (HUF 3,804 million) was disclosed separately.

35 RESULT FROM EXTRAORDINARY ACTIVITIES

Extraordinary income and expenses in the years ending December 31, 2013 and 2014 are summarized as follows:

	<u>2013</u>	<u>2014</u>
Extraordinary income		
Income related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	0	24,831
- Capital decrease of Crnogorski Telekom	0	4,065
- Result of finished liquidation of MODULTECHNIKA Kft.	0	4
- Merger of DATEN-KONTOR Kft. into T-Systems Magyarország Zrt.	1,414	0
- Contract value of assets contributed in-kind in T-Systems Magyarország Zrt.	1,792	0
Assets received free of charge	74	404
Development contributions	47	129
Other extraordinary income	<u>381</u>	<u>299</u>
Total	<u>3,708</u>	<u>29,732</u>
Extraordinary expense		
Expenses related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	0	23,613
- Book value of capital decrease of Crnogorski Telekom	0	5,248
- Loans forgiven to T-Systems Magyarország Zrt.	2,000	2,999
- Book value of assets contributed in-kind in T-Systems Magyarország Zrt.	1,834	0
- Merger of DATEN-KONTOR Kft. into T-Systems Magyarország Zrt.	847	0
Assets contributed and service provided free of charge	695	958
Dimenzió contributions	213	210
Receivables waived	629	46
Other extraordinary expense	<u>52</u>	<u>87</u>
Total	<u>6,270</u>	<u>33,161</u>
Result from extraordinary activities	<u>-2,562</u>	<u>-3,429</u>

Result from extraordinary activities adjusting tax base in the years ending December 31, 2013 and 2014 are summarized as follows:

	<u>2013</u>	<u>2014</u>
Effect of items in result from extraordinary activities on base of Corporate Income Tax		
Tax base increasing (+)/decreasing (-) items		
Expenses related to investments in subsidiaries		
- Loans forgiven to T-Systems Magyarország Zrt.	2 000	2 999
- Capital decrease of Stonebridge A.D. and Crnogorski Telekom	0	-3 820
- Merger of DATEN-KONTOR Kft. into T-Systems Magyarország Zrt.	-567	0
Assets contributed and service provided free of charge	<u>339</u>	<u>426</u>
Total tax base adjustment items	<u>1,772</u>	<u>-395</u>

36 TRANSACTIONS WITH RELATED PARTIES AND MEMBERS OF DEUTSCHE TELEKOM GROUP

Balances of transactions with related parties not disclosed in the balance sheet and income statement separately are detailed as follows.

Loans received from owners are disclosed as Non-current liabilities to other related parties or Current liabilities to other related parties. Their interests are disclosed separately as expenses from financial transactions in the income statement.

Revenues and expenses (mainly relating to telecommunication services) from the members of Deutsche Telekom Group were not disclosed separately as transactions with related parties.

Transactions with related parties and members of Deutsche Telekom Group in the years ending December 31, 2013 and 2014 are summarized as follows:

	2013	2014
Net domestic sales	471,656	472,076
- of which: related parties	3,711	4,291
- of which: members of Deutsche Telekom Group	2,552	3,132
Net export sales	16,462	14,931
- of which: related parties	1,011	893
- of which: members of Deutsche Telekom Group	9,341	8,219
Other income	26,482	22,132
- of which: related parties	272	47
- of which: members of Deutsche Telekom Group	2,039	1,602
Accounts receivable	47,834	48,653
- of which: members of Deutsche Telekom Group	1,123	338
Other receivables	6,921	6,842
- of which: members of Deutsche Telekom Group	2,526	2,004
Accrued income	35,230	37,803
- of which: members of Deutsche Telekom Group	738	745
Prepaid expenses	3,395	3,413
- of which: members of Deutsche Telekom Group	159	87
Accounts payable	37,198	52,588
- of which: members of Deutsche Telekom Group	1,669	641
Current liabilities to other related parties	57,268	106,346
- of which: members of Deutsche Telekom Group	57,268	106,346
Other current liabilities	25,293	29,024
- of which: members of Deutsche Telekom Group	3,312	3,109
Deferred Income	3,952	4,312
- of which: members of Deutsche Telekom Group	831	618
Accrued expenses	44,953	44,682
- of which: members of Deutsche Telekom Group	9,217	10,576

37 CORPORATE INCOME TAX

The differences between profit before tax and the tax base for the years ending December 31, 2013 and 2014 are presented below:

	2013	2014
Profit before tax	33,534	38,452
Depreciation according to the Act on Accounting	86,290	88,825
Impairment of receivables, recognized impairment in previous year	9,538	9,821
Non-realized foreign exchange difference taken into account in previous years	0	6,207
Recognition of provisions	5,257	4,297
Recoverable receivables waived and expired	2,257	3,228
Increase of expenditure and decrease of income discovered by tax audit or self-revision	2,835	3,033
Non-repayable donations, assets and services given free of charge, assumed liabilities	339	447
Penalty, sanction	115	294
Other tax base increasing items	182	298
Tax base increasing items	106,813	116,450
Depreciation according to the Tax Law	-76,231	-86,591
Dividend income	-25,260	-24,793
Non-realized foreign exchange difference	0	-7,594
Reversal of provisions	-9,429	-4,983
Realized gain on disposal of investments	-567	-3,820
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	-4,458	-3,521
Decrease of expenditure and increase of income discovered by tax audit or self-revision	-1,298	-1,431
Donations	-45	-2
R&D costs	-306	0
Other tax base decreasing items	-2,704	0
Tax base decreasing items	-120,298	-132,735
Tax base	20,049	22,167
Calculated amount of tax	3,764	4,167
Tax credit	-3,441	-3,917
Corporate Income Tax	323	250
Energy suppliers' tax	154	229
Withholding tax paid abroad	1,033	1,208
Tax liability	1,510	1,687
Tax liability (self-revision)	-109	30
Tax liability	1,401	1,717

37.1 Information on investment tax credits

Based on the broadband investments, as well as on the investments exceeding HUF 3,000 million made in 2012 and 2013, Magyar Telekom Plc. is entitled to utilize investment tax credits which are as follows:

552/2004 Ministry of Finance Resolution: "Tax credit in connection with development program cannot exceed HUF 5,908 million at present value."

19/2005 Ministry of Finance Resolution: "Tax credit in connection with development program cannot exceed HUF 2,614 million at present value."

Tax credit on broadband Internet investments announced for 2006: "Tax credit cannot exceed HUF 2,292 million at present value."

Tax credit on broadband Internet investments announced for 2007: "Investment tax credit cannot exceed HUF 1,318 million at present value."

12.724/2005 Ministry of Finance Resolution: "The tax credit is applicable in connection with construction of WLAN put into service by T-Mobile Magyarország Rt. which also provides broadband internet service and cannot exceed HUF 334 million at present value." The tax credit is applicable in connection with construction of UMTS network announced by T-Mobile on August 18, 2005 which also provides broadband internet service and cannot exceed HUF 4,215 million at present value. Tax credit on broadband Internet investments announced for 2006 by T-Mobile. The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

Based on the claim filed to the Ministry of Finance on February 3, 2012, the investment tax credit to be utilized relating to the 2012 fixed line telecommunication investment cannot exceed HUF 4,317 million at present value.

Based on the claim filed to the Ministry of Finance on February 3, 2012, the investment tax credit to be utilized relating to the 2012 mobile telecommunication investment cannot exceed HUF 4,769 million at present value.

Based on the claim filed to the Ministry of Finance on 31 October 2012, the investment tax credit to be utilized relating to the 2013 fixed line telecommunication investment cannot exceed HUF 2,986 million at present value.

Based on the claim filed to the Ministry of Finance on 31 October 2012, the investment tax credit to be utilized relating to the 2013 mobile telecommunication investment cannot exceed HUF 2,418 million at present value.

37.2 Other tax related information

Since January 1, 2013 Magyar Telekom Plc. is subject to utility network tax. Owners of ducts, pipes, cables, etc. used for electricity, telecommunication, natural gas, heating, water and wastewater services are subject to a tax based on the length of their utilities. The Company, which is also subject to this tax for the ducts and cables, recognized a utility tax expense of HUF 7,496 million in 2014.

Since July 1, 2012 Magyar Telekom Plc. is subject to telecommunication tax. The telecommunication tax was imposed on SMS/MMS services, as well as on mobile and fixed line telecommunication voice services provided on the telecommunication network. The amount of telecommunication tax was HUF 25,859 million in 2014.

38 DIVIDEND

We do not expect that Magyar Telekom Plc.'s General Meeting would declare dividend after the Company's 2014 results.

39 OFF-BALANCE SHEET ITEMS

Off-balance sheet items mainly derive from contractual commitments (contracted construction-in-progress and other development commitments, guarantee obligations, acquisition obligations etc.).

Off-balance sheet items also include receivables and liabilities related to forward and swap deals not closed until the balance sheet date.

Off-balance sheet items are detailed in Appendix 4.

40 HAZARDOUS WASTE

The following table shows the movement of hazardous waste at the Company in 2014:

	<u>Hazardous waste (kg)</u>
December 31, 2013	1,162
Increase:	
Lead batteries	65,232
Soil and rocks containing hazardous materials	240
Other	<u>15,757</u>
Increase in total	81,229
Decrease:	
Lead batteries	-65,705
Soil and rocks containing hazardous materials	-240
Other	<u>-16,446</u>
Decrease in total	-82,391
December 31, 2014	<u>0</u>

HUF 570 million environmental expenses were recorded in 2013 and HUF 654 million in 2014.

41 RESEARCH & EXPERIMENTAL DEVELOPMENT COSTS

At Magyar Telekom Plc. the research and experimental development costs contain only the HCM project started in 2013. Its costs incurred were HUF 73 million in 2013 and HUF 54 million in 2014. The Company received HUF 59 million subsidy in connection with the project.

42 SELF-REVISIONS

At Magyar Telekom Plc., financial events that are related to prior years are recorded in the current year through self-revision.

In 2014, the total of all errors (whether negative or positive) for a given financial year (separately for each year) and the impacts thereof – increasing or decreasing the profit or loss or the equity – do not exceed the value limit set out in the Act on Accounting and in the accounting policy i.e. the 2 per cent of the balance sheet total of the financial year.

Accordingly, the discovered errors related to previous years were not disclosed in a separate column in the balance sheet and income statement and so they are part of the current year figures of the income statement.

43 IMPORT PURCHASES

Import purchases by geographical areas in the years ending December 31, 2013 and 2014 are summarized as follows:

	2013			2014		
	Services	Products	Total	Services	Products	Total
EU	16,944	28,171	45,115	16,738	31,967	48,705
Asia	2,389	927	3,316	2,739	1,156	3,895
Europe (outside the EU)	1,686	152	1,838	1,026	397	1,423
America	539	208	747	545	143	688
Africa	251	0	251	284	0	284
Australia	37	0	37	37	0	37
Total	21,846	29,458	51,304	21,369	33,663	55,032

During 2014, Magyar Telekom Plc. purchased HUF 33,663 million import products of which less than 10 per cent were recognized as fixed assets, while the rest was purchased inventory for resale.

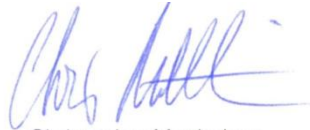
During 2014, the amount of imported services was HUF 21,369 million. 60 per cent of these are included in cost of services, 39 per cent mediated services and the remaining part in other services and other payroll related expenses.

44 REMUNERATION OF AUDITOR

Fees charged by the auditors for the years ending December 31, 2013 and 2014 are summarized as follows:

	2013	2014
Audit	200	200
Other assurance services	71	173
Other non-audit services	90	171
Total	361	544

Budapest, February 25, 2015



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer

APPENDIX 1A BALANCE SHEET RELATED TO ENERGY SERVICES – ASSETS

	December 31, 2013			December 31, 2014			Total
	Electricity	Gas	Other	Electricity	Gas	Other	
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	755	648	807,767	825	686	888,215	889,726
I. Intangible assets	574	493	239,871	560	466	344,755	345,781
3. Rights	574	493	136,347	560	466	294,507	295,533
4. Intellectual property	0	0	5,108	0	0	5,941	5,941
5. Goodwill	0	0	98,216	0	0	83,840	83,840
6. Advance payments on intangible assets	0	0	0	0	0	467	467
II. Tangible assets	153	131	378,855	245	203	372,739	373,187
1. Land and buildings and related rights	132	113	233,327	211	175	234,031	234,417
- Land	7	6	2,659	12	10	2,851	2,873
- Buildings	116	99	62,251	184	153	60,942	61,279
- Telecommunication network	0	0	159,176	0	0	161,370	161,370
- Other properties	9	8	8,420	15	12	8,340	8,367
- Real estate related rights	0	0	621	0	0	528	528
2. Technical equipment, machinery and vehicles	0	0	111,560	0	0	100,126	100,126
- Telecommunication equipment and machinery	0	0	109,944	0	0	99,695	99,695
- Other technical equipment, machinery and vehicles	0	0	1,616	0	0	1,231	1,231
3. Other equipment and vehicles	20	17	7,940	31	26	7,555	7,612
5. Construction in progress	1	1	25,823	3	2	31,021	31,026
6. Advance payments on construction-in-progress	0	0	5	0	0	6	6
III. Financial investments	28	24	189,441	20	17	170,721	170,758
1. Non current investments in related parties	0	0	178,886	0	0	158,843	158,843
5. Other non current loans granted	28	24	10,555	20	17	11,878	11,915
B. CURRENT ASSETS	2,837	3,442	79,155	2,169	3,089	80,716	85,974
I. Inventories	0	0	8,320	0	0	9,828	9,828
1. Raw materials	0	0	416	0	0	271	271
2. Work in progress and semi finished products	0	0	62	0	0	15	15
5. Goods for resale	0	0	7,842	0	0	9,542	9,542
II. Receivables	2,828	3,434	65,651	2,160	3,081	67,751	72,992
1. Accounts receivable	2,703	3,312	41,819	1,946	2,882	43,825	48,653
2. Receivables from related parties	37	32	17,089	66	54	17,378	17,498
5. Other receivables	88	90	6,743	148	145	6,548	6,841
III. Securities	0	0	307	0	0	307	307
3. Treasury stock, quotas	0	0	307	0	0	307	307
IV. Liquid assets	9	8	4,877	9	8	2,830	2,847
1. Cash and cheques	0	1	217	1	1	265	267
2. Bank deposits	9	7	4,660	8	7	2,565	2,580
C. ACCRUALS	2,209	3,958	32,458	1,621	4,000	35,595	41,216
1. Accrued income	2,204	2,508	30,518	1,613	2,997	33,193	37,803
2. Prepaid costs and expenses	5	1,450	1,940	8	1,003	2,402	3,413
TOTAL ASSETS	5,801	8,048	919,380	4,615	7,775	1,004,526	1,016,916

data in millions of HUF

APPENDIX 1B

BALANCE SHEET RELATED TO ENERGY SERVICES – LIABILITIES

	December 31, 2013				December 31, 2014				
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	data in millions of HUF
D. SHAREHOLDERS' EQUITY	-3,718	-3,974	363,221	355,529	-4,479	-5,773	402,516	392,264	
I. Common stock	0	0	104,274	104,274	0	0	104,274	104,274	
- of this treasury stock at par value	0	0	39	39	0	0	39	39	
II. Unpaid share capital (*)	0	0	0	0	0	0	0	0	
III. Capital reserves	0	0	58,952	58,952	0	0	58,952	58,952	
IV. Retained earnings	-1,447	-2,001	162,311	158,863	-3,718	-3,975	199,689	191,986	
V. Restricted reserves	0	0	1,307	1,307	0	0	307	307	
VI. Valuation reserves	0	0	0	0	0	0	0	0	
VII. Net income	-2,271	-1,973	363,777	32,133	-761	-1,798	39,294	36,735	
E. PROVISIONS	11	9	13,786	13,806	12	10	13,098	13,120	
1. Provision for expected obligations	11	9	13,786	13,806	12	10	13,098	13,120	
F. LIABILITIES	6,502	6,861	500,478	513,841	2,715	2,250	556,495	561,460	
I. Subordinated liabilities	0	0	0	0	0	0	0	0	
II. Non-current liabilities	621	533	254,770	255,924	1,087	903	316,701	318,691	
5. Other non-current loans	11	10	4,433	4,454	6	5	1,563	1,574	
7. Non-current liabilities to other related parties	582	499	231,481	232,562	982	816	238,630	240,428	
8. Other non-current liabilities	28	24	18,856	18,908	99	82	76,508	76,689	
III. Current liabilities	5,881	6,328	245,708	257,917	1,628	1,347	239,794	242,769	
1. Current borrowings	0	0	189	189	0	0	179	179	
- of this convertible bonds	0	0	0	0	0	0	0	0	
2. Current loans	5,099	4,805	81,515	91,419	179	149	43,505	43,833	
3. Advances received	0	0	535	535	0	0	614	614	
4. Accounts payable	297	917	35,984	37,198	508	1,315	50,765	52,588	
6. Current liabilities to related parties	121	103	45,791	46,015	23	19	10,143	10,185	
7. Current liabilities to other related parties	143	123	57,002	57,268	435	361	105,550	106,346	
8. Other current liabilities	221	380	24,692	25,293	483	-497	29,038	29,024	
- of this dividends payable	0	0	0	0	0	0	0	0	
G. ACCRUALS	3,238	4,396	42,419	50,053	2,258	2,788	45,026	50,072	
1. Deferred revenue	1	1	3,950	3,952	52	540	3,720	4,312	
2. Accrued expenses	3,237	4,395	37,321	44,953	2,206	2,248	40,228	44,682	
3. Other deferred income	0	0	1,148	1,148	0	0	1,078	1,078	
DIFFERENCE BECAUSE OF SEPARATION	-232	756	-624	0	4,109	8,500	-12,609	0	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,801	8,048	919,580	933,229	4,615	7,775	1,004,526	1,016,916	





APPENDIX 1C
INCOME STATEMENT RELATED TO ENERGY SERVICES

data in HUF millions

	January-December, 2013			January-December, 2014			Total
	Electricity	Gas	Other	Electricity	Gas	Other	
1. Net domestic sales	22,104	25,896	423,656	19,516	23,791	428,769	472,076
2. Net export sales	0	0	16,462	0	0	14,931	14,931
I. Sales revenues	22,104	25,896	440,118	19,516	23,791	443,700	487,007
3. Change in self-manufactured inventories	0	0	57	0	0	-47	-47
4. Capitalised value of self-manufactured assets	23	20	21,678	24	20	23,976	24,020
II. Own work capitalized	23	20	21,735	24	20	23,929	23,973
III. Other income	68	118	26,295	156	318	21,688	22,132
of which: reversal of impairment	0	0	0	0	0	0	0
5. Costs of raw material	45	39	26,019	46	39	28,289	28,384
6. Costs of services	320	294	81,651	339	301	83,809	84,449
7. Costs of other services	141	138	13,098	142	141	9,013	9,296
8. Cost of goods sold	17,115	20,794	55,869	13,896	18,447	55,831	88,174
9. Costs of (mediated) services sold	5,799	5,195	54,972	4,917	4,623	54,147	63,687
IV. Material-type expenses	23,420	26,460	231,609	19,340	23,551	231,099	273,990
10. Salaries and wages	353	303	45,670	324	269	46,477	47,070
11. Other employee related expenses	47	41	6,941	41	34	7,058	7,133
12. Employee related contributions	103	88	14,563	99	82	14,736	14,917
V. Employee related expenses	503	432	67,174	464	385	68,271	69,120
VI. Depreciation and Amortization	100	86	85,558	111	92	82,723	82,926
VII. Other expenses	477	905	64,396	417	1,516	69,004	70,937
of which: impairment	265	161	11,990	193	121	15,682	15,996
A. PROFIT FROM OPERATING ACTIVITIES	-2,304	-1,849	39,411	-636	-1,415	38,190	36,139
13. Dividends and profit sharing (received or due) of which: received from related parties	0	0	25,260	0	0	24,793	24,793
14. Other interest income received	2	2	962	3	2	644	649
15. Other interest income received of which: received from related parties	2	2	828	3	2	588	572
17. Other income from financial activities	329	449	4,178	253	147	8,375	8,775
VIII. Income from financial transactions	331	451	30,400	256	149	33,812	34,217
19. Interest expense of which: to related parties	56	48	21,689	83	69	19,868	20,020
of which: to related party	2	2	717	3	2	646	651
20. Impairment of investments, securities and bank deposits	43	37	17,270	71	59	17,324	17,454
21. Other expenses on financial transactions	157	454	7,873	159	348	7,948	8,455
IX. Expenses from financial transactions	213	502	29,629	242	417	27,816	28,475
B. RESULT FROM FINANCIAL TRANSACTIONS	118	-51	771	14	-268	5,996	5,742
C. PROFIT FROM ORDINARY ACTIVITIES	-2,186	-1,900	40,182	-622	-1,683	44,186	41,881
X. Extraordinary income	0	0	3,708	0	0	28,732	28,732
XI. Extraordinary expenses	6	5	6,239	14	11	33,136	33,161
D. RESULT FROM EXTRAORDINARY ACTIVITIES	-6	-5	-2,531	-14	-11	-3,404	-3,429
E. PROFIT BEFORE TAXES	-2,192	-1,905	37,651	-636	-1,694	40,782	38,452
XII. Corporate income tax	79	68	1,254	125	104	1,488	1,717
F. NET INCOME	-2,271	-1,973	36,377	-761	-1,798	39,294	36,735
22. Use of retained earnings for dividends	0	0	0	0	0	0	0
23. Dividend paid (approved)	0	0	0	0	0	0	0
G. BALANCE SHEET NET INCOME	-2,271	-1,973	36,377	-761	-1,798	39,294	36,735

APPENDIX 1D
GAS-ENGINE SMALL POWER PLANT



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data in HUF millions

	2013	2014
Technical equipment, machinery and vehicles	306	265
Net domestic sales	9	5
Costs of raw material	77	72
Costs of services	50	51
Salaries and wages	6	6
Employee related contributions	2	2
Depreciation and Amortization	41	41
Other expenses	4	4

APPENDIX 2A

LAND AND BUILDINGS AND RELATED RIGHTS



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data in HUF millions

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value ¹						
11. Opening gross value (on January 1, 2014)	2,872	89,720	333,529	16,256	4,354	446,731
12. Additions	15	1,675	14,588	239	62	16,579
13. Disposals	-93	-1,157	-888	-534	-17	-2,689
14. Reclassifications	79	149	10,879	512	0	11,619
15. Closing gross value (on December 31, 2014)	2,873	90,387	358,108	16,473	4,399	472,240
2. Accumulated depreciation ¹						
21. Opening depreciation (on January 1, 2014)	0	27,254	174,353	7,819	3,733	213,159
22. Annual depreciation	0	2,245	14,450	441	156	17,292
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	0	-542	-716	-287	-18	-1,563
25. Reclassifications	0	151	8,651	133	0	8,935
26. Closing depreciation (on December 31, 2014)	0	29,108	196,738	8,106	3,871	237,823
3. Net book value (on December 31, 2014) ¹	2,873	61,279	161,370	8,367	528	234,417
Of which residual value	0	177	0	0	0	177

¹ Excludes the assets below HUF 50,000

**APPENDIX 2B
TECHNICAL AND OTHER EQUIPMENT, MACHINERY AND VEHICLES**

data in HUF millions

Description	data in HUF millions					
	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value ¹						
11. Opening gross value (on January 1, 2014)	604,276	5,377	609,653	59,484	669,137	33
12. Additions	22,622	16	22,638	3,360	25,998	0
13. Disposals	-33,249	-1,074	-34,323	-4,489	-38,812	0
14. Reclassifications	-11,623	472	-11,151	-1,263	-12,414	0
15. Closing gross value (on December 31, 2014)	582,026	4,791	586,817	57,092	643,909	33
2. Accumulated depreciation ¹						
21. Opening depreciation (on January 1, 2014)	494,332	3,761	498,093	51,507	549,600	33
22. Annual depreciation	30,947	250	31,197	3,430	34,627	0
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	-32,703	-779	-33,482	-4,381	-37,863	0
25. Reclassifications	-9,445	328	-9,117	-1,076	-10,193	0
26. Closing depreciation (on December 31, 2014)	483,131	3,560	486,691	49,480	536,171	33
3. Net book value (on December 31, 2014) ¹	98,895	1,231	100,126	7,612	107,738	0
Of which residual value	1,339	853	2,192	143	2,335	0

¹ Excludes the assets below HUF 50,000

APPENDIX 3
DIRECT INVESTMENTS OF MAGYAR TELEKOM PLC.



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data in HUF millions

Company	Headquarter	Ownership Direct	Ownership Indirect	Ownership Direct and Indirect	Voting Rights	Common Stock	Reserves	Net Income	Equity
Combridge S.R.L. ¹	Sf. Gheorghe, Vitorului 24, 7 C 16	100.00%		100.00%	100.00%	2,093	559	336	2,988
Com.unique Kft.	1133 Budapest, Hegedűs Gyula u. 83-87.	100.00%		100.00%	100.00%	25	54	27	106
Crnogorski Telekom A.D. Podgorica ¹	Moskovska 29, Podgorica 81000, Montenegro	76.53%		76.53%	76.53%	39,002	966	6,585	46,553
Investel Zrt.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1,113	203	3	1,319
ISH Kft.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	3	18	0	21
KalászNet Kábel TV Kft.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	200	912	-160	952
KIBU Innováció Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	40	27	-24	43
Novatel E.O.O.D. ¹	1680 Sofia, Bulgaria blvd 98, building Astra, entrance D, fl. 3, office 5G	100.00%		100.00%	100.00%	836	124	-190	770
Origo Zrt.	1073 Budapest, Dob utca 76-78.	100.00%		100.00%	100.00%	300	1,036	-251	1,085
Stonebridge Communications A.D.	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	83,882	19,182	-31,431	71,633
TeleData Kft.	2040 Budaörs, Baross u. 89.	50.99%		50.99%	50.99%	1	-1	3	3
Telekom New Media Zrt.	1222 Budapest Nagytétényi út 29.	100.00%		100.00%	100.00%	670	-19	48	699
Telemacedonia A.D. under liquidation ^{1, 2}	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	3	48	-3	48
T-Systems Magyarország Zrt.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	2,002	16,298	1,133	19,433
VIDaNet Zrt.	9024 Győr, Orgonau. 10.	67.50%	22.50%	90.00%	49.995%	2,000	4,394	406	6,800

All data in the table related to the capital is the last known figures by Magyar Telekom Plc. and not yet audited.

¹ The equity figures of foreign subsidiaries are based on IFRS reports and were translated using foreign exchange rates as of December 31., 2014.

² Under liquidation.



APPENDIX 4/1 OFF-BALANCE SHEET ITEMS

(HUF million)

	Total
Guarantee obligation	15,379
Commitment for capital expenditure and other developments	8,018
Commitment for capital expenditure with related parties	86
Environmental protection, restoration and other obligations	240
Commitment for acquisition	32

Forward and swap deals

Open swap FX deals on December 31, 2014 were contracted on the OTC market with the original aim of delivery

ID	Date	Off-balance sheet liability (HUF million)	FX	Off-balance sheet receivable	Value date	Exchange rate	Fair value (Profit+ / Loss) (HUF million)
DTAG_20090626_30 mrd	06.25.2009	-30,000	HUF	EUR 107,066,533	01.19.2015	280.20	2,412
DTAG_20090626_5mrd	07.01.2009	-5,000	HUF	EUR 18,470,632	01.19.2015	270.70	603
DTAG_20090626_9.6 mrd	07.02.2009	-9,595	HUF	EUR 35,661,451	01.19.2015	269.05	1,236
DTAG_20110711_50 mEUR	07.06.2011	-13,250	HUF	EUR 50,000,000	11.20.2018	265.00	4,877
DTAG_20110711_23 mEUR	07.06.2011	-6,095	HUF	EUR 23,000,000	05.19.2017	265.00	2,000
2013-as K&H swap	05.15.2013	-4,425	HUF	EUR 15,000,000	05.17.2016	295.00	231
Total		-68,365		Total EUR 249,198,616			11,359

Opened swap FX deals on December 31, 2014 were contracted on the OTC market with the original aim of non-deliverable derivatives

ID	Date	Contracted value (HUF million)	FX	Contracted consumption (mWh)	Value date	Exchange rate	Fair value (Profit+ / Loss) (HUF million)
BNP	05.30.2014	-1,848	HUF	252,859 mWh	01.07.2015	23.21 EUR/mWh	-173 ¹
Citigroup Global Markets Ltd	05.08.2014	-1,501	HUF	193,942 mWh	30.06.2015	24,575 EUR/mWh	-245 ¹
Total		-3,349		446,801 Total mWh			-418

¹ Expected, financially not realized amount of negative difference is recognized as accrued expense.



APPENDIX 4/2
OFF-BALANCE SHEET ITEMS

Open forward FX deals on December 31, 2014 were contracted on the OTC market with the original aim of delivery

ID	Date	Off-balance sheet liability on strike price (HUF millions)	FX (original)	Off-balance sheet receivable	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1605CitiBank Europe plc. Magyarsországi Fiktív / Szabadújság tér 7 / 1051 Budapest	28.04.2014	-1,569	HUF	EUR 5,000,000	02.02.2015	313.72	7
1598Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	17.04.2014	-1,883	HUF	EUR 6,000,000	03.17.2015	313.83	9
1625Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	23.06.2014	-1,548	HUF	EUR 5,000,000	05.04.2015	309.67	30
1627Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	23.06.2014	-1,551	HUF	EUR 5,000,000	06.01.2015	310.10	28
1597Deutsche Telekom AG // D-53113 Bonn	17.04.2014	-1,569	HUF	EUR 5,000,000	03.17.2015	313.75	10
1607Deutsche Telekom AG // D-53113 Bonn	28.04.2014	-1,573	HUF	EUR 5,000,000	04.01.2015	314.52	7
1640Deutsche Telekom AG // D-53113 Bonn	11.07.2014	-2,343	HUF	EUR 7,500,000	01.20.2015	312.37	23
1641Deutsche Telekom AG // D-53113 Bonn	11.07.2014	-2,359	HUF	EUR 7,500,000	07.01.2015	314.52	13
1662Deutsche Telekom AG // D-53113 Bonn	30.10.2014	-931	HUF	EUR 3,000,000	01.14.2015	310.36	15
1665Deutsche Telekom AG // D-53113 Bonn	30.10.2014	-493	HUF	USD 2,000,000	01.14.2015	246.55	26
1675Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-615	HUF	EUR 2,000,000	01.26.2015	307.67	16
1676Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-2,773	HUF	EUR 9,000,000	02.19.2015	308.09	68
1677Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-775	HUF	EUR 2,500,000	08.10.2015	310.14	16
1678Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-1,552	HUF	EUR 5,000,000	08.24.2015	310.33	33
1679Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-776	HUF	EUR 2,500,000	09.07.2015	310.54	17
1680Deutsche Telekom AG // D-53113 Bonn	27.11.2014	-1,554	HUF	EUR 5,000,000	09.21.2015	310.75	33
1681Deutsche Telekom AG // D-53113 Bonn	28.11.2014	-778	HUF	EUR 2,500,000	10.05.2015	311.22	16
1682Deutsche Telekom AG // D-53113 Bonn	28.11.2014	-1,567	HUF	EUR 5,000,000	10.19.2015	311.34	33
1683Deutsche Telekom AG // D-53113 Bonn	28.11.2014	-779	HUF	EUR 2,500,000	11.09.2015	311.70	17
1684Deutsche Telekom AG // D-53113 Bonn	28.11.2014	-1,559	HUF	EUR 5,000,000	11.23.2015	311.90	34
1687Deutsche Telekom AG // D-53113 Bonn	11.12.2014	-1,231	HUF	EUR 4,000,000	01.12.2015	307.84	30
1688Deutsche Telekom AG // D-53113 Bonn	11.12.2014	-1,541	HUF	EUR 5,000,000	02.24.2015	308.14	38
1689Deutsche Telekom AG // D-53113 Bonn	11.12.2014	-372	HUF	USD 1,500,000	02.19.2015	247.79	18
1691Deutsche Telekom AG // D-53113 Bonn	18.12.2014	-1,262	HUF	EUR 4,000,000	03.09.2015	315.46	1
1692Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-1,910	HUF	EUR 6,000,000	07.13.2015	318.38	-12
1693Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-1,274	HUF	EUR 4,000,000	08.03.2015	318.60	-8
1694Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-1,597	HUF	EUR 5,000,000	08.17.2015	319.33	-12
1695Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-2,239	HUF	EUR 7,000,000	09.14.2015	319.86	-17
1696Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-1,921	HUF	EUR 6,000,000	10.12.2015	320.13	-14
1697Deutsche Telekom AG // D-53113 Bonn	19.12.2014	-1,922	HUF	EUR 6,000,000	10.26.2015	320.36	-13
1698Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,581	HUF	EUR 5,000,000	04.13.2015	316.19	-2
1700Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,585	HUF	EUR 5,000,000	06.15.2015	317.10	-5
1701Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,598	HUF	EUR 5,000,000	12.07.2015	319.53	-2
1702Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,600	HUF	EUR 5,000,000	12.21.2015	319.95	-3
1703Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,299	HUF	USD 5,000,000	04.13.2015	259.76	1
1704Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-780	HUF	USD 3,000,000	05.18.2015	260.13	0
1705Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,041	HUF	USD 4,000,000	06.15.2015	260.34	-1
1706Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-782	HUF	USD 3,000,000	07.06.2015	260.69	-2
1707Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-1,043	HUF	USD 4,000,000	08.03.2015	260.78	-2
1708Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-522	HUF	USD 2,000,000	09.08.2015	261.07	-1
1709Deutsche Telekom AG // D-53113 Bonn	30.12.2014	-523	HUF	USD 2,000,000	11.02.2015	261.49	-1
Total		-56,160		Total EUR 157,000,000			445
				Total USD 26,500,000			

¹ Expected, financially not realized amount of negative difference is recognized as accrued expense.



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014



INTRODUCTION

The Company's activities are described in Notes to the Financial Statements (Note 1), while the business report provides additional information on the following topics:

- THE COMPANY'S SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES
- CORPORATE GOVERNANCE
- HUMAN POLICY
- COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD, AND MANAGEMENT COMMITTEE
- RESEARCH AND DEVELOPMENT
- REAL ESTATE, SITES OF OPERATION
- SUSTAINABILITY
- ENVIRONMENT PROTECTION
- CORPORATE COMPLIANCE
- ECONOMIC ENVIRONMENT
- TARGETS AND STRATEGY
- RISKS AND UNCERTAINTIES
- ANALYSIS OF FINANCIAL RESULTS FOR 2014
- SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT



1 THE COMPANY'S SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES

As of December 31, 2014, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in the Articles of Association Section 2 (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). Information concerning our ownership structure as of December 31, 2014 is described in the following table:

<u>Shareholder</u>	<u>Number of shares</u>	<u>Percentage of share capital</u>
CMobil B.V. (Deutsche Telekom)	617,436,759	59.21
Publicly traded	424,914,922	40.75
Treasury shares.....	390,862	0.04
	<u>1,042,742,543</u>	<u>100.00</u>

CMobil B.V. owning 59.21% of the Company's voting rights is member of the Deutsche Telekom Group. The ultimate controlling parent of Magyar Telekom Plc. is Deutsche Telekom AG (DT or DTAG).

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

1.1 Voting Rights and Voting

The holder of each Series "A" ordinary share shall be entitled to one vote at the General Meeting of the Company. The names of shareholders and nominees who intend to participate at the General Meeting shall be registered in the Share Register on the second working day prior to the starting date of the General Meeting. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Associations, which shall require at least a three-quarters majority of the votes cast. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares. There is no limitation of voting rights for ordinary shares in the Articles of Association. The Company has no shares assigned with special management rights.

1.2 Transfer of Shares

For the transfer of dematerialized share a contract for transfer or other legal title is required and, in that context, the transferor's securities account shall be debited and the new holder's securities account shall be credited with the transferred dematerialized shares. The holder of dematerialized share shall be considered the holder of the securities account on which the dematerialized shares are recorded.

The transfer of any Series "A" ordinary shares is not bound to any restriction or attainment of agreement.

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

The General Meeting has the exclusive right to approve and amend the Articles of Association (section 5.2. (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 6.4.(p)).

2.2 Board of Directors

The detailed rules on the scope of authorities and operation of the Board of Directors are detailed in 6.4 of the Articles of Association and in the Rules of Procedure of the Board of Directors (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). The rules of



competence regarding the capital increase and purchase of treasury shares are detailed in Sections 5.2 (b) and (p) as well as 6.4. (l) and (m) of the Articles of Association. The General Meeting by the Resolution No. 8/2014 (IV.11.) authorized the Board of Directors to purchase Magyar Telekom Plc. ordinary shares for 18 months starting from the date of approval of this resolution. See the detailed description of the authorization on the General Meetings section of our website.

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 to the General Meeting or to other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors draw up, at the end of each business year, a report for the General Meeting and quarterly to the Supervisory Board on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.

Pursuant to the Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. On December 31, 2014, there were ten 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, 2014, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
Christopher Mattheisen.....	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Ferri Abolhassan*	1964	Director Production and Member of the Executive Board, T-Systems International GmbH, DT AG	2010
Dr. Mihály Patai.....	1953	Chairman-CEO of Unicredit Bank Plc.	2012
Günter Mossal	1961	Vice President for Area Management Europe, DT AG	2012
György Mosonyi	1949	Chairman of the Supervisory Board of MOL	2012
Thilo Kusch	1965	Chief Financial Officer, T-Systems International GmbH	2006
Frank Odzuck	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Dr. Ralph Rentschler	1960	Finance Europe, Financial Director Europe, DT AG	2003
Kerstin Günther	1967	Senior Vice President, Technology Europe, DT AG	2013
Branka Skaramuca	1958	Senior Vice President, Human Resources Europe&Technology, DT AG	2013

* has resigned from his position as of February 17, 2015.

The members' assignment lasts until May 31, 2016.



2.3 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 (http://www.telekom.hu/about_us/investor_relations/corporate_governance/management_committee).

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

On December 31, 2014, the members of the Management Committee and the years of their original election were as follows:

<u>Name</u>	<u>Born</u>	<u>Current position</u>	<u>Member since</u>
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Attila Keszég	1966	Chief Commercial Officer Residential*	2010
János Szabó	1961	Chief Financial Officer	2013
Dr. Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Tibor Rékasi.....	1973	Chief Commercial Officer Enterprise, Chief Executive Officer of T-Systems Hungary Ltd.	2013
Éva Somorjai.....	1966	Chief Human Resources Officer	2007
Walter Goldenits.....	1970	Chief Technology and IT Officer	2013
Péter Lakatos.....	1975	Chief Commercial Officer SMB	2013

* until December 31, 2014. From January 1, 2015 he took over SVP Commercial Excellence Europe position at Deutsche Telekom Group's Headquarters.



2.4 Supervisory Board

The Supervisory Board carries out its activities based on Section 7 of the Articles of Association and its Rules of Procedure approved by the General Meeting (http://www.telekom.hu/static/sw/download/SB_Rules_of_Procedure_04112014.pdf). The Supervisory Board shall examine all submissions to be submitted to the General Meeting and present its opinion thereof at the General Meeting. The General Meeting may pass a resolution on a report pursuant to the Accounting Act and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board. The Supervisory Board makes a proposal directly to the General Meeting regarding the election, remuneration and removal of the Statutory Auditor.

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, unless otherwise provided by the General Meeting. The Central Workers' Council of Magyar Telekom Plc. nominates one-third of the Supervisory Board members (employee representatives). Meetings of the Supervisory Board have a quorum if two-thirds of its elected members but at least 3 members are present.

On December 31, 2014, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
Dr. László Pap.....	1943	Budapest University of Technology and Economics, 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, Magyar Telekom	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	Member of the Supervisory Board of E.ON Hungária Zrt.	2006
Tamás Lichnovszky	1962	Chairman of the Central Workers' Council, Magyar Telekom	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 Óz.....	1957	Controlling Manager of Controlling Directorate, Chairwoman of the Workers' Council of Central Functions, Magyar Telekom	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	2008
Dr. Konrad Wetzker.....	1950	Chairman, School of Management of Corvinus University of Budapest	2011

The members' assignment lasts until May 31, 2016.

2.5 Audit Committee

The Audit Committee executes its duties pursuant to the Articles of Association Section 7.8, and its own Rules of Procedure (http://www.telekom.hu/static/sw/download/AC_Rules_of_Procedure_04302014.pdf). The members of the Audit Committee have been elected by the General Meeting from the independent members of the Supervisory Board for the same period as their membership in the Supervisory Board.

On December 31, 2014, the members of the Audit Committee were as follows:

- Dr. János Illéssy
- Dr. János Bitó
- Dr. Sándor Kerekes
- Dr. László Pap
- Dr. Károly Salamon

2.6 Remuneration and Nomination Committee

As of September 20, 2013 certain nomination related tasks were assigned to the Remuneration Committee and its name was changed to Remuneration and Nomination Committee.

The Remuneration and Nomination 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 and certain nomination related issues of the members of the corporate bodies and the top executives of the Company in accordance with the Rules of Procedure.

(http://www.telekom.hu/static/sw/download/Rules_of_Procedure_of_the_Remuneration_and_Nomination_Committee_ENG_2013_0920.pdf).

The Remuneration and Nomination Committee, among others, makes recommendations to the Board of Directors on the establishment and/or termination of employment, and the modification of the employment contract of the chief officers, as well as the remuneration package of the chief officers, including setting and evaluating annual individual targets. The Remuneration and Nomination Committee holds at least two meetings each year.

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

On December 31, 2014, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Ralph Rentschler
- Branka Skaramuca
- Frank Odzuck

2.7 Corporate Governance and Management 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 recommendations 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 in accordance with the Corporate Governance Recommendations and submitted it to the General Meeting. The report – along with other corporate governance related documents - is published at the Corporate Governance section of the website:

http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents

The Corporate Governance Declaration on the Compliance with the Corporate Governance Recommendations, and regarding certain questions the possible alterations and their explanations are included in the report. Sections 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. Section 6 of the report includes a description of the internal controls and risk management procedures, while Section 8 of the report describes our disclosure policies and insider trading guidelines.

The Board of Directors, through the internal audit area, carried out an evaluation of the Company's disclosure processes in 2014 again. Based on the evaluation, the disclosure controls and procedures of the Company were effective and designed to ensure a proper basis for the timely and accurate disclosures to the market participants required under the respective accounting, capital markets and company law regulations.

3 HUMAN POLICY

In line with Magyar Telekom Plc.'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.

3.1 Human strategy from the Company's aspect

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

3.2 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.

Magyar Telekom Plc. has placed in the focus of its strategy for 2017 the implementation of the digital business model, the essence of which is the exploitation to the fullest extent of new technologies in maintaining contact with customers, enhancing confidence and, eventually, value creation. In order to achieve the same we intend to review our internal models of operation: primarily the HR tools that affect our corporate culture, which support the successful implementation of new business models on the organizational side.

In sync with the same the need has emerged to establish alignment between Telekom's strategic model for 2017 and the Human Strategy created in 2011. The alignment has not altered in essence the structure of human strategy, its main building blocks, but a clearly more emphasis has been given to tools that support the company's digital operation:

- Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and offers an attractive perspective in the labor market through its future oriented methods of work. We are going to be among the “Top 3 Best Employer” and “Top 5 Most Desired Employer” in Hungary through the more powerful use of social media solutions in brand building.
- Selection – we create a diverse workplace where we treat every applicant as a customer and offer experience for them. We strive to maintain the healthy level of internal succession rate and encourage 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, and provide solutions - with the help of digital applications - that are transparent and widely accessible. 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, rendering knowledge sharing efficient through the use of digital methods. Our Orientation program has been renewed in order to have an informative and efficient event for the new employees. Our Orientation Program is also supported by online solutions. We introduce various programs to facilitate assimilation into the corporate culture.
- Remuneration – We retain our competitive edge in the market with our total compensation package and we are forerunners in the market with our innovations in compensation methods. We have introduced 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 and we render our employees even more competitive through our training programs. We increasingly apply collaborative digital tools in the course of training.
- Work/life balance – Our energized employees make us successful and we provide our employees more opportunities to consciously manage their work/life balance. We are going to introduce 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 and also ensure several employment alternatives. We make it clear for employees that retaining one's marketability is one's own responsibility.

The principles of justice and equal footing 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 the principle of equal footing.

3.3 Headcount

The following table provides information on the number of full-time employees, including full-time equivalents:

	At December 31,		
	2012	2013	2014
Number of full-time employees, including full-time equivalents.....	7,474	7,359	7,046

3.4 Total Workforce Management

From 2009, Magyar Telekom Plc. introduced the 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.

3.5 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, 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 Plc. has already implemented several integration steps. The merger of T-Mobile Hungary in 2006, the merger of Emitel and the access business line of T-Online in 2007, and the merger of T-Kábel and Dél-Vonal in 2009, into the parent company enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Company. 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 reached an agreement with the trade unions in July 2014.

According to the terms of the agreement, the Company plans to make maximum 1,700 employees redundant. 40% is expected to leave the Company between October 1, 2014 and March 1, 2015 while the remaining 60% is expected to leave as of January 1, 2016. Total severance expenses related to the 2-year headcount reduction programme will be approximately HUF 12 billion.

Meanwhile, in order to keep the wages competitive, there will be a 4% wage increase for employees in lower wage categories as of January 1, 2016 effective retrospectively from July 1, 2015.

These efficiency improvement measures are necessary steps to mitigate the negative trends in the telecommunications industry faced by Magyar Telekom Plc. 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.

3.6 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 Szakszervezet, 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 collective bargaining agreement must be renegotiated annually. If the employment is terminated due to reasons related to the employer's operation, employees are entitled to a specific amount of severance pay surplus, 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 Act I of 2012 on the Labor Code, which imposes various restrictions on the involuntary termination of employment. The 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 V of 2013 on the Civil Code one third of the Supervisory Board shall consist of employee representatives. The employee representatives in the Supervisory Board are nominated by the Central Workers' Council considering the opinion of the trade unions operating at the Company. Persons nominated by the Central Workers' Council shall be elected by the General Meeting to the member of the Supervisory Board, except if disqualification exist in respect of the nominated persons. On December 31, 2014, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Óz 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.

3.7 Pensions and Benefit Programs

Magyar Telekom Plc.'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 Board of 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 2014, approximately 62% of employees of Magyar Telekom Plc. participated in the pension-, 43% in the self-aid-, and 63% in the health fund.

3.8 Human rights

Social Charta of Deutsche Telekom Group and Magyar Telekom Plc. is a voluntary commitment (based on the Decree of July 22, 2003 of the Board of Directors) on behalf of the employer side to comply with the minimal social standards throughout the entire company. It contains basic principles regarding labor relationships and conditions of employment. We expect compliance with the standards from our vendors as well. Via the Social Charta, these social standards are mandatory for the entire company, and are available to anyone. Magyar Telekom Plc. submits annual reports on the compliance with the 9 basic principles set forth in the Social Charta.

The Social Charter and more details: http://www.telekom.hu/static/sw/download/Social_Charter.pdf and http://www.telekom.hu/about_us/society_and_environment/society/equal_opportunities).

Magyar Telekom Plc. strives to ensure equal chances for its employees, and to improve the situation of certain underprivileged employee groups. As part of this effort, from 2008 Magyar Telekom Plc. have accepted Equal Opportunities plans valid for periods of several years. Currently the Equal Opportunities Plan III is in force, which determined guiding principles and an action plan for the 2013-2015 period. In addition, Magyar Telekom Plc. is open to join similar government, business and civil initiatives in order to achieve equal social opportunities.

Equal Opportunities Plan III:

(http://www.telekom.hu/static/sw/download/Magyar_Telekom_Eselyegyenlosegi_Terv_2013_2015_en.pdf).

These policies are published and declare measurable indicators concerning the human rights, and developing goals on these fields. The existences of these policies help to fortify the employee's awareness and the engagement to legitimate behavior.

Giving support of the respective disadvantaged employee groups and to provide for them equal opportunities need extra efforts and added human resources.

Magyar Telekom Plc. can rely on its top management that is committed to the sustainability and expects high performance regarding respect for human rights. These extra efforts are supported by the Chief Executive Officer and the Chief Human Resources Officer personally as well. The company appointed an equal opportunity representative who is responsible for the achievement of the action plan of the Equal Opportunities Plan.

4 COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD, AND MANAGEMENT COMMITTEE

The aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 16 million in 2014.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 61 million in 2014.

The total compensation expenses (including social security and other payroll-related taxes as well as contractual termination expenses) of the members of the Management Committee (MC) was HUF 1,670 million in 2014.

At December 31, 2014, two of the seven 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 three of the indefinite contracts, while the severance payment is in accordance with the Labour Code and the Collective Agreement. For the other two contracts the notice period is six months, while the severance payment is between 3 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 Plc. 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 Plc. for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the 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 personal insurance scheme on behalf of the MC members. In addition, the MC members are entitled to the use of company cars.

5 RESEARCH AND DEVELOPMENT

In 2014, the Research and Development activities of Magyar Telekom Plc. covered primarily the implementation of R&D grant projects launched and won in the frame of the Research and Technology Innovation Fund.

In 2014, products completed under the project titled "Implementation of Info-communications R&D&I umbrella projects at Magyar Telekom" were launched, such as expanded "Távszámლა" service to mobile and tablet platforms.

The grant project titled "Magyar Telekom Plc.'s Healthcare Mobile Service R&D" (HCM project) was completed in 2014. In the scope of this project, Magyar Telekom Plc. won HUF 64 million non-refundable grant for the implementation of the R&D project, which is complemented by Magyar Telekom Plc.'s own contribution totaling HUF 72 million (the total project value of HUF 136 million may decrease in line with actual expenditures, in compliance with the regulations on funding). Within the one-year project, the Company worked on the development of an e-Health platform which connects various mobile-based health services designed for citizens. Due to the development the patients can sign up and prepare themselves for examinations using their mobile equipment. The solution has other various features helping everyday information-transfers and administration. The project was implemented with subsidy from the Hungarian Government and grants given from Research and Technology Innovation Fund.

Based on the results and experiences gained on HCM project, an intelligent patient flow monitoring and resource allocation solution has also been developed. This system - namely MedIQue- is unique in real time patient flow monitoring and supports health care procedure optimization in hospital environment. The solution has been sold and running in University of Szeged, Albert Szent-Györgyi Health Center's Emergency department from June 2014.

In addition to innovative domestic SMEs, the R&D tasks are performed by Magyar Telekom Plc.'s own research, product and service development staff.

In addition to grant applications, the Company exploits synergies resulting from its internal and external knowledge base, and takes



efforts to establish partnerships with well-known innovation centers and institutions of university education. Our main partners are renowned Hungarian universities, research institutes such as Budapest University of Technology and Economics, Corvinus University of Budapest, University of Szeged, University of Debrecen, and the Hungarian Academy of Sciences.

Magyar Telekom Plc. participated as a professional cooperating partner in the R&D grant project "Infocommunications technologies and the society of the future (FuturICT.hu)" won by the University of Szeged.

In 2014, the Company participated as a supporting member of the National Research Program "Internet of the future" led by the University of Debrecen.

In addition to the above, Magyar Telekom Plc. deems it important to support knowledge transfer projects of R&D nature as well; thus it participates actively as a professional cooperating partner in the EU knowledge transfer program EIT ICT Labs KIC the Company joined in 2012.

6 REAL ESTATE, SITES OF OPERATION

We have one of the largest real estate holdings in Hungary. We use substantially all of these properties for telecommunications installations, offices, warehouses, garages and shops. Our equipment and machinery primarily consist of switches, communication towers and other telecommunications equipment. In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties.

6.1 The registered office of the Company:

- 1013 Budapest, Krisztina krt. 55.

6.2 Sites of the Company:

- 1117 Budapest, Magyar tudósok krt.9.
- 1073 Budapest, Dob u. 76-78.
- 1051 Budapest, Petőfi Sándor u. 17-19.
- 1117 Budapest, Kaposvár u. 5-7
- 1117 Budapest, Budafoki u. 103-107
- 1107 Budapest, Száva u. 3-5.
- 1077 Budapest, Kéthly Anna tér 1.
- 1117 Budapest, Szerémi út 4.
- 1117 Budapest, Budafoki út 56.
- 1106 Budapest, Őrs vezér tere 25. 1. em.
- 1106 Budapest, Őrs vezér tere 25. mélyföldszint
- 1138 Budapest, Váci út 178.
- 1195 Budapest, Üllői út 201.
- 1191 Budapest, Vak Bottyán u. 75. a-c.
- 1024 Budapest, Lövéház u. 2-6. 2. em.
- 1024 Budapest, Lövéház u. 2-6. fszt.
- 1123 Budapest, Alkotás út 53.
- 1152 Budapest, Szentmihályi út 131.
- 1062 Budapest, Váci út 1-3.
- 1117 Budapest, Október huszonharmadika utca 8-10.

The number of sites used by Magyar Telekom Plc. is 2,235, out of which 22% are owned by the Company, 44% jointly owned and 34% leased. These figures include the sites used for technology, offices, shops, and other, but do not include the number of mobile technology sites. We have 3,621 mobile technology sites, of which five percent is owned by Magyar Telekom Plc. and 95% is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2014 was 550,403 m². The majority of sites used in our operations are smaller than 100 m². The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m².

7 SUSTAINABILITY

Magyar Telekom Plc. has been addressing the sustainability implications of its operations for close to twenty years, and in 2000, it was one of the first Hungarian companies to establish a sustainability unit that managed environmental issues in the beginning and coordinates sustainability processes now. Its sustainability activities are characterized by comprehensive, long-term plans, and the company is now implementing its third five-year sustainability strategy.

Being a leading ICT provider of the region, we set an example and provide opportunities by our forward-looking thinking, innovative, sustainable products and services and responsible conduct, we contribute to the establishment of a renewable society and environment.

Magyar Telekom Plc. committed to support the 10 principles set forth by the UN Global Compact in the areas of human rights, environment and anti-corruption, the results of which are also addressed by our sustainability reports.

Magyar Telekom Plc.'s sustainability activities and achievements are comprehensively discussed in the annual Sustainability Reports, which aims to make the Company's environmental, social and economic activities transparent to everyone.

The present report includes reference only to certain key topics of our sustainability approach, namely human rights, employees, environment protection and compliance.

7.1 Sustainability strategy

Magyar Telekom Plc.'s third Sustainability Strategy, encompassing the 2011-2015 five-year period, has been compiled in harmony with the Company's other strategies. Its main objective is to make sustainability an integral part of Magyar Telekom Plc.'s identity, thus providing additional competitive advantage to the Company in the long run.

We wish to achieve the above by identifying risks and opportunities, relying upon our performance so far, along the directions set by investor assessments and during the past three years, communicating our commitment to our stakeholders even more intensively, setting new and ambitious goals, following best practices, as well as by strong and well-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 about the concept of sustainability and to enhance the sustainability perception of Magyar Telekom Plc.
 - Awareness about the concept of sustainability: KPI: public: 20%, employees: 80%
 - Magyar Telekom Plc.'s sustainability perception: KPI: 10% of the public, 60% of the employees name Telekom as 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 CO₂ emission of the Company by 25% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain management 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%

Main achievements in the context of the strategy

Our sustainability performance is measured by responsible investor assessments and different awards, while awareness about our leading role is assessed through public and employee surveys.

- According to the Dow Jones Sustainability Index (DJSI), in 2012, we scored 72, which put us in the top third globally. According to the assessment by Oekom Research, Magyar Telekom Plc. is third in international comparison globally, on a list of the world's 108 telecommunication companies assessed along sustainability aspects, and is only preceded by its mother company Deutsche Telekom, and BT Group.

- Awards and recognitions achieved in 2014:
 - Oekom responsible investor assessment: Prime category (recommended for responsible investors) (http://www.telekom.hu/about_us/press_room/press_releases/2014/january_24)
 - CEERIUS sustainability index membership (http://www.telekom.hu/about_us/press_room/press_releases/2014/january_24)
 - Biker-friendly Workplace 2013 (http://www.telekom.hu/about_us/press_room/press_releases/2014/january_23)
 - Family-friendly Company 2014 Special Award (http://www.telekom.hu/about_us/press_room/press_releases/2014/november_07)
 - Energy-conscious Company – T-Systems Magyarország Zrt. (<http://www.t-systems.hu/news-and-media/news/huf-790-million-development-in-t-systems-hungarys-budapest-data-centre>)
 - Customer Service Excellence Award in the Electronic Channel category (http://www.telekom.hu/about_us/press_room/press_releases/2014/november_11)

A list of all the awards won since the strategy took effect is available through the link below:

http://www.telekom.hu/society_and_environment/prizes_ratings

- The survey conducted among the public in 2014 showed that 10% of the responders name Magyar Telekom Plc. and its offer brands as a company of a leading role in sustainability, while 79% cannot name any companies at all. The survey conducted among the employees showed that 61% of responders name the company as a company assuming a leading role, while 20% cannot name any companies like that at all. The concept of sustainability is known by 25% among the public and 74% among employees.

7.2 Initiatives concerning stakeholders

In 2014 we organized the Sustainability Roundtable Discussion for the 15th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom Plc., 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 (the word for dolphin in Hungarian) award, which in Hungarian stands for Award for a Committed, Sustainable, Innovative Generation. With the DELFIN award Magyar Telekom Plc. 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 in the interest of sustainability;
- Sustainability education and awareness raising;
- Investment and development related to climate protection.

A jury of experts decide which submitted project should receive the award. The seventh award ceremony took place on September 3, 2014, as part of the Sustainability Roundtable. In 2014, we recognized organizations and businesses promoting waste management, renewing energy, environment-friendly transportation and equal opportunity.

The seventh Sustainability Day event took place on September 27, 2014. While the panel discussions went on inside, guests were invited to look at activities and initiatives presented by exhibitors. A record number, more than fifty exhibitor took part this year.

In 2014, we continued to sensitize our employees to social issues by organizing volunteer work events. Those interested could join our volunteer efforts as part of the Digital Bridge and MobileSchool programs, as well as at the Zoo and the T-Shops. The cause of employees' volunteer work was also furthered by charitable teambuilding exercises. In course of the year, 961 colleagues worked 8,518 hours of volunteer work, by means of which a theoretical amount of HUF 39 million was thus donated to the society.

"Hello holnap!" sustainability club, launched in March 2013 and organized for employees, continued in 2014, too. The club holds forums every month and hosts prominent guests. The system of "Hello holnap" points was introduced in April 2014 with the objective to increase awareness about the concept of sustainability among employees. Since April 2013, 2,624 employees collected a total of 3,510 points.

Magyar Telekom Plc. established a website dedicated to threats posed by children's media consumption. The website provides information to parents not only about ICT technologies, devices and content, but also threats posed by their use and consumption, as well as possible preventive measures. More details are available by clicking at

http://www.telekom.hu/about_us/society_and_environment/society/protection_of_our_children.

On November 1, 2013, Magyar Telekom Plc. introduced its tariff package called “hello holnap!”, which was designed to accommodate specific needs of handicapped people. From 2014, the tariff package is also available for members of the Hungarian National Autistic Society.

We launched the “hello holnap!” mobile app on September 27, 2014, by which we draw attention to Telekom’s sustainability efforts in particular and sustainable lifestyles in general. By using the app, users can collect “hello holnap!” points and donate them, converted into real money by Telekom, to non-governmental organizations of their choice.

Magyar Telekom Plc. and the Sustainability Media Club recognized publications by journalists and editors addressing sustainability topics for the third time, be them about events that changed their own lives or about status of affairs of the planet. Materials published after October 2013 could be submitted to the “From below” category, if concerning individual or smaller communities, or the “Wide angle” category, if addressing wider scopes of social, environmental, economic phenomena in the context of green innovation and education. This year, for the first time, blogs of responsible thinkers were also awarded.

One pillar of atypical staffing is telework, which is one of the most important sustainability aspects of the Future Work project. Working from home in the framework of the project launched in July 2014 one can save time and mileage, thus drivers can relieve the environment of as much as 3 tons of CO₂ emission per year, not to mention that the same also helps us maintain work-life balance.

7.3 Annual Sustainability Report

One of Magyar Telekom Plc.'s commitments is that it annually publishes a report about its sustainability performance. The 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 Plc. achieved the highest compliance in accordance with the international principles, so its Sustainability report for the year 2013 continued to apply the principles on A+ level for the seventh time already. In 2014 an independent assurance report with the GRI criteria was completed and certified by PricewaterhouseCoopers in accordance with ISAE 3000 international standards. 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.

8 ENVIRONMENT PROTECTION

Magyar Telekom Plc. as one of 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 Plc.'s environmental commitment and responsibilities assumed are published in Magyar Telekom Group's Environmental Policy which contains obligations for the Company:

http://www.telekom.hu/static/sw/download/Magyar_Telekom_environmental_policy.pdf

8.1 Environment and climate protection performance

In 2014, Magyar Telekom Plc. procured 34 GWhs of electric power from renewing resources, which is 16% of the company's total electric power consumption. The 5-year strategy set forth the objective of sustaining a green energy consumption level of at least 46 GWhs per year.

In the spring of 2014, we launched again TeleBike, Magyar Telekom Plc.'s employee bike rental system, which has been further extended compared to 2013. In 2014, TeleBike offers 53 bikes, and six new electric bikes were also added to the fleet. Employees can commute between the offices of the company located within the Budapest city limits and the six T-Systems Hungary sites. Some figures: in 2014, 1,777 registered users, 2,267 rents per month, 18,156 kms and 3,400 kgs CO₂ emission eliminated.

We introduced a bonus-malus system based on compliance with or deviation from average emission values of benefit cars. We spent 50% of the amount collected as malus payment by users of cars with emissions above the reference values on decreasing our CO₂ footprint. In 2014, we planted trees along Gellért wharf in Budapest with the help of Főkert, and at other locations. At the end of the year, we spend the remaining amount on decreasing global CO₂ footprint by purchasing and eliminating Kyoto units available at the CO₂ emission market – i.e. by supporting projects aimed at decreasing global CO₂ emissions by the number of units purchased

Magyar Telekom Plc. continued its energy savings initiatives in 2014, too, including the roll-out of the ventilation technology used for

cooling large technological rooms and remote facilities. By that, the use of air-conditioning equipment and electric power consumption are decreased. The company completed the implementation of the smart cooling pilot, which aims to run air-conditioning equipment at optimal load, thus ensuring lower energy consumption. Projects aimed at increasing internal temperatures and utilizing residual heat have also started. In order to save gas and distance heating consumption, initiatives aimed at replacing furnaces and modernizing heating centers, as well as using residual heat generated at certain technological rooms for heating have also continued.

9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom Group, the goal was to ensure that the Magyar Telekom Plc. pursues its business activity with maximum awareness of and commitment to the compliance with the applicable laws and legal provisions, in accordance with the strictest norms of ethical business conduct. To this end, we issued decrees addressing the potentially arising compliance-related risks, and we apply the procedures set out in these decrees and arrange continuous training courses for our employees related to these procedures. We established clear concise processes to report, examine, follow up and correct suspected cases of non-compliance.

The Corporate compliance program is supervised by the Group compliance officer. The Group compliance officer reports directly to the Audit Committee, and cooperates with the Board of Directors, the Supervisory Board and the management. The Corporate compliance program focuses on the Code of Conduct.

Code of Conduct of the Magyar Telekom Plc. contains the summary of the compliance requirement within the company, sets common values of the Company and is a key to the strong position, reputation and successful future of Telekom. The Code of Conduct applies to everyone within the Magyar Telekom Plc. from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom Plc. also have to know and accept these values, when registering to the procurement website.

In the year 2010 an external independent party audited the implementation of the Compliance program, and we were awarded a certificate of compliance with the external expectations and of the implementation of the system. The program was revised in 2013, including other related areas as well – such as procurement, internal audit, HR, sales. The audit was not aimed only at the implementation and control of the system in the different areas, but it measured the operational efficiency of the control system. Again, we met the expectations and were awarded by a certificate issued by Ernst&Young as independent external party.

The first distance learning course addressing compliance was started in 2008 in the topic of “Conscious recognition of fraud and corruption”. Since then we have been providing a general eLearning course for our new employees, mandatory for all colleagues joining to the company. The course is completed with the acceptance of the Code of Conduct. Distance learning courses were related to topics, such as compliance awareness, anti-corruption measures, incompatibility or insider trading.

On the top of that, our company has arranged personal training sessions for employees working in professional areas exposed to compliance and abuse related risks in the topics of organized anti-corruption behavior, screening of contracted partners and rules of giving and accepting gifts.

In 2013 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Plc. Based on the results of the survey, a comprehensive audit was prepared for the potential compliance and abuse risks, the result of which was submitted to the Audit Committee of the Company.

During the year we check the soundness of the reports submitted to our company in connection with unethical behavior, and if necessary, we act on these reports. In case we identify actual abuses, we take care of the necessary and adequate countermeasures. Magyar Telekom Plc. published all cases of corruption and the related countermeasures in accordance with the related applicable laws and legal provisions.

10 ECONOMIC ENVIRONMENT

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

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile is about to follow that trend with stagnant customer base and lower prices. The fixed market is characterized by 3Play bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. 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 mobile voice market is becoming more flat, new entrants as virtual network operators appeared, though with limited impact on the market and the appearance of a fourth mobile operator is also expected. There is a fierce competition in broadband and content services. The battle for customer contracts has pushed prices down. We expect that the new core segments, especially mobile broadband, broadcasting and IT services will deliver revenue growth in the coming years.

Economic recession/stagnation ended in Hungary and even if improvement may prove only virtual, relief is expected to sustain. Still market development is challenged by significant uncertainties in macroeconomic outlook and increasing regulation putting further pressure on market players.

The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Although 2014 brought GDP increase, it is not reflected at the household level since the driver of this growth is the export of industrial production. We expect a modest growth in GDP again in 2015 but the structure remains the same. It will take a longer period for households to benefit from the better economic environment.

11 TARGETS AND STRATEGY

11.1 Outlook

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

Magyar Telekom Plc.'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 their own unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. The global economy recovered from the crisis but it is largely depend on the monetary policy of the FED. The European growth it is still fragile. There are major uncertainties surrounding the future of the euro especially in Greece. The Hungarian economy came out of recession in 2013 and the GDP growth in 2014 was above 3 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate GDP growth of about 2.3 percent for 2015. The unemployment rate decreased to 8.1 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing 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 telecommunication tax payable by Magyar Telekom Plc. in 2014 was HUF 25.8 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. The tax expense and liability for 2014 were recognized in the first quarter of 2014 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2014. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until

2022. Magyar Telekom Plc. paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom Plc. won the rights of use of frequency blocks until June 2034 in the tender of the National Media and Infocommunications Authority in the 800 MHz, 900 MHz, 1800 MHz and 2600 MHz frequency bands. Magyar Telekom Plc. paid an initial price of HUF 59 billion for these frequency blocks in Q4 2014.

In 2014, a “Partnership for Digital Hungary” was agreed with the Hungarian Government aiming for full coverage of Hungary with HSI (Highspeed Internet, >30 Mbps) by 2018, in case favorable roll-out conditions are given and EU funds can be utilized.

Magyar Telekom Plc. is continuously seeking business opportunities beyond core services. A significant step was made in this direction upon our entrance into the Hungarian retail energy market. This new revenue stream enables us to compensate for the decrease in our Hungarian revenue, however, these revenues are associated with lower margins. The Hungarian government has approved a cut in household energy prices by 10% from January 1, 2013, and another 11% from November 1, 2013. On February 6, 2014 further 6.5% cut in gas prices, effective from April 1, 2014 and 5.7% cut in electricity prices, effective from September 2014 were approved.

11.2 Strategy

As a result of our focused strategic efforts, Magyar Telekom Plc. has maintained leading positions in its Hungarian fixed line, mobile, Internet and - through its subsidiaries - ICT businesses in 2014. Even under uncertain macroeconomic and market conditions, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offered capabilities proactively leveraging on 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 towards a diversified service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing revenue while becoming a more agile organization. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

While anticipating new competencies required by the changing customer behavior, technological advances, and new business models, 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.

Following our strategy enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities in an extended market of telecommunications and related industries, which secures stable cash generation in the long run.

12 RISKS AND UNCERTAINTIES

12.1 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 developed and have continuously enhanced our risk management policies.

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

In 1999, we established a formal risk management system. This system has been operating in an integrated way with the risk management system of Deutsche Telekom since 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 an internal regulation on risk management were issued. 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 Company. 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 and to the Audit Committee.

For the sake of prompt disclosure of all risk items influencing investors' decisions, we enhanced our risk management procedures with a new element, 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 the 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.

12.2 Risk factors

Our financial condition, results of operations or the trading prices of our shares could be materially adversely affected by any of these risks. 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 could also have a material adverse effect on our financial condition, results of operations or the trading prices of our shares.

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection and the price setting methodology of regulated wholesale products are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;
- 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;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment in the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.

12.3 Financial risk factors

Magyar Telekom Plc. is primarily exposed to credit risks related to its financial assets. In addition, the Company 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 Plc. only hedges the risks that affect the Company'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.

The detailed descriptions of risks and the management thereof are provided below.

12.3.1 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;
- price risk.

The fundamentals of Magyar Telekom Plc.'s financing strategy are established each year by the Board of Directors. The Company'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 on Group level, and monitors their fulfillment annually.

Magyar Telekom Group fulfilled the EBITDA to Interest Expense criteria at the end of 2013 and 2014. This ratio was 6.38 in 2014, (2013: 5.69), the allowed minimum of which would be 3.0. There was a temporary breach of the Total debt to EBITDA limit as a consequence of the Hungarian spectrum acquisition in the second half of 2014 as a result of which Total Debt to EBITDA ratio reached 2.65 as at December 31, 2014 (2013: 2.37), the allowed maximum of which would be 2.5.

The Company'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 Company's Treasury department continuously.

Magyar Telekom Plc. 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 arise in HUF, the functional currency of Magyar Telekom Plc. is HUF. Consequently, Magyar Telekom Plc.'s objective is to minimize the level of its financial risk in HUF terms.

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. In order to mitigate FX risk in case of FX denominated financial instruments, Magyar Telekom Plc. minimized its foreign currency borrowings in the past years, or covered them with derivative instruments to substantially reduce FX risk.

The FX exposure of Magyar Telekom Plc. is mostly related to

- FX risks arising on loans from DT and related swaps with DT AG;
- FX risks arising on third party loans and related swaps;
- operating activities through revenues from, and payments to, international telecommunications carriers as well as other foreign currency denominated contracts.

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 Company's foreign currency denominated assets are below the Company's foreign currency denominated liabilities, therefore changes of currencies' exchange rates would have significant impact on the profit of the Company.

In order to reduce the above exposure, Magyar Telekom Plc. occasionally enters into derivative contracts.

Interest rate risk

Magyar Telekom Plc. 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.

Price risk

As of the end of the reporting periods, Magyar Telekom Plc. had legally binding agreements on natural gas and electricity purchase, which could be materially affected by risk variables such as energy exchange prices or FX prices, or other indices. In order to minimize the risk deriving from such price changes Magyar Telekom Plc. made the necessary economic hedge actions for much of the exposure, therefore no relevant material risk remained in this field.

12.3.2 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.

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

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

12.3.3 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 Company's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Plc.'s budgeted financing needs until the end of June 2016.

12.3.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company. 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 Company monitors capital on the basis of the consolidated gearing ratio. This ratio is calculated as Net debt divided by Equity (including Non-controlling interest) and Net debt according to our consolidated financial statements.

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. Magyar Telekom Plc. is in compliance with this regulation.

13 ANALYSIS OF FINANCIAL RESULTS FOR 2014

Main indicators representing the Company's financial position and liquidity are disclosed in the Notes to the Financial Statements (Note 3).

13.1 Revenues

13.1.1 Net sales revenues

Net sales revenues decreased slightly from HUF 488,118 million in 2013 to HUF 487,007 million in 2014.

Net export sales decreased significantly within net sales revenues by 9.3%, HUF 1,531 million mainly due to the decrease of incoming international traffic and the decrease in call termination fees.

Net domestic sales increased slightly by HUF 420 million (0.1% increase) within net sales revenues. The nominal net increase is due to several positive and negative effects.

The largest increase occurred in mobile non-voice revenues from HUF 62,756 million to HUF 69,351 million, resulting a 10.5% increase, which is mainly due to the higher revenues from Internet services owing to the increasing number of mobile broadband subscribers.

Other mobile revenues increased from HUF 9,145 million to HUF 12,148 million which is mostly due to the increase of revenues from insurance products by 55.4%, from HUF 3,034 million to HUF 4,713 million.

TV services revenues increased from HUF 29,943 million to HUF 32,502 million (8.5% increase) which is caused mainly by the higher number of IP TV subscribers.

Fixed line voice-retail revenues decreased to HUF 53,297 million in 2014 compared to HUF 58,058 million in 2013 (8.2% decrease), mainly driven by the lower volume of traffic and the decline in the number of fixed line subscribers.

Energy revenues decreased from HUF 47,996 million to HUF 43,303 million (9.8% decrease) caused mainly by the reduction of fees regulated by authorities and the effect of utility cost reduction to residential customers.

Revenues from equipment sales increased as well, due to increased sales of higher category phone sets (smart phones), tablets, notebooks and TV sets, mainly driven by the sales on 24 monthly instalments in 2014. Mobile equipment revenues increased by 7.5% from HUF 33,257 million to HUF 35,756 million in 2014 compared to 2013, while revenues from equipment sales related to fixed line services reduced from HUF 5,530 million to HUF 3,926 million (decrease of 29%).

13.1.2 Other income

Other income decreased from HUF 26,482 million to HUF 22,132 million (16.4% decrease) which is mostly due to the lower amount of reversals of provisions in 2014 than in the previous years.

13.2 Operating Expenses

Operating expenses (including material-type expenses, employee related expenses, depreciation and amortization and other expenses) decreased from HUF 501,120 million in 2013 to HUF 496,973 million in 2014 (0.8% decrease). The change is not significant though it is the net result of diverging effect on the various items of operating expenses.

Material-type expenses decreased from HUF 281,489 million in 2013 to HUF 273,968 million in 2014 (decrease of 2.7%) which is caused by the decrease of cost of goods sold and costs of mediated services sold.

Cost of goods sold decreased by 6%, from HUF 93,778 million to 88,174 million caused mainly by the decrease of energy costs of sales. This was the result of the decrease of world market purchase prices, the change of fees regulated by authorities and the effect of utility cost reduction to residential customers.

Costs of mediated services sold decreased by 3.5%, from HUF 65,966 million to HUF 63,687 million. The decrease is mainly due to the decrease of system usage and other charges related to electricity and gas retail services and payments to other fixed line network operators

Employee related expenses increased from HUF 68,109 million to HUF 69,120 million, however the depreciation and amortization is decreased from HUF 85,744 million to HUF 82,926 million.

Other expenses increased from HUF 65,778 million in 2013 to HUF 70,937 million in 2014. The main reason for the increase is the HUF 4,606 million impairment of goodwill related to T-Systems Magyarország Zrt. in 2014.

13.3 Financial result

The positive result from financial transactions changed from HUF 838 million in 2013 to HUF 5,742 million in 2014 which increase is caused by several contrary effects. The result is increased by the foreign exchange gain on revaluation of investments (from HUF 2,704 million to HUF 7,594 million), the gain on derivatives (from HUF 3,917 million loss to HUF 737 million gain) and the lower interest expense due to the decreasing market rates (from HUF 20 827 million to HUF 19 371 million). These effects were partly counterbalanced by the increase of foreign exchange loss on receivables and on liabilities (from HUF 2,563 million to HUF 8,177 million) and the decrease of dividends received (from HUF 25,260 million to HUF 24,793 million).

13.4 Extraordinary result

The negative result from extraordinary activities increased from HUF 2,562 million in 2013 to HUF 3,429 million in 2014, which is the net impact of various changes. The main reason, however, is higher amount of loans forgiven to T-Systems Magyarország Zrt. in 2014 (HUF 2,999 million) than in 2013 (HUF 2,000 million).

14 SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

There were no significant events between the end of the year and the release of the report.

Budapest, February 25, 2015



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer