



MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT AND BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

PREPARED IN ACCORDANCE WITH
THE HUNGARIAN ACCOUNTING LAW
(HAR)



INDEPENDENT AUDITOR'S REPORT (Free translation)

To the shareholders of Magyar Telekom Telecommunications PLC.

Report on the financial statements

We have audited the accompanying financial statements of Magyar Telekom Telecommunications PLC. ("the Company") which comprise the balance sheet as of 31 December 2015 (in which the balance sheet total is MHUF 1,016,117, the profit per balance sheet is MHUF 4,758), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Accounting Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Telecommunications PLC. as of 31 December 2015, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.

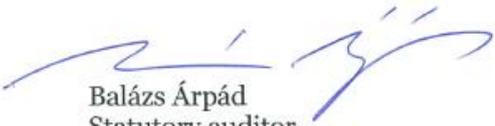
Other reporting requirements regarding the business report

We have examined the accompanying business report of Magyar Telekom Telecommunications PLC. ("the Company") for the financial year of 2015.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2015 business report is consistent with the disclosures in the financial statements as of 31 December 2015.

Budapest, April 12, 2016

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



Balázs Árpád
Statutory auditor
Licence number: 006931

Translation note:

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



BALANCE SHEET AS OF DECEMBER 31, 2015

ASSETS

All amounts in millions of HUF

	Note	December 31, 2014	December 31, 2015
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		889 726	878 835
I. Intangible assets	4	345 781	335 120
3. Rights		255 533	249 444
4. Intellectual property		5 941	5 816
5. Goodwill		83 840	79 860
6. Advance payments on intangible assets		467	0
II. Tangible assets	5	373 187	378 560
1. Land and buildings and related rights		234 417	231 968
- Land		2 873	2 758
- Buildings		61 279	58 721
- Telecommunication network		161 370	160 415
- Other properties		8 367	9 578
- Real estate related rights		528	496
2. Technical equipment, machinery and vehicles		100 126	101 661
- Telecommunication equipment and machinery		98 895	100 526
- Other technical equipment, machinery and vehicles		1 231	1 135
3. Other equipment and vehicles		7 612	8 527
5. Construction-in-progress		31 026	36 392
6. Advance payments on construction-in-progress		6	12
III. Financial investments		170 758	165 155
1. Non-current investments in related parties	6	158 843	154 792
5. Other non-current loans granted	7	11 915	10 363
B. CURRENT ASSETS		85 974	96 181
I. Inventories	8	9 828	10 249
1. Raw materials		271	171
2. Work in progress and semi-finished products		15	7
5. Goods for resale		9 542	10 071
II. Receivables		72 992	80 579
1. Accounts receivable	9	48 653	56 384
2. Receivables from related parties	10	17 498	16 540
5. Other receivables	11	6 841	7 655
III. Securities	12	307	4 507
1. Investments in related parties		0	4 200
3. Treasury stock, quotas		307	307
IV. Liquid assets		2 847	846
1. Cash and cheques		267	160
2. Bank deposits		2 580	686
C. ACCRUALS	13	41 216	41 101
1. Accrued income		37 803	39 154
2. Prepaid costs and expenses		3 413	1 947
TOTAL ASSETS		1 016 916	1 016 117

Budapest, April 12, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.



BALANCE SHEET AS OF DECEMBER 31, 2015

LIABILITIES AND SHAREHOLDERS' EQUITY

All amounts in millions of HUF

	Note	December 31, 2014	December 31, 2015
D. SHAREHOLDERS' EQUITY	14	392 264	397 022
I. Common stock		104 274	104 274
<i>- of this treasury stock at par value</i>		39	39
II. Unpaid share capital (-)		0	0
III. Capital reserves		58 952	58 952
IV. Retained earnings		191 996	228 731
V. Restricted reserves		307	307
VI. Valuation reserves		0	0
VII. Net income		36 735	4 758
E. PROVISIONS	15	13 120	17 449
1. Provision for expected obligations		13 120	17 449
F. LIABILITIES		561 460	553 412
I. Subordinated liabilities		0	0
II. Non-current liabilities		318 691	291 246
5. Other non-current loans	16	1 574	0
7. Non-current liabilities to other related parties	17	240 428	218 563
8. Other non-current liabilities	18	76 689	72 683
III. Current liabilities		242 769	262 166
1. Current borrowings	16	179	176
<i>- of this convertible bonds</i>		0	0
2. Current loans	19	43 833	13 066
3. Advances received		614	681
4. Accounts payable	20	52 588	55 358
6. Current liabilities to related parties	21	10 185	15 044
7. Current liabilities to other related parties	22	106 346	130 689
8. Other current liabilities	23	29 024	47 152
<i>- of this dividends payable</i>		0	15 635
G. ACCRUALS	24	50 072	48 234
1. Deferred revenue		4 312	3 140
2. Accrued expenses		44 682	43 612
3. Other deferred income		1 078	1 482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1 016 916	1 016 117

Budapest, April 12, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.



INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2015

All amounts in millions of HUF

	Note	January-December, 2014	January-December, 2015
1. Net domestic sales	25	472 076	488 076
2. Net export sales	26	14 931	14 199
I. Sales revenues		487 007	502 275
3. Change in self-manufactured inventories		-47	-8
4. Capitalized value of self-manufactured assets		24 020	26 940
II. Own work capitalized		23 973	26 932
III. Other income	27	22 132	22 719
of which: reversal of impairment		0	3 449
5. Costs of raw material		28 384	27 406
6. Costs of services	28	84 449	92 934
7. Costs of other services		9 296	8 101
8. Cost of goods sold	29	88 174	100 240
9. Costs of (mediated) services sold	30	63 687	57 497
IV. Material-type expenses		273 990	286 178
10. Salaries and wages	31	47 070	45 742
11. Other employee related expenses	31	7 133	6 875
12. Employee related contributions		14 917	14 567
V. Employee related expenses		69 120	67 184
VI. Depreciation and Amortization		82 926	91 125
VII. Other expenses	33	70 937	74 844
of which: impairment		15 996	16 430
A. PROFIT FROM OPERATING ACTIVITIES		36 139	32 595
13. Dividends and profit sharing (received or due) of which: received from related parties		24 793 24 793	5 495 5 495
16. Other interest income received of which: received from related parties		649 572	1 148 475
17. Other income from financial transaction		8 775	11 745
VIII. Income from financial transactions		34 217	18 388
19. Interest expense of which: to related parties to other related party		20 020 651 17 454	19 820 153 19 208
20. Impairment of investments, securities and bank deposits		0	-782
21. Other expenses from financial transactions		8 455	6 650
IX. Expenses from financial transactions		28 475	25 688
B. RESULT FROM FINANCIAL TRANSACTIONS	34	5 742	-7 300
C. PROFIT FROM ORDINARY ACTIVITIES		41 881	25 295
X. Extraordinary income		29 732	10 519
XI. Extraordinary expenses		33 161	14 277
D. RESULT FROM EXTRAORDINARY ACTIVITIES	35	-3 429	-3 758
E. PROFIT BEFORE TAXES		38 452	21 537
XII. Corporate income tax	37	1 717	1 144
F. PROFIT AFTER TAX		36 735	20 393
22. Use of retained earnings for dividends		0	0
23. Dividend paid (approved)	38	0	15 635
G. BALANCE SHEET NET INCOME		36 735	4 758

Budapest, April 12, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015



0 NOTE ADDED FOR TRANSLATION

This annual report for December 31, 2015 is the English translation of the Annual Report issued in Hungarian language and prepared in accordance with Act C of 2000 on Accounting and with generally accepted accounting principles in Hungary.

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

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

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



1 BACKGROUND AND GENERAL INFORMATION

1.1 General Information about Magyar Telekom Plc.

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

Abbreviated name of the Company: Magyar Telekom Plc.

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

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

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

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

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

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

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

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

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

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

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

The name of the company changed to Deutsche Telekom Europe B.V. with effect from March 1, 2015.

Considering that the Deutsche Telekom Europe B.V. is the 100 per cent subsidiary of T-Mobile Global Holding Nr. 2 GmbH and T-Mobile Global Holding Nr. 2 is the 100 per cent subsidiary of Deutsche Telekom AG, after the transaction the indirect voting right and influence of Deutsche Telekom AG in Magyar Telekom Plc. remained unchanged.



Persons authorized to sign the annual report:

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

János Szabó - Chief Financial Officer (residence: Budapest)

In Magyar Telekom Plc., the accounting services are supervised by the Director of Accounting and Tax, Tamás Deák (certificate number: 188739. Area of speciality: entrepreneurial activity. Status: registered. Residence: Sukoró).

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

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

1.2 The Company's activity

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

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

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

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

Business model related to energy supply activity of Magyar Telekom Plc. is subject to review regularly. After the latest review the Company decided to discontinue its natural gas supply provided for residential customers with effect of July 31, 2015.

On July 9, 2015 the Company made an agreement with MET Holding AG to establish E2 Hungary Zrt. as a jointly controlled entity. From January 1, 2016 the E2 Hungary Zrt. provides both electricity and gas supply services for business customers.

2 ACCOUNTING POLICIES

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

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

The closing day of the Company's business year is December 31. The balance sheet preparation date is January 4, 2016 in respect of the annual report for 2015.

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

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

- Land and buildings and related rights:
 - Land
 - Buildings



- Telecommunication network
- Other properties
- Real estate related rights

- Technical equipment, machinery and vehicles:
 - Telecommunication equipment and machinery
 - Other technical equipment, machinery and vehicles

and the following captions are omitted:

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

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

In 2015, these captions were as follows:

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

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

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

2.1 Definition of the accounting principles, guidelines and methods

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

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

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

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

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

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

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

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

- Telecommunication or Other activity: those general ledger accounts which contain items connected exclusively to either telecommunication activity or non-telecommunication and non-energy supply activities (e.g. property rental fee revenues).
- Energy: contains items connected exclusively to energy supply activity and can be allocated definitely to electricity or to natural gas services activity.
- To be allocated: settlements on these accounts are connected to telecommunication, to other and to energy supply activities. Amounts on these accounts are allocated to energy supply, telecommunication or other activities based on further allocation rules.

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

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

General rule applied during allocation is that if a general ledger account contains the settlement of energy activities (directly or indirectly from an allocation process) and there is no any subledger then the separation of the balance between electricity and gas activities are based on the weighted proportion of the point of delivery (POD) numbers.

At a significant part of general ledger accounts the allocation is based on proportion of direct margin because of the different profit of telecommunication and energy products. The direct margin is the difference between revenues and direct costs related to it; corrected by the effect of utility costs reduction, the amount of discount related to energy services connected to telecommunication services. Items are separated to energy services and to telecommunication/other services in the proportion of direct margin.

In case of the information are available in subledger then allocated amounts on energy activities are defined by individual items based on data supply.

In case of some items the allocation ratio depends on costs. The cost ratio on energy services is equal to the quotient of the material-type expenses for energy services in 100 per cent (electricity and/or gas) and the total material-type expenses of the Company. Other cost dependent items are allocated in the proportion of employee related expenses.



Items related to IT systems connected to energy retail services are directly allocated to energy activities.

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

2.3 Valuation methods used for the preparation of the Balance Sheet

2.3.1 Assets

2.3.1.1 Recognition and measurement of non-current assets

Intangible and tangible fixed assets

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

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

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

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

Depreciation policy

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

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

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

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

In case of intangible fixed assets:

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



In case of tangible fixed assets:

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

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

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

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

The Company does not use the option given in Section 80. (2) of Act on Accounting which allows that the acquisition value of intangible and tangible assets with an individual purchase cost below HUF 100,000 may be charged in one sum as depreciation upon the commencement of use. These assets are recorded individually and their purchase cost are settled following their commencement of use as depreciation during their expected useful lives

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

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

Capitalized value of foundation and restructuring

The Company does not capitalize foundation and restructuring costs.

Capitalized value of experimental development

The Company does not capitalize experimental development costs.

Goodwill

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

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

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

Intellectual property

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



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

Own work capitalized

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

Financial investments

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

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

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

2.3.1.2 Recognition and measurement of current assets**Inventories**

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

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

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

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

The Company records impairment on inventories purchased if:

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

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

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

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

Trade receivables and other receivables

The balance of trade receivables reflects invoiced and acknowledged amounts.

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

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

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

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

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

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

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

The Company uses the following rates for impairment:

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

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

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

Securities

The Company discloses the original cost of bonds, shares, other securities held for sale and the repurchase value of treasury stock as Securities in current assets. It also contains the book value of related parties decided to be sold in a year.

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

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

2.3.1.3 Accruals (asset)

Accrued income

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

Prepayments for costs and expenses

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

2.3.2 Liabilities and Shareholders' equity

2.3.2.1 Valuation reserve

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

2.3.2.2 Restricted reserve

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

2.3.2.3 Provisions

Provisions include the following uncertain liabilities and commitments:

- severance payments due to dismissals before retiring age,
- pending legal cases,
- environmental liabilities,
- guarantee liabilities determined by law,
- future demolition or recovery liabilities deriving from a contract,
- provision in respect of valuation of derivatives,
- liabilities related to customer loyalty program,
- liabilities related to collection flat rate (EUR 40).

2.3.2.4 Accruals (liability)

Deferred revenue

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

Accrued expenses

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

Deferred income

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

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

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

2.3.3 Valuation of items in foreign currencies

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

2.3.4 Derivatives

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

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

2.4 Measurement principles applied in the preparation of the Income Statement

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

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

The Company discloses as domestic sales revenues in particular:

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

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

The Company discloses as export sales in particular:

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

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

Non-realized exchange rate differences are recognized as follows:

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

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

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



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

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

2.5 Other

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

The Company did not have penalty expenses due to environmental liabilities in 2015 or in any previous years.

3 SUMMARY OF THE COMPANY'S FINANCIAL POSITION AND LIQUIDITY

The Company's financial position and liquidity as of December 31, 2014 and 2015 are represented by the following financial ratios:

	<u>2014</u>	<u>2015</u>
Liquidity ratio (= current assets / current liabilities)	0.35	0.37
Operating margin (= operating profit / (sales revenues + other income))	0.07	0.06
Operating return on assets (= operating profit / total assets)	0.04	0.03
Leverage ratio (= non-current liabilities / (non-current liabilities + equity))	0.45	0.42



The following is the cash-flow statement for the years ended on December 31, 2014 and 2015:

	2014	2015
I. Cash flows from operating activities (lines 1-14)	102,461	99,753
1. Profit before taxes (before dividend received)	14,892	15,713
2. Depreciation and amortization	82,926	91,125
3. Impairment losses charged and reversed	15,996	15,648
4. Change in provisions	-686	4,329
5. Profit or loss on the sale of non-current assets	-1,028	-953
6. Change in accounts payable	12,419	-80
7. Change in other current liabilities	-2,150	12,629
8. Change in accruals (liability)	-105	-1,909
9. Change in accounts receivable	-10,068	-16,437
10. Change in current assets (without accounts receivable and cash and cash equivalents)	-2,337	-5,042
11. Change in accruals (asset)	-2,591	115
12. Income tax paid (on profit and loss)	-2,007	-953
13. Dividend and shares paid/payable	0	-15,635
14. Other non cash items	-2,800	1,203
II. Cash flows from investing activities (lines 15-17)	-83,012	-73,122
15. Acquisition of fixed assets and financial investments	-98,559	-79,210
16. Proceeds from sale of fixed assets and financial investments	1,026	954
17. Dividends and advance dividends received	14,521	5,134
III. Cash flows from financing activities (lines 18-29)	-21,496	-28,632
18. Proceeds from issue of shares	0	0
19. Proceeds from the issuance of bonds	0	0
20. Loans received	512,944	135,129
21. Redemption from non-current loans granted and bank deposits	790	741
22. Non-repayable liquid assets received	367	445
23. Share capital decrease	0	0
24. Treasury stock repurchases	0	0
25. Repayment of bonds	-11	-3
26. Repayment of loans	-535,788	-165,412
27. Non-current loans granted and bank deposits	-547	-224
28. Non-repayable donations given	0	0
29. Change in liabilities to founders and other non-current liabilities	749	692
IV. Change in liquid assets (lines I. + II. + III.)	-2,047	-2,001
Cash at the beginning of the year	4,894	2,847
Cash at year-end	2,847	846

4 INTANGIBLE ASSETS

The following table is a summary of intangible fixed asset movements between January 1, 2014 and December 31, 2015:

	GROSS BOOK VALUE				Total
	Rights	Intellectual property	Goodwill	Advances on intangible assets	
Opening balance as of January 1, 2014	285,334	17,017	223,056	0	525,407
Additions	138,457	1,499	326	467	140,749
Disposals	-2,949	-351	-1,477	0	-4,777
Reclassifications	-5	-82	0	0	-87
Closing balance as of December 31, 2014	420,837	18,083	221,905	467	661,292
Additions	22,008	1,555	6,116	0	29,679
Disposals	-4,048	-57	-2,961	-467	-7,533
Reclassifications	1,410	-1,499	0	0	-89
Closing balance as of December 31, 2015	440,207	18,082	225,060	0	683,349
AMORTIZATION					
Opening balance as of January 1, 2014	147,920	11,909	124,840	0	284,669
Charge for the year	20,247	664	10,096	0	31,007
Impairment	0	0	4,606	0	4,606
Disposals	-2,850	-351	-1,477	0	-4,678
Reclassifications	-13	-80	0	0	-93
Closing balance as of December 31, 2014	165,304	12,142	138,065	0	315,511
Charge for the year	28,810	857	10,096	0	39,763
Impairment	0	0	0	0	0
Disposals	-3,937	-57	-2,961	0	-6,955
Reclassifications	587	-676	0	0	-89
Closing balance as of December 31, 2015	190,764	12,266	145,200	0	348,230
NET BOOK VALUE as of December 31, 2014	255,533	5,941	83,840	467	345,781
NET BOOK VALUE as of December 31, 2015	249,444	5,816	79,860	0	335,120



The main components of the changes in 2015:

Rights

The gross value of rights increased by HUF 22,008 million in the current year. Significant part of this increase was caused by the software rights of use connected to a new, integrated customer relations and billing system (HUF 5,273 million), to SAP and related systems due to the implementation of the new SAP OneERP system (HUF 4,306 million) and to the Webshop application (HUF 1,918 million), as well as the upgrade of business warehouse (HUF 595 million) and IMS software and licence (HUF 594 million).

The decrease is mainly due to the reclassification of those software which are not used, net values are zero and not allowed to scrap by law to inventories, for example the archived SAP R/3 software (gross value is HUF 3,503 million, net value is zero). Further significant increase is caused by the scrapping of general-purpose and other software rights of use (gross value is HUF 427 million, net value is HUF 28 million).

In 2015, there was an agreement to modify the Authority Contract concluded earlier with NMIAH, Telenor and Vodafone mobile service providers to realign frequency brands related to radio-communication services on 900 MHz frequency brand among these providers. After the signing of the amendments to the contract the following frequency using fees were activated:

o Spectrum licenc fee 900 MHz	3,462
o Spectrum using fee 900 MHz	1,003
o Settlement for Telenor frequency brands realignment	934
o Settlement for Vodafone frequency brands realignment	300

Intellectual properties

The increase is mainly due to the upgrades of the billing software for mobile services (HUF 651 million) and the IPTV platform upgrade (HUF 473 million).

In 2015, the Company reviewed the useful life of rights and intellectual properties and changed the useful life where the Company deemed it necessary. Due to the changes HUF 510 million more amortization was charged in 2015. The significant more amortization from the change in useful lives is due to reassembling the asset related to the new SAP OneERP PSL system.



Goodwill

The movements of goodwill in 2015 are summarized as follows:

Description	Net value as of December 31, 2014	Goodwill recorded in 2015	Amortization charge/ extraordinary amortization in 2015	Net value as of December 31, 2015
T-Mobile Magyarország Távközlési Rt. ¹	63,532	0	-9,115	54,417
GTS Hungary Kft.	0	6,097	0	6,097
T-Systems Magyarország Zrt. (KFKI Zrt.)	4,345	0	0	4,345
Dataplex Kft. ¹	4,793	0	0	4,793
Stonebridge A.D.	3,326	0	-392	2,934
EMITEL Távközlési Zrt. ¹	2,600	0	-589	2,011
ISH Informatika Kft. ¹	1,707	0	0	1,707
IQSYS Zrt. ¹	1,132	0	0	1,132
Combridge S.R.L.	818	0	0	818
DATEN-KONTOR Kft. ¹	529	0	0	529
Novatel E.O.O.D.	447	0	0	447
Com.unique Kft.	326	19	0	345
KalászNet Kft. (Budakalász Kábel TV Kft.)	185	0	0	185
Dél-Vonal Kft. ¹	100	0	0	100
Total	83,840	6,116	-10,096	79,860

¹ On December 31, 2015 the marked companies did not operate as independent companies due to transformation but the market perception of their operations gave no reasons for impairing or derecognizing the goodwill.

In 2015, Magyar Telekom Plc. purchased the 100 per cent share of GTS Hungary Kft. Due to this transaction HUF 6,097 million goodwill was recognized.

In 2015, HUF 19 million purchase price installment were paid related to Com.unique Kft. which was recognized as goodwill.

During 2015, HUF 10,096 million amortization was charged on goodwill for items recognized before 2005.



5 TANGIBLE FIXED ASSETS

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2014 and December 31, 2015:

GROSS BOOK VALUE	Land and buildings and related rights	Technical equipment, machinery and vehicles	Other equipment and vehicles	Total
Opening balance as of January 1, 2014	446,731	609,653	59,484	1,115,868
Additions	16,579	22,638	3,360	42,577
Disposals	-2,689	-34,323	-4,489	-41,501
Reclassifications	11,619	-11,151	-1,263	-795
Closing balance as of December 31, 2014	472,240	586,817	57,092	1,116,149
Additions	19,702	35,474	4,054	59,230
Disposals	-8,482	-94,984	-6,825	-110,291
Reclassifications	9,208	-12,923	1,022	-2,693
Closing balance as of December 31, 2015	492,668	514,384	55,343	1,062,395
DEPRECIATION				
Opening balance as of January 1, 2014	213,159	498,093	51,507	762,759
Charge for the year	17,292	31,197	3,430	51,919
Impairment	0	0	0	0
Disposals	-1,563	-33,482	-4,381	-39,426
Reclassifications	8,935	-9,117	-1,076	-1,258
Closing balance as of December 31, 2014	237,823	486,691	49,480	773,994
Charge for the year	17,386	30,699	3,277	51,362
Impairment	0	0	0	0
Disposals	-4,854	-92,358	-6,744	-103,956
Reclassifications	10,345	-12,309	803	-1,161
Closing balance as of December 31, 2015	260,700	412,723	46,816	720,239
NET BOOK VALUE as of December 31, 2014	234,417	100,126	7,612	342,155
NET BOOK VALUE as of December 31, 2015	231,968	101,661	8,527	342,156

Further details are disclosed in Appendix 2.

The main reasons of the changes in 2015 are as follows:

Land and buildings and related rights

The increase in buildings and other real estate (HUF 4,640 million) is mainly due to the expansion and capitalization of antenna towers (HUF 2,377 million) and the renovating and improving of own office buildings (HUF 642 million).

The gross value of telecommunication networks increased by HUF 14,965 million (see Appendix 2) of which the significant items are:

- client-side copper based network (HUF 4,833 million),
- copper wire telecom cables of local network (HUF 3,541 million),
- fiber optic telecom cables of local network (2,312 million),
- ducts (HUF 1,723 million).

The decrease in real estate and related rights is mainly due to the derecognition of DVBS infrastructure (satellite dishes) (gross value is HUF 4,687 million, net value is 2,106 million).

Technical equipment, machinery and vehicles

The increase is due to the capitalization and extension of telecommunication equipment of HUF 35,474 million in gross value, of which the significant items are:

- routers (HUF 5,827 million),
- closed-end leased set-top boxes (HUF 3,599 million),
- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (HUF 2,623 million),
- mobile switch control (HUF 2,100 million),
- MSAN equipment for TV and internet services (HUF 1,916 million),
- WDM equipment (HUF 1,858 million),
- CMTS equipment (HUF 1,434 million),
- DVBS infrastructure and set top box (HUF 1,065 million).

HUF 94,984 million decrease in gross value of technical equipment is mainly due to the following sales and scrappings:

- EWSD combined and subscriber switches (gross value is HUF 11,110 million, net value is zero),
- AXE combined and subscriber telecommunication switch (gross value is HUF 10,239 million, net value is zero),
- mobile switch control, subscriber storage system (gross value is HUF 6,247 million, net value is HUF 1,411 million),
- GSM access network control system (gross value is HUF 5,880 million, net value is HUF 3 million),
- BTS-GSM, UMTS, LTE radio communication equipment (gross value is HUF 4,571 million, net value is HUF 30 million),
- internet service servers (gross value is HUF 1,258 million, net value is zero).



Other equipment and vehicles

Other equipment and vehicles increased by HUF 4,054 million in gross value, of which the significant items are:

- capitalization and extension of IT application and other servers (HUF 2,320 million),
- capitalization and extension of computers and peripheral devices not serving the core activities (HUF 376 million).

The HUF 6,825 million decrease in gross value of other equipment and vehicles is mostly due to scrapping and sales.

Scrappings mainly related to the following assets:

- computers and peripheral devices not serving the core activities (gross value is HUF 167 million, net value is zero),
- furniture (gross value is HUF 144 million, net value is HUF 6 million),
- mobile devices (gross value is HUF 100 million, net value is HUF 1 million).

Sales mainly related to the following assets:

- IT application and other server (gross value is HUF 4,182 million, net value is zero),
- computers and peripheral devices not serving the core activities (gross value is HUF 389 million, net value is HUF 2 million),
- passenger cars for personal use (gross value is 50 million, net value is HUF 16 million).

In 2015, the Company reviewed the useful life of tangible assets and changed the useful lives where the Company deemed it necessary. In consequence, HUF 731 million more depreciation was charged in 2015. The significant more amortization from the change in useful lives is due to reassembling the asset related to the new SAP OneERP PSL system.

6 NON-CURRENT INVESTMENTS IN RELATED PARTIES

6.1 Changes of Non-current investments in 2015

As of December 31, 2014 and 2015, the Company's non-current investments are summarized as follows (further details on investments (ownership, voting rights, shareholders' equity data) are disclosed in Appendix 3):

	Ownership direct (%)	Ownership indirect (%)	Net book value	
			December 31, 2015	2014
Stonebridge A.D.	100.00%		85,542	75,065
Crnogorski Telekom A.D.	76.53%		40,203	39,979
T-Systems Magyarország Zrt.	100.00%		19,944	19,944
GTS Hungary Kft.	100.00%		0	8,172
ViDaNet Zrt.	67.50%	22.50%	2,836	2,836
Combridge S.R.L.	100.00%		2,330	2,317
Investel Zrt.	100.00%		1,658	1,658
KalászNet Kft.	100.00%		1,074	1,074
Novatel E.O.O.D.	100.00%		788	1,723
E2 Hungary Zrt.	50.00%		0	1,000
Telekom New Media Zrt.	100.00%		700	700
Com.unique Kft.	100.00%		287	287
KIBU Innováció Nonprofit Kft.	99.20%	0.80%	34	34
ISH Kft.	100.00%		3	3
Origo Zrt.	100.00%		3,418	0
Telemacedonia A.D. Skopje (under liquidation)	100.00%		26	0
			158,843	154,792

At the end of 2015, non-current investments decreased by HUF 648 million due to the balance sheet date revaluation of the book value of investments.

In 2015, the Company acquired the 100 per cent share of GTS Hungary Kft. After this transaction the non-current investments increased by HUF 8,172 million.

In 2015, the Company executed a EUR 2,999,458.03 (HUF 921 million) capital increase in Novatel E.O.O.D.

In 2015, a joint venture was established under the name of E2 Hungary Zrt. (together with MET Holding AG) which transaction increased the non-current investments with HUF 50 million. Also in this year a HUF 50 million capital increase was executed and along with this the capital reserve increased by HUF 900 million. This transaction increased the non-current investments with HUF 950 million.

In 2015, due to a capital decrease in Stonebridge A.D. the book value of non-current investment decreased by HUF 10,052 million.

In 2015, the liquidation procedure of Telemacedonia A.D. Skopje was finished. The investment was derecognized from the books resulted a HUF 26 million decrease in non-current investments.

In 2015, the Company signed an agreement to sell its 100 per cent share in Origo Zrt. The binding offer on cash free debt free basis was EUR 13.2 million (HUF 4,200 million). The closing of the transaction took place in February, 2016 so HUF 782 million reversed from the impairment was recorded earlier within the limits of the expected reimbursement then the investment was reclassified to Securities (HUF 4,200 million).

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

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

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

Crnogorski Telekom A.D.

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

T-Systems Magyarország Zrt.

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

GTS Hungary Távközlési Kft. (GTS Hungary Kft.)

The Magyar Telekom Plc.'s Board of Directors approved the contract on acquiring the 100 per cent share of GTS Hungary Kft. on February 25, 2015. After the acquisition the transaction was registered at Court of Registry of Budapest Environs Regional Court on April 1, 2015.

GTS Hungary Kft. is a leading alternative infocommunication service provider in Hungary, provides fixed line voice, data, internet and IT services for business and residential customers.

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

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

In 2013, M-Kábel Kft. (100 per cent owned by the company) merged into ViDaNet Zrt.

Combridge S.R.L.

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

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

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

**Novatel E.O.O.D.**

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

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

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

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

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

KalászNet Kábel TV Korlátolt Felelősségű Társaság (KalászNet Kft.)

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

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

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

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

E2 Hungary Energiakereskedelmi és Szolgáltató Zrt. (E2 Hungary Zrt.)

In the first quarter of 2015, Magyar Telekom Plc. signed an agreement with MET Holding AG, one of the leading energy retail suppliers of the region, to establish a joint venture which provides natural gas and electricity services for primarily business customers. The primary aim of the company is to improve and optimize the energy operations serving the business customers in the energy market presence. The joint venture was registered at Metropolitan Court as Court of Registration as of July 7, 2015.

7 OTHER NON-CURRENT LOANS GRANTED

Other non-current loans granted as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Long term part of installment receivables from equipment sales	8,690	7,481
Long term part of housing loans granted to employees	3,116	2,729
Other deposits given	109	153
Total	11,915	10,363



8 INVENTORIES

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

The following is a movement table of inventories between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	8,320	9,828
Change in inventories	1,711	928
Impairment loss	-203	-507
Closing balance	9,828	10,249

Further details of inventory impairment are disclosed in Appendix 4.

9 ACCOUNTS RECEIVABLE

As of December 31, 2014 and 2015 accounts receivable include the following:

	2014	2015
Domestic accounts receivable	64,894	75,120
Foreign accounts receivable	1,093	1,130
Impairment of receivables	-17,334	-19,866
Total	48,653	56,384

The impairments on receivables as of December 31, 2014 and 2015 are as follows:

	2014	2015
Opening balance	15,140	17,334
Current year increase	9,420	9,896
Current year decrease/disposal	-7,226	-7,364
Total	17,334	19,866

10 RECEIVABLES FROM RELATED PARTIES

Receivables from related parties as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Receivables from T-Systems Magyarország Zrt. ¹	13,398	9,017
Receivables from E2 Hungary Zrt. ²	0	3,338
Receivables from Novatel E.O.O.D. ³	2,507	1,593
Receivables from KalászNet Kft. ⁴	0	1,220
Receivables from Origo Zrt.	335	403
Receivables from GTS Hungary Kft.	130	302
Receivables from ViDaNet Zrt.	99	217
Receivables from Telekom New Media Zrt.	0	161
Receivables from Com.unique Kft.	122	122
Receivables from Combridge S.R.L.	59	53
Receivables from Makedonski Telekom A.D.	28	38
Other	820	76
Total	17,498	16,540

¹ The vast majority of the balance is the Cash-pool receivable from T-Systems Magyarország Zrt. (HUF 8,285 million).

² The receivable from E2 Hungary Zrt. is an advance payment for both own and resold energy services.

³ The major part of the receivables from Novatel E.O.O.D. is the loan granted (HUF 1,569 million).

⁴ The significant part of the balance is the Cash-pool receivable from KalászNet Kft. (HUF 1,198 million).

11 OTHER RECEIVABLES

The Company's other receivables as of December 31, 2014 and 2015 are as follows:

	2014	2015
Roaming discount receivables	1,961	2,029
Tax receivables	899	1,287
Advance payments given	891	1,141
Receivables from dealers	418	792
Receivables from employees	954	717
Receivables from forward deals	291	80
Other	1,427	1,609
Total	6,841	7,655

12 SECURITIES

The amount of HUF 4,507 million includes the book value of Origo Zrt. (HUF 4,200 million) which was reclassified from non-current investments (see Note 6.1) and the cost of the repurchased treasury stock (HUF 307 million).

The number and face value of repurchased treasury stock are detailed in Note 14.



13 ACCRUALS (ASSETS)

	2014	2015
Accrued income from telecommunication activities	29,435	31,650
Accrued income from electricity and gas retail services	4,611	4,568
Accrued income from related parties	2,020	657
Other	1,737	2,279
Accrued income	37,803	39,154
Rental fees and operating costs ¹	1,317	1,307
Prepaid costs and expenses related to electricity and gas retail services	996	233
License fees	550	142
Insurance fees	272	121
Accrued amount of value correction paid related to loans	11	2
Other	267	142
Prepaid costs and expenses	3,413	1,947
Total	41,216	41,101

¹ Rental fees accruals disclosed in 2014 are in Rental fees and operating costs in 2015.

14 SHAREHOLDERS' EQUITY

The Company's owners' structure based on the shareholder registration in the Share Register as of December 31, 2015:

Shareholder	Number of shares	Nominal value (HUF/per share)	Total value (HUF million)	Ownership percentage (%)
Deutsche Telekom Europe B.V.	617,436,759	100	61,744	59.21%
Other foreign companies	209,773,426	100	20,977	20.12%
Domestic companies	77,979,176	100	7,798	7.48%
Domestic and foreign private persons	64,130,839	100	6,413	6.15%
Other (not named and nominees)	73,014,712	100	7,301	7.00%
Government in total	16,769	100	2	0.00%
Repurchased treasury stock	390,862	100	39	0.04%
Total	1,042,742,543		104,274	100.00%

Changes in the equity items between January 1, 2014 and December 31, 2015 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves ¹	Balance Sheet Net Income
Opening balance as of January 1, 2014	104,274	58,952	190,996	1,307	0
Reclassifications	0	0	1,000	-1,000	0
Profit of the year	0	0	0	0	36,735
Balance as of December 31, 2014	104,274	58,952	191,996	307	36,735
Reclassifications	0	0	36,735	0	-36,735
Profit of the year	0	0	0	0	20,393
Dividend	0	0	0	0	-15,635
Balance as of December 31, 2015	104,274	58,952	228,731	307	4,758

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

15 PROVISIONS

Provisions were increased and reversed under the following titles between January 1, 2014 and December 31, 2015:

	Severance payments, employee bonuses	Asset retirement obligation and environmental liabilities	Customer loyalty program	Derivatives	Legal cases	Other	Total
Opening Balance as of January 1, 2014	3,336	6,222	1,606	1,748	744	150	13,806
Increase	2,179	544	953	94	86	441	4,297
Decrease	-1,699	-106	-945	-1,747	-386	-100	-4,983
Closing Balance as of December 31, 2014	3,816	6,660	1,614	95	444	491	13,120
Increase	4,631	534	1,051	808	255	626	7,905
Decrease	-2,099	-252	-628	-46	-96	-455	-3,576
Closing Balance as of December 31, 2015	6,348	6,942	2,037	857	603	662	17,449

16 OTHER NON-CURRENT LOANS

The following is a movement table of other non-current loans between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	4,454	1,574
Drawdown	0	0
Reclassification	-2,969	-1,515
Foreign exchange difference	89	-59
Closing balance	1,574	0

The Company does not have any assets pledged for loans.

17 NON-CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the non-current portion of other related party loans received from Deutsche Telekom Finance B.V and Deutsche Telekom A.G. The following is a movement table of non-current liabilities to other related parties between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	232,562	240,428
Drawdown	105,000	90,107
Reclassification	-98,447	-112,440
Foreign exchange difference	1,313	468
Closing balance	240,428	218,563

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

Maturity	Amount
2017	22,202
2018	15,656
2019	105,000
2020	35,000
2021	40,705
Total	218,563

18 OTHER NON-CURRENT LIABILITIES

This caption mainly contains the non-current part (HUF 71,079 million) of the frequency fees to be paid by the Company until the end of the frequency usage rights term based on the conditions in the Authority Contract related to frequency usage rights concluded with the NMIAH.

In addition this caption contains HUF 1,604 million long term finance lease.

19 CURRENT LOANS

The following is a movement table of current loans between January 1, 2014 and December 31, 2015:

	2014	2015
Opening balance	91,419	43,833
Drawdown	386,375	9,500
Repayment	-437,317	-41,691
Reclassification	2,969	1,515
Foreign exchange difference	387	-91
Closing balance	43,833	13,066

20 ACCOUNTS PAYABLE

The accounts payable as of December 31, 2014 and 2015 contain the following main items:

	2014	2015
Domestic suppliers	46,288	46,852
Foreign suppliers	6,300	8,506
Total	52,588	55,358

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

21 CURRENT LIABILITIES TO RELATED PARTIES

The current liabilities to related parties as of December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Liabilities to T-Systems Magyarország Zrt. ¹	4,830	8,524
Liabilities to Crnogorski Telekom	3,465	3,451
Liabilities to GTS Hungary Kft. ²	0	709
Liabilities to Combridge S.R.L.	699	606
Liabilities to Investel Zrt.	439	443
Liabilities to ViDaNet Zrt.	283	436
Liabilities to Origo Zrt.	259	292
Liabilities to KalászNet Kft.	12	288
Liabilities to Telekom New Media Zrt.	149	279
Other	49	16
Total	10,185	15,044

¹ The increase of liabilities to T-Systems Magyarország Zrt. is mainly due to the increased trading in this company.

² The Company owned the GTS Hungary Kft. with effect from April 1, 2015.

22 CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the short term part of the loans from Deutsche Telekom Finance B.V. and Deutsche Telekom A.G (HUF 112,440 million) and cash-pool liability to Deutsche Telekom A.G (HUF 18,249 million).

The loans by maturity are summarized as follows:

Maturity	Interest	Amount
March 29, 2016	6 months BUBOR + 0.995%	35,000
September 15, 2016	fix 7.6475%	35,000
December 15, 2016	fix 6.08925%	28,418
December 15, 2016	fix 6.15825%	14,022
Total		112,440

Deutsche Telekom AG has expressed its commitment to finance the Company's budgeted financing needs until the end of June, 2017.

23 OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2014 and 2015 are summarized as follows:

	<u>2014</u>	<u>2015</u>
Liability from topping up the universal balance ¹	3,992	6,808
Annual frequency fee ²	7,169	6,009
Liabilities to government ³	6,122	6,006
Discount granted subsequently on roaming traffic	3,586	3,405
Finance lease liabilities	1,023	2,779
Value Added Tax	2,940	1,359
Customer overpayments	1,767	1,329
Liabilities to mobile service providers related to wholesale call termination fees ⁴	0	1,286
Payables to employees and related contributions	934	985
Personal income tax	879	915
Dividends payable for 2015	0	15,635
Other ⁵	612	636
Total	<u>29,024</u>	<u>47,152</u>

¹ The increase in liability from topping up the universal balance is due to that the Company turned to UNIV balance from Telco balance in case of prepaid topping up.

² Contains the sum of frequency fees becoming due within one year based on the conditions in the Authority Contract related to frequency usage rights concluded with the NMAH.

³ In 2015, the main part of liabilities to government is telecommunication tax (HUF 4,061 million) and social contribution (HUF 1,444 million).

⁴ The National Media and Infocommunications Authority of Hungary (NMAH) further reduced the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute. The Company appealed against this decision and applied the higher fees in the invoices after April 1, 2015 in conjunction with the interconnect partners. In addition the Company disclosed both the revenues and expenditures on lower fees. For the items invoiced earlier the difference between the two rates were disclosed as other receivables and other liabilities, the accrued items were disclosed on the lower fee both in accruals on the asset and liability side of the balance sheet. The Company's appeal for restoring the fees was rejected by the court decision on September 24, 2015 and the providers correct retrospectively the invoices with the higher fee. After these corrections the overpayments will be refunded.

⁵ Dividends payable for previous years unsettled financially are disclosed in Other.



24 ACCRUALS (LIABILITIES)

	2014	2015
Deferred subscription and traffic fees	1,949	1,422
Energy	589	272
Deferred revenue from related parties	824	189
Other	950	1,257
Deferred revenue	4,312	3,140
Interest on owners' loans	8,729	6,112
Rental fees	3,420	4,782
Payroll related expenses	3,892	4,644
Expenses related to TV services	2,433	3,566
Accrued expenses to related parties	7,502	3,481
Payments to mobile operators	2,206	2,680
Marketing expenses	1,780	2,367
Maintenance expenses	602	1,717
Commission fees	1,416	1,782
Charges for public utility services	1,918	1,443
Expenses from energy services	2,241	1,092
Consultancy fees	1,002	774
Payment to other fixed line network operators	292	388
Mediated SI/IT services	311	219
Expenses related to value added services and content provision	603	122
Interests	57	4
Other (vendor accruals)	6,278	8,439
Accrued expenses	44,682	43,612
Deferred income	1,078	1,482
Total	50,072	48,234



25 NET DOMESTIC SALES

Net domestic sales in the years ending December 31, 2014 and 2015 were as follows:

	<u>2014</u>	<u>2015</u>
Voice retail	137,049	137,787
Voice wholesale	18,848	8,816
Non-voice	69,351	76,819
Sale of handsets and other devices	35,756	37,064
Other mobile revenues	12,198	16,470
Revenues from mobile services	<u>273,202</u>	<u>276,956</u>
Voice retail	53,297	48,964
Voice wholesale	1,822	1,202
Internet	38,690	43,036
Data	10,643	7,941
TV	32,502	34,500
Sale of handsets and other devices	3,926	6,783
Other fixed line services	6,043	7,515
Revenues from fixed line services	<u>146,923</u>	<u>149,941</u>
System integration and IT revenues	6,054	5,322
Energy revenues	43,303	50,924
Other sales revenues	<u>2,594</u>	<u>4,933</u>
Total net domestic sales	<u><u>472,076</u></u>	<u><u>488,076</u></u>

26 NET EXPORT SALES BY GEOGRAPHICAL AREAS

Net export sales by geographical areas in the years ending December 31, 2014 and 2015 are summarized as follows (sales are solely connected with services provided):

	<u>2014</u>		<u>2015</u>	
	<u></u>	<u>%</u>	<u></u>	<u>%</u>
Europe (inside the EU)	11,584	77.58%	11,941	84.10%
Europe (outside the EU)	1,197	8.02%	1,068	7.52%
Asia	1,121	7.51%	676	4.76%
America	548	3.67%	290	2.05%
Africa	392	2.62%	211	1.48%
Australia	89	0.60%	13	0.09%
Total net export sales	<u><u>14,931</u></u>	<u><u>100.00%</u></u>	<u><u>14,199</u></u>	<u><u>100.00%</u></u>

27 OTHER INCOME

Other income in the years ending December 31, 2014 and 2015 are as follows:

	2014	2015
Default interest, penalties, damage compensations	7,616	8,110
Reversal of provisions ¹	4,983	3,576
Other income from reversal of impairment	2,879	3,449
Discount received subsequently	2,039	2,045
Revenue from sale of intangible and tangible fixed assets	2,151	1,891
Revenue from receivable factoring	660	685
Other	1,804	2,963
Total	<u>22,132</u>	<u>22,719</u>

¹ Details of provisions are disclosed in Note 15.

28 COSTS OF SERVICES

Costs of services in the years ending December 31, 2014 and 2015 are as follows:

	2014	2015
Rental fees	17,254	18,551
Repair and maintenance costs ¹	18,031	18,083
Commissions paid ²	8,361	9,123
Marketing expenses	7,437	9,104
Other services related to revenues	5,160	6,699
Costs of outsourced sales and management services related to business customers	5,640	5,790
Brand license fee ³	1,221	3,996
Property operating costs	2,908	3,673
Payments to international network operators	3,353	3,378
Postage, costs of delivery and storage ⁴	3,289	3,162
Consultancy	4,865	2,733
Expenses of rented workforce and operator activities	1,225	1,590
Database and 'infodok' expenses	402	1,069
Education, training expenses	754	971
Costs of property security and cash transport services	657	669
Travel and accommodation costs	429	491
Administrative services and related costs	675	330
Translation and interpretation fees	108	99
Other ⁵	2,680	3,423
Total	<u>84,449</u>	<u>92,934</u>

¹ Costs of vehicle fleet was disclosed in a separate line in 2014 (HUF 153 million), it is disclosed in this line in 2015.

² Payments to Internet and TV service providers was disclosed in a separate line in 2014 (HUF 644 million), it is disclosed in this line in 2015.

³ The significant increase in brand licence fees is due to the implementation of OneERP system in 2015.

⁴ Costs of delivery and storage was disclosed in a separate line in 2014 (HUF 1,148 million), it is disclosed in this line in 2015.

⁵ Membership fees, copyright payments was disclosed in a separate line in 2014 (HUF 321 million), is disclosed in Other in 2015.

29 COST OF GOODS SOLD

Cost of goods sold in the years of 2014 and 2015 contains the following major items:

	<u>2014</u>	<u>2015</u>
Goods sold ¹	55,426	63,346
Energy ²	32,343	36,759
Other	<u>405</u>	<u>135</u>
Total	<u>88,174</u>	<u>100,240</u>

¹ Contains costs of mobile and fixed devices, accessories and other equipment.

² The increase is due to the increase of electricity and natural gas measuring sites and along with it the consumed quantities are also higher compared to the previous year. This was partially compensated the decrease of purchase prices due to the decrease of world market prices.

30 COSTS OF (MEDIATED) SERVICES SOLD

Costs of mediated services sold in the years ending December 31, 2014 and 2015 are as follows:

	<u>2014</u>	<u>2015</u>
Payment to mobile operators ¹	25,497	16,622
Costs of TV services	13,480	14,224
System usage and other charges related to electricity and gas retail services	9,540	11,155
Costs of content providing and mobile trade services sold	7,321	8,444
Costs of mediated SI/IT services	3,808	4,029
Payment to other fixed line network operators	2,844	2,062
Other	<u>1,197</u>	<u>961</u>
Total	<u>63,687</u>	<u>57,497</u>

¹ The decrease is due to the decision of National Media and Infocommunications Authority of Hungary (NMAH) to further reduce the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute.

32 REMUNERATION OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The compensation granted to members of the Board of Directors and the Supervisory Board of the Company in the years ending December 31, 2014 and 2015 is summarized below:

	<u>2014</u>	<u>2015</u>
Board of Directors	16	16
Supervisory Board	61	63
Total	<u>77</u>	<u>79</u>

The members of the Board of Directors and the Supervisory Board have not received any advance payments or loans in 2015. Loans granted to the members of the Supervisory Board are limited to the employee delegates and had been granted to them in their capacity as employees. The changes in these loans in 2015 were as follows:

	<u>2015</u>
Balance as of December 31, 2014	5
Loans repaid in 2015	-1
Closing balance as of December 31, 2015	<u>4</u>

The loans are repayable monthly, the average remaining payment term is 47 months. Interest rate of loans: 3.63 per cent or free of interest.

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

33 OTHER EXPENSES

Other expenses in the years ending December 31, 2014 and 2015 were as follows:

	<u>2014</u>	<u>2015</u>
Taxes, contributions, fees (Government taxes)	42,664	42,916
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets	15,996	16,430
Provisions ¹	4,297	7,905
Discount granted subsequently on roaming traffic	3,157	2,834
Factored receivables	2,160	1,746
Net book value of fixed assets sold	1,126	938
Write-off of uncollectible receivables	221	186
Other	1,316	1,889
Total	<u>70,937</u>	<u>74,844</u>

¹ Details of provisions are disclosed in Note 15.

34 RESULTS FROM FINANCIAL ACTIVITIES

Results from financial activities in the years ending December 31, 2014 and 2015 were as follows:

	<u>2014</u>	<u>2015</u>
Dividends from Crnogorski Telekom A.D.	5,009	5,090
Dividends from Stonebridge A.D.	19,066	0
Dividends from Telekom New Media Zrt.	406	0
Other	312	405
Dividends and profit sharing (received or due)	24,793	5,495
Interest from related parties	572	1,097
Interest from banks	18	4
Other	59	47
Other interest income received	649	1,148
Realized foreign exchange gain	5,825	11,595
Non-realized foreign exchange gain	2,626	0
Other	324	150
Other income from financial activities	8,775	11,745
Income from financial transactions	34,217	18,388
Interest to Deutsche Telekom	17,454	19,208
Interests to related parties	651	153
Other interests	2,240	664
Interest capitalized	-325	-205
Interest expense	20,020	19,820
Impairment of investments¹	0	-782
Realized foreign exchange loss	8,297	5,599
Non-realized foreign exchange loss	0	1,047
Other	158	4
Other expenses from financial activities	8,455	6,650
Expenses from financial transactions	28,475	25,688
Results from financial activities	5,742	-7,300

¹ Reversal of Origo Zrt. impairment.

35 RESULT FROM EXTRAORDINARY ACTIVITIES

Extraordinary income and expenses in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Extraordinary income		
Income related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	24,831	9,988
- Capital decrease of Crnogorski Telekom	4,065	0
- Result of finished liquidation of MODULTECHNIKA Kft.	4	0
Assets received free of charge	404	104
Development contributions	129	51
Other extraordinary income	299	376
Total	29,732	10,519
Extraordinary expense		
Expenses related to investments in subsidiaries:		
- Capital decrease of Stonebridge A.D.	23,613	10,053
- Book value of capital decrease of Crnogorski Telekom	5,248	0
- Loans forgiven to T-Systems Magyarország Zrt.	2,999	2,900
- Derecognition of Telemacedonia's book value (liquidation)	0	25
Assets contributed and service provided free of charge	958	918
Dimenzió contributions	210	206
Receivables waived	46	165
Other extraordinary expense	87	10
Total	33,161	14,277
Result from extraordinary activities	-3,429	-3,758

Result from extraordinary activities adjusting tax base in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Effect of items in result from extraordinary activities on base of Corporate Income Tax		
Tax base increasing (+)/decreasing (-) items		
Expenses related to investments in subsidiaries		
- Loans forgiven to T-Systems Magyarország Zrt.	2 999	2,900
- Items related to capital decrease and finished liquidation	-3 820	1,670
Assets contributed and service provided free of charge	426	314
Total tax base adjustment items	-395	4,884



36 TRANSACTIONS WITH RELATED PARTIES AND MEMBERS OF DEUTSCHE TELEKOM GROUP

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

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

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

Transactions with related parties and members of Deutsche Telekom Group in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Net domestic sales	472,076	488,076
- of which: related parties	4,291	6,608
- of which: members of Deutsche Telekom Group	3,132	2,237
Net export sales	14,931	14,199
- of which: related parties	893	874
- of which: members of Deutsche Telekom Group	8,219	6,667
Other income	22,132	22,719
- of which: related parties	47	1,014
- of which: members of Deutsche Telekom Group	1,602	2,398
Accounts receivable	48,653	56,384
- of which: members of Deutsche Telekom Group	338	1,184
Other receivables	6,841	7,655
- of which: members of Deutsche Telekom Group	2,004	2,004
Accrued income	37,803	39,154
- of which: members of Deutsche Telekom Group	745	888
Prepaid expenses	3,413	1,947
- of which: members of Deutsche Telekom Group	87	132
Accounts payable	52,588	55,358
- of which: members of Deutsche Telekom Group	641	2,531
Current liabilities to other related parties	106,346	130,689
- of which: members of Deutsche Telekom Group	106,346	130,689
Other current liabilities	29,024	47,152
- of which: members of Deutsche Telekom Group	3,109	12,678
Deferred Income	4,312	3,140
- of which: members of Deutsche Telekom Group	618	938
Accrued expenses	44,682	43,612
- of which: members of Deutsche Telekom Group	10,576	10,319

37 CORPORATE INCOME TAX

The differences between profit before tax and the tax base for the years ending December 31, 2014 and 2015 are presented below:

	2014	2015
Profit before tax	38,452	21,537
Depreciation according to the Act on Accounting	88,825	103,913
Impairment of receivables, recognized impairment in previous year	9,821	9,681
Recognition of provisions	4,297	7,905
Recoverable receivables waived and expired	3,228	2,980
Non-realized foreign exchange difference taken into account in previous years	6,207	2,649
Increase of expenditure and decrease of income discovered by tax audit or self-revision	3,033	1,714
Penalty, sanction	294	611
Non-repayable donations, assets and services given free of charge, assumed liabilities	447	329
Other tax base increasing items	298	487
Tax base increasing items	116,450	130,269
Depreciation according to the Tax Law	-86,591	-100,776
Dividend income	-24,793	-5,495
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	-3,521	-4,358
Reversal of provisions	-4,983	-3,576
Realized gain on disposal of investments	-3,820	-1,580
Decrease of expenditure and increase of income discovered by tax audit or self-revision	-1,431	-1,269
Donations	-2	-2
Non-realized foreign exchange difference	-7,594	0
Other tax base decreasing items	0	-782
Tax base decreasing items	-132,735	-117,838
Tax base	22,167	33,968
Calculated amount of tax	4,167	6,409
Tax credit	-3,917	-5,792
Corporate Income Tax	250	617
Energy suppliers' tax	229	343
Withholding tax paid abroad	1,208	257
Tax liability	1,687	1,217
Tax liability (self-revision)	30	-73
Total tax liability	1,717	1,144

37.1 Information on investment tax credits

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

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

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

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

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

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

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

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

37.2 Other tax related information

Since January 1, 2013 Magyar Telekom Plc. is subject to utility network tax. Owners of ducts, pipes, cables, etc. used for electricity, telecommunication, natural gas, heating, water and wastewater services are subject to a tax based on the length of their utilities. The Company, which is also subject to this tax for the ducts and cables, recognized a utility tax expense of HUF 7,497 million in 2015.

Since July 1, 2012 Magyar Telekom Plc. is subject to telecommunication tax. The telecommunication tax was imposed on SMS/MMS services, as well as on mobile and fixed line telecommunication voice services provided on the telecommunication network. The amount of telecommunication tax was HUF 25,108 million in 2015.

The Tax Authority concluded a comprehensive tax audit for years 2010 and 2012. The tax authorities may at any time inspect the books and records within six years and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

38 DIVIDEND

At the General Meeting held on April 12, 2016, Magyar Telekom Plc. decided on paying dividend of HUF 15 after each shares with nominal values of HUF 100, resulting in a current year's dividend payable of HUF 15,635 million.

HUF 9,262 million is due to the parent company – Deutsche Telekom Europe B.V. – from the approved dividend for the year 2015.

39 OFF-BALANCE SHEET ITEMS

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

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

Off-balance sheet items are detailed in Appendix 4.

40 HAZARDOUS WASTE

The following table shows the movement of hazardous waste at the Company in 2015:

	<u>Hazardous waste (kg)</u>
December 31, 2014	0
Increase:	
Lead batteries	107,561
Other	6,336
Increase in total	113,897
Decrease:	
Lead batteries	-106,633
Other	-4,415
Decrease in total	-111,048
December 31, 2015	2,849

HUF 654 million environmental expenses were recorded in 2014 and HUF 405 million in 2015.

41 RESEARCH & EXPERIMENTAL DEVELOPMENT COSTS

At Magyar Telekom Plc. the research and experimental development costs was HUF 41.7 million as of December 31, 2015.

42 SELF-REVISIONS

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

In 2015, the total of all errors (whether negative or positive) for a given financial year (separately for each year) and the impacts thereof – increasing or decreasing the profit or loss or the equity – do not exceed the value limit set out in the Act on Accounting and in the accounting policy i.e. the 2 per cent of the balance sheet total of the financial year.

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

43 IMPORT PURCHASES

Import purchases by geographical areas in the years ending December 31, 2014 and 2015 are summarized as follows:

	2014			2015		
	Services	Products	Total	Services	Products	Total
Europe (inside EU)	16,738	31,967	48,705	19,604	29,170	48,774
Europe (outside the EU)	1,026	397	1,423	1,197	7,700	8,897
Asia	2,739	1,156	3,895	2,295	1,062	3,357
America	545	143	688	371	14	385
Africa	284	0	284	137	0	137
Australia	37	0	37	12	0	12
Total	21,369	33,663	55,032	23,616	37,946	61,562

During 2015, Magyar Telekom Plc. purchased HUF 37,946 million import products of which less than 20 per cent were recognized as fixed assets, while the rest was goods for resale.

During 2015, the amount of imported services was HUF 23,616 million. 52 per cent of these are included in cost of services, 47 per cent mediated services and the remaining part in other services and other payroll related expenses.

44 REMUNERATION OF AUDITOR

Fees charged by the auditors for the years ending December 31, 2014 and 2015 are summarized as follows:

	2014	2015
Audit	200	232
Other assurance services	173	146
Other non-audit services	171	168
Total	544	546

Budapest, April 12, 2016



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer



APPENDIX 1A
BALANCE SHEET RELATED TO ENERGY SERVICES – ASSETS

data in millions of HUF

	December 31, 2014				December 31, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	825	686	888 215	889 726	583	687	877 565	878 835
I. Intangible assets	560	466	344 755	345 781	458	377	334 285	335 120
3. Rights	560	466	254 507	255 533	458	377	248 609	249 444
4. Intellectual property	0	0	5 941	5 941	0	0	5 816	5 816
5. Goodwill	0	0	83 840	83 840	0	0	79 860	79 860
6. Advance payments on intangible assets	0	0	467	467	0	0	0	0
II. Tangible assets	245	203	372 739	373 187	109	298	378 153	378 560
1. Land and buildings and related rights	211	175	234 031	234 417	97	266	231 605	231 968
- Land	12	10	2 851	2 873	4	10	2 744	2 758
- Buildings	184	153	60 942	61 279	80	220	58 421	58 721
- Telecommunication network	0	0	161 370	161 370	0	0	160 415	160 415
- Other properties	15	12	8 340	8 367	13	36	9 529	9 578
- Real estate related rights	0	0	528	528	0	0	496	496
2. Technical equipment, machinery and vehicles	0	0	100 126	100 126	0	0	101 661	101 661
- Telecommunication equipment and machinery	0	0	98 895	98 895	0	0	100 526	100 526
- Other technical equipment, machinery and vehicles	0	0	1 231	1 231	0	0	1 135	1 135
3. Other equipment and vehicles	31	26	7 555	7 612	12	32	8 483	8 527
5. Construction-in-progress	3	2	31 021	31 026	0	0	36 392	36 392
6. Advance payments on construction-in-progress	0	0	6	6	0	0	12	12
III. Financial investments	20	17	170 721	170 758	16	12	165 127	165 155
1. Non current investments in related parties	0	0	158 843	158 843	0	0	154 792	154 792
5. Other non current loans granted	20	17	11 878	11 915	16	12	10 335	10 363
B. CURRENT ASSETS	2 169	3 089	80 716	85 974	2 726	2 985	90 470	96 181
I. Inventories	0	0	9 828	9 828	0	-1	10 250	10 249
1. Raw materials	0	0	271	271	0	-1	172	171
2. Work in progress and semi-finished products	0	0	15	15	0	0	7	7
5. Goods for resale	0	0	9 542	9 542	0	0	10 071	10 071
II. Receivables	2 160	3 081	67 751	72 992	2 725	2 982	74 872	80 579
1. Accounts receivable	1 946	2 882	43 825	48 653	2 583	2 838	50 963	56 384
2. Receivables from related parties	66	54	17 378	17 498	52	56	16 432	16 540
5. Other receivables	148	145	6 548	6 841	90	88	7 477	7 655
III. Securities	0	0	307	307	0	0	4 507	4 507
1. Investments in related parties	0	0	0	0	0	0	4 200	4 200
3. Treasury stock, quotas	0	0	307	307	0	0	307	307
IV. Liquid assets	9	8	2 830	2 847	1	4	841	846
1. Cash and cheques	1	1	265	267	0	1	159	160
2. Bank deposits	8	7	2 565	2 580	1	3	682	686
C. ACCRUALS	1 621	4 000	35 595	41 216	1 842	2 967	36 292	41 101
1. Accrued income	1 613	2 997	33 193	37 803	1 840	2 728	34 586	39 154
2. Prepaid costs and expenses	8	1 003	2 402	3 413	2	239	1 706	1 947
TOTAL ASSETS	4 615	7 775	1 004 526	1 016 916	5 151	6 639	1 004 327	1 016 117



APPENDIX 1B

BALANCE SHEET RELATED TO ENERGY SERVICES – LIABILITIES

data in millions of HUF

	December 31, 2014				December 31, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
D. SHAREHOLDERS' EQUITY	-4 479	-5 773	402 516	392 264	-4 832	-5 618	407 472	397 022
I. Common stock	0	0	104 274	104 274	0	0	104 274	104 274
- of this treasury stock at par value	0	0	39	39	0	0	39	39
II. Unpaid share capital (-)	0	0	0	0	0	0	0	0
III. Capital reserves	0	0	58 952	58 952	0	0	58 952	58 952
IV. Retained earnings	-3 718	-3 975	199 689	191 996	-4 479	-5 774	238 984	228 731
V. Restricted reserves	0	0	307	307	0	0	307	307
VI. Valuation reserves	0	0	0	0	0	0	0	0
VII. Net income	-761	-1 798	39 294	36 735	-353	156	4 955	4 758
E. PROVISIONS	12	10	13 098	13 120	30	23	17 396	17 449
1. Provision for expected obligations	12	10	13 098	13 120	30	23	17 396	17 449
F. LIABILITIES	2 715	2 250	556 495	561 460	1 789	2 714	548 909	553 412
I. Subordinated liabilities	0	0	0	0	0	0	0	0
II. Non current liabilities	1 087	903	316 701	318 691	328	906	290 012	291 246
5. Other non current loans	6	5	1 563	1 574	0	0	0	0
7. Non current liabilities to other related parties	982	816	238 630	240 428	296	819	217 448	218 563
8. Other non current liabilities	99	82	76 508	76 689	32	87	72 564	72 683
III. Current liabilities	1 628	1 347	239 794	242 769	1 461	1 808	258 897	262 166
1. Current borrowings	0	0	179	179	0	0	176	176
- of this convertible bonds	0	0	0	0	0	0	0	0
2. Current loans	179	149	43 505	43 833	18	49	12 999	13 066
3. Advances received	0	0	614	614	0	0	681	681
4. Accounts payable	508	1 315	50 765	52 588	938	938	53 482	55 358
6. Current liabilities to related parties	23	19	10 143	10 185	7	19	15 018	15 044
7. Current liabilities to other related parties	435	361	105 550	106 346	178	489	130 022	130 689
8. Other current liabilities	483	-497	29 038	29 024	320	313	46 519	47 152
- of this dividends payable	0	0	0	0	0	0	15 635	15 635
G. ACCRUALS	2 258	2 788	45 026	50 072	2 620	2 170	43 444	48 234
1. Deferred revenue	52	540	3 720	4 312	62	211	2 867	3 140
2. Accrued expenses	2 206	2 248	40 228	44 682	2 558	1 959	39 095	43 612
3. Other deferred income	0	0	1 078	1 078	0	0	1 482	1 482
DIFFERENCE BECAUSE OF SEPARATION	4 109	8 500	-12 609	0	5 544	7 350	-12 894	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4 615	7 775	1 004 526	1 016 916	5 151	6 639	1 004 327	1 016 117



APPENDIX 1C
INCOME STATEMENT RELATED TO ENERGY SERVICES

data in HUF millions

	January - December, 2014				January - December, 2015			
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total
1. Net domestic sales	19 516	23 791	428 769	472 076	25 315	25 612	437 149	488 076
2. Net export sales	0	0	14 931	14 931	0	0	14 199	14 199
I. Sales revenues	19 516	23 791	443 700	487 007	25 315	25 612	451 348	502 275
3. Change in self-manufactured inventories	0	0	-47	-47	0	0	-8	-8
4. Capitalised value of self-manufactured assets	24	20	23 976	24 020	37	101	26 802	26 940
II. Own work capitalized	24	20	23 929	23 973	37	101	26 794	26 932
III. Other income	156	318	21 658	22 132	119	106	22 494	22 719
of which: reversal of impairment	0	0	0	0	0	0	3 449	3 449
5. Costs of raw material	46	39	28 299	28 384	40	97	27 269	27 406
6. Costs of services	339	301	83 809	84 449	86	187	92 661	92 934
7. Costs of other services	142	141	9 013	9 296	25	34	8 042	8 101
8. Cost of goods sold	13 896	18 447	55 831	88 174	18 905	17 855	63 480	100 240
9. Costs of (mediated) services sold	4 917	4 623	54 147	63 687	5 672	5 486	46 339	57 497
IV. Material-type expenses	19 340	23 551	231 099	273 990	24 728	23 659	237 791	286 178
10. Salaries and wages	324	269	46 477	47 070	258	199	45 285	45 742
11. Other employee related expenses	41	34	7 058	7 133	42	32	6 801	6 875
12. Employee related contributions	99	82	14 736	14 917	84	65	14 418	14 567
V. Employee related expenses	464	385	68 271	69 120	384	296	66 504	67 184
VI. Depreciation and Amortization	111	92	82 723	82 926	135	122	90 868	91 125
VII. Other expenses	417	1 516	69 004	70 937	480	1 372	72 992	74 844
of which: impairment	193	121	15 682	15 996	28	180	16 222	16 430
A. PROFIT FROM OPERATING ACTIVITIES	-636	-1 415	38 190	36 139	-256	370	32 481	32 595
13. Dividends and profit sharing (received or due)	0	0	24 793	24 793	7	21	5 467	5 495
of which: received from related parties	0	0	24 793	24 793	7	21	5 467	5 495
16. Other interest income received	3	2	644	649	2	4	1 142	1 148
of which: received from related parties	2	2	568	572	1	2	472	475
17. Other income from financial activities	253	147	8 375	8 775	323	197	11 225	11 745
VIII. Income from financial transactions	256	149	33 812	34 217	332	222	17 834	18 388
19. Interest expense	83	69	19 868	20 020	27	74	19 719	19 820
of which: to related parties	3	2	646	651	0	1	152	153
to other related party	71	59	17 324	17 454	26	72	19 110	19 208
20. Impairment of investments, securities and bank deposits	0	0	0	0	0	0	-782	-782
21. Other expenses on financial transactions	159	348	7 948	8 455	207	210	6 233	6 650
IX. Expenses from financial transactions	242	417	27 816	28 475	234	284	25 170	25 688
B. RESULT FROM FINANCIAL TRANSACTIONS	14	-268	5 996	5 742	98	-62	-7 336	-7 300
C. PROFIT FROM ORDINARY ACTIVITIES	-622	-1 683	44 186	41 881	-158	308	25 145	25 295
X. Extraordinary income	0	0	29 732	29 732	0	1	10 518	10 519
XI. Extraordinary expenses	14	11	33 136	33 161	0	1	14 276	14 277
D. RESULT FROM EXTRAORDINARY ACTIVITIES	-14	-11	-3 404	-3 429	0	0	-3 758	-3 758
E. PROFIT BEFORE TAXES	-636	-1 694	40 782	38 452	-158	308	21 387	21 537
XII. Corporate income tax	125	104	1 488	1 717	195	152	797	1 144
F. NET INCOME	-761	-1 798	39 294	36 735	-353	156	20 590	20 393
22. Use of retained earnings for dividends	0	0	0	0	0	0	0	0
23. Dividend paid (approved)	0	0	0	0	0	0	15 635	15 635
G. BALANCE SHEET NET INCOME	-761	-1 798	39 294	36 735	-353	156	4 955	4 758

APPENDIX 1D
GAS-ENGINE SMALL POWER PLANT

data in HUF millions

	2014	2015
Technical equipment, machinery and vehicles	265	224
Net domestic sales	5	2
Costs of raw material	72	60
Costs of services	51	56
Salaries and wages	6	6
Employee related contributions	2	2
Depreciation and Amortization	41	41
Other expenses	4	4

APPENDIX 2A
 LAND AND BUILDINGS AND RELATED RIGHTS

Description	(in HUF millions)					
	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value						
11. Opening gross value (on January 1, 2015)	2 873	90 387	358 108	16 473	4 399	472 240
12. Additions	8	3 547	14 965	1 093	89	19 702
13. Disposals	-109	-1 741	-6 399	-206	-27	-8 482
14. Reclassifications	-14	-2 430	10 872	834	-54	9 208
15. Closing gross value (on December 31, 2015)	2 758	89 763	377 546	18 194	4 407	492 668
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2015)	0	29 108	196 738	8 106	3 871	237 823
22. Annual depreciation	0	2 539	14 263	466	118	17 386
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	0	-853	-3 841	-136	-24	-4 854
25. Reclassifications	0	248	9 971	180	-54	10 345
26. Closing depreciation (on December 31, 2015)	0	31 042	217 131	8 616	3 911	260 700
3. Net book value (on December 31, 2015)	2 758	58 721	160 415	9 578	496	231 968
Of which residual value	0	178	0	5	0	183

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

Description	(in HUF millions)					
	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
1. Gross value						
11. Opening gross value (on January 1, 2015)	582 026	4 791	586 817	57 092	643 909	33
12. Additions	35 347	127	35 474	4 054	39 528	0
13. Disposals	-94 530	-454	-94 984	-6 825	-101 809	0
14. Reclassifications	-13 020	97	-12 923	1 022	-11 901	0
15. Closing gross value (on December 31, 2015)	509 823	4 561	514 384	55 343	569 727	33
2. Accumulated depreciation						
21. Opening depreciation (on January 1, 2015)	483 131	3 560	486 691	49 480	536 171	33
22. Annual depreciation	30 522	177	30 699	3 277	33 976	0
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals	-91 984	-374	-92 358	-6 744	-99 102	0
25. Reclassifications	-12 372	63	-12 309	803	-11 506	0
26. Closing depreciation (on December 31, 2015)	409 297	3 426	412 723	46 816	459 539	33
3. Net book value (on December 31, 2015)	100 526	1 135	101 661	8 527	110 188	0
Of which residual value	2 594	716	3 310	90	3 400	0

APPENDIX 3
DIRECT INVESTMENTS OF MAGYAR TELEKOM PLC.

(in HUF millions)

Company	Headquarter	Ownership Direct (%)	Ownership Indirect (%)	Ownership Direct and Indirect (%)	Voting Rights (%)	Common Stock	Reserves	Net Income	Equity
Combridge S.R.L. ¹	Sf. Gheorghe, Viitorului 24, 7 C 16	100.00%		100.00%	100.00%	2 063	522	315	2 900
Comuniqué Kft.	1133 Budapest, Hegedűs Gyula u. 83-87.	100.00%		100.00%	100.00%	25	128	140	293
Crnogorski Telekom AD, Podgorica ¹	Moskvska 29, Podgorica 81000, Montenegro	76.53%		76.53%	76.53%	38 782	1 071	4 967	44 820
E2 Hungary Zrt. ²	1013 Budapest, Krisztina körút 55.	50.00%		50.00%	50.00%	200	1 800	-72	1 928
GTS Hungary Kft.	2040 Budaörs, Ipartelep utca 13-15.	100.00%		100.00%	100.00%	2 043	6 034	1 355	9 432
Investel Zrt.	1013 Budaörs, Krisztina krt. 55.	100.00%		100.00%	100.00%	1 113	206	0	1 319
ISH Kft.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	3	18	0	21
KalászNet Kábel TV Kft.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	200	749	-127	822
KIBU Innováció Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	40	3	-46	-3
Novatel E.O.O.D. 1	1680 Sofia, Bulgaria Blvd 98, building Astra, entrance D, fl. 3, office 5G	100.00%		100.00%	100.00%	1 770	-65	9	1 714
Origo Zrt.	1037 Budapest, Montevideo utca 9.	100.00%		100.00%	100.00%	300	765	-117	948
Stonebridge Communications AD.1	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	61 292	0	6 543	67 835
TeleData Kft.	2040 Budaörs, Baross u. 89.	50.99%		50.99%	50.99%	1	2	0	3
Telekom New Media Zrt.	1222 Budapest Nagytétényi út 29.	100.00%		100.00%	100.00%	670	29	56	755
T-Systems Magyarorszag Zrt.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	2 002	17 842	1 629	21 473
ViDaNet Zrt.	9024 Győr, Orgona utca 10.	67.50%	22.50%	90.00%	49.995%	2 000	5 020	1 176	8 196

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

¹ The equity figures of foreign subsidiaries are based on IFRS reports and were translated using foreign exchange rates as of December 31, 2015.

² E2 Hungary Kft. started its operations on January 1, 2016.

APPENDIX 4/1 OFF-BALANCE SHEET ITEMS

Off-balance Sheet Liabilities

(HUF million)

	Total
Guarantee obligation	11 279
Commitment for capital expenditure and other developments	3 794
Commitment for capital expenditure with related parties	188
Environmental protection, restoration and other obligations	240
Commitment for acquisition	13

Forward and swap deals

Open swap F/X deals on December 31, 2015 were contracted on the OTC market with the original aim of delivery

ID	Date	Off-balance sheet liability (HUF million)	Off-balance sheet receivable	Value date	Exchange rate	Fair value (Profit+ / Loss) (HUF million)
DTAG_20110711_50 mEUR	07.06.2011	-13 250	EUR 50 000 000	11.20.2018	265.00	4 505
DTAG_20110711_23 mEUR	07.06.2011	-6 095	EUR 23 000 000	05.19.2017	265.00	1 772
DTAG_2015_130 mEUR	05.22.2015	-40 625	EUR 1 30 000 000	01.18.2021	312.50	-729
2013 K&H swap	05.15.2013	-1 475	EUR 15 000 000	05.17.2016	295.00	79 ¹
Total		-61 445	Total EUR 218 000 000			5 627

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



APPENDIX 4/2
OFF-BALANCE SHEET ITEMS

Open forward F/X deals on December 31, 2015 were contracted on the OTC market with the original aim of delivery

ID	Date	Off-balance sheet liability on strike price (HUF millions)	F/X (original)	Off-balance sheet receivable	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1X5001444	03.12.2015	-2 653	EUR	8 610 000	02.29.2016	308.23	48
1X5002651	05.19.2015	-1 540	EUR	5 000 000	03.07.2016	308.02	29
1X5002657	05.19.2015	-1 544	EUR	5 000 000	04.04.2016	308.79	27
1X5002661	05.19.2015	-1 540	EUR	5 000 000	03.21.2016	308.07	30
1X5002665	05.19.2015	-1 547	EUR	5 000 000	04.20.2016	309.39	25
1X5003452	07.01.2015	-1 106	EUR	3 500 000	01.04.2016	315.89	-10 ²
1X5003456	07.01.2015	-1 110	EUR	3 500 000	05.02.2016	317.12	-9 ²
1X5003460	07.01.2015	-1 270	EUR	4 000 000	05.23.2016	317.38	-10 ²
1X5003464	07.01.2015	-1 264	EUR	4 000 000	01.25.2016	316.07	-10 ²
1X5004045	08.04.2015	-896	EUR	2 900 000	01.20.2016	309.09	12
1X5004047	08.04.2015	-804	EUR	2 600 000	02.22.2016	309.38	11
1X5004049	08.04.2015	-650	EUR	2 100 000	03.21.2016	309.70	9
1X5004051	08.04.2015	-961	EUR	3 100 000	04.20.2016	310.07	13
1X5004053	08.04.2015	-747	EUR	2 400 000	07.20.2016	311.10	10
1X5005331	10.19.2015	-497	EUR	1 600 000	03.18.2016	310.57	6
1X5005333	10.19.2015	-623	EUR	2 000 000	06.20.2016	311.30	8
1X5005335	10.19.2015	-562	EUR	1 800 000	09.20.2016	312.12	7
1X5005337	10.19.2015	-906	EUR	2 900 000	10.20.2016	312.41	12
1X5005619	11.06.2015	-2 203	EUR	7 000 000	01.18.2016	314.66	-9 ²
1X5005830	11.23.2015	-312	EUR	1 000 000	03.18.2016	312.07	2
1X5005832	11.23.2015	-312	EUR	1 000 000	02.19.2016	311.77	2
1X5005834	11.23.2015	-343	EUR	1 100 000	01.20.2016	311.48	2
1X5005849	11.23.2015	-2 181	EUR	7 000 000	02.03.2016	311.62	14
1X5005851	11.23.2015	-1 246	EUR	4 000 000	01.27.2016	311.56	8
1X5005859	11.23.2015	-644	USD	2 200 000	01.04.2016	292.87	-14 ²
1X5006464	12.18.2015	-1 586	EUR	5 000 000	07.25.2016	317.19	-8 ²
1X5006466	12.18.2015	-1 588	EUR	5 000 000	08.22.2016	317.58	-8 ²
1X5006468	12.18.2015	-1 591	EUR	5 000 000	09.26.2016	318.11	-9 ²
1X5006470	12.18.2015	-1 593	EUR	5 000 000	10.24.2016	318.52	-9 ²
1X5006472	12.18.2015	-1 595	EUR	5 000 000	11.14.2016	318.98	-10 ²
1X5006474	12.18.2015	-1 596	EUR	5 000 000	11.28.2016	319.25	-10 ²
1X5006476	12.18.2015	-1 597	EUR	5 000 000	12.12.2016	319.44	-10 ²
Total				Total EUR 121 110 000			149
				Total USD 2 200 000			
Total							-38 607

² Expected, financially not realized amounts of negative differences are recognized as provisions.



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

INTRODUCTION

The Company's activities are described in Notes to the Financial Statements (1.2 The Company's area of activity), while the business report provides additional information on the following topics:

- THE COMPANY'S SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES
- CORPORATE GOVERNANCE
- HUMAN POLICY
- COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD, AND MANAGEMENT COMMITTEE
- RESEARCH AND DEVELOPMENT
- REAL ESTATE, SITES OF OPERATION
- SUSTAINABILITY
- ENVIRONMENT PROTECTION
- CORPORATE COMPLIANCE
- ECONOMIC ENVIRONMENT
- TARGETS AND STRATEGY
- RISKS AND UNCERTAINTIES
- ANALYSIS OF FINANCIAL RESULTS FOR 2015
- SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

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

As of December 31, 2015, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in the Articles of Association Section 2 (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). Information concerning our ownership structure as of December 31, 2015 is described in the following table:

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

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

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

1.1 Voting Rights and Voting

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

1.2 Transfer of Shares

For the transfer of dematerialized share a contract for transfer or other legal title is required and, in that context, the transferor's



securities account shall be debited and the new holder's securities account shall be credited with the transferred dematerialized shares. The holder of dematerialized share shall be considered the holder of the securities account on which the dematerialized shares are recorded.

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

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

The General Meeting has the exclusive right to approve and amend the Articles of Association (section 5.2. (a)) unless otherwise provided by law or the Articles of Association. According to the Articles of Association, the Board of Directors is entitled to make decisions regarding any change in the sites, branch offices and – except for the main activity – the scope of activities of the Company and in relation to this, to modify the Articles of Association (section 6.4.(p)).

2.2 Board of Directors

The detailed rules on the scope of authorities and operation of the Board of Directors are detailed in 6.4 of the Articles of Association and in the Rules of Procedure of the Board of Directors

(http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 5.2 (b) and (p) as well as 6.4. (l) and (m) of the Articles of Association. The General Meeting by its Resolution No. 8/2015 (IV.15.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of the resolution. See the detailed description of the authorization on the General Meetings section of our website.

Under Hungarian laws, the Board of Directors is responsible for all matters relating to the Company's management and course of business not otherwise reserved to the General Meeting or to other corporate bodies by the Articles of Association or by the Hungarian laws. The Board of Directors draws up, at the end of each business year, a report for the General Meeting and quarterly to the Supervisory Board on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.

Pursuant to the Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. On December 31, 2015, there were eight members of the Board of Directors.

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



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

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

The members' assignment lasts until May 31, 2016.

2.3 Management Committee

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000. The Management Committee carries out its activities based on its Rules of Procedure approved by the Board of Directors, which is available on the Company's website (http://www.telekom.hu/about_us/investor_relations/corporate_governance/management_committee).

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

On December 31, 2015, the members of the Management Committee and the years of their original election were as follows:

<u>Name</u>	<u>Born</u>	<u>Current position</u>	<u>Member since</u>
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
András Gyenes*	1969	Chief Commercial Officer Residential	2015
János Szabó	1961	Chief Financial Officer	2013
Dr. Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Tibor Rékasi.....	1973	Chief Commercial Officer Enterprise, Chief Executive Officer of T-Systems Hungary Ltd.	2013
Éva Somorjai.....	1966	Chief Human Resources Officer	2007
Walter Goldenits.....	1970	Chief Technology and IT Officer	2013
Péter Lakatos.....	1975	Chief Commercial Officer SMB	2013

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

2.4 Supervisory Board

The Supervisory Board carries out its activities based on Section 7 of the Articles of Association and its Rules of Procedure approved by the General Meeting (http://www.telekom.hu/static/sw/download/SB_RulesofProcedure_20150415.pdf). The Supervisory Board shall examine all submissions to be submitted to the General Meeting and present its opinion thereof at the General Meeting. The General Meeting may pass a resolution on a report pursuant to the Accounting Act and the use of the profit after income tax only upon receipt of the written report of the Supervisory Board. The Supervisory Board makes a proposal directly to the General Meeting regarding the election, remuneration and removal of the Statutory Auditor.



Pursuant to the Company's Articles of Association, the Supervisory Board consists of a minimum of three and a maximum of fifteen members elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. The Central Workers' Council of Magyar Telekom nominates one-third of the Supervisory Board members (employee representatives). Meetings of the Supervisory Board have a quorum if two-thirds of its elected members but at least 3 members are present.

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

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

The members' assignment lasts until May 31, 2016.

2.5 Audit Committee

The Audit Committee executes its duties pursuant to the Articles of Association Section 7.8, and its own Rules of Procedure (http://www.telekom.hu/static/sw/download/AC_Rules_of_Procedure_03_12_2015.pdf). The members of the Audit Committee have been elected by the General Meeting from the independent members of the Supervisory Board for the same period as their membership in the Supervisory Board.

On December 31, 2015, the members of the Audit Committee were as follows:

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

2.6 Remuneration and Nomination Committee

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

The Remuneration and Nomination Committee is established by the Board of Directors of the Company to function as supporting body

of the Board of Directors of the Company regarding the remuneration and certain nomination related issues of the members of the corporate bodies and the top executives of the Company in accordance with the Rules of Procedure.

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

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

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

On December 31, 2015, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Ralph Rentschler
- Frank Odzuck
- Thilo Kusch

2.7 Corporate Governance and Management Report

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

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

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

The Corporate Governance Declaration on the Compliance with the Corporate Governance Recommendations, and regarding certain questions the possible alterations and their explanations are included in the report. Sections 1 to 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Section 6 of the report includes a description of the internal controls and risk management procedures, while Section 8 of the report describes our disclosure policies and insider trading guidelines.

The Board of Directors, through the internal audit area, carried out an evaluation of the Company's disclosure processes in 2015 again. Based on the evaluation, the disclosure controls and procedures of the Company were effective and designed to ensure a proper basis for the timely and accurate disclosures to the market participants required under the respective accounting, capital markets and company law regulations.

3 HUMAN POLICY

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

3.1 Human strategy from the Company's aspect

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

3.2 Human strategy from the employees' aspect

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

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

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

- Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and offers an attractive perspective in the labor market through its future oriented methods of work. We are going to be among the “Top 3 Best Employer” and “Top 5 Most Desired Employer” in Hungary through the more powerful use of social media solutions in brand building.
- Selection – we create a diverse workplace where we treat every applicant as a customer and offer experience for them. We strive to maintain the healthy level of internal succession rate and encourage atypical staffing. We also plan to increase the ratio of women in management to 30%.
- Agreements – we establish transparent, flexible and reliable frameworks of conditions, and provide solutions - with the help of digital applications - that are transparent and widely accessible. We maintain a balanced partnership with employee representative bodies and identical contracts will be concluded with people in identical employment pools.
- Orientation – we make our new colleagues real members of the team by sharing our knowledge, culture and experience with them, rendering knowledge sharing efficient through the use of digital methods. Our Orientation Program has been renewed in order to have an informative and efficient event for the new employees. Our Orientation Program is also supported by online solutions. We introduce various programs to facilitate assimilation into the corporate culture.
- Remuneration – We retain our competitive edge in the market with our total compensation package and we are forerunners in the market with our innovations in compensation methods. We have introduced a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.
- Training development, organizational development – our qualified employees provide us a competitive edge and we render our employees even more competitive through our training programs. We increasingly apply collaborative digital tools in the course of training.
- Work/life balance – Our energized employees make us successful and we provide our employees more opportunities to consciously manage their work/life balance. We are going to introduce a complex stress management that helps preserving mental and physical condition of our employees.
- Fair dismissal – when we dismiss an employee, we do it in a fair manner and also ensure several employment alternatives. We make it clear for employees that retaining one's marketability is one's own responsibility.

The principles of justice and equal footing are set out in the basic standards articulated in our Code of Ethics published in 1997. Alternative forms of employment like telework, part-time work, flex-work, employment of disabled persons provide possibilities for the



practical implementation of the principle of equal footing.

3.3 Headcount

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

	At December 31,		
	2013	2014	2015
Magyar Telekom Plc.	7,359	7,046	6,670

3.4 Total Workforce Management

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

3.5 Workforce Reduction and Redeployment

Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling, the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

In order to simplify and streamline its organization, Magyar Telekom has already implemented several integration steps. The merger of T-Mobile Hungary in 2006, the merger of Emitel and the access business line of T-Online in 2007, and the merger of T-Kábel and Dél-Vonal in 2009, into the parent company enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Company. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management reached an agreement with the trade unions in July 2014.

According to the terms of the agreement, the Company plans to make maximum 1,700 employees redundant, which was decreased by 100 heads in line with the agreement of June, 2015 as an offset for the termination of certain fringe benefits. Actual headcount decrease is 1450 heads, out of which 42% terminated between October, 2014 – March, 2015, 20 % between April – December, 2015, and 36% after January, 1, 2016, while 2% will terminate until the end of the year. Total severance expenses related to the 2-year headcount reduction programme is approximately HUF 10,5 billion.

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

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



3.6 Employee Representation and Labor Relations

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszervezet, MATÁSZ). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the collective bargaining agreement must be renegotiated annually. If the employment is terminated due to reasons related to the employer's operation, employees are entitled to a specific amount of severance pay surplus, which depends on the tenure of the employee.

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

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

Under the Act V of 2013 on the Civil Code one third of the Supervisory Board shall consist of employee representatives. The employee representatives in the Supervisory Board are nominated by the Central Workers' Council considering the opinion of the trade unions operating at the Company. Persons nominated by the Central Workers' Council shall be elected by the General Meeting to the member of the Supervisory Board, except if disqualifications exist in respect of the nominated persons. On December 31, 2015, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Óz and Attila Bujdosó.

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

3.7 Pensions and Benefit Programs

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

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's Board of Directors), discount holiday facilities and other fringe benefits. In addition to our statutory contributions to governmental health, retirement and unemployment schemes, we contribute to the employees' voluntary pension fund and supplementary benefits fund, which provide private pension and health insurance benefits supplementing government pension and health benefits. We do not, however, guarantee payment by the fund to its members. At December 31, 2015 approximately 62% of employees of Magyar Telekom Plc. participated in the pension-, 42% in the self-aid-, and 59% in the health fund.

3.8 Human rights

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

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

Magyar Telekom strives to ensure equal chances for its employees, and to improve the situation of certain underprivileged employee groups. As part of this effort, from 2008 Magyar Telekom have accepted Equal Opportunities plans valid for periods of several years.



Currently the Equal Opportunities Plan III is in force, which determined guiding principles and an action plan for the 2013-2015 period. In addition, Magyar Telekom is open to join similar government, business and civil initiatives in order to achieve equal social opportunities.

Equal Opportunities Plan III:

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

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

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

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

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

The aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 16 million in 2015.

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

The total compensation expenses (including social security and other payroll-related taxes as well as contractual termination expenses) of the members of the Management Committee (MC) was HUF 1,568 million in 2015.

On December 31, 2015, three of the eight MC members have an employment contract with fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the absence fee received for the remaining period is up to 12 months. The notice period is two months for three of the five indefinite contracts, and six months for the remaining two contracts. For two contracts the severance payment is in accordance with the Labour Code and the Collective Agreement, for the rest of the contracts the severance payment is between 3 and 16 months.

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

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

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

5 RESEARCH AND DEVELOPMENT

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

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

In 2015 we continued the development, maintenance and preparation of the sales activities of the grant project titled "Magyar Telekom Plc.'s Healthcare Mobile Service R&D" (HCM project) which was completed in 2014. Within the R&D project, the Company worked on the development of an e-Health platform which connects various mobile-based health services designed for citizens. Due to the development the patients can sign up and prepare themselves for examinations using their mobile equipment. The solution has various other features helping everyday information-transfers and administration.

Based on the results and experiences gained in the HCM project, an intelligent patient flow monitoring and resource allocation solution has also been developed. This system - namely MediQue - is unique in real time patient flow monitoring and supports health care procedure optimization in hospital environment.

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

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

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

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

Besides the above, the Company exploits synergies resulting from its internal and external knowledge base, and takes efforts to establish partnerships with well-known innovation centers and institutions of university education. Our main partners are renowned Hungarian universities, research institutes such as Budapest University of Technology and Economics, Corvinus University of Budapest, University of Szeged, University of Debrecen, and the Hungarian Academy of Sciences.

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

In 2015, the Company participated as a supporting member of the National Research Program "Internet of the future" led by the University of Debrecen.

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

6 REAL ESTATE, SITES OF OPERATION

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

**6.1 The registered office of the Company:**

- 1013 Budapest, Krisztina krt. 55.

6.2 Sites of the Company:

- 1117 Budapest, Magyar tudósok krt. 9.
- 1073 Budapest, Dob u. 76-78.
- 1051 Budapest, Petőfi Sándor u. 17-19.
- 1117 Budapest, Kaposvár u. 5-7.
- 1117 Budapest, Budafoki u. 103-107.
- 1107 Budapest, Száva u. 3-5.
- 1117 Budapest, Szerémi út 4.
- 1117 Budapest, Budafoki út 56.
- 1106 Budapest, Örs vezér tere 25. 1. em.
- 1106 Budapest, Örs vezér tere 25. mélyföldszint
- 1138 Budapest, Váci út 178.
- 1195 Budapest, Üllői út 201.
- 1191 Budapest, Vak Bottyán u. 75. a-c.
- 1024 Budapest, Lövőház u. 2-6. 2. em.
- 1024 Budapest, Lövőház u. 2-6. fszt.
- 1123 Budapest, Alkotás út 53.
- 1152 Budapest, Szentmihályi út 131.
- 1062 Budapest, Váci út 1-3.
- 1117 Budapest, Október huszonharmadika utca 8-10.
- 1119 Budapest, Fehérvári út 79.

The number of sites used by Magyar Telekom Plc. is 2,340, out of which 21% are owned by the Company, 41% jointly owned and 38% leased. These figures include the sites used for technology, offices, shops, and other, but do not include the number of mobile technology sites. We have 3,770 mobile technology sites, of which 5 % is owned by Magyar Telekom Plc. and 95% is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2015 was 566,734 m². The majority of sites used in our operations are smaller than 100 m². The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m².

7 SUSTAINABILITY

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

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

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

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

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

7.1 Sustainability strategy

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

We wish to achieve the above by identifying risks and opportunities, relying upon our performance so far, along the directions set by investor assessments and during the past three years, communicating our commitment to our stakeholders even more intensively, setting new and ambitious goals, following best practices, as well as by strong and well-targeted communication.

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

- Brand management: our goal is to raise awareness of the concept of sustainability and to enhance the sustainability perception of Magyar Telekom.
 - Awareness of the concept of sustainability: KPI: public: 20%, employees: 80%
 - Magyar Telekom's sustainability perception: KPI: 10% of the public, 60% of the employees name Telekom as the most sustainable company
- Innovation management: our goal is to increase innovations aimed for society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to ensure carbon-neutral operation
- Supplier standards: our goal is to develop a regulated sustainable supplier chain management process.
- Effects of telecommunication services: our goal is to increase the ratio of sustainable products and services, and to keep our customers informed, as well as to increase revenue from services of sustainable nature, KPI: 20% of annual sales.

Main achievements in the context of the strategy

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

- According to the Dow Jones Sustainability Index (DJSI), in 2012, we scored 72, which put us in the top third globally. According to the assessment by Oekom Research, Magyar Telekom is third in international comparison globally, on a list of the world's 108 telecommunication companies assessed along sustainability aspects, and is only preceded by its mother company Deutsche Telekom, and BT Group.
- Awards and recognitions achieved in 2015:
 - CEERIUS sustainability index membership (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
 - Oekom responsible investor assessment: Prime category (recommended for responsible investors) (http://www.telekom.hu/about_us/investor_relations/magyar_telekom_shares/achievements)
 - Family-friendly Company 2015 (http://www.telekom.hu/about_us/press_room/press_releases/2015/may_18)
 - Biker-friendly Workplace 2015 (<http://kmsz.hu/2015/05/23/kiosztottak-a-kerekparosbarat-telepules-es-munkahely-dijakat>)
 - Most creative good deed award: Magyar Telekom Plc. - Szépmű Project (<https://www.profession.hu/cikk/20150127/jo-cselekedet-dijaztak-a-jotettek/5041>)
 - Energy Efficient Company – T-Systems Hungary Plc. (<http://www.t-systems.hu/news-and-media/news/t-systems-hungary-won-the-energy-efficient-company-title-again>)

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

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

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

7.2 Initiatives concerning stakeholders

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

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

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

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

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

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

In 2015, we continued to sensitize our employees to social issues by organizing volunteer work events. Those interested could join our volunteer efforts as part of the Telekom Smart Digital programs, as well as at the Pilis forest and the T-Shops. The cause of employees' volunteer work was also furthered by charitable teambuilding exercises. In 2015, 649 colleagues worked 4,412 hours of volunteer work, by means of which a theoretical amount of HUF 21.7 million was thus donated to the society.

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

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

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

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

We launched the "hello holnap!" mobile app on September 27, 2014, by which we drew attention to Telekom's sustainability efforts in particular and sustainable lifestyles in general. By using the app, users can collect "hello holnap!" points and donate them, converted into real money by Telekom, to non-governmental organizations of their choice. The success of the mobile application in 2015 is best represented by the fact that it has 6,000 users and it is one of the most popular Telekom applications.

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

year, for the first time, blogs of responsible thinkers were also awarded.

One pillar of atypical staffing is telework, which is one of the most important sustainability aspects of the Future Work project. Working from home in the framework of the project launched in July 2014 enabled the Company's employees to save time and mileage. Thus, drivers can relieve the environment of as much as one million kilometers and five years of travel.

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

7.3 Annual Sustainability Report

Magyar Telekom has committed, among other things, to publish reports about its sustainability performance annually. Since 2004, these reports have always summarized the Company's operation, activities and achievements along the principles of sustainability. When the reports are compiled the GRI (Global Reporting Initiative) guidelines are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. Since 2007 Magyar Telekom has prepared reports adhering to the highest level of compliance with international standards each year, thus the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 Sustainability Report was compiled along the new Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4). It was applied on comprehensive level and includes more information about the Company's sustainability performance. The independent assurance and certification of compliance with the GRI G4 criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard.

Further details on the sustainability performance of the Company can be found in the annual reports available on:
https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

8 ENVIRONMENT PROTECTION

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

8.1 Environment and climate protection performance

In 2015, Magyar Telekom procured 209 GWhs of electric power from renewing resources, which is 100% of the Company's total electric power consumption. The 5-year strategy sets forth the objective of sustaining a green energy consumption level of at least 46 GWhs per year.

In spring 2015, we relaunched TeleBike, Magyar Telekom's employee bike rental system. In 2015, TeleBike offered 53 regular bikes and six electric bikes, which were added to the fleet in 2014. Employees can commute between six sites, the offices of the Company located in Budapest and the sites of T-Systems Magyarország Zrt. In 2015, TeleBike had 1,588 registered users and 8,502 rents. During the year 15,226 kms were ridden and due the system 2,862 kg CO₂ emission was eliminated.

We introduced a bonus-malus system based on compliance with or deviation from average emission values of benefit cars. We spent 50% of the amount collected as malus payment by users of cars with emissions above the reference values on decreasing our CO₂ footprint. One of our objectives for 2015 was that we operate as a carbon neutral company. To this end we purchase electric power from power plants that use renewable energy sources and we entirely carbon-neutralized our fossil energy consumption footprint. With this we achieved that we are the first carbon neutral major enterprise in Hungary.

In 2015 Magyar Telekom continued its efforts to operate as an energy effective company. These days instead of solutions that would represent a huge leap forward, the aggregate of several smaller transformation and caring projects may jointly help us to further reduce energy consumption. Our proven ventilation technology has been upgraded this year. We implemented the so-called wardrobe

type equipment thereby reduced the operation time of air-conditioners in order to save electric energy. Currently the main objective is to fine-tune the existing solutions. But new solutions are also implemented as a result of the global PSTN (Public Switched Telephone Network) replacement project. With this we take a huge step forward in the field of air conditioner replacement (reducing R22 gas consumption) and we implement lower performance power supply equipment as well. We have replaced our power supply equipment in several huge machine rooms; the improved efficiency rate resulted in millions of savings. A similar magnitude of savings is generated by the replacement of hundreds of smaller power supply units. We continued the merge of fixed line and mobile power supply operations at specific sites. Due to lower consumption we reduced our forecast electricity demand at our service provider. Smart cooling technology also develops quickly and it brings continuous results. This year we also replaced several boilers. The increase of the temperature of machine rooms is managed as a global project from containers to entire exchanges, regardless of their size. The use of temperature resistant accumulators and accumulator coating is a preparatory phase of the project. As a pilot project we equipped four buildings with LED lighting. We also take care of saving water: We installed perlators in various premises. The investment in this equipment may return within a period of six months. This represents almost 1 million HUF saving per year. For us, the decrease of energy consumption is a global project. We strive to reduce energy consumption directly or indirectly within the frame of every development. This will result in lower consumption figures in the long run.

9 CORPORATE COMPLIANCE

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

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

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

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

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

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

In 2015 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Nyrt. Based on the results of the survey, a comprehensive audit was prepared for the potential compliance and abuse risks, the result of which was submitted to the Audit Committee of the Company.

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

10 ECONOMIC ENVIRONMENT

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

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile has started to follow this trend with stagnant customer base and lower prices. The fixed market is characterized by fixed-mobile integrated bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition is fueled by the government's Partnership for Digital Hungary program. The extensive development program aims to cover every household in Hungary with high-speed internet (HSI > 30 Mbit/s) access until the end of 2018. The digitalization of technology, services and education are key pillars of the country's competitiveness and the quality of life of its citizens.

In parallel with the fixed network developments, 3G and LTE network expansion is accelerated by competition and an increasing availability of mobile frequencies. Meanwhile the mobile voice market is characterized by increasing ratio of flat rate packages; the appearance of new market players is expected with some impact on the market in mid-term especially on mobile data. There is a fierce competition in broadband and content services and the battle for customer contracts has shifted from prices to quality in communication, especially focusing on network coverage and speed. The mobile broadband uptake still fuels the overall mobile market. However, the increasing regulation, in particular the abolishment of roaming fees and the decrease in mobile termination rates, is putting further pressure on market players.

The economic recovery in 2015 had a positive effect on the households. Despite the increasing household budget, prices will not reach pre-crisis levels. We expect a slowly improving economic environment for 2016. However, operators can find ways to exploit higher household spending – with cross-sell and up-sell opportunities. We expect that the new core segments, especially mobile broadband, pay TV and IT services will deliver revenue growth in the upcoming years.

11 TARGETS AND STRATEGY

11.1 Outlook

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

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

Each of our business segments is affected by their own unique business environment, and we are subject to circumstances and events that are unforeseen or are beyond our control. The global economy recovered from the crisis but it largely depends on the monetary policy of the FED, the growth of the Chinese and European economy and the volatile commodity prices. There are major uncertainties surrounding the future of the euro especially in Greece.

The Hungarian economy came out of recession in 2013. The GDP growth in 2015 was 3.0 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate that the GDP growth will remain high, at about 2.5 percent in 2016. The unemployment rate decreased to 6.2 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The telecommunication tax payable by Magyar



Telekom in 2015 was HUF 25.2 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. In 2015, the Parliament modified the law, that newly constructed networks and new developments on existing networks are enjoying tax holiday for 5 years. The tax expense and liability for 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. Magyar Telekom paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom won the rights of use of frequency blocks until June 2034 in the tender of the National Media and Infocommunications Authority in the 800 MHz, 900 MHz, 1800 MHz and 2600 MHz frequency bands. Magyar Telekom paid an initial price of HUF 59 billion for these frequency blocks in Q4 2014.

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

In December, 2015 Magyar Telekom has signed an agreement to sell its 100% shareholding in Origo Zrt. ("Origo") to New Wave Media Kft., for a total consideration of approximately EUR 13.2 million (ca. HUF 4.2 billion). The transaction closing is expected in the first quarter of 2016.

Magyar Telekom is continuously seeking business opportunities beyond core services.

11.2 Strategy

As a result of our focused strategic efforts, Magyar Telekom maintained its leading position in its Hungarian fixed voice, broadband, pay TV, mobile and ICT businesses in 2015, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offered capabilities proactively leveraging on various partnering models as well.

We continue our transformation towards a diversified digital service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing free cash flow while becoming a more agile organization. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio, increase process automation and online customer servicing. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

While anticipating new competencies required by the changing customer behavior, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both customers and third parties. We continue to identify and leverage new business opportunities in e-health, cloud, IoT, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we established a joint venture that provides energy services for business customers in order to improve and optimize our energy operations.

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

12 RISKS AND UNCERTAINTIES

12.1 Risk management policies

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

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

In 1999, we established a formal risk management system. This system has been operating in an integrated way with the risk management system of Deutsche Telekom since 2002.

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

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

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

12.2 Risk factors

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

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection were published; the price setting methodology of already regulated wholesale products and new type of regulated access services are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment of the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- In Macedonia, the main development is the merger of two competitors, ONE and VIP. We expect this transaction to reshape the competitive environment in the Macedonian telecommunications market;
- Our share price may be volatile, and the ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

12.3 Financial risk factors

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

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

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below.

12.3.1 Market risk

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

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Company's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio KPIs on Group level, and monitors their fulfillment annually. At the end of 2015 and 2014 Magyar Telekom fulfilled both criteria. The Company's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Company's Treasury department continuously.

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in FX rates. In order to mitigate FX risk in case of FX denominated financial instruments, Magyar Telekom minimized its foreign currency borrowings in the past years, or covered them with derivative instruments to substantially reduce FX risk.

The FX exposure of Magyar Telekom is mostly related to

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

In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Company's foreign currency denominated liabilities, exceed the Company's foreign currency denominated assets, but changes of the functional currencies' exchange rates could have significant impact on the profit of the Group

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

Interest rate risk

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

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

Price risk

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

12.3.2 Credit risk

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

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

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

12.3.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Company's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom's budgeted financing needs until the end of June 2017.

12.3.4 Capital risk management

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

The Company's management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Company. This can be achieved primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares. Consistent with others in the industry, the Company monitors capital on the basis of the consolidated gearing ratio. This ratio is calculated as Net debt divided by Equity (including Non-controlling interest) and Net debt according to our consolidated financial statements.

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company's Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. Magyar Telekom Plc. is in compliance with this regulation.

13 ANALYSIS OF FINANCIAL RESULTS FOR 2015

13.1 Revenues

13.1.1 Net sales revenues

Net sales revenues increased from HUF 487,007 million in 2014 to HUF 502,275 million in 2015.

Net export sales decreased within net sales revenues by 4.9%, HUF 732 million mainly due to the decrease of incoming international traffic.

Net domestic sales increased significantly by HUF 16,000 million (3.4% increase) within net sales revenues. The nominal net increase is due to several positive and negative effects.

The largest increase occurred in energy revenues from HUF 43,303 million to HUF 50,924 million (17.6% increase) caused mainly by the rise of applied quantity of energy by customers.

The mobile non-voice revenues changed from HUF 69,351 million to HUF 76,819 million, resulting a 10.8% increase, which is mainly due to the higher revenues from Internet services owing to the increasing number of mobile broadband subscribers.

Other mobile revenues increased from HUF 12,148 million to HUF 16,470 million (35% increase) which is mostly due to the increase of revenues from insurance products.

TV services revenues increased from HUF 32,502 million to HUF 34,500 million (6.1% increase) which is caused mainly by the higher number of IP TV subscribers.

The largest decrease occurred in mobile wholesale voice revenues from HUF 18,848 million to HUF 8,816 million, resulting a 53.2% decrease, which is mainly due to the reduction of call termination fees.

Fixed line voice-retail revenues decreased to HUF 48,964 million in 2015 compared to HUF 53,297 million in 2014 (8.1% decrease), mainly driven by the lower volume of traffic and the decline in the number of fixed line subscribers.

Revenues from equipment sales increased as well, due to increased sales of higher category phone sets (smart phones), tablets, notebooks and TV sets, mainly driven by the sales on 24 monthly instalments in 2015. Mobile equipment revenues increased by 3.6% from HUF 35,756 million to HUF 37,064 million in 2015 compared to 2014, while revenues from equipment sales related to fixed line services increased from HUF 3,926 million to HUF 6,783 million (increase of 72.8%).

13.1.2 Other income

Other income increased from HUF 22,132 million to HUF 22,719 million (2.7% increase) which is due to the lower amount of reversals of provisions provided in the previous years and the higher amount of other income by impairments.

13.2 Operating expenses

Operating expenses (including material-type expenses, employee related expenses, depreciation and amortization and other expenses) increased from HUF 496,973 million in 2014 to HUF 519,331 million in 2015 (4.5% increase).

Material-type expenses increased from HUF 273,990 million in 2014 to HUF 286,178 million in 2015 (increase of 4.4%) which is caused by the increase of cost of goods sold and the decrease in costs of mediated services sold.

Cost of goods sold increased by 13.7%, from HUF 88,174 million to 100,240 million caused mainly by the increase in non-subscriber equipment sales and higher sale of subscriber TV sets and by the increase of electricity and natural gas measuring sites and along with it the consumed quantities are also higher compared to the previous year. This was partially compensated the decrease of purchase prices due to the decrease of world market prices.

Costs of mediated services sold decreased by 9.7%, from HUF 63,687 million to HUF 57,497 million. The decrease is due to the decision of National Media and Infocommunications Authority of Hungary (NMIAH) to further reduce the mobile wholesale termination fees from April 1, the fee of HUF 7.06 per minute applied from January, 2013 decreased to HUF 1.71 per minute.

Employee related expenses decreased from HUF 69,120 million to HUF 67,184 million, however the depreciation and amortization is increased from HUF 82,926 million to HUF 91,125 million.

Other expenses increased from HUF 70,937 million in 2014 to HUF 74,844 million in 2015. The increase is mainly due to the increase in provisions for severance payments and employee bonuses.

13.3 Financial result

The positive result from financial transactions HUF 5,741 million in 2014 changed to negative result HUF 7,300 million in 2015 which is caused mainly by two contrary effects. The result is increased by the gain on derivatives (from HUF 737 million to HUF 7,087 million) which cannot counterbalance the significant decrease of dividends received (from HUF 24,793 million to HUF 5,495 million).

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

14.1 The sale of Origo

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

14.2 E2 Zrt. launched its operations

The joint venture, E2 Zrt. with MET Holding AG launched its operations on January 1, 2016 to provide energy services for business customers.

Budapest, April 12, 2016



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer



Declaration

We the undersigned declare that

- the attached annual financial statements which have been prepared in accordance with the applicable set of accounting standards and to the best of our knowledge, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and
- the business report gives a fair view of the position, development and performance of Magyar Telekom Plc., together with a description of the principal risks and uncertainties of its business.

Budapest, April 12, 2016

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer