EGYÜTT. VELED

Submission
to the General Meeting of Magyar Telekom Plc.

Decision on the approval of the 2012 annual stand alone financial statements of the Company prepared in accordance with the requirements of the Accounting Act (HAR); presentation of the relevant report of the Supervisory Board, the Audit Committee and the Auditor

Budapest, April 12, 2013

According to Section 302 e) of the Companies Act and Section 6.2. (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 2012 Standalone Financial statements of the Company prepared according to the Hungarian Accounting Regulations (HAR), including

Balance Sheet Total Assets of HUF 880,312 million and

After-tax Net Income of HUF 30,792 million.

EGYÜTT. VELED

Magyar Telekom Telecommunications
Public Limited Company

Annual Report and Business Report

for the year ended December 31, 2012

Magyar Telekom Telecommunications
Public Limited Company

Annual report

for the year ended December 31, 2012

Prepared in accordance with
the Hungarian Accounting Law
(HAR)

pwc

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the Shareholders of Magyar Telekom Nyrt.

Report on the financial statements

We have audited the accompanying financial statements of Magyar Telekom Nyrt. ("the Company") which comprise the balance sheet as of 31 December 2012 (in which the balance sheet total is HUF 880.312 million , the profit per balance sheet is HUF 30.792 million), 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.

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Nyrt. as of 31 December 2012, 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 member/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 Nyrt. ("the Company") for the financial year of 2012.

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 2012 business report is consistent with the disclosures in the financial statements as of 31 December 2012.

Budapest, March 5, 2013

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

Balázs Árpád
Statutory auditor
Licence number: 006931

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.

EGYÜTT. VELED

BALANCE SHEET AS OF DECEMBER 31, 2012

ASSETS

All amounts in millions of HUF

	Note	December 31, 2011	Self-revision	December 31, 2012
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		**810 689**	**-842**	**766 794**
I. Intangible assets	4	**184 668**	**-8**	**188 424**
3. Rights		60 333	1	75 431
4. Intellectual property		4 595	-9	4 779
5. Goodwill		119 720	0	108 214
6. Advance payments on intangible assets		20	0	0
II. Tangible assets	5	**421 801**	**-834**	**398 802**
1. Land and buildings and related rights		238 409	4 481	236 122
- Land		*2 632*	*19*	*2 195*
- Buildings		*61 659*	*72*	*59 572*
- Telecommunication network		*163 863*	*4 350*	*164 692*
- Other properties		*9 430*	*9*	*8 945*
- Real estate related rights		*825*	*31*	*718*
2. Technical equipment, machinery and vehicles		138 742	3 531	120 479
- Telecommunication equipment and machinery		*134 778*	*4 715*	*118 428*
- Other technical equipment, machinery and vehicles		*3 964*	*-1 184*	*2 051*
3. Other equipment and vehicles		7 282	953	6 175
5. Construction-in-progress		37 350	-9 799	36 021
6. Advance payments on construction-in-progress		18	0	5
III. Financial investments		**204 220**	**0**	**179 568**
1. Non current investments in related parties	6	194 525	0	172 890
2. Non current loans granted to related parties	7	5 600	0	0
5. Other non current loans granted	8	4 095	0	6 678
B. CURRENT ASSETS		**71 134**	**-884**	**77 423**
I. Inventories	9	**6 399**	**1**	**10 378**
1. Raw materials		628	0	399
2. Work in progress and semi-finished products		2	-1	5
5. Goods for resale		5 769	2	9 974
II. Receivables		**60 109**	**-885**	**63 238**
1. Accounts receivable	10	35 044	124	41 639
2. Receivables from related parties	11	16 315	-1 016	12 588
5. Other receivables	12	8 750	7	9 011
III. Securities	13	**307**	**0**	**307**
3. Treasury stock, quotas		307	0	307
IV. Liquid assets		**4 319**	**0**	**3 500**
1. Cash and cheques		114	0	153
2. Bank deposits		4 205	0	3 347
C. ACCRUALS	14	**36 591**	**-113**	**36 095**
1. Accrued income		31 678	-74	33 601
2. Prepaid costs and expenses		4 913	-39	2 494
TOTAL ASSETS		**918 414**	**-1 839**	**880 312**

Budapest, February 28, 2013

Christopher Mattheisen
Chief Executive Officer,
Chairman of the Board

Thilo Kusch
Chief Financial Officer,
Board member

The Notes form an integral part of these financial statements.

EGYÜTT. VELED

BALANCE SHEET AS OF DECEMBER 31, 2012

LIABILITIES AND SHAREHOLDERS' EQUITY

All amounts in millions of HUF

	Note	December 31, 2011	Self-revision	December 31, 2012
D. SHAREHOLDERS' EQUITY	15	**345 535**	**-814**	**375 513**
I. Common stock		104 274	0	104 274
- of this treasury stock at par value		*39*	*0*	*39*
II. Unpaid share capital (-)		0	0	0
III. Capital reserves		58 952	0	58 952
IV. Retained earnings		180 002	0	179 688
V. Restricted reserves		2 307	0	1 807
VI. Valuation reserves		0	0	0
VII. Net income		0	-814	30 792
E. PROVISIONS	16	**11 835**	**-1**	**17 978**
1. Provision for expected obligations		11 835	-1	17 978
F. LIABILITIES		**514 349**	**-509**	**442 547**
I. Subordinated liabilities		0	0	0
II. Non current liabilities		239 172	0	253 780
3. Debt from issuance of bonds	17	120	0	120
5. Other non current loans	17	14 556	0	0
7. Non current liabilities to other related parties	18	223 714	0	253 093
8. Other non current liabilities		782	0	567
III. Liabilities		275 177	-509	188 767
1. Current borrowings		70	0	70
- of this convertible bonds		*0*	*0*	*0*
2. Current loans	19	46 081	0	36 335
3. Advances received		408	-30	359
4. Accounts payable	20	37 489	-4	47 105
6. Current liabilities to related parties	21	54 693	0	48 048
7. Current liabilities to other related parties	22	49 486	0	34 486
8. Other current liabilities	23	86 950	-475	22 364
- of this dividends payable		*52 117*	*0*	*0*
G. ACCRUALS	24	**46 695**	**-515**	**44 274**
1. Deferred income		4 839	-7	4 184
2. Accrued expenses		41 227	-657	39 129
3. Other deferred revenue		629	149	961
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**918 414**	**-1 839**	**880 312**

Budapest, February 28, 2013

Christopher Mattheisen
Chief Executive Officer,
Chairman of the Board

Thilo Kusch
Chief Financial Officer,
Board member

The Notes form an integral part of these financial statements.

EGYÜTT. VELED

INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2012

All amounts in millions of HUF

		Note	2011	Self-revision	2012
	1. Net domestic sales	25	434 297	31	444 158
	2. Net export sales	26	16 757	9	16 727
I.	**Sales revenues**		**451 054**	**40**	**460 885**
	3. Change in self-manufactured inventories		-121	-1	3
	4. Capitalised value of self-manufactured assets		22 079	11	21 041
II.	**Own work capitalized**		**21 958**	**10**	**21 044**
III.	**Other income**	27	**29 816**	**-788**	**15 939**
	of which: reversal of impairment		0	0	0
	5. Costs of raw material		27 733	-348	25 778
	6. Costs of services	29	83 292	-235	78 187
	7. Costs of other services		14 289	10	14 731
	8. Cost of goods sold	30	39 104	0	58 512
	9. Costs of (mediated) services sold	31	71 186	-79	67 357
IV.	**Material-type expenses**		**235 604**	**-652**	**244 565**
	10. Salaries and wages	32	44 483	-34	43 993
	11. Other payroll related expenses	32	10 921	71	7 854
	12. Payroll related contributions		14 305	-21	14 241
V.	**Payroll and related expenses**		**69 709**	**16**	**66 088**
VI.	**Depreciation**		**77 523**	**627**	**84 547**
VII.	**Other expenses**	34	**81 937**	**372**	**66 697**
	of which: impairment		10 125	2	8 196
A.	PROFIT FROM OPERATING ACTIVITIES		38 055	-1 101	35 971
	13. Dividends and profit sharing (received or due)		20 653	0	18 785
	of which: received from related parties		*20 653*	*0*	*18 785*
	14. Gains on sale of investments		0	0	4 361
	of which: received from related parties		*0*	*0*	*0*
	15. Interest income and gains on financial investments		450	0	269
	of which: received from related parties		*450*	*0*	*269*
	16. Other interest income received		1 121	0	1 096
	of which: received from related parties		*958*	*0*	*922*
	17. Other income from financial transaction		5 693	0	6 773
VIII.	**Income from financial transactions**		**27 917**	**0**	**31 284**
	19. Interest expense		22 151	0	24 076
	of which: related to related parties		*1 121*	*0*	*1 258*
	related to other related party		*17 941*	*0*	*18 903*
	20. Impairment of investments, securities and bank deposits		2 231	0	2 344
	21. Other expenses on financial transactions		8 572	0	11 445
IX.	**Expenses from financial transactions**		**32 954**	**0**	**37 865**
B.	RESULT FROM FINANCIAL TRANSACTIONS	35	-5 037	0	-6 581
C.	PROFIT FROM ORDINARY ACTIVITIES		33 018	-1 101	29 390
X.	**Extraordinary income**	36	**390**	**279**	**16 701**
XI.	**Extraordinary expenses**	37	**1 577**	**8**	**13 924**
D.	RESULT FROM EXTRAORDINARY ACTIVITIES		-1 187	271	2 777
E.	PROFIT BEFORE TAXES		31 831	-830	32 167
XII.	**Corporate income tax**	39	**156**	**-16**	**1 375**
F.	NET INCOME		31 675	-814	30 792
	22. Use of retained earnings for dividends		20 442	0	0
	23. Dividend paid (approved)	40	52 117	0	0
G.	BALANCE SHEET NET INCOME		0	-814	30 792

Budapest, February 28, 2013

Christopher Mattheisen
Chief Executive Officer,
Chairman of the Board

Thilo Kusch
Chief Financial Offi
Board member

The Notes form an integral part of these financial statements.

EGYÜTT. VELED

Magyar Telekom Telecommunications
Public Limited Company

Notes to the 2012 Financial Statements

December 31, 2012

0 Note Added For Translation

This annual report for December 31, 2012 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C/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 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 Holding GmbH ("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 Holding GmbH (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) 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 the 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 decreased to 59.21 per cent. MagyarCom is 100 per cent owned by Deutsche Telekom A.G.

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 Rt. The change was registered by the Court of Registry on May 6, 2005.

On February 28, 2006 the name of Magyar Telekom Telecommunications Company Ltd. changed to Magyar Telekom Telecommunications Public Limited Company, with short name of Magyar Telekom Plc. ("Magyar Telekom Plc." or the "Company"). 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 terminated registration of its shares in the US in February 2012. The Company maintains its American Depositary Receipt (ADR) program on a Level I basis.

Persons authorized to sign the annual report:

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

Thilo Kusch - Chief Financial Officer, Board member (residence: Siófok)

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

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Könyvvizsgáló Kft. (its register number is 01-09-063022, its taxation number is 10256161-2-44).

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

1.2 The Company's area of 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 natural gas services are available for public consumers since June 1, 2010, the electricity services since July 1, 2010. The sale for business customers started on July 1, 2010 after the date on which the commercial licenses and business regulations approved by the Hungarian Energy Office entered into force.

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

1.3 Legal case connected to the decision closing the auction of 900 MHz frequency band

In relation to the auction for the right of use of a total amount of 10.8 MHz of unused spectrum related to the provision of mobile telecommunications services in the 900 MHz frequency band, on March 12, 2012 Magyar Telekom filed a petition with the Metropolitan Court, requesting that the Court annul the designation of a consortium of Magyar Posta Zrt., MFB Invest Zrt. and Magyar Villamos Művek Zrt. as an auction winner and certain relating requirements of the final decision closing the auction, rendered by the Vice-President of the National Media and Infocommunications Authority. The Metropolitan Court, by its judgment announced on September 17, 2012 annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court. Accordingly, the NMIAH's administrative decision closing the 900 MHz frequency auction is annulled in a final, binding and non-appealable manner.

1.4 Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that totalled more than EUR 31 million. In particular, the internal investigation examined whether the Company and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation. For further information regarding the internal investigation, see the Company's annual report for the year ended December 31, 2011.

The Company's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation.

On December 29, 2011, the Company announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to the Company. The settlements concluded the DOJ's and the SEC's investigations. The Company disclosed the key terms of the settlements with the DOJ and the SEC on December 29, 2011. The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for during 2011, and the provision was reclassified as Other current liability as at December 31, 2011. On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7,366 million in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

In addition to the DOJ's and the SEC's investigations, the Ministry of Interior of the Republic of Macedonia, the Montenegrin Supreme State Prosecutor, the Hungarian Central Investigating Chief Prosecutor's Office and the First Instance Prosecutor's Office of Athens commenced investigations into certain of the activities that were the subject of the internal investigation. These governmental investigations are continuing, and the Company and/or its relevant subsidiaries continue to cooperate with these investigations. We do not expect any material financial impacts of these continuing investigations.

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 2, 2013 in respect of the annual report for 2012.

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, what is adopted by the Company both in case of the balance sheet and the income statement as follows:

- Land and buildings and related rights are broken-down:
    - Land
    - Buildings
    - Telecommunication network
    - Other properties
    - Real estate related rights

- Technical equipment, machinery and vehicles are broken-down:
    - Telecommunication equipment and machinery
    - Other technical equipment, machinery and vehicles

- 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)

In the income statement:

- Caption 19 is further broken-down and the interests given to other related parties are also disclosed
- No other new items added

Combinations within certain revenue and expenditure captions are not applied.

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 2012, these captions were as follows:

- Capitalized costs of foundation and restructuring
- Capitalized costs of experimental development
- Other non current investments
- Non current bonds and other securities
- Advance payments on inventories
- Receivables from other related companies
- Bills receivable
- Investments in related parties
- Other investments
- Marketable securities
- Deferred expenses
- Provision for expected expenses
- Other provisions
- Non current borrowings
- Convertible bonds
- Investment and development loans
- Non current liabilities to related parties
- Bills of exchange payable
- Loss on the sale of financial investments

Since January 1, 2005 the Company has complied with its obligation to prepare consolidated annual report in such a way that it prepares its consolidated annual report in accordance with the International Financial Reporting Standards.

Deutsche Telekom Group's consolidated annual report prepared by Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) includes Magyar Telekom Plc. as a subsidiary of Deutsche Telekom AG.

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 as significant in all cases if, in the year when discovered by any form of audit, the aggregate amount of all errors (whether negative or positive) for the same year and the aftereffects thereof - increasing or decreasing the profit or loss or the equity - exceeds 2 per cent of the balance sheet total of the year audited, or HUF 500 million, if such 2 per cent of the balance sheet total exceeds HUF 500 million.

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 associated to one of the following four categories:

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

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

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

In 2012, a revision was made to the general rule applied for the separation of amounts to electricity and natural gas services in case of items booked directly to energy supply activity (however cannot be separated directly to electricity and natural gas services) or the allocated items during the separation process. In 2012, the basis of the allocation was the proportion of the point of delivery (POD) numbers while in 2011 based on direct margin.

Due to the change in allocation principles, the balance sheet and income statement as of 2011 has been re-allocated based on the allocation principles applied in 2012 to ensure the comparability of the 2011 and 2012 figures. The re-allocated amounts did not change significantly the allocated balance sheet total of the year 2011 or the difference because of separation, nor having a major effect on the income statement. Because of this the change of principles does not affect the comparability of figures.

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. 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 modify its functionality.

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

Depreciation policy

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

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

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

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

In case of intangible fixed assets:

	Years
Concession rights and licenses	3–25
Other intangibles	3–10

In case of tangible fixed assets:

	Years
Buildings	10–50
Networks and other real estate related rights	7–38
Technical equipment, machinery and vehicles	3–25
Other equipment	2–12

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 and vehicles. Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets.

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

Applied residual values:

- Buildings:
    - Determined individually based on the location of the building as well as the expected future useful life and usage of the building.
- Vehicles:
    - passenger cars for personal use: 25 per cent of the acquisition cost
    - passenger cars for business use: 30 per cent of the acquisition cost
    - trucks under 3.5 tons: 30 per cent of the acquisition cost
    - trucks above 3.5 tons: 20 per cent of the acquisition cost
    - transport vehicles: 10 per cent of the acquisition cost.

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.

Since January 1, 2011 the Company does not use the option given in the Section 80. (2) of Act on Accounting which declares 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.

Earlier, the Company applied the limit of HUF 50,000 except for those assets that served the operation of the telecom network directly; are part of the subscriber network; for those installed telecom software operating solely on telecom hardware and in addition the categories of assets defined in the asset accounting module of SAP.

The Company continuously records in its books individually those assets which were registered in groups with zero net value and recorded before 2011 among tangible or intangible assets below HUF 50,000. The effect of this reclassification can be seen in Notes 4 and 5.

The Company records extraordinary depreciation in cases where the value of the assets permanently decreased due to the fact that it is no longer needed, spoiled or destroyed, or if the book value is permanently and significantly in excess of the market value. In the absence of other reliable estimates the market value of the asset is determined using expected discounted cash-flow analysis.

If the reasons for the extraordinary depreciation of intangible and tangible assets on the basis of market value no longer exist or have been 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 under 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 manufactured 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.

2.3.1.2 Recognition and measurement of current assets

Inventories

The Company discloses the purchased inventories in its balance sheet on purchase price. The records are based on rolling average price in case of raw materials and on standard price plus variance in case of goods for resale.

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

Tangible 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 on reduced values or
- the market values known at the balance sheet preparation date are permanently and substantially lower than the book value of the inventories.

Phone sets often are sold below purchase price under campaigns for getting new subscribers which requires commitments for a minimal period of time. However the defined selling price under these campaigns by itself gives no reason for impairment. Impairment is charged only in case the market value known at the balance sheet preparation date is permanently and substantially lower than the book value.

If the market value differs by 10 per cent from the book value and the difference exceeds HUF 500 thousand then the difference between the market value and book value is deemed significant by the Company.

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

Trade receivables and other receivables

The balance of trade receivables reflects invoiced amounts accepted by the customers and does not include any unrecoverable and unaccepted receivables.

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 items that are individually not significant it is also assessed individually whether objective evidence of impairment exists. These items have to be assessed individually and amount of impairment have to be calculated on them.

Magyar Telekom Plc. considers the following items to be included in this category:

- receivables from domestic and international fixed line and mobile service providers,
- receivables from companies under liquidation or bankruptcy proceedings,
- other (non-trade) receivables.

Based on the Section 55. (2) of Act C/2000 on accounting the amount of impairment may also be established as a percentage of the amount of such receivables registered 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 set out in percentages.

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

In case of invoices with installments the amount of impairment is based on due dates of each installment.

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

The Company uses the following rates for impairment:

Ageing	Rate of impairment[1]
Overdue in 1-30 days	0%-10%
Overdue in 31-60 days	0%-40%
Overdue in 61-90 days	0%-65%
Overdue in 91-180 days	0%-80%
Overdue in 181-360 days	0%-90%
Overdue in 361-720 days	65%-100%
Overdue more than 720 days	90%-100%

[1] The Company uses different impairment rates for different groups of customers.

Accounts receivable and payable related to international telecommunications traffic are stated at gross value, even though the financial settlement of the balance is performed usually on a net basis.

Securities

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

2.3.1.3 Accruals (asset)

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.

Accrued income

The Company discloses the revenues which are only due after the balance sheet date (revenues not yet accounted for as receivables) but are to be accounted for 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.

Deferred expenses

The Company disclosed the contractual amount of an unsettled debt, which is accounted for as an extraordinary expense and incurred due to the assumption of debt during the reporting period of the assumption of debt as deferred expenses. Such amount shall be amortized from the deferred expenses to extraordinary expenses when the original debt is settled as contracted, and in accordance with the performance as contained in the contract (agreement).

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. The acquisition cost of the repurchased treasury stock is recorded in restricted reserve and the amount of development reserves according to the Corporate Tax Law.

2.3.2.3 Provisions

Main items include:

- early retirement payment liabilities and pre-age pension similar to early retirement
- severance payment liabilities
- contingent liabilities and commitments
- environmental liabilities
- guarantee liabilities determined by law
- future demolition or recovery liabilities deriving from a contract
- valuation of derivatives

2.3.2.4 Accruals (liability)

Deferred income

Amounts received prior to the balance sheet date but not to be accounted for as income in the current year are disclosed as deferred income. In particular e.g.: revenues of monthly tariff packages collected (invoiced) in advance, unearned domino traffic revenues which form part of revenues pertaining to the period following the current year.

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: frequency charges and usage fees, co-provider and roaming fees, commission fees, consultancy, maintenance expenses etc. charged for the current year but not yet invoiced

Deferred revenue

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

- financially settled amount of supports for development purposes,
- amount of liability cancelled or assumed by a third party related to assets acquired to the debit of the liability (up to the amount of the book value of the assets concerned at the most),
- market value of assets received without consideration, assets received as a gift or bequest or that of surplus

The Company derecognizes the deferred revenue accrual in proportion to the related asset accounted for as cost or expenditure against extraordinary revenue.

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 Hungarian National Bank (MNB) on December 31.

2.3.4 Derivatives

The Company records derivatives (forward F/X, 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 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:

- roaming fees invoiced for roaming partners,
- services provided for foreign suppliers,
- 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 gain and loss 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 following the one they relate to. 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 mediated services disclosed as costs of 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 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 2012 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, 2011 and 2012 are represented by the following financial ratios:

	2011	2012
Liquidity ratio (= current assets / current liabilities)[1]	0.26	0.41
Operating margin (= operating profit / (sales revenues + other income))	0.08	0.08
Operating return on assets (= operating profit / total assets)	0.04	0.04
Leverage ratio (= non-current liabilities / (non-current liabilities + equity))	0.41	0.40

[1] The increase of liquidity ratio is mainly due to the decrease of other current liabilities which resulting from the fact that the dividend payment liability for 2012 has not been approved yet and the liability related to SEC/DOJ investigation disclosed in 2011 was paid during 2012. Further details of other current liabilities are in Note 23.

The following is the cash-flow statement for the years ended on December 31, 2011 and 2012:

		2011	2012
I. Cash flows from operating activities (lines 1-14)		**63,735**	**40,961**
1. Profit before taxes (before dividend received)	(+/-)	9,724	9,139
2. Depreciation and amortization	(+)	78,214	85,174
3. Impairment losses charged and reversed	(+/-)	10,147	10,542
4. Change in provisions	(+/-)	-6,865	6,143
5. Profit or loss on the sale of non-current assets	(+/-)	-2,074	-247
6. Change in accounts payable	(+/-)	20,315	10,900
7. Change in other current liabilities	(+/-)	19,661	-66,414
8. Change in accruals (liability)	(+/-)	-1,089	-2,484
9. Change in accounts receivable	(+/-)	-5,159	-13,011
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	-270	-718
11. Change in accruals (asset)	(+/-)	-6,335	496
12. Income tax paid (on profit and loss)	(–)	168	-1,285
13. Dividend and shares paid/payable	(–)	-52,117	0
14. Other non cash items	(+/-)	-585	2,726
II. Cash flows from investing activities (lines 15-17)		**-42,054**	**-46,010**
15. Acquisition of fixed assets and financial investments	(–)	-64,787	-65,041
16. Proceeds from sale of fixed assets and financial investments	(+)	2,080	246
17. Dividends and advance dividends received	(+)	20,653	18,785
III. Cash flows from financing activities (lines 18-29)		**-23,035**	**4,230**
18. Proceeds from issue of shares	(+)	0	0
19. Proceeds from the issuance of bonds	(+)	0	0
20. Loans received	(+)	170,526	251,602
21. Redemption from non-current loans granted and bank deposits	(+)	2,817	6,387
22. Non-repayable liquid assets received	(+)	44	249
23. Share capital decrease	(–)	0	0
24. Treasury stock repurchases	(–)	0	0
25. Repayment of bonds	(–)	0	0
26. Repayment of loans	(–)	-194,143	-252,898
27. Non-current loans granted and bank deposits	(–)	-2,086	-895
28. Non-repayable donations given	(–)	0	0
29. Change in liabilities to founders and other non-current liabilities	(+/-)	-193	-215
IV. Change in liquid assets (lines I. + II. + III.)	(+/-)	**-1,354**	**-819**
Cash at the beginning of the year		**5,673**	**4,319**
Cash at year-end		**4,319**	**3,500**

4 Intangible assets

The following table is a summary of intangible fixed asset movements between January 1, 2011 and December 31, 2012:

GROSS BOOK VALUE	Rights	Intellectual property	Goodwill	Advances on intangible assets	Total
Opening balance as of January 1, 2011	**181,105**	**15,551**	**222,132**	**0**	**418,788**
Additions	17,085	667	724	20	18,496
Disposals	-8,584	-86	0	0	-8,670
Reclassifications	215	-207	0	0	8
Closing balance as of December 31, 2011	**189,821**	**15,925**	**222,856**	**20**	**428,622**
Additions	44,108	2,278	100	0	46,486
Disposals	-18,435	-976	0	-20	-19,431
Reclassifications	921	-913	0	0	8
Closing balance as of December 31, 2012	**216,415**	**16,314**	**222,956**	**0**	**455,685**
AMORTIZATION					
Opening balance as of January 1, 2011	**125,267**	**10,985**	**90,881**	**0**	**227,133**
Charge for the year	12,505	647	10,130	0	23,282
Impairment	0	0	2,125	0	2,125
Disposals	-8,504	-82	0	0	-8,586
Reclassifications	220	-220	0	0	0
Closing balance as of December 31, 2011	**129,488**	**11,330**	**103,136**	**0**	**243,954**
Charge for the year	13,298	738	10,129	0	24,165
Impairment	0	0	1,477	0	1,477
Disposals	-2,332	-9	0	0	-2,341
Reclassifications	530	-524	0	0	6
Closing balance as of December 31, 2012	**140,984**	**11,535**	**114,742**	**0**	**267,261**
NET BOOK VALUE as of December 31, 2011	**60,333**	**4,595**	**119,720**	**20**	**184,668**
NET BOOK VALUE as of December 31, 2012	**75,431**	**4,779**	**108,214**	**0**	**188,424**

The main components of the changes in 2012:

Rights

The gross value of rights increased by HUF 44,108 million in the current year. Significant part of this increase was caused by the HUF 10,923 million increase of concession rights (from this amount HUF 5,462 million connected to capitalized assets) which is connected to the right of use related to the provision of mobile telecommunication services in the 900 MHz frequency band. See further information in Note 1.3.Further significant increase is caused by the software rights of use connected to the new billing system with non-capitalized amount of HUF 5,553 million.

Other increases were due to the capitalizations and additional capitalizations of other and general-purpose software rights of use (HUF 4,896 million), IT systems rights of use (HUF 1,109 million) and Billing and Customer Relations systems rights of use (HUF 813 million).

The decrease is mainly due to the scrapping of Network Management software rights of use (gross value is HUF 699 million, net value is HUF 64 million) and the other and general-purpose software rights of use (gross value is HUF 919 million, net value is HUF 12 million).

Intellectual properties

The increase is mainly due to the upgrades of the billing software for mobile services (HUF 416 million), the capitalization of Smart-metering software for the operation of new measuring devices installed at energy customers (HUF 151 million) and the IPTV platform upgrade (HUF 150 million).

In 2012, the Company reviewed the useful lives of rights and intellectual properties and executed the changes in useful lives where the Company deemed it necessary. Due to the changes HUF 382 million less amortization was charged for 2012.

Goodwill

The purchase price instalment of HUF 100 million depending upon DATEN-KONTOR Kft.'s result of the year 2011 stipulated in the sales contract has been paid and recognized as goodwill.

During 2012, HUF 10,129 million amortization was charged on goodwill for items recognized before 2005.

The goodwill in the investment of MODULTECHNIKA Kft. was written off in full amount of HUF 1,477 million because the enterprise value of MODULTECHNIKA Kft. did not substantiate the value of goodwill.

The movements of goodwill in 2012 are summarized as follows:

Description	Net value as of December 31, 2011	Goodwill recorded in 2012	Amortization charge/ extraordinary amortization in 2012	Net value as of December 31, 2012
T-Mobile Magyarország Távközlési Rt.[1]	90,877	0	-9,115	81,762
T-Systems Magyarország Zrt. (KFKI Zrt.)	8,851	0	0	8,851
Dataplex Kft.[1]	4,793	0	0	4,793
Stonebridge A.D.	4,500	0	-391	4,109
EMITEL Távközlési Zrt.[1]	4,367	0	-589	3,778
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.	429	100	0	529
Novatel E.O.O.D.	447	0	0	447
Budakalász Kábel TV Kft.	185	0	0	185
Dél-Vonal Kft.[1]	100	0	0	100
IQSYS Zrt.(Integris Rendszerház Kft. -Rába Szolgáltatóház Kft.)[1]	37	0	-34	3
MODULTECHNIKA Kft.	1,477	0	-1,477	0
Total	**119,720**	**100**	**-11,606**	**108,214**

[1] On December 31, 2012 the marked companies did not operate as independent companies due to transformation but the market perception of their operation gave no reasons for impairing or derecognizing the goodwill.

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, 2011 and December 31, 2012:

GROSS BOOK VALUE	Real estate and related rights	Technical equipment, machinery and vehicles	Other equipment and vehicles	Total
Opening balance as of January 1, 2011	**412,992**	**665,804**	**75,715**	**1,154,511**
Additions	15,653	26,693	2,080	44,426
Disposals	-5,379	-38,063	-8,192	-51,634
Reclassifications	-682	5,223	-3,858	683
Closing balance as of December 31, 2011	**422,584**	**659,657**	**65,745**	**1,147,986**
Additions	16,310	25,724	2,711	44,745
Disposals	-2,227	-30,057	-10,842	-43,126
Reclassifications	-2,483	-628	-1,328	-4,439
Reclassifications from assets below HUF 50,000[1]	0	2,285	42	2,327
Closing balance as of December 31, 2012	**434,184**	**656,981**	**56,328**	**1,147,493**
DEPRECIATION				
Opening balance as of January 1, 2011	**171,573**	**516,335**	**65,734**	**753,642**
Charge for the year	15,128	36,212	3,532	54,872
Impairment	2	1	4	7
Disposals	-2,498	-35,275	-7,851	-45,624
Reclassifications	-30	3,642	-2,956	656
Closing balance as of December 31, 2011	**184,175**	**520,915**	**58,463**	**763,553**
Charge for the year	16,312	41,457	3,240	61,009
Impairment	0	0	0	0
Disposals	-1,655	-29,075	-10,566	-41,296
Reclassifications	-770	920	-1,026	-876
Reclassifications from assets below HUF 50,000[1]	0	2,285	42	2,327
Closing balance as of December 31, 2012	**198,062**	**536,502**	**50,153**	**784,717**
NET BOOK VALUE as of December 31, 2011	**238,409**	**138,742**	**7,282**	**384,433**
NET BOOK VALUE as of December 31, 2012	**236,122**	**120,479**	**6,175**	**362,776**

[1] See in Note 2 on Accounting policies for the reason of reclassification.

Further details are disclosed in Appendix 2.

The mainly reasons of the changes in 2012 are as follows:

Real estate and related rights

The increase in real estate and related rights is HUF 16,310 million in gross value which was caused by the increase of buildings and other real estate (HUF 1,792 million in gross value) and of networks (HUF 14,431 million in gross value) – see Appendix 2. The increase in buildings and other real estate is mainly due to the expansion and capitalization of antenna towers built on land not owned by the Company (HUF 719 million) and the renovating/improving on rented buildings (HUF 605 million).

The gross value of telecommunication networks increased by HUF 14,431 million (see Appendix 2) of which the significant items are:

- copper wire telecom cables over ground for local network (HUF 2,369 million)
- client-side copper based network (HUF 1,779 million)
- client-side coax based network (HUF 1,455 million)
- fiber optic telecom cables of local network pulled in ducts (HUF 1,371 million)
- cable TV coax network (HUF 1,132 million)
- copper wire telecom cables of local network pulled in ducts (HUF 1,046 million)
- Digital Video Broadcasting - Satellite (DVBS) infrastructure (HUF 1,011 million)

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

- network connecting adjacent local networks installed in duct – metal cable (gross value is HUF 380 million, net value is HUF 18 million)
- copper wire telecom cables over ground for local network (gross value is HUF 293 million, net value is HUF 95 million)
- copper wire telecom cables of local network pulled in ducts (gross value is HUF 243 million, net value is HUF 70 million)

Technical equipment, machinery and vehicles

The increase is due to the capitalization and extension of telecommunication equipment of HUF 25,724 million in gross value, of which the significant items are:

- routers (HUF 5,120 million)
- BTS-GSM and UMTS radio communication equipment (HUF 1,683 million)
- ADSL node equipment (HUF 1,652 million)
- CE routers and 3 play equipment (HUF 1,521 million)
- WDM equipment (HUF 1,462 million)
- Internet cable TV modems (HUF 1,438 million)
- Internet providing equipment (HUF 1,438 million)

HUF 30,057 million decrease is mainly due to the sales because of redemptions related to the mobile network modernization project and sales of vehicles directly serving operations, for example:

- BTS-GSM, and UMTS radio communication equipment (gross value is HUF 9,575 million, net value is HUF 3 million)
- GSM network control system (gross value is HUF 4,632 million, net value is zero)
- BTS-UMTS radio communication equipment (gross value is 2,982 million, net value is HUF 1 million)
- vehicles directly serving operations (gross value is HUF 854 million, net value is HUF 143 million).

Other equipment and vehicles

Other equipment and vehicles increased by HUF 2,711 million in gross value, of which the significant items are:

- capitalization and extension of servers (HUF 670 million) and
- capitalization of computer peripherals not serving the core activities (HUF 417 million).

The HUF 10,842 million decrease in gross value of other equipment and vehicles is due to inventory shortage, sales and scrapping of equipment.

Sales are mainly concerned in the following assets:

- servers (gross value is HUF 2,467 million, net value is HUF 1 million)
- passenger cars for personal use (gross value is 340 million, net value is HUF 72 million)
- employees' mobile handsets (gross value is HUF 185 million, net value is HUF 17 million)

Scrappings are mainly related to the following assets:

- office equipment (gross value is HUF 383 million, net value is zero)
- furniture (gross value is HUF 367 million, net value is HUF 10 million).

In 2012, the Company reviewed the useful life of tangible assets and executed the changes in useful lives where the Company deemed it necessary. In consequence, HUF 3,645 million more depreciation was charged for 2012.

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

- mobile network modernization project (HUF 1,757 million),
- BSC centers replacement project (HUF 1,037 million) and
- DSLAM equipment replacement project (HUF 319 million).

6 Non-current investments in related parties

6.1 Changes of Non-current investments in 2012

As of December 31, 2011 and 2012, 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	
	2012		2011	2012
Stonebridge A.D. Skopje (under liquidation)[1]	100.00%		109,207	102,181
Crnogorski Telekom A.D.[1]	76.53%		45,224	42,363
T-Systems Magyarország Zrt. (previously KFKI Zrt.)	100.00%		5,778	16,738
ViDaNet Zrt.	67.50%	22.50%	2,836	2,836
Origo Zrt.	100.00%		3,741	2,418
Combridge S.R.L.[1]	100.00%		2,303	2,156
Investel Zrt.	100.00%		6,633	1,658
DATEN-KONTOR Kft.	100.00%		847	847
Novatel E.O.O.D.[1]	100.00%		778	728
Telekom New Media Zrt.	100.00%		1,745	700
MODULTECHNIKA Kft.	100.00%		127	110
Budakalász Kábel TV Kft.	100.00%		74	74
KIBU Innováció Nonprofit Kft.	99.20%	0.80%	34	34
Telemacedonia A.D. Skopje[1]	100.00%		26	24
TeleData Kft.	50.99%		20	20
ISH Kft.	100.00%		3	3
Mindentudás Egyeteme Nonprofit Kft. "v.a." (under liquidation)	60.00%		3	0
Pro-M Zrt.	0.00%		8,200	0
IQSYS Zrt.	0.00%		2,875	0
Dataplex Kft.	0.00%		2,005	0
ISH Informatika Kft.	0.00%		1,587	0
EurAccount Kft. „v.a." (under liquidation)	0.00%	0.00%	446	0
Novatel Ukraine LLC. (under liquidation)	0.00%	0.00%	33	0
Total			**194,525**	**172,890**

[1] In 2012, the decrease of book value of investment is due to the balance sheet date revaluation whereby HUF 10,086 million foreign exchange loss was recorded in the books.

Magyar Telekom Plc. increased the capital in Origo Zrt. by HUF 1,000 million in 2012.

In 2012, the Company executed a capital decrease through disinvestment totaling HUF 6,020 million which decreased the book values of its investments in Investel Zrt. (HUF 4,975 million) and in Telekom New Media Zrt. (HUF 1,045 million).

In 2012, 100 per cent of the shares of Pro-M Zrt. was sold to the state-owned National Infocommunications Service Company Limited by Shares (sole client of Pro-M Zrt.). The selling price of the shares was HUF 12,561 million and the book value of derecognized investment was HUF 8,200 million. The financial settlement of the transaction was concluded and the investment was derecognized from the Company's books. The owner's loans to Pro-M Zrt. were also repaid during the transaction.

In 2012, the liquidation procedure of EurAccount Kft. was finished, Novatel Ukraine LLC's activities were terminated and its assets were appropriated. Both investments were cancelled from the Company's books resulting HUF 479 million decrease in investments.

T-Systems Magyarország Zrt., Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. concluded a merger contract declaring the merger of the four companies in 2012. During the transformation Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. merged into T-Systems Magyarország Zrt. The merged companies were derecognized from the Company's books resulting HUF 6,467 million decrease in investments however the increase of book value of T-Systems Magyarország Zrt. (as legal successor) increased the investments by HUF 10,960 million.

In 2012, impairment recorded on investments decreased the book value of non-current investments by HUF 2,344 million. The most significant item (HUF 2,323 million) was recorded on Origo Zrt.'s investment which was established on the basis of the expected profitability outlook of the company's current operating model.

Impairments on non-current investments are detailed in Appendix 4.

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

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

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 AD on its privatization. Makedonski Telekom is 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., which is a holding company residing in Skopje. Magyar Telekom Plc.'s has 100 per cent share in Stonebridge A.D. since 2004 and the company has 51 per cent share in Makedonski Telekom. As a result of this the mediation by Stonebridge A.D. became unnecessary. For this reason Magyar Telekom Plc. initiated the liquidation procedure according to Macedonian laws in November, 2005.

Crnogorski Telekom A.D.

In 2004, Magyar Telekom Pc. 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. (previously KFKI Rendszerintegrációs Zrt.)

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI (KFKI-LNX) Zrt. The company had further two subsidiaries: ICON Zrt. and IQSYS Zrt. All three were significant in Hungary's IT service sector. ICON Zrt. merged into the company with effect of December 31, 2007. In 2008 KFKI Zrt. sold its investment in IQSYS Zrt. to Magyar Telekom Plc. In 2010, based on the merger contracts, KFKI Direkt Kft. and then EPT Zrt. merged into KFKI Zrt. In 2012, the company decided to change its name and continues its activities under the name of T-Systems Magyarország Zrt. The change was registered by the Court of Registry. The company concluded a merger contract with Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. declaring the merger of the four companies into T-Systems Magyarország Zrt. The transformation was registered by the Court of Registry.

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

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

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

ViDaNet Zrt. was established in 2003 by the merger of several companies for providing cable television services. Magyar Telekom Plc.'s direct and indirect ownership in total is 90 per cent and has 49.995 per cent voting right in the company.

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 Magyar Telekom Group.

DATEN-KONTOR Számítástechnikai Fejlesztő és Szolgáltató Kft. (DATEN-KONTOR Kft.)

In 2010, Magyar Telekom Plc. signed a contract for the purchase of 100 per cent of the shares in DATEN-KONTOR (DK) group. The DK group members were the following companies: DATEN-KONTOR Kft., DK Telecom Zrt, and DK Consulting Zrt. The group's activities included development, installation and operation of IT applications. The transaction was closed at the end of February, 2011 but before this date the three companies merged into one legal unit under the name of DATEN-KONTOR Kft. with the same activities as the group.

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.)

In 2009, Magyar Telekom Plc. as shareholder retired from IKO-TELEKOM Zrt. After the secession Telekom Média Holding Zrt. was established which was solely owned by Magyar Telekom Plc. The members of the holding were Telekom New Media Kft. and Telekom Content & Rights Kft. With effect from July 31, 2010 - based on the merger contract – Telekom New Media Kft. and Telekom Content & Rights Kft. merged into Telekom New Média Holding Zrt. 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 because of its international experience and own developed solutions.

MODULTECHNIKA Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság (MODULTECHNIKA Kft.)

MODULTECHNIKA Kft. provided cable TV and internet services through its modern cable TV network in and around Ajka. The Company signed an agreement on July 6, 2010 to buy 100 per cent of the shares in MODULTECHNIKA Kft.

Budakalász Kábel TV Szolgáltató Kft. (Budakalász Kábel TV 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 at Budakalász.

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 creating experimental projects in cross-disciplinary teams.

Mindentudás Egyeteme Tudományos Közhasznú Nonprofit Kft."under liquidation"

The company was established in 2004 (under the name of Mindentudás Egyeteme Kht.) by Magyar Telekom Plc., the Hungarian Academy of Sciences and T-Online Magyarország Zrt. The purpose of its public activity was to organize public courses through media and other telecommunication means to help spreading knowledge of highly interesting scientific topics. In 2012, the General Meeting decided on the termination of the company without succession through a dissolution procedure with starting date April 1, 2012.

7 Non-current loans granted to related parties

In 2011, this caption contained the HUF 5,600 million loan granted to Pro-M Zrt. The loan and its interests were repaid in one amount during the transaction in 2012 (see further information in Note 6.1).

8 Other non-current loans granted

Other non-current loans granted as of December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Long term loans granted to employees	3,696	3,618
Long term part of installment receivables of equipment sales[1]	330	3,027
Other deposits given	69	33
Total	**4,095**	**6,678**

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

9 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, 2011 and December 31, 2012:

	2011	2012
Opening balance	7,019	6,399
Change in inventories	-337	4,018
Impairment loss	-283	-39
Closing balance	**6,399**	**10,378**

The increase in inventories is due to the increase of unused fixed assets held for sale and telephones, televisions, laptops and tablets intended for sale.

Further details of inventory impairment are disclosed in Appendix 4.

10 Accounts receivable

As of December 31, 2011 and 2012 accounts receivable include the following:

	2011	2012
Domestic accounts receivable	52,574	54,749
Foreign accounts receivable	1,362	2,231
Impairment of receivables	-18,892	-15,341
Total	**35,044**	**41,639**

The increase of domestic accounts receivable is due to the increased balance of receivables from electricity and natural gas consumers.

In 2012, the proportions of receivables not yet due and the overdue receivables in 1-30 days increased within the ageing of receivables and at the same time the proportions of receivables in ageing overdue more than 30 days resulted a significant decrease in impairment of receivables.

Further details on impairment of receivables are disclosed in Appendix 4.

11 Receivables from related parties

Receivables from related parties as of December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Receivables from T-Systems Magyarország Zrt.[1]	4,100	7,418
Loans to Novatel E.O.O.D.	2,524	2,294
Loans to ViDaNet Zrt.	250	1,602
Loans to Origo Zrt.	1,952	1,040
Receivables from Combridge S.R.L.	62	80
Receivables from Makedonski Telekom A.D.	34	57
Receivables from IQSYS Kft.[1]	4,359	0
Loans to Dataplex Kft.[1]	1,850	0
Receivables from Pro-M Zrt.[2]	1,052	0
Other	132	97
Total	**16,315**	**12,588**

[1] IQSYS Zrt. and Dataplex Kft. merged into T-Systems Magyarország Zrt. during 2012 (see Note 6).
[2] Loan to Pro-M Zrt. was repaid during 2012 (see Note 6), while the trade receivables after the termination of the related party status are included in Domestic accounts receivable.

12 Other receivables

The Company's other receivables as of December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Roaming discount receivables	3,391	3,189
Tax receivables	1,559	1,557
Receivables from employees	1,222	1,138
Advance payments given	1,356	1,119
Receivables from dealers[1]	318	460
Receivables from forward deals[1]	158	254
Other[2]	746	1,294
Total	**8,750**	**9,011**

[1] In the annual report as of 2011 these items were disclosed in Other.
[2] In 2011, HUF 48 million was disclosed in Receivables from the government.

13 Securities

The amount of HUF 307 million represents the value of repurchased treasury stock on repurchase price. The number and face value of repurchased treasury stock are detailed in Note 15.

14 Accruals (assets)

	2011	2012
Accrued income related to telecommunication activities	27,973	27,841
Accrued income related to electricity and gas retail services[1]	1,525	3,973
Accrued income related to related parties	1,078	866
Other[2]	1,102	921
Accrued income	**31,678**	**33,601**
Rental fees	1,280	1,078
Insurance fees	7	354
Prepaid costs and expenses related to electricity and gas retail services[3]	2,419	329
Accrued amount of value correction paid related to loans	455	307
Other	752	426
Prepaid costs and expenses	**4,913**	**2,494**
Total	**36,591**	**36,095**

[1] The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than in 2011.
[2] HUF 25 million rental fee accrual was on a separate line in the 2011 annual report.
[3] The decrease is due to the fact that a lower amount of costs were prepaid in 2012.

15 Shareholders' Equity

The Company's owners' structure based on the shareholder registration in the Share Register as of December 31, 2012:

Shareholder	Number of shares	Nominal value (HUF per share)	Total value (HUF million)	Ownership percentage (%)
MagyarCom Holding GmbH	617,436,759	100	61,744	59.21%
Other foreign companies	140,633,244	100	14,063	13.49%
Domestic companies	46,490,359	100	4,649	4.46%
Domestic and foreign private persons	70,433,480	100	7,043	6.75%
Other (not named and nominees)	135,262,416	100	13,526	12.97%
General Government total	32,095,423	100	3,210	3.08%
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, 2011 and December 31, 2012 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves	Balance Sheet Net Income
Opening balance as of January 1, 2011	**104,274**	**58,952**	**188,864**	**2,307**	**12,812**
Reclassifications	0	0	12,812	0	-12,812
Effect of self-revision	0	0	-1,232	0	0
Profit of the year	0	0	0	0	31,675
Dividend	0	0	-20,442	0	-31,675
Balance as of December 31, 2011	**104,274**	**58,952**	**180,002**	**2,307**	**0**
Reclassifications	0	0	500	-500	0
Effect of self-revision	0	0	-814	0	0
Profit of the year	0	0	0	0	30,792
Dividend	0	0	0	0	0
Balance as of December 31, 2012	**104,274**	**58,952**	**179,688**	**1,807**	**30,792**

Restricted reserves contain the amount of the development reserve (HUF 1,500 million) and the book value of the repurchased treasury stock (HUF 307 million) as of December 31, 2012.

16 Provisions

	Early retirement and severance payments	Contingent liabilities	Total
Opening Balance as of January 1, 2011	**5,643**	**13,057**	**18,700**
Increase	4,268	2,329	6,597
Decrease	-7,533	-5,929	-13,462
Closing Balance as of December 31, 2011	**2,378**	**9,457**	**11,835**
Increase	3,558	5,966	9,524
Decrease	-1,523	-1,858	-3,381
Closing Balance as of December 31, 2012	**4,413**	**13,565**	**17,978**

The main items of provision reversals for contingent liabilities during the year are as follows:

Titles	2011	2012
Customer loyalty program	1,946	1,114
Legal cases	327	247
Employee bonuses	53	205
Contractual (asset retirement) obligation	25	115
Guarantee liabilities	45	63
Penalties	459	50
Environmental liabilities	3	48
Derivatives[1]	2,850	0
Obligation related to invention	128	0
Other	93	16
Total reversals	**5,929**	**1,858**

The main items of increase of provision for contingent liabilities during the year are as follows:

Titles	2011	2012
Derivatives[1]	0	2,162
Legal cases	169	2,026
Customer loyalty program	1,221	1,268
Employee bonuses	324	234
Contractual (asset retirement) obligation	333	142
Guarantee liabilities	52	56
Obligation related to real estate tax	0	48
Environmental liabilities	96	25
Other	134	5
Total increases	**2,329**	**5,966**

[1] There was no provision recognized at the end of the previous period because there were no derivatives with negative fair value.

17 Other non-current loans

The Company repaid HUF 11,000 million and HUF 3,556 million was reclassified to current loans so there is no balance on this caption as of December 31, 2012.

The Company's debt from issuance of bonds is HUF 120 million with maturity in 2014.

18 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. The closing balance of these loans as of December 31, 2012 is HUF 253,093 million. HUF 35,000 million (fix interest rate of 7.6475 per cent) and HUF 35,000 million (6 month BUBOR +0.995 per cent) were drawn down in May 2012. Both loans are repayable in 2016.

The short term portion of related party loans (HUF 34,486 million) is disclosed in Note 22.

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

Maturity	Amount
2014	21,847
2015	97,542
2016	112,440
2017	6,700
2018	14,564
Total	**253,093**

19 Current loans

The Company's current loans received from banks were HUF 36,335 million as of December 31, 2012.

During 2012, HUF 149,932 million was drawn down, HUF 163,083 million was repaid and HUF 3,556 million was reclassified from other non-current loans. In addition HUF 151 million foreign exchange difference was recognized on loans denominated in foreign currency.

20 Accounts payable

The accounts payable as of December 31, 2012 contains the following main items:

	2011	2012
Domestic suppliers	31,288	41,694
Foreign suppliers	6,201	5,411
Total	**37,489**	**47,105**

The increase in domestic suppliers is due to the increase of liabilities related to intangible and tangible fixed assets, multimedia equipment and purchase of energy.

21 Current liabilities to related parties

The current liabilities to related parties as of December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Loan payable to Stonebridge A.D.[1]	34,988	36,111
Liabilities to T-Systems Magyarország Zrt.[2]	11,115	8,404
Liabilities to DATEN-KONTOR Kft.[3]	765	1,289
Liabilities to Investel Zrt.[4]	4,518	633
Liabilities to Combridge S.R.L.[5]	36	537
Liabilities to Telekom New Media Zrt.[6]	1,221	445
Liabilities to Origo Zrt.[7]	300	283
Other[8]	1,750	346
Total	**54,693**	**48,048**

[1] The change in loan payable to Stonebridge A.D. is due to a further loan drawn down.
[2] In 2012, T-Systems Magyarország Zrt., Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. concluded a merger contract declaring the merger of the four companies. Because of this merger the previous year figure contains the liabilities of these four companies in the annual report as of 2011.
[3] In 2011, liabilities to DATEN-KONTOR Kft. were disclosed in Other.
[4] The decrease in liabilities to Investel Zrt. is mainly due to the repayment of Investel Zrt.'s loan through disinvestment.
[5] In 2011, liabilities to Combridge S.R.L. were disclosed in Other.
[6] In 2011, this line contained the loan payable to Telekom New Media Zrt. but in 2012 the total liabilities.
[7] In 2011, liabilities to Origo Zrt. were disclosed in Other.
[8] In 2012, loan payable to MODULTECHNIKA Kft. considering its low amount is disclosed in Other.

22 Current liabilities to other related parties

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

Maturity	Interest	Amount
01.31.2013.	3 months BUBOR +0.17525%	9,486
10.25.2013.	fix 7.25567%	25,000
Total		**34,486**

Deutsche Telekom AG has expressed its intention for financing the Company's budgeted financing needs at least until the end of June 2014.

23 Other current liabilities

Other current liabilities as of December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Liabilities to government[1]	491	4,863
Value Added Tax	928	4,035
Payables to employees and related contributions	1,933	3,932
Liability from topping up the universal balance	3,533	3,188
Discount granted subsequently on roaming traffic	2,271	2,705
Customer overpayments[2]	1,466	1,456
Personal income tax	1,255	1,119
Penalty (disgorgement)[3]	21,857	0
Dividends payable 2011	52,117	0
Dividends payable 2012[4]	0	0
Other[5]	1,099	1,066
Total	**86,950**	**22,364**

[1] In 2012, the main part of liabilities to government are the telecommunication tax (HUF 2,879 million) and social contribution (HUF 1,495 million).
[2] In 2011, customer overpayments were disclosed in Other.
[3] The penalty (disgorgement) related to the SEC/DOJ investigation was USD 90.8 million (HUF 21,857 million) which was paid in 2012 in the amount of HUF 22,078 million (see in Note 1.4). The discrepancy is the foreign exchange difference.
[4] The current year's dividend payable has not yet been approved.
[5] Dividends payable for previous years unsettled financially are disclosed in Other.

24 Accruals (liabilities)

	2011	2012
Deferred subscription and traffic fees	2,640	2,242
Deferred income from related parties	1,383	1,099
Deferred income of rebranding	124	77
Other	692	766
Deferred income	**4,839**	**4,184**
Interest on owners' loan	6,248	7,244
Payroll related expenses	5,979	3,649
Accruals to related parties	2,619	2,893
Expenses related to TV services[1]	2,230	2,805
Frequency usage fee	3,061	2,790
Rental fees[2]	2,802	2,754
Payments to mobile operators[1,2]	3,271	2,692
Marketing expenses[1]	971	1,943
Expenses from energy services	1,921	1,842
Charges for public utility services[1]	2,830	1,813
Commission fees[1]	1,248	1,506
Consultancy fees[1]	875	564
Maintenance expenses[1]	553	548
Payment to other fixed line network operators[1]	1,071	502
Expenses related to value added services and content provision	354	405
Mediated RI/IT services[1]	264	269
Interests	209	210
Other (vendor accruals)[1]	4,721	4,700
Accrued expenses	**41,227**	**39,129**
Other deferred revenue	**629**	**961**
Total	**46,695**	**44,274**

[1] In 2011, these expenses were disclosed in Vendor accruals.
[2] In 2011, HUF 511 million was disclosed in Accrued roaming related expenses and HUF 2,760 million in Vendor accruals.

25 Net domestic sales

Net domestic sales in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Subscriptions, connections and other charges relating to voice and data services	155,716	159,959
Mobile traffic revenues	150,854	138,014
Revenues entirely from TV services	26,011	27,886
Energy revenues[1]	4,602	26,013
Revenues from sale of handsets and other devices	19,920	24,334
Leased lines, data transmission and IT revenues	31,431	24,145
Fixed line traffic revenues	26,499	21,597
Revenues from equipment sales	1,529	2,584
Other revenues	17,735	19,626
Total net domestic sales	**434,297**	**444,158**

[1] The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than those in 2011.

26 Net export sales by geographical areas

Net export sales by geographical areas in the years ending December 31, 2011 and 2012 are summarized as follows (sales are solely connected with services provided):

	2011		2012	
		%		%
EU	13,716	81.85%	12,996	77.68%
Europe (outside the EU)	2,008	11.98%	2,359	14.11%
Asia	494	2.95%	734	4.39%
America	361	2.16%	429	2.57%
Africa	76	0.45%	139	0.83%
Australia	102	0.61%	70	0.42%
Total net export sales	**16,757**	**100.00%**	**16,727**	**100,00%**

27 Other income

Other income in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Default interest, penalties, compensations	3,099	4,087
Reversal of provisions[1]	13,462	3,381
Discount received subsequently	3,460	2,970
Other income from reversal of impairment[2]	3,148	2,711
Revenue from sale of intangible and tangible fixed assets[3]	5,021	888
Revenue from receivable factoring	436	652
Renaming and rebranding	73	39
Other	1,117	1,211
Total	**29,816**	**15,939**

[1] The change in reversal of provisions compared to the previous year is mostly due to the increases of the following: early retirement and severance payment provisions (HUF 6,010 million), reversal of previous year's provision for derivatives (HUF 2,850 million), the customer loyalty program reversal (HUF 832 million) and reversals related to penalties (HUF 409 million). Provisions are detailed in the Note 16.

[2] The change is due to the increase in the received amounts of overdue and impaired receivables in relation to the previous year.

[3] In 2011, the revenue contained the sale (and lease-back) of 21 buildings which explains the significant decrease between 2011 and 2012.

28 Import purchases

Import purchases by geographical areas in the years ending December 31, 2011 and 2012 are summarized as follows:

	2011			2012		
	Services	Products	Total	Services	Products	Total
EU	17,559	18,192	35,751	17,505	19,053	36,558
Asia	2,116	3,843	5,959	2,010	1,614	3,624
Europe (outside the EU)	2,136	337	2,473	2,965	394	3,359
America	1,622	180	1,802	1,015	789	1,804
Africa	232	0	232	238	0	238
Australia	49	0	49	83	0	83
Total	**23,714**	**22,552**	**46,266**	**23,816**	**21,850**	**45,666**

29 Costs of services

Costs of services in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Repair and maintenance costs	18,565	17,527
Rental fees	12,839	14,543
Commissions paid	7,642	7,849
Marketing expenses	7,234	7,264
Payments to international network operators	4,813	4,898
Consultancy	4,810	4,399
Costs of sale and management of services provided for business customers[1]	2,666	3,935
Postage	2,713	2,677
Expenses of rented workforce and operator activities[2]	8,243	2,644
Property operating costs[1]	2,275	2,432
Services related to other revenues[3]	1,080	1,832
Brand license fee	889	1,142
Costs of delivery and storage[1]	782	911
Education, training expenses	1,018	740
Administrative services and related costs[1]	733	695
Costs of guarding property and cash transport[1]	613	679
Payments to Internet and TV service providers[1]	541	603
Database and 'infodok' expenses[1]	440	470
Travel and accommodation costs	406	301
Costs of vehicle fleet[1]	227	204
Membership fees, copyright payments[1]	234	201
Translation and interpretation fees[1]	111	106
Other[1]	4,418	2,135
Total	**83,292**	**78,187**

[1] In the 2011 annual report, these costs were disclosed in Fees paid to entrepreneurs.
[2] Expenses of rented workforce decreased significantly as the great majority of the rented workforce was enrolled into Magyar Telekom Plc.'s payroll in 2012.
[3] The increase is mainly due to insurance fees related to mobile customers which doubled to HUF 1,294 million compared to the previous year.

30 Cost of goods sold

Cost of goods sold in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Fixed line and mobile equipment	35,959	39,869
Energy	3,145	18,416
Other	0	227
Total	**39,104**	**58,512**

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

The increase of the cost of energy sales is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also many times of those in 2011

31 Costs of (mediated) services sold

Costs of mediated services sold in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Payment to mobile operators[1]	38,103	32,930
Costs of TV services	9,544	10,736
System usage and other charges related to electricity and gas retail services[2]	1,188	6,963
Costs of content providing and mobile trade services sold	5,643	6,139
Costs of mediated RI/IT services[3]	8,742	4,969
Payment to other fixed line network operators[4]	6,897	4,441
Other[5]	1,069	1,179
Total	**71,186**	**67,357**

[1] The decrease is due to the significant decrease in regulated call termination charges.
[2] The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than those in 2011, besides the purchase prices also increased significantly.
[3] The decrease is mainly due to two factors: on the one hand the IT implementation of the Mercedes plant was delivered in 2011 and only follow-up activities remained in the current year, on the other hand the EKG and Közháló contracts concluded with the government expired in 2012.
[4] The decrease is mainly due to the expiration of EKG and Közháló contracts mentioned in the previous index and the decreases in traffic and fees, and termination of interconnections.
[5] Contains charges for network use paid to Cable TV companies which were disclosed on a separate line in 2011.

32 Employees

The average statistical number of employees in 2011 and 2012 are as follows (by function):

		December 31, 2011		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	960	3,205	1,462
	white collar	5,010	38,511	8,384
	total	5,970	41,716	9,846
Part-time employees				
	blue collar	1	3	2
	white collar	158	364	163
	total	159	367	165
Employees total				
	blue collar	961	3,208	1,464
	white collar	5,168	38,875	8,547
	total	6,129	42,083	10,011
Employees not in headcount [1]		0	2,400	910
Total		**6,129**	**44,483**	**10,921**

		December 31, 2012		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	962	3,177	1,100
	white collar	6,092	39,119	6,133
	total	7,054	42,296	7,233
Part-time employees				
	blue collar	1	3	1
	white collar	242	423	172
	total	243	426	173
Employees total				
	blue collar	963	3,180	1,101
	white collar	6,334	39,542	6,305
	total	7,297	42,722	7,406
Employees not in headcount [1]		0	1,271	448
Total		**7,297**	**43,993**	**7,854**

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

33 Remuneration of Board of Directors and Supervisory Board

The remuneration of members of the Board of Directors and the Supervisory Board of the Company in the years ending December 31, 2011 and 2012 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2011	14	56	70
2012	14	57	71

The members of Board of Directors have not received any advance payments or loans.

The members of Supervisory Board have not received any advance payments or loans in the current year. The change in existing loans in 2012 as follows:

Loans	Supervisory Board
Opening balance	**2**
Disbursements in the current year	1
Loans repaid in the current year	-1
Other increase in the current year	4
Closing balance	**6**

In 2012 the composition of Supervisory Board was changed. The new member of the Supervisory Board had a loan prior to the current year which explains the other increase in the current year.

The loans are repayable monthly, the average remaining repayment term is 69 months. In case of one loan the interest is 6.14 per cent, while the other loans are 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.

34 Other expenses

Other expenses in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Taxes, contributions, fees (Government taxes)[1]	32,573	41,261
Provisions[2]	6,597	9,524
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets	10,125	8,196
Discount granted subsequently on roaming traffic	2,075	2,518
Loss and shortage of intangible and tangible assets	3,124	1,780
Factored receivables	992	1,691
Net book value of fixed assets sold[3]	2,947	653
Write-off of uncollectible receivables	334	298
Penalties[4]	21,923	282
Withholding tax	817	0
Other	430	494
Total	**81,937**	**66,697**

[1] In 2012, a new tax was introduced (telecommunication tax) the amount of which in the current year was HUF 8,724 million.
[2] Details of provisions are disclosed in Note 16.
[3] The significant decrease in this line is mainly due to the sale (and lease-back) of 21 buildings in 2011.
[4] Contains HUF 21,857 million of penalty related to the SEC/DOJ investigation was accounted for in 2011 (see in Note 1.4).

35 Results from financial activities

Results from financial activities in the years ending December 31, 2011 and 2012 are as follows:

	2011	2012
Dividends received from Stonebridge A.D.	12,537	12,913
Dividends received from Crnogorski Telekom A.D.	3,708	3,777
Dividends received from MODULTECHNIKA Kft.	0	1,070
Dividends received from Telekom New Media Zrt.	1,000	410
Dividends received from Investel Zrt.	540	237
Dividends received from T-Systems Magyarország Zrt.	2,500	0
Other	368	378
Dividends and profit sharing (received or due)	**20,653**	**18,785**
Gains on sale of investments[1]	**0**	**4,361**
Interest from Pro-M Zrt.	442	269
Other	8	0
Interest income and gains on financial investments	**450**	**269**
Interest from T-Systems Magyarország Zrt.	235	255
Interest from IQSYS Zrt.	228	251
Interest from banks	135	103
Interest from Dataplex Kft.	174	92
Interest from Deutsche Telekom A.G.	59	0
Other	290	395
Other interest income received	**1,121**	**1,096**
Realized foreign exchange gain	4,441	6,339
Non-realized foreign exchange gain	938	0
Other	314	434
Other income from financial activities	**5,693**	**6,773**
Income from financial transactions	**27,917**	**31,284**
Interest paid to Deutsche Telekom	17,788	18,781
Interests Paid to banks	3,251	4,145
Other interests	1,112	1,150
Interest expense	**22,151**	**24,076**
Origo Zrt. impairment	2,060	2,323
Novatel UKRAINE L.L.C. impairment	171	0
Other impairments	0	21
Impairment of investments	**2,231**	**2,344**
Realized foreign exchange loss	8,424	9,255
Non-realized foreign exchange loss	0	2,042
Other	148	148
Other expenses on financial activities	**8,572**	**11,445**
Expenses from financial transactions	**32,954**	**37,865**
Results from financial activities	**-5,037**	**-6,581**

[1] Gain on the sale of Pro-M Zrt. See Note 6.1. for further information.

36 Extraordinary income

Extraordinary income in the years ending December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Income related to investments in subsidiaries:		
- Merger of Dataplex Kft. into T-Systems Magyarország Zrt.	0	4,889
- Merger of ISH Kft. into T-Systems Magyarország Zrt.	0	3,186
- Merger of IQSYS Zrt. into T-Systems Magyarország Zrt.	0	2,885
- Liquidation of EurAccount Kft.	0	493
Extraordinary income adjusting tax base	**0**	**11,453**
Income related to investments in subsidiaries:		
- Decrease of Investel Zrt.'s capital	0	3,905
- Decrease of Telekom New Media Zrt.'s capital	0	1,000
- Liquidation of Novatel Ukraine L.L.C.	0	32
- Other income	1	0
Assets received free of charge	200	217
Development contributions	77	63
Other extraordinary income	112	31
Extraordinary income not adjusting tax base	**390**	**5,248**
Total	**390**	**16,701**

37 Extraordinary expenses

The extraordinary expenses of the Company in the years ending December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Expenses related to investments in subsidiaries:		
- Merger of IQSYS Zrt. into T-Systems Magyarország Zrt.	0	2,875
- Merger of Dataplex Kft. into T-Systems Magyarország Zrt.	0	2,005
- Merger of ISH Kft. into T-Systems Magyarország Zrt.	0	1,587
- Liquidation of EurAccount Kft.	0	446
Donation to foundations, charities and other organizations	305	180
Net book value of assets contributed free of charge and service provided	121	100
Net book value of receivables waived	48	0
Extraordinary losses adjusting tax base	**474**	**7,193**
Assets contributed and service provided free of charge	585	442
Expenses related to investments in subsidiaries:		
- Book value of Investel Zrt.'s capital decrease	0	4,975
- Book value of Telekom New Media Zrt.'s capital decrease	0	1,045
- Liquidation of Novatel Ukraine L.L.C.	0	33
- Liquidation of Hunsat Zrt.	49	0
Dimenzió contributions	271	196
Receivables waived	198	40
Extraordinary losses not adjusting tax base	**1,103**	**6,731**
Total	**1,577**	**13,924**

38 Transactions with related parties and subsidiaries of Deutsche Telekom Group

Balances of transactions with related parties not disclosed in the balance sheet and income statement 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 subsidiaries of Deutsche Telekom Group were not disclosed separately as transactions with related parties.

Transactions with related parties and subsidiaries of Deutsche Telekom in the years ending December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Net domestic sales	**434,297**	**444,158**
- of which: related parties	5,218	4,535
- of which: subsidiaries of Deutsche Telekom Group	2,365	3,042
Net export sales	**16,757**	**16,727**
- of which: related parties	805	458
- of which: subsidiaries of Deutsche Telekom Group	10,300	9,552
Other income	**29,816**	**15,939**
- of which: related parties	222	478
- of which: subsidiaries of Deutsche Telekom Group	3,382	1,335
Accounts receivable	**35,044**	**41,639**
- of which: subsidiaries of Deutsche Telekom Group	1,070	1,415
Other receivables	**8,750**	**9,011**
- of which: subsidiaries of Deutsche Telekom Group	3,553	3,350
Accrued income	**31,678**	**33,601**
- of which: subsidiaries of Deutsche Telekom Group	1,030	868
Prepaid expenses	**4,913**	**2,494**
- of which: subsidiaries of Deutsche Telekom Group	531	360
Accounts payable	**37,489**	**47,105**
- of which: subsidiaries of Deutsche Telekom Group	2,205	2,211
Current liabilities to other related parties	**49,486**	**34,486**
- of which: subsidiaries of Deutsche Telekom Group	49,486	34,486
Other current liabilities	**86,950**	**22,364**
- of which: subsidiaries of Deutsche Telekom Group	33,090	2,574
Deferred Income	**4,839**	**4,184**
- of which: subsidiaries of Deutsche Telekom Group	1,383	1,096
Accrued expenses	**41,227**	**39,129**
- of which: subsidiaries of Deutsche Telekom Group	8,266	9,837

39 Corporate Income Tax

The differences between profit before tax and the tax base for the years ending December 31, 2011 and 2012 are presented below:

	2011	2012
Profit before tax	**31,831**	**32,167**
Depreciation according to the Act on Accounting	79,648	86,193
Recognition of provisions	6,597	9,524
Impairment of receivables	7,713	6,511
Write-off of intangible and tangible fixed assets, reclassification to current assets	5,500	506
Penalty, sanction	14,415	282
Non-repayable donations, assets and services given free of charge, assumed liabilities	141	280
Recoverable receivables waived and expired	18	120
Other increasing items	1,601	2,871
Tax base increasing items	**115,633**	**106,287**
Depreciation according to the Tax Law	-74,664	-75,006
Dividend income	-20,653	-18,785
Realized gain on sale of investment	0	-4,541
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	-4,986	-3,609
Reversal of provisions	-13,462	-3,381
Factoring revenue	0	-311
Donations	0	-41
R&D costs	-254	-12
Non-realized foreign exchange gain	-16,461	0
Write-off of intangible and tangible fixed assets, reclassification to current assets	-3,860	49
Other decreasing items	-73	-44
Tax base decreasing items	**134,413**	**-105,681**
Tax base	**13,051**	**32,773**
Calculated amount of tax	**2,435**	**6,182**
Tax credit	-2,289	-5,689
Corporate Income Tax	**146**	**493**
Energy suppliers' tax	10	44
Withholding tax paid abroad[1]	0	838
Tax liability	**156**	**1,375**

[1] Withholding tax paid abroad was in Other expenses in the 2011 annual report.

39.1 Information on investment tax credits

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

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

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

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

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

12.724/2005 Ministry of Finance Resolution: "The tax credit is applicable in connection with construction of WLAN put into service by T-Mobile Magyarország Rt. which also provides broadband internet service and cannot exceed HUF 334 million at present value."

The tax credit is applicable in connection with construction of UMTS network announced by T-Mobile on August 18, 2005 which also provides broadband internet service and cannot exceed HUF 4,215 million at present value. Tax credit on broadband Internet investments announced for 2006 by T-Mobile. The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

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

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

39.2 Other tax related information

In October 2010 the Hungarian Parliament adopted a law on crisis tax imposed on certain industrial sectors. Based on this law Magyar Telekom Plc. had to pay crisis tax after its telecommunication and retail revenues of 2010. The amounts of crisis tax were HUF 26,155 million in 2010, HUF 24,552 million in 2011 and HUF 23,746 million after telecommunication revenue in 2012, HUF 19 million in 2010, HUF 22 million in 2011 and HUF 27 million after retail revenue in 2012. Based on the law these were recorded as expense and decreased the profit before taxes.

In March 2012 the Hungarian Tax Authority (NAV) started a comprehensive inspection at Magyar Telekom Plc. concerning all kinds of taxes relating to the years 2007, 2008 and 2009. The inspection was closed in 2012. 2009 is the last year closed by comprehensive tax audit by NAV at the Company. Tax authorities may at any time inspect the books and records until the end of the 6th year following the year when the tax declarations were submitted and can levy extra tax or penalty. Management of the Company is not aware of any circumstances which could result in a significant liability in this respect.

In May 2012 the Hungarian Parliament adopted a new law on telecommunication tax. Although Magyar Telekom is subject to this new tax as of July 1, 2012. The telecommunication tax was imposed on SMS/MMS services, as well as on mobile and fixed line telecommunication services provided on the telecommunication network. The amount of telecommunication tax was HUF 8,724 million in 2012, it was recorded as expense and decreased the profit before taxes based on the legislation.

40 Dividend

The current year’s dividend payable of Magyar Telekom Plc. has not yet been approved.

41 Off-balance sheet items

Off-balance sheet items are mainly contractual commitments (rental contracts, contracted construction-in-progress and other development commitments, guarantee obligations, obligations related to acquisition of a company, environmental, restoration and other expected obligations).

Off-balance sheet items are detailed (including the off-balance sheet receivables and liabilities related to forward and swap deals not closed until the balance sheet day) in Appendix 5.

42 Hazardous waste

The following table shows the movement of hazardous waste at the Company in 2012:

	Hazardous waste (kg)
December 31, 2011	**0**
Increase:	
Lead batteries	111,991
Soil and rocks containing hazardous materials	124,410
Other	7,214
Increase in total	**243,615**
Decrease:	
Lead batteries	-111,991
Soil and rocks containing hazardous materials	-124,410
Other	-7,214
Decrease in total	**-243,615**
December 31, 2012	**0**

HUF 283 million environmental expenses were recorded in 2011 and HUF 682 million in 2012.

43 Research & Experimental Development costs

In 2012, HUF 21 million research and experimental development costs were recorded in Magyar Telekom Plc.

44 Self-revisions

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

The total (profit decreasing) impact of self-revisions is HUF -814 million and is broken down by corresponding years as follows:

Year	Self-revision
2005	-2
2006	-839
2007	-3
2008	-99
2009	181
2010	56
2011	-108
	-814

The major items of self-revisions in the structure of the „A" type income statement lines are the following:

I. Sales revenue		**40**
Leased lines and data transmission revenues	61	
Other revenues	58	
Revenues entirely from TV services	-36	
Subscriptions, connections and other charges relating to voice and data services	-42	
Other	-1	
II. Own work capitalized		**10**
Change in self-manufactured inventories, capitalized value of self-manufactured assets	10	
III. Other income		**-788**
Fixed asset sale	30	
Other profit increasing due to collocation contract	-838	
Other	20	
IV. Material-type expenses		**-652**
Repair and maintenance	-25	
Software support	-34	
Rental fees	-38	
Mediated services	-79	
Consultant fees	-100	
Costs of raw materials	-358	
Other	-18	
V. Payroll and related expenses		**16**
Personal income tax on contributions in kind with reduced tax rate	50	
Salaries and wages	-34	
VI. Depreciation		**627**
Depreciation related to prior years	627	
VII. Other expenses		**372**
Shortages, damages and impairment of tangible and intangible assets	267	
Taxes	53	
Other	52	
D. PROFIT FROM EXTRAORDINARY ACTIVITIES		**271**
Due to expired universal balances	398	
Fixed assets surplus	-120	
Other	-7	
XII. Corporate income tax		**-16**
Solidarity tax	-1	
Corporate income tax	-15	
Impact on net income		**-814**

45 Remuneration of auditor

Fees charged by the auditors in the years ending December 31, 2011 and 2012 are summarized as follows:

	2011	2012
Audit[1]	242	197
Other assurance services	82	66
Other non-audit services	16	11
Total	**340**	**274**

[1] Review of the quarterly financial statements services of HUF 62 million were disclosed, according to the then effective Pre-Approval Policy of the Audit Committee of Magyar Telekom Plc., in audit services in the 2011 financial statements.

Budapest, February 28, 2013

Christopher Mattheisen

Chief Executive Officer,

Chairman of the Board

Thilo Kusch

Chief Financial Officer,

Board member

Appendix 1A

Balance Sheet related to Energy services – Assets

data in millions of HUF

	December 31, 2011				Self Revision				December 31, 2012			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	379	343	809 967	810 689	-4	-4	-834	-842	571	445	765 778	766 794
I. Intangible assets	314	286	184 068	184 668	-4	-4	0	-8	507	396	187 521	188 424
1. Capitalised costs of foundation and restructuring	0	0	0	0	0	0	0	0	0	0	0	0
2. Capitalised costs of research and development	0	0	0	0	0	0	0	0	0	0	0	0
3. Rights	314	286	59 733	60 333	-4	-4	9	1	507	396	74 528	75 431
4. Intellectual property	0	0	4 595	4 595	0	0	-9	-9	0	0	4 779	4 779
5. Goodwill	0	0	119 720	119 720	0	0	0	0	0	0	108 214	108 214
6. Advance payments on intangible assets	0	0	20	20	0	0	0	0	0	0	0	0
II. Tangible assets	41	36	421 724	421 801	0	0	-834	-834	28	21	398 753	398 802
1. Land and buildings and related rights	36	32	238 341	238 409	0	0	4 481	4 481	25	19	236 078	236 122
- Land	*2*	*2*	*2 628*	*2 632*	*0*	*0*	*19*	*19*	*1*	*1*	*2 193*	*2 195*
- Buildings	*31*	*28*	*61 600*	*61 659*	*0*	*0*	*72*	*72*	*21*	*17*	*59 534*	*59 572*
- Telecommunication network	*0*	*0*	*163 863*	*163 863*	*0*	*0*	*4 350*	*4 350*	*0*	*0*	*164 692*	*164 692*
- Other properties	*3*	*2*	*9 425*	*9 430*	*0*	*0*	*9*	*9*	*3*	*1*	*8 941*	*8 945*
- Real estate related rights	*0*	*0*	*825*	*825*	*0*	*0*	*31*	*31*	*0*	*0*	*718*	*718*
2. Technical equipment, machinery and vehicles	0	0	138 742	138 742	0	0	3 531	3 531	0	0	120 479	120 479
- Telecommunication equipment and machinery	*0*	*0*	*134 778*	*134 778*	*0*	*0*	*4 715*	*4 715*	*0*	*0*	*118 428*	*118 428*
- Other technical equipment, machinery and vehicles	*0*	*0*	*3 964*	*3 964*	*0*	*0*	*-1 184*	*-1 184*	*0*	*0*	*2 051*	*2 051*
3. Other equipment and vehicles	5	4	7 273	7 282	0	0	953	953	3	2	6 170	6 175
5. Construction-in-progress	0	0	37 350	37 350	0	0	-9 799	-9 799	0	0	36 021	36 021
6. Advance payments on construction-in-progress	0	0	18	18	0	0	0	0	0	0	5	5
III. Financial investments	24	21	204 175	204 220	0	0	0	0	36	28	179 504	179 568
1. Non current investments in related parties	0	0	194 525	194 525	0	0	0	0	0	0	172 890	172 890
2. Non current loans granted to related parties	4	3	5 593	5 600	0	0	0	0	0	0	0	0
3. Other investments	0	0	0	0	0	0	0	0	0	0	0	0
5. Other non current loans granted	20	18	4 057	4 095	0	0	0	0	36	28	6 614	6 678
6. Non current bonds and other securities	0	0	0	0	0	0	0	0	0	0	0	0
B. CURRENT ASSETS	215	837	70 082	71 134	0	1	-885	-884	1 488	3 403	72 532	77 423
I. Inventories	0	0	6 399	6 399	0	0	1	1	0	0	10 378	10 378
1. Raw materials	0	0	628	628	0	0	0	0	0	0	399	399
2. Work in progress and semi-finished products	0	0	2	2	0	0	-1	-1	0	0	5	5
4. Finished products	0	0	0	0	0	0	0	0	0	0	0	0
5. Goods for resale	0	0	5 769	5 769	0	0	2	2	0	0	9 974	9 974
6. Advance payments on inventories	0	0	0	0	0	0	0	0	0	0	0	0
II. Receivables	212	834	59 063	60 109	0	1	-886	-885	1 487	3 402	58 349	63 238
1. Accounts receivable	175	817	34 052	35 044	0	0	124	124	1 444	3 359	36 836	41 639
2. Receivables from related parties	10	9	16 296	16 315	0	0	-1 016	-1 016	7	4	12 577	12 588
3. Bills receivable	0	0	0	0	0	0	0	0	0	0	0	0
4. Receivables from other related companies	0	0	0	0	0	0	0	0	0	0	0	0
5. Other receivables	27	8	8 715	8 750	0	1	6	7	36	39	8 936	9 011
III. Securities	0	0	307	307	0	0	0	0	0	0	307	307
1. Investments in related parties	0	0	0	0	0	0	0	0	0	0	0	0
2. Other investments	0	0	0	0	0	0	0	0	0	0	0	0
3. Treasury stock, quotas	0	0	307	307	0	0	0	0	0	0	307	307
4. Marketable securities	0	0	0	0	0	0	0	0	0	0	0	0
IV. Liquid assets	3	3	4 313	4 319	0	0	0	0	1	1	3 498	3 500
1. Cash and cheques	0	0	114	114	0	0	0	0	0	0	153	153
2. Bank deposits	3	3	4 199	4 205	0	0	0	0	1	1	3 345	3 347
C. ACCRUALS	233	3 703	32 655	36 591	0	0	-113	-113	1 506	2 798	31 791	36 095
1. Accrued income	197	1 328	30 153	31 678	0	0	-74	-74	1 505	2 468	29 628	33 601
2. Prepaid costs and expenses	36	2 375	2 502	4 913	0	0	-39	-39	1	330	2 163	2 494
3. Deferred expenses	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	827	4 883	912 704	918 414	-4	-3	-1 832	-1 839	3 565	6 646	870 101	880 312

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Appendix 1B
Balance Sheet related to Energy services – Liabilities

data in millions of HUF

	December 31, 2011				Self Revision				December 31, 2012			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
D. SHAREHOLDERS' EQUITY	-579	-848	346 962	345 535	-4	-3	-807	-814	-1 447	-2 001	378 961	375 513
I. Common stock	0	0	104 274	104 274	0	0	0	0	0	0	104 274	104 274
- of this treasury stock at par value	*0*	*0*	*39*	*39*	*0*	*0*	*0*	*0*	*0*	*0*	*39*	*39*
II. Unpaid share capital (-)	0	0	0	0	0	0	0	0	0	0	0	0
III. Capital reserves	0	0	58 952	58 952	0	0	0	0	0	0	58 952	58 952
IV. Retained earnings	-145	-428	180 575	180 002	0	0	0	0	-583	-851	181 122	179 688
V. Restricted reserves	0	0	2 307	2 307	0	0	0	0	0	0	1 807	1 807
VI. Valuation reserves	0	0	0	0	0	0	0	0	0	0	0	0
VII. Net income	-434	-420	854	0	-4	-3	-807	-814	-864	-1 150	32 806	30 792
E. PROVISIONS	0	0	11 835	11 835	0	0	-1	-1	0	157	17 821	17 978
1. Provision for expected obligations	0	0	11 835	11 835	0	0	-1	-1	0	157	17 821	17 978
F. LIABILITIES	479	-98	513 968	514 349	1	0	-510	-509	977	4 779	436 791	442 547
I. Subordinated liabilities	0	0	0	0	0	0	0	0	0	0	0	0
II. Non current liabilities	158	144	238 870	239 172	0	0	0	0	120	93	253 567	253 780
3. Debt from issuance of bonds	0	0	120	120	0	0	0	0	0	0	120	120
5. Other non current loans	10	9	14 537	14 556	0	0	0	0	0	0	0	0
7. Non current liabilities to other related parties	148	135	223 431	223 714	0	0	0	0	120	93	252 880	253 093
8. Other non current liabilities	0	0	782	782	0	0	0	0	0	0	567	567
III. Current liabilities	321	-242	275 098	275 177	1	0	-510	-509	857	4 686	183 224	188 767
1. Current borrowings	0	0	70	70	0	0	0	0	0	0	70	70
- of this convertible bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
2. Current loans	31	27	46 023	46 081	0	0	0	0	17	13	36 305	36 335
3. Advances received	0	0	408	408	0	0	-30	-30	0	0	359	359
4. Accounts payable	126	124	37 239	37 489	0	0	-4	-4	404	4 802	41 899	47 105
6. Current liabilities to related parties	30	27	54 636	54 693	0	0	0	0	52	40	47 956	48 048
7. Current liabilities to other related parties	32	30	49 424	49 486	0	0	0	0	16	13	34 457	34 486
8. Other current liabilities	102	-450	87 298	86 950	1	0	-476	-475	368	-182	22 178	22 364
- of this dividends payable	*0*	*0*	*52 117*	*52 117*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
G. ACCRUALS	332	2 439	43 924	46 695	-20	-30	-465	-515	2 140	1 385	40 749	44 274
1. Deferred income	33	428	4 378	4 839	0	0	-7	-7	1	0	4 183	4 184
2. Accrued expenses	299	2 011	38 917	41 227	-20	-30	-607	-657	2 139	1 385	35 605	39 129
3. Other deferred revenue	0	0	629	629	0	0	149	149	0	0	961	961
DIFFERENCE BECAUSE OF SEPARATION	595	3 390	-3 985	0	19	30	-49	0	1 895	2 326	-4 221	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	827	4 883	912 704	918 414	-4	-3	-1 832	-1 839	3 565	6 646	870 101	880 312

Appendix 1C

Income Statement related to Energy services

data in HUF millions

	2011 Electricity	2011 Gas	2011 Other	2011 Total	Self Revision Electricity	Self Revision Gas	Self Revision Other	Self Revision Total	2012 Electricity	2012 Gas	2012 Other	2012 Total
1. Net domestic sales	1 205	3 399	429 693	434 297	0	0	31	31	10 185	15 833	418 140	444 158
2. Net export sales	0	0	16 757	16 757	0	0	9	9	0	0	16 727	16 727
I. Sales revenues	**1 205**	**3 399**	**446 450**	**451 054**	**0**	**0**	**40**	**40**	**10 185**	**15 833**	**434 867**	**460 885**
3. Change in self-manufactured inventories	0	0	-121	-121	0	0	-1	-1	0	0	3	3
4. Capitalised value of self-manufactured assets	13	12	22 054	22 079	0	0	11	11	19	14	21 008	21 041
II. Own work capitalized	**13**	**12**	**21 933**	**21 958**	**0**	**0**	**10**	**10**	**19**	**14**	**21 011**	**21 044**
III. Other income	**42**	**19**	**29 755**	**29 816**	**0**	**0**	**-788**	**-788**	**3**	**3**	**15 933**	**15 939**
of which: reversal of impairment	0	0	0	0	0	0	0	0	0	0	0	0
5. Costs of raw material	32	30	27 671	27 733	0	0	-348	-348	49	38	25 691	25 778
6. Costs of services	228	213	82 851	83 292	-1	-1	-233	-235	352	297	77 538	78 187
7. Costs of other services	13	16	14 260	14 289	0	0	10	10	59	61	14 611	14 731
8. Cost of goods sold	532	2 613	35 959	39 104	0	0	0	0	6 714	11 702	40 096	58 512
9. Costs of (mediated) services sold	467	721	69 998	71 186	0	0	-79	-79	3 349	3 614	60 394	67 357
IV. Material-type expenses	**1 272**	**3 593**	**230 739**	**235 604**	**-1**	**-1**	**-650**	**-652**	**10 523**	**15 712**	**218 330**	**244 565**
10. Salaries and wages	199	180	44 104	44 483	0	0	-34	-34	347	271	43 375	43 993
11. Other payroll related expenses	42	38	10 841	10 921	0	0	71	71	51	39	7 764	7 854
12. Payroll related contributions	58	53	14 194	14 305	0	0	-21	-21	96	75	14 070	14 241
V. Payroll and related expenses	**299**	**271**	**69 139**	**69 709**	**0**	**0**	**16**	**16**	**494**	**385**	**65 209**	**66 088**
VI. Depreciation	**53**	**49**	**77 421**	**77 523**	**5**	**4**	**618**	**627**	**84**	**65**	**84 398**	**84 547**
VII. Other expenses	**40**	**135**	**81 762**	**81 937**	**0**	**0**	**372**	**372**	**100**	**714**	**65 883**	**66 697**
of which: impairment	10	18	10 097	10 125	0	0	2	2	28	82	8 086	8 196
A. PROFIT FROM OPERATING ACTIVITIES	-404	-618	39 077	38 055	-4	-3	-1 094	-1 101	-994	-1 026	37 991	35 971
13. Dividends and profit sharing (received or due)	0	0	20 653	20 653	0	0	0	0	0	0	18 785	18 785
of which: received from related parties	0	0	20 653	20 653	0	0	0	0	0	0	18 785	18 785
14. Gains on sale of investments	0	0	0	0	0	0	0	0	0	0	4 361	4 361
of which: received from related parties	0	0	0	0	0	0	0	0	0	0	0	0
15. Interest income and gains on financial investments	0	0	450	450	0	0	0	0	0	0	269	269
of which: received from related parties	0	0	450	450	0	0	0	0	0	0	269	269
16. Other interest income received	1	1	1 119	1 121	0	0	0	0	1	0	1 095	1 096
of which: received from related parties	1	1	956	958	0	0	0	0	1	0	921	922
17. Other income from financial activities	1	225	5 467	5 693	0	0	0	0	203	157	6 413	6 773
VIII. Income from financial transactions	**2**	**226**	**27 689**	**27 917**	**0**	**0**	**0**	**0**	**204**	**157**	**30 923**	**31 284**
19. Interest expense	16	13	22 122	22 151	0	0	0	0	12	9	24 055	24 076
of which: related to related parties	1	1	1 119	1 121	0	0	0	0	1	0	1 257	1 258
related to other related party	12	11	17 918	17 941	0	0	0	0	9	7	18 887	18 903
20. Impairment of investments, securities and bank deposits	0	0	2 231	2 231	0	0	0	0	0	0	2 344	2 344
21. Other expenses on financial transactions	11	10	8 551	8 572	0	0	0	0	37	253	11 155	11 445
IX. Expenses from financial transactions	**27**	**23**	**32 904**	**32 954**	**0**	**0**	**0**	**0**	**49**	**262**	**37 554**	**37 865**
B. RESULT FROM FINANCIAL TRANSACTIONS	-25	203	-5 215	-5 037	0	0	0	0	155	-105	-6 631	-6 581
C. PROFIT FROM ORDINARY ACTIVITIES	-429	-415	33 862	33 018	-4	-3	-1 094	-1 101	-839	-1 131	31 360	29 390
X. Extraordinary income	**0**	**0**	**390**	**390**	**0**	**0**	**279**	**279**	**0**	**0**	**16 701**	**16 701**
XI. Extraordinary expenses	**0**	**0**	**1 577**	**1 577**	**0**	**0**	**8**	**8**	**1**	**0**	**13 923**	**13 924**
D. RESULT FROM EXTRAORDINARY ACTIVITIES	0	0	-1 187	-1 187	0	0	271	271	-1	0	2 778	2 777
E. PROFIT BEFORE TAXES	-429	-415	32 675	31 831	-4	-3	-823	-830	-840	-1 131	34 138	32 167
XII. Corporate income tax	**5**	**5**	**146**	**156**	**0**	**0**	**-16**	**-16**	**24**	**19**	**1 332**	**1 375**
F. NET INCOME	-434	-420	32 529	31 675	-4	-3	-807	-814	-864	-1 150	32 806	30 792
22. Use of retained earnings for dividends	0	0	20 442	20 442	0	0	0	0	0	0	0	0
23. Dividend paid (approved)	0	0	52 117	52 117	0	0	0	0	0	0	0	0
G. BALANCE SHEET NET INCOME	-434	-420	854	0	-4	-3	-807	-814	-864	-1 150	32 806	30 792

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Appendix 2A
Real estate 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 [1]						
11. Opening gross value (on January 1, 2012)	2 632	84 360	313 396	16 889	5 307	422 584
12. Additions in gross value	22	1 574	14 431	218	65	16 310
13. Disposals in gross value	-5	-594	-1 441	-169	-17	-2 226
Reclassifications	-454	-1 621	8	-406	-11	-2 484
14. Closing gross value (on December 31, 2012)	2 195	83 718	326 395	16 532	5 344	434 184
2. Accumulated depreciation [1]						
21. Opening depreciation (on January 1, 2012)	0	22 701	149 533	7 459	4 482	184 175
22. Annual depreciation	0	2 426	13 193	524	169	16 312
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals in depreciation	0	-463	-1 027	-147	-18	-1 655
Reclassifications	0	-518	4	-249	-7	-770
25. Closing depreciation (on December 31, 2012)	0	24 146	161 703	7 587	4 626	198 062
3. Net book value (on December 31, 2012) [1]	2 195	59 572	164 692	8 945	718	236 122
Of which residual value	0	154	0	5	0	159
4. Other						
Ordinary depreciation (Months 1-12, 2012) [1]	0	2 426	13 193	524	169	16 312
Impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0

[1] Excludes the assets below HUF 50,000

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[1]						
11. Opening gross value (on January 1, 2012)	652 073	7 584	659 657	65 745	725 402	33
12. Additions in gross value	25 537	187	25 724	2 711	28 435	0
13. Disposals in gross value	-28 916	-1 141	-30 057	-10 842	-40 899	0
Reclassifications	598	-1 226	-628	-1 328	-1 956	0
Reclassifications from assets below HUF 50,000	2 285	0	2 285	42	2 327	
14. Closing gross value (on December 31, 2012)	651 577	5 404	656 981	56 328	713 309	33
2. Accumulated depreciation[1]						
21. Opening depreciation (on January 1, 2012)	517 295	3 620	520 915	58 463	579 378	33
22. Annual depreciation	41 328	129	41 457	3 240	44 697	0
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals in depreciation	-28 175	-900	-29 075	-10 566	-39 641	0
Reclassifications	416	504	920	-1 026	-106	0
Reclassifications from assets below HUF 50,000	2 285	0	2 285	42	2 327	
26. Closing depreciation (on December 31, 2012)	533 149	3 353	536 502	50 153	586 655	33
3. Net book value (on December 31, 2012)[1]	118 428	2 051	120 479	6 175	126 654	0
Of which residual value	27	1 036	1 063	398	1 461	0
4. Other						
Ordinary depreciation (Months 1-12, 2012)[1]	41 328	129	41 457	3 240	44 697	0
Impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0

[1] Excludes the assets below HUF 50,000

Appendix 3

Direct investments of Magyar Telekom Plc.

(in HUF millions)

Company	Headquarter	Ownership Direct (%)	Ownership Indirect (%)	Ownership (%)	Voting Rights	Common Stock	Reserves	Net Income	Equity
Budakalász Kábel TV Kft.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	70	13	70	153
Combridge S.R.L.[1]	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100.00%		100.00%	100.00%	1 948	537	296	2 781
Crnogorski Telekom A.D. Podgorica[1]	Moskovska 29, Podgorica 81000, Serbia and Montenegro	76.53%		76.53%	76.53%	34 851	8 608	5 758	49 217
DATEN-KONTOR Kft.	1115 Budapest, Bartók Béla út 105-113.	100.00%		100.00%	100.00%	200	892	323	1 415
Investel Zrt.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1 113	188	213	1 514
ISH Kft.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	3	1	18	22
KIBU Innováció Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	40	21	-1	60
Mindentudás Egyeteme Nonprofit Kft . "v.a."[2, 3]	1107 Budapest, Kékvirág u. 1-3.	60.00%		60.00%	60.00%	5	0	-2	3
MODULTECHNIKA Kft.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1	136	16	153
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%	669	511	-183	997
Origo Zrt.	1073 Budapest, Dob utca 76-78.	100.00%		100.00%	100.00%	300	1 051	-680	671
Stonebridge Communications A.D.[1, 3]	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	100 462	19 024	17 461	136 947
TeleData Kft.	2040 Budaörs, Baross u. 89.	50.99%		50.99%	50.99%	39	39	9	87
Telekom New Media Zrt.	1222 Budapest Nagytétényi út 29.	100.00%		100.00%	100.00%	670	0	248	918
Telemacedonia A.D. Skopje[1]	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	3	162	-24	141
T-Systems Magyarország Zrt.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	2 001	16 819	356	19 176
ViDaNet Zrt.	9024 Győr, Orgona u. 10.	67.50%	22.50%	90,00%	49.995%	2 000	3 010	121	5 131

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

[1] The common stock figures of foreign subsidiaries and indirect owned companies are based on IFRS reports were revalued using foreign exchange rates as of December 30, 2012.

[2] Data are based on the Annual Report after the liquidation as of March 31, 2012.

[3] Under liquidation.

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Appendix 4
Impairments

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables [1]	Securities
Opening balance	4 868	0	0	4 301	19 024	0
Increase	2 344	0	0	39	6 511	0
Decrease/Disposal	-2 063	0	0	0	-10 194	0
Increase due to merger	0	0	0	0	0	0
Closing balance	5 149	0	0	4 340	15 341	0

[1] Contains the impairment of receivables, loans to related parties and other receivables.

Appendix 5/1
Off-balance sheet items

Off-balance Sheet Liabilities

(HUF million)

	Összesen	2013	2014	2015	2016.	2017	2018
Rental contracts	45 829	9 576	8 165	7 241	5 767	4 496	10 584
Rental contracts with related parties	476	476	0	0	0	0	0
Guarantee obligation	6 420	3 553	1 724	857	47	35	204
Commitment for capital expenditure and other developments	7 541	941	6 600	0	0	0	0
Commitment for capital expenditure with related parties	315	315	0	0	0	0	0
Environmental protection, restoration and other obligations	360	60	60	60	60	60	60
Commitments to acquisitions	100	100	0	0	0	0	0

Open swap F/X deals were contracted on the OTC market with the original aim of delivery on December 31, 2012 [1]

ID	Date	Off-balance sheet liability (HUF million)	F/X	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
DTAG_20090626_30 mrd	06.25.2009	-30 000	HUF	107 066 533	EUR	01.19.2015	280.20	-840
DTAG_20090626_5mrd	07.01.2009	-5 000	HUF	18 470 632	EUR	01.19.2015	270.70	53
DTAG_20090626_9.6 mrd	07.02.2009	-9 595	HUF	35 661 451	EUR	01.19.2015	269.05	190
DTAG_20091007_5 mrd_59592	09.15.2009	-5 000	HUF	18 368 846	EUR	06.02.2014	272.20	287
DTAG_20091007_5 mrd_52619	09.15.2009	-5 000	HUF	18 382 353	EUR	06.02.2014	272.00	291
DTAG_20091007_5 mrd_52629	09.16.2009	-5 000	HUF	18 511 662	EUR	06.02.2014	270.10	334
DTAG_20091007_5 mrd_52637	09.16.2009	-5 335	HUF	19 737 138	EUR	06.02.2014	270.30	352
2010-es K&H swap	06.30.2010	-2 870	HUF	10 000 000	EUR	07.01.2013	287.00	-50
DTAG_20110711_50 mEUR	07.06.2011	-13 250	HUF	50 000 000	EUR	11.20.2018	265.00	2 838
DTAG_20110711_23 mEUR	07.06.2011	-6 095	HUF	23 000 000	EUR	05.19.2017	265.00	1 435
				319 198 616	**Total EUR**			
Total		**-87 145**						**4 890**

Opened swap F/X deals were contracted on the OTC market with the original aim of non-deliverable derivatives on December 31, 2012 [1]

ID	Date	Off-balance sheet liability (HUF million)	F/X	Off-balance sheet receivable	Units	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
Deutsche Bank	05.22.2012	-4 557	HUF	583 312	mWh	05.31.2013	26.820 EUR/mWh	-41
Deutsche Bank	09.14.2012	-2 996	HUF	373 013	mWh	05.31.2013	27.57 EUR/mWh	-116
Citibgoup Global Markets Lmt	09.14.2012	-2 112	HUF	730 639	GJ	06.30.2013	13.085 USD/GJ	89
				956 325	**mWh**			
				730 639	**GJ**			
Total		**-9 665**						**-68**

[1] Profit or loss was not recored related to these deals in the current year.

Appendix 5/2
Off-balance sheet items

Forward and swap deals

Open forward F/X deals were contracted on the OTC market with the original aim of delivery on December 31, 2012 [1]

ID	Date	Off-balance sheet liability on strike price (HUF millions)	Off-balance sheet liability in original currency	F/X (original)	Off-balance sheet receivable	F/X (original)	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1149 BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	01.30.2012	-2 312	-2 311 575 000	HUF	7 500 000	EUR	01.15.2013	308.21	-124
1165 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	02.28.2012	-2 270	-2 270 400 000	HUF	7 500 000	EUR	01.15.2013	302.72	-82
1183 Deutsche Telekom AG / / D-53113 Bonn	03.28.2012	-1 521	-1 521 190 000	HUF	5 000 000	EUR	01.15.2013	304.24	-56
1184 BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	03.28.2012	-1 521	-1 521 000 000	HUF	5 000 000	EUR	01.15.2013	304.20	-62
1218 Deutsche Telekom AG / / D-53113 Bonn	04.25.2012	-1 498	-1 498 315 000	HUF	5 000 000	EUR	02.04.2013	299.66	-31
1220 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	04.25.2012	-1 504	-1 504 150 000	HUF	5 000 000	EUR	03.11.2013	300.83	-39
1222 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	04.25.2012	-2 264	-2 263 650 000	HUF	7 500 000	EUR	04.08.2013	301.82	-61
1234 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	05.23.2012	-1 370	-1 370 424 000	HUF	4 400 000	EUR	01.15.2013	311.46	-87
1235 BNP PARIBAS Magyarországi Fióktelepe / Roosevelt tér 7-8. / 1051 Budapest	05.23.2012	-1 549	-1 548 954 000	HUF	4 950 000	EUR	02.18.2013	312.92	-100
1236 Deutsche Telekom AG / / D-53113 Bonn	05.23.2012	-1 302	-1 302 453 845	HUF	4 150 000	EUR	03.18.2013	313.84	-80
1237 Deutsche Telekom AG / / D-53113 Bonn	05.23.2012	-1 118	-1 118 416 850	HUF	3 550 000	EUR	04.15.2013	315.05	-70
1238 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	05.23.2012	-647	-647 390 000	HUF	2 050 000	EUR	05.15.2013	315.80	-43
1239 Deutsche Telekom AG / / D-53113 Bonn	05.23.2012	-332	-331 958 550	HUF	1 050 000	EUR	05.22.2013	316.15	-21
1245 Deutsche Telekom AG / / D-53113 Bonn	05.30.2012	-2 335	-2 334 622 500	HUF	7 500 000	EUR	04.08.2013	311.28	-122
1288 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	07.30.2012	-2 202	-2 201 625 000	HUF	7 500 000	EUR	07.15.2013	293.55	14
1297 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	08.30.2012	-2 227	-2 226 525 000	HUF	7 500 000	EUR	07.15.2013	296.87	-11
1309 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09.14.2012	-945	-944 823 000	HUF	3 300 000	EUR	01.15.2013	286.31	18
1310 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09.14.2012	-863	-862 650 000	HUF	3 000 000	EUR	02.15.2013	287.55	15
1311 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09.14.2012	-692	-692 232 000	HUF	2 400 000	EUR	03.14.2013	288.43	11
1312 Deutsche Telekom AG / / D-53113 Bonn	09.14.2012	-463	-463 234 080	HUF	1 600 000	EUR	04.15.2013	289.52	9
1313 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09.14.2012	-290	-290 490 000	HUF	1 000 000	EUR	05.15.2013	290.49	4
1314 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09.14.2012	-233	-233 200 000	HUF	800 000	EUR	06.14.2013	291.50	3
1320 Deutsche Telekom AG / / D-53113 Bonn	09.27.2012	-2 215	-2 214 980 250	HUF	7 500 000	EUR	07.15.2013	295.33	11
1335 Deutsche Telekom AG / / D-53113 Bonn	10.30.2012	-1 456	-1 455 813 500	HUF	5 000 000	EUR	05.13.2013	291.16	22
1336 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10.30.2012	-2 221	-2 220 750 000	HUF	7 500 000	EUR	10.14.2013	296.10	10
1346 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	11.29.2012	-1 454	-1 454 000 000	HUF	5 000 000	EUR	11.12.2013	290.80	39
1347 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	11.29.2012	-1 455	-1 455 150 000	HUF	5 000 000	EUR	11.18.2013	291.03	39
1350 Deutsche Telekom AG / / D-53113 Bonn	12.10.2012	-1 423	-1 422 708 500	HUF	5 000 000	EUR	01.02.2013	284.54	40
1351 Deutsche Telekom AG / / D-53113 Bonn	12.10.2012	-1 425	-5 000 000	EUR	1 424 889 500	HUF	01.15.2013	284.98	-40
1352 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12.10.2012	-2 133	-2 132 625 000	HUF	7 500 000	EUR	01.02.2013	284.35	52
1353 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12.10.2012	-2 136	-7 500 000	EUR	2 135 925 000	HUF	01.15.2013	284.79	-52
1354 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12.10.2012	-1 422	-1 421 750 000	HUF	5 000 000	EUR	01.02.2013	284.35	35
1355 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12.10.2012	-1 424	-5 000 000	EUR	1 423 950 000	HUF	01.15.2013	284.79	-35
1358 Deutsche Telekom AG / / D-53113 Bonn	12.19.2012	-2 011	-2 011 460 500	HUF	7 000 000	EUR	01.02.2013	287.35	37
1359 Deutsche Telekom AG / / D-53113 Bonn	12.19.2012	-1 724	-1 724 330 400	HUF	6 000 000	EUR	01.02.2013	287.39	31
1360 Deutsche Telekom AG / / D-53113 Bonn	12.19.2012	-671	-670 796 910	HUF	3 100 000	USD	01.02.2013	216.39	17
1362 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.20.2012	-1 145	-1 145 480 000	HUF	4 000 000	EUR	01.02.2013	286.37	20
1364 Deutsche Telekom AG / / D-53113 Bonn	12.20.2012	-1 432	-1 431 801 500	HUF	5 000 000	EUR	01.07.2013	286.36	32
1365 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.20.2012	-1 438	-1 438 050 000	HUF	5 000 000	EUR	02.13.2013	287.61	24
1366 Citibank Europe plc. Magyarországi Fiókt / Szabadság tér 7 / 1051 Budapest	12.20.2012	-1 478	-1 478 450 000	HUF	5 000 000	EUR	12.02.2013	295.69	20
1367 Deutsche Telekom AG / / D-53113 Bonn	12.20.2012	-1 480	-1 480 367 500	HUF	5 000 000	EUR	12.09.2013	296.07	27
					181 750 000	Total EUR			
					3 100 000	Total USD			
					4 984 764 500	Total HUF			
Total		-59 601							-586

Magyar Telekom Telecommunications
Public Limited Company

Business Report

for the year ended December 31, 2012

Introduction

This Business Report covers the analysis of our results as well as all additional information necessary to evaluate our operations, including, among others, our outlook with the accompanying risk factors, the introduction of our management, our HR and risk management policies, and our R+D activities. The Company's activities are described in the Notes to the 2012 Financial Statements (1.2 The Company's area of activity).

1 The company's share capital, voting rights and transfer of shares

As of December 31, 2012, 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 4. Information concerning our ownership structure as of December 31, 2012 is described in the following table:

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

1.1 Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the shareholders' register until 6 p.m. on the second working day prior to the starting date of the General Meeting may participate at the General Meeting with voting right. 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

The acquisition and transfer of the dematerialized share shall only be effected through crediting or debiting the securities account. The owner of the security – unless the contrary is proved – shall be the person on whose account the security is registered. The transfer of registered or Interim Share Certificates shall be effective with respect to the Company when the name of the new owner of the shares has been entered in the Shareholders' Register.

If any request regarding the registration at the registrar is justified by the appropriate documents, the Company shall make a prompt entry into the Shareholders' Register. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company shall promptly notify the new owner of its reasoned decision and the new owner shall have the right to request, within thirty (30) days of the rendering of such decision, the competent court to review the decision.

Those shareholders who wish so, shall not be registered in the Shareholders' Register in addition to those who obtained the shares in violation of laws or the Articles of Association regarding the transfer of shares.

The registrar, except in case set forth in Section 2.4. (b) and (c) of the Articles of Association, shall not refuse prompt registry and shall promptly delete such shareholder who wishes so.

If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Shareholders' Register.

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

2 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 suggestions related to the corporate governance practice of companies listed on the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market as well as the Companies Act. The Recommendations were updated in 2007, 2008 and in 2012.

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

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

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

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

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

2.1 Board of Directors

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

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

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

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

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

2.2 Management Committee

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

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

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

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chairman and Chief Executive Officer	2006
Attila Keszég	1966	Chief Sales and Services Officer	2010
Thilo Kusch	1965	Chief Financial Officer	2006
Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Róbert Pataki	1971	Chief Strategy and Corporate Development Officer	2009
Róbert Budafoki	1966	Chief Operating Officer, Business Services Business Unit	2011
Éva Somorjai	1966	Chief Human Resources Officer	2007

2.3 Supervisory Board

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

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

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

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

The members' mandate lasts until May 31, 2013.

2.4 Audit Committee

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

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

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

2.5 Remuneration Committee

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

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

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

Name	Principal Occupation	Member
Dr. Ralph Rentschler	Finance Europe, Financial Director Europe, Deutsche Telekom AG	2003
Günter Mossal	Vice President for Area Management, Deutsche Telekom AG	2012
Frank Odzuck	Chief Executive Officer of Zwack Unicum Plc.	2006

3. Human policy

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

3.1 Human strategy from the Company's aspect

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

3.2 Human strategy from the employees' aspect

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

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

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

3.3 Headcount

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

	At December 31,		
	2010	2011	2012
Magyar Telekom Plc.	6,076	6,097	7,474

3.4 Total Workforce Management

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

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 (disregarding the technical effects of acquisitions and Total Workforce Management), the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

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

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

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

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

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

3.6 Employee Representation and Labor Relations

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

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

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

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

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

3.7 Pensions and Benefit Programs

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

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

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 14 million in 2012.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 57 million in 2012.

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 1,838 million in 2012.

At December 31, 2012, one of the seven MC members has an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the absence fee received for the remaining period is up to 12 months. The notice period is two months for two of the indefinite (altogether six) contracts, while the severance payment is in accordance with the Hungarian legislation and the Collective Agreement. For the other four contracts the notice period is six months, while the severance payment is between 10 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom Plc. and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar

Telekom Plc. for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the employee will be liable for a payment of compensation to the employer.

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

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

5 Research and development

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

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

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

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

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

6 Real estate, sites of operation

We have one of the largest real estate holdings in Hungary. We use substantially all of these properties for telecommunications installations, offices, warehouses, garages and shops. Our equipment and machinery primarily consist of switches, communication towers and other telecommunications equipment.

6.1 The registered office of the Company:

- 1013 Budapest, Krisztina krt. 55.

6.2 Sites of the Company:

- 1117 Budapest, Gábor Dénes u. 2.
- 1107 Budapest, Bihari u.6.
- 1117 Budapest, Magyar tudósok krt.9.
- 1073 Budapest, Dob u. 76-78.
- 1051 Budapest, Petőfi Sándor u. 17-19.
- 1117 Budapest, Kaposvár u. 5-7
- 1117 Budapest, Budafoki u. 103-107

- 1107 Budapest, Száva u. 3-5.
- 1077 Budapest, Kéthly Anna tér 1.
- 1117 Budapest, Szerémi út 4.
- 1117 Budapest, Budafoki út 56.
- 1106 Budapest, Örs vezér tere 25. 1. em.
- 1106 Budapest, Örs vezér tere 25. mélyföldszint
- 1222 Budapest, Nagytétényi út 37-43.
- 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.
- 1052 Budapest, Petőfi Sándor u. 12.
- 1152 Budapest, Szentmihályi út 131.
- 1062 Budapest, Váci út 1-3.
- 1117 Budapest, Október huszonharmadika utca 8-10.

The number of sites used by Magyar Telekom Plc. is approximately 2,400, out of which 22% are owned by the Company, 41% jointly owned and 37% leased. These figures include the sites used for telecommunications towers and antennas, but do not include the number of mobile technology sites. We have 3,506 mobile technology sites, of which five percent is owned by Magyar Telekom Plc. and 95% is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2012 was 566,535 m2. The majority of sites used in our operations are smaller than 100 m2. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m2. In order to increase the utilization of real estates and increase efficiency, we sell or rent our surplus properties.

7 Sustainability, environment protection

7.1 Sustainability strategy

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

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

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

- Brand management: our goal is to raise awareness to the concept of sustainability and to enhance the sustainability perception of Magyar Telekom
    - Knows the concept of sustainability: KPI: public: 20%, employees: 80%
    - Magyar Telekom's sustainability perception: KPI: 25% of the public, 50% of the employees name Telekom is the most sustainable company
- Innovation management: our goal is to increase innovations aimed at society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to reduce the CO_2 emission of the Company by 20% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain process

our goal is to increase the ratio of sustainable products and services, and to keep our customers informed
- Increase revenue from services of sustainable nature, KPI: 20% of annual sales
- Sustainable products, KPI: their ratio in the portfolio: 25%

Trends influencing the sustainability strategy, adopted in 2011

- Professional evaluation of the previous strategic period (mainly based on Dow Jones Sustainability Index results)
- The European Union's 'Europe 2020' strategy
- The EU's 3x20 climate package that lasts until 2020
- EU recommendation for the ICT sector: 20% CO2 reduction by 2015
- Corporate trends, e.g. Climate Groups' 30 percent initiative
- Deutsche Telekom sustainability requirements
- Responsible investments and increase of their value
- Changing customer requirements

Performance of the strategy

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

- In the professional evaluation, on the basis of the DJSI in 2012 with 72 points we earned a position in the top third league worldwide and also topped this position with several awards.
- Awards and ratings in 2012:
    - Best Workplace Award - 2nd place (Aon Hewitt)
    - CEERA (Central European Environmental Reporting Award) - Green Frog Prize
    - CEERIUS sustainability index membership
    - CSR Hungary Award: CSR best practices - corporate category

The awards we won during the term of the strategy are available on the following website:

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

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

7.2 Environmental protection

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

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

7.2.1 Environment and climate protection performance

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

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

Magyar Telekom now uses recycled packaging materials for all deliveries of products ordered online and replaced nylon bags with recycled paper bags for products sold in its T-Shops, where up to 800,000 bags per year were given to customers in the past. Both moves significantly reduce the impact of the waste generated on the environment.

To replace the previous paper-based documentation, technicians at Magyar Telekom who are responsible for troubleshooting and configuring services were provided with tablet PCs featuring applications developed by their specific unit (scanning, electronic signing features, etc.). This not only helps them to organize their work better but also results in cost, time and energy savings and reduces paper consumption.

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

7.3 Initiatives concerning stakeholders

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

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

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

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

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

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

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

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

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

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

7.4 Annual Sustainability Report

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

8 Economic environment

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

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

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

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

9 Outlook and strategy

9.1 Outlook

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

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

Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. The European economy has slowed down and shows signs of recession risk in 2013. Major uncertainties surrounding the future of the euro, the debt crisis escalated for several euro-zone members. The Hungarian economy impacted heavily by the second wave of the financial crisis. GDP projections for 2013 were reduced significantly, the Hungarian National Bank forecasts' indicate GDP growth about 0.5 percent in 2013. The unemployment rate remains very high, above ten percent, and the volatility of the Hungarian currency is expected to continue. The government experienced difficulties to finance the Hungarian budget deficit from the financial markets at the end of 2011. However, latest government measures and communication indicate that no treaty is expected with international financial institutions, such as the International Monetary Fund ("IMF") and the European Central Bank ("ECB") to receive precautionary loan facilities.

In order to balance the government budget, the government implemented several measures to decrease the deficit to 2.8 percent of GDP in 2013. Even though the special telecommunications tax, which came into effect in 2010, is terminated from 2013, the Parliament adopted an act imposing a new telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The tax imposed on fixed and mobile usage amounts to HUF 2 per minute and HUF 2 per SMS/MMS. The new tax is capped; for 2013 at HUF 700 per month per calling number for private individuals' subscriptions and HUF 2,500 per month per calling number for other subscribers' subscriptions. The new telecommunication tax payable by Magyar Telekom for 2013 is estimated around HUF 20 billion. The Parliament also adopted an act imposing a further tax to be levied on utility networks (e.g.: ducts, cables) from 2013. Our T-Systems Hungary segment was also affected by heavy spending cuts by the government, our largest business customer.

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

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in Section 10.2 Risk factors.

9.2 Strategy

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

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

10 Risks and uncertainties

10.1 Risk management policies

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

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

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

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and internal regulation on risk management were published. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items affecting our operations are reviewed quarterly throughout the 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, to the Audit Committee, to the Disclosure Committee and to Deutsche Telekom.

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

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

10.2 Risk factors

Our financial condition, results of operations or the trading prices of our securities could be materially adversely affected by any of these risks. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition, results of operations or the trading prices of our securities.

- Our operation is subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition;
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet, SI/IT and retail energy revenues;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors have resulted and may result in impairments in the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADRs;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;

- We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. The results of those procedures may have a material adverse effect on our results of operations and financial condition;
- 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 Hungarian tax regulations.

10.3 Financial risk management

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 used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Company's cash flow, 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 and international financial institutions or Deutsche Telekom

The detailed descriptions of risks, and their mitigation are provided below.

10.3.1 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: currency risk, interest rate risk and other 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 limits, and monitors their fulfillment annually. At the end of 2011 and 2012 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 Treasurer continuously.

Magyar Telekom is exposed to interest and foreign exchange rate ("FX") 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.

Foreign currency risk

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

The FX exposure of Magyar Telekom is mostly related to

- FX risks arising on loans from DTIF and related swaps with DT AG;
- FX risks arising on third party loans and related swaps;
- holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region;
- operating activities through revenues from, and payments to, international telecommunications carriers as well as other foreign currency denominated contracts.

In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Company's foreign currency denominated assets (primarily held by the Company's foreign subsidiaries), however, exceed the Company's foreign currency denominated liabilities (other than the above described loans), therefore changes of the functional currencies' exchange rates would have significant impact on the profit of the Company.

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.

Other price risk

As of December 31, 2012, Magyar Telekom did not hold any material investments, which could be affected by risk variables such as stock exchange prices or other indices.

10.3.2 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. 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.

According to the Company's risk management policy Magyar Telekom deposits the excess cash only in banks rated at least BBB+ (or equivalent), or make efforts to get guarantees for the deposits from banks rated at least BBB+. Moreover, Magyar Telekom prefers to deposit in banks which grants loans for Magyar Telekom to make possible the compensation of debts and loans in case of the default of the bank.

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.

10.3.3 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 Treasury's management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, DT confirmed its readiness to finance Magyar Telekom's budgeted financing needs until the end of June 2014.

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

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, and no such statutory regulation exists for consolidated equity.

11 Analysis of financial results for 2012

11.1 Revenues

Our sales revenues increased from HUF 451,054 million in 2011 to HUF 460,885 million in 2012 mainly driven by the significant revenues generated from the retail energy trade business introduced in 2010. Revenues from sale of handsets and other devices, and revenues from equipment sales increased as well, due to increased higher category phone sets (smart phones), TV and Tablet sales in 2012. These increases were partly offset by lower mobile and fixed line traffic revenues. Lower mobile traffic revenues resulted primarily from significant retail and wholesale tariff erosion. The drop in fixed line traffic revenues was mainly related to the continuous decline in the number of revenue producing fixed lines and lower traffic due to the unfavorable economic environment and also competition with VoCable and VoIP service providers.

Other income decreased by 46.5% in 2012 as compared to 2011 caused mainly by lower release of provision made for early retirement pension and severance payment, lower reversal of provision for derivatives and in connection with customer loyalty program. This effect was further intensified by lower amounts received for overdue and impaired receivables in 2012 compared to 2011. In addition, the higher gains from disposal of real estates in 2011also contributed to the decrease in other revenues year over year.

11.2 Operating Expenses

Material-type expenses increased from HUF 235,604 million in 2011 to HUF 244,565 million in 2012 primarily due to higher costs of goods sold in line with the dynamic growth in sales of smart phones. This increase was partly offset by the decrease in costs of services driven by lower expenses of rented workforce and operator activities, as temporary staff previously hired to perform work in call center, customer care and customer experience services became standard employees of Magyar Telekom in April 2012. Decrease in costs of (mediated) services sold by the termination of the EKG and Közháló contracts in 2012 also mitigated the increase.

Payroll and related expenses decreased from HUF 69,709 million in 2011 to HUF 66,088 in 2012 mainly due to the significant severance payment in 2011. Changes of the cafeteria system also contributed to the decrease.

Depreciation and amortization increased by 9.1%, mainly attributable to the amortization effect of the change in estimated useful life of radio-technical equipment due to the mobile telecommunication network modernization projects in 2012.

Other expenses decreased by 18.6% to HUF 66,697 million from HUF 81,937 million, predominantly due to the HUF 21,857 million provision booked for litigation in 2011 in connection with the investigation based on the agreement with the SEC and the DOJ. The above positive changes were partly counterbalanced by the introduction of a new telecommunication tax as of July 2012. The amount of this new tax expensed was HUF 8.7 billion in 2012.

11.3 Financial result

The net financial results weakened from HUF 5,037 million in 2011 to HUF 6,581 million in 2012, mainly driven by higher amount of interest expense in 2012 due to the higher average balance of the loan portfolio as well as the higher average interest rates of our loans.

11.4 Description of segments

The Telekom Hungary segment operates in Hungary providing mobile, fixed line telecommunications and TV distribution services (including marketing, sales and customer relations activities) to residential and small businesses telecommunications customers with several million customers mainly under the T-Mobile and T-Home brands. The Telekom Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions. In addition, the Telekom Hungary segment is responsible for the operations and development of the mobile, fixed line and cable TV network as well as IT management in Hungary.

T-Systems Hungary provides mobile and fixed line telecommunications, info-communications and system integration services (including marketing, sales and customer relations activities) mainly under the T-Systems and T-Mobile brands to key business partners (large corporate customers and public sector).

11.5 Key operating statistics

The following table sets forth information regarding the key operating mobile statistical figures of Telekom Hungary:

	At December 31,	
	2011	2012
Mobile penetration (%)[(1)]	117.3	116.5
Mobile SIM market share (%)[(1)]	45.0	45.9
Number of customers	4,817,296	4,836,965
Postpaid share in the customer base (%)	46.2	47.3
Average MOU per subscriber	161	160
ARPU (HUF)	3,587	3,455
Postpaid	5,930	5,698
Prepaid	1,619	1,414
Overall churn rate (%)	19.5	18.4
Postpaid (%)	14.5	14.5
Prepaid (%)	23.6	21.9
Ratio of non-voice revenues in ARPU (%)	21.0	23.5
Average acquisition cost per gross add (HUF)	6,449	5,479
Number of mobile broadband subscriptions	971,469	1,362,750
Mobile broadband market share (%)[(1)]	48.7	45.8
Population-based indoor 3G coverage [(1)]	66.0	75.4

(1) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment

The following table sets forth information regarding the key operating fixed line statistical figures relating to the major services provided by Telekom Hungary:

	At December 31, 2011	At December 31, 2012
Voice services		
Total PSTN lines	1,374,261	1,228,150
Payphone	10,836	9,343
Total PSTN outgoing traffic (thousand minutes).	2,834,263	2,842,341
Blended average monthly Minutes of Use ("MOU") per subscriber (outgoing) (1)	166	181
Blended Average monthly Revenue per Access ("ARPA") (HUF) (1)	3,138	2,849
Data products		
Blended retail broadband market share (%) (2)	36.6	36.9
Number of retail DSL customers	499,923	497,217
Number of cable broadband customers	212,631	245,984
Number of fiber optic connections	31,611	41,802
Total retail broadband customers	744,165	785,003
Blended broadband ARPU (HUF) (1)	3,950	3,813
TV services		
Blended TV market share (%) (2)	24.7	25.4
Number of cable TV customers (2)	289,693	230,323
Number of satellite TV customers (2)	281,312	291,118
Number of IPTV customers (2)	226,385	313,285
Total TV customers (2)	797,390	834,726
Blended TV ARPU (HUF) (1)	3,048	3,069
Energy services		
Electricity points of delivery	17,311	87,945
Gas points of delivery	17,951	59,900

(1) Includes also the data of Magyar Telekom Plc.'s subsidiaries within Telekom Hungary segment
(2) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment

The following table sets forth information regarding the key operating mobile statistical figures of T-Systems Hungary:

	At December 31,	
	2011	2012
Number of customers	447,930	483,104
Overall churn rate (%)	6.3	8.8
MOU	288	281
ARPU (HUF)	4,918	4,441
Number of mobile broadband subscriptions	77,045	93,036
Ratio of non-voice revenues in ARPU (%)	35.6	37.4
Average subscriber acquisition cost per gross add (HUF)	5,166	4,059

The following table sets forth information regarding the key operating fixed line statistical figures for the major services provided by T-Systems Hungary:

	At December 31,	
	2011	2012
Voice services		
Business	42,137	39,358
Managed leased lines (Flex-Com connections)	2,360	1,715
ISDN channels	135,246	130,052
Total	179,743	171,125
Total outgoing traffic (thousand minutes)	282,873	245,550
MOU (outgoing)	188	176
ARPU (HUF)	4,578	4,315
Data products		
Number of retail broadband access	15,561	14,289
Retail DSL ARPU (HUF)	8,339	7,446

12 Subsequent events between the end of the year and the release of the report

12.1 Utility tax from 2013

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

12.2 Curia decision

In relation to the auction for the right of use of a total amount of 10.8 MHz of unused spectrum related to the provision of mobile telecommunications services in the 900 MHz frequency band (see also Note 1.3), on March 12, 2012 Magyar Telekom filed a petition with the Metropolitan Court, requesting that the Court annul the designation of a consortium of Magyar Posta Zrt., MFB Invest Zrt. and Magyar Villamos Művek Zrt. as an auction winner and certain relating requirements of the final decision closing the auction, rendered by the Vice-President of the National Media and Infocommunications Authority. The Metropolitan Court, by its judgment announced on September 17, 2012 annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court. Accordingly, the NMIAH's administrative decision closing the 900 MHz frequency auction is annulled in a final, binding and non-appealable manner.

Budapest, February 28, 2013.

Christopher Mattheisen

Chief Executive Officer,

Chairman of the Board

Thilo Kusch

Chief Financial Officer,

Board member