



EGYÜTT. VELED

# **CONSOLIDATED ANNUAL REPORT**

OF MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015



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# **CONSOLIDATED FINANCIAL STATEMENTS**

OF MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015

PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ENDORSED BY THE EUROPEAN UNION (EU IFRS)



## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Magyar Telekom Telecommunications PLC

#### Report on the consolidated financial statements

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

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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### *Opinion*

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

### **Other reporting requirements regarding the consolidated business report**


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

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

Budapest, March 3, 2016



Armin Krug  
Partner  
PricewaterhouseCoopers Könyvvizsgáló Kft.  
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License Number: 001464



Balázs Árpád  
Statutory auditor  
Licence number: 006931

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

Budapest, February 24, 2016

Christopher Mattheisen  
Chief Executive Officer, Board member

János Szabó  
Chief Financial Officer

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

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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





## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

## NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

- (a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2015. The number of authorized ordinary shares on December 31, 2015 is 1,042,742,543.
- (b) Additional paid in capital represents the amount above the nominal value of the shares that was received by the Company during capital increases.
- (c) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The December 31, 2015 and 2014 balances of this reserve represent the amount reserved for the Share Matching Plans (Note 24.1).
- (d) Treasury stock represents the cost of the Company's own shares repurchased.
- (e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2015 amounted to approximately HUF 249 billion (HUF 228 billion at December 31, 2014).
- (f) Cumulative translation adjustment represents the foreign exchange differences arising on the consolidation of foreign subsidiaries.
- (g) Revaluation reserve for available-for-sale (AFS) financial assets includes the unrealized gains and losses net of tax on available-for-sale financial assets.
- (h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries in which the Group has less than 100% ownership (Note 21).
- (i) The amount of dividends declared to Non-controlling interests includes predominantly the dividends declared to the Non-controlling owners of Makedonski Telekom (MKT) and Crnogorski Telekom (CT), the Group's subsidiaries.
- (j) The Annual General Meeting of Crnogorski Telekom on March 5, 2014 made a decision on share capital reduction in a total amount of EUR 17.1 million (HUF 5.3 billion).
- (k) In April 2015 Magyar Telekom Plc. acquired a 100% stake in GTS Hungary Kft. from Deutsche Telekom (Note 5.1).

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

#### 1.1 About the Company

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

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

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

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

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

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

Magyar Telekom Plc.'s corporate website is: [www.telekom.hu](http://www.telekom.hu)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

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

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

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

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

None.

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

None.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the financial statements of the Group as we apply linear depreciation and amortization. The European Union has not yet endorsed the amended standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2.2 Consolidation**

### **2.2.1 Subsidiaries**

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

All subsidiary undertakings are included in the consolidation.

## 2.2.2 Associates and joint arrangements

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

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

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

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

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

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

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

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

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

## **2.3 Foreign currency translation**

### **2.3.1 Functional and presentation currency**

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

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

### **2.3.2 Transactions and balances**

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

### **2.3.3 Group companies**

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

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

## **2.4 Financial instruments**

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

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

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

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

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

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

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

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

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

#### **2.4.1 Financial assets**

The Group classifies its financial assets in the following categories:

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

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

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

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

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

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

#### **2.4.1.1 Financial assets at fair value through profit or loss**

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

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

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

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

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

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

#### **2.4.1.2 Loans and receivables**

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

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

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

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

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

##### **(a) Cash and cash equivalents**

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

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

##### **(b) Bank deposits with original maturities over 3 months**

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

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

### **(c) Trade and other receivables**

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

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

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

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

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

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

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

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

### **(d) Employee loans**

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

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

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

#### **2.4.1.3 Available-for-sale (AFS) financial assets**

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

The AFS measurement category includes:

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

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

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

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

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

## **2.4.2 Financial liabilities**

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

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

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

### **2.4.2.1 Financial liabilities carried at amortized cost**

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

#### **(a) Loans and other financial liabilities**

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

#### **(b) Trade and other payables**

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

### **2.4.2.2 Financial liabilities at fair value through profit or loss**

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

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

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

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

## 2.5 Inventories

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

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

Impairment losses on Inventories are recognized in Other operating expenses.

## 2.6 Non current assets held for sale

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

## 2.7 Property, plant and equipment (PPE)

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

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

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

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

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

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

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

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

## **2.8 Intangible assets**

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

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

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

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

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

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

## **2.9 Impairment of PPE and intangible assets**

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

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



the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs when conducting impairment tests.

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

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

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

## 2.10 Provisions and contingent liabilities

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

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

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

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

## 2.11 Treasury stock

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

## 2.12 Revenues

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

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

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

### 2.12.1 Mobile and Fixed line telecommunications revenues

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

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

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

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

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

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

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

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

### 2.12.2 System integration (SI) and IT revenues

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

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

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

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

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

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

### **2.12.3 Energy retail revenues – gas and electricity**

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

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

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

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

## **2.13 Employee benefits**

### **2.13.1 Short term employee benefits**

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

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

### **2.13.2 Share based compensation**

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

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

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

### **2.13.3 Termination benefits**

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

## **2.14 Research and Marketing expenses**

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

## **2.15 Borrowing costs**

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

## **2.16 Income taxes**

### **2.16.1 Corporate income taxes**

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

### **2.16.2 Other income taxes**

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

### **2.16.3 Deferred taxes**

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements. However, deferred tax is not accounted for if it arises from initial

recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

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

## **2.17 Leases**

### **2.17.1 Operating lease – Group as lessor**

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

### **2.17.2 Finance lease – Group as lessor**

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

### **2.17.3 Operating lease – Group as lessee**

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

### **2.17.4 Finance lease – Group as lessee**

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

### **2.17.5 Sale and leaseback transactions**

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

## 2.18 Earnings per share

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

## 2.19 Dividends

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

## 2.20 Segments

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

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

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

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

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

## 2.21 Comparative information

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

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

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

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

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

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

### 3.1.1 Market risk

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

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

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

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

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

#### 3.1.1.1 Foreign currency risk

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

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

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

Several related party loans taken to finance general corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG (DT AG) to fix the actual cash flows of Magyar Telekom in HUF for the whole nominal amount and interest payments of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR



exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. As of December 31, 2015, a 10% weaker HUF would cause an FX loss of approximately HUF 6.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 7.1 billion. As of December 31, 2015, a 10% stronger HUF would cause an FX gain of approximately HUF 6.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 7.1 billion. As of December 31, 2014, a 10% weaker HUF would have caused an FX loss of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 8.0 billion. As of December 31, 2014, a 10% stronger HUF would have caused an FX gain of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 8.0 billion.

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

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

#### **(c) Other FX exposure**

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

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

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

##### **3.1.1.2 Interest rate risk**

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

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



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

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

#### **(a) Financial assets**

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

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

#### **(b) Financial liabilities**

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

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

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

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

#### **3.1.1.3 Price risk**

As of the end of the reporting periods, Magyar Telekom had legally binding agreements on natural gas and electricity purchase, which could be materially affected by risk variables such as energy exchange prices or FX prices, or other indices. In order to minimize the risk deriving from such price changes Magyar Telekom made the necessary economic hedge actions for much of the exposure, therefore no relevant risk remained in this field, as a result no sensitivity information for price risk is disclosed. See also Note 8.2.

#### **3.1.2 Credit risk**

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

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

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

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

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

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

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

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

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

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

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

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

## Hungary

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

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

### **Macedonia**

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

### **Montenegro**

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

### 3.1.3 Liquidity risk

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

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

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

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

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

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

### 3.2 Capital risk management

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

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

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

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

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

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

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### 4.1 Useful lives of assets

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

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

### 4.2 Estimated impairment of goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

#### **4.4 Estimated impairment of trade and other receivables**

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

#### **4.5 Provisions**

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

#### **4.6 Subscriber acquisition and retention costs**

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

#### **4.7 Annual fees of mobile licenses**

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

to be reliably estimable or not. If we consider that we can reliably estimate these annual fees, the present value of those are capitalized as part of the cost of the license, otherwise these are recognized as costs in the period they relate to.

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

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

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

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

## 5 BUSINESS COMBINATIONS

### 5.1 GTS Hungary

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

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

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

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

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

The total purchase price was paid in cash in 2015.

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

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

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

## 5.2 Cable TV network and operations

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

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

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

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

## 6 CASH AND CASH EQUIVALENTS

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

### In HUF millions

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

### Average interest rates

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

### Cash and cash equivalents by currency

#### In HUF millions

	At December 31,	
	2014	2015
EUR .....	5,093	8,716
MKD .....	6,217	5,134
HUF .....	1,538	2,988
USD .....	1,732	348
Other .....	45	372
	<u>14,625</u>	<u>17,558</u>

### Cash and cash equivalents by country of location

#### In HUF millions

	At December 31,	
	2014	2015
Macedonia .....	7,675	7,999
Hungary .....	3,899	5,901
Montenegro .....	2,575	3,144
Other countries .....	476	514
	<u>14,625</u>	<u>17,558</u>

## 7 TRADE AND OTHER RECEIVABLES

### 7.1 Trade and other receivables – carrying amounts

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

#### (a) Age profile of Trade receivables

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

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

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

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

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

The Group has no collaterals related to its trade receivables.

## 7.2 Impairment losses of trade and other receivables

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

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

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

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

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

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

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

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

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

## 8 OTHER FINANCIAL ASSETS

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

### 8.1 Other current financial assets

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

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

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



## 8.2 Non current financial assets

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

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

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

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

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

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

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

## 9 INCOME TAX

### 9.1 Current income tax receivable and payable

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

### 9.2 Income tax expense

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

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

### 9.3 Tax expense reconciliation

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

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

#### (a) Impact of different tax rates

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

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

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

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

#### (c) Tax impact of non deductible items

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

**(d) Other income taxes**

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

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

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

**(f) Energy suppliers' tax**

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

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

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

**(h) Investment tax credit accretion**

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

**(i) Withholding tax on expected dividends**

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

**(j) Tax law changes in Macedonia**

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

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

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

**(k) Other effects related to Macedonia**

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

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

**9.4 Deferred taxes**

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

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

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

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

position includes these balances accordingly.

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

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

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

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

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

## 9.5 Investment tax credits

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

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

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

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

there are further insourcing plans in place. Based on the above, management believes that the Group has complied and will be able to comply with the requirements to recognize these as deferred tax assets.

## 9.6 Tax loss carry forwards

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

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

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

## 9.7 Tax reviews

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

## 9.8 Dividends paid by Magyar Telekom Plc.

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

## 10 INVENTORIES

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

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

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

## 11 ASSETS AND LIABILITIES HELD FOR SALE

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

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

### 11.1 Disposal of Origo

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

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

### 11.2 Other assets held for sale

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

## 12 PROPERTY, PLANT AND EQUIPMENT

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



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

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

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

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

Investments represent the regular investing activity in PPE assets.

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

No impairment was identified in 2015 and 2014.

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

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

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

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

## 12.1 Useful lives

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

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

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

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

## 13 INTANGIBLE ASSETS

In HUF millions

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

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

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

Investments represent the regular investing activity in intangible assets.

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

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

### 13.1 Useful lives

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

	<b>Years</b>
Software .....	2–24
Concessions and licenses .....	3–25
Other intangible assets .....	3–10

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

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

### 13.2 Goodwill

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

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

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

### 13.3 Significant individual other intangible assets

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

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

## 14 INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

### 14.1 Associates

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

### 14.2 Joint ventures

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

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

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

### 14.3 Joint operations

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

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

## 15 OTHER NON CURRENT ASSETS

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

## 16 FINANCIAL LIABILITIES TO RELATED PARTIES

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

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

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

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

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

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

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

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

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

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



## 17 OTHER FINANCIAL LIABILITIES

### 17.1 Balances

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

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

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

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

#### (a) Bank loans

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

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

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

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

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

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

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

#### **(b) Trade payables classified as financial liabilities**

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

#### **(c) Annual frequency fee payable**

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

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

#### **(d) Finance lease payable**

See Note 33.1 for the details of finance leases.

#### **(e) Building exchange payable**

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

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

#### (f) Third party derivatives

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

#### 17.2 Proceeds/repayments of loans and other borrowings

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

#### 17.3 Repayment of other financial liabilities

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

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

### 18 TRADE PAYABLES

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

## 19 PROVISIONS

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

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

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

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

### 19.1 Severance

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

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

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

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

## 19.2 Share-based payments

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

## 19.3 Legal cases

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

## 19.4 Asset retirement obligations (ARO)

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

## 19.5 Other provisions

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

# 20 OTHER LIABILITIES

## 20.1 Other current liabilities

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

## 20.2 Other non current liabilities

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

## 21 NON-CONTROLLING INTERESTS

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

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

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

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

#### a) Summarized balance sheets

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

#### b) Summarized income statements

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

**c) Summarized cash flows**

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

**21.2 Transactions with non-controlling interests**

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

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

## 22 REVENUE

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

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

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



## 23 DIRECT COSTS

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

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

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

## 24 EMPLOYEE RELATED EXPENSES

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

### 24.1 Share based compensation programs

#### 24.1.1 Share Matching Plan of Magyar Telekom's CEO

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

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

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

#### **24.1.2 Share Matching Plan of Deutsche Telekom**

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

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

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

#### **24.1.3 Long-term incentive program (LTI)**

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

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

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

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

## 25 OTHER OPERATING EXPENSES

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

### (a) Telecom tax

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

### (b) Utility tax

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

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

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

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

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

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

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

## 26 OTHER OPERATING INCOME

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

## 27 INTEREST INCOME

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

## 28 INTEREST EXPENSE

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

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

## 29 OTHER FINANCE EXPENSE – NET

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

## 30 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

### (a) Investment tax credit

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

### (b) Capitalized annual frequency fee payable

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

acquisition in 2014 is described in Note 13.

### (c) Capitalized leases

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

### (d) Change in trade payables relating to capital expenditures

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

## 31 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

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

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

## 32 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

### 32.1 Reportable segments

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

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

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

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

#### 32.1.1 Information regularly provided to the Management Committee (MC)

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

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

Revenues	For the year ended December 31,	
	2014	2015
<b>In HUF millions</b>		
Total Telekom Hungary revenues.....	461,666	477,512
Less: Telekom Hungary revenues from other segments .....	(24,174)	(21,962)
Telekom Hungary revenues from external customers .....	437,492	455,550
 Total T-Systems revenues .....	111,697	126,332
Less: T-Systems revenues from other segments .....	(10,744)	(9,514)
T-Systems revenues from external customers .....	100,953	116,818
 Total Macedonia revenues .....	55,791	53,608
Less: Macedonia revenues from other segments .....	(58)	(91)
Macedonia revenues from external customers .....	55,733	53,517
 Total Montenegro revenues.....	32,305	30,500
Less: Montenegro revenues from other segments .....	(49)	(41)
Montenegro revenues from external customers .....	32,256	30,459
 Total consolidated revenue of the segments .....	626,434	656,344
Measurement differences / rounding between segment and Group revenue .....	13	(2)
<b>Total revenue of the Group .....</b>	<b>626,447</b>	<b>656,342</b>
 <b>Segment results (EBITDA)</b>	<b>For the year ended December 31,</b>	
<b>In HUF millions</b>	<b>2014</b>	<b>2015</b>
Telekom Hungary.....	133,202	143,557
T-Systems .....	11,966	12,174
Macedonia .....	23,371	20,811
Montenegro .....	12,436	10,699
Total EBITDA of the segments .....	180,975	187,241
Measurement differences / rounding between segment and Group EBITDA .....	249	60
<b>Total EBITDA of the Group .....</b>	<b>181,224</b>	<b>187,301</b>
 Depreciation and amortization.....	(100,650)	(113,784)
Total Operating profit .....	80,574	73,517
Net financial result .....	(28,397)	(28,176)
Share of associates' and joint ventures' losses .....	(5)	-
Total Profit before income tax .....	52,172	45,341
Income tax expense .....	(20,148)	(13,794)
Total Profit for the year .....	32,024	31,547

**Capital expenditure (Capex) on PPE and Intangible assets**
**In HUF millions**
**As at December 31,**
**2014      2015**

Telekom Hungary.....	68,483	88,418
T-Systems.....	4,660	5,378
Macedonia.....	8,993	10,556
Montenegro.....	5,017	5,249
Total capital expenditure of the segments.....	87,153	109,601
Acquisition of mobile licenses (Note 13).....	97,593	502
Other measurement differences between segment and Group Capex.....	(382)	(256)
<b>Total investments of the Group in PPE and Intangible assets.....</b>	<b>184,364</b>	<b>109,847</b>

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

**32.2 Information about geographical areas**

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

**Revenues**
**In HUF millions**
**For the year ended  
December 31,**
**2014      2015**

Hungary.....	532,885	566,584
Macedonia.....	55,733	53,517
Montenegro.....	32,256	30,459
Romania.....	3,868	4,095
Bulgaria.....	1,705	1,687
Total revenue of the Group.....	626,447	656,342

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

**Non current assets**
**In HUF millions**
**As at December 31,**
**2014      2015**

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



## 33 LEASES AND OTHER COMMITMENTS

### 33.1 Finance lease – Group as lessee

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

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

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

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

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

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

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

### 33.2 Operating lease – Group as lessee

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

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

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

### 33.3 Finance lease – Group as lessor

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

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

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

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

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

### 33.4 Operating lease – Group as lessor

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

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

### 33.5 Purchase commitments for tangible and intangible assets

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

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

### 33.6 Purchase commitments for businesses

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

## 34 RELATED PARTY TRANSACTIONS

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

### 34.1 Deutsche Telekom Group and the Federal Republic of Germany

#### 34.1.1 Deutsche Telekom Group

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

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

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

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

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

#### 34.1.2 The Federal Republic of Germany

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

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

### 34.2 Associates and joint ventures

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

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

### 34.3 Board and Supervisory Board members

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

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

### 34.4 Key management

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

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

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

The Group does not provide loans to its key management.

## 35 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

### 35.1 Financial assets and liabilities

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

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

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

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

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

#### 35.1.1 Financial assets – Carrying amounts and fair values

**December 31, 2015**

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

**December 31, 2014**

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

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

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

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

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

**35.1.2 Financial liabilities – Carrying amounts and fair values**
**December 31, 2015**

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

**December 31, 2014**

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

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

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

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

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

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

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

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

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

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

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



### 35.3 Offsetting financial assets and financial liabilities

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

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

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

### 35.4 Other disclosures about financial instruments

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

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

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

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

## 36 CONTINGENT ASSETS AND LIABILITIES

### 36.1 Contingent assets

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

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

### 36.2 Contingent liabilities

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

#### 36.2.1 Hungary

##### 36.2.1.1 Public lawsuits relating to transaction fee

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

##### 36.2.1.2 Guarantees

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

## 37 PUBLIC SERVICE CONCESSION AND LICENSE ARRANGEMENTS

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

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

### 37.1 Hungarian Mobile

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 37.2 Hungarian Fixed line

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

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

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

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

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

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

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

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

### 37.3 Energy services in Hungary

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

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

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

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

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

### **37.4 Macedonian Mobile**

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

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

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

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

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

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

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

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

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

than the prices of the same services in the EU. In the period of 3 years from 2015, the prices will be reduced to the maximum determined.

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

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

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

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

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

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

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

### **37.5 Macedonian Fixed line**

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

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

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

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

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

New remedies are the following:

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

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

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

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

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

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

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

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

### **37.6 Montenegrin Mobile**

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

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

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

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

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



### 37.7 Montenegrin Fixed line

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

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

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

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

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

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

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

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



## 38 EVENTS AFTER THE REPORTING PERIOD

### 38.1 The sale of Origo

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

### 38.2 E2 Zrt. launched its operations

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

Budapest, February 24, 2016.



Christopher Mattheisen  
Chief Executive Officer, Board member



János Szabó  
Chief Financial Officer



## **CONSOLIDATED BUSINESS REPORT**

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2015

## INTRODUCTION

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

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

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

As of December 31, 2015, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in the Articles of Association Section 2

([http://www.telekom.hu/about\\_us/investor\\_relations/corporate\\_governance/corporate\\_governance\\_documents](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:

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

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](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>Year of election</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](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>Year of election</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](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:

<b><u>Name</u></b>	<b><u>Born</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Year of election</u></b>
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](http://www.telekom.hu/static/sw/download/AC_Rules_of_Procedure_03_12_2015.pdf)). The members of the Audit Committee have been elected by the General Meeting from the independent members of the Supervisory Board for the same period as their membership in the Supervisory Board.

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

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

## 2.6 Remuneration and Nomination Committee

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

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

([http://www.telekom.hu/static/sw/download/Rules\\_of\\_Procedure\\_of\\_the\\_Remuneration\\_and\\_Nomination\\_Committee\\_ENG\\_20130920.pdf](http://www.telekom.hu/static/sw/download/Rules_of_Procedure_of_the_Remuneration_and_Nomination_Committee_ENG_20130920.pdf)).

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

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

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

- Dr. Ralph Rentschler
- Frank Odzuck
- Thilo Kusch

## 2.7 Corporate Governance and Management Report

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

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

[http://www.telekom.hu/about\\_us/investor\\_relations/corporate\\_governance/corporate\\_governance\\_documents](http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents)

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

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

### 3 HUMAN POLICY

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

#### 3.1 Human strategy from the Company's aspect

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

#### 3.2 Human strategy from the employees' aspect

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

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

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

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



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

### 3.3 Headcount

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

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

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

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

### 3.4 Total Workforce Management

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

### 3.5 Workforce Reduction and Redeployment

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

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

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

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

### 3.6 Employee Representation and Labor Relations

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati 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 Őz and Attila Bujdosó.

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

### 3.7 Pensions and Benefit Programs

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

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

### 3.8 Human rights

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

The Social Charta and more details: [http://www.telekom.hu/static/sw/download/Social\\_Charter.pdf](http://www.telekom.hu/static/sw/download/Social_Charter.pdf) and [http://www.telekom.hu/about\\_us/society\\_and\\_environment/society/equal\\_opportunities](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](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 1,592 million in 2015.

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

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

## 5 RESEARCH AND DEVELOPMENT

### Hungary

In 2015, the Research and Development activities of Magyar Telekom covered the 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.

### Macedonia

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

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

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

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

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

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

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

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

## Montenegro

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

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

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

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

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

## 6 REAL ESTATE, SITES OF OPERATION

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

## Headquarters of major member companies of the Group

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

## Hungary

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

The total area of properties used by Magyar Telekom Plc. as of December 31, 2015 was 566,734 m<sup>2</sup>. The majority of sites used in our operations are smaller than 100 m<sup>2</sup>. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m<sup>2</sup>.

## Macedonia

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

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

## Montenegro

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

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

# 7 SUSTAINABILITY

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

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

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

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

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

## 7.1 Sustainability strategy

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

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

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

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

Main achievements in the context of the strategy

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

- According to the Dow Jones Sustainability Index (DJSI), in 2012, we scored 72, which put us in the top third globally. According to the assessment by Oekom Research, Magyar Telekom is third in international comparison globally, on a list of the world's 108 telecommunication companies assessed along sustainability aspects, and is only 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](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](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](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-dijastak-a-jotetteket/5041>)
  - Energy Efficient Company – T-Systems Hungary Plc. (<http://www.t-systems.hu/news-and-media/news/t-systems-hungary-won-the-energy-efficient-company-title-again>)

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

[http://www.telekom.hu/about\\_us/society\\_and\\_environment/prizes\\_ratings](http://www.telekom.hu/about_us/society_and_environment/prizes_ratings)

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



## 7.2 Initiatives concerning stakeholders

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

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

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

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

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

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

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

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

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

[http://www.telekom.hu/about\\_us/society\\_and\\_environment/society/protection\\_of\\_our\\_children](http://www.telekom.hu/about_us/society_and_environment/society/protection_of_our_children).

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

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

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



if addressing wider scopes of social, environmental, economic phenomena in the context of green innovation and education. This year, for the first time, blogs of responsible thinkers were also awarded.

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

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

### 7.3 Annual Sustainability Report

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

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

Further details on the sustainability performance of the Company can be found in the annual reports available on:  
[https://www.telekom.hu/about\\_us/society\\_and\\_environment/sustainability\\_reports](https://www.telekom.hu/about_us/society_and_environment/sustainability_reports)

## 8 ENVIRONMENT PROTECTION

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

### 8.1 Environment and climate protection performance

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

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

We introduced a bonus-malus system based on compliance with or deviation from average emission values of benefit cars. We spent 50% of the amount collected as malus payment by users of cars with emissions above the reference values on decreasing our CO<sub>2</sub> footprint. One of our objectives for 2015 was that we operate as a carbon neutral company. To this end we purchase electric power from power plants that use renewable energy sources and we entirely carbon-neutralized our fossil energy consumption footprint. With this we achieved that we are the first carbon neutral major enterprise in Hungary.

In 2015 Magyar Telekom continued its efforts to operate as an energy effective company. These days instead of solutions that would represent a huge leap forward, the aggregate of several smaller transformation and caring projects may jointly help us to further

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

## 9 CORPORATE COMPLIANCE

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

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

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

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

The first distance learning course addressing compliance was started in 2008 in the topic of “Conscious recognition of fraud and corruption”. Since then we have been providing a general eLearning course for our new employees, mandatory for all colleagues joining to the company. The course is completed with the acceptance of the Code of Conduct. Since the start of the program, 63,247 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, supplier due diligence, anti-corruption measures, incompatibility or insider trading.

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

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

During the year we check the soundness of the reports submitted to our company in connection with unethical behavior, and if necessary, we act on these reports. In case we identify actual abuses, we take care of the necessary and adequate countermeasures.

Magyar Telekom published all cases of corruption and the related countermeasures in accordance with the related applicable laws and legal provisions.

## 10 ECONOMIC ENVIRONMENT

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

### Hungary

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

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

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

### Macedonia

Macedonian telco market is in consolidation and stabilization phase, affected with a relatively positive macro-environment and challenging political standstill situation with scheduling and organisation of forthcoming early parliamentary elections scheduled for 24 April 2016.

The GDP growth was 3.5% in Q3 2015, and projected at 3.5% for 2016; and 4% for 2017. Inflation was 0.3% in YE 2015, and is projected at 1.5% in 2016 by the National Bank of the Republic of Macedonia. Unemployment decreased to 25.5% in Q3 2015, representing 1.3% reduction, compared to previous quarter (Q2 2015 26.8%). The average net salary at November 2015 was €360. FDI was EUR 115 million (till Q3 2015), 1.7% from total GDP.

With the official merge of VIP and ONE (2nd & 3rd mobile operators on the market), they overtook the market leadership in mobile and TV service revenues market share with 53% in mobile and 34% in payTV in accordance with Q3 2015 data. In fixed voice and broadband Makedonski Telekom maintained the leading positions with 61.5% and 42.5% revenue market share.

Market consolidation is ongoing. The new company ONE.VIP DOO (from the merger of 2nd & 3rd MNOs & one major CaTV operator – "Blizoo") was entered in the companies register in Macedonia on 1 October 2015, as the result of the merger of the operators ONE DOOEL, formerly a part of the Telekom Slovenije Group, and VIP OPERATOR DOOEL Skopje, a part of the Telekom Austria Group. The effective date of the merger was 31 July 2015. ONE DOOEL was thus included in the consolidated financial statements until that date. Telekom Slovenije holds a 45% participating interest in ONE.VIP DOO, but does not hold a controlling interest. Thus, the aforementioned company is not included in the financial statements of the Telekom Slovenije Group."

ONE.VIP has announced the start of the deployment of its new integrated mobile network, region by region. The benefits of the new network (significantly expanded 3G capacity, wider territorial coverage and LTE availability all over Macedonia) will be available for most customers by the end of 2016. In parallel, ONE.VIP and sister company Blizoo will focus on developing a fully modernized and expanded the fixed network infrastructure, thus creating a fully convergent operator.

Blizoo has announced the acquisition of 4 additional small CaTV operators. The subscription agreements of customers at the above operators will continue to be valid and applied under the same conditions, without the need to sign any additional documents. From January 2016, all telecom services and bills will be provided by Blizoo.

## **Montenegro**

The Montenegrin telco market is facing strong challenges: competition is growing and merging, while regulatory pressure is still very intensive.

The fixed line market is more competitive than ever. After two acquisitions in 2014 (Telenor bought MNNews; Telemach acquired TV only operator BBM), m:tel acquired several local cable operators (Cabling, Eltamont, Medianet and FiberNet) in 2015. Also, m:tel launched cable BB/TV services in Q3 2015, following with attractive tripleplay and FMC offers. Telemach (SBB) is developing own fiber network and started with first offers of Fixed BB, still with below the line market strategy. Telemach is also currently in the process of acquiring another cable operator.

Activities in the mobile market are focused on promoting 4G network, provided by Telekom and Telenor and acquiring more mobile data customers, both full and confined (m:tel is still lagging behind and offers only 3G).

Regulatory pressure is still very intensive and Roaming price regulation is a recent and significant example. Additionally, the new Cinematography law was adopted in July and operators are obliged to pay 0.9% of annual revenues from internet access, PayTV and Video on demand service, as of January 2016.

In December one of the main goals of the foreign policy was achieved: Montenegro was invited to join the NATO Alliance. EU accession process and regulatory framework harmonization remain in the special focus of the Government. The European Commission revised upwards its projection for Montenegro's economic growth in 2015 by one percentage point to 4% on the back of strong growth in tourism and the start of works on a key motorway and on two large tourism resorts.

## **11 TARGETS AND STRATEGY**

### **11.1 Outlook**

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

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

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

## Hungary

The Hungarian economy came out of recession in 2013. The GDP growth in 2015 was 3.2 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate that the GDP growth will remain high, at about 2.5 percent in 2016. The unemployment rate decreased to 6.2 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The telecommunication tax payable by Magyar Telekom in 2015 was HUF 25.2 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. In 2015, the Parliament modified the law, that newly constructed networks and new developments on existing networks are enjoying tax holiday for 5 years. The tax expense and liability for 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. T-Systems Hungary segment is also affected by heavy spending cuts by the government, T-Systems segment's largest business customer.

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

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

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

Magyar Telekom is continuously seeking business opportunities beyond core services.

## Macedonia

In Macedonia, competition is increasing both in the fixed line and mobile market. The mobile market consolidated in 2015, due to the merger of the second and third biggest player on mobile market (VIP & ONE, effective from 2016), while the fourth mobile operator (Albafone) disappeared as a result of bad results and inability to make significant uptake. Flat rates dominate in mobile voice – all net flat propositions are major part of new postpaid gross adds. The continuous growth of the mobile internet is mostly driven by the increase of smart-phone penetration. Mobile data services available with fast extension to mobile internet as basis for future services.

Fix market remains fragmented despite acquisition of Blizoo by VIP in 2015. Decline on fixed voice market to some extent compensated by growth in fix broadband market, TV market already saturated. Fix services are offered predominantly in bundles (combined broadband and TV services). Cloud services and the IT market has experienced a dynamic growth mainly in B2B segment.

We also expect more intensive regulatory measures in Macedonia in the future. Pure LRIC for fixed line termination rates (FTR) and IP interconnection is expected. Retail regulation with margin squeeze test is expected for retail optic and copper products including fixed access as well. We also expect obligations for all operators to put their aerial cables in urban areas underground and digital agenda obligation for the coverage of households with 30 and 100 Mbps with technical neutrality until 2020. The execution of the Balkan roaming regulation from the mid-2017 will result in the decrease of retail and wholesale prices to EU roaming III level. Broadband will be included in Universal Services.

In June, 2015, the Shareholders' Assembly of Makedonski Telekom AD – Skopje approved the accession of T-Mobile Macedonia to Makedonski Telekom. The effective date of the merger is July 1, 2015.

## Montenegro

In Montenegro, we also anticipate a tough environment due to competitive and regulatory pressures in the near future. In the fixed line market Crnogorski Telekom remain dominant, fully exploiting its multi-play, multiscreen and financing capabilities. Fiber roll out will increase broadband penetration, but without premium monetization. Competitors are increasing coverage and service scale through CaTV acquisitions or own new generation network (NGN) investments gaining high-value customers looking for X-Play experience and value-add. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in the postpaid segment with unlimited on-net traffic and internet are initiated by market followers. Market players are committed to network capacity increase by 4G/NGM rollout. Competitors can build X-Play capabilities by coalition with, or by acquisitions of, CaTV/SatTV operators to be able to offer fixed line services as well.

Regarding the regulatory measures, regional roaming regulation effective as of 1st July 2015 may heavily influence our roaming revenues. Indirectly, it may have negative influence on international MTRs as well. FTR, MTR and BSA cost based regulation is expected for the period of 2016-2019 on LRIC model. Retail price cost based (LRIC) regulation of the prices of: access to the network, fix voice and ADSL, will negatively influence CT revenues. In 2016 NRA is going to perform market analysis of the markets defined in the revised EC Recommendation on relevant markets from 2014. Margin squeeze test for retail products is expected in 2016. Implementation of the new eLaw and the new bylaws will result in more strict, demanding and expensive obligations for the operators. Multi band auctions of the existing bands 900/1800/2100 MHz (expiring at the end of 2016) and the new bands 800 MHz /2.6 GHz are expected. The process is planned to be finished by the end of Q1 2016. The upcoming auction creates a possibility of a new (fourth) player entering the market.

## 11.2 Revenue, EBITDA and Capex targets

In 2015, Magyar Telekom Group revenues increased by 4.8% to HUF 656.3 billion, significantly ahead of our guidance of roughly stable revenues compared to 2014 (HUF 626.4 billion). Key drivers of this trend included the later than expected exit from the energy business, GTS contribution to fixed line revenues, as well as Group-wide SI/IT outperformance. In mobile, growth in data and equipment revenues counterbalanced the decline in voice wholesale caused by the sharp MTR cut. On the fixed side, higher retail broadband, TV and equipment revenues served to offset the decrease in voice and retail data revenues. At the same time, our strong focus on profitability resulted in higher than expected EBITDA growth of 3.4% in 2015 (HUF 6.1 billion) driven by higher gross margins, not only in the energy business and SI/IT but also in the core fixed line and mobile businesses. Capex for 2015 totaled HUF 109.8 billion, slightly exceeding our target of HUF 105 billion due to the intensity of the fixed line network rollout at the end of the year.

Looking to 2016, we remain focused on the continued execution of our turnaround strategy which involves growing our profitability in line with our targets. The ongoing shift in our revenue mix, achieved by migrating customers to bundled packages across Magyar Telekom's operations, is expected to mitigate voice revenue decline. Magenta1, our flagship fixed-mobile product bundle available across our footprint, will be instrumental in achieving this goal. Following our exit from the energy business, we expect revenues of HUF 580 – 590 billion in 2016. Correspondingly, we have upgraded our mid-term guidance for 2017 from roughly stable revenues compared to 2014 excluding energy (HUF 584 billion) to HUF 585 – 595 billion. Key drivers of a more efficient operation in the mid-term include successful completion of the 2014/15 headcount reduction program in Hungary, continued replacement of legacy networks and CRM/billing systems, migration to All-IP and online front-end operations, as well as network outsourcing in Montenegro. Nevertheless, we expect continued difficult operating conditions at our foreign subsidiaries. Overall, our reported EBITDA is expected to range HUF 187 – 191 billion in 2016, whilst our updated EBITDA guidance for 2017 is for HUF 189 – 193 billion (previously "surpassing HUF 185 billion"). Despite continued network development, we expect a ca. 10% annual year-on-year decrease in capex for both 2016 and 2017.

### Public guidance:

HUF billion	2015	Public guidance 2016	Public guidance 2017
Revenue .....	656.3	between 580 – 590	between 585 – 595
EBITDA.....	187.3	between 187 – 191	between 189 – 193
Capex .....	109.8	ca. 10% decline	ca. 10% decline



## 11.3 Strategy

### Hungary

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

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

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

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

### Macedonia

Addressing local challenges in order to fulfill strategic aspiration, local Ambition Program 2.0 fulfilled its final objective of transforming technology into superior customer experience, stabilization of Revenue/EBITDA trends, continuation of efforts for regaining number one position in Mobile (47%) and PayTV (28%) business, sustaining the strong market position and becoming new modern, lean and fully converged telco operator. Ambition Program will follow up in 2016 with Ambition 3.0 local strategy implementation program, proclaiming “GoDigital” overall corporate focus stream and message.

The main pillars planned for Ambition 3.0 are:

- Go Digital – Digitalize customer journey and business architecture
- Value Leadership – Keep stable core revenues in all segments, increase postpaid value, optimize market invest and win the households; Pre-paid-to-postpaid-to-fmc (magenta 1) migration (in both b2c & b2b)
- Customer Excellence – Superior Customer & Network Experience
- Access Everywhere – Technology Leadership – Lead in network innovation in FTTH, vdsl, LTE, hybrid (xDSL +LTE), Wireless
- Lean Telco – agile and efficient telco
- Corporate Culture – Empowerment in times of change.

### Montenegro

The vision statement of Crnogorski Telekom (CT) emphasizes CT’s ambition to become customers’ first choice in a fully digital lifestyle by aspiring to be the best in class.

CT’s Corporate Strategy document is based on three main pillars:

- Technology leadership
- Best customer experience
- New businesses

Strategy is translated into ten initiatives implementation program, named “Tesla”. In 2015 significant achievements have been made:

- One Convergent Billing & CRM system implemented;

- All IP transformation has been completed;
- Intensive FTTH and mobile network rollout continued, with increasing FTTH utilization rate, and preservation of 4G leadership;
- Completion of Hybrid Access project;
- Comparative testing of all three mobile operators' networks, done by international company P3 Communications, certified CT as the operator with best results in 2015
- Managed service implemented in 7 year partnership with Ericsson in area of network and service maintenance;
- Intensive focus on improving customer experience through several initiatives as well as through further push on eSales and eService
- First integrated offers launched
- ICT business expanded
- New partnerships introduced (e.g. Pickbox)

## 12 RISKS AND UNCERTAINTIES

### 12.1 Risk management policies

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

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

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

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

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

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

### 12.2 Risk factors

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

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection were published; the price setting methodology of already regulated wholesale products and new type of regulated access services are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;



- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment of the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- In Macedonia, the main development is the merger of two competitors, ONE and VIP. We expect this transaction to reshape the competitive environment in the Macedonian telecommunications market;
- Our share price may be volatile, and the ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

### 12.3 Financial risk management

The financial risk management of the Group is described in detail in Note 3 of the Consolidated Financial Statements.

## 13 ANALYSIS OF FINANCIAL RESULTS FOR 2015

### Key Performance Indicators

	At December 31,	
	2014	2015
Revenue (HUF million) .....	626,447	656,342
EBITDA (HUF million) .....	181,224	187,301
EBITDA margin .....	28.9%	28.5%
Operating margin .....	12.9%	11.2%
Net income margin .....	4.6%	4.2%
Capex to sales ratio .....	29.4%	16.7%
ROA ratio .....	2.5%	2.3%
ROE ratio .....	6.3%	5.7%
Net debt (HUF million) .....	442,167	409,393
Net debt ratio (net debt to total capital) .....	45.7%	42.9%

### 13.1 Revenues

Total revenues amounted to HUF 656.3 billion in 2015 compared to HUF 626.4 billion in 2014. Revenues increased at both Hungarian segments partly offset by the decline at our foreign subsidiaries. Total group revenue increased by HUF 30 billion year over year driven by the following factors:

**Mobile revenues** amounted to HUF 314.0 billion in 2015, compared to HUF 318.7 billion in the previous year representing a 1.4% decrease. Lower mobile voice and SMS revenues were only partly offset by higher mobile data and equipment revenues.

Voice-retail revenues decreased by 1.0% to HUF 158.4 billion in 2015. This was mainly due to lower revenues in Macedonia despite the increased volume of outgoing minutes year over year, as the average price per minute decreased, due to promotions and offers

because of the strong competition on the market. In Montenegro, lower revenues were driven by the decrease in the number of customers especially in the prepaid segment. In Hungary, revenues increased, as the growth in the postpaid segment due to the combined effect of higher minutes of use (MOU), higher customer base and lower average price per minutes, was only partly offset by the decrease in prepaid segment. In the prepaid segment both MOU and the number of customers decreased, partly offset by higher prepaid outgoing tariff. Roaming revenues decreased as a result of the EU regulation lowering roaming fees from 1 July, 2014.

Voice-wholesale revenues dropped by 43.5% and amounted to HUF 16.0 billion in 2015, mainly due to the 76% lower regulated mobile termination rate in Hungary, as of April 1, 2015, slightly offset by higher minutes of use. In Macedonia, lower mobile termination rates (MTR) applicable from September 1, 2014 and decrease in international incoming traffic caused lower voice-wholesale revenues in 2015 compared to 2014. In Montenegro, lower voice-wholesale revenues were due to the decrease in termination tariffs and lower incoming international traffic.

Data revenues amounted to HUF 59.3 billion in 2015, compared to HUF 52.6 billion in 2014, representing a 12.7% increase. Higher revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in 2015.

SMS revenues amounted to HUF 18.6 billion in 2015, compared to HUF 19.2 billion in 2014, representing a 3.4% decrease, primarily due to the lower number of SMSs sent mostly at our foreign subsidiaries, while SMS revenues increased in Hungary.

Mobile equipment revenues increased by 8.8% to HUF 46.9 billion in 2015 compared to HUF 43.1 billion in 2014, mostly attributable to our Hungarian operation, as both sales volume of handsets and average handset prices increased in 2015. At our foreign subsidiaries, equipment revenues increased as well, driven by higher average selling prices of the handsets in Macedonia.

**Fixed line revenues** amounted to HUF 212.0 billion in 2015, compared to HUF 206.3 billion in the previous year, representing a 2.8% increase. The growth was driven by higher broadband, TV, equipment and wholesale revenues partly offset by falling voice retail and data revenues.

Voice-retail revenues decreased by 7.3% to HUF 59.7 billion in 2015 compared to HUF 64.5 billion in 2014, mainly driven by the decline in the number of fixed voice lines, lower usage and decreased average tariff levels. Customer migration from PSTN to IP platforms has been continued.

Broadband retail revenues increased from HUF 47.6 billion in 2014 to HUF 52.0 billion in 2015, representing a 9.4% growth. In Hungary, higher revenues are due to the increase in DSL connections together with cablenet and fiber optic connections. Consolidation of GTS Hungary Kft. (GTS) revenues from April 1, 2015 also had positive effect on Broadband retail revenues.

TV revenues amounted to HUF 42.1 billion in 2015 compared to HUF 38.8 billion in 2014, representing an increase of 8.7%. The increase is mainly attributable to higher IPTV revenues driven by the growing IPTV subscriber base in Hungary (including the positive effect of acquisitions as well). The fast growth of the IPTV customer base demonstrates the increasing popularity of interactive television. Blended TV ARPU increased by 5.8% in Hungary mainly due to IPTV migration and price increases. Growth in satellite TV revenues was due to the higher subscription fees in Hungary in 2015 compared to the previous year. Cable TV decreased in 2015 compared to 2014 as a result of the decrease in customer base.

Fixed equipment revenues amounted to HUF 8.2 billion in 2015 compared to HUF 5.6 billion in 2014. The increase was due to the combined effect of the higher sale of TV sets, slightly offset by lower prices. The increase in tablet prices also contributed to the revenue increase, partially offset by lower tablet sales in Hungary.

Data retail revenues amounted to HUF 10.7 billion in 2015 as compared to HUF 11.8 billion in 2014. The decrease was mainly deriving from the lower number of contracts both in Hungary and in Macedonia. In Montenegro, revenue declined due to the transition of regular data customers to ICT, where data services are bundled with managed services. The decrease was partially offset by the consolidation effect of GTS Hungary.

Wholesale revenues increased by 6.5% to HUF 21.6 billion in 2015. Higher network and infrastructure services revenues were mainly due to the consolidation effect of GTS Hungary in Q2 2015. The increase was partially offset by the decrease in voice wholesale revenues owing to lower incoming traffic generated in Hungary and at our foreign subsidiaries in 2015. Lower mobile termination rates also negatively affected the voice wholesale revenues.

**System Integration (SI) and IT revenues** increased by 36.8% from HUF 59.2 billion in 2014 to HUF 81.0 billion in 2015. Higher revenues were owing to new major projects in Hungary and in Macedonia in 2015. In Montenegro, the higher number of ICT customers resulted in higher SI/IT revenues.

**Energy Services** revenues increased to HUF 49.3 billion in 2015 compared to HUF 42.3 billion in 2014. The 16.5% growth in energy sales was mainly due to the increase in the revenue from electricity services, to a lesser extent due to the growth in revenues from gas services. As at December 31, 2015 the number of electricity points of delivery increased to 106,564 while gas points of delivery dropped to 7,427 due to the exit from the residential segment of the gas market with effect from July 31, 2015. The consumption was higher year over year, but the universal service price reduction had a negative effect on the revenues.

### **13.2 Direct costs**

Direct costs increased by 10.2% year over year from HUF 226.4 billion in 2014 to HUF 249.4 billion in 2015. It was due to the increase in SI/IT service related costs, and energy service related costs, partially offset by the decrease in interconnect costs, bad debt expense and other direct costs.

Interconnect costs decreased by 24.9% year over year, and amounted to HUF 25.1 billion. There was a significant decrease in the voice network access charges in Hungary due to lower regulated mobile termination rates (from HUF 7.06 to 1.71) from April 1, 2015.

More infrastructure projects at T-Systems Hungary caused SI/IT service related costs to increase by 56.8% from HUF 34.8 billion in 2014 to HUF 54.5 billion in 2015.

Energy service related costs in Hungary increased from HUF 41.9 billion in 2014 to HUF 47.9 billion in 2015 primarily driven by higher volume of electricity and gas consumption in 2015. This was partly counterbalanced by decreased purchase prices in 2015.

Bad debt expenses decreased by 18.6% from HUF 11.7 billion in 2014 to HUF 9.5 billion in 2015, primarily due to the higher amount of impairment loss on receivables from equipment sales on instalments in Hungary in 2014.

Other direct costs increased from HUF 104.6 billion in 2014 to HUF 112.3 billion in 2015 primarily due to higher cost of equipment sales as a result of the growth in sales of accessories and other equipments.

### **13.3 Gross margin**

Gross margin increased slightly from HUF 400.1 billion in 2014 to HUF 407.0 billion in 2015 as a result of higher revenues, partially counterbalanced by higher direct costs year over year.

### **13.4 Employee-related expenses**

Employee-related expenses increased by 0.4% from HUF 94.8 billion in 2014 to HUF 95.2 billion in 2015. Although the average employee number decreased by 3.2% compared to 2014 mainly in the Telekom Hungary segment, resulting in lower wage expenses, the higher severance-related expenses recognized as a result of the downsizing measures in 2015 offset the decrease. Further increase was due to the effect of the acquisition of GTS Hungary in 2015.

### **13.5 Hungarian sector specific special taxes**

Hungarian sector specific special taxes decreased by 1.8%, from HUF 33.5 billion in 2014 to HUF 32.9 billion in 2015, representing the decrease in telecom tax in 2015.

### **13.6 Other operating expenses**

Other operating expenses increased from HUF 93.7 billion to HUF 98.5 billion year over year primarily due to increased cost of outsourcing services, higher marketing expenses and maintenance costs in 2015. Marketing costs increased mostly relating to Magenta1 campaign in Hungary and Macedonia.

### **13.7 Other operating income**

Other operating income increased from HUF 3.1 billion to HUF 6.9 billion year over year primarily due to higher income from compensation for own network construction works in 2015.

### 13.8 EBITDA

EBITDA increased by 3.4% from HUF 181.2 billion in 2014 to HUF 187.3 billion in 2015, primarily due to higher gross margin, partially counterbalanced by higher employee-related expenses and other operating expenses.

### 13.9 Depreciation and amortization

Depreciation and amortization expenses increased by 13.0% from HUF 100.7 billion in 2014 to HUF 113.8 billion in 2015, mainly due to the increase in the amortization of telecom licenses due to the new frequency usage rights acquired in Q4 2014. Software activation related to the new billing and new SAP systems also caused higher depreciation costs in 2015.

### 13.10 Operating profit

Operating profit decreased from HUF 80.6 billion in 2014 to HUF 73.5 billion in 2015 for the reasons described above.

### 13.11 Net financial result

The net financial result remained stable at year over year.

### 13.12 Income tax

Income tax expense decreased from HUF 20.1 billion in 2014 to HUF 13.8 billion in 2015. The primary reason for the decrease is the changes in the Macedonian tax law in 2014. The changes made to the tax law in several steps in 2014 reinstated the corporate tax, which replaced the dividend based taxation that was in force before, which caused additional tax expenses to the Group, since in 2014 we paid income tax on the dividend distributions deriving from 2013 and earlier years' (in those years not taxed) profit and on the 2014 profit as well. The remaining decrease is in line with the decrease of the pre-tax results of the Group.

### 13.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 3.4 billion in 2014 to HUF 3.8 billion in 2015. The lower amounts year over year in 2014 were the result of the additional tax expenses of our Macedonian subsidiaries as a result of the changes made to the Macedonian tax law several times in 2014, which decreased the profits attributable to non-controlling interests. The increase in 2015, as a result of the additional tax recognized in 2014, is counterbalanced by the decrease, due to lower operating profits of Makedonski Telekom and Crnogorski Telekom in 2015 compared to 2014.

### 13.14 Cash flows

HUF millions	1-12 months 2014	1-12 months 2015	Change
Operating cash flow	145,495	156,298	10,803
Investing cash flow	(130,501)	(97,513)	32,988
Less: Proceeds from other financial assets - net	(10,227)	(13,137)	(2,910)
Investing cash flow excluding Proceeds from other financial assets – net	(140,728)	(110,650)	30,078
Repayment of other financial liabilities	(18,541)	(18,923)	(382)
<b>Free cash flow</b>	<b>(13,774)</b>	<b>26,725</b>	<b>40,499</b>
Proceeds from other financial assets - net	10,227	13,137	2,910
Proceeds from/Repayment of loans and other borrowings - net	10,998	(30,160)	(41,158)
Dividend paid to shareholders and Non-controlling interests	(8,008)	(6,691)	1,317
Exchange differences on cash and cash equivalents	549	(78)	(627)
<b>Change in cash and cash equivalents</b>	<b>(8)</b>	<b>2,933</b>	<b>2,941</b>

## Free cash flow

### Operating cash flow

Net cash generated from operating activities amounted to HUF 156.3 billion in 2015, compared to HUF 145.5 billion in 2014. Main reasons for the increase of HUF 10.8 billion were the following:

- HUF 6 billion positive change due to the higher EBITDA in 2015 than in 2014
- HUF -3 billion negative change in active working capital due to advance payment to E2 in 2015
- HUF 5 billion positive change due to higher net addition to severance provision in 2015 than in 2014
- HUF -1 billion negative change due to lower net addition to legal provisions in 2015 than in 2014
- HUF 3 billion positive change due to lower tax payments in Macedonia in 2015 due to the changes of the tax law in 2014, which brought the payment of the dividend related taxes earlier
- HUF 2 billion positive change due to lower tax payment in Macedonia in 2015 due to no dividend payment from Macedonia to Hungary
- HUF 1 billion positive change in passive working capital due MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF -2 billion negative change due to higher payments of severance provisions in 2015 than in 2014

### Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -110.7 billion in 2015, compared to HUF -140.7 billion in 2014. Main reasons for the HUF 30 billion lower cash outflow were the following:

- HUF -13 billion negative change due to the net cost of the acquisition of GTS Hungary in Q2 2015
- HUF -20 billion negative effect in Capex investments due to higher investments in fixed line Network Capacity projects in 2015
- HUF 5 billion positive effect due to the successful completion of the mobile Network Modernization project in 2014
- HUF 59 billion positive change due to higher spending on frequencies acquired in 2014
- HUF -1 billion negative change due to the establishment of E2

### Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -18.5 billion in 2014 to HUF -18.9 billion in 2015. Main reason for the slightly higher payment of was the combined effect of the following:

- HUF 11 billion positive change due to Q1 2014 payments on vendor invoices reverse factored in Q4 2013
- HUF -11 billion negative change due to trade creditors with extended payment term were paid as financial liability in 2015 (recognized as financial liability in 2014). There were no such payments in 2014.
- HUF -1 billion negative change due to higher payment of annual frequency fees in 2015 than in 2014

Free cash flow (FCF) overall increased from HUF -13.8 billion in 2014 to HUF 26.7 billion in 2015 due to the reasons described above.

## Proceeds from other financial assets - net

Proceeds from other financial assets - net increased by HUF 2.9 billion.

In 2015 in Hungary more gains on the realization of the derivatives were cashed in than in 2014, slightly offset by the decrease in the bank deposits cashed in by our foreign subsidiaries in 2015 compared to 2014.

## Repayment of loans and other borrowings - net

The negative change was due to lower loan drawdown in 2015 from DTAG than in 2014. This was slightly offset by the positive effect of lower repayment of bank loans in 2015 compared to 2014.

### **Dividend paid to shareholders and Non-controlling interest**

Dividend paid to shareholders and Non-controlling interest decreased by HUF 1.3 billion. The decrease was driven by the following:

- HUF 1.1 billion positive change - CT's minority owners received additional dividends in 2014 by way of a share capital decrease, while the amount of the ordinary dividend payment was substantially the same in 2015 as in 2014
- HUF 0.2 billion positive change - Maktel dividend paid to minority owners was lower in 2015

### **Exchange differences on cash and cash equivalents**

The change in exchange differences on cash and cash equivalent is due to depreciating HUF in 2014 as opposed to unchanged HUF in 2015.

### **13.15 Statements of Financial Position**

The most significant change in the balances of the Statements of Financial Position from December 31, 2014 to December 31, 2015 can be observed in the following lines:

- Trade and other receivables
- Other current financial assets
- Assets held for sale
- Property, plant and equipment
- Other financial liabilities
- Trade payables
- Retained earnings

Trade and other receivables increased by HUF 19 billion from December 31, 2014 to December 31, 2015. The increase is mainly due to an advance payment of HUF 3 billion to E2, the Company's joint venture, and the increase of the 24-month installment receivables of HUF 7 billion. Energy service related receivables increased in 2015 compared to 2014 as a result of higher energy consumption, which also contributed to the increase of Trade and other receivables.

Other current financial assets decreased by HUF 13 billion from December 31, 2014 to December 31, 2015. The main reason for the decrease is that the Group's Macedonian and Montenegrin subsidiaries cashed in bank deposits to pay dividends to their minority owners and Magyar Telekom Plc., which used the proceeds to repay external loans and other borrowings and that Magyar Telekom cashed in the gains on its derivatives, shown as financial asset at December 31, 2014.

Assets held for sale increased by HUF 4 billion from December 31, 2014 to December 31, 2015. The increase was mainly due to the reclassification of the carrying amounts of Origo Zrt. of HUF 3 billion as held for sale in 2015, as the Company signed an agreement for the sale of the total of its 100% shareholding in Origo in 2015. The closing of the transaction takes place in February 2016. Further increase was caused by the identification of more assets, primarily land and building, for sale at December 31, 2015 than at December 31, 2014, as a result of the continuing improvement of utilization of properties.

Property, plant and equipment (PPE) increased by HUF 5 billion from December 31, 2014 to December 31, 2015. The main reason for the increase is that the capital expenditure exceeded the depreciation of assets in 2015, primarily due to higher construction in progress balance at December 31, 2015 than at previous year end.

Other financial liabilities decreased by HUF 44 billion from December 31, 2014 to December 31, 2015. The reason for the decrease is that certain short term bank loans were refinanced by DT group loans, while others were repaid from the free cash flows. In addition, the balance of Other financial liabilities as at December 31, 2014 included certain vendor liabilities with extended payment terms (reclassified from Trade payables in 2014), of which HUF 11 billion was repaid in 2015.

Trade payables increased by HUF 30 billion from December 31, 2014 to December 31, 2015. The balance of Trade payables as at December 31, 2014 excluded vendor liabilities in an amount of HUF 11 billion with extended payment terms (reclassified to Other financial liabilities in 2014). No contracts with such terms were made in 2015, therefore no further reclassifications were made in 2015, which resulted in higher Trade payables. Trade payables increased in 2015 compared to 2014 as a result of more successful vendor management. Further increase was caused by the remainder of liabilities recognized to compensate the overcharge of mobile termination charges (invoiced and paid at the rate prevailing before April 1, 2015, while revenues recognized at new rates effective from April 1, 2015) of HUF 1 billion.

Retained earnings increased by HUF 27 billion from December 31, 2014 to December 31, 2015. The reason for the increase is the profit generated in 2015 with no dividend declared in 2015.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2014 to December 31, 2015. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2015 and the related explanations provided above in section 13.14 Cash flows.

## 14 SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

Please refer to Note 38 of the Consolidated Financial Statements.

Budapest, February 24, 2016.



Christopher Mattheisen  
Chief Executive Officer, Board member



János Szabó  
Chief Financial Officer

## 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 undertakings included in the consolidation as a whole, and
- the business report gives a fair view of the position, development and performance of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, 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