EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE BOARD OF DIRECTORS ON THE MANAGEMENT OF MAGYAR TELEKOM PLC., ON THE BUSINESS OPERATION, ON THE BUSINESS POLICY AND ON THE FINANCIAL SITUATION OF THE COMPANY AND MAGYAR TELEKOM GROUP IN 2015

BUDAPEST, APRIL 12, 2016

According to Section 6.4.f) of the Articles of Association and Section 10.1.f) of the Rules of Procedure of the Board of Directors, the Board of Directors draws up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.

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

The Supervisory Board examined the report of the Board of Directors on the management of the Company, on the business operation, on the business policy and on the financial situation of the Company and Magyar Telekom Group in 2015, which the Supervisory Board acknowledged.

REPORT OF THE BOARD OF DIRECTORS ON THE MANAGEMENT OF MAGYAR TELEKOM PLC., ON THE BUSINESS OPERATION, ON THE BUSINESS POLICY AND ON THE FINANCIAL SITUATION OF THE COMPANY AND MAGYAR TELEKOM GROUP IN 2015

CHRISTOPHER MATTHEISEN
CEO – MEMBER OF THE BOARD OF DIRECTORS

ANNUAL GENERAL MEETING
APRIL 12, 2016

EGYÜTT. VELED

MANAGEMENT COMMITTEE

Christopher Mattheisen
Chief Executive Officer

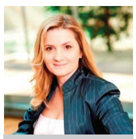
András Gyenes
Chief Commercial Officer Residential

Péter Lakatos
Chief Commercial Officer SMB

Tibor Rékasi
Chief Commercial Officer Enterprise

Walter Goldenits
Chief Technology and IT Officer

János Szabó
Chief Financial Officer



Éva Somorjai
Chief Human Resources Officer

Balázs Máthé
Chief Legal and Corporate Affairs Officers

AWARDS WON IN 2015

Disabled Friendly Workplace 2015

Oekom Corporate Responsibility: Prime Category 2015

Family friendly workplace 2015

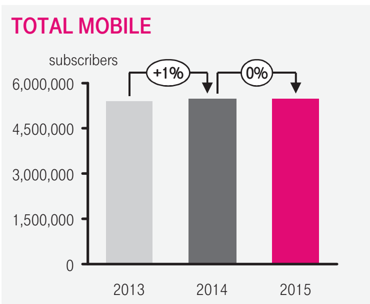
T-Systems Hungary Business Superbrands 2015

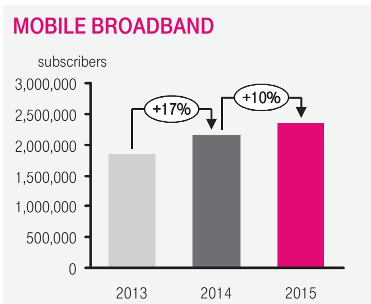
Bicycle friendly organization 2015

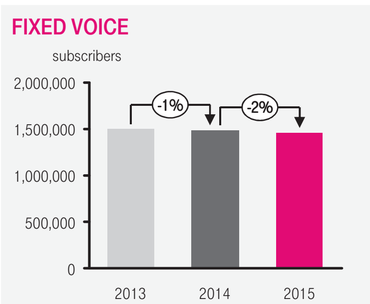
Valicoloured and Multigenerational Organisation TOP 10 – 2015

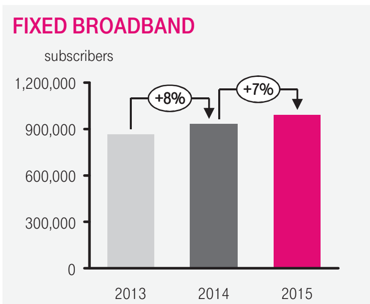
HR Oscar Award

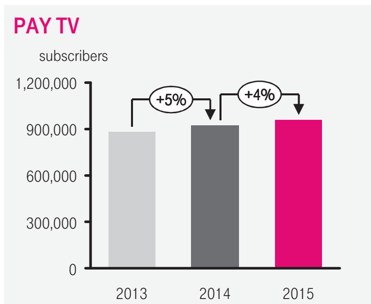
HUNGARIAN TELECOMMUNICATION MARKET: SUBSCRIBER BREAKDOWN





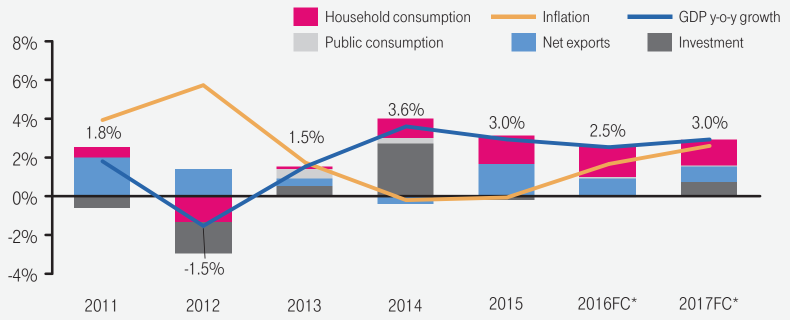






HUNGARIAN ECONOMIC ENVIRONMENT

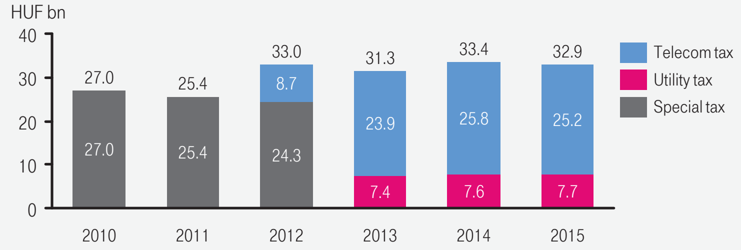
GROWTH STRUCTURE



IMPROVED MACROECONOMIC ENVIRONMENT

- Recovery in the Hungarian economy, with stable outlook
- MT has benefited from positive trends in domestic demand
- Governmental measures supportive of consumer spending
- Investment levels have displayed strong volatility due to EU fund cycles

ADDITIONAL TAXES LEVIED ON MAGYAR TELEKOM



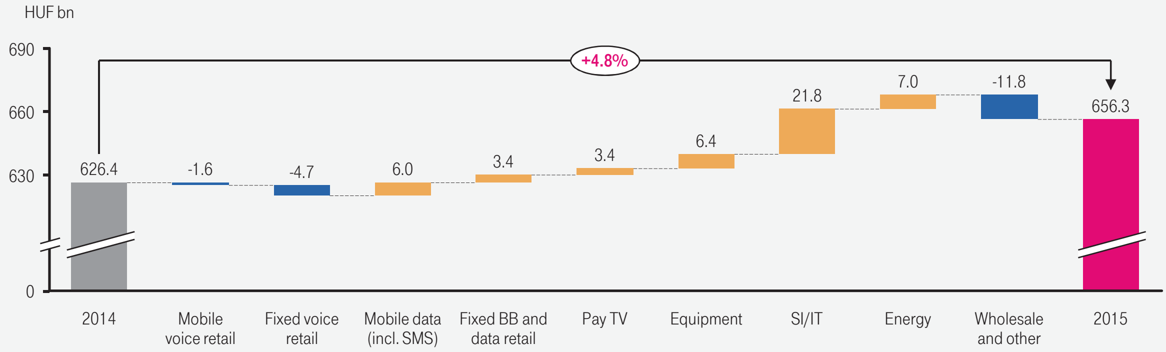
TAX BURDENS TO REDUCE BUDGET DEFICIT

- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July 2012; increased from August 2013
- Permanent tax on utility and telecom networks levied from 2013, but slight decrease is expected from 2016 onwards

* Central Bank of Hungary December 2015 forecast

2015 GROUP RESULTS – REVENUES

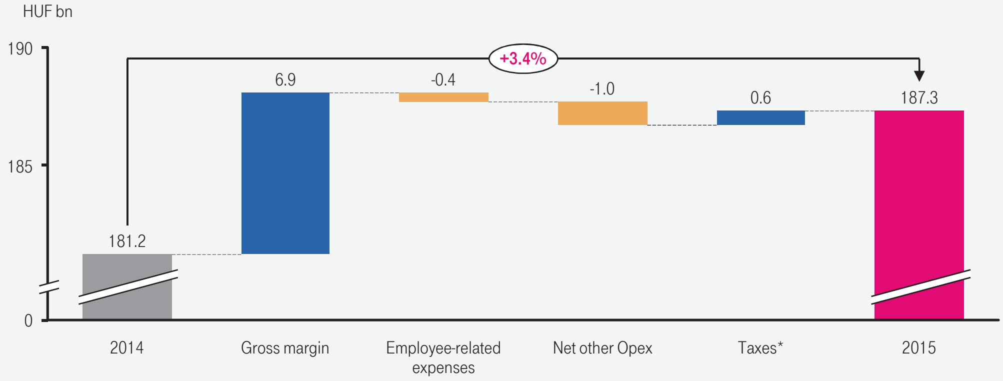
GROUP REVENUES



- Retail revenue restructuring sustained: decline in voice counterbalanced by strong growth in data and TV
- Group wide mobile data revenue growth due to 4G push coupled with improved fixed broadband and TV performance driven by higher ARPUs and larger customer base after GTS acquisition
- Continued increase in sales of smartphones, tablets and TV sets
- Significantly increased SI/IT revenues across all segments due to increased number of projects
- Higher total energy sales due to increased revenues in the Hungarian B2B segment despite residential gas market exit from August 1, 2015
- Significant drop in wholesale revenues due to sharp cut in Mobile Termination Rates (MTR down by 76%)

2015 GROUP RESULTS – EBITDA

GROUP EBITDA

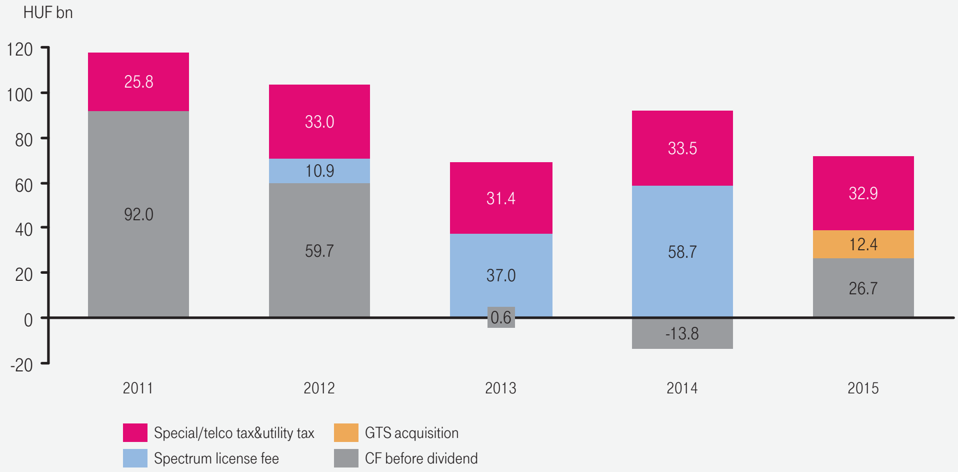


- Significant improvement in direct margin driven by higher revenues (incl. GTS acquisition), lower interconnect costs (due to MTR cut) and net debt expenses
- Total employee related expenses increased slightly year-on-year, despite underlying efficiency improvements resulting from the earlier headcount reduction program, due to the exceptional HUF 3bn higher severance costs in 2015
- Higher operating expenses mostly driven by higher marketing, maintenance and business transformation costs
- Lower operating taxes* due to decline in minutes of usage resulting lower telecom tax

* telecom and utility taxes

FREE CASH FLOW

FREE CASH FLOW* GENERATION

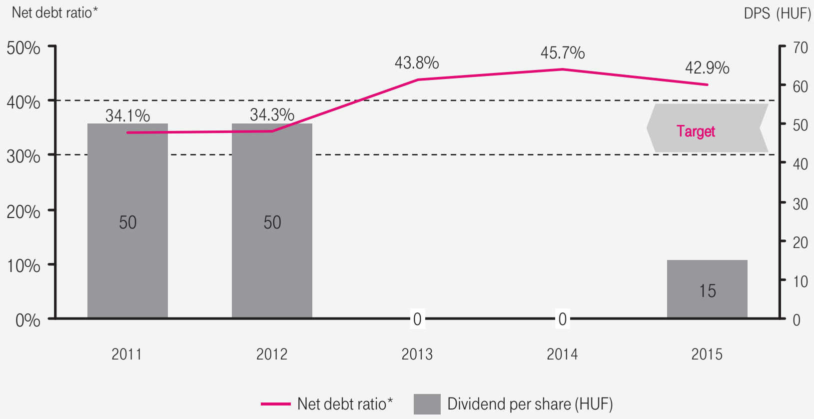


- Free cash flow turnaround in 2015:
  - improvement in operating free cash flow generation due to higher margins
  - no spectrum license fee payment in 2015
  - more than offsetting GTS acquisition coupled with flat telecom and utility taxes

*operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities

DIVIDENDS

DIVIDEND POLICY



- We have a net debt ratio target of 30%-40% in order to maintain an efficient capital structure
- Following FCF turnaround, sufficient cash (FCF: HUF 27bn) was generated in 2015 to resume dividend payments
- Net debt ratio is on a downward trajectory
- The Board of Directors proposes HUF 15 dividend per share payment on 2015 earnings for approval at the AGM

* defined as net debt / (net debt + total equity)

PUBLIC TARGETS FOR 2016 AND 2017

	2015 RESULTS	2016 TARGETS	2017 TARGETS
REVENUE*	HUF 656bn	HUF 580 - 590bn	HUF 585 - 595bn
EBITDA	HUF 187bn	HUF 187 - 191bn	HUF 189 - 193bn
CAPEX	HUF 110bn	ca. 10% yoy decline	ca. 10% yoy decline
FCF	HUF 27bn		Surpassing HUF 50bn**
DIVIDEND	HUF 15 per share	Target HUF 25 per share	

* The projected year on year decline in revenue reflects mostly the withdrawal from the energy market
** After minority dividend payments

THANK YOU FOR YOUR ATTENTION!

FOR FURTHER QUESTIONS PLEASE CONTACT THE INVESTOR RELATIONS DEPARTMENT:

PHONE: +36 1 458 0424
FAX: +36 1 458 0443
E-MAIL: INVESTOR.RELATIONS@TELEKOM.HU

EGYÜTT. VELED

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

DECISION ON THE APPROVAL OF THE 2015 CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS); PRESENTATION OF THE RELEVANT REPORT OF THE SUPERVISORY BOARD, THE AUDIT COMMITTEE AND THE AUDITOR

BUDAPEST, APRIL 12, 2016

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 2015 Consolidated Financial Statements of the Company, prepared according to International Financial Reporting Standards (IFRS), including Balance Sheet Total Assets of HUF 1,207,024 million and Profit for the year 2015 of HUF 31,547 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 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS), 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 Consolidated Financial Statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS) with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

EGYÜTT. VELED

CONSOLIDATED ANNUAL REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015

INDEX TO THE CONSOLIDATED ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ENDORSED BY THE EUROPEAN UNION (EU IFRS) pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Magyar Telekom Telecommunications PLC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Magyar Telekom Telecommunications PLC and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as of 31 December 2015 (in which the statement of financial position total is HUF 1,207,024 million), the consolidated statements of profit or loss and other comprehensive income (the total comprehensive income for the year is HUF 30,746 million), and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

PricewaterhouseCoopers Könyvvizsgáló Kft., 1055 Budapest, Bajcsy-Zsilinszky út 78.
T: +36 1 461 9100, F: +36 1 461 9115, www.pwc.com/hu

pwc

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Magyar Telekom Telecommunications PLC and its subsidiaries as of 31 December 2015, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the consolidated business report

We have examined the accompanying consolidated business report of Magyar Telekom Telecommunications PLC and its subsidiaries (together "the Group") for the financial year of 2015.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements. Our work in respect of the consolidated business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Group. In our opinion the 2015 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2015.

Budapest, March 3, 2016

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

Balázs Árpád
Statutory auditor
Licence number: 006931

EGYÜTT. VELED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At December 31, 2014	2015
		(in HUF millions)	
ASSETS			
Current assets			
Cash and cash equivalents	6	14,625	17,558
Trade and other receivables	7	144,266	162,762
Other current financial assets	8.1	23,690	11,052
Current income tax receivable	9.1	899	1,356
Inventories	10	13,749	12,665
		197,229	205,393
Assets held for sale	11	668	4,785
Total current assets		197,897	210,178
Non current assets			
Property, plant and equipment	12	487,778	493,204
Intangible assets	13	478,486	478,844
Investments in associates and joint ventures	14	-	1,000
Deferred tax assets	9.4	155	47
Other non current financial assets	8.2	25,243	22,950
Other non current assets	15	1,217	801
Total non current assets		992,879	996,846
Total assets		1,190,776	1,207,024
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	16	110,858	136,906
Other financial liabilities	17	65,131	26,152
Trade payables	18	110,361	140,182
Current income tax payable	9.1	1,778	1,399
Provisions	19	5,579	7,185
Other current liabilities	20.1	36,129	39,142
		329,836	350,966
Liabilities held for sale	11	-	1,217
Total current liabilities		329,836	352,183
Non current liabilities			
Financial liabilities to related parties	16	245,071	220,088
Other financial liabilities	17	59,422	54,857
Deferred tax liabilities	9.4	22,064	23,813
Provisions	19	8,816	9,907
Other non current liabilities	20.2	1,169	1,245
Total non current liabilities		336,542	309,910
Total liabilities		666,378	662,093
EQUITY			
Equity of the owners of the parent			
Common stock		104,275	104,275
Capital reserves		27,396	27,412
Treasury stock		(307)	(307)
Retained earnings		310,406	337,014
Accumulated other comprehensive income		32,184	31,824
Total Equity of the owners of the parent		473,954	500,218
Non-controlling interests	21	50,444	44,713
Total equity		524,398	544,931
Total liabilities and equity		1,190,776	1,207,024

Budapest, February 24, 2016

Christopher Mattheisen
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2014	2015
		For the year ended December 31, (in HUF millions, except per share amounts)	
Revenues	22	626,447	656,342
Direct costs	23	(226,357)	(249,377)
Employee related expenses	24	(94,750)	(95,160)
Depreciation and amortization	12, 13	(100,650)	(113,784)
Other operating expenses	25	(127,190)	(131,375)
Operating expenses		(548,947)	(589,696)
Other operating income	26	3,074	6,871
Operating profit		80,574	73,517
Interest income	27	1,224	946
Interest expense	28	(22,620)	(21,784)
Other finance expense - net	29	(7,001)	(7,338)
Net financial result		(28,397)	(28,176)
Share of associates' and joint ventures' loss	14	(5)	-
Profit before income tax		52,172	45,341
Income tax	9.2	(20,148)	(13,794)
Profit for the year		32,024	31,547
Other comprehensive income (all of which may be reclassified subsequently to profit or loss):			
Exchange differences on translating foreign operations		10,842	(845)
Revaluation of available-for-sale financial assets		26	44
Other comprehensive income for the year, net of tax		10,868	(801)
Total comprehensive income for the year		42,892	30,746
Profit attributable to:			
Owners of the parent		28,611	27,715
Non-controlling interests		3,413	3,832
		32,024	31,547
Total comprehensive income attributable to:			
Owners of the parent		36,477	27,355
Non-controlling interests		6,415	3,391
		42,892	30,746
Earnings per share (EPS) information:			
Profit attributable to the owners of the Company		28,611	27,715
Weighted average number of common stock outstanding (thousands) used for basic EPS		1,042,352	1,042,352
Average number of dilutive share options		-	118
Weighted average number of common stock outstanding (thousands) used for diluted EPS		1,042,352	1,042,470
Basic earnings per share (HUF)		27.45	26.59
Diluted earnings per share (HUF)		27.45	26.59

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended December 31, 2014	2015
		(in HUF millions)	
Cashflows from operating activities			
Profit for the year		32,024	31,547
Depreciation and amortization		100,650	113,784
Income tax expense		20,148	13,794
Net financial result		28,397	28,176
Share of associates' and joint ventures' loss		5	-
Change in assets carried as working capital		(11,244)	(15,541)
Change in provisions		889	2,442
Change in liabilities carried as working capital		3,321	24,204
Income tax paid		(16,133)	(12,787)
Dividend received		1	-
Interest and other financial charges paid		(24,847)	(28,743)
Interest received		1,135	967
Other non-cash items		11,149	(1,545)
Net cash generated from operating activities		145,495	156,298
Cashflows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	30	(142,153)	(96,855)
Purchase of subsidiaries and business units	31	(1,237)	(16,737)
Cash acquired through business combinations		27	1,815
Proceeds from other financial assets		24,108	18,832
Payments for other financial assets		(13,881)	(5,695)
Proceeds from disposal of PPE and intangible assets		2,635	2,127
Payments for interests in associates and joint ventures		-	(1,000)
Net cash used in investing activities		(130,501)	(97,513)
Cashflows from financing activities			
Dividends paid to Owners of the parent and Non-controlling interest		(8,008)	(6,691)
Proceeds from loans and other borrowings	17.2	501,343	156,916
Repayment of loans and other borrowings	17.2	(490,345)	(187,076)
Repayment of other financial liabilities	17.3	(18,541)	(18,923)
Net cash used in financing activities		(15,551)	(55,774)
Exchange differences on cash and cash equivalents		549	(78)
Change in cash and cash equivalents		(8)	2,933
Cash and cash equivalents, beginning of year		14,633	14,625
Cash and cash equivalents, end of year	6	14,625	17,558

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for AFS financial assets – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2013	1,042,742,543	104,275	27,379	8	(307)	281,795	24,425	(107)	437,468	52,108	489,576
Dividend declared to Non-controlling interests (i)									–	(6,822)	(6,822)
Equity settled share based transactions (c)				9					9	–	9
Capital reduction (j)									–	(1,247)	(1,247)
Deconsolidation effect									–	(10)	(10)
Transactions with owners in their capacity as owners		–	–	9	–	–	–	–	9	(8,079)	(8,070)
Other Comprehensive income							7,851	15	7,866	3,002	10,868
Profit or loss						28,611			28,611	3,413	32,024
Balance at December 31, 2014	1,042,742,543	104,275	27,379	17	(307)	310,406	32,276	(92)	473,954	50,444	524,398
Dividend declared to Non-controlling interests (i)									–	(9,122)	(9,122)
Equity settled share based transactions (c)				16					16	–	16
Acquisition of GTS Hungary (k)						(1,107)			(1,107)	–	(1,107)
Transactions with owners in their capacity as owners		–	–	16	–	(1,107)	–	–	(1,091)	(9,122)	(10,213)
Other Comprehensive income							(384)	24	(360)	(441)	(801)
Profit or loss						27,715			27,715	3,832	31,547
Balance at December 31, 2015	1,042,742,543	104,275	27,379	33	(307)	337,014	31,892	(68)	500,218	44,713	544,931
Of which treasury stock	(390,862)										
Shares of common stock outstanding at December 31, 2015	1,042,351,681										

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

NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2015. The number of authorized ordinary shares on December 31, 2015 is 1,042,742,543.

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

(c) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The December 31, 2015 and 2014 balances of this reserve represent the amount reserved for the Share Matching Plans (Note 24.1).

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

(e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2015 amounted to approximately HUF 249 billion (HUF 228 billion at December 31, 2014).

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

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

(h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries in which the Group has less than 100% ownership (Note 21).

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

(j) The Annual General Meeting of Crnogorski Telekom on March 5, 2014 made a decision on share capital reduction in a total amount of EUR 17.1 million (HUF 5.3 billion).

(k) In April 2015 Magyar Telekom Plc. acquired a 100% stake in GTS Hungary Kft. from Deutsche Telekom (Note 5.1).

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes a HUF 15 per share dividend distribution (in total HUF 15,635 million) to be approved by the Annual General Meeting of the Company in April 2016. In 2015 and 2014 Magyar Telekom Plc. declared no dividend.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal provider of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria and Romania. These services are subject to various telecommunications regulations depending on the countries of operations (Note 37).

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

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

The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). Deutsche Telekom Europe B.V. (Stationsplein 8, 6221 BT Maastricht, the Netherlands), a member of the Deutsche Telekom Group, is the direct owner of 59.21% of the Company's issued shares and voting rights.

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

The Company's Board of Directors (the Board) accepted the submission of these consolidated financial statements of the Company on February 24, 2016 to the Annual General Meeting (AGM) of the owners, which is authorized to approve these financial statements, but also has the right to require amendments before approval. As the controlling shareholders are represented in the Board of the Company that accepted the submission of these financial statements, the probability of any potential change required by the AGM is extremely remote, and has never happened in the past.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations endorsed by the EU effective as at December 31, 2015 and applicable to Magyar Telekom had been adopted. These consolidated financial statements also comply with the Hungarian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The consolidated financial statements are presented in millions of HUF unless stated otherwise.

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

2.1.1Standards, amendments and interpretations effective and adopted by the Group in 2015

None.

2.1.2 Standards, amendments and interpretations effective in 2015 but not relevant for the Group

None.

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

IAS 1 (amended) – The IASB published amendments to IAS 1 Presentation of Financial Statements in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The application of the amendments is required for annual periods beginning on or after January 1, 2016. We do not expect that the adoption of the amendments would result in significant changes in the financial statements disclosures of the Group. The European Union has not yet endorsed the amended standard.

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

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

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

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

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

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

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

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

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.

- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

The IASB issued amendments to IFRS 9 in December 2011 and in November 2013 and deferred the mandatory effective date of IFRS 9. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

The IASB completed the final element of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Classification and Measurement: Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments.

Impairment: During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

Own credit: IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The application of the new standard and its amendments is required for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The adoption of the new standard and its amendments will likely result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has not yet endorsed either the standard or its amendments.

IFRS 11 (amended) – The IASB published amendments to IFRS 11 Joint Arrangements in May 2014. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment explicitly requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in IFRS 3. The application of the amendment is required for annual periods beginning on or after January 1, 2016. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Group. The European Union has not yet endorsed the amended standard.

IAS 16 and IAS 38 (amended) – The IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets in May 2014. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The application of the amendments is required for annual periods beginning on or after January 1, 2016. The adoption of the amendments will not result in any changes in the financial statements of the Group as we apply linear depreciation and amortization. The European Union has not yet endorsed the amended standards.

IFRS 15 – In May 2014 the IASB and the US FASB jointly issued a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple-element arrangements. The application of the new standard is required for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The adoption of the new standard will result in significant changes in the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer and contract fulfilment costs. The timing of revenue recognition and the classification of our revenues as either service or equipment revenue will be affected due to the allocation of consideration in multiple element arrangements (solutions for our customers that may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time) no longer being affected by limitation cap methodology. Considering the current business models, the impact of applying the new standard would result in allocating more revenues upfront. Our operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial time. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard. The European Union has not yet endorsed the new standard.

IFRS 10 and IAS 28 – The IASB issued narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments address the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The application of the amendments is required for annual periods beginning on or after January 1, 2016. We do not expect that the adoption of the amendments would result in significant changes in the financial statements of the Group. The European Union has not yet endorsed the amended standards.

IFRS 16 – In January 2016 the IASB published IFRS 16 Leases. The current lease accounting standard, IAS 17, does not permit recognition of obligations from operating leases in the statement of financial position. As a change from that, IFRS 16, in the future, requires entities when they are a lessee, to

- recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments;
- recognize amortization of lease assets and interest on lease liabilities over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities).

As a result, the most significant effect of IFRS 16 will be an increase in lease assets and lease liabilities, the extent of which will have to be determined after thorough analysis. Leases of the Group are disclosed in note 33.

On the lessor (sell) side, we will mainly have to analyze the extent of which multiple element arrangements with embedded leases may be affected by the revised definition of leases. Other than that, we do not expect a considerable impact on the financial statements of the Group at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16.

An entity is required to apply IFRS 16 for annual periods beginning on or after 1 January 2019 and permits to apply the new Leases Standard early, if the entity also applies IFRS 15 Revenue from Contracts with Customers at or before the date of early application. The European Union has not yet endorsed the new standard.

IAS12 (amended) – In January 2016 the IASB issued amendments to IAS12 Income taxes. The amendments, Recognition of Deferred Tax Assets for Unrealized Losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the following aspects to address diversity in practice:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The application of the amendments is required for annual periods beginning on or after January 1, 2017. We do not expect that the adoption of the amendments would result in significant changes in the financial statements of the Group. The European Union has not yet endorsed the amended standard.

IAS7 – In January 2016 the IASB published amendments to IAS 7 Statement of Cash Flows. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The IASB requires that the following changes in liabilities arising from financing activities are disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. Changes in liabilities arising from financing activities have to be disclosed separately from changes in other assets and liabilities. The application of the amendments is required for annual periods beginning on or after January 1, 2017. We do not expect that the adoption of the amendments would result in significant changes in the financial statements of the Group. The European Union has not yet endorsed the amended standard.

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

IAS 19 (amended) – The IASB published amendments to IAS 19 – Employee Benefits in November 2013. The amendments apply to contributions from employees or third parties to defined benefit plans which are not relevant for the Group. Therefore the amended standard will not have any impact on the Group's financial statements. The European Union has endorsed the amended standard.

IFRS 14 – The IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts in January 2014. The new interim standard is applicable for first-time adopters which is not relevant for the Group. Therefore the new interim standard will not have any impact on the Group's financial statements. The European Union has not yet endorsed the new interim standard.

IAS 16 and IAS 41 – The IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms in June 2014. Since the Group is not engaged in agricultural activity, the amendments will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standards.

IAS 27 – The IASB published Equity Method in Separate Financial Statements (Amendments to IAS 27) in August 2014. The amendment is applicable for separate financial statements which is not relevant for the Group. Therefore the amendment will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standard.

IFRS 10, IFRS 12, IAS 28 (amended) – The IASB published "Investment Entities: Applying the Consolidation Exception" (Amendments to IFRS 10, IFRS 12 and IAS 28) in December 2014. As Magyar Telekom does not have investment entities, the amendments will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standards.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

If applicable, the Group recognizes at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it is recognized in accordance with other applicable IFRSs as appropriate rather than as an adjustment of goodwill.

As for the measurement of non-controlling interest, the Group may recognize 100% of the goodwill of the acquired entity, not only the Group’s portion of the goodwill. This is elected on a transaction-by-transaction basis. The Group attributes their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

In case of acquisitions where the transaction takes place between companies under common control (i.e. with other Deutsche Telekom Group companies), the transaction is recorded at the carrying amounts as recorded in the selling owner’s accounts, and any gains, losses or differences between the carrying amount and the sale-purchase price are recognized in Retained earnings. The consolidated financial statements include the results of subsidiaries acquired from parties under common control from the date of the closing of the transaction.

A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, therefore gain or loss is not recognized in profit or loss for such disposals.

A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss (Other income).

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

At December 31, 2014 and 2015 the principal operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31, 2014	2015		Activity
Incorporated in Hungary:				
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%		System integration and IT services
GTS Hungary Kft., Budapest	0.00%	100.00%	(a)	Alternative ICT provider
Origo Zrt., Budapest	100.00%	100.00%	(b)	Internet and TV content provider
Telekom New Media Zrt., Budapest................	100.00%	100.00%		Interactive service provider of telecommunications applications
Incorporated in Macedonia:				
Makedonski Telekom A.D., Skopje (MKT)	56.67%	56.67%		Telecom service provider
T-Mobile Macedonia A.D., Skopje (T-Mobile MK)	56.67%	0.00%	(c)	Mobile telecom service provider
Stonebridge A.D., Skopje.................................	100.00%	100.00%		Holding company
Incorporated in Montenegro:				
Crnogorski Telekom AD, Podgorica (CT)	76.53%	76.53%		Telecom service provider
Incorporated in Romania:				
Combridge S.R.L., Bucharest...........................	100.00%	100.00%		Wholesale telecom service provider
Incorporated in Bulgaria:				
Novatel EOOD, Sofia	100.00%	100.00%		Wholesale telecom service provider

(a) In April 2015 Magyar Telekom Plc. acquired a 100% stake in GTS Hungary Kft. from Deutsche Telekom (Note 5.1).

(b) In December 2015, the Company signed a share purchase agreement for the sale of the total of its 100% shareholding in Origo Zrt. The closing of the transaction took place in February 2016 (Note 11.1).

(c) T-Mobile Macedonia A.D. was merged into Makedonski Telekom A.D. in July 2015.

The Group's interest in the capital of the above subsidiaries equals the voting rights therein. There is no entity in the Group that is not controlled even though more than half of the voting rights are held. There is no significant entity in the Group that is controlled even though less than half of the voting rights are held.

All subsidiary undertakings are included in the consolidation.

2.2.2 Associates and joint arrangements

Associates are entities over which the Group has significant influence but not control, generally reflecting a voting right between 20% and 50%.

Joint arrangements are arrangements where the parties are bound by a contractual arrangement of which two or more parties have joint control and which exist only when decisions about the relevant activities require the unanimous consent of the parties sharing the control.

If the parties that have joint control of the arrangement have rights to the net assets of the arrangement, it is a joint venture.

If the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, it is a joint operation.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill arising on acquisitions, and net of any accumulated impairment loss.

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

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

In case of a joint operation, the assets, liabilities, revenues and expenses relating to the joint operation are recognized to the extent of the Group's interest in the joint operation.

For further information on the associates and joint arrangements of the Group see note 14.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

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

2.3.2 Transactions and balances

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

2.3.3 Group companies

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

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

2.4 Financial instruments

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

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

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

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

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

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

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

The fair value of long term financial liabilities is also determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates interpolated from the official HUF and EUR Interest Rate Swap. The carrying amount of floating-rate financial liabilities or those expiring within one year approximate the fair values at the end of the reporting period.

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

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:

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

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

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

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

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

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

2.4.1.1 Financial assets at fair value through profit or loss

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

- Financial assets incurred for the purpose of selling immediately or in the near term and thus classified as "held for trading"
- Derivative financial assets not involved in an effective hedge relationship are classified as "held for trading"

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

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

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

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

2.4.1.2 Loans and receivables

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

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

- cash and cash equivalents
- bank deposits with original maturities over 3 months
- trade receivables
- employee loans
- other receivables

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

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

(a) Cash and cash equivalents

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

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

(b) Bank deposits with original maturities over 3 months

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

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

(c) Trade and other receivables

Trade receivables include the receivables for the services rendered from the customers of the Group while other receivables mainly include advances and prepayments.

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

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

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

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

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

When a trade or other receivable is established to be uncollectible, it is written off with a parallel release of cumulated impairment against Direct costs in the Profit for the year (Bad debt expense). Subsequent recoveries of amounts previously written off are credited against the same line of the Statement of profit or loss.

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

(d) Employee loans

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

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

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

2.4.1.3 Available-for-sale (AFS) financial assets

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

The AFS measurement category includes:

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

AFS financial assets are initially recognized and also subsequently carried at fair value. The unrealized changes in the fair value of AFS financial assets are recognized in Accumulated other comprehensive income (Revaluation reserve for AFS financial assets).

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

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

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

2.4.2 Financial liabilities

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

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

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

2.4.2.1 Financial liabilities carried at amortized cost

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

(a) Loans and other financial liabilities

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

(b) Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.4.2.2 Financial liabilities at fair value through profit or loss

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

The Group does not apply hedge accounting, therefore, all derivatives are measured at fair value through profit or loss.

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

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

2.5 Inventories

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

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

Impairment losses on Inventories are recognized in Other operating expenses.

2.6 Non current assets held for sale

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

2.7 Property, plant and equipment (PPE)

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

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

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

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

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

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

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

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

2.8 Intangible assets

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

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

Costs associated with the acquisition of long term frequency licenses are capitalized. The present value of the future annual payments for the use of the frequencies are also capitalized if these payments can be estimated reliably, or otherwise recognized as Other operating expenses in the year the payment obligation refers to. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. Renewal periods are considered in the determination of useful life only if we are sure that it will be realized without further consideration to be transferred.

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

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

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

2.9 Impairment of PPE and intangible assets

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

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

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

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

The impairment losses of PPE and intangible assets are accounted for in the Depreciation and amortization line of the Statement of profit or loss.

2.10 Provisions and contingent liabilities

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

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

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

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

2.11 Treasury stock

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

2.12 Revenues

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

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

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

2.12.1 Mobile and Fixed line telecommunications revenues

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

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

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

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. In case the equipment is sold on installments with payment terms exceeding 12 months, the amount of the revenue immediately recognized is the present value of the installments.

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

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

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

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

2.12.2 System integration (SI) and IT revenues

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

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

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

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

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

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

2.12.3 Energy retail revenues – gas and electricity

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

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

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

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

2.13 Employee benefits

2.13.1 Short term employee benefits

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

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

2.13.2 Share based compensation

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

Fair values are determined using option pricing models (such as Black–Scholes and Monte Carlo simulation) and other relevant techniques. As Magyar Telekom Plc. and DT AG are listed and actively traded on the stock exchanges, the share prices and their history are readily available as a basis for fair value calculations.

Bonuses tied to the long term performance of the Magyar Telekom and Deutsche Telekom shares are recognized in the Profit for the year at their time-proportioned fair value against an accumulating balance in Provisions.

2.13.3 Termination benefits

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

2.14 Research and Marketing expenses

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

2.15 Borrowing costs

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

2.16 Income taxes

2.16.1 Corporate income taxes

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

2.16.2 Other income taxes

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

2.16.3 Deferred taxes

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

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

Deferred tax assets are recognized for all deductible temporary differences arising on investments in subsidiaries, associates and joint ventures to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Leases

2.17.1 Operating lease – Group as lessor

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

2.17.2 Finance lease – Group as lessor

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

2.17.3 Operating lease – Group as lessee

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

2.17.4 Finance lease – Group as lessee

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

2.17.5 Sale and leaseback transactions

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

2.18 Earnings per share

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

2.19 Dividends

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

2.20 Segments

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

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

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

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

Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the annual investments in PPE and Intangible assets.

2.21 Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items have been reclassified for comparative purposes. Material changes in disclosures, are described in detail in the relevant Notes. In 2015 there were no material reclassifications.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. These sensitivity analyses calculate with reasonably possible changes in the relevant risk variables and their impact on profit before tax. The impacts disclosed below for the reported periods are subject to an average effective income tax rate of approximately 30%, i.e. the impact on Profit for the year would be approximately 70% of the pre tax amount in a year that is free from significant one-off non-deductible pre-tax impacts and significant changes in the tax legislations. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

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

3.1.1 Market risk

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

- foreign currency risk
- interest rate risk
- price risk.

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio KPIs, and monitors their fulfillment annually. At the end 2015 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 2.34 in 2015 (2014: 2.65), the allowed maximum of which would be 2.8 and EBITDA to Interest Expense ratio of 6.65 in 2015, (2014: 6.38), the allowed minimum of which would be 3.0. The Group's Treasury is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury continuously.

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

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2015) and the preceding reporting period (2014). The balances at the end of the reporting period are usually representative for the year as a whole; therefore the impacts are calculated using the year end balances . The methods and assumptions used in the sensitivity calculations did not change significantly compared to the previous period. As a result of the still rather volatile international capital and securities markets, higher fluctuations of the FX and interest rates are also possible.

3.1.1.1 Foreign currency risk

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

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

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

Several related party loans taken to finance general corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG (DT AG) to fix the actual cash flows of Magyar Telekom in HUF for the whole nominal amount and interest payments of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. As of December 31, 2015, a 10% weaker HUF would cause an FX loss of approximately HUF 6.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 7.1 billion. As of December 31, 2015, a 10% stronger HUF would cause an FX gain of approximately HUF 6.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 7.1 billion. As of December 31, 2014, a 10% weaker HUF would have caused an FX loss of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 8.0 billion. As of December 31, 2014, a 10% stronger HUF would have caused an FX gain of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 8.0 billion.

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

Magyar Telekom also has third party loans denominated in EUR, for the majority of which we also concluded cross-currency interest rate swap agreements with one of the substantial Hungarian banks to eliminate FX risk in connection with these loans and hedge the whole foreign currency denominated cash flows of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. Even a reasonably possible change in the FX rates would not have a significant impact on the Group's FX gains or losses or valuation gains or losses of the derivatives.

(c) Other FX exposure

The remaining FX exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from, and payments to, international telecommunications operators as well as capital expenditure contracted with vendors in foreign currency. In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated liabilities (other than the above described loans) exceed the Group's foreign currency denominated assets, therefore changes of the functional currencies' exchange rates would have the following impact on the profit of the Group. Compared to the spot FX rates as of December 31, 2015, a 10% weaker functional currency HUF against the EUR and a 10% weaker HUF against the USD would have caused an unrealized loss of HUF 3.0 billion on this net balance (2014: less than HUF 1.0 billion loss). The same amount of gain would have been caused by a 10% stronger functional currency HUF against the EUR and a 10% stronger HUF against the USD. Compared to the spot FX rates as of December 31, 2015, a 15% weaker functional currency MKD against the EUR and USD would have caused less than HUF 1.0 billion unrealized loss on this net balance (2014: less than HUF 1.0 billion loss). The same amount of loss would have been caused by a 15% stronger functional currency MKD against the EUR and USD.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The positive fair value of the open short term forward positions was HUF 0.1 billion as of December 31, 2015 (2014: HUF 0.4 billion asset). These positions were opened to hedge the FX risks of future FX payments exceeding FX income. Compared to the spot FX rates as of December 31, 2015, a 10% weaker functional currency HUF against the EUR and a 10% weaker HUF against the USD would have caused HUF 4.0 billion unrealized gain on this while a 10% stronger HUF against the EUR and a 10% stronger HUF against the USD would have caused HUF 3.7 billion unrealized loss.

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

3.1.1.2 Interest rate risk

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

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

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

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

(a) Financial assets

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

Due to the extremely low interest rates, even a reasonably possible change in the interest rates would not have a significant impact on the Group's interest income.

(b) Financial liabilities

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

As the vast majority of debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 76% of the Group's total debt as of December 31, 2015 (2014: 74%).

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 24% of the Group's total debt as of December 31, 2015 (2014: 26%). A 1 percentage point higher interest rate throughout 2015 (assuming the year-end 2015 balance throughout 2015) would have resulted in HUF 0.9 billion higher interest expense in 2015, while the same decrease of interest rates would cause the same decrease in interest payments (2014: HUF 1.0 billion).

The fair value of the swap agreements contracted with DT is also exposed to changes in the HUF and EUR interest rates. Assuming an unchanged HUF interest but an increase of 1% in the EUR interest rates, the fair value of the swap agreements would also change causing a loss of HUF 2.7 billion, while a 1% decrease in the EUR rates would result in an income of HUF 2.8 billion. Similarly, assuming an unchanged EUR interest but an increase of 1% in the HUF interest rates, the fair value of the swap agreements would also change resulting in an income of HUF 2.1 billion, while a 1% decrease in the HUF rates would cause a loss of HUF 2.3 billion.

3.1.1.3 Price risk

As of the end of the reporting periods, Magyar Telekom 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 the minimize the risk deriving from such price changes Magyar Telekom made the necessary economic hedge actions for much of the exposure, therefore no relevant risk remained in this field, as a result no sensitivity information for price risk is disclosed. See also Note 8.2.

3.1.2 Credit risk

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

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

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

In line with the Group's risk management policy Magyar Telekom Group companies deposit the vast majority of excess cash in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for these fixed term deposits from banks rated at least BBB+. We, however, also have current accounts in banks with lower rating than this. Moreover, Magyar Telekom prefers to deposit in banks which grants loans to Magyar Telekom to make the compensation of debts and loans possible in case of the default of the bank.

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

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Macedonia are primarily denominated in MKD and EUR, while the Cash and cash equivalents and Bank deposits with maturities over 3 months held in Montenegro are primarily denominated in EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in these countries run higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. The bank deposits of the Montenegrin subsidiary of HUF 7.5 billion as at December 31, 2015 (2014: HUF 7.6 billion) and those in Macedonia of HUF 5.2 billion as at December 31, 2015 (2014: HUF 13.1 billion) are fully covered with bank guarantees issued by international financial institutions rated at BBB or above deposited abroad with at least BBB+ rated banks. Credit risk related to bank deposits is further limited by the diversification of the deposits among several independent credit institutions determinant on the local market.

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

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

The following table contains the carrying amount of trade receivables broken down by country of operation. The vast majority of these balances are denominated in the functional currency of the countries of operations (HUF in Hungary, MKD in Macedonia and EUR in Montenegro).

In HUF millions	**At December 31,**	
	2014	**2015**
Hungary	111,720	121,910
Macedonia	15,110	16,166
Montenegro	6,620	7,867
Other	1,000	1,137
	134,450	147,080

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2015 was 1.5% (2014: 1.9%) of the consolidated revenues. Adverse changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.6 billion in 2015 (2014: HUF 6.3 billion).

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

Hungary

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

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

Macedonia

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

Montenegro

Since 2010, when Customer finance department was formed, a number of processes related to limitation of credit risk have been established, changed and improved. In the period 2010-2014 Montenegro had a constant decline of Bad debt expense and overall improvement of collection rates. Still, in 2015 we cannot expect further decrease of bad debt expense, mainly due to the higher expenses in residential segment compared to 2014. This mainly came as a result of campaigns in the retail sector from 2014 where the main goal was acquisition of new customers. In 2015, focus was on business customers as well as on new residential customers. Significant changes came with implementation of new billing and CRM system in Q4 2015. A number of processes have been changed including dunning and credit checking processes. Fraud prevention and revenue assurance processes were also affected and the goal was to keep the previously reached level of risk protection while the new system is in stabilization phase by avoiding larger incidents.

3.1.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 29.0 billion as at December 31, 2015 (2014: HUF 57.5 billion), and the Company also had uncommitted credit lines from Hungarian Banks as at December 31, 2015 and 2014. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2017.

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2015 and 2014. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

December 31, 2015 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	140,182	140,182	-	-
Financial liabilities to related parties	392,649	145,087	205,427	42,135
Bank loans	13,278	13,278	-	-
Finance lease liabilities	15,277	4,953	6,057	4,267
Other financial liabilities	59,559	9,412	34,706	15,441
Total other financial liabilities	88,114	27,643	40,763	19,708
Total cash flows	620,945	312,912	246,190	61,843
Open swap positions' cash flows				
Gross cash inflow in EUR million	234	10	90	133
Gross cash inflow in HUF million (at spot rate)	73,164	3,243	28,297	41,624
Gross cash outflow in HUF million	(72,833)	(2,914)	(27,438)	(42,481)
Net cash inflow in HUF million	330	329	859	(857)
Open forward positions' cash flows				
Gross cash inflow in EUR million	121	121	-	-
Gross cash inflow in USD million	2	2	-	-
Total gross cash inflow in HUF million (at spot rate)	38,553	38,553	-	-
Gross cash outflow in HUF million	(38,607)	(38,607)	-	-
Net cash inflow in HUF million	(55)	(55)	-	-

December 31, 2014 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	110,361	110,361	-	-
Financial liabilities to related parties	404,136	129,595	274,541	-
Bank loans	46,158	44,571	1,587	-
Finance lease liabilities	13,990	4,577	5,657	3,756
Other financial liabilities	70,611	16,979	15,903	37,729
Total other financial liabilities	130,759	66,127	23,147	41,485
Total cash flows	645,256	306,083	297,688	41,485
Open swap positions' cash flows				
Gross cash inflow in EUR million	268	181	87	-
Gross cash inflow in HUF million (at spot rate)	84,531	57,104	27,427	-
Gross cash outflow in HUF million	(74,427)	(52,277)	(22,150)	-
Net cash inflow in HUF million	10,104	4,827	5,277	-
Open forward positions' cash flows				
Gross cash inflow in EUR million	157	157	-	-
Gross cash inflow in USD million	27	27	-	-
Total gross cash inflow in HUF million (at spot rate)	56,305	56,305	-	-
Gross cash outflow in HUF million	(56,160)	(56,160)	-	-
Net cash inflow in HUF million	145	145	-	-

The average maturity of Magyar Telekom's debt portfolio was 2.46 years as at December 31, 2015 (2014: 2.01 years). The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2015 and 2014.

3.2 Capital risk management

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

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

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

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

During 2014 and 2015, the Group's mid and long term target as approved by the Board was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2015 was 42.9% (2014: 45.7%). As a result, the Company paid no dividend in 2014 and 2015, but as a result of the improving trend, the Company's Board recommends to declare a HUF 15 dividend per share at the April 2016 Annual General Meeting.

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

The equity capital, which the Group manages, amounted to HUF 545 billion on December 31, 2015 (2014: HUF 524 billion).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. As an example, if Magyar Telekom was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately HUF 13 billion (2014: HUF 11 billion). See Notes 12 and 13 for the changes made to useful lives in 2015.

The Group constantly introduces a number of new services or platforms including, but not limited to, the 3G and 4G based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services or assets are designed to co-exist with the existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

4.2 Estimated impairment of goodwill

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

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

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

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

In 2015 and 2014, no goodwill had to be impaired.

The tables below show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2015 and 2014. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2015 or 2014 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In 2015 we disclose what impact a 2 percentage point increase of the WACC would have on the goodwill. In case of the PGRs we disclose what impact a 5 percentage point decrease of the PGR would have on the goodwill. In case of the cash flow projections we disclose what impact a 10% or a 25% lower than projected cash flow stream would have on the goodwill.

2015	**Telekom Hungary**	**T-Systems**	**Macedonia**	**Montenegro**
WACC				
Used in the calculation	7.00%	7.62%	8.17%	7.64%
If changed to	9.00%	9.62%	10.17%	9.64%
Potential impairment (HUF million)	-	-	252	-
PGR				
Used in the calculation	1.0%	1.0%	1.0%	0.0%
If changed to	-4.0%	-4.0%	-4.0%	-5.0%
Potential impairment (HUF million)	-	-	1,337	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	-	-	-	-
If changed by	-25%	-25%	-25%	-25%
Potential impairment (HUF million)	-	-	2,202	-

In 2014 we disclosed what impact a 2 percentage point increase of the WACC would have had on the goodwill. In case of the PGRs we disclose what impact a 4 percentage point decrease of the PGR would have had on the goodwill. In case of the cash flow projections we disclose what impact a 10% or a 20% lower than projected cash flow stream would have had on the goodwill.

2014	Telekom Hungary	T-Systems	Macedonia	Montenegro
WACC				
Used in the calculation	7.74%	8.10%	7.08%	6.46%
If changed to	9.74%	10.10%	9.08%	8.46%
Potential impairment (HUF million)	38,250	-	-	-
PGR				
Used in the calculation	1.0%	1.0%	1.0%	0.0%
If changed to	-3.0%	-3.0%	-3.0%	-4.0%
Potential impairment (HUF million)	22,843	-	-	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	-	-	-	-
If changed by	-20%	-20%	-20%	-20%
Potential impairment (HUF million)	11,629	-	-	-

The table below shows what changes can be observed in the 10 year plans prepared in 2014 compared to those prepared in 2015.

	Telekom Hungary	T-Systems	Macedonia	Montenegro
Cumulative average growth rate of revenues during the 10 years compared to 2015	-0.5%	3.3%	0.0%	-1.0%
Cumulative average growth rate of revenues during the 10 years compared to 2014	-0.1%	2.9%	-0.9%	-1.1%
Cumulative average growth rate of EBITDA during the 10 years compared to 2015	1.7%	5.8%	1.3%	-0.4%
Cumulative average growth rate of EBITDA during the 10 years compared to 2014	2.4%	5.6%	-0.5%	-0.3%
Cumulative average growth rate of Capex during the 10 years compared to 2015	-3.7%	0.9%	-2.3%	-2.1%
Cumulative average growth rate of Capex during the 10 years compared to 2014	-4.3%	-0.2%	0.8%	-0.8%

Magyar Telekom's management believes that preparing the value in use (VIU) calculation was unnecessary, since it would have resulted in a lower value than the FVLCS. The VIU method is assuming a model without future investments, meaning that additional capex and related revenues and gains to be recognized in the future cannot be considered in the calculations. Assuring the revenues on long term in a telecom business very much depends on future investments. In Magyar Telekom on average only approximately 20%

of the capex spent in a year is related to maintenance. Others are new investments, also related to providing new connections to the network. It is obvious, that without this the revenue generation would start to decline sharply on a long term. Consequently, we did not prepare the value in use calculations for any of the segments.

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

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

4.4 Estimated impairment of trade and other receivables

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

4.5 Provisions

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

4.6 Subscriber acquisition and retention costs

Subscriber acquisition and retention costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition and retention costs. The up-front fees collected from customers for activation or connection are marginal compared to the incremental acquisition and retention costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition and retention costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. Among these, net losses on equipment sales of the Group amounted to HUF 18.9 billion in 2015 (2014: HUF 16.2 billion). In addition, agent fees amounted to HUF 7.1 billion in 2015 (2014: HUF 8.9 billion), while the Group's marketing costs amounted to HUF 13.3 billion in 2015 (2014: HUF 13.0 billion).

4.7 Annual fees of mobile licenses

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary, Macedonia and Montenegro. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee and annual payments. It is judgmental whether we consider the annual fees to be reliably estimable or not. If we consider that we can reliably estimate these annual fees, the present value of those are capitalized as part of the cost of the license, otherwise these are recognized as costs in the period they relate to.

As the conditions of the new license contract concluded in Hungary in 2014 and 2013 (see Note 37.1) substantially changed compared to the old ones, in addition to the initial cost of the new frequencies in 2014 (HUF 59 billion) and the renewal of the old ones in 2013 (HUF 38 billion) we also recognized the discounted present value of the future annual license fees (HUF 39 billion in 2014 and HUF 17 billion in 2013).

In 2013 Magyar Telekom concluded an Authority Contract with the National Media and Infocommunications Authority (NMIAH) on the prolongation of the then existing 900 MHz and 1800 MHz frequencies until April, 2022. The Contract included provisions on lowering the annual fee of these and the 2100 MHz bands in the form of a legislation. The reduction of the annual fees was a result of the Hungarian mobile operators' years of interest enforcement efforts as former fees were far higher than the European average. The probability of the modification of these Authority Contract based fees prior to the expiry of the term has become very low as the parties agreed in all terms and provisions of the contract, including the reduced fees of the bands, until 2022. It would be unprecedented that the annual fees change prior to the expiry of the term of the contract. While the mobile operators took significant efforts prior to the recent amendment to reduce the fees, the lowered fees in the newly concluded contract are more favorable for MT than the fee in the authority decree. Based on the same consideration, the mobile operators also initiated the reduction of the fees of those bands that were outside the scope of the modification of the Authority Contract. The fee of the 2100 MHz band, which can be used until 2019, was reduced by 50% pursuant to the relevant National Media and Infocommunications Authority decree and this was such an extensive reduction that it makes the revision of the fees until the expiry of the contracts in 2019 very unlikely. The mobile operators had reached their objectives as the annual fee obligation was significantly reduced and it is now aligned to the EU trends.

The Authority Contract concluded between the Company and the NMIAH in October 2014 on the use of the new 800MHz, 900 MHz and 1800 MHz frequency bands also includes annual fees that are in line with the ones achieved in 2013, i.e. we considered them reliably estimable to capitalize their discounted present value as part of the cost of the license.

In case of the other frequency license fees of the Group, we did not consider the annual fees to be reliably estimable at the time of acquisition, therefore, those were not capitalized.

5 BUSINESS COMBINATIONS

5.1 GTS Hungary

The Company acquired a 100% stake in GTS Hungary Kft. from Deutsche Telekom as of April 1, 2015. GTS Hungary is an information and communications technology provider in Hungary that provided fixed voice, internet, data and IT services to ca. 7 thousand business customers and also provided fixed internet and telephony services to ca. 11 thousand residential clients across Hungary, while had a strong domestic and international wholesale operation as well at the time of the acquisition.

The initial purchase price of HUF 14,179 million was paid in April 2015, and additional HUF 90 million was paid in August 2015 based on the actual net cash and working capital of GTS Hungary at the closing of the transaction. GTS Hungary has been a consolidated subsidiary of the Group since April 1, 2015, included in the Telekom Hungary operating segment.

As the business combination took place within the Deutsche Telekom Group, the Company recognized the transaction on the carrying values of GTS Hungary's assets and liabilities as recorded in DT's books as at March 31, 2015, following the common control exemption of IFRS3 by analogy.

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

In HUF millions	**Carrying values**
Consideration transferred	14,269
Less: Net assets acquired	(13,162)
Difference recognized in retained earnings	1,107
Net assets acquired:	
Cash and cash equivalents	1,815
Trade and other receivables	1,560
Income tax receivables	43
Property, plant and equipment	5,480
Intangible assets	6,181
Trade and other payables	(1,917)
	13,162

The total purchase price was paid in cash in 2015.

Under the Hungarian Accounting Act goodwill is recognized on GTS Hungary, the total amount of which is HUF 6,097 million. There is also no goodwill amortization under the Hungarian Accounting Act, but in case of impairment, the total amount of goodwill recognized is tax deductible according to the corporate tax law prevailing in 2015.

The following pro forma information shows the most important financial data of the Group, including GTS Hungary acquired as if it had been consolidated from the beginning of the year of acquisition, and also how much the company contributed to the reported figures since the acquisition date.

In HUF millions	2015
Revenues	
Reported	656,342
Pro forma – if consolidated from beginning of year	658,263
Current year contribution	6,798
Profit for the year	
Reported	27,771
Pro forma – if consolidated from beginning of year	27,678
Current year contribution	1,943

5.2 Cable TV network and operations

In 2015 and 2014, the Group acquired a number of cable TV businesses in individually insignificant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The vast majority of the total purchase price was paid in cash in 2015 and 2014.

The table below shows the summary of the individually insignificant transactions.

In HUF millions	2014	2015
Consideration transferred	1,103	2,265
Less: Fair value of the net assets acquired	868	2,233
Goodwill	235	32

No pro forma information is provided as the cable TV acquisitions in 2015 and 2014 were insignificant therefore their contribution to the Group's operations was also insignificant.

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts. These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. No impairment had to be recognized for any of these balances in the reported years.

In HUF millions	At December 31,	
	2014	2015
Cash on hand	353	200
Cash in bank (demand deposits)	8,127	12,590
Bank deposits with original maturities less than 3 months	6,145	4,768
	14,625	17,558

Average interest rates	At December 31,	
	2014	2015
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.38%	0.10%
Bank deposits with original maturities less than 3 months	0.88%	0.19%
Average interest rate	0.58%	0.12%

Cash and cash equivalents by currency In HUF millions	At December 31,	
	2014	2015
EUR	5,093	8,716
MKD	6,217	5,134
HUF	1,538	2,988
USD	1,732	348
Other	45	372
	14,625	17,558

Cash and cash equivalents by country of location In HUF millions	At December 31,	
	2014	2015
Macedonia	7,675	7,999
Hungary	3,899	5,901
Montenegro	2,575	3,144
Other countries	476	514
	14,625	17,558

7 TRADE AND OTHER RECEIVABLES

7.1 Trade and other receivables – carrying amounts

In HUF millions		At December 31, 2014	2015
Trade receivables from third parties		125,622	136,486
Trade receivables from Deutsche Telekom Group companies		8,825	10,592
Trade receivables from associates and joint ventures		3	2
Total trade receivables	(a)	134,450	147,080
Prepayments and advance payments		7,862	8,401
Advance payments to Joint ventures (Note 14.2)		-	3,338
Other taxes receivable		1,410	3,653
Other		544	290
Total other receivables		9,816	15,682
		144,266	162,762

(a) Age profile of Trade receivables

The following tables show the age profile of the Group's trade receivables by country of operation by days outstanding (past due). The carrying amounts of past due receivables are shown net of impairment losses charged as of the financial statement dates.

In HUF millions	Carrying amount as of Dec 31, 2015	of which not past due	of which past due by less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	over 360 days
Hungary	121,910	104,830	11,545	1,523	1,081	1,226	1,163	542
Macedonia	16,166	12,896	1,242	494	10	138	496	890
Montenegro	7,867	4,030	2,562	261	709	242	30	33
Other countries	1,137	1,020	83	18	10	4	2	-
Total	147,080	122,776	15,432	2,296	1,810	1,610	1,691	1,465

In HUF millions	Carrying amount as of Dec 31, 2014	of which not past due	of which past due by less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	over 360 days
Hungary	111,720	95,003	10,324	2,270	494	1,046	942	1,641
Macedonia	15,110	9,745	2,371	562	663	956	382	431
Montenegro	6,620	5,346	707	230	147	115	64	11
Other countries	1,000	801	104	21	12	9	10	43
Total	134,450	110,895	13,506	3,083	1,316	2,126	1,398	2,126

The vast majority of trade receivables is impaired on a portfolio basis. The vast majority of past due trade receivables is partly or fully impaired depending on the period of delay of payments. Only insignificant amounts of past due trade receivables are not impaired based on past experience of payment behavior of certain business and governmental customers. As these amounts are not significant, these are not disclosed separately.

Non past due receivables are not assessed collectively for impairment, but in case of bankruptcy of the customer or defaults on installment payments non past due receivables may have to be partly or fully impaired, the amount of which is not significant, therefore, not disclosed separately. The non past due trade receivables represent approximately 2.2 months of revenue (2014: 2.1 months of revenue). As disclosed in Note 3.1.2, the annual bad debt expense of the Group is approximately 1.5 percent of the annual consolidated revenue, therefore, we can estimate that approximately this percentage of the non past due portion of trade receivables will not be collected, i.e. will have to be impaired in future periods, but are not impaired at the end of the reporting period.

The Group has no collaterals related to its trade receivables.

7.2 Impairment losses of trade and other receivables

The table below shows the impairment losses and changes therein for 2014 and 2015.

In HUF millions	At December 31,	
	2014	2015
Impairment loss, beginning of period	30,586	34,767
Charged to expense – net (included in Direct costs)	11,717	9,537
Translation difference	838	(100)
Impairment losses of acquired companies on acquisition	-	250
Utilized	(8,374)	(7,983)
Impairment loss, end of period	34,767	36,471

The carrying amount of trade and other receivables that would otherwise be past due or impaired whose terms have been renegotiated is not material therefore no separate disclosure is provided on those.

The amount of trade and other receivables that are individually determined to be impaired is not material, therefore, these are not disclosed separately.

The table below includes the impairment losses and the changes therein in 2014 and 2015 for the countries of operation of the Group.

In HUF millions	At December 31, 2013	Charged to expense	Translation difference	Utilized (1)	At December 31, 2014
Hungary	16,940	11,057	-	(8,107)	19,890
Macedonia	8,443	210	509	(144)	9,018
Montenegro	5,139	424	318	(84)	5,797
Other countries	64	26	11	(39)	62
Group	30,586	11,717	838	(8,374)	34,767

(1) Utilized means reversed on derecognition (settlement, write-off or factoring).

In HUF millions	At December 31, 2014	Charged to expense	Translation difference (and rounding)	Impairment losses of acquired companies on acquisition	Utilized	At December 31, 2015
Hungary	19,890	8,650	1	250	(7,429)	21,362
Macedonia	9,018	391	(68)	-	(136)	9,205
Montenegro	5,797	492	(30)	-	(394)	5,865
Other countries	62	4	(3)	-	(24)	39
Group	34,767	9,537	(100)	250	(7,983)	36,471

See also Note 3.1.2 for further analysis of credit risks related to Trade and other receivables.

8 OTHER FINANCIAL ASSETS

Other financial assets include receivables due within 12 months (current) and due after 12 months (non current) from the financial statement date. These financial assets are exposed to credit risks, for which see more details in Note 3.1.2. The impairment loss accounted or reversed for other current and non current financial assets is not material.

8.1 Other current financial assets

In HUF millions		At December 31, 2014	2015
Bank deposits with original maturities over 3 months	(a)	14,821	7,982
Finance lease receivable	(b)	681	361
Loans and receivables from employees	(c)	507	823
Derivative financial instruments contracted with related parties	(d)	4,826	276
Derivative financial instruments contracted with third parties	(e)	257	79
Loans and receivables from associates		174	-
Other		2,424	1,531
		23,690	11,052

(a) The table below shows the Bank deposits with original maturities over 3 months by country where it is deposited.

In HUF millions	At December 31, 2014	2015
Montenegro	6,297	6,263
Germany	1,260	1,252
Macedonia	7,264	467
Hungary	-	-
	14,821	7,982

8.2 Non current financial assets

In HUF millions		At December 31, 2014	2015
Finance lease receivable	(b)	1,440	1,133
Loans and receivables from employees	(c)	4,097	4,218
Trade receivables over one year	(f)	10,745	10,302
Derivative financial instruments contracted with related parties	(d)	7,000	6,277
Derivative financial instruments contracted with third parties	(e)	231	-
Financial assets available for sale	(g)	231	278
Other		1,499	742
		25,243	22,950

(b) See Note 33.3 for more information on Finance lease receivable.

(c) Loans and receivables from employees primarily represent the housing loans provided to the employees of the Group. There are no significant past due employee receivables, and the loans are pledged with mortgage.

(d) Derivative financial instruments contracted with related parties include the fair value of open currency forwards and cross-currency interest rate swaps (see more details in Note 3.1.1.1).

(e) Derivative financial instruments contracted with third parties include the fair value of open currency forwards, cross-currency interest rate swaps and commodity price swaps (see more details in Note 3.1.1.1).

(f) Trade receivables over one year includes receivables from customers paying over 1-2 years in installments for telecommunications equipment sold.

(g) Financial assets available for sale include insignificant investments in equity securities.

9 INCOME TAX

9.1 Current income tax receivable and payable

Current income tax receivable and payable balances in the Statements of financial position represent the amount of corporate and other income taxes receivable from, and payable to, the tax authorities of the countries in which the Group operates.

9.2 Income tax expense

The table below shows the income tax expenses charged in the Profit for the year.

In HUF millions	For the year ended December 31, 2014	2015
Corporate income tax	9,041	3,311
Other income taxes	8,165	8,691
Deferred income taxes	2,942	1,792
Total income tax expense	20,148	13,794

9.3 Tax expense reconciliation

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

In HUF millions		For the year ended December 31, 2014	2015
Consolidated IFRS profit before income tax		52,172	45,341
Tax at 19%		(9,913)	(8,615)
Impact of different tax rates	(a)	1,398	1,700
Tax shield of items not subject to income tax	(b)	2,275	2,326
Tax impact of non deductible items	(c)	(2,404)	(1,430)
Other income taxes	(d)	(8,165)	(8,691)
Impact of tax deductibility of other income taxes	(e)	1,551	1,651
Energy suppliers' tax	(f)	(600)	(516)
(De)/recognized deferred tax on tax losses	(g)	(86)	(224)
Investment tax credit accretion	(h)	1,186	887
Withholding tax on expected dividends	(i)	(249)	(691)
Tax law changes in Macedonia	(j)	(2,100)	-
Other effects related to Macedonia	(k)	(3,041)	(191)
Income tax expense		(20,148)	(13,794)
Effective tax rate		38.6%	30.4%

(a) Impact of different tax rates

The corporate tax rate in Hungary is 10% for the first HUF 500 million tax base (on an annual basis) of the legal entities, above which the general rate of 19% applies. The impact of the lower tax rate applicable to the Hungarian legal entities of the Group is included in this line of the reconciliation.

This line of the reconciliation also includes the tax impacts of the different tax rates of the foreign countries where the Group is also present through its subsidiaries. The corporate tax rate is 10% in Macedonia, 9% in Montenegro, 16% in Romania and 10% in Bulgaria in the reported years. This line of the reconciliation also includes the tax impacts of the above differences compared to the 19% general tax rate of Hungary applied to the profit before tax of the Group.

(b) Tax shield of items not subject to income tax

This line of the reconciliation primarily includes the tax shield impact of expenses, which are not included in the consolidated profit before tax, but deductible when determining the standalone corporate income tax base . These items include the impairment of investments (including goodwill) in consolidated subsidiaries, the depreciation of assets (or additional values of assets) which are not included in the assets of the consolidated statements of financial position, and which are not considered in the deferred tax calculation.

(c) Tax impact of non deductible items

This line of the reconciliation includes the negative tax impact of the expenses included in the consolidated profit and loss, but non deductible when determining the standalone corporate income tax base. These items primarily include the non deductible receivable impairment and write-downs and penalties.

(d) Other income taxes

Other income taxes include certain local and central taxes levied in Hungary on the companies' net margins, determined usually at a substantially higher level than the corporate tax base, but with substantially lower tax rates (max 2%). As the first line of the reconciliation calculates theoretical tax expense calculated using the general corporate tax rate, the Hungarian local business tax and the innovation fee impose additional income tax expenses for the Hungarian entities of the Group, included in this line of the reconciliation.

(e) Deductibility of other income taxes from the corporate tax base

The Hungarian local business tax and innovation fee are deductible expenses for corporate tax purposes, the positive tax impact of which is included in this line of the reconciliation.

(f) Energy suppliers' tax

This line of reconciliation includes the Energy suppliers' additional tax levied on energy supplier companies' profits in Hungary. The tax base is the profit before tax adjusted by certain items that increase or decrease the tax base. Magyar Telekom Plc. is also considered as an energy supplier company subject to the energy suppliers' additional tax, in proportion to its energy revenues.

(g) (De)/recognized deferred tax on tax losses

Deferred tax asset is recognized on tax losses only to the extent that the realization of the related tax benefit is probable in the foreseeable future. Deferred tax assets on tax losses that will probably not be recovered are un-recognized in the period of the loss or de-recognized in subsequent periods. On the other hand, when the recoverability of the previously un/derecognized tax losses becomes probable, these deferred tax assets are recognized.

(h) Investment tax credit accretion

Investment tax credit accretion includes the increase of the net present value of the investment tax credit deriving from the utilization of the tax credits in periods subsequent to the year of recognition. See also Note 9.5.

(i) Withholding tax on expected dividends

Macedonia and Montenegro levy a 5% withholding tax on dividend distribution to Hungary. This line of the reconciliation includes solely this amount of withholding tax accruing on the Group's share of the 2014/2015 profits of our Montenegrin and Macedonian subsidiary.

(j) Tax law changes in Macedonia

The first change in the Macedonian income tax law in 2014 introduced a 10% profit tax charged on dividend declaration in Macedonia (regardless of the owners of the companies), effective from January 2014. Up to December 2013 we had been recognizing deferred tax liabilities accruing on the profits of the Macedonian entities on expected dividends to be distributed to Hungary, however, these deferred taxes had been recognized in proportion to our ownership in Makedonski Telekom, as the tax charged on dividend distribution had practically only applied to dividend distribution from Macedonia to Hungary. With this change of the income tax law, the tax was extended to the whole amount of the dividend payments of T-Mobile Macedonia and Makedonski Telekom in 2014. For the above reasons, the additional income tax charge – unrelated to the Group's consolidated pre-tax profits in 2014 - was higher by HUF 1.1 billion than the amount of the deferred tax liability (accrued on the profits) we released in 2014.

A later amendment of the profit tax law effective also from January 2014 reinstated the general profit tax in Macedonia at a rate of 10%. As a result, HUF 1.0 billion deferred tax liability had to be recognized in the standalone books of our Macedonian subsidiaries (mostly related to property, plant and equipment), which meant an additional tax expense in the Group, unrelated to the Group's consolidated pre-tax profits in 2014.

In 2015, there was no change in the Macedonian tax legislation which would have an effect on the tax expense reconciliation.

(k) Other effects related to Macedonia

In 2014, Magyar Telekom decreased the issued capital in Stonebridge (our holding company in Macedonia) by HUF 24 billion, with no pre-tax impact on the consolidated statements of financial position or profits, however, the capital restructuring resulted in additional tax expenses in the Group. In addition, due to the poor Makedonski Telekom share price performance in 2014, Stonebridge had to charge an impairment in its statutory accounts on its investment in Makedonski Telekom. These events prevented the reversal of the remaining temporary differences of the deferred tax calculations in the foreseeable future, therefore, we released the total of our remaining deferred tax asset balances related to our investment in Stonebridge/ Makedonski Telekom in 2014. This resulted in an additional tax expense of HUF 3.0 billion in 2014.

In 2015, Magyar Telekom decreased again the issued capital of Stonebridge by HUF 22 billion with no pre-tax impact which resulted in additional tax expenses in the Group. Magyar Telekom, the sole owner of Stonebridge, eliminated the negative capital elements from Stonebridge statutory accounts which earlier prevented the dividend distributions of the Macedonian entities' profit to Magyar Telekom. As a result of this, Magyar Telekom reinitiated the deferred tax calculation on the temporary differences relating to the Group's Macedonian investments.

9.4 Deferred taxes

Magyar Telekom's deferred tax balances and the movements therein are as follows:

In HUF millions	Balance at Dec. 31, 2013	Effect on profit	Other move-ments	Balance at Dec. 31, 2014	Effect on profit	Other move-ments	Balance at Dec. 31, 2015
Deferred tax assets and (liabilities)							
Investment tax credits	19,032	(2,077)	(70)	16,885	(4,406)	(66)	12,413
Net operating loss carry-forward	1,034	(85)	-	949	(224)	382	1,107
Investments in subsidiaries	(405)	405	-	-	240	-	240
Withholding tax	(2,140)	1,839	-	(301)	(390)	-	(691)
Other financial assets	(1,233)	(1,120)	-	(2,353)	1,270	20	(1,063)
Impairment of receivables and inventory	2,681	300	-	2,981	921	119	4,021
Property, plant and equipment and intangible assets	(24,816)	4,056	(60)	(20,820)	1,616	(489)	(19,693)
Goodwill	(16,135)	(1,450)	-	(17,585)	(1,840)	-	(19,425)
Trade and other payables	107	(10)	-	97	(9)	6	94
Loans and other borrowings	523	(4,947)	-	(4,424)	165	8	(4,251)
Deferred revenue	(238)	234	-	(4)	30	(45)	(19)
Provisions for liabilities and charges	2,753	(87)	-	2,666	835	-	3,501
Total net deferred tax liability	(18,837)	(2,942)	(130)	(21,909)	(1,792)	(66)	(23,766)
Of which deferred tax liabilities	(19,075)			(22,064)			(23,813)
Of which deferred tax assets	238			155			47

Items included in the other movements column in 2015 indicate the deferred tax opening balance of GTS Hungary as of April 1, 2015, when Magyar Telekom acquired GTS Hungary Kft. from Deutsche Telekom and the currency translation adjustment arising on consolidation. Items included in the other movements column in 2014 indicate the deferred tax arising on investment tax credit recognized/adjusted against the cost of PPE, on business combinations and on the currency translation adjustment arising on consolidation.

The Group consists of a number of legal entities, most of which have deferred tax assets and liabilities. The assets and liabilities are netted by legal entity so that one legal entity has either a deferred tax asset or a liability and the consolidated Statement of financial position includes these balances accordingly.

The Group's net deferred tax liability balance as at December 31, 2015 was HUF 23,766 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 5,426 million net deferred tax asset is expected to reverse in 2016 (deferred tax asset of HUF 6,529 million and deferred tax liability of HUF 1,103 million).

The Group's net deferred tax liability balance as at December 31, 2014 was HUF 21,909 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 3,383 million net deferred tax asset was expected to reverse in 2015 (deferred tax asset of HUF 5,817 million and deferred tax liability of HUF 2,434 million).

Deferred tax assets arising on investment tax credits are recognized against the capitalized cost of the related investment.

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 13,804 million at December 31, 2015 (HUF 27,377 million at December 31, 2014).

Deferred tax liability on goodwill is related to the goodwill arising to the acquisition of subsidiaries (Emitel and T-Mobile) in the Company's standalone financial statements, which had merged into Magyar Telekom Plc. The amortization of the statutory amount of the goodwill is a tax deductible expense.

9.5 Investment tax credits

In order to increase broadband internet penetration in Hungary, companies investing over HUF 100 million in a year in broadband assets (e.g. DSL lines, UMTS assets) from 2003 could apply for a corporate tax reduction. MT accomplished such tax credit programs between 2003 and 2008. The tax credit programs commenced in 2012 and 2013 are "large investment" programs, which enable companies to invest not only in broadband related assets, if the investment value exceeds HUF 3 billion and certain special criteria (i.e. headcount increase) are met. In case of both types of tax credit programs, the potential reduction of the corporate tax charge is defined as a percentage of the companies' capital investment in qualifying assets. As both of these investment tax credits are of a government grant nature, Magyar Telekom recognized the deferred tax asset against the cost of the related investment. There are no unrecognized tax credits. If the tax credits are not utilized in the year when earned, the amount of tax credits carried forward can be utilized at a higher amount as outstanding amounts are accreted. This accretion is recognized as an increase in the investment tax credit balance against a reduction in the current year deferred tax expense.

The following table shows the details of the tax credits in HUF millions:

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2015	Expires in year
2006	14,939	4,346	3,680	(5,813)	2,213	2016
2007	10,681	2,822	2,594	(4,330)	1,086	2017
2008	2,165	451	328	(779)	-	2018
2012	11,663	3,588	399	(2)	3,985	2021
2013	14,361	4,680	281	(2)	4,958	2023
2014	500	167	4	-	171	2023
Total	54,309	16,054	7,286	(10,927)	12,413	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group's entities, they have to comply with strict requirements as set out in the relevant tax regulations. The most important requirement for all investment tax credits is that the relevant assets have to be operated for at least 5 years. However, for those earned in 2012 and in 2013 certain increase in headcount and/or salary has to be maintained for at least 4 subsequent years following the first year of tax credit utilization. The headcount of the Company has to be increased by 150 and maintained in the subsequent 4 years from the first utilization of the investment tax credit (which is 2012 and 2014). The 2013 tax credit program was finished in January 2014, so the first utilization of 2013 tax credit is in 2014. The base year for both programs is 2011. Management believes that the headcount criterion is not a substantive requirement. There was a significant headcount increase in 2012 due to insourcing of certain activities carried out by subcontractors before and there are further insourcing plans in place. Based on the above, management believes that the Group has complied and will be able to comply with the requirements to recognize these as deferred tax assets.

9.6 Tax loss carry forwards

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. The table below shows the tax losses carried forward of the Group.

Expires in year	Tax loss carry forwards at December 31, 2014	Tax loss carry forwards at December 31, 2015
2016	106	93
2017	137	137
2018	29,373	29,432
2019	117	88
2020	-	139
2025	11,533	14,993
unlimited	-	-
Total	41,266	44,882
Tax losses for which deferred tax is recognized	4,997	7,781
Tax losses for which deferred tax is not recognized	36,269	37,101
Total	41,266	44,882

The Hungarian corporate tax law was amended as of January 1, 2015 including that all tax loss carry forwards incurred up to December 31, 2014 may be used to reduce the pre-tax profit until no later than December 31, 2025.

9.7 Tax reviews

The tax authorities may at any time inspect the books and records within five years from the end of the year when tax declarations were submitted and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

9.8 Dividends paid by Magyar Telekom Plc.

The dividends paid and payable by Magyar Telekom Plc. to its owners may be subject to withholding or income taxes of the owners, which do not have an impact on the amount of the dividend declared or on the Company's tax expense as these taxes – if any – are levied on the owners.

10 INVENTORIES

In HUF millions	At December 31, 2014	2015
Inventory for resale	12,138	11,112
Other inventory	2,056	2,321
Subtotal	14,194	13,433
Less allowances	(445)	(768)
	13,749	12,665

The impairment loss accounted or released for inventories is not material therefore no separate table of movements is disclosed.

The Group has no inventory pledged as security as at December 31, 2014 or December 31, 2015.

11 ASSETS AND LIABILITIES HELD FOR SALE

The assets and liabilities classified as held for sale are disclosed below.

In HUF millions	Origo carrying amounts	Other assets held for sale	Total
Net assets to be disposed of:			
Cash and cash equivalents	17		17
Trade and other receivables	1,366		1,366
Income tax receivables	9		9
Inventories	51		51
Property, plant and equipment	302	1,847	2,149
Intangible assets	631		631
Goodwill	562		562
Total assets held for sale	2,938	1,847	4,785
Trade and other payables	(1,060)		(1,060)
Provisions	(157)		(157)
Total liabilities held for sale	(1,217)	-	(1,217)

11.1 Disposal of Origo

In December 2015, the Company signed an agreement for the sale of the total of its 100% shareholding in Origo Zrt. The binding offer on cash free debt free basis was EUR 13.2 million (approximately HUF 4.2 billion).

The closing of the transaction took place in February 2016. Origo had been a consolidated subsidiary of the Group included in the Telekom Hungary operating segment. The gain on the sale of Origo will be recognized in Q1 2016.

11.2 Other assets held for sale

Other assets held for sale include primarily land and buildings identified for sale, which is expected within 12 months, as a result of the continuing improvement of utilization of properties. These assets are presented at carrying amount as no impairment had to be recognized when reclassified as held for sale.

12 PROPERTY, PLANT AND EQUIPMENT

In HUF millions	Land and equivalent rights	Buildings	Telecom. equipment	Other equipment	Total
At January 1, 2014					
Cost	8,398	152,858	1,177,442	93,988	1,432,686
Accumulated depreciation	(2,121)	(48,827)	(814,511)	(73,001)	(938,460)
Carrying amount	6,277	104,031	362,931	20,987	494,226
Of which held for sale					(607)
					493,619
Carrying amount – January 1, 2014	6,277	104,031	362,931	20,987	494,226
Exchange differences	81	1,649	3,575	497	5,802
Additions due to business combinations	19	35	701	22	777
Changes due to revisions of asset retirement obligations	-	149	233	-	382
Investments	13	5,699	51,449	6,326	63,487
Disposals	(174)	(562)	(106)	(248)	(1,090)
Depreciation charge	(102)	(4,526)	(61,265)	(6,940)	(72,833)
Reclassifications	150	(2,287)	(1,112)	944	(2,305)
Carrying amount – December 31, 2014	6,264	104,188	356,406	21,588	488,446
At December 31, 2014					
Cost	8,470	156,878	1,176,487	95,475	1,437,310
Accumulated depreciation	(2,206)	(52,690)	(820,081)	(73,887)	(948,864)
Carrying amount	6,264	104,188	356,406	21,588	488,446
Of which held for sale					(668)
					487,778
Carrying amount – January 1, 2015	6,264	104,188	356,406	21,588	488,446
Exchange differences	(9)	(209)	(263)	(127)	(608)
Additions due to business combinations	-	560	5,914	107	6,581
Changes due to revisions of asset retirement obligations	-	(143)	351	-	208
Investments	-	4,193	69,678	4,938	78,809
Disposals	(157)	(555)	(16)	(236)	(964)
Depreciation charge	(76)	(5,157)	(64,651)	(6,763)	(76,647)
Reclassifications	1,255	260	(3,064)	1,077	(472)
Carrying amount – December 31, 2015	7,277	103,137	364,355	20,584	495,353
At December 31, 2015					
Cost	9,551	163,073	1,127,191	94,007	1,393,822
Accumulated depreciation	(2,274)	(59,936)	(762,836)	(73,423)	(898,469)
Carrying amount	7,277	103,137	364,355	20,584	495,353
Of which held for sale					(2,149)
					493,204

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 38,503 million as at December 31, 2015 (2014: HUF 39,511 million). In the table above the assets in course of construction are shown in the categories where the asset is expected to be classified when placed into service.

Exchange differences include the translation impact arising on the consolidation of foreign subsidiaries of the Group.

Additions due to business combinations include the fair value or carrying value (GTS) of the assets acquired by Magyar Telekom through business combinations at the time of the acquisition. Differences between the preliminary and the final purchase price allocations are also included in this line.

Changes due to revisions of asset retirement obligations represent the adjustments of the carrying amounts of the assets against a provision for asset retirement obligation (see also Note 19.4).

Investments represent the regular investing activity in PPE assets.

The reclassifications between asset categories or their impact on depreciation expense was not material.

No impairment was identified in 2015 and 2014.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2015 the gross book value of the assets leased back is HUF 3,232 million (2014: HUF 3,332 million) and the net book value is HUF 1,252 million (2014: HUF 1,535 million).

Included mainly in buildings and telecom equipment are also assets leased under finance lease conditions other than sale and lease back. At December 31, 2015 the gross book value of the finance leased assets is HUF 12,853 million (2014: HUF 9,842 million) and the net book value is HUF 6,869 million (2014: HUF 6,248 million).

Included in telecommunications equipment at December 31, 2015 are assets leased under operating lease contracts to customers with a gross book value of HUF 540 million (2014: HUF 585 million) and net book value of HUF 1 million (2014: HUF 5 million).

The Group has no PPE with restricted titles or pledged as security as at December 31, 2015 or December 31, 2014.

12.1 Useful lives

The useful lives assigned to different types of property, plant and equipment are as follows:

	Years
Buildings	5–50
Duct, cable and other outside plant	3–38
Other telecommunications equipment	2–25
Other equipment	2–12

The reviews of the useful lives (and residual values) of property, plant and equipment during 2015 affected the lives of a large number of assets including primarily radio equipment, and other telecommunication equipment. The revisions result in the following change in the original trend of depreciation in the current and future years.

In HUF millions	2015	2016	2017	2018	After 2018
Increase / (decrease) in depreciation expense	297	118	(24)	(687)	297

13 INTANGIBLE ASSETS

In HUF millions

	Goodwill	Concessions and licenses	Software	Other	Total
At January 1, 2014					
Cost	217,895	89,617	237,073	17,452	562,037
Accumulated amortization	-	(10,193)	(159,069)	(11,576)	(180,838)
Carrying amount	217,895	79,424	78,004	5,876	381,199
Carrying amount – January 1, 2014	217,895	79,424	78,004	5,876	381,199
Exchange differences	372	314	549	236	1,471
Additions due to business combinations	235	-	-	265	500
Investments	-	97,593	21,715	1,569	120,877
Disposals	-	-	(49)	-	(49)
Amortization charge	-	(10,531)	(15,218)	(2,068)	(27,817)
Reclassifications	-	-	2,305	-	2,305
Carrying amount – December 31, 2014	218,502	166,800	87,306	5,878	478,486
At December 31, 2014					
Cost	218,502	187,272	261,234	18,206	685,214
Accumulated amortization	-	(20,472)	(173,928)	(12,328)	(206,728)
Carrying amount	218,502	166,800	87,306	5,878	478,486
Carrying amount – January 1, 2015	218,502	166,800	87,306	5,878	478,486
Exchange differences	(37)	(61)	(75)	1	(172)
Additions due to business combinations	32	180	299	6,839	7,350
Investments	-	1,423	28,474	1,141	31,038
Disposals	-	-	-	-	-
Amortization charge	-	(14,822)	(20,416)	(1,899)	(37,137)
Reclassifications	-	-	472	-	472
Carrying amount – December 31, 2015	218,497	153,520	96,060	11,960	480,037
At December 31, 2015					
Cost	218,497	190,658	286,288	18,679	714,122
Accumulated amortization	-	(37,138)	(190,228)	(6,719)	(234,085)
Carrying amount	218,497	153,520	96,060	11,960	480,037
Of which held for sale					(1,193)
					478,844

Exchange differences include the translation impact arising on the consolidation of foreign subsidiaries of the Group.

Additions due to business combinations include the fair value of assets acquired by Magyar Telekom through business combinations in the reported years and the goodwill arising on these business combinations. Differences between the preliminary and the final purchase price allocations are also included in this line.

Investments represent the regular investing activity in intangible assets.

The amortization expense as well as the impairment losses of intangible assets including also goodwill is accounted for in the depreciation and amortization line of the Statement of profit or loss. The reclassifications between asset categories or their impact on amortization expense was not material.

The Group has no intangible assets with restricted title or pledged as security as at December 31, 2015 or December 31, 2014.

13.1 Useful lives

Other than goodwill, the Group has no intangible assets with indefinite useful life. Intangible assets other than goodwill are amortized over their respective economic useful lives, as indicated below.

	Years
Software	2–24
Concessions and licenses	3–25
Other intangible assets	3–10

The reviews of the useful lives of intangible assets during 2015 resulted in the following change in the original trend of amortization in the current and future years.

In HUF millions	2015	2016	2017	2018	After 2018
Increase / (decrease) in depreciation expense	669	(147)	(419)	(172)	68

13.2 Goodwill

For the goodwill impairment tests, the total amount of goodwill was allocated to the operating segments of the Group and the recoverable amounts of the operating segments were determined based on fair values less costs of disposal based on Level 3 inputs in the fair value calculations (Note 35.1). The recoverable amounts of the segments disclosed in the table below exclude net debts (Note 3.2), which are not allocated to the segments. For further information, please also see Note 4.3.

In HUF millions	As at December 31, 2014			2015		
	Carrying amount of goodwill allocated	Carrying amount of operating segment (incl. goodwill)	Recoverable amount of operating segment	Carrying amount of goodwill allocated	Carrying amount of operating segment (incl. goodwill)	Recoverable amount of operating segment
Telekom Hungary	163,850	755,064	876,855	163,320	754,693	1,080,497
T-Systems	27,928	60,546	88,303	27,928	57,111	97,319
Macedonia	20,199	66,054	171,513	20,199	62,926	151,257
Montenegro	6,525	28,918	96,994	6,488	27,352	67,226
Total	218,502	910,582	1,233,665	217,935	902,082	1,396,299

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. During the annual impairment test conducted in the last quarter of 2014 and 2015 no goodwill impairment was established for any goodwill of the Group.

13.3 Significant individual other intangible assets

The Group's most significant individual other intangible assets are the mobile licenses. The carrying values and remaining amortization periods of the significant licenses are listed in the table below. For further information on these assets, please see Note 37.1.

In HUF millions	As at December 31, 2014		2015	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungarian mobile licenses acquired in 2014 (Note 37.1)	96,559	20	92,156	19
Hungarian mobile licenses prolonged in 2013 (Note 37.1)	54,000	7	46,643	6
Hungarian 3G license (Note 37.1)	8,898	5	7,135	4
Macedonian 4G license (Note 37.4)	3,071	19	2,885	18
Macedonian 2G/3G license (Note 37.4)	1,606	4	1,204	3
Other	2,666		3,497	
Total concessions and licenses	166,800		153,520	

14 INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

14.1 Associates

The Group had no significant associates at December 31, 2014 and 2015. The Group had no contingent liabilities or commitments relating to its associates at December 31, 2014 and 2015.

14.2 Joint ventures

Magyar Telekom signed an agreement with MET Holding AG, a leading integrated retail energy services trader in the region to establish a joint venture, E2 Hungary Zrt. as of July 9, 2015. E2 Hungary provides energy services for business customers from 2016. The company's issued capital is HUF 200 million, and additional HUF 1,800 million was contributed as additional paid-in capital which were fully paid by both parties. The joint venture is set up by the parties on a 50:50 ownership basis with balanced rights in the management structure. The company had no significant operational activity in 2015. E2 Hungary Zrt. was accounted for with the equity method and the investment was recognized at cost in 2015. At December 31, 2015, the Company made an advance payment to E2 for the 2016 future energy services to be provided by E2 to the Company and its remaining customers in 2016, which amounted to HUF 3,338 million.

The Group had no joint ventures at December 31, 2014.

The Group had no contingent liabilities or commitments relating to its joint ventures at December 31, 2014 and 2015.

14.3 Joint operations

Magyar Telekom and Telenor Hungary agreed to jointly operate and develop their 800MHz 4G mobile networks in all parts of Hungary except Budapest. The primary goal of the agreement is to accelerate 4G mobile broadband coverage rollout in the countryside and to offer higher bandwidth to the 4G customers.

The Company assessed the agreement as joint operation as strategic decisions are made jointly by Magyar Telekom and Telenor, and there is no separate vehicle to control the operation of the arrangement. The Company does not share the obligations for liabilities and any returns or expenses beyond the assets included in the agreement. Therefore only the assets owned by the Company are recognized while there is no need to present the partner's assets, liabilities, or revenues and expenses. The charges from MT to Telenor and from Telenor to MT are equal and accounted for and settled on a net basis.

15 OTHER NON CURRENT ASSETS

Other non current assets mainly include long-term prepaid employee benefits relating to housing loans provided by the Group to employees at lower than market interest rates (see note 2.4.1.2 (d)).

16 FINANCIAL LIABILITIES TO RELATED PARTIES

Financial liabilities to related parties include HUF and EUR denominated loans taken from DT Group. In addition, for the whole nominal amount and interest payment of loans denominated in EUR granted by DTIF we have cross-currency interest rate swap agreements in place (with DT AG) so that Magyar Telekom's exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis. These loans were primarily taken for significant acquisitions in the past and for dividend payments. These loans, when expiring, are also refinanced by DT, depending on the actual financing need of Magyar Telekom.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2015 and 2014.

December 31, 2015	Carrying amount in HUF millions	Lender	Currency	Interest rate (%)	Fixed / floating	Maturity
	35,000	DT AG	HUF	2.36	floating	Mar 2016
	35,000	DT AG	HUF	7.65	fixed	Sep 2016
	28,415	DTIF	HUF	6.09	fixed	Dec 2016
	14,023	DTIF	HUF	6.16	fixed	Dec 2016
	19,848	DT AG	HUF	1.72	floating	Cashpool
	(524)	DT AG	USD	0.03	floating	Cashpool
	(1,075)	DT AG	EUR	0.00	floating	Cashpool
Due within 1 year	130,687					
Accrued interest	6,093					
Derivatives	126					
Total current	136,906					
	15,000	DT AG	HUF	2.81	fixed	Apr 2017
	7,343	DTIF	EUR	5.20	fixed	May 2017
	15,809	DTIF	EUR	4.45	fixed	Nov 2018
	35,000	DT AG	HUF	5.89	fixed	Mar 2019
	20,000	DT AG	HUF	4.98	fixed	Jun 2019
	50,000	DT AG	HUF	4.33	fixed	Oct 2019
	35,000	DT AG	HUF	3.77	fixed	Jun 2020
	41,208	DTIF	EUR	2.26	fixed	Jan 2021
Non current	219,360					
Derivatives	728					
Total non current	220,088					

December 31, 2014	Carrying amount in HUF millions	Lender	Currency	Interest rate (%)	Fixed / floating	Maturity
	5,000	DTIF	HUF	2.80	floating	Jan 2015
	52,715	DTIF	EUR	4.46	fixed	Jan 2015
	53,050	DTIF	HUF	8.30	fixed	May 2015
Due within 1 year	110,765					
Accrued interest	-					
Derivatives	93					
Total current	110,858					
	35,281	DT AG	HUF	3.23	floating	Mar 2016
	35,762	DT AG	HUF	7.66	fixed	Sep 2016
	28,500	DTIF	HUF	6.22	fixed	Dec 2016
	14,064	DTIF	HUF	6.29	fixed	Dec 2016
	7,716	DTIF	EUR	3.71	fixed	May 2017
	16,026	DTIF	EUR	4.08	fixed	Nov 2018
	36,651	DT AG	HUF	5.89	fixed	Mar 2019
	20,575	DT AG	HUF	4.98	fixed	Jun 2019
	50,496	DT AG	HUF	4.33	fixed	Oct 2019
Non current	245,071					
Derivatives	-					
Total non current	245,071					

The table below shows the carrying amounts and fair values of the related party loans.

In HUF millions	At December 31, 2014		2015	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	239,099	249,216	232,438	237,389
At floating rate	40,281	40,281	54,848	54,826
	279,380	289,497	287,286	292,215
EUR denominated loans				
At fixed rate	76,456	78,147	64,360	65,219
At floating rate	-	-	(1,075)	(1,075)
	76,456	78,147	63,285	64,144
USD denominated loans				
At fixed rate	-	-	-	-
At floating rate	-	-	(524)	(524)
	-	-	(524)	(524)
Accrued interest	-	-	6,093	6,093
Derivatives	93	93	854	854
Total related party financial liabilities	355,929	367,737	356,994	362,782

The weighted average interest rate on related party loans was 4.40% in 2015 (5.55% in 2014). The fixed interest rate loans are exposed to fair value risk as it can be seen in the table above. Any decrease of market interest rates will result in an increase of the fair value of the fixed interest rate liabilities.

The aggregate balance of the cashpool is a liability which includes in 2015 cashpool receivables as well as at the reporting date.

Derivatives contracted with related parties include cross-currency interest rate swaps and FX forwards concluded with DT AG to change the Group's exposure to HUF in case of the EUR denominated loans and to cover FX needs of expected future foreign currency outflows.

There were no defaults or breaches in connection with the financial liabilities to related parties.

17 OTHER FINANCIAL LIABILITIES

17.1 Balances

The tables below show the current and non current balances of Other financial liabilities.

In HUF millions		At December 31, 2014	2015
Bank loans	(a)	44,219	13,070
Trade payables classified as financial liabilities	(b)	10,917	-
Annual frequency fee payable	(c)	2,948	3,064
Finance lease payable	(d)	3,515	3,855
Debtor overpayment		1,767	1,329
Building exchange payable	(e)	960	957
Third party derivatives	(f)	418	-
Other		387	3,877
Total other financial liabilities – current		65,131	26,152

In HUF millions		At December 31, 2014	2015
Bank loans	(a)	1,577	-
Annual frequency fee payable	(c)	51,358	48,314
Finance lease payable	(d)	4,213	4,525
Building exchange payable	(e)	1,770	906
Other		504	1,112
Total other financial liabilities – non current		59,422	54,857

There were no defaults or breaches in connection with other financial liabilities.

(a) Bank loans

In HUF millions	As at December 31, 2014	2015
Due within 1 year	44,219	13,070
Due in 1–2 years	1,577	-
Total bank loans	45,796	13,070

Loans totaling HUF 11,500 million at December 31, 2015 are revolving loans (2014: HUF 36,684 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The weighted average interest rate on bank loans was 1.88% in 2015 (2.51% in 2014).

The following table compares the carrying values and the fair values of the Group's bank loans.

In HUF millions	At December 31,			
	2014		2015	
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	-	-	-	-
At floating rate	38,574	38,574	11,500	11,500
	38,574	38,574	11,500	11,500
EUR denominated bank loans				
At fixed rate	4,731	4,721	1,566	1,568
At floating rate	2,110	2,110	-	-
	6,841	6,831	1,566	1,568
Accrued interest	381	381	4	4
Total bank loans	45,796	45,786	13,070	13,072

Floating interest rate loans are subject to interests calculated based on mostly BUBOR (Budapest Inter-Bank Offered Rate) and EURIBOR (Euro Inter-Bank Offered Rate) plus a margin interest formula.

The majority of the Group's third party loans and borrowings are subject to floating interest rates, which are exposed to cash flow risks. If interest rates are rising, it results in higher cash outflows through interest payments.

(b) Trade payables classified as financial liabilities

In 2014 we renegotiated the payment terms of some of our equipment vendor contracts, which resulted in such significant extension of the payment terms (up to 1 year) that it resulted in the classification of such trade payables as financial liabilities.

(c) Annual frequency fee payable

On October 15, 2014 Magyar Telekom and the NMIAH signed the Authority Contract for the use of the 800 MHz, 900 MHz and 1800 MHz frequency bands that came into force on that day. Magyar Telekom acquired the frequency usage rights in the above listed spectrums till June 15, 2034. See Note 37.1 for more details of the agreement. This agreement provides sufficient basis for a reliable estimate of the future annual fees payable related to these Hungarian frequency licenses, as a result of which the present value of the annual fees payable (HUF 39,038 million) was recognized as part of the carrying amount of the licenses as intangible assets, with corresponding current and non current financial liabilities falling due from 2015 to 2034.

On September 6, 2013 Magyar Telekom and the NMIAH signed the modification of the Authority Contract for the use of the 900 MHz and 1800 MHz frequency bands. See Note 37.1 for more details of the agreement. This agreement provides sufficient basis for a reliable estimate of the future annual fees payable related to these Hungarian frequency licenses, as a result of which the present value of the annual fees payable (HUF 17,332 million) was recognized as part of the carrying amount of the licenses as intangible assets, with corresponding current and non current financial liabilities falling due from 2014 to 2022.

(d) Finance lease payable

See Note 33.1 for the details of finance leases.

(e) Building exchange payable

The Group entered into a real estate transaction in Macedonia in 2012, by which four old buildings were exchanged for a new one.

The difference between the cost of the new building (HUF 10.7 billion) and the trade-in value of the old buildings (HUF 6.9 billion) is payable in six yearly instalments, the present values of which were recognized as current and non current financial liabilities.

(f) Third party derivatives

Third party derivatives include the fair value of FX forwards, cross currency interest rate and commodity price swaps.

17.2 Proceeds/repayments of loans and other borrowings

Cash payments for regular bank loans and related party loans are included in the Repayment of loans and other borrowings line of the Statements of cash flows.

17.3 Repayment of other financial liabilities

Repayment of other financial liabilities in the Statements of cash flows includes the cash payments for other financial liabilities as disclosed below.

	For the year ended December 31,	
In HUF millions	**2014**	**2015**
Trade payables classified as financial liabilities	11,100	10,917
Finance lease payable	3,991	4,270
Annual frequency fee payable	1,360	2,652
Building exchange liability	996	947
Other	1,094	137
Repayment of other financial liabilities	18,541	18,923

18 TRADE PAYABLES

	At December 31,	
In HUF millions	**2014**	**2015**
Payable to DT Group companies	10,329	15,766
Other trade payables	100,032	124,416
	110,361	140,182

19 PROVISIONS

In HUF millions	Severance	Share-based payments	Other employee related	Total Employee related	Legal cases	ARO	Other	Total
January 1, 2014	2,949	-	1,520	4,469	1,587	6,222	314	12,592
Amounts reversed	(221)	-	(17)	(238)	(120)	(25)	(25)	(408)
Additions	2,032	-	595	2,627	919	407	599	4,552
Interest	-	-	37	37	(16)	138	-	159
Exchange rate difference	-	-	32	32	58	-	-	90
Amounts utilized (incl. interest component)	(1,879)	-	(211)	(2,090)	(275)	(81)	(144)	(2,590)
December 31, 2014	2,881	-	1,956	4,837	2,153	6,661	744	14,395
Of which current	2,187	-	630	2,817	2,071	55	636	5,579
Of which non current	694	-	1,326	2,020	82	6,606	108	8,816
January 1, 2015	2,881	-	1,956	4,837	2,153	6,661	744	14,395
Amounts reversed	(345)	-	(75)	(420)	(194)	(222)	(41)	(877)
Additions	6,972	217	685	7,874	499	430	1,006	9,809
Acquired through business combinations	-	-	91	91	-	-	-	91
Reclassification to HFS liabilities	-	-	-	-	(122)		(35)	(157)
Interest	-	-	22	22	7	97	-	126
Exchange rate difference	(1)	-	(2)	(3)	(15)	(1)	2	(17)
Amounts utilized (incl. interest component)	(3,951)	-	(968)	(4,919)	(804)	(23)	(532)	(6,278)
December 31, 2015	5,556	217	1,709	7,482	1,524	6,942	1,144	17,092
Of which current	4,576	-	94	4,670	1,397	47	1,071	7,185
Of which non current	980	217	1,615	2,812	127	6,895	73	9,907

The Reclassification to HFS liabilities line in the table above includes the provision transferred to liabilities held for sale due to the sale of Origo. See also note 11.1.

The Interest lines in the table above include the subsequent unwinding of the discount applied at initial recognition and the interest element of any provision recognized, as well as the release of the interest / accretion element in case of reversal of provisions.

Magyar Telekom does not expect any reimbursement with regards to the provisions recognized, therefore, no related assets have been recognized in the financial statements.

19.1 Severance

The majority of the provision for severance as at December 31, 2015 relates to the stand-by-pool and the employee terminations payable in 2016 in relation to the further efficiency improvement in Magyar Telekom Plc. The stand-by-pool of employees includes people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them. This is a way of severance that is not paid in one lump sum but in monthly installments following the discontinuation of services. The majority of the provision for severance as at

December 31, 2014 also related to the stand-by-pool and the employee terminations paid in 2015 in relation to the efficiency improvement in Magyar Telekom Plc.

973 employees were dismissed in 2015 (2014: 801) from the Group, related to which severance payments were made. The balance of provision as at December 31, 2015 relates to 956 employees and former employees in the stand-by-pool (2014: 446).

The total payments made in relation to employee termination in 2015 amounted to HUF 5,444 million (2014: HUF 5,096 million).

19.2 Share-based payments

The bases of the provisions for share-based payments are described in Note 24.1.

19.3 Legal cases

Provisions for legal cases mainly include amounts expected to be paid to regulatory and competition authorities as well as to ex-employees and trading partners as a result of legal disputes. There are numerous legal cases for which provisions were recognized, which are individually not material.

19.4 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year. The revisions did not result in material changes in 2015 or 2014.

19.5 Other provisions

Other provisions include guarantee obligations, onerous contracts and further other individually small items.

20 OTHER LIABILITIES

20.1 Other current liabilities

	At December 31,	
In HUF millions	**2014**	**2015**
Deferred revenue and advances received	12,144	13,920
Other taxes and social security	14,749	14,637
Salaries and wages	6,265	7,429
Dividend payable to non-controlling interests	464	2,853
Other liabilities	2,507	303
	36,129	39,142

20.2 Other non current liabilities

Other non current liabilities primarily include deferred revenues related to long term projects and customer loyalty programs.

21 NON-CONTROLLING INTERESTS

Non controlling interests include the minority shareholders in Makedonski Telekom (MKT) and Crnogorski Telekom (CT).

In HUF millions	MKT	CT	Other	Total
Balance at January 1, 2014	40,699	11,399	10	52,108
Dividend declared	(5,286)	(2,783)	-	(8,069)
Total comprehensive income	4,266	2,149	-	6,415
Other	-	-	(10)	(10)
Balance at December 31, 2014	39,679	10,765	-	50,444
Dividend declared	(7,562)	(1,560)	-	(9,122)
Total comprehensive income	2,302	1,089	-	3,391
Balance at December 31, 2015	34,419	10,294	-	44,713

21.1 Summarized financial information on subsidiaries with material non-controlling interests

The information below includes the amounts before inter-company eliminations.

a) Summarized balance sheets

In HUF millions	MKT		CT	
	2014	2015	2014	2015
Current assets	35,178	27,976	22,772	23,915
Current liabilities	(23,064)	(25,397)	(11,199)	(13,942)
Non-current assets	104,443	101,061	42,091	42,157
Non-current liabilities	(3,851)	(3,330)	(1,258)	(1,760)
Net assets	112,706	100,310	52,406	50,370

b) Summarized income statements

In HUF millions	MKT		CT	
	2014	2015	2014	2015
Revenues	55,791	53,608	32,305	30,500
Profit before income tax	9,125	6,933	7,156	5,552
Profit for the period	4,239	6,057	6,410	4,969

c) Summarized cash flows

In HUF millions	MKT		CT	
	2014	2015	2014	2015
Net cash generated from operating activities	21,302	17,570	12,714	11,730
Net cash from investing activities	(7,926)	(536)	452	(4,450)
Dividends/capital reduction paid to Controlling interests	(6,913)	(9,890)	(9,013)	(5,057)
Dividends/capital reduction paid to Non-controlling interests	(5,286)	(5,123)	(2,783)	(1,560)
Other cash flows from financing activities	(959)	(1,466)	-	-
Net cash used in financing activities	(13,158)	(16,479)	(11,796)	(6,617)

21.2 Transactions with non-controlling interests

There were no material transactions with non-controlling interests in 2015 or 2014 other than the dividend payments.

The only significant non-controlling interest of the Group is the Macedonian Republic, holding shares in MKT. MKT and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2015 or 2014 financial year with companies controlled by the Macedonian Republic or companies over which the Macedonian Republic can exercise a significant influence.

22 REVENUE

In HUF millions	For the year ended December 31, 2014	2015
Mobile revenues		
Voice retail	159,963	158,399
Voice wholesale	28,301	15,978
Data	52,565	59,266
SMS	19,227	18,564
Equipment	43,139	46,922
Other mobile revenues	15,456	14,904
Total Mobile revenue	318,651	314,033
Fixed line revenues		
Voice retail	64,467	59,748
Broadband retail	47,554	52,013
TV	38,754	42,140
Equipment	5,562	8,200
Data retail	11,828	10,744
Wholesale	20,321	21,636
Other fixed line revenues	17,805	17,551
Total Fixed line revenue	206,291	212,032
System integration and IT revenue	59,206	80,997
Revenue from energy services	42,299	49,280
	626,447	656,342

None of the Group's customers represent a significant source of revenue. Revenues from transactions with a single external customer (or group of entities that – knowingly to us – are under common control of a third party or government) do not exceed 10 per cent of the Group's revenues.

In order to maintain consistency with the 2015 year presentation of revenues, the 2014 revenues are also presented in the new structure. Management believes that the new revenue breakdown makes the financial data of the Group more comparable with other market participants.

23 DIRECT COSTS

In HUF millions	For the year ended December 31, 2014	2015
Interconnect costs	33,418	25,097
SI/IT service related costs	34,763	54,524
Energy service related costs	41,883	47,919
Bad debt expense	11,717	9,537
Other direct costs	104,576	112,300
	226,357	249,377

In order to maintain consistency with the 2015 year presentation of direct costs, the 2014 direct costs are also presented in the new structure. Management believes that the new direct cost breakdown makes the financial data of the Group more comparable with other market participants.

Other direct costs include costs of mobile and fixed device, accessories and other equipment, agent commissions and non-voice direct costs.

24 EMPLOYEE RELATED EXPENSES

In HUF millions	For the year ended December 31, 2014	2015
Short term benefits	97,900	94,733
Termination benefits (Note 19.1)	5,028	8,120
Share settled share based compensations (Notes 24.1.1 and 24.1.2)	9	29
Cash settled share based compensations (Note 24.1.3)	-	217
Total before capitalization	102,937	103,099
Expenses capitalized	(8,187)	(7,939)
	94,750	95,160
Total costs expensed in relation to defined contribution plans (including social security contribution)	21,749	21,651
Average number of employees (full time equivalent)	11,050	10,692
Closing number of employees (full time equivalent)	10,883	10,357

24.1 Share based compensation programs

24.1.1 Share Matching Plan of Magyar Telekom's CEO

In December 2011 the Board of Directors approved the implementation of the revolving Share Matching Plan of Magyar Telekom. The program was implemented for the CEO of Magyar Telekom starting in 2012. An amount of minimum 10% of the gross annual variable bonus of the CEO was to be invested in shares of Magyar Telekom. The CEO had the option of voluntary increase to a maximum of 33.3% of his bonus. These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period of 4 years has passed, one additional share (matching share) will be granted for every share acquired as part of the aforementioned personal investment. The program was planned to be revolving in 5 consecutive years starting in 2012.

In 2015 HUF 16 million was recognized (2014: HUF 9 million) as expenses for the program.

Magyar Telekom implemented amendments to the CEO's Share Matching Plan from July 1, 2015 so that the CEO has to invest in DT shares instead of MT shares. The other principles remained the same.

24.1.2 Share Matching Plan of Deutsche Telekom

As of July 1, 2015, Magyar Telekom Group implemented Share Matching Plan for all executives (cca. 60). Participation in the program is voluntary.

The participant is required to invest a minimum of 10% of his/her gross annual bonus in Deutsche Telekom shares, with an option to voluntary increase this amount to a maximum of 33.3% (personal investment). These shares shall be kept for at least for 4 years (the lock-up period), the participant is granted matching shares upon expiry of the lock-up period. The share allocation ratio of the program (1:1, 1:2 or 1:3) depends on the evaluation of the participant's performance in the previous year. Deutsche Telekom grants the matching shares to the participant based on the acquired Deutsche Telekom shares by the participant within the framework of the program. The program starts annually if the free cash flow target of Deutsche Telekom Group was met in the previous year.

In 2015, HUF 13 million was recognized as expenses for the program.

24.1.3 Long-term incentive program (LTI)

As of January 1, 2015 Magyar Telekom Group changed its existing LTI program, which turned it into a share-based compensation program. Approximately 60 executives may participate in the program. The CEO's participation is unconditional, while other executives may participate only if the evaluation of the participant's performance in the previous year meets the requirements.

LTI is payable in cash tied to the achievement of four key strategic indicators. In the framework of the program, in each year a new four-year tranche is to be launched. Payment is due after the end of the program term depending on the evaluation of the achievement of the pre-set targets (0 to 150%).

At the beginning of the program, the relevant incentive amount is converted into a number of virtual shares of DTAG and awarded to the plan participant in the form of virtual shares (basic number). The annual level of target achievement is determined at the end of each year. This target achievement level is multiplied on a pro rata basis by the basic number of virtual shares awarded. The number of virtual shares calculated using this method shall then be "fixed" for the plan participant as the binding result for that specific year ("annual result"). At the end of the plan term, the four binding annual results shall be added together. The resulting total number of virtual shares shall be converted into a cash applying the then prevailing share price of DTAG, which is paid to the plan participants. For dividend payments during the plan term, the virtual shares shall be treated as real shares. The dividends shall be taken into account as follows: The first/second/third dividend payments shall be "reinvested" into virtual shares when the actual dividends are paid on real shares. The fourth (and last) dividend payment shall not be reinvested but paid in cash together with the plan payment following the DTAG shareholders' meeting at which a decision is made regarding this dividend payment. The plan currency is euro.

In 2015, HUF 217 million was recognized as expenses for the program.

25 OTHER OPERATING EXPENSES

In HUF millions		For the year ended December 31, 2014	2015
Telecom tax	(a)	25,830	25,223
Utility tax	(b)	7,636	7,649
Rental and leasing expenses		16,100	15,820
Marketing expenses		12,662	13,298
Energy costs		9,887	8,956
Cost of other purchased services	(c)	44,814	49,395
Other operating expenses		10,261	11,034
		127,190	131,375

(a) Telecom tax

Telekom tax was introduced in Hungary for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012. The tax imposed on fixed and mobile usage amounts to HUF 2 per minute and HUF 2 per SMS/MMS for private individual subscribers' subscriptions and to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions. The tax is capped at HUF 700 and HUF 5,000 per month per calling number for private and non-private individuals' subscriptions, respectively.

(b) Utility tax

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

(c) Audit costs included in Cost of other purchased services

Cost of other purchased services among others include expenses incurred in relation to the audit of the standalone and consolidated financial statements of the members of the Group as well as other services provided by PricewaterhouseCoopers (PwC) as follows.

In HUF millions	For the year ended December 31, 2014	2015
Audit of the financial statements	320	403
Other audit related fees	183	153
Other non audit related fees	171	168
Total expenses payable to PwC	674	724

Audit of the financial statements is the aggregate fees of PwC in connection with the audit of our annual financial statements and services performed in relation to legal obligations and submissions required by regulatory provisions.

Other audit-related fees are the aggregate fees of PwC for reviews of quarterly reports and services which are normally performed by the external auditor in connection with the auditing of the annual financial statements, e.g. advice on issues of accounting and reporting, which were not classified as audit services.

Other non audit related fees are fees of PwC primarily related to consulting services and services like participation by Magyar Telekom employees in conferences and training sessions organized by PwC.

26 OTHER OPERATING INCOME

In HUF millions	For the year ended December 31, 2014	2015
Income received for the relocation and reconstruction of our own network	992	2,255
Income from intra-DT group support services	697	1,242
Income on the sale of PPE, Intangible assets and assets held for sale - net	963	1,163
Income from insurance compensation	311	337
Other operating income	111	1,874
	3,074	6,871

27 INTEREST INCOME

In HUF millions	For the year ended December 31, 2014	2015
Interest income on loans and receivables	1,015	791
Finance lease interest income	133	91
Reversal of interest element of provisions	75	64
Dividend income	1	-
	1,224	946

28 INTEREST EXPENSE

In HUF millions	For the year ended December 31, 2014	2015
Interest expense payable to DT	17,048	16,787
Other interest expense	4,588	4,026
Finance lease interest expense	1,096	1,089
Accretion / interest on provisions	159	126
less: borrowing costs capitalized	(271)	(244)
	22,620	21,784

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 4.17% - 5.17% in 2015 (2014: 4.83% - 5.29%). When calculating the borrowing rates, Other finance expenses (included in Note 29) are also considered.

29 OTHER FINANCE EXPENSE – NET

In HUF millions	For the year ended December 31, 2014	2015
Fee expense	5,940	4,484
Net foreign exchange losses / (gains) on financial instruments	6,794	1,095
Other net foreign exchange losses	1,232	809
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(5,571)	5,867
Losses / (gains) on the subsequent measurement of derivatives contracted with third parties	(658)	(177)
Losses / (gains) on the derecognition of derivatives contracted with related parties	(152)	(5,153)
Losses / (gains) on the derecognition of derivatives contracted with third parties	(584)	413
Losses / (gains) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)	-	-
	7,001	7,338

30 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The table below shows the reconciliation of investments in property, plant and equipment and intangible assets and the cash payments made for these investments. Capitalized borrowing costs are included in the Investments in PPE and intangible assets, where applicable.

In HUF millions		For the year ended December 31, 2014	2015
Investments in property, plant and equipment (Note 12)		63,487	78,809
Investments in intangible assets (Note 13)		120,877	31,038
Total investments in PPE and intangible assets		184,364	109,847
Recognition/(Derecognition) of investment tax credit (Note 9.5)	(a)	(70)	-
Capitalized annual frequency fee payable	(b)	(39,038)	-
Capitalized leases	(c)	(2,569)	(4,064)
Change in liabilities relating to capital expenditures	(d)	(534)	(8,928)
Cash payments for purchases of PPE and intangible assets		142,153	96,855

(a) Investment tax credit

Total investments in PPE and intangible assets are recognized net of the related investment tax credits which are in fact paid in cash to acquire PPE and intangible assets. These tax credits are collected in subsequent years through reduced income tax payments.

(b) Capitalized annual frequency fee payable

The present value of the annual frequency fees is capitalized as part of the intangible asset (Licenses) if the future payments can be reliably estimated, however, these fees are paid in cash in subsequent periods. The cash payments on the discounted liability are included in the Repayment of other financial liabilities line of the Financing cash flow, while the interest payments accruing on the discounted liability are included in the Interest and other financial charges paid line of the Operating cash flow. The significant license acquisition in 2014 is described in Note 13.

(c) Capitalized leases

Investments in PPE as a result of finance lease transactions do not usually result in immediate cash payments. The cash payments throughout the lease term appear as Repayment of other financial liabilities (Financing cash flow) and Interest and other financial charges paid (Operating cash flow).

(d) Change in trade payables relating to capital expenditures

Change in payables relating to capital expenditures includes the effect that the actual cash settlement of the vendor invoices is made subsequent to the recognition of the investment.

31 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

In HUF millions	For the year ended December 31, 2014	2015
GTS Hungary (Note 5.1)	-	14,269
Cable TV businesses (Note 5.2)	1,237	2,237
Daten-Kontor	-	231
Cash payments for purchases of subsidiaries and business units	1,237	16,737

Cash payments related to the purchases of subsidiaries and business units include advance payments made before the closing of the transaction, the initial purchase price paid on the closing of the transaction as well as amounts paid as additional contingent purchase prices disbursed in years following the year of the business combination.

32 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

32.1 Reportable segments

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

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small businesses customers mainly under the "Telekom" or "T" brand. The Telekom Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. This segment is also responsible for the Group's points of presence in Bulgaria and Romania providing wholesale services to local companies and operators.

The T-Systems segment primarily operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services under the T-Systems brand to key business partners (large corporate customers and public sector).

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional operating segments of the Group.

32.1.1 Information regularly provided to the Management Committee (MC)

The following tables present the segment information by reportable segment regularly provided to the MC of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude. Management believes that

Revenue, EBITDA and Capex are the segment measures that are most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Revenues	**For the year ended December 31,**	
In HUF millions	**2014**	**2015**
Total Telekom Hungary revenues	461,666	477,512
Less: Telekom Hungary revenues from other segments	(24,174)	(21,962)
Telekom Hungary revenues from external customers	437,492	455,550
Total T-Systems revenues	111,697	126,332
Less: T-Systems revenues from other segments	(10,744)	(9,514)
T-Systems revenues from external customers	100,953	116,818
Total Macedonia revenues	55,791	53,608
Less: Macedonia revenues from other segments	(58)	(91)
Macedonia revenues from external customers	55,733	53,517
Total Montenegro revenues	32,305	30,500
Less: Montenegro revenues from other segments	(49)	(41)
Montenegro revenues from external customers	32,256	30,459
Total consolidated revenue of the segments	626,434	656,344
Measurement differences / rounding between segment and Group revenue	13	(2)
Total revenue of the Group	**626,447**	**656,342**

Segment results (EBITDA)	**For the year ended December 31,**	
In HUF millions	**2014**	**2015**
Telekom Hungary	133,202	143,557
T-Systems	11,966	12,174
Macedonia	23,371	20,811
Montenegro	12,436	10,699
Total EBITDA of the segments	180,975	187,241
Measurement differences / rounding between segment and Group EBITDA	249	60
Total EBITDA of the Group	**181,224**	**187,301**
Depreciation and amortization	(100,650)	(113,784)
Total Operating profit	80,574	73,517
Net financial result	(28,397)	(28,176)
Share of associates' and joint ventures' losses	(5)	-
Total Profit before income tax	52,172	45,341
Income tax expense	(20,148)	(13,794)
Total Profit for the year	32,024	31,547

Capital expenditure (Capex) on PPE and Intangible assets	As at December 31,	
In HUF millions	2014	2015
Telekom Hungary	68,483	88,418
T-Systems	4,660	5,378
Macedonia	8,993	10,556
Montenegro	5,017	5,249
Total capital expenditure of the segments	87,153	109,601
Acquisition of mobile licenses (Note 13)	97,593	502
Other measurement differences between segment and Group Capex	(382)	(256)
Total investments of the Group in PPE and Intangible assets	**184,364**	**109,847**

The acquisition of mobile licenses is not considered part of the Capex measure of the segments. Total investments of the Group in PPE and Intangible assets correspond to the "Investments" lines disclosed in Notes 12, 13 and 30.

32.2 Information about geographical areas

The table below shows the revenues generated from external customers in the countries where the Group operates, using the same measurement principles as for the corresponding Group numbers.

Revenues	For the year ended December 31,	
In HUF millions	2014	2015
Hungary	532,885	566,584
Macedonia	55,733	53,517
Montenegro	32,256	30,459
Romania	3,868	4,095
Bulgaria	1,705	1,687
Total revenue of the Group	626,447	656,342

The table below shows the Non current assets of the Group located in the countries of operations (including goodwill allocated to operating segments operating in these countries) and the reconciliation to the total Non current assets of the Group, using the same measurement principles as for the corresponding Group numbers.

Non current assets	As at December 31,	
In HUF millions	2014	2015
Hungary	821,747	832,158
Macedonia	102,348	98,689
Montenegro	38,933	38,313
Bulgaria	2,807	3,075
Romania	1,646	1,614
Total excluding Non current financial assets and Deferred tax assets	967,481	973,849
Non current financial assets (Note 8.2)	25,243	22,950
Deferred tax assets (Note 9.4)	155	47
Total Non current assets of the Group	992,879	996,846

33 LEASES AND OTHER COMMITMENTS

33.1 Finance lease – Group as lessee

Finance leases in 2014 and 2015 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contracts are denominated in EUR, the term of the leases is 5–15 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2014 and 2015 are as follows:

In HUF millions	At December 31, 2014			At December 31, 2015		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	402	967	1,369	200	795	995
1–5 years	770	3,003	3,773	576	2,628	3,204
After 5 years	1,360	2,042	3,402	1,169	1,732	2,901
Total	2,532	6,012	8,544	1,945	5,155	7,100

Finance leases other than sale and lease back in 2014 and 2015 mainly relate to IPTV set-top-boxes, vehicles and IT equipment. In most cases the contract term of the leases is 2–5 years partly with renewal and purchase options.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2014 and 2015 are as follows:

In HUF millions	At December 31, 2014			At December 31, 2015		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	3,113	95	3,208	3,655	303	3,958
1–5 years	1,795	89	1,884	1,994	859	2,853
After 5 years	288	66	354	786	580	1,366
Total	5,196	250	5,446	6,435	1,742	8,177

The Group has no contingent rents related to its finance leases. The Group does not sub-lease any of the assets leased in a finance lease contract.

33.2 Operating lease – Group as lessee

Operating lease commitments are mainly in respect of the rental of mobile cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities and equipment. The following table includes the future minimum lease payments payable of the Group:

In HUF millions	At December 31, 2014	At December 31, 2015
Within 1 year	11,225	10,478
1–5 years	26,675	24,717
After 5 years	13,072	8,449
Total	50,972	43,644

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 1 to 20 years with renewal options in most cases, but no purchase options.

33.3 Finance lease – Group as lessor

Finance leases mainly include equipment provided to business customers as part of our outsourcing contracts where the Group is the service provider.

Future lease receivables under finance leases at December 31, 2014 and 2015 are as follows:

In HUF millions	At December 31, 2014			At December 31, 2015		
	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	681	94	775	361	73	434
1–5 years	1,135	238	1,373	871	150	1,021
After 5 years	305	58	363	264	49	313
Total	2,121	390	2,511	1,496	272	1,768

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Non current financial assets. The finance income accruing to the Group over the lease term is recognized in the Profit for the year (Interest income).

The unguaranteed residual values accruing to the benefit of the Group are insignificant.

33.4 Operating lease – Group as lessor

The following table includes the future minimum lease payments receivable by the Group for the operating leases of mobile tower sections and PBX (private business exchange) equipment where Magyar Telekom is the lessor.

In HUF millions	At December 31, 2014	At December 31, 2015
Within 1 year	1,034	1,147
1–5 years	2,184	2,102
After 5 years	280	179
Total	3,498	3,428

33.5 Purchase commitments for tangible and intangible assets

The table below summarizes Magyar Telekom's contractual purchase commitments for tangible and intangible assets with the majority falling due within two years.

In HUF millions	At December 31, 2014	At December 31, 2015
Property, plant and equipment	4,620	3,767
Intangible assets	6,336	4,579
Total	10,956	8,346

33.6 Purchase commitments for businesses

As at December 31, 2015 the Group had no committed business combinations. As at December 31, 2014 the Group had a committed business combination, where an advance payment of HUF 250 million was paid in December 2014 and the closing of the transaction took place in January 2015. The committed purchase price paid in January 2015 was HUF 1,000 million.

34 RELATED PARTY TRANSACTIONS

No impairment was recognized for receivables from related parties in the reported years.

34.1 Deutsche Telekom Group and the Federal Republic of Germany

34.1.1 Deutsche Telekom Group

Deutsche Telekom AG is the ultimate (indirect) controlling owner of Magyar Telekom Plc. holding 59.21% of the voting rights attached to the Company's shares. Deutsche Telekom Group has a number of fixed line, mobile and IT service provider subsidiaries worldwide, with whom Magyar Telekom Group has regular transactions.

Deutsche Telekom International Finance (DTIF) is the treasury center of DT Group, which typically provides loan financing across the DT Group including Magyar Telekom.

The table below summarizes the above related party transactions and balances with DT Group.

In HUF millions	2014	2015
Revenues from services provided to DT Group companies	22,564	17,242
Costs of services provided by DT Group companies	(9,973)	(11,644)
Income from support services provided to DT Group companies	697	1,242
Interest expense to DTIF	(10,224)	(5,825)
Interest expense to DTAG	(6,824)	(10,962)
Dividend paid to parent company	-	-
Accounts receivable from DT Group companies	8,825	10,592
Accounts payable to DT Group companies	(10,329)	(15,766)
Loans payable to DTIF	(172,071)	(106,798)
Loans payable to DTAG	(183,765)	(243,249)
Fair value of swap agreements with DTAG – asset	11,826	6,553
Fair value of swap agreements with DTAG – liability	(93)	(854)

Deutsche Telekom has pledged its support for Magyar Telekom's budgeted financing needs through to June 30, 2017.

34.1.2 The Federal Republic of Germany

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of DTAG, and consequently of Magyar Telekom as well.

DTAG and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2015 or 2014 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

34.2 Associates and joint ventures

The Group has no significant associates and the transactions with them are not material.

E2 Hungary Zrt. is a joint venture of the Magyar Telekom Group since July 9, 2015. The company had no operational activities in 2015. E2 will provide energy services for business customers from 2016. The only material outstanding amount is a HUF 3,338 million advance payment made to E2 for the 2016 energy services to be provided by E2 to the Company and its remaining customers in 2016.

34.3 Board and Supervisory Board members

In HUF millions	For the year ended December 31, 2014	2015
Remuneration of the members of the Board of Directors	16	16
Remuneration of the members of the Supervisory Board	61	63
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	6	4

Loans granted to the members of the Supervisory Board are limited to the employee delegates and had been granted to them in their capacity as employees.

34.4 Key management

Key management has been identified as the members of the Company's Management Committee, which is the chief operating decision making body of Magyar Telekom.

The table below shows in total the compensation expenses (including social security and other payroll related taxes) incurred by the Group in relation to the key management.

In HUF millions	For the year ended December 31, 2014	2015
Salaries and other short-term employee benefits	1,661	1,568
Contractual termination expense	-	-
Share based compensation (Note 24.1)	9	24
	1,670	1,592
Of which costs expensed in relation to defined contribution plans (including social security contribution)	366	349

The Group does not provide loans to its key management.

35 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

35.1 Financial assets and liabilities

The tables below include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2015 and 2014.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- inputs other than quoted prices included within Level 1 observable for the asset or liability, either directly or indirectly (Level 2)
- inputs for the asset or liability that are not based on observable market data (Level 3)

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety.

There was no transfer between Level 1 and Level 2 financial instruments. Loans and receivables and most of the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, mainly by applying the discounted cash flow method. The cash flow estimations are based on the relevant underlying contracts and the discount rates are calculated based on the interest rate benchmarks applicable for the relevant maturities and currencies (BUBOR, BIRS, EURIBOR, EUR swap yields). Foreign exchange conversion is made based on central bank FX fixings (preferably that of the Central Bank of Hungary). There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

35.1.1 Financial assets – Carrying amounts and fair values

December 31, 2015	Carrying amount				Total	Fair value
In HUF millions	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	FVTPL (Level 2)		
Cash and cash equivalents	17,558	-	-	-	17,558	17,558
Bank deposits with original maturities over 3 months	7,982	-	-	-	7,982	7,982
Trade receivables within one year	147,080	-	-	-	147,080	147,080
Trade receivables over one year	10,302	-	-	-	10,302	10,884
Loans and receivables from employees	5,041	-	-	-	5,041	5,613
Derivative financial instruments contracted with related parties	-	-	-	6,553	6,553	6,553
Derivative financial instruments contracted with third parties	-	-	-	79	79	79
Finance lease receivable	1,494	-	-	-	1,494	1,582
Financial assets AFS	-	-	278	-	278	278
Other current	1,531	-	-	-	1,531	1,531
Other non current	742	-	-	-	742	994
Total	191,730	-	278	6,632	198,640	200,134

December 31, 2014 In HUF millions	Carrying amount				Total	Fair value
	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	FVTPL (Level 2)		
Cash and cash equivalents	14,625	-	-	-	14,625	14,625
Bank deposits with original maturities over 3 months	14,821	-	-	-	14,821	14,821
Trade receivables within one year	134,450	-	-	-	134,450	134,450
Trade receivables over one year	10,745	-	-	-	10,745	11,593
Loans and receivables from employees	4,604	-	-	-	4,604	4,903
Derivative financial instruments contracted with related parties	-	-	-	11,826	11,826	11,826
Derivative financial instruments contracted with third parties	-	-	-	488	488	488
Finance lease receivable	2,121	-	-	-	2,121	2,329
Financial receivable from associates	174	-	-	-	174	174
Financial assets AFS	-	-	231	-	231	231
Other current	2,424	-	-	-	2,424	2,424
Other non current	1,499	-	-	-	1,499	1,698
Total	185,463	-	231	12,314	195,887	199,562

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

Fair value through profit or loss assets include derivative financial instruments, the fair values of which are based on a discounted cash flow method. The calculation is prepared by Magyar Telekom based on money market interest rate curves, basis swap points and spot FX rates from Reuters database published at the last working day of the reporting period. The present value of the expected future cash flows are discounted to the reporting date using money market interest rates and basis swap points in the specific currency from Reuters and exchanged to HUF using spot FX rate. The difference between the HUF present value of the payable and receivable is accounted for as assets or liabilities.

The carrying values of assets measured at amortized cost with short times to maturity approximate their fair values.

Financial assets available for sale include insignificant investments in equity instruments, all measured at fair value, which is the Macedonian stock exchange price of the equity instruments.

35.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2015 In HUF millions	Carrying amount: Measured at amortized cost	Carrying amount: FVTPL (Level 2)	Total	Fair value
Financial liabilities to related parties	356,140	854	356,994	362,782
Bank loans	13,070	-	13,070	13,072
Trade payables	140,182	-	140,182	140,182
Payable for building exchange transaction	1,863	-	1,863	1,917
Frequency fee payable	51,378	-	51,378	53,758
Finance lease liabilities	8,380	-	8,380	7,815
Debtors' overpayment	1,329	-	1,329	1,329
Other current	3,877	-	3,877	3,877
Other non current	1,112	-	1,112	1,188
Total	577,331	854	578,185	585,920

December 31, 2014 In HUF millions	Carrying amount: Measured at amortized cost	Carrying amount: FVTPL (Level 2)	Total	Fair value
Financial liabilities to related parties	355,836	93	355,929	367,737
Bank loans	45,796	-	45,796	45,786
Trade payables	110,361	-	110,361	110,361
Derivative financial instruments contracted with third parties	-	418	418	418
Payable for building exchange transaction	2,730	-	2,730	2,849
Frequency fee payable	54,306	-	54,306	52,859
Finance lease liabilities	7,728	-	7,728	8,242
Trade payables classified as financial liabilities	10,917	-	10,917	10,917
Other current	2,154	-	2,154	2,154
Other non current	504	-	504	538
Total	590,332	511	590,843	601,861

Derivatives are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the loans and other borrowings is provided in Notes 16 and 17.

The carrying values of the current financial liabilities measured at amortized cost approximate their fair values.

FVTPL liabilities include derivative financial instruments, the fair values of which are calculated the same way as FVTPL assets disclosed above in Note 35.1.1.

35.2 Items of income, expense, gains and losses arising on financial instruments

The tables below include income, expense, gains and losses arising on financial instruments in 2015 and 2014.

2015 In HUF millions	From interest	From subsequent measurement			From derecog-nition	From fee expense	Total net gain / (loss)
		At fair value	Currency translation	Impair-ment loss			
Available-for-sale financial assets (Level 1)	-	44	-	-	-	-	44
FVTPL financial instruments (Level 2)	-	(5,690)	-	-	4,740	-	(950)
Loans and receivables	791	-	415	(9,537)	-	(4,401)	(12,732)
Financial liabilities measured at amortized cost	(20,737)	-	(1,510)	-	-	(49)	(22,296)
Net gain/(loss) on financial instruments	(19,946)	(5,646)	(1,095)	(9,537)	4,740	(4,450)	(35,934)

2014 In HUF millions	From interest	From subsequent measurement			From derecog-nition	From fee expense	Total net gain / (loss)
		At fair value	Currency translation	Impair-ment loss			
Available-for-sale financial assets (Level 1)	-	26	-	-	-	-	26
FVTPL financial instruments (Level 2)	-	6,229	-	-	736	-	6,965
Loans and receivables	1,015	-	1,218	(11,717)	-	(5,614)	(15,098)
Financial liabilities measured at amortized cost	(21,561)	-	(8,012)	-	-	(144)	(29,717)
Net gain/(loss) on financial instruments	(20,546)	6,255	(6,794)	(11,717)	736	(5,758)	(37,824)

The tables above include the amounts before capitalization of borrowing costs (See Note 28).

Impairment losses on Loans and receivables includes all expenses incurred or expected to be incurred in relation to the default of our customers. Before writing off or factoring, we impair the receivables to their recoverable amounts through the use of an impairment provision account, as a result of which the actual write-off or factoring of these receivables results in no derecognition gains or losses.

35.3 Offsetting financial assets and financial liabilities

For the financial assets and liabilities subject to enforceable netting arrangements, each agreement between the Group and the counterparty (typically roaming and interconnect partners) allows for net settlement of the relevant trade receivable and payable.

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the Consolidated statements of financial position.

In HUF millions	At December 31, 2014		At December 31, 2015	
	Trade and other receivables	Trade payables	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	146,364	112,459	166,508	143,928
Gross amounts of financial instruments set off	(2,098)	(2,098)	(3,746)	(3,746)
Net amounts of recognized financial instruments presented in the statement of financial position	144,266	110,361	162,762	140,182

35.4 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 11.3 billion as at December 31, 2015 (2014: HUF 15.6 billion). These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2015 or 2014, and is not expected to happen in the future.

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for derecognition.

The Group does not have compound financial instruments with multiple embedded derivatives.

36 CONTINGENT ASSETS AND LIABILITIES

36.1 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. These assets are not recognized in the statement of financial position.

The Group has no contingencies where the inflow of economic benefits would be probable and material.

36.2 Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group, or the amount of the obligation cannot be measured with sufficient reliability.

36.2.1 Hungary

36.2.1.1 Public lawsuits relating to transaction fee

Two similar lawsuits were launched against the Company by the Hungarian Authority for Consumer Protection and the National Federation of Associations for Consumer Protection claiming that charging customers a transaction fee for invoices to be settled by yellow postal payment orders or in person at the cash-desk was unlawful. The Company is adamant that charging the transaction fee at the time of their introduction was not in breach of any law, while it was subsequently prohibited by a modification of the Act on Electronic Communications. The Company discontinued charging the fee on the effective date of the modification, and continues to comply with the provisions of the Act. The management believes that it is not probable that a significant liability will arise from these claims.

36.2.1.2 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees for which see more details in Note 35.4.

37 PUBLIC SERVICE CONCESSION AND LICENSE ARRANGEMENTS

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary, Macedonia and Montenegro. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee and annual payments.

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

37.1 Hungarian Mobile

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. The Implementation of the EU New Regulatory Framework (NRF) Review package had been completed by the amendment of the Act C of 2003 on Electronic Communications (hereinafter: Communications Act). The National Media and Infocommunications Authority of Hungary (NMIAH) is the supreme supervisory body and is responsible for secondary legislation making and the preparation of relevant decrees.

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

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

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

The Company filed an auction bid in December 2011 with the NMIAH for the right of use of unused spectrum in the 900 MHz frequency band, related to the provision of mobile telecommunications services. The spectrum can be utilized in a technology-neutral manner. The NMIAH announced its first-instance decision on the result of the 900 MHz auction (Auction) on January 30, 2012. Magyar Telekom won the right of use of two duplex frequency blocks of 1 MHz each for a period of 15 years.

On September 6, 2013 Magyar Telekom and the NMIAH signed the modification of the Authority Contract on the use of the 900 MHz and 1800 MHz frequency bands. The main stipulations of the modification are the following:

- Magyar Telekom's frequency usage rights in the 1800 MHz frequency band otherwise expiring on October 7, 2014 and in the 900 MHz frequency band otherwise expiring on May 4, 2016 were prolonged and harmonized until April 2022.
- Magyar Telekom will retain frequency usage right also until April 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band won in the 900 MHz auction in 2012. Accordingly, Magyar Telekom currently has frequency usage rights of 10 MHz duplex frequency blocks in the 900 MHz frequency bands and of 15 MHz duplex blocks in the 1800 MHz frequency band.
- The initial fee of the prolongation and harmonization of 900 MHz/1800 MHz frequency licences was HUF 38 billion. However, Magyar Telekom was required to pay HUF 34 billion out of the aforementioned amount, considering the expiry of the frequency blocks won in 2012 being changed from the original 2027 date to 2022.

On May 22, 2014, the NMIAH published the "Documentation for the tender announced in the subject of spectrum licences for broadband services". Blocks in 800 MHz / 900 MHz / 1800 MHz / 2600 MHz and 26 GHz frequency bands were auctioned.

On September 29, 2014 the NMIAH published the tender results so that Magyar Telekom acquired the following frequencies for an aggregate amount of HUF 58,650 million:

- 2 x 10 MHz in 800 MHz
- 2 x 2 MHz in 900 MHz
- 2 x 30 MHz in 2600 MHz
- 2 x 10 MHz in 1800 MHz.

On October 15, 2014 Magyar Telekom and the NMIAH signed the Authority Contract on the use of the 800MHz, 900 MHz and 1800 MHz frequency bands that came into force right on that day. For the new bands the frequency license and radio permission were issued on October 17, 2014 to Magyar Telekom.

As a result of the last tender Magyar Telekom acquired frequency usage rights in the above listed spectrums till June 15, 2029. The Authority Contract can be prolonged with further 5 years if all requirements defined in the contract are met.

The Company is subject to number portability regulation since 2004, applicable only in case of other mobile operators. The Company is designated as an SMP operator in the mobile wholesale call termination market (new M2, old M7 market) and subject to regulatory obligations regarding the termination charge of calls into its network, mobile termination rate (MTR). At the end of August 2011, the NMIAH made its third new market analysis decisions. On the mobile voice market the three mobile operators had to cut their wholesale prices by 40% in three steps. The last mobile market resolution was published on March 18, 2015 with a newly defined pure Buttom-Up Long Run Incremental Costing model (BU-LRIC) resulting in an MTR of 1.71 HUF/min net cost based fee.

Since June 30, 2007, an EU regulation has been regulating international roaming tariffs for wholesale and retail customers on the basis of a price cap system. The first EU roaming regulation prescribed a glide-path that mandated annual reductions of wholesale and retail prices. (EU Roaming Regulation I.)

As of July 2009 the EU also introduced regulated tariffs for SMS and data roaming similarly to the regulation of voice roaming. (EU Roaming Regulation II.)

As of July 1, 2012 the EU further broadened the European roaming regulation with a new regulatory measure: separate sales of regulated roaming services. As a result Magyar Telekom had to implement the technical possibility to host an Alternative Roaming Provider in its network and also it allows its own customers to use Local Break-out solutions within the EU offered by a foreign EU member country's mobile operator from July 1, 2014. (EU Roaming Regulation III.)

The last EU roaming regulation was approved by the EU Parliament on October 27, 2015. By this last regulation European MNOs are obliged to offer a "Roam Like At Home Plus Surcharge" model from April 30, 2016. Implementation of the surcharge is optional. Furthermore a "Full Roam Like At Home With Fair Use Policy Possibility" model is to be applied from June 15, 2017. Implementation of the fair use policy is also optional (EU Roaming Regulation IV.). As a result, European retail roaming price levels for voice, SMS and data will be close to domestic prices.

37.2 Hungarian Fixed line

Universal services are basic communications services (including access to communication services at a fixed location, public payphones, directory and directory enquiry services) that should be available to all customers at an affordable price. The NMIAH published its request for proposal on the provision of universal services on November 4, 2013. The Company submitted a bid for access on fixed location and for national directory enquiry service. MT was designated by NMIAH as a universal service provider for public payphones (came into force on June 1, 2014); for fixed line access (came into force on July 1, 2014) and for directory services, phonebook (came into force on August 1, 2014).

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

Magyar Telekom is Hungary's leading fixed line broadband service provider in the wholesale market and one of the leading ones in the retail market. In accordance with the effective resolution, all retail fixed products shall be 'reproducible' by competitors based on the wholesale service. Consequently, the full retail portfolio shall have a wholesale equivalent compliant to the pricing regulations (retail minus methodology) set forth by the NMIAH. Both the current fees and retail minus (RM) values of wholesale broadband services are specified in the current RM resolution of the NMIAH. Approval process of the new fees for RM21 time period was closed. The new tariffs came into force on January 1, 2016. The Company has a non-discrimination obligation, which means that the same terms and conditions shall be granted in terms of wholesale services to competitors under identical circumstances. We assume that the retail minus methodology will be modified with the next market resolutions and a new BU-LRIC+ methodology will also be used in the regulated wholesale fix broadband market from Q4 2016.

SMP operators are obliged to prepare reference unbundling offer for access to (physical) passive network infrastructure (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NMIAH. The price setting of these services is based on Top-Down Long Run Incremental Costs (TD-LRIC) approach. It is expected that the next 3a and 3b market analysis will result in a BU-LRIC+ model that is going to be built by the advisor of the NMIAH. Magyar Telekom will remain an SMP in these markets and also will be obliged to submit its next MARUO in Q2/Q3 2016 with an assumed approval in Q4 2016.

As a result of the fourth round of the market analysis procedure, the NMIAH published its new market analysis resolutions on call origination and termination (M2 and M3), in 2013. Main amendments are the following: obligations are extended to all telephone operators (altogether 124 providers), due to the scheme applied by the NMIAH both termination fees were determined symmetrically which is different from the practice of the past years. Relevant change to previous decisions was the new cost calculation methodology, which is pure BU-LRIC instead of TD-LRIC+.

SMPs are also obliged to prepare reference offer for interconnection (RIO), containing applicable fees, and to provide these services in accordance with the reference offer when there is a request towards them by other telecommunications service providers. The new fixed termination fee had been set for all SMP operators already from January 1, 2014. The new MARIO and the call origination and supplementary interconnection service fees came into force on September 1, 2014.

SMP operators are obliged to enable carrier selection to their subscribers.

Fixed line telecommunications service providers are obliged to provide number portability on their networks starting January 1, 2004.

37.3 Energy services in Hungary

Magyar Telekom has been providing electricity and natural gas services in Hungary since May 2010 as an electricity and natural gas supplier.

Magyar Telekom's energy revenues contain energy fees, system operator relevant fees and other fees. In case of the residential customers and a part of the business customers (universal customers) the sales price is based on the Universal Service Providers' (USP) price which is regulated by the Minister of National Development.

Magyar Telekom decided to exit from the residential segment of the gas market with effect from July 31, 2015, following changes in the energy market environment.

The exit from the residential gas business has no direct impact on the residential electricity service that is provided by Magyar Telekom. However, as with residential gas, the Company will remain watchful as to how any future developments in the market environment might impact our operations, and if deemed necessary, be swift to take appropriate action.

In March 2015, Magyar Telekom signed an agreement with MET Holding AG to establish a joint venture that will provide energy services for business customers. Having obtained the necessary approvals and licences, E2 Hungary Zrt. (E2), as the joint venture owned by Magyar Telekom Plc. and MET Holding AG to 50-50% commenced its gas and electricity retail business operations as of January 1, 2016. In accordance with the agreement of the owners, Magyar Telekom transferred its business energy operations to E2.

37.4 Macedonian Mobile

The Group is also present in the Macedonian mobile market through its subsidiary, Makedonski Telekom AD Skopje (MKT, previously T-Mobile). The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 as primary legislation and rulebooks as secondary legislation.

On September 5, 2008 the Agency, ex officio, issued a notification to T-Mobile for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until September 5, 2018, which can be renewed up to an additional 20 years in accordance with the ECL. Due to changes in the bylaws the 900 MHz band was opened for UMTS technology and based on T-Mobile's request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology.

After the analysis of the wholesale (WS) market "Call termination services in public mobile communication networks" the Agency in 2007 brought a decision by which T-Mobile was designated with SMP status on this market. The price regulation on this relevant market continues as AEC conducts periodical analysis of the market and updates the price regulation models.

In 2008 a decision for granting three 3G licenses was published. The validity of the license is 10 years i.e. December 17, 2018, with a possibility for extension for 20 years in accordance with the ECL.

In 2010 T-Mobile was designated with SMP status on the wholesale market "Access and call origination in public mobile communication market". Based upon Agency's decision, in 2010 T-Mobile published a Referent Access Offer consisted of the following regulated services:

- call origination for Mobile Virtual Network Operator (MVNO)
- call origination for national roaming operator,
- SMS origination for MVNO and
- SMS origination for national roaming operator.

There hasn't been a second round analysis on this market since 2010, and there hasn't been MVNO or national roaming operator on T-Mobile network. An MVNO, Albafone hosted on ONE network entered the Macedonian market and started commercial operations in 2013.

In 2011, the Agency published the final analysis of the wholesale (WS) market "SMS termination in public mobile communication networks", and in May 2011 all 3 mobile operators were designated with SMP status on this relevant market. In July 2011 the RIOs were approved by the Agency with the regulated SMS termination price being symmetrical for all 3 operators but remaining the same as before the regulation.

On December 19, 2014, amendments of the ECL were enacted. One of the most important changes was implemented by Article 75-a, which regulates the prices of international roaming. According to this article, the AEC has the right with the Decision to determine the maximum prices for services which are offered to roaming users from countries the Macedonian Republic concluded agreement with for the reduction of prices of roaming services in public mobile communication networks, on reciprocal base, which cannot be higher than the prices of the same services in the EU. In the period of 3 years from 2015, the prices will be reduced to the maximum determined.

The Director of the AEC brought a Decision on December 10, 2014 for the value of points for calculation of annual fee for the usage of radiofrequencies (RF). The value of the points is 0.8 EUR (approximately HUF 250) which means that all annual fees for radiofrequencies are reduced by 20% from January 1, 2015, compared to the previous value. Formulas for the calculation of annual RF fees are defined in the relevant rulebook.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for LTE technology in a public tender. Each of the 3 Macedonian mobile operators acquired an LTE radiofrequency license of 2x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million (approximately HUF 3.2 billion). The license is for 20 years, until December 1, 2033, with an extension option for 20 years, in accordance with the ECL.

In 2013 the Agency conducted the second analysis on the WS SMS termination market and in October 2013, public debate was opened on the proposed new regulated prices symmetrical for all 3 operators and 75% below the prevailing price. After completion of the public debate, the Agency upheld its position to lower the regulated wholesale price for SMS termination by 75% for all 3 operators and the price became effective from January 1, 2014.

In 2013, T-Mobile was designated as SMP on the relevant WS market “Call termination services in public telephone network at a fixed location” by the Agency. Based upon the Agency’s decision, TMMK RIO was modified by including this service.

The new ECL was enacted on March 5, 2014. The ECL is aligned with the EU 2009 electronic communications’ regulatory framework. The process of harmonization of the existing secondary legislation with the new ECL was conducted through 2014.

In 2014, T-Mobile on its own decision returned 5 MHz of the spectrum owned in the 2100 MHz band as the company had not used this part since the assignment in 2008 and was not planned to be used in the future either.

In October 2014, VIP Operator and ONE announced a merger of their business in Macedonia consisting of mobile, fixed, internet and transmission of audiovisual content. The Competition Authority approved the merger in July 2015.

37.5 Macedonian Fixed line

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

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

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

The Agency for Electronic Communication (AEC) approved new prices for duct rental services on January 18, 2013. The prices were determined by the AEC according to the LRIC methodology. The approved prices are less than half the previous prices set by MKT.

On August 5, 2013 the AEC issued its final document on market analyses for call origination, call termination and transit of calls on the public telephone network provided at a fixed location (Market 4, Market 5 and Market 6). Only MKT is assigned as SMP (Significant Market Player) on Market 4.

New remedies are the following:

- Implementation of IP (Internet Protocol) IC (interconnection) latest by 2016 for fixed and mobile operators;
- Transitional period for IP interconnection for alternative fixed and mobile operators up to 3 years;
- Submission of updated MATERIO (MKT Referent Interconnect Offer) with IP IC description (service and fees) and conditions latest by October 31, 2013.

In the process of approval additional changes were made (new interconnection prices based on "Top down LRIC" costing model were included). There are new prices for termination with no peak or off-peak prices. Changes in the IP MATERIO came into force from January 1, 2014. Regional and local termination prices will exist until last Time division multiplexing (TDM) switch is extinguished.

Final document for Broadband market analyses (Market 8) was published on August 1, 2014. For the first time the Agency imposed regulation of access to broadband services over optical access network. All existing obligations for the copper network remain unchanged. All obligations are only for MKT as SMP (significant market player) on the broadband market.

In December 2014 the AEC brought a Decision for designation of MKT as SMP (Significant market power) on market 8.

Third analysis of market 9 and 10 (Transmission and termination segments of Leased Lines (LL) and market 7 (Physical access to network infrastructure) was finished in November 2014. As a result of the analysis, on market 9 and 10 transmission segments of the LL were deregulated and on market 7 regulations of fiber based products of MKT were included.

In December 2014 the AEC brought a Decision for designation of MKT for SMP (Significant market power) on market 9-Terminating segments of leased lines in the geographical area of Republic of Macedonia.

In December 2014 the AEC brought a Decision for designation of MKT for SMP (Significant market power) on market 1- Access to public telephone networks at a fixed location for residential and business customers including all types of networks technology neutral.

Draft document for market analysis on relevant retail Market 3 (Minimum set of leased lines) was published in September 2015. Proposal is MKT to be released from SMP obligation on this market. Decision for withdrawal of the SMP obligation is expected in Q1 2016.

37.6 Montenegrin Mobile

Crnogorski Telekom (CT), the Group's Montenegrin subsidiary is also providing mobile services under the "T" brand. CT is registered as one of three GSM/UMTS providers in Montenegro.

The Agency issued a mobile telecommunication license for GSM 900 MHz for the territory of Montenegro valid from January 1, 2002 for a period of 15 years.

As a result of the market analysis of the NRA in 2011 and 2013, CT is designated as an SMP in the market of termination of voice calls in its own network and on the Wholesale market on access and origination of calls in mobile networks based on the second round of respective market analysis in 2015. Interconnect rates were determined by the Regulator based on cost model results provided in the 2014 regulatory reports. Updated ROs were published in December 2015.

Mobile number portability was introduced in 2011. In 2013 the NRA applied the three criteria test to the Retail mobile services market. This market did not fulfill the three criteria test, so it was not subject to ex ante regulation.

In 2012, the NRA adopted Cost Accounting Methodology for mobile networks to be applied by all three operators. In October 2015, the NRA approved Crnogorski Telekom's mobile 2014 regulatory reports.

37.7 Montenegrin Fixed line

The Group's Montenegrin subsidiary, Crnogorski Telekom is registered to provide fixed line telecommunications services in Montenegro as well as to provide domestic voice and data services as well as VoIP, leased line, IPTV, value added services, etc.

The Agency for Electronic Communications and Postal Services of Montenegro (the Agency or NRA) issued to CT a Fixed line license that is valid form January 1, 2002 for a period of 25 years. In 2004, the Ministry of the Economy prescribed a special one-time fee for the provision of international traffic services, which was paid by CT. In October 2007, the Broadcasting agency of Montenegro issued to CT a license for building and distributing / broadcasting radio and TV programs to customers (IPTV license) for a period of ten years.

The telecommunications sector in Montenegro is regulated by the Law on Electronic Communications (the eLaw) that came into force in August 2013. The eLaw is based on the 2009 regulatory framework of the EU.

As a result of the second round of market analysis, completed at the end of 2013, CT was designated as an SMP operator in all seven relevant markets defined in EU Commission Recommendation 2007/879/EC. Local loop unbundling (including fiber access), bitstream access, wholesale leased line and carrier pre-selection, other than on Market 4, where prices remained as determined in the previous round in 2010, the NRA obliged CT to apply prices from cost model provided in the 2013 regulatory reports.

Carrier pre-selection was introduced in 2011 and carrier selection was already implemented in 2008. Number portability was introduced in 2011.

RIO rates were determined by the NRA based on cost model results provided in the 2013 regulatory reports.

In 2015 the NRA again designated CT as SMP on the markets: 1. Retail market for local and long-distance calls, for business and residential, provided on fixed location, 2. Retail market for international calls, for business and residential, provided on fixed location, 3. Wholesale market of trunk segments of leased lines. Standard EU remedies (also prescribed in the Montenegrin Law) are imposed to CT as well as cost based retail price regulation for voice services. Decreased prices of voice service were applied as of December 15, 2015. The NRA also designated CT as SMP on Retail broadband internet access services market and imposed cost based prices. Price decrease was imposed first in December 2014 and again in December 2015.

In May 2011, the NRA adopted Cost Accounting methodology that had to be applied by CT. In October 2015, the NRA approved Crnogorski Telekom fix 2014 regulatory reports prepared based on LRIC model.

38 EVENTS AFTER THE REPORTING PERIOD

38.1 The sale of Origo

The Company signed an agreement to sell its 100% shareholding in Origo Zrt. ("Origo") to New Wave Media Kft..The closing of the transaction took place on February 5, 2016. For details of the transaction see Note 11.1.

38.2 E2 Zrt. launched its operations

The joint venture, E2 Zrt. with MET Holding AG launched its operations on January 1, 2016 to provide energy services for business customers. For details of the transaction see Note 14.2.

Budapest, February 24, 2016.

Christopher Mattheisen
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

CONSOLIDATED BUSINESS REPORT

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015

INTRODUCTION

The Company's activities are described in Note 1 of the Consolidated Financial Statements, 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 2015
- 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, 2015, 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, 2015 is described in the following table:

Shareholders	Number of shares	Percentage of share capital
Deutsche Telekom Europe B.V.	617,436,759	59.21
Publicly traded	424,914,922	40.75
Treasury shares	390,862	0.04
	1,042,742,543	100.00

Deutsche Telekom Europe 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 is Deutsche Telekom AG (DT or DTAG).

Deutsche Telekom Europe B.V. does not have different voting rights than our other shareholders and, as with our other shareholders, Deutsche Telekom Europe 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 its Resolution No. 8/2015 (IV.15.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of the 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 draws 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, 2015, there were eight 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 at least the majority of the members for a quorum. Each member has one vote. The Board of Directors passes resolutions by a simple majority vote.

On December 31, 2015, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Year of election
Christopher Mattheisen................	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Mihály Patai............................	1953	Chairman-CEO of Unicredit Bank Ltd.	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	Executive Board Member Finance, 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 Managing Director of Deutsche Telekom Pan Net, DT AG	2013

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, 2015, the members of the Management Committee and the years of their original election were as follows:

Name	Born	Current position	Year of election
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
András Gyenes*	1969	Chief Commercial Officer Residential	2015
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

*András Gyenes became the member of the Management Committee as of July 3, 2015.

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_RulesofProcedure_20150415.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 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, 2015, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Year of election
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 Slovak Telekom at the Group Headquarters of Deutsche Telekom AG.	2009
Éva Őz	1957	Controlling Manager of Controlling Directorate, Chairwoman of the Workers' Council of Central Functions, 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' assignement 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_03_12_2015.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, 2015, 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_20130920.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, 2015, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Ralph Rentschler
- Frank Odzuck
- Thilo Kusch

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 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 2015 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 Group's corporate strategy we renewed our HR principles and strategic priorities. In 2011 we prepared 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 is carried out 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 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 affecting 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, of Magyar Telekom Plc. and its consolidated subsidiaries:

	At December 31,		
	2013	2014	2015
Magyar Telekom Plc.	7,359	7,046	6,670
Magyar Telekom Plc. and its consolidated subsidiaries	11,324	10,883	10,357

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

	At December 31,		
	2013	2014	2015
Telekom Hungary	7,649	7,347	7,002
T-Systems Hungary	1,607	1,518	1,487
Macedonia	1,418	1,362	1,327
Montenegro	650	656	541
Total	11,324	10,883	10,357

3.4 Total Workforce Management

From 2009, Magyar Telekom 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.

According to the terms of the agreement made in July 2014, the Company plans to make maximum 1,700 employees redundant, which was decreased by 100 heads in line with the agreement of June, 2015 as an offset for the termination of certain fringe benefits. Actual headcount decrease is 1450 heads, out of which 42% terminated between October, 2014 – March, 2015, 20 % between April – December, 2015, and 36% after January, 1, 2016, while 2% will terminate until the end of the year. Total severance expenses related to the 2-year headcount reduction programme is approximately HUF 10,5 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. 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 Szakszevezet, MATÁSZ). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the 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 disqualifications exist in respect of the nominated persons. On December 31, 2015, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Őz and Attila Bujdosó.

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

3.7 Pensions and Benefit Programs

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

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's 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 December 31, 2015 approximately 62% of employees of Magyar Telekom Plc. participated in the pension-, 42% in the self-aid-, and 59% in the health fund.

3.8 Human rights

Social Charta of Deutsche Telekom Group and Magyar Telekom Group is a voluntary commitment (based on the Decree of July 22, 2003 of the Group Board of Directors) on behalf of the employer side to comply with the minimal social standards throughout the entire company group. 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 group, and are available to anyone. Magyar Telekom submits annual reports on the compliance with the 9 basic principles set forth in the Social Charta.

The Social Charta 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 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 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 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 existence of these policies helps to fortify the employee's awareness and the engagement to legitimate behavior.

Giving support to the respective disadvantaged employee groups and to provide them equal opportunities require additional efforts and human resources.

Magyar Telekom can rely on its top managment that is committed to sustainability and expects high performance regarding the compliance with human rights. These extra efforts are supported by the Chief Executive Officer and the Chief Human Resources Officer personally. 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 2015.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 67 million in 2015.

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 1,592 million in 2015.

On December 31, 2015, three of the eight MC members have an employment contract with 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 five indefinite contracts, and six months for the remaining two contracts. For two contracts the severeance payment is in accordance with the Labour Code and the Collective Agreement, for the rest of the contracts 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 and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the 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.

For information about the Share Based Compensation programs, see Note 24.1 of the Consolidated Financial Statements.

5 RESEARCH AND DEVELOPMENT

Hungary

In 2015, the Research and Development activities of Magyar Telekom covered the maintainance of R&D grant project launched and won in the frame of the National Research, Development and Innovation Office.

Thus in 2015, completed prototypes were further developed under the project titled “Implementation of Info-communications R&D&I umbrella projects at Magyar Telekom”, such as “NFC technology based ticket purschase and information querying in transportation” and “Authentic, anonymous voting and opinion delivering (e-voting)” which concept test was running in the T-City environment in Szolnok.

In 2015 we continued the development, maintenance and preparation of the sales activities of the grant project titled “Magyar Telekom Plc.’s Healthcare Mobile Service R&D” (HCM project) which was completed in 2014. Within the R&D 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 various other features helping everyday information-transfers and administration.

Based on the results and experiences gained in the 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 optimalization in hospital environment.

In 2014, the solution was sold to University of Szeged, Albert Szent-Györgyi Health Center’s Emergency department and is running successfully since then.

Beyond the above, in 2015 we started to implement other smaller R&D projects which are able to contribute to key projects such as Big Data. In the frame of these topics we conducted researches on the usability of Big Data in the fields of disaster management and disease management which considered to be the whole society’s interest.

Besides Big Data the research-related steps have been taken on drone technology usability for agriculture, and also in the field of smart-watches we conducted research and development activity as well.

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

Besides the above, 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 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 2015, the Company participated as a supporting member of the National Research Program “Internet of the future” led by the University of Debrecen.

Beyond the above, Magyar Telekom 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.

Macedonia

Makedonski Telekom (MKT) continues with its determination and its work to be innovation leader on the market. This year, we made a great success in the area of “Smart Cities”, by successful implementation of the Automatic vehicle location and Smart ticketing system for the public transport providers in the City of Skopje. Apart of the benefits that this system brings to the public transport providers, we strongly believe that it will upgrade the customer experience and quality of service in the public transport, leading to the increase of its use.

Further, leveraging on the best network technologies, being the cornerstone for the managed services, we are focused on directing the customer towards using fully managed services through our connectivity. Following our strong determination on this, this year we enriched our managed service portfolio with new product - Cisco Meraki, enabling customers for building up its own corporate network infrastructure without initial investments.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNERS, we designed partnership eco-system for both SI and public cloud areas, covering:

- Technology partnerships – synergize with DT group membership in Cisco, EMC, Microsoft, Citrix, Oracle etc.
- DELIVERY Partnership with local and international companies for large scale SI and public cloud products

As a result of such technology partnerships, this year we became Cisco Gold certified partner, which is a proof for our competences in the areas of enterprise networks, collaborations, network securities and Data Center technologies.

Concerning the DELIVERY partnership, we launched several Cloud products on the markets, offering new tools and opportunities to our customers, for enhancing of their way of doing business.

Besides partnering with existing players in some areas, internal growth and delivery by own resources are our further focus as well.

In addition, we need to drive full force exploring of new markets and possibilities for growth and development, in the field of finance, health, agriculture, smart metering, connected home etc.

Montenegro

In line with strategic ambition to become customers' first choice in a fully digital lifestyle by aspiring to be the best in class CT is constantly improving its technology leadership. In the area of access networks CT has covered 17.2% of flats in Montenegro with FTTH, and 65% of the population with 4G. Even more, CT significantly increased customer broadband speeds in the areas that are not possible to cover with FTTx in economical way, by introducing Hybrid Access as an innovative access technology. The initial roll-out target for 2015 (of 200 commercial customers) was exceeded by the end of 2015 with 205 Hybrid customers. Full scale implementation is planned for the upcoming years.

CT is constantly working on simplifying customer connection and services by modern, future proof all IP based network. In 2015 CT completely retired PSTN and enabled Montenegro to become third market in DT footprint to have an All-IP network.

In order to manage long term customer relationships for all products and services CT is introducing the best platforms and tools. In 2015 CT has launched the first convergent, real time Billing & CRM system in DT Group. This system will potentiate fix mobile convergent offers.

CT's constant investments in technology development are perceived through best customer experience. In June 2015 CT was certified as "Best in Test" in the Mobile Benchmark in Montenegro by independent company (P3 communications). Besides, CT's mobile network is on the first position in Montenegro, by analysis based on Ookla's Speedtest Intelligence Data.

CT is acting as social responsible company and has received award on contest for corporate responsibility organized by Union of employers of Montenegro in category of "care for the environment".

6 REAL ESTATE, SITES OF OPERATION

We have one of the largest real estate holdings in Hungary and we are also a major real estate owner in Macedonia and Montenegro. 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 make efforts to sell our surplus properties.

Headquarters of major member companies of the Group

- Magyar Telekom Plc.: Hungary, 1013 Budapest, Krisztina krt. 55.
- T-Systems Magyarország Zrt.: Hungary, 1117 Budapest, Budafoki út 56.
- Makedonski Telekom A.D.: Macedonia, 1000 Skopje, Kej 13 Noemvri, No. 6.
- Crnogorski Telekom AD: Montenegro, 81000 Podgorica, Moskovska 29.
- Combridge S.R.L.: Romania, Sfantu Gheroghe, str. Viitorului, nr. 24.
- Novatel EOOD: Bulgaria, Sofia 1404, Bulgaria blvd. 45A.

Hungary

The number of sites used by Magyar Telekom Plc. is 2,340, out of which 21% are owned by the Company, 41% jointly owned and 38% 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 3,770 mobile technology sites, of which 5 % 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, 2015 was 566,734 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m^2.

Macedonia

At the end of December 2015, MKT radio access network consisted of 681 physical sites on which there are 664 2G base stations, 592 3G base stations and 198 4G base stations. 91% of the site infrastructure (towers) is in possession of MKT and 9% is leased.

The total area that is used by MKT is around 109,655 m2 as of December 2015, out of which around 45,381 m2 are in sole possession of MKT and in great part (54 %) is attributable to 2 major buildings, the headquarters and the main technical building. The remaining 64,275 m2 are in joint possession with Macedonian Post.

Montenegro

The number of sites used by Crnogorski Telekom for fixed line services is 221, out of which 72% are owned by the Company, and 28% leased. Total area of properties used by Crnogorski Telekom as of December 31, 2015 was 29,788 m^2 out of which 28,602 m^2 (96%) were owned by the Company.

The total number of mobile sites used for telecommunications towers and antennas by Crnogorski Telekom A.D. as of December 31, 2015 is 298, out of which 60% are with infrastructure owned by the Company, 1% jointly owned and 39% leased.

7 SUSTAINABILITY

Magyar Telekom 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 currently 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 committed to support the ten principles set forth by the UN Global Compact since 2009 in the areas of human rights, environment and anti-corruption, the results of which are also addressed by our Sustainability Reports.

Magyar Telekom’s sustainability activities and achievements are comprehensively discussed in the annual Sustainability Reports, which aims to make the Group’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'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'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 of the concept of sustainability and to enhance the sustainability perception of Magyar Telekom.
  - Awareness of the concept of sustainability: KPI: public: 20%, employees: 80%
  - Magyar Telekom'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 for society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to ensure carbon-neutral operation
- 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, as well as to increase revenue from services of sustainable nature, KPI: 20% of annual sales.

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 is third in international comparison globally, on a list of the world's 108 telecommunication companies assessed along sustainability aspects, and is only preceeded by its mother company Deutsche Telekom, and BT Group.

- Awards and recognitions achieved in 2015:
  - CEERIUS sustainability index membership (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
  - Oekom responsible investor assessment: Prime category (recommended for responsible investors) (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
  - Family-friendly Company 2015 (http://www.telekom.hu/about_us/press_room/press_releases/2015/may_18)
  - Biker-friendly Workplace 2015 (http://kmsz.hu/2015/05/23/kiosztottak-a-kerekparosbarat-telepules-es-munkahely-dijakat)
  - Most creative good deed award: Magyar Telekom Plc. - Szépmű Project (https://www.profession.hu/cikk/20150127/-jo-cselekedet-dijaztak-a-jotetteket/5041)
  - Energy Efficient Company – T-Systems Hungary Plc. (http://www.t-systems.hu/news-and-media/news/t-systems-hungary-won-the-energy-efficient-company-title-again)

A list of all the awards won since the strategy took effect is available through the link below:
http://www.telekom.hu/about_us/society_and_environment/prizes_ratings

- The survey conducted among the public in 2015 showed that 13% of the responders name Magyar Telekom and its offer brands as a company of a leading role in sustainability, while 72% cannot name any companies at all. The concept of sustainability is known by 22% among the public in 2015. 79% of our employees familiar with the concept of sustainability and 61% named Magyar Telekom as a sustainability leader.

7.2 Initiatives concerning stakeholders

In 2015 we organized the Sustainability Roundtable Discussion for the 16th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom Group, discussing the arising problems, and to provide a suitable background for thinking together and co-operating in building a sustainable future.

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

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

A jury of experts decides which submitted project should receive the award. The eighth award ceremony took place on June 12, 2015, as part of the Sustainability Roundtable. In 2015, we recognized organizations and businesses promoting waste management, renewing energy, environment-friendly transportation and equal opportunities.

The eighth Sustainability Day event took place on September 26, 2015. The topic of the day was distance. Almost three thousand visitors attended the event where they participated in panel discussions on the three pillars of sustainability and examined pieces of works submitted to the creative design exhibition as well as exhibitors.

The event presented an opportunity to hand over the Sustainability Media Award for the fifth time by the members of the Sustainability Media Club - established by Magyar Telekom. Awards were distributed in three categories: "Bottom View" - for case studies describing NGO and local community matters, "Wide-angle view" - for the description of nationwide environmental and economic issues and "E-world" - for case studies describing digital education and digital literacy initiatives primarily focusing on children. The award amounted to HUF 500 000 for each category.

In 2015, 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 Telekom Smart Digital programs, as well as at the Pilis forest and the T-Shops. The cause of employees' volunteer work was also furthered by charitable teambuilding exercises. In 2015, 649 colleagues worked 4,412 hours of volunteer work, by means of which a theoretical amount of HUF 21.7 million was thus donated to the society.

In 2015 we continued the "hello holnap!" club event series that was launched two years ago and is organized on a monthly basis with the objective to present sustainability topics in an everyday manner to our colleagues and external stakeholders. Visitors of the club and members who are active in sustainability matters are given hello holnap! points. In the second year of the initiative 5,495 points were collected by 2,146 colleagues. The first three employees who collected the most points were given a Csepel bike voucher.

Magyar Telekom established a website dedicated to threats caused by children's media consumption. The website provides information to parents not only about ICT technologies, devices and content, but also about threats caused by their usage and consumption, as well as possible preventive measures. More details are available on: http://www.telekom.hu/about_us/society_and_environment/society/protection_of_our_children.

On November 1, 2013, Magyar Telekom introduced its tariff package called "hello holnap!", which was designed to accommodate specific needs of handicapped people. Since 2014, the tariff package is also available for members of the Hungarian National Autistic Society. Upon several rounds of discussions with the involved interest representation bodies from 2016, we restructured the hello holnap! fee package to make it more customizable and better align it to the special needs of people with disabilities.

We launched the "hello holnap!" mobile app on September 27, 2014, by which we drew 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. The success of the mobile application in 2015 is best represented by the fact that it has 6,000 users and it is one of the most popular Telekom applications.

Magyar Telekom and the Sustainability Media Club recognized publications by journalists and editors addressing sustainability topics for the third time 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 enabled the Company's employees to save time and mileage. Thus, drivers can relieve the environment of as much as one million kilometers and five years of travel.

In 2013 Magyar Telekom was among the first Hungarian companies that supported civilian organizations to cultivate community gardens in empty properties of the Company. In 2015 three community gardens started their operation. One of them, the 2600 square meter "Kerthatár" garden in Soroksári street offers land for 100 gardens. It is one of the biggest of such facilities in Budapest.

7.3 Annual Sustainability Report

Magyar Telekom Group has committed, among other things, to publish reports about its sustainability performance annually. When the reports are compiled the GRI (Global Reporting Initiative) guidelines are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. Since 2007 Magyar Telekom has prepared reports adhering to the highest level of compliance with international standards each year, thus the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 Sustainability Report was compiled along the new Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4). It was applied on comprehensive level and includes more information about the Group's sustainability performance. The independent assurance and certification of compliance with the GRI G4 criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard.

Further details on the sustainability performance of the Company can be found in the annual reports available on:
https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

8 ENVIRONMENT PROTECTION

Magyar Telekom Group as one of the leading info-communication service provider in Hungary – 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 its activities in a regulated and controlled way, fulfilling the EU requirements and complying with international standards. Magyar Telekom Group's environmental commitment and responsibilities are published in Magyar Telekom Group's Environmental Policy which contains obligations for the Group members individually and for the Group in total:
http://www.telekom.hu/static/sw/download/Magyar_Telekom_environmental_policy.pdf

8.1 Environment and climate protection performance

In 2015, Magyar Telekom procured 209 GWhs of electric power from renewing resources, which is 100% of the Company's total electric power consumption. The 5-year strategy sets forth the objective of sustaining a green energy consumption level of at least 46 GWhs per year.

In spring 2015, we relaunched TeleBike, Magyar Telekom's employee bike rental system. In 2015, TeleBike offered 53 regular bikes and six electric bikes, which were added to the fleet in 2014. Employees can commute between six sites, the offices of the Company located in Budapest and the sites of T-Systems Magyarország Zrt. In 2015, TeleBike had 1,588 registered users and 8,502 rents. During the year 15,226 kms were ridden and due the system 2,862 kg CO_2 emission was 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 CO_2 footprint. One of our objectives for 2015 was that we operate as a carbon neutral company. To this end we purchase electric power from power plants that use renewable energy sources and we entirely carbon-neutralized our fossil energy consumption footprint. With this we achieved that we are the first carbon neutral major enterprise in Hungary.

In 2015 Magyar Telekom continued its efforts to operate as an energy effective company. These days instead of solutions that would represent a huge leap forward, the aggregate of several smaller transformation and caring projects may jointly help us to further reduce energy consumption. Our proven ventilation technology has been upgraded this year. We implemented the so-called wardrobe type equipment thereby reduced the operation time of air-conditioners in order to save electric energy. Currently the main objective is to fine-tune the existing solutions. But new solutions are also implemented as a result of the global PSTN (Public Switched Telephone Network) replacement project. With this we take a huge step forward in the field of air conditioner replacement (reducing R22 gas consumption) and we implement lower performance power supply equipment as well. We have replaced our power supply equipment in several huge machine rooms; the improved efficiency rate resulted in millions of savings. A similar magnitude of savings is generated by the replacement of hundreds of smaller power supply units. We continued the merge of fixed line and mobile power supply operations at specific sites. Due to lower consumption we reduced our forecast electricity demand at our service provider. Smart cooling technology also develops quickly and it brings continuous results. This year we also replaced several boilers. The increase of the temperature of machine rooms is managed as a global project from containers to entire exchanges, regardless of their size. The use of temperature resistant accumulators and accumulator coating is a preparatory phase of the project. As a pilot project we equipped four buildings with LED lighting. We also take care of saving water: We installed perlators in various premises. The investment in this equipment may return within a period of six months. This represents almost 1 million HUF saving per year. For us, the decrease of energy consumption is a global project. We strive to reduce energy consumption directly or indirectly within the frame of every development. This will result in lower consumption figures in the long run.

9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom Group, the goal was to ensure that the Magyar Telekom Group 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 Group contains the summary of the compliance requirement within the company, sets common values of the Group 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 Group from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom Group 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.
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. Since the start of the program, 63,247 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, supplier due diligence, 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 – both within the parent company and Hungarian and international subsidiaries – in the topics of organized anti-corruption behavior, screening of contracted partners and rules of giving and accepting gifts.

In 2015 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Nyrt. 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 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 a new set-up in our economic environment in terms of infrastructure, servicing and new types of business models.

Hungary

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 has started to follow this trend with stagnant customer base and lower prices. The fixed market is characterized by fixed-mobile integrated 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 is fueled by the government's Partnership for Digital Hungary program. The extensive development program aims to cover every household in Hungary with high-speed internet (HSI > 30 Mbit/s) access until the end of 2018. The digitalization of technology, services and education are key pillars of the country's competitiveness and the quality of life of its citizens.

In parallel with the fixed network developments, 3G and LTE network expansion is accelerated by competition and an increasing availability of mobile frequencies. Meanwhile the mobile voice market is characterized by increasing ratio of flat rate packages; the appearance of new market players is expected with some impact on the market in mid-term especially on mobile data. There is a fierce competition in broadband and content services and the battle for customer contracts has shifted from prices to quality in communication, especially focusing on network coverage and speed. The mobile broadband uptake still fuels the overall mobile market. However, the increasing regulation, in particular the abolishment of roaming fees and the decrease in mobile termination rates, is putting further pressure on market players.

The economic recovery in 2015 had a positive effect on the households. Despite the increasing household budget, prices will not reach pre-crisis levels. We expect a slowly improving economic environment for 2016. However, operators can find ways to exploit higher household spending – with cross-sell and up-sell opportunities. We expect that the new core segments, especially mobile broadband, pay TV and IT services will deliver revenue growth in the upcoming years.

Macedonia

Macedonian telco market is in consolidation and stabilization phase, affected with a relatively positive macro-environment and challenging political standstill situation with scheduling and organisation of forthcomming early parliamentary elections scheduled for 24 April 2016.

The GDP growth was 3.5% in Q3 2015, and projected at 3.5% for 2016; and 4% for 2017. Inflation was 0.3% in YE 2015, and is projected at 1.5% in 2016 by the National Bank of the Republic of Macedonia. Unemployment decreased to 25.5% in Q3 2015, representing 1.3% reduction, compared to previous quarter (Q2 2015 26.8%). The average net salary at November 2015 was €360. FDI was EUR 115 million (till Q3 2015), 1.7% from total GDP.

With the official merge of VIP and ONE (2nd & 3rd mobile operators on the market), they overtook the market leadership in mobile and TV service revenues market share with 53% in mobile and 34% in payTV in accordance with Q3 2015 data. In fixed voice and broadband Makedonski Telekom maintained the leading positions with 61.5% and 42.5% revenue market share.

Market consolidation is ongoing. The new company ONE.VIP DOO (from the merger of 2nd & 3rd MNOs & one major CaTV operator – "Blizoo") was entered in the companies register in Macedonia on 1 October 2015, as the result of the merger of the operators ONE DOOEL, formerly a part of the Telekom Slovenije Group, and VIP OPERATOR DOOEL Skopje, a part of the Telekom Austria Group. The effective date of the merger was 31 July 2015. ONE DOOEL was thus included in the consolidated financial statements until that date. Telekom Slovenije holds a 45% participating interest in ONE.VIP DOO, but does not hold a controlling interest. Thus, the aforementioned company is not included in the financial statements of the Telekom Slovenije Group."

ONE.VIP has announced the start of the deployment of its new integrated mobile network, region by region. The benefits of the new network (significantly expanded 3G capacity, wider territorial coverage and LTE availability all over Macedonia) will be available for most customers by the end of 2016. In parallel, ONE.VIP and sister company Blizoo will focus on developing a fully modernized and expanded the fixed network infrastructure, thus creating a fully convergent operator.

Blizoo has announced the acquisition of 4 additional small CaTV operators. The subscription agreements of customers at the above operators will continue to be valid and applied under the same conditions, without the need to sign any additional documents. From January 2016, all telecom services and bills will be provided by Blizoo.

Montenegro

The Montenegrin telco market is facing strong challenges: competition is growing and merging, while regulatory pressure is still very intensive.

The fixed line market is more competitive than ever. After two acquisitions in 2014 (Telenor bought MNNews; Telemach acquired TV only operator BBM), m:tel acquired several local cable operators (Cabling, Eltamont, Medianet and FiberNet) in 2015. Also, m:tel launched cable BB/TV services in Q3 2015, following with attractive tripleplay and FMC offers. Telemach (SBB) is developing own fiber network and started with first offers of Fixed BB, still with below the line market strategy. Telemach is also currently in the process of acquiring another cable operator.

Activities in the mobile market are focused on promoting 4G network, provided by Telekom and Telenor and acquiring more mobile data customers, both full and confined (m:tel is still lagging behind and offers only 3G).

Regulatory pressure is still very intensive and Roaming price regulation is a recent and significant example. Additionally, the new Cinematography law was adopted in July and operators are obliged to pay 0.9% of annual revenues from internet access, PayTV and Video on demand service, as of January 2016.

In December one of the main goals of the foreign policy was achieved: Montenegro was invited to join the NATO Alliance. EU accession process and regulatory framework harmonization remain in the special focus of the Government. The European Commission revised upwards its projection for Montenegro’s economic growth in 2015 by one percentage point to 4% on the back of strong growth in tourism and the start of works on a key motorway and on two large tourism resorts.

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’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 are beyond our control. The global economy recovered from the crisis but it largely depends on the monetary policy of the FED, the growth of the Chinese and European economy and the volatile commodity prices. There are major uncertainties surrounding the future of the euro especially in Greece.

Hungary

The Hungarian economy came out of recession in 2013. The GDP growth in 2015 was 3.2 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate that the GDP growth will remain high, at about 2.5 percent in 2016. The unemployment rate decreased to 6.2 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 in 2015 was HUF 25.2 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. In 2015, the Parliament modified the law, that newly constructed networks and new developments on existing networks are enjoying tax holiday for 5 years. The tax expense and liability for 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. T-Systems Hungary segment is also affected by heavy spending cuts by the government, T-Systems segment's 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 paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom 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 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.

In December, 2015 Magyar Telekom has signed an agreement to sell its 100% shareholding in Origo Zrt. ("Origo") to New Wave Media Kft., for a total consideration of approximately EUR 13.2 million (ca. HUF 4.2 billion). The transaction closing is expected in the first quarter of 2016.

Magyar Telekom is continuously seeking business opportunities beyond core services.

Macedonia

In Macedonia, competition is increasing both in the fixed line and mobile market. The mobile market consolidated in 2015, due to the merger of the second and third biggest player on mobile market (VIP & ONE, effective from 2016), while the fourth mobile operator (Albafone) disappeared as a result of bad results and inability to make significant uptake. Flat rates dominate in mobile voice – all net flat propositions are major part of new postpaid gross adds. The continuous growth of the mobile internet is mostly driven by the increase of smart-phone penetration. Mobile data services available with fast extension to mobile internet as basis for future services.

Fix market remains fragmented despite acquisition of Blizoo by VIP in 2015. Decline on fixed voice market to some extent compensated by growth in fix broadband market, TV market already saturated. Fix services are offered predominantly in bundles (combined broadband and TV services). Cloud services and the IT market has experienced a dynamic growth mainly in B2B segment.

We also expect more intensive regulatory measures in Macedonia in the future. Pure LRIC for fixed line termination rates (FTR) and IP interconnection is expected. Retail regulation with margin squeeze test is expected for retail optic and copper products including fixed access as well. We also expect obligations for all operators to put their aerial cables in urban areas underground and digital agenda obligation for the coverage of households with 30 and 100 Mbps with technical neutrality until 2020. The execution of the Balkan roaming regulation from the mid-2017 will result in the decrease of retail and wholesale prices to EU roaming III level. Broadband will be included in Universal Services.

In June, 2015, the Shareholders' Assembly of Makedonski Telekom AD – Skopje approved the accession of T-Mobile Macedonia to Makedonski Telekom. The effective date of the merger is July 1, 2015.

Montenegro

In Montenegro, we also anticipate a tough environment due to competitive and regulatory pressures in the near future. In the fixed line market Crnogorski Telekom remain dominant, fully exploiting its multi-play, multiscreen and financing capabilities. Fiber roll out will increase broadband penetration, but without premium monetization. Competitors are increasing coverage and service scale through CaTV acquisitions or own new generation network (NGN) investments gaining high-value customers looking for X-Play experience and value-add. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in the postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Market players are committed to network capacity increase by 4G/NGM rollout. Competitors can build X-Play capabilities by coalition with, or by acquisitions of, CaTV/SatTV operators to be able to offer fixed line services as well.

Regarding the regulatory measures, regional roaming regulation effective as of 1st July 2015 may heavily influence our roaming revenues. Indirectly, it may have negative influence on international MTRs as well. FTR, MTR and BSA cost based regulation is expected for the period of 2016-2019 on LRIC model. Retail price cost based (LRIC) regulation of the prices of: access to the network, fix voice and ADSL, will negatively influence CT revenues. In 2016 NRA is going to perform market analysis of the markets defined in the revised EC Recommendation on relevant markets from 2014. Margin squeeze test for retail products is expected in 2016. Implementation of the new eLaw and the new bylaws will result in more strict, demanding and expensive obligations for the operators. Multi band auctions of the existing bands 900/1800/2100 MHz (expiring at the end of 2016) and the new bands 800 MHz /2.6 GHz are expected. The process is planned to be finished by the end of Q1 2016. The upcoming auction creates a possibility of a new (fourth) player entering the market.

11.2 Revenue, EBITDA and Capex targets

In 2015, Magyar Telekom Group revenues increased by 4.8% to HUF 656.3 billion, significantly ahead of our guidance of roughly stable revenues compared to 2014 (HUF 626.4 billion). Key drivers of this trend included the later than expected exit from the energy business, GTS contribution to fixed line revenues, as well as Group-wide SI/IT outperformance. In mobile, growth in data and equipment revenues counterbalanced the decline in voice wholesale caused by the sharp MTR cut. On the fixed side, higher retail broadband, TV and equipment revenues served to offset the decrease in voice and retail data revenues. At the same time, our strong focus on profitability resulted in higher than expected EBITDA growth of 3.4% in 2015 (HUF 6.1 billion) driven by higher gross margins, not only in the energy business and SI/IT but also in the core fixed line and mobile businesses. Capex for 2015 totaled HUF 109.8 billion, slightly exceeding our target of HUF 105 billion due to the intensity of the fixed line network rollout at the end of the year.

Looking to 2016, we remain focused on the continued execution of our turnaround strategy which involves growing our profitability in line with our targets. The ongoing shift in our revenue mix, achieved by migrating customers to bundled packages across Magyar Telekom's operations, is expected to mitigate voice revenue decline. Magenta1, our flagship fixed-mobile product bundle available across our footprint, will be instrumental in achieving this goal. Following our exit from the energy business, we expect revenues of HUF 580 – 590 billion in 2016. Correspondingly, we have upgraded our mid-term guidance for 2017 from roughly stable revenues compared to 2014 excluding energy (HUF 584 billion) to HUF 585 – 595 billion. Key drivers of a more efficient operation in the mid-term include successful completion of the 2014/15 headcount reduction program in Hungary, continued replacement of legacy networks and CRM/billing systems, migration to All-IP and online front-end operations, as well as network outsourcing in Montenegro. Nevertheless, we expect continued difficult operating conditions at our foreign subsidiaries. Overall, our reported EBITDA is expected to range HUF 187 – 191 billion in 2016, whilst our updated EBITDA guidance for 2017 is for HUF 189 – 193 billion (previously "surpassing HUF 185 billion"). Despite continued network development, we expect a ca. 10% annual year-on-year decrease in capex for both 2016 and 2017.

Public guidance:

HUF billion	2015	Public guidance 2016	Public guidance 2017
Revenue	656.3	between 580 – 590	between 585 – 595
EBITDA	187.3	between 187 – 191	between 189 – 193
Capex	109.8	ca. 10% decline	ca. 10% decline

11.3 Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom maintained its leading position in its Hungarian fixed voice, broadband, pay TV, mobile and ICT businesses in 2015, 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.

We continue our transformation towards a diversified digital service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing free cash flow 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, increase process automation and online customer servicing. 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 customers and third parties. We continue to identify and leverage new business opportunities in e-health, cloud, IoT, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we established a joint venture that provides energy services for business customers in order to improve and optimize our energy operations.

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

Macedonia

Addressing local challenges in order to fulfill strategic aspiration, local Ambition Program 2.0 fulfilled its final objective of transforming technology into superior customer experience, stabilization of Revenue/EBITDA trends, continuation of efforts for regaining number one position in Mobile (47%) and PayTV (28%) business, sustaining the strong market position and becoming new modern, lean and fully converged telco operator. Ambition Program will follow up in 2016 with Ambition 3.0 local strategy implementation program, proclaiming “GoDigital” overall corporate focus stream and message.

The main pillars planned for Ambition 3.0 are:

- Go Digital - Digitalize customer journey and business architecture
- Value Leadership - Keep stable core revenues in all segments, increase postpaid value, optimize market invest and win the households; Pre-paid-to-postpaid-to-fmc (magenta 1) migration (in both b2c & b2b)
- Customer Excellence – Superior Customer & Network Experience
- Access Everywhere – Technology Leadership - Lead in network innovation in FTTH, vdsl, LTE, hybrid (xDSL +LTE), Wireless
- Lean Telco – agile and efficient telco
- Corporate Culture – Empowerment in times of change.

Montenegro

The vision statement of Crnogorski Telekom (CT) emphasizes CT’s ambition to become customers’ first choice in a fully digital lifestyle by aspiring to be the best in class.

CT’s Corporate Strategy document is based on three main pillars:

- Technology leadership
- Best customer experience
- New businesses

Strategy is translated into ten initiatives implementation program, named “Tesla”. In 2015 significant achievements have been made:

- One Convergent Billing & CRM system implemented;

- All IP transformation has been completed;
- Intensive FTTH and mobile network rollout continued, with increasing FTTH utilization rate, and preservation of 4G leadership;
- Completion of Hybrid Access project;
- Comparative testing of all three mobile operators' networks, done by international company P3 Communications, certified CT as the operator with best results in 2015
- Managed service implemented in 7 year partnership with Ericsson in area of network and service maintenance;
- Intensive focus on improving customer experience through several initiatives as well as through further push on eSales and eService
- First integrated offers launched
- ICT business expanded
- New partnerships introduced (e.g. Pickbox)

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, are 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 the identification, assessment and evaluation of risks, the development of necessary action plans, as well as the monitoring of performance and results. For the risk management to be effective, we must ensure that the management takes 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 the 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 by adding 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 the risks described below. These risks 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 were published; the price setting methodology of already regulated wholesale products and new type of regulated access services 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;

- 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 of 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;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- In Macedonia, the main development is the merger of two competitors, ONE and VIP. We expect this transaction to reshape the competitive environment in the Macedonian telecommunications market;
- Our share price may be volatile, and the 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.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

12.3 Financial risk management

The financial risk management of the Group is described in detail in Note 3 of the Consolidated Financial Statements.

13 ANALYSIS OF FINANCIAL RESULTS FOR 2015

Key Performance Indicators	**At December 31,**	
	2014	**2015**
Revenue (HUF million)	626,447	656,342
EBITDA (HUF million)	181,224	187,301
EBITDA margin	28.9%	28.5%
Operating margin	12.9%	11.2%
Net income margin	4.6%	4.2%
Capex to sales ratio	29.4%	16.7%
ROA ratio	2.5%	2.3%
ROE ratio	6.3%	5.7%
Net debt (HUF million)	442,167	409,393
Net debt ratio (net debt to total capital)	45.7%	42.9%

13.1 Revenues

Total revenues amounted to HUF 656.3 billion in 2015 compared to HUF 626.4 billion in 2014. Revenues increased at both Hungarian segments partly offset by the decline at our foreign subsidiaries. Total group revenue increased by HUF 30 billion year over year driven by the following factors:

Mobile revenues amounted to HUF 314.0 billion in 2015, compared to HUF 318.7 billion in the previous year representing a 1.4% decrease. Lower mobile voice and SMS revenues were only partly offset by higher mobile data and equipment revenues.

Voice-retail revenues decreased by 1.0% to HUF 158.4 billion in 2015. This was mainly due to lower revenues in Macedonia despite the increased volume of outgoing minutes year over year, as the average price per minute decreased, due to promotions and offers because of the strong competition on the market. In Montenegro, lower revenues were driven by the decrease in the number of customers especially in the prepaid segment. In Hungary, revenues increased, as the growth in the postpaid segment due to the combined effect of higher minutes of use (MOU), higher customer base and lower average price per minutes, was only partly offset by the decrease in prepaid segment. In the prepaid segment both MOU and the number of customers decreased, partly offset by higher prepaid outgoing tariff. Roaming revenues decreased as a result of the EU regulation lowering roaming fees from 1 July, 2014.

Voice-wholesale revenues dropped by 43.5% and amounted to HUF 16.0 billion in 2015, mainly due to the 76% lower regulated mobile termination rate in Hungary, as of April 1, 2015, slightly offset by higher minutes of use. In Macedonia, lower mobile termination rates (MTR) applicable from September 1, 2014 and decrease in international incoming traffic caused lower voice-wholesale revenues in 2015 compared to 2014. In Montenegro, lower voice-wholesale revenues were due to the decrease in termination tariffs and lower incoming international traffic.

Data revenues amounted to HUF 59.3 billion in 2015, compared to HUF 52.6 billion in 2014, representing a 12.7% increase. Higher revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in 2015.

SMS revenues amounted to HUF 18.6 billion in 2015, compared to HUF 19.2 billion in 2014, representing a 3.4% decrease, primarily due to the lower number of SMSs sent mostly at our foreign subsidiaries, while SMS revenues increased in Hungary.

Mobile equipment revenues increased by 8.8% to HUF 46.9 billion in 2015 compared to HUF 43.1 billion in 2014, mostly attributable to our Hungarian operation, as both sales volume of handsets and average handset prices increased in 2015. At our foreign subsidiaries, equipment revenues increased as well, driven by higher average selling prices of the handsets in Macedonia.

Fixed line revenues amounted to HUF 212.0 billion in 2015, compared to HUF 206.3 billion in the previous year, representing a 2.8% increase. The growth was driven by higher broadband, TV, equipment and wholesale revenues partly offset by falling voice retail and data revenues.

Voice-retail revenues decreased by 7.3% to HUF 59.7 billion in 2015 compared to HUF 64.5 billion in 2014, mainly driven by the decline in the number of fixed voice lines, lower usage and decreased average tariff levels. Customer migration from PSTN to IP platforms has been continued.

Broadband retail revenues increased from HUF 47.6 billion in 2014 to HUF 52.0 billion in 2015, representing a 9.4% growth. In Hungary, higher revenues are due to the increase in DSL connections together with cablenet and fiber optic connections. Consolidation of GTS Hungary Kft. (GTS) revenues from April 1, 2015 also had positive effect on Broadband retail revenues.

TV revenues amounted to HUF 42.1 billion in 2015 compared to HUF 38.8 billion in 2014, representing an increase of 8.7%. The increase is mainly attributable to higher IPTV revenues driven by the growing IPTV subscriber base in Hungary (including the positive effect of acquisitions as well). The fast growth of the IPTV customer base demonstrates the increasing popularity of interactive television. Blended TV ARPU increased by 5.8% in Hungary mainly due to IPTV migration and price increases. Growth in satellite TV revenues was due to the higher subscription fees in Hungary in 2015 compared to the previous year. Cable TV decreased in 2015 compared to 2014 as a result of the decrease in customer base.

Fixed equipment revenues amounted to HUF 8.2 billion in 2015 compared to HUF 5.6 billion in 2014. The increase was due to the combined effect of the higher sale of TV sets, slightly offset by lower prices. The increase in tablet prices also contributed to the revenue increase, partially offset by lower tablet sales in Hungary.

Data retail revenues amounted to HUF 10.7 billion in 2015 as compared to HUF 11.8 billion in 2014. The decrease was mainly deriving from the lower number of contracts both in Hungary and in Macedonia. In Montenegro, revenue declined due to the transition of regular data customers to ICT, where data services are bundled with managed services. The decrease was partially offset by the consolidation effect of GTS Hungary.

Wholesale revenues increased by 6.5% to HUF 21.6 billion in 2015. Higher network and infrastructure services revenues were mainly due to the consolidation effect of GTS Hungary in Q2 2015. The increase was partially offset by the decrease in voice wholesale revenues owing to lower incoming traffic generated in Hungary and at our foreign subsidiaries in 2015. Lower mobile termination rates also negatively affected the voice wholesale revenues.

System Integration (SI) and IT revenues increased by 36.8% from HUF 59.2 billion in 2014 to HUF 81.0 billion in 2015. Higher revenues were owing to new major projects in Hungary and in Macedonia in 2015. In Montenegro, the higher number of ICT customers resulted in higher SI/IT revenues.

Energy Services revenues increased to HUF 49.3 billion in 2015 compared to HUF 42.3 billion in 2014. The 16.5% growth in energy sales was mainly due to the increase in the revenue from electricity services, to a lesser extent due to the growth in revenues from gas services. As at December 31, 2015 the number of electricity points of delivery increased to 106,564 while gas points of delivery dropped to 7,427 due to the exit from the residential segment of the gas market with effect from July 31, 2015. The consumption was higher year over year, but the universal service price reduction had a negative effect on the revenues.

13.2 Direct costs

Direct costs increased by 10.2% year over year from HUF 226.4 billion in 2014 to HUF 249.4 billion in 2015. It was due to the increase in SI/IT service related costs, and energy service related costs, partially offset by the decrease in interconnect costs, bad debt expense and other direct costs.

Interconnect costs decreased by 24.9% year over year, and amounted to HUF 25.1 billion. There was a significant decrease in the voice network access charges in Hungary due to lower regulated mobile termination rates (from HUF 7.06 to 1.71) from April 1, 2015.

More infrastructure projects at T-Systems Hungary caused SI/IT service related costs to increase by 56.8% from HUF 34.8 billion in 2014 to HUF 54.5 billion in 2015.

Energy service related costs in Hungary increased from HUF 41.9 billion in 2014 to HUF 47.9 billion in 2015 primarily driven by higher volume of electricity and gas consumption in 2015. This was partly counterbalanced by decreased purchase prices in 2015.

Bad debt expenses decreased by 18.6% from HUF 11.7 billion in 2014 to HUF 9.5 billion in 2015, primarily due to the higher amount of impairment loss on receivables from equipment sales on instalments in Hungary in 2014.

Other direct costs increased from HUF 104.6 billion in 2014 to HUF 112.3 billion in 2015 primarily due to higher cost of equipment sales as a result of the growth in sales of accessories and other equipments.

13.3 Gross margin

Gross margin increased slightly from HUF 400.1 billion in 2014 to HUF 407.0 billion in as a result of higher revenues, partially counterbalanced by higher direct costs year over year.

13.4 Employee-related expenses

Employee-related expenses increased by 0.4% from HUF 94.8 billion in 2014 to HUF 95.2 billion in 2015. Although the average employee number decreased by 3.2% compared to 2014 mainly in the Telekom Hungary segment, resulting in lower wage expenses, the higher severance-related expenses recognized as a result of the downsizing measures in 2015 offset the decrease. Further increase was due to the effect of the acquisition of GTS Hungary in 2015.

13.5 Hungarian sector specific special taxes

Hungarian sector specific special taxes decreased by 1.8%, from HUF 33.5 billion in 2014 to HUF 32.9 billion in 2015, representing the decrease in telecom tax in 2015.

13.6 Other operating expenses

Other operating expenses increased from HUF 93.7 billion to HUF 98.5 billion year over year primarily due to increased cost of outsourcing services, higher marketing expenses and maintenance costs in 2015. Marketing costs increased mostly relating to Magenta1 campaign in Hungary and Macedonia.

13.7 Other operating income

Other operating income increased from HUF 3.1 billion to HUF 6.9 billion year over year primarily due to higher income from compensation for own network construction works in 2015.

13.8 EBITDA

EBITDA increased by 3.4% from HUF 181.2 billion in 2014 to HUF 187.3 billion in 2015, primarily due to higher gross margin, partially counterbalanced by higher employee-related expenses and other operating expenses.

13.9 Depreciation and amortization

Depreciation and amortization expenses increased by 13.0% from HUF 100.7 billion in 2014 to HUF 113.8 billion in 2015, mainly due to the increase in the amortization of telecom licenses due to the new frequency usage rights acquired in Q4 2014. Software activation related to the new billing and new SAP systems also caused higher depreciation costs in 2015.

13.10 Operating profit

Operating profit decreased from HUF 80.6 billion in 2014 to HUF 73.5 billion in 2015 for the reasons described above.

13.11 Net financial result

The net financial result remained stable at year over year.

13.12 Income tax

Income tax expense decreased from HUF 20.1 billion in 2014 to HUF 13.8 billion in 2015. The primary reason for the decrease is the changes in the Macedonian tax law in 2014. The changes made to the tax law in several steps in 2014 reinstated the corporate tax, which replaced the dividend based taxation that was in force before, which caused additional tax expenses to the Group, since in 2014 we paid income tax on the dividend distributions deriving from 2013 and earlier years' (in those years not taxed) profit and on the 2014 profit as well. The remaining decrease is in line with the decrease of the pre-tax results of the Group.

13.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 3.4 billion in 2014 to HUF 3.8 billion in 2015. The lower amounts year over year in 2014 were the result of the additional tax expenses of our Macedonian subsidiaries as a result of the changes made to the Macedonian tax law several times in 2014, which decreased the profits attributable to non-controlling interests. The increase in 2015, as a result of the additional tax recognized in 2014, is counterbalanced by the decrease, due to lower operating profits of Makedonski Telekom and Crnogorski Telekom in 2015 compared to 2014.

13.14 Cash flows

HUF millions	1-12 months 2014	1-12 months 2015	Change
Operating cash flow	145,495	156,298	10,803
Investing cash flow	(130,501)	(97,513)	32,988
Less: Proceeds from other financial assets - net	(10,227)	(13,137)	(2,910)
Investing cash flow excluding Proceeds from other financial assets – net	(140,728)	(110,650)	30,078
Repayment of other financial liabilities	(18,541)	(18,923)	(382)
Free cash flow	**(13,774)**	**26,725**	**40,499**
Proceeds from other financial assets - net	10,227	13,137	2,910
Proceeds from/Repayment of loans and other borrowings - net	10,998	(30,160)	(41,158)
Dividend paid to shareholders and Non-controlling interests	(8,008)	(6,691)	1,317
Exchange differences on cash and cash equivalents	549	(78)	(627)
Change in cash and cash equivalents	**(8)**	**2,933**	**2,941**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 156.3 billion in 2015, compared to HUF 145.5 billion in 2014. Main reasons for the increase of HUF 10.8 billion were the following:

- HUF 6 billion positive change due to the higher EBITDA in 2015 than in 2014
- HUF -3 billion negative change in active working capital due to advance payment to E2 in 2015
- HUF 5 billion positive change due to higher net addition to severance provision in 2015 than in 2014
- HUF -1 billion negative change due to lower net addition to legal provisions in 2015 than in 2014
- HUF 3 billion positive change due to lower tax payments in Macedonia in 2015 due to the changes of the tax law in 2014, which brought the payment of the dividend related taxes earlier
- HUF 2 billion positive change due to lower tax payment in Macedonia in 2015 due to no dividend payment from Macedonia to Hungary
- HUF 1 billion positive change in passive working capital due MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF -2 billion negative change due to higher payments of severance provisions in 2015 than in 2014

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -110.7 billion in 2015, compared to HUF -140.7 billion in 2014. Main reasons for the HUF 30 billion lower cash outflow were the following:

- HUF -13 billion negative change due to the net cost of the acquisition of GTS Hungary in Q2 2015
- HUF -20 billion negative effect in Capex investments due to higher investments in fixed line Network Capacity projects in 2015
- HUF 5 billion positive effect due to the successful completion of the mobile Network Modernization project in 2014
- HUF 59 billion positive change due to higher spending on frequencies acquired in 2014
- HUF -1 billion negative change due to the establishment of E2

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -18.5 billion in 2014 to HUF -18.9 billion in 2015. Main reason for the slightly higher payment of was the combined effect of the following:

- HUF 11 billion positive change due to Q1 2014 payments on vendor invoices reverse factored in Q4 2013
- HUF -11 billion negative change due to trade creditors with extended payment term were paid as financial liability in 2015 (recognized as financial liability in 2014). There were no such payments in 2014.
- HUF -1 billion negative change due to higher payment of annual frequency fees in 2015 than in 2014

Free cash flow (FCF) overall increased from HUF -13.8 billion in 2014 to HUF 26.7 billion in 2015 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net increased by HUF 2.9 billion.

In 2015 in Hungary more gains on the realization of the derivatives were cashed in than in 2014, slightly offset by the decrease in the bank deposits cashed in by our foreign subsidiaries in 2015 compared to 2014.

Repayment of loans and other borrowings - net

The negative change was due to lower loan drawdown in 2015 from DTAG than in 2014. This was slightly offset by the positive effect of lower repayment of bank loans in 2015 compared to 2014.

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest decreased by HUF 1.3 billion. The decrease was driven by the following:

- HUF 1.1 billion positive change - CT's minority owners received additonal dividends in 2014 by way of a share capital decrease, while the amount of the ordinary dividend payment was substantially the same in 2015 as in 2014
- HUF 0.2 billion positive change - Maktel dividend paid to minority owners was lower in 2015

Exchange differences on cash and cash equivalents

The change in exchange differences on cash and cash equivalent is due to depreciating HUF in 2014 as opposed to unchanged HUF in 2015.

13.15 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2014 to December 31, 2015 can be observed in the following lines:

- Trade and other receivables
- Other current financial assets
- Assets held for sale
- Property, plant and equipment
- Other financial liabilities
- Trade payables
- Retained earnings

Trade and other receivables increased by HUF 19 billion from December 31, 2014 to December 31, 2015. The increase is mainly due to an advance payment of HUF 3 billion to E2, the Company's joint venture, and the increase of the 24-month installment receivables of HUF 7 billion. Energy service related receivables increased in 2015 compared to 2014 as a result of higher energy consumption, which also contributed to the increase of Trade and other receivables.

Other current financial assets decreased by HUF 13 billion from December 31, 2014 to December 31, 2015. The main reason for the decrease is that the Group's Macedonian and Montenegrin subsidiaries cashed in bank deposits to pay dividends to their minority owners and Magyar Telekom Plc., which used the proceeds to repay external loans and other borrowings and that Magyar Telekom cashed in the gains on its derivatives, shown as financial asset at December 31, 2014.

Assets held for sale increased by HUF 4 billion from December 31, 2014 to December 31, 2015. The increase was mainly due to the reclassification of the carrying amounts of Origo Zrt. of HUF 3 billion as held for sale in 2015, as the Company signed an agreement for the sale of the total of its 100% shareholding in Origo in 2015. The closing of the transaction takes place in February 2016. Further increase was caused by the identification of more assets, primarily land and building, for sale at December 31, 2015 than at December 31, 2014, as a result of the continuing improvement of utilization of properties.

Property, plant and equipment (PPE) increased by HUF 5 billion from December 31, 2014 to December 31, 2015. The main reason for the increase is that the capital expenditure exceeded the depreciation of assets in 2015, primarily due to higher construction in progress balance at December 31, 2015 than at previous year end.

Other financial liabilities decreased by HUF 44 billion from December 31, 2014 to December 31, 2015. The reason for the decrease is that certain short term bank loans were refinanced by DT group loans, while others were repaid from the free cash flows. In addition, the balance of Other financial liabilities as at December 31, 2014 included certain vendor liabilities with extended payment terms (reclassified from Trade payables in 2014), of which HUF 11 billion was repaid in 2015.

Trade payables increased by HUF 30 billion from December 31, 2014 to December 31, 2015. The balance of Trade payables as at December 31, 2014 excluded vendor liabilities in an amount of HUF 11 billion with extended payment terms (reclassified to Other financial liabilities in 2014). No contracts with such terms were made in 2015, therefore no further reclassifications were made in 2015, which resulted in higher Trade payables. Trade payables increased in 2015 compared to 2014 as a result of more successful vendor management. Further increase was caused by the remainder of liabilities recognized to compensate the overcharge of mobile termination charges (invoiced and paid at the rate prevailing before April 1, 2015, while revenues recognized at new rates effective from April 1, 2015) of HUF 1 billion.

Retained earnings increased by HUF 27 billion from December 31, 2014 to December 31, 2015. The reason for the increase is the profit generated in 2015 with no dividend declared in 2015.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2014 to December 31, 2015. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2015 and the related explanations provided above in section 13.14 Cash flows.

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

Please refer to Note 38 of the Consolidated Financial Statements.

Budapest, February 24, 2016.

Christopher Mattheisen
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE SUPERVISORY BOARD

BUDAPEST, APRIL 12, 2016

REPORT OF THE SUPERVISORY BOARD OF MAGYAR TELEKOM PLC. FOR THE GENERAL MEETING OF THE COMPANY

In 2015 the Supervisory Board of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In 2015 the Supervisory Board held meetings on 6 occasions.

The Supervisory Board kept in regular contact with the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) and the Head of the independent internal audit organization (Group Auditing Directorate) of the Company.

The Supervisory Board regularly discussed the reports on the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the Magyar Telekom Group acquisition activities.

The Supervisory Board approved the 2015 Audit Plan of the independent internal audit organization (Group Auditing Directorate), requested and received regular information on the major findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were adequately answered by the Head of the Group Auditing Directorate at the Supervisory Board meetings.

In 2015 the Group Auditing Directorate has completed audits:

- on the integrity of financial reports (e.g.: efficiency of disclosure processes, application of new One.ERP processes),
- to improve operational processes (e.g.: Telekom Shop audit, product portfolio simplification, sponsoring and event management, effectiveness of the scoring/credit check process and controls, cyber security/patch management - configuration management) and
- to strengthen compliance and conformity with regulations (e.g.: effectiveness of data privacy incident monitoring and reporting, compliance of the qualified time-stamp service).

The Group Auditing Directorate has also started some over-the-plan (ad hoc) audits (e.g.: sales process of discount mobile devices under unique contract terms to business customers, car fleet management of MT Group) upon the request of the management to reduce the business and compliance risks raised during the year.

As a result of the audits the Group Auditing Directorate has recommended corrective measures and monitored the implementation of them at the areas concerned. The implemented measures have improved the control environment and, in addition, several efficiency improving opportunities have been identified.

The Group Auditing Directorate has also completed ICS audits to assure the effective operation and compliance of control environment. Similarly to the previous years they have also supported the work of Group Compliance Committee.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities.

During 2015 there was no shareholder notification submitted to the Supervisory Board, and the Chairman of the Supervisory Board has had other requests regarding the operations of the Company investigated in all cases.

The Supervisory Board has not discovered anything to disapprove in the Company's activities in 2015, with regard to the Company's compliance with statutory operation.

The Supervisory Board examined the submissions to be submitted to the General Meeting, or, with respect to certain agenda items, ensured their preparation and submission to the General Meeting.

The Supervisory Board examined the report of the Board of Directors on the management of the Company, on the business operation, on the business policy and on the financial situation of the Company and Magyar Telekom Group in 2015, which the Supervisory Board acknowledged.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS), 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 Consolidated Financial Statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS) with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 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 2015 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.

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. The Supervisory Board provides prior approval to the proposal of the Board of Directors, and proposes the proposal to the General Meeting for approval.

The Supervisory Board examined the proposal of the Board of Directors to purchase ordinary Magyar Telekom shares, and acknowledged it.

The Supervisory Board examined the Corporate Governance and Management Report of the Company, and with its acknowledgement proposes it to the General Meeting for acceptance.

The Supervisory Board examined the submission of the Board of Directors on granting relief from liability to the members of the Board of Directors, and agrees that the General Meeting should grant relief from liability to the members of the Board of Directors for the business year of 2015.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Board of Directors, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Supervisory Board, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Audit Committee, and acknowledged it.

The Supervisory Board accepted its proposal on the election and determination of the remuneration of the Company's Statutory Auditor, and determination of the contents of the material elements of the contract to be concluded with the Statutory Auditor, and submits it to the General Meeting.

Budapest, March 9, 2016

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap
Chairman of the Supervisory Board

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE AUDIT COMMITTEE

BUDAPEST, APRIL 12, 2016

REPORT OF THE AUDIT COMMITTEE OF MAGYAR TELEKOM PLC. FOR THE SUPERVISORY BOARD AND THE GENERAL MEETING OF THE COMPANY IN RELATION TO THE APPROVAL OF THE 2015 CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE 2015 STANDALONE ANNUAL REPORT OF THE COMPANY PREPARED IN ACCORDANCE WITH THE HUNGARIAN ACCOUNTING ACT (HAR), AND THE USE OF THE PROFIT AFTER TAX EARNED IN 2015

In 2015, the Audit Committee of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Audit Committee, based on its accepted Working Schedule, and in case of the occurrence of an extraordinary case, with a focus on its review without delay and on the interest of making the appropriate decision. In 2015, the Audit Committee held 6 meetings and 2 extraordinary meetings, and furthermore, it made written resolutions without holding a meeting on 6 occasions.

The Audit Committee kept in continuous contact with the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) of the Company, the Head of Internal Audit, the Group Compliance Officer, and the Statutory Auditor (the "Auditor").

The Audit Committee, in accordance with its purpose, supported the Supervisory Board in supervising the financial reporting system, in selecting the Auditor and in cooperating with the Auditor.

The Audit Committee supported the Supervisory Board – inter alia - in the following tasks:

The Audit Committee regularly monitored the services provided by the Auditor and their fees. The Auditor, with the general or specific pre-approval of the Audit Committee, provided audit of the financial statements, other audit related services and other services, including training services for the Company in 2015.

The Audit Committee quarterly reviewed and evaluated the reports on the activities of the Internal Audit, furthermore reviewed and approved the Audit Workplan of the Internal Audit.

The Audit Committee quarterly reviewed and evaluated the Group Compliance Officer's reports on
- the progress of the implementation of the compliance program;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

The Audit Committee reviewed and evaluated the Company's Internal Control System ("ICS") compliance.

The Audit Committee reviewed and evaluated the financial reports pertaining to those of regular information provision as prescribed by the Act CXX of 2001 on the Capital Market.

The Audit Committee reviewed and evaluated the risk management system of the Magyar Telekom Group, and the quarterly risk management reports.

There was no shareholder notification to the Audit Committee in 2015.

The Audit Committee reviewed and evaluated the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the Consolidated Financial Statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS), and to the General Meeting for approval the Consolidated Financial Statements including Balance Sheet Total Assets of HUF 1,207,024 million and Profit for the year of HUF 31,547 million.

The Audit Committee reviewed and evaluated the 2015 standalone Annual Report prepared in accordance with the Hungarian Accounting Act (HAR) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the standalone Annual Report and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 standalone Annual Report of the Company prepared in accordance with the Hungarian Accounting Act (HAR), and to the General Meeting for approval the standalone Annual Report including Balance Sheet Total Assets of HUF 1,016,117 million and After-tax Net Income of HUF 20,393 million.

The Audit Committee reviewed and evaluated the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. According to the review of the Audit Committee, the appropriate coverage for dividend payment is available, the Audit Committee agrees with the proposal. The Audit Committee proposes the proposal to the Supervisory Board for prior approval and proposes to the General Meeting for approval.

Budapest, March 3, 2016

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy
Chairman of the Audit Committee

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

DECISION ON THE APPROVAL OF THE 2015 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 12, 2016

EGYÜTT. VELED

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 2015 standalone Annual Report of the Company prepared according to the Hungarian Accounting Act (HAR), including Balance Sheet Total Assets of HUF 1,016,117 million and After-tax Net Income of HUF 20,393 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 2015 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 2015 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.

EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

ANNUAL REPORT AND BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

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 2015 (in which the balance sheet total is MHUF 1,016,117, the profit per balance sheet is MHUF 20,393), 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.

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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 2015, 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 2015.

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 2015 business report is consistent with the disclosures in the financial statements as of 31 December 2015.

Budapest, March 3, 2016

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, 2015

ASSETS

All amounts in millions of HUF

	Note	December 31, 2014	December 31, 2015
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		**889 726**	**878 835**
I. Intangible assets	4	**345 781**	**335 120**
3. Rights		255 533	249 444
4. Intellectual property		5 941	5 816
5. Goodwill		83 840	79 860
6. Advance payments on intangible assets		467	0
II. Tangible assets	5	**373 187**	**378 560**
1. Land and buildings and related rights		234 417	231 968
- Land		*2 873*	*2 758*
- Buildings		*61 279*	*58 721*
- Telecommunication network		*161 370*	*160 415*
- Other properties		*8 367*	*9 578*
- Real estate related rights		*528*	*496*
2. Technical equipment, machinery and vehicles		100 126	101 661
- Telecommunication equipment and machinery		*98 895*	*100 526*
- Other technical equipment, machinery and vehicles		*1 231*	*1 135*
3. Other equipment and vehicles		7 612	8 527
5. Construction-in-progress		31 026	36 392
6. Advance payments on construction-in-progress		6	12
III. Financial investments		**170 758**	**165 155**
1. Non-current investments in related parties	6	158 843	154 792
5. Other non-current loans granted	7	11 915	10 363
B. CURRENT ASSETS		**85 974**	**96 181**
I. Inventories	8	**9 828**	**10 249**
1. Raw materials		271	171
2. Work in progress and semi-finished products		15	7
5. Goods for resale		9 542	10 071
II. Receivables		**72 992**	**80 579**
1. Accounts receivable	9	48 653	56 384
2. Receivables from related parties	10	17 498	16 540
5. Other receivables	11	6 841	7 655
III. Securities	12	**307**	**4 507**
1. Investments in related parties		0	4 200
3. Treasury stock, quotas		307	307
IV. Liquid assets		**2 847**	**846**
1. Cash and cheques		267	160
2. Bank deposits		2 580	686
C. ACCRUALS	13	**41 216**	**41 101**
1. Accrued income		37 803	39 154
2. Prepaid costs and expenses		3 413	1 947
TOTAL ASSETS		**1 016 916**	**1 016 117**

Budapest, February 24, 2016

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, 2015

LIABILITIES AND SHAREHOLDERS' EQUITY

All amounts in millions of HUF

	Note	December 31, 2014	December 31, 2015
D. SHAREHOLDERS' EQUITY	14	**392 264**	**412 657**
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		191 996	228 731
V. Restricted reserves		307	307
VI. Valuation reserves		0	0
VII. Net income		36 735	20 393
E. PROVISIONS	15	**13 120**	**17 449**
1. Provision for expected obligations		13 120	17 449
F. LIABILITIES		**561 460**	**537 777**
I. Subordinated liabilities		0	0
II. Non-current liabilities		**318 691**	**291 246**
5. Other non-current loans	16	1 574	0
7. Non-current liabilities to other related parties	17	240 428	218 563
8. Other non-current liabilities	18	76 689	72 683
III. Current liabilities		**242 769**	**246 531**
1. Current borrowings	16	179	176
- of this convertible bonds		*0*	*0*
2. Current loans	19	43 833	13 066
3. Advances received		614	681
4. Accounts payable	20	52 588	55 358
6. Current liabilities to related parties	21	10 185	15 044
7. Current liabilities to other related parties	22	106 346	130 689
8. Other current liabilities	23	29 024	31 517
- of this dividends payable		*0*	*0*
G. ACCRUALS	24	**50 072**	**48 234**
1. Deferred revenue		4 312	3 140
2. Accrued expenses		44 682	43 612
3. Other deferred income		1 078	1 482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1 016 916**	**1 016 117**

Budapest, February 24, 2016

Christopher Mattheisen	János Szabó
Chief Executive Officer, Member of the Board	Chief Financial Officer

The Notes form an integral part of these financial statements.

INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2015

All amounts in millions of HUF

		Note	January-December, 2014	January-December, 2015
	1. Net domestic sales	25	472 076	488 076
	2. Net export sales	26	14 931	14 199
I.	**Sales revenues**		**487 007**	**502 275**
	3. Change in self-manufactured inventories		-47	-8
	4. Capitalized value of self-manufactured assets		24 020	26 940
II.	**Own work capitalized**		**23 973**	**26 932**
III.	**Other income**	27	**22 132**	**22 719**
	of which: reversal of impairment		0	3 449
	5. Costs of raw material		28 384	27 406
	6. Costs of services	28	84 449	92 934
	7. Costs of other services		9 296	8 101
	8. Cost of goods sold	29	88 174	100 240
	9. Costs of (mediated) services sold	30	63 687	57 497
IV.	**Material-type expenses**		**273 990**	**286 178**
	10. Salaries and wages	31	47 070	45 742
	11. Other employee related expenses	31	7 133	6 875
	12. Employee related contributions		14 917	14 567
V.	**Employee related expenses**		**69 120**	**67 184**
VI.	**Depreciation and Amortization**		**82 926**	**91 125**
VII.	**Other expenses**	33	**70 937**	**74 844**
	of which: impairment		15 996	16 430
A.	PROFIT FROM OPERATING ACTIVITIES		36 139	32 595
	13. Dividends and profit sharing (received or due)		24 793	5 495
	of which: received from related parties		*24 793*	*5 495*
	16. Other interest income received		649	1 148
	of which: received from related parties		*572*	*475*
	17. Other income from financial transaction		8 775	11 745
VIII.	**Income from financial transactions**		**34 217**	**18 388**
	19. Interest expense		20 020	19 820
	of which: to related parties		*651*	*153*
	to other related party		*17 454*	*19 208*
	20. Impairment of investments, securities and bank deposits		0	-782
	21. Other expenses from financial transactions		8 455	6 650
IX.	**Expenses from financial transactions**		**28 475**	**25 688**
B.	RESULT FROM FINANCIAL TRANSACTIONS	34	5 742	-7 300
C.	PROFIT FROM ORDINARY ACTIVITIES		41 881	25 295
X.	**Extraordinary income**		**29 732**	**10 519**
XI.	**Extraordinary expenses**		**33 161**	**14 277**
D.	RESULT FROM EXTRAORDINARY ACTIVITIES	35	-3 429	-3 758
E.	PROFIT BEFORE TAXES		38 452	21 537
XII.	**Corporate income tax**	37	**1 717**	**1 144**
F.	PROFIT AFTER TAX		36 735	20 393
	22. Use of retained earnings for dividends		0	0
	23. Dividend paid (approved)	38	0	0
G.	BALANCE SHEET NET INCOME		36 735	20 393

Budapest, February 24, 2016

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, 2015

0 NOTE ADDED FOR TRANSLATION

This annual report for December 31, 2015 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 Depositary 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).
The name of the company changed to Deutsche Telekom Europe B.V. with effect from March 1, 2015.
Considering that the Deutsche Telekom Europe 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, Tamás Deák (certificate number: 188739. Area of speciality: entrepreneurial activity. Status: registered. Residence: Sukoró).

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.

Business model related to energy supply activity of Magyar Telekom Plc. is subject to review regularly. After the latest review the Company decided to discontinue its natural gas supply provided for residential customers with effect of July 31, 2015.

On July 9, 2015 the Company made an agreement with MET Holding AG to establish E2 Hungary Zrt. as a jointly controlled entity. From January 1, 2016 the E2 Hungary Zrt. provides both electricity and gas supply services for business customers.

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 4, 2016 in respect of the annual report for 2015.

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 2015, these captions were as follows:

- Capitalized costs of foundation and restructuring
- Capitalized costs of experimental development
- Non current loans granted to related parties
- Other investments (Financial investments)
- Non-current bonds and other securities
- Advance payments on inventories
- Receivables from other related companies
- Bills receivable
- 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.
- 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.

General rule applied during allocation is that if a general ledger account contains the settlement of energy activities (directly or indirectly from an allocation process) and there is no any subledger then the separation of the balance between electricity and gas activities are based on the weighted proportion of the point of delivery (POD) numbers.

At a significant part of general ledger accounts the allocation is based on proportion of direct margin because of the different profit of telecommunication and energy products. The 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. Items are separated to energy services and to telecommunication/other services in the proportion of direct margin.

In case of the information are available in subledger then allocated amounts on energy activities are defined by individual items based on data supply.

In case of some items the allocation ratio depends on costs. The cost ratio on energy services is equal to the quotient of the material-type expenses for energy services in 100 per cent (electricity and/or gas) and the total material-type expenses of the Company. Other cost dependent items are allocated in the proportion of employee related expenses.

Items related to IT systems connected to energy retail services are directly allocated to energy activities.

Magyar Telekom Plc.'s individual authorized activities also include the operation of gas-engine small power plant. 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 and amortization are 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 and amortization 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:

	Years
Concession rights and licenses	8–25
Other intangibles	3–15

In case of tangible fixed assets:

	Years
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). Determination of residual value is carried out on an individual basis. Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets so zero residual value were determined for these 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.

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. These assets are recorded individually and their purchase cost are settled following their commencement of use as depreciation during their expected useful lives

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 which 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. 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. It also contains the book value of related parties decided to be sold in a year.

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,
- liabilities related to collection flat rate (EUR 40).

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 2015 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, 2014 and 2015 are represented by the following financial ratios:

	2014	2015
Liquidity ratio (= current assets / current liabilities)	0.35	0.39
Operating margin (= operating profit / (sales revenues + other income))	0.07	0.06
Operating return on assets (= operating profit / total assets)	0.04	0.03
Leverage ratio (= non-current liabilities / (non-current liabilities + equity))	0.45	0.41

The following is the cash-flow statement for the years ended on December 31, 2014 and 2015:

	2014	2015
I. Cash flows from operating activities (lines 1-14)	**102,461**	**99,753**
1. Profit before taxes (before dividend received)	14,892	15,713
2. Depreciation and amortization	82,926	91,125
3. Impairment losses charged and reversed	15,996	15,648
4. Change in provisions	-686	4,329
5. Profit or loss on the sale of non-current assets	-1,028	-953
6. Change in accounts payable	12,419	-80
7. Change in other current liabilities	-2,150	-3,006
8. Change in accruals (liability)	-105	-1,909
9. Change in accounts receivable	-10,068	-16,437
10. Change in current assets (without accounts receivable and cash and cash equivalents)	-2,337	-5,042
11. Change in accruals (asset)	-2,591	115
12. Income tax paid (on profit and loss)	-2,007	-953
13. Dividend and shares paid/payable	0	0
14. Other non cash items	-2,800	1,203
II. Cash flows from investing activities (lines 15-17)	**-83,012**	**-73,122**
15. Acquisition of fixed assets and financial investments	-98,559	-79,210
16. Proceeds from sale of fixed assets and financial investments	1,026	954
17. Dividends and advance dividends received	14,521	5,134
III. Cash flows from financing activities (lines 18-29)	**-21,496**	**-28,632**
18. Proceeds from issue of shares	0	0
19. Proceeds from the issuance of bonds	0	0
20. Loans received	512,944	135,129
21. Redemption from non-current loans granted and bank deposits	790	741
22. Non-repayable liquid assets received	367	445
23. Share capital decrease	0	0
24. Treasury stock repurchases	0	0
25. Repayment of bonds	-11	-3
26. Repayment of loans	-535,788	-165,412
27. Non-current loans granted and bank deposits	-547	-224
28. Non-repayable donations given	0	0
29. Change in liabilities to founders and other non-current liabilities	749	692
IV. Change in liquid assets (lines I. + II. + III.)	**-2,047**	**-2,001**
Cash at the beginning of the year	**4,894**	**2,847**
Cash at year-end	**2,847**	**846**

4 INTANGIBLE ASSETS

The following table is a summary of intangible fixed asset movements between January 1, 2014 and December 31, 2015:

GROSS BOOK VALUE	Rights	Intellectual property	Goodwill	Advances on intangible assets	Total
Opening balance as of January 1, 2014	**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**
Additions	22,008	1,555	6,116	0	29,679
Disposals	-4,048	-57	-2,961	-467	-7,533
Reclassifications	1,410	-1,499	0	0	-89
Closing balance as of December 31, 2015	**440,207**	**18,082**	**225,060**	**0**	**683,349**
AMORTIZATION					
Opening balance as of January 1, 2014	**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**
Charge for the year	28,810	857	10,096	0	39,763
Impairment	0	0	0	0	0
Disposals	-3,937	-57	-2,961	0	-6,955
Reclassifications	587	-676	0	0	-89
Closing balance as of December 31, 2015	**190,764**	**12,266**	**145,200**	**0**	**348,230**
NET BOOK VALUE as of December 31, 2014	**255,533**	**5,941**	**83,840**	**467**	**345,781**
NET BOOK VALUE as of December 31, 2015	**249,444**	**5,816**	**79,860**	**0**	**335,120**

The main components of the changes in 2015:

Rights

The gross value of rights increased by HUF 22,008 million in the current year. Significant part of this increase was caused by the software rights of use connected to a new, integrated customer relations and billing system (HUF 5,273 million), to SAP and related systems due to the implementation of the new SAP OneERP system (HUF 4,306 million) and to the Webshop application (HUF 1,918 million), as well as the upgrade of business warehouse (HUF 595 million) and IMS software and licence (HUF 594 million).

The decrease is mainly due to the reclassification of those software which are not used, net values are zero and not allowed to scrap by law to inventories, for example the archived SAP R/3 software (gross value is HUF 3,503 million, net value is zero). Further significant increase is caused by the scrapping of general-purpose and other software rights of use (gross value is HUF 427 million, net value is HUF 28 million).

In 2015, there was an agreement to modify the Authority Contract concluded earlier with NMIAH, Telenor and Vodafone mobile service providers to realign frequency brands related to radio-communication services on 900 MHz frequency brand among these providers. After the signing of the amendments to the contract the following frequency using fees were activated:

o	Spectrum licenc fee 900 MHz	3 462
o	Spectrum using fee 900 MHz	1 003
o	Settlement for Telenor frequency brands realignment	934
o	Settlement for Vodafone frequency brands realignment	300

Intellectual properties

The increase is mainly due to the upgrades of the billing software for mobile services (HUF 651 million) and the IPTV platfrom upgrade (HUF 473 million).

In 2015, 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 510 million more amortization was charged in 2015. The significant more amortization from the change in useful lives is due to reassembling the asset related to the new SAP OneERP PSL system.

Goodwill

The movements of goodwill in 2015 are summarized as follows:

Description	Net value as of December 31, 2014	Goodwill recorded in 2015	Amortization charge/ extraordinary amortization in 2015	Net value as of December 31, 2015
T-Mobile Magyarország Távközlési Rt.[1]	63,532	0	- 9,115	54,417
GTS Hungary Kft.	0	6,097	0	6,097
T-Systems Magyarország Zrt. (KFKI Zrt.)	4,345	0	0	4,345
Dataplex Kft.[1]	4,793	0	0	4,793
Stonebridge A.D.	3,326	0	-392	2,934
EMITEL Távközlési Zrt.[1]	2,600	0	-589	2,011
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.	326	19	0	345
KalászNet Kft. (Budakalász Kábel TV Kft.)	185	0	0	185
Dél-Vonal Kft.[1]	100	0	0	100
Total	**83,840**	**6,116**	**-10,096**	**79,860**

[1] On December 31, 2015 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 2015, Magyar Telekom Plc. purchased the 100 per cent share of GTS Hungary Kft. Due to this transaction HUF 6,097 million goodwill was recognized.

In 2015, HUF 19 million purchase price istallment were paid related to Com.unique Kft. which was recognized as goodwill.

During 2015, HUF 10,096 million amortization was charged on goodwill for items recognized before 2005.

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, 2014 and December 31, 2015:

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, 2014	**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**
Additions	19,702	35,474	4,054	59,230
Disposals	-8,482	-94,984	-6,825	-110,291
Reclassifications	9,208	-12,923	1,022	-2,693
Closing balance as of December 31, 2015	**492,668**	**514,384**	**55,343**	**1,062,395**
DEPRECIATION				
Opening balance as of January 1, 2014	**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**
Charge for the year	17,386	30,699	3,277	51,362
Impairment	0	0	0	0
Disposals	-4,854	-92,358	-6,744	-103,956
Reclassifications	10,345	-12,309	803	-1,161
Closing balance as of December 31, 2015	**260,700**	**412,723**	**46,816**	**720,239**
NET BOOK VALUE as of December 31, 2014	**234,417**	**100,126**	**7,612**	**342,155**
NET BOOK VALUE as of December 31, 2015	**231,968**	**101,661**	**8,527**	**342,156**

Further details are disclosed in Appendix 2.

The main reasons of the changes in 2015 are as follows:

Land and buildings and related rights

The increase in buildings and other real estate (HUF 4,640 million) is mainly due to the expansion and capitalization of antenna towers (HUF 2,377 million) and the renovating and improving of own office buildings (HUF 642 million).

The gross value of telecommunication networks increased by HUF 14,965 million (see Appendix 2) of which the significant items are:

- client-side copper based network (HUF 4,833 million),
- copper wire telecom cables of local network (HUF 3,541 million),
- fiber optic telecom cables of local network (2,312 million),
- ducts (HUF 1,723 million).

The decrease in real estate and related rights is mainly due to the derecognition of DVBS infrastructure (satellite dishes) (gross value is HUF 4,687 million, net value is 2,106 million).

Technical equipment, machinery and vehicles

The increase is due to the capitalization and extension of telecommunication equipment of HUF 35,474 million in gross value, of which the significant items are:

- routers (HUF 5,827 million),
- closed-end leased set-top boxes (HUF 3,599 million),
- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (HUF 2,623 million),
- mobile switch control (HUF 2,100 million),
- MSAN equipment for TV and internet services (HUF 1,916 million),
- WDM equipment (HUF 1,858 million),
- CMTS equipment (HUF 1,434 million),
- DVBS infrastructure and set top box (HUF 1,065 million).

HUF 94,984 million decrease in gross value of technical equipment is mainly due to the following sales and scrappings:

- EWSD combined and subscriber switches (gross value is HUF 11,110 million, net value is zero),
- AXE combined and subscriber telecommunication switch (gross value is HUF 10,239 million, net value is zero),
- mobile switch control, subscriber storage system (gross value is HUF 6,247 million, net value is HUF 1,411 million),
- GSM access network control system (gross value is HUF 5,880 million, net value is HUF 3 million),
- BTS-GSM, UMTS, LTE radio communication equipment (gross value is HUF 4,571 million, net value is HUF 30 million),
- internet service servers (gross value is HUF 1,258 million, net value is zero).

Other equipment and vehicles

Other equipment and vehicles increased by HUF 4,054 million in gross value, of which the significant items are:

- capitalization and extension of IT application and other servers (HUF 2,320 million),
- capitalization and extension of computers and peripheral devices not serving the core activities (HUF 376 million).

The HUF 6,825 million decrease in gross value of other equipment and vehicles is mostly due to scrapping and sales.

Scrappings mainly related to the following assets:

- computers and peripheral devices not serving the core activities (gross value is HUF 167 million, net value is zero),
- furniture (gross value is HUF 144 million, net value is HUF 6 million),
- mobile devices (gross value is HUF 100 million, net value is HUF 1 million).

Sales mainly related to the following assets:

- IT application and other server (gross value is HUF 4,182 million, net value is zero),
- computers and peripheral devices not serving the core activities (gross value is HUF 389 million, net value is HUF 2 million),
- passenger cars for personal use (gross value is 50 million, net value is HUF 16 million).

In 2015, the Company reviewed the useful life of tangible assets and changed the useful lives where the Company deemed it necessary. In consequence, HUF 731 million more depreciation was charged in 2015. The significant more amortization from the change in useful lives is due to reassembling the asset related to the new SAP OneERP PSL system.

6 NON-CURRENT INVESTMENTS IN RELATED PARTIES

6.1 Changes of Non-current investments in 2015

As of December 31, 2014 and 2015, 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 direct (%)	Ownership indirect (%)	Net book value	
	December 31, 2015		2014	2015
Stonebridge A.D.	100.00%		85,542	75,065
Crnogorski Telekom A.D.	76.53%		40,203	39,979
T-Systems Magyarország Zrt.	100.00%		19,944	19,944
GTS Hungary Kft.	100.00%		0	8,172
ViDaNet Zrt.	67.50%	22.50%	2,836	2,836
Combridge S.R.L.	100.00%		2,330	2,317
Investel Zrt.	100.00%		1,658	1,658
KalászNet Kft.	100.00%		1,074	1,074
Novatel E.O.O.D.	100.00%		788	1,723
E2 Hungary Zrt.	50.00%		0	1,000
Telekom New Media Zrt.	100.00%		700	700
Com.unique Kft.	100.00%		287	287
KIBU Innováció Nonprofit Kft.	99.20%	0.80%	34	34
ISH Kft.	100.00%		3	3
Origo Zrt.	100.00%		3,418	0
Telemacedonia A.D. Skopje (under liquidation)[1]	100.00%		26	0
			158,843	**154,792**

At the end of 2015, non-current investments decreased by HUF 648 million due to the balance sheet date revaluation of the book value of investments.

In 2015, the Company acquired the 100 per cent share of GTS Hungary Kft. After this transaction the non-current investments increased by HUF 8,172 million.

In 2015, the Company executed a EUR 2,999,458.03 (HUF 921 million) capital increase in Novatel E.O.O.D.

In 2015, a joint venture was established under the name of E2 Hungary Zrt. (together with MET Holding AG) which transaction increased the non-current investments with HUF 50 million. Also in this year a HUF 50 million capital increase was executed and along with this the capital reserve increased by HUF 900 million. This transaction increased the non-current investments with HUF 950 million.

In 2015, due to a capital decrease in Stonebridge A.D. the book value of non-current investment decreased by HUF 10,052.

In 2015, the liquidation procedure of Telemacedonia A.D. Skopje was finished. The investment was derecognized from the books resulted a HUF 26 million decrease in non-current investments.

In 2015, the Company signed an agreement to sell its 100 per cent share in Origo Zrt. The binding offer on cash free debt free basis was EUR 13.2 million (HUF 4,200 million). The closing of the transaction took place in February, 2016 so HUF 782 million reversed from the impairment was recorded earlier within the limits of the expected reimbursement then the investment was reclassified to Securities (HUF 4,200 million).

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.

GTS Hungary Távközlési Kft. (GTS Hungary Kft.)

The Magyar Telekom Plc.'s Board of Directors approved the contract on acquiring the 100 per cent share of GTS Hungary Kft. on February 25, 2015. After the acquisition the transaction was registered at Court of Registry of Budapest Environs Regional Court on April 1, 2015.
GTS Hungary Kft. is a leading alternative infocommunication service provider in Hungary, provides fixed line voice, data, internet and IT services for business and residential customers.

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.

E2 Hungary Energiakereskedelmi és Szolgáltató Zrt. (E2 Hungary Zrt.)

In the first quarter of 2015, Magyar Telekom Plc. signed an agreement with MET Holding AG, one of the leading energy retail suppliers of the region, to establish a joint venture which provides natural gas and electricity services for primarily business customers. The primary aim of the company is to improve and optimize the energy operations serving the business customers in the energy market presence. The joint venture was registered at Metropolitan Court as Court of Registration as of July 7, 2015.

7 OTHER NON-CURRENT LOANS GRANTED

Other non-current loans granted as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Long term part of installment receivables from equipment sales	8,690	7,481
Long term part of housing loans granted to employees	3,116	2,729
Other deposits given	109	153
Total	**11,915**	**10,363**

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, 2014 and December 31, 2015:

	2014	2015
Opening balance	8,320	9,828
Change in inventories	1,711	928
Impairment loss	-203	-507
Closing balance	**9,828**	**10,249**

Further details of inventory impairment are disclosed in Appendix 4.

9 ACCOUNTS RECEIVABLE

As of December 31, 2014 and 2015 accounts receivable include the following:

	2014	2015
Domestic accounts receivable	64,894	75,120
Foreign accounts receivable	1,093	1,130
Impairment of receivables	-17,334	-19,866
Total	**48,653**	**56,384**

The impairments on receivables as of December 31, 2014 and 2015 are as follows:

	2014	2015
Opening balance	15,140	17,334
Current year increase	9,420	9,896
Current year decrease/disposal	-7,226	-7,364
Total	**17,334**	**19,866**

10 RECEIVABLES FROM RELATED PARTIES

Receivables from related parties as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Receivables from T-Systems Magyarország Zrt.[1]	13,398	9,017
Receivables from E2 Hungary Zrt.[2]	0	3,338
Receivables from Novatel E.O.O.D.[3]	2,507	1,593
Receivables from KalászNet Kft.[4]	0	1,220
Receivables from Origo Zrt.	335	403
Receivables from GTS Hungary Kft.	130	302
Receivables from ViDaNet Zrt.	99	217
Receivables from Telekom New Media Zrt.	0	161
Receivables from Com.unique Kft.	122	122
Receivables from Combridge S.R.L.	59	53
Receivables from Makedonski Telekom A.D.	28	38
Other	820	76
Total	**17,498**	**16,540**

[1] The vast majority of the balance is the Cash-pool receivable from T-Systems Magyarország Zrt. (HUF 8,285 million).
[2] The receivable from E2 Hungary Zrt. is an advance payment for both own and resold energy services.
[3] The major part of the receivables from Novatel E.O.O.D. is the loan granted (HUF 1,569 million).
[4] The significant part of the balance is the Cash-pool receivable from KalászNet Kft. (HUF 1,198 million).

11 OTHER RECEIVABLES

The Company's other receivables as of December 31, 2014 and 2015 are as follows:

	2014	2015
Roaming discount receivables	1,961	2,029
Tax receivables	899	1,287
Advance payments given	891	1,141
Receivables from dealers	418	792
Receivables from employees	954	717
Receivables from forward deals	291	80
Other	1,427	1,609
Total	**6,841**	**7,655**

12 SECURITIES

The amount of HUF 4,507 million includes the book value of Origo Zrt. (HUF 4,200 million) which was reclassified from non-current investments (see Note 6.1) and the cost of the repurchased treasury stock (HUF 307 million).

The number and face value of repurchased treasury stock are detailed in Note 14.

13 ACCRUALS (ASSETS)

	2014	2015
Accrued income from telecommunication activities	29,435	31,650
Accrued income from electricity and gas retail services	4,611	4,568
Accrued income from related parties	2,020	657
Other	1,737	2,279
Accrued income	**37,803**	**39,154**
Rental fees and operating costs[1]	1,317	1,307
Prepaid costs and expenses related to electricity and gas retail services	996	233
License fees	550	142
Insurance fees	272	121
Accrued amount of value correction paid related to loans	11	2
Other	267	142
Prepaid costs and expenses	**3,413**	**1,947**
Total	**41,216**	**41,101**

[1] Rental fees accruals disclosed in 2014 are in Rental fees and operating costs in 2015.

14 SHAREHOLDERS' EQUITY

The Company's owners' structure based on the shareholder registration in the Share Register as of December 31, 2015:

Shareholder	Number of shares	Nominal value (HUF/per share)	Total value (HUF million)	Ownership percentage (%)
Deutsche Telekom Europe B.V.	617,436,759	100	61,744	59.21%
Other foreign companies	209,773,426	100	20,977	20.12%
Domestic companies	77,979,176	100	7,798	7.48%
Domestic and foreign private persons	64,130,839	100	6,413	6.15%
Other (not named and nominees)	73,014,712	100	7,301	7.00%
Government in total	16,769	100	2	0.00%
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, 2014 and December 31, 2015 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves[1]	Balance Sheet Net Income
Opening balance as of January 1, 2014	**104,274**	**58,952**	**190,996**	**1,307**	**0**
Reclassifications	0	0	1,000	-1,000	0
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**
Reclassifications	0	0	36,735	0	-36,735
Profit of the year	0	0	0	0	20,393
Balance as of December 31, 2015	**104,274**	**58,952**	**228,731**	**307**	**20,393**

[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).

15 PROVISIONS

Provisions were increased and reversed under the following titles between January 1, 2014 and December 31, 2015:

	Severance payments, employee bonuses	Asset retirement obligation and environmental liabilities	Customer loyalty program	Derivatives	Legal cases	Other	Total
Opening Balance as of January 1, 2014	**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**
Increase	4,631	534	1,051	808	255	626	7,905
Decrease	-2,099	-252	-628	-46	-96	-455	-3,576
Closing Balance as of December 31, 2015	**6,348**	**6,942**	**2,037**	**857**	**603**	**662**	**17,449**

16 OTHER NON-CURRENT LOANS

The following is a movement table of other non-current loans between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	**4,454**	**1,574**
Drawdown	0	0
Reclassification	-2,969	-1,515
Foreign exchange difference	89	-59
Closing balance	**1,574**	**0**

The Company does not have any assets pledged for loans.

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 following is a movement table of non-current liabilities to other related parties between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	**232,562**	**240,428**
Drawdown	105,000	90,107
Reclassification	-98,447	-112,440
Foreign exchange difference	1,313	468
Closing balance	**240,428**	**218,563**

The short term portion of related party loans (HUF 112,440 million) is disclosed in Note 22.

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

Maturity	Amount
2017	22,202
2018	15,656
2019	105,000
2020	35,000
2021	40,705
Total	**218,563**

18 OTHER NON-CURRENT LIABILITIES

This caption mainly contains the non-current part (HUF 71,079 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 NMIAH.

In addition this caption contains HUF 1,604 million long term finance lease.

19 CURRENT LOANS

The following is a movement table of current loans between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	**91,419**	**43,833**
Drawdown	386,375	9,500
Repayment	-437,317	-41,691
Reclassification	2,969	1,515
Foreign exchange difference	387	-91
Closing balance	**43,833**	**13,066**

20 ACCOUNTS PAYABLE

The accounts payable as of December 31, 2014 and 2015 contain the following main items:

	2014	2015
Domestic suppliers	46,288	46,852
Foreign suppliers	6,300	8,506
Total	**52,588**	**55,358**

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, 2014 and 2015 are summarized as follows:

	2014	2015
Liabilities to T-Systems Magyarország Zrt.[1]	4,830	8,524
Liabilities to Crnogorski Telekom	3,465	3,451
Liabilities to GTS Hungary Kft.[2]	0	709
Liabilities to Combridge S.R.L.	699	606
Liabilities to Investel Zrt.	439	443
Liabilities to ViDaNet Zrt.	283	436
Liabilities to Origo Zrt.	259	292
Liabilities to KalászNet Kft.	12	288
Liabilities to Telekom New Media Zrt.	149	279
Other	49	16
Total	**10,185**	**15,044**

[1] The increase of liabilities to T-Systems Magyarország Zrt. is mainly due to the increased trading in this company.
[2] The Company owned the GTS Hungary Kft. with effect from April 1, 2015.

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 (HUF 112,440) and cash-pool liability to Deutsche Telekom A.G (HUF 18 249 million).

The loans by maturity are summarized as follows:

Maturity	Interest	Amount
March 29, 2016	6 months BUBOR + 0.995%	35,000
September 15, 2016	fix 7.6475%	35,000
December 15, 2016	fix 6.08925%	28,418
December 15, 2016	fix 6.15825%	14,022
Total		**112,440**

Deutsche Telekom AG has expressed its commitment to finance the Company's budgeted financing needs until the end of June, 2017.

23 OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Liability from topping up the universal balance[1]	3,992	6,808
Annual frequency fee[2]	7,169	6,009
Liabilities to government[3]	6,122	6,006
Discount granted subsequently on roaming traffic	3,586	3,405
Finance lease liabilities	1,023	2,779
Value Added Tax	2,940	1,359
Customer overpayments	1,767	1,329
Liabilities to mobile service providers related to wholesale call termination fees[4]	0	1,286
Payables to employees and related contributions	934	985
Personal income tax	879	915
Dividends payable for 2015[5]	0	0
Other[6]	612	636
Total	**29,024**	**31,517**

[1] The increase in liability from topping up the universal balance is due to that the Company turned to UNIV balance from Telco balance in case of prepaid topping up.
[2] 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.
[3] In 2015, the main part of liabilities to government is telecommunication tax (HUF 4,061 million) and social contribution (HUF 1,444 million).
[4] The National Media and Infocommunications Authority of Hungary (NMIAH) further reduced the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute. The Company appealed against this decision and applied the higher fees in the invoices after April 1, 2015 in conjunction with the interconnect partners. In addition the Company disclosed both the revenues and expenditures on lower fees. For the items invoiced earlier the difference between the two rates were disclosed as other receivables and other liabilities, the accrued items were disclosed on the lower fee both in accruals on the asset and liability side of the balance sheet. The Company's appeal for restoring the fees was rejected by the court decision on September 24, 2015 and the providers correct retrospectively the invoices with the higher fee. After these corrections the overpayments will be refunded.
[5] The current year's dividend payable has not yet been decided.
[6] Dividends payable for previous years unsettled financially are disclosed in Other.

24 ACCRUALS (LIABILITIES)

	2014	2015
Deferred subscription and traffic fees	1,949	1,422
Energy	589	272
Deferred revenue from related parties	824	189
Other	950	1,257
Deferred revenue	**4,312**	**3,140**
Interest on owners' loans	8,729	6,112
Rental fees	3,420	4,782
Payroll related expenses	3,892	4,644
Expenses related to TV services	2,433	3,566
Accrued expenses to related parties	7,502	3,481
Payments to mobile operators	2,206	2,680
Marketing expenses	1,780	2,367
Maintenance expenses	602	1,717
Commission fees	1,416	1,782
Charges for public utility services	1,918	1,443
Expenses from energy services	2,241	1,092
Consultancy fees	1,002	774
Payment to other fixed line network operators	292	388
Mediated SI/IT services	311	219
Expenses related to value added services and content provision	603	122
Interests	57	4
Other (vendor accruals)	6,278	8,439
Accrued expenses	**44,682**	**43,612**
Deferred income	**1,078**	**1,482**
Total	**50,072**	**48,234**

25 NET DOMESTIC SALES

Net domestic sales in the years ending December 31, 2014 and 2015 were as follows:

	2014	2015
Voice retail	137,049	137,787
Voice wholesale	18,848	8,816
Non-voice	69,351	76,819
Sale of handsets and other devices	35,756	37,064
Other mobile revenues	12,198	16,470
Revenues from mobile services	**273,202**	**276,956**
Voice retail	53,297	48,964
Voice wholesale	1,822	1,202
Internet	38,690	43,036
Data	10,643	7,941
TV	32,502	34,500
Sale of handsets and other devices	3,926	6,783
Other fixed line services	6,043	7,515
Revenues from fixed line services	**146,923**	**149,941**
System integration and IT revenues	**6,054**	**5,322**
Energy revenues	**43,303**	**50,924**
Other sales revenues	**2,594**	**4,933**
Total net domestic sales	**472,076**	**488,076**

26 NET EXPORT SALES BY GEOGRAPHICAL AREAS

Net export sales by geographical areas in the years ending December 31, 2014 and 2015 are summarized as follows (sales are solely connected with services provided):

	2014		2015	
		%		%
Europe (inside the EU)	11,584	77.58%	11,941	84.10%
Europe (outside the EU)	1,197	8.02%	1,068	7.52%
Asia	1,121	7.51%	676	4.76%
America	548	3.67%	290	2.05%
Africa	392	2.62%	211	1.48%
Australia	89	0.60%	13	0.09%
Total net export sales	**14,931**	**100.00%**	**14,199**	**100.00%**

27 OTHER INCOME

Other income in the years ending December 31, 2014 and 2015 are as follows:

	2014	2015
Default interest, penalties, damage compensations	7,616	8,110
Reversal of provisions[1]	4,983	3,576
Other income from reversal of impairment	2,879	3,449
Discount received subsequently	2,039	2,045
Revenue from sale of intangible and tangible fixed assets	2,151	1,891
Revenue from receivable factoring	660	685
Other	1,804	2,963
Total	**22,132**	**22,719**

[1] Details of provisions are disclosed in Note 15.

28 COSTS OF SERVICES

Costs of services in the years ending December 31, 2014 and 2015 are as follows:

	2014	2015
Rental fees	17,254	18,551
Repair and maintenance costs[1]	18,031	18,083
Commissions paid[2]	8,361	9,123
Marketing expenses	7,437	9,104
Other services related to revenues	5,160	6,699
Costs of outsourced sales and management services related to business customers	5,640	5,790
Brand license fee[3]	1,221	3,996
Property operating costs	2,908	3,673
Payments to international network operators	3,353	3,378
Postage, costs of delivery and storage[4]	3,289	3,162
Consultancy	4,865	2,733
Expenses of rented workforce and operator activities	1,225	1,590
Database and 'infodok' expenses	402	1,069
Education, training expenses	754	971
Costs of property security and cash transport services	657	669
Travel and accommodation costs	429	491
Administrative services and related costs	675	330
Translation and interpretation fees	108	99
Other[5]	2,680	3,423
Total	**84,449**	**92,934**

[1] Costs of vehicle fleet was disclosed in a separate line in 2014 (HUF 153 million), it is disclosed in this line in 2015.
[2] Payments to Internet and TV service providers was disclosed in a separate line in 2014 (HUF 644 million) , it is disclosed in this line in 2015.
[3] The significant increase in brand licence fees is due to the implementation of OneERP system in 2015.
[4] Costs of delivery and storage was disclosed in a separate line in 2014 (HUF 1,148 million), it is disclosed in this line in 2015.
[5] Membership fees, copyright payments was disclosed in a separate line in 2014 (HUF 321 million), is disclosed in Other in 2015.

29 COST OF GOODS SOLD

Cost of goods sold in the years of 2014 and 2015 contains the following major items:

	2014	2015
Goods sold[1]	55,426	63,346
Energy[2]	32,343	36,759
Other	405	135
Total	**88,174**	**100,240**

[1] Contains costs of mobile and fixed devices, accessories and other equipment.
[2] The increase is due to the increase of electricity and natural gas measuring sites and along with it the consumed quantities are also higher compared to the previous year. This was partially compensated the decrease of purchase prices due to the decrease of world market prices.

30 COSTS OF (MEDIATED) SERVICES SOLD

Costs of mediated services sold in the years ending December 31, 2014 and 2015 are as follows:

	2014	2015
Payment to mobile operators[1]	25,497	16,622
Costs of TV services	13,480	14,224
System usage and other charges related to electricity and gas retail services	9,540	11,155
Costs of content providing and mobile trade services sold	7,321	8,444
Costs of mediated SI/IT services	3,808	4,029
Payment to other fixed line network operators	2,844	2,062
Other	1,197	961
Total	**63,687**	**57,497**

[1] The decrease is due to the decision of National Media and Infocommunications Authority of Hungary (NMIAH) to further reduce the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute.

31 EMPLOYEES

The average statistical number of employees in 2014 and 2015 are as follows (by function):

		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**

		2015		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	771	2,828	822
	white collar	5,994	41,367	5,868
	total	6,765	44,195	6,690
Part-time employees				
	blue collar	1	3	1
	white collar	133	511	114
	total	134	514	115
Employees total				
	blue collar	772	2,831	823
	white collar	6,127	41,878	5,982
	total	6,899	44,709	6,805
Employees not in headcount [1]		0	1,033	70
Total		**6,899**	**45,742**	**6,875**

[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, 2014 and 2015 is summarized below:

	2014	2015
Board of Directors	16	16
Supervisory Board	61	63
Total	**77**	**79**

The members of the Board of Directors and the Supervisory Board have not received any advance payments or loans in 2015. 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 2015 were as follows:

	2015
Balance as of December 31, 2014	5
Loans repaid in 2015	-1
Closing balance as of December 31, 2015	**4**

The loans are repayable monthly, the average remaining payment term is 47 months. Interest rate of loans: 3.63 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, 2014 and 2015 were as follows:

	2014	2015
Taxes, contributions, fees (Government taxes)	42,664	42,916
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets	15,996	16,430
Provisions[1]	4,297	7,905
Discount granted subsequently on roaming traffic	3,157	2,834
Factored receivables	2,160	1,746
Net book value of fixed assets sold	1,126	938
Write-off of uncollectible receivables	221	186
Other	1,316	1,889
Total	**70,937**	**74,844**

[1] Details of provisions are disclosed in Note 15.

34 RESULTS FROM FINANCIAL ACTIVITIES

Results from financial activities in the years ending December 31, 2014 and 2015 were as follows:

	2014	2015
Dividends from Crnogorski Telekom A.D.	5,009	5,090
Dividends from Stonebridge A.D.	19,066	0
Dividends from Telekom New Media Zrt.	406	0
Other	312	405
Dividends and profit sharing (received or due)	**24,793**	**5,495**
Interest from related parties	572	1,097
Interest from banks	18	4
Other	59	47
Other interest income received	**649**	**1,148**
Realized foreign exchange gain	5,825	11,595
Non-realized foreign exchange gain	2,626	0
Other	324	150
Other income from financial activities	**8,775**	**11,745**
Income from financial transactions	**34,217**	**18,388**
Interest to Deutsche Telekom	17,454	19,208
Interests to related parties	651	153
Other interests	2,240	664
Interest capitalized	-325	-205
Interest expense	**20,020**	**19,820**
Impairment of investments	**0**	**-782**
Realized foreign exchange loss	8,297	5,599
Non-realized foreign exchange loss	0	1,047
Other	158	4
Other expenses from financial activities	**8,455**	**6,650**
Expenses from financial transactions	**28,475**	**25,688**
Results from financial activities	**5,742**	**-7,300**

[1] Reversal of Origo Zrt. impairment.

35 RESULT FROM EXTRAORDINARY ACTIVITIES

Extraordinary income and expenses in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Extraordinary income		
Income related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	24,831	9,988
- Capital decrease of Crnogorski Telekom	4,065	0
- Result of finished liquidation of MODULTECHNIKA Kft.	4	0
Assets received free of charge	404	104
Development contributions	129	51
Other extraordinary income	299	376
Total	**29,732**	**10,519**
Extraordinary expense		
Expenses related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	23,613	10,053
- Book value of capital decrease of Crnogorski Telekom	5,248	0
- Loans forgiven to T-Systems Magyarország Zrt.	2,999	2,900
- Derecognition of Telemacedonia's book value (liquidation)	0	25
Assets contributed and service provided free of charge	958	918
Dimenzió contributions	210	206
Receivables waived	46	165
Other extraordinary expense	87	10
Total	**33,161**	**14,277**
Result from extraordinary activities	**-3,429**	**-3,758**

Result from extraordinary activities adjusting tax base in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
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.	2 999	2,900
- Items related to capital decrease and finished liquidation	-3 820	1,670
Assets contributed and service provided free of charge	426	314
Total tax base adjustment items	**-395**	**4,884**

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, 2014 and 2015 are summarized as follows:

	2014	2015
Net domestic sales	**472,076**	**488,076**
- of which: related parties	4,291	6,608
- of which: members of Deutsche Telekom Group	3,132	2,237
Net export sales	**14,931**	**14,199**
- of which: related parties	893	874
- of which: members of Deutsche Telekom Group	8,219	6,667
Other income	**22,132**	**22,719**
- of which: related parties	47	1,014
- of which: members of Deutsche Telekom Group	1,602	2,398
Accounts receivable	**48,653**	**56,384**
- of which: members of Deutsche Telekom Group	338	1,184
Other receivables	**6,841**	**7,655**
- of which: members of Deutsche Telekom Group	2,004	2,004
Accrued income	**37,803**	**39,154**
- of which: members of Deutsche Telekom Group	745	888
Prepaid expenses	**3,413**	**1,947**
- of which: members of Deutsche Telekom Group	87	132
Accounts payable	**52,588**	**55,358**
- of which: members of Deutsche Telekom Group	641	2,531
Current liabilities to other related parties	**106,346**	**130,689**
- of which: members of Deutsche Telekom Group	106,346	130,689
Other current liabilities	**29,024**	**31,517**
- of which: members of Deutsche Telekom Group	3,109	3,416
Deferred Income	**4,312**	**3,140**
- of which: members of Deutsche Telekom Group	618	938
Accrued expenses	**44,682**	**43,612**
- of which: members of Deutsche Telekom Group	10,576	10,319

37 CORPORATE INCOME TAX

The differences between profit before tax and the tax base for the years ending December 31, 2014 and 2015 are presented below:

	2014	2015
Profit before tax	**38,452**	**21,537**
Depreciation according to the Act on Accounting	88,825	103,913
Impairment of receivables, recognized impairment in previous year	9,821	9,681
Recognition of provisions	4,297	7,905
Recoverable receivables waived and expired	3,228	2,980
Non-realized foreign exchange difference taken into account in previous years	6,207	2,649
Increase of expenditure and decrease of income discovered by tax audit or self-revision	3,033	1,714
Penalty, sanction	294	611
Non-repayable donations, assets and services given free of charge, assumed liabilities	447	329
Other tax base increasing items	298	487
Tax base increasing items	**116,450**	**130,269**
Depreciation according to the Tax Law	-86,591	-100,776
Dividend income	-24,793	-5,495
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	-3,521	-4,358
Reversal of provisions	-4,983	-3,576
Realized gain on disposal of investments	-3,820	-1,580
Decrease of expenditure and increase of income discovered by tax audit or self-revision	-1,431	-1,269
Donations	-2	-2
Non-realized foreign exchange difference	-7,594	0
Other tax base decreasing items	0	-782
Tax base decreasing items	**-132,735**	**-117,838**
Tax base	**22,167**	**33,968**
Calculated amount of tax	**4,167**	**6,409**
Tax credit	-3,917	-5,792
Corporate Income Tax	**250**	**617**
Energy suppliers' tax	229	343
Withholding tax paid abroad	1,208	257
Tax liability	1,687	1,217
Tax liability (self-revision)	30	-73
Total tax liability	**1,717**	**1,144**

37.1 Information on investment tax credits

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."

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 7,497 million in 2015.

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 25,108 million in 2015.

The Tax Authority concluded a comprehensive tax audit for years 2010 and 2012. The tax authorities may at any time inspect the books and records within six years and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

38 DIVIDEND

Dividend after the 2015 result of Magyar Telekom Plc. will be decided later.

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 2015:

	Hazardous waste (kg)
December 31, 2014	**0**
Increase:	
Lead batteries	107,561
Other	6,336
Increase in total	**113,897**
Decrease:	
Lead batteries	-106,633
Other	-4,415
Decrease in total	**-111,048**
December 31, 2015	**2,849**

HUF 654 million environmental expenses were recorded in 2014 and HUF 405 million in 2015.

41 RESEARCH & EXPERIMENTAL DEVELOPMENT COSTS

At Magyar Telekom Plc. the research and experimental development costs was HUF 41.7 million as of December 31, 2015.

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 2015, 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, 2014 and 2015 are summarized as follows:

	2014			2015		
	Services	Products	Total	Services	Products	Total
Europe (inside EU)	16,738	31,967	48,705	19,604	29,170	48,774
Europe (outside the EU)	1,026	397	1,423	1,197	7,700	8,897
Asia	2,739	1,156	3,895	2,295	1,062	3,357
America	545	143	688	371	14	385
Africa	284	0	284	137	0	137
Australia	37	0	37	12	0	12
Total	**21,369**	**33,663**	**55,032**	**23,616**	**37,946**	**61,562**

During 2015, Magyar Telekom Plc. purchased HUF 37,946 million import products of which less than 20 per cent were recognized as fixed assets, while the rest was goods for resale.

During 2015, the amount of imported services was HUF 23,616 million. 52 per cent of these are included in cost of services, 47 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, 2014 and 2015 are summarized as follows:

	2014	2015
Audit	200	232
Other assurance services	173	146
Other non-audit services	171	168
Total	**544**	**546**

Budapest, February 24, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

APPENDIX 1A
BALANCE SHEET RELATED TO ENERGY SERVICES – ASSETS

data in millions of HUF

	December 31, 2014				December 31, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	825	686	888 215	889 726	583	687	877 565	878 835
I. Intangible assets	**560**	**466**	**344 755**	**345 781**	**458**	**377**	**334 285**	**335 120**
3. Rights	560	466	254 507	255 533	458	377	248 609	249 444
4. Intellectual property	0	0	5 941	5 941	0	0	5 816	5 816
5. Goodwill	0	0	83 840	83 840	0	0	79 860	79 860
6. Advance payments on intangible assets	0	0	467	467	0	0	0	0
II. Tangible assets	**245**	**203**	**372 739**	**373 187**	**109**	**298**	**378 153**	**378 560**
1. Land and buildings and related rights	211	175	234 031	234 417	97	266	231 605	231 968
- Land	*12*	*10*	*2 851*	*2 873*	*4*	*10*	*2 744*	*2 758*
- Buildings	*184*	*153*	*60 942*	*61 279*	*80*	*220*	*58 421*	*58 721*
- Telecommunication network	*0*	*0*	*161 370*	*161 370*	*0*	*0*	*160 415*	*160 415*
- Other properties	*15*	*12*	*8 340*	*8 367*	*13*	*36*	*9 529*	*9 578*
- Real estate related rights	*0*	*0*	*528*	*528*	*0*	*0*	*496*	*496*
2. Technical equipment, machinery and vehicles	0	0	100 126	100 126	0	0	101 661	101 661
- Telecommunication equipment and machinery	*0*	*0*	*98 895*	*98 895*	*0*	*0*	*100 526*	*100 526*
- Other technical equipment, machinery and vehicles	*0*	*0*	*1 231*	*1 231*	*0*	*0*	*1 135*	*1 135*
3. Other equipment and vehicles	31	26	7 555	7 612	12	32	8 483	8 527
5. Construction-in-progress	3	2	31 021	31 026	0	0	36 392	36 392
6. Advance payments on construction-in-progress	0	0	6	6	0	0	12	12
III. Financial investments	**20**	**17**	**170 721**	**170 758**	**16**	**12**	**165 127**	**165 155**
1. Non current investments in related parties	0	0	158 843	158 843	0	0	154 792	154 792
5. Other non current loans granted	20	17	11 878	11 915	16	12	10 335	10 363
B. CURRENT ASSETS	2 169	3 089	80 716	85 974	2 726	2 985	90 470	96 181
I. Inventories	**0**	**0**	**9 828**	**9 828**	**0**	**-1**	**10 250**	**10 249**
1. Raw materials	0	0	271	271	0	-1	172	171
2. Work in progress and semi-finished products	0	0	15	15	0	0	7	7
5. Goods for resale	0	0	9 542	9 542	0	0	10 071	10 071
II. Receivables	**2 160**	**3 081**	**67 751**	**72 992**	**2 725**	**2 982**	**74 872**	**80 579**
1. Accounts receivable	1 946	2 882	43 825	48 653	2 583	2 838	50 963	56 384
2. Receivables from related parties	66	54	17 378	17 498	52	56	16 432	16 540
5. Other receivables	148	145	6 548	6 841	90	88	7 477	7 655
III. Securities	**0**	**0**	**307**	**307**	**0**	**0**	**4 507**	**4 507**
1. Investments in related parties	0	0	0	0	0	0	4 200	4 200
3. Treasury stock, quotas	0	0	307	307	0	0	307	307
IV. Liquid assets	**9**	**8**	**2 830**	**2 847**	**1**	**4**	**841**	**846**
1. Cash and cheques	1	1	265	267	0	1	159	160
2. Bank deposits	8	7	2 565	2 580	1	3	682	686
C. ACCRUALS	1 621	4 000	35 595	41 216	1 842	2 967	36 292	41 101
1. Accrued income	1 613	2 997	33 193	37 803	1 840	2 728	34 586	39 154
2. Prepaid costs and expenses	8	1 003	2 402	3 413	2	239	1 706	1 947
TOTAL ASSETS	4 615	7 775	1 004 526	1 016 916	5 151	6 639	1 004 327	1 016 117

EGYÜTT. VELED

APPENDIX 1B
BALANCE SHEET RELATED TO ENERGY SERVICES – LIABILITIES

data in millions of HUF

	December 31, 2014				December 31, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
D. SHAREHOLDERS' EQUITY	-4 479	-5 773	402 516	392 264	-4 832	-5 618	423 107	412 657
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	-3 718	-3 975	199 689	191 996	-4 479	-5 774	238 984	228 731
V. Restricted reserves	0	0	307	307	0	0	307	307
VI. Valuation reserves	0	0	0	0	0	0	0	0
VII. Net income	-761	-1 798	39 294	36 735	-353	156	20 590	20 393
E. PROVISIONS	12	10	13 098	13 120	30	23	17 396	17 449
1. Provision for expected obligations	12	10	13 098	13 120	30	23	17 396	17 449
F. LIABILITIES	2 715	2 250	556 495	561 460	1 789	2 714	533 274	537 777
I. Subordinated liabilities	0	0	0	0	0	0	0	0
II. Non current liabilities	1 087	903	316 701	318 691	328	906	290 012	291 246
5. Other non current loans	6	5	1 563	1 574	0	0	0	0
7. Non current liabilities to other related parties	982	816	238 630	240 428	296	819	217 448	218 563
8. Other non current liabilities	99	82	76 508	76 689	32	87	72 564	72 683
III. Current liabilities	1 628	1 347	239 794	242 769	1 461	1 808	243 262	246 531
1. Current borrowings	0	0	179	179	0	0	176	176
- of this convertible bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
2. Current loans	179	149	43 505	43 833	18	49	12 999	13 066
3. Advances received	0	0	614	614	0	0	681	681
4. Accounts payable	508	1 315	50 765	52 588	938	938	53 482	55 358
6. Current liabilities to related parties	23	19	10 143	10 185	7	19	15 018	15 044
7. Current liabilities to other related parties	435	361	105 550	106 346	178	489	130 022	130 689
8. Other current liabilities	483	-497	29 038	29 024	320	313	30 884	31 517
- of this dividends payable	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
G. ACCRUALS	2 258	2 788	45 026	50 072	2 620	2 170	43 444	48 234
1. Deferred revenue	52	540	3 720	4 312	62	211	2 867	3 140
2. Accrued expenses	2 206	2 248	40 228	44 682	2 558	1 959	39 095	43 612
3. Other deferred income	0	0	1 078	1 078	0	0	1 482	1 482
DIFFERENCE BECAUSE OF SEPARATION	4 109	8 500	-12 609	0	5 544	7 350	-12 894	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4 615	7 775	1 004 526	1 016 916	5 151	6 639	1 004 327	1 016 117

APPENDIX 1C
INCOME STATEMENT RELATED TO ENERGY SERVICES

data in HUF millions

	January - December, 2014				January - December, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
1. Net domestic sales	19 516	23 791	428 769	472 076	25 315	25 612	437 149	488 076
2. Net export sales	0	0	14 931	14 931	0	0	14 199	14 199
I. Sales revenues	**19 516**	**23 791**	**443 700**	**487 007**	**25 315**	**25 612**	**451 348**	**502 275**
3. Change in self-manufactured inventories	0	0	-47	-47	0	0	-8	-8
4. Capitalised value of self-manufactured assets	24	20	23 976	24 020	37	101	26 802	26 940
II. Own work capitalized	**24**	**20**	**23 929**	**23 973**	**37**	**101**	**26 794**	**26 932**
III. Other income	**156**	**318**	**21 658**	**22 132**	**119**	**106**	**22 494**	**22 719**
of which: reversal of impairment	0	0	0	0	0	0	3 449	3 449
5. Costs of raw material	46	39	28 299	28 384	40	97	27 269	27 406
6. Costs of services	339	301	83 809	84 449	86	187	92 661	92 934
7. Costs of other services	142	141	9 013	9 296	25	34	8 042	8 101
8. Cost of goods sold	13 896	18 447	55 831	88 174	18 905	17 855	63 480	100 240
9. Costs of (mediated) services sold	4 917	4 623	54 147	63 687	5 672	5 486	46 339	57 497
IV. Material-type expenses	**19 340**	**23 551**	**231 099**	**273 990**	**24 728**	**23 659**	**237 791**	**286 178**
10. Salaries and wages	324	269	46 477	47 070	258	199	45 285	45 742
11. Other employee related expenses	41	34	7 058	7 133	42	32	6 801	6 875
12. Employee related contributions	99	82	14 736	14 917	84	65	14 418	14 567
V. Employee related expenses	**464**	**385**	**68 271**	**69 120**	**384**	**296**	**66 504**	**67 184**
VI. Depreciation and Amortization	**111**	**92**	**82 723**	**82 926**	**135**	**122**	**90 868**	**91 125**
VII. Other expenses	**417**	**1 516**	**69 004**	**70 937**	**480**	**1 372**	**72 992**	**74 844**
of which: impairment	193	121	15 682	15 996	28	180	16 222	16 430
A. PROFIT FROM OPERATING ACTIVITIES	-636	-1 415	38 190	36 139	-256	370	32 481	32 595
13. Dividends and profit sharing (received or due)	0	0	24 793	24 793	7	21	5 467	5 495
of which: received from related parties	0	0	24 793	24 793	7	21	5 467	5 495
16. Other interest income received	3	2	644	649	2	4	1 142	1 148
of which: received from related parties	2	2	568	572	1	2	472	475
17. Other income from financial activities	253	147	8 375	8 775	323	197	11 225	11 745
VIII. Income from financial transactions	**256**	**149**	**33 812**	**34 217**	**332**	**222**	**17 834**	**18 388**
19. Interest expense	83	69	19 868	20 020	27	74	19 719	19 820
of which: to related parties	3	2	646	651	0	1	152	153
to other related party	71	59	17 324	17 454	26	72	19 110	19 208
20. Impairment of investments, securities and bank deposits	0	0	0	0	0	0	-782	-782
21. Other expenses on financial transactions	159	348	7 948	8 455	207	210	6 233	6 650
IX. Expenses from financial transactions	**242**	**417**	**27 816**	**28 475**	**234**	**284**	**25 170**	**25 688**
B. RESULT FROM FINANCIAL TRANSACTIONS	14	-268	5 996	5 742	98	-62	-7 336	-7 300
C. PROFIT FROM ORDINARY ACTIVITIES	-622	-1 683	44 186	41 881	-158	308	25 145	25 295
X. Extraordinary income	**0**	**0**	**29 732**	**29 732**	**0**	**1**	**10 518**	**10 519**
XI. Extraordinary expenses	**14**	**11**	**33 136**	**33 161**	**0**	**1**	**14 276**	**14 277**
D. RESULT FROM EXTRAORDINARY ACTIVITIES	-14	-11	-3 404	-3 429	0	0	-3 758	-3 758
E. PROFIT BEFORE TAXES	-636	-1 694	40 782	38 452	-158	308	21 387	21 537
XII. Corporate income tax	125	104	1 488	1 717	195	152	797	1 144
F. NET INCOME	-761	-1 798	39 294	36 735	-353	156	20 590	20 393
22. Use of retained earnings for dividends	0	0	0	0	0	0	0	0
23. Dividend paid (approved)	0	0	0	0	0	0	0	0
G. BALANCE SHEET NET INCOME	-761	-1 798	39 294	36 735	-353	156	20 590	20 393

APPENDIX 1D
GAS-ENGINE SMALL POWER PLANT

data in HUF millions

	2014	2015
Technical equipment, machinery and vehicles	265	224
Net domestic sales	5	2
Costs of raw material	72	60
Costs of services	51	56
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

(in HUF millions)

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value						
11. Opening gross value (on January 1, 2015)	2 873	90 387	358 108	16 473	4 399	472 240
12. Additions	8	3 547	14 965	1 093	89	19 702
13. Disposals	-109	-1 741	-6 399	-206	-27	-8 482
14 Reclassifications	-14	-2 430	10 872	834	-54	9 208
15. Closing gross value (on December 31, 2015)	2 758	89 763	377 546	18 194	4 407	492 668
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2015)	0	29 108	196 738	8 106	3 871	237 823
22. Annual depreciation	0	2 539	14 263	466	118	17 386
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	0	-853	-3 841	-136	-24	-4 854
25. Reclassifications	0	248	9 971	180	-54	10 345
26. Closing depreciation (on December 31, 2015)	0	31 042	217 131	8 616	3 911	260 700
3. Net book value (on December 31, 2015)	2 758	58 721	160 415	9 578	496	231 968
Of which residual value	0	178	0	5	0	183

APPENDIX 2B

TECHNICAL AND OTHER EQUIPMENT, MACHINERY AND VEHICLES

(in HUF millions)

Description	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						
11. Opening gross value (on January 1, 2015)	**582 026**	**4 791**	**586 817**	**57 092**	**643 909**	**33**
12. Additions	35 347	127	35 474	4 054	39 528	0
13. Disposals	-94 530	-454	-94 984	-6 825	-101 809	0
14. Reclassifications	-13 020	97	-12 923	1 022	-11 901	0
15. Closing gross value (on December 31, 2015)	**509 823**	**4 561**	**514 384**	**55 343**	**569 727**	**33**
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2015)	**483 131**	**3 560**	**486 691**	**49 480**	**536 171**	**33**
22. Annual depreciation	30 522	177	30 699	3 277	33 976	0
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	-91 984	-374	-92 358	-6 744	-99 102	0
25. Reclassifications	-12 372	63	-12 309	803	-11 506	0
26. Closing depreciation (on December 31, 2015)	**409 297**	**3 426**	**412 723**	**46 816**	**459 539**	**33**
3. Net book value (on December 31, 2015)	**100 526**	**1 135**	**101 661**	**8 527**	**110 188**	**0**
Of which residual value	**2 594**	**716**	**3 310**	**90**	**3 400**	**0**

APPENDIX 3

DIRECT INVESTMENTS OF MAGYAR TELEKOM PLC.

(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, Viitorului 24. 7 C 16	100.00%		100.00%	100.00%	2 063	522	315	2 900
Com.unique Kft.	1133 Budapest, Hegedűs Gyula u. 83-87.	100.00%		100.00%	100.00%	25	128	140	293
Crnogorski Telekom A.D. Podgorica1	Moskovska 29, Podgorica 81000, Montenegro	76.53%		76.53%	76.53%	38 782	1 071	4 967	44 820
E2 Hungary Zrt.[2]	1013 Budapest, Krisztina körút 55.	50.00%		50.00%	50.00%	200	1 800	-72	1 928
GTS Hungary Kft.	2040 Budaörs, Ipartelep utca 13-15.	100.00%		100.00%	100.00%	2 043	6 034	1 355	9 432
Investel Zrt.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1 113	206	0	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	749	-127	822
KIBU Innováció Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	40	3	-46	-3
Novatel E.O.O.D. 1	1680 Sofia, Bulgaria blvd 98, bulding Astra, entrance D, fl. 3, office 5G	100.00%		100.00%	100.00%	1 770	-65	9	1 714
Origo Zrt.	1037 Budapest, Montevideo utca 9.	100.00%		100.00%	100.00%	300	765	-117	948
Stonebridge Communications A.D.1	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	61 292	0	6 543	67 835
TeleData Kft.	2040 Budaörs, Baross u. 89.	50.99%		50.99%	50.99%	1	2	0	3
Telekom New Media Zrt.	1222 Budapest Nagytétényi út 29.	100.00%		100.00%	100.00%	670	29	56	755
T-Systems Magyarország Zrt.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	2 002	17 842	1 629	21 473
ViDaNet Zrt.	9024 Győr, Orgona utca 10.	67.50%	22.50%	90.00%	49.995%	2 000	5 020	1 176	8 196

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, 2015.

[2] E2 Hungary Kft. started its operations on January 1, 2016.

APPENDIX 4/1
OFF-BALANCE SHEET ITEMS

Off-balance Sheet Liabilities

(HUF million)

	Total
Guarantee obligation	11 279
Commitment for capital expenditure and other developments	3 794
Commitment for capital expenditure with related parties	188
Environmental protection, restoration and other obligations	240
Commitment for acquisition	13

Forward and swap deals

Open swap F/X deals on December 31, 2015 were contracted on the OTC market with the original aim of delivery

ID	Date	Off-balance sheet liability (HUF million)	Off-balance sheet receivable	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
DTAG_20110711_50 mEUR	07.06.2011	-13 250	EUR 50 000 000	11.20.2018	265.00	4 505
DTAG_20110711_23 mEUR	07.06.2011	-6 095	EUR 23 000 000	05.19.2017	265.00	1 772
DTAG_2015_130 mEUR	05.22.2015	-40 625	EUR 130 000 000	01.18.2021	312.50	-729
2013 K&H swap	05.15.2013	-1 475	EUR 15 000 000	05.17.2016	295.00	79 [1]
			Total EUR 218 000 000			
Total		**-61 445**				**5 627**

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

APPENDIX 4/2
OFF-BALANCE SHEET ITEMS

Open forward F/X deals on December 31, 2015 were contracted on the OTC market with the original aim of delivery

(HUF million)

ID	Date	Off-balance sheet liability on strike price (HUF millions)	F/X (original)	Off-balance sheet receivable	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1X5001444	03.12.2015	-2 653	EUR	8 610 000	02.29.2016	308.23	48
1X5002651	05.19.2015	-1 540	EUR	5 000 000	03.07.2016	308.02	29
1X5002657	05.19.2015	-1 544	EUR	5 000 000	04.04.2016	308.79	27
1X5002661	05.19.2015	-1 540	EUR	5 000 000	03.21.2016	308.07	30
1X5002665	05.19.2015	-1 547	EUR	5 000 000	04.20.2016	309.39	25
1X5003452	07.01.2015	-1 106	EUR	3 500 000	01.04.2016	315.89	-10 [2]
1X5003456	07.01.2015	-1 110	EUR	3 500 000	05.02.2016	317.12	-9 [2]
1X5003460	07.01.2015	-1 270	EUR	4 000 000	05.23.2016	317.38	-10 [2]
1X5003464	07.01.2015	-1 264	EUR	4 000 000	01.25.2016	316.07	-10 [2]
1X5004045	08.04.2015	-896	EUR	2 900 000	01.20.2016	309.09	12
1X5004047	08.04.2015	-804	EUR	2 600 000	02.22.2016	309.38	11
1X5004049	08.04.2015	-650	EUR	2 100 000	03.21.2016	309.70	9
1X5004051	08.04.2015	-961	EUR	3 100 000	04.20.2016	310.07	13
1X5004053	08.04.2015	-747	EUR	2 400 000	07.20.2016	311.10	10
1X5005331	10.19.2015	-497	EUR	1 600 000	03.18.2016	310.57	6
1X5005333	10.19.2015	-623	EUR	2 000 000	06.20.2016	311.30	8
1X5005335	10.19.2015	-562	EUR	1 800 000	09.20.2016	312.12	7
1X5005337	10.19.2015	-906	EUR	2 900 000	10.20.2016	312.41	12
1X5005619	11.06.2015	-2 203	EUR	7 000 000	01.18.2016	314.66	-9 [2]
1X5005830	11.23.2015	-312	EUR	1 000 000	03.18.2016	312.07	2
1X5005832	11.23.2015	-312	EUR	1 000 000	02.19.2016	311.77	2
1X5005834	11.23.2015	-343	EUR	1 100 000	01.20.2016	311.48	2
1X5005849	11.23.2015	-2 181	EUR	7 000 000	02.03.2016	311.62	14
1X5005851	11.23.2015	-1 246	EUR	4 000 000	01.27.2016	311.56	8
1X5005859	11.23.2015	-644	USD	2 200 000	01.04.2016	292.87	-14 [2]
1X5006464	12.18.2015	-1 586	EUR	5 000 000	07.25.2016	317.19	-8 [2]
1X5006466	12.18.2015	-1 588	EUR	5 000 000	08.22.2016	317.58	-8 [2]
1X5006468	12.18.2015	-1 591	EUR	5 000 000	09.26.2016	318.11	-9 [2]
1X5006470	12.18.2015	-1 593	EUR	5 000 000	10.24.2016	318.52	-9 [2]
1X5006472	12.18.2015	-1 595	EUR	5 000 000	11.14.2016	318.98	-10 [2]
1X5006474	12.18.2015	-1 596	EUR	5 000 000	11.28.2016	319.25	-10 [2]
1X5006476	12.18.2015	-1 597	EUR	5 000 000	12.12.2016	319.44	-10 [2]
				Total EUR 121 110 000			149
				Total USD 2 200 000			
	Total	-38 607					

[2] Expected, financially not realized amounts of negative differences are recognized as provisions.

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

INTRODUCTION

The Company's activities are described in Notes to the Financial Statements (1.2 The Company's area of activity), 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 2015
- 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, 2015, 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, 2015 is described in the following table:

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

Deutsche Telekom Europe 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 is Deutsche Telekom AG (DT or DTAG).

Deutsche Telekom Europe B.V. does not have different voting rights than our other shareholders and, as with our other shareholders, Deutsche Telekom Europe 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 its Resolution No. 8/2015 (IV.15.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of the 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 draws 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, 2015, there were eight 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 at least the majority of the members for a quorum. Each member has one vote. The Board of Directors passes resolutions by a simple majority vote.

On December 31, 2015, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Christopher Mattheisen................	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Mihály Patai.............................	1953	Chairman-CEO of Unicredit Bank Ltd.	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	Executive Board Member Finance, 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 Managing Director of Deutsche Telekom Pan Net, DT AG	2013

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, 2015, the members of the Management Committee and the years of their original election were as follows:

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
András Gyenes*	1969	Chief Commercial Officer Residential	2015
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

*András Gyenes became the member of the Management Committee as of July 3, 2015.

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_RulesofProcedure_20150415.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 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, 2015, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. László Pap................................	1943	Budapest University of Technology 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 Slovak Telekom at the Group Headquarters of Deutsche Telekom AG.	2009
Éva Őz...	1957	Controlling Manager of Controlling Directorate, Chairwoman of the Workers' Council of Central Functions, 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' assignement 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_03_12_2015.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, 2015, 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_Remunerarian_and_Nomination_Committee_ENG_20130920.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, 2015, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Ralph Rentschler
- Frank Odzuck
- Thilo Kusch

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 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 2015 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's corporate strategy we renewed our HR principles and strategic priorities. In 2011 we prepared 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 is carried out 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 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 affecting 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,		
	2013	2014	2015
Magyar Telekom Plc.	7,359	7,046	6,670

3.4 Total Workforce Management

From 2009, Magyar Telekom 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 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, which was decreased by 100 heads in line with the agreement of June, 2015 as an offset for the termination of certain fringe benefits. Actual headcount decrease is 1450 heads, out of which 42% terminated between October, 2014 – March, 2015, 20 % between April – December, 2015, and 36% after January, 1, 2016, while 2% will terminate until the end of the year. Total severance expenses related to the 2-year headcount reduction programme is approximately HUF 10,5 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. 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 Szakszevezet, MATÁSZ). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the 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 disqualifications exist in respect of the nominated persons. On December 31, 2015, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Őz and Attila Bujdosó.

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

3.7 Pensions and Benefit Programs

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

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's 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 December 31, 2015 approximately 62% of employees of Magyar Telekom Plc. participated in the pension-, 42% in the self-aid-, and 59% in the health fund.

3.8 Human rights

Social Charta of Deutsche Telekom Group and Magyar Telekom 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 submits annual reports on the compliance with the 9 basic principles set forth in the Social Charta.

The Social Charta 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 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 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 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 existence of these policies helps to fortify the employee's awareness and the engagement to legitimate behavior.

Giving support to the respective disadvantaged employee groups and to provide them equal opportunities require additional efforts and human resources.

Magyar Telekom can rely on its top managment that is committed to sustainability and expects high performance regarding the compliance with human rights. These extra efforts are supported by the Chief Executive Officer and the Chief Human Resources Officer personally. 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 2015.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 67 million in 2015.

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 1,568 million in 2015.

On December 31, 2015, three of the eight MC members have an employment contract with 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 five indefinite contracts, and six months for the remaining two contracts. For two contracts the severeance payment is in accordance with the Labour Code and the Collective Agreement, for the rest of the contracts 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 and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the 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 2015, the Research and Development activities of Magyar Telekom covered the maintainance of R&D grant project launched and won in the frame of the National Research, Development and Innovation Office.

Thus in 2015, completed prototypes were further developed under the project titled "Implementation of Info-communications R&D&I umbrella projects at Magyar Telekom", such as "NFC technology based ticket purschase and information querying in transportation" and "Authentic, anonymous voting and opinion delivering (e-voting)" which concept test was running in the T-City environment in Szolnok.

In 2015 we continued the development, maintenance and preparation of the sales activities of the grant project titled "Magyar Telekom Plc.'s Healthcare Mobile Service R&D" (HCM project) which was completed in 2014. Within the R&D 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 various other features helping everyday information-transfers and administration.

Based on the results and experiences gained in the 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 optimalization in hospital environment.

In 2014, the solution was sold to University of Szeged, Albert Szent-Györgyi Health Center's Emergency department and is running successfully since then.

Beyond the above, in 2015 we started to implement other smaller R&D projects which are able to contribute to key projects such as Big Data. In the frame of these topics we conducted researches on the usability of Big Data in the fields of disaster management and disease management which considered to be the whole society's interest.

Besides Big Data the research-related steps have been taken on drone technology usability for agriculture, and also in the field of smart-watches we conducted research and development activity as well.

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

Besides the above, 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 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 2015, the Company participated as a supporting member of the National Research Program "Internet of the future" led by the University of Debrecen.

Beyond the above, Magyar Telekom 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 and we are also a major real estate owner in Macedonia and Montenegro. 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 make efforts to sell 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.
- 1117 Budapest, Szerémi út 4.
- 1117 Budapest, Budafoki út 56.
- 1106 Budapest, Örs vezér tere 25. 1. em.
- 1106 Budapest, Örs vezér tere 25. mélyföldszint
- 1138 Budapest, Váci út 178.
- 1195 Budapest, Üllői út 201.
- 1191 Budapest, Vak Bottyán u. 75. a-c.
- 1024 Budapest, Lövőház u. 2-6. 2. em.
- 1024 Budapest, Lövőház 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.
- 1119 Budapest, Fehérvári út 79.

The number of sites used by Magyar Telekom Plc. is 2,340, out of which 21% are owned by the Company, 41% jointly owned and 38% 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 3,770 mobile technology sites, of which 5 % 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, 2015 was 566,734 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m^2.

7 SUSTAINABILITY

Magyar Telekom 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 currently 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 committed to support the ten principles set forth by the UN Global Compact since 2009 in the areas of human rights, environment and anti-corruption, the results of which are also addressed by our Sustainability Reports.

Magyar Telekom'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'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'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 of the concept of sustainability and to enhance the sustainability perception of Magyar Telekom.
    - Awareness of the concept of sustainability: KPI: public: 20%, employees: 80%
    - Magyar Telekom'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 for society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to ensure carbon-neutral operation
- 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, as well as to increase revenue from services of sustainable nature, KPI: 20% of annual sales.

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 is third in international comparison globally, on a list of the world's 108 telecommunication companies assessed along sustainability aspects, and is only preceeded by its mother company Deutsche Telekom, and BT Group.

- Awards and recognitions achieved in 2015:
    - CEERIUS sustainability index membership (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
    - Oekom responsible investor assessment: Prime category (recommended for responsible investors) (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
    - Family-friendly Company 2015 (http://www.telekom.hu/about_us/press_room/press_releases/2015/may_18)
    - Biker-friendly Workplace 2015 (http://kmsz.hu/2015/05/23/kiosztottak-a-kerekparosbarat-telepules-es-munkahely-dijakat)
    - Most creative good deed award: Magyar Telekom Plc. - Szépmű Project (https://www.profession.hu/cikk/20150127/-jo-cselekedet-dijaztak-a-jotetteket/5041)
    - Energy Efficient Company – T-Systems Hungary Plc. (http://www.t-systems.hu/news-and-media/news/t-systems-hungary-won-the-energy-efficient-company-title-again)

A list of all the awards won since the strategy took effect is available through the link below:
http://www.telekom.hu/about_us/society_and_environment/prizes_ratings

- The survey conducted among the public in 2015 showed that 13% of the responders name Magyar Telekom and its offer brands as a company of a leading role in sustainability, while 72% cannot name any companies at all. The concept of sustainability is known by 22% among the public in 2015. 79% of our employees familiar with the concept of sustainability and 61% named Magyar Telekom as a sustainability leader.

7.2 Initiatives concerning stakeholders

In 2015 we organized the Sustainability Roundtable Discussion for the 16th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom, 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, and Innovative Generation". With the DELFIN award Magyar Telekom wants to promote the idea of a sustainable development and recognize efforts made towards this goal. The award is given to suppliers offering outstanding performance in the field of sustainability, in four categories:

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

A jury of experts decides which submitted project should receive the award. The eighth award ceremony took place on June 12, 2015, as part of the Sustainability Roundtable. In 2015, we recognized organizations and businesses promoting waste management, renewing energy, environment-friendly transportation and equal opportunities.

The eighth Sustainability Day event took place on September 26, 2015. The topic of the day was distance. Almost three thousand visitors attended the event where they participated in panel discussions on the three pillars of sustainability and examined pieces of works submitted to the creative design exhibition as well as exhibitors.

The event presented an opportunity to hand over the Sustainability Media Award for the fifth time by the members of the Sustainability Media Club - established by Magyar Telekom. Awards were distributed in three categories: "Bottom View" - for case studies describing NGO and local community matters, "Wide-angle view" - for the description of nationwide environmental and economic issues and "E-world" - for case studies describing digital education and digital literacy initiatives primarily focusing on children. The award amounted to HUF 500 000 for each category.

In 2015, 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 Telekom Smart Digital programs, as well as at the Pilis forest and the T-Shops. The cause of employees' volunteer work was also furthered by charitable teambuilding exercises. In 2015, 649 colleagues worked 4,412 hours of volunteer work, by means of which a theoretical amount of HUF 21.7 million was thus donated to the society.

In 2015 we continued the "hello holnap!" club event series that was launched two years ago and is organized on a monthly basis with the objective to present sustainability topics in an everyday manner to our colleagues and external stakeholders. Visitors of the club and members who are active in sustainability matters are given hello holnap! points. In the second year of the initiative 5,495 points were collected by 2,146 colleagues. The first three employees who collected the most points were given a Csepel bike voucher.

Magyar Telekom established a website dedicated to threats caused by children's media consumption. The website provides information to parents not only about ICT technologies, devices and content, but also about threats caused by their usage and consumption, as well as possible preventive measures. More details are available on: http://www.telekom.hu/about_us/society_and_environment/society/protection_of_our_children.

On November 1, 2013, Magyar Telekom introduced its tariff package called "hello holnap!", which was designed to accommodate specific needs of handicapped people. Since 2014, the tariff package is also available for members of the Hungarian National Autistic Society. Upon several rounds of discussions with the involved interest representation bodies from 2016, we restructured the hello holnap! fee package to make it more customizable and better align it to the special needs of people with disabilities.

We launched the "hello holnap!" mobile app on September 27, 2014, by which we drew 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. The success of the mobile application in 2015 is best represented by the fact that it has 6,000 users and it is one of the most popular Telekom applications.

Magyar Telekom and the Sustainability Media Club recognized publications by journalists and editors addressing sustainability topics for the third time 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 enabled the Company's employees to save time and mileage. Thus, drivers can relieve the environment of as much as one million kilometers and five years of travel.

In 2013 Magyar Telekom was among the first Hungarian companies that supported civilian organizations to cultivate community gardens in empty properties of the Company. In 2015 three community gardens started their operation. One of them, the 2600 square meter "Kerthatár" garden in Soroksári street offers land for 100 gardens. It is one of the biggest of such facilities in Budapest.

7.3 Annual Sustainability Report

Magyar Telekom has committed, among other things, to publish reports about its sustainability performance annually. Since 2004, these reports have always summarized the Company's operation, activities and achievements along the principles of sustainability. When the reports are compiled the GRI (Global Reporting Initiative) guidelines are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. Since 2007 Magyar Telekom has prepared reports adhering to the highest level of compliance with international standards each year, thus the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 Sustainability Report was compiled along the new Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4). It was applied on comprehensive level and includes more information about the Company's sustainability performance. The independent assurance and certification of compliance with the GRI G4 criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard.

Further details on the sustainability performance of the Company can be found in the annual reports available on:
https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

8 ENVIRONMENT PROTECTION

Magyar Telekom as one of the leading info-communication service provider in Hungary – 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 its activities in a regulated and controlled way, fulfilling the EU requirements and complying with international standards. Magyar Telekom's environmental commitment and responsibilities 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 2015, Magyar Telekom procured 209 GWhs of electric power from renewing resources, which is 100% of the Company's total electric power consumption. The 5-year strategy sets forth the objective of sustaining a green energy consumption level of at least 46 GWhs per year.

In spring 2015, we relaunched TeleBike, Magyar Telekom's employee bike rental system. In 2015, TeleBike offered 53 regular bikes and six electric bikes, which were added to the fleet in 2014. Employees can commute between six sites, the offices of the Company located in Budapest and the sites of T-Systems Magyarország Zrt. In 2015, TeleBike had 1,588 registered users and 8,502 rents. During the year 15,226 kms were ridden and due the system 2,862 kg CO_2 emission was 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 CO_2 footprint. One of our objectives for 2015 was that we operate as a carbon neutral company. To this end we purchase electric power from power plants that use renewable energy sources and we entirely carbon-neutralized our fossil energy consumption footprint. With this we achieved that we are the first carbon neutral major enterprise in Hungary.

In 2015 Magyar Telekom continued its efforts to operate as an energy effective company. These days instead of solutions that would represent a huge leap forward, the aggregate of several smaller transformation and caring projects may jointly help us to further reduce energy consumption. Our proven ventilation technology has been upgraded this year. We implemented the so-called wardrobe type equipment thereby reduced the operation time of air-conditioners in order to save electric energy. Currently the main objective is to fine-tune the existing solutions. But new solutions are also implemented as a result of the global PSTN (Public Switched Telephone Network) replacement project. With this we take a huge step forward in the field of air conditioner replacement (reducing R22 gas consumption) and we implement lower performance power supply equipment as well. We have replaced our power supply equipment in several huge machine rooms; the improved efficiency rate resulted in millions of savings. A similar magnitude of savings is generated by the replacement of hundreds of smaller power supply units. We continued the merge of fixed line and mobile power supply operations at specific sites. Due to lower consumption we reduced our forecast electricity demand at our service provider. Smart cooling technology also develops quickly and it brings continuous results. This year we also replaced several boilers. The increase of the temperature of machine rooms is managed as a global project from containers to entire exchanges, regardless of their size. The use of temperature resistant accumulators and accumulator coating is a preparatory phase of the project. As a pilot project we equipped four buildings with LED lighting. We also take care of saving water: We installed perlators in various premises. The investment in this equipment may return within a period of six months. This represents almost 1 million HUF saving per year. For us, the decrease of energy consumption is a global project. We strive to reduce energy consumption directly or indirectly within the frame of every development. This will result in lower consumption figures in the long run.

9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom Group, the goal was to ensure that the Magyar Telekom 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 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 Magyar Telekom from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom 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.
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, supplier due diligence, 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 – both within the parent company and Hungarian and international subsidiaries – in the topics of organized anti-corruption behavior, screening of contracted partners and rules of giving and accepting gifts.

In 2015 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Nyrt. 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 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 a new set-up in our economic environment 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 has started to follow this trend with stagnant customer base and lower prices. The fixed market is characterized by fixed-mobile integrated 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 is fueled by the government's Partnership for Digital Hungary program. The extensive development program aims to cover every household in Hungary with high-speed internet (HSI > 30 Mbit/s) access until the end of 2018. The digitalization of technology, services and education are key pillars of the country's competitiveness and the quality of life of its citizens.

In parallel with the fixed network developments, 3G and LTE network expansion is accelerated by competition and an increasing availability of mobile frequencies. Meanwhile the mobile voice market is characterized by increasing ratio of flat rate packages; the appearance of new market players is expected with some impact on the market in mid-term especially on mobile data. There is a fierce competition in broadband and content services and the battle for customer contracts has shifted from prices to quality in communication, especially focusing on network coverage and speed. The mobile broadband uptake still fuels the overall mobile market. However, the increasing regulation, in particular the abolishment of roaming fees and the decrease in mobile termination rates, is putting further pressure on market players.

The economic recovery in 2015 had a positive effect on the households. Despite the increasing household budget, prices will not reach pre-crisis levels. We expect a slowly improving economic environment for 2016. However, operators can find ways to exploit higher household spending – with cross-sell and up-sell opportunities. We expect that the new core segments, especially mobile broadband, pay TV and IT services will deliver revenue growth in the upcoming years.

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'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 are beyond our control. The global economy recovered from the crisis but it largely depends on the monetary policy of the FED, the growth of the Chinese and European economy and the volatile commodity prices. There are major uncertainties surrounding the future of the euro especially in Greece.

The Hungarian economy came out of recession in 2013. The GDP growth in 2015 was 3.0 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate that the GDP growth will remain high, at about 2.5 percent in 2016. The unemployment rate decreased to 6.2 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 in 2015 was HUF 25.2 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. In 2015, the Parliament modified the law, that newly constructed networks and new developments on existing networks are enjoying tax holiday for 5 years. The tax expense and liability for 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. 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 paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom 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 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.

In December, 2015 Magyar Telekom has signed an agreement to sell its 100% shareholding in Origo Zrt. (“Origo”) to New Wave Media Kft., for a total consideration of approximately EUR 13.2 million (ca. HUF 4.2 billion). The transaction closing is expected in the first quarter of 2016.

Magyar Telekom is continuously seeking business opportunities beyond core services.

11.2 Strategy

As a result of our focused strategic efforts, Magyar Telekom maintained its leading position in its Hungarian fixed voice, broadband, pay TV, mobile and ICT businesses in 2015, 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.

We continue our transformation towards a diversified digital service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing free cash flow 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, increase process automation and online customer servicing. 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 customers and third parties. We continue to identify and leverage new business opportunities in e-health, cloud, IoT, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we established a joint venture that provides energy services for business customers in order to improve and optimize our energy operations.

Following our strategy enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities in an extended market of information and communications technology 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, are 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 the identification, assessment and evaluation of risks, the development of necessary action plans, as well as the monitoring of performance and results. For the risk management to be effective, we must ensure that the management takes 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 the 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 by adding 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 the risks described below. These risks 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 were published; the price setting methodology of already regulated wholesale products and new type of regulated access services 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;
- 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 of 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;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- In Macedonia, the main development is the merger of two competitors, ONE and VIP. We expect this transaction to reshape the competitive environment in the Macedonian telecommunications market;
- Our share price may be volatile, and the 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.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

12.3 Financial risk factors

Magyar Telekom 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 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, the management thereof as well as sensitivity analyses 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'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 KPIs on Group level, and monitors their fulfillment annually. At the end of 2015 and 2014 Magyar Telekom fulfilled both criteria. 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 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 is HUF. Consequently, Magyar Telekom'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 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 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 liabilities, exceed the Company's foreign currency denominated assets, but changes of the functional currencies' exchange rates could have significant impact on the profit of the Group

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

Interest rate risk

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

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

Price risk

As of the end of the reporting periods, Magyar Telekom 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 the minimize the risk deriving from such price changes Magyar Telekom 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, 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's budgeted financing needs until the end of June 2017.

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 2015

13.1 Revenues

13.1.1 Net sales revenues

Net sales revenues increased from HUF 487,007 million in 2014 to HUF 502,275 million in 2015.

Net export sales decreased within net sales revenues by 4.9%, HUF 732 million mainly due to the decrease of incoming international traffic.

Net domestic sales increased significantly by HUF 16,000 million (3.4% increase) within net sales revenues. The nominal net increase is due to several positive and negative effects.

The largest increase occurred in energy revenues from HUF 43,303 million to HUF 50,924 million (17.6% increase) caused mainly by the rise of applied quantity of energy by customers.

The mobile non-voice revenues changed from HUF 69,351 million to HUF 76,819 million, resulting a 10.8% 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 12,148 million to HUF 16,470 million (35% increase) which is mostly due to the increase of revenues from insurance products.

TV services revenues increased from HUF 32,502 million to HUF 34,500 million (6.1% increase) which is caused mainly by the higher number of IP TV subscribers.

The largest decrease occured in mobil wholesale voice revenues from HUF 18,848 million to HUF 8,816 million, resulting a 53.2% decrease, which is mainly due to the reduction of call termination fees.

Fixed line voice-retail revenues decreased to HUF 48,964 million in 2015 compared to HUF 53,297 million in 2014 (8.1% decrease), mainly driven by the lower volume of traffic and the decline in the number of fixed line subscribers.

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 2015. Mobile equipment revenues increased by 3.6% from HUF 35,756 million to HUF 37,064 million in 2015 compared to 2014, while revenues from equipment sales related to fixed line services increased from HUF HUF 3,926 million to HUF 6,783 million (increase of 72.8%).

13.1.2 Other income

Other income increased from HUF 22,132 million to HUF 22,719 million (2.7% increase) which is due to the lower amount of reversals of provisions provided in the previous years and the higher amount of other income by impairments.

13.2 Operating expenses

Operating expenses (including material-type expenses, employee related expenses, depreciation and amortization and other expenses) increased from HUF 496,973 million in 2014 to HUF 519,331 million in 2015 (4.5% increase).

Material-type expenses increased from HUF 273,990 million in 2014 to HUF 286,178 million in 2015 (increase of 4.4%) which is caused by the increase of cost of goods sold and the decrease in costs of mediated services sold.

Cost of goods sold increased by 13.7%, from HUF 88,174 million to 100,240 million caused mainly by the increase in non-subscriber equipment sales and higher sale of subscriber TV sets and by the increase of electricity and natural gas measuring sites and along with it the consumed quantities are also higher compared to the previous year. This was partially compensated the decrease of purchase prices due to the decrease of world market prices.

Costs of mediated services sold decreased by 9.7%, from HUF 63,687 million to HUF 57,497 million. The decrease is due to the decision of National Media and Infocommunications Authority of Hungary (NMIAH) to further reduce the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute.

Employee related expenses decreased from HUF 69,120 million to HUF 67,184 million, however the depreciation and amortization is increased from HUF 82,926 million to HUF 91,125 million.

Other expenses increased from HUF 70,937 million in 2014 to HUF 74,844 million in 2015. The increase is mainly due to the increase in provisions for severance payments and employee bonuses.

13.3 Financial result

The positive result from financial transactions HUF 5,741 million in 2014 changed to negative result HUF 7,300 million in 2015 which is caused mainly by two contrary effects. The result is increased by the gain on derivatives (from HUF 737 million to HUF 7,087 million) which cannot counterbalance the significant decrease of dividends received (from HUF 24,793 million to HUF 5,495 million).

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

14.1 The sale of Origo

The Company signed an agreement to sell its 100% shareholding in Origo Zrt. ("Origo") to New Wave Media Kft.The closing of the transaction took place on February 5, 2016.

14.2 E2 Zrt. launched its operations

The joint venture, E2 Zrt. with MET Holding AG launched its operations on January 1, 2016 to provide energy services for business customers.

Budapest, February 24, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE SUPERVISORY BOARD

BUDAPEST, APRIL 12, 2016

REPORT OF THE SUPERVISORY BOARD OF MAGYAR TELEKOM PLC. FOR THE GENERAL MEETING OF THE COMPANY

In 2015 the Supervisory Board of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In 2015 the Supervisory Board held meetings on 6 occasions.

The Supervisory Board kept in regular contact with the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) and the Head of the independent internal audit organization (Group Auditing Directorate) of the Company.

The Supervisory Board regularly discussed the reports on the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the Magyar Telekom Group acquisition activities.

The Supervisory Board approved the 2015 Audit Plan of the independent internal audit organization (Group Auditing Directorate), requested and received regular information on the major findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were adequately answered by the Head of the Group Auditing Directorate at the Supervisory Board meetings.

In 2015 the Group Auditing Directorate has completed audits:
- on the integrity of financial reports (e.g.: efficiency of disclosure processes, application of new One.ERP processes),
- to improve operational processes (e.g.: Telekom Shop audit, product portfolio simplification, sponsoring and event management, effectiveness of the scoring/credit check process and controls, cyber security/patch management - configuration management) and
- to strengthen compliance and conformity with regulations (e.g.: effectiveness of data privacy incident monitoring and reporting, compliance of the qualified time-stamp service).

The Group Auditing Directorate has also started some over-the-plan (ad hoc) audits (e.g.: sales process of discount mobile devices under unique contract terms to business customers, car fleet management of MT Group) upon the request of the management to reduce the business and compliance risks raised during the year.

As a result of the audits the Group Auditing Directorate has recommended corrective measures and monitored the implementation of them at the areas concerned. The implemented measures have improved the control environment and, in addition, several efficiency improving opportunities have been identified.

The Group Auditing Directorate has also completed ICS audits to assure the effective operation and compliance of control environment. Similarly to the previous years they have also supported the work of Group Compliance Committee.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities.

During 2015 there was no shareholder notification submitted to the Supervisory Board, and the Chairman of the Supervisory Board has had other requests regarding the operations of the Company investigated in all cases.

The Supervisory Board has not discovered anything to disapprove in the Company's activities in 2015, with regard to the Company's compliance with statutory operation.

The Supervisory Board examined the submissions to be submitted to the General Meeting, or, with respect to certain agenda items, ensured their preparation and submission to the General Meeting.

The Supervisory Board examined the report of the Board of Directors on the management of the Company, on the business operation, on the business policy and on the financial situation of the Company and Magyar Telekom Group in 2015, which the Supervisory Board acknowledged.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS), 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 Consolidated Financial Statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS) with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 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 2015 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.

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. The Supervisory Board provides prior approval to the proposal of the Board of Directors, and proposes the proposal to the General Meeting for approval.

The Supervisory Board examined the proposal of the Board of Directors to purchase ordinary Magyar Telekom shares, and acknowledged it.

The Supervisory Board examined the Corporate Governance and Management Report of the Company, and with its acknowledgement proposes it to the General Meeting for acceptance.

The Supervisory Board examined the submission of the Board of Directors on granting relief from liability to the members of the Board of Directors, and agrees that the General Meeting should grant relief from liability to the members of the Board of Directors for the business year of 2015.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Board of Directors, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Supervisory Board, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Audit Committee, and acknowledged it.

The Supervisory Board accepted its proposal on the election and determination of the remuneration of the Company's Statutory Auditor, and determination of the contents of the material elements of the contract to be concluded with the Statutory Auditor, and submits it to the General Meeting.

Budapest, March 9, 2016

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap
Chairman of the Supervisory Board

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE AUDIT COMMITTEE

BUDAPEST, APRIL 12, 2016

REPORT OF THE AUDIT COMMITTEE OF MAGYAR TELEKOM PLC. FOR THE SUPERVISORY BOARD AND THE GENERAL MEETING OF THE COMPANY IN RELATION TO THE APPROVAL OF THE 2015 CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE 2015 STANDALONE ANNUAL REPORT OF THE COMPANY PREPARED IN ACCORDANCE WITH THE HUNGARIAN ACCOUNTING ACT (HAR), AND THE USE OF THE PROFIT AFTER TAX EARNED IN 2015

In 2015, the Audit Committee of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Audit Committee, based on its accepted Working Schedule, and in case of the occurrence of an extraordinary case, with a focus on its review without delay and on the interest of making the appropriate decision. In 2015, the Audit Committee held 6 meetings and 2 extraordinary meetings, and furthermore, it made written resolutions without holding a meeting on 6 occasions.

The Audit Committee kept in continuous contact with the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) of the Company, the Head of Internal Audit, the Group Compliance Officer, and the Statutory Auditor (the "Auditor").

The Audit Committee, in accordance with its purpose, supported the Supervisory Board in supervising the financial reporting system, in selecting the Auditor and in cooperating with the Auditor.

The Audit Committee supported the Supervisory Board – inter alia - in the following tasks:

The Audit Committee regularly monitored the services provided by the Auditor and their fees. The Auditor, with the general or specific pre-approval of the Audit Committee, provided audit of the financial statements, other audit related services and other services, including training services for the Company in 2015.

The Audit Committee quarterly reviewed and evaluated the reports on the activities of the Internal Audit, furthermore reviewed and approved the Audit Workplan of the Internal Audit.

The Audit Committee quarterly reviewed and evaluated the Group Compliance Officer's reports on
- the progress of the implementation of the compliance program;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

The Audit Committee reviewed and evaluated the Company's Internal Control System ("ICS") compliance.

The Audit Committee reviewed and evaluated the financial reports pertaining to those of regular information provision as prescribed by the Act CXX of 2001 on the Capital Market.

The Audit Committee reviewed and evaluated the risk management system of the Magyar Telekom Group, and the quarterly risk management reports.

There was no shareholder notification to the Audit Committee in 2015.

The Audit Committee reviewed and evaluated the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the Consolidated Financial Statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS), and to the General Meeting for approval the Consolidated Financial Statements including Balance Sheet Total Assets of HUF 1,207,024 million and Profit for the year of HUF 31,547 million.

The Audit Committee reviewed and evaluated the 2015 standalone Annual Report prepared in accordance with the Hungarian Accounting Act (HAR) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the standalone Annual Report and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 standalone Annual Report of the Company prepared in accordance with the Hungarian Accounting Act (HAR), and to the General Meeting for approval the standalone Annual Report including Balance Sheet Total Assets of HUF 1,016,117 million and After-tax Net Income of HUF 20,393 million.

The Audit Committee reviewed and evaluated the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. According to the review of the Audit Committee, the appropriate coverage for dividend payment is available, the Audit Committee agrees with the proposal. The Audit Committee proposes the proposal to the Supervisory Board for prior approval and proposes to the General Meeting for approval.

Budapest, March 3, 2016

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy
Chairman of the Audit Committee

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE USE OF THE PROFIT AFTER TAX EARNED IN 2015; PRESENTATION OF THE RELEVANT REPORT OF THE SUPERVISORY BOARD, THE AUDIT COMMITTEE AND THE AUDITOR; DECISION ON THE USE OF THE PROFIT AFTER TAX EARNED IN 2015

BUDAPEST, APRIL 12, 2016

According to Section 3:109(2) of the Civil Code and Section 5.2. (i) of the Articles of Association deciding on the utilisation of after-tax earnings belongs to the exclusive scope of authority of the General Meeting. Shareholders shall be entitled to dividend who are registered in the Share Register at the record date of the dividend payment identification process ordered by the Company.

Resolution proposal:

A dividend of HUF 15 per ordinary share (with a face value of HUF 100) shall be paid by the Company to the shareholders from the profit of 2015.
The HUF 15,635,275,215 to be disbursed as dividends shall be paid from the after-tax profits of HUF 20,393,262,492 based on HAR figures, and the remaining amount of HUF 4,757,987,277 of the after-tax profits based on HAR figures shall be allocated to retained earnings.
May 25, 2016 shall be the first day of dividend disbursement. The record date of the dividend payment shall be May 13, 2016.
On April 21, 2016, the Board of Directors of Magyar Telekom Plc shall publish a detailed announcement on the order of the dividend disbursement on the homepage of the Company and the Budapest Stock Exchange.
The dividends shall be paid by KELER Ltd., in compliance with Magyar Telekom Plc's instructions.

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

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. The Supervisory Board provides prior approval to the proposal of the Board of Directors, and proposes the proposal to the General Meeting for approval.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE SUPERVISORY BOARD

BUDAPEST, APRIL 12, 2016

REPORT OF THE SUPERVISORY BOARD OF MAGYAR TELEKOM PLC. FOR THE GENERAL MEETING OF THE COMPANY

In 2015 the Supervisory Board of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, based on its accepted Working Schedule. In 2015 the Supervisory Board held meetings on 6 occasions.

The Supervisory Board kept in regular contact with the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) and the Head of the independent internal audit organization (Group Auditing Directorate) of the Company.

The Supervisory Board regularly discussed the reports on the decisions made by the Board of Directors and the Management Committee, the executive financial reports and the reports on the Magyar Telekom Group acquisition activities.

The Supervisory Board approved the 2015 Audit Plan of the independent internal audit organization (Group Auditing Directorate), requested and received regular information on the major findings of each of the audits, the measures and the status of the implementation of these measures. The questions further occurring in relation to the particular audits were adequately answered by the Head of the Group Auditing Directorate at the Supervisory Board meetings.

In 2015 the Group Auditing Directorate has completed audits:
- on the integrity of financial reports (e.g.: efficiency of disclosure processes, application of new One.ERP processes),
- to improve operational processes (e.g.: Telekom Shop audit, product portfolio simplification, sponsoring and event management, effectiveness of the scoring/credit check process and controls, cyber security/patch management - configuration management) and
- to strengthen compliance and conformity with regulations (e.g.: effectiveness of data privacy incident monitoring and reporting, compliance of the qualified time-stamp service).

The Group Auditing Directorate has also started some over-the-plan (ad hoc) audits (e.g.: sales process of discount mobile devices under unique contract terms to business customers, car fleet management of MT Group) upon the request of the management to reduce the business and compliance risks raised during the year.

As a result of the audits the Group Auditing Directorate has recommended corrective measures and monitored the implementation of them at the areas concerned. The implemented measures have improved the control environment and, in addition, several efficiency improving opportunities have been identified.

The Group Auditing Directorate has also completed ICS audits to assure the effective operation and compliance of control environment. Similarly to the previous years they have also supported the work of Group Compliance Committee.

The Supervisory Board regularly reviewed the reports of the Audit Committee on its activities.

During 2015 there was no shareholder notification submitted to the Supervisory Board, and the Chairman of the Supervisory Board has had other requests regarding the operations of the Company investigated in all cases.

The Supervisory Board has not discovered anything to disapprove in the Company's activities in 2015, with regard to the Company's compliance with statutory operation.

The Supervisory Board examined the submissions to be submitted to the General Meeting, or, with respect to certain agenda items, ensured their preparation and submission to the General Meeting.

The Supervisory Board examined the report of the Board of Directors on the management of the Company, on the business operation, on the business policy and on the financial situation of the Company and Magyar Telekom Group in 2015, which the Supervisory Board acknowledged.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS), 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 Consolidated Financial Statements are in compliance with the prescriptions of the law, the Supervisory Board agrees with their content. The Supervisory Board proposes to the General Meeting for approval the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS) with Balance Sheet Total Assets and Profit for the year in accordance with the proposal of the Board of Directors and the Audit Committee.

The Supervisory Board, with the involvement of the Audit Committee and the Statutory Auditor, examined the 2015 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 2015 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.

The Supervisory Board, with the involvement of the Audit Committee, discussed the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. The Supervisory Board provides prior approval to the proposal of the Board of Directors, and proposes the proposal to the General Meeting for approval.

The Supervisory Board examined the proposal of the Board of Directors to purchase ordinary Magyar Telekom shares, and acknowledged it.

The Supervisory Board examined the Corporate Governance and Management Report of the Company, and with its acknowledgement proposes it to the General Meeting for acceptance.

The Supervisory Board examined the submission of the Board of Directors on granting relief from liability to the members of the Board of Directors, and agrees that the General Meeting should grant relief from liability to the members of the Board of Directors for the business year of 2015.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Board of Directors, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Supervisory Board, and acknowledged it.

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Audit Committee, and acknowledged it.

The Supervisory Board accepted its proposal on the election and determination of the remuneration of the Company's Statutory Auditor, and determination of the contents of the material elements of the contract to be concluded with the Statutory Auditor, and submits it to the General Meeting.

Budapest, March 9, 2016

In representation of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap
Chairman of the Supervisory Board

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

REPORT OF THE AUDIT COMMITTEE

BUDAPEST, APRIL 12, 2016

REPORT OF THE AUDIT COMMITTEE OF MAGYAR TELEKOM PLC. FOR THE SUPERVISORY BOARD AND THE GENERAL MEETING OF THE COMPANY IN RELATION TO THE APPROVAL OF THE 2015 CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE 2015 STANDALONE ANNUAL REPORT OF THE COMPANY PREPARED IN ACCORDANCE WITH THE HUNGARIAN ACCOUNTING ACT (HAR), AND THE USE OF THE PROFIT AFTER TAX EARNED IN 2015

In 2015, the Audit Committee of Magyar Telekom Plc. (the "Company") has performed its work in accordance with the Articles of Association of the Company and the Rules of Procedure of the Audit Committee, based on its accepted Working Schedule, and in case of the occurrence of an extraordinary case, with a focus on its review without delay and on the interest of making the appropriate decision. In 2015, the Audit Committee held 6 meetings and 2 extraordinary meetings, and furthermore, it made written resolutions without holding a meeting on 6 occasions.

The Audit Committee kept in continuous contact with the Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (chief legal counsel) of the Company, the Head of Internal Audit, the Group Compliance Officer, and the Statutory Auditor (the "Auditor").

The Audit Committee, in accordance with its purpose, supported the Supervisory Board in supervising the financial reporting system, in selecting the Auditor and in cooperating with the Auditor.

The Audit Committee supported the Supervisory Board – inter alia - in the following tasks:

The Audit Committee regularly monitored the services provided by the Auditor and their fees. The Auditor, with the general or specific pre-approval of the Audit Committee, provided audit of the financial statements, other audit related services and other services, including training services for the Company in 2015.

The Audit Committee quarterly reviewed and evaluated the reports on the activities of the Internal Audit, furthermore reviewed and approved the Audit Workplan of the Internal Audit.

The Audit Committee quarterly reviewed and evaluated the Group Compliance Officer's reports on
- the progress of the implementation of the compliance program;
- the reported comments and complaints, the status of the investigations initiated with respect to them, and the proposed remedial actions.

The Audit Committee reviewed and evaluated the Company's Internal Control System ("ICS") compliance.

The Audit Committee reviewed and evaluated the financial reports pertaining to those of regular information provision as prescribed by the Act CXX of 2001 on the Capital Market.

The Audit Committee reviewed and evaluated the risk management system of the Magyar Telekom Group, and the quarterly risk management reports.

There was no shareholder notification to the Audit Committee in 2015.

The Audit Committee reviewed and evaluated the 2015 Consolidated Financial Statements prepared according to International Financial Reporting Standards (IFRS) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the Consolidated Financial Statements and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS), and to the General Meeting for approval the Consolidated Financial Statements including Balance Sheet Total Assets of HUF 1,207,024 million and Profit for the year of HUF 31,547 million.

The Audit Committee reviewed and evaluated the 2015 standalone Annual Report prepared in accordance with the Hungarian Accounting Act (HAR) to be submitted to the Supervisory Board and the General Meeting by the Board of Directors, the proposal of the Board of Directors for their approval, and listened to the relevant report of the Auditor.

The Audit Committee, based on its activities performed during the year and the report of the Auditor, agrees with the content of the standalone Annual Report and the proposal, and submits it to the Supervisory Board. The Audit Committee proposes to the Supervisory Board for agreement of the content of the 2015 standalone Annual Report of the Company prepared in accordance with the Hungarian Accounting Act (HAR), and to the General Meeting for approval the standalone Annual Report including Balance Sheet Total Assets of HUF 1,016,117 million and After-tax Net Income of HUF 20,393 million.

The Audit Committee reviewed and evaluated the proposal of the Board of Directors, according to which the Company shall pay a dividend of HUF 15 per ordinary share (with a face value of HUF 100) to the shareholders from the profit of 2015. According to the review of the Audit Committee, the appropriate coverage for dividend payment is available, the Audit Committee agrees with the proposal. The Audit Committee proposes the proposal to the Supervisory Board for prior approval and proposes to the General Meeting for approval.

Budapest, March 3, 2016

In representation of the Audit Committee of Magyar Telekom Plc.:

Dr. János Illéssy
Chairman of the Audit Committee

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

AUTHORIZATION OF THE BOARD OF DIRECTORS TO PURCHASE ORDINARY MAGYAR TELEKOM SHARES

BUDAPEST, APRIL 12, 2016

According to Section 3:223(1) of the Civil Code and Section 5.2.(p) of the Articles of Association, the General Meeting may authorize the Board of Directors to purchase treasury shares.
The authorization granted by the General Meeting of Magyar Telekom Plc. with its resolution no. 8/2015 (IV.15.) for the Board of Directors to purchase ordinary shares shall expire on October 15, 2016. The Board of Directors hereby requests new authorization from the General Meeting to purchase ordinary Magyar Telekom shares for 18 months following the approval date.
Upon the approval of the new authorization, the authorization granted by the resolution no. 8/2015 (IV.15.) of the General Meeting shall be repealed.

Resolution proposal:

The General Meeting authorizes the Board of Directors to purchase Magyar Telekom ordinary shares, the purpose of which could be the following:

- **to supplement Magyar Telekom's current shareholder remuneration policy in line with international practice;**
- **to operate a share based incentive plan.**

The authorization will be valid for 18 months starting from the date of approval of this General Meeting resolution. The shares to be purchased on the basis of this authorization together with the treasury shares already held by Magyar Telekom shall not at any time exceed more than 10% of the share capital effective at the date of granting this authorization (i.e. up to 104,274,254 ordinary shares with a face value of HUF 100 each) of Magyar Telekom Plc.
The shares can be purchased through the stock exchange. The equivalent value per share paid by Magyar Telekom Plc. may not be more than 5% above the market price of the share determined by the opening auction on the trading day at the Budapest Stock Exchange. The minimum value to be paid for one share is HUF 1.
The authorization may be exercised in full or in part, and the purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume has been reached.
Authorization granted to the Board of Directors by Resolution No. 8/2015 (IV.15.) of the General Meeting is hereby repealed.

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

The Supervisory Board examined the proposal of the Board of Directors to purchase ordinary Magyar Telekom shares, and acknowledged it.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

DECISION ON THE APPROVAL OF THE CORPORATE GOVERNANCE AND MANAGEMENT REPORT

BUDAPEST, APRIL 12, 2016

EGYÜTT. VELED

Pursuant to Section 3:289 of the Civil Code, the board of directors of public limited companies must submit the corporate governance and management report to the Annual General Meeting of the company, prepared according to the rules applicable to the persons of the given stock exchange. According to Section 5.2 (j) of the Articles of Association, the approval of the corporate governance and management report is within the exclusive authority of the General Meeting. The report and its annex were prepared on the basis of the provisions of the Civil Code and the Corporate Governance Recommendations of the Budapest Stock Exchange (BSE) (www.bet.hu).

Resolution proposal:

The General Meeting approves the Corporate Governance and Management Report for the business year of 2015 of the Company.

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

The Supervisory Board examined the Corporate Governance and Management Report of the Company, and with its acknowledgement proposes it to the General Meeting for acceptance.

EGYÜTT. VELED

CORPORATE GOVERNANCE AND MANAGEMENT REPORT OF MAGYAR TELEKOM PLC.

Approved by the Board of Directors of Magyar Telekom Plc. on February 24, 2016 with Resolution No. 2/9 (02.24.2016).

INTRODUCTION

The Board of Directors of Magyar Telekom Telecommunications Public Limited Company (hereinafter "Magyar Telekom" or "Company") based on the Corporate Governance Recommendations of the Budapest Stock Exchange Zrt. ("BSE"), and the provisions of Act V of 2013 on the Civil Code ("Civil Code"), approves and submits to the Annual General Meeting the below Corporate Governance and Management Report.

1. A BRIEF PRESENTATION OF THE OPERATION OF THE BOARD OF DIRECTORS, AND A DESCRIPTION OF THE DIVISION OF RESPONSIBILITY AND DUTIES BETWEEN THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT

Magyar Telekom's Board of Directors ("Board" or "Board of Directors") shall be the management body of the Company and shall represent the Company with regard to third parties, in court and before other authorities. The Board of Directors exercises its rights and performs its obligations as an independent body.

The members of the Board of Directors shall conduct the management of the Company based on of the primacy of the interest of the Company. The members of the Board of Directors shall be held liable for damages caused to the Company resulting from his/her management activities in accordance with the rules pertaining to damages for loss caused by breach of contract. If the members of the Board of Directors of the Company cause damage to a third party in connection with their office, liability in relation to the injured person lies with the members of the Board of Directors and the Company jointly and severally.

The Board of Directors is not an operative management body, in other words, the Board of Directors is not involved in the Company's daily business. 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 ("General Meeting") or to other corporate bodies by the Articles of Association of the Company ("Articles of Association") or by the law. Among other responsibilities, it approves the Company's strategy, business plan, major organizational changes and key transactions, concludes employment agreements with and removes the Chief Executive Officer ("CEO") and the Chief Officers, and determines the remuneration and target tasks on the basis of which it evaluates the their performance.

For the purpose of the operative control and effective day-to-day management of the Company the Board of Directors established the Management Committee the members of which are the CEO and the Chief Officers. The Management Committee acts within the scope of competences assigned to it by the Board of Directors. The Management Committee reports to the Board of Directors on the operation and status of Magyar Telekom Group at each meeting of the Board of Directors.

Due to the fact that in line with the above, the Board of Directors delegates several competences to the Management Committee we answered "No" to some questions in the declaration to this Corporate Governance and Management Report, because in these cases the Company does comply with the given recommendation but based on the decision of the Board of Directors the procedure / decision to comply with the given recommendation is within the Management Committee's scope of competence delegated to it by the Board of Directors.

The detailed rules on the tasks, competences and operation of the Management Committee are contained in its Rules of Procedure approved by the Board of Directors:
http://www.telekom.hu/static/sw/download/20151217_MT__MC_RoP_ENG.PDF

2. THE INTRODUCTION OF THE MEMBERS OF THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND THE EXECUTIVE MANAGEMENT (IN THE CASE OF BOARD MEMBERS, INCLUDING THE STATUS OF INDEPENDENCE OF THE DIFFERENT MEMBERS), A DESCRIPTION OF THE STRUCTURE OF COMMITTEES.

Introduction of the members of the Board of Directors, the supervisory board of Magyar Telekom ("Supervisory Board") and the Management Committee is available at the web site of Magyar Telekom:

http://www.telekom.hu/about_us/investor_relations/corporate_governance/board_of_directors
http://www.telekom.hu/about_us/investor_relations/corporate_governance/supervisory_board
http://www.telekom.hu/about_us/investor_relations/corporate_governance/management_committee

The Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. Currently the Board of Directors of Magyar Telekom has eight members. The assignment of the members of the Board of Directors, unless otherwise provided by the General Meeting, lasts for a term of three years until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof. The members of the Board of Directors can be removed or re-elected at any time by the General Meeting. Unless otherwise provided by a separate arrangement, the removal of, or failure to re-elect, a member of the Board of Directors shall not affect the employment rights of such person in respect of the Company where such member of the Board of Directors is also an employee of the Company. The Board of Directors operates in compliance with the laws, the Articles of Association and its Rules of Procedure.

The Civil Code does not include requirements with regard to the independency of the members of the Board of Directors if besides the Board of Directors there is also a supervisory board operating at the company. Independent members of the Board of Directors: Frank Odzuck, dr. Mihály Patai and György Mosonyi.

According to the Articles of Association the Supervisory Board shall be comprised of 3-15 members. The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board, unless otherwise provided by the General Meeting, lasts for a term of three years until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 then their assignment lasts until the date thereof. Currently the Supervisory Board of Magyar Telekom has twelve members. The Supervisory Board acts as a body. The Supervisory Board elects a Chairman (if necessary, a deputy chairman) from among its members. The Supervisory Board carries out its tasks according to its Rules of Procedure that is established by the Supervisory Board and approved by the General Meeting.

Independent members of the Supervisory Board according to the Civil Code: Dr. László Pap, Dr. János Illéssy, Dr. Sándor Kerekes, Dr. Károly Salamon, Dr. János Bitó, Konrad Kreuzer and Dr. Konrad Wetzker.

The detailed rules on the tasks, competences and operation of the Board of Directors and the Supervisory Board are contained in their Rules of Procedures:
http://www.telekom.hu/static/sw/download/20150429_MT_BoD_RoP_ENG_honlapra.pdf
http://www.telekom.hu/static/sw/download/SB_RulesofProcedure_20150415.pdf

3. THE NUMBER OF MEETINGS HELD IN THE RELEVANT PERIOD BY THE BOARD OF DIRECTORS, SUPERVISORY BOARD AND COMMITTEES, INCLUDING THE NUMBER OF MEMBERS ATTENDING

Section 5 discusses the work of the individual committees in detail, therefore, we analyzed here the above parameters with regard to the Board of Directors and the Supervisory Board.

In business year 2015 the Board of Directors held five meetings in accordance with its Preliminary Meeting Schedule, at which the overall rate of attendance of the members (either personally or by telephone conference) was 78%. The Board of Directors adopted resolutions without holding a meeting in writing in eleven cases.

The most important issues discussed by the Board of Directors in year 2015 were as follows:

- monitoring financial and non-financial KPIs;
- decisions on the bonus achievement for the members of the Management Committee in year 2014, based on recommendation of the Remuneration and Nomination Committee;

- decisions on the fine tuning of bonus targets for the members of the Management Committee for the year 2015, based on recommendation of the Remuneration and Nomination Committee;
- proposal to the General Meeting on the approval of the year 2014 financial statements, the use of the profit after tax and the dividend;
- approval of the mid-term strategy for years 2016-2020 and business planning for years 2016-2019;
- cooperation with Deutsche Telekom;
- decision on the establishment and modification of the employment contract of certain Management Committee members;
- organizational restructuring;
- M&A decisions;
- risk management of Magyar Telekom Group;
- review of the compliance program.

The Supervisory Board held 6 meetings in business year 2015 at which the average rate of participation was 80%.

The most important issues discussed by the Supervisory Board in 2015 were as follows:

- reports, submissions on the agenda of the General Meeting;
- strategy of the Magyar Telekom Group 2015-2019;
- Business Plan of the Magyar Telekom Group 2015-2018;
- reports of the Board of Directors on its key business policy decisions;
- Magyar Telekom Group's Executive Financial Reports;
- reports on the decisions of the Management Committee;
- reports on the activity of the Internal Audit and the Audit Plan of the Internal Audit;
- progress of the Compliance program;
- reports on the acquisition activities of Magyar Telekom Group;
- reports on the activities of the Audit Committee.

4. THE PRESENTATION OF VIEWPOINTS CONSIDERED WHEN EVALUATING THE WORK OF THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD, THE EXECUTIVE MANAGEMENT, AS WELL AS OF THE DIFFERENT MEMBERS. REFERENCE TO WHETHER EVALUATION CARRIED OUT IN THE RELEVANT PERIOD HAS RESULTED IN ANY CHANGES

The year 2015 self assessment of the Board of Directors is published on the web site of the Company. The self assessment primarily focused on:

- the performance of tasks belonging to the scope of authority according to the Articles of Association and the Rules of Procedure of the Board of Directors;
- the shareholder relations;
- the enforcement of the strategic and business plans of the Company;
- compliance; and
- the assessment of the legal and ethical requirements.

Within the framework of the year 2015 performance evaluation of the Supervisory Board the following viewpoints – among others - were taken into account:

- whether the organization and members of the Supervisory Board, the operation of the Supervisory Board was ensured in business year 2015 as prescribed in the Rules of Procedure of the Supervisory Board;
- whether the Supervisory Board, based on its legal status, scope of authorities and responsibilities as included in its Rules of Procedure, properly fulfilled its tasks in business year 2015;
- whether the Supervisory Board deems it necessary to take further actions or follow-up steps in the individually assessed cases.

Within the framework of the evaluation of the Y2015 performance of the Supervisory Board the following viewpoints were taken into account at the assessment of the individual members and also whether based on these viewpoints their relevant competence was ensured:

- Dr. László Pap: Independence, expertise in technical – telecommunications technology – field, experience as member of the Audit Committee and as member of the Board of Directors of an international company.
- Dr. János Illéssy: Independence, expertise in technical field and economy, experience as chief financial officer of quoted companies, as member and chairman of the Audit Committee.
- Dr. Sándor Kerekes: Independence, expertise in economy and business management, experience as member of the Audit Committee, as member of the Board of Directors and Supervisory Board of various mid-size companies.
- Dr. Károly Salamon: Independence, expertise in technical field and economy, experience as chief financial officer or chairman-chief executive officer of many companies and banks, as member of the Audit Committee, as member of the Board of Directors, Presidency or Supervisory Board of many banks and companies.
- Dr. János Bitó: Independence, expertise in technical field, experience as member of the Audit Committee and as member of the Supervisory Board and Board of Directors of many companies.
- Konrad Kreuzer: Independence, expertise in law and business area, experience as chairman of the Board of Directors and Supervisory Board of many companies.
- Dr. Konrad Wetzker: Independence, expertise in economy, experience in applied research, as senior advisor of Corvinus University of Budapest and chairman of the Corvinus School of Management of Budapest.
- Martin Meffert: Expertise in telecommunications and economics, experience in technical field, as country manager of Hungary and as responsible person for Corporate Governance issues of Magyar Telekom, Makedonski Telekom, Slovak Telekom.
- Attila Bujdosó: Expertise in technical field, experience as member of trade union and Workers' Council, as president of the Telecommunications Trade Union.
- Tamás Lichnovszky: Expertise in technical and legal field, experience in customer care area, as representative in Workers' Council, as member and chairman of the Central Workers' Council.
- Éva Őz: Expertise in economy, experience in real estate investment and controlling field, as chairwoman of Workers' Council, as member of the Central Workers' Council.
- Zsoltné Varga: Expertise in technical field, experience in sales and customer care, as employees' representative, as official of the Workers' Council, as member of the Central Workers' Council and as deputy chairwoman of European Workers' Council of Deutsche Telekom.

5. REPORT ON THE OPERATION OF DIFFERENT COMMITTEES, INCLUDING THE INTRODUCTION OF THE MEMBERS OF THE COMMITTEES (PROFESSIONAL BACKGROUND), THE NUMBER OF MEETINGS HELD, THE NUMBER OF MEMBERS ATTENDING THE MEETINGS, AS WELL AS THE MOST IMPORTANT ISSUES DISCUSSED AT THE MEETINGS AND THE GENERAL OPERATION OF THE COMMITTEE. IF THE BOARD OF DIRECTORS HAS PASSED A RESOLUTION ON AN ISSUE CONTRARY TO THE RECOMMENDATIONS OF THE AUDIT COMMITTEE, THE PRESENTATION OF THE OPERATIONS OF THE AUDIT COMMITTEE SHALL INCLUDE THAT FACT (AS WELL AS THE REASONS OF THE BOARD OF DIRECTORS FOR DOING SO). IT IS RECOMMENDED THAT REFERENCE BE MADE TO THE COMPANY'S WEBSITE, WHERE THE TASKS DELEGATED TO THE COMMITTEES, THE RULES OF PROCEDURE OF THE COMMITTEES AND THE DATE OF APPOINTING THE MEMBERS SHOULD BE DISCLOSED.

Audit committee of Magyar Telekom ("Audit Committee")

Members of the Audit Committee:
- Dr. János Illéssy
- Dr. László Pap
- Dr. Sándor Kerekes
- Dr. Károly Salamon
- Dr. János Bitó

Introduction of the members of the Audit Committee is available at the web site of Magyar Telekom:
http://www.telekom.hu/about_us/investor_relations/corporate_governance/audit_committee

The General Meeting elects a 3-5 member Audit Committee from the independent members of the Supervisory Board for the same period as the membership of the relevant members in the Supervisory Board. At least one Committee member must have a qualification in accountancy or be a qualified auditor.

The purpose of the Audit Committee is to support the Supervisory Board in supervising the financial reporting system, in selecting the statutory Auditor and in cooperating with the statutory Auditor.

The Audit Committee acts within its scope of authority provided in the Civil Code, in the Articles of Association and in its Rules of Procedure approved by the Supervisory Board.

The Audit Committee held 6 meetings and 2 extraordinary meetings in the previous business year of 2015, with 97% average participation rate. The Audit Committee made further written resolutions without holding a meeting on 6 occasions.

The Chief Financial Officer, the Chief Legal and Corporate Affairs Officer (General Counsel) of the Company, the leader of the Internal Audit, the Group Compliance Officer and the representatives of the statutory Auditor, PricewaterhouseCoopers Könyvvizsgáló Kft. ("PwC") participated at the meetings of the Audit Committee – except for the discussion of agenda items discussed within the framework of closed meetings by the decision of the Audit Committee.

The Audit Committee, during the cooperation with the statutory Auditor - inter alia - discussed the below subject matters with the statutory Auditor:
- formal written statement of PwC specifying its relationship with the Company in accordance with Point 1 Section 56 of the Act on the Chamber of Hungarian Auditors, the activities of auditors, and on the public oversight of auditors;
- Y2014 audit;
- independent auditor opinions on the Y2014 Consolidated Financial Statements of Magyar Telekom Group prepared according to the International Financial Reporting Standards ("IFRS") and the Y2014 Annual Report of the Company prepared according to the Hungarian Accounting Standards ("HAR");
- proposal on the election of the Auditor and the determination of its remuneration;
- enforcement of the professional requirements and conflict of interest stipulations towards the Auditor;
- Y2014 Management Letter and the response of the management of the Company;
- Y2015 audit.

The Audit Committee – inter alia – discussed the below important issues at its meetings:
- the services of the statutory Auditor and their fees;
- reports on the activities of the Internal Audit, Audit Plan of the Internal Audit;
- reports on the activities of the Group Compliance Officer;
- Y2014 Consolidated Financial Statements of Magyar Telekom Group prepared according to the IFRS and the Y2014 Annual Report of the Company prepared according to the HAR, and the proposals for the acceptance of these financial statements;
- the proposal for appropriating the profit after tax;
- Internal Control System ("ICS") compliance;
- the risk management system of Magyar Telekom Group, quarterly risk management reports;
- reports on the acquisition activities of Magyar Telekom Group.

The detailed rules on the tasks, competences and operation of the Audit Committee are contained in its Rules of Procedure:
http://www.telekom.hu/static/sw/download/AC_Rules_of_Procedure_03_12_2015.pdf

Remuneration and Nomination Committee of Magyar Telekom ("Remuneration and Nomination Committee")

Members of the Remuneration and Nomination Committee:
- Frank Odzuck
- Thilo Kusch
- Dr. Ralph Rentschler

Introduction of the members of the Remuneration and Nomination Committee is available at the web site of Magyar Telekom:
https://www.telekom.hu/about_us/investor_relations/corporate_governance/compensation

The Remuneration and Nomination Committee is comprised of three members elected by the Board of Directors from among its members. The assignment of the members is the same period as their assignment as members of the Board of Directors.

The purpose of the Remuneration and Nomination Committee 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 its Rules of Procedure.

In 2015 the Remuneration and Nomination Committee held three meetings and adopted resolutions in writing without holding a meeting in four cases.
The issues discussed were as follows:

- February, 2015 (participation rate: 100%)
    - Proposal on the amendment of the Remuneration Guidelines of Magyar Telekom Group
    - Proposal on the evaluation of the year 2014 bonus targets of Magyar Telekom Group's Top Executives
    - Target Setting of the year 2015 for Magyar Telekom Group's Top Executives
    - Topics in accordance with the Corporate Governance Recommendations
        - Report to the Board of Directors of Magyar Telekom Plc. on the operation of the Remuneration and Nomination Committee in 2014
        - Preparation of Remuneration Statement

- March, 2015 (voting in writing; participation rate: 100%)
    - Personnel topic

- April, 2015 (participation rate: 100%)
    - Proposal on the Performance Dialog evaluation of the year 2014 of Magyar Telekom Group's Top Executives
    - Performance Dialog targets of the year 2015 for Magyar Telekom Group's Top Executives

- April, 2015 (voting in writing; participation rate: 100%)
    - Personnel topic

- June, 2015 (voting in writing; participation rate: 100%)
    - Personnel topic

- July, 2015 (voting in writing; participation rate: 100%)
    - Final evaluation of Variable II 2011 and Interim evaluation of the on-going Variable II programs for Y2014

- December, 2015 (participation rate: 100%)
    - Compliance with the BSE Corporate Governance Recommendations - Remuneration / Ascertaining of disclosure obligations

The detailed rules on the tasks, competences and operation of the Remuneration and Nomination Committee are contained in its Rules of Procedure:
http://www.telekom.hu/static/sw/download/Rules_of_Procedure_of_the_Remuneration_and_Nomination_Committee_ENG_20130920.pdf

6. THE PRESENTATION OF THE SYSTEM OF INTERNAL CONTROLS AND THE EVALUATION OF THE ACTIVITY IN THE RELEVANT PERIOD. REPORT ON THE EFFICIENCY AND EFFECTIVENESS OF RISK MANAGEMENT PROCEDURES. (INFORMATION ON WHERE THE REPORT ON INTERNAL CONTROLS BY THE BOARD OF DIRECTORS MAY BE VIEWED BY SHAREHOLDERS.)

The presentation of the system of **internal controls**, evaluation of the activity in the relevant period.

Magyar Telekom's management is committed to establish and maintain an adequate internal control system to ensure the reliability of the financial reports, and minimize operating and compliance risks. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

For the business year 2015 we fully accomplished control documentation and evaluation in the IT supported ICS system. Beside fundamental controls defined by Deutsche Telekom we further operate Transaction Level Controls implemented based on SOX methodology. Transaction Level Controls describe the controls built into our business processes that have been designed and operated to ensure that material misstatements in each significant financial account and disclosure within the financial statements are prevented or detected in a timely manner.

Complete evaluation of our internal control system is based on the method established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The operation of the internal control system is supported also by the independent internal audit function. Beyond tasks regarding the risk based internal audit work plan, contributes to the enhancement of the internal control processes and to the reduction of existing risks through ad-hoc audits. The Internal Audit area follows up the implementation of the measures defined on the basis of the audits. The Supervisory Board and the Audit Committee receive regular reports on the findings of the audits; measures, based on the findings and fulfillment of tasks.

In line with the criteria of the adopted internal control framework, management evaluates the effectiveness of internal control system within each financial year. Management's assessment for 2015 is still in progress, but based on the already available information, we believe that internal control system has been operating effectively to prevent potential material misstatements in the financial statements, and minimize operating and compliance risks.

The Company's shareholders are being informed about the operation of our internal control system through our public reports.

The management and Board of Directors of Magyar Telekom are committed to conduct all business activities of Magyar Telekom Group according to the highest legal and ethical standards. Based on this commitment the Board of Directors established the Corporate compliance program of Magyar Telekom.

The Corporate compliance program is applicable to all bodies, organizations, employees of Magyar Telekom Group, and advisors, agents, representatives as well as to all persons and organizations that work on behalf of the Company or its subsidiary.

The Corporate compliance program of Magyar Telekom ensures that the business activities of the Group are conducted with observing and in compliance with the relevant laws to the outmost extent, according to the highest standards of training and commitment. It requires the realization of guidelines and processes that manage potential compliance risks and implement specific processes in order to report, investigate, monitor and correct suspected or actual lack of compliance.

Risk management policy

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 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.

7. INFORMATION ON WHETHER THE AUDITOR HAS CARRIED OUT ANY ACTIVITIES NOT RELATED TO AUDITING

Based on the effective Pre-approval Policy of the Audit Committee the statutory Auditor – upon the general pre-approval or the specific pre-approval of the Audit Committee – provided the below services for the Company in business year 2015 besides the audit of the financial statements type of services:

- other audit related services,
- other services, training services.

8. A DETAILED PRESENTATION OF THE COMPANY'S DISCLOSURE POLICY, AND ITS POLICY ON TRADING BY INSIDERS

Disclosure policy of the Company

Magyar Telekom is committed that the financial statements disclosed by the Company to its shareholders or the investors should be accurate and complete, and provide a true and fair view of the Company's assets, financial position and results of operations in all important aspects, and such disclosures should be made in time to meet the requirements of the applicable laws and requirements of BSE.

The controls and procedures currently used by the Company are designed to ensure that: information required by the BSE and the Central Bank of Hungary (the "Authority") to be disclosed by the Company (Annual and Half-Year Reports and Interim Management Reports) as well as any and all other written information that the Company discloses from time to time to the investment community and to the public is recorded, processed, summarized, and reported accurately and on a timely basis as well as that the information is collected and transferred to the management to ensure that timely decisions are made on the disclosure.

Between July, 2003 and December 2015 a Disclosure Committee had been operating at the Company the tasks of which included – among others – to elaborate and monitor processes and control procedures described above. The Disclosure Committee was comprised of such managers who were jointly well informed on the significant and complex aspects of the business and financial activities as well as the risks of the Company. The Disclosure Committee of the Company supported the Chief Executive Officer and the Chief Financial Officer in fulfilling their respective duties, i.e. to have an oversight on the processes ensuring the accuracy and timeliness of disclosures. As of December, 2015 the Disclosure Committee has been terminated, however it does not influence that the Company is committed that the financial statements disclosed to its shareholders or investors should be accurate and complete, and provide a true and fair view of the Company's assets, financial position and results of operations in all important aspects.

Within the framework of an internal audit the Company reviews its disclosure processes each year.

Material information to the investors and to the public is available at the web site of Magyar Telekom:

www.telekom.hu/abbout_us/investor_relations

Policy in connection with the prohibition of insider trading

With the aim of ensuring compliance with the requirements of Chapter XXI of the Act CXX of 2001 on Capital Markets ("Capital Markets Act") on the prohibition of insider trading and market manipulation Magyar Telekom created its own internal regulation which applies to all organizations of Magyar Telekom and those affiliated companies in which Magyar Telekom has 25% or more direct or indirect ownership or voting rights.

The regulation defines insider information, insider trading and market manipulation, the scope of insider persons, insider records and states as a general rule that insider dealing and market manipulation is prohibited in the possession of inside information for financial instruments issued by Magyar Telekom.

Magyar Telekom does encourage its employees and directors to invest in Magyar Telekom securities, however, it has defined in its internal regulation some specific restrictions regarding the timing of trading in securities.

Persons whose names are listed in the registry of persons having access to insider information may not trade in Magyar Telekom shares from the date of their entry into the registry until their deletion from the registry or until the registry is closed due to any other reason.

A certain group of insider persons as well as Magyar Telekom, as an issuer, are required to announce the transactions to the Authority or announce publicly. For example members of the Board of Directors, members of the Supervisory Board of Magyar Telekom, the Chief Executive Officer and chief officers must immediately notify to the Authority and also Magyar Telekom, if they themselves, or persons living in the same household with them, close relatives or companies that operate under their qualifying interest concluded any transaction and Magyar Telekom shall publish as an extraordinary announcement on the transactions.

Insider persons are individually responsible to comply with the provisions of the internal regulation and have to forego a proposed transaction in Magyar Telekom securities even if they planned to make the transaction before learning of the inside information and even though the insider person believes they may suffer an economic loss or forego anticipated profit by waiting.

9. A DETAILED DEMONSTRATION OF THE METHODS OF EXERCISING SHAREHOLDERS' RIGHTS

Shareholders shall be entitled to exercise shareholders' rights in dealing with the Company based on a certificate of ownership, following their entry into the Share Register. Shareholders whose names have not been entered into the Share Register and shareholders who acquired their shares in violation of the restrictions to the transfer and the acquisition of shares shall not be allowed to exercise their rights attached to such shares vis-á-vis the Company.

The keeper of the Share Register is the Board of Directors of the Company or its agent appointed to be the keeper of the Share Register. The keeper of the Share Register maintains the Share Register of the shareholders, including holders of interim shares, and the nominees, in which the name and the address or registered seat of shareholders, and the nominees, or in the case of jointly owned shares the joint representative, the number of shares or interim shares, and the ownership ratio of shareholders for each series of shares.

Shareholders shall have the right to participate at the General Meeting, and if holding shares with voting rights, to vote. 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. Shareholders' rights may be exercised at the General Meeting only by the persons whose names are contained in the Share Register at the time it was closed. Transfer of shares prior to the starting date of the General Meeting does not affect the right of persons registered in the Share Register to participate at the General Meeting and to exercise their shareholders' rights thereat.

Shareholders shall have the right to request information, make remarks and motions at the General Meeting. The Board of Directors shall provide the necessary information, at the latest three days before the date of the General Meeting, to all shareholders with respect to the agenda items of the General Meeting, upon written request submitted at least eight days prior to the date of the General Meeting. If shareholders together controlling at least one per cent of the votes in the Company notify the Board of Directors - in accordance with the provisions on setting the items of the agenda – of the supplementation of the agenda, or the resolution proposal with respect to the items on or to be added to the agenda within eight days following the publication of the notice for the convocation of the General Meeting, the Board of Directors publishes a notice on the supplemented agenda and the resolution proposals submitted by shareholders following the receipt of such proposal. The matter published in the notice shall be construed to have been placed on the agenda.

Shareholders shall be entitled to receive a share from the Company's taxed profit that is available and has been ordered for distribution by the General Meeting in proportion with the nominal value of their shares. Shareholders shall be entitled to dividend who are registered in the Share Register at the record date of the dividend payment identification process ordered by the Company.

A group of shareholders together controlling at least one per cent of the votes in the Company shall have entitlement to exercise minority rights.

The detailed rules of exercising shareholder's rights are contained in the Articles of Association:
http://www.telekom.hu/static/sw/download/20150917_Alapszabaly_ENG.pdf

10. A BRIEF PRESENTATION OF RULES ON THE CONDUCTING OF THE GENERAL MEETING

The General Meeting is the highest decision-making body of the Company. The decisions of the General Meeting, which are referred to as resolutions, are binding upon the shareholders, the other organs and the officers of the Company.

The Company shall hold a General Meeting at least once each year (the Annual General Meeting) where the financial statements prepared according to the Accounting Act of the Company are approved. The Annual General Meeting shall occur no later than April 30 of the year immediately subsequent to the business year in question. In addition to the Annual General Meeting, the Company may hold extraordinary General Meetings at any time, if necessary.

Notice of the General Meeting of the Company shall be published in the manner stipulated by the applicable law and these Articles of Association for the publication of the Company's notices and advertisements thirty days prior to the date of the General Meeting, unless otherwise provided by law. The public notice of the General Meeting of the Company shall be published by the body responsible for or entitled to the convocation of the General Meeting either by law or by these Articles of Association.

The General Meeting shall be properly constituted with a quorum if shareholders representing more than half of the shares carrying voting rights at the General Meeting are present in person or by proxy at the time stipulated in the public notice convening the General Meeting.

If the General Meeting fails to have a quorum, the reconvened General Meeting shall have a quorum for the issues of the original agenda irrespective of the voting rights represented by those present, if called for a date following the original time by not less than ten days and not more than twenty-one days.

The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in Section 5.2. (a), (c)-(f), (l), (m) which shall require at least a three-quarters majority of the votes of the shareholders present.

The detailed rules of conducting the General Meeting are contained in the Articles of Association:
http://www.telekom.hu/static/sw/download/20150917_Alapszabaly_ENG.pdf

11. REMUNERATION STATEMENT

Compensation of Members of the Board of Directors, Supervisory Board Members and Audit Committee Members

1. Board of Directors

- The members of the Board of Directors receive a fee.
- The amount of the fee is determined by the General Meeting.
- The fee is specified on the basis of domestic benchmark data.
- The fee can be revised upon the initiative of the Remuneration and Nomination Committee.
- Members, elected from the management of the strategic investor, waive their entitlement to the fee whereas members, elected from the management of the Company, offer their fee for charity purposes.
- The Board of Directors annually assesses its own activity according to predefined criteria (strategy, business performance, compliance, efficiency, dividend policy, information flow). Within the framework of the assessment the individual members' self assessment is also reviewed according to predefined criteria.

2. Supervisory Board

- The members of the Supervisory Board receive a fee.
- The amount of the fee is determined by the General Meeting.
- The fee is specified on the basis of domestic benchmark data.
- The fee can be revised upon the initiative of the Remuneration and Nomination Committee.
- Members, elected from the management of the strategic investor, waive their entitlement to the fee.
- The Supervisory Board, based on the itemized review of the tasks specified in its Rules of Procedure, concretely assesses the work of the respective year that was carried out to fulfill the tasks contained in the Rules of Procedure and defines those activities that need to be improved. Within the framework of this activity the Supervisory Board assesses the abilities, experience of the individual members that are necessary to perform their respective duties.

3. Audit Committee

- The members of the Audit Committee receive a fee.
- The amount of the fee is determined by the General Meeting.
- The fee is specified on the basis of domestic benchmark data.
- The fee can be revised upon the initiative of the Remuneration and Nomination Committee.
- The Audit Committee, based on the itemized review of the tasks specified in its Rules of Procedure, concretely assesses the work of the respective year that was carried out to fulfill the tasks contained in the Rules of Procedure and defines those activities that need to be improved.

According to the resolution passed on the General Meeting of the Company in April 2014 the remuneration of Members of the Board of Directors, Supervisory Board Members and Audit Committee Members are as follows:

The Chairman of the Board of Directors:	HUF 600 000 per month
The Members of the Board of Directors:	HUF 450 000 per month
The Chairman of the Supervisory Board:	HUF 500 000 per month
The Members of the Supervisory Board:	HUF 325 000 per month
The Chairman of the Audit Committee:	HUF 475 000 per month
The Members of the Audit Committee:	HUF 250 000 per month

4. Management (the term of "management" in this Section means the members of the Management Committee of the Company)

- With respect to the size of each element of the compensation package the Remuneration and Nomination Committee submits its proposals in consideration of domestic benchmark surveys.
- Final decision is taken by Magyar Telekom's Board of Directors.
- The compensation package is reviewed once each year.

The compensation package consists of the following elements:

Annual target salary
The components of the annual target salary are the annual base salary and the bonus.
The annual base wage is a fixed amount of compensation determined for individuals varying according to the individual's position, which is paid in equal monthly instalments. .
The annual bonus is defined as a certain percentage of the basic salary payable in the ratio of the achievement of the collective and individual bonus targets cascaded from strategic targets and defined before the start of the business year. Annual targets and the evaluation of their achievement are to be approved by the Board of Directors based on the submission by the Remuneration and Nomination Committee.

Mid- and long-term incentives

Magyar Telekom have launched / may have launch mid – and long term incentives programs to motivate the management to sustainably increase the value of the Company in long term, thus harmonizing the interests of the owners and the management.

The elements of the program provided / granted by the Company, among others may be
- depending on / not depending on the share price index, and/or
- monetary / in shares, and/or
- one-time / periodically, and/or
- fixed to / free from a lock-out period, and/or
- certain percentage of the bonus shall be invested, or
- share purchase (call in) at a share price / from time determined in advance.

Program elements may also be incentives that have been offered, sold or provided by the affiliate of Magyar Telekom (i.e. Deutsche Telekom AG):

a) Mid-term incentive program.

Currently there is no mid-term incentive program at the Company.

b) Long-term incentive program (LTI)

LTI is a long-term incentive program payable in cash tied to the achievement of four key strategic indicators. Participation in the program depends on the evaluation of the previous year's performance of the affected manager. In the framework of the program, starting in 2015, in each year a new four-year tranche is to be launched. Payment is following the end of the program and the evaluation of the achievement of the targets having been set forth in advance, in the scale of 0-to 150%.
Detailed rules of the program, the amount rendered available for incentives as well as the extent to which the targets have been achieved by the end of the tenor are determined by the Board of Directors of the Company.

c) Share matching plan (SMP)

Expectedly, as of July 1, 2015, the Company introduces a modified and renewable Share Matching Plan. Participation in the program is mandatory for the Company's Chief Executive Officer, and voluntary for the rest of the members of the management. The program stipulates that the participant is required to invest a minimum of 10% of his/her gross annual bonus in Deutsche Telekom shares, with an option to voluntary increase this amount to a maximum of 33.3% (personal investment). These shares shall be kept for at least for 4 years (the lock-up period), the participant is granted matching shares upon expiry of the lock-up period and shall have the right to use it freely. The share allocation ratio of the program (1:1, 1:2 or 1:3) depends on the evaluation of the participant's performance in the previous year the program is launched. Deutsche Telekom grants a certain amount of additional shares to the participant based on the acquired Deutsche Telekom shares by the participant within the framework of the program. The program is launched annually for the Chief Executive Officer, whereas it starts annually for others if the free cash flow target of Deutsche Telekom Group was met in the previous year.
Detailed rules of the program are determined by the Board of Directors of the Company.

Rules of participation in the programs are set forth in the applicable program rules.

Other benefits and perks

Other compensation elements have been designed in consideration of domestic benchmark data with a view to cost efficiency (e.g. cars for personal use, mobile phone, managers' insurance, etc.).

Other benefits and perks have been guided by Magyar Telekom's Collective Agreement and regulations.

The performance and potential of the members of the management are individually assessed each year, on the basis of predefined criteria and processes.

For the year ended December 31, 2015, the aggregate compensation of the members of the management - without employer's taxes - was HUF 1 220 million.

CORPORATE GOVERNANCE DECLARATION ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

R 1.1.1 The Managing Body ensured that shareholders received access to information in time to enable them to exercise their rights.

Yes (Complies) No (Please explain)

R 1.1.2 The company applies the "one share - one vote" principle.

Yes (Complies) No (Please explain)

R 1.2.8 The company ensures that shareholders must meet the same requirements in order to attend at the General Meeting.

Yes (Complies) No (Please explain)

R 1.2.9 Items on the General Meeting agenda only include subjects which are correctly detailed and summarized clearly and unambiguously.

Yes (Complies) No (Please explain)

The proposals included the suggestions of the Supervisory Board and a detailed explanation of the effects of the decision.

Yes (Complies) **No** (Please explain)

Though the General Meeting of the Company did not explain in details the effect of all decisions in case of each resolution but it did so prior to making such resolutions when due to the importance or complexity of the decision it could have an effect on the ongoing processes at the Company.

R 1.2.10 Shareholders' comments on and supplements to the items on the agenda were published at least two days prior to the General Meeting.

Yes (Complies) No (Please explain)

R 1.3.8 Comments on the items of the agenda were made available to shareholders simultaneously with registration at the latest.

Yes (Complies) No (Please explain)

Written comments made on the items on the agenda were published two working days prior to the General Meeting.

Yes (Complies) No (Please explain)

R 1.3.10 The election and dismissal of executives took place individually and by separate resolutions.

Yes (Complies) No (Please explain)

R 2.1.1 The responsibilities of the Managing Body include those laid out in 2.1.1.

Yes (Complies) **No** (Please explain)

The Articles of Association and the Rules of Procedure of the Board of Directors of the Company set forth that all matters fall into the competence of the Board of Directors (or into that of the Management Committee delegated to it by the Board of Directors) that according to the laws or the Articles of Association do not fall into the exclusive competence of the General Meeting or other corporate body. The list of competences in the Articles of Associations and in the Rules of Procedure of the Board of Directors does not fully cover the list set forth in the explanation of the Recommendations.

R 2.3.1 The Managing Body held meetings regularly, at times designated in advance.

Yes (Complies) No (Please explain)

The Supervisory Board held meetings regularly, at times designated in advance.

Yes (Complies) No (Please explain)

The rules of procedure of the Managing Body provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies) No (Please explain)

The rules of procedure of the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies) No (Please explain)

R 2.5.1 The Board of Directors / Supervisory Board of the company has a sufficient number of independent members to ensure the impartiality of the board.

Yes (Complies) No (Please explain)

R 2.5.4 At regular intervals (in connection with the CG Report) the Board of Directors / Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes (Complies) No (Please explain)

R 2.5.6 The company disclosed on its website the guidelines on the independence of the Board of Directors / Supervisory Board, as well as the criteria applied for assessing independence.

Yes (Complies) No (Please explain)

R 2.6.1 Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a close relationship to them) had a significant personal stake in a transaction of the company (or the company's subsidiary).

Yes (Complies) No (Please explain)

R 2.6.2 Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted according to general rules of practice of the company, but with stricter transparency rules in place.

Yes (Complies) No (Please explain)

Transactions which according to 2.6.2, fell outside the normal course of the company's business, and their terms and conditions were approved by the Supervisory Board (Audit Committee).

Yes (Complies) No (Please explain)

R 2.6.3 Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes (Complies) No (Please explain)

R 2.6.4 The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitored compliance with those guidelines.

Yes (Complies) **No** (Please explain)

A CEO level internal regulation was issued at the Company on this subject matter.

The Managing Body established its guidelines regarding insiders' trading in securities and monitored compliance with those guidelines.

Yes (Complies) No (Please explain)

R 2.7.1 The Managing Body formulated remuneration guidelines regarding the evaluation and remuneration of the work of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies) No (Please explain)

The guidelines regarding the remuneration for the Managing Body and the Supervisory Board and the changes in those guidelines were approved by the General Meeting, as a separate item on the agenda.

Yes (Complies) No (Please explain)

R 2.7.2 The Managing Body prepared an evaluation of the work it carried out in the given business year.

Yes (Complies) No (Please explain)

R 2.7.2.1 The Supervisory Board prepared an evaluation of the work it carried out in the given business year.

Yes (Complies) No (Please explain)

R 2.7.3 It is the responsibility of the Managing Body to monitor the performance of and determine the remuneration for the executive management.

Yes (Complies) No (Please explain)

The frameworks of benefits due to members of the executive management that do not represent normal practice, and the changes in those benefits were approved by the General Meeting as a separate agenda item.

Yes (Complies) **No** (Please explain)

The members of the management do not have benefits that do not represent normal practice and there were no such events in 2015.

R 2.7.4 The structure of share-incentive schemes were approved by the General Meeting.

Yes (Complies) No (Please explain)

Prior to the decision by the General Meeting on share-incentive schemes, shareholders received detailed information (at least according to those contained in 2.7.4).

Yes (Complies) No (Please explain)

R 2.7.7 The Remuneration Statement was prepared by the company and submitted to the General Meeting.

Yes (Complies) No (Please explain)

The Remuneration Statement includes information about the remuneration of individual members of the Managing Body, the Supervisory Board, and the executive management.

Yes (Complies) **No** (Please explain)

The Remuneration Statement includes information about the remuneration of individual members of the Board of Directors and the Supervisory Board but due to data protection reasons the remuneration data of the management contains aggregate figures.

R 2.8.1 The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes (Complies) No (Please explain)

The Managing Body requests information on the efficiency of risk management procedures at regular intervals.

Yes (Complies) No (Please explain)

The Managing Body took the necessary steps to identify the major risk areas.

Yes (Complies) No (Please explain)

R 2.8.3 The Managing Body formulated the principles regarding the system of internal controls.

Yes (Complies) No (Please explain)

The Board of Directors regularly assesses and approves the elements of the internal control system, established according to the BSE Recommendations.

The system of internal controls established by the executive management guarantees the management of risks affecting the activities of the company, and the achievement of the company's performance and profit targets.

Yes (Complies) No (Please explain)

R 2.8.4 When developing the system of internal controls, the Managing Body took into consideration the viewpoints included in 2.8.4.

Yes (Complies) No (Please explain)

R 2.8.5 It is the duty and responsibility of the executive management to develop and maintain the system of internal controls.

Yes (Complies) No (Please explain)

R 2.8.6 The company created an independent Internal Audit function which reports to the Audit Committee / Supervisory Board.

Yes (Complies) No (Please explain)

The Internal Audit reported at least once to the Audit Committee / Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions.

Yes (Complies) No (Please explain)

R 2.8.7 The internal audit activity is carried out by the Internal Audit function based on authorisation from the Audit Committee / Supervisory Board.

Yes (Complies) No (Please explain)

As an organisation, the Internal Audit function is independent from the executive management.

Yes (Complies) **No** (Please explain)

The Group Audit Directorate belongs to the Chief Legal and Corporate Affairs Officer from an organizational point of view, however, it directly reports to the Supervisory Board and to the Audit Committee. The Audit Committee supports the Supervisory Board in fulfilling this tasks.

R 2.8.8 The Internal Audit schedule was approved by the Managing Body (Supervisory Board) based on the recommendation of the Audit Committee.

Yes (Complies) No (Please explain)

R 2.8.9 The Managing Body prepared its report for shareholders on the operation of internal controls.

Yes (Complies) No (Please explain)

The Managing Body developed its procedures regarding the receipt, processing of reports on the operation of internal controls, and the preparation of its own report.

Yes (Complies) No (Please explain)

R 2.8.11 The Managing Body identified the most important deficiencies or flow in the system of internal controls, and reviewed and re-evaluated the relevant activities.

Yes (Complies) No (Please explain)

R 2.9.2 The Managing Body, the Supervisory Board and the Audit Committee were notified in all cases when an assignment given to the auditor may have resulted in significant additional expense, caused a conflict of interest, or affected normal business practices significantly in any other way.

Yes (Complies) No (Please explain)

R 2.9.3 The Managing Body informed the Supervisory Board of any assignment given to the external auditor or an external advisor in connection with any event which held significant bearing on the operations of the company.

Yes (Complies) **No** (Please explain)

The Audit Committee supports the Supervisory Board in cooperating with the statutory Auditor of the Company. All audit-relevant and non-audit-relevant services to be performed by the statutory Auditor for the Company and their fees are subject to the Audit Committee's pre-approval in order to ensure that the statutory Auditor does not impair his independence from the Company. For this activity the "Pre-approval policy of Magyar Telekom Plc.'s Audit Committee" is applicable.

The Managing Body pre-determined in a resolution what circumstances constitute "significant bearing".

Yes (Complies) **No** (Please explain)

The Audit Committee supports the Supervisory Board in cooperating with the statutory Auditor of the Company. All audit-relevant and non-audit-relevant services to be performed by the statutory Auditor for the Company and their fees are subject to the Audit Committee's pre-approval in order to ensure that the statutory Auditor does not impair his independence from the Company. For this activity the "Pre-approval policy of Magyar Telekom Plc.'s Audit Committee" is applicable.

R 3.1.6 On its website, the company disclosed duties delegated to the Audit Committee, as well as the committee's targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies) No (Please explain)

R 3.1.6.1 On its website, the company disclosed duties delegated to the Nomination Committee, as well as the committee's targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies) No (Please explain)

R 3.1.6.2 On its website, the company disclosed duties delegated to the Remuneration Committee, as well as the committee's targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies) No (Please explain)

R 3.2.1 The Audit Committee / Supervisory Board monitored the efficiency of risk management, the operation of internal controls, and the activity of the Internal Audit.

Yes (Complies) No (Please explain)

R 3.2.3 The Audit Committee / Supervisory Board received accurate and detailed information on the work schedule of the Internal Auditor and the independent auditor, and received the auditor's report on problems discovered during the audit.

Yes (Complies) No (Please explain)

R 3.2.4 The Audit Committee / Supervisory Board requested the new candidate for the position of auditor to submit the disclosure statement according to 3.2.4.

Yes (Complies) No (Please explain)

R 3.3.1 There is a Nomination Committee operating at the company.

Yes (Complies) No (Please explain)

R 3.3.2 The Nomination Committee provided for the preparation of personnel changes.

Yes (Complies) No (Please explain)

The Nomination Committee reviewed the procedures regarding the election and appointment of members of the executive management.

Yes (Complies) No (Please explain)

The Nomination Committee evaluated the activity of board and executive management members.

Yes (Complies) **No** (Please explain)

Evaluating the activity of the Supervisory Board members is not in the competence of the Remuneration and Nomination Committee.

The Nomination Committee examined all the proposals regarding the nomination of board members which were submitted by shareholders or the Managing Body.

Yes (Complies) No (Please explain)

R 3.4.1 There is a Remuneration Committee operating at the company.

Yes (Complies) No (Please explain)

R 3.4.2 The Remuneration Committee made a proposal for the system of remuneration for the boards and the executive management (individual levels and the structure of remuneration), and carries out its monitoring.

Yes (Complies) No (Please explain)

R 3.4.3 The remuneration of the executive management was approved by the Managing Body based on the recommendation of the Remuneration Committee.

Yes (Complies) No (Please explain)

The remuneration of the Managing Body was approved by the General Meeting based on the recommendation of the Remuneration Committee.

Yes (Complies) No (Please explain)

The Remuneration Committee also monitored the share option, cost reimbursement and other benefits in the remuneration system.

Yes (Complies) No (Please explain)

R 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

Yes (Complies) No (Please explain)

R 3.4.4.1 The Remuneration Committee made proposals regarding the remuneration of individual persons.

Yes (Complies) No (Please explain)

R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts concluded with the members of the executive management.

Yes (Complies) No (Please explain)

R 3.4.4.3 The Remuneration Committee ascertained whether the company fulfilled its disclosure obligations regarding remuneration issues.

Yes (Complies) No (Please explain)

R 3.4.7 The majority of the members of the Remuneration Committee are independent.

Yes (Complies) **No** (Please explain)

There is one independent member among the members of the 3-member Remuneration and Nomination Committee.

R 3.5.1 The Managing Body disclosed its reasons for combining the Remuneration and Nomination Committees.

Yes (Complies) No (Please explain)

R 3.5.2 The Managing Body carried out the duties of the Nomination Committee and disclosed its reasons for doing so.

Yes (Complies) **No** (Please explain)

There is a separate Remuneration and Nomination Committee at the Company the members of which are elected by the Board of Directors from among its own members.

R 3.5.2.1 The Managing Body carried out the duties of the Remuneration Committee and disclosed its reasons for doing so.

Yes (Complies) **No** (Please explain)

There is a separate Remuneration and Nomination Committee at the Company the members of which are elected by the Board of Directors from among its own members.

R 4.1.1 In its disclosure guidelines, the Managing Body established those principles and procedures which ensure that all relevant information about the operations of the company and circumstances influencing its share price are disclosed and made available accurately, in a timely fashion and in full.

Yes (Complies) No (Please explain)

R 4.1.2 The company ensured in its disclosure activities that all shareholders and market participants were treated equally.

Yes (Complies) No (Please explain)

R 4.1.3 The company's disclosure guidelines include the procedures governing electronic, on-line disclosure.

Yes (Complies) No (Please explain)

The company develops its website taking into consideration disclosure guidelines and the provision of information to investors.

Yes (Complies) No (Please explain)

R 4.1.4 The Managing Body assessed the efficiency of disclosure processes.

Yes (Complies) No (Please explain)

R 4.1.5 The company published its corporate events calendar on its website.

Yes (Complies) No (Please explain)

R 4.1.6 In the annual report and on the website of the company, the public was informed about the company's corporate strategy, its main business activities, business ethics and its policies regarding other stakeholders.

Yes (Complies) No (Please explain)

R 4.1.8 In the annual report the Managing Body disclosed the character and size of any other assignments given by the company or its subsidiaries to the auditing firm responsible for auditing the financial statements.

Yes (Complies) No (Please explain)

R 4.1.9 In the annual report and on the website the company discloses information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

R 4.1.10 The company provided information on the internal organization and operation of the Managing Body and the Supervisory Board.

Yes (Complies) No (Please explain)

R 4.1.10.1 The company provided information on the criteria considered when evaluating the work of the Managing Body, the executive management and the individual members thereof.

Yes (Complies) No (Please explain)

R 4.1.11 In the annual report and in the Remuneration Statement on the company's website, the company informed the public about the applied remuneration guidelines, including the remuneration and fees provided for members of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

R 4.1.12 The Managing Body disclosed its risk management guidelines, including the system of internal controls, the applied risk management principles and basic rules, as well as information about major risks.

Yes (Complies) No (Please explain)

R 4.1.13 In order to provide market participants with information, the company publishes its report on corporate governance at the same time that it publishes its annual report.

Yes (Complies) No (Please explain)

R 4.1.14 The company discloses its guidelines governing insiders' trading in the company's securities on its website.

Yes (Complies) No (Please explain)

The company published in the annual report and on its website ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes (Complies) No (Please explain)

R 4.1.15 In the annual report and on its website, the company disclosed any relationship between members of the Managing Body and the executive management with a third party, which might have an influence on the operations of the company.

Yes (Complies) No (Please explain)

LEVEL OF COMPLIANCE WITH THE SUGGESTIONS

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No)

S 1.1.3	The company has an investor relations department.	**Yes** / No
S 1.2.1	The company published on its website the summary document regarding the conducting of the General Meeting and the exercise of shareholders' rights to vote (including voting via proxy).	**Yes** / No
S 1.2.2	The company's articles of association are available on the company's website.	**Yes** / No
S 1.2.3	The company disclosed on its website information according to 1.2.3 (on the record date of corporate events).	**Yes** / No
S 1.2.4	Information and documents according to 1.2.4 regarding General Meetings (invitations, proposals, draft resolutions, resolutions, minutes) were published on the company's website.	**Yes** / No
S 1.2.5	The General Meeting of the company was held in a way that ensured the greatest possible shareholder participation.	**Yes** / No
S 1.2.6	Additions to the agenda were published within 5 days of receipt, in the same manner as the publication of the original invitation for the General Meeting.	**Yes** / No
S 1.2.7	The voting procedure applied by the company ensured unambiguous, clear and fast decision-making by shareholders.	**Yes** / No
S1.2.11	At the shareholders' request, the company also provided information on the General Meeting electronically.	**Yes** / No
S 1.3.1	The identity of the chairman of the General Meeting was approved by the company's General Meeting prior to the discussion of the items on the agenda.	**Yes** / No
S 1.3.2	The Managing Body and the Supervisory Board were represented at the General Meeting.	**Yes** / No
S 1.3.3	The company's articles of association render possible that at the initiation of the chairman of the Managing Body or the shareholders of the company, a third party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda.	Yes / **No**
S 1.3.4	The company did not prevent shareholders attending the General Meeting from exercising their rights to request information, make comments and proposals, and did not set any pre-requisites to do so.	**Yes** / No
S 1.3.5	The company published on its website within three days its answers to those questions which it was unable to answer satisfactorily at the General Meeting. Where the company declined to give an answer it published its reasons for doing so.	**Yes** / No

S 1.3.6	The chairman of the General Meeting and the company ensured that in answering the questions raised at the General Meeting, national laws and regulations of the Stock Exchange pertaining to disclosure were complied with.	**Yes** / No
S 1.3.7	The company published a press release and held a press conference on the decisions passed at the General Meeting.	**Yes** / No
S1.3.11	The company's General Meeting decided on the different amendments of the articles of association in separate resolutions.	**Yes** / No
S1.3.12	The minutes of the General Meeting containing the resolutions, the presentation of draft resolutions, as well as the most important questions and answers regarding the draft resolutions were published by the company within 30 days of the General Meeting.	**Yes** / No
S 1.4.1	The dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.	**Yes** / No
S 1.4.2	The company disclosed its policy regarding anti-takeover devices. **(No such policy was elaborated by the Company.)**	Yes / **No**
S 2.1.2	The rules of procedure define the composition of the Managing Body and all procedures and protocols for the preparation and holding of meetings, the drafting of resolutions and other related matters.	**Yes** / No
S 2.2.1	The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation and duties, as well as procedures and processes which the Supervisory Board followed.	**Yes** / No
S 2.3.2	Board members had access to the proposals of a given meeting at least five days prior to the board meeting.	**Yes** / No
S 2.3.3	The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.	**Yes** / No
S 2.4.1	The election of the members of the Managing Body took place in a transparent way, information on candidates was made public at least five days prior to the General Meeting.	**Yes** / No
S 2.4.2	The composition of boards and the number of members complies with the principles specified in 2.4.2.	**Yes** / No
S 2.4.3	Newly elected, non-executive board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members through a tailored induction program.	**Yes** / No
S 2.5.2	The separation of the responsibilities of the Chairman of the Managing Body from those of the Chief Executive Officer has been outlined in the basic documents of the company.	Yes / **No**
S 2.5.3	The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the executive management's work where the functions of Chairman and CEO are	Yes / **No**

combined.

S 2.5.5	The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the three years prior to his nomination.	Yes / No
S 2.7.5	The development of the remuneration system of the Managing Body, the Supervisory Board and the executive management serves the strategic interests of the company and thereby those of the shareholders.	Yes / No
S 2.7.6	In the case of members of the Supervisory Board, the company applies a fixed amount of remuneration and does not apply a remuneration component related to the share price.	Yes / No
S 2.8.2	The Managing Body developed its risk management policy and regulations with the cooperation of those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company's daily operations.	Yes / No
S 2.8.10	When evaluating the system of internal controls, the Managing Body took into consideration the aspects mentioned in 2.8.10.	Yes / No
S 2.8.12	The company's auditor assessed and evaluated the company's risk management systems and the risk management activity of the executive management, and submitted its report on the matter to the Audit Committee / Supervisory Board.	Yes / No
S 2.9.1	The rules of procedure of the Managing Body cover the procedure to be followed when employing an external advisor.	Yes / No
S 2.9.1.1	The rules of procedure of the Supervisory Board cover the procedure to be followed when employing an external advisor.	Yes / No
S 2.9.1.2	The rules of procedure of the Audit Committee cover the procedure to be followed when employing an external advisor.	Yes / No
S 2.9.1.3	The rules of procedure of the Nomination Committee cover the procedure to be followed when employing an external advisor.	Yes / No
S 2.9.1.4	The rules of procedure of the Remuneration Committee cover the procedure to be followed when employing an external advisor.	Yes / No
S 2.9.4	The Managing Body may invite the company's auditor to participate in those meetings where it debates General Meeting agenda items.	Yes / No
S 2.9.5	The company's Internal Audit function co-operated with the auditor in order to help it successfully carry out the audit.	Yes / No
S 3.1.2	The chairmen of the Audit Committee regularly inform the Managing Body about the meetings of the	Yes / No

	committee, and the committee prepared at least one report for the Managing Body and the Supervisory Board in the given business year.	
S 3.1.2.1	The chairmen of the Nomination Committee regularly inform the Managing Body about the meetings of the committee, and the committee prepared at least one report for the Managing Body and the Supervisory Board in the given business year.	**Yes** / No
S 3.1.2.2	The chairmen of the Remuneration Committee regularly inform the Managing Body about the meetings of the committee, and the committee prepared at least one report for the Managing Body and the Supervisory Board in the given business year.	**Yes** / No
S 3.1.4	The company's committees are made up of members who have the capabilities, professional expertise and experience required to perform their duties.	**Yes** / No
S 3.1.5	The rules of procedure of committees operating at the company include those aspects detailed in 3.1.5.	**Yes** / No
S 3.2.2	The members of the Audit Committee / Supervisory Board were fully informed about the accounting, financial and operational peculiarities of the company.	**Yes** / No
S 3.3.3	The Nomination Committee prepared at least one evaluation for the chairman of the Managing Body on the operation of the Managing Body and the work and suitability of the members of the Managing Body.	**Yes** / No
S 3.3.4	The majority of the members of the Nomination Committee are independent. **(There is one independent member among the members of the 3-member Remuneration and Nomination Committee.)**	Yes / **No**
S 3.3.5	The rules of procedure of the Nomination Committee includes those details contained in 3.3.5.	Yes / **No**
S 3.4.5	The Remuneration Committee prepared the Remuneration Statement.	**Yes** / No
S 3.4.6	The Remuneration Committee exclusively consists of non-executive members of the Managing Body.	**Yes** / No
S 4.1.4	The disclosure guidelines of the company at least extend to those details contained in 4.1.4.	**Yes** / No
	The Managing Body informed shareholders in the annual report on the findings of the investigation into the efficiency of disclosure procedures.	**Yes** / No
S 4.1.7	The company's financial reports followed IFRS guidelines.	**Yes** / No
S 4.1.16	The company also prepares and releases its disclosures in English.	**Yes** / No

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

DECISION ON GRANTING RELIEF FROM LIABILITY TO THE MEMBERS OF THE BOARD OF DIRECTORS

BUDAPEST, APRIL 12, 2016

Pursuant to Section 3:117(1) of the Civil Code, the company's general meeting, simultaneously with the approval of the financial statements, upon request of an executive officer, may grant relief from liability to the executive officer on ascertaining the appropriateness of the management activities during the previous financial year. According to Section 5.2 (n) of the Articles of Association, the decision on granting liability relief to the members of the Board of Directors is within the exclusive authority of the General Meeting. The company may bring action against the executive officer on the grounds of breaching management activities in a claim for damages if the facts and information based on which the relief of liability was granted were false or insufficient.

Resolution proposal:

The General Meeting of Magyar Telekom Plc. ascertains the appropriateness of the management activities of the Board of Directors members of the Company in the previous financial year and with regard to this hereby decides to grant the relief from liability to the members of the Board of Directors of the Company with respect to the 2015 business year. By granting the relief, the General Meeting confirms that the members of the Board of Directors have performed the management of the Company in 2015 by giving primacy of the interests of the Company.

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

The Supervisory Board examined the submission of the Board of Directors on granting relief from liability to the members of the Board of Directors, and agrees that the General Meeting should grant relief from liability to the members of the Board of Directors for the business year of 2015.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

ELECTION OF MEMBERS OF THE BOARD OF DIRECTORS

BUDAPEST, APRIL 12, 2016

New Board of Directors members shall be elected by the General Meeting as, according to Section 6.2. of the Articles of Association, the mandate of the members of the Board of Directors of Magyar Telekom Plc. will expire at the Annual General Meeting to be held on April 12, 2016.
In accordance with the provisions of the Articles of Association the Board of Directors shall be comprised of a minimum of six (6), and a maximum of eleven (11) members. The members of the Board of Directors shall be elected by the General Meeting. The assignment of the members of the Board of Directors, unless otherwise provided by the General Meeting, lasts for a term of three years until May 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof.

The Board of Directors with the agreement of the Remuneration and Nomination Committee proposes the following persons to be elected by the General Meeting:

1. **Kerstin Günther**
2. **Christopher Mattheisen**
3. **György Mosonyi**
4. **Günter Mossal**
5. **Ralf Nejedl**
6. **Frank Odzuck**
7. **Dr. Mihály Patai**
8. **Dr. Ralph Rentschler**

Biographies of the nominees:

Kerstin Günther (born in 1967) is an engineer in electronics with an MBA in finance. Kerstin joined Deutsche Telekom Group in 1991 and since then held various management positions. She is member of the boards of directors of several companies of Deutsche Telekom Group in Europe. She was Senior Vice President Planning Technology for Deutsche Telekom Germany, Senior Vice President Service and Demand Management at T-Home. She led the largest Technical Infrastructure Branch Office of T-Home and before that the Personal Service Centre of Deutsche Telekom. Before coming back to Germany, Kerstin held the position of Senior Vice President Strategy and External Affairs at Slovak Telekom, Senior Vice President Wholesale at Magyar Telekom and Vice President Regulatory Affairs at Magyar Telekom in Hungary. Since 2012, she is Senior Vice President Technology Europe, with responsibility for Technology, IT and the Technical Service in all 12 countries of Deutsche Telekom's Europe Board area. In addition, she was appointed Managing Director Deutsche Telekom Pan Net in April 2015. With Pan Net, Deutsche Telekom introduces a revolutionary production model across the European entities.

Christopher Mattheisen (born in 1961) studied economics at Indiana University of Bloomington and at Columbia University. He first came to Hungary in 1990 to start a strategic planning and business consulting company. In 1993, in his capacity as a marketing manager of U.S. West International, Mr. Mattheisen helped launch various Hungarian, Polish and Czech mobile service operators. He worked as the marketing and sales director of Westel 900 (TMH) between 1993 and 1996. Between 1997 and 1999, he ran sales and marketing activities of MediaOne in London and later worked in Britain as a business, sales and marketing director of BT's Cellnet. In September 2002, Mr. Mattheisen became Chief Officer of Residential Services of Magyar Telekom and in January 2005, Chief Officer of the Fixed Line Services Business Unit ("T-Com", including Residential Services, Internet and Network divisions). From December 6, 2006, Mr. Mattheisen has been the Chief Executive Officer of Magyar Telekom.

György Mosonyi (born in 1949) worked for the Hungarian representative office of Shell International Petroleum Co from 1974, where he held the position of Director of Commerce from 1986. From 1992 to 1993 he was the Managing Director of Shell-Interag Ltd., and from 1994 to 1999, he was the Chairman-CEO of Shell Hungary Ltd. He was appointed President of the Central & Eastern European Region of Shell in 1997, and CEO of Shell Czech Republic in 1998. He is also Vice-President of the Hungarian Chamber of Commerce & Industry, Vice-President of Confederation of Hungarian Employers and Industrialists, a member of the Joint Venture Association's Presidium and President of the Hungarian National Committee of the World Petroleum Council. Between 1999 and 2011, he was the Chief Executive Officer and member of the Board of Directors of MOL Hungarian Oil and Gas Company Plc. Since 2011, he has been a permanent invitee of the Sustainable Development Committee of the Board of Directors. Since May 01, 2011, he has been a member and from June 08, 2011, Chairman of the Supervisory Board of MOL.

Günter Mossal (born in 1961) studied Electrical Engineering at the Rheinisch-Westfälisch-Technische Hochschule (RWTH) Aachen. He started his career in 1988 at Deutsche Telekom in a local branch office in Cologne/Germany. Between 1991 and 1995 he worked for the German Federal Ministry for Posts and Telecommunications. In 1995 he consulted the European Commission on the regulation for WLL applications. In 1996 he rejoined Deutsche Telekom. He was responsible for the business development in the UK and was member of the Board of Directors of the British Cable Company Eurobell. Between 2000 and 2002 he was Head of Investment Consulting for Western Europe. Since 2003 he is Vice President for Area management. He was member of the Supervisory Board of T-Mobile Croatia, member of the Board of Directors of Makedonski Telekom and member of the Board of Directors of T-Mobile Macedonia.

Ralf Nejedl is a business administration graduate. He started his professional career at British Telecom Global Services.
Ralf joined Deutsche Telekom Group in 2001 and since then he held various management positions. He was Executive Vice President Business Development Western Europe at T-Systems International. In January 2005, he became a member of the Board at the Public Sector Industry Line, where he was responsible for the global expansion of public sector business activities and for the local business units in Belgium and Spain. Between March 2008 and end 2011 he served as a Managing Director of T-Systems Belgium. Ralf combined this with his role as the Managing Director of TeleOp GmbH, in which he was responsible for the T-Systems activities in the European satellite navigation system Galileo. Ralf currently leads the B2B Sales & Service organization at Deutsche Telekom AG Europe, responsible for business customer sales across 12 Deutsche Telekom subsidiaries. He also leads the development for ICT, Cloud and M2M business in Europe. He is also member of the Deutsche Telekom M2M leadership team which has the responsibility to grow the M2M business across the DT group.

Frank Odzuck (born in 1959) obtained an economics degree in 1983 in Budapest. He was the managing director of the Hungarian operations of Eduscho and Eduscho-Tchibo for 8 years and later the managing director of Nestlé-Schöller Hungary Ltd. Since 2003, he has been the CEO of Zwack Unicum Plc., listed on the Budapest Stock Exchange. The company, producing and marketing a genuine “Hungaricum”, is one of the best-known international companies in Hungary (Zwack, Underberg, Diageo).

Dr. Mihály Patai (born in 1953) studied economics and obtained his doctorate at the University of Economics in Budapest. He studied in Moscow with the scholarship of Comecon in 1978, and at University of Vienna in 1981. He spent six months in London with the scholarship of a subsidiary of the Hungarian National Bank. He started his career in 1976 at Hungarian National Bank. From 1978 to 1988 he worked for the Ministry of Finance as a research fellow and, subsequently, as the deputy head of the Department for International Finances. From 1988 he worked for The World Bank in Washington DC for a period of five years, as the Executive Director’s Assistant. He was the Managing Director of Kereskedelmi Bank Rt. from 1993, and he became the Chairman and CEO of Allianz Hungária Insurance Ltd. in 1996. From 1998 to 2006 he was member of the Board of Directors of Matáv Rt. (now Magyar Telekom Plc.). Since 2006 he has been the Chairman and CEO of UniCredit Bank Hungary Zrt.

Dr. Ralph Rentschler (born in 1960) after receiving a doctorate degree in economics, worked for four years for Robert Bosch GmbH as an expert advisor on business principles and methods. His areas of responsibility included investment analysis and cost accounting. He was Head of Group Controlling and Planning and Reporting Departments at Carl Zeiss from 1992 to 1997. His areas of responsibility included production and investment controlling, controlling of affiliated companies, M&A and strategic planning. Later he became Commercial Manager of the Brand Optics Division at Carl Zeiss, where he managed Accounting, Controlling, Data Processing and Purchasing. Dr. Rentschler joined Deutsche Telekom in 2001 and became CFO of the group-wide Fixed Net division. From July 2009, Dr. Rentschler has taken over the position as the Financial Director of the Board Division Southern and Eastern Europe in addition to his position as the CFO of the Fixed Net business. From July 2010, Dr. Rentschler took over the position of the Financial Director Europe.

The Board of Directors with the agreement of the Remuneration and Nomination Committee submits the following resolution proposals to the General Meeting:

[1.] The General Meeting elects Mrs. Kerstin Günther to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then her assignment lasts until the date of the General Meeting.

[2.] The General Meeting elects Mr. Christopher Mattheisen to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[3.] The General Meeting elects Mr. György Mosonyi to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[4.] The General Meeting elects Mr. Günter Mossal to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[5.] The General Meeting elects Mr. Ralf Nejedl to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[6.] The General Meeting elects Mr. Frank Odzuck to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[7.] The General Meeting elects Dr. Mihály Patai to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[8.] The General Meeting elects Dr. Ralph Rentschler to the member of the Board of Directors of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

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

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Board of Directors, and acknowledged it.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

ELECTION OF MEMBERS OF THE SUPERVISORY BOARD

BUDAPEST, APRIL 12, 2016

The General Meeting shall elect new Supervisory Board members, as, in accordance with Section 7.2.1. of the Articles of Association, the mandate of the Supervisory Board members of Magyar Telekom Plc. expires on the day of the Annual General Meeting to be held on April 12, 2016.
The Supervisory Board shall be comprised of 3-15 members. The members shall be elected by the General Meeting. The assignment of the members of the Supervisory Board, unless otherwise provided by the General Meeting, lasts for a term of three years until May, 31 of the third year subsequent to the date of the said General Meeting with the exception, that if the General Meeting in the third year is held prior to May 31 than their assignment lasts until the date thereof. The majority of the members of the acting Supervisory Board must be independent.
In accordance with Section 7.2.4. of the Articles of Association 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.

The Board of Directors with the agreement of the Remuneration and Nomination Committee proposes the following persons to be elected by the General Meeting:

1. **Dr. János Bitó (independent)**
2. **Sándor Hartai (employee representative, upon Central Workers' Council nomination)**
3. **Dr. János Illéssy (independent)**
4. **Dr. Sándor Kerekes (independent)**
5. **Konrad Kreuzer (independent)**
6. **Tamás Lichnovszky (employee representative, upon Central Workers' Council nomination)**
7. **Martin Meffert**
8. **Éva Őz (employee representative, upon Central Workers' Council nomination)**
9. **Dr. László Pap (independent)**
10. **Dr. Károly Salamon (independent)**
11. **Zsoltné Varga (employee representative, upon Central Workers' Council nomination)**
12. **Dr. Konrad Wetzker (independent)**

Biography of the nominees:

Dr. János Bitó (born in 1936) graduated from the Faculty of Natural Sciences at József Attila University of Sciences (Szeged, Hungary) in 1958, and received a Doctor rerum naturalium in 1960. In 1967, he received a PhD, and in 1971, a Doctor of Science in technical sciences. He has taught at several Hungarian and foreign universities. Between 1971 and 2002, he worked as a technical, research and development director, managing director or Chief Officer at a number of companies and institutions, and as senior advisor to a minister. Between 1965 and 2005, he accomplished considerable achievements in scientific research and development. He is a member of a number of scientific organizations, including the Committee on Information Science and the Committee on Automation and Computer Science of the Hungarian Academy of Sciences. He was member of the Board of Directors or Supervisory Board or Chairman of the Supervisory Board at a number of companies. At present he is the Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty. He is the author of numerous publications (articles, university course materials, books), and holder of several prizes and awards.

Sándor Hartai (born in 1966) graduated in 1991 from the Szent István University, Gödöllő, at the Faculty of Economics and Social Sciences, obtaining a chartered account degree, and then in 1998 he successfully completed the Chartered Broker and the Chartered Futures Market Expert training at the Institute for Training and Consulting in Banking. He started his career at the Centre of Statistics and Economic Analysis then worked at the Research Institute of Agricultural Economics. He joined Magyar Telekom - i.e. the company's legal predecessor - in 1999 where he worked at the Product Marketing Directorate and the Internet Division as a product price analyst, currently he works at the TU Wholesale Directorate as an expert. He has been an elected member of the works council since 2005 and he also has been a member of the Central Works Council for several cycles.

Dr. János Illéssy (born in 1962) holds a degree in electrical engineering from the Budapest Technical University and has later received MBA and PhD degrees from the University of Pittsburgh, USA. He spent over a decade and a half with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, as consultant, controller, Chief Financial Officer and then Chairman-Chief Executive

Officer. Between 2001 and 2003 he worked as managing director of the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the Chief Financial Officer and member of the Board of Directors of BorsodChem. Currently, he is the managing director of Lebona Kft. and teaches Financial Economics at the Institute of International Business Relations and also at the Business School of Central European University as an Adjunct Professor.

Professor **Dr. Sándor Kerekes** (born in 1948) graduated in Chemistry and Economics in 1971. He taught chemical technology for 16 years. He received a Dr. univ degree in 1973, a PhD (CSc) degree in Economics in 1984 and Doctor of Sciences of the Hungarian Academy of Sciences in 2003. In 1994, he accomplished the Advanced Management Program at Harvard Business School. For 15 years, he had been member or Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he has served as the Head of Department and later as Institute director at Corvinus University and its legal predecessors. Between 1994 and 1997 and between 2002 and 2006 he served as the Dean of Business Administration Faculty of Corvinus University of Budapest. He is the Director of the Institute of Environmental Sciences of the University. Form 2008 he was Vice Rector of Academic Affairs of the University until December 14, 2011.He is member of the editorial boards of various papers (e.g., Society and Economy, Vezetéstudomány) and the author of many books and articles.

Konrad Kreuzer (born in 1948) is a lawyer with a degree in Business Administration. After serving in various positions at the Universities of Munich and Konstanz and in the Ministry of Domestic Affairs of the State of Bavaria, he joined Bayernwerke utilities as the Director of Law and Property Department, later as Managing Director of EuroBayernwerk, the affiliate for international development of Bayernwerk. From 1997 he served as Chief Executive Officer and as Chairman of the Board of Directors of E.ON in Hungary, and from 2002 additionally as Chairman and Chief Executive Officer of Zapadoslovensko Energetika/Eon Slovensko. He left these posts in 2013. Currently he is member of the Supervisory Board of E.ON Hungária Zrt., adviser and chairman/member of the Supervisory Boards of other companies in Hungary and Slovakia. He has been Managing Director of EUTOP Vienna since 2015, and Managing Director of EUTOP Budapest and Prague since February 2016.

Tamás Lichnovszky (born in 1962) obtained a Bachelor's degree as licensed signal officer and telecommunications engineer in 1984 from Zalka Máté Military Technical College and as manager engineer in 2002 from the Budapest Technical College. In 2010, he received a post-graduate degree in complementary legal studies from the Pázmány Péter Catholic University. He has been working at Magyar Telekom and its legal predecessor in technical and customer service areas since 1990. He has been an elected member of the Workers' Council since 1998 and from March, 2011 he is the Chairman of the Central Workers' Council.

Martin Meffert (born in 1960) holds a degree in Telecommunications Engineering from the University of Applied Sciences and a degree in Economics from the Business and Administration Academy in Koblenz, Germany. He started his career in 1985 as a telecommunications network planner and later satellite services specialist in the regional directorate of Deutsche Bundespost in Koblenz. Between 1990 and 1998 he served in the Ministry of Telecommunications in Bonn at the departments of satellite systems and international network projects. In 1999, he joined the fixed line business of Deutsche Telekom responsible for cooperation and alliance management for various regions in South and Eastern Europe. Since the formation of the Board Area Europe within the Group Headquarters of Deutsche Telekom in 2010, he takes care of the Corporate Governance of Magyar Telekom, Makedonski Telekom and Slovak Telekom.

Ms. Éva Őz (born in 1957) graduated as an engineer economist. Between 1978 and 1996 she worked as the leader of the architect planning group at the predecessor of Magyar Telekom Plc., at Pécs. From 1996 she took the position of leading the Investment Group of Real Estate Directorate at Pécs. After obtaining her second degree, since 1999 she has been working in the area of economy, she presently works as a controlling manager at the Controlling Directorate. She has been taking part in the work of the Central Workers' Council since 1999. She has been elected as the Chairwoman of the Workers' Council of Central Functions already for the fifth election period and she still fills this position.

Professor emeritus **Dr. László Pap** (born in 1943) graduated from the Budapest Technical University, Electrical Engineering Faculty with a degree in telecommunications. In 1980 he obtained a PhD and later a CSc, and Doctor of Sciences in 1992. He was elected as a correspondent member in 2001, then as a full member in 2007 of the Hungarian Academy of Sciences. He has been a professor in the Electrical Engineering and Informatics Faculty at the Budapest University of Technology and Economics since 1992. Between 1992 and 2008 he served as Head of the Telecommunications Department and from 2001 to 2004 as Strategic Vice Rector of the University. He has obtained numerous patents for his inventions. He is the Honorary President of the Scientific Association for Infocommunications, a member of the Telecommunications Systems Committee of the Hungarian Academy of Sciences, and, among others, a member of the editorial board of the periodical World of Nature and Wireless Networks, a member of the Hungarian Space Board and the President of the Scientific Council on Space Research.

Dr. Károly Salamon (born in 1954) graduated in 1977 from the Kandó Kálmán Technical College of Budapest with a bachelor of science of Electrical Engineering, and in 1983 from Eötvös Loránd University of Sciences with a master of science of Mathematics. He obtained an MBA degree at the University of Pittsburgh (USA) in 1991 and then he obtained a PhD from the University of Economics in Budapest in 1993. Between 1977 and 1990, he worked as a design engineer, then as a development engineer and later as a project leader at different companies. From 1990, he worked for Ernst and Young International Audit and Consulting Company first as an employee, and later as a partner. Between 1995 and 2005, he was the Chief Financial Officer, then from 2006 to 2008 the Chairman-Chief Executive Officer of Allianz Hungária Biztosító Zrt. From 2008, he is the managing director of MIS Ltd. Between 2003 and 2008 he was a member or the Chairman of the Board of Directors, or a member of the Supervisory Board of a number of banks. Between 2006 and 2011 he was a member of the Board of Directors of the Hungarian Mortgage Bank, between 2007 and 2011 he was a member of the Presidency of the German-Hungarian Chamber of Commerce. From 2009 he was a member of the Board of Directors of the State Motorway Management Company Ltd. He has been the Chairman-Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt. since July 1, 2010.

Mrs. Zsoltné Varga (born in 1969) graduated from KTMF (College of Transport and Telecommunications) in Győr in 1991. She has been working for Magyar Telekom (and its legal predecessor) since 1991. From 1991 till 1996, she was employed as an engineer in the technical area; later she was the Head of a T-Pont shop; at present, she works as a quality manager. In 1998, she became an elected member of the Workers' Council, she is a member of the Central Workers' Council. Since 2004 she is a member, from 2009 deputy chairwoman of DT's European Workers' Council.

Dr. Konrad Wetzker (born in 1950) graduated from the University of Economic Science Karl Marx in Budapest in 1975, in mathematical analysis of the national economy. He earned his PhD in 1979, then in 1988 Doctor of Science. Between 1975 and 1989 he worked in applied research and was the leader of various research teams. Between 1989 and 1990 he was the President of the Institute for Applied Research in Berlin, and also a member of different Committees managing the economic part of the reunification in Germany. From 1991 until 2010 he worked for the Boston Consulting Group, in Düsseldorf, and from 1996 in Budapest, as Principal, Partner, Senior Partner and Chairman of Hungary, mainly for energy players, financial institutions, and in telecommunications and infrastructural industries. He worked for more than 50 international companies in strategy, organization and internationalization projects. He took part in supporting the market entry of Western European Players, especially in Hungary, Slovakia, and Czech Republic. He is the co-founder of the Corvinus School of Management in Budapest, and since 2005 he is its Chairman. Since 2011 he has been senior advisor at the Corvinus University of Budapest. He gives lessons at various universities (e.g. Harvard, University of Cambridge) and is the author of almost 100 publications (e.g. books and articles).

The Board of Directors with the agreement of the Remuneration and Nomination Committee submits the following resolution proposals to the General Meeting:

[1.] The General Meeting elects Dr. János Bitó to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[2.] The General Meeting elects Mr. Sándor Hartai to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[3.] The General Meeting elects Dr. János Illéssy to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[4.] The General Meeting elects Dr. Sándor Kerekes to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[5.] The General Meeting elects Mr. Konrad Kreuzer to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[6.] The General Meeting elects Mr. Tamás Lichnovszky to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[7.] The General Meeting elects Mr. Martin Meffert to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[8.] The General Meeting elects Ms. Éva Őz to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then her assignment lasts until the date of the General Meeting.

[9.] The General Meeting elects Dr. László Pap to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[10.] The General Meeting elects Dr. Károly Salamon to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[11.] The General Meeting elects Mrs. Zsoltné Varga to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then her assignment lasts until the date of the General Meeting.

[12.] The General Meeting elects Dr. Konrad Wetzker to the member of the Supervisory Board of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

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

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Supervisory Board, and acknowledged it.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

ELECTION OF MEMBERS OF THE AUDIT COMMITTEE

BUDAPEST, APRIL 12, 2016

The General Meeting shall elect new Audit Committee members, as, in accordance with Section 7.8.1. of the Articles of Association, the mandate of Magyar Telekom Plc.'s Audit Committee members expires on the day of the Annual General Meeting to be held on April 12, 2016.
In accordance with the provisions of the Articles of Association the General Meeting elects a 3-5 member Audit Committee from the independent members of the Supervisory Board for the same period as the membership of the relevant members in the Supervisory Board. In accordance with Section 7.8.2. of the Articles of Association at least one Audit Committee member must have a qualification in accountancy or be a qualified auditor.

The Board of Directors with the agreement of the Remuneration and Nomination Committee proposes the following persons to be elected by the General Meeting:

1. **Dr. János Bitó**
2. **Dr. János Illéssy**
3. **Dr. Sándor Kerekes**
4. **Dr. László Pap**
5. **Dr. Károly Salamon**

Biography of the nominees:

Dr. János Bitó (born in 1936) graduated from the Faculty of Natural Sciences at József Attila University of Sciences (Szeged, Hungary) in 1958, and received a Doctor rerum naturalium in 1960. In 1967, he received a PhD, and in 1971, a Doctor of Science in technical sciences. He has taught at several Hungarian and foreign universities. Between 1971 and 2002, he worked as a technical, research and development director, managing director or Chief Officer at a number of companies and institutions, and as senior advisor to a minister. Between 1965 and 2005, he accomplished considerable achievements in scientific research and development. He is a member of a number of scientific organizations, including the Committee on Information Science and the Committee on Automation and Computer Science of the Hungarian Academy of Sciences. He was member of the Board of Directors or Supervisory Board or Chairman of the Supervisory Board at a number of companies. At present he is the Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty. He is the author of numerous publications (articles, university course materials, books), and holder of several prizes and awards.

Dr. János Illéssy (born in 1962) holds a degree in electrical engineering from the Budapest Technical University and has later received MBA and PhD degrees from the University of Pittsburgh, USA. He spent over a decade and a half with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, as consultant, controller, Chief Financial Officer and then Chairman-Chief Executive Officer. Between 2001 and 2003 he worked as managing director of the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the Chief Financial Officer and member of the Board of Directors of BorsodChem. Currently, he is the managing director of Lebona Kft. and teaches Financial Economics at the Institute of International Business Relations and also at the Business School of Central European University as an Adjunct Professor.

Professor **Dr. Sándor Kerekes** (born in 1948) graduated in Chemistry and Economics in 1971. He taught chemical technology for 16 years. He received a Dr. univ degree in 1973, a PhD (CSc) degree in Economics in 1984 and Doctor of Sciences of the Hungarian Academy of Sciences in 2003. In 1994, he accomplished the Advanced Management Program at Harvard Business School. For 15 years, he had been member or Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he has served as the Head of Department and later as Institute director at Corvinus University and its legal predecessors. Between 1994 and 1997 and between 2002 and 2006 he served as the Dean of Business Administration Faculty of Corvinus University of Budapest. He is the Director of the Institute of Environmental Sciences of the University. Form 2008 he was Vice Rector of Academic Affairs of the University until December 14, 2011.He is member of the editorial boards of various papers (e.g., Society and Economy, Vezetéstudomány) and the author of many books and articles.

Professor emeritus **Dr. László Pap** (born in 1943) graduated from the Budapest Technical University, Electrical Engineering Faculty with a degree in telecommunications. In 1980 he obtained a PhD and later a CSc, and Doctor of Sciences in 1992. He was elected as a correspondent member in 2001, then as a full member in 2007 of the Hungarian Academy of Sciences. He has been a professor in the Electrical Engineering and Informatics Faculty at the Budapest University of Technology and Economics since 1992. Between 1992 and 2008 he served as Head of the Telecommunications Department and from 2001 to 2004 as Strategic Vice Rector of the University. He has obtained numerous patents for his inventions. He is the Honorary President of the Scientific Association for

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Infocommunications, a member of the Telecommunications Systems Committee of the Hungarian Academy of Sciences, and, among others, a member of the editorial board of the periodical World of Nature and Wireless Networks, a member of the Hungarian Space Board and the President of the Scientific Council on Space Research.

Dr. Károly Salamon (born in 1954) graduated in 1977 from the Kandó Kálmán Technical College of Budapest with a bachelor of science of Electrical Engineering, and in 1983 from Eötvös Loránd University of Sciences with a master of science of Mathematics. He obtained an MBA degree at the University of Pittsburgh (USA) in 1991 and then he obtained a PhD from the University of Economics in Budapest in 1993. Between 1977 and 1990, he worked as a design engineer, then as a development engineer and later as a project leader at different companies. From 1990, he worked for Ernst and Young International Audit and Consulting Company first as an employee, and later as a partner. Between 1995 and 2005, he was the Chief Financial Officer, then from 2006 to 2008 the Chairman-Chief Executive Officer of Allianz Hungária Biztosító Zrt. From 2008, he is the managing director of MIS Ltd. Between 2003 and 2008 he was a member or the Chairman of the Board of Directors, or a member of the Supervisory Board of a number of banks. Between 2006 and 2011 he was a member of the Board of Directors of the Hungarian Mortgage Bank, between 2007 and 2011 he was a member of the Presidency of the German-Hungarian Chamber of Commerce. From 2009 he was a member of the Board of Directors of the State Motorway Management Company Ltd. He has been the Chairman-Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt. since July 1, 2010.

The Board of Directors with the agreement of the Remuneration and Nomination Committee proposes the following resolution proposals to the General Meeting:

[1.] The General Meeting elects Dr. János Bitó to the member of the Audit Committee of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[2.] The General Meeting elects Dr. János Illéssy to the member of the Audit Committee of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[3.] The General Meeting elects Dr. Sándor Kerekes to the member of the Audit Committee of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[4.] The General Meeting elects Dr. László Pap to the member of the Audit Committee of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

[5.] The General Meeting elects Dr. Károly Salamon to the member of the Audit Committee of Magyar Telekom Plc. until May 31, 2019, provided that if the General Meeting is held prior to May 31 of the year in which such mandate expires, then his assignment lasts until the date of the General Meeting.

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

The Supervisory Board examined the submission of the Board of Directors on the election of members of the Audit Committee, and acknowledged it.

EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

ELECTION AND DETERMINATION OF THE REMUNERATION OF THE COMPANY'S STATUTORY AUDITOR, AND DETERMINATION OF THE CONTENTS OF THE MATERIAL ELEMENTS OF THE CONTRACT TO BE CONCLUDED WITH THE STATUTORY AUDITOR

BUDAPEST, APRIL 12, 2016

PROPOSAL OF THE SUPERVISORY BOARD OF MAGYAR TELEKOM PLC. FOR THE GENERAL MEETING OF THE COMPANY IN RELATION TO THE ELECTION AND DETERMINATION OF THE REMUNERATION OF THE COMPANY'S STATUTORY AUDITOR, AND DETERMINATION OF THE CONTENTS OF THE MATERIAL ELEMENTS OF THE CONTRACT TO BE CONCLUDED WITH THE STATUTORY AUDITOR

The Supervisory Board of Magyar Telekom Plc. (the "Company") submits the following resolution proposal to the General Meeting in relation to the election, the extension of the mandate and determination of the remuneration for the extended period of the Company's Statutory Auditor (the "Auditor"). Furthermore, in relation to this, it proposes the contents of the material elements of the contract concluded with the Auditor– in addition to elements set out in the resolution proposal – to be determined with the amended content as follows:

- Scope of the contract:
  The audit of the standalone Annual Report of the Company prepared in accordance with the Hungarian Accounting Act (HAR), and the audit of the Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS) for the business year 2016.

- Billing and payment:
  The fee of the Auditor shall be paid in 12 monthly installments. The Auditor may change the fees reasonably and proportionally if the scope of the work is changed (for example, significant change in Magyar Telekom Group, significant change in business or regulatory circumstances) for an unforeseeable reason, or if excess work arises for a reason attributable to the interests of the Company, provided that the scope and fees of the excess work are mutually agreed in advance by the contracting parties and the Audit Committee pre-approves the same according to its Pre-Approval Policy.

- Duration of the contract:
  The contract is for the period ending May 31st, 2017 or if the Annual General Meeting closing the 2016 business year will be held prior to May 31st 2017 then until the date thereof.

Resolution proposal:

"The General Meeting elects as Statutory Auditor of Magyar Telekom Plc. (the "Company")

PricewaterhouseCoopers Auditing Ltd. (registered office: 1055 Budapest, Bajcsy-Zsilinszky út 78.; company registration number: 01-09-063022; registration number: 001464)

to perform audit services for the business year 2016 and extends its mandate in accordance with the submission, for the period ending May 31st 2017 or if the Annual General Meeting closing the 2016 business year will be held prior to May 31st 2017 then on the date thereof.

Personally responsible registered auditor appointed by the Statutory Auditor: Árpád Balázs
Chamber membership number: 006931
Address: 1124 Budapest, Dobsinai u. 1.
Mother's maiden name: Hedvig Kozma

In the event he is incapacitated, the appointed deputy auditor is: Balázs Mészáros (chamber membership number: 005589, mother's maiden name: Orsolya Lőcsei, address: 1137 Budapest, Katona József u. 25. V. em. 4.).

The General Meeting approves HUF 216,307,000 + VAT + 8 % related costs + VAT to be the Statutory Auditor's annual compensation to perform audit services for the business year 2016, covering the audit of the standalone Annual Report of the Company prepared in accordance with the Hungarian Accounting Act and also the audit of the Consolidated Financial Statements of the Company prepared according to International Financial Reporting Standards (IFRS).

The General Meeting approves the contents of the material elements of the contract concluded with the Statutory Auditor according to the submission."

Budapest, March 9, 2016

For and on behalf of the Supervisory Board of Magyar Telekom Plc.:

Dr. László Pap
Chairman of the Supervisory Board

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

The Supervisory Board accepted its proposal on the election and determination of the remuneration of the Company's Statutory Auditor, and determination of the contents of the material elements of the contract to be concluded with the Statutory Auditor, and submits it to the General Meeting.

EGYÜTT. VELED

SUMMARY ABOUT THE NUMBER OF THE SHARES AND VOTING RIGHTS EXISTING AT THE TIME OF CONVENING THE ANNUAL GENERAL MEETING OF MAGYAR TELEKOM PLC. TO BE HELD ON APRIL 12, 2016

Composition of share capital of the Company as of March 11, 2016:

Share series	Nominal value (HUF/share)	Number of shares issued	Total nominal value (HUF)
Series "A" (ordinary shares)	100	1,042,742,543	104,274,254,300
Share capital			**104,274,254,300**

Number of voting rights attached to the shares as of March 11, 2016:

Share series	Number of shares issued	Number of shares with voting right	Voting right per share	Total number of voting rights	Number of treasury shares
Series "A" (ordinary shares)	1,042,742,543	1,042,742,543	1	1,042,742,543	390,862
Total	**1,042,742,543**	**1,042,742,543**		**1,042,742,543**	**390,862**