EGYÜTT. VELED

CONSOLIDATED FINANCIAL STATEMENTS AND BUSINESS REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2014

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CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2014

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

(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 2014 (in which the statement of financial position total is HUF 1,190,776 million), the consolidated statement of profit or loss and other comprehensive income (the total comprehensive income for the year is HUF 42,892 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.

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

Opinion

In our opinion, the accompanying 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 2014, 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 2014.

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 2014 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2014.

Budapest, March 4, 2015

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

Balázs Árpád
Statutory auditor
Licence number: 006931

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At December 31, 2013	2014
		(in HUF millions)	
ASSETS			
Current assets			
Cash and cash equivalents	6	14,633	14,625
Trade and other receivables	7	136,712	144,266
Other current financial assets	8.1	28,615	23,690
Current income tax receivable	9.1	896	899
Inventories	10	12,478	13,749
Non current assets held for sale	11	607	668
Total current assets		193,941	197,897
Non current assets			
Property, plant and equipment	12	493,619	487,778
Intangible assets	13	381,199	478,486
Investments in associates and joint ventures	14	5	-
Deferred tax assets	9.4	238	155
Non current financial assets	8.2	21,619	25,243
Other non current assets	15	627	1,217
Total non current assets		897,307	992,879
Total assets		1,091,248	1,190,776
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	16	58,682	110,858
Other financial liabilities	17	100,060	65,131
Trade payables	18	103,549	110,361
Current income tax payable	9.1	759	1,778
Provisions	19	4,076	5,579
Other current liabilities	20.1	40,097	36,129
Total current liabilities		307,223	329,836
Non current liabilities			
Financial liabilities to related parties	16	239,522	245,071
Other financial liabilities	17	26,214	59,422
Deferred tax liabilities	9.4	19,075	22,064
Provisions	19	8,516	8,816
Other non current liabilities	20.2	1,122	1,169
Total non current liabilities		294,449	336,542
Total liabilities		601,672	666,378
EQUITY			
Equity of the owners of the parent			
Common stock		104,275	104,275
Capital reserves		27,387	27,396
Treasury stock		(307)	(307)
Retained earnings		281,795	310,406
Accumulated other comprehensive income		24,318	32,184
Total Equity of the owners of the parent		437,468	473,954
Non-controlling interests	21	52,108	50,444
Total equity		489,576	524,398
Total liabilities and equity		1,091,248	1,190,776

Budapest, February 25, 2015

Christopher Mattheisen
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2013	2014
		For the year ended December 31, (in HUF millions, except per share amounts)	
Revenues	22	637,521	626,447
Expenses directly related to revenues	23	(236,470)	(226,357)
Employee related expenses	24	(96,691)	(94,750)
Depreciation and amortization	12, 13	(104,741)	(100,650)
Other operating expenses	25	(128,087)	(127,190)
Operating expenses		(565,989)	(548,947)
Other operating income	26	3,189	3,074
Operating profit		74,721	80,574
Interest income	27	2,039	1,224
Interest expense	28	(22,734)	(22,620)
Other finance expense - net	29	(10,865)	(7,001)
Net financial result		(31,560)	(28,397)
Share of associates' and joint ventures' profits	14	-	(5)
Profit before tax		43,161	52,172
Income tax expense	9.2	(14,306)	(20,148)
Profit for the year		28,855	32,024
Other comprehensive income (all of which may be reclassified subsequently to profit or loss):			
Exchange differences on translating foreign operations		4,111	10,842
Revaluation of available-for-sale financial assets		(48)	26
Other comprehensive income for the year, net of tax		4,063	10,868
Total comprehensive income for the year		32,918	42,892
Profit attributable to:			
Owners of the parent		23,460	28,611
Non-controlling interests		5,395	3,413
		28,855	32,024
Total comprehensive income attributable to:			
Owners of the parent		26,525	36,477
Non-controlling interests		6,393	6,415
		32,918	42,892
Earnings per share (EPS) information:			
Profit attributable to the owners of the Company		23,460	28,611
Weighted average number of common stock outstanding (thousands) used for basic and diluted EPS		1,042,352	1,042,352
Basic and diluted earnings per share (HUF)		22.51	27.45

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended December 31, 2013	2014
		(in HUF millions)	
Cashflows from operating activities			
Profit for the year		28,855	32,024
Depreciation and amortization		104,741	100,650
Income tax expense		14,306	20,148
Net financial result		31,560	28,397
Share of associates' and joint ventures' profits		-	5
Change in assets carried as working capital		(12,866)	(11,244)
Change in provisions		(3,327)	889
Change in liabilities carried as working capital		(6,672)	3,321
Income tax paid		(12,417)	(16,133)
Dividend received		8	1
Interest and other financial charges paid		(27,903)	(24,847)
Interest received		1,469	1,135
Other cashflows from operations		13,858	11,149
Net cash generated from operating activities		131,612	145,495
Cashflows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	30	(120,138)	(142,153)
Purchase of subsidiaries and business units	31	(871)	(1,237)
Cash acquired through business combinations		-	27
Proceeds from other financial assets		37,375	24,108
Payments for other financial assets		(23,603)	(13,881)
Proceeds from disposal of PPE and intangible assets		1,188	2,635
Net cash used in investing activities		(106,049)	(130,501)
Cashflows from financing activities			
Dividends paid to Owners of the parent and Non-controlling interest		(65,405)	(8,008)
Proceeds from loans and other borrowings	17.2	331,457	501,343
Repayment of loans and other borrowings	17.2	(281,213)	(490,345)
Repayment of other financial liabilities	17.2	(11,157)	(18,541)
Net cash used in financing activities		(26,318)	(15,551)
Exchange differences on cash and cash equivalents		177	549
Change in cash and cash equivalents		(578)	(8)
Cash and cash equivalents, beginning of year		15,211	14,633
Cash and cash equivalents, end of year	6	14,633	14,625

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for AFS financial assets – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2012	1,042,742,543	104,275	27,379	4	(307)	310,452	21,335	(82)	463,056	59,027	522,083
Dividend (i)						(52,117)			(52,117)	–	(52,117)
Dividend declared to Non-controlling interests (j)									–	(13,312)	(13,312)
Equity settled share based transactions (c)				4					4	–	4
Transactions with owners in their capacity as owners				4		(52,117)			(52,113)	(13,312)	(65,425)
Other Comprehensive income							3,090	(25)	3,065	998	4,063
Profit or loss						23,460			23,460	5,395	28,855
Balance at December 31, 2013	1,042,742,543	104,275	27,379	8	(307)	281,795	24,425	(107)	437,468	52,108	489,576
Dividend declared to Non-controlling interests (j)									–	(6,822)	(6,822)
Equity settled share based transactions (c)				9					9	–	9
Capital reduction (k)									–	(1,247)	(1,247)
Deconsolidation effect									–	(10)	(10)
Transactions with owners in their capacity as owners		–	–	9	–	–	–	–	9	(8,079)	(8,070)
Other Comprehensive income							7,851	15	7,866	3,002	10,868
Profit or loss						28,611			28,611	3,413	32,024
Balance at December 31, 2014	1,042,742,543	104,275	27,379	17	(307)	310,406	32,276	(92)	473,954	50,444	524,398
Of which treasury stock	(390,862)										
Shares of common stock outstanding at December 31, 2014	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, 2014. The number of authorized ordinary shares on December 31, 2014 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, 2014 and 2013 balances of this reserve represent the amount reserved for the Share Matching Plan (Note 24.2).

(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, 2014 amounted to approximately HUF 228 billion (HUF 191 billion at December 31, 2013).

(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) In 2014 Magyar Telekom Plc. declared no dividend (HUF 50 per share in 2013).

(j) 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.

(k) 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).

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes no dividend distribution to be approved by the Annual General Meeting of the Company in April 2015.

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 1.3).

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

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

The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). CMobil 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 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

1.2 Investigation into certain consultancy contracts

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

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

On December 29, 2011, the Company announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to the Company. The settlements concluded the DOJ's and the SEC's investigations. The Company disclosed the key terms of the settlements with the DOJ and the SEC on December 29, 2011. In particular, the Company disclosed that it had entered into a two-year deferred prosecution agreement (the DPA) with the DOJ. The DPA expired on January 5, 2014, and, further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against the Company on February 5, 2014.

On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7,366 million in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011. No further provisions were made in 2012, 2013 or 2014 for these cases.

1.3 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.

1.3.1 Hungarian Fixed line

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.

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. Magyar Telekom Plc. was a Universal Service Provider from 2002 to 2008, for which a universal service contract was valid until December 31, 2008. The necessary modifications of the telecommunications law and the concerning governmental and ministerial decrees entered into force in 2010. The new legislation provides favorable conditions - in line with market changes – than the earlier regime. Magyar Telekom's universal service contract was signed on July 29, 2011, with a retrospective effect from January 1, 2011. The universal service contract expired on December 31, 2011. Even though there was no universal service contract in place as at December 31, 2012, the Company continues to comply with the provisions of the expired contract. According to the latest Communications Act amendment (June 2012), NMIAH is responsible for ensuring the universal service in Hungary. The Authority published the detailed rules on the public tender procedure and on the technical and quality requirements of universal services. The NMIAH published its request for proposal on the provision of universal services on November 4, 2013. The Company has submitted a bid for access on fixed location and for national directory enquiry service. The tender process has closed. 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 RM19 time period was closed. The new tariffs came into force on December 1, 2014. 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.

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 has to be cost based and calculated by a Top-Down Long Run Incremental Costs (TD-LRIC). It is expected that the new RUO will be approved by the NMIAH in Q4 2015.

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 recent years. Relevant change to previous decisions is the new cost calculation methodology: 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 for them by other telecommunications service providers. The reference offers of the SMPs must be approved by the NMIAH, and prices have to be based on LRIC. the Chairman of the NMIAH modified the former MARIO – Magyar Telekom's RIO - termination fee on its own authority in its resolution issued on December 30, 2013. 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. Consequently, voice telephony customers have the right to select different service providers for each call directions by dialing a pre-selected number or by using a call-by-call pre-fixed number. The requirements for carrier selection are set out in the RIO based interconnection agreements between the affected service providers.

Fixed line telecommunications service providers are obliged to provide number portability on their networks starting January 1, 2004. This means that service providers must enable subscribers to change service provider without changing their fixed telephone numbers within the same geographical area.

As of October 7, 2014 the scope of billing system audit was enlarged with accessibility control and information security compliance. The audit contract was concluded in accordance with the latest amendment of the Act C of 2003 on Electronic Communications which stipulates that the bills issued without the required audit certificate after February 28, 2015 will be invalid.

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, Makedonski Telekom AD Skopje (MKT). MKT is the leading fixed line service provider in Macedonia. The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 (Official Gazette No. 39 from February 28, 2014) as primary legislation and rulebooks as secondary legislation.

Some of the existing Rulebooks were amended by the Agency for Electronic Communications (the Agency or AEC) relating to:

- retail price regulation;
- determination of calculation method for number and frequency usage and annual fees;
- assignment of numbers and series of numbers from the numbering and frequency plan;
- general terms and conditions;
- underground cabling;
- local Bitstream access;
- wholesale leased lines;
- condition of use of E-112 unique emergency number
- universal service and functional broadband access
- interconnection and access
- security and integrity of communication networks and data protection
- QoS (Quality of service) parameter for fix and mobile networks.

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 one). 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.

In June 2013, the AEC announced starting the first analysis on wholesale market 13 (Transmission of broadcasting content to end users). The IP MATERIO was submitted for approval to the Agency in October 2013 on MKT's initiative, in line with market analyses conclusion for submission of MATERIO changes with description and conditions for IP interconnection. On December 27, 2013, MKT received resolution for approval of IP MATERIO. 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.

New regulated services are: Bit Stream Access over Next Generation Access, Virtual Unbundled Local Access, Service Level Agreement, Service Level Guaranty (BSA over NGA, VULA, SLA, SLG), Equivalence of inputs and additional parameters for efficient monitoring of provisioning wholesale access are imposed (KPIs, service level agreements and guarantees). No cost orientation obligation for optic products, only margin squeeze tests will be implemented. Expected changes of the BSA rulebook where details for technical description of new services will be determinate.

On December 30, 2014 the AEC brought a Decision for designation of MKT for SMP on Market 8 - Access to broadband services based on copper pair and broadband services fully or partly based on optic including the following services:

- Point of access on IP level
- Point of access on Ethernet level, Virtual unbundling local access (VULA)
- Bitstream access which MKT provides for its own needs based partly or fully on optics.

The 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.

On December 30, 2014 the AEC brought a Decision for designation of MKT as SMP on Market 9 -Terminating segments of leased lines in the geographical area of the Macedonian Republic.

Public debate for draft document for second market analysis on relevant retail Market 1 (Access to public telephone network at a fixed location for residential and business customers) was held in September 2014. The AEC shall regulate fiber based products of MKT with margin squeeze tests which are already implemented for copper based product regulation. The final document was published on October 7, 2014. Decision with relevant SMP remedies for MKT is expected.

On December 30, 2014 the AEC brought a Decision for designation of MKT as SMP on Market 1- Access to public telephone networks at a fixed location for residential and business customers including all types of networks, technology neutral.

1.3.3 Montenegrin Fixed line

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

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

The telecommunications sector in Montenegro is regulated by the Law on Electronic Communications (the eLaw) that came into force in August 2013. The new 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 (previously analyzed in 2010), CT was designated as an SMP operator in all seven EU standard relevant markets. Local loop unbundling (including fiber access), bitstream access, wholesale leased line and carrier pre-selection, other than on Market 4, where prices stayed 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 have been determined by the NRA based on cost model results provided in the 2013 regulatory reports. In 2011 the NRA 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 access and voice services. Decreased prices of voice service were applied in two waves: from April and December 2014. The NRA applied the three criteria test to the Retail broadband internet access services market. The market fulfilled the three criteria test and the NRA entered into the market analysis. The final decision of this market analysis published in Q1 2014 imposed cost based prices that were applied as of December 1, 2014.

In May 2011, the NRA adopted Cost Accounting methodology that had to be applied by CT. In July 2014, the NRA approved Crnogorski Telekom fix 2013 regulatory reports.

1.3.4 Hungarian Mobile

The Company is also the market leader in the Hungarian mobile market through the “T” brand.

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 published on October 22, 2008 for a spectrum usage right license for a 26 GHz block (D) 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 March 12, 2012 Magyar Telekom and the other incumbent operators filed a petition with the Metropolitan Court, requesting that the Court annul the designation of the state Consortium as an auction winner and certain relating requirements of the final decision. The Metropolitan Court, by its final judgment announced on September 17, 2012, annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court.

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 one-off 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 won

- package "A" for HUF 33,225 million containing
  - 2 x 10 MHz in 800 MHz,
  - 2 x 2 MHz in 900 MHz and
  - 2 x 30 MHz in 2600 MHz frequency bands.

- package "D" for HUF 15,000 million containing
  - 2 x 5 MHz in 1800 frequency band.

- package "E" for HUF 10,425 million containing
  - 2 x 5 MHz in 1800 frequency band.

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. At the end of August 2011, the NMIAH made its third new market analysis decisions. On the mobile voice market the three mobile operators have to cut their wholesale prices by 40% in three steps. Last mobile market resolution has been in place since August 2011 and defined an MTR level of 7.06 HUF/min to be applied from January 1, 2013. It is assumed to have the next declining MTR step in Q1 2015, since the NMIAH already published the draft resolution of new M2 market. MTR level is defined on a pure BU-LRIC basis since 2011. According to the draft resolution there is no change in the methodology.

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.

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

The European Commission introduced its last approved roaming regulation on July 1, 2012. According to that all EU operators were obliged to reduce their prices to regulated price caps, but also to separate sales of regulated roaming services from domestic mobile communications services. As a result Magyar Telekom implemented 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.

The enlargement of the scope of billing systems audit is valid for Hungarian mobile services as well (see also Note 1.3.1).

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), the Group's subsidiary, is the leading mobile service provider in Macedonia. On September 5, 2008 the Agency, ex officio, issued a notification to T-Mobile MK 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 MK 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 MK'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 MK was designated with SMP status on this market. T-Mobile MK published a RIO (Referent Interconnection Offer) with regulated termination rate effective from August 1, 2008. The price regulation on this relevant market continues as AEC conducts periodical analysis of the market and updates the price regulation models. The current termination rate is symmetrical for all 3 mobile operators T-Mobile, ONE and VIP Operator.

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 MK 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 TMMK 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 November 2013.

In March 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.

In October 2012, the Agency requested changes of T-Mobile MK's RIO in direction of allowing termination of transit traffic into T-Mobile MK's network. This Agency intervention was made in the RIOs of all operators in order to enable wider space for transit of traffic.

On December 19, 2014, amendments of the ECL were enacted in the Official Gazette, No. 188. 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 No. 0307-2694/2 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 which means that all annual fees for radiofrequencies are reduced by 20% from January 1, 2015, compared to the previous value (1 EUR, according to the ECL from the Official Gazette 13/2005). 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. 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 current 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 August 2013, T-Mobile MK 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 MK 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 was officially approached by the operators on January 8, 2015 announcing concentration between the two. Interested parties had been invited to submit their comments and opinions on the matter within 10 days of the announcement, but the due date was postponed.

1.3.6 Montenegrin Mobile

Crnogorski Telekom, 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. Interconnect rates have been determined by the Regulator based on cost model results provided in the 2013 regulatory reports. Beside standard remedies, carrier selection was also imposed. Updated RIO was published in November 2014 and Mobile Access RO in 2012. Mobile number portability was also introduced in the mobile sector 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 July 2014, the NRA approved Crnogorski Telekom's mobile 2013 regulatory reports.

1.3.7 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. The system operator fees are regulated in case of every customer segment. The regulations guarantee the margin level of the USPs and in case of the natural gas market a special sourcing structure with special sourcing prices is ensured for the USPs.

Hungary's government approved a cut in household energy prices by 10% from January 1, 2013, a further 10% cut from November 1, 2013, and a further 6.5% from April 2014 in case of natural gas, and 5.7% from September 2014 in case of electricity. The move applies to electricity, natural gas and district heating prices. The Hungarian Parliament accepted additional changes to the natural gas regulations in October 2014, mainly focusing on the regulated USP sourcing conditions.

The new regulation does not differentiate between service providers and grants them the same conditions for supplying universal customers, whether they are on the competitive market or on the regulated market, in case they comply with conditions set by regulation. The Company complies with these conditions; therefore we are subject to the new regulation.

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, 2014 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.

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

2.1.1Standards, amendments and interpretations effective and adopted by the Group in 2014

IAS 32 (amended) – The IASB published amendments to IAS 32 – Financial Instruments: Presentation in December 2011. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The Group adopted the amended standard as of January 1, 2014. The amended standard did not have material impact on the disclosures in the Group's financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended) – The IASB published IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities and amendments to IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures in May 2011.

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 – Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 – Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 – Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The Group adopted this package of five new and revised standards as of January 1, 2014. Their adoption only resulted in extended disclosure in the Group's financial statements.

IAS 36 (amended) – The IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 – Impairment of Assets in May 2013. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The Group adopted the amended standard as of January 1, 2014. The amended standard did not have any impact on the Group's financial statements.

IAS 39 (amended) – The IASB published "Novation of Derivatives and Continuation of Hedge Accounting", amendments to IAS 39 – Financial Instruments: Recognition and Measurement in June 2013. The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9 Financial Instruments. The Group adopted the amended standard as of January 1, 2014. The amended standard did not have any impact on the Group's financial statements.

IFRIC 21 – The IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments in May 2013. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group adopted the interpretation as of January 1, 2014. The interpretation did not have any impact on the Group's financial statements as the Group's interpretation of the standard was identical to the IFRIC applied in 2014.

2.1.2 Standards, amendments and interpretations effective in 2014 but not relevant for the Group

IFRS 10, IFRS 12, IAS 27 (amended) – The IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012. As Magyar Telekom does not have investment entities, the amendments did not have any impact on the Group's financial statements.

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, 2017. 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. 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 recognised 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.

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 in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies to obtain benefit from its activities, are consolidated.

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.

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 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 2013 the principal operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31,		Activity
	2013	2014	
Incorporated in Hungary:			
Origo Zrt., Budapest	100.00%	100.00%	Internet and TV content provider
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%	System integration and IT services
Telekom New Media Zrt., Budapest	100.00%	100.00%	Interactive service provider of telecommunications applications
Incorporated in Macedonia:			
Makedonski Telekom A.D., Skopje (MKT)	56.67%	56.67%	Fixed line telecom service provider
T-Mobile Macedonia A.D., Skopje (T-Mobile MK)	56.67%	56.67%	Mobile telecom service provider
Stonebridge A.D., Skopje..................................	100.00%	100.00%	Holding company
Incorporated in Montenegro:			
Crnogorski Telekom AD, Podgorica (CT)	76.53%	76.53%	Telecom service provider
Incorporated in Romania:			
Combridge S.R.L., Bucharest...........................	100.00%	100.00%	Wholesale telecom service provider
Incorporated in Bulgaria:			
Novatel EOOD, Sofia	100.00%	100.00%	Wholesale telecom service provider

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 ventures

Associates are entities over which the Group has significant influence but not control, generally reflecting a voting right between 20% and 50%. Joint ventures are entities in which the Group has a voting right of 50% with and equivalent external partner holding the other 50% of the voting rights. 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.

At December 31, 2014 and 2013 the Group had no significant associates or joint ventures.

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.

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.

Finance lease receivables and liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases. See Note 2.17.

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
- loans and receivables
- available-for-sale (AFS)
- held-to-maturity

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

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 that are designated as "at fair value through profit or loss" using the fair value option as per IAS 39
- Financial assets incurred for the purpose of selling immediately or in the near term and thus classified as "held for trading"
- Derivative financial assets 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 and impairment losses or their reversals 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 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

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 (Expenses directly related to revenues – 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 Expenses directly related to revenues 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 Expenses directly related to revenues (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. 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 equity (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 are reclassified from Other comprehensive income to Profit for the year (Other finance expense – net).

2.4.1.4 Held-to-maturity investments

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group does not classify any of its financial instruments in this category.

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 remove 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. The carrying values of trade and other payables approximate their fair values due to their short maturity.

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 classified as “held for trading”.

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 (Materials, maintenance and service fees).

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 asset 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 including any related borrowing costs. 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 (included in Fees and levies) 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 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 relating 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 period the services are provided. Operating lease revenues are primarily included in the System integration and IT revenues.

2.12.1 Fixed line and mobile 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 (Voice and Non-voice) 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 included in Voice and Non-voice (Data and Internet) 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 (Expenses directly related to revenues) 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 is providing more integrated services to its residential and business customers. Magyar Telekom offers 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 offer 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 goes by 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. is listed and actively traded on the Budapest Stock Exchange, the share price and its history is readily available as a basis for fair value calculations.

Bonuses tied to the long term performance of the Magyar Telekom share are recognized in the Profit for the year at their time-proportioned fair value (Note 24.1) 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.

2.13.4 Post-employment defined benefits

Magyar Telekom does not have significant post-employment defined benefit schemes.

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 is also provided on taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where 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 income 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 (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 (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 may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant Notes. In 2014 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 limits, and monitors their fulfillment annually. Magyar Telekom fulfilled the EBITDA to Interest Expense criteria at the end of 2013 and 2014. This ratio was 6.38 in 2014, (2013: 5.69), the allowed minimum of which would be 3.0. There was a temporary breach of the Total debt to EBITDA limit as a consequence of the Hungarian spectrum acquisition in the second half of 2014 as a result of which Total Debt to EBITDA ratio reached 2.65 as at December 31, 2014 (2013: 2.37), the allowed maximum of which would be 2.5. The Group's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury department continuously.

Magyar Telekom is exposed to interest and foreign exchange (FX) rate risk associated with its interest bearing assets and liabilities and anticipated transactions. As the vast majority of the revenues and expenses 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 (2014) and the preceding reporting period (2013). 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

From 2009 not all new loans taken from DT were denominated in HUF. In agreement with Deutsche Telekom, several new related party loans taken to finance general corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) from June 2009 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, 2014, a 10% weaker HUF would cause an FX loss of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 8.0 billion. As of December 31, 2014, a 10% stronger HUF would cause an FX gain of approximately HUF 7.4 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 8.0 billion. As of December 31, 2013, a 10% weaker HUF would have caused an FX loss of approximately HUF 9 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 10 billion. As of December 31, 2013, a 10% stronger HUF would have caused an FX gain of approximately HUF 9 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 10 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. As of December 31, 2014, a 10% weaker HUF would cause an FX loss of approximately HUF 0.5 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 0.5 billion. As of December 31, 2014, a 10% stronger HUF would cause an FX gain of approximately HUF 0.5 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 0.5 billion. As of December 31, 2013, a 10% weaker HUF would have caused an FX loss of approximately HUF 0.7 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 0.8 billion. As of December 31, 2013, a 10% stronger HUF would have caused an FX gain of approximately HUF 0.7 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 0.8 billion.

(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 assets (primarily held by the Group's foreign subsidiaries), however, exceed the Group's foreign currency denominated liabilities (other than the above described loans), 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, 2014, a 10% weaker functional currency HUF against the EUR and a 20% weaker HUF against the USD would have caused an unrealized loss of less than HUF 1.0 billion on this net balance (2013: HUF 1.4 billion loss). The same amount of gain would have been caused by a 10% stronger functional currency HUF against the EUR and a 20% stronger HUF against the USD. Compared to the spot FX rates as of December 31, 2014, 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 (2013: less than HUF 1.0 billion gain). 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 0.4 billion as of December 31, 2014 (2013: HUF 1.2 billion liability). 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, 2014, a 10% weaker functional currency HUF against the EUR and a 20% weaker HUF against the USD would have caused HUF 6.8 billion unrealized gain on this net balance while a 10% stronger HUF against the EUR and a 20% stronger HUF against the USD would have caused HUF 5.9 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 20% 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.

The Group had no significant HUF denominated bank deposits at the end of 2014 and 2013.

The Group's MKD denominated bank deposits amounted to HUF 10.8 billion at the end of 2014 (2013: HUF 8.2 billion). A 1 percentage point higher interest rate throughout 2014 (assuming the year-end 2014 balance throughout 2014) would have resulted in HUF 0.1 billion higher interest income in 2014 (2013: HUF 0.1 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

The Group's EUR denominated bank deposits amounted to HUF 9.9 billion at the end of 2014 (2013: HUF 20.4 billion). A 1 percentage point higher interest rate throughout 2014 (assuming the year-end 2014 balance throughout 2014) would have resulted in HUF 0.1 billion higher interest income in 2014 (2013: HUF 0.2 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

As a result of the volatile international capital and securities markets, a higher fluctuation of the interest rates is also possible, the exposure to which is mitigated by the balanced portfolio of fixed and floating interest rate deposits (see above). Sensitivities have been disclosed for a movement of 1 percentage point for EUR and MKD, but extraordinary market conditions may cause extreme volatility on money markets, which can result in even higher percentage point change in interest rates.

(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 74% of the Group's total debt as of December 31, 2014 (2013: 54%).

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 26% of the Group's total debt as of December 31, 2014 (2013: 46%). A 1 percentage point higher interest rate throughout 2014 (assuming the year-end 2014 balance throughout 2014) would have resulted in HUF 1.0 billion higher interest expense in 2014, while the same decrease of interest rates would cause the same decrease in interest payments (2013: HUF 1.7 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 0.9 billion, while a 1% decrease in the EUR rates would result in an income of HUF 0.9 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 0.1 billion, while a 1% decrease in the HUF rates would cause a loss of HUF 0.1 billion.

3.1.1.3 Price risk

As of the end of the reporting periods, Magyar Telekom had legally binding agreements on natural gas and electricity purchase, which could be materially affected by risk variables such as energy exchange prices or FX prices, or other indices. In order to the minimize the risk deriving from such price changes Magyar Telekom made the necessary economic hedge actions for much of the exposure, therefore no relevant risk remained in this field. 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 7.6 billion as at December 31, 2014 (2013: HUF 16.0 billion) and those in Macedonia of

HUF 13.1 billion as at December 31, 2014 (2013: HUF 12.5 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,	
	2013	2014
Hungary	107,389	111,720
Macedonia	12,940	15,110
Montenegro	5,218	6,620
Other	988	1,000
	126,535	134,450

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2014 was 1.9% (2013: 1.4%) 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 6.3 billion in 2014 (2013: HUF 6.4 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, 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, many processes related to limitation of credit risk have been established, changed and improved. In the period 2010-2013 Montenegro had a constant decline of Bad debt costs and overall improvement of collection rates. This trend continued in 2014 despite the negative effects of the prolonged economic crisis. As a result, bad debt expense was significantly lower in 2014 compared to 2013. The focus was on business customers and new residential customers. Good results came mainly due to the redesign of regular procedure for monitoring and collection of debt toward business customers and improvements of dunning/collection process in the late collection part toward residential customers. Significant results were achieved in the area of fraud prevention and revenue assurance. Fraud management system was revised to enable achieving significant results in the area of simboxing prevention. In the revenue assurance area we continued to increase revenue assurance coverage and introduce new controls by introducing new systems.

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 57.5 billion as at December 31, 2014 (2013: HUF 46.4 billion), and the Company also had uncommitted credit lines from Hungarian Banks as at December 31, 2014 and 2013. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2016.

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, 2014 and 2013. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

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

December 31, 2013 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	103,549	103,549	-	-
Liabilities to banks from factored trade payables	9,786	9,786	-	-
Financial liabilities to related parties	335,426	73,574	261,852	-
Bank loans	88,169	83,652	4,517	-
Finance lease liabilities	12,019	3,940	5,506	2,573
Other financial liabilities	21,952	4,436	10,706	6,810
Total other financial liabilities	122,140	92,028	20,729	9,383
Total cash flows	570,901	278,937	282,581	9,383
Open swap positions' cash flows				
Gross cash inflow in EUR million	367	99	268	-
Gross cash inflow in HUF million (at spot rate)	108,984	29,280	79,704	-
Gross cash outflow in HUF million	(105,741)	(30,008)	(75,733)	-
Net cash (outflow)/inflow in HUF million	3,243	(728)	3,971	-
Open forward positions' cash flows				
Gross cash inflow in EUR million	175	175	-	-
Gross cash inflow in USD million	44	44	-	-
Total gross cash inflow in HUF million (at spot rate)	61,389	61,389	-	-
Gross cash outflow in HUF million	(62,890)	(62,890)	-	-
Net cash outflow in HUF million	(1,501)	(1,501)	-	-

The average maturity of Magyar Telekom's debt portfolio was 2.01 years as at December 31, 2014 (2013: 1.53 years). The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2014 and 2013.

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 optimal capital structure to reduce the cost of capital.

The Company's management proposes to the owners (through the Board) of the Company to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the 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 2013 and 2014, 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, 2014 was 45.7% (2013: 43.8%). As a result, the Company paid no dividend in 2014 and no dividend is expected to be declared in 2015.

In addition to the above, according to the Hungarian Companies Act, Magyar Telekom Plc. has to ensure that the Company's Equity does not fall below its Common stock, i.e. the total of the reserves should not be negative. 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 524 billion on December 31, 2014 (2013: HUF 490 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 11 billion (2013: HUF 11 billion). See Notes 12 and 13 for the changes made to useful lives in 2014.

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 2014 and 2013, 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 2014 and 2013. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2014 or 2013 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In 2014 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 4 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 20% lower than projected cash flow stream would have on the goodwill.

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

In 2013, we disclosed what impact a 1 percentage point increase of the WACC would have had on the goodwill in case of the WACCs. In case of the PGRs we disclosed what impact a 2 percentage point decrease of the PGR would have had on the goodwill. In case of the cash flow projections we disclosed what impact a 10% or a 20% lower than projected cash flow stream would have had on the goodwill.

2013	Telekom Hungary	T-Systems	Macedonia	Montenegro
WACC				
Used in the calculation	8.87%	9.20%	9.50%	8.69%
If changed to	9.87%	10.20%	10.50%	9.69%
Potential impairment (HUF million)	-	-	1,935	-
PGR				
Used in the calculation	1.0%	1.0%	1.0%	0.0%
If changed to	-1.0%	-1.0%	-1.0%	-2.0%
Potential impairment (HUF million)	-	-	1,280	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	-	-	981	-
If changed by	-20%	-20%	-20%	-20%
Potential impairment (HUF million)	23,604	2,598	8,378	-

The table below shows what changes can be observed in the 10 year plans prepared in 2013 compared to those prepared in 2014.

	Telekom Hungary	T-Systems	Macedonia	Montenegro
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 revenues during the 10 years compared to 2013	1.5%	1.7%	-1.3%	-0.9%
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 EBITDA during the 10 years compared to 2013	3.1%	3.6%	0.1%	-0.1%
Cumulative average growth rate of Capex during the 10 years compared to 2014	-4.3%	-0.2%	0.8%	-0.8%
Cumulative average growth rate of Capex during the 10 years compared to 2013	-1.1%	0.8%	-4.0%	0.6%

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 16.2 billion in 2014 (2013: HUF 15.6 billion). In addition, agent fees amounted to HUF 8.9 billion in 2014 (2013: HUF 9.5 billion), while the Group's marketing costs amounted to HUF 13.0 billion in 2014 (2013: HUF 12.8 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 1.3.4) have 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 achived 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 do not consider the annual fees to be reliably estimable, therefore, those are not capitalized.

5 BUSINESS COMBINATIONS

In 2014 the Group acquired a number of cable TV businesses for HUF1,103 million in individually not significant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The majority of the total purchase price was paid in cash in 2014 while HUF 112 million will be paid in subsequent years.

In 2013 the Group acquired a number of cable TV businesses for HUF 719 million in individually not significant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The total purchase price was paid in cash in 2013. The table below shows the summary of the individually insignificant transactions.

In HUF millions	**2013**	**2014**
Consideration transferred	719	1,103
Less: Fair value of the net assets acquired	650	868
Goodwill	69	235

No pro forma information is provided as the acquisitions in 2014 and 2013 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, 2013	At December 31, 2014
Cash on hand	278	353
Cash in bank (demand deposits)	8,956	8,127
Bank deposits with original maturities less than 3 months	5,399	6,145
	14,633	14,625

Average interest rates	At December 31, 2013	At December 31, 2014
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.53%	0.38%
Bank deposits with original maturities less than 3 months	0.99%	0.88%
Average interest rate	0.72%	0.58%

Cash and cash equivalents by currency In HUF millions	At December 31, 2013	At December 31, 2014
MKD	5,215	6,217
EUR	5,096	5,093
HUF	1,973	1,538
USD	2,292	1,732
Other	57	45
	14,633	14,625

Cash and cash equivalents by country of location In HUF millions	At December 31, 2013	At December 31, 2014
Macedonia	6,900	7,675
Hungary	6,412	3,899
Montenegro	1,094	2,575
Other countries	227	476
	14,633	14,625

7 TRADE AND OTHER RECEIVABLES

7.1 Trade and other receivables – carrying amounts

In HUF millions		At December 31, 2013	2014
Trade receivables from third parties		118,593	125,622
Trade receivables from Deutsche Telekom Group companies		7,942	8,825
Trade receivables from associates and joint ventures		-	3
Total trade receivables	(a)	126,535	134,450
Prepayments and advance payments		8,039	7,862
Other taxes receivable		1,444	1,410
Other		694	544
Total other receivables		10,177	9,816
		136,712	144,266

(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, 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

In HUF millions	Carrying amount as of Dec 31, 2013	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	107,389	86,507	11,702	1,849	1,696	2,311	2,634	690
Macedonia	12,940	9,561	1,332	647	386	484	304	226
Montenegro	5,218	4,140	590	223	110	103	49	3
Other countries	988	777	54	34	20	17	44	42
Total	126,535	100,985	13,678	2,753	2,212	2,915	3,031	961

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 2.1 months of revenue (2013: 1.9 months of revenue). As disclosed in Note 3.1.2, the annual bad debt expense of the Group is approximately 1.9 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 loss and changes therein for 2013 and 2014.

In HUF millions	At December 31, 2013	At December 31, 2014
Impairment loss, beginning of period	30,040	30,586
Charged to expense – net (included in Expenses directly related to revenues)	8,690	11,717
Translation difference	252	838
Utilized	(8,396)	(8,374)
Impairment loss, end of period	30,586	34,767

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 2013 and 2014 for the countries of operation of the Group.

In HUF millions	At December 31, 2012	Charged to expense	Translation difference	Utilized	At December 31, 2013
Hungary	16,950	7,857	-	(7,867)	16,940
Macedonia	8,248	283	159	(247)	8,443
Montenegro	4,750	540	90	(241)	5,139
Other countries	92	10	3	(41)	64
Group	30,040	8,690	252	(8,396)	30,586

In HUF millions	At December 31, 2013	Charged to expense	Translation difference	Utilized	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

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, 2013	At December 31, 2014
Bank deposits with original maturities over 3 months	(a)	23,593	14,821
Finance lease receivable	(b)	746	681
Loans and receivables from employees	(c)	494	507
Derivative financial instruments contracted with related parties	(d)	1,549	4,826
Derivative financial instruments contracted with third parties	(e)	22	257
Loans and receivables from associates		-	174
Other		2,211	2,424
		28,615	23,690

(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, 2013	At December 31, 2014
Macedonia	7,560	7,264
Montenegro	6,235	6,297
Germany	9,798	1,260
Hungary	-	-
	23,593	14,821

8.2 Non current financial assets

In HUF millions		At December 31, 2013	2014
Finance lease receivable	(b)	2,065	1,440
Loans and receivables from employees	(c)	3,984	4,097
Trade receivables over one year	(f)	8,714	10,745
Derivative financial instruments contracted with related parties	(d)	5,103	7,000
Derivative financial instruments contracted with third parties	(e)	-	231
Financial assets available for sale	(g)	214	231
Other		1,539	1,499
		21,619	25,243

(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 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, 2013	2014
Corporate income tax	4,305	9,041
Other income taxes	7,974	8,165
Deferred income taxes	2,027	2,942
Total income tax expense	14,306	20,148

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, 2013	2014
Consolidated IFRS profit before income tax		42,861	52,172
Tax at 19%		(8,144)	(9,913)
Impact of different tax rates	(a)	2,651	1,398
Tax shield of items not subject to income tax	(b)	1,208	2,275
Tax impact of non deductible items	(c)	(2,244)	(2,404)
Other income taxes	(d)	(7,688)	(8,165)
Impact of tax deductibility of other income taxes	(e)	1,484	1,551
Energy suppliers' tax	(f)	(286)	(600)
(De)/recognized deferred tax on tax losses	(g)	(118)	(86)
Investment tax credit accretion	(h)	1,246	1,186
Withholding tax on expected dividends	(i)	(2,415)	(249)
Tax law changes in Macedonia	(j)	-	(2,100)
Other effects related to Macedonia	(k)	-	(3,041)
Income tax expense		(14,306)	(20,148)
Effective tax rate		33.4%	38.6%

(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 9% in Montenegro, 16% in Romania and 10% in Bulgaria in the reported years. The tax rate in Macedonia is 10% in 2014, while it was 0% in 2013 for the undistributed profits. This line of the reconciliation includes the tax impacts of the above differences compared to the 19% genearal 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, entertainment expenses 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. In addition, according to the Macedonian tax law effective in 2013, Macedonian companies had to pay "corporate income tax" on their annual profits in 2013 if they distributed those profits as dividends to foreign companies (or Macedonian individuals) at 10%. We assessed that the Macedonian 2013 corporate tax was in fact a withholding tax that was levied at the dividend distributions from Macedonia to Hungary, which imposed additional tax expenses for the Group related to the 2013 profits of the Macedonian subsidiaries.

The reconciliation in 2013 included the amount of withholding tax accruing on the 2013 profits to be distributed from the Macedonian and Montenegrin subsidiaries to the Company. Dividends received by the Hungarian parent companies are eliminated on consolidation, therefore, the consolidated profit before tax excludes these dividends. As these dividends are not subject to corporate tax in Hungary, this line of the reconciliation included the Company's withholding tax burden expected on the annual profits of the Macedonian and Montenegrin subsidiaries in 2013.

In addition to the above, this line of the reconciliation in 2013 also included the deferred tax expense impact of the decrease of the statutory reserve in Macedonia from 20% to 10% of the issued capital, which increased the distributable reserves of Makedonski Telekom and T-Mobile Macedonia, resulting in additional withholding tax payable on the increased expected dividends.

The amended profit tax law effective from January 2014 reinstated the general profit tax in Macedonia at a rate of 10%. Accordingly, the 10% tax rate is accounted and disclosed as corporate tax in 2014, therefore, the Withholding tax line of the reconciliation does not include this portion of the Macedonian tax expenses in 2014. Further, due to the impairment charge accounted in the statutory financial statements of Stonebridge, our holding company in Macedonia, no dividend distributions are expected from Macedonia to Hungary in the foreseeable future, therefore, no deferred tax liabilty for withholding tax is accounted for in 2014.

In summary, this line of the reconciliation in 2014 only includes the amount of withholding tax (at 5%) accruing on the Group's share of the 2014 profits of our Montenegrin 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.

(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 prevent 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.

9.4 Deferred taxes

Magyar Telekom's deferred tax balances are as follows:

In HUF millions	Balance at Dec. 31, 2012	Effect on profit	Other move-ments	Balance at Dec. 31, 2013	Effect on profit	Other move-ments	Balance at Dec. 31, 2014
Deferred tax assets and (liabilities)							
Investment tax credits	14,948	(941)	5,025	19,032	(2,077)	(70)	16,885
Net operating loss carry-forward	1,111	(77)	-	1,034	(85)	-	949
Investments in subsidiaries	(563)	158	-	(405)	405	-	-
Withholding tax	(2,466)	326	-	(2,140)	1,839	-	(301)
Other financial assets	(1,214)	(19)	-	(1,233)	(1,120)	-	(2,353)
Impairment of receivables and inventory	2,598	83	-	2,681	300	-	2,981
Property, plant and equipment and intangible assets	(25,480)	603	61	(24,816)	4,446	(60)	(20,430)
Goodwill	(14,295)	(1,840)	-	(16,135)	(1,840)	-	(17,975)
Trade and other payables	113	(6)	-	107	(10)	-	97
Loans and other borrowings	284	239	-	523	(4,947)	-	(4,424)
Deferred revenue	(244)	6	-	(238)	234	-	(4)
Provisions for liabilities and charges	3,312	(559)	-	2,753	(87)	-	2,666
Total net deferred tax liability	(21,896)	(2,027)	5,086	(18,837)	(2,942)	(130)	(21,909)
Of which deferred tax liability	(22,428)			(19,075)			(22,064)
Of which deferred tax asset	532			238			155

Items included in other movements	2013	2014
Investment tax credit recognized/adjusted against the cost of PPE	5,025	(70)
Currency translation adjustment arising on consolidation	(21)	(50)
Arising on business combinations	82	(10)
	5,086	(130)

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, 2014 is 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 is expected to reverse in 2015 (deferred tax asset of HUF 5,817 million and deferred tax liability of HUF 2,434 million).

The Group's net deferred tax liability balance was HUF 18,837 million at December 31, 2013 which included a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 4,068 million net deferred tax asset was expected to reverse in 2014 (deferred tax asset of HUF 5,545, million and deferred tax liability of HUF 1,477 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 27,377 million at December 31, 2014 (2013: temporary differences of HUF 10,942 million).

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, 2014	Expires in year
2006	14,939	4,346	3,492	(5,862)	1,976	2016
2007	10,681	2,822	2,171	(16)	4,977	2017
2008	2,165	451	268	-	719	2018
2012	11,968	3,660	254	(2)	3,912	2021
2013	14,755	4,791	341		5,132	2023
2014	508	171	-	(2)	169	2023
Total	55,016	16,241	6,526	(5,882)	16,885	

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). 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 and 2013, respectively. 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.

Expires in year	Tax loss carry forwards at December 31, 2013	Tax loss carry forwards at December 31, 2014
2016	102	106
2017	132	137
2018	116	29,373
2019	-	117
2025	-	11,533
unlimited	11,738	-
Total	12,088	41,266
Tax losses for which deferred tax is recognized	5,442	4,997
Tax losses for which deferred tax is not recognized	6,646	36,269
Total	12 088	41 266

The majority of tax loss carry forwards for which no deferred tax has been recognized as at December 31 belong to Stonebridge as a result of the impairment of Maktel shares.

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, 2013	At December 31, 2014
Inventory for resale	10,202	12,138
Other inventory and advances	2,607	2,056
Subtotal	12,809	14,194
Less allowances for obsolete inventory	(331)	(445)
	12,478	13,749

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, 2013 or December 31, 2014.

11 NON CURRENT ASSETS HELD FOR SALE

Non current 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 on carrying value as no impairment had to be recognized when reclassified as held for sale.

12 PROPERTY, PLANT AND EQUIPMENT

In HUF millions	Land and equivalent rights	Buildings	Telecom. equipment	Other equipment	Total
At January 1, 2013					
Cost	7,706	148,505	1,217,053	92,188	1,465,452
Accumulated depreciation	(2,076)	(44,714)	(834,676)	(70,208)	(951,674)
Carrying amount	5,630	103,791	382,377	21,980	513,778
Of which held for sale					(2,816)
					510,962
Carrying amount – January 1, 2013	5,630	103,791	382,377	21,980	513,778
Exchange differences	25	508	1,176	201	1,910
Additions due to business combinations	-	-	445	4	449
Changes due to revisions of asset retirement obligations	-	27	28	-	55
Investments	-	4,658	51,458	5,135	61,251
Disposals	(2)	(59)	(245)	(537)	(843)
Depreciation charge	(105)	(4,374)	(68,409)	(7,898)	(80,786)
Reclassifications	729	(520)	(3,899)	2,102	(1,588)
Carrying amount – December 31, 2013	6,277	104,031	362,931	20,987	494,226
At December 31, 2013					
Cost	8,398	152,858	1,177,442	93,988	1,432,686
Accumulated depreciation	(2,121)	(48,827)	(814,511)	(73,001)	(938,460)
Carrying amount	6,277	104,031	362,931	20,987	494,226
Of which held for sale					(607)
					493,619
Carrying amount – January 1, 2014	6,277	104,031	362,931	20,987	494,226
Exchange differences	81	1,649	3,575	497	5,802
Additions due to business combinations	19	35	701	22	777
Changes due to revisions of asset retirement obligations	-	149	233	-	382
Investments	13	5,699	51,449	6,326	63,487
Disposals	(174)	(562)	(106)	(248)	(1,090)
Depreciation charge	(102)	(4,526)	(61,265)	(6,940)	(72,833)
Reclassifications	150	(2,287)	(1,112)	944	(2,305)
Carrying amount – December 31, 2014	6,264	104,188	356,406	21,588	488,446
At December 31, 2014					
Cost	8,470	156,878	1,176,487	95,475	1,437,310
Accumulated depreciation	(2,206)	(52,690)	(820,081)	(73,887)	(948,864)
Carrying amount	6,264	104,188	356,406	21,588	488,446
Of which held for sale					(668)
					487,778

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 39,511 million as at December 31, 2014 (2013: HUF 37,570 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 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. These additions are shown net of the investment tax credit earned. For more details, see Note 9.5.

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

No impairment was identified in 2014 and 2013.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2014 the gross book value of the assets leased back is HUF 3,332 million (2013: HUF 2,629 million) and the net book value is HUF 1,535 million (2013: HUF 1,120 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, 2014 the gross book value of the finance leased assets is HUF 9,842 million (2013: HUF 7,990 million) and the net book value is HUF 6,248 million (2013: HUF 6,302 million).

Included in telecommunications equipment at December 31, 2014 are assets leased under operating lease contracts to customers with a gross book value of HUF 585 million (2013: HUF 684 million) and net book value of HUF 5 million (2013: HUF 8 million).

The Group has no PPE with restricted titles or pledged as security as at December 31, 2014 or December 31, 2013.

12.1 Useful lives

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

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

The reviews of the useful lives (and residual values) of property, plant and equipment during 2014 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	2014	2015	2016	2017	After 2017
Increase / (decrease) in depreciation expense	627	(799)	144	104	(76)

13 INTANGIBLE ASSETS

In HUF millions

	Goodwill	Concessions and licenses	Software	Other	Total
At January 1, 2013					
Cost	217,709	51,102	217,596	18,881	505,288
Accumulated amortization	-	(30,578)	(151,685)	(11,959)	(194,222)
Carrying amount	217,709	20,524	65,911	6,922	311,066
Carrying amount – January 1, 2013	217,709	20,524	65,911	6,922	311,066
Exchange differences	117	89	168	53	427
Additions due to business combinations	69	-	-	222	291
Investments	-	58,675	26,051	145	84,871
Disposals	-	-	(5)	(7)	(12)
Reinvestment	-	6,923	-	-	6,923
Amortization charge	-	(6,787)	(15,529)	(1,639)	(23,955)
Reclassifications	-	-	1,408	180	1,588
Carrying amount – December 31, 2013	217,895	79,424	78,004	5,876	381,199
At December 31, 2013					
Cost	217,895	89,617	237,073	17,452	562,037
Accumulated amortization	-	(10,193)	(159,069)	(11,576)	(180,838)
Carrying amount	217,895	79,424	78,004	5,876	381,199
Carrying amount – January 1, 2014	217,895	79,424	78,004	5,876	381,199
Exchange differences	372	314	549	236	1,471
Additions due to business combinations	235	-	-	265	500
Investments	-	97,593	21,715	1,569	120,877
Disposals	-	-	(49)	-	(49)
Amortization charge	-	(10,531)	(15,218)	(2,068)	(27,817)
Reclassifications	-	-	2,305	-	2,305
Carrying amount – December 31, 2014	218,502	166,800	87,306	5,878	478,486
At December 31, 2014					
Cost	218,502	187,272	261,234	18,206	685,214
Accumulated amortization	-	(20,472)	(173,928)	(12,328)	(206,728)
Carrying amount	218,502	166,800	87,306	5,878	478,486

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. Additions to Concessions and licenses in 2014 included the initial cost of the right of use of the new frequency bands won in a tender by the Company in 2014 for HUF 60 billion and the present value of the annual fees payable for the use of these frequencies until 2034. Additions to Concessions and licenses in 2013 included the initial cost of the right of use of the 900 and 1800 MHz frequency bands awarded to the Company in 2013 for HUF 38 billion and the present value of the annual fees payable for the use of these frequencies until April 2022. As the conditions of the new Contracts and the related regulations were substantially different from the conditions of the old agreements, the accumulated amortization of all the impacted frequencies was eliminated against their gross book values in 2013 and the amortization was charged on the cost of the licenses defined by the new Contract and the related regulations in force from September 2013, considering the new useful lives (license periods).

Reinvestment in 2013 included the re-recognition of a part of the frequency licence cost derecognized in 2012. On September 6, 2013 the Company and the NMIAH signed the modification of the Authority Contract on the use of the 900 MHz and 1800 MHz frequency bands (see also Note 1.3.4). According to the Contract – among other items - Magyar Telekom retained the frequency usage right until April 8, 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band. As the original length of the usage right was shortened, the proportionate amount of HUF 6.9 billion was re-recognized as an intangible asset, while HUF 4 billion was settled net with the NMIAH in November 2013.

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, 2014 or December 31, 2013.

13.1 Useful lives

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

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

The reviews of the useful lives of intangible assets during 2014 resulted in the following change in the original trend of amortization in the current and future years.

In HUF millions	2014	2015	2016	2017	After 2017
Increase / (decrease) in depreciation expense	(302)	100	109	86	7

13.2 Significant individual intangible assets

13.2.1 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,			
	2013		2014	
	Carrying amount of goodwill	Recoverable amount of operating segment	Carrying amount of goodwill	Recoverable amount of operating segment
Telekom Hungary	163,615	779,295	163,850	876,855
T-Systems	27,928	75,403	27,928	88,303
Macedonia	20,199	130,530	20,199	171,513
Montenegro	6,153	74,551	6,525	96,994
Total	217,895	1,059,779	218,502	1,233,665

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 2013 and 2014 no goodwill impairment was established for any goodwill of the Group.

13.2.2 Licenses

The carrying values and remaining amortization periods of the licenses are listed in the table below. For further information on these assets, please see Note 1.3.

In HUF millions	As at December 31,			
	2013		2014	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungarian mobile licenses acquired in 2014 (Note 1.3.4)	-	-	96,559	20
Hungarian mobile licenses prolonged in 2013 (Note 1.3.4)	60,169	8	54,000	7
Hungarian 3G license (Note 1.3.4)	10,657	6	8,898	5
Macedonian 4G license (Note 1.3.5)	3,050	20	3,071	19
Macedonian 2G/3G license (Note 1.3.5)	1,561	5	1,606	4
Other	3,987		2,666	
Total concessions and licenses	79,424		166,800	

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group had no significant associates or joint ventures at December 31, 2013 and 2014. The Group had no contingent liabilities or commitments relating to its associates or joint ventures at December 31, 2013 and 2014.

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 cash position of Magyar Telekom.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2014 and 2013.

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					

December 31, 2013	Carrying amount in HUF millions	Lender	Currency	Interest rate (%)	Fixed / floating	Maturity
	35,000	DT AG	HUF	4.35	floating	Jan 2014
	22,904	DTIF	EUR	3.76	fixed	Jun 2014
Due within 1 year	57,904					
Accrued interest	284					
Derivatives	494					
Total current	58,682					
	49,531	DTIF	EUR	4.46	fixed	Jan 2015
	53,046	DTIF	HUF	8.30	fixed	May 2015
	35,644	DT AG	HUF	4.34	floating	Mar 2016
	35,750	DT AG	HUF	7.66	fixed	Sep 2016
	28,503	DTIF	HUF	6.22	fixed	Dec 2016
	14,066	DTIF	HUF	6.29	fixed	Dec 2016
	7,365	DTIF	EUR	3.71	fixed	May 2017
	15,156	DTIF	EUR	4.08	fixed	Nov 2018
Non current	239,061					
Derivatives	461					
Total non current	239,522					

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

In HUF millions	At December 31, 2013		At December 31, 2014	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	131,365	141,842	239,099	249,216
At floating rate	70,644	71,394	40,281	40,281
	202,009	213,236	279,380	289,497
EUR denominated loans				
At fixed rate	94,956	99,662	76,456	78,147
At floating rate	-	-	-	-
	94,956	99,662	76,456	78,147
Accrued interest	284	284	-	-
Derivatives	955	955	93	93
Total related party financial liabilities	298,204	314,137	355,929	367,737

The weighted average interest rate on related party loans was 5.55% in 2014 (5.67% in 2013). 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.

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 and 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, 2013	2014
Bank loans	(a)	82,035	44,219
Trade payables classified as financial liabilities	(b)	9,786	10,917
Annual frequency fee payable	(c)	2,262	2,948
Finance lease payable	(d)	3,074	3,515
Building exchange payable	(e)	905	960
Third party derivatives	(f)	729	418
Other		1,269	2,154
Total other financial liabilities – current		100,060	65,131

In HUF millions		At December 31, 2013	2014
Bank loans	(a)	4,461	1,577
Annual frequency fee payable	(c)	14,810	51,358
Finance lease payable	(d)	4,173	4,213
Building exchange payable	(e)	2,429	1,770
Third party derivatives	(f)	64	-
Other		277	504
Total other financial liabilities – non current		26,214	59,422

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

(a) Bank loans

In HUF millions	As at December 31, 2013	2014
Due within 1 year	82,035	44,219
Due in 1–2 years	2,974	1,577
Due in 2–3 years	1,487	-
Due after 3 years	-	-
Total bank loans	86,496	45,796

Loans totaling HUF 36,684 million at December 31, 2014 are revolving loans (2013: HUF 64,709 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 2.51% in 2014 (3.54% in 2013).

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

In HUF millions	At December 31,			
	2013		2014	
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	-	-	-	-
At floating rate	76,744	76,744	38,574	38,574
	76,744	76,744	38,574	38,574
EUR denominated bank loans				
At fixed rate	7,435	7,495	4,731	4,721
At floating rate	1,989	1,989	2,110	2,110
	9,424	9,484	6,841	6,831
Accrued interest	327	327	381	381
Total bank loans	86,496	86,555	45,796	45,786

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.

During 2013, the Company concluded several agreements according to which some of our vendors factored their receivables from the Company with one of the banks we have accounts at. As a result, at the end of 2013 these trade payables were transformed to liabilities to banks, as these factoring transactions also resulted in the renegotiation of the payment terms of our vendor invoices, therefore, the related trade payables were derecognized and other financial liabilities were recognized instead.

(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. For the new bands the frequency license and radio permission were issued on October 17, 2014 to Magyar Telekom. As a result of the tender Magyar Telekom acquired frequency usage rights in the above listed spectrums till June 15, 2034. See Note 1.3.4 for more details of the agreement. The new 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 1.3.4 for more details of the agreement. The new 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 Repayment of other financial liabilities

Repayment of other financial liabilities in the Statements of cash flows includes the cash payments of the discounted liabilities from vendor factoring and the extended trade payable balances, the annual frequency fees, finance lease liabilities and the Macedonian building exchange transaction included in Note 17.1. 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.

18 TRADE PAYABLES

	At December 31,	
In HUF millions	**2013**	**2014**
Payable to DT Group companies	9,479	10,329
Other trade payables	94,070	100,032
	103,549	110,361

19 PROVISIONS

In HUF millions	Severance	MTIP	Other employee related	Total Employee related	Legal cases	ARO	Other	Total
January 1, 2013	4,627	8	985	5,620	4,266	6,093	547	16,526
Amounts reversed	(987)	(10)	(35)	(1,032)	(972)	(63)	(332)	(2,399)
Additions	3,249	-	685	3,934	555	118	301	4,908
Interest	-	-	47	47	(431)	135	-	(249)
Exchange rate difference	-	2	7	9	24	-	3	36
Amounts utilized (incl. interest component)	(3,940)	-	(169)	(4,109)	(1,855)	(61)	(205)	(6,230)
December 31, 2013	2,949	-	1,520	4,469	1,587	6,222	314	12,592
Of which current	2,348	-	102	2,450	1,425	28	173	4,076
Of which non current	601	-	1,418	2,019	162	6,194	141	8,516
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

The Interest lines in the table 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, 2014 relates to the stand-by-pool and the employee terminations in 2015 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, 2013 also related to the stand-by-pool and the employee terminations in 2014 in relation to the efficiency improvement in Magyar Telekom Plc.

641 employees were dismissed in 2014 (2013: 482) from the Group, related to which severance payments were made. The balance of provision as at December 31, 2014 relates to 446 employees and former employees in the stand-by-pool (2013: 451).

The total payments made in relation to employee termination in 2014 amounted to HUF 5,096 million (2013: HUF 7,508 million).

19.2 MTIP

For more details on the Mid-term Incentive Plan see 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 2014 or 2013.

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, 2013	At December 31, 2014
Deferred revenue and advances received	11,013	12,144
Other taxes and social security	17,489	14,749
Salaries and wages	8,616	6,265
Dividend payable to non-controlling interests	383	464
Other liabilities	2,596	2,507
	40,097	36,129

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) as at December 31, 2014.

In HUF millions	MKT	CT	Other	Total
Balance at January 1, 2014	40,699	11,399	10	52,108
Dividend declared	(5,286)	(2,783)	-	(8,069)
Total comprehensive income	4,266	2,149	-	6,415
Other	-	-	(10)	(10)
Balance at December 31, 2014	39,679	10,765	-	50,444

The Dividend declared line in the table includes the capital reduction of CT in 2014 as well. See also the Notes to the Consolidated Statements of Changes in Equity.

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

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

a) Summarised balance sheet

In HUF millions	MKT		CT	
	2013	2014	2013	2014
Current assets	31,707	35,178	25,045	22,772
Current liabilities	(18,507)	(23,064)	(8,790)	(11,199)
Non-current assets	105,040	104,443	39,856	42,091
Non-current liabilities	(3,014)	(3,851)	(1,156)	(1,258)
Net assets	115,226	112,706	54,955	52,406

b) Summarised income statement

In HUF millions	MKT		CT	
	2013	2014	2013	2014
Revenues	60,786	55,791	32,804	32,305
Profit before income tax	9,609	9,125	6,199	7,156
Profit for the period	9,609	4,239	5,527	6,410
Other comprehensive income	1,856	3,082	935	2,110
Total comprehensive income	11,465	7,321	6,462	8,520
Total comprehensive income allocated to non-controlling interests	4,993	4,266	1,491	2,149

c) Summarised cash flows

In HUF millions	MKT		CT	
	2013	2014	2013	2014
Net cash generated from operating activities	23,313	21,302	10,154	12,714
Net cash from investing activities	9,094	(7,926)	(10,192)	452
Dividends/capital reduction paid to Controlling interests	(16,149)	(6,913)	(5,084)	(9,013)
Dividends/capital reduction paid to Non-controlling interests interests	(11,744)	(5,286)	(1,570)	(2,783)
Other cash flows from financing activities	166	(959)	-	-
Net cash used in financing activities	(27,727)	(13,158)	(6,654)	(11,796)
Exchange gains on translation of cash and cash equivalents	85	427	85	111
Change in cash and cash equivalents	4,765	645	(6,607)	1,481
Cash and cash equivalents, beginning of period	2,015	6,780	7,701	1,094
Cash and cash equivalents, end of period	6,780	7,425	1,094	2,575

21.2 Transactions with non-controlling interests

There were no material transactions with non-controlling interests either in 2014 or in 2013 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 2014 or 2013 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, 2013	2014
Mobile revenues		
Voice retail	165,141	159,963
Voice wholesale	27,511	27,074
Voice visitor	2,563	2,119
Non voice	68,080	73,007
Equipment	40,077	43,139
Other mobile revenues	7,573	12,122
Total Mobile revenue	310,945	317,424
Fixed line revenues		
Voice retail	73,021	66,837
Voice wholesale	14,015	12,098
Internet	51,835	53,723
Data	19,607	18,134
TV	37,270	40,809
Equipment	8,110	6,129
Other fixed line revenues	11,524	9,788
Total Fixed line revenue	215,382	207,518
System integration and IT revenue	64,054	59,206
Revenue from energy services	47,140	42,299
	637,521	626,447

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.

23 EXPENSES DIRECTLY RELATED TO REVENUES

In HUF millions	For the year ended December 31, 2013	2014
Mobile revenue-related	84,934	86,017
Fixed line revenue-related	43,154	41,164
SI/IT revenue–related	39,684	34,763
Energy revenue–related	48,903	41,883
Agent commissions	11,105	10,813
Bad debt expense	8,690	11,717
	236,470	226,357

24 EMPLOYEE RELATED EXPENSES

In HUF millions	For the year ended December 31, 2013	2014
Short term benefits	98,623	97,900
Termination benefits (Note 19.1)	5,830	5,028
Share based payments – MTIP (Note 24.1)	(8)	-
Share based payments – Share Matching Plan (Note 24.2)	4	9
Total before capitalization	104,449	102,937
Expenses capitalized	(7,758)	(8,187)
	96,691	94,750
Total costs expensed in relation to defined contribution plans (including social security contribution)	20,755	20,679
Average number of employees (full time equivalent)	11,350	11,050
Closing number of employees (full time equivalent)	11,324	10,883

24.1 Mid-term incentive plan (MTIP)

In 2004 Magyar Telekom launched a Mid Term Incentive Plan (MTIP) for its top and senior management, whereby the targets to be achieved are based on the performance of the Magyar Telekom share. The MTIP was a cash settled long term incentive instrument, with a new package being launched in each year, and with each tranche lasting for three years. At the beginning of the plan each participant had an offered bonus. This bonus was paid out at the end of the plan, depending on the achievement of the two fixed targets, an absolute Magyar Telekom share specific and a relative Index target. Depending on the achievement of the targets, 0%, 50% or 100% of the bonus was paid if neither, one or both of the targets were met, respectively.

The relative performance target was linked to the Total Return of the Magyar Telekom share compared to the performance of the Dow Jones Euro STOXX Total Return Index during the vesting period, each at the last 20 trading days. The absolute performance target was achieved when the Magyar Telekom share price, adjusted for dividends paid during the tenure, is more than 35 percent higher at the end of the lock-up period than at the beginning of the plan.

The share price calculated according to the above are included in the table below. When determining the Group's liability, these target figures were weighted with the fair value factors of achieving these targets. The fair value factors were calculated using the Monte Carlo technique. The target figures were multiplied by the relevant fair value factors and these amounts were then accrued for the given tranche period. This technique aimed to determine the fair values of the incentive granted and present it in accordance with the accruals concept.

Tranche	Vesting period	MT Share price at the beginning of the vesting period (HUF)	Fulfillment
2011	January 1, 2011 – December 31, 2013	524	Neither targets met

The provision for the payments in relation to the MTIP program and the movements thereof are disclosed in Note 19.

The last tranche of MTIP terminated as of December 31, 2013. Magyar Telekom does not plan to launch further MTIP tranches.

24.2 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. In order to ensure the long-term incentive effect and orientation toward the sustained development of the Company, an amount of minimum 10% of the gross annual variable bonus of the CEO is to be invested in shares of Magyar Telekom. The CEO has 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. HUF 9 million was recognized in 2014 and HUF 4 million in 2013 as expenses for the program.

Magyar Telekom plans to implement amendments to the CEO's Share Matching Plan from July 1, 2015. It is a prerequisite of the implementation for the amendment of the Remuneration Guidelines to be approved by General Meeting. One element of the CEO's program is planned to be changed, while the other principles would remain the same. The change would be that the CEO has to invest in DT shares instead of MT shares.

25 OTHER OPERATING EXPENSES

In HUF millions		For the year ended December 31, 2013	2014
Materials, maintenance and service fees		52,320	52,225
Telecom tax	(a)	23,939	25,830
Utility tax	(b)	7,448	7,636
Rental and operating lease		14,228	14,216
Marketing		12,807	12,977
Other taxes, fees and levies		11,191	6,968
Consulting, audit and other expert fees	(c)	3,666	5,069
Other expenses		2,488	2,269
		128,087	127,190

(a) Telecom tax

Telekom tax was introduced in Hungary for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012. The tax imposed on fixed and mobile usage amounted to HUF 2 per minute and HUF 2 per SMS/MMS. The tax was capped at HUF 700 per month per calling number for private individuals' subscriptions and HUF 2500 per month per calling number for other subscribers' subscriptions from January 2013. In June 2013 the Hungarian Parliament adopted an act amending the amount of the telecommunication tax, raising the tax measure to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also raising the cap applicable to these subscriptions to HUF 5,000 per month. These changes took effect from August 1, 2013.

(b) Utility tax

In 2012 the Hungarian Parliament adopted an act imposing a new tax on utility networks, effective from January 1, 2013 for an indefinite period of time. The act provides that a tax of HUF 125 per meter 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 Consulting, audit and other expert fees

Consulting, audit and other expert fees 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.

	For the year ended December 31,	
In HUF millions	**2013**	**2014**
Audit of the financial statements	301	320
Other audit related fees	81	183
Other non audit related fees	90	171
Total expenses payable to PwC	472	674

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, 2013	2014
Gain on the sale of PPE, Intangible assets and assets held for sale	333	963
Income received for the relocation and reconstruction of our own network	694	992
Government grants received/receivable for the compensation of expenses	462	77
Other operating income	1,700	1,042
	3,189	3,074

27 INTEREST INCOME

In HUF millions	For the year ended December 31, 2013	2014
Interest income on loans and receivables	1,262	1,015
Finance lease interest income	208	133
Reversal of interest element of provisions	561	75
Dividend income	8	1
	2,039	1,224

28 INTEREST EXPENSE

In HUF millions	For the year ended December 31, 2013	2014
Interest expense payable to DT	17,531	17,048
Other interest expense	4,804	4,588
Finance lease interest expense	1,000	1,096
Accretion / interest on provisions	312	159
less: borrowing costs capitalized	(913)	(271)
	22,734	22,620

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 4.83% - 5.29% in 2014 (2013: 5.48% - 6.33%). 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, 2013	2014
Fee expense	5,098	5,940
Net foreign exchange losses / (gains) on financial instruments	2,168	6,794
Other net foreign exchange losses	208	1,232
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(785)	(5,571)
Losses / (gains) on the subsequent measurement of derivatives contracted with third parties	260	(658)
Losses / (gains) on the derecognition of derivatives contracted with related parties	3,338	(152)
Losses / (gains) on the derecognition of derivatives contracted with third parties	578	(584)
Losses / (gains) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)	-	-
	10,865	7,001

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, 2013	2014
Investments in property, plant and equipment (Note 12)		61,251	63,487
Investments in intangible assets (Note 13)		84,871	120,877
Total investments in PPE and intangible assets		146,122	184,364
Recognition/(Derecognition) of investment tax credit (Note 9.5)	(a)	5,025	(70)
Capitalized annual frequency fee payable	(b)	(17,517)	(39,038)
Reimbursed amount of frequency fee	(c)	(4,000)	-
Capitalized leases	(d)	(7,425)	(2,569)
Change in trade payables relating to capital expenditures	(e)	1,052	(534)
Cash payments for purchases of PPE and intangible assets		123,257	142,153

(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 cash flow. The significant license acquisitions in 2014 and 2013 are described in Note 13.

(c) Reimbursed amount of frequency fee

According to the agreement concluded on September 6, 2013 with the NMIAH (Note 1.3.4), Magyar Telekom retained the frequency usage right until April 8, 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band won in the auction in 2012. As the original length of the usage right was shortened, HUF 4 billion of the auction price was settled net with the NMIAH in November 2013 through reduced cash payment for the prolongation of the 900 MHz and 1800 MHz frequencies.

(d) 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 and Interest and other financial charges paid.

(e) 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

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

32 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

32.1 Reportable segments

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

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

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

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

32.1.1 Information regularly provided to the Management Committee (MC)

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

Revenues	For the year ended December 31,	
In HUF millions	2013	2014
Total Telekom Hungary revenues	464,076	461,666
Less: Telekom Hungary revenues from other segments	(27,736)	(24,174)
Telekom Hungary revenues from external customers	436,340	437,492
Total T-Systems revenues	123,640	111,697
Less: T-Systems revenues from other segments	(15,984)	(10,744)
T-Systems revenues from external customers	107,656	100,953
Total Macedonia revenues	60,786	55,791
Less: Macedonia revenues from other segments	(39)	(58)
Macedonia revenues from external customers	60,747	55,733
Total Montenegro revenues	32,804	32,305
Less: Montenegro revenues from other segments	(27)	(49)
Montenegro revenues from external customers	32,777	32,256
Total consolidated revenue of the segments	637,520	626,434
Measurement differences / rounding between segment and Group revenue	1	13
Total revenue of the Group	**637,521**	**626,447**

Segment results (EBITDA)	For the year ended December 31,	
In HUF millions	2013	2014
Telekom Hungary	129,035	133,202
T-Systems	14,194	11,966
Macedonia	24,167	23,371
Montenegro	12,067	12,436
Total EBITDA of the segments	179,463	180,975
Measurement differences / rounding between segment and Group EBITDA	(1)	249
Total EBITDA of the Group	**179,462**	**181,224**
Depreciation and amortization	(104,741)	(100,650)
Total Operating profit	74,721	80,574
Net financial result	(31,560)	(28,397)
Share of associates' and joint ventures' losses	-	(5)
Total Profit before income tax	43,161	52,172
Income tax expense	(14,306)	(20,148)
Total Profit for the year	28,855	32,024

Capital expenditure (Capex) on PPE and Intangible assets	**As at December 31,**	
In HUF millions	**2013**	**2014**
Telekom Hungary	66,748	68,483
T-Systems	4,431	4,660
Macedonia	12,089	8,993
Montenegro	4,304	5,017
Total capital expenditure of the segments	87,572	87,153
Acquisition of mobile licenses (Note 13)	58,589	97,593
Other measurement differences between segment and Group Capex	(39)	(382)
Total investments of the Group in PPE and Intangible assets	**146,122**	**184,364**

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

32.2 Information about geographical areas

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

Revenues	**For the year ended December 31,**	
In HUF millions	**2013**	**2014**
Hungary	538,603	532,885
Macedonia	60,747	55,733
Montenegro	32,777	32,256
Romania	4,109	3,868
Bulgaria	1,285	1,705
Total revenue of the Group	637,521	626,447

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

Non current assets	**As at December 31,**	
In HUF millions	**2013**	**2014**
Hungary	730,763	821,747
Macedonia	103,118	102,348
Montenegro	37,240	38,933
Bulgaria	2,704	2,807
Romania	1,625	1,646
Total excluding Non current financial assets and Deferred tax assets	875,450	967,481
Non current financial assets (Note 8.2)	21,619	25,243
Deferred tax assets (Note 9.4)	238	155
Total Non current assets of the Group	897,307	992,879

33 LEASES AND OTHER COMMITMENTS

33.1 Finance lease – Group as lessee

Finance leases in 2013 and 2014 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, 2013 and 2014 are as follows:

In HUF millions	At December 31, 2013			At December 31, 2014		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	282	728	1,010	402	967	1,369
1–5 years	740	2,164	2,904	770	3,003	3,773
After 5 years	717	1,606	2,323	1,360	2,042	3,402
Total	1,739	4,498	6,237	2,532	6,012	8,544

Finance leases other than sale and lease back in 2013 and 2014 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, 2013 and 2014 are as follows:

In HUF millions	At December 31, 2013			At December 31, 2014		
	Present value	Interest component	Minimum lease payment	Present value	Interest component	Minimum lease payment
Within 1 year	2,792	138	2,930	3,113	95	3,208
1–5 years	2,503	99	2,602	1,795	89	1,884
After 5 years	213	37	250	288	66	354
Total	5,508	274	5,782	5,196	250	5,446

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.

In HUF millions	At December 31, 2013	At December 31, 2014
Within 1 year	11,222	11,225
1–5 years	26,634	26,675
After 5 years	8,524	13,072
Total	46,380	50,972

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, 2013 and 2014 are as follows:

In HUF millions	At December 31, 2013			At December 31, 2014		
	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	746	175	921	681	94	775
1–5 years	1,733	344	2,077	1,135	238	1,373
After 5 years	332	43	375	305	58	363
Total	2,811	562	3,373	2,121	390	2,511

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, 2013	At December 31, 2014
Within 1 year	963	1,034
1–5 years	1,584	2,184
After 5 years	497	280
Total	3,044	3,498

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, 2013	At December 31, 2014
Property, plant and equipment	7,076	4,620
Intangible assets	8,675	6,336
Total	15,751	10,956

33.6 Purchase commitments for businesses

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	2013	2014
Revenues from services provided to DT Group companies	25,254	22,564
Costs of services provided by DT Group companies	(11,672)	(9,973)
Interest expense to DTIF	(12,193)	(10,224)
Interest expense to DTAG	(5,338)	(6,824)
Dividend paid to parent company	(30,872)	-
Accounts receivable from DT Group companies	7,942	8,825
Accounts payable to DT Group companies	(9,479)	(10,329)
Loans payable to DTIF	(190,571)	(172,071)
Loans payable to DTAG	(106,678)	(183,765)
Fair value of swap agreements with DTAG – asset	6,652	11,826
Fair value of swap agreements with DTAG – liability	(955)	(93)

Deutsche Telekom has pledged its support for Magyar Telekom's budgeted financing needs through to June 30, 2016.

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 2014 or 2013 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 or joint ventures, and the transactions with them are not material.

34.3 Board and Supervisory Board members

	For the year ended December 31,	
In HUF millions	2013	2014
Remuneration of the members of the Board of Directors	14	16
Remuneration of the members of the Supervisory Board	57	61
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	6	6

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.

	For the year ended December 31,	
In HUF millions	2013	2014
Salaries and other short-term employee benefits	1,384	1,661
Contractual termination expense	101	-
Share based compensation (Note 24)	(4)	9
	1,481	1,670

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, 2014 and 2013.

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 Hungarian National Bank). 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, 2014	Carrying amount				Total	Fair value
In HUF millions	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (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
Financial receivable from associates	174	-	-	-	174	174
Financial assets AFS	-	-	231	-	231	231
Other current	2,424	-	-	-	2,424	2,424
Other non current	1,499	-	-	-	1,499	1,698
Total	183,342	-	231	12,314	195,887	197,233

December 31, 2013 In HUF millions	Carrying amount				Total	Fair value
	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (Level 2)		
Cash and cash equivalents	14,633	-	-	-	14,633	14,633
Bank deposits with original maturities over 3 months	23,593	-	-	-	23,593	23,593
Trade receivables within one year	126,535	-	-	-	126,535	126,535
Trade receivables over one year	8,714	-	-	-	8,714	8,264
Loans and receivables from employees	4,478	-	-	-	4,478	4,512
Derivative financial instruments contracted with related parties	-	-	-	6,652	6,652	6,652
Derivative financial instruments contracted with third parties	-	-	-	22	22	22
Financial assets AFS	-	-	214	-	214	214
Other current	2,211	-	-	-	2,211	2,211
Other non current	1,539	-	-	-	1,539	1,408
Total	181,703	-	214	6,674	188,591	188,044

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

Held-for-trading 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.

Finance lease receivables meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 33.3.

35.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2014 In HUF millions	Carrying amount: Measured at amortized cost	Carrying amount: Held for trading (Level 2)	Total	Fair value
Financial liabilities to related parties	355,836	93	355,929	367,737
Bank loans	45,796	-	45,796	45,786
Trade payables	110,361	-	110,361	110,361
Derivative financial instruments contracted with third parties	-	418	418	418
Payable for building exchange transaction	2,730	-	2,730	2,849
Frequency fee payable	54,306	-	54,306	52,859
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	582,604	511	583,115	593,619

December 31, 2013 In HUF millions	Carrying amount: Measured at amortized cost	Carrying amount: Held for trading (Level 2)	Total	Fair value
Financial liabilities to related parties	297,249	955	298,204	313,853
Bank loans	86,496	-	86,496	86,555
Trade payables	103,549	-	103,549	103,549
Derivative financial instruments contracted with third parties	-	793	793	793
Payable for building exchange transaction	3,334	-	3,334	3,431
Frequency fee payable	17,072	-	17,072	15,815
Trade payables classified as financial liabilities	9,786	-	9,786	9,786
Other current	1,269	-	1,269	1,269
Other non current	277	-	277	280
Total	519,032	1,748	520,780	535,331

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

Additional fair value information on the financial liabilities is provided in Notes 16 and 17.

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

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

Finance lease liabilities meet the criteria of a financial instrument, but these are recognized and measured according to IAS 17 – Leases, therefore not included in the tables above, but in Note 33.1.

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 2014 and 2013.

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
Financial instruments held for trading (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)

2013 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)............................	-	(48)	-	-	-	-	(48)
Financial instruments held for trading (Level 2)	-	525	-	-	(3,916)	-	(3,391)
Loans and receivables	1,262	-	483	(8,690)	-	(4,997)	(11,942)
Financial liabilities measured at amortized cost.........................	(22,335)	-	(2,651)	-	-	(101)	(25,087)
Net gain/(loss) on financial instruments.............	(21,073)	477	(2,168)	(8,690)	(3,916)	(5,098)	(40,468)

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 when both elect to settle on a net basis. In the absence of such an election, the trade receivables and payables will be settled on a gross basis, however, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

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, 2013		At December 31, 2014	
	Trade and other receivables	Trade payables	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments................	139,112	105,949	146,364	112,459
Gross amounts of financial instruments set off.........................	(2,400)	(2,400)	(2,098)	(2,098)
Net amounts of recognized financial instruments presented in the statement of financial position...	136,712	103,549	144,266	110,361

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 15.6 billion as at December 31, 2014 (2013: HUF 9.8 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 2014 or 2013, 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 Macedonia

36.2.1.1 Alleged breach of certain deadlines

MKT and T-Mobile MK have contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to several requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request. The maximum possible fine for each individual case is 4% - 10% of the annual revenue (HUF 35-43 billion) of the companies for the year preceding the misdemeanor, in accordance with the previously effective local legislation possibly applicable. Management believes that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures.

36.2.2 Hungary

36.2.2.1 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. Although in one of the cases the second instance court decision was unfavorable for the Company, the management still believes that it is not probable that a significant liability will arise from these claims.

36.2.2.2 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.

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37 EVENTS AFTER THE REPORTING PERIOD

37.1 GTS acquisition

On February 25, 2015, at the Board meeting that accepted these consolidated financial statements for submission to the AGM of the Company, the Board of Directors of the Company also approved to buy the 100% share in GTS Hungary Kft. (GTS) from another member company of DT Group for a maximum cash and debt free purchase price of EUR 42 million (HUF 13,225 million using the closing exchange rate as at December 31, 2014). The closing of the transaction is expected in Q2 2015.

Budapest, February 25, 2015.

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, 2014

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 2014
- SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

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

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

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

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

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

1.1 Voting Rights and Voting

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

1.2 Transfer of Shares

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

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

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

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

2.2 Board of Directors

The detailed rules on the scope of authorities and operation of the Board of Directors are detailed in 6.4 of the Articles of Association and in the Rules of Procedure of the Board of Directors (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 5.2 (b) and (p) as well as 6.4. (l) and (m) of the Articles of Association. The General Meeting by the Resolution No. 8/2014 (IV.11.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of this resolution. See the detailed description of the authorization on the General Meetings section of our website.

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

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

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

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

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

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

The members' assignment lasts until May 31, 2016.

2.3 Management Committee

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

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

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

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

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

2.4 Supervisory Board

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

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

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

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

The members' assignement lasts until May 31, 2016.

2.5 Audit Committee

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

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

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

2.6 Remuneration and Nomination Committee

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

The Remuneration and Nomination Committee is established by the Board of Directors of the Company to function as supporting body of the Board of Directors of the Company regarding the remuneration and certain nomination related issues of the members of the corporate bodies and the top executives of the Company in accordance with the Rules of Procedure.
(http://www.telekom.hu/static/sw/download/Rules_of_Procedure_of_the_Remuneration_and_Nomination_Committee_ENG_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, 2014, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Ralph Rentschler
- Branka Skaramuca
- Frank Odzuck

2.7 Corporate Governance and Management Report

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

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

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

The Corporate Governance Declaration on the Compliance with the Corporate Governance Recommendations, and regarding certain questions the possible alterations and their explanations are included in the report. Sections 1 to 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management.

Section 6 of the report includes a description of the internal controls and risk management procedures, while Section 8 of the report describes our disclosure policies and insider trading guidelines.

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

3 HUMAN POLICY

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

3.1 Human strategy from the Company's aspect

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

3.2 Human strategy from the employees' aspect

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

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

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

- Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and offers an attractive perspective in the labor market through its future oriented methods of work. We are going to be among the "Top 3 Best Employer" and "Top 5 Most Desired Employer" in Hungary through the more powerful use of social media solutions in brand building.
- Selection – we create a diverse workplace where we treat every applicant as a customer and offer experience for them. We strive to maintain the healthy level of internal succession rate and encourage atypical staffing. We also plan to increase the ratio of women in management to 30%.
- Agreements – we establish transparent, flexible and reliable frameworks of conditions, and provide solutions - with the help of digital applications - that are transparent and widely accessible. We maintain a balanced partnership with employee representative bodies and identical contracts will be concluded with people in identical employment pools.
- Orientation – we make our new colleagues real members of the team by sharing our knowledge, culture and experience with them, rendering knowledge sharing efficient through the use of digital methods. Our Orientation program has been renewed in order to have an informative and efficient event for the new employees. Our Orientation Program is also supported by online solutions. We introduce various programs to facilitate assimilation into the corporate culture.
- Remuneration – We retain our competitive edge in the market with our total compensation package and we are forerunners in the market with our innovations in compensation methods. We have introduced a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.

- Training development, organizational development – our qualified employees provide us a competitive edge and we render our employees even more competitive through our training programs. We increasingly apply collaborative digital tools in the course of training.
- Work/life balance – Our energized employees make us successful and we provide our employees more opportunities to consciously manage their work/life balance. We are going to introduce a complex stress management that helps preserving mental and physical condition of our employees.
- Fair dismissal – when we dismiss an employee, we do it in a fair manner and also ensure several employment alternatives. We make it clear for employees that retaining one's marketability is one's own responsibility.

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

3.3 Headcount

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

	At December 31,		
	2012	2013	2014
Magyar Telekom Plc.	7,474	7,359	7,046
Magyar Telekom Plc. and its consolidated subsidiaries	11,653	11,324	10,883

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

	At December 31,		
	2012	2013	2014
Telekom Hungary	7,793	7,649	7,347
T-Systems Hungary	1,509	1,607	1,518
Macedonia	1,623	1,418	1,362
Montenegro	728	650	656
Total	11,653	11,324	10,883

3.4 Total Workforce Management

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

3.5 Workforce Reduction and Redeployment

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

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

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

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

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

3.6 Employee Representation and Labor Relations

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

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

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

Under the Act V of 2013 on the Civil Code one third of the Supervisory Board shall consist of employee representatives. The employee representatives in the Supervisory Board are nominated by the Central Workers' Council considering the opinion of the trade unions operating at the Company. Persons nominated by the Central Workers' Council shall be elected by the General Meeting to the member of the Supervisory Board, except if disqualification exist in respect of the nominated persons. On December 31, 2014, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva 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 the end of 2014, approximately 62% of employees of Magyar Telekom Plc. participated in the pension-, 43% in the self-aid-, and 63% in the health fund.

3.8 Human rights

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

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

Magyar Telekom strives to ensure equal chances for its employees, and to improve the situation of certain underprivileged employee groups. As part of this effort, from 2008 Magyar Telekom have accepted Equal Opportunities plans valid for periods of several years. Currently the Equal Opportunities Plan III is in force, which determined guiding principles and an action plan for the 2013-2015 period. In addition, Magyar Telekom is open to join similar government, business and civil initiatives in order to achieve equal social opportunities.
Equal Opportunities Plan III:
(http://www.telekom.hu/static/sw/download/Magyar_Telekom_Eselyegyenlosegi_Terv_2013_2015_en.pdf).

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

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

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

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

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

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

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

At December 31, 2014, two of the seven MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the absence fee received for the remaining period is up to 12 months. The notice period is two months for three of the indefinite contracts, while the severance payment is in accordance with the Labour Code and the Collective Agreement. For the other two contracts the notice period is six months, while the severance payment is between 3 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom 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 Matching Plan, see Note 24.2 to the consolidated financial statements.

5 RESEARCH AND DEVELOPMENT

Hungary

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

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

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

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

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

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

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

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

In addition to the above, Magyar Telekom 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 and T-Mobile Macedonia continue with their determination and their work to be innovation leader on the market. Utilizing the IMS platform for introducing new and innovative services on the market we launched our first IP product in the business segment, IP Centrex (providing to companies PBX type of functionalities throughout the IP Centrex BCS Ericsson platform hosted at MKT). 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. During this year we launched the first managed collaboration service - Cisco Managed Voice on hosted unified communication.

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, HP, Microsoft, Oracle etc.
- DELIVERY Partnership with local and international companies for large scale SI and public cloud products

In such DELIVERY partnership, we launched our Loop Service, a solution for cloud digital media storage, download, sharing and streaming across different devices (including maxTV) and over different networks. 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 energy, e-health, connected home etc.

Montenegro

Hybrid Access, as innovative access technology represents an important part of DT's Integrated Network Strategy (INS). DT-EU project started in 2013 with Crnogorski Telekom (CT) as lead NatCo. The solution has shown that it can significantly increase customer broadband speeds in areas that are not possible to cover with FTTx in an economical way. As such, the solution is a great fit for suburban areas in Montenegro that are already hit by cable competitors and an important part of the Fixed-Mobile Convergence (FMC) strategy of CT. CT is planning a limited rollout in 2015 with full scale implementation from 2016.

CT main development strategic guideline is to go towards IP transformation (in 2014 CT migrated more than 50% of PSTN customer base to IMS - IP Multimedia System), introducing new MSAN technology. Mentioned strategic guidelines are supported by convenient systems, such as the new billing system that will support fix mobile convergence. Moreover, we are working on Smart Home solution.

6 REAL ESTATE, SITES OF OPERATION

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

Headquarters of major member companies of the Group

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

Hungary

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

The total area of properties used by Magyar Telekom Plc. as of December 31, 2014 was 550,403 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m^2.

Macedonia

At the end of December 2014, T-Mobile Macedonia's (TMMK) radio access network consisted of 665 physical sites on which there are 658 2G base stations, 433 3G base stations and 96 4G base stations. 91% of the site infrastructure (towers) is in possession of TMMK and 9% is leased.

The total area that is used by Makedonski Telekom (MKT) and TMMK is around 114,000 m2 as of December 2014, out of which around 47,000 m2 are in sole possession of MKT and TMMK and in great part (52 %) is attributable to 2 major buildings, the headquarters and the main technical building. The remaining 67,000 m2 are in joint possession with Macedonian Post.

Montenegro

The number of sites used by Crnogorski Telekom for fixed line services is 250, out of which 49% are owned by the Company, 39% jointly owned and 12% leased. Total area of properties used by Crnogorski Telekom as of December 31, 2014 was 30,288 m^2 out of which 29,102 m^2 (96%) were owned by the Company.

The total number of mobile sites used for telecommunications towers and antennas by Crnogorski Telekom A.D. as of December 31, 2014 is 298, out of which 61% are with infrastructure owned by the Company, 1% jointly owned and 38% 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 now implementing its third five-year sustainability strategy.

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

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

Magyar Telekom'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 about the concept of sustainability and to enhance the sustainability perception of Magyar Telekom.
    - Awareness about 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 at society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to reduce the CO_2 emission of the group by 25% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain management process.
- Effects of telecommunication services: our goal is to increase the ratio of sustainable products and services, and to keep our customers informed
    - Increase revenue from services of sustainable nature, KPI: 20% of annual sales
    - Sustainable products, KPI: their ratio in the portfolio: 25%

Main achievements in the context of the strategy

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

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

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

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

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

7.2 Initiatives concerning stakeholders

In 2014 we organized the Sustainability Roundtable Discussion for the 15th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom 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, 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 decide which submitted project should receive the award. The seventh award ceremony took place on September 3, 2014, as part of the Sustainability Roundtable. In 2014, we recognized organizations and businesses promoting waste management, renewing energy, environment-friendly transportation and equal opportunity.

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

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

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

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

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

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

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

One pillar of atypical staffing is telework, which is one of the most important sustainability aspects of the Future Work project. Working from home in the framework of the project launched in July 2014 one can save time and mileage, thus drivers can relieve the environment of as much as 3 tons of CO_2 emission per year, not to mention that the same also helps us maintain work-life balance.

7.3 Annual Sustainability Report

One of Magyar Telekom Group's commitments is that it annually publishes a report about its sustainability performance. The Reports are prepared in accordance with the GRI G3 principles of Global Reporting Initiative (GRI) published in 2006, thus meeting the expectation that the reports comply with the principles of transparency and international comparability. Each year since 2007 Magyar Telekom achieved the highest compliance in accordance with the international principles, so its Sustainability report for the year 2013 continued to apply the principles on A+ level for the seventh time already. In 2014 an independent assurance report with the GRI criteria was completed and certified by PricewaterhouseCoopers in accordance with ISAE 3000 international standards. Further details on the sustainability performance of the Company can be found in the annual reports available on the site: http://www.telekom.hu/society_and_environment/sustainability_reports.

8 ENVIRONMENT PROTECTION

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

8.1 Environment and climate protection performance

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

In the spring of 2014, we launched again TeleBike, Magyar Telekom's employee bike rental system, which has been further extended compared to 2013. In 2014, TeleBike offers 53 bikes, and six new electric bikes were also added to the fleet. Employees can commute between the offices of the company located within the Budapest city limits and the six T-Systems Hungary sites. Some figures: in 2014, 1,777 registered users, 2,267 rents per month, 18,156 kms and 3,400 kgs CO_2 emission eliminated.

We introduced a bonus-malus system based on compliance with or deviation from average emission values of benefit cars. We spent 50% of the amount collected as malus payment by users of cars with emissions above the reference values on decreasing our CO_2 footprint. In 2014, we planted trees along Gellért wharf in Budapest with the help of Főkert, and at other locations. At the end of the year, we spend the remaining amount on decreasing global CO_2footprint by purchasing and eliminating Kyoto units available at the CO_2 emmission market – i.e. by supporting projects aimed at decreasing global CO_2 emissions by the number of units purchased. In 2014, T-Systems Hungary compensated for the total CO_2 emission generated by the energy consumption of itself and its data park, thus relieving the environment of 14,285 tons of CO_2.

Magyar Telekom continued its energy savings initiatives in 2014, too, including the roll-out of the ventilation technology used for cooling large technological rooms and remote facilities. By that, the use of air-conditioning equipment and electric power consumption are decreased. The company completed the implementation of the smart cooling pilot, which aims to run air-conditioning equipment at optimal load, thus ensuring lower energy consumption. Projects aimed at increasing internal temperatures and utilizing residual heat have also started. In order to save gas and distance heating consumption, initiatives aimed at replacing furnaces and modernizing heating centers, as well as using residual heat generated at certain technological rooms for heating have also continued.

9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom Group, the goal was to ensure that the Magyar Telekom 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. Again, we met the expectations and were awarded by a certificate issued by Ernst&Young as independent external party.

The first distance learning course addressing compliance was started in 2008 in the topic of "Conscious recognition of fraud and corruption". Since then we have been providing a general eLearning course for our new employees, mandatory for all colleagues joining to the company. The course is completed with the acceptance of the Code of Conduct. Since the start of the program, 58,915 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, anti-corruption measures, incompatibility or insider trading.

On the top of that, our company has arranged personal training sessions for employees working in professional areas exposed to compliance and abuse related risks – 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 2013 – 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 new set-up in our eco-system both 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 is about to follow that trend with stagnant customer base and lower prices. The fixed market is characterized by 3Play bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The mobile voice market is becoming more flat, new entrants as virtual network operators appeared, though with limited impact on the market and the appearance of a fourth mobile operator is also expected. There is a fierce competition in broadband and content services. The battle for customer contracts has pushed prices down. We expect that the new core segments, especially mobile broadband, broadcasting and IT services will deliver revenue growth in the coming years.

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

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

Macedonia

Gradual acceleration of growth is expected in the next period of 4.1% for 2015 and 4.5% for 2016. The main carrier of the growth prospect will be export and consumption, with positive impact on the labor market and further stimulate investment. Average inflation for 2015 is estimated at about 1.0%, with pronounced downward risks, due to pressures on the demand side and deflationary pressures through foreign pass-through prices.

Operating in a highly challenging business environment and declining telecommunication business predictions in short-to-mid term (-8% market decline in 2015 and -3.4% in 2019), strong competition resulted in continuation of price drops and value erosion. Continuous mobile substitution on fixed market, supplemented with increased competition on all fixed and mobile markets.

The competitive environment keeps consolidating, VIP (Telekom Austria) and ONE (Telekom Slovenije) announced their intention to merge. Earlier this year, VIP had acquired Blizoo, one of the two major CaTV operators in Macedonia. Also, at the begining of 2014, a new MVNO player, Albafone, targeting the Albanian ethnic residents entered the market.

Montenegro

The Montenegrin telco market is facing strong challenges: macroeconomic conditions are still challenging; competition is growing, while regulatory pressure is more intense than ever.

Fixed line market is becoming more competitive with cable operators trying to expand their footprint. In October 2014, a regional cable operator, SBB, has acquired BBM (a local cable operator) and became leader in the Pay TV market. Also, m:tel has announced major investments in cable TV in 2015. The regulatory agency intervened in the retail fixed voice market and decreased the prices with a two-step approach: first one in April 2014 and the second one in December 2014. CT had to decrease retail and wholesale broadband prices as well, in accordance with the 2013 Costing model as of December 1, 2014. In a highly penetrated mobile market there is fierce price competition. The Regulator initiated signing of multilateral Agreement on roaming price decrease (retail and WS) with the aim of harmonizing it with those within the EU.

Real GDP growth reached 1.3% in the third quarter of 2014, while projections for 2014 are approximately 2%, which is lower than planned but higher compared to the region. Public debt amounted to 58.1% in the third quarter and is close to the EU limit of 60%. The World Bank and the IMF warned that Public debt and fiscal stability are threatened by the loan for the financing construction of the first Montenegrin highway, which is planned to start in the beginning of 2015. However, the Government expects that the construction of the highway will have significant multiplier effects on the rest of the economy, together with the expected high inflow of foreign direct investment (FDI). Freezing of pensions and public wages, together with the banks' restrictive credit policy and low level of liquidity of the real sector, affect disposable income and increase overall cost-conscious customer behavior.

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 beyond our control. The global economy recovered from the crisis but it is largely depend on the monetary policy of the FED. The European growth it is still fragile. There are major uncertainties surrounding the future of the euro especially in Greece.

Hungary

The Hungarian economy came out of recession in 2013 and the GDP growth in 2014 was above 3 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate GDP growth of about 2.3 percent for 2015. The unemployment rate decreased to 8.1 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The telecommunication tax payable by Magyar Telekom in 2014 was HUF 25.8 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. The tax expense and liability for 2014 were recognized in the first quarter of 2014 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2014. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. Magyar Telekom 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.

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

Macedonia

In Macedonia, competition is increasing both in the fixed line and mobile market. In the mobile market, aggressive price behavior is driven by a single mobile operator, which tries to regain lost market share. This trend is predicted to continue after the announced mobile termination rates (MTR) decline. Albafone also entered the market as an MVNO, only with prepaid portfolio. Semi and full flat rates are dominant in mobile voice. Mobile data market is driven by flat rate packages.

In the fixed line segment bundled offers based on broadband connections are the basis of future services. Digital TV services increase interactivity toward consumers and allow extended applications. In order to become a modern, lean and fully converged telco operator, Makedonski Telekom launched the Ambition Program 2.0.

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. A margin squeeze test is expected for retail optic products in the beginning of 2015. We also expect obligations for all operators to put their aerial cables in urban areas underground and digital agenda obligation for coverage of households with 30 and 100 Mbps with technical neutrality until 2020. The Balkan roaming regulation decreases the retail and wholesale prices to EU roaming III level. Broadband will be included in Universal Service from 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 customer looking for X-Play experience and value-ad. 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 may heavily influence our roaming revenues. Indirectly, it may have negative influence on international MTRs as well. Regulated FTR and MTR decrease is on track in the period of 2013-2016. The cost based regulation on retail prices (access to the network, fix voice and ADSL) will also negatively influence our revenues, especially due to the fact that the LRIC model will be applied for the 2014 regulatory reports. Margin squeeze test for retail products is expected in the second half of 2015. Implementation of the new eLaw and the new bylaws will result in more strict, demanding and expensive obligations for the operators. The State may also decide to utilize its own infrastructure in order to provide telco services (cost optimization).

We have identified several risk factors which may affect our business in the future including changes in the regulatory environment, in competition, and in foreign exchange rates. See the detailed description of these and other risk factors in Section 12.2 Risk factors.

11.2 Revenue, EBITDA and Capex targets

In 2014, revenues declined by 1.7% in line with our guidance as growth in both fixed and mobile internet revenues coupled with growing TV revenues could not fully counterbalance the decline in voice revenues and lower SI/IT and energy sale revenues. At the same time with a full year increase of 1%, EBITDA was somewhat ahead of our expectations thanks to improved mobile and energy service margins in Hungary. Capex for 2014 totaled HUF 86.7 billion without spectrum acquisitions and annual frequency fee capitalizations, in line with our target.

As for 2015, we intend to continue our revenue rebalancing efforts in order to mitigate pressure stemming from voice revenue decline that will be achieved by migrating customers to bundled packages. Performance will also be supported by the consolidation impact of GTS thus we expect revenues to increase by up to 3% in 2015 compared to 2014. Efficiency performance in Hungary is expected to improve during 2015, and EBITDA performance will be supported by the GTS acquisition impact. Nevertheless, pressure at international operations is anticipated, while results will also be adversely affected by the ca. HUF 8 billion severance expense. Overall, our reported EBITDA is expected to decline by no more than 3% compared to 2014. After strengthening our technological leadership in the Hungarian mobile market during 2014, Magyar Telekom plans to execute a similar task in the fixed segment to increase its competitiveness. The Company therefore anticipates capex of around HUF 105 billion for 2015.

2015 public guidance:

HUF billion	2014	Public guidance 2015
Revenue	626.4	up to 3% increase
EBITDA	181.2	up to 3% decline
Capex*	86.8	ca. 105 billion

*excluding spectrum acquisitions and annual frequency fee capitalization

11.3 Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in 2014. Even under uncertain macroeconomic and market conditions, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offered capabilities proactively leveraging on various partnering models as well. The evolving external environment continues to drive the need for changes in our approach to our customers and our business.

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

While anticipating new competencies required by the changing customer behavior, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both consumers and third parties. Our non-core areas, such as energy, e-health, finance and insurance services, support customer retention and new revenue streams.

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

Macedonia

Makedonski Telekom and T-Mobile MK managed to maintain the leading positions in all the telco markets in 2014, but we expect to become second player in the Mobile and Pay TV markets early 2015 due to the agreement between Telekom Austria Group and Telekom Slovenije to merge their subsidiaries VIP and ONE.

Intensified competition, predominantly from CaTV, which offer BB & TV bundles without monthly fee for voice part, puts pressure on the fixed line services. Retail data market reduces due to stronger market competition. Cloud services are being introduced and the IT market shows dynamic growth.

Addressing local challenges in order to fulfil our strategic aspiration, the new Ambition Program 2.0 was introduced, as a strategic direction, with a final objective to maintain transformational path through:

- Transforming technology into superior customer experience;
- Stabilization of the Revenue/EBITDA trend;
- Lean administrative machine (reduce time-to-market by comprehensive process automation);
- Operational excellence (production flexibility, improved customer responsiveness and cost minimization);
- Create new market trends and develop a new digital smart world using social media.

Montenegro

Crnogorski Telekom successfully completed the 2014 business year, preserving its market superiority, stable financial performance and made significant achievements on its transformational path.

Major business challenges are macroeconomic pressure, regulation pressure, emerging competition, digital lifestyle demand; while the major business goals are the slowdown of revenue decline, cost discipline and e-transformation.

CT will continue to execute its strategy framework and transformation program based on three strategic layers:

- Stand for Broadband: FTTH/4G rollout and X-Play/fixed-mobile convergence (FMC) offers proliferation to ensure ultra-high speed connectivity and seamless customer experience over fixed line and mobile data streams and quality service features in order to keep long-term competitiveness in broadband, TV and FMC offers.
- Transform to Outperform: Digital engagement of customers and employees through transformation initiatives and consolidation strategies in order to support All IP cost-effective network architecture, service convergence, multichannel business model and faster and flexible go-to-market.
- New Way to Play: Push ICT/Cloud and Hardware initiatives; improving content variety and interactivity; new business development opportunities and exploring partnering concept.

12 RISKS AND UNCERTAINTIES

12.1 Risk management policies

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

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

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

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

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

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

12.2 Risk factors

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

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection and the price setting methodology of regulated wholesale products are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet, SI/IT and retail energy revenues;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment in the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- On September 29, 2014, ministries in charge of electronic communication in Macedonia, Montenegro, Serbia and Bosnia-Herzegovina signed an agreement to decrease roaming prices gradually among these countries from January 2015 in three consecutive years to the level of prices in the EU;
- In Macedonia, the main development is the announcement of the merger of two competitors, ONE and VIP. The closing of the transaction remains subject to a confirmatory due diligence of ONE and approval by the Macedonian authorities. If approved, we expect this transaction to reshape the competitive environment in the Macedonian telecoms market;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.

12.3 Financial risk 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 2014

Key Performance Indicators	At December 31,	
	2013	2014
Revenue (HUF million)	637,521	626,447
EBITDA (HUF million)	179,462	181,224
EBITDA margin	28.1%	28.9%
Operating margin	11.7%	12.9%
Net income margin	3.7%	4.6%
Capex to sales ratio	22.9%	29.4%
ROA ratio	2.2%	2.5%
ROE ratio	5.2%	6.3%
Net debt (HUF million)	381,230	442,167
Net debt ratio (net debt to total capital)	43.8%	45.7%

13.1 Revenues

Total revenues amounted to HUF 626.4 billion in 2014 compared to HUF 637.5 billion in 2013, representing a 1.7% decrease year over year. The drivers of this decrease are the following:

Mobile revenues amounted to HUF 317.4 billion in 2014 compared to HUF 310.9 billion in 2013, resulting in a 2.1% increase. The growth resulted mainly from higher mobile equipment and other mobile revenues together with the increased mobile Internet revenues, which were partly offset by lower mobile voice revenues.

Mobile voice revenues, which represent the largest portion of revenues within mobile telecommunications services, declined by 3.1% to HUF 189.2 billion in 2014 compared to HUF 195.2 billion in 2013.

Voice-retail revenues decreased by 3.1% mainly due to lower outgoing mobile voice revenues in Hungary as in the prepaid segment both minutes of use (MOU) and prepaid outgoing tariff decreased. In the postpaid segment, growth in MOU and in the customer base could offset the decrease in average price per minutes. In Hungary, the significantly lower roaming revenues were caused by the EU regulated average tariff erosion, effective from July 1, 2014. In Macedonia, lower outgoing mobile voice revenues resulted from the lower average price per minute, due to new promotions and offers because of the strong competition in the market, although the volume of outgoing minutes increased in 2014. In Montenegro, voice-retail revenues decreased due to the lower tariff levels in the postpaid segment and the decreased average customer base that could not be compensated by the increase in total billed minutes.

Voice-wholesale revenues were down by 1.6% at Group level, mainly due to lower mobile termination rates applicable as of November 1, 2013 and as of September 1, 2014 and the decrease in international incoming traffic in Macedonia. In Hungary, voice-wholesale revenues increased driven by higher incoming traffic.

The latest available public information for Hungary about mobile penetration and market share are as of June 30, 2014. Based on that, mobile penetration reached 117.0% and Magyar Telekom Plc. accounted for 46.3% market share based on the total number of SIM cards. Customer base of our Hungarian mobile operation slightly increased year over year. Mobile penetration in Macedonia reached 106.7%, while in Montenegro it was 163.4%. The market share of Makedonski Telekom Group was 46.8%, and it was 34.1% at Crnogorski Telekom at December 31, 2014.

Non-voice revenues increased by 7.2% and amounted to HUF 73.0 billion in 2014. This increase was primarily due to higher mobile Internet revenues as both subscriber numbers and usage increased in 2014.

Mobile equipment revenues increased by 7.6% in 2014 compared to 2013, mainly attributable to our Hungarian operation and, to a lesser extent, to our foreign subsidiaries. The revenue growth was driven by the increased sales volume of smartphones and tablets.

Other mobile revenues grew from HUF 7.6 billion in 2013 to HUF 12.1 billion in 2014 mainly owing to higher revenues derived from penalty charges and from mobile handset insurance in Hungary.

Fixed line revenues amounted to HUF 207.5 billion in 2014, compared to HUF 215.4 billion in 2013 resulting in a 3.7% decline. The decrease was driven by falling voice, data, equipment and other fixed line revenues, partly offset by increasing internet and TV revenues.

Voice-retail revenues decreased by 8.5% to HUF 66.8 billion in 2014 compared to HUF 73.0 billion in 2013, mainly driven by the continuous decline in the number of PSTN lines and lower average tariff levels.

Voice-wholesale revenues decreased by 13.7% to HUF 12.1 billion in 2014 compared to HUF 14.0 billion in 2013. In Hungary, primarily the tariff decline caused lower domestic revenues from other fixed line and from mobile operators. Call origination and termination also decreased in Hungary owing to mobile substitution and the intense competition with cable TV service providers. Lower international incoming traffic revenues in Hungary and in Macedonia mainly driven by lower volume of traffic also contributed to the decline in voice-wholesale revenues. In Montenegro, lower traffic from mobile operators resulted in voice-wholesale revenue decrease.

Internet revenues amounted to HUF 53.7 billion in 2014, compared to HUF 51.8 billion in 2013, representing a 3.6% growth year over year. In Hungary, the number of DSL connections slightly increased from 602,849 at December 31, 2013 to 607,256 at December 31, 2014. Cablenet customer base and the number of fiber connections also increased year over year. The broadband volume increase could compensate for the effect of the lower ARPU caused by lower prices due to strong competition and by the migration towards double- and triple-play packages, resulting in higher Internet access revenues. Revenues from content services also increased in Hungary. At our foreign subsidiaries, higher revenues were primarily due to the growth in the number of DSL connections.

Data revenues amounted to HUF 18.1 billion in 2014 as compared to HUF 19.6 billion in 2013. The decrease in both broadband and narrowband revenues was mainly deriving from the lower number of domestic and international leased line customers as well as decreased prices, both in Hungary and at our foreign subsidiaries in 2014.

TV revenues amounted to HUF 40.8 billion in 2014 as compared to HUF 37.3 billion in 2013, representing an increase of 9.5%. This increase was mainly attributable to much higher IPTV revenues driven by the growing IPTV subscriber base, both in Hungary and at our foreign subsidiaries. The fast growth of the IPTV customer base, helped by the development of our high speed Internet network, demonstrates the increasing popularity of interactive television. Growth in satellite TV revenues was due to the higher subscription fees in Hungary in 2014 compared to the previous year. These increases were partly offset by lower Cable TV revenues owing to the fact that an increasing number of existing subscribers have been migrating to IPTV services in Hungary.

Fixed equipment revenues amounted to HUF 6.1 billion in 2014 compared to HUF 8.1 billion in 2013. The decrease is mainly owing to the lower sale volume of tablets, TV sets and notebooks in Hungary. In Macedonia, the decrease in fixed equipment revenues was a result of one-time effect of the sale of set top boxes to the Macedonian National Television in 2013 as part of the rollout of digital broadcasting.The decline was somewhat mitigated by the higher sale of TV sets and laptops in Montenegro.

Other fixed line revenues decreased to HUF 9.8 billion in 2014 compared to 2013 mainly due to lower revenues derived from other material sales and from telephone book publishing in Hungary, as well as decreased revenues generated from IRU sales in Montenegro and Romania in 2014.

System Integration (SI) and IT revenues decreased by 7.6% from HUF 64.1 billion in 2013 to HUF 59.2 billion in 2014. Lower revenues were due to the decrease in infrastructure and outsourcing revenues driven by fewer large projects in 2014. These decreases were partly offset by higher application revenues mainly driven by new projects in 2014.

Energy Services revenues decreased to HUF 42.3 billion in 2014 compared to HUF 47.1 billion in 2013. The decrease resulted from the lower number of points of delivery in 2014 compared to a year earlier. The number of gas points of delivery declined from 67,587 to 67,087, while the number of electricity points of delivery decreased from 106,287 to 104,831 year over year. The universal service provider price reductions from November 2013, April 2014 and September 2014 also had a negative effect on the energy revenues.

13.2 Direct costs

Direct costs decreased by 4.3% year over year from HUF 236.5 billion in 2013 to HUF 226.4 billion in 2014.

Mobile services-related payments increased by 1.3% in 2014 year over year, and amounted to HUF 86.0 billion. Mobile equipment costs increased significantly due to the higher volume of smartphone sales in Hungary and at our foreign subsidiaries. This increase was partly offset by lower mobile voice payments primarily due to lower interconnection cost at our foreign subsidiaries as a result of voice and SMS termination charges.

Fixed line-related payments decreased by 4.6% to HUF 41.2 billion in 2014. The decrease was mainly driven by lower equipment sales in Hungary and in Macedonia, due to the decrease in notebook, TV-set and tablet sales. Continuously declining voice-related payments and lower data payments also contributed to the decrease. These decreases were partly counterbalanced by higher TV payments, owing to the increasing subscriber base in Hungary and higher other direct costs owing to the 2014 launch of the Clickshop service.

Fewer large application and infrastructure projects at T-Systems Hungary caused SI/IT-related payments to decrease by 12.4% from HUF 39.7 billion in 2013 to HUF 34.8 billion in 2014.

Energy-related payments in Hungary decreased from HUF 48.9 billion in 2013 to HUF 41.9 billion in 2014, due to lower consumption and lower source cost of energy sold in 2014.

Agent commissions decreased by 2.6% year over year from HUF 11.1 billion in 2013 to HUF 10.8 billion in 2014 as a result of lower commission levels and lower volume of sales in 2014.

Bad debt expenses increased by 34.8% from HUF 8.7 billion in 2013 to HUF 11.7 billion in 2014, primarily due to the higher amount of impairment loss on receivables from equipment sales on instalments in Hungary in 2014.

13.3 Gross margin

Gross margin decreased slightly from HUF 401.1 billion in 2013 to HUF 400.1 billion in 2014, as a result of lower revenues partly counterbalanced by lower direct costs year over year.

13.4 Employee-related expenses

Employee-related expenses decreased by 2.0% from HUF 96.7 billion in 2013 to HUF 94.8 billion in 2014. The decrease was mostly due to the HUF 1.3 billion lower amount of severance-related expenses recognized in 2014.

13.5 Other operating expenses

Other operating expenses decreased by 0.7%, from HUF 128.1 billion in 2013 to HUF 127.2 billion in 2014.

The decrease is primarily due to the capitalization of these fees – which were otherwise also lowered - in Hungary in Q3 2013, and in Q4 2014. Other service fees decreased by 2.2% and amounted to HUF 23.0 billion in 2014 mainly due to lower IT costs as a result of the renegotiation of the IT support contracts. Other expenses decreased by 8.8% and amounted to HUF 2.3 billion in 2014 mainly due to the high amount in 2013 when a significant intermediary deal resulted in non deductible input VAT.

These decreases were partly offset by the higher sector specific taxes, consultancy fees, material and maintenance costs and marketing expenses. Sector specific taxes increased from HUF 31.4 billion to HUF 33.5 billion year over year primarily due to the increase in the telecom tax expense in Hungary. In 2013, the telecom tax imposed on fixed and mobile usage amounted to HUF 2 per minute and HUF 2 per SMS/MMS. The tax was originally capped at HUF 700 per month per calling number for private individuals' subscriptions, and was HUF 2,500 per month per calling number for non-private individual subscribers' subscriptions. From August 1, 2013, the tax measure was raised to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also the cap applicable to these subscriptions was raised to HUF 5,000 per month.

Consultancy expenses increased by 38.3% from HUF 3.7 billion to HUF 5.1 billion, owing to an internal enterprise resource planning system development project. Material and maintenance expenses increased by 1.5% and amounted to HUF 29.2 billion, primarily due to higher set top box maintenance costs in Hungary. Marketing expenses increased by 1.3% and amounted to HUF 13.0 billion, mainly due to higher advertising costs in Macedonia.

Rental fees amounting to HUF 14.2 billion remained stable year over year.

13.6 Other operating income

Other operating income decreased from HUF 3.2 billion to HUF 3.1 billion year over year. The decrease is primarily due to a one-time effect in Macedonia in 2013, when Makedonski Telekom recognized a damage compensation income for the costs of an unsuccessful project conducted and expensed in previous years.

13.7 EBITDA

EBITDA increased by 1.0% from HUF 179.5 billion in 2013 to HUF 181.2 billion in 2014, primarily due to lower employee related expenses and lower other operating expenses, which were only partly counterbalanced by a slight decrease in gross margin.

13.8 Depreciation and amortization

Depreciation and amortization expenses decreased by 3.9 % from HUF 104.7 billion in 2013 to HUF 100.7 billion in 2014 primarily due to lower depreciation expense as a result of the amended useful life of mobile telecommunications assets in Hungary. In addition, lower amount of assets was scrapped in 2014, which also contributed to the decrease. In Macedonia, relating to the radio access network modernization project, the useful life of the affected equipment was shortened in 2013 resulting in higher depreciation in 2013. The above decreases were partly compensated by the higher amortization expenses in Hungary related to the prolonged and newly acquired spectrum licenses .

13.9 Operating profit

Operating profit increased from HUF 74.7 billion in 2013 to HUF 80.6 billion in 2014 for the reasons described above.

13.10 Net financial result

The net financial result improved by 10.0% from HUF 31.6 billion loss in 2013 to HUF 28.4 billion loss in 2014. The improved result was primarily due to the lower combined net loss of HUF 1.1 billion on foreign exchange translation and fair valuation of derivatives in 2014 compared to the HUF 5.8 billion loss in 2013, resulting in a HUF 4.7 billion improvement as the HUF weakened by 6.0% against the EUR in 2014 compared to the 1.9% weakening in 2013. The above improvement was partly offset by the lower average interest rates on bank deposits resulting in lower amount of interest income in 2014.

13.11 Income tax

The income tax expense increased by HUF 5.8 billion, from HUF 14.3 billion in 2013 to HUF 20.1 billion in 2014.

The better business performance of the Group in 2014 than in 2013 resulted in a HUF 9.3 billion higher profit before tax, which contributed to the increase of the tax expense by HUF 2.8 billion calculating with a normal effective annual tax rate of 30%.

In addition to the above, the significant change in the Macedonian income tax law in Q1 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 (income tax expense) accruing on the profits of the Macedonian entities on expected dividends to be collected by MT Plc., however, these deferred taxes had been recognized in proportion to our effective 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. For the above reasons, the income tax charge we had to recognize in Q1 2014 was higher by HUF 1.1 billion than the amount of the deferred tax liability (accrued on the profits) we released. (This additional net tax expense was, however, also fully counterbalanced by the decrease of the profit attributable to non controlling interests, i.e. this change had no impact on the profit attributable to the owners of the Company.)

The profit tax law amended again in Macedonia in Q3 2014 reinstated the profit tax at a rate of 10% with a retrospective application from January 2014. Magyar Telekom generally expects to distribute the annual profit of Makedonski Telekom as dividend therefore we had been recognizing deferred tax expense (in proportion to our ownership) expected to realize on the declaration of dividends. The reinstated corporate tax in Macedonia consequently had a tax expense impact of HUF 0.8 billion in the minority's portion of ownership.

In addition, HUF 1.0 billion deferred tax liability and expense was also recognized in the standalone books of Makedonski Telekom, mostly related to fixed assets.

The effective tax rate increased significantly (from 33% to 39%) mostly driven by the negative impacts of the Macedonian tax law changes described above.

13.12 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests has decreased from HUF 5.4 billion in 2013 to HUF 3.4 billion in 2014. Even though the profit before tax of Makedonski Telekom group and Crnogorski Telekom increased by more than 10% in HUF terms in 2014, the tax law changes in Macedonia in 2014 resulted in significant tax expense increases in Makedonski Telekom group, which eliminated the positive change in profit before tax. The changes in the Macedonian tax law in 2014 - described in the Income tax section above - had a reducing impact on the Profit attributable to non-controlling interests as well, in an amount of HUF 2.3 billion in 2014.

13.13 Cash flows

HUF millions	2013	2014	Change
Operating cash flow	131,612	145,495	13,883
Investing cash flow	(106,049)	(130,501)	(24,452)
Less: Proceeds from other financial assets - net	(13,772)	(10,227)	3,545
Investing cash flow excluding Proceeds from other financial assets – net	(119,821)	(140,728)	(20,907)
Repayment of other financial liabilities	(11,157)	(18,541)	(7,384)
Free cash flow	**634**	**(13,774)**	**(14,408)**
Proceeds from other financial assets - net	13,772	10,227	(3,545)
Proceeds from loans and other borrowings - net	50,244	10,998	(39,246)
Dividend paid to shareholders and Non-controlling interests	(65,405)	(8,008)	57,397
Exchange gains on cash and cash equivalents	177	549	372
Change in cash and cash equivalents	**(578)**	**(8)**	**570**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 145.5 billion in 2014, compared to HUF 131.6 billion in 2013. The main reasons for the increase of HUF 13.9 billion were the following:

- HUF 2 billion positive change due to the higher EBITDA in 2014 than in 2013
- HUF 10 billion positive change due to lower increase of receivables in 2014. After the heavy market investment in 0/24 equipment sales in 2013 (smart phones, TV, tablet, etc.), the additional investment in the market in 2014 was significantly lower than in 2013
- HUF 10 billion higher operating cash flow in 2014 as invoices factored by our vendors in 2013 and 2014 were paid as repayment of other financial liabilities in 2014 (Financing cash flow)
- HUF 3 billion positive change due to lower utilization of severance and legal provisions in 2014 than in 2013
- HUF 3 billion lower interest paid on loans in 2014 primarily due to lower average interest rate in 2014
- HUF -4 billion negative change due to higher tax payments in Macedonia as a result of the changes of the tax law in 2014, which brought the payment of the profit/dividend related taxes earlier
- HUF -2 billion negative change due to higher increase of visitor receivables in Macedonia in 2014 than in 2013
- HUF -1 billion negative change due to recovery of 2012 crisis tax overpayment in 2013
- HUF -1 billion negative change due to higher interest paid on capitalized annual frequency fees in 2014 due to prolonged frequencies in 2013 and the new frequencies in 2014
- HUF -1 billion negative change due to less interest income in Macedonia and Montenegro primarily due to lower interest rates and lower average balance of bank deposits in 2014 than in 2013
- HUF -5 billion negative change due to various other effects of working capital

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -140.7 billion in 2014, compared to HUF -119.8 billion in 2013. Main reasons for the HUF -20.9 billion higher cash outflow were the following:

- HUF -25 billion change due to higher amount paid for the initial costs of the new Hungarian mobile frequency licenses in Q4 2014 than in Q3 2013
- HUF -3 billion change from capex to be paid in cash as financing cash flow due to higher vendor factoring was higher in 2013 than in 2014
- HUF 5 billion change due to the lower amount of other capex creditors paid in 2014 than in 2013
- HUF 1 billion higher proceeds from PPE sale in 2014 than in 2013, mainly due to the Q2 2014 real estate sale in Győr

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -11.2 billion in 2013 to HUF -18.6 billion in 2014. Main reasons for the higher payments of HUF 7.4 billion were the following:

- HUF -4 billion due to higher payments on reverse factored vendor invoices in 2014 than in 2013
- HUF -1 billion higher payments on finance lease liabilities in 2014 than in 2013 mainly due to the amendment of the STB lease contract in Q2 2013
- HUF -1 billion higher payment on annual frequency fees in 2014 (recognized as financial liability in Q3 2013 and Q4 2014), than in 2013

Free cash flow (FCF) overall decreased from HUF 0.6 billion in 2013 to HUF -13.8 billion in 2014 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 3.5 billion. Main reasons for the decrease were the following:

- HUF -22 billion lower amount of MKT's bank deposits over 3 months was converted into cash in 2014 in a net term
- HUF 15 billion lower amount of CT's cash was invested as bank deposits over 3 months in 2014 in a net term
- HUF 4 billion other changes mainly due to lower cash outflows related to derivatives in 2014

Proceeds from loans and other borrowings - net

Net loan proceeds were lower in 2014 as MT paid no dividend in 2014, however, the higher initial cost of the Hungarian mobile licenses still required additional financing in 2014.

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest decreased by HUF 57.4 billion. Main reasons for the decrease were the following:

- HUF 52 billion - There was no MT dividend payment in 2014
- HUF 7 billion - MKT's minority owners received lower amount of dividends in 2014 than in 2013
- HUF -1 billion - CG's minority owners received additonal dividends in 2014 by way of a share capital decrease, while the amount of the ordinary dividend payment was substantially the same in 2014 as in 2013

Exchange gains on cash and cash equivalents

The higher exchange gain on cash and cash equivalent is the result of the higher depreciation of HUF in 2014 than in 2013.

13.14 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2013 to December 31, 2014 can be observed in the following lines:

- Intangible assets
- Financial liabilities to related parties – Current portion
- Other financial liabilities
- Retained earnings

Intangible assets increased by HUF 97 billion from Decemer 31, 2013 to December 31, 2014. The main reason for the increase is the acquisition of new spectrum licenses in Hungary. On September 29, 2014, Magyar Telekom received the NMIAH's Decision closing the tender for spectrum licenses in 800 MHz, 900 MHz, 1800 MHz, 2600 MHz and 26 GHz frequency. In addition to the initial cost of the new frequencies in 2014 of HUF 59 billion, we also recognized the discounted present value of the future annual license fees of HUF 39 billion as part of the cost of the licenses.

The current portion of Financial liabilities to related parties increased by HUF 52 billion from December 31, 2013 to December 31, 2014. The reason for the increase is that a larger portion of the total balance is due in 2015 than it was in 2014. The long term portion of the Financial liabilities to related parties only increased by HUF 6 billion, which in fact means that Magyar Telekom borrowed net additional funds of HUF 58 billion form DT Group. At the same time, the Group's liabilities from Bank loans decreased by HUF 41 billion. The primary reason for the increase was to replace the predominantly short term bank financing of the Group with favorable long term DT Group financing.

The non current portion of Other financial liabilities increased by HUF 33 billion from December 31, 2013 to December 31, 2014. The main reason for the increase is that in addition to the initial cost of the new frequencies we also recognized the discounted present value of the future annual license fees of the spectrum acquired in 2014 in an amount of HUF 39 billion as part of the cost of the licenses with a corresponding financial liability becoming due in 1-20 years. The non current balance of the annual frequency fees recognized as financial liabilities increased from HUF 15 billion as at December 31, 2013 to HUF 51 billion as at December 31, 2014.

Retained earnings increased by HUF 29 billion from December 31, 2013 to December 31, 2014. The reason for the increase is the Profit attributable to the owners of the Company in an amount of HUF 29 billion, and the fact that no dividend was declared during 2014.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2013 to December 31, 2014. 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 2014, and the related explanations provided above in section 13.13 Cash flows.

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

Please refer to Note 37 of the Consolidated financial statements.

Budapest, February 25, 2015.

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 15, 2015

Christopher Mattheisen
Chief Executive Officer,
member of the Board

János Szabó
Chief Financial Officer,