EGYÜTT. VELED

CONSOLIDATED ANNUAL REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2021

EGYÜTT. VELED

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2021

INDEX TO THE CONSOLIDATED ANNUAL REPORT

EGYÜTT. VELED

CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2021

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ENDORSED BY THE EUROPEAN UNION (EU IFRS)

EGYÜTT. VELED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS

(in HUF millions)	Note	At December 31, 2020	At December 31, 2021
ASSETS			
Cash and cash equivalents	4.2.1	14,689	13,463
Trade receivables	4.2.2	158,857	158,187
Other assets	12.1	6,022	8,431
Other current financial assets	4.2.3.1	42,487	9,419
Contract assets	18.4	16,878	20,745
Current income tax receivable	6	473	1,318
Inventories	7	18,395	18,053
		257,801	**229,616**
Assets held for sale	8	489	2,286
Total current assets		**258,290**	**231,902**
Property, plant and equipment	9	432,436	437,432
Right-of-use assets	9, 17	121,335	122,355
Goodwill	1.3, 10	213,137	212,513
Other intangible assets	1.3, 10	285,680	346,149
Deferred tax assets	6.3.2	118	125
Trade receivables over one year	4.2.3.3	18,566	18,953
Other non-current financial assets	4.2.3.2	10,614	20,183
Contract assets	18.4	3,923	4,143
Other non-current assets	12.2	5,795	6,916
Total non-current assets		**1,091,604**	**1,168,769**
Total assets		**1,349,894**	**1,400,671**

Budapest, February 23, 2022

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION – LIABILITIES & EQUITY

(in HUF millions)	Note	At December 31, 2020	At December 31, 2021
LIABILITIES			
Financial liabilities to related parties	4.4.1	98,350	38,087
Lease liabilities	4.5.1.2, 17.2.2	20,712	22,328
Trade payables	4.4.4	148,326	142,031
Other financial liabilities	4.4.3.1	12,204	55,426
Current income tax payable	6	432	2,554
Provisions	13	3,603	3,367
Contract liabilities	18.4	10,998	12,238
Other current liabilities	14	22,198	18,986
		316,823	**295,017**
Liabilities held for sale		-	350
Total current liabilities		**316,823**	**295,367**
Financial liabilities to related parties	4.4.1	89,456	90,405
Lease liabilities	4.5.1.2, 17.2.2	111,820	112,076
Corporate bonds	4.4.2	67,904	68,215
Other financial liabilities	4.4.3.1	74,163	109,231
Deferred tax liabilities	6.3.2	18,621	16,888
Provisions	13	10,109	12,714
Contract liabilities	18.4	361	326
Other non-current liabilities	15	2,910	2,474
Total non-current liabilities		**375,344**	**412,329**
Total liabilities		**692,167**	**707,696**
EQUITY			
Common stock		104,275	104,275
Capital reserves		27,379	27,379
Treasury stock		(9,209)	(19,424)
Retained earnings		465,787	509,473
Accumulated other comprehensive income		30,452	31,192
Total equity of the owners of the parent		**618,684**	**652,895**
Non-controlling interests	16	39,043	40,080
Total equity		**657,727**	**692,975**
Total liabilities and equity		**1,349,894**	**1,400,671**

Budapest, February 23, 2022

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

The accompanying Notes form an integral part of these Consolidated Financial Statements.

EGYÜTT. VELED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in HUF millions, except per share amounts)	Note	For the year ended December 31, 2020	2021
Mobile revenue	1.3, 18	364,589	389,387
Fixed line revenue	1.3, 18	219,004	223,865
SI/IT revenue	1.3, 18	89,455	86,868
Revenue	**1.3, 18**	**673,048**	**700,120**
Interconnect costs	1.3	(22,079)	(24,959)
SI/IT service related costs	1.3	(63,314)	(62,065)
Bad debt expense	1.3, 4.2.2.2	(9,717)	(11,012)
Telecom tax	1.3, 19.1	(27,614)	(26,826)
Other direct costs	1.3, 19.2	(174,764)	(186,829)
Direct costs	**1.3**	**(297,488)**	**(311,691)**
Employee-related expenses	20	(79,004)	(75,880)
Depreciation and amortization	9, 10	(141,058)	(147,962)
Other operating expenses	21	(76,516)	(75,739)
Operating expenses		**(594,066)**	**(611,272)**
Other operating income	22	5,842	3,961
Operating profit		**84,824**	**92,809**
Interest income	23	676	362
Interest expense	24	(11,319)	(13,767)
Other finance expense – net	25	(13,203)	(291)
Net financial result		**(23,846)**	**(13,696)**
Share of associates' and joint ventures' results	11	(66)	-
Profit before income tax		**60,912**	**79,113**
Income tax	6.2	(14,595)	(16,266)
Profit for the period		**46,317**	**62,847**
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		8,947	1,007
Items not to be reclassified to profit or loss in subsequent periods:			
Revaluation of financial assets at FVOCI		50	399
Other comprehensive income for the year, net of tax		**8,997**	**1,406**
Total comprehensive income for the period		**55,314**	**64,253**
Profit attributable to:			
Owners of the parent		42,364	58,997
Non-controlling interests		3,953	3,850
		46,317	**62,847**

(in HUF millions, except per share amounts)	Note	For the year ended December 31, 2020	2021
Total comprehensive income attributable to:			
Owners of the parent		47,769	59,737
Non-controlling interests		7,545	4,516
		55,314	**64,253**
Earnings per share (EPS) information:	27		
Owners of the parent		42,364	58,997
Weighted average number of common stock outstanding used for basic/diluted EPS		1,027,117,481	1,007,460,789
Basic / diluted earnings per share (HUF)		41.25	58.56

Budapest, February 23, 2022

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

The accompanying Notes form an integral part of these Consolidated Financial Statements.

EGYÜTT. VELED

CONSOLIDATED STATEMENT OF CASH FLOWS

(in HUF millions)	Note	For the year ended December 31, 2020	2021
Cash flows from operating activities			
Profit for the period		46,317	62,847
Depreciation and amortization	9, 10	141,058	147,962
Income tax expense	6.2	14,595	16,266
Net financial result		23,846	13,696
Share of associates' and joint ventures' result		66	-
Change in assets carried as working capital		10,535	(6,994)
Change in provisions		(536)	1,503
Change in liabilities carried as working capital		(13,627)	(5,605)
Income tax paid	6.4	(12,700)	(14,471)
Dividend received		52	57
Interest and other financial charges paid		(19,913)	(19,935)
Interest received		283	331
Other non-cash items		(4,021)	(887)
Net cash generated from operating activities		**185,955**	**194,770**
Cash flows from investing activities			
Payments for property plant and equipment (PPE) and intangible assets	28	(153,113)	(110,906)
Proceeds from disposal of PPE and intangible assets		7,843	1,953
Payments for subsidiaries and business units	29	(567)	(1,677)
Proceeds from disposal of subsidiaries and business units		268	-
Payments for other financial assets		(2,992)	(4,194)
Proceeds from other financial assets		459	13,422
Net cash used in investing activities		**(148,102)**	**(101,402)**
Cash flows from financing activities			
Dividends paid to Owners of the parent and Non-controlling interests	4.4.3.3	(24,516)	(18,788)
Proceeds from loans and other borrowings	4.4.3.3	216,127	186,699
Repayment of loans and other borrowings	4.4.3.3	(269,716)	(223,436)
Proceeds from corporate bonds	4.4.3.3	70,834	-
Repayment of lease and other financial liabilities	4.4.3.3	(25,114)	(28,972)
Treasury share purchase	4.4.3.3	(5,218)	(10,215)
Net cash used in financing activities		**(37,603)**	**(94,712)**
Exchange differences on cash and cash equivalents		1,041	118
Change in cash and cash equivalents		**1,291**	**(1,226)**
Cash and cash equivalents, beginning of period		13,398	14,689
Cash and cash equivalents, end of period	**4.2.1.**	**14,689**	**13,463**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	pieces	in HUF millions								
						Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Capital reserves (b)	Treasury stock (c)	Retained earnings (d)	Cumulative translation adjustment (e)	Revaluation reserve for FVOCI financial assets – net of tax (f)	Equity of the owners of the parent	Non-controlling interests (g)	Total Equity
Balance at January 1, 2020	**1,042,742,543**	**104,275**	**27,379**	**(3,991)**	**444,278**	**24,863**	**184**	**596,988**	**35,166**	**632,154**
Dividend declared to Owners of the parent (h)	-	-	-	-	(20,855)	-	-	(20,855)	-	(20,855)
Dividend declared to Non-controlling interests (i)	-	-	-	-	-	-	-	-	(3,668)	(3,668)
Treasury share purchase (j)	-	-	-	(5,218)	-	-	-	(5,218)	-	(5,218)
Transactions with owners in their capacity as owners	**-**	**-**	**-**	**(5,218)**	**(20,855)**	**-**	**-**	**(26,073)**	**(3,668)**	**(29,741)**
Other comprehensive income	-	-	-	-	-	5,379	26	5,405	3,592	8,997
Profit or loss	-	-	-	-	42,364	-	-	42,364	3,953	46,317
Balance at December 31, 2020	**1,042,742,543**	**104,275**	**27,379**	**(9,209)**	**465,787**	**30,242**	**210**	**618,684**	**39,043**	**657,727**
Dividend declared to Owners of the parent (h)	-	-	-	-	(15,311)	-	-	(15,311)	-	(15,311)
Dividend declared to Non-controlling interests (i)	-	-	-	-	-	-	-	-	(3,479)	(3,479)
Treasury share purchase (j)	-	-	-	(10,215)	-	-	-	(10,215)	-	(10,215)
Transactions with owners in their capacity as owners	**-**	**-**	**-**	**(10,215)**	**(15,311)**	**-**	**-**	**(25,526)**	**(3,479)**	**(29,005)**
Other comprehensive income	-	-	-	-	-	517	223	740	666	1,406
Profit or loss	-	-	-	-	58,997	-	-	58,997	3,850	62,847
Balance at December 31, 2021	**1,042,742,543**	**104,275**	**27,379**	**(19,424)**	**509,473**	**30,759**	**433**	**652,895**	**40,080**	**692,975**
Of which treasury stock	(45,777,539)									
Shares of common stock outstanding	**996,965,004**									

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 nominal value of HUF 100) is fully paid as at December 31, 2021. The number of authorized ordinary shares on December 31, 2021 is 1,042,742,543.

Voting Rights and Voting

The holder of each Series "A" ordinary share shall be entitled to one vote at the General Meeting of the Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.). 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 Association, 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.

Transfer of Shares

In order to transfer dematerialized shares, there must be a contract for transfer or other legal title and, in that context, the transferor's securities account must be debited and the new holder's securities account must 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.

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

(c) Treasury stock represents the cost of the Company's own shares repurchased. 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 canceled. 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. The number of Treasury stock was 45,777,539 on December 31, 2021 and 21,982,747 on December 31, 2020.

(d) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law (Section 5 (b) 114/B of Act C of 2000 on Accounting relating to untied retained earnings available for the payment of dividends) at December 31, 2021 amounted to approximately HUF 524 billion (HUF 484 billion at December 31, 2020).

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

(f) Revaluation reserve for financial assets at FVOCI includes the unrealized gains and losses net of tax on equity instruments measured at Fair Value through other comprehensive income (see also Note 4.5.1).

(g) 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 16).

(h) 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.

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

(j) The Company repurchased own shares for HUF 10.2 billion through a share buyback auction on June 10, 2021 for the purpose of shareholders' remuneration as approved by the Company's Board of Directors on May 10, 2021 (in 2020 HUF 5.2 billion own shares were repurchased). The Company concluded repurchase transactions for 23,794,792 Magyar Telekom ordinary shares at an average price of HUF 429 per share. Following the execution of the transactions, Magyar Telekom holds 45,777,539 treasury shares.

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes a dividend distribution in total of HUF 15,000 million to be approved by the Annual General Meeting of the Company in April 2022. In 2021 due to the situation caused by the coronavirus pandemic (COVID-19) the Board of Directors of the Magyar Telekom approved HUF 15,311 million dividend based on the authorization set out in Section 9 (2) of Government Decree no. 502/2020. (XI. 16.).

The accompanying Notes form an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

Magyar Telekom Plc. with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom Plc. is the leading provider of telecommunications services in Hungary and Republic of North Macedonia and alternative service provider in Bulgaria and Romania. These services are subject to various telecommunications regulations depending on the countries of operations (Note 34).

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered seat is Könyves Kálmán krt. 36., 1097 Budapest, Hungary since November 1, 2018. Name of the Court of Registration and the registration number of the Company: Registry Court of the Budapest-Capital Regional Court, 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 DT AG) who fully consolidates Magyar Telekom Group. Deutsche Telekom Europe B.V. (Stationsplein 8, 6221 BT Maastricht, the Netherlands), a member of the Deutsche Telekom Group, is the direct owner of 59.21% of the Company's issued shares.

The consolidated financial statements of DT AG are available at DT AG's website (www.telekom.com/en).

The Consolidated Financial Statements are prepared and presented in millions of Hungarian Forints (HUF), unless stated otherwise.

The Company's Board of Directors (the Board) accepted the submission of these consolidated financial statements of the Company on February 23, 2022 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 remote, and has never happened in the past.

Persons authorized to sign the annual report:

Tibor Rékasi - Chief Executive Officer, member of the Board (residence: Szentendre)

Daria Aleksandrovna Dodonova - Chief Financial Officer, member of the Board (residence: Budapest)

In Magyar Telekom Plc., the accounting services are coordinated by Melinda Modok (certificate number: 18128. Area of speciality: IFRS entrepreneurial activity. Status: registered. Registration number: MK 199521. Residence: Budapest).

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Könyvvizsgáló Kft. (its register number is 01-09-063022, its taxation number is 10256161-2-44), the responsible person for carrying out the audit is Zoltán Bárdy (membership number at Chamber of Hungarian Auditors: 007346).

The Separate Financial Statements of Magyar Telekom Plc. and the Consolidated Financial Statements of Magyar Telekom Group are available at the Company's registered office and on its corporate website.

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

1.2 Composition of the Group

At December 31, 2020 and 2021 the major operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31,		Activity
	2020	2021	
Incorporated in Hungary:			
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%	System integration and IT services
KalászNet Kft., Budapest	100.00%	100.00%	Telecom service provider
Telekom New Media Zrt., Budapest...........................	100.00%	100.00%	Interactive service provider of telecommunications applications
Incorporated in North Macedonia:			
Makedonski Telekom A.D., Skopje (MKT)..................	56.67%	56.67%	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 significant entity in the Group that is not controlled even though more than half of the voting rights are held.

All subsidiary undertakings are included in the consolidation.

1.3 Revised presentation of financial report's hierarchy

In 2021 in order to follow the general industry practice the management has conducted the revision of the presentation hierarchy of the annual financial report to give the investors more transparent information about economic resources of the Group, claims against the Group, and their changes. As a result of the harmonization, the amount of goodwill is separated from other intangible assets in the Consolidated Statements of Financial Position, revenue is disaggregated to mobile, fixed line and SI/IT (System integration and Information technology) business lines revenue data, direct costs are disaggregated to interconnect costs, SI/IT service related costs, bad debt expense, telecom tax and other direct costs in the Consolidated Statements of Profit or Loss Statement. In the Consolidated Statement of Cash Flow some minor adjustments in the order and wording were made.

With the changes described above, the information provided by the financial report is remained the same, all comparative information in this report was presented in the preceding years accordingly. Management believes these changes ensure more transparent and consistent financial information to the investors.

2 BASIS OF PREPARATION AND 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, 2021 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 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 in which assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Financial statements are prepared under going concern assumptions, which means it is assumed the Company will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities.

2.1.1 Initial application of standards, interpretations, and amendments in the financial year

The table below summarizes the Standards amended and the subject of the amendments effective on or after January 1, 2021 that could have an impact on Magyar Telekom's accounting policies.

Pronouncement	Title	Applied by Magyar Telekom from	Changes	Impact on the presentation of Magyar Telekom's results of operations and financial position
Amendments to IFRS 4	Insurance Contracts - Deferral of IFRS 9	Jan 1, 2021	Deferral of first-time application of IFRS 9 for insurance companies.	Not applicable.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	Jan 1, 2021	The amendments address the impact of modifications of financial instruments required as a direct consequence of the IBOR reform, hedge accounting requirements, and the accompanying disclosures.	No impact based on internal assessment.
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond June 30, 2021	April 1, 2021*	Extension of practical expedient until June 30, 2022 for lessee accounting of rent concessions granted due to the COVID-19 pandemic.	Not applied.

* Earlier application is permissible. Magyar Telekom already decided in the 2020 financial year not to apply the practical expedient.

2.1.2 Standards, amendments and interpretations that are not yet effective as of December 31, 2021 and have not been adopted early by the Group and other expected changes for 2022 and 2023

Pronouncement	Title	To be applied by Magyar Telekom from	Changes	Expected impact on the presentation of Magyar Telekom's results of operations and financial position
Standards endorsed by the EU				
Amendments to IFRS 3; IAS 16; IAS 37 and Annual Improvements 2018-2020	Business Combinations; Property, Plant and Equipment; Provisions; Contingent Liabilities and Contingent Assets	Jan 1, 2022	Package of narrow-scope amendments to three Standards as well as the Board's Annual Improvements, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.	No material impact is expected.
IFRS 17 and Amendments to IFRS 17	Insurance Contracts	Jan 1, 2023	IFRS 17 governs the accounting for insurance contracts and replaces IFRS 4. Deferral of first-time application of IFRS 17 to January 1, 2023. The amendments refer to specific topics helping entities to implement the standard and avoiding a significant loss of useful information.	No material impact is expected.
Standards not yet endorsed by the EU*				
Amendments to IAS 1	Presentation of Financial Statements	Jan 1, 2023	Classification of Liabilities as Current or Non-current and Deferral of Effective Date.	No material impact is expected.
Amendments to IAS 1	Presentation of Financial Statements	Jan 1, 2023	Disclosure of material accounting policy information instead of significant accounting policies. In addition, IFRS Practice Statement 2 has been amended.	No material impact is expected.
Amendments to IAS 8	Accounting policies, Changes in Accounting Estimates and Errors	Jan 1, 2023	Introduced a definition of 'accounting estimates' and included other amendments to help entities distinguish changes in accounting policies from changes in accounting estimates.	No material impact is expected.
Amendments to IAS 12	Income Taxes	Jan 1, 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	No material impact is expected.
Amendments to IFRS 17 Insurance contracts	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	Jan 1, 2023	Transition option relating to comparative information about financial assets presented on initial application of IFRS 17, helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.	Not applicable.

* For standards not yet endorsed by the EU, the date of first-time adoption scheduled by the IASB is assumed for the time being as the likely date of first-time adoption.

2.1.3 COVID-19 impact on the business and on the financial statements

After 2020, which was drastically impacted globally by the outbreak of the COVID-19 pandemic, 2021 was featured by a general recovery worldwide as the targeted government measures along with the more efficient management of the pandemic led to improved production as well as higher consumption levels.

However, the still prevailing pandemic has been reshaping the environment whereas some new economic difficulties has also emerged with global supply chain disturbances and the sharp increase in energy prices witnessed in the second half of 2021.

The telecommunication industry has continued to play a critical role in keeping families connected and businesses and the economy progressing in this changing environment.

The Company could also leverage from these developments with both revenues and profitability improving in 2021. Although we continued to face lower SI/IT project demand and decided to recognize forward-looking impairment in bad debt expense for possible deterioration of our customer base's solvency position in relation to the termination of the loan moratorium and upcoming economic difficulties, thanks to the continued improvement in telecommunication service performance reflecting continued upward trend in customer demand, both annual gross profit, EBITDA and net income exceeded previous year's levels.

The need for digitalization, demand for data and the use of online, virtual channels have reached unseen levels, highlighting the integral role of the telecommunication industry.

To reflect to these changes and to ensure the reliability and security of our networks, we continued to invest in our infrastructure. The rollout of our fiber network remained a key priority and we dedicated significant amount of capital expenditures to the expansion of our network during 2021. Furthermore, we continued with the radio access network modernization commenced in 2020 to be able to meet the sharply rising mobile data capacity demand.

Beyond the changes on the market we closely monitor the recoverability of our assets, therefore the Company has conducted the goodwill impairment test more frequently during the year and paid more attention to monitor the solvency of customers, taking into account the potential negative impacts of COVID-19. See details in Notes 3.2 and 3.3.

2.2 Consolidation

2.2.1 Subsidiaries

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

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

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

The classification of transactions as a business combination must be made on a case-by-case basis. The Group may decide to apply or not to apply the concentration test separately for each transaction or event.

A concentration test is met if the substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. In this case, the group of activities and assets is not a business. A concentration test is met if the substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. In this case, the group of activities and assets is not a business.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group has maximum one year from the acquisition date to finalize the purchase price allocation.

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), the difference is recognized in accordance with other applicable IFRSs as appropriate rather than as an adjustment of goodwill.

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

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

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

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

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

The ESOP (Employee Share Ownership Program) Organization was a special organization of Magyar Telekom which was controlled by the Company without any shares in it. The voluntary liquidation of the ESOP Organization ended in 2021.

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 on 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 operating profit for the year as part of the gain or loss on sale.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

3.1 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. Management believes 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. See Notes 9 and 10 for the changes made to useful lives in 2021.

The Group is constantly introducing a number of new services or platforms. In the frame of that, Magyar Telekom focuses on the development of 4G and 5G platforms while does not make any further developments in 3G network. Services in that platform will be ceased from the second half of 2022, useful life of assets related to this technology had been revised and shortened in prior years, accordingly. Furthermore, Magyar Telekom continues the acceleration of its fiber rollout, the modernization of its ED3 network, a migration to Gigabit capable networks and the retirement of its copper networks. 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, not necessarily resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

3.2 Estimated impairment of goodwill

Goodwill is not amortized, but tested for impairment annually in the last quarter of the year and in the other quarters quicktests are executed. Due to COVID-19, during the preparation of the interim financial reports of 2021 the management updated its goodwill impairment test in every quarter by considering updated information on inputs like book values, foreign exchange rates, and weighted average cost of capital. No impairment needed to be recognized in 2021.

The recoverable amounts of the operating segments are calculated based on fair value less cost of disposal 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 five years.

In order to determine the recoverable amounts of the operating segments, the Group calculates the operating segments' fair values less cost of disposal. 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 the capital asset pricing model (CAPM) 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: MT-Hungary and North Macedonia. In 2021 and 2020, no goodwill had to be impaired. Details of the carrying amounts of goodwill allocated to the segments are in Note 10.4.

The following tables show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2021 and 2020. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2021 or 2020 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In 2021 we disclose what impact a 4 percentage point increase of the WACC would have on the goodwill. Regarding the PGRs, we disclose what impact a 9 percentage point decrease of the PGR would have on the goodwill. Regarding the cash flow projections, we disclose what impact a 20% or a 32% lower than projected cash flow stream would have on the goodwill.

2021	MT-Hungary	North Macedonia
WACC		
Used in the calculation	7.95%	5.14%
If changed to	11.95%	9.14%
Potential impairment (HUF million)	49,140	-
PGR		
Used in the calculation	1.0%	1.0%
If changed to	(8.0%)	(8.0%)
Potential impairment (HUF million)	7,746	-
Cash flow		
If changed by	(20.0%)	(20.0%)
Potential impairment (HUF million)	-	-
If changed by	(32.0%)	(32.0%)
Potential impairment (HUF million)	10,828	-

In 2020 we disclose what impact a 4 percentage point increase of the WACC would have had on the goodwill. In case of the PGRs we disclose what impact a 10 percentage point decrease of the PGR would have had on the goodwill. In case of the cash flow projections we disclose what impact a 20% or a 44% lower than projected cash flow stream would have had on the goodwill.

2020	MT-Hungary	North Macedonia
WACC		
Used in the calculation	5.68%	4.75%
If changed to	9.68%	8.75%
Potential impairment (HUF million)	41,909	-
PGR		
Used in the calculation	1.0%	1.0%
If changed to	(9.0%)	(9.0%)
Potential impairment (HUF million)	23,476	-
Cash flow		
If changed by	(20.0%)	(20.0%)
Potential impairment (HUF million)	-	-
If changed by	(44.0%)	(44.0%)
Potential impairment (HUF million)	12,754	-

The table below shows what changes can be observed in the 10-year plans prepared in 2020 following to those prepared in 2021.

		MT-Hungary	North Macedonia
Cumulative average annual change rate of revenue during the 10 years compared to 2021		0.3%	0.4%
Cumulative average annual change rate of revenue during the 10 years compared to 2020		0.5%	0.0%
Cumulative average annual change rate of EBITDA during the 10 years compared to 2021		0.7%	1.0%
Cumulative average annual change rate of EBITDA during the 10 years compared to 2020		0.6%	0.9%
Cumulative average annual change rate of Capex during the 10 years compared to 2021	(a)	(4.2%)	(0.8%)
Cumulative average annual change rate of Capex during the 10 years compared to 2020	(a)	(5.0%)	1.0%

(a) In 2020 and 2021, the Magyar Telekom Plc. acquired frequency usage rights represented significant amount and, as a result, the average Capex for the next 10 years shows declining tendency.

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 fair value less costs of disposal (FVLCD). The VIU method assumes a model without future investments, meaning that additional capex and related revenue and gains to be recognized in the future cannot be considered in the calculations. Assuring the revenue for the long term in a telecom business very much depends on future investments. Due to technological changes it is obvious that these capital expenditures are essential for long term revenue generation and a necessity for the growth of business.

3.3 Estimated impairment of trade and other receivables

We calculate impairment for accounts receivable based on estimated losses resulting from the inability of our customers to make required payments. The loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet been incurred as of the reporting date but which are expected to be incurred in the future (expected losses). 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 and forward-looking information. In addition, we also consider 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.

The above factors of impairment calculation are reviewed annually, and changes are made to the calculations when necessary. The assessment of the correlation between historical observed default rates, forecast economic conditions and expected impairment is considered as a critical estimate.

In 2020, coronavirus spread globally, and it has gained significant negative impact both socially and economically. In 2021 the global economic outlook started to improve thanks to the emergence of vaccinations, but the further waves of the pandemic and further economic events evoke uncertainties regarding the recovery. Current changes in market trends and the volatility in the economic conditions in Hungary as the post effect of COVID-19 pandemic has impact on the creditworthiness of our debtors and related estimates may differ materially from the prior periods.

According to the best estimation based on the reassessment of factors (particularly macroeconomic tendencies, current market conditions, the termination of the loan moratorium) significant impact have been concluded on the credit risk of the Group particularly on trade receivables in installment payments for telecommunications equipment sold. Consequently, forward-looking impairment increased by HUF 3.2 billion on this sub-group of debtors. The annual revision also revealed that no other asset classes have been impacted materially. The management concluded there is no reason to modify the bad debt ratios used previously for the portfolios.

A sensitivity analysis had also been prepared that shows how much impairment would have been recognized on trade receivables in instalment payments as at December 31, 2021 if we changed the estimated non-payment rate. According to this, the financial effect of 1% and 2% improvement (-) and deterioration (+) of the applied estimated non-payment rate would increase or decrease by HUF 0.8 billion and by HUF 1.5 billion on the carrying value of these trade receivables (current and non-current part).

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.

The management pays particular attention to the continuous monitoring of the solvency of the customers in the future and would take additional corrective actions if it is necessary. Please see further information Notes 4 and 5.1.2.

3.4 Contracts with customers

The Group applies the guidance to a group of contracts with similar characteristics instead of to a single contract with a customer. The characteristics considered include mainly the business segment of the customer, business model of the contract, and whether the contract is committed or not.

Contract assets are recognized for unbilled amounts typically resulting from sales under long-term contracts when revenue recognized exceeds the amount billed to the customer in that period. This is a temporary difference so that revenue recognized and revenue billed are the same by the end of the commitment term. The amount of the contract assets is determined considering the estimated churn rate of the relevant group of contracts. The time frame for reclassification of contract assets to a receivable is the minimum contract term of the relevant group of contracts.

Furthermore, the Group recognizes assets for costs incurred in connection with the signing of customer contracts which would not have been incurred if the customer contract had not been concluded (contract costs). Capitalization is subject to the expectation that those costs will be recovered by future revenue resulting from the contract.

Costs of obtaining a contract with a customer generally include sales commissions both direct and indirect distribution channels. Capitalizing incremental costs of obtaining a contract does not only refer to contracts concluded with a new customer but also to contract renewals. Accounting treatment of acquisition- and retention-related contract costs is the same.

Costs of obtaining a contract with a customer are amortized on a portfolio basis over the period that the related goods or services are transferred to the customer which is

- based on historical customer retention data and past experiences in that business segment in case of uncommitted contracts (e. g. prepaid) and
- in case of committed contracts the commitment period is considered as amortization period.

The Group decided not to use the practical expedient of expensing the incremental costs of obtaining a contract immediately, which are amortized over a period of one year or less.

See Note 18.4 for the amount of contract assets, contract liabilities and contract costs.

3.5 Annual fees of mobile licenses

Magyar Telekom's primary activities are the fixed-line and mobile operations in Hungary and North Macedonia. These services are in most cases regulated by these countries' laws or other legislation. 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 the management considers that these annual fees can be estimated reliably, the present value of those are capitalized as part of the cost of the license with corresponding current and non-current financial liabilities, otherwise these are recognized as costs in the period they relate to.

The management considered that the annual band fees related to frequency usage right acquired in 2021 can be reliably estimated, the present value of those are recognized as part of the cost of the license. For further information see Notes 3.5, 4.4.3.1, 10.2, 10.5, 28 and 34.2.

3.6 Leases – estimating the incremental borrowing rate and assessment of extension and termination options

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date.

The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

This discount rate reflects the main risks of the lease arrangements in a specific country and is provided for each year up to a maturity of 30 years. A change in the interest rate is only applicable when after initial recognition the contract is modified, or a reassessment is necessary which causes a change in the interest rate.

Magyar Telekom uses the lessee's incremental borrowing rate.

Magyar Telekom never uses negative interest rates. Any negative interest rates will be capped at an amount of zero.

In 2021, the range of used discount rates is 2.48%-4.41% (2.87%-5.31% in 2020). It was calculated as the average of the borrowing rates weighted by the discounted lease liability.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

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 and contractual rights to receive cash (trade 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) a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

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) or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

4.1 Financial assets – accounting policies

Group classifies its financial assets on the basis of both:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset

in the following categories:

- at amortized cost if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
- at fair value through profit or loss (FVTPL) unless it is classified in the previous categories.

For the purpose of the above classification:

- principal is the fair value of the financial asset at initial recognition
- interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

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.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred. Financial assets have been transferred when the contractual rights to receive cash flows of the financial assets have been transferred or the contractual rights to receive cash flows of the financial assets have been retained but there is a contractual obligation to pay the cash flows to one or more recipients in an arrangement compliant with the conditions set out by IFRS 9. Any gains or losses on derecognition are recognized in Profit for the year and are calculated as the difference between (a) the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income and (b) the carrying amount derecognized.

4.1.1 Impairment of financial assets

Depending on the business model of the Group and the characteristics of the contractual cash flows of the financial assets, financial assets are subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

A loss allowance must be recognized for financial assets measured at amortized cost and at fair value through other comprehensive income. The loss allowance must be recognized through profit or loss and reduces the carrying amount of the relevant financial asset; in the case of financial assets measured at fair value through other comprehensive income, the corresponding offsetting entry is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

Loss allowances must also be recognized for lease receivables as defined in IFRS 16, contract assets as defined in IFRS 15, financial guarantee contracts and loan commitments relating to loans bearing an off-market interest rate.

Loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet been incurred as of the reporting date but which are expected to be incurred in the future (expected losses).

Based on the changes in credit risk, it must be assessed at each reporting date whether the current loss allowance must be measured at an amount equal to the lifetime expected credit losses or at an amount equal to the 12-month expected credit losses. If it is not possible to assess whether the credit risk has increased significantly based on the individual financial asset, it must be assessed at the portfolio level.

The simplified and the general approaches are to be applied to assess and account for credit losses.

- Simplified approach

All financial instruments underlying simplified approach are measured with lifetime expected credit loss. Therefore, except for insolvency, neither any indicators for increase in credit risk nor any default events are relevant within the simplified approach.

The simplified approach is applicable for trade receivables, contract assets and lease receivables without a significant financial component. MT Group has chosen the right to use the simplified approach for these receivables with a significant financial component as well.

- General approach

According to the expected credit loss model the financial instruments are classified into three buckets. The classification into the three buckets is based upon the changes of the credit risk for the financial asset. A relative credit risk model is used for the evaluation of an increased credit risk. The increase of credit risk in comparison to the initial recognition is reflected in the transfer of the financial instrument between the buckets.

According to the expected credit risk model the impairment is determined differently for the three buckets. The impairment for financial instruments in bucket 1 is calculated based upon the 12-months expected credit loss. The impairment for financial instruments in bucket 2 and 3 is calculated based upon the lifetime expected credit losses. Once a long term asset is moved to bucket 3, the effective interest method has to be applied to reach net value after impairment.

The general approach is applied for bank accounts, factoring receivables, other financial receivables and employee loans.

4.1.2 Financial assets measured at amortized cost

The following items are assigned to this category:

- cash and cash equivalents;
- bank deposits over three months;
- trade receivables;
- other receivables.

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method (relevant only for the receivables with long-term maturity).

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.

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.

Trade receivables

If there is a significant increase in the credit risk of trade receivables carried at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition). In the case of short-term trade receivables estimation is made on the amount of expected future cash inflows and compared to the carrying amount, the difference is accounted for as allowance for trade receivables. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized as Bad debt expense.

When it is determined that there is no significant increase in the credit risk for an individually assessed accounts receivable, the item should be included in a group of accounts receivables with similar credit risk characteristics and assessed collectively for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

There are three categories for calculating impairment loss of trade receivables:

- for invoices which are overdue
- for invoices which are not yet due
- for unbilled revenue.

In the case of collective assessment there is significant increase in the credit risk if there are overdue items in a group of receivables. An ageing list is prepared on overdue receivables and the amount of impairment is calculated by multiplying impairment rates based on historical loss experience with the amount of receivables.

Impairment rates are calculated based on historical loss experience, however it is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. During the impairment calculation forward-looking information is also considered. Such information can be, for example, internal changes in the billing and dunning processes and external extreme changes e.g. in unemployment rates, credit crisis etc.

When a trade receivable is established to be uncollectible, it is written off against Trade receivables. Impairment and subsequent recoveries of amounts previously written off are accounted for against the period's Direct costs.

4.1.3 Financial assets at fair value through other comprehensive income (FVOCI)

The "financial assets at fair value through other comprehensive income" measurement category includes the following financial assets:

- listed and unlisted equity instruments that are neither fully consolidated nor included using the equity method in the consolidated financial statements, not held for trading and OCI option has been applied;
- debt instruments within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets at fair value through other comprehensive income are initially recognized at fair value and are also subsequently carried at fair value. The unrealized changes in the fair value of financial assets at fair value through other comprehensive income are recognized in equity, in the Revaluation reserve for FVOCI financial assets for both equity instruments and debt instruments.

When securities classified as financial assets at fair value through other comprehensive income are sold, the accumulated fair value adjustments recognized in equity before are recognized in the profit or loss except for equity instruments, where it will be recognized directly to retained earnings.

The Group assesses at each balance sheet date whether there is significant increase in the credit risk. There is significant increase in the credit risk of a financial asset as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

If any such evidence exists for FVOCI financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the profit or loss.

4.1.4 Financial assets at fair value through profit or loss (FVTPL)

Debt instruments which do not meet the conditions set out to be initially classified either at amortized cost or at fair value through other comprehensive income must be measured at fair value through profit or loss.

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

- Debt instruments that are designated as "at fair value through profit or loss" using the fair value option.
- Equity instruments acquired for the purpose of selling immediately or in the near term and thus classified as "held for trading" and equity instruments not held for trading where the OCI option has not been applied.
- Derivative financial assets.
- Debt instruments not fulfilling conditions of either financial assets at amortized cost or financial assets at fair value through other comprehensive income.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognized in the profit or loss in the period in which they arise.

4.2 Financial assets in the statement of financial position

4.2.1 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 5.1.2. No impairment had to be recognized for any of these balances in the reported years.

	12.31.2020	12.31.2021
Cash on hand	133	97
Cash in bank (demand deposits)	14,556	13,312
Bank deposits with original maturities less than 3 months	-	54
Cash and cash equivalents	**14,689**	**13,463**

Average interest rates	12.31.2020	12.31.2021
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.07%	0.10%
Bank deposits with original maturities less than 3 months	0.00%	0.00%
Average interest rate	**0.07%**	**0.10%**

Cash and cash equivalents by currency	12.31.2020	12.31.2021
EUR	4,480	6,806
MKD	6,798	2,962
HUF	2,582	2,397
RON	655	1,007
USD	162	255
Other	12	36
Total	**14,689**	**13,463**

Cash and cash equivalents by country of location	12.31.2020	12.31.2021
North Macedonia	10,836	9,257
Hungary	3,082	3,052
Other countries	771	1,154
	14,689	**13,463**

4.2.2 Trade receivables

4.2.2.1 Trade receivables – carrying amounts

	12.31.2020	12.31.2021
Trade receivables from third parties	152,390	152,644
Trade receivables from Deutsche Telekom Group companies	6,465	5,543
Trade receivables from associates and joint ventures	2	-
Trade receivables	**158,857**	**158,187**

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.

	Carrying amount as of 12.31.2021	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	140,838	121,774	15,320	2,039	542	572	408	183
North Macedonia	15,816	12,587	1,888	313	109	171	278	470
Other countries	1,533	1,204	241	20	51	10	7	-
Total	**158,187**	**135,565**	**17,449**	**2,372**	**702**	**753**	**693**	**653**

	Carrying amount as of 12.31.2020	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	141,356	126,616	10,966	2,337	470	494	351	122
North Macedonia	16,117	12,788	1,801	377	112	216	255	568
Other countries	1,384	1,068	105	116	50	14	31	-
Total	**158,857**	**140,472**	**12,872**	**2,830**	**632**	**724**	**637**	**690**

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.

4.2.2.2 Impairment losses of trade receivables and contract assets

The table below shows the impairment losses and changes of trade receivables therein for 2020 and 2021.

	12.31.2020	12.31.2021
Impairment loss, beginning of period	30,693	28,978
Charged to expense – net (included in Direct costs)	7,272	9,450
Translation difference	1,112	133
Utilized	(10,099)	(7,226)
Impairment loss, end of period	**28,978**	**31,335**

The table below shows the impairment losses and changes of contract assets therein for 2020 and 2021.

	12.31.2020	12.31.2021
Impairment loss, beginning of period	1,728	2,215
Charged to expense – net (included in Direct costs)	2,445	1,562
Translation difference	52	8
Utilized	(2,010)	(1,577)
Impairment loss, end of period	**2,215**	**2,208**

The table below includes the impairment losses and the changes therein in 2020 and 2021 for the countries of operation of the Group.

	01.01.2021	Charged to expense	Translation difference (and rounding)	Utilized (a)	12.31.2021
Hungary	18,385	9,816	(1)	(7,285)	20,915
North Macedonia	12,589	1,089	141	(1,403)	12,416
Other countries	219	107	1	(115)	212
Group	**31,193**	**11,012**	**141**	**(8,803)**	**33,543**

	01.01.2020	Charged to expense	Translation difference (and rounding)	Utilized (a)	12.31.2020
Hungary	20,870	8,734	5	(11,224)	18,385
North Macedonia	11,346	980	1,139	(876)	12,589
Other countries	205	3	20	(9)	219
Group	**32,421**	**9,717**	**1,164**	**(12,109)**	**31,193**

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

See also Note 5.1.2 for further analysis of credit risks related to Trade receivables.

4.2.3 Other financial assets

Other financial assets include receivables due within 12 months (current) and due after 12 months (non-current) from the end of the reporting period (financial statement date). These financial assets are exposed to credit risks, for which see more details in Note 5.1.2. The impairment loss recognized or reversed for other current and non-current financial assets is not material.

4.2.3.1 Other current financial assets

		12.31.2020	12.31.2021
Bank deposits with original maturities over 3 months	(a)	2,925	4,061
Receivables from asset-related grants	(b)	4,794	3,507
Finance lease receivable	(c)	315	331
Derivative financial instruments contracted with related parties	(d)	13,818	300
Cashpool receivables	(e)	19,768	-
Other		867	1,220
Total		**42,487**	**9,419**

For the explanations of (a)-(e) points see Note 4.2.3.2.

4.2.3.2 Other non-current financial assets

		12.31.2020	12.31.2021
Derivative financial instruments contracted with related parties	(d)	6,878	16,415
Equity instruments	(f)	2,032	2,473
Finance lease receivable	(c)	836	565
Other		868	730
Total		**10,614**	**20,183**

(a) Bank deposits with original maturities over 3 months were deposited in North Macedonia predominantly in euro. They amounted to HUF 4,061 million as at December 31, 2021 (2020: HUF 2,925 million).

(b) Starting from 2016 HUF 11.7 billion of EU funds were utilized by Magyar Telekom. The first and second rounds of a tender aimed the developing digital networks nationwide to cover households in Western and Eastern parts of Hungary with a fixed network capable of reaching a speed of at least 30 Mbps. The Company received HUF 8.2 billion grant related to EU fund in advance from which HUF 12 million has not been used yet. The Company accomplished a number of investments which complied with the condition of the related EU Funding Contracts. With respect to these completed investments the amount of the grant which has not been financially settled yet is presented as receivable. For those investments where the conditions have not been satisfied yet, the advances received are shown as part of Other current liabilities (Unused advance payments for asset related grants).

	12.31.2020	12.31.2021
Accumulated grant recognized in PPE	11,599	11,683
Accumulated advance payments received (Note 14)	6,826	8,188
Unused advance payments for asset-related grants (Note 14)	21	12
Asset-related grants receivables	4,794	3,507

(c) See Note 17.2.1 for more information on Finance lease receivable.

(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 4.5.1.1, 5.1.1.1 and 5.1.1.2).

(e) The aggregate balance of the cashpool was a receivable (HUF 19,768 million) as at December 31, 2020 which also included cashpool liabilities (HUF 266 million). The table below shows the currency breakdown:

31.12.2020	Carrying amount	Borrower	Currency	Effective interest rate	Fixed / floating
	14,480	DT AG	HUF	0.50%	floating
	5,554	DT AG	EUR	0.00%	floating
	(266)	DT AG	USD	0.34%	floating
Due within 1 year	**19,768**				

The aggregate balance of the cashpool is a liability (HUF 8,333 million) as at December 31, 2021. For further information see note 4.4.1.

(f) Equity instruments include investment in E2 Hungary Zrt. based on the agreement with MET Holding AG (see Note 11.3 for more information) as well as other insignificant investments in equity securities.

4.2.3.3 Trade receivables over one year

Trade receivables over one year (HUF 18,953 million as at December 31, 2021 and HUF 18,566 million December 31, 2020) include receivables from customers paying over one to two years in installments for telecommunications equipment sold. The impairment losses of trade receivables over one year amounted to HUF 2,273 million as at December 31, 2021 (2020: HUF 1,378 million). For further information see Note 3.3.

4.3 Financial liabilities – accounting policies

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). A financial liability is derecognized (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.

4.3.1 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".

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.

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.

Bonds

Bonds are recognized initially at fair value less transaction cost and subsequently measured at amortized cost using the effective interest rate method under IFRS 9.

4.3.2 Financial liabilities at fair value through profit or loss

Derivative financial instruments and call option of MET Holding AG and contingent considerations are measured under at fair value through profit or loss model. The Group currently has no intention of measuring non-derivative financial liabilities at fair value. Contingent consideration recognized by the Group as acquirer in a business combination to which

IFRS 3 applies will subsequently be measured at fair value through profit or loss. The Group does not apply hedge accounting, therefore all derivatives are measured at fair value through profit or loss.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and their fair values are re-measured at subsequent balance sheet 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).

4.4 Financial liabilities in the statement of financial position

4.4.1 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 Deutsche Telekom International Finance B.V. (DTIF) and DT AG 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. For further information please see Note 32.1.1.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2021 and 2020.

12.31.2021	Carrying amount	Lender	Currency	Effective interest rate (%)	Fixed / floating	Maturity	Original term
	29,520	DT AG	EUR	0.00	floating	July 2022	1 year
	1,579	DT AG	USD	0.34	floating	Cashpool	N/A
	5,596	DT AG	HUF	1.98	floating	Cashpool	N/A
	1,158	DT AG	EUR	0.27	floating	Cashpool	N/A
Due within 1 year	**37,853**						
Accrued interest	130						
Other financial liabilities	84						
Derivatives	20						
Total current	**38,087**						
	44,280	DT AG	EUR	0.30	floating	May 2024	5 years
	46,125	DT AG	EUR	0.52	floating	Jan 2025	5 years
Non-current	**90,405**						
Derivatives	-						
Total non-current	**90,405**						

As at December 31, 2021 current liabilities exceed current assets by HUF 63,465 million, primarily due to frequency fees payable together with the short-term loan facilities received from DT AG that were taken to finance working capital and daily ongoing activities. Management believes that short-term liabilities from DT AG will be refinanced in a similar manner to previous years. Financing needs will also be covered by cash flows generated by operating activities and third party credit line facilities (see Note 5.1.3).

12.31.2020	Carrying amount	Lender	Currency	Effective interest rate (%)	Fixed / floating	Maturity	Original term
	47,473	DTIF	EUR	1.99	fixed	Jan 2021	6 years
	48,491	DTIF	EUR	1.60	fixed	July 2021	5 years
Due within 1 year	**95,964**						
Accrued interest	2,307						
Other financial liabilities	66						
Derivatives	13						
Total current	**98,350**						
	43,815	DT AG	EUR	0.41	floating	May 2024	5 years
	45,641	DT AG	EUR	0.58	floating	Jan 2025	5 years
Non current	**89,456**						
Derivatives	-						
Total non current	**89,456**						

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

	12.31.2020		12.31.2021	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	-	-	-	-
At floating rate	-	-	5,596	5,596
	-	**-**	**5,596**	**5,596**
EUR denominated loans				
At fixed rate	95,964	95,964	-	-
At floating rate	89,456	89,456	121,083	121,083
	185,420	**185,420**	**121,083**	**121,083**
USD denominated loans				
At fixed rate	-	-	-	-
At floating rate	-	-	1,579	1,579
	-	**-**	**1,579**	**1,579**
Accrued interest	2,307	2,307	130	130
Other financial liabilities	66	66	84	84
Derivatives	13	13	20	20
Total related-party financial liabilities	**187,806**	**187,806**	**128,492**	**128,492**

The weighted-average interest rate on related-party loans was 0.38% in 2021 (1.17% in 2020). Any decrease in market interest rates will result in an increase in 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 the case of the EUR-denominated loans and to cover FX needs of expected future foreign currency outflows. There were no defaults or breaches in connection with the financial liabilities to related parties.

4.4.2 Bonds

In 2020 Magyar Telekom has initiated a review of its external funding framework in order to diversify and enhance the maturity profile of the Company's debt portfolio. Accordingly, the Company participated in the Bond Funding for Growth Scheme ("Scheme" or "BGS") of the Central Bank of Hungary ("MNB") and obtained funding sources with competitive pricing.

In order to increase the liquidity of the corporate bond market, the MNB launched Scheme from July 1, 2019, supplementing its unconventional monetary policy tools and the fixed Growth Loan Program.

The proceeds of the bonds are used to fund investments into the fixed and mobile network roll-out and modernization (including the acquisition of new frequencies).

The issued bonds amounted to HUF 70 billion at face value were purchased for a total purchase price of HUF 70.83 billion by the attendees at the closed auction on November 24, 2020. The total purchase price was transferred to the Company by the attendees on November 26, 2020. Subsequently Magyar Telekom 2027 HUF Bonds were listed on the BSE XBond multilateral trading platform on December 17, 2020 and are available for trading in the XBond platform from December 21, 2020 (first trading day). The table below shows the main parameters:

Bond code	Magyar Telekom 2027 HUF Bond
Bond expiries:	
HUF 35 billion	November 26, 2026
HUF 35 billion	November 26, 2027
Interest type	Fixed interest
Coupon (Nominal interest rate)	1.45%
Yield	1.2579%
Effective interest rate	1.95%

In 2021 the carrying amount of bonds HUF 68,215 million (in 2020 HUF 67,904 million). For further information please see Note 4.4.3.3 and 15.

4.4.3 Other financial liabilities

4.4.3.1 Other financial liabilities - Balances

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

		12.31.2020	12.31.2021
Frequency fees payable	(a)	4,771	49,759
Debtor overpayment		1,309	1,394
Contingent consideration liabilities	(b)	177	150
Other		5,947	4,123
Total other financial liabilities – current		**12,204**	**55,426**

		12.31.2020	12.31.2021
Frequency fees payable	(a)	71,313	106,323
Contingent consideration liabilities	(b)	250	-
Other		2,600	2,908
Total other financial liabilities – non-current		**74,163**	**109,231**

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

(a) The present value of the future annual band fees payable is recognized as part of the carrying amount of the licenses as intangible assets, with corresponding current and non-current financial liabilities.

New frequency blocks were acquired in January 2021, which entitled Magyar Telekom for the usage of these from April 2022 until March 2042. A one-time spectrum fee amounted to HUF 44.22 billion is required to pay for these frequency blocks, and this payment is due in the first quarter of 2022, the present value of this fee (HUF 44.04 billion) is also disclosed among frequency fees payable. For more details see also Notes 3.5, 10.2, 10.5 and 34.2.

(b) Contingent consideration liabilities are recognized by Magyar Telekom as the acquirer in a business combination to which IFRS 3 applies. They are measured at fair value through profit or loss.

4.4.3.2 Proceeds/repayments of loans and other borrowings

Cash proceeds/payments for related-party loans are included in the Proceeds from loans and other borrowings/Repayment of loans and other borrowings line of the Statements of cash flows.

4.4.3.3 Additional disclosure about changes in liabilities arising from financing activities

The following table includes changes in net debt reconciled with their effects on the Consolidated statement of cash flows in order to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Changes in financial liabilities without cash movement are mainly due to the increase in liabilities related to annual band fees (see Note 10.2), lease liabilities (see Note 9.2) and the FX effects of financial liabilities denominated mainly in EUR and transactions where future cash flows are recognized at the present value of the annual fees payable.

	Opening Balance at January 1, 2021	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Changes affecting cash flows from financing activities: Proceeds from loans and borrowings	Repayment of loans and other borrowings	Proceeds from bonds	Repayment of other financial liabilities	Other	Closing Balance at December 31, 2021
Related-party loans	187,793	-	(5,040)	2,224	-	166,931	(223,436)	-	-	-	128,472
Derivatives from related parties	13	-	-	736	(729)	-	-	-	-	-	20
Frequency fees payable	76,084	-	(3,464)	88,143	-	-	-	-	(4,681)	-	156,082
Bonds	67,904	-	(1,015)	1,326	-	-	-	-	-	-	68,215
Lease liabilities	132,532	-	(4,717)	26,635	-	-	-	-	(20,046)	-	134,404
Debtors overpayment	1,309	-	85	-	-	-	-	-	-	-	1,394
Contingent consideration	427	-	-	(97)	(180)	-	-	-	-	-	150
Other financial liabilities	8,547	-	(2,531)	5,260	-	-	-	-	(4,245)	-	7,031
-Less cash and cash equivalents	(14,689)	1,226	-	-	-	-	-	-	-	-	(13,463)
-Less other current financial assets	(42,487)	-	(1,757)	1,790	13,267	19,768	-	-	-	-	(9,419)
Net debt	**417,433**	**1,226**	**(18,439)**	126,017	12,358	186,699	**(223,436)**	**-**	(28,972)	**-**	**472,886**

Treasury share purchase	(10,215)
Dividends paid to Owners of the parent and Non-controlling interest	(18,788)
Net cash used in financing activities	**(94,712)**

	Opening Balance at January 1, 2020	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Changes affecting cash flows from financing activities					Closing Balance at December 31, 2020
						Proceeds from loans and borrowings	Repayment of loans and other borrowings	Proceeds from bonds	Repayment of other financial liabilities	Other	
Related-party loans..............	208,426	-	(8,284)	25,035	-	232,332	(269,716)	-	-	-	187,793
Derivatives from related parties..................................	1,890	-	-	850	(2,727)	-	-	-	-	-	13
Frequency fees payable.......	42,744	-	(3,235)	40,629	-	-	-	-	(4,054)	-	76,084
Bonds	-	-	-	(2,930)	-	-	-	70,834	-	-	67,904
Lease liabilities......................	111,997	-	(5,407)	43,988	-	-	-	-	(18,046)	-	132,532
Debtors overpayment..........	1,324	-	(15)	-	-	-	-	-	-	-	1,309
Contingent consideration.....	539	-	-	8	(120)	-	-	-	-	-	427
Other financial liabilities.......	4,831	-	389	5,209	1,132	-	-	-	(3,014)	-	8,547
-Less cash and cash equivalents...........................	(13,398)	(1,291)	-	-	-	-	-	-	-	-	(14,689)
-Less other current financial assets..................................	(8,996)	-	1,298	(20,489)	1,905	(16,205)	-	-	-	-	(42,487)
Net debt	**349,357**	**(1,291)**	**(15,254)**	**92,300**	**190**	**216,127**	**(269,716)**	**70,834**	**(25,114)**	**-**	**417,433**

Treasury share purchase	(5,218)	
Dividends paid to Owners of the parent and Non-controlling interest..	(24,516)	
Net cash used in financing activities...	**(37,603)**	

4.4.4 Trade payables

	12.31.2020	12.31.2021
Payable to DT Group companies	11,032	12,089
Payable to associates and joint ventures	2	1
Other trade payables	137,292	129,941
Total	**148,326**	**142,031**

4.5 Additional disclosures on financial instruments

4.5.1 Financial assets and liabilities

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.

Most of the financial assets and 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, except for bonds. The initial fair value of the MT2027 bond was calculated based on Level 2 information as the bonds did not have an active market. The discount rate was determined based on relevant BIRS rates and a margin estimation based on commercial bank offers during the auction. The fair value of financial instruments that are not traded on 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 IRS). Foreign exchange conversion is made based on central bank FX fixings (preferably that of the Central Bank of Hungary).

Level 2 information is available to determine derivatives assets and liabilities. Level 1 information is used for determining fair value of equity instruments designated as financial assets at fair value through other comprehensive income, and fair Values of equity instruments designated as financial assets at fair value through profit or loss, contingent consideration liabilities, and liabilities on call options (where it is applicable under IFRS 9) are carried at fair value where the fair value was determined using Level 3 type information.

The following tables include the carrying amounts and fair values of the Group’s financial assets and liabilities as at December 31, 2021 and 2020.

4.5.1.1 Financial assets – Carrying amounts and fair values

12.31.2021	Carrying amount					Fair value
	Amortized cost	FVOCI (Level 1)	FVTPL (Level 2)	FVTPL (Level 3)	Total	
Cash and cash equivalents	13,463	-	-	-	13,463	13,463
Bank deposits with original maturities over 3 months	4,061	-	-	-	4,061	4,061
Trade receivables within one year	158,187	-	-	-	158,187	158,187
Trade receivables over one year	18,953	-	-	-	18,953	17,799
Derivative financial instruments contracted with related parties	-	-	16,715	-	16,715	16,715
Finance lease receivable	896	-	-	-	896	881
Equity instruments	-	1,292	-	1,181	2,473	2,473
Receivables from asset-related grants	3,507	-	-	-	3,507	3,507
Other current receivables	1,220	-	-	-	1,220	1,220
Other non-current receivables	730	-	-	-	730	979
Total	201,017	**1,292**	**16,715**	**1,181**	220,205	219,285

12.31.2020	Carrying amount					Fair value
	Amortized cost	FVOCI (Level 1)	FVTPL (Level 2)	FVTPL (Level 3)	Total	
Cash and cash equivalents	14,689	-	-	-	14,689	14,689
Bank deposits with original maturities over 3 months	2,925	-	-	-	2,925	2,925
Cashpool	19,768	-	-	-	19,768	19,768
Trade receivables within one year	158,857	-	-	-	158,857	158,857
Trade receivables over one year	18,566	-	-	-	18,566	17,950
Derivative financial instruments contracted with related parties	-	-	20,696	-	20,696	20,696
Finance lease receivable	1,151	-	-	-	1,151	1,041
Equity instruments	-	839	-	1,193	2,032	2,032
Receivables from asset-related grants	4,794				4,794	4,794
Other current receivables	870	-	-	-	870	870
Other non-current receivables	865	-	-	-	865	885
Total	**222,485**	**839**	**20,696**	**1,193**	**245,213**	**244,507**

Loans and receivables are measured at amortized cost, while equity instruments and held-for-trading assets are measured at fair value. Fair value through profit or loss assets (Level 2) include derivatives the two classes of which are forward deals (HUF 300 million) and cross currency and interest rate swaps (HUF 16,415 million). The fair values of those instruments are based on a discounted cash flow method. The calculation is prepared by Magyar Telekom Plc. based on money market interest rate curves, basis swap points and spot FX rates from Reuters database published on the last working day of the reporting period. The present value of the expected future cash flows is 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 the spot FX rate. The difference between the HUF present value of the payable and receivable is accounted for as assets or liabilities.

Fair value through profit or loss financial assets (Level 3) include the investment in E2 Hungary Zrt. The carrying values of assets measured at amortized cost with short times to maturity approximate their fair values.

Equity instruments designated as financial assets at fair value through other comprehensive income include insignificant investments in equity instruments, all measured at fair value, which is the North Macedonian stock exchange price of the equity instruments.

4.5.1.2 Financial liabilities – Carrying amounts and fair values

12.31.2021	Carrying amount				Fair value
	Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 3)	Total	
Financial liabilities to related parties	128,472	20	-	128,492	128,492
Trade payables	142,031	-	-	142,031	142,031
Frequency fees payable	156,082	-	-	156,082	145,425
Bonds	68,215	-	-	68,215	58,070
Lease liabilities	134,404	-	-	134,404	132,003
Debtors' overpayment	1,394	-	-	1,394	1,394
Contingent consideration liabilities	-	-	150	150	150
Other current liabilities	4,123	-	-	4,123	4,123
Other non-current liabilities	2,764	-	144	2,908	2,961
Total	**637,485**	**20**	**294**	**637,799**	**614,649**

12.31.2020	Carrying amount				Fair value
	Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 3)	Total	
Financial liabilities to related parties	187,793	13	-	187,806	187,806
Trade payables	148,326	-	-	148,326	148,326
Frequency fees payable	76,084	-	-	76,084	85,202
Bonds	67,904	-	-	67,904	68,053
Lease liabilities	132,532	-	-	132,532	140,320
Debtors' overpayment	1,309	-	-	1,309	1,309
Contingent consideration liabilities	-	-	427	427	427
Other current liabilities	5,947	-	-	5,947	5,947
Other non-current liabilities	2,470	-	130	2,600	2,633
Total	**622,365**	**13**	**557**	**622,935**	**640,023**

Derivatives and liabilities from contingent consideration of a business combination and a liability on a call option where it is applicable are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the loans and other borrowings is provided in Note 4.4.1. The carrying values of the current financial liabilities measured at amortized cost approximate their fair values.

4.5.1.3 Financial liabilities carried at fair value determined using level 3 type information

Financial instruments which are carried at fair value where the fair value was determined using Level 3 type information are the contingent consideration liabilities and the liability pertaining to the call option under IFRS 9. The table below includes the movements of these liabilities.

	2020	2021
Opening balance at January 1.	539	557
Increase arising on call option	139	-
Remeasurement		
- recognized in profit or loss (net financial result)	(1)	17
- recognized in statement of financial position	-	(100)
Payment	(120)	(180)
Closing balance at December 31.	**557**	**294**

4.5.2 Items of net gains and losses arising on financial instruments

The tables below include net gains and losses arising on financial instruments in 2021 and 2020.

2021	From interest	From subsequent measurement: Change in fair value	From subsequent measurement: FX gain / (loss)	From subsequent measurement: Impairment loss	From derecognition	From fee expense	Total net gain / (loss)
Equity instruments (Level 1)	-	443	-	-	-	-	443
Equity instruments (Level 3)	-	(11)	-	-	-	-	(11)
Financial assets measured at amortized cost	305	-	(745)	(11,012)	-	(5,091)	(16,543)
Financial liabilities measured at amortized cost	(13,130)	-	(849)	-	-	(48)	(14,027)
FVTPL financial instruments (Level 2)	-	(3,988)	-	-	10,960	-	6,972
FVTPL financial instruments (Level 3)	-	(17)	-	-	-	-	(17)
Net gain/(loss) on financial instruments	**(12,825)**	**(3,573)**	**(1,594)**	**(11,012)**	**10,960**	**(5,139)**	**(23,183)**

2020	From interest	From subsequent measurement: Change in fair value	From subsequent measurement: FX gain / (loss)	From subsequent measurement: Impairment loss	From derecognition	From fee expense	Total net gain / (loss)
Equity instruments (Level 1)	-	50	-	-	-	-	50
Equity instruments (Level 3)	-	38	-	-	-	-	38
Financial assets measured at amortized cost	262	-	(1,965)	(9,717)	3	(5,068)	(16,485)
Financial liabilities measured at amortized cost	(12,315)	-	(24,458)	-	-	(30)	(36,803)
FVTPL financial instruments (Level 2)	-	19,669	-	-	2,441	-	22,110
FVTPL financial instruments (Level 3)	-	1	-	-	-	-	1
Net gain/(loss) on financial instruments	**(12,053)**	**19,758**	**(26,423)**	**(9,717)**	**2,444**	**(5,098)**	**(31,089)**

The tables above include the amounts before capitalization of borrowing costs (see Note 24).

Impairment losses on Financial assets measured at amortized cost includes all expenses incurred or expected to be incurred in relation to the default of our customers and presented as a direct cost in the Statement of profit or loss and other comprehensive income. Before writing off or factoring, we impair the receivables to their recoverable amounts through the use of an impairment allowance account, as a result of which the actual write-off or factoring of these receivables results in no derecognition gains or losses.

The amount of Fee expense is mainly connected to transactional fees on financial realization of income (like white check acceptance fee of Hungarian Post, VPOS relevant cost and other various commissions) and other bank charges type fees.

4.5.3 Offsetting financial assets and financial liabilities

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

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

	12.31.2020		12.31.2021	
	Trade receivables	Trade payables	Trade receivables	Trade payables
Gross amounts of recognized financial instruments	159,876	149,345	159,604	143,448
Gross amounts of financial instruments set off	(1,019)	(1,019)	(1,417)	(1,417)
Net amounts of recognized financial instruments presented in the statement of financial position	**158,857**	**148,326**	**158,187**	**142,031**

4.5.4 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees that in aggregation amounted to a nominal amount of HUF 14.7 billion as at December 31, 2021 (2020: HUF 14.8 billion). In January 2021, Magyar Telekom successfully participated in the auction procedure for the entitlements of frequency use of the 900 MHz and 1800 MHz frequency bands, the precondition of this was the issuance of additional guarantees. The guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual or tender related obligations. The Group has been doing its best to deliver on its contractual obligations and expects to continue to do so in the future. Even so disputes may emerge from time to time with the partners and sometimes these can result the drawdown of the guarantees. Such utilization of the bank guarantees happened in an amount of HUF 133 million in January 2022 which is not related and has no significant effect on the solvency of the Group. For more information see note 4.4.3.1.

Magyar Telekom does not hold any material collateral of its financial assets.

There were no other 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.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

Magyar Telekom Plc. 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, derivatives are generally only concluded with leading Hungarian or international financial institutions or Deutsche Telekom. Nevertheless, hedge accounting is not applied to such transactions.

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 25%, i.e. the impact on Profit for the year would be approximately 75% of the pre tax amount in a year that is free from significant one-off non-deductible pre-tax impacts and significant changes in 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.

5.1.1 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 bonds, and fixed and floating interest rates on those liabilities. The Board of Directors has approved two debt protection ratio KPIs, and monitors their fulfillment annually. At the end of 2021 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 2.15 in 2021 (2020: 2.10), while the allowed maximum can be 2.8 and EBITDA to Net financial result ratio of 17.58 in 2021, (2020: 9.47), while the allowed minimum can be 3.0. The Group during the implementation of the finance policy and the financial risk management, determine and continuously monitor the foreign exchange, liquidity and counterparty risk management guidelines.

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 revenue and expenses of the Hungarian entities arise in HUF, the functional currency of the Hungarian entities of Magyar Telekom is HUF. Consequently, Magyar Telekom's objective is to minimize the level of its financial risk applying 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 (2021) and the preceding reporting period (2020). 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.

5.1.1.1 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.

The Hungarian Forint depreciated by approx. 1% against the euro in 2021. In 2019 and 2020 the forint was fluctuating in a 8-12% range against the EUR, in 2021 this range narrowed slightly to approx. 7%.

In order to mitigate FX risk in the case of FX denominated financial instruments, Magyar Telekom minimized its foreign currency borrowings in the past years or covered them with derivative instruments to substantially reduce FX risk. The corporate bond is HUF denominated and thus no foreign currency exposure arises related to this instrument.

FX risks arising on loans and related swaps with DT AG

Several related party loans taken to finance general needs of the Group from Deutsche Telekom AG (DT AG) and or its financing vehicle, Deutsche Telekom International Finance B.V. (DTIF) are denominated in EUR, while, at the same time, cross-currency interest rate swaps or FX swaps are concluded with Deutsche Telekom AG to fix the actual cash flows of Magyar Telekom in HUF. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on profit or loss and equity related to the hedged loans and the hedging transactions together.

Sensitivity analysis

A reasonably possible strengthening or weakening of the EUR in the table below against HUF as at the end of the reporting period would have affected the measurement of loans denominated in a foreign currency and increased (+)/ decreased (-) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

	Profit or loss	
	Strengthening	Weakening
12.31.2021		
EUR/HUF (10% movement)		
Loan	(11,993)	11,993
Swap agreements	12,242	(12,242)
Net effect	**249**	**(249)**
12.31.2020		
EUR/HUF (15% movement)		
Loan	(27,813)	27,813
Swap agreements	28,747	(28,747)
Net effect	**934**	**(934)**

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 revenue from, and payments to, international telecommunications operators as well as (iii) capital and operating 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 or buys foreign currencies through FX forward transactions, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in the next period in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated liabilities (other than the above described loans) exceed the Group's foreign currency denominated assets, therefore changes in the functional currencies' exchange rates would have the following impact on the profit of the Group.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The positive fair value of the related open short-term forward positions was HUF 0.2 billion asset as of December 31, 2021 (2020: HUF 0.5 billion asset). These positions were opened to mitigate the FX risks of future FX payments exceeding FX income.

Sensitivity analysis

A reasonably possible strengthening or weakening of the currencies in the table below against HUF and MKD as at the end of the reporting period would have affected the measurement of financial instruments denominated in a foreign currency and increased (+)/ decreased (-) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

	Profit or loss	
12.31.2021	Strengthening	Weakening
EUR/HUF (10% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	(3,098)	3,098
Related forward agreements	4,356	(4,356)
Net effect	**1,258**	**(1,258)**
USD/HUF (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	(351)	351
Related forward agreements	722	(722)
Net effect	**371**	**(371)**
EUR/MKD (10% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	554	(554)
Related forward agreements	-	-
Net effect	**554**	**(554)**
USD/MKD (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	20	(20)
Related forward agreements	-	-
Net effect	**20**	**(20)**

12.31.2020	Profit or loss	
	Strengthening	Weakening
EUR/HUF (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	(4,304)	4,304
Related forward agreements	3,173	(3,173)
Net effect	**(1,131)**	**1,131**
USD/HUF (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	(148)	148
Related forward agreements	1,978	(1,978)
Net effect	**1,830**	**(1,830)**
EUR/MKD (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	47	(47)
Related forward agreements	-	-
Net effect		
USD/MKD (15% movement)		
Net balance of FX denominated trade payables, trade and financial receivables plus bank balances	(9)	9
Related forward agreements	-	-
Net effect	**(9)**	**9**

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

5.1.1.2 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 IFRS 9 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.

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 subsidiary is mostly held in local banks. These amounts are deposited primarily on fixed interest rate terms in order to minimize exposure to market changes that would potentially adversely affect the cash flows from these instruments.

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

Financial liabilities

Financial liabilities exposed to interest rate risk are primarily the related-party (DTIF, DT AG) 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 the 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 81% of the Group's total debt as of December 31, 2021 (2020: 99.9%).

Cash flow sensitivity analysis for variable rate instruments

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 19% of the Group's total debt as of December 31, 2021 (2020: 0.1%).

A reasonably possible change of 300 basis points in interest rates during the reporting period (assuming the year-end balance throughout the reporting period) would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

	Profit or loss	
	300 bp increase	300 bp decrease
12.31.2021		
Floating rate instrument	(3,848)	3,848
IR swap	2,712	(2,712)
Cash flow sensitivity (net)	**(1,136)**	**1,136**
12.31.2020		
Floating rate instrument	(2,692)	2,692
IR swap	2,684	(2,684)
Cash flow sensitivity (net)	**(8)**	**8**

5.1.2 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.

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

In line with the Group's risk management policy, Magyar Telekom Group companies make efforts to deposit the vast majority of excess cash in banks rated at least BBB+ (or equivalent), or to get guarantees for these fixed-term deposits from banks rated at least BBB+. We, however, also have current accounts in banks with lower ratings than this.

Cash and cash equivalents and Bank deposits with maturities over three months held in North Macedonia are primarily denominated in MKD and EUR. Cash and cash equivalents and Bank deposits with maturities over three months deposited in North Macedonia run higher counterparty risk, due to the small amount of internationally substantial financial institutions in that country. In this way we diversify excess cash among the biggest and financially strongest local financial institutions and decrease the maturity to a reasonable level. The total cash kept with North Macedonian banks amounted to HUF 13.2 billion as of December 31, 2021 (2020: HUF 10.8 billion).

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.

The following table contains the carrying amount of trade receivables broken down by country of operation (Note 4.2.2.1). The vast majority of these balances are denominated in the functional currency of the countries of operations (HUF in Hungary and MKD in North Macedonia).

	At December 31,	
	2020	2021
Hungary	141,356	140,838
North Macedonia	16,117	15,816
Other	1,384	1,533
	158,857	**158,187**

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2021 was 1.6% (2020: 1.4%) of the consolidated revenue. For further information see Note 3.3.

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 six 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 the case of business customers, account managers check if the customer has outstanding debts.

Dunning procedures are run automatically by the billing systems and include various reminder tools like SMS, reminder message via Telekom APP, telephone calls, reminder letters, reminder emails, restricted service, termination letters and disconnections. In the case of medium and large enterprises the 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 selling the outstanding debt or initiating legal proceedings. All parts of the process are regulated by internal directives.

North Macedonia

The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process and court proceedings. The overdue payments are monitored based on customer type, amount of debt, 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 revenue. There is no concentration of risk in North Macedonia either with any single customer or group of customers with similar characteristics. The procedures in North 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.

5.1.3 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 an adequate amount of committed credit lines. The Group finance management aims to maintain flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 43.5 billion as at December 31, 2021 (2020: HUF 41.1 billion).

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, 2021 and 2020. 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.

12.31.2021	Total	within 1 year	1 to 5 years	after 5 years
Trade payables to third parties	129,941	129,941	-	-
Trade payables to related parties	12,090	12,090	-	-
Financial liabilities to related parties	130,449	38,341	92,108	-
Lease liabilities	160,186	27,361	71,969	60,856
Bonds	73,797	1,015	38,167	34,615
Frequency fee payable	199,103	54,447	35,885	108,771
Other financial liabilities	8,873	5,710	3,163	-
Total cash outflows	**714,439**	**268,905**	**241,292**	**204,242**
Open swap positions' cash flows				
Gross cash inflow in EUR million	251	1	250	-
Gross cash inflow in HUF million (at spot rate)	92,619	369	92,250	-
Gross cash outflow in HUF million	86,974	1,910	85,064	-
Net cash inflow (+) / outflow (-) in HUF million	**5,645**	**(1,541)**	**7,186**	**-**
Open forward positions' cash flows				
Gross cash inflow in EUR million	198	198	-	-
Gross cash inflow in USD million	15	15	-	-
Total gross cash inflow in HUF million (at spot rate)	77,948	77,948	-	-
Gross cash outflow in HUF million	78,542	78,542	-	-
Net cash inflow (+) / outflow (-) in HUF million	**(594)**	**(594)**	**-**	**-**

12.31.2020	Total	within 1 year	1 to 5 years	after 5 years
Trade payables to third parties	137,292	137,292	-	-
Trade payables to related parties	11,034	11,034	-	-
Financial liabilities to related parties	190,877	100,119	90,758	-
Lease liabilities	162,131	26,299	73,603	62,229
Bonds	74,502	1,015	4,060	69,427
Frequency fee payable	106,631	8,145	26,704	71,782
Other financial liabilities	10,527	7,446	3,081	-
Total cash outflows	**692,994**	**291,350**	**198,206**	**203,438**
Open swap positions' cash flows				
Gross cash inflow in EUR million	520	271	249	-
Gross cash inflow in HUF million (at spot rate)	189,618	98,820	90,798	-
Gross cash outflow in HUF million	174,480	87,505	86,975	-
Net cash inflow (+) / outflow (-) in HUF million	**15,138**	**11,315**	**3,823**	**-**
Open forward positions' cash flows				
Gross cash inflow in EUR million	298	298	-	-
Gross cash inflow in USD million	15	15	-	-
Total gross cash inflow in HUF million (at spot rate)	113,337	113,337	-	-
Gross cash outflow in HUF million	110,940	110,940	-	-
Net cash inflow (+) / outflow (-) in HUF million	**2,397**	**2,397**	**-**	**-**

The average maturity of Magyar Telekom's debt portfolio was 3.25 years as at December 31, 2021 (2020: 3.28 years). The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2021 and 2020. For further information see Note 4.4.1.

5.2 Capital risk management

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

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

In 2021 the Board of Directors of Magyar Telekom approved HUF 15,311 million dividend (HUF 20,855 million dividend in 2020), and the Company's Board recommends to declare a HUF 15,000 million dividend at the April 2022 Annual General Meeting.

In addition to the above, according to Hungarian Civil Code, Magyar Telekom Plc. has to ensure that the Company's Equity in the separate financial statements does not fall below two thirds of its Common stock. The Company is in compliance with this regulation, and no such statutory regulation exists for the consolidated equity.

The equity capital, which the Group manages, amounted to HUF 693 billion on December 31, 2021 (2020: HUF 658 billion).

6 INCOME TAX

6.1 Income taxes – accounting policies

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

6.1.1 Current taxes

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Income taxes are comprised of corporate income taxes and other income taxes.

6.1.1.1 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.

6.1.1.2 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.

6.1.2 Deferred taxes

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements.

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 measured at the tax rates that are expected to apply to temporary differences when they reverse using income tax rates enacted or substantially enacted at the reporting date.

6.2 Income taxes in the Consolidated Statement of profit or loss and other comprehensive income

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

Income tax expense	2020	2021
Corporate income tax	3,028	3,831
Other income taxes	9,212	9,514
Deferred income taxes	2,355	2,921
Total	**14,595**	**16,266**

6.2.1 Tax expense reconciliation

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

		2020	2021
Consolidated IFRS profit before income tax		60,912	79,113
Tax at 9%		(5,482)	(7,120)
Impact of different tax rates	(a)	(146)	(164)
Tax shield of items not subject to income tax	(b)	215	410
Tax impact of non-deductible items	(c)	(810)	(743)
Other income taxes	(d)	(9,212)	(9,514)
Impact of tax deductibility of other income taxes	(e)	829	856
(De)/recognized deferred tax on tax losses	(f)	(4)	-
Investment tax credit accretion	(g)	15	9
Income tax expense		**(14,595)**	**(16,266)**
Effective tax rate		23.96%	20.56%

For explanations (a)-(g) see as follows.

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

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

(d) Other income taxes 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 on the Hungarian entities of the Group, included in this line of the reconciliation.

(e) 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) 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.

(g) 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. For further information see Note 6.3.2.1.

6.3 Income taxes in the Statement of financial position

6.3.1 Current taxes in the Statement of financial position

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.

6.3.2 Deferred taxes in the Statement of financial position

The Group's deferred tax balances and the movements therein are as follows:

	Balance at December 31, 2019	Effect on profit	Other move-ments	Balance at December 31, 2020	Effect on profit	Other move-ments	Balance at December 31, 2021
Deferred tax assets and (liabilities)							
Investment tax credits (Note 6.3.2.1)	858	(3,179)	2,823	502	(4,277)	4,661	886
Net operating loss carry-forward (Note 6.4.)	19	(8)	-	11	(11)	-	-
Other financial assets	(420)	90	(44)	(374)	18	-	(356)
Impairment of receivables and inventory	1,363	(190)	-	1,173	175	-	1,348
Property, plant and equipment and intangible assets	(7,278)	932	-	(6,346)	921	-	(5,425)
Goodwill	(14,481)	-	-	(14,481)	-	-	(14,481)
Trade and other payables	-	224	-	224	41	-	265
Loans and other borrowings	(445)	(128)	-	(573)	(71)	-	(644)
Deferred revenue	194	(194)	-	-	-	-	-
Provisions for liabilities and charges	1,263	98	-	1,361	283	-	1,644
Total net deferred tax liability	**(18,927)**	**(2,355)**	**2,779**	**(18,503)**	**(2,921)**	**4,661**	**(16,763)**
Of which deferred tax liabilities after netting by legal entity	(19,030)			(18,621)			(16,888)
Of which deferred tax assets after netting by legal entity	103			118			125
Items included in other movements:							
Relating to the merger of subsidiary			(44)			-	
Investment tax credit earned			2,823			4,661	

The Other movements column includes the increase in investment tax credit improves energy efficiency recognized in 2021 and 2020.

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.

Deferred tax assets arising from investment tax credits are recognized against the capitalized cost of the related asset acquisition.

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 21,987 million at December 31, 2021 (HUF 16,396 million at December 31, 2020).

Deferred tax liability on goodwill is related to the goodwill arising from the acquisition of subsidiaries (Emitel and T-

Mobile) in the Company's financial statements, which had merged into Magyar Telekom Plc. The amortization of goodwill is a tax deductible expense in corporate income tax, while under IFRSs there is no amortization accounted in the books. The difference deriving from the two types of accounting is represented by the deferred tax liability.

6.3.2.1 Investment tax credits

In 2020 Magyar Telekom and T-Systems Hungary accomplished a new tax credit program in order to increase energy effectiveness. In order to utilize these tax credits, both Companies had to meet certain audit requirements set out in the relevant tax regulations and independent external auditors stated that the investments fulfill the criteria of energy effectiveness. This investment tax credit is booked as a decrease from the investment costs of the assets, as well as a deferred tax asset of the whole tax credit amount is booked accordingly. Magyar Telekom utilizes HUF 4,267 million tax credit in the 2021 corporate tax return, while the remaining HUF 886 million tax credit remains as deferred tax asset in the Company's books. The Company expects that the tax credit carried forward can be utilized in the 2022 corporate tax return. T-Systems utilizes the whole amount of its tax credit – HUF 19 million – in its 2021 corporate tax return.

The following table shows the details of the energy saving investment tax credits in HUF millions as of 31 December, 2020:

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense	Tax credit utilized	Tax credit carried forward at 12.31.2020	Expires in year
2020	7,885	2,823	-	(2,321)	502	2025
Total	**7,885**	**2,823**	**-**	**(2,321)**	**502**	

The following table shows the details of the energy saving investment tax credits in HUF millions as of 31 December, 2021:

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense	Tax credit utilized	Tax credit carried forward at 12.31.2021	Expires in year
2020	7,885	2,823	9	(2,832)	-	2025
2021	12,676	4,661	-	(3,775)	886	2026
Total	**20,561**	**7,484**	**9**	**(6,607)**	**886**	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group's entities, they had to comply with strict requirements as set out in the relevant tax regulations. The Group fulfilled all requirements connecting energy effective investment programs.
In 2020 Magyar Telekom utilized investment tax credit in the amount of HUF 858 million relevant to the "large investment tax credit programs" commenced in 2013.

6.4 Income taxes in the Statements of Cash Flows

The company identifies its tax settlement of energy saving investment tax credit as an investing activity in the Statements of Cash Flows.

The table below shows how the total cash flows from income tax are allocated over the activities:

Activities in the Statements of Cash Flows	Tax paid
Cash flows from operating activities (presented on the line income tax paid)	(14,471)
Cash flows from investing activities (investment tax credit utilized in 2021)	2,320
Cash flows from financing activities	-
Total cash flows from income tax	**(12,151)**

Magyar Telekom made investments concerning energy saving for the first time in 2020, based on this the payment of the reduced income tax was settled in 2021.

6.5 Tax loss carry forwards

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable.

The following table shows the tax losses carried forward of the Group.

Expires in year	Tax loss carry forwards at 12.31.2020	Tax loss carry forwards at 12.31.2021
2020	137	-
2022	2	-
2030	13	-
Total	**152**	**-**
Tax losses for which deferred tax is recognized	105	-
Tax losses for which deferred tax is not recognized	47	-
Total	**152**	**-**

By 31 December, 2021 the group companies have no more tax loss carry forwards left.

6.6 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.

6.7 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.

7 INVENTORIES

7.1 Inventories – accounting policies

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.

Impairment losses on Inventories are recognized in Other operating expenses.

7.2 Inventories in the statement of financial position

	12.31.2020	12.31.2021
Inventory for resale	16,595	16,074
Other inventory	1,956	2,133
Subtotal	**18,551**	**18,207**
Less allowances	(156)	(154)
	18,395	**18,053**

The impairment loss accounted or reversed 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, 2020 or December 31, 2021.

8 ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

8.1 Non-current assets held for sale – accounting policies

An asset (typically properties and closely related other assets) 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 likely to take place within 12 months. These assets are accounted for at the lower of carrying value or fair value less costs of disposal. Depreciation is discontinued from the date of designation to the held-for-sale status. When an item of PPE or intangible assets is designated for sale, and the fair value is determined to be lower than the carrying amount, the difference is recognized in the Profit for the year (Depreciation and amortization) as an impairment loss.

8.2 Assets and liabilities held for sale in the statement of financial position

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

	12.31.2020	12.31.2021
Cash and cash equivalents	-	138
Other current financial assets	-	62
Intangible asset	-	1,287
Goodwill	-	638
Property, plant and equipment	489	161
Total assets held for sale	**489**	**2,286**

	12.31.2020	12.31.2021
Provision	-	104
Other current financial liabilities	-	246
Total liabilities held for sale	**-**	**350**

In 2021 assets and liabilities held for sale represents the lands, buildings and technical assets which have been determined to be sold within a year and are actively marketed, and the assets and liabilities related to the disposal of Pan-Inform Kft. and healthcare service activity of T-Systems Zrt. In December 2021, the Group signed an agreement for the sale of the total of its 100% shareholding in Pan-Inform Kft. by its sole owner of T-Systems Zrt. The scope of the agreement covers the support and development operations provided for central digital healthcare services in Hungary and for the related hospital information system, that partially had been involved in the operation of T-Systems Zrt. at year-end 2021. T-Systems Zrt. sold all the assets and liabilities covered by this agreement to Pan-Inform Kft before the closing of the transaction. Please also see Note 35.1.

Pan-Inform and the healthcare business activity of T-Systems Zrt. are included in the MT-Hungary operating segment of the Group. (The operating segments are defined in Note 33.) The gain on the sale of Pan-Inform was recognized in Q1 2022.

In 2020 assets held for sale included primarily land and buildings that were determined to be sold within 12 months, as a result of the continuing improvement of utilization of properties.

9 PROPERTY, PLANT AND EQUIPMENT

9.1 Property, plant and equipment (PPE) – accounting policies

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 6.3.2.1) 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 and corporate bonds.

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/expense).

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 9.3. 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.

The useful lives assigned to different types of property, plant and equipment	Years
Buildings	5–50
Duct, cable and other outside plant	3–38
Other telecommunications equipment	2–25
Other equipment	2–50

Useful lives of property, plant and equipment in operation may increase if the asset is refurbished. Useful life change is not automatic, only if it is significantly increased as a result of the investment, which is based on well-founded technical experts' decision performed on individual basis.

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 of disposal 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 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 3.2. 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 in the last quarter of the year and in the other quarters quick tests were executed. When conducting the impairment tests, Magyar Telekom allocates goodwill to its cash generating units determined at operating segment level. See also Note 3.2. 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 costs of disposal 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 3.2. If the calculated fair value less costs of disposal 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.

9.2 Property, plant and equipment in the statement of financial position

	Land and buildings (a)	Telecom equipment	Other equipment	Total
01.01.2020				
Gross value	142,148	1,057,803	102,063	1,302,014
Accumulated depreciation	(63,398)	(728,811)	(82,320)	(874,529)
Carrying amount	**78,750**	**328,992**	**19,743**	**427,485**
Of which held for sale	(654)	(5)	-	(659)
				426,826
Carrying amount – January 1, 2020	78,750	328,992	19,743	427,485
Investments	1,499	74,967	3,310	79,776
Additions due to business combinations	-	343	20	363
Disposals due to business combinations	(32)	-	(12)	(44)
Changes due to revisions of asset retirement obligations	127	-	-	127
Disposals	(4,797)	(550)	(871)	(6,218)
Depreciation charge	(4,552)	(63,046)	(7,351)	(74,949)
Reclassifications	207	(2,463)	2,256	-
Exchange differences	1,745	4,148	492	6,385
Carrying amount – December 31, 2020	**72,947**	**342,391**	**17,587**	**432,925**
12.31.2020				
Gross value	135,346	1,120,458	98,483	1,354,287
Accumulated depreciation	(62,399)	(778,067)	(80,896)	(921,362)
Carrying amount	**72,947**	**342,391**	**17,587**	**432,925**
Of which held for sale	(485)	(4)	-	(489)
				432,436
Carrying amount – January 1, 2021	72,947	342,391	17,587	432,925
Investments	1,119	75,603	2,701	79,423
Additions due to business combinations	-	1,802	(377)	1,425
Disposals due to business combinations	-	-	-	-
Changes due to revisions of asset retirement obligations	254	-	-	254
Disposals	(684)	(579)	(462)	(1,725)
Depreciation charge	(4,312)	(67,360)	(5,446)	(77,118)
Reclassifications	(549)	2,992	(735)	1,708
Exchange differences	172	525	4	701
Carrying amount – December 31, 2021	**68,947**	**355,374**	**13,272**	**437,593**
12.31.2021				
Gross value	135,605	1,149,359	89,446	1,374,410
Accumulated depreciation	(66,658)	(793,985)	(76,174)	(936,817)
Carrying amount	**68,947**	**355,374**	**13,272**	**437,593**
Of which held for sale	(133)	(17)	(11)	(161)
				437,432

The right-of-use assets by class of underlying asset are listed in the table below.
For further information, please see Note 17.

	Land and buildings (a)	Telecom equipment	Other equipment	Total
01.01.2020				
Gross value	81,956	35,833	5,508	123,297
Accumulated depreciation	(11,498)	(3,538)	(1,579)	(16,615)
Carrying amount	**70,458**	**32,295**	**3,929**	**106,682**
Carrying amount – January 1, 2020	70,458	32,295	3,929	106,682
Investments	22,942	9,793	2,356	35,091
Disposals	(868)	(1,944)	(117)	(2,929)
Depreciation charge	(11,956)	(3,890)	(2,004)	(17,850)
Reclassifications	-	-	-	-
Exchange differences	318	12	11	341
Carrying amount – December 31, 2020	**80,894**	**36,266**	**4,175**	**121,335**
12.31.2020				
Gross value	104,127	42,519	7,228	153,874
Accumulated depreciation	(23,233)	(6,253)	(3,053)	(32,539)
Carrying amount	**80,894**	**36,266**	**4,175**	**121,335**
Carrying amount – January 1, 2021	80,894	36,266	4,175	121,335
Investments	9,844	10,434	2,662	22,940
Disposals	(995)	(422)	(117)	(1,534)
Depreciation charge	(12,107)	(4,666)	(2,101)	(18,874)
Reclassifications	(242)	(1,303)	-	(1,545)
Exchange differences	23	(2)	12	33
Carrying amount – December 31, 2021	**77,417**	**40,307**	**4,631**	**122,355**
12.31.2021				
Gross value	111,290	50,855	8,732	170,877
Accumulated depreciation	(33,873)	(10,548)	(4,101)	(48,522)
Carrying amount	**77,417**	**40,307**	**4,631**	**122,355**

(a) The classes of land and buildings were reviewed, and it was concluded that they are similar in nature and use in the Group's operations, therefore disclosed their aggregated balance in a single column. This presentation is also in line with industry practice. Comparative information is presented accordingly.

The closing balance of Property, plant and equipment (PPE) includes assets under construction in an amount of HUF 55,237 million as at December 31, 2021 (2020: HUF 57,025 million). In the table above, the assets under construction are shown in the categories where the asset is expected to be classified when placed into service.

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

Additions due to business combinations include the fair value or carrying value of the assets acquired by Magyar Telekom Plc. 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 13.2.4).

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

No material impairment was identified in 2021 and 2020.

The Group has no PPE with restricted titles or pledged as security as at December 31, 2021 or December 31, 2020.

9.3 Review of useful lives

Reviews of the useful lives (and residual values) of property, plant and equipment based on the strategic directions and accepted annual development plans conducted in 2021 affected the useful lives of a large number of assets which was mainly due to Maktel RAN modernization project. The revisions resulted in the following change in the original trend of depreciation in the current and future years.

	2021	2022	2023	2024	After 2024
Increase / (decrease) in depreciation expense..........................	1,702	923	328	(412)	(2,541)

During 2020 reviews of the useful lives (and residual values) of property, plant and equipment based on the strategic directions and accepted annual development plans affected the useful lives of a large number of assets. The shortened useful life of copper network elements is driven by preparations to the copper retirement program. The revisions resulted in the following change in the original trend of depreciation in the current and future years.

	2020	2021	2022	2023	After 2023
Increase / (decrease) in depreciation expense..............................	6,157	2,552	(1,095)	(1,129)	(6,485)

10 INTANGIBLE ASSETS

10.1 Intangible assets – accounting policies

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

Amortization is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. Other than goodwill, the Group has no intangible assets with indefinite useful life. The amortization expense is presented in the depreciation and amortization line of the Statement of profit or loss.

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 10.3. 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.

The estimated useful lives of intangible assets other than goodwill are as follows:

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

Goodwill represents the amount by which the cost of an acquisition exceeds 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 based on the carrying values as at December 31. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or business include the carrying amount of goodwill allocated to the entity or business sold.

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

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 of disposal 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 intangible assets of the Group in most cases cannot be determined as individual assets and 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 3.2. 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 3.2. 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 of disposal 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. As long as the FVLCS exceeds the carrying amount of a CGU, in this case an operating segment, then the CGU is not impaired and it is not necessary to calculate the VIU. See also Note 3.2. If the calculated fair value less cost of disposal is lower than the carrying amount of the operating segment, goodwill is impaired.

The impairment losses of intangible assets, including that of goodwill are accounted for in the Depreciation and amortization line of the Statements of profit or loss and other comprehensive income.

10.2 Intangible assets in the statement of financial position

	Goodwill	Concessions and licenses	Software	Other	Total
<u>01.01.2020</u>					
Gross value	213,107	200,244	342,321	27,460	783,132
Accumulated amortization	-	(92,581)	(250,801)	(13,929)	(357,311)
Carrying amount	**213,107**	**107,663**	**91,520**	**13,531**	**425,821**
Carrying amount – January 1, 2020	213,107	107,663	91,520	13,531	425,821
Investments	-	92,582	19,581	7,405	119,568
Additions due to business combinations	30	-	-	242	272
Disposals due to business combinations	-	-	(1)	-	(1)
Disposals	-	-	(4)	-	(4)
Amortization charge	-	(17,509)	(25,145)	(5,605)	(48,259)
Reclassifications	-	-	-	-	-
Exchange differences	-	263	677	480	1,420
Carrying amount – December 31, 2020	**213,137**	**182,999**	**86,628**	**16,053**	**498,817**
<u>12.31.2020</u>					
Gross value	213,137	291,455	356,119	33,717	894,428
Accumulated amortization	-	(108,456)	(269,491)	(17,664)	(395,611)
Carrying amount	**213,137**	**182,999**	**86,628**	**16,053**	**498,817**
Carrying amount – January 1, 2021	213,137	182,999	86,628	16,053	498,817
Investment	-	84,166	23,899	5,690	113,755
Additions due to business combinations	14	-	-	58	72
Disposals due to business combinations	-	-	-	-	-
Reclassification to held for sale assets	(638)	-	(1,287)	-	(1,925)
Disposals	-	-	(153)	(2)	(155)
Amortization charge	-	(19,511)	(25,860)	(6,599)	(51,970)
Reclassifications	-	-	(80)	(83)	(163)
Exchange differences	-	62	102	67	231
Carrying amount – December 31,2021	**212,513**	**247,716**	**83,249**	**15,184**	**558,662**
<u>12.31.2021</u>					
Gross value	212,513	354,334	343,761	35,257	945,865
Accumulated amortization	-	(106,618)	(260,512)	(20,073)	(387,203)
Carrying amount	**212,513**	**247,716**	**83,249**	**15,184**	**558,662**

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 and the new frequencies were acquired in 2021 that significantly increased the book value of concessions and licenses. HUF 83.1 billion was recognized consisting of a one-time spectrum fee and the present value of annual band fees related to 900 MHz, 1800 MHz spectrums band. The useful life of these frequencies and the present value calculations are based on the term of rights of use for these frequencies. For further information see Notes 3.5, 4.4.3.1, 10.5, 28 and 34.2.

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 Statements of profit or loss and other comprehensive income.

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, 2021 or December 31, 2020.

10.3 Useful lives

The reviews of the useful lives of intangible assets based on the strategic direction and accepted annual development plans during 2020 and 2021 affected the useful lives of a large number of assets primarily software. The revisions resulted in the following change in the original trend of amortization in the current and future years.

	2021	2022	2023	2024	After 2024
Increase / (decrease) in depreciation expense..........................	(1,483)	(33)	909	679	(72)

	2020	2021	2022	2023	After 2023
Increase / (decrease) in depreciation expense..........................	(1,067)	(479)	333	839	374

10.4 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 4.5.1). The recoverable amounts of the segments disclosed in the table below exclude net debts (Note 5.2), which are not allocated to the segments. For further information, please also see Note 3.2.

	12.31.2020			12.31.2021		
	Carrying amount of		Recoverable amount of operating segment	Carrying amount of		Recoverable amount of operating segment
	Goodwill allocated	Operating segment (incl. goodwill)		Goodwill allocated	Operating segment (incl. goodwill)	
MT-Hungary	192,938	957,766	1,687,521	192,314	1,035,769	1,507,266
North Macedonia	20,199	124,124	322,327	20,199	127,694	356,411
Total..........................	**213,137**	**1,081,890**	**2,009,848**	**212,513**	**1,163,463**	**1,863,677**

The Group regularly carries out the annual impairment test on goodwill in the last quarter of the financial years, while a quick goodwill impairment test is conducted quarterly based on the main input changes. During the impairment tests conducted in 2020 and 2021 no goodwill impairment was established for any goodwill of the Group. The decrease of goodwill in the MT-Hungary segment was attributable to sale of business segment and detached goodwill had been reclassified and disclosed as held for sales assets. For further information please refer to Note 8.

10.5 Significant individual other intangible assets

The Group's most significant individual other intangible assets are the mobile licenses. The carrying values and remaining amortization periods of the significant licenses are listed in the table below. For further information on these assets, please see Note 34.

	12.31.2020		12.31.2021	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungary				
700 MHz	40,554	19	38,447	18
800 MHz	29,660	13	27,463	12
900 MHz	8,441	13	39,584	12-21
1800 MHz	24,989	13	67,774	12-21
2100 MHz	32,505	6-19	29,047	5-18
2600 MHz	13,347	13	12,358	12
26 GHz	339	3-6	242	2-5
3600 MHz	30,025	19	28,905	18
Macedonia				
800 MHz/1800 MHz	2,423	13	2,262	12
1800 MHz	29	8	26	7
2100 MHz	278	7	1,341	6-7
Other	408	1–6	267	5
Total concessions and licenses	**182,998**		**247,716**	

11 INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

11.1 Associates and joint arrangements – accounting policies

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

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

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

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

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

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

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

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

11.2 Associates

The Group had no significant associates at December 31, 2020 and 2021. The Group had no contingent liabilities or commitments related to its associates at December 31, 2020 and 2021.

11.3 Joint ventures

The Company lost the joint control and significant influence over its joint venture E2 Hungary Zrt. in February 2020 based on the agreement with MET Holding AG. and after the approval of the various competent authorities.

Following the loss of joint control and significant influence the investment in E2 Hungary Zrt. is accounted for as an equity investment measured at fair value through Profit or Loss under IFRS 9, and disclosed in Other non-current financial asset. The transaction did not generate a cash movement (see also Note 4.2.3.2).

The operation of E2 Hungary Zrt in 2020 resulted in a HUF 66 million, which were accounted for in the value of the investment by using the equity method. As a result of the above mentioned lost of control HUF 1,012 million was derecognized from the investment in joint venture on the date of the loss of the joint control and significant influence and in line with the change. HUF 1,155 million was initially recognized as a financial asset under IFRS 9, disclosed in other non-current financial asset as well as HUF 139 million was recognized as a financial liability under IFRS 9 pertaining to the call option of MET Holding AG. on this investment, disclosed in Other non-current financial liabilities (see also Note 4.5.1.3). The transaction had no material impact on the Consolidated Statements of Profit or Loss and other comprehensive income . See subsequent measurement of the call option under Note 4.5.1.2.

The Group had no joint venture at December 31, 2020 and 2021.

11.4 Joint operations

Magyar Telekom and Telenor Hungary agreed in 2015 to jointly operate and develop their 800 MHz 4G mobile networks in all parts of Hungary except Budapest. The primary goal of the agreement was to accelerate 4G mobile broadband coverage rollout in the countryside and to offer higher bandwidth to the 4G customers, in line with the coverage obligations of the 800 MHz spectrum contract signed in 2014 with the NRA. Based on the agreement, Telenor Hungary maintains sites in West Hungary and Magyar Telekom operates base stations in the eastern region of the country.

The Company assessed the agreement as joint operation as strategic decisions are made jointly by Magyar Telekom and Telenor, and there is no separate vehicle to control the operation of the arrangement. The Company does not share the obligations for liabilities and any returns or expenses beyond the assets included in the agreement.

Therefore only the assets owned by the Company are recognized while there is no need to present the partner's assets, liabilities, or revenue and expenses. The charges from Magyar Telekom to Telenor and from Telenor to Magyar Telekom are almost equal and settled on a net basis and accounted for in the statement of profit or loss and the effect of this settlement is not significant.

If any of the parties initiates the termination of this contract, in order to ensure the continuous service for the customers the Company might be exposed to additional capital expenditure. The probability is estimated remote by the Management currently.

12 OTHER ASSETS

Other assets usually include current and non-current receivables considered as non-financial instruments.

12.1 Other current assets

	12.31.2020	12.31.2021
Prepayments and advance payments	4,581	6,834
Other taxes receivable	984	1,322
Other	457	275
Total	**6,022**	**8,431**

12.2 Other non-current assets

Other non-current assets mainly include assets recognized from the costs to obtain contracts with customers (amounting to HUF 6,571 million, see also Note 18.4) as at December 31, 2021.

13 PROVISIONS

13.1 Provisions – accounting policies

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 line item of the Statement of profit or loss and other comprehensive income where the actual expense is expected to be incurred. When a provision is released unused, it is released to the same line item of the Statement of profit or loss and other comprehensive income where it was originally provided for.

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.

13.2 Provisions in the statement of financial position

	Severance payment	Share-based payments	Other employee related	Total employee related	Legal cases	ARO	Other	Total
01.01.2020	1,165	1,649	174	2,988	2,326	7,981	1,906	15,201
Amounts reversed	(396)	(138)	-	(534)	(490)	(39)	(906)	(1,969)
Additions	5,178	1,770	20	6,968	22	166	1,331	8,487
Interest	-	(3)	-	(3)	(1,274)	127	-	(1,150)
Exchange rate difference	-	15	16	31	67	(1)	(1)	96
Amounts utilized (incl. interest component)	(3,930)	(1,065)	(3)	(4,998)	(70)	(26)	(1,859)	(6,953)
12.31.2020	**2,017**	**2,228**	**207**	**4,452**	**581**	**8,208**	**471**	**13,712**
Of which current	1,801	1,330	-	3,131	127	15	330	3,603
Of which non-current	216	898	207	1,321	454	8,193	141	10,109
01.01.2021	2,017	2,228	207	4,452	581	8,208	471	13,712
Amounts reversed	(358)	(112)	(69)	(539)	(22)	(8)	(517)	(1,086)
Additions	2,381	1,982	941	5,304	702	262	2,889	9,157
Reclassification to HFS liabilities	-	-	-	-	-	-	(104)	(104)
Interest	-	(8)	-	(8)	562	174	-	728
Exchange rate difference	-	8	14	22	6	2	(1)	29
Amounts utilized (incl. interest component)	(3,338)	(1,299)	(433)	(5,070)	(116)	(41)	(1,128)	(6,355)
12.31.2021	**702**	**2,799**	**660**	**4,161**	**1,713**	**8,597**	**1,610**	**16,081**
Of which current	571	1,728	462	2,761	260	25	321	3,367
Of which non-current	131	1,071	198	1,400	1,453	8,572	1,289	12,714

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

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

13.2.1 Severance payment

The majority of the provision for severance as at December 31, 2021 relates to the stand-by-pool and the employee terminations payable in 2022 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 manner 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, 2020 also related to the stand-by-pool and the employee terminations paid in 2021 in relation to the efficiency improvement in Magyar Telekom Plc.

735 employees left the Group in 2021 (2020: 884), related to which termination payments were made. The balance of provision as at December 31, 2021 relates to 111 employees and employees in the stand-by-pool (2020: 305).

The total payments made in relation to employee termination in 2021 amounted to HUF 4,238 million (2020: HUF 4,936 million).

13.2.2 Share-based payments

Share-based payments are detailed in Note 20.1.2.

13.2.3 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.

13.2.4 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 neither in 2021, nor in 2020.

13.2.5 Other provisions

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

14 OTHER CURRENT LIABILITIES

		12.31.2020	12.31.2021
Other taxes and social security		12,027	9,590
Salaries and wages		8,040	7,344
Deferred revenue and advances received		1,940	1,953
Unused advance payments for asset-related grants	(a)	21	12
Dividend payable to non-controlling interests		41	44
Other liabilities		129	43
Total		**22,198**	**18,986**

(a) For further information see also Note 4.2.3.2. (b)

15 OTHER NON-CURRENT LIABILITIES

The table below shows the balances of Other non-current liabilities .

	12.31.2020	12.31.2021
Other non-current financial liabilities	2,910	2,474

Bonds are initially recognized in 2020 at fair value (HUF 67,875 million) net of transaction costs (HUF 12 million) incurred and increased by premium received (HUF 2,948 million), which resulted in a 1.2579% yield. The bond is subsequently measured at amortized cost under IFRS 9. Any difference between the proceeds (net of transaction cost) and the redemption amount are recognized in profit or loss over the period of the liability using the effective interest method.

For further information please see Note 4.4.2.

16 NON-CONTROLLING INTERESTS

Non-controlling interests includes the minority shareholders in Makedonski Telekom (MKT).

	MKT	Other	Total
Balance at December 31, 2019	35,825	(659)	35,166
Dividend declared	(3,235)	(433)	(3,668)
Total comprehensive income	7,545	-	7,545
Balance at December 31, 2020	**40,135**	**(1,092)**	**39,043**
Dividend declared	(3,479)	-	(3,479)
Total comprehensive income	4,516	-	4,516
Balance at December 31, 2021	**41,172**	**(1,092)**	**40,080**

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

The information below includes the amounts as included in the consolidation, before inter-company eliminations.

a) Summarized balance sheets

	MKT	
	12.31.2020	12.31.2021
Current assets	34,009	33,654
Current liabilities	(20,954)	(18,708)
Non-current assets	105,274	106,159
Non-current liabilities	(5,014)	(5,494)
Net assets	**113,315**	**115,611**

b) Summarized income statements

	MKT	
	2020	2021
Revenue	63,789	65,603
Profit before income tax	10,082	9,790
Profit for the period	**9,074**	**8,835**

c) Summarized cash flows

	MKT	
	12.31.2020	12.31.2021
Net cash generated from operating activities	22,633	21,913
Net cash used in investing activities	(11,165)	(12,369)
Dividends/capital reduction paid to Controlling interests	(4,226)	(4,547)
Dividends/capital reduction paid to Non-controlling interests	(3,235)	(3,479)
Other cash flows from financing activities	(3,509)	(3,607)
Net cash used in financing activities	**(10,970)**	**(11,633)**

16.2 Transactions with non-controlling interests

There were no material transactions with non-controlling interests in 2021 or 2020 other than the dividend payments.

The only significant non-controlling interest of the Group is the Republic of North Macedonia, holding shares in MKT. MKT and Magyar Telekom did not execute as part of their normal business activities any transactions that were individually material in the 2021 or 2020 financial year with companies controlled by the Republic of North Macedonia or companies over which the Republic of North Macedonia can exercise a significant influence.

17 LEASES

17.1 Leases – Accounting policies

A contract is a lease (or contains a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Recognition exemptions

Short-term leases, low value leases

IFRS 16 includes recognition exemptions available to lessees for short-term leases and leases of low-value items and specifies alternative requirements.

- In the MT Group, a decision was made not to apply the short-term recognition exemptions to lease contracts, except for some minor and insignificant lease arrangements with a lease term of one month or less. Such very short-term leases and related asset classes are expensed as incurred and no additional quantitative disclosure is required.
- The MT Group has made the decision not to apply the practical expedient with respect to low value items. Hence they have to be recognized, measured and presented as lease arrangements in the scope of IFRS 16.

Lease term

The lease term assessment at the commencement date refers to the period for which MT is reasonably certain to maintain the contract under the terms and conditions as originally negotiated. The initial lease term assessment is made at commencement of the lease. When determining the lease term, the shortest reasonably possible, i.e. justifiable, term is always to be used in case of doubt. The lease term assessment is largely based on management judgement and MT usually use estimates or assumptions (especially in the case of options and indefinite contracts) on asset cluster level.

The commencement date of the lease (commencement date), is the date on which a lessor makes an underlying asset (i.e., the property, plant or equipment that is subject to the lease) available for use to the lessee. At the commencement date, the lease term begins and lease liability and the right-of-use asset is initially recognized and measured.

Options - "Reasonably certain criteria"

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, lessees and lessors shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Lease payments

Lease payments are defined in the same way for both lessees and lessors. Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term.

The definition of lease payments, for MT lessees, includes payments for non-lease components as well.

Reassessment of the lease liability

IFRS 16 specifies when the lease liability has to be reassessed. It is important to note that, in terms of IFRS 16, a reassessment of the lease liability only takes place if the change is based on already existing contractual clauses, i.e. those that have been part of the contract since commencement.

A lessee reassesses the lease term, i.e. whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that: is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

Accounting for lease modifications

A lease modification is defined as "a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)". Modification can result from a change in consideration only. The effective date of the modification is defined as the date when both parties agree to a lease modification.

A lessee accounts for a lease modification as a separate lease if both of the following conditions are fulfilled:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When these conditions are met, the modification is considered to result in the creation of a new lease that is separate from the original lease. The agreement for the right to use one or more additional assets is accounted for as a separate lease (or leases) to which the requirements of IFRS 16 are applied independently of the original lease.

For a lease modification that is not a separate lease, i.e. that does not meet the conditions outlined above, at the effective date of the modification, the lessee accounts for the lease modification by remeasuring the lease liability using a discount rate determined at that date and:

- for lease modifications that decrease the scope of the lease, the lessee decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognizes a gain or loss that reflects the proportionate decrease in scope; and
- for all other lease modifications, the lessee makes a corresponding adjustment to the right-of-use asset.

When a lease arrangement is modified, then the revised lease payments will always be discounted with a revised discount rate. This is different from the requirements for a reassessment of the lease, where only in specific cases a revised discount rate is required

Presentation and disclosures for MT Group as lessee

Statement of financial position

The MT Group decided to present the right-of-use assets (separately from other assets) as well the lease liabilities as separate line items on the face of the statement of financial position.

Statement of profit or loss and other comprehensive income

In the statement of profit or loss and other comprehensive income Magyar Telekom Group presents separately interest expense on the lease liability from depreciation for the right-of-use asset.

Statement of cash flows

The following items are presented within operating activities in the statement of cash flows:

- cash payments for the interest portion of the lease liability, according to the MT Group accounting policy to present interest payments in operating cash flows and;
- variable lease payments not included in the lease liability

Cash payments for the principal portion of lease liability are presented within financing activities in the statement of cash flows.

Presentation and disclosures for MT Group as lessor

Presentation of leases in Statement of profit or loss and other comprehensive income and in Statement of financial position

In the MT Group consolidated Statement of profit or loss and other comprehensive income, operating lease revenue is not disclosed separately from other revenue. There is only one-line item titled “Revenue”.

In the Notes to the Financial Statements there is a further breakdown of Revenue provided including a breakdown of operating lease revenue by MT Group segments. The operating lease revenue line item in the Note 18.3 is titled “Other sources”.

MT Group as a Lessor presents assets subject to operating leases in its statements of financial position according to the nature of the underlying asset. In the MT Group, portions of assets that are physically distinct and are identified as underlying assets (leases) are not presented separately from the whole asset in the statements of financial position.

Other lease topics

Sale and leaseback transactions

Assessing whether the transfer of the asset qualifies as a sale.

In the MT Group, both the short-term and the low value recognition exception have not been elected for any asset class. As a result, MT Group seller-lessee will always recognize (materiality considered) sale-and-leaseback transactions on-balance sheet. To determine how to account for a sale-and-leaseback transaction, the MT Group first considers whether the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. The MT Group then applies IFRS 15 to determine whether a sale has taken place. This assessment determines the accounting by both the seller-lessee and the buyer-lessor, as follows.

Accounting for sale and leaseback – Transfer of an asset is not a sale

If the transfer of an asset is not a sale, the seller-lessee and the buyer-lessor account for the transaction as financing.

Accounting for sale and leaseback – Transfer of an asset is a sale

If control passes as defined in IFRS 15 (sale), the seller-lessee must recognize an asset at an amount equaling the pro-rata carrying amount arising from the pro-rata right-of-use retained. Any gains or losses from this transaction are also only recognized proportionately. Hence, the seller-lessee restricts the gain that it recognizes on the sale to the amount that relates to the portion of the underlying asset that has been transferred, i.e. to the buyer-lessor’s residual interest in the underlying asset.

Sale and leaseback transactions had no material effect on financial statements of Magyar Telekom Group.

Subleases

A sublease is defined as a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.

In classifying a sublease, MT Group, as the intermediate lessor, should classify the sublease as a finance lease or an operating lease in the same manner as any other lease using the criteria discussed in IFRS 16.61.

At the commencement date of the sublease, if MT Group cannot readily determine the rate implicit in the sublease, then it uses the discount rate that it uses for the head lease to account for the sublease, adjusted for any initial direct costs associated with the sublease.

Subleases had no material effect on financial statements of Magyar Telekom Group.

Presentation and disclosures for subleases

No sublease specific balance sheet and income statement presentation rules apply to subleases. MT Group applies the respective presentation rules that apply to other finance and operating leases.

MT Group does not offset assets and liabilities arising from a head lease and a sublease of the same underlying asset, unless the financial instruments requirements for offsetting are met. The same applies to lease income and lease expenses relating to a head lease and a sublease of the same underlying asset, unless the requirements for offsetting in IAS 1 are met.

Under IFRS 16 the head lease and a sublease are two separate contracts that are accounted for under the lessee and lessor models, respectively. The general disclosure rules equally apply for the head lease and for subleases, either disclosures for finance sub-lessors or operating sub-lessors.

Lessor accounting

Finance lease – Definition

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. The nature of finance lease arrangement are akin to financing the sale of an asset. The presentation in the financial statements departs from the legal lease form of the transaction and is based on the economic substance (i.e. as if the underlying lease asset was sold by the lessor to the lessee).

Operating lease – Definition

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. There is a typically simple short-term hire arrangement (an operating lease), whereby rental payments received are dealt with in profit or loss with the primary impact on the balance sheet relating to the timing of lease payments.

17.2 Finance leases

17.2.1 Finance lease – Group as lessor

Future lease receivables under finance leases at December 31, 2020 and 2021 are as follows:

	12.31.2020			12.31.2021		
	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	315	35	350	331	28	359
1–2 years	293	27	320	190	20	210
2–3 years	184	19	203	110	14	124
3–4 years	103	14	117	74	11	85
4–5 years	67	11	78	64	8	72
After 5 years	190	23	213	127	15	142
Total	**1,152**	**129**	**1,281**	**896**	**96**	**992**

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 Other non-current financial assets. The finance income accruing to the company over the lease term is recognized in the Profit for the year (Interest income) (see Note 23).

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

17.2.2 Lease – Group as lessee

Leases are mainly in respect of the rental of the new headquarters, mobile cell sites and sale and lease back of spaces in buildings accommodating telephone exchanges, and to a lesser extent, related to other buildings, network and other telecommunications facilities, equipment and vehicle.

In most cases the contracts are denominated in HUF and EUR (sale and lease back contracts in EUR), the term of the leases is 4–13 years, considering the renewal options but no purchase options.

Leases of buildings generally have lease terms between 4 and 13 years, in the case of telecom equipment 4 and 9 years, while these terms are between 1 and 4 years in relation for motor vehicles and other equipment. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The maturity analysis of lease liabilities are disclosed in Note 5.1.3.

The following are the amounts recognized in profit or loss:

	2020	2021
Depreciation expense of right-of-use assets	17,850	18,874
Interest expense on lease liabilities	5,407	4,717
Foreign exchange loss on lease liabilities	5,014	465
Income from subleasing right-of-use assets	57	62
Gains or losses arising from sale and leaseback transactions	1,984	-

The Group had total cash outflows for leases of HUF 20,046 million in 2021. The Company has various lease contracts that have not yet commenced as at December 31, 2021. The future lease payments for these non-cancellable lease contracts are HUF 10,755 million.
The amount of undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term is HUF 14,331 million.

The Group initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. Typically the expected residual value at lease commencement is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees.
At the end of each reporting period, the expected residual value is reviewed to reflect actual residual values achieved on comparable assets and expectations about future prices.
As at December 31, 2021, the amount of residual value guarantees to which the Company is potentially exposed that are not reflected in the measurement of lease liabilities is HUF 88 million, which is not expected to be payable.

17.3 Operating leases – Group as lessor

The following table includes the future minimum lease payments receivable by the Group for the operating leases of mobile tower sections, network, dark fiber, buildings and from 2021 customer premise equipments where Magyar Telekom is the lessor.

	12.31.2020	12.31.2021
Within 1 year	3,282	4,341
1–2 years	3,071	3,994
2–3 years	2,888	3,676
3–4 years	2,729	3,552
4–5 years	2,144	3,178
After 5 years	5,225	6,195
Total	**19,339**	**24,936**

The following table disaggregates class of property, plant and equipment into assets subject to operating leases:

	Building	Telecom equipment	Total
01.01.2020			
Gross value	3,983	1,239	5,222
Accumulated depreciation	(1,734)	(684)	(2,418)
Carrying amount 01.01.2020	**2,249**	**555**	**2,804**
Carrying amount - 01.01.2020	2,249	555	2,804
Additions	59	195	254
Depreciation charge	(125)	(66)	(191)
Carrying amount - 12.31.2020	**2,183**	**684**	**2,867**
12.31.2020			
Gross value	4,042	1,434	5,476
Accumulated depreciation	(1,859)	(750)	(2,609)
Carrying amount 31.12.2020	**2,183**	**684**	**2,867**
Carrying amount - 01.01.2021	2,183	684	2,867
Additions	277	1,141	1,418
Disposal	(227)	(224)	(451)
Depreciation charge	(184)	(366)	(550)
Carrying amount - 12.31.2021	**2,049**	**1,235**	**3,284**
12.31.2021			
Gross value	3,995	2,754	6,749
Accumulated depreciation	(1,946)	(1,519)	(3,465)
Carrying amount	**2,049**	**1,235**	**3,284**

18 REVENUE

18.1 Revenue – accounting policies

18.1.1 Sale of goods and Rendering of services

The core principle of IFRS 15 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.

Revenue should be recognized if it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. If the Group determines that collectability is no longer ensured (e.g. because subsequently the customer's ability or intent to pay significantly deteriorates), the Group must apply cash accounting for the remainder of the contract, i.e. for the outstanding goods and services to be provided. This reassessment does not affect recorded assets and revenue relating to performance obligations already satisfied.

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control either transfers over time or at a point in time, which affects when revenue is recorded.

As a practical expedient, the Group applies the guidance to a group of contracts with similar characteristics instead of to a single contract with a customer. A portfolio approach is acceptable if the Group can reasonably expect that the effect of applying a portfolio approach to a group of contracts or group of performance obligations would not differ materially from considering each contract or performance obligation separately. This implies that a portfolio of contracts with similar characteristics does not necessarily need to refer to homogenous products being included in these contracts.

Main principles

- If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Group shall present the contract as a Contract asset, excluding any amounts presented as a receivable. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.
- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the Consolidated Statement of Financial Position.
- Expenses for sales commissions (customer acquisition costs) must be capitalized in the Contract costs line of the Consolidated Statement of Financial Position and recognized over the estimated customer retention period.
- Later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
- Contract liabilities are netted off against the contract assets for each customer contract.
- The Group presents the revenue on gross basis (as principal) when it controls the specified goods or services before they are transferred to the customer, and it must be transferred by the Group.
- In case of the Group resells the services of another party towards the customer, but does not control them, all related revenue and expenses are presented on gross basis, if both of the below conditions are met:
  - the Group has entered into a distribution agreement with the supplier under which an enforceable right was received to resell a limited or unlimited number of the agreed-upon services to the Group's customers at predefined prices any time upon request; and
  - the Group has discretion in setting the selling prices or determining the price of the service package where the another party's service is already included.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.
- If the promise to grant a license is distinct from the other promised goods or services in the contract then the promise to grant the license is a separate performance obligation and the Group shall determine whether the license transfers to a customer is either at a point in time or over time.

18.1.2 Revenue from operating leases

Revenue from operating leases is recognized as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease. For further information, please see Note 17.3.

18.2 Revenue from major service lines

18.2.1 Mobile and Fixed line telecommunications revenue

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.

Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognized in the period they relate to. Usage-based consideration (e.g. airtime) is generally not part of the transaction price as the Group does not have the right to consideration at contract inception.

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks.

Advertising revenue is recognized in the period that the advertisements are exhibited.

Revenue from premium rate services is 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 their substantial risks; otherwise this revenue is 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. Revenue from the sale of cards is recognized when they are 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 revenue is 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 revenue 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.

Contracts are frequently sold to customers containing a cross subsidy between two or more components. A typical example is where a mobile phone is sold at a price significantly below its market value in a bundle with a service contract for a period of 12 or 24 months. From a commercial point of view, the subsidy on the mobile phone is compensated via the service fee.

With this adjustment requirement (also termed as "basic adjustment") a cross-subsidy or an overall bundle discount must be allocated to the individual components of the bundle so that revenue generally reflects the fair value of the good and/or service with a bundle discount being appropriately distributed among the affected items.

The revenue is determined for every component by distributing the transaction price to the individual components in proportion to their relevant standalone selling prices.

18.2.2 System integration (SI) and IT revenue

Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of 2-3 years.

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 IFRS 16 requirements – determining whether an Arrangement contains a Lease, and if they include embedded lease elements, the revenue attributable to these is recognized according to IFRS 16 – Leases as described in Note 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.

Magyar Telekom transfers control of goods and services over time, therefore satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- a customer simultaneously receives and consumes the benefit provided by Magyar Telekom's performance as Magyar Telekom performs,
- Magyar Telekom's performance creates or enhances assets that the customer controls as the asset is created or enhanced,
- Magyar Telekom's performance does not create an asset with an alternative use to Magyar Telekom and Magyar Telekom has an enforceable right to payment for performance completed to date.

If the performance obligation is not satisfied over time, Magyar Telekom satisfies the performance obligation at a point in time.

Revenue from maintenance services (generally fixed fee per month) is recognized over time. Revenue from repairs, which are not part of the maintenance contract, billed on the basis of time and material used is recognized at point in time.

Revenue from hardware sales or sales-type leases is recognized when the customer obtains the control over the product.

To determine the progress of performance, Magyar Telekom Group applies the Input method. Magyar Telekom recognizes revenue based on its efforts or inputs to the satisfaction of a performance obligation (resources consumed, labor hours expended, cost incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of the performance obligation.

18.3 Revenue in the Statement of profit or loss and other comprehensive income

18.3.1 Disaggregation of revenue from contracts with customers

	2020	2021
Mobile revenue		
Voice retail	123,292	118,652
Voice wholesale	11,966	12,822
Data	101,840	118,816
SMS	20,690	24,396
Equipment	96,478	103,859
Other mobile revenue	10,323	10,842
Total Mobile revenue	**364,589**	**389,387**
Fixed line revenue		
Voice retail	39,553	37,063
Broadband retail *	57,496	62,796
TV	52,355	56,503
Equipment	22,356	19,453
Data retail *	12,254	12,704
Wholesale	19,355	20,010
Other fixed-line revenue	15,635	15,336
Total Fixed-line revenue	**219,004**	**223,865**
System integration and IT revenue	89,455	86,868
Total revenue	**673,048**	**700,120**
Of which:		
Revenue from contracts with customers	669,170	694,242
Other sources	3,878	5,878

* In the case of 2020 data, HUF 3,472 million has been reclassified from Broadband retail to Data retail revenue for ensuring comparability.

Other sources of revenue include real estate and network rental fees which is presented above in the Fixed-line wholesale and Fixed-line other revenue lines.

Equipment revenue is recognized at a point in time while service revenue is recognized over time. SI/IT revenue is recognized mostly over time and to a lesser extent at a point in time depending on the project.

None of the Group's customers represent a significant source of revenue individually. Revenue from transactions with a single external customer (or group of entities that – knowingly to us – is under common control of a third party or government) does not exceed 10% of the Group's revenue.

Regarding geographical segmentation of revenue please see Note 33.

18.4 Assets and liabilities related to contracts with customers

Contract assets of the Group consist of unbilled amounts typically resulting from sales under long-term contracts when revenue recognized exceeds the amount billed to the customer.

Contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue.

	12.31.2020	12.31.2021
Contract assets – current	16,878	20,745
Contract assets – non-current	3,923	4,143
Contract liabilities – current	(10,998)	(12,238)
Contract liabilities – non-current	(361)	(326)
Net contract assets (liabilities)	**9,442**	**12,324**
Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period	9,066	9,325
Asset recognized from the costs to obtain contracts with customers	5,389	6,571
Amortisation recognized as cost of obtaining contracts during the period	(5,594)	(6,398)

Impairment losses recognized on contract assets are disclosed together with trade receivables in Note 4.2.2.2 and amounted to HUF 2,208 million as at December 31, 2021 (in 2020 HUF 2,215 million).

As of December 31, 2021 the aggregate amount of the transaction price allocated to the remaining performance obligation is HUF 197,489 million and the Group will recognize this revenue as services are rendered, which is expected to occur over the next 13-126 months.

19 DIRECT COSTS

19.1 Telecom tax

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

19.2 Other direct costs

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

20 EMPLOYEE-RELATED EXPENSES

20.1 Employee-related expenses – accounting policies

20.1.1 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.

20.1.2 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 liability, re-measured to fair value at each financial statement date.

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

20.1.2.1 Share Matching Plan of Deutsche Telekom Group

As of July 1, 2015, Magyar Telekom Group implemented a Share Matching Plan for all executives (ca. 40). Participation in the program is voluntary, with the exception of the CEO.

The participant can invest a minimum of 10% of his/her gross annual bonus in Deutsche Telekom shares, with an option to voluntarily increase this amount to a maximum of 50% (personal investment). These shares must be kept for at least four years (the lock-up period), the participant is granted matching shares upon expiry of the lock-up period. The share allocation ratio of the program (1:1 or 1:2) depends on the participant's individual Management Group (MG) . Deutsche Telekom grants the matching shares to the participant based on the Deutsche Telekom shares acquired by the participant within the framework of the program. The program starts annually if the free cash flow target of Deutsche Telekom Group was met in the previous year.

The program initiated by DT is settled in DT shares with the participants, meanwhile Magyar Telekom has to settle it with DT AG in cash at the same time participants are granted the DT shares therefore the actual closing balance of the program is presented as a related-party financial liability in the consolidated statements of financial positions as it is settled in cash from the perspective of Magyar Telekom and is due to be paid to DT AG.
In 2021 HUF 31 million was recognized as expense for the program (2020: HUF 30 million).

20.1.2.2 Long-term incentive program (LTI)

As of January 1, 2015 Magyar Telekom Group changed its existing LTI program, turning it into a share-based compensation program. The 2021 LTI program is a global, Deutsche Telekom Group-wide incentive program.

Approximately 40 executives may participate in the program. The CEO's participation is unconditional, while other executives may participate only if the evaluation of the participant's performance in the previous year meets the requirements.

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

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

In 2021 HUF 586 million was recognized as expenses for the program (2020: HUF 709 million).

20.1.3 Repeated Performance Incentive (RPI)

The RPI honors repeated, extraordinary collective performance, which is measured by the overachievement as defined bonus KPI. The group-wide relevant bonus KPI is EBITDA unadjusted. RPI is for a defined group of Executives (incl. Business Leaders) at Deutsche Telekom Group.

It was a four-year plan, running from 2018 to 2021. If there is a target achievement was met in two consecutive years as defined in the policy regarding the RPI, the first year was only considered as the year of eligibility. HUF 1,130 million (2020: HUF 783 million) was recognized as expense for the program in 2021. The amount of the bonus payout depended on Management level, target achievement of the segment and the number of years of consecutive overperformance.

20.1.4 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.

20.2 Employee-related expenses in the Statement of profit or loss and other comprehensive income

	2020	2021
Short-term benefits (Note 20.1.1)	77,940	75,829
Termination benefits (Note 20.1.4)	5,802	2,920
Equity-settled share-based compensations (Note 20.1.2.1)	30	31
Cash-settled share-based compensations (LTI) (Note 20.1.2.2)	709	586
Cash-settled share-based compensations (RPI) (Note 20.1.2.3)	783	1,130
Total before capitalization	**85,264**	**80,496**
Expenses capitalized	(6,260)	(4,616)
Total	**79,004**	**75,880**
Total costs expensed in relation to defined contribution plans (including social security contribution)	12,693	11,275
Average number of employees (full time equivalent)	7,358	6,932
Closing number of employees (full time equivalent)	7,132	6,786

21 OTHER OPERATING EXPENSES

	2020	2021
Cost of other purchased services (a)	42,116	40,088
Marketing expenses	8,563	9,053
Utility tax	7,215	7,332
Energy costs	8,184	7,245
Other operating expenses	10,438	12,021
Total	**76,516**	**75,739**

Research costs recognized by the Group were not material in the presented years.

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

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

	2020	2021
Audit of the financial statements	388	392
Other audit-related fees	16	19
Other non audit-related fees	83	105
Total expenses payable to PwC	**487**	**516**

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. Review of the quarterly financial statements is also included, as well as information systems and procedural reviews and testing to understand and place reliance on the systems of internal control.

Other audit-related services mainly include other professional auditing services provided by the Auditor beyond the audit of the financial statements, as well as other audit procedure necessary for meeting the reporting requirements arising from relevant legislation and internal regulations.

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.

22 OTHER OPERATING INCOME

	2020	2021
Gain on the sale of PPE, Intangible assets and assets held for sale - net	2,140	751
Income received for the relocation and reconstruction of our own network	796	901
Brand license fee	300	300
Other	2,606	2,009
Total	**5,842**	**3,961**

23 INTEREST INCOME

	2020	2021
Interest income on financial assets	248	292
Interest income from leases	14	13
Reversal of interest component of provisions	362	-
Dividend income	52	57
Total	**676**	**362**

24 INTEREST EXPENSE

	2020	2021
Interest expense payable to DT	3,144	937
Other interest expense	3,765	6,625
Interest expense on lease liabilities	5,407	5,634
Accretion / interest on provisions	(788)	728
Borrowing costs capitalized	(209)	(157)
Total	**11,319**	**13,767**

In 2020, Accretion/interest on provisions included the interest of a released provision related to a legal case which was rejected as ungrounded and the submitted appeal from MKT was accepted.

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. For further information see Note 2.1.1. 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.

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 0.47%-1.14% in 2021 (2020: 0.92%-1.59%). When calculating the borrowing rates, Other finance expenses (included in Note 25) are also considered.

25 OTHER FINANCE EXPENSE – NET

	2020	2021
Fee expense	5,020	5,139
Net foreign exchange losses / (gains) on financial instruments	26,423	1,594
Other net foreign exchange losses / (gains)	3,834	502
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(19,669)	3,988
Losses / (gains) on the subsequent measurement of financial assets at fair value through profit or loss (other than derivatives)	35	11
Losses / (gains) on the subsequent measurement of financial liabilities at fair value through profit or loss (other than derivatives)	1	17
Losses / (gains) on the derecognition of derivatives contracted with related parties	(2,441)	(10,960)
Total	**13,203**	**291**

The high amount of Losses / (gains) on the subsequent measurement of derivatives contracted with related parties in 2020 was mainly due to the significant weakening of HUF exchange rates. During 2021 the market condition changes are different, as HUF exchange rate has lower volatility and strengthened against EUR, however the HUF interest rates are growing continuously, furthermore in 2021 the volume of derivatives were different.

The realized gains on the derecognition of derivatives contracted with related parties are higher in 2021, which is mainly due to expiring of two Cross Currency Interest Rate Swap deals.

26 CHANGES IN THE GROUP

26.1 Business combinations

26.1.1 Acquisition of ITgen Kft.

In November 2017 T-Systems Magyarország Zrt. signed a Share Purchase Agreement to acquire a 100% stake in ITgen Kft., an SAP technology and security specialist firm, for a purchase price plus a potential earnout payment totaling to a maximum of HUF 1.2 billion, dependent on 2018, 2019 and 2020 financial performance. The closing of the transaction took place in January 2018.

From the total purchase price HUF 799 million was paid in cash in 2018 while HUF 180 million, HUF 120 million and HUF 180 million (in 2019, 2020 and 2021 respectively) was paid from the earnout payment totaling to HUF 480 million remeasured at the time of last payment date of 2021.

26.1.2 Cable TV network and operations

In 2021 and 2020, the Group acquired a number of cable TV businesses in individually insignificant transactions. All these acquisitions qualified as business combinations of the MT-Hungary operating segment. The vast majority of the total purchase price was paid in cash in 2021 and 2020.

The table below shows the summary of the transactions.

	2020	2021
Consideration transferred	597	1,497
Less: Fair value of the net assets acquired	(605)	(1,483)
Total difference between consideration transferred and net asset acquired	**(8)**	**14**
- thereof goodwill	30	14
- thereof Negative goodwill *	(38)	-

*The negative goodwill is accounted as an other income in the Statement of total comprehensive income.

The impact of Cable TV acquisitions were insignificant during 2020 and 2021, therefore disclosed data are comparable without any adjustment.

27 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. All figures are presented in the Consolidated statements of profit or loss and other comprehensive income.

There was no transaction resulting dilutive shares in the reported periods therefore the presented basic and diluted EPS are equal in 2020 and 2021.

28 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 from continuing operations. Capitalized borrowing costs are included in the Investments in PPE and intangible assets, where applicable.

		12.31.2020	12.31.2021
Investments in property, plant and equipment (Note 9.2)		79,776	79,423
Investments in Right-of-use assets (Note 9.2)		35,091	22,940
Investments in intangible assets (Note 10.2)		119,568	113,755
Total investments in PPE and intangible assets		**234,435**	**216,118**
Capitalized asset-related grant	(b)	1,480	(1,418)
Capitalized annual frequency fee payable	(a)	(37,343)	(83,075)
Change in Right-of-use assets		(36,930)	(22,940)
Recognition / (Derecognition) of investment tax credit	(d)	2,823	2,341
Change in trade payables relating to capital expenditures	(c)	(11,352)	(120)
Cash payments for purchases of PPE and intangible assets		**153,113**	**110,906**

(a) The present value of the 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 lease and other financial liabilities line of the Financing cash flow, while the interest payments accruing on the discounted liability are included in the Interest and other financial charges paid line of the Operating cash flow. The significant license acquisitions are described in Notes 10.5 and 34.2.

(b) In 2021 HUF 1,287 million is paid by the government. It is presented in Notes 4.2.3.2 and see also Notes 9 and 14 for government grants relating to the purchase of PPE.

(c) 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.

(d) For further information of Recognition / (Derecognition) of investment tax credit see also Notes 6.

29 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

	12.31.2020	12.31.2021
Acquisition of ITgen Kft. (Note 26.1.1)	120	180
Cable TV businesses (Note 26.1.2)	447	1,497
Cash payments for purchases of subsidiaries and business units	**567**	**1,677**

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.

30 CONTINGENT ASSETS AND LIABILITIES

30.1 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.

30.2 Contingent liabilities

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.

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.

30.2.1 Hungary

30.2.1.1 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees, for which see more details in Note 4.5.4.

30.2.2 Norh Macedonia

30.2.2.1 Contingent liabilities

Makedonski Telekom has a contingent liability in the amount of MKD 240 million (HUF 1.4 billion) in respect of a court case for damage compensation against Makedonski Telekom for alleged abuse of the dominant position on the market for access to data transfer networks. Based on legal advice and strong legal arguments presented in the court procedure, management believes that it is not probable that the court procedure will result in liability of the claimed size.

31 PURCHASE COMMITMENTS

31.1 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.

	12.31.2020	12.31.2021
Property, plant and equipment	4,166	6,977
Intangible assets	7,122	6,243
Total	**11,288**	**13,220**

31.2 Purchase commitments for businesses

As at December 31, 2021 and 2020 the Group had no significant committed business combinations.

32 RELATED-PARTY TRANSACTIONS

Related-parties of the Group include legal entities and persons that are related to the Group.

A person or a close member of that person's family is related to the Group if that person:

- has control or joint control of the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions apply:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled or jointly controlled by a person related to the entity or such a person holds a key position in the reporting entity.
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The transactions with related parties are priced at arm's lengths basis, if the conditions are met.

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

32.1 Deutsche Telekom Group and the Federal Republic of Germany

32.1.1 Deutsche Telekom Group

Deutsche Telekom AG is the ultimate (indirect) controlling owner of Magyar Telekom Plc., holding 59.21% of 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) the subsidiary of DT AG is the treasury center of DT Group, which typically provides loan financing across the DT Group including Magyar Telekom as an intercompany partner.

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

	12.31.2020	12.31.2021
Revenue from services provided to DT Group companies	19,316	20,646
Costs of services provided by DT Group companies	(16,996)	(13,505)
Income from support services provided to DT Group companies	73	89
Interest expense to DTIF	(1,706)	(487)
Interest expense to DT AG	(1,438)	(455)
Dividend paid to parent company	(12,454)	(9,262)
Accounts receivable from DT Group companies	6,465	5,543
Accounts payable to DT Group companies	(11,032)	(12,089)
Loans payable to DTIF	(95,964)	-
Loans payable to DT AG	(89,456)	(128,258)
Fair value of swap agreements with DT AG – asset	20,696	16,715
Fair value of swap agreements with DT AG – liability	(13)	(20)

32.1.2 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 DT AG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DT AG, although it only has a minority shareholding, making DT AG a dependent 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 DT AG, and consequently of Magyar Telekom as well.

DT AG and Magyar Telekom did not execute, as part of its normal business activities, any transactions that were individually material in the 2021 or 2020 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

32.2 Board and Supervisory Board members

	2020	2021
Remuneration of the members of the Board of Directors	28	22
Remuneration of the members of the Supervisory Board	44	37
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	-	-

32.3 Key management

Key management has been identified as the members of the Company's Chief Officers. The Chief Executive Officer (CEO) and the other Chief Officers (Chief Officers) together fulfill the Chief Operating Decision Maker (CODM) function in the Group.

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.

	2020	2021
Salaries and other employee benefits	712	1,152
Contractual termination expense	150	-
Share-based compensation (Note 20.1)	24	20
	886	**1,172**
Of which costs expensed in relation to defined contribution plans (including social security contribution)	152	157

The Group does not provide loans to its key management.

33 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

33.1 Segment information

The Group's segments are reported in a manner consistent with the internal reporting provided to the CODM, the key management of Magyar Telekom Plc.

The CODM of Magyar Telekom Plc is responsible for allocating resources to, and assessing the performance of, the operating segments on a monthly basis. The Chief Officers assess the performance of the Company and make their decisions.

The accounting policies and measurement principles of the operating segments are very similar to those applied for the Group described in Note 2. 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' revenue includes revenue from external customers as well as the internal revenue generated from inter-segment support services.

The operating segments' results are monitored by the Company's management down to EBITDA AL (Earnings before interest, tax, depreciation and amortization but including the depreciation and interest of Right-of-Use assets) level.

The Company's management does not monitor the assets and liabilities at segment level.

Another important KPI monitored at segment level is capital expenditure (CAPEX) and CAPEX AL (after lease, excluding the Capex of Right-of-Use assets) which is determined as the annual investments in PPE and Intangible assets.

33.2 Reportable segments

Magyar Telekom's operating segments are: MT-Hungary and North Macedonia.

The MT-Hungary segment operates in Hungary, providing mobile and fixed line telecommunications, TV distribution, information communication and system integration services to millions of residential and business customers under the Telekom and T-Systems brands. Residential customers are served by the Telekom brand, while business customers (corporate and public sector customers) are served by the T-Systems brand. The MT-Hungary segment is also responsible for the wholesale of mobile and fixed line services within Hungary, and performs strategic and cross-divisional management, as well as support functions on behalf of the Group including Procurement, Treasury, Real Estate, Accounting, Tax, Legal and Internal Audit. This segment is also responsible for the Group's points of presence in Bulgaria and Romania, where it primarily provides wholesale services to local companies and operators.

The North Macedonia segment is responsible for the Group's full-scale mobile and fixed line telecommunications operations in North Macedonia.

33.2.1 Information regularly provided to the CODM

The following tables present the segment information by reportable segment regularly provided to the CODM, reconciled to the corresponding Group numbers. This includes several key indicators of profitability that are considered for the purposes of assessing performance and allocating resources. Management believes that Revenue, EBITDA, EBITDA AL and Capex, Capex AL are the most appropriate indicators for monitoring each segment's performance and are the most consistent with how the Group's results are reported in these financial statements.

Revenue	2020	2021
Total MT-Hungary revenue	609,292	634,471
Less: MT-Hungary revenue from other segments	(135)	(119)
MT-Hungary revenue from external customers	**609,157**	**634,352**
Total North Macedonia revenue	63,789	65,603
Less: North Macedonia revenue from other segments	(71)	(57)
North Macedonia revenue from external customers	**63,718**	**65,546**
Total consolidated revenue of the segments	**672,875**	**699,898**
Measurement differences / rounding between segment and Group revenue	173	222
Total revenue of the Group	**673,048**	**700,120**

MT-Hungary revenue	2020	2021
Voice	119,035	114,793
Non-voice	112,091	131,397
Equipment	86,930	94,452
Other	8,941	9,283
Total mobile revenue	**326,997**	**349,925**
Voice retail	34,488	32,062
Broadband - retail	54,858	57,666
TV	47,175	51,046
Equipment	22,042	19,232
Other	38,341	40,302
Total fixed-line revenue	**196,904**	**200,308**
SI/IT revenue	85,391	84,238
Total revenue of the MT-Hungary segment	**609,292**	**634,471**

North Macedonia revenue	2020	2021
Voice	16,223	16,681
Non-voice	10,439	11,815
Equipment	9,548	9,407
Other	1,383	1,562
Total mobile revenue	**37,593**	**39,465**
Voice retail	5,065	5,001
Broadband - retail	6,110	5,130
TV	5,180	5,457
Equipment	314	221
Other	5,452	7,699
Total fixed-line revenue	**22,121**	**23,508**
SI/IT revenue	4,075	2,630
Total revenue of the North Macedonia segment	**63,789**	**65,603**

As other sources of revenue represent an insignificant part of total revenue, we assumed regarding segment revenue that total revenue is revenue from contracts with customers.

Segment results (EBITDA)	2020	2021
MT-Hungary	200,260	213,034
North Macedonia	25,589	27,778
Total EBITDA of the segments	**225,849**	**240,812**
Measurement differences / rounding between segment and Group EBITDA	33	(41)
Total EBITDA of the Group	**225,882**	**240,771**
MT-Hungary	177,794	189,385
North Macedonia	24,798	26,919
Total EBITDA AL of the segments	**202,592**	**216,304**
Measurement differences / rounding between segment and Group EBITDA AL	33	(41)
Total EBITDA AL of the Group	**202,625**	**216,263**

Capital expenditure (Capex) on PPE, Intangible assets and Right-of-use assets	12.31.2020	12.31.2021
MT-Hungary	129,110	115,939
North Macedonia	13,076	16,281
Total capital expenditure of the segments	**142,186**	**132,220**
Acquisition of mobile licenses (Note 10)	92,375	84,152
Other measurement differences between segment and Group Capex	(126)	-
Total investments of the Group in PPE and Intangible assets	**234,435**	**216,372**

Capex AL	12.31.2020	12.31.2021
MT-Hungary	185,307	177,211
North Macedonia	12,324	16,221
Total Capex AL of the segments	**197,631**	**193,432**
Measurement differences to Capex AL of the Group	-	-
Total Capex AL of the Group	**197,631**	**193,432**

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 9, 10 and 28.

33.3 Information about geographical areas

The table below shows the revenue generated from external customers in the countries where the Group operates, using the same measurement principles as for the corresponding Group numbers. As other sources of revenue represents an insignificant part of total revenue, we assumed regarding geographical areas of revenue that total revenue is revenue from contracts with customers.

Revenue	2020	2021
Hungary	601,608	625,857
North Macedonia	63,718	65,546
Romania	4,563	5,240
Bulgaria	3,159	3,477
Total revenue of the Group	**673,048**	**700,120**

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	12.31.2020	12.31.2021
Hungary	952,996	1,019,921
North Macedonia	102,395	102,967
Bulgaria	3,967	3,759
Romania	2,948	2,861
Total excluding Other non-current financial assets, Investments in associates and joint ventures and Deferred tax assets	**1,062,306**	**1,129,508**
Other non-current financial assets (Note 4.2.3.3)	29,180	39,136
Investments in associates and joint ventures (Note 11)	-	-
Deferred tax assets (Note 6.3.2)	118	125
Total Non-current assets of the Group	**1,091,604**	**1,168,769**

34 REGULATED MARKETS AND PROCEDURES

Magyar Telekom's primary activities are the fixed-line and mobile operations in Hungary. These services are regulated by European and Hungarian legislation.

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

The regulation of the Hungarian telecommunications markets is primarily based on Act C of 2003 on Electronic Communications (Eht.) and the decrees issued by the President of the National Media and Communications Authority (NRA). The NRA is an independent regulatory body which, in addition to its law enforcement activities, also legislates on the basis of legal authority.

Hungary implemented Directive 1972/2018 / EU (EECC) partially by December 21, 2020 (with Section 16 of the Electronic Communications Act being applicable June 30, 2021). The EECC regulates fix and mobile call termination rates in the whole EU/EEA by a Delegated Act, but the legal framework for formerly regulated markets remains largely unaffected by the EECC.

34.1 Access regulation

Regulated markets are governed by EU Commission's recommendations. Paralel to the EECC, the Commission produced a new recommendation replacing Recommendation 2014/710 / EU: 2020/2245/EU. The new recommendation only covers two markets:

- Wholesale access for mass-market products
- Wholesale high-quality access at a fixed location

National NRA's, nonetheless, have the power to diverge from this recommendation. The former Hungarian regulation designates 4 regulated markets, Magyar Telekom is currently designated as an SMP operator (a service provider with significant market power) on all of these.

M1: With regards the fix networks' regulated interconnection (M1) the NRA published its fifth-round market analysis procedure's resolution on May 15, 2018. The resolution's FTR (fix termination rate) proposal - that is based on a pure BU-LRIC model - is 0.26 HUF/min. The new fee had to be applied symmetrically with an effect from end of the second quarter of 2018 altogether for 144 operators. Previous regulation of fix origination, also carrier selection and call-by-call obligation was terminated with this last resolution.

The latest MARIO and supplementary interconnection service fees came into force on January 1, 2020.

M2: The Company is designated as an SMP operator (a service provider with significant market power) in the mobile wholesale call termination market (new M2, old M7 market) and subject to regulatory obligations regarding the termination charge of calls into its network, mobile termination rate (MTR). The last mobile market resolution was published in two folds: one resolution only contains the SMP designation, with the obligations, such as the n MTR of 1.71 HUF/min net cost-based fee remaining untouched, while with regards to obligations, the NRA delivered a separate resolution.

M3: 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. Previous regulation defined a retail minus price setting.

The NRA published the latest *resolutions* with regards to markets 3a (M3a) and 3b (M3b) on December 15, 2017. 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 NRA. The latest market resolution introduced the geographical segmentation, thus relieving the company of obligations in certain competing settlements. Magyar Telekom was designated as an SMP in both 3a and 3b markets. Service fee calculation for all relevant regulated services – both markets 3a (resolution PC/17915-66/2017.) and 3b (resolution PC/17920-66/2017.) - are with a BU-LRIC+ model. New fees had to be applied as of January 1, 2019.

As a novelty the geographically segmented regulation was implemented with the last resolution. As a result, in those settlements where competition bases, Magyar Telekom's SMP was withdrawn. In the M3a resolution a new service obligation has been introduced, the L2-WAP (Layer 2 Wholesale Access Service) obligation. The NRA has published the latest reference unbundling offer – containing the L2WAP service – through its resolution PC/16593-31/2018. on November 6, 2019. The revised reference offer entered into force on December 1, 2019. The L2-WAP service is to be offered sixth months after the entry into force of the revised reference offer, i.e. June 1, 2020.

M4: In the high-quality broadband market (M4) the NRA published its resolution (PC/12186-44/2018.) on February 27, 2019. Magyar Telekom has been designated as the SMP for the "Ethernet leased line termination segment service". According to the resolution Magyar Telekom is subject to SMP obligations throughout Hungary, providing high-quality access at a regulated cost-based price.

34.2 Spectrum procedures

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

On December 7, 2004, the Company obtained the spectrum usage right of certain frequency blocks in the 2100 MHz band for the deployment and operation of an IMT2000/UMTS mobile telecommunications system (3G system). The duration of the spectrum license was 15 years (until December 7, 2019) that was extended for another 7.5 years in December 2018 for a one-time fee of HUF 11 billion.

The Company won a tender for a spectrum usage right for a 26 GHz block on April 30, 2009. On May 14, 2012 the NRA granted spectrum license to Magyar Telekom for four pieces of basic spectrum blocks (4 x 2 x 28 MHz each) in the 26 GHz band. Furthermore, Telekom acquired GTS Hungary Ltd's two blocks in the 26 GHz band for HUF 114.6 million net, and has a usage right for it from November 1, 2016. Blocks purchased in 2009 were extended in 2018.

The Company filed an auction bid in December 2011 with the NRA 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 NRA announced its first-instance decision on the result of the 900 MHz auction (Auction) on January 30, 2012. Magyar Telekom won the right of use of two duplex frequency blocks of 1 MHz each for a period of 15 years.

On September 6, 2013 Magyar Telekom and the NRA 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:

On May 22, 2014, the NRA published the "Documentation for the tender announced in the subject of spectrum licenses 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 NRA published the tender results so that Magyar Telekom acquired the following frequencies for an aggregate amount of HUF 58,650 million:

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

On October 15, 2014 Magyar Telekom and the NRA signed the Authority Contract on the use of the 800 MHz, 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 extended another five years if all requirements defined in the contract are met.

On July 18, 2019, the NRA published the "Documentation for the auction announced in the subject of spectrum licenses for 5G services". Blocks in the 700 MHz / 2100 MHz / 2600 MHz and 3600 MHz frequency bands were auctioned.

On March 26, 2020 the NRA published the bidding results of the auction so that Magyar Telekom acquired the following frequencies for HUF 54,240 million:

- 2 x 10 MHz in 700 MHz
- 2 x 10 MHz in 2100 MHz
- 1 x 120 MHz in 3600 MHz.

As a result of the auction Magyar Telekom acquired frequency usage rights in the above-listed spectrums till April 3, 2034. The usage rights can be extended another five years if all requirements defined in the documentation are met.

On October 16, 2020, the NRA published the "Documentation for the auction announced in the subject of spectrum licenses for 900 MHz and 1800 MHz bands". Usage rights is valid for 15 years starting from April 2022 and might be extended another five years if all requirements defined in the documentation are met. Magyar Telekom submitted its participation request on November 10, 2020. Six lots of 2x5 MHz blocks were sold in the 900 MHz band, and 12 lots of 2x5 MHz blocks were sold in the 1800 MHz band.

Magyar Telekom acquired 2x8 MHz in the 900 MHz spectrum band while 2x20 MHz in the 1800 MHz spectrum band.

34.3. Universal services

Universal services are basic communications services (including access to communication services at a fixed location, public payphones, directory and directory enquiry services) that should be available to all customers at an affordable price. The NRA published its request for voluntary universal service provisioning on January 19, 2018. MT did not bid on any parts of the universal services, so the NRA designated MT to offer the following universal services from January 1, 2019: public payphones, access on fixed location and for national directory enquiry service. As a result of the procedure MT lost two primary areas to serve (Szekszárd – nr74 and Paks – nr75) and received a new one (Szeged - nr62).

The EECC brings a new framework in universal services as well – MT will likely be able to let go of some of the obscure obligations of the past, while Hungary will have to ensure affordable and available internet access to consumers. This obligation is still to be investigated by the NRA.

34.4. End-user rights

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

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

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

The actual EU roaming regulation - "Full Roam Like At Home With Fair Use Policy Possibility" - is applied from June 15, 2017. (EU Roaming Regulation IV.). As a result, European retail roaming price levels for voice, SMS and data are equal to domestic prices since summer 2017. The Commission implementing regulation (EU) 2016/2286 of December 15, 2016 laid down detailed rules on the application of fair use policy and on the methodology for assessing the sustainability of the abolition of retail roaming surcharges and on the application to be submitted by a roaming provider for the purposes of that assessment.

In addition, the Company has implemented, by the required deadline of May 15, 2019, Regulation (EC) No 2018/1971 of the European Parliament and of the Council supported by BEREC and BEREC Office, and according to the modified Regulation (EU) 2015/2120, taking into account the withdrawal decision of regulation 1211/2009/EC regulation, the reduction of charges for international calls and SMSs to member states of the European Union.

The EECC affected all customer relations of MT – we prepared for compliance with serious IT-developments as well as changes in our processes.

34.5 Macedonian Mobile

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

On September 5, 2008, Agency for Electronic Communications (NRA), ex officio, issued a notification to T-Mobile for those public electronic communication networks and/or services which has been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile in the GSM 900, bad was issued also in a form regulated in the ECL with a validity period until September 5, 2018, which was renewed in 2018 for additional 10 years until 2028. Due to the changes in the bylaws, the 900 MHz band is opened for UMTS technology and based on MKT's request the radiofrequency license is changed so that these frequencies are now technology neutral.

Decision for granting 2x15 MHz license on 2100 MHz was announced in 2008. The validity of the license was 10 years i.e. until December 17, 2018. The license was renewed in 2018 for 10 years, until 2028 in accordance with the ECL.

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 Long Term Evolution (LTE) technology in a public tender. Each of the 3 North Macedonian mobile operators, at that time, obtained an LTE radiofrequency license of 1x10 MHz in the 800 MHz band and

2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million (approximately HUF 3.2 billion). The license is for 20 years, until December 1, 2033, with an extension option for additional 20 years, in accordance with the ECL.

After the merger of One and VIP, A1 Macedonia (former one.VIP) submitted a request on November 18, 2016 to NRA for change of the licenses for using radio frequencies in land mobile service with record numbers 108269/1, 108271/1, 104068, 104069, 104711, 108269/2 and 108267/2. NRA brought resolution not to approve the reshuffling request of One.VIP.

In tender procedure, new license in 2100 MHz (2x15 MHz) was issued to MKT. New license in 2100 MHz (2x10 MHz) was issued also to A1 Macedonia. License validity is until end of 2028.

On December 19, 2014, amendments of the ECL were enacted. Many significant changes were made to the ECL, with the Balkan Roaming Regulation being one of the most important changes made in line with EU Roaming III regulation. The glide path for roaming prices reduction finished on July 1, 2017. In 2019, regulatory bodies of the West Balkan countries (WB6) (North Macedonia, Montenegro, Serbia, Bosnia, Albania, Kosovo) introduce roaming regulation, starting with RLAH+ surcharge model from July 1,.2019 until June 30, 2021. From July 1, 2021 RLAH – (Roam Like At Home) model regulation shall be in place. With this regulation, the international termination rates between the WB6 countries were also decreased.

Both mobile operators on the market, Makedonski Telekom and A1 Macedonia are designated as operators with SMP status on the relevant wholesale market "Access and call origination on public mobile networks". NRA imposed same regulatory remedies for both operators:

- mobile access obligation for all MVNO hybrid types (including Reseller),
- cost based price for Full MVNO,
- retail minus (-35%) for the Reseller,
- obligation for access to MMS services and mobile data based on technology neutrality.

An MVNO, Lyca Mobile hosted on A1 network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions. Also, from October 2020, new MVNO (Green Mobile) started operating, hosted on A1 network.

The cable operator Telekabel which on the market is already present by offering fixed services (voice, broadband and TV), in January 2019 started operating as an MVNO hosted on Makedonski Telekom mobile network under regulated wholesale conditions.

Both operators, Makedonski Telekom and A1 Macedonia are designated as operators with SMP status on the relevant wholesale market "Wholesale call termination on public mobile networks". The current termination rates are symmetrical for Makedonski Telekom and A1 Macedonia, but Lyca Mobile has high asymmetry starting from May 2018. With the new analysis of the relevant market in 2020 symmetry was implemented also for Lyca Mobile from July 1, 2020.

The license duration of two licenses previously owned by VIP was until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band expired on March 23, 2017, positioned in the lower parts of the bands. At the request from A1 Macedonia (former one.VIP) for license prolongation, the NRA adopted resolution No. 0804-974 from November 2, 2016 not to prolong these two licenses. At the moment these radiofrequencies are not allocated and these are not available for sale, they are saved for a third entrant.

On May 26, 2017 A1 Macedonia submitted a request to the NRA for change of the license for using radio frequencies in land mobile service with registered number 108267/2, whereby the following radiofrequency block was allocated: 1770-1785/1865-1880 MHz. On October 9, 2017, the NRA issued resolution for refusal of A1 Macedonia's request for reshuffling on 1800 MHz.

Based on the appeal submitted by A1 Macedonia, in September 2019 the reshuffling request on 1800 MHz was finally approved by the NRA, due to a court decision in favor of A1 Macedonia. In the 1800 MHz range A1 Macedonia will get huge continuous block of 35 MHz effective October 15, 2019. Based on MKT request, NRA prolonged the licenses on 900 (2x12.5 MHz), 1800 (2x10 MHz) and 2100 (2x15 MHz) for additional 10 years validity (until 2028-2029) without onetime fee.

In April 2019, Ministry of Information Society and Administration issued National Broadband Strategy which sets the following targets:

- By the end of 2023 at least one major city should be covered with 5G signal;
- By the end of 2025 the regional highways and state highways set NRA should be covered by a continuous 5G signal;
- By the end of 2027 all urban areas will be covered by a continuous 5G signal;
- By the end of 2029 everyone will have access to 5G internet with a minimum internet speed of at least 100 Mbps;
- By the end of 2029, at least 50% of the total number of subscriber contracts of households across the country should have internet access of at least 100 Mbps;
- By the end of 2029 all households in the Republic of North Macedonia will have affordable access to a network that provides download speeds of at least 100 Mbps with the possibility of upgrading to gigabit speed;
- By the end of 2029, all public institutions (schools, universities, research centers and other educational institutions, health institutions, ministries, courts, local governments and other public authorities and bodies,) should have symmetric access to the Internet of at least 1Gb/s;

Based on public debate at the beginning of 2021 NRA adopted changes in the Rulebook on Radiofrequencies fees:

- Decrease of RF fees from 3.x GHz for 50% (from 4,000 EUR/MHz to 2,000 EUR/MHz)
- Decrease of RF fees for 700 MHz for 50% (from 11,480 EUR/MHz to 5,740 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) for 50% (from 4,000 EUR/250 MHz to 2,000 EUR/250 MHz)

5G public tender is expected to be published By NRA in March 2022 for the following radiofrequency bands 700 MHz, 3.x GHz. Ending of the procedure could be expected in second or third quarter of 2022.

34.6 Macedonian Fixed line

Makedonski Telekom has SMP obligations in several regulated markets for fixed services.

At the beginning of 2015, the regulation for access to fiber was implemented, with Local Bitstream Access over NGA on level 3 and 4 and VULA (Virtual Unbundled Local Access) regulation on level 2. The introduction of new technologies (VDSL Vectoring technology in 2017) announced by MKT for the retail customers led to the introduction of new wholesale access products and reshaping of the regulatory obligations.

The final document for the wholesale central access for mass-market products provided at a fixed location market analyses (Market 6) was published in April 2017. For the first time NRA imposed a regulation on the access to Hybrid Fiber Coaxial Access (HFC). All existing obligations for the copper and fiber network remain unchanged. All obligations apply to the MKT and to the A1 Macedonia operator as SMP on the broadband market.

The amendments from September 2016 with a new obligation to register the new and existing electronic networks (ATLAS), refer to the joint building and use of networks and a new obligation for NRA to publish the received reports on the optic backbone segment measurements by all operators.

NRA published tender for USO provider in October 2021, for the period 2022 to 2026, and one of the main criteria is the required amount for a refund.

According to the results from the tender, Makedonski Telekom is designated for universal service provider until 2026 for Fixed access and access for disabled users (voice and internet of minimum 12Mbit/s download)

A1 Macedonia was designated for Public payphones.

R3 Infomedia signed contract with the NRA for the Telephone Directory and Directory Inquiry universal services.

Following the market trends and the EU regulation, the NRA made decisions for deregulation on several markets: trunk segment of leased lines and avoiding regulation of the Ethernet leased line services; minimal set of leased lines (retail); WLR (Wholesale Line Rental) market; traditional retail fixed voice services (access and traffic). MKT has a cost-based price obligation for the regulated wholesale services, using Long Run Incremental Costs methodology (LRIC).

In the middle of 2019 NRA implemented ERT testing (margin squeeze methodology) to NGA based broadband wholesale services supplied by the two dominant operators (MKT and A1Macedonia – former One.Vip). The developed ERT model will test the economic replicability of the retail bundles including broadband services with access speed higher than 30 Mb/s.

35 EVENTS AFTER THE REPORTING PERIOD

35.1 Sale of Pan-Inform

T-Systems Magyarország Zrt. signed a sales purchase agreement on the sale of its subsidiary Pan-Inform Kft., the scope of the agreement covers the support and development operations provided for central healthcare services in Hungary and the related hospital information system. The closing of the transaction and the settlement of the HUF 5.5 billion selling price took place at the end of January 2022. Please see Note 8.2.

Budapest, February 23, 2022

Tibor Rékasi	Daria Aleksandrovna Dodonova
Chief Executive Officer, Board member	Chief Financial Officer, Board member

CONSOLIDATED BUSINESS REPORT

MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2021

INTRODUCTION

The Company's activities are described in Note 34 of the Consolidated Financial Statements, while the business report provides additional information on the following topics:

- SUMMARY ON 2021 OPERATIONS
- THE COMPANY'S SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES
- CORPORATE GOVERNANCE
- SOCIAL COMMITMENTS, LABOR STANDARDS, HUMAN RIGHTS
- COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD, AND MANAGEMENT
- RESEARCH AND DEVELOPMENT
- REAL ESTATE, SITES OF OPERATION
- SUSTAINABILITY
- ENVIRONMENT PROTECTION
- CORPORATE COMPLIANCE
- ECONOMIC ENVIRONMENT, OUTLOOK AND TARGETS
- INTERNAL CONTROLS, RISKS AND UNCERTAINTIES
- ANALYSIS OF FINANCIAL RESULTS FOR 2021
- EVENTS AFTER THE REPORTING PERIOD

SUMMARY ON 2021 OPERATIONS

Financials

Magyar Telekom delivered revenue and EBITDA AL results overperforming the targets communicated for 2021 thanks to the improving operating environment coupled with the successful monetization of our quality networks and appealing service offerings. Group revenue rose by 4.0% year-on-year to HUF 700.1 billion and EBITDA AL reached HUF 216.3 billion representing a 6.7% increase year-on-year.

We recorded a 4.1% rise in our investments in 2021, CAPEX after lease excluding spectrum licenses grew to HUF 109.3 billion, reflecting the further acceleration in network related investments to meet customer demand. As a result of that and some unfavorable changes in working capital development, cash flow excluding spectrum licenses amounted to HUF 56.2 billion in 2021.

Network

In 2021, we continued our flagship investments in Hungary which aim to provide our customers with an outstanding network that they require and appreciate, whether they are at home or on the move.

Thanks to our fiber rollout program and the highest ever annual expansion of over 440 thousand further gigabit capable access points, we were able to provide gigabit speed at more than 3 million access points in Hungary by the end of the year. This translates to over two-thirds of our fixed infrastructure, with over 1 million customers choosing to connect via gigabit technology to our fixed network.

We also proceeded with the comprehensive 3-year mobile radio network modernization project, allowing us to meet the surging mobile data demand as well as to steadily expand 5G coverage, reaching over 10% based on the Hungarian population by the end of 2021.

Magyar Telekom also secured critical spectrum on the 900 and 1800 MHz frequency bands in 2021, a significant milestone which will allow our customers to continue to enjoy superior mobile services and innovative solutions going forward.

Customers

Our efforts to provide outstanding infrastructure are reflected in the continued positive momentum in our customer base: fixed broadband subscriber base expanded by 7% and by now one out of four broadband customers is subscribed to a Gigabit speed. On the mobile side, we recorded the highest data traffic ever, whilst the average monthly mobile data usage per customer rose by over 30% year-on-year, supporting value creation.

Furthermore, the excellent service and tailor-made solutions to our customers, were reflected in the continued increase in customer satisfaction, reflected also in the improvement of Magyar Telekom's TRIM index scores measured among residential and SOHO customers.

Resilience

We also progressed with the implementation of internal efficiency measures, which have in combination with our digitization agenda positioned us well to generate higher profitability and reinforce our resilience to external challenges that may result from our rapidly changing environment.

We received further recognition of these efforts and progress by Scope Rating, which has affirmed our BBB+ issuer credit rating with a stable outlook, and specifically emphasized the Company's strong market position and resilient operational structure.

The results of Magyar Telekom's latest sustainability cycle spanning the 2016-2020 period were presented, detailing our strategy with respect to digital sustainability, climate protection, equal opportunity and diversity. In addition, Magyar Telekom's position as a constituent of the FTSE4Good Index Series was confirmed following an index review, receiving a 99 percentile rank in the telecommunications investment universe.

EGYÜTT. VELED

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

As of December 31, 2021, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" dematerialized 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 Section 4 of the Articles of Association (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents).

Information concerning our ownership structure as of December 31, 2021 is described in the following table:

Shareholder	Number of shares	Percentage of share capital
Deutsche Telekom Europe B.V.	617,436,759	59.21
Publicly traded	379,528,245	36.40
Treasury shares	45,777,539	4.39
	1,042,742,543	**100.00**

Deutsche Telekom Europe B.V. owning 61.93% of the Company's voting rights is a member of the Deutsche Telekom Group. The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DT AG).

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

1.1 Voting Rights and Voting

The holder of each Series "A" ordinary share shall be entitled to one vote at the General Meeting of the Company. The names of shareholders and nominees who intend to participate at the General Meeting shall be registered in the Share Register on the second working day prior to the starting date of the General Meeting. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Association, 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 shares, 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 shares 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 registered seat, 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 Board of Directors operates based on its Rules of Procedure (https://www.telekom.hu/about_us/investor_relations/corporate_governance/board_of_directors).

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 laws. The Board of Directors draws up, at the end of each business year, a report for the General Meeting and quarterly to the Supervisory Board on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.

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 Board of Directors[1] with its Resolution No. 2/5 (04.16.2021) adopted an authorization to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of the resolution. The relevant resolution is available on the General Meetings section of the Company's website.

Pursuant to the Articles of Association, the Board of Directors consists of a minimum of five 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, 2021, there were eight members of the Board of Directors.

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

On December 31, 2021, 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
Dr. Robert Hauber........................	1971	Senior Vice President Finance & Performance Management Europe, DT AG, Chairperson of the Board of Directors of Magyar Telekom Plc.	2017
Daria Aleksandrovna Dodonova	1976	Chief Financial Officer of Magyar Telekom Plc.	2020
Gábor Fekete................................	1950	Consultant	2020
Ralf Nejedl....................................	1970	Senior Vice President B2B Europe, Deutsche Telekom AG	2016
Frank Odzuck	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Péter Ratatics	1982	Chief Operating Officer of MOL	2019
Tibor Rékasi.................................	1973	Chief Executive Officer of Magyar Telekom Plc.	2018
Éva Somorjai-Tamássy...............	1966	Senior Vice President Special Transformation Projects Europe, Deutsche Telekom AG	2019

The members' assignment lasts until May 31, 2022.

[1] Based on Government Decree no. 502/2020. (XI. 16.) the Board of Directors of the Company decided in the matters set on the published agenda of the Annual General Meeting.

2.3 Management

As part of the corporate governance simplification initiative, the Board of Directors of Magyar Telekom resolved to cease the activity of the Management Committee established in 2000 as a formal corporate decision-making body with effect from January 1, 2020. The tasks and responsibilities of the Management Committee have been re-allocated to the Chief Officers and to the Board of Directors of the Company. As a result of this change, the Management Committee transformed into an agile „Leadership Squad".

On December 31, 2021, the members of the Management and the years of their original election were as follows:

Name	Born	Current position	Member since
Tibor Rékasi	1973	Chief Executive Officer of Magyar Telekom Plc.	2013
Daria Aleksandrovna Dodonova	1976	Chief Financial Officer	2020
Melinda Szabó....................................	1971	Chief Commercial Officer	2018
Zsuzsanna Friedl	1977	Chief People Officer	2017
Gábor Gonda	1976	Chief Commercial Officer Enterprise, Chief Executive Officer of T-Systems Hungary Ltd.	2020
Lubor Zatko...	1974	Chief Technology and IT Officer	2019

2.4 Supervisory Board

The Supervisory Board carries out its activities based on its Rules of Procedure (https://www.telekom.hu/about_us/investor_relations/corporate_governance/supervisory_board).

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 five members (three independent members and two employee representatives) elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. The employee representatives in the Supervisory Board shall be nominated by the Central Workers' Council. Meetings of the Supervisory Board have a quorum if two-thirds of the elected members but at least three members are present.

On December 31, 2021, 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
Prof. Dr. Attila Borbély...............	1951	Professor Emeritus of University of Debrecen, Faculty of Economics and Business, Chairperson of the Supervisory Board of Magyar Telekom Plc.	2020
Krisztina Dorogházi.....................	1972	Senior Vice President Chief Accounting Officer and Controller, TechnipFMC	2020
Tamás Lichnovszky.....................	1962	Expert, People Unit, Magyar Telekom Plc.	2010
András Szakonyi..........................	1973	Senior Vice President - Europe, Middle East and Africa, Iron Mountain	2020
Zsoltné Varga	1969	Chairwoman of the Central Functions Workers Council, Magyar Telekom Plc.	2008

The members' assignment lasts until May 31, 2022.

2.5 Audit Committee

The Audit Committee operates based on its Rules of Procedure (https://www.telekom.hu/about_us/investor_relations/corporate_governance/audit_committee).

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, 2021, the members of the Audit Committee were as follows:

- Prof. Dr. Attila Borbély
- Krisztina Dorogházi
- András Szakonyi

2.6 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is established by the Board of Directors of the Company to support the Board of Directors of the Company regarding the remuneration and certain nomination related issues of the members of the corporate bodies and the top executives of the Company in accordance with its Rules of Procedure (https://www.telekom.hu/about_us/investor_relations/corporate_governance/compensation).

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 Executive Officer and the Chief Officers, and defines the remuneration of the Chief Executive Officer and the Chief Officers of the Company.

The Remuneration and Nomination Committee consists of three members. The members are elected by the Board of Directors from among its members. The Remuneration and Nomination Committee holds at least two meetings each year.

On December 31, 2021, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Robert Hauber
- Ralf Nejedl
- 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, 2012, 2018 and in 2021. The Recommendations effective from time to time is available at the website of the Budapest Stock Exchange:

https://bse.hu/Issuers/corporate-governance-recommendations/Corporate-Governance-Recommendations

In line with the current regulations, the Board of Directors of Magyar Telekom approved the Corporate Governance and Management Report of the Company (report) 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 in the Corporate Governance section of the website of the Company:

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

Companies listed on the stock exchange are required to express their views on their corporate governance practices in two ways. In the first part of the report they have to give account of the corporate governance practices applied by their company in the given business year, including their corporate governance policy, and a description of any unusual circumstances. In the second part of the report, the issuers should give an account on their compliance with each point of the Recommendations in accordance with the "comply or explain" principle, including any reasons for derogating from a specific recommendation and/or proposal. When an issuer does not apply a recommendation or applies it in a different way, they should explain where the differences are and offer a reason for such derogation ('comply or explain' principle). This method allows issuers to consider their unique, industry-specific etc. idiosyncrasies and to inform shareholders and market players about their derogations from general corporate governance principles and to provide an explanation. Operating on the same principle, issuers can also explain any derogations from the proposals.

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 the disclosure policies and insider trading guidelines. In Sections 9 to 10 the method of exercising shareholders' right and the rules on conducting the General Meeting is summarized, while Section 11 contains the Remuneration Policy. The Company complies with the vast majority of the 72 recommendations and proposals, however in the business year of 2021 in case of 1 proposal it has not or not completely complied with due to the organizational structure or processes of the Company.

In 2021, the Magyar Telekom's disclosure processes were evaluated in the ICS (Internal Control System) by the relevant organizational units and were tested by the internal audit area. The disclosure controls and procedures of Magyar Telekom 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 SOCIAL COMMITMENTS, LABOR STANDARDS, HUMAN RIGHTS

Some of the key challenges of the sustainability strategy come from the area of human resources management. That is why human resources management has a crucial part in the achievement of our sustainability targets. Our vision is to operate in a corporate environment that is livable, likeable and successful. This set of values strengthens the commitment and satisfaction of our employees and is also attractive on the job market.

3.1 People focus

The business strategy of Magyar Telekom is centered around the realization of a digital business model that is based on utilizing new technologies in service of consumer relationship management in order to build trust and drive value creation. To achieve this goal, the human resources organization has been transformed to an even more efficient, agile, customer-focused People Unit in support of the corporate business strategy. In 2021 we added the following targets to our existing strategic priorities: rapid and safe management of the challenges posed by the pandemic, protection of the health of our employees and customers, and adjusting to the changes in the way we work and our working environment. Magyar Telekom adapted its measures to the pandemic situation i.e. ordering general home office for every position that allows working remotely, offered PCR testing, reduction of working hours on vaccination days, providing safety masks and regular disinfection on all company sites and stores.

Key objectives and key results of people services in 2021:

Enhance digital employee experience

We continued to further develop and simplify our employee mobile application (MagentApp) introducing a new backend platform and making login authentication easier. As a result, the number of regular users increased. delivering further IT system and process developments on a quarterly basis resulted in additional improvement of employee and manager related UX/process/device experience. Along this process a new ATC (Applicant Tracking System) got introduced and our employee self-service platform Reflex got upgraded and renewed. Next to these developments we have introduced further IT tools that supports people managers in total workforce management planning and modelling.

Healthy and Happy

The company group considers the health and wellbeing of its employees paramount to sustainable and successful operations. There has been an increased effort in monitoring and safeguarding the health of employees throughout the pandemic. We have introduced all necessary measures to minimize the risk of infection and further our related initiatives, actions and available services relying on employee feedback we receive through the quarterly wellbeing pulse survey.

The pandemic has changed the way we work in the office and from home. As a result, the company has continued to draw on conclusions and prepare for a resilient way of work by rolling out a methodology for a hybrid way of work in all roles that allow such flexibility. In these cases, employees can independently design and decide on the proportion and frequency of their office and home-based work.

Energized workforce is key to business success. We rely on ourselves and each other to maintain our physical, mental and emotional wellbeing and we cooperate as partners. Thus, the company invests in communicating regularly and openly about the importance of maintaining a healthy life balance, and a sustainable and healthy way of life. Employees could attend free health screenings of their choice and company offered regular health and wellbeing expert webinars. We also continue to offer employee health and life insurance and have introduced an Employee Assistance Program (EAP) offering 3 hours of free counseling per individual life crisis or pressing issue from legal and financial, to family management or health related issues.

Learning is cool, growing is value

In accordance with employee feedback Telekom witnessed and expansion in the growing and development portfolio offered to employees in 2021. As an employer Telekom grants dedicated L&D time for employees who are being supported by a rich variety of development courses through a single digital gateway platform. Nearly all development courses are being conducted online, considering efficient outreach and engagement opportunities in times of pandemic. The development opportunities are being designed to meet the criteria detected and suggested along the employee competence development evaluation feedback sessions. We continue to offer a renewed portfolio of online learning materials, our coachbank and mentoring, online best practice sharing sessions all of which are also available for parental leavers throughout their leaves.

+1 Tackling issues caused by COVID-19 pandemic

Continuing with its purpose in 2021 the Magenta Alliance Foundation supports employees facing financial insecurities due to the pandemic crisis. The Foundation is open for applications and accepts donations from all Magyar Telekom and T-Systems employees. By the end of 2021, more than HUF 18 million in donations had been granted to more than 200 employees and their families.

In addition to the above, the following people management perspectives continued to be emphasized in 2021:

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 put greater emphasis on using social media solutions in building the brand.

Recruitment-selection – We use segment-based online recruitment channels and means to select the best candidate for the specific positions. During the selection process, we seek the inclusive attitude and personal traits defined as requirements for future Telekom employees.

Remuneration – We have 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.

3.1.1 Headcount

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

	2020	2021
Magyar Telekom Plc.	5,149	4,947
Magyar Telekom Plc. and its consolidated subsidiaries	7,132	6,786

	2020	2021
MT-Hungary /Telekom Hungary	6,187	5,898
North Macedonia	945	888
Total	**7,132**	**6,786**

The operating segments of the Group are MT-Hungary and North-Macedonia. For further details see Note 33 of the Consolidated financial statements.

3.2 Policies

3.2.1 Policies and agreements

Code of Conduct

Microsoft Word - 426-M1_eng_7_0.doc_új (telekom.hu)

The Code of Conduct provides the framework of orientation for all employees of Deutsche Telekom Group and Magyar Telekom Group. Additionally, it applies to people to who are viewed as equivalent to employees in functional terms, e. g. to temporary agency employees. It combines the joint requirement of compliance with legal obligations and acting with integrity and thus ensures that Deutsche Telekom and Magyar Telekom remain transparent and traceable enterprises for everybody. Deutsche Telekom and Magyar Telekom expect their suppliers and consultants to comply with the rules of behavior manifested in this Code of Conduct and to endeavor them to ensure that they are also obliged to abide to its regulation by contract.

Code of Human Rights and Social Principles

https://www.telekom.hu/static-tr/sw/file/code-of-human-rights-social-principles-eng.pdf

The Code of Human Rights and Social Principles as well as the company groups Equal Opportunities Plan in force defines the groups general human rights principles and the provisions for the implementation of these principles. Decision makers of Magyar Telekom Group are aware that employee diversity is the prerequisite of sustainable and equitable operations enhancing business efficiency and contributing to competitive advantage.

Group Diversity, Equity and Inclusion Policy

CSOPORT POLITIKA A SOKSZÍNŰSÉGRŐL, AZ ESÉLYEGYENLŐSÉGRŐL ÉS A BEFOGADÁSRÓL (telekom.hu)

As part of the Deutsche Telekom Group, Magyar Telekom Group has renewed its Diversity, Equity and Inclusion (DE&I) Policy in December 2021. The renewed policy defines our global understanding of what characterizes the approach to diversity, equity and inclusion in our interactions with employees. It aims to ensure a consistent work experience, learning and development for every member of the company group, strengthening the sense of belonging and involvement. The framework of the renewed policy details and clarifies our understanding of DE&I through a set of key elements and covers aspects of the work-life cycle that are relevant to the company culture. It addresses social and business responsibility in providing an equitable and inclusive workplace locally within its global framework but respecting local legislation of diverse cultures and local needs.

Group Policy on Employee Relations

Telekom_Group_policy_on_employee_relations.pdf

The opening up of markets, digitalization and globalization have led to an increasingly knowledge-based working world. New forms of networking are changing communication, public impact, reputation and compliance challenges and other key elements of company management. Thus, we realized a need to renew our definition of how we understand the shared characteristics of our employee relations to ensure consistent working experience for every employee. As part of the Deutsche Telekom Group, Magyar Telekom Group has renewed its Group Policy on Employee Relations in December 2021. It specifies the key elements of our people policy and describes what we stand for in our relationships with employees, that are characterized by our shared values and derive from a set of values as well as from other group policies. The policy covers all aspects of work life that are relevant to industrial relations and informed by sustainability as a key driver.

Suppliers' Compliance: Magyar Telekom Group is committed to respect and protect human rights and it expects its suppliers to comply with these rules of behavior. Prior to becoming authorized suppliers of Magyar Telekom and T-Systems our suppliers must register their enterprises at our vendors' registration site.

https://beszerzes.telekom.hu/beszerzes/portal_en?appid=beszerzes&page=english/registration_vendor.vm

As an obligatory part of the registration process vendors are obliged to understand and accept our Suppliers Code of Conduct that among other policies, entails our Code of Conduct, Social Charter and Diversity Policy. Our suppliers must understand and accept these policies and obligatory frameworks for their behaviors as well.

Equal Opportunities Plan

Telekom_Equal_opportunities_plan.pdf

Anti-discrimination and the safeguarding of equal opportunities is a key priority to Magyar Telekom Group. According to the act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities, and the corporate protocol in place since 2010 Magyar Telekom Group has accepted its 5th Equal Opportunities Plan in order to secure the practices of equal treatment, the advancement of equal opportunities and the monitoring an improvement of the labor positions of particular disadvantaged employee groups. The Equal Opportunities plan currently in force is valid between 2021 and 2025 and has been developed in close cooperation with the employee representative bodies.

The Diversity Charter of the European Union – Hungary has joined the Diversity Charter of the European Union in 2016 and, among 50 signatory companies Magyar Telekom has also underscored its dedication to safeguard diversity as a fundamental value. Magyar Telekom has been among the signatory companies in in the forthcoming years as well as in 2021.

UN Guiding Principles on Business and Human Rights – According to the dedication of Magyar Telekom Group to safeguard and protect human rights along its operations as stated in the UN Guiding Principles of Business and Human Rights, the company considers the rights and guidelines stated in the Universal Declaration of Human Rights and in the ILO's Declaration on Fundamental Principles and Rights at Work to be mandatory in its own practices.

UN Human Rights Treaties ratified by Hungary – Magyar Telekom Group as a corporation legally registered in Hungary is carrying out its entire operations and business practices in full accordance with the nationally ratified UN Human Rights Treaties.

http://tbinternet.ohchr.org/_layouts/TreatyBodyExternal/Treaty.aspx?CountryID=77&Lang=EN

3.2.2 Monitoring and auditing practices

The group-level coordination of corporate sustainability operations that also incorporate labor standards, social issues and the protection of human rights is being coordinated under the auspices of the Sustainability Committee (SC) from 2021 (previously: Group Sustainability Coordination Council) on the levels of strategy development, governance and operative execution.

The SC's operation is regulated by a group level directive: on the regulation of Magyar Telekom Group's sustainability operation and the responsibilities and competence of stakeholders. According to the directive, the SC meets regularly, at least quarterly, to coordinate company and group sustainability tasks effectively, with decisions taken by SC members through voting. The SC provides regular reports and presentations to the Chief Executive Officer (CEO) and the Chief People Officer, on the basis of which they set the main direction of the Magyar Telekom Group's sustainability activities and make decisions in related topics, with the input of the members of the Leadership Squad. The operations of the SC are being detailed in the Corporate Governance section of the annual Sustainability Report.

Magyar Telekom Group's Code of Conduct covers the requirements of corporate compliance and states our collective set of values, and thus stands as an affirmation of Magyar Telekom's strong reputation, solid position and future success. The Code of Conduct applies to all board members of Magyar Telekom Group from employees to managing directors, executives and board members. Furthermore, Magyar Telekom Group expects its suppliers and consultants to comply with the rules of behavior manifested in this Code of Conduct and to endeavor them to ensure that they are also obliged to abide to its regulation by contract.

Magyar Telekom Group's Corporate Compliance Program has been elaborated with the aim to ensure that Magyar Telekom Group conducts its business with maximum consciousness and commitment, in accordance with relevant laws and regulations, in harmony with the strictest possible business ethics standards. The Compliance Program involves the Group Compliance Manager and compliance representatives of particular functional areas of operation, who are working together as members of the Group Compliance Committee. The Compliance Program has been designed to ensure that the Group conducts its business to the highest standards of awareness, transparency, accountability, commitment, and adherence to applicable laws and regulations.

External audits could be conducted as part of the control process carried out by the Hungarian Labor Inspectorate. The Inspectorate has the right to issue such an auditing process in case of public complaints or issued requests. The Inspectorate also provides counseling to the corporations in support of legal compliance.

3.3 Results of Policies

3.3.1 Diversity and Equal Opportunities

As one of the largest employers in the Hungarian ICT sector we believe that diversity contributes to the success of businesses and all kinds of organizations to a large extent. This value is also at the core when it comes to the increase of creativity and innovation, to the involvement of new partners, experts and clients, to the quick adaptation to changes and most of all, to the compliance with the legal obligations of non-discrimination in all corporate operations.

Magyar Telekom and the employee representative bodies have accepted the 5th Equal Opportunities Plan of Magyar Telekom Group for the period 2021-2025. The corporate Equal Opportunities Plan addresses actions and procedures to improve the labor conditions and career perspectives of vulnerable employee groups such as women, employees with families, employees on child-care leave, employees living with disabilities, recent graduates and 50+ employees. The corporate diversity and inclusion expert and the employee representatives discuss the conducts and results of the action plan annually. Several employee surveys contribute to the development and the adjustment of the actions each year, allowing the rollout of the equal opportunities plan to adapt to employee needs.

The principles of justice and equal treatment of Magyar Telekom are being defined by our Code of Conduct. Ways of non-typical employment such as Telework, flexible working hours, part-time work, employment of people living with disabilities allow the company to realize the principle of equal treatment in practice. These measures are further assisted by several measures implemented in corporate day-to-day operations, such as the large office spaces that are designed to support Teleworking in the new headquarters of Magyar Telekom. The success of the process of dealing with the pandemic in 2020 was largely determined by Telekom's long-standing telework culture and the stable availability of work tools for digital work. In 2020 and 2021, due to the pandemic situation, 100% teleworking of the entire call center area also took place.

In accordance with Hungarian labor legislations we provide our employees with extra days off after their children, and after blood donation. In case of more than 40% health damage we provide our employees with extra five days off annually for rehabilitation. On top of these we also credit the voluntary work of our employees by providing days off, the proportion of which is strictly regulated in internal directives.

One of the key objectives of the new group level corporate sustainability strategy 2021-2030 among climate protection and digital inclusion is the improvement of diversity and inclusion experience on both customer and employee side. It was launched in 2021 and is in effect until the end of 2030. The details of the Sustainability strategy 2021-2030 are going to be presented in detail in the Sustainability report being published in first half of 2022.

In 2021 the company continued with practices securing equal opportunities for all employee groups. Following the process developed in 2020 we continued to monitor our gender pay gap along 9 indicators identifying multilayered action plan to tackle the detected inequalities and further reduce the overall gap between male and female general workforce. In 2021 we have joined the „One step closer" initiative of Amnesty International with our commitment to reduce our gender wage gap by at least one percent annually.

In the first half of 2021 we have launched our B@ck to Work Café online workshop sessions to our colleagues on parental leave, we managed to reopen our on-campus childcare facility in the summer and fall school holiday season thus supporting parents in the difficult family management periods. Before the Christmas holidays all of our parent colleagues raising children between the ages of 3-10 were gifted with our very own children's book (My Mummy/Daddy Works at Telekom). The storybook offers a playful introduction to the magical world of telecommunication for the preschool and elementary school aged children and offers examples on how to develop family rules for conscious screen time and internet use.

3.3.2 Anti-discrimination and labor-market integration actions

As an employer, Magyar Telekom has issued the following actions in 2021 to improve the conditions of the employee groups marked in the 2021–2025 Equal Opportunities plan.

As a mentor company Telekom supports roma workforce integration programs Integrom and HRom to contribute to the equal labor market opportunities. The program participants are being supported with job application counselling, job interview-practices, CV writing and editing skill practices. Our inclusive recruitment practices include dedicated recruiter tracking support for program participants throughout their application process, providing detailed evaluation and feedback, and company mentoring upon request. Starting from the fall of 2021 Telekom joined the HBLF Romaster initiative supporting two talented roma students for 4 years with scholarship funding and mentoring.

For the first time in the history of the company group the LGBTQ & allies employee group of Magyar Telekom, T-Systems Hungary and Deutsche Telekom IT Solutions Hungary have attended the Budapest Pride March. We have continued to work on and improve our LGBTQ inclusive workplace initiatives as well.

The Gold Class of the Disability-Friendly Workplace award was granted in 2020 but we were only able to receive it on a formal awarding ceremony in 2021. The award is being granted by the Salva Vita Foundation, the American Chamber of Commerce, the Association of Excellence Public Benefit Association, and the Hungarian Ministry of Human Capacities. Following up on manager-nominations four Telekom employees with disabilities were awarded with DFW Role-Model awards and our diversity and inclusion expert was awarded with a DFW Disability Ally award. In order to secure the equal opportunities of our current and future colleagues living with disabilities, we are using a special module on our online job-application site (http://www.telekom.hu/rolunk/karrier) since 2010, where our applicants are encouraged to state any accessibility requests they might have in order to attend the selection process. Apart from workplace accessibility we support the workplace integration and enablement of our entrants and their welcoming teams by education materials with modules for basic attitudes and inclusive behavior with colleagues with visual or hearing impairments, colleagues facing physical or mental difficulties to work independently within the team. We also provide workshops on demand.

3.3.3 Respect of Human Rights, actions against child labor and all kinds of forced labor

As disclosed in the Code of Human Rights and Social Principles the company rejects child labor and all kinds of forced or compulsory labor and fights against all kinds of human trafficking and modern-day slavery by all means at its disposal. As the parent company of Magyar Telekom Deutsche Telekom Group is responsible for supply chain compliance auditing and management on a global level. More detailed information about the methodology and results of the global supply chain management at https://www.telekom.com/en/corporate-responsibility/assume-responsibility/assume-responsibility/supply-chain-management-355304

New employees of Magyar Telekom Group as part of their orientation process in their first two months receive compulsory education about the company principles, guidelines and practices concerning social issues, labor standards and human rights. All employees must understand and accept these guidelines as the fundaments of their own professional behavior and operations and they are also obliged to complete the Telekom unconscious bias e-Learning course during the onboarding period.

In line with the Code of Human Rights and Social Principles, all Magyar Telekom Group employees and all partners closely related to our brand representation attended compulsory trainings regarding human rights. From the end of 2018 the training is part of the compulsory trainings of Magyar Telekom.

Moreover, the company is aware of the fact that there could be situations in which it is harder to tell appropriate from inappropriate. In order to assist employees in making the right choices in these situations, the company offers secure internal whistleblower channels, operated by the Corporate Compliance Department. “Kérdezz!” (“Ask me!”) advice portal has been set up to help resolve uncertainties as far as compliance-relevant behavior is concerned. Serious misconduct must be announced for prevention purposes and for appropriate sanctions. For this reason, the “Tell me!” whistleblower portal has been established. The main principles and the detailed description of the internal inspection process is detailed in employee directives available on all employees on the shared intranet platform. Throughout the inspection process the whistleblowers’ anonymity, personal and data privacy are guaranteed and handled with utmost discretion.

3.3.4 Relationship of management and employees

At present two unions (Telecommunications Trade Union (TÁVSZAK) and T-Net Trade Union) and workers’ council operate at Magyar Telekom, communication with them runs on two levels. Central decisions concerning the whole Company, when the employee representation bodies need to be consulted, are deliberated with the Central Workers Council and the representatives delegated by the trade unions, either in the frame of joint consultation (Interest Reconciliation Council), or separately, depending on the nature of the matter discussed. Central communication is managed both verbally (negotiation) and in writing. The Chief People Officer and the accredited HR business partner are responsible for central level communication with the employee representation bodies. Interest enforcement issues concerning a given governance area are also discussed locally with the representatives of the trade unions and the local workers’ council. The HR Business Partners of the governance area are responsible for communication with the local employee representation bodies.

Trade union and the workers’ council (Central Workers Council) must be consulted and their opinion solicited on significant decisions resulting in organizational changes or changes affecting a large group of employees. In organization restructuring decisions the collective bargaining bodies have 7 days to submit their comments, in other cases 15 days. The measure in question may not be implemented during this 15-day period. Trade unions and workers’ councils (Central

Workers Council) must be consulted with regard to draft resolutions, aiming at organizational changes without regard to the number of employees concerned.

Under the Act V of 2013 on the Civil Code one third of the Supervisory Board shall consist of employee representatives. The employee representatives in the Supervisory Board are nominated by the Central Workers' Council considering the opinion of the trade unions operating at the Company. Persons nominated by the Central Workers' Council shall be elected by the General Meeting to the member of the Supervisory Board, except if disqualifications exist in respect of the nominated persons. On December 31, 2021, there were two members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky and Zsoltné Varga.

3.3.5 Freedom of organization and collective bargaining

Magyar Telekom Group acknowledges the basic rights to freedom of organization and collective agreement in its Social Charter. In line with an openness and trust that relies on a constructive social dialogue, Magyar Telekom Group declares its support to cooperation with the legitimate representatives of the employees in order to establish a balance of interests.

The Social Charter together with the long history of mutual respect and cooperation of the management and employee representative councils are the guarantees that these rights are being fully and thoroughly respected. 100% of the employment contracts of Magyar Telekom Group employees operating in Hungary fall under collective bargaining agreements developed 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.

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

3.3.6 Workforce Reduction and Redeployment

Magyar Telekom – in order to ensure the resources related to the Company's strategic objectives - has reached an agreement with the trade unions in 2021 on headcount reduction and wage increase measures for 2022.

According to the terms of the agreement, there was no company-initiated downsizing, nevertheless the company did offer an opportunity for the employees to leave in a voluntary program. Majority of employees that entered the program left the company by November 1, 2021. The company provides active job search, labor market training and one-on-one counselling to the colleagues laid off, in the framework of Program Chance, which has proven its success in the past years, and trusts that the above support these highly-trained employees of up-to-date professional expertise in finding employment elsewhere as soon as possible.

It is planned to reinvest a significant proportion of the expected employee cost savings in resources related to the Company's strategic objectives.

3.3.7 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. In case of certain benefits, employee's individual contribution is a prerequisite of the employer's contribution. The way social benefits and discretionary benefits are granted is set out in the Collective Agreement and related regulations.

We provide employees with telecommunication allowances, fringe benefits life and health insurance benefits and health screening packages.

3.4 Risk management

3.4.1 Providing educational and professional background

The educational pillar of Magyar Telekom's Sustainability Strategy aims to improve the digital competencies of the clients and the wider public. It also aims to contribute to the development of industrial succession knowing that a potential throwback in the amount of available highly qualified professionals in the industry could mean a serious risk to maintaining, improvement and development of the quality of our services. In order to secure the highest quality service to our clients we need work with the best professionals. To be able to have them a competitive industrial educational background is necessary.

Upon the initiative and by funding of T-Labs (Telekom Innovation Laboratories, Berlin) the faculty Data Science and Engineering began to operate at Eötvös Loránd University from September 2016 as the first pillar of the EU Labs researcher network. The role of Magyar Telekom is in the support of the teaching and research capacities.

Our colleagues are in close relationship with several higher education institutes and we help the universities with consultancy for writing theses, expert education and giving lectures.

We have signed a strategic partnership with the Budapest Technology EC Puskás Tivadar Technical School for Telecommunications and IT, the Miskolc EC Kandó Kálmán Technical School for IT Technology and the Székesfehérvár EC Technical School. The aim of the partnership is to offer professional support in keeping the curriculum up-to-date with the latest technological realities of the industry and help our partner institutions in promoting telecommunication related careers. In addition to these we also offer student work opportunities for students of these education centers. We have given several career orientation lectures in the fall of 2021, along which the students could gain an in-depth insight in the everyday challenges and opportunities of present day telecommunications. We have also signed a partnership with Szent István University, in order to offer the training practice pillar of the electric engineer dual major. 2021 December also witnessed the formation of the “Deutsche Telekom Group remote IT Faculty” at Óbuda University which is the joint education platform of Deutsche Telekom IT Solutions, T-Systems Hungary and Magyar Telekom.

90% of the first Kickstart-class, 18 trainees have continued to work in junior positions at Magyar Telekom following their trainee year. In 2021 22 senior year university students joined Magyar Telekom as the second generation of Kickstart trainees. During the one-year program, the trainees received professional, soft-skill and design thinking trainings. Kickstart trainees who work in a variety of areas throughout the company gather up for a half term agile project assignment strengthening their ability to work in a cross-functional team. The joint project task is based on real business needs, thus strengthening the importance of the program in parallel with the development of MT.

Launched in March 2020, MagentaKraft helps young visionaries with trainings and events on their journey to develop their inventions and projects. The KraftRoad program supports young talents with workshops and events in the development, elaboration and improvement of their innovation projects. In 2021 Telekom Kraft was home to 9 innovation projects. Apart from individual projects the participants can also join Telekom in contributing to selected projects and thus gaining professional training. As an example of such collaboration, one of the Krafters designed the wall-art in one of our stores and later became one of the graphic designers of Telekom. Other examples include representation of talented young video artists and directors in the Kraft video series. We have opened the KraftLab in Debrecen in September 2021, where all the technology and the labspace is given for the Krafters from video-studios, to podcast studios and robotic limbs.

3.4.2 Employee expectations and equal opportunities

The pillars of our People Focus are based on the aim to meet the needs of our employees, and to live up to the challenges of maintaining our company status as a highly competitive and future oriented employer. Our employees require security, stability, opportunities for advancement and competitive compensations. Magyar Telekom, as a company committed to provide equal opportunities to its employees, finds it especially important to harmonize wages and to terminate unjust wage gaps. Our tiered wage system, built on Hay methodology, serves the above purpose. Our remuneration system is fully transparent thus our base wage tables and the relevant policies are available for all employees. In addition, we have renewed our internal position system in 2021 to become a more transparent and simple organization. The dimensions of the position system are being developed at the intersections of the Hay-system and the competence-based position levels of our agile organizations. We pay extraordinary attention not to differ unreasonably the wages of the employees performing the same tasks and that the wage differences between the employees reflect real work differences. As a responsible company, we are aware of the social phenomenon of the gender pay gap and are committed to eliminating its root causes within our own business environment. Since July 2020, we conduct regular and complex gender pay gap analysis, during which we define our equal opportunities action plan to reduce the possibilities of inequalities such as the 'motherhood penalty' and the female career gap.

As an employer dedicated to diversity as a core value, Magyar Telekom finds it important to raise the amount of women in leadership positions. One of the key objectives of the Diversity pillar of our Sustainability strategy is to reach at least 35% of female leadership by 2025. From May 2020, for the first time in the company's history, we have achieved a balanced 50% gender ratio in our senior management which we continued to maintain in 2021. The proportion of female leadership in the overall management was 25.85%.

Magyar Telekom considers stress, overload and burnout related risk-reduction as its priority duty in relation to its employees. In order to take charge of these risks by securing an empowering environment to develop and maintain a healthy lifestyle, employees are also provided with coaching and training opportunities and the availability of the Employee Assistance Program all of which help in maintaining a sustainable life balance. Efficient work-life balance of employees with families is further supported by our child-friendly offices and the available, tax-free nursery and/or kindergarten support that could be selected from our cafeteria benefit scheme, thus contributing to the reduction of expenses. Taking notice of the special conditions of employees (ex. illness or the longer-term domestic care of a relative) a longer period of unpaid leave is also available. In the changed situation caused by the pandemic, we also supported the physical and mental health of our employees by providing online gym exercise sessions and coaching opportunities.

3.5 Performance indicators

Non-typical employment at Magyar Telekom Group
- No. of Part-time employees in 2021: 123
- No. of Flexi-time employees in 2021: 1,202
- No. of Teleworking employees in 2021: 3,909

More women in leadership positions at Magyar Telekom Plc.
- Percentage of women in overall workforce: 35.5%
- Percentage of women in senior management: 25.85%
- Percentage of women in Leadership Squad: 50%

Volunteer work benefits at Magyar Telekom Group
- No. of volunteer working hours (blood donation): 3,290
- No. of volunteer employees (blood donation): 183

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

The aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 22 million in 2021.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 37 million in 2021.

The total compensation expenses (including social security and other payroll-related taxes as well as contractual termination expenses) of the members of the Leadership Squad (LS) was HUF 1,329 million in 2021.

On December 31, 2021, four members of the LS have an employment contract with indefinite and two members with definite duration. The notice period is two months for three of the indefinite contracts, and three months for one. The severance payment usually is in accordance with the Labor Code and the Collective Agreement, for the contracts the severance payment is usually 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.

LS members from foreign countries may be entitled to housing subsidies. There are two members affected by this entitlement.

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

For information about the Share Based Compensation programs, see Note 20.1.2 of the Consolidated Financial Statements.

5 RESEARCH AND DEVELOPMENT

Hungary

In addition to innovative Hungarian SMEs, the research and development tasks are performed by the internal researchers as well as the product and services development staff of Magyar Telekom Group. In addition, the Company also takes advantage of the synergistic effect of the internal and external knowledge base and seeks partnerships with well-known innovation centers and higher education institutions. Our main partners are well-known Hungarian universities and research institutes. In December 2021, "Deutsche Telekom Group IT" Off-site Department was formed at Óbuda University, which was founded by Deutsche Telekom IT Solutions, T-Systems Hungary and Magyar Telekom. The first courses will be held in the field of DevOps within the scope of the new educational program in the spring semester at Óbuda University, which is expected to be expanded with further subjects in the future.

Exploiting the potential of new technologies, including research and development of the fifth-generation mobile technology, is crucial for Magyar Telekom Group. Therefore, beyond those presented in the previous year, in 2021:

- T-Systems Hungary was one of the founding members of Hungarian Drone Coalition.
- MagentaKraft is Telekom's innovative youth platform, which aims at providing new value for the young generations. MagentaKraft provides an opportunity for those who already have a big or little idea in their mind, but don't have the necessary tools (infrastructure, environment, team). Further details in Note 3.4.1.

As a member of the Magyar Telekom Group, in 2021 T-Systems Hungary was an active participant in the AI Coalition, established by the Ministry of Innovation and Technology, where it acts as the leader of the technology and security working group.

We also continued our multi-year collaboration with the 5G Coalition as well as, the Industry4.0 National Technology Platform Association, both supported by ITM, too, and the Connected and Automated Mobility Cluster of Zala.

North Macedonia

Makedonski Telekom (MKT) continues with its determination and its work to be innovation and technology leader on the market. Among the main focuses, as a continuation to the previous years, are the projects in the area of the Smart City. MKT has won 1 Smart Light reconstruction project for middle municipality, and at the end of the year we are finishing implementation of contract for the Capital of North Macedonia, Skopje, with smart lighting, parking, air quality, citizen engagement, water metering and mayors' dashboard. As several tender procedures we expect to be open, MKT has the possibility of winning further contracts with municipalities at the start of 2022. From society digitalization perspective, support activities for e-health and e-education strategy preparation are ongoing.

Meeting the demand for automation, metering and remote control of the street lighting in our cities we designed, developed and tested Smart Energy Metering IoT node and Smart Lighting IoT node - IoT devices for management and control of street lighting cabinets and fixtures with LTE/NBIoT/EDGE connectivity to Smart IoT platform hosted on the public or private cloud. In the next period we will continue with the development of advanced functionalities, friendly customer field test and implementation of pilot commercial project.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNER, we keep further on our strategic technology partnerships-Cisco Gold, as well as Microsoft and VMware Partnership.

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 North Macedonia. 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, 1097 Budapest, Könyves Kálmán körút 36.
- T-Systems Magyarország Zrt.: Hungary, 1097 Budapest, Könyves Kálmán körút 36.
- Makedonski Telekom A.D.: North Macedonia, 1000 Skopje, Kej 13 Noemvri, No. 6.
- Combridge S.R.L.: Romania, Municipiul Sfantu-Gheorghe, Strada 1 DECEMBRIE 1918, parter comercial, nr. VI, Bloc 6, Judet Covasna
- Novatel EOOD: Bulgaria, District Sofia (capital), Municipality Stolichna, Sofia 1756, Malinova dolina, 2 Donka Ushlinova str., Garitage Park complex, building 3, floor 1, number 312.

Hungary

Out of the 1,624 buildings on the 1,459 sites of Magyar Telekom Plc, 44% are owned by the company, 5% are jointly owned and the rest 51% are leased. These figures do not contain the technology sites, of these types of sites we have 6,295.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2021 was 599,707 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building (leased) located at Könyves Kálmán krt. 36 in Budapest, with floor space of over 55,000 m^2.

North Macedonia

At the end of December 2021, MKT radio access network consisted of 895 physical sites on which there are 761 2G base stations, 890 3G base stations and 881 4G base stations. 91% of the site infrastructure (towers) is in possession of MKT and 9% is leased.

The total area that is used by MKT is around 108,528 m^2 as of December 2021, out of which around 44,029 m^2 are in sole possession of MKT and in great part (53 %) is attributable to 2 major buildings, the headquarters and the main technical building. The remaining 64,499 m^2 are in joint possession with Macedonian Post.

7 SUSTAINABILITY

Magyar Telekom has been addressing the sustainability implications of its operations for close to twenty years, and for more than 15 years its sustainability activities are characterized by comprehensive, long-term plans, and the Company started its fifth five-year sustainability strategy (2021-2025-2030) in 2021.

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

In 2015, the UN adopted its sustainable development blueprint to be implement by 2030. These 17 goals and 169 targets determine the main direction towards resolving the most urgent problems posing a threat to humanity and the planet. Magyar Telekom elaborated its Sustainability Strategy encompassing the period from 2016 through 2020 and from 2021 through 2030 as well along these SDGs. The company's contribution to the priority goals originated from its business is presented in a separate assessment linked to the Sustainability Report yearly.

Magyar Telekom's sustainability activities and achievements are comprehensively discussed in the annual Sustainability Reports, which aim 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

In 2021, Magyar Telekom Group started its current ten-year sustainability strategic cycle, 2021-2030.

In addition to the results of our Sustainability Strategy 2016-2020, the goals and tasks defined for the period through the end of 2030 have been determined by the goals and directions applied internationally in terms of sustainable development (SDG, CDP, TCFD). When identifying the priorities, the company has focused on the expectations of the responsible investors monitoring our company and the current corporate trends. Of course, local market conditions, as well as consumer behavior and demand have also been taken into account, with a proactive and awareness raising attitude.

When identifying strategic goals, it was kept in mind that the Group's sustainable operation has a significant impact on the society, the economy and the environment. In addition to playing an important role for the livable future of several million customers and several thousand employees, as a market leading ICT provider and a large enterprise of regional proportions, Magyar Telekom is aware that our business and operational decisions influence the economy and the society of the future, too. It is its firm belief that Telekom, as a company, is responsible for all the groups of people whom it can enable by ICT solutions, and that it is inevitable to engrain social, economic and environmental responsibility as part of its corporate DNA thus promote sustainable development and opportunities for future generations. Along this, the new strategy defines its priorities in two main approaches: internal operational objectives and a catalytic role in the market by empowering others.

The main objective set forth by the fifth Sustainability strategy defined in 2021 is to ensure that Magyar Telekom Group maintains its position as a leading sustainable company through digitization: a catalyst of growth for people, families, communities and businesses, and an accelerator of environment Such goal can only be achieved if considering all three pillars of sustainability such as social, economic and environmental dimensions, the company approached these factors in a comprehensive, credible and innovative manner. Until the end of 2030, climate protection, digitization and diversity are in the focal point of the strategy.

Climate protection

Magyar Telekom Group keep the direct and indirect emissions (scope 1+2) at net zero by an 84% decrease and reduce the part of the emissions of suppliers and customers attributable to the company (scope 3) by 30%. Our customers take climate action and reduce emissions by providing ICT services applicable as climate protection (i.e. smart) solutions. At least half of our revenues come from services that support climate protection by 2030.

Digitization

100% of customers of Magyar Telekom throughout the country will be provided with gigabit access and 6 million people will achieve responsible digital maturity.

Diversity

In the previous period, diversity and equal opportunities have already been in the focal of the Magyar Telekom's Sustainability Strategy. In the new strategy (2021-2030) Magyar Telekom's goal is to create a 100% inclusive workplace and to create a 100% accessible UX for customers with disabilities.

The details of the Sustainability strategy 2021-2030 is going to be presented in detail in the Sustainability report being published in first half of 2022.

Awards and sustainability recognitions achieved in 2021 and continuously relevant recognitions:

- FTSE4Good Index membership, FTSE Russel ESG Ratings
- CECE SRI sustainability index membership
- MSCI ESG rating AA (scale: CCC-AAA)
- ISS ESG B Prime rating (scale: D – A+)
- Disability-friendly Workplace title, gold grade
- Family-friendly Workplace certificate, bronze grade – initiating organization: Családbarát Ország Nonprofit Közhasznú Kft.
- Family-friendly Mentor Company – initiating organization: Három Királyfi, Három Királylány Mozgalom
- As a Family-friendly Mentor Company, Magyar Telekom founded the "Vándordíj" Award
- Most Attractive Telco Workplace of the Year 2021 – initiating organization: PwC
- Magyar Telekom has been included in the Zynern 2021: Most Attractive Employers list
- Most Attractive Workplace in Telco sector 2021 – initiating organization: Randstad
- External Communication of Employer Brand: Grand Prix Hungary

7.2 Initiatives concerning stakeholders

In order to successfully operate the Company, it is essential to have strong relations with stakeholders.
Below you will find a list of our key activities the details of which are elaborated in the respective chapters of the Sustainability Report:

- Investors – investor (and responsible investor) assessment
- Customers – sustainable products and services, child protection
- Employees – community solar project, family friendly services, diversity contents
- Regulators – conformity, regulatory relations
- Local communities –Telekom Community Gardens, Superfast Internet Program (SZIP), network development
- Non-profit organizations – Magenta 1 Business/Nonprofit
- Suppliers – sustainable supply chain management
- Media
- Future generations –Become! part of generation NOW, Forum "Most", Magenta Podcast

Stakeholders can express their expectations online towards Magyar Telekom. The company then takes them into account in course of pursuing our sustainability activities.

Activities related to more stakeholder groups

As part of our 2018 Diversity&Inclusion plan, Magyar Telekom is striving towards an inclusive, open and safe working environment for employees from all backgrounds. In order to promote a working culture of inclusion and non-discrimination, the company has developed the first Hungarian language unconscious bias e-learning material and launched it as a mandatory course for all employees, 92% of whom have successfully completed it by the end of October, 2019. The e-learning is now part of the onboarding curriculum and is mandatory for all new entrants. The aim was not only to support the development of its own working culture but to provide accessible and easily adaptable learning material for all Hungarian enterprises and thus contribute to the promotion of anti-discrimination in the society at large. Telekom was one of the corporations that supported the background research and white paper publication of Egyenlítő Foundation offering guidance to large corporations in female executive selection.

Recognizing the importance of plastic pollution, Magyar Telekom set a new goal to significantly reducing the amount of single-used plastics generated during our operations. Within the Plastic Free Telekom initiative, first we removed these plastics from the headquarters operation in 2019. We provided our colleagues filtered water and jugs to reduce the amount of PET bottles. In 2020, the company introduced additional plastic removal steps, however, at the time of the pandemic, it was not possible to assess plastic use and remove PET bottles. In 2021, the pandemic continued to severely limit the progress of the project. As the majority of colleagues continued to work from home, it was not possible to record the volume of PET bottles in any meaningful way in the latter period. If the colleagues return to the offices – expected in spring 2022 – the Plastic Free Telekom project will be reactivated.

Investors

Magyar Telekom remained to be a constituent in the FTSE4Good Index Series in 2021. The US based MSCI rated Magyar Telekom into the category 'AA' on the scale CCC-AAA. The German ISS at its ESG assessment gave the B Prime rating to the company. Magyar Telekom continued to disclose climate related data and information via the CDP platform. Magyar

Telekom remained a constituent in the CECE SRI (formerly CEERIUS) Index on the Wiener Börse as well.

Customers

Magyar Telekom would like to offer the choice to its customers who consider it as important as the company do to fight against climate change to pick a service that serves the purpose of protecting the climate. That is why Telekom came up with the ExtraNet Green 1 GB option in 2019. In 2021, by choosing the ExtraNet Green 1 GB data extension option, Magyar Telekom guarantees to generate the same amount of energy as the one required to transmit 1GB data using our solar power plants installed on the top of the Kékvirág street facility and on the top of two facilities in Szeged.

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

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

Employees

In March 2021 Magyar Telekom announced again its community solar project. During the program employees had the opportunity to adopt a solar panel. 200 solar panels had been adopted in less than an hour.

In 2021 Telekom continued its work on the improvement of diversity and equity based on the results of the 2020 employee survey. It offered 6 B@ck to work Café online sessions in the first half of the year, providing guidance to for parental leavers who are planning their return and promoting the development, career planning and contact keeping tools that are available. Telekom and T-Systems established its first LGBTQ resource group which initiated actions and process development initiatives to further the inclusion of LGBTQ workforce. Since November, 2021 the company joined the corporate donors of HBLF Romaster initiative and committed to support support of two roma students for 4 years.

For the first time in the history of the company, gender ratio in Magyar Telekom's top management became balanced in 2020 and a number of measures were taken to further improve the proportion of female executives in the entire management team. The company continued with the monitoring of its gender pay gap, along which further developments are being initiated. Magyar Telekom Group joined the “One step closer” initiative of Amnesty International in 2021 with its commitment to close the gap with at least one percent each year.

In July, the management of Magyar Telekom set up the Magenta Alliance Foundation to help colleagues in a difficult situation due to the pandemic. By the end of December 2020, nearly HUF 6 million was donated by employees. The company's board of trustees provided support to employees in 100 cases distributing more than HUF 15.5 million. In 2021, the pandemic continued, so the Magenta Alliance Foundation continued to operate. In 2021, the Foundation provided more than HUF 18 million in support for the more than 200 employees and their families.

Local communities

Magyar Telekom and the Hungarian Contemporary Architecture Centre continued to run community gardens in 2021, too. Gardening works are still ongoing at Csárdás Garden. Although, the Kerthatár Community Garden has been closed due to the sale of real estate, a new community garden was created in Pomáz.

For Telekom it is utmost important that no one is left behind without accessing the opportunities and benefits of the digital world. Within the framework of the Digital Welfare Program, Magyar Telekom has launched its fixed and mobile Digital Welfare Program package providing quality internet service for users seeking to subscribe at most affordable rates, furthermore by introducing the Digital First Aid Program providing free of charge internet access for several hospitals pediatric ward nationwide. Where the fixed internet network is not yet available, the SZIP Mobile internet tariff package can be ordered for the addresses defined in the SuperFast Internet Program (SZIP).

Non-profit organizations

In 2021 Magyar Telekom announced a tender among non-governmental organizations. As part of the Magenta 1 Business / Nonprofit offer, the company provides mobile and fixed services to 38 organizations free of charge for 12 months.

Suppliers

In the framework of the sustainable supply chain management process Magyar Telekom assesses the sustainability performance of its suppliers each year. This will be done independently by Magyar Telekom, in addition to the suppliers that are shared with Deutsche Telekom but are not assessed in the Ecovadis system. In 2021 through completing a web audit questionnaire – that contains questions on general, environmental, social and business ethical topics – 20 suppliers were assessed and so 56.92% of the total purchase value has been covered by valid web audit assessments.

Future generations

One of the main objectives set forth by Magyar Telekom's Sustainability Strategy launched in 2016 is to achieve improvement of qualification of 1 million people in Hungary by 2020. The target has been achieved, among other things, by industry-specific succession development programs like Be an IT Professional!, educational events like the NOW Forum and digital education programs like Be a Member of the NOW Generation! In view of the COVID-19 virus and the changes in the education system and communication habits, Magyar Telekom's programs have also been renewed and moved to a new interface.

The education and digital inclusion are also an integral part of the new (2021-2030) sustainability strategy. Accordingly, programs launched in previous years will continue.

On The "LEGYÉLTEIS!" site, the company shared information about internet security which are understandable and followable for both children and parents.

The digital education of the older generation continued, and the company started a representative research to explore the internet-using habits of the under-18s. The research was launched in the professional partnership of the Hintalovon Children's Rights Foundation.

The company also appealed to the younger age group with the launch of the Magenta Podcast channel in March 2020, which covers media consumption, diversity, online education, mental health, technological innovation, cultural and economic topics, but expert guests will also speak on topics such as the home office, digital family or just the COVID-19 pandemic. In 2021, the Podcast was continued to provide regular entertainment and professional content on topics such as digital parenthood, climate protection, fintech, safe internet usage and the Telekom Mobildonor program. A key aspect in the production of the Podcast is to ensure that the guests and experts invited are well-known figures among the younger generations, thus supporting the success of reaching out to this age group.

Charters and initiatives of cooperation accepted and signed by Magyar Telekom Group

Besides professional challenges, the Group also seeks cooperation opportunities for the solution of social and environmental problems.

Magyar Telekom has been an active member of ETNO's (European Telecommunications Network Operators Association) Sustainability Workgroup for years. The members work closely towards solving all kinds of sustainability-related programs.

Magyar Telekom has been the first among the Hungarian companies to accept OECD Guidelines for Multinational Enterprises and set them up as mandatory guidelines for its operations.

European Union's Diversity Charter has been signed by the company and considered as a mandatory guideline.

UN Global Compact has been signed by the company and the "Communication on progress" report on achievements in the 10 principles is published yearly.

Magyar Telekom has acknowledged the UN Sustainable Development Goals (SDG) and through incorporating the priority ones in its Sustainability strategy 2016-2020, and Sustainability Strategy 2021-2030 the company finds the contribution to the goals a mandatory element of its operations.

Magyar Telekom discloses data and information on its climate related activities through the CDP (Carbon Disclosure Project) platform.

Magyar Telekom has been the first Hungarian company to join the Science Based Target Initiative (SBTi) and has emission reduction targets approved by SBTi.

Magyar Telekom has joined the UNFCCC Climate Neutral Now initiative.

Thanks to the United Nations Global Compact and emission reduction targets approved by the Science Based Target Initiative - by achieving the latter, the company can contribute to keep the global temperature rise of the Earth below

1.5 ° C – Magyar Telekom became the only Hungarian participant in the UNFCCC Race to Zero campaign in 2020. Since then, 7 more Hungarian companies joined the campaign, but only Magyar Telekom Plc. is still participating.

List of the main memberships:

- European Telecommunications Network Operators Associations (ETNO)
- GSMA Association
- Joint Venture Association (JVSZ)
- German-Hungarian Chamber of Industry and Commerce
- Telecommunication Advocacy Council
- ICT Association of Hungary
- Hungarian Association of International Companies
- Hungarian Competition Law Association
- Employer's Equal Opportunities Forum
- Hungarian Logistics, Procurement and Inventory Management Association
- Hungarian Marketing Association
- Hungarian Advertising Association
- ICT Association of Hungary
- American Chamber of Commerce in Hungary
- Hungarian Outsourcing Association
- Hungarian Hospital Association
- Hungarian Water Utility Association
- Hungarian Project Management Association
- Scientific Association for Infocommunications
- Hungarian Librarian's Association
- Lobby Club Association
- Hungarian Chamber of Engineers
- Agro ICT Cluster
- Buday Business Club
- Association of Health Technology Suppliers and Medical Device Manufactures
- it Service Management Forum (itSMF)
- Chamber of Bodyguards, Property Protection and Private Detectives
- Chamber of Architects
- Hungarian Innovation Association
- Connected and Automated Mobility Cluster of Zala
- Ipar 4.0
- Electronic Payment Service Providers Association (EFISZ)
- International Telecommunication Union (ITU)
- RIPE Network Coordination Centre
- GS1 Macedonia
- Economic Chamber of Macedonia
- American Chamber of Commerce in Macedonia
- Macedon-German Business Association
- Macedonian IT Chamber (MASIT)
- Chamber of authorized architects and engineers of Macedonia

Quality guarantees in the Magyar Telekom Group can be found:

https://www.telekom.hu/about_us/about_magyar_telekom/principles/quality_guarantees

7.3 Annual Sustainability Report

Magyar Telekom Group has committed, among other things, to publish reports about its sustainability performance annually. When the reports are compiled the GRI (Global Reporting Initiative) guidelines and standards are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. The Sustainability report about 2007 was the first report in Hungary which was prepared according to the GRI G3 A+ compliance level, this meant the highest level of application of the GRI G3 guidelines at the time. Since then, Magyar Telekom has produced an annual report with the highest compliance with international guidelines, the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 and 2015 Sustainability Report was compiled along the Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4), while since 2016 Sustainability reports have been compiled along the newest requirement, the GRI Standard on "Comprehensive" level. The independent assurance and certification of compliance with the GRI Standard criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard. Further details on the sustainability performance of the Company can be found in the annual reports available on:

https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

The 2021 Sustainability Report is going to be published in the first half of 2022.

8 ENVIRONMENT PROTECTION

8.1 Policies

Magyar Telekom Group upholds its commitment to sustainable development and environment protection first in the environmental policy. The policy contains obligations for the members of Magyar Telekom Group both individually and as a Group:

https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_environmental_policy.pdf

In addition to the policy, it has also issued an environmental directive, which sets out in more detail the company's areas of commitment and expectations:

https://www.telekom.hu/static-tr/sw/file/magyar-telekom-environment-protection-policy-guidelines.pdf

The Group-level coordination was continued to be implemented under the auspices of the Sustainability Committee (SC) in 2021, as well. The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the SC, thus the process of implementing sustainability activities is divided to the following levels:

1. Strategy development and strategy management level operating under the auspices of the SC: development of strategic concepts, implementation of the strategy, relevant communication with national and international organizations.

2. Operative implementation level managed by relevant organizations of the governance areas and business units, actual operative activities, task management, data provision etc.

The SC's operation is regulated by a group level directive: on the regulation of Magyar Telekom Group's sustainability operation and the responsibilities and competence of stakeholders.

The operative management of Magyar Telekom Group, the Management receives at least once a year a report on the implementation of the tasks of the Group Sustainability Strategy and other ongoing significant sustainability activities, results, potential exposures and opportunities.

The Management is informed on the latest sustainability trends and may respond to the feedback from stakeholders through the annual report and based on the report may decide on the amendment of the strategy. The Management keeps contact with the stakeholders through the SC. Incoming inquiries are received by the respective professional areas and critical comments regarding sustainability are transferred to the responsible staff members by the SC members. According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers.

In 2021, Magyar Telekom's Leadership Squad decided that, in line with its agile operations, the company would manage sustainability coordination in the form of a squad in the future. Therefore, the role of the Sustainability Committee will be taken over by the Sustainability Squad from 2022 onwards.

8.2 Results of the policies

As a leading provider of info-communications services in the region, Magyar Telekom's commitment to sustainable development with a focus on preserving the environment lies at the center of its mission. 2021 was spent developing a long-term strategy, the company outlined a 5 + 5 year vision instead of the previous 5-year perspectives. Climate protection remains a key priority in the new sustainability strategy. The company's emission reduction commitments pledged in 2018, which was approved by the Science Based Target Initiative (SBTi), were replaced by more ambitious targets in 2019 in response to the IPCC's 1.5 °C report, have come into the main focus of the strategy. The company is working to achieve the following goals by 2030:

- reduce absolute Scope 1 and 2 Greenhouse Gas (GHG) emissions 84% from a 2015 base year;
- reduce absolute Scope 3 GHG emissions 30% from a 2017 base year.

The European Green Deal also prioritizes energy use and emissions of the ICT sector, recognizing that the sector can make a significant contribution to achieving 2050 climate neutrality through 5G, artificial intelligence, IoT and cloud services, but it can also increase its own energy consumption. As a first step, the European Union aims to increase energy efficiency in data centers and achieve climate neutrality by 2030. This is also one of the main pillars of Magyar Telekom's new climate strategy, despite the fact that the Group's total electricity consumption, including data centers, has been covered by renewable energy for many years (since 2016 at Plc., since 2018 in Hungary), which has been set by Deutsche Telekom as a requirement for its member companies on a group-wide basis from 2021 onwards.

In 2021 Magyar Telekom continued its carbon neutral[2] project. The company spent half of the income of the company car policy regulated bonus-malus system to financial implementation of the project. To achieve the carbon neutrality in 2021 - for the seventh year in a row - Magyar Telekom Group used 99% - the Hungarian member companies 100% - renewable energy for electricity consumption and offset the rest of its emissions, by purchasing and retiring 18,220 CER (Certified Emission Reduction) units from a Chinese green project. In 2021 Magyar Telekom purchased 200,000 MWh of renewable energy with Guarantee of Origin. Our additional highlighted environmental and operational ecoefficiency goals are:

- Increase the energy efficiency of buildings
- Decrease fleet consumption, promotion travel replacement solutions, and dematerialization solutions
- Introduction of sustainable and climate-friendly products and services
- Mapping and quantifying enablement effects in other sectors as a result of the services offered by the company
- Waste management: reduction of waste (increased recycling-rate)
- Measure the climate footprint of customers and suppliers
- Development of a circular economy for appliances provided to customers

8.3 Risks

Based on the Business Continuity Management System (BCM) the company has identified the critical climate risks (floods, heat waves) that might affect our operations and we have prepared action plans for possible risk management. According to the annual assessment the rate of climate damage in the network did not reach the level of intervention (HUF 50 million damage/ month). In 2021, 546 cases had to be investigated due to different problems caused by the weather. During heatwaves, the company allows its colleagues to work remotely and increases the core temperature of datacenters and base stations in order to reduce the energy consumption.

In setting the emission reduction targets, Magyar Telekom has considered the current Paris Climate Agreement and EU standards, as well as the IPCC's 1.5 °C goals, but it is assumed that regulators will set stronger emission reduction targets in the future, which may involve financial risks. Current forecasts predict an increase in the energy consumption of mobile networks with the spread of 5G. However, one of the EU's goals is to significantly reduce energy consumption and plans to regulate data centers as a first step. Thanks to Magyar Telekom's forward-looking climate strategy, it enjoys an advantage over its competitors, even with stricter regulations.

Opportunities

In addition to its energy efficiency investments and carbon neutral operations, the company considers the use of renewable energies to be one of the most effective tools for combating climate change. Its long-term goal is to ensure the supply of electricity to the network as much as possible from renewable energy sources, therefore it has implemented the installation of solar systems in its own buildings in several stages. Magyar Telekom also provides an opportunity for its customers, who also consider combating climate change, to be able to choose a service that contributes to climate protection. That's why in 2019 Magyar Telekom created the world's unique ExtraNet Green 1GB 30-day option. Although the measures taken during the pandemic in 2020 reduced turnover after its success in 2019, the company still retains the option for its customers. In 2021, higher proportion of customers chose this expansion option out of the 1GB options than in previous years.

[2] carbon neutral means net zero GHG emissions

In 2020, the European Union created the Taxonomy Regulation, which lists environmentally sustainable economic activities. It is an important tool for increasing sustainable investment and implementing the European Green Deal, in particular by providing companies, investors and decision-makers with appropriate definitions of the economic activities that can be considered environmentally sustainable. The purpose of the Regulation is to create security for investors, protect private investors from greenwashing, help companies plan for the green transition, and alleviate market fragmentation. Implementation acts of the Regulation, which will also affect the ICT sector, have not yet been completed, but it is expected that the Magyar Telekom Group's sustainability strategy and its implementation may improve the Company's perception among investors factoring in sustainable investing considerations.

8.4 Performance indicators

Emissions below were calculated according to the GHG Protocol Corporate Standard.

Cumulated GHG emission

- 83,060 tCO_2e (tons of greenhouse gas emissions in carbon dioxide equivalent), when purchased renewable was not taken into account (location based emission)
- 18,220 tCO_2e, when purchased renewable was taken into account (market based emission)

Group GHG emission by categories

- Scope 1: 12,767 tCO_2e (at the moment location based equal to market based)
- Scope 2: 70,293 tCO_2e location based
- Scope 2: 5,452 tCO_2e market based

Energy efficiency – bits transmitted / energy consumption – 301 Gbit/kWh

9 CORPORATE COMPLIANCE

When shaping the compliance program of Magyar Telekom Group, the goal was to ensure that Magyar Telekom Group pursues its business activity with maximum awareness of and commitment to compliance with the applicable laws and legal provisions, in accordance with the strictest norms of ethical business conduct. To this end, we issued policy statements addressing the potentially arising compliance-related risks, and we apply the procedures set out in these policy statements 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.

The Code of Conduct of 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 on the procurement website.

In the year 2010, an external independent party audited the implementation of the Compliance program, and we were awarded a certificate of compliance with the external expectations and of the implementation of the system. The program was revised in 2013, including other related areas as well – such as procurement, internal audit, HR, sales. The audit was not aimed only at the implementation and control of the system in the different areas, but it measured the operational efficiency of the control system. We met the expectations and were awarded by a certificate issued by Ernst&Young as independent external party. In 2017, again an external auditor (KPMG) evaluated the effectiveness of the compliance management system of Magyar Telekom, and issued a certification that the program complies with the requirements of the new anti-corruption ISO standard. In 2021 an external advisor (KPMG Germany) reviewed the Compliance program. They found the operation of the program efficient.

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, 95,743 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, supplier due diligence, anti-corruption measures, incompatibility or insider trading.

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

In 2020 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Plc. 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.

9.1 Fight against bribery and corruption

9.1.1 Policies

Magyar Telekom does not tolerate any attempts of corruption, so numerous procedures and policies were introduced to prevent and fight corruption. Magyar Telekom complies with the anti-corruption rules of the Group, and expects its business partners not to engage in unlawful activities (including breaching the anti-corruption laws) such as utilize any money or other services provided by Magyar Telekom for unlawful purposes. This also includes direct or indirect payments to individual(s) to improve the perception of Magyar Telekom (or any parties acting for Magyar Telekom) or to influence any business decision. Magyar Telekom strictly prohibits any form of corruption including (but not only), receiving personal advantages or monetary gains, accepting or providing bribes or promising facilitating payments. The Group also prohibits employees from making beneficial decisions towards family, friends or close or distant acquaintances. It is not allowed to provide any gift or invitation to an event to third parties if it could potentially influence any business transaction. Magyar Telekom Group does not support morally or financially any political parties, organizations or representatives of these. Magyar Telekom will not start business relations with third parties that violate the anti-corruption clauses of the Compliance Program or the basic principles of the Code of Conduct.

Due Diligence procedures: There are no fixed procedures on how thorough due diligence should be to avoid legal responsibility or any investigation as per the anti-corruption laws. The aim of these procedures is to identify high-risk areas, and to provide indication when further due diligence or review is required.

9.1.2 Result of the policies

During the year, we have verified the plausibility of any complaints we have received about unethical behavior and initiated internal investigations if necessary. If we have identified any misconduct we initiated the necessary measures and actions. Any complaints regarding breaches of internal or external rules can be sent to the Tell Me! portal of Magyar Telekom. Any questions regarding corporate compliance can be asked on the Ask Me! intranet portal.

9.1.3 Risk

The basis and prerequisite of the efficient defense against breaches of laws and policies is the registering and analysis of compliance risks and identifying other compliance relevant cases at Magyar Telekom. The yearly Compliance Risk Assessment (CRA) handles active and passive corruption separately. The risk assessment always includes Magyar Telekom, T-Systems and Makedonski Telekom. Other subsidiaries can be included on a case-by-case basis, based on information originating from internal investigations. The CRA fully covers the abovementioned companies. The Group Compliance Officer informs the Audit Committee, the Board of Directors, and the management about the result of the risk assessment and gives an update about the status of the measures in every quarter.

10 ECONOMIC ENVIRONMENTS, OUTLOOK AND TARGETS

The global environment in 2021 showed dynamic recovery from the recession hitting the worldwide economy in 2020 with the outbreak of the COVID-19 pandemic. The targeted government measures along with the more efficient management of the pandemic led to improved production as well as higher consumption levels. However, the still prevailing pandemic has been reshaping the environment whereas some new economic difficulties has also emerged with global supply chain disturbances and the sharp increase in energy prices witnessed in the second half of 2021.

The telecommunication industry has continued to play a critical role in keeping families connected and businesses and the economy progressing in this changing environment. The need for digitalization, demand for data and the use of online, virtual channels have reached unseen levels, highlighting the integral role of the global telecommunication industry.

10.1 Economic environments and outlooks

Hungary

Similarly to 2020, economic performance in 2021 was heavily impacted by the COVID-19 pandemic. First quarter of the year has been challenging as the emergence of a third wave of pandemic proved to be more severe than previous rounds, with stringent restrictive measures also negatively impacting economic performance. However, from mid-April on, thanks to the increasing vaccination rates, the restrictions were gradually lifted. This, coupled with the supportive governmental measures led to a strong rebound in economic performance witnessed in the outstanding second quarter GDP growth figure. By the third quarter of 2021, all limitations were removed supporting service sector recovery, with particularly positive impact witnessed in tourism. Although Hungary was hit by the fourth wave of pandemic in the autumn, only few limitations were introduced. Consequently, economic performance in the second half of the year continued its positive development, however now paired with strong inflationary pressure stemming both from global raw material and energy price increase as well as from the weakening of the forint.

In 2022, GDP is expected to continue to expand further fueled by domestic demand and expansionary fiscal measures. At the same time, yields are expected to increase further in line with the central bank's rate hike steps and inflation is also forecasted to remain at higher levels with prolonged supply-chain constraints, elevated energy prices and pandemic-related uncertainty posing further risks to economic performance.

With regards to the Hungarian telecommunication sector, the easing of the pandemic related restrictions coupled with strong economic performance, have resulted in a favorable development in the operating environment. However, within the sector we have been witnessing changes in the competitive landscape that warrant attention.

Looking ahead, while there are significant uncertainties related to the economic and business developments, demand for telecommunications services expected to remain strong with digitalization continuing to be of vital importance. To ensure the reliability and security of our networks and our leading position on the market, the management remains committed to invest in our infrastructure and continue with the customer centric operational approach going forward.

North Macedonia

North Macedonia alike was in severe recession in 2020 with significant recovery starting in 2021. A notable rise in domestic consumption coupled with recovering tourism reflecting the easing of the Europe-wide restrictions helped to improve economic performance during the year. These positive developments also had favorable impact on the performance of telecommunication operators with both subscriber and visitor revenues rebounding from the pandemic levels.

Looking ahead, though the economy is set for further expansion, the rising global energy and food prices have already led to higher inflation in 2021 that may continue in 2022, significantly affecting household spending power with considerable part of their consumption consisting of food and energy spending

10.2 Revenue, EBITDA AL and Capex AL targets

With many of the pandemic driven restrictions eased during 2021, Magyar Telekom has successfully leveraged the improving trends in the operating environment. Our excellent network quality coupled with the rising customer satisfaction, have enabled us to successfully monetize strong market demand for our telecommunications and data services and to deliver our 2021 annual revenue and EBITDA AL targets. Recording a continued strong demand for our fiber products, we have further accelerated the pace of our fiber optic rollout program, resulting in higher annual Capex and somewhat lower free cash flow than originally targeted.

Looking ahead, we expect to sustain this positive commercial momentum in 2022, which is likely to lead to revenue growth of 1% to 3%, with EBITDA AL growing by 3% to 5%, supported by cost control measures. Network quality remains a significant differentiator for the Group and to preserve this, we intend to maintain the steady pace of our fiber roll-out and mobile network modernization program. As a result, investment levels are expected to remain broadly stable year-on-year. Free cash flow, excluding spectrum license payments, is forecast to increase to at least HUF 70 billion in 2022, thanks to positive trends in EBITDA AL and working capital.

11 INTERNAL CONTROLS, RISKS AND UNCERTAINTIES

11.1 The presentation of the systems of internal controls and the evaluation of the activity in the relevant period

Magyar Telekom's management is committed to establishing and maintaining an adequate internal control system to ensure the reliability of the financial reports and minimize operating and compliance risks. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

For the business year 2021 we accomplished control documentation and evaluation in the IT supported ICS-Tool[i] system. Transaction Level Controls describe the controls built into our business processes that have been designed and operated to ensure that material misstatements in each significant financial account and disclosure within the financial statements are prevented or detected in a timely manner.

Complete evaluation of our internal control system is based on the method established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The operation of the internal control system is supported also by the independent internal audit function. Beyond tasks regarding the risk based internal audit work plan, contributes to the enhancement of the internal control processes and to the reduction of existing risks through ad-hoc audits and ICS testing. The Internal Audit area follows up the implementation of the measures defined on the basis of the audits. The Supervisory Board and the Audit Committee inter alia also receive regular reports on the findings of the audits; measures, based on the findings and fulfilment of tasks.

In line with the criteria of the adopted internal control framework, management evaluates the effectiveness of internal control system within each financial year. Management's assessment for 2021 is finished and based on the collected information internal control system has been operating effectively to prevent potential material misstatements in the financial statements, and minimize operating and compliance risks.

The Company's shareholders are being informed about the operation of our internal control system through our public reports.

The management and Board of Directors of Magyar Telekom are committed to conducting all business activities of Magyar Telekom Group according to the highest legal and ethical standards. Based on this commitment, the Board of Directors established the Corporate compliance program of Magyar Telekom.

The Corporate compliance program is applicable to all bodies, organizations, employees of Magyar Telekom Group, and advisors, agents, representatives as well as to all persons and organizations that work on behalf of the Company or its subsidiary.

The Corporate compliance program of Magyar Telekom ensures that the business activities of the Group are conducted observing and in compliance with the relevant laws to the utmost extent, according to the highest standards of training and commitment. It requires the realization of guidelines and processes that manage potential compliance risks and implement specific processes in order to report, investigate, monitor and correct suspected or actual lack of compliance.

[i] Internal Control System

11.2 The utilization of financial instruments, risk management and hedging policies

Introduction

As Hungary's leading telecommunications and IT service provider we are subject to uncertainties and changes of the telecommunications and IT industry. To operate successfully in this continuously changing environment risks have to be systematically identified, assessed and managed.

The risk management system is not only needed from a business point of view, but as a company listed in the stock market, we are obliged to operate a risk management system and prepare a risk report to inform our investors.

Upon the establishment of our comprehensive risk management system the Company acts in line with the relevant requirements of the Budapest Stock Exchange, as well as the rules laid down in the applicable international standards.

Our Group level risk management system covers strategic, operational, financial, compliance and legal risks, which is also applicable to our consolidated companies. The objective is to identify, monitor and manage these risks in an early phase.

Risk management guidelines

It is our policy that all disclosures made by us to our shareholders and the investment community, are accurate and complete, and fairly present our financial condition and results of operations in all material respects. Such disclosures should be made on a timely basis as required by applicable laws, rules and regulations. To achieve these objectives, we continuously develop and regularly review the functionality and effectiveness of the elements of our risk management system.

Our risk management includes the identification, assessment and evaluation of risks, the development of necessary action plans, as well as the monitoring of performance and results.

The risk management organization and process:

Magyar Telekom performs its risk management activities in accordance with the risk management guidelines developed by the Group level risk management organization and approved by the Boards of Directors.

The risk owners of the individual organizations are responsible for identifying, reporting, assessing and monitoring risks on a continuous basis, in line with the framework of the risk management process, under the governance of the central risk management organization.

Magyar Telekom's Group level risk report is regularly submitted to the Board of Directors, the Audit Committee and the Supervisory Board as well as to Deutsche Telekom's risk management organization.

During the annual planning process the management takes into account potential risks.

The established risk management standard provides a process framework:

- following the identification of risks, they are analyzed, assessed and quantified in details, then they are quantified (by estimating their probability of occurrence and potential impact) according to a predefined methodology. The assessment of risk assessment enables the management to focus more effectively on those risks that have a significant impact on the company's strategic objectives.
- following the assessment, the decision is made on the specific measures to reduce risks,
- the relevant risk owner implements, monitors and evaluates the relevant measures, and
- these steps are repeated as necessary to reflect actual developments and decisions.

For the risk management to be effective, Telekom must ensure that the management takes business decisions with full understanding of all relevant risks that we support through Magyar Telekom’s regular Group level risk report.

Identification, review and reporting of risks:

Risk items affecting our operations are reviewed regularly throughout the Company. All of our subsidiaries and entities are obliged to identify and report their operational risks on a quarterly basis. After the evaluation of these risks, results are reported to the Company’s management, to the Board of Directors, to the Audit Committee and the Supervisory Board. This regular reporting ensures that the most significant risks are monitored, up-to-date risk mitigation measures are implemented and regularly monitored.

Our risk reporting system is complemented 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 Chief Financial Officer 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.

The risk assessment is carried out for a two-year period. This is also our forecast period. If there are significant risks beyond the forecast period, such risks are monitored on a continuous basis.

Opportunities

Besides the systematic management of risks the identification of opportunities and their strategic and financial assessment are also essential parts of our annual planning process. This allows us to take these opportunities into account in our forecasts.

11.3 Main risk factors

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

Regulatory risks

- Magyar Telekom operates within a strictly regulated market environment. Most of the regulatory framework is the result of EU legislation. Hungary implemented the new EU regulatory framework (1972/2018/EU) by end of 2020.
- The regulatory environment in North Macedonia is expected to remain strict, since the regulatory body's (AEK) aim is at widening the scope of wholesale regulation.

Risk management activities:

- We cooperate and maintain an active dialogue with regulators.
- We maintain processes to ensure compliance and provide timely and accurate information to our regulators.

Legal risks

- Regulatory cases and legal disputes with parties could have an effect on our results of operations.

Risk management activities:

- Protecting our interest and values through legal representation, continuous management and monitoring of legal disputes.
- See also the compliance risk management activities.

Financial risks

- For details on financial risks and their management, see Note 5 of the Consolidated Financial Statements.
- Developments in the technology and telecommunications sectors may result in impairment of the book value of certain of our assets.
- Unpredictable changes in the Hungarian tax regulations may have an adverse effect on our results.
- Fluctuations in the currency exchanges rate could have an adverse effect on our results of operations.
- Economic trends in Hungary and in other countries could have an adverse impact on the value of our investments, operating results or financial situation.
- The increasing trend of inflation, with limited predictability could erode Magyar Telekom's results.
- The global energy crisis has emerged recently, with the prices of several major energy commodities and electricity rising sharply, the significant price increasing affecting several products, including natural gas, oil, coal and electricity. Rising energy prices can lead to unexpected costs.

Risk management activities:

- We continuously analyze financial actual data and provide forecasts on financial indicators.
- We carry out sensitivity analyses (e.g. foreign exchange, cash flow).
- We test all key controls on an annual basis.
- We continuously improve our processes, systems for the purpose of automated accounting, reporting and auditing.
- We constantly monitor energy prices to ensure that we purchase energy at a proper price level.

Strategic risks

- We are subject to intense competition in the fixed business due to overlaps with our competitors on more and more locations as a result of the network roll-outs.
- We are subject to intense competition in SI/IT segment, especially on public sector tenders.
- Adaption to new trends and technological changes in the telecommunications market (IoT, Big Data, AI, 5G) might be a serious challenge.
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies, and unsubstantiated and rapidly spreading news about new technologies.
- More intense competition in North Macedonia driven by A1 (formerly VIP) as well as Telekabel being integrated players and Telekom Serbia (MTel), as a new market player entering the North Macedonian telecommunication market.
- Sustainability: information on the Company's approach to sustainability risks and opportunities can be found in Note 7 “Sustainability” of the Consolidated Business Report.

Risk management activities:

- We continuously invest in the development of our network, our objective is to have the best convergent network in Hungary.
- We transform our internal processes to be even better prepared for future challenges.
- We monitor technological developments and our competitors' activities.
- We pursue responsible and sustainable business activities.
- In order to maintain trust and reputation we continuously inform our key stakeholders on our plans, risks and achievements.
- We integrate digital initiatives into our long-term planning and align their technology and business strategies.

Operational risks

- The future of our current operational model is subject to currently unforeseeable changes in the future business environment.

  Risk management activities:

  - We have a flexible business model. We closely monitor the competitive environment in all markets and respond accordingly to both consumer and business segment needs.
  - Our price offers are competitive in the markets where we operate.
  - We support our business customers with our innovative products to increase efficiency.
  - We transform our internal processes to be even better prepared for future challenges.

- The pandemic continues to make a big impact worldwide and also to our entire risk environment.

  Risk management activities:

  - Reacting to COVID-19 has become part of our everyday operation. Due to the nature of the telecom industry and the importance of communication services in the pandemic we continuously strengthen our digital strategy.
  - Magyar Telekom continues to successfully operate and provide the capacity of its network infrastructure and ensures the health and productivity of employees by enabling teleworking.

- System failures could result in reduced user traffic and revenue, could lead to penalties and could harm our reputation.

  Risk management activities:

  - We operate network monitoring systems and define recovery goals to minimize service outages.
  - We consider it of key importance to inform our customers in a timely manner about service problems thus we operate an advanced information system.

- Loss of key personnel could weaken our business.

  Risk management activities:

  - Operation of an advanced human resources strategy, for further details see Note 3 (“Social commitments, labor standards, human rights”) of the Consolidated Business Report.

- The number of cyber attacks has increased significantly in the whole world. Cybersecurity risks have worsened due to the pandemic, as work, shopping, social interactions and education have become significantly digitized. The quick change increased the vulnerability of organizations to cyber attacks. Also, teleworking may increase the risk of fraud and misuse of business information and data, as well as unauthorized access, theft and fraudulent use of data. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack. If we fail to manage this effectively, it may have significant customer related, financial, reputational or regulatory consequences.

  Risk management activities:

  - We perform regular audits on key security risks affecting our business and maintain strategies to identify, prevent and respond to these challenges.
  - Our cybersecurity approach focuses on minimizing the risk of cyber security incidents impacting our networks, systems and services.
  - We promote conscious conduct among our colleagues via communication, campaigns and training.

- Data protection incidents are punishable with very high fines. Despite mitigating measures and well-designed data protection management structures data protection incidents and compliance deficiencies can not be entirely excluded. There may be problems that can have a negative impact on Magyar Telekom's reputation and may incur costs and sanctions (including fines).

  Risk management activities:

  - In order to ensure data protection compliance and to avoid sanctions (fines) we must pay special attention to the principle of purpose limitation, privacy by design, privacy by default as well as data security measures to avoid system failures that may impact a large number of subscribers or employees.
  - We regularly provide our colleagues data protection and data security trainings and other tools to help them make better and risk-conscious decisions.

- Procurement and supply chain: we cooperate with a wide range of vendors. High risk products and services include hardware, network technology components, and all products and services provided directly to end users. Supply risks cannot be entirely avoided. Epidemics, transportation bottlenecks, price increases, changes in the economic or political environment or the suppliers' product strategies may have a negative impact on our business processes and results. Further risks may arise from dependencies on specific suppliers or from their default.

  Risk management activities:

  - In order to reduce our exposure to risks we implement organizational, operational and profession-specific procurement strategies. Our procurement processes are planned and are monitored through regular internal and external controls. Key professional factors for managing procurement risks: proactive management of the supplier base, supplier segmentation, risk analysis of strategic and critical suppliers and continuous active contact keeping together with the business areas.

Compliance risks

- Violation of laws may result in loss of trust, financial sanctions, impairment of our shareholder value and other sanctions. Serious violation of laws may lead to criminal proceedings, litigation and regulatory actions.

  Risk management activities:

  - We operate a compliance framework program for the identification, regular assessment and mitigation of risks.
  - We train our employees, run awareness raising programs that explain our ethical norms throughout the organization and help the employees to understand their role in ensuring compliance.
  - We support a culture where our colleagues can voice their concerns, so we can identify problems and prevent them from happening again.

11.4 Financial risk management

The classification of the Group's financial instruments is described in detail in Note 4 and the financial risk management of the Group is described in detail in Note 5 of the Consolidated Financial Statements.

12 ANALYSIS OF FINANCIAL RESULTS FOR 2021

Key Performance Indicators	At December 31,	
	2020	2021
Revenue (HUF million)	673,048	700,120
Mobile revenue	364,589	389,387
Fixed line revenue	219,004	223,865
System Integration/Information Technology revenue	89,455	86,868
EBITDA (HUF million)	225,844	240,771
EBITDA margin	33.6%	34.4%
Profit attributable to owners of the Parent (HUF million)	42,364	58,997
Capex after lease (HUF million)	197,631	193,432
Net debt (HUF million)	417,436	472,886
Net debt to EBITDA ratio	1.85	1.96

12.1 Revenues

Total revenues increased from HUF 673.0 billion in 2020 to HUF 700.1 billion in 2021, driven primarily by the growth in mobile data and fixed broadband revenues in Hungary coupled with an improvement in mobile service revenues in North Macedonia.

Mobile revenues increased to HUF 389.4 billion in 2021 compared to HUF 364.6 billion in 2020, reflecting the continued positive momentum in mobile data usage.

- Voice retail revenues declined by 3.8% to HUF 118.7 billion in 2021, reflecting tariff pressure across both operations.
- Voice wholesale revenues rose by 7.2% to HUF 12.8 billion in 2021, reflecting an increase in incoming mobile traffic in Hungary along with higher international incoming traffic in North Macedonia.
- Data revenues grew by 16.7% to HUF 118.8 billion in 2021, driven by the continued growth in subscriber numbers and strong demand for mobile data usage that was amplified by the pandemic induced social distancing measures.
- SMS revenues increased by 17.9% to HUF 24.4 billion in 2021, primarily as a result of further growth in mass messaging revenues in Hungary coupled with higher usage driven by the increasing retail postpaid customer bases in both countries.
- Mobile equipment revenues increased by 7.7% to HUF 103.9 billion in 2021, driven primarily by increase in the average handset prices coupled with higher volume of export sales at the Hungarian operation.

Fixed line revenues increased to HUF 223.9 billion in 2021, up from HUF 219.0 billion in 2020. The significant improvements in broadband and TV revenues, especially pronounced at the Hungarian operation, fully offset the decline in voice revenues.

- Voice retail revenues decreased by 6.3% to HUF 37.1 billion in 2021, primarily due to a further decline in the customer base in Hungary.
- Broadband retail revenues increased by 9.2% to HUF 69.8 billion in 2021, thanks to further growth of the customer bases in both countries that was coupled with continued strong demand for bandwidth upgrade transactions in Hungary. These positive developments fully compensated for the temporary fallout in some of the Hungarian retail broadband revenues for the first half of 2021 due to the mandatory monthly fee allowance introduced for students and teachers to help with online education during the pandemic.
- TV revenues increased by 7.9% to HUF 56.5 billion in 2021, thanks to higher revenues in both Hungary and North Macedonia reflecting the continued expansion of the IPTV customer bases.
- Fixed equipment revenues declined by 13.0% to HUF 19.5 billion in 2021, reflecting lower volume of the equipment sold at the Hungarian operation.
- Data retail revenues rose by 3.7% to HUF 12.7 billion in 2021 thanks to higher revenue from leased line fixed internet services in both countries.
- Wholesale revenues were up by 3.4% to HUF 20.0 billion in 2021 thanks to higher network-related and wholesale data revenues in Hungary coupled with income from the resale of content right licenses in North Macedonia.

System Integration (SI) and IT revenues recorded a decline of 2.9% to HUF 86.9 billion in 2021, compared to HUF 89.5 billion in 2020, primarily driven by the absence of major customized solution projects in North Macedonia coupled with moderately lower project volumes in Hungary.

12.2 Direct costs

Direct costs increased from HUF 297.5 billion in 2020 to HUF 311.7 billion in 2021, primarily due to higher equipment and interconnect costs.

- Interconnect costs grew by 13.0% to HUF 25.0 billion in 2021, as increased off-network mobile voice traffic led to higher payments to domestic mobile operators at the Hungarian operation.
- SI/IT service related costs declined by 2.0% to HUF 62.1 billion in 2021, reflecting lower volume of related projects during the year.
- Bad debt expenses were up by 13.3% to HUF 11.0 billion in 2021 due to a forward-looking impairment recognized in the amount of HUF 3.2 billion reflecting a possible deterioration of the solvency of our customers driven by unfavorable macroeconomic developments coupled with the termination of loan moratorium in Hungary expected for mid-2022. This offset the positive impacts of factoring and favorable aging of mobile receivables at the Hungarian operation.
- Telecom tax was lower by 2.9% at HUF 26.8 billion in 2021, reflecting the absence of a one-off non-recurring adjustment booked in 2020.
- Other direct costs increased by 6.9% to HUF 186.8 billion in 2021, driven primarily by higher equipment costs coupled with an increase in roaming and Hungarian TV content outpayments.

12.3 Gross profit

Gross profit increased to HUF 388.4 billion in 2021, from HUF 375.6 billion in 2020, reflecting the increase in revenues.

12.4 Employee-related expenses

Employee-related expenses improved by 4.0% year-on-year to HUF 75.9 billion in 2021, reflecting the combined impact of the reduction in overall Group headcount and lower severance expenses.

12.5 Other operating expenses

Other operating expenses declined moderately from HUF 76.6 billion in 2020 to HUF 75.7 billion in 2021 thanks to broad based cost saving measures implemented during the year that resulted in lower advisory and maintenance costs. Hungarian utility tax was moderately up at HUF 7.3 billion.

12.6 Other operating income

Other operating income decreased to HUF 4.0 billion in 2021 from HUF 5.8 billion 2020, reflecting primarily lower one-off profits realized from the sale of real estate in Hungary.

12.7 EBITDA

EBITDA grew to HUF 240.8 billion in 2021 versus HUF 225.9 billion in 2020, thanks to higher gross profit in both countries of operation coupled with indirect cost savings in Hungary.

12.8 Depreciation and amortization

Depreciation and amortization (D&A) expenses rose to HUF 148.0 billion in 2021 from HUF 141.1 billion in 2020. In Hungary, higher D&A expenses were related to capitalization and shortened useful life of softwares, while in North Macedonia the increase reflected shortened useful life and accelerated depreciation in relation to the RAN modernization.

12.9 Operating profit

Operating profit rose from HUF 84.8 billion in 2020 to HUF 92.8 billion in 2021 thanks to the improvement in EBITDA partly offset by higher D&A expenses.

12.10 Net financial result

Net financial result improved considerably from HUF 23.8 billion loss in 2020 to HUF 13.7 billion loss in 2021. Although interest expenses increased due to higher spectrum payment liabilities and absence of a one-off interest provision reversal at the North Macedonian operation booked in 2020, more favorable results on the recognition of derivatives at fair value reflecting shifts in the relevant yield curves and the absence of significant negative impacts stemming from the weakening of the forint against the euro during 2020 led to a significant annual improvement.

12.11 Income tax

Income tax expense rose from HUF 14.6 billion in 2020 to HUF 16.3 billion in 2021 driven by the higher profit before tax.

12.12 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests declined moderately from HUF 4.0 billion in 2020 to HUF 3.9 billion in 2021, as higher annual EBITDA was offset by the one-off items in D&A and interest expenses at the North Macedonian subsidiary.

12.13 Group Cash Flows

HUF millions	1-12 months 2020	1-12 months 2021	Change
Net cash generated from operating activities	185,955	194,770	8,815
Net cash used in investing activities	(148,102)	(101,402)	46,700
Less: (Payments for) / Proceeds from other financial assets	2,533	(9,228)	(11,761)
Investing cash flow excluding Payments for / Proceeds from other financial assets - net	**(145,569)**	**(110,630)**	**34,939**
Repayment of lease and other financial liabilities	(25,114)	(28,972)	(3,858)
Total free cash flow	**15,272**	**55,168**	**39,896**
(Payments for) / Proceeds from other financial assets	(2,533)	9,228	11,761
Proceeds from / Repayment of loans and other borrowings - net	(53,589)	(36,737)	16,852
Dividends paid to Owners of the parent and Non-controlling interests	(24,516)	(18,788)	5,728
Proceeds from corporate bonds	70,834	-	(70,834)
Treasury share purchase	(5,218)	(10,215)	(4,997)
Exchange differences on cash and cash equivalents	1,041	118	(923)
Change in cash and cash equivalents	**1,291**	**(1,226)**	**(2,517)**

Free cash flow (FCF) improved to HUF 55.2 billion in 2021 (2020: HUF 15.3 billion), mainly due to the reasons described below.

Operating cash flow

Net cash generated from operating activities amounted to a cash inflow of HUF 194.8 billion in 2021, compared to cash inflow of HUF 186.0 billion in 2020, attributable to the reasons outlined below:

- HUF 14.9 billion positive impact due to higher EBITDA in 2021

- HUF 17.5 billion negative change in active working capital, mainly as a result of:
  - lower decrease in SI/IT receivables (negative impact: ca. HUF 8.2 billion) due to different project seasonality including the effect of 2019 year-end peak in project settlement,
  - unfavorable change in handset inventory balances (negative impact: ca. HUF 2.9 billion) mainly reflecting supply insecurity due to shortage of raw materials (especially chip) caused by COVID-19,
  - higher increase in the balance of telecommunication customer related trade receivables (negative impact: ca. HUF 2.2 billion) mainly caused by higher sales,
  - unfavorable change in advance payment balances in 2021 compared to 2020 (negative impact: ca. HUF 2.7 billion),
  - moderate change in net portfolio of installment receivables in 2021 vs. 2020 (negative impact: ca. HUF 0.9 billion) as a result of higher sales volume and change in expected loss due to loan moratorium risk in 2021.

- HUF 2.0 billion **positive change in provisions**, mainly reflecting reduction in provision for litigation risks and penalties in the base period against some increases in 2021

- HUF 8.0 billion **positive change in passive working capital**, primarily driven by
  - lower payment to handset suppliers (positive impact: ca. HUF 11.1 billion) driven by timing differences in payments complemented with higher purchasing in 2021 in line with higher inventories,
  - favorable change in contract liabilities (positive impact: ca. HUF 1.7 billion) mainly due to change of SI/IT related advance payments received from customers,
  - higher decline in the balances of invoiced and non-invoiced BAU trade creditors (negative impact: HUF 4.2 billion) due to different seasonality.

- HUF 1.8 billion negative change in income tax paid mainly driven by the one-off energy saving investment tax credit disclosed in 2021 under cash flows from investing activities. Accordingly, the utilized tax credit reduced the amount of actually paid tax by HUF 2.3 billion.

- HUF 3.1 billion positive change in other non-cash items, mainly due to the lower net results from real estate sales recorded in 2021 compared to 2020 supplemented with the more significant foreign exchange rate movements leading to FX losses during 2020

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in investing activities amounted to HUF 110.6 billion in 2021, compared to HUF 145.6 billion in 2020, with the lower cash outflow driven mainly by the following:

- HUF 42.2 billion **positive effect** in payments for PPE and intangible assets mainly by the following:
  - HUF 54.6 billion positive change due to the absence payment for spectrum license fees in Hungary,
  - HUF 2.3 billion positive effect of the corporate income tax settlement of energy efficiency tax credit,
  - HUF 8.4 billion negative change reflecting to higher payments to Capex creditors due to different seasonality,
  - HUF 6.3 billion negative change due to higher investment in different areas (e.g. mobile network modernization in Hungary: HUF 4.5 billion negative effect, network technology in North Macedonia: HUF 3.2 billion negative effect, network technology in Hungary: HUF 1.9 billion positive effect).

Repayment of lease and other financial liabilities

Repayment of lease and other financial liabilities increased to HUF 29.0 billion in 2021 from HUF 25.1 billion in 2020, mainly due to higher network related lease payments and higher payment of different long-term supplier invoices.

In 2021 **Cash and cash equivalents** recorded a HUF 1.2 billion negative change compared to a HUF 1.3 billion positive change in 2020. Besides the changes in FCF the deterioration is attributed to the followings:

- **Payments for other financial assets - net** improved by HUF 11.8 billion, primarily due to higher cash inflows from cross currency interest rate (CCIR) swap transactions. The CCIR swap transactions are related to the repayment of two 130.0 million EUR denominated DT loans in Q1 and Q3 2021. This change was supplemented by higher cash inflows from bank deposits over 3 months in net term.
- **Proceeds from loans and other borrowings** decreased by HUF 29.4 billion due to the lower drawdown of DT Group loans partially offset by the periodic increase of proceeds from inhouse DT Group funds. For further information see Note 2.1 Basis of preparation.

- **Repayments of loans and other borrowings** improved by HUF 46.3 billion due the lower repayment of DT Group loans and the periodic decrease of repayments of inhouse DT Group funds. For further information see Note 2.1 Basis of preparation.

- **Dividends paid to Owners of the parent and Non-controlling interests** declined by HUF 5.7 billion mainly due to lower dividend payment from Magyar Telekom as the dividend per share (DPS) was reduced from HUF 20 in 2020 to HUF 15 in 2021.

- **Proceeds from bonds** deteriorated by HUF 70.8 billion due to the bond issuance in 2020.

- **Treasury share purchase** increased by HUF 5.0 billion due to the higher repurchase in 2021.

- **Exchange differences on cash and cash equivalents** declined by HUF 0.9 billion due to the higher MKD/HUF foreign exchange rate movement during 2020.

The financial and operating statistics are available on the following website:

http://www.telekom.hu/about_us/investor_relations/financial

12.14 Statements of Financial Position

The most significant changes in the balances of the Consolidated Statements of Financial Position from December 31, 2020 to December 31, 2021 can be observed in the following lines:

- Other financial assets (current and non-current combined)
- Other intangible assets
- Financial liabilities to related parties (current and non-current combined)
- Other financial liabilities (current and non-current combined)
- Treasury stock

Other financial assets (current and non-current combined) decreased by HUF 23.5 billion from December 31, 2020 to December 31, 2021 mainly as a result of a HUF 19.8 billion decrease in cash pool receivables as well as HUF 4.0 billion decrease of derivative financial instruments contracted with related parties.

Other intangible assets increased by HUF 60.5 billion from December 31, 2020 to December 31, 2021 mainly reflecting the acquisition of spectrum licenses. The present value of the future annual band fees to be paid by Magyar Telekom until 2042 and the one-time spectrum fee to be paid until Q1 2022 were capitalized in March 2021 in the amount of HUF 83.1 billion.

Financial liabilities to related parties (current and non-current combined) decreased by HUF 59.3 billion from December 31, 2020 to December 31, 2021 due to the combined result of repayments and drawdowns of short- and long-term DT Group loans which were partly offset by the increase in cash pool liabilities.

Other financial liabilities (current and non-current combined) increased by HUF 78.3 billion from December 31, 2020 to December 31, 2021, mainly due to the recognition of present value of the future annual band fees and one-time spectrum fee for spectrum licenses.

Treasury stock increased by HUF 10.2 billion from December 31, 2020 to December 31, 2021 as a result of a repurchase of treasury shares.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position in the period from December 31, 2020 to December 31, 2021. 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 2021 and the related explanations provided above in section 12.13 Group Cash Flows.

13 EVENTS AFTER THE REPORTING PERIOD

13.1. Sale of Pan-Inform

T-Systems Magyarország Zrt. signed a sales purchase agreement on the sale of its subsidiary Pan-Inform Kft., the scope of the agreement covers the support and development operations provided for central healthcare services in Hungary and the related hospital information system. The closing of the transaction and the settlement of the HUF 5.5 billion purchase price took place at the end of January 2022.

Budapest, February 23, 2022

Tibor Rékasi
Chief Executive Officer, Board member

Daria Aleksandrovna Dodonova
Chief Financial Officer, Board member

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, March 8, 2022

Tibor Rékasi
Chief Executive Officer,
Member of the Board

Daria Aleksandrovna Dodonova
Chief Financial Officer,
Member of the Board