EGYÜTT. VELED

BUILDING A NEW TELEKOM
MAGYAR TELEKOM
THE 2013 FINANCIAL YEAR

CONTENTS

ABOUT MAGYAR TELEKOM

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

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

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

The immediate controlling shareholder of the Company was MagyarCom GmbH (MagyarCom) owning 59.21% of the issued shares, until October 4, 2013 when MagyarCom Holding GmbH merged into T-Mobile Global Holding Nr. 2 GmbH. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH contributed its shares as capital increase into its fully owned subsidiary, CMobil B.V. with headquarters in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands). As a result of this transaction CMobil B.V. became Magyar Telekom Plc.'s shareholder with direct voting right of 59.21% (registered in Share Register on February 7, 2014). Considering that the CMobil B.V. is the 100% owned subsidiary of T-Mobile Global Holding Nr. 2 GmbH and T-Mobile Global Holding Nr. 2 GmbH is the 100% owned subsidiary of Deutsche Telekom AG (DT or DTAG), after the transaction the indirect voting right and influence of Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) in Magyar Telekom Plc. remained unchanged.

All financial numbers included in this document have been prepared in accordance with IFRS as issued by IASB and endorsed by the European Union (EU).

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

In this annual report the terms "Magyar Telekom", the "Group", "we", "us" and "our" refer to Magyar Telekom Plc. and, its direct and indirect subsidiaries as a group; the terms "Magyar Telekom Plc." or the "Company" refer to Magyar Telekom Plc. without its subsidiaries; the terms "DT" or "DTAG" refer to Deutsche Telekom AG; the term "DT Group" refers to DT and its subsidiaries as a group.

SELECTED FINANCIAL DATA
OF MAGYAR TELEKOM GROUP

	2011.	2012.	2013.
CONSOLIDATED PROFIT OR LOSS DATA	HUF millions	HUF millions	HUF millions
Revenues	597,617	607,128	637,521
Operating profit	63,167	87,921	74,721
Profit attributable to the owners of the parent	(7,457)	36,859	23,460
EBITDA [1]	196,082	194,818	179,462
EBITDA margin (%)	32.8	32.1	28.1
CONSOLIDATED FINANCIAL POSITION DATA			
Total assets	1,098,028	1,057,844	1,091,248
Net assets	556,091	522,083	489,576
Common stock	104,275	104,275	104,275
Total equity of the owners of the parent	488,015	463,056	437,468
Net debt	288,377	273,132	381,230
CONSOLIDATED CASH FLOWS DATA			
Net cash from operating activities	168,781	145,227	131,612
Net cash used in investing activities	(77,752)	(72,875)	(106,049)
Net cash used in financing activities	(93,228)	(71,062)	(26,318)
Free cash flow [2]	92,026	59,671	634

	year ended December 31,		
EMPLOYEES	2011.	2012.	2013.
Number of employees (closing full equivalent)	10,111	11,653	11,324
MAGYAR TELEKOM SHARE – KEY FIGURES			
Weighted average number of shares (basic and diluted, millions)	1,041	1,042	1,042
Earnings per share (basic and diluted in HUF)	(7.15)	35.36	22.51
Dividend per share (HUF) [3]	50	50	0

(1) EBITDA: Earnings before net financial result, taxes, depreciation and amortization.
(2) Free cash flow: operating cash flow and investing cash flow excluding proceeds from / payments for other financial assets and including payments for other financial liabilities.
(3) Declared for the year 2011 and 2012, proposal for 2013.

LETTER TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS,

Nearly 10 years ago, we anticipated that new telecommunication technologies would be unable to fully offset the losses stemming from our traditional voice-based services, and as a result, broadened our strategy by entering into new business areas. Today, this has not only provided the Group with further avenues of growth, but has also complemented our core offering, thereby enhancing our retention rates and helping to extract incremental value from our existing operations. Consequently, although 2013 was a challenging year, plagued by uncertain macroeconomic and market conditions, I am pleased to report that the Group still managed to increase revenues, improve customer retention and deliver strong customer volume figures. Overall, Group revenues increased by 5%, largely attributable to the rapidly expanding non-core telecom businesses such as retail gas and electricity, SI/IT and equipment sales. At the same time, better operational performance in Hungary allowed us to marginally beat our EBITDA guidance, realizing only an 8% decline, rather than the 9%-12% decline that was originally anticipated. Capital expenditure for 2013 totaled HUF 88 billion without spectrum acquisitions and annual frequency fee capitalizations, in line with the 5% reduction the Group had guided towards.

In the Telekom Hungary segment, we managed to increase revenues by 7%. The majority of this growth was derived from the aforementioned rapidly expanding non-core telecom businesses which include retail energy, SI/IT and equipment sales, of which the latter includes not only mobile handsets, laptops and tablets, but TV sets as well. Though these businesses attract lower margins than traditional telecommunication services, they noticeably augment our customer retention efforts: by the end of 2013 fixed voice churn decreased to around 2% per annum while our market share continues to expand in the fixed internet and TV markets. In 2013, through a combination of value enhancing acquisitions and organic growth, we managed to gain the largest percentage of TV subscribers in the market. In the Hungarian mobile market, despite a highly competitive and penetrated market, we managed to increase our mobile voice market share to 47% and grow total mobile revenues by 3%. Moreover, in the fourth quarter of 2013, we reached an important milestone with the introduction of much more favourably priced unlimited voice tariff packages. Our 'Next' flat rate mobile packages were met with high demand from both new and existing customers, with successful upselling efforts helping to soften the pressure on ARPU levels. The penetration of smart devices and mobile internet continued to increase, with the sale of smartphones comprising an increasing proportion of total sales. The ratio of subscribers using smartphones by the end of the year rose to over 41%, from 31% a year earlier, while around 85% of post-paid smartphone buyers subscribed to a data package. Our continued investment in the mobile network has made a huge contribution to these successes and has been instrumental in maintaining the high quality of voice and data transmission. In 2013, we expanded the 4G coverage to around 40% of the population and intend to increase this to 80% by 2015 in order to meet the much higher demand generated by the significant growth in data consumers. I am very pleased to report that in September 2013, our frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. This was a very important step for us, as this extension secures the foundations for providing high quality mobile services into the future. We also expect that other frequency bands, currently unused, will be tendered in 2014.

In the T-Systems Hungary segment, revenues increased by 5% as the significant growth in SI/IT more than offset the decreasing fixed and mobile businesses. SI/IT revenues grew by 18%, driven by a number of EU-funded healthcare- and transportation-related investments, and greater numbers of corporate IT projects motivated by efforts to rationalise costs. EBITDA however, decreased by 16% as margin dilution was prevalent, with complex service-heavy projects increasingly being replaced by simpler and lower margin equipment-heavy tenders, while the income from the sale of Pro-M that occurred in 2012 also negatively impacted the year-on-year comparison.

Market conditions in Macedonia remained challenging throughout the year, with the aggressive pricing practices of our competitors continuing to put pressure on our revenues and profitability. As a result, revenues in forint terms were down by 7%, and EBITDA declined by 30%. That said however, the latter was also impacted by the one-off income from real estate sales in 2012 which negatively distorts the year-on-year comparison. Despite this, there have been some recent positive developments in the market: we have been able to maintain our clear leading position in the mobile voice market, while also successfully acquiring new frequency blocks on the 800 MHz and 1800 MHz spectrums. In December 2013, we also became the first operator to launch a 4G service in Macedonia. In addition, as the first European operator, Makedonski Telekom launched a pure All IP network with the migration of all of the company's fixed lines to the new platform. Among other benefits, this change enables a much faster time to market when it comes to new product or service launches, while providing a better quality of audio calls and a portfolio of multimedia services that is richer overall.

In Montenegro, we further strengthened our leading position in the TV market and also remained the market leader in the mobile post-paid market. Revenues and EBITDA in forint terms remained fairly stable despite strengthening competition and SIM and IPTV subscription based taxes. That said, there is a positive development in that the SIM and IPTV based tax that was introduced in July 2012 was abolished as of January 2014. Growing areas such as mobile internet, TV, fixed line internet, and equipment sales were able to compensate for losses we suffered in the voice markets.

The results achieved in 2013 validate that our strategy, which is based on bundling various services and equipment with core telecommunication services, is appropriate for the challenging environment that we currently operate in. Through our approach of including near core and beyond core services to augment traditional core activities, we have been able to provide a unique customer experience that has helped to optimise value for both the Company and our subscribers. However, I do not expect 2014 to be an easy year for Magyar Telekom. We expect lower growth in retail energy and equipment sales to contribute to a decline in our revenues of up to 3% compared to 2013. Our reported EBITDA is expected to decline by 3%-6% driven by the continued, albeit more gradual, shift in our revenue to lower margin services. Our Capex target (excluding any spectrum acquisitions and annual frequency fee capitalizations) for 2014 is around HUF 87 billion, which we plan to spend on projects geared towards enhancing future levels of efficiency, such as IP migration and integrated CRM and billing systems.

Our strategic objective in the mid-term is to increase our agility, enhance our efficiency, simplify our product and service portfolio and increase process automation. We aim to exploit our abilities to become a leader in all digital services around the home for both consumers and third parties. Our non-core areas, such as energy, e-health, finance and insurance services support customer retention and new revenue streams. We look to build on existing strengths and new market opportunities, while stabilizing and growing profit and cash flows. At the same time, we hope to enhance the user experience for our customers in all segments, and look towards this being a key differentiator versus our competitors.

Based on our dividend policy to maintain the net debt ratio (net debt to total capital) within the 30%-40% range, and given our financial position and the operating and business environment, our Board of Directors proposed no dividend payment from the 2013 financial results, for approval at the Annual General Meeting.

Looking ahead, I strongly believe that our strategy of improving customer service, transforming our cost base and investing in the future will deliver long-term value for our shareholders.

Budapest, April 11, 2014

Christopher Mattheisen
Chief Executive Officer

MANAGEMENT REPORT

MANAGEMENT REPORT

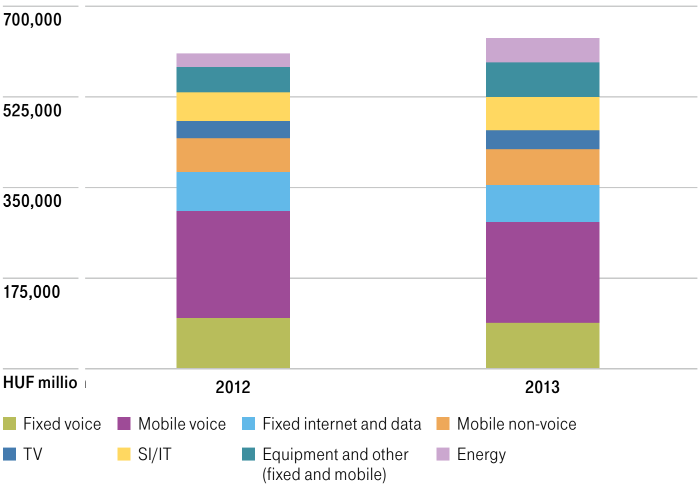
Group revenues increased by 5.0% to HUF 637.5 billion in 2013 compared to 2012, attributable to a strong revenue contribution from the energy service, as well as a significant increase in both equipment sales revenues and system integration (SI) and IT revenues. These more than offset the declines in fixed and mobile voice revenues that remained under pressure due primarily to cuts in mobile termination rates in all three countries of operation, and continuing severe competitive pressures in Macedonia.

EBITDA decreased by 7.9% to HUF 179.5 billion, with the EBITDA margin declining from 32.1% to 28.1% due to the increasing proportion of lower margin services within our portfolio. Furthermore, there was a HUF 7.0 billion decrease in other operating income primarily due to two one-off transactions in 2012, the HUF 3.7 billion gain realized on the real estate transaction in Macedonia and the HUF 1.6 billion gain relating to the sale of Pro-M in 2012.

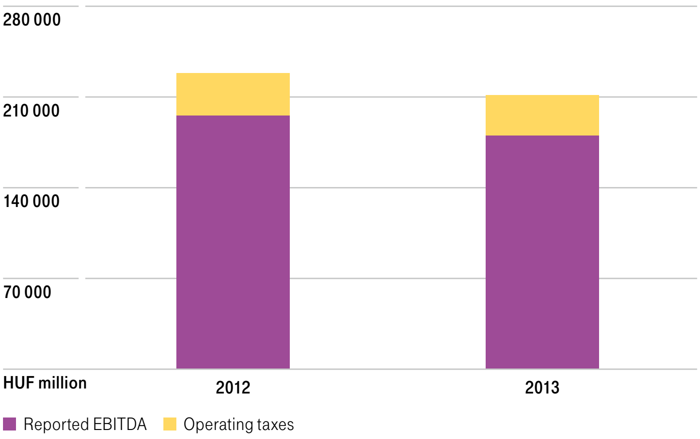
Profit attributable to owners of the parent company declined from HUF 36.9 billion in 2012 to HUF 23.5 billion in 2013, largely a reflection of the lower EBITDA and the higher financial expenses.

Investment in tangible and intangible assets (Capex) increased by HUF 42.8 billion from HUF 103.3 billion to HUF 146.1 billion. This significant increase is primarily attributable to the extension of frequency licenses in Hungary in 2013, which amounted to HUF 38 billion, and the acquisition of the 4G license in Macedonia for HUF 3.1 billion. These were coupled with the HUF 17.5 billion capitalization of the present value of the future annual frequency fees in . Excluding these impacts, and the HUF 10.9 billion booked in 2012 that related to the 900 MHz spectrum license fee, Capex decreased by HUF 4.9 billion, mostly reflecting the impact of the HUF 10.7 billion non-cash Capex accounted for in 2012 in relation to the Macedonian real estate exchange transaction.

REVENUE BREAKDOWN



REPORTED EBITDA

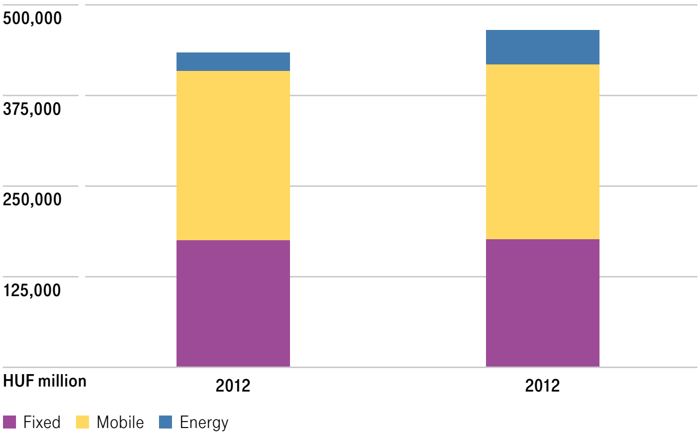


TELEKOM HUNGARY

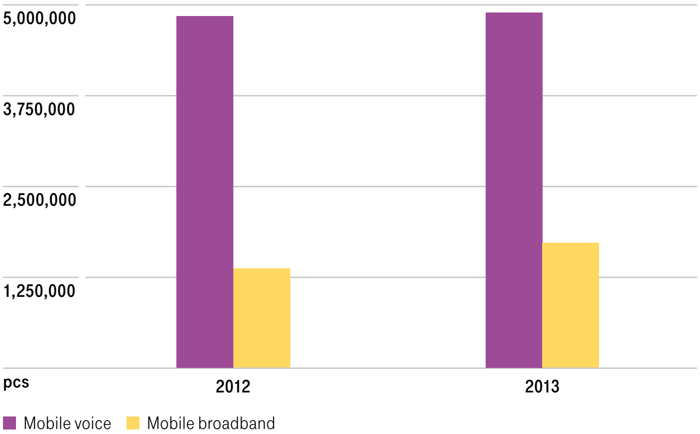
Telekom Hungary provides voice, broadband and TV services on both fixed line and mobile networks for residential, small office home office (SOHO), and small- and medium-sized business customers in Hungary. All of our energy operations are also included in this segment.

Revenues increased by 7.0% to HUF 464.1 billion in 2013, as growth in our energy and equipment sales revenues more than compensated for losses in the traditional telecommunications services. However, reported EBITDA declined by 1.4% or HUF 1.9 billion as lower operating (special, telecommunication and utility) taxes could not compensate for the lower direct margin that reflects the increased proportion of lower margin businesses, such as energy and equipment sale.

TELEKOM HUNGARY
REVENUE BREAKDOWN



TELEKOM HUNGARY
MOBILE SUBSCRIPTIONS



Mobile revenues in the segment grew by 3.3% to HUF 241.5 billion thanks to a significant (34.3%) increase in equipment sales. The ratio of smartphone sales was 68% in 2013, and was complemented by a strong increase in the sale of tablets via a number of different bundled solutions. A natural consequence of this is that by the end of the year, 85% of post-paid smartphone buyers had signed up to a mobile internet package supporting the 25.7% increase in the number of mobile broadband subscribers to 1.7 million, and growth of 6.4% in non-voice revenues. Both of these trends also directly benefitted from the continuous development of our 4G network that by the end of the year provided coverage for ca. 40% of the Hungarian population. In parallel, our 4G-ready smartphone portfolio significantly widened, enhancing customer appeal, and by the end of the year, we had sold close to 175 thousand such handsets. At the same time, the 1.0% growth in the customer base also helped to partially offset the lower average tariff levels and the slight, 0.6% decrease in MOU, resulting in only a moderate, 1.1% decline in retail voice revenues. Notwithstanding these positive trends, the 25% lower mobile termination rates led to a significant reduction in wholesale voice revenues.

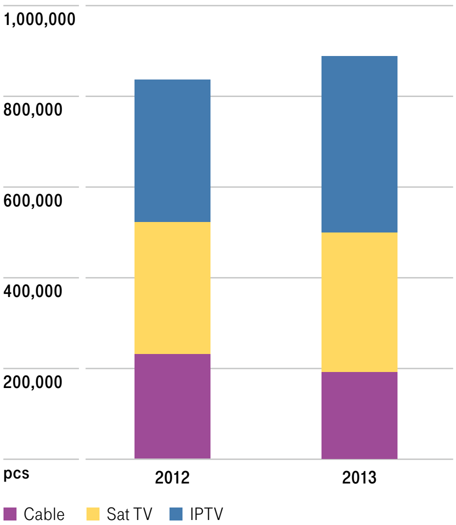
Fixed line retail voice revenue decline slowed down somewhat to 9.5% thanks to successful retention measures such as our flat-priced package, “Hoppá”, and our multi-play strategy, including energy services, leading to annual customer churn of only 2.3%. By the end of 2013, 42% of our fixed voice customers had subscribed to Hoppá, with 94% of these on a 2-year loyalty contract. Hoppá also facilitates our bundling strategy: 58% of our fixed voice customers had subscribed to a 2Play or 3Play package by the end of the year. We also managed to slow down the erosion of the average revenue per access to 2.8% as a result of the high value proposition of our packages.

Fixed Internet revenues decreased by 2.5%. Although number of customers increased by 8.4%, wholesale broadband lines declined by 21% while retail ARPU decreased by 7.4%, latter reflecting the combined effects of multi-play migration and local pricing pressure.

TV revenues increased by 6.5% as the 6.3% growth in the customer base was augmented by a 1.3% increase in ARPU, thanks to the continuous migration of our existing cable customers to interactive packages. Consequently, we recorded a 24.4% growth in the number of IPTV customers; satellite TV customers also grew by 5.5%. As a result, our overall market share of the TV market rose by 0.4 percentage points to 25.8% by the end of the year.

In our retail energy business, we shifted the focus of our customer acquisition efforts from the regulated market to the competitive segment as cuts in regulated retail prices had been adversely impacting that segment's profitability. As a consequence, momentum behind the growth in the number of points of deliveries has begun to slow, reaching 106 thousand for electricity and 68 thousand for gas by the end of 2013. Nevertheless, we recorded 85% annual growth in energy revenues that reached HUF 47.1 billion in 2013. Although the low profitability of the energy business dilutes our group level margins, it has proved itself as a strong retention and up-sell tool in terms of the higher-margin telecommunications services.

TELEKOM HUNGARY
TV SUBSCRIPTIONS

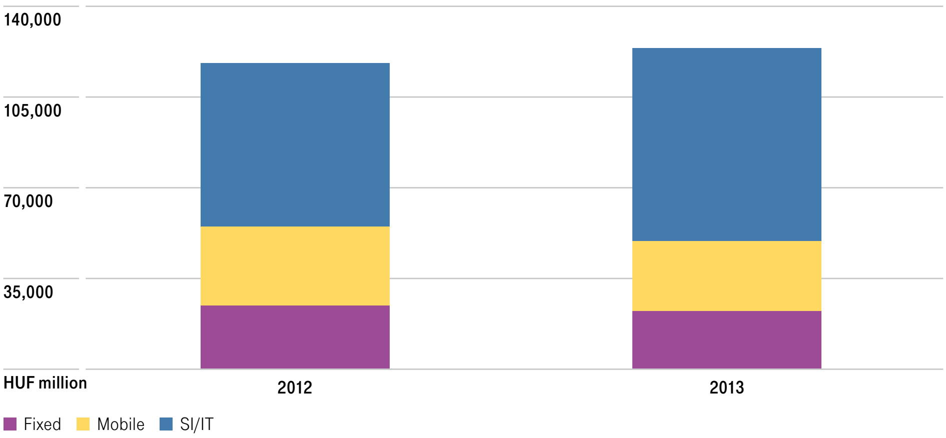


T-SYSTEMS HUNGARY

T-Systems Hungary offers fixed line, mobile and system integration (SI) and IT services for corporate and public sector clients.

Reduced spending in the Hungarian public and corporate sectors due to the difficult economic environment led to a 10.3% erosion in T-Systems Hungary's telecommunication revenues which could only be offset by the strong growth of the low margin IT projects. As such, although revenues grew by 4.9% to HUF 123.6 billion, direct margin remained on the same level as the growth in the low margin IT services could just partly compensate for the decline in the high margin telecommunication services. Furthermore, EBITDA declined by 15.7% to HUF 14.2 billion primarily due to a significant intermediary deal resulting in non deductible input VAT and as the income from the Pro-M sale in 2012 distorts comparison. EBITDA margin decreased by 2.8 percentage points to 11.5%.

T-SYSTEMS HUNGARY
REVENUE BREAKDOWN



Mobile revenues in the segment declined by 11.8% to HUF 27.0 billion, driven by lower voice revenues as well as the fallout of Pro-M revenues. Retail voice revenues declined by 6.2% despite the 6.7% increase in the number of customers, as the adverse economic environment and intense competition led to continued pressure on tariffs and a decline in usage, MOU was 1.2% lower and ARPU declined by 10.5%. Although the number of mobile broadband subscriptions has increased by 42.7%, revenues from mobile internet increased more moderately, reflecting the prevailing price pressure.

The 8.3% decline in fixed line revenues is primarily due to a 16.9% fall in data revenues. Demand for data services was negatively affected by the increased insourcing of these services in the public sector whilst private sector customers impacted by the economic downturn renegotiated existing contracts on terms more favorable to them. The pace of voice revenue decline slowed down to 4.7% in 2013 thanks to the more moderate 2.0% decline in the number of total lines which was coupled with only a 1.6% decline in ARPU levels.

T-Systems Hungary's SI/IT revenues rose by 18.0% to HUF 74.5 billion. The increase was largely driven by IT type equipment sales and installation projects. In addition, we were also successful in extending some major contracts, albeit on slightly less favorable terms. Consequently, there has been a shift in our revenue structure towards lower-margin services, leading to the dilution in direct margin in this segment.

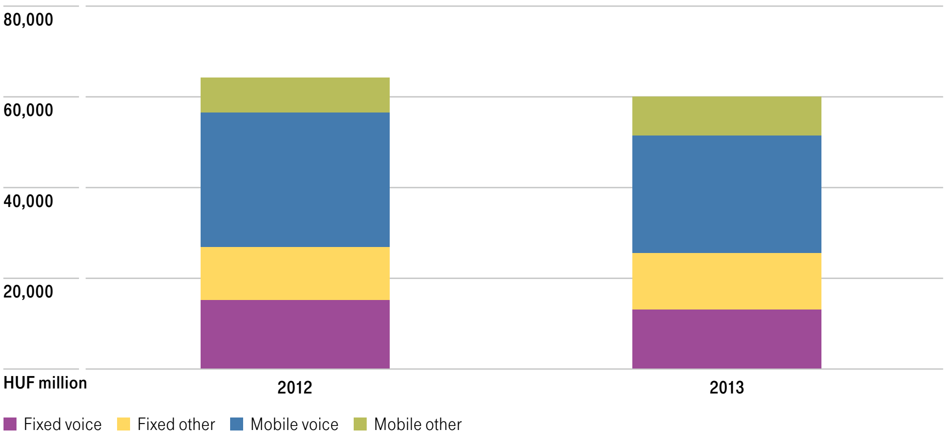
MACEDONIA

Although the results of our Macedonian operations in forint terms were positively impacted by the average 3.0% year-on-year weakening of the forint against the Macedonian denar, unfavorable economic developments coupled with fierce competition negatively affected performance leading to a revenue decline of 6.6% to HUF 60.8 billion and a fall in the EBITDA margin to 39.8%. As such, EBITDA for the year decreased by 30.2% to HUF 24.2 billion, although 2012 was positively helped by the HUF 3.7 billion contribution from real estate sales.

Mobile revenues in Macedonia decreased by 7.8% to HUF 35.0 billion. Though a decline in the number of customers was successfully reversed with a 1.2% increase recorded in 2013, the strong competition and termination rate cuts put downward pressure on the tariff levels, leading to a 8.2% decline in ARPU levels despite the 17.2% increase in the MOU. Non-voice revenues increased by 4.4% while revenues from equipment sales grew by 45.9% thanks to increasing smartphone sales.

Fixed line revenues (including SI/IT revenues) declined by 4.8% to HUF 25.8 billion as the strong 41.6% increase in TV revenues, driven by the 32.6% rise in IPTV customers, could not fully offset the decline of the traditional voice revenues. Fixed line retail voice revenues declined by 17.6% to HUF 8.8 billion, driven by strong competition from alternative and cable operators, and increasing mobile substitution.

MACEDONIA
REVENUE BREAKDOWN



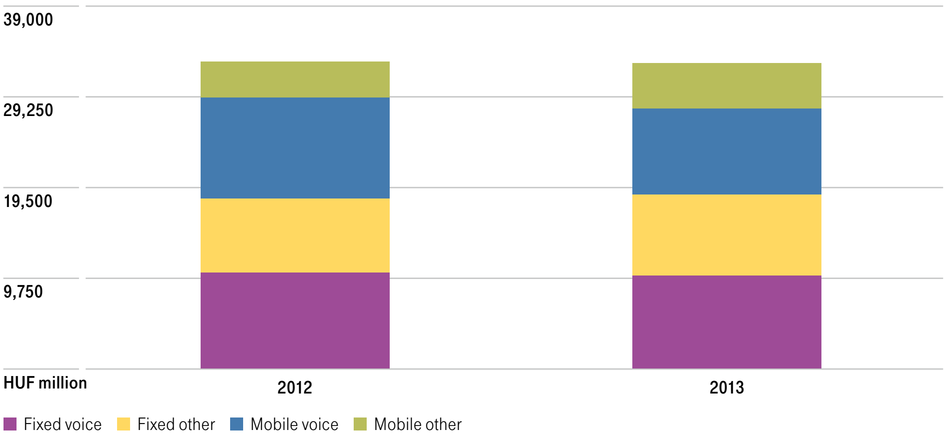
MONTENEGRO

Revenues in Montenegro in forint terms remained broadly stable at HUF 32.8 billion, while EBITDA decreased by 2.1%, to HUF 12.1 billion, driven by higher severance expenses related to the headcount reduction program run at the end of the year. Consequently, the EBITDA margin declined by 0.6 percentage points to 36.8%. The Montenegrin results were also positively impacted by the average 3.0% year-on-year weakening of the forint against the euro.

Mobile revenues in Montenegro decreased by 4.2% to HUF 14.1 billion. The decline was primarily driven by the 43% cut in mobile termination rate at the beginning of 2013 coupled with competition driven price erosion. Consequently, ARPU declined by 16.2% despite a 3.1% increase in MOU and higher mobile internet usage. The 3.8% increase in the mobile subscriber base could only partially mitigate the negative ARPU impact.

Fixed line revenues (including SI/IT revenues) increased by 2.5% to HUF 18.7 billion. Thanks to our focus on broadband and IPTV services, the number of customers grew by 8.6% and 9.1% respectively leading to increasing revenues that offset the decline in voice and data revenues.

MONTENEGRO
REVENUE BREAKDOWN



CASH FLOW GENERATION, DIVIDENDS

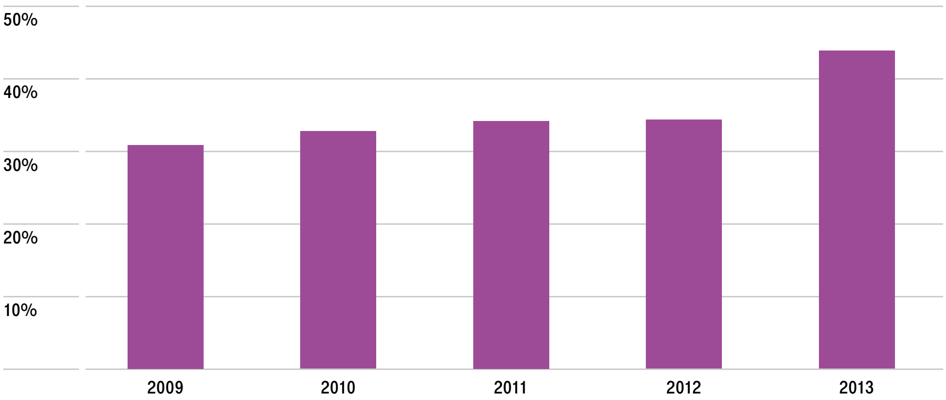
Net cash generated from operating activities decreased by HUF 13.6 billion, from HUF 145.2 billion in 2012 to HUF 131.6 billion in 2013 mainly driven by the HUF 15.4 billion lower EBITDA.

Free cash flow: we have modified the definition of free cash flow to better reflect the real cash generation of the Group as due to the different financial structures used, some operation related items are to be disclosed in financial cash flow. From the previous definition of operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets we modified it to operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities. Consequently, we have revised earlier periods' free cash flows. Free cash flow, based on the above definition deteriorated from HUF 59.7 billion in 2012 to HUF 0.6 billion in 2013. In addition to the lower operating cash flow, this was primarily due to the ramp-up in the level of Capex related to the extension of frequency licenses, whilst 2012 also saw the cash inflow from the proceeds of the sale of Pro-M.

Net debt rose from HUF 273.1 billion at the end of 2012 to HUF 381.2 billion at the end of 2013. The net debt ratio (net debt to total capital) was 43.8%, which also reflects the increased financial liabilities recognized in the third quarter of 2013 for the future annual frequency fees.

The Board of Directors proposed no dividend payment for the 2013 financial year for approval at the Annual General Meeting. That is in line with Magyar Telekom's dividend policy of maintaining its net debt ratio within the targeted range of 30%-40%.

NET DEBT TO TOTAL CAPITAL RATIO



OUR MANAGEMENT
BOARD OF DIRECTORS

The detailed rules on the competencies and operation of the Board of Directors are detailed in 7.4. of our Articles of Association and in the Rules of Procedure of the Board of Directors (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 6.2 (b) and (s) as well as 7.4.1 (l) and (m) of our Articles of Association.
The General Meeting by the Resolution No. 8/2013 (IV.12.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of this resolution. See the detailed description of the authorization on the General Meetings section of our website.

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

Pursuant to our Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting of the shareholders for a term of three years. On December 31, 2013, there were ten members of the Board of Directors.

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

On December 31, 2013, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

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

The members' mandate lasts until May 31, 2016.

OTHER PRINCIPAL DIRECTORSHIPS
OF MEMBERS OF THE BOARD OF DIRECTORS:

Name	Position held	Company
Christopher Mattheisen	None	
Dr. Ferri Abolhassan	Member of the Executive Board	T-Systems International GmbH
Dr. Mihály Patai	Member of the Supervisory Board	Siemens Zrt.
Günter Mossal	None	
György Mosonyi	Chairman of the Board of Directors	TVK Plc.
	Chairman of the Supervisory Board	Slovnaft Sro. Slovakia
	Vice-Chairman of the Supervisory Board	INA d.d. Croatia
	Chairman of the Supervisory Board	MOL Plc.
Thilo Kusch	None	
Frank Odzuck	Member of the Board of Directors	Zwack Unicum
Dr. Ralph Rentschler	Member of the Supervisory Board	Hrvatski Telekom d.d., Croatia
	Member of the Audit Committee	Hrvatski Telekom d.d., Croatia
	Member of the Supervisory Board	T-Mobile Netherlands Holding B.V.
	Member of the Board of Directors	T-Mobile Czech Republic, a.s.
Kerstin Günther	Member of the Board of Directors	Slovak Telekom
Branka Skaramuca	Chairman of the Supervisory Board	T-Mobile Austria

BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS

CHRISTOPHER MATTHEISEN

Mr. Christopher Mattheisen studied economics at Indiana University of Bloomington and at Columbia University. He first came to Hungary in 1990 to start a strategic planning and business consulting company. In 1993, in his capacity as a marketing manager of U.S. West International, Mr. Mattheisen helped launch various Hungarian, Polish and Czech mobile service operators. He worked as the marketing and sales director of TMH between 1993 and 1996. Between 1997 and 1999, he ran sales and marketing activities of MediaOne in London and later worked in Britain as a business, sales and marketing director of BT's Cellnet. In September 2002, Mr. Mattheisen became Chief Officer of Residential Services of Magyar Telekom and in January 2005, Chief Officer of the Wireline Lines of Business ("T-Com", including Residential Services, Internet and Network divisions). From December 6, 2006, Mr. Mattheisen has been the Chief Executive Officer of Magyar Telekom.

Dr. FERRI ABOLHASSAN

Dr. Ferri Abolhassan joined IBM in California in 1989 and completed his doctoral work in Research & Development in massive parallel computing at Saarland University in Saarbrucken. Between 1992 and 2000, he worked at SAP Retail Solutions as a Sales Director and as a Managing Director. Between 2001 and 2004, he was Co-Chairman and Chief Executive Officer at IDS Scheer AG. He was a member of top management at SAP AG as Executive Vice President. In 2008, he joined T-Systems International GmbH and he has been a Member of the Board of Directors of T-Systems and Chief of Systems Integration. From December 1, 2010, Dr. Abolhassan has been responsible for the New Production Unit as a member of the Executive Board at T-Systems.

Dr. MIHÁLY PATAI

Dr. Mihály Patai studied economics and obtained his doctorate at the University of Economics in Budapest. He studied in Moscow with the scholarship of Comecon in 1978, and at University of Vienna in 1981. He spent six months in London with the scholarship of a subsidiary of the Hungarian National Bank. He started his career in 1976 at Hungarian National Bank. From 1978 to 1988, he worked for the Ministry of Finance as a research fellow and, subsequently, as the deputy head of the Department for International Finances. From 1988, he worked for The World Bank in Washington DC for a period of five years, as the Executive Director's Assistant. He was the Managing Director of Kereskedelmi Bank Rt. in 1993, and he became the Chairman and CEO of Allianz Hungária Insurance Ltd. in 1996. From 1998 to 2006, he was member of the Board of Directors of Matáv Rt. (now Magyar Telekom Plc.). Since 2006, he has been the Chairman and CEO of UniCredit Bank Hungary Zrt.

GÜNTER MOSSAL

Mr. Günter Mossal studied Electrical Engineering at the Rheinisch-Westfälisch-Technische Hochschule (RWTH) Aachen. He started his career in 1988 at Deutsche Telekom in a local branch office in Cologne/ Germany. Between 1991 and 1995 he worked for the German Federal Ministry for Posts and Telecommunications. In 1995 he consulted the European Commission on the regulation for WLL applications. In 1996 he rejoined Deutsche Telekom. He was responsible for the business development in the UK and was member of the Board of Directors of the British Cable Company Eurobell. Between 2000 and 2002 he was Head of Investment Consulting for Western Europe. Since 2003 he is Vice President for Area Management. He was member of the Supervisory Board of T-Mobile Croatia, member of the Board of Directors of Makedonski Telekom and member of the Board of Directors of T-Mobile Macedonia.

GYÖRGY MOSONYI

Mr. György Mosonyi obtained a degree in Chemical Engineering from the University of Veszprém in 1972. From 1974 onwards, Mr Mosonyi worked for the Hungarian Agency of Shell International Petroleum Co. (Shell) and from 1986 he held the position of commercial director. In 1991 he worked at Shell headquarters in London. Between 1992 and 1993 he was a managing director of Shell-Interag Ltd. and from 1994 to1999 he was Chairman and Chief Executive Officer of Shell Hungary Rt. Also in 1997 he became Chairman of Shell's Central & East European Region and CEO of Shell Czech Republic in 1998. He was also vice-chairman of the Hungarian Chamber of Commerce & Industry, vice president of Confederation of Hungarian Employers and Industrialists, a member of the Joint Venture Association's Presidium and President of the World Petroleum Council Hungarian National Committee. He was Chief Executive Officer and a member of the Board of Directors of the Group between 1999 and 2011. He was Chairman of the Sustainable Development Committee between 2006 and 2011.

THILO KUSCH

Mr. Thilo Kusch studied communication engineering and business administration at Technische Universität Berlin. From 1989 to 1992, he successfully established and ran his own company selling PCs and PC networks to residential and small business customers. From 1992 to 1998, he worked in a leading position in Arthur D. Little's Telecoms, IT, media and entertainment practice as a management consultant and from 1998 to 2001, he was telecommunications equity analyst with Dresdner Kleinwort Wasserstein. He joined Deutsche Telekom Group in 2001 as Senior Director in charge of IPO preparations and investor relations for T-Mobile International. Since April 2002, he was a Senior Executive Vice president of Deutsche Telekom, in charge of investor relations. He was appointed Chief Financial Officer of Magyar Telekom in September 2006. From April 8, 2013 he has been appointed as a Chief Executive Officer at Makedonski Telekom.
2013. április 8-tól kinevezték a Makedonski Telekom vezérigazgatójává.

FRANK ODZUCK

Mr. Frank Odzuck obtained an economics degree in 1983 in Budapest. He was the managing director of the Hungarian operations of Eduscho and Eduscho-Tchibo for 8 years and later the managing director of Nestlé-Schöller Hungary Ltd. Since 2003, he has been the CEO of Zwack Unicum Plc., listed on the Budapest Stock Exchange. The Company, producing and marketing a genuine "Hungaricum", is one of the best-known international companies in Hungary (Zwack, Underberg, Diageo).

Dr. RALPH RENTSCHLER

Dr. Ralph Rentschler after receiving a doctorate degree in economics, worked for four years for Robert Bosch GmbH as an expert advisor on business principles and methods. His areas of responsibility included investment analysis and cost accounting. He was Head of Group Controlling and Planning and Reporting Departments at Carl Zeiss from 1992 to 1997. His areas of responsibility included production and investment controlling, controlling of affiliated companies, M&A and strategic planning. Later he became Commercial Manager of the Brand Optics Division at Carl Zeiss, where he managed Accounting, Controlling, Data Processing and Purchasing. Dr. Rentschler joined Deutsche Telekom in 2001 and became CFO of the group-wide Fixed Net division. From July 2009, Dr. Rentschler has taken over the position as the Financial Director of the Board Division Southern and Eastern Europe in addition to his position as the CFO of the Fixed Net business. From July 2010, Dr. Rentschler took over the position of the Financial Director Europe.

KERSTIN GÜNTHER

Mrs. Kerstin Günther is an engineer in electronics with an MBA in finance. Prior her appointment as Senior Vice President Technology Europe on March 1, 2012, with responsibility for Technology, IT and the Technical Service in all 12 countries of the Europe Board area, she was a consultant and later corporate executive in Telecommunication Companies of the Deutsche Telekom Group. Mrs. Kerstin Günther is member of the board of directors of several companies of the Deutsche Telekom Group in Europe. She was Senior Vice President Planning Technology for Deutsche Telekom Germany, Senior Vice President Service and Demand Management at T-Home. She lead the largest Technical Infrastructure Branch Office of T-Home and before that the Personal Service Centre of Deutsche Telekom. Before coming back to Germany Mrs. Günther held the position of Senior Vice President Strategy and External Affairs at Slovak Telekom, Senior Vice President Wholesale at Magyar Telekom and Vice President Regulatory Affairs at Magyar Telekom.

BRANKA SKARAMUCA

Ms. Branka Skaramuca has more than twenty years of experience in all areas of Human Resources. After her degree in Psychology of the University of Zagreb, she started her career in 1985 with the pharmaceutical company PLIVA in the area of recruitment and development and held various management positions up to the Head of Global HR in that company until 2002. She was responsible for the strategic development of the HR function, providing all types of HR services to the business of PLIVA with major operations across Europe, US and Asia. She continued her career as the CHRO and Management Board Member in Hrvatski Telekom from 2002 to 2004. From March 2004 on until 2009 she served as CHRO & Management Board Member in T-Mobile Hrvatski. In 2010 she re-joined Hrvatski Telekom again as CHRO and Management Board member. In September 2012 Branka Skaramuca has been appointed Senior Vice President Human Resources in Deutsche Telekom, Board Area Europe and Technology.

MANAGEMENT COMMITTEE

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

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

On December 31, 2013, the members of the Management Committee and the years of their original election were as follows:

Name	Born	Current position	Member since
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Attila Keszég	1966	Chief Commercial Officer Residential	2010
János Szabó	1961	Chief Financial Officer	2013
Dr. Balázs Máthé	1968	Chief Legal and Corporate Affairs Officer	2010
Róbert Pataki	1971	Chief Business Development Officer	2009
Tibor Rékasi	1973	Chief Commercial Officer Enterprise	2013
Éva Somorjai	1966	Chief Human Resources Officer	2007
Walter Goldenits	1970	Chief Technology and IT Officer	2013
Péter Lakatos	1975	Chief Commercial Officer, SMB	2013

OTHER PRINCIPAL DIRECTORSHIPS OF MEMBERS OF MANAGEMENT COMMITTEE

Name	Position held	Company
Christopher Mattheisen	See above	
Attila Keszég	None	
János Szabó	Member of the Board of Directors	Origo Zrt.
	Member of the Board of Directors & Audit Committee	Makedonski Telekom
	Chairman of the Board of Directors	Crnogorski Telekom
	Member of the Board of Directors	T-Mobile Macedonia
Dr. Balázs Máthé	None	
Róbert Pataki	Member of the Supervisory Board	FHB Kereskedelmi Bank Co., Ltd.
Tibor Rékasi	Chief Executive Officer	T-Systems Hungary Zrt.
Éva Somorjai	None	
Walter Goldenits	Member of the Board of Directors	Makedonski Telekom
	Member of the Board of Directors	T-Mobile Macedonia
Péter Lakatos	None	

BIOGRAPHIES OF CHIEF OFFICERS

CHRISTOPHER MATTHEISEN

See “Biographies of Members of the Board of Directors” above.

ATTILA KESZÉG

Mr. Attila Keszég graduated from the Budapest University of Technology and Economics as a qualified mechanical engineer before attending an MBA course specializing in financial and management studies. He started his career in 1992 at Hemingway Holding, then he worked for Dove Mid Europe. In 1994, he joined Pepsi Cola Hungary first as Key Accounts Director, then Project Manager, later Field Sales Unit Manager Central Hungary. From 1999, he worked as Sales Director of Pepsi Cola Hungary and from 2001, as Sales Director for Traditional Trade Central and Eastern Europe responsible for the Hungarian, Polish, Czech and Slovak markets. From 2005, he was the General Manager of Red Bull Hungary. From September 1, 2010, he was Chief Sales and Services Officer of Magyar Telekom, from January 1, 2013 he has been Chief Commercial Officer of Residential.

JÁNOS SZABÓ

Mr. János Szabó studied foreign relations at the University of Economics in Budapest. Starting his career in foreign services, he continued in various finance, accounting and consultant positions in the private business sector. From 1995 he took various senior management positions in finance and business at the Hungarian subsidiary and the European head office of Delco Remy, an American automotive industry supplier. Later he became CFO and managing director of a joint venture between Delco Remy and Hitachi. He joined Magyar Telekom in 2003 as the Finance Director of the Fixed Line Services of Business. In 2008 he became the Group Controlling Director of Magyar Telekom. Besides the continuous renewal of the controlling activity and the strengthening of the international cooperation he also took part in the management of key operational and strategic corporate projects. From April 2013 he is the Chief Financial Officer of Magyar Telekom.

Dr. BALÁZS MÁTHÉ

Dr. Balázs Máthé received his law degree from Janus Pannonius University, Pécs in 1995. His previous studies included EU Law Studies at the Universitá degli Studi di Trento, Italy and a few semesters at the Faculty of Arts (History and Languages) of Janus Pannonius University. Prior to joining Magyar Telekom, he worked as an attorney at various international law firms for over a decade, including five years at one of the leading global law firms, Linklaters, where he was a Partner and the Head of the Corporate Department in Budapest. As an attorney, he specialized in cross border mergers and acquisitions and corporate governance matters. He joined Magyar Telekom as Group Legal Director in 2007. He was appointed Chief Legal and Corporate Affairs Officer of Magyar Telekom as of July 1, 2010.

RÓBERT PATAKI

Mr. Róbert Pataki graduated as an economist from the Corvinus University in Budapest and then completed studies in International Finances and Marketing Management at the University of Erasmus in Rotterdam. He started his career as an investment analyst at Project Finance International Ltd. in The Hague in 1995 and he worked as a financial analyst for Nutricia Netherlands BV in Rotterdam in 1996. He joined Accenture (Andersen Consulting) in 1996 and until 2001 he worked for Accenture's Strategic Services, first as a strategic consultant, later as a senior manager responsible for the telecommunications and e-commerce sectors. From 2001, he continued his professional career with A.T. Kearney as a dedicated account manager providing consultancy services to leading Hungarian telecommunications companies; later in 2003, he became senior manager of A.T. Kearney's European Telecommunications Team responsible for major European projects in the field of mobile communications and Internet services. He has been Chief Strategist of Magyar Telekom since September 2006. As of April 1, 2009, he was appointed Chief Operating Officer of Alternative Businesses and Corporate Development Business Unit by keeping his tasks as Chief Strategist of Magyar Telekom as well. Due to organizational changes within the company, he has worked as Chief Strategy and Corporate Development Officer from September 2009.

TIBOR RÉKASI

Mr. Tibor Rékasi graduated from the Budapest Foreign Trade College and then participated in additional business trainings in order to expand his business knowledge. He started his professional career at Integra Kft. as account manager. From 1997 he worked for Unisys Hungary as a relationship manager dealing financial business partners and then as Director for Customer Relations. In 2000 he joined Cisco Systems Hungary where first he worked as Key Account Manager and then as Director of the Large Corporations Business Unit. In February 2007 he was appointed as Managing Director of Cisco Systems Hungary, and in this position he was responsible for the coordination of all domestic sales activities in addition to the operative management of the company. He joined the Magyar Telekom Group in September 2008 as Managing Director of IQSYS Zrt., asubsidiary of the Business Services Business Unit, where he took on the responsibilities of Commercial Director in addition to leading IQSYS Zrt. Between December 2010 and May 2011, he also acted temporarily as Head of Magyar Telekom's Business Services Business Unit (T-Systems Hungary), while continuing his work as Managing Director of IQSYS Zrt. From October 2012 until September 30, 2013 he was the chief officer responsible for the Sales Division of T-Systems Magyarország Zrt. From October 1, 2013 he has been Chief Commercial Officer Enterprise of Magyar Telekom and Chief Executive Officer of T-Systems Magyarország Zrt.

ÉVA SOMORJAI

Ms. Éva Somorjai completed her studies at the College for Commerce and Catering. From 1989, she worked at the international directorate of Magyar Hitelbank. From 1991 through 1994, she was the administrative and financial manager of a real estate investment company in Melbourne, Australia. Between 1994 and 2001, she worked in various management positions in the financial and human resources area of Pepsi Cola's Central European division. In 1999, she was appointed human resources director of the international organization and personnel development area, from 2000, she filled the position of human resources director of the Hungarian company. She has been working for Magyar Telekom since October 2001. Since 2002, she served as Director of the Group HR Branch. From April 1, 2007, she has been Chief Human Resources Officer of Magyar Telekom.

WALTER GOLDENITS

Mr. Walter Goldenits received a technical mathematics degree from Technical University Vienna. He started his career in telecommunications at Mobilkom Austria in 1998 in the IT department, and then from 2003, as Head of IT. After 2007, he has held multiple executive positions in Telekom Austria group, first heading the IT and Network's division of si.mobil, and then served as Chief Technology Officer in Telekom Austria wireline, where he was responsible for optimisation of the organisation, technology lifecycle management and IT transformation. In 2010, upon the merger of Mobilkom Austria and Telekom Austria into a single entity to form A1 Telekom Austria, he was appointed as Chief Technology Officer, where his principal responsibilities involved the integration of the wireline and wireless technology units, rollout of LTE and fiber technology and IT hamonisation. From January 1, 2013 he has been Chief Technology and IT Officer of Magyar Telekom.

PÉTER LAKATOS

Mr. Péter Lakatos received a mathematics and physics degree from Eötvös Loránd University of Budapest, then an economics degree from the University of Economic Sciences. He started his career at DSS Consulting in 1999 as head of data mining, then, from 2004, he worked for IBM Business Consulting Services as lead consultant in business development and CRM projects. In 2005 he joined Vodafone Hungary, where he spent 7 years and has held multiple executive positions in the field of business and consumer services, first heading Customer Segment Management, then Enterprise Marketing and later Commercial Strategy and Planning. Since 2009, he has worked in the Chief Officer position of Vodafone responsible for strategy, brand, communication and business development. From December 1, 2012 he has been Chief Commercial Officer SMB of Magyar Telekom.

MANAGEMENT OVERVIEW
BASIS OF PRESENTATION

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements.

The Consolidated Financial Statements of Magyar Telekom have been prepared in accordance with IFRS as issued by IASB and endorsed by the European Union (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 where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4 to the Consolidated Financial Statements.

We established our current management structure in Hungary based on customer segments that require different technology and marketing strategies, and support functions. The Group's operating segments are: Telekom Hungary, T-Systems Hungary, Macedonia and Montenegro.

The movement of HUF against the Macedonian Denar ("MKD") and EUR can significantly affect all revenue and expense lines of our Macedonian and Montenegrin subsidiaries.

EXCHANGE RATE
INFORMATION

Exchange rate	2012.	2013.	Change
HUF/EUR beginning of period	311.13	291.29	(6.38%)
HUF/EUR period-end	291.29	296.91	1.93%
HUF/EUR cumulative monthly average	288.87	297.78	3.08%
HUF/MKD beginning of period	5.06	4.74	(6.32%)
HUF/MKD period-end	4.74	4.83	1.90%
HUF/MKD cumulative monthly average	4.70	4.84	2.98%

ECONOMIC ENVIRONMENT

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

HUNGARY

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile is no longer able to compensate this decline. The fixed market is characterized by 3Play bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The mobile voice market is becoming more flat, new entrants as virtual network operators appeared, moreover there is a fierce competition in broadband and content services. The battle for customer contacts has pushed prices down. We expect that the new core segments, especially mobile broadband, broadcasting and IT services will deliver revenue growth in the coming years.
Latest macroeconomic forecasts lag behind previous assumptions, especially in terms of residential consumption and public spending. Market development is challenged by significant uncertainties in macroeconomic outlook putting further pressure on market players.
The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Decrease in corporate tax rate has not generated an increase in either consumption or investments. The flat personal income tax rate system increased savings at higher income categories. The special taxes are impacting telecom operators' investment intensity having a negative effect on overall telecom sector development. GDP is expected to reach the pre-crisis level only after 2014.

MACEDONIA

According to the latest estimated data from the National Bank of Republic of Macedonia, given the actual results and based on the positive influence of the new foreign and public investments, accompanied with the recovery of the private spending, the annual growth of the GDP is expected to be around 3.3% for the whole 2013, while for 2014 it is expected that growth will accelerate to around 3.7%. The latest National Bank data indicate that the average rate of inflation in 2013 was approximately 2.8%. However, given that in recent months inflationary pressures were lower than expected, with potential for further lower import price pressures than previously expected, there are downward risks about the inflation forecast for the period ahead.
Operating in a highly competitive environment in all telecommunication segments, MKT and TMMK are focused on new services and on the retention of the existing customers.

MONTENEGRO

Telecommunication operators are facing wide range of operational and financial challenges due to unfavorable market conditions: emerging telco and non-telco competition, rising regulatory pressure, unfavorable socio-economic conditions and fast-changing customer needs and expectations.
Montenegrin market is characterized by strengthening broadband competition in the fixed market, especially by cable operators, and evolving X-Play/Fixed- Mobile Convergence competition. In the highly penetrated mobile market there is fierce price competition. There is potential in growth of mobile broadband revenues, where there is proliferation of data centric offers and internet options added to "standard" packages.
The country's debt is close to the EU limit with 55% of GDP, which coupled with low growth (+1.5%) is a real burden to the economy.
The government introduced extensive fiscal adjustments like crisis tax of 1 EUR monthly on SIM cards and Pay TV subscriptions, freeze of pensions and public wages, personal tax rate increase, VAT increase from 17% to 19%. In addition, restrictive credit policy by the banks, bankruptcy of the indebted Aluminum industry giant and rising private debt in the real sector (23% blocked company accounts) will hit disposable income and increase overall cost-conscious customer behavior.

REGULATORY DEVELOPMENTS

For description of the most significant regulatory developments in Hungary, Macedonia and Montenegro, see Note 1.3 to the Consolidated Financial Statements.

STRATEGY

HUNGARY

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in 2013. Even under uncertain macroeconomic and market conditions, we managed to increase revenues, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offering capabilities proactively leveraging on various partnering models as well. The evolving external environment continues to drive the need for changes in our approach to our customers and our business.

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

MACEDONIA

Makedonski Telekom and T-Mobile MK are the leading telecommunications providers in all segments, Mobile, Fixed Voice, Fixed Data as well in Pay-TV since 2012.

Based on our current potential and strength to secure the core and extend business, driving into improved unique market positioning, we are building on significant achievements (Finished full All-IP Transformation, LTE/4G commercial launch) to ensure technology leadership and increasing value for customers.

Makedonski Telekom aspirations of sustainable cash flow generation based on stabilized revenue and remain market leader should be enabled with simultaneously radical business model transformation.

Makedonski Telekom’s strategic goals to be achieved:

- Sustainable revenue & strengthen leadership position;
- Aggressive business-to-business (B2B) and information and communication technology (ICT) growth, improving capabilities and organization;
- Committed to create new value, to grow with innovations;
- Integration, being one team both externally and internally;
- Transformation toward increased operational efficiency and new revenue opportunities;
- Technology based leadership, optimized network coverage and the best customer experience.

MONTENEGRO

Crnogorski Telekom successfully completed 2013 business year, preserving its market superiority, stable financial performance and made significant achievements on its transformational path.

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

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

- Stand 4 Broadband: FTTH/4G rollout and X-Play/fixed-mobile convergence (FMC) offers proliferation to ensure ultra-high speed connectivity and seamless customer experience over fixed and mobile data streams and quality service features in order to keep long-term competitiveness in broadband, TV and FMC offers.
- Transform 2 Outperform: Digital engagement of customers and employees through transformation initiatives and consolidation strategies in order to support All IP cost-effective network architecture, service convergence, multichannel business model and faster and flexible go-to-market.
- New Way 2 Play: Push ICT/Cloud and Hardware initiatives; improving content variety and interactivity; new business development opportunities and exploring partnering concept.

OUTLOOK AND PUBLIC TARGETS

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

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

HUNGARY

Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. In the European economy a slow recovery has started however it is still fragile. Major uncertainties surrounding the future of the euro have escalated the debt crisis for several euro-zone members. The Hungarian economy has been impacted heavily by the second wave of the financial crisis. The recovery is slow and fragile, the Hungarian National Bank forecasts indicate GDP growth of about 1.1 percent for 2013 and 2.1 percent for 2014. The unemployment rate stays around ten percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the government budget, the Hungarian government has implemented several measures to reduce the deficit to 2.8 percent of GDP in 2013. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. On June 27, 2013, the Parliament of Hungary adopted an act amending the amount of the telecommunication tax, raising the tax measure to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also raising the cap applicable to these subscriptions to HUF 5,000 per month. These changes took effect from August 1, 2013. The telecommunication tax payable by Magyar Telekom for 2013 was HUF 23.9 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. The tax expense and liability was recognized in the first quarter of 2013 as the full annual tax liability (HUF 7.4 billion) is payable based on the taxable infrastructure in place on January 1, 2013. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer. After the general elections on April 6, 2014 the government may impose further austerity measures to reach the deficit target of the budget.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. Magyar Telekom paid a one-off fee of HUF 34 billion for the extension. We expect that further currently unused frequency bands will be tendered in 2014.

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

MACEDONIA

In Macedonia, competition is increasing both in the fixed line and mobile market. In the mobile market, aggressive price behavior is driven by a single mobile operator, which tries to regain lost market share. This trend is predicted to continue after announced mobile termination rates ("MTR") decline. LTE licenses were obtained by all 3 mobile operators. Semi and full flat rates are dominant in mobile voice. Mobile data market is driven by flat rate packages. In the fixed line segment bundled offers based on broadband connections are the basis of future services. Digital TV services increase interactivity toward consumers and allowing extended applications. We also expect more intensive regulatory measures in Macedonia in the future. Intensifying retail price regulation and competition pressure will result in significant decrease of retail prices. Regulation expected for NGA (next generation access) networks, introduction of in-house wiring, fiber unbundling and introduction of bit stream access over NGA. Further main focuses are: fostering of wholesale and retail service regulation, introduction of pure LRIC based pricing (for fixed and mobile voice, SMS, etc), NGA and FTTH regulation in line with NGA recommendation, reframing and frequency allocation for 4G services, obligation for all operators to put their aerial cables in urban areas underground.

MONTENEGRO

In Montenegro, we also anticipate a tough environment due to competitive and regulatory pressures in the near future. In the fixed line market Crnogorski Telekom remain dominant, however price competition in broadband market and technology/content based competition in Pay TV market lead by cable companies have already started offering low-entry broadband packages. Fiber roll out will increase broadband penetration, but without premium monetization. Broadband and Pay TV are beginning to exhibit the signs of market maturity while IT market is highly fragmented. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Stronger growth expected in Confined Connectivity mobile data segment, as Full Connectivity will partly suffer from liberalization and cable competition. Mobile network modernization (LTE) is ongoing. Telenor already launched pilot and CT also had a soft LTE launch in selected urban areas. Regarding the regulatory measures, two new relevant retail markets are subject to expected market analysis: broadband and mobile services. Further risks are: international termination rates decline, NGA regulation, price regimes of bundling services.

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

REVENUES

The following reflects our current expectations with respect to our plans and initiatives:

- In our fixed line operations, we expect further declines in voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and increased competition in the fixed line market, including competition from VoIP and VoCable providers. Mobile substitution remains the main driver of churn and we expect that average mobile per minute fees will continue to be lower than average fixed line per minute fees in 2014. As the market is shifting towards multiplay offers, we are bundling our product portfolio in order to provide all services for every customer demand on every platform. By having the full range of telecommunications services, we are capable of offering 5Play packages, unique in the Hungarian market. Magyar Telekom Plc. – due to unfavourable economic and market trends – has implemented tariff change effective from November 2013. Fixed line termination tariffs were reduced by 66% in January 2014. Further reductions are expected in 2015 and 2016.
- In the saturated fixed line market TV remains the key driver. Building on our large variety of platforms (cable, IP, DVB-S), we are targeting to reach those customers who currently have less than three of our services. We are aiming to expand further our RPC figures in 2014; however margins are under pressure due to significant competition. To strengthen our position in the TV market, we are continuously innovating our product portfolio (e.g. by offering interactive SAT TV).
- In the mobile market, penetration has reached saturation point, and we expect declining voice revenues in 2014. We expect further growth in mobile broadband and future growth potential of value-added and data services, but this positive impact will not offset the decline in voice revenues. In 2013 all three mobile operations launched full flat mobile tariff packages, which could have negative impact on revenues. Mobile termination rates were reduced by 25% in 2013 and are expected to be reduced further in the future. The market entry of the 4th mobile operator is not likely in 2014.
- To sustain our competitiveness in the corporate sector, we are committed to developing further our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing of consultant services to corporate customers

EXPENSES

We are entirely committed to improving internal operational efficiency in all of our business segments. To accomplish our goals despite the intensifying competitive environment, we expect to partially offset decreasing revenue with strict cost control. We will continue our group-wide efforts to increase cost efficiency. We have reached an agreement with trade trade unions on headcount reduction and other cost efficiency measures for 2014 at the Hungarian operations. According to the terms of the agreement, the Company plans to make around 250 employees redundant, the majority of these employees had left the Company by the end of 2013. There will not be any general increase in the base salaries for parent company employees during 2014. These measures will reduce our Total Workforce Management ("TWM") related costs.

In line with global market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices above the rate of inflation. We expect energy costs to remain high in 2014, impacting us negatively.

INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS (CAPEX)

Compared to previous years, the key priorities of Capex spending have not changed. Investments in new products and platforms (e.g., LTE, FTTx) remain our key strategic goals. Broadband expansion is supported by large scale modernization of the mobile network.

We will increase investments in the IT area to reach our goals of becoming an ICT leader in Hungary, while expansion into new market segments will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority is the successful development and implementation of a new CRM system in Hungary. We are targeting the complete overhaul of the current customer management system of the Company. We are continuously seeking further value-creating acquisitions and investment targets.

REVENUE, EBITDA AND CAPEX TARGETS

In 2013, revenues increased by 5% in line with our guidance attributable to significantly higher retail gas and electricity revenues coupled with strong growth in SI/IT services revenues as well. At the same time, with a full year decline of 7.9%, EBITDA was somewhat ahead of our expectations thanks to better operational performance in Hungary Capex for 2013 totalled HUF 87.5 billion without spectrum acquisitions and annual frequency fee capitalizations, in line with the 5% reduction we had aimed for.

As for 2014, we expect margins to decline further parallel to the further increase in the weight and contribution from lower margin services, however with a slower pace than we witnessed in 2013. We estimate that our revenues will decline by up to 3% compared to 2013 while our reported EBITDA is expected to decline by 3%-6% and our Capex (excluding any spectrum acquisitions and annual frequency fee capitalizations) is targeted to remain around HUF 87 bn.

PUBLIC GUIDANCE 2014:

HUF billion	2013	Public guidance 2014
Revenue	637.5	0%-3% decline
EBITDA	179.7	3%-6% decline
Capex*	87.5	ca. 87 billion

* Excluding spectrum acquisitions and annual frequency fee capitalization.

DEVELOPMENT OF BUSINESS IN THE GROUP

The following tables set forth information on our revenues:

REVENUES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Mobile revenues	309,286	310,945	0.5
Fixed line revenues	218,100	215,382	(1.2)
SI/IT revenues	54,256	64,054	18.1
Revenue from Energy Services	25,486	47,140	85.0
Total revenues	607,128	637,521	5.0

In order to maintain consistency with the 2013 year presentation of revenues, certain items were reclassified for comparative purposes. From 2013, all mobile terminated incoming international traffic revenues are disclosed as mobile wholesale revenues, while they were disclosed as fixed line wholesale revenues when transited through Makedonski Telekom to T-Mobile Macedonia. The previous year's income statement disclosure of the revenue breakdown was modified to be comparable to the 2013 year's presentation. This change makes the financial data and mobile KPIs of the Macedonian segment and the Group more comparable with other market participants.

Total revenues increased by 5.0% in 2013 compared to 2012. The components of our revenues were the following:

MOBILE REVENUES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Voice – retail	171,562	165,141	(3.7)
Voice – wholesale	32,660	27,511	(15.8)
Voice – visitor	3,347	2,563	(23.4)
Total voice	207,569	195,215	(6.0)
Non-voice	64,248	68,080	6.0
Equipment	29,843	40,077	34.3
Other mobile revenues	7,626	7,573	(0.7)
Total mobile revenues	309,286	310,945	0.5

The following table provides KPI information on our mobile services in Hungary, Macedonia and Montenegro:

	2012.	2013.	2013/2012
	December 31,		(% change)
HUNGARY			
Penetration (%)	116.5	117.0	n.a.
Total number of subscribers	5,320,069	5,402,406	1.5
SIM market share (%)	45.9	46.3	n.a.
Number of mobile broadband Internet subscriptions	1,455,786	1,845,544	26.8
Mobile broadband market share based on total number of subscriptions (%)	45.8	45.2	n.a.
Population-based outdoor 3G coverage (%)	80.5	82.9	n.a.
Population-based outdoor LTE coverage (%)	27.0	38.0	n.a.
MACEDONIA			
Penetration (%)(1)	108.4	108.4	n.a.
Total number of subscribers	1,181,437	1,195,250	1.2
SIM market share (%, RPC)(1) (2)	48.0	47.5	n.a.
MONTENEGRO			
Penetration (%)	159.8	160.3	n.a.
Total number of subscribers	340,032	352,840	3.8
SIM market share (%)	34.3	35.5	n.a.

(1) Restated, according to Agency of Electronic Communications.
(2) Based on RPC.

Total mobile revenues increased by 0.5% in 2013 compared to 2012, resulted mainly from higher mobile equipment revenues together with the increased mobile Internet revenues, which were largely offset by lower mobile voice revenues.

VOICE-RETAIL REVENUE

Voice-retail revenues consist of revenues from subscriptions, voice traffic and roaming voice revenues.

Within mobile revenues, voice revenues represent the largest component. In 2013, voice-retail revenues decreased by 3.7%. The unfavorable macroeconomic environment and the lower average retail tariff levels forced by strong competition had negative impact on our voice-retail traffic revenues in Hungary and at our foreign subsidiaries. For more details, see segments analyses in section Development of business in the operating segments.

Mobile penetration reached 117.0% in Hungary and we accounted for 46.3% market share in the highly competitive mobile market at December 31, 2013 based on the total number of SIM cards. In Macedonia, we maintained our leading market position. In Montenegro, mobile market share increased year over year.

VOICE-WHOLESALE REVENUES

Voice-wholesale revenues consist of domestic and international incoming traffic revenues.

The 15.8% decrease in voice-wholesale revenues is mainly caused by the lower termination fees in Hungary and at our foreign subsidiaries due to regulated tariff reduction. For more details, see segments analyses in section Development of business in the operating segments.

VOICE-VISITOR REVENUES

Visitor revenues decreased by 23.4% in 2013 compared to the previous year. The decline in voice-visitor revenues were due to decreased tariff in Hungary, while at our foreign subsidiaries lower volume of minutes caused the revenue decrease.

NON-VOICE REVENUES

The 6.0% higher non-voice revenues were primarily due to higher mobile Internet revenues in Hungary and at our foreign subsidiaries. This increase was partially offset by lower messaging revenues in Hungary and in Macedonia. By December 31, 2013, we had 1,845,544 mobile broadband customers and accounted for a 45.2% market share based on total number of subscriptions in the mobile broadband market in Hungary.

EQUIPMENT

Mobile equipment revenues increased by 34.3% in 2013, mainly attributable to our Hungarian operation. The revenue growth was driven by the increased sales volume of smartphones and tablets with higher average unit prices.

OTHER MOBILE REVENUES

Other mobile revenues decreased by 0.7% in 2013, as the negative effect of the sale of Pro-M, which resulted in the fallout of Pro-M revenues from September 2012 was largely offset by higher revenues derived from penalty charges in Hungary, in 2013

FIXED LINE REVENUES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Voice – retail	80,848	73,021	(9.7)
Voice – wholesale	15,179	14,015	(7.7)
Internet	52,765	51,835	(1.8)
Data	22,512	19,607	(12.9)
TV	34,428	37,270	8.3
Equipment	4,064	8,110	99.6
Other fixed line revenues	8,304	11,524	38.8
Total fixed line revenues	**218,100**	**215,382**	(1.2)

The table below shows total revenue generating fixed access lines (PSTN, VoIP and VoCATV voice channels, and Public payphones):

	2012.	2013.	2013/2012
	December 31,		(% change)
Hungary	1,723,584	1,683,430	(2.3)
Macedonia	291,988	266,940	(8.6)
Montenegro	165,620	161,805	(2.3)

VOICE-RETAIL REVENUES

Voice-retail revenues primarily consist of revenues from subscriptions, domestic and international outgoing traffic revenues generated on PSTN, VoIP, VoCable. Fixed line voice-retail revenues decreased by 9.7% in 2013 compared to the previous year, mainly driven by lower PSTN subscription fee revenues and lower outgoing traffic revenues. The decrease was due to lower number of our fixed line subscribers and lower average tariff levels.

Domestic outgoing traffic revenues consist of traffic charges for local, domestic long distance and fixed line to mobile calls placed by our subscribers.

In 2013, the continuous decline in the number of revenue producing fixed lines, decreased domestic outgoing traffic and lower average prices (due to flat rate packages, such as Hoppá) led to lower domestic outgoing traffic revenues in Hungary. Magyar Telekom has several favorable offers for customers choosing different flat-rate and optional tariff packages. Our Hoppá tariff package was very successful in 2013, generating more than 638 thousand subscribers by the end of December 2013. The vast majority of customers choosing this package signed a 2-year loyalty contract, therefore this offer proved to be a very effective tool in decreasing fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package reached more than 47 thousand customers at December 31, 2013.

Domestic outgoing traffic revenues decreased also in Macedonia and in Montenegro throughout the period primarily due to decreased customer number and lower usage as a consequence of increasing mobile substitution.

International outgoing traffic revenues include charges for calls placed by our fixed line subscribers to foreign destinations. These revenues decreased in 2013 in Hungary and also at our foreign subsidiaries resulting from lower volume of minutes and also due to the loss of lines.

VOICE-WHOLESALE REVENUES

Voice-wholesale revenues consist of domestic and international incoming traffic revenues. Fixed line voice-wholesale revenues decreased by 7.7% in 2013 compared to 2012, mainly due to the decrease in incoming traffic and to interconnection rate cuts.

Domestic incoming fixed line traffic revenues decreased by 9.9% in 2013. The drop in revenues from other domestic fixed line operators is due to lower call origination and termination revenues as a result of decreased traffic and reduced interconnection fees. The decrease in revenues from mobile operators was mainly due to lower mobile-to-international traffic volume, and also driven by reduced termination fees in Hungary and in Macedonia too.

International incoming fixed line traffic revenues decreased by 5.6% in 2013 compared to the previous year. In Hungary, lower international incoming traffic revenues were mainly driven by the reduced mobile termination fees and, to a lesser extent, lower volume of incoming international minutes. At our foreign subsidiaries, lower incoming international traffic caused the decline in this revenue.

INTERNET REVENUES

Internet revenues decreased by 1.8% in 2013. In Hungary, In Hungary, DSL connections slightly increased together with cablenet and fiber optic connections, but the broadband volume increase could not compensate for the effect of lower average revenue per user ("ARPU") resulting from lower prices forced by intense competition. We accounted for an estimated 37.6% retail broadband market share in Hungary at December 31, 2013. Lower Internet revenues in Hungary were somewhat compensated by the higher revenues in Montenegro due to increased number of DSL connections. In Macedonia, Internet broadband revenues remained stable as lower prices were compensated by the 7.8% higher number of DSL access.

The following table provides KPI information on our internet services in Hungary, Macedonia and Montenegro:

	2012.	2013.	2013/2012
	December 31,		(% change)
HUNGARY			
Retail DSL customers	510,227	532,073	4.3
Wholesale DSL access	89,861	70,964	(21.0)
Total DSL access	600,088	603,037	0.5
Cable broadband customers	245,984	281,577	14.5
Fiber optic connections	41,802	50,953	21.9
Retail broadband market share (%)	36,9	37,6	n.a.
MACEDONIA			
Retail DSL customers	145,263	160,168	10.3
Wholesale DSL access	26,903	25,346	(5.8)
Total DSL access	172,166	185,514	7.8
MONTENEGRO			
Retail DSL customers	81,842	88,840	8.6

DATA REVENUES

Data revenues decreased by 12.9% in 2013 compared to 2012. The decrease in both broadband and narrowband revenues was mainly deriving from lower number of domestic and international leased line customers as well as decreased prices, both in Hungary and at our foreign subsidiaries in 2013.

TV REVENUES

TV revenues were up by 8.3% year over year. This increase was mainly attributable to much higher IPTV revenues driven by the growing IPTV subscriber base, both in Hungary and at our foreign subsidiaries. The fast growth of the IPTV customer base, helped by the development of our high speed Internet network, demonstrates the increasing popularity of interactive television. Growth in satellite TV revenues was due to the higher number of satellite TV customers in 2013 compared to the previous year. These increases were partly offset by lower Cable TV revenues owing to the fact that an increasing number of existing subscribers have been migrating over to IPTV services in Hungary.

The following table shows our TV customer numbers:

	2012.	2013.	2013/2012
	December 31,		(% change)
Hungary	834,726	887,716	6.3
Macedonia	66,140	87,686	32.6
Montenegro	54,248	59,188	9.1

EQUIPMENT

Revenues from fixed line equipment sales almost doubled in 2013 compared to 2012 from HUF 4.1 billion to HUF 8.1 billion boosted mainly by increased equipment revenues in Hungary due to the higher sale of TV sets, Tablet PCs and notebooks in 2013.

SI/IT REVENUES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
SI and IT revenues	54,256	64,054	18.1

System Integration ("SI") and IT revenues increased by 18.1% in 2013, due to higher infrastructure and application revenues owing to several significant new projects in 2013.These increases were partly offset by lower outsourcing mainly driven by the termination of the EKG project and the renegotiation of other large contracts in 2013.

REVENUE FROM ENERGY SERVICES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Revenue from Energy Services	25,486	47,140	85.0

The following table provides KPI information on our energy services in Hungary:

	2012.	2013.	2013/2012
	December 31,		(% change)
Electricity points of delivery	87,945	106,287	20.9
Gas points of delivery	59,900	67,587	12.8

Revenue from Energy Services increased significantly in 2013 compared to 2012. The growth resulted from the higher number of points of delivery in 2013 compared to a year earlier.

OPERATING EXPENSES

Direct costs

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Mobile revenue-related expenses	79,835	84,934	6.4
Fixed line revenue-related expenses	39,045	43,154	10.5
SI/IT revenue-related expenses	32,092	39,684	23.7
Energy revenue-related expenses	25,428	48,903	92.3
Agent commissions	10,826	11,105	2.6
Bad debt expense	6,752	8,690	28.7
Direct costs	**193,978**	**236,470**	**21.9**

MOBILE REVENUE-RELATED EXPENSES

Mobile revenue related expenses increased in 2013 compared to 2012 and amounted to HUF 84.9 billion. Higher mobile equipment costs owing to the higher ratio of smartphones and tablets sold were partly offset by decreased mobile voice payments.

FIXED LINE REVENUE-RELATED EXPENSES

Fixed line revenue related expenses increased by 10.5% to HUF 43.2 billion in 2013. The increase is mainly driven by higher equipment sales due to the significant increase in tablet, notebook and TV-set sales. Furthermore, TV payments increased as well, owing to the increasing subscriber base year over year. These increases were partly counterbalanced by the continuously decreasing voice-related payments.

SI/IT REVENUE-RELATED EXPENSES

SI/IT revenue related expenses increased from HUF 32.1 billion in 2012 to HUF 39.7 billion in 2013 in line with higher revenues due to several large infrastructure and application projects.

ENERGY REVENUE-RELATED EXPENSES

Energy revenue related expenses have been growing (from HUF 25.4 billion in 2012 to HUF 48.9 billion in 2013) in line with the higher customer base.

AGENT COMMISSIONS

Agent commissions remained fairly stable in 2013 compared to 2012.

BAD DEBT EXPENSE

Bad debt expense increased by 28.7% from HUF 6.8 billion in 2012 to HUF 8.7 billion in 2013, primarily due to the higher amount of impairment loss on receivables from equipment sales on instalments in 2013.

DIRECT MARGIN

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Revenues	607,128	637,521	5.0
Direct costs	193,978	236,470	21.9
Direct margin	**413,150**	**401,051**	**(2.9)**

Direct margin decreased due to the shift towards lower margin services.

EMPLOYEE-RELATED EXPENSES

	2012.	2013.	2013/2012
	December 31,		(% change)
Employee-related expenses	94,084	96,691	2.8
Closing number of employees (FTE)	11,653	11,324	(2.8)
Average number of employees (FTE)	11,282	11,349	0.6

Employee-related expenses increased by 2.8%, mainly due to the higher average employee figure in Hungary as a result of insourcing activities that were previously provided by outsourcing partners.

OTHER OPERATING EXPENSES

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Materials, maintenance and service fees	53,231	52,320	(1.7)
Crisis tax	24,351	0	n.m.
Telecom tax	8,741	23,939	173.9
Utility tax	0	7,448	n.a.
Rental and operating lease	14,693	14,228	(3.2)
Fees and levies	13,338	11,191	(16.1)
Marketing	12,696	12,807	0.9
Consulting, audit and other expert fees	4,514	3,666	(18.8)
Other expenses	2,854	2,488	(12.8)
Other operating expenses	**134,418**	**128,087**	**(4.7)**

MATERIALS, MAINTENANCE AND SERVICE FEES

Materials, maintenance and service fees decreased by 1.7% in 2013, mainly due to lower service fees as the previously outsourced labour force related to call center, customer care and customer experience services became permanent employees of the Company in 2012. This decrease was largely counterbalanced by higher telecom equipment maintenance expenses in Hungary, in 2013.

CRISIS TAXES

Special "crisis" taxes on telecommunications services, retail sales and energy sales prevailing in Hungary between 2010–2012, did not exist in 2013.

TELECOM TAX

Telecom tax was introduced in Hungary for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012. Since its introduction, the tax payable has increased several times. For more details on the telecom tax, see Note 25(b) of the Consolidated Financial Statements.

UTILITY TAX

The Hungarian Parliament adopted an act imposing a tax on utility networks, effective from January 1, 2013 for an indefinite period of time. The tax expense and liability was recognized in the first quarter of 2013, as the full annual tax liability is payable based on the taxable infrastructure in place on January 1, 2013. Payments were made in two instalments in March and September in 2013. For more details on the utility tax, see Note 25(c) of the Consolidated Financial Statements.

RENTAL AND OPERATING LEASE

Rental and operating lease decreased by 3.2%, predominately due to the change in the lease contracts of set top boxes in Hungary, in 2013, which turned these into finance leases.

FEES AND LEVIES

Fees and levies were down by 16.1% in 2013 compared to the previous year. The decrease is mainly due to the capitalization (and reduction) of the annual frequency fees in Hungary in September 2013, resulting in a HUF 1.9 billion decrease in fees and levies in 2013.

MARKETING EXPENSES

Marketing expenses remained fairly stable in 2013 compared to 2012.

CONSULTING, AUDIT AND OTHER EXPERT FEES

Consulting, audit and other expert fees decreased by 18.8% in 2013, owing to higher expert fees in 2012 relating to an internal organisation restructuring project.

OTHER OPERATING INCOME

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Gain on the sale of PPE, Intangible assets and assets held for sale	4,012	333	(91.7)
Gain on sale of subsidiaries and associates	1,646	-	(100.0)
Other operating income	4,512	2,856	(36.7)
Total other operating income	**10,170**	**3,189**	(68.6)

Other operating income decreased by 68.6% in 2013 compared to 2012. The unusually high amount of income in 2012 was mainly owing to a real estate transaction in Macedonia, where four old buildings were exchanged for a new one in 2012, resulting in a gain on the sale of the old buildings of HUF 3.8 billion. Also, the sale of Pro-M in 2012 resulted in a gain of HUF 1.6 billion.There were no such exceptional transactions in 2013, which resulted in a decrease of Other operating income.

EBITDA

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
EBITDA	194,818	179 ,462	(7.9)

EBITDA decreased primarily due to the lower direct margin in 2013.

DEPRECIATION AND AMORTIZATION

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Depreciation and amortization	106,897	104,741	2.0

Depreciation and amortization decreased by 2.0% in 2013, as the decrease due to the lower depreciation in Macedonia relating to the RAN modernization project, where the useful life of affected equipment had been shortened, resulting in increased depreciation in 2012 was partly counterbalanced by the increases due to higher amortization expenses in Hungary as a result of the capitalization of the annual frequency fees and the leased set top boxes.

OPERATING PROFIT

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Operating profit	**87,921**	**74,721**	**(15.0)**

NET FINANCIAL RESULT

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Interest expense	24,218	22,734	(6.1)
Other finance expense – net	7,919	10,865	37.2
Interest income	(3,539)	(2,031)	42.6
Net financial result	**29,598**	**31,560**	**10.4**

The net financial result deteriorated by 10.4% from HUF 28.6 billion in 2012 to HUF 31.6 billion in 2013. The deteriorated result was primarily due to the higher combined net loss on foreign exchange translation and fair valuation of derivatives in 2013, as the HUF weakened by 1.93% against the EUR in 2013. The above deterioration was party offset by the lower average interest rates in 2013 resulting in lower amount of interest expense despite the higher average balance of the loan portfolio.

INCOME TAX EXPENSE

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Corporate income and deferred taxes	5,383	6,494	20.6
Other income taxes	8,085	7,812	(3.4)
Total income tax expense	**13,468**	**14,306**	**6.2**
Effective tax rate (%)	**22.7**	**33.1**	**n.a.**

Income tax expense increased from 13.5 billion in 2012 to 14.3 billion in 2013. Higher tax expense in spite of lower PBT is mostly due to the weaker results of our Macedonian subsidiaries with lower effective tax rate, shifting average effective tax rate to a higher level. The virtually flat amount of the Hungarian local business tax (included in other income taxes) also contributed to the increase of the effective tax rate.

For more details on tax rates, tax credits and deferred taxes see Note 9 to the Consolidated Financial Statements

CASH FLOW ANALYSIS

	2012.	2013.	2013/2012
	(in HUF millions)		(change in amount)
Operating cash flow	145,227	131,612	(13,615)
Investing cash flow	(72,875)	(106,049)	(33,174)
Less: Proceeds from other financial assets	10,645	13,772	3,127
Repayment of other financial liabilities	(2,036)	(11,157)	(9,121)
Free cash flow	**59,671**	**634**	**(59,037)**
Proceeds from other financial assets	10,645	13,772	3,127
Proceeds from/payment for loans and other borrowings	(2,922)	50,244	53,166
Dividend paid to shareholders and Non-controlling interest	(66,104)	(65,405)	699
Exchange gains/losses on cash and cash equivalents	(530)	177	707
Change in cash and cash equivalents	**760**	**(578)**	**(1,338)**

FREE CASH FLOW

OPERATING CASH FLOW

Net cash generated from operating activities amounted to HUF 131.6 billion in 2013, compared to HUF 145.2 billion in 2012. Main reasons for the decrease of HUF 13.6 billion were the following:

- HUF 15 billion change in EBITDA.
- HUF 12 billion from change of receivables due to significantly increasing equipment sale on installments in 2013 (smart phones, TV, tablet, etc.).
- HUF 4 billion due to less addition to severance and legal provision and more severance payment from provision in 2013 than in 2012.
- HUF 4 billion impact due to changes in unpaid taxes were more favorable in 2012 than in 2013.
- HUF 4 billion due to trade payables (reverse) factored in 2013 and paid in 2013 included in repayment of other financial liabilities.
- HUF 22 billion due to the settlement payments to the DOJ and the SEC in Q1 2012.
- HUF 5 billion effect due to the non-cash gain on the disposal of Maktel's old buildings as part of the building exchange deal in Q3 2012 and gain on sale of Pro-M in 2012.
- HUF 4 billion due to the proceeds from the recovery of Pro-M receivables as part of the disposal deal in 2012.

INVESTING CASH FLOW

Net cash used in investing activities amounted to HUF -106.0 billion in 2013, compared to HUF -72.9 billion in 2012. Main reasons for the HUF 33.1 billion higher cash outflow were the following:

- HUF 34 billion initial cost due to renewal of the 900 MHz and 1800 MHz Hungarian frequency licenses in 2013.
- HUF 11 billion 900 MHz spectrum license fee paid in 2012.
- HUF 3 billion paid for new 4G license in Macedonia in Q3 2013.
- HUF 3 billion due to Capex payables (reverse) factored in 2013 and paid in 2013 included in repayment of other financial liabilities.
- HUF 14 billion due to cash inflow from the sale of Pro-M (excluding HUF 4 billion included in operating cash flow) in Q3 2012.
- HUF 2 billion net effect from acquisitions. The purchase price of M-Kábel acquisition in 2012 was higher than the purchase price of a number of cable TV business acquisitions in 2013.

PROCEEDS FROM OTHER FINANCIAL ASSETS – NET

Proceeds from other financial assets – net increased from HUF 10.6 billion in 2012 to HUF 13.8 billion in 2013, as higher amount of bank deposits were converted into cash in Macedonia than in 2012.

REPAYMENT OF OTHER FINANCIAL LIABILITIES

Repayment of other financial liabilities increased due to the HUF 7 billion payment on vendor factored trade payables in 2013, while no such payment took place in financing activities in 2012. Besides, HUF 2 billion higher payments on finance lease liabilities in 2013 than in 2012 due to the amendment of the STB lease contracts in 2013 also contributed to the increase.

OTHER FINANCIAL CASH FLOWS

- HUF 53 billion higher net loan proceeds in 2013 as a result of the need generated by the lower free cash flows in 2013.
- HUF 1 billion less dividend payment in 2013. MT paid the same amount of dividend, while MKT paid less dividend and TCG paid more dividend to its minority owners in 2013.

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

TELEKOM HUNGARY SEGMENT

The following table sets forth information regarding the Telekom Hungary segment:

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Voice revenues	157,044	150,098	(4.4)
Non-voice revenues	47,960	51,044	6.4
Other mobile revenues	28,886	40,356	39.7
Total mobile revenues	**233,890**	**241,498**	**3.3**
Voice revenues	62,471	56,444	(9.6)
Internet revenues	41,385	40,346	(2.5)
TV revenues	30,010	31,970	6.5
Energy revenues	25,486	47,140	85.0
Other fixed line and SI/IT revenues	40,374	46,678	15.6
Total fixed line and SI/IT revenues	**199,726**	**222,578**	**11.4**
Total revenues	**433,616**	**464,076**	**7.0**
EBITDA	**130,928**	**129,035**	**(1.4)**

The following tables set forth key non-financial information regarding the Telekom Hungary segment:

MOBILE SERVICES	**2012.**	**2013.**	**2013/2012**
	December 31,		(% change)
Number of customers (RPC)	4,836,965	4,886,705	1.0
Postpaid share in the customer base (%)	47.3	48.5	n.a.
MOU	160	161	0.6
Postpaid ARPU	5,698	5,518	(3.2)
Prepaid ARPU	1,414	1,355	(4.2)
ARPU (HUF)	3,455	3,384	(2.1)
Postpaid (%)	14.5	13.2	n.a.
Prepaid (%)	21.9	23.2	n.a.
Overall churn rate (%)	18.4	18.4	n.a.
Ratio of non-voice revenues in ARPU (%)	23.5	25.4	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,479	6,407	16.9
Number of mobile broadband Internet subscriptions	1,362,750	1,712,807	25.7

FIXED LINE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
VOICE SERVICES			
Total voice access[(1)(2)]	1,554,174	1,517,065	(2.4)
Total outgoing traffic (thousand minutes)	3,198,321	3,118,192	(2.5)
MOU (outgoing minutes)[(1)]	181	181	0.0
ARPU (HUF)[(1)]	2,849	2,768	(2.8)
INTERNET SERVICES			
Number of retail DSL customers	497,217	518,217	4.2
Number of cable broadband customers	245,984	281,577	14.5
Number of fiber optic connections	41,802	50,953	21.9
Total retail broadband customers	785,003	850,747	8.4
Broadband ARPU (HUF)	3,813	3,530	(7.4)
Number of wholesale DSL access	89,861	70,964	(21.0)
TV SERVICES			
Number of IPTV customers	313,285	389,700	24.4
Number of satellite TV customers	291,118	307,147	5.5
Number of cable TV customers	230,323	190,869	(17.1)
Total TV customers	834,726	887,716	6.3
TV ARPU (HUF)	3,069	3,110	1.3
ENERGY SERVICES			
Electricity points of delivery	87,945	106,287	20.9
Gas points of delivery	59,900	67,587	12.8

(1.) PSTN, VoIP and VoCable access lines.
(2.) Including public payphones.

REVENUES

Total revenues in the Telekom Hungary segment increased by 7.0% year over year due to considerably higher revenues from energy services, as well as increased mobile and fixed equipment, mobile Internet, TV and SI/IT revenues. These increases were mitigated by lower mobile and fixed voice revenues and decreased fixed Internet revenues.

Mobile revenues increased in 2013 compared to 2012 mainly due to higher equipment revenues driven by increased sales volume of smartphones and tablets. The increase in non-voice revenues due to wider usage of mobile Internet and the higher other mobile revenues caused by increased amount of penalties charged also contributed to the growth. These increases were mitigated by the decline in mobile voice revenues owing to the average tariff decrease.

Fixed line voice revenues declined by 9.6% in 2013 compared to 2012 due to lower subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also driven by lower outgoing traffic revenues due to the loss of lines and price discounts reflecting the multiplay migration and competition with VoIP and VoCable operators. The increasing popularity of flat rate packages (e.g. Hoppá) also led to lower ARPU.

Fixed line Internet revenues decreased and amounted to HUF 40.3 billion in 2013. The decrease was mainly owing to a lower number of wholesale connections. Increase in the number of retail broadband customers could not fully compensate for the decrease in wholesale connections and the effects of lower ARPU, reflecting lower prices forced by strong competition. The migration towards Telekom double- and triple-play packages also had a negative effect on the ARPU level.

Driven by a larger customer base, IPTV and satellite TV revenues increased compared to last year. This increase was partly offset by lower Cable TV revenues influenced by the significantly lower customer base due to migration from Cable TV to IPTV technology.

Revenue from Energy services increased by HUF 21.7 billion in 2013 comapred to 2012 due to the growth in the number of customers.

EBITDA

EBITDA of the Telekom Hungary segment decreased by 1.4%, due to the lower direct margin, that could not be compensated by the decrease in sector specific tax expenses, in fees and levies and the lower service fees.

T-SYSTEMS HUNGARY SEGMENT

The following tables set forth key financial information regarding the T-Systems Hungary segment:

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Voice revenues	15,490	14,329	(7.5%)
Non-voice revenues	9,180	9,181	0.0%,
Other mobile revenues	5,959	3,496	(41.3%)
Total mobile revenues	**30,629**	**27,006**	**(11.8%)**
Voice revenues	8,915	8,497	(4.7%)
Data revenues	11,142	9,262	(16.9%)
Other fixed line revenues	4,085	4,379	7.2
Total fixed line revenues	**24,142**	**22,138**	**(8.3)**
SI/IT revenues	**63,115**	**74,496**	**18.0**
Total revenues	**117,886**	**123,640**	**4.9**
EBITDA	**16,838**	**14,194**	**(15.7)**

The following tables set forth information regarding the key operating statistical figures of T-Systems Hungary segment:

MOBILE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
Number of customers (RPC)	483,104	515,701	6.7
ARPU (HUF)	4,441	3,973	(10.5)
Overall churn rate (%)	8.8	6.8	n.a.
Ratio of non-voice revenues in ARPU (%)	37.4	39.2	n.a.
Average acquisition cost (SAC) per gross add (HUF)	4,059	3,398	(16.3)
Number of mobile broadband Internet subscriptions	93,036	132,737	42.7

FIXED LINE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
Voice services			
Business PSTN lines	39,358	39,141	(0.6)
Managed leased lines (Flex-Com connections)	1,715	1,389	(19.0)
ISDN channels	130,052	127,224	(2.2)
Total lines	171,125	167,754	(2.0)
Total outgoing traffic (thousand minutes)	245,550	229,841	(6.4)
MOU (outgoing)	176	177	0.8
ARPU (HUF)	4,315	4,246	(1.6)

REVENUES

The total revenue of T-Systems Hungary increased by 4.9% in 2013 compared to 2012, as higher SI/IT revenues more than compensated for the decrease in mobile and fixed line revenues.

Mobile voice revenues decreased by 7.5% in 2013 versus 2012, predominantly due to lower voice-retail revenues as a result of lower average price per minute and decreased MOU, partly compensated by the higher average customer base.

Fixed line voice revenues decreased, reflecting the erosion both in the customer base and traffic. Fixed line data revenues were lower, as a result of the lower number of domestic and international leased line customers as well as decreased prices. Fixed line Internet revenues also declined. Although the number of retail DSL access increased, the lower retail ARPU resulted in a decrease in Internet revenues.

The 18.0 % increase in SI/IT revenues resulted mainly from higher infrastructure and application revenues owing to several significant new projects in 2013. These increases were partly offset by lower outsourcing revenues mainly driven by the termination of the EKG project and the renegotiation of other large contracts in 2013.

EBITDA

EBITDA decreased by 15.7% year over year, mainly as a result of the one-off gain on the sale of Pro-M in Q3 2012 and the non deductible VAT in 2013.

MACEDONIA

The following table sets forth information regarding the Macedonian operations:

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Total mobile revenues [1]	37,979	35,008	(7.8)
Total fixed line and SI/IT revenues [1]	27,080	25,778	(4.8)
Total revenues	**65,059**	**60,786**	**(6.6)**
EBITDA	**34,628**	**24,167**	**(30.2)**

(1) Comparatives modified.

In order to maintain consistency with the current year presentation of revenues, certain items were reclassified for comparative purposes. From Q1 2013, all mobile terminated incoming international traffic revenues are disclosed as mobile (wholesale) revenues, while they were disclosed as fixed line (wholesale) revenues when the incoming traffic transited through Makedonski Telekom to T-Mobile Macedonia. The previous year's income statement disclosure of the revenue breakdown was modified to be comparable to the current year's presentation. This change makes the financial data and mobile KPIs of the Macedonian segment and the Group more comparable with other market participants.

The 3.0% stronger MKD against HUF on average in 2013 compared to last year had a positive impact on the results of the Macedonian operations in HUF terms. Revenues of our Macedonian segment decreased by 6.6% in HUF terms, mainly driven by the significant decrease in mobile and fixed voice revenues.

The following tables set forth information regarding the key operating statistical figures of Macedonia:

MOBILE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
MARKET DATA			
Mobile penetration (%) [1]	108.4	108.4	n.a.
Market share of T-Mobile Macedonia (%) (RPC) [1] [2]	48.0	47.5	n.a.
MOBILE OPERATIONS			
Number of customers	1,181,437	1,195,250	1.2
Postpaid share in the customer base (%)	32.4	32.5	n.a.
MOU	163	191	17.2
ARPU (HUF) [3]	2,356	2,163	(8.2)

(1) Restated, according to Agency of Electronic Communications.
(2) Based on revenue producing customers (RPC).
(3) Restated, due to change in calculation methodology.

FIXED LINE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
Market data			
Fixed line penetration (%)	14.9	13.4	n.a.
Retail DSL market share (estimated) (%)	82.6	83.5	n.a.
VOICE SERVICES			
Total voice access	291,988	266,620	(8.5)
Total outgoing traffic (thousand minutes)	667,333	565,402	(15.3)
INTERNET SERVICES			
Number of retail DSL customers	145,263	160,168	10.3
Number of wholesale DSL access	26,903	25,346	(5.8)
Total DSL access	**172,166**	**185,514**	7.8
TV SERVICES			
Number of IPTV customers	66,140	87,686	32.6

REVENUES

The decrease in mobile revenues was mainly due to lower voice-retail revenues. Higher outgoing minutes could not offset the lower subscription fees as a result of promotion for new subscribers. These decreases were party counterbalanced by the increase in non-voice and other mobile revenues. Non-voice revenues increased by 4.4%, mainly due to higher mobile internet revenues as a result of higher usage. Other mobile revenues increased by 29.4%, mainly driven by the greater number of higher average price handsets sold in 2013 compared to 2012.

The decrease in total fixed line revenues was primarily the result of lower voice-retail revenues reflecting the loss of fixed lines and lower traffic impacted by mobile substitution and competition. Increasing TV revenues owing to the growing IPTV subscriber base, and higher equipment revenues slightly mitigated the decrease in fixed line revenues.

EBITDA

EBITDA decreased by 30.2%, derived mainly from higher other operating income in 2012, owing to the real estate transaction resulting in a HUF 3.8 billion gain, where four old buildings were exchanged for a new one. Furthermore, higher employee related expenses due to the severance expenses relating to the headcount reduction program in 2013, and the lower direct margin also contributed to the EBITDA decrease.

MONTENEGRO

The following table sets forth information regarding the Montenegrin operations:

	2012.	2013.	2013/2012
	(in HUF millions)		(% change)
Total mobile revenues	14,736	14,112	(4.2)
Total fixed line and SI/IT revenues	18,239	18,692	2.5
Total revenues	**32,975**	**32,804**	**(0.5)**
EBITDA	**12,325**	**12,067**	**(2.0)**

The 3.1% stronger EUR against HUF on average in 2013 compared to 2012 had a positive impact on the results of our Montenegrin operations in HUF terms. Total revenue remained stable year over year and amounted to HUF 32.8 billion, as lower mobile and fixed voice, and data revenues were almost fully compensated by higher mobile non-vocie, mobile equipment and fixed Internet as well as increased TV revenues.

The following tables set forth information regarding the key operating statistical figures of Montenegro:

MOBILE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
MARKET DATA			
Mobile penetration (%)	159.8	160.3	n.a.
Crnogorski Telekom's market share (%)	34.3	35.5	n.a.
MOBILE OPERATIONS			
Number of customers (RPC)	340,032	352,840	3.8
Postpaid share in the customer base (%)	40.2	38.4	n.a.
MOU	161	166	3.1
ARPU (HUF)	3,358	2,815	(16.2)

FIXED LINE SERVICES

	2012.	2013.	2013/2012
	December 31,		(% change)
MARKET DATA			
Fixed line penetration (%)	26.0	25.4	n.a.
Retail DSL market share (estimated) (%)	82.9	81.8	n.a.
VOICE SERVICES			
Total voice access	165,620	161,805	(2.3)
Total outgoing traffic (thousand minutes)	300,312	265,911	(11.5)
INTERNET SERVICES			
Number of DSL access	81,842	88,840	8.6
TV SERVICES			
Number of IPTV customers	54,248	59,188	9.1

REVENUES

In 2013, mobile revenues in HUF terms decreased by 4.2% compared to 2012, owing to lower voice revenues. Decreased voice-retail revenues were a result of the significantly lower tariff levels that could not be compensated by the slight increase in total minutes and customers. Decreased voice-wholesale revenues are due to lower interconnection revenues, while decreased visitor revenues are mainly due to lower number of visitors. Non-voice revenues increased by 15.2%, mainly due to higher SMS and mobile internet revenues, as a result of higher usage and increasing customer base. Other mobile revenues increased by 82.6%, mainly due to higher handset sales due to successful smartphone marketing campaigns in 2013.

Total fixed line and SI/IT revenues in HUF terms slightly increased, as lower voice and data revenues were counterbalanced by higher TV, Internet and other fixed line reveues. Internet and TV revenues increased owing to the higher customer number, while the increase in other fixed line revenues is due to an IRU sale transaction in 2013.

EBITDA

The EBITDA of our Montenegrin operation slightly decreased year over year, as higher employee-related expenses were largely counterbalanced by lower other operating expenses.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

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

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

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

Our Board of Directors, through the internal audit, carried out an evaluation of the Company's disclosure processes in 2013. Based on the evaluation, our disclosure controls and procedures 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.

BOARD OF DIRECTORS

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

See further information about the Board of Directors in section Our management.

MANAGEMENT COMMITTEE

Pursuant to the Rules of Procedure of the Board of Directors, the Board of Directors established a Management Committee in 2000, which is empowered to carry out the day-to-day operations in accordance with the annual business plan.

See further information about the Management Committee in section Our management.

SUPERVISORY BOARD

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

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

On December 31, 2013, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

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

The members' mandate lasts until May 31, 2016.

Other Principal Directorships of Members of the Supervisory Board

NAME	POSITION HELD	COMPANY
Dr. László Pap	Member of the Supervisory Board	Viking Zrt.
Dr. János Bitó	None	
Attila Bujdosó	None	
Dr. János Illéssy	None	
Dr. Sándor Kerekes	Chairman of the Advisory Board	Zöld Iránytű Alapítvány
	Member of the Supervisory Board	Tomori Pál Főiskola
	Member of the Advisory Board	Vezetőképzésért Alapítvány
	Chairman	KÖVET Association
Konrad Kreuzer	Chairman of the Supervisory Board	E.ON Észak-dunántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Tiszántúli Áramhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Közép-dunántúli Gázhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Dél-dunántúli Gázhálózati Zrt.
	Chairman of the Supervisory Board	E.ON Gazdasági Szolgáltató Kft.
	Chairman of the Supervisory Board	E.ON Hálózati Szolgáltató Kft.
	Member of the Board of Directors	Budapest Airport Zrt.
	Member of the Supervisory Board	SAG Hungaria
	Chairman of the Supervisory Board	SAG Elektrovod
	Chairman of the Supervisory Board	EMG
Tamás Lichnovszky	None	
Martin Meffert	None	
Éva Őz	Member of the Supervisory Board	Hírközlési Dolgozók Jóléti Alapítványa
	Member of the Supervisory Board	Dél-dunántúli Távközlési Sportegyesület
	Member of the Financial Audit Committee	Távközlési Szakszervezet
Dr. Károly Salamon	General director	MIS Kft.
Zsoltné Varga	None	
Dr. Konrad Wetzker	Member of the Board of Directors	Wildhorse Energy Ltd.

BIOGRAPHIES OF MEMBERS OF THE SUPERVISORY BOARD

DR. LÁSZLÓ PAP

Professor Dr. László Pap graduated from the Budapest Technical University, Electrical Engineering Faculty with a degree in telecommunications. In 1980 he received a PhD and later a CSc, and Doctor of Sciences in 1992. He was elected as a correspondent member in 2001, then as a full member in 2007 of the Hungarian Academy of Sciences. He has been a professor in the Electrical Engineering and Informatics Faculty at the Budapest University ofTechnology and Economics since 1992. Between 1992 and 2008 he served as Head of the Telecommunications Department and from 2001 to 2004 as Strategic Vice Rector of the University. He has obtained numerous patents for his inventions. He is the Honorary President of the Scientific Association for Infocommunications, a member of the Telecommunications Systems Committee of the Hungarian Academy of Sciences, and, among others, a member of the editorial board of the periodical World of Nature and Wireless Networks, a member of the Hungarian Space Board and the President of the Scientific Council on Space Research.

DR. JÁNOS BITÓ

Dr. János Bitó graduated from the Faculty of Natural Sciences at József Attila University of Sciences (Szeged, Hungary) in 1958, and received a Doctor rerum naturalium in 1960. In 1967, he received a PhD, and in 1971, a Doctor of Science in technical sciences. He has taught in many Hungarian and foreign universities. Between 1971 and 2002, he worked as a technical, research and development director, managing director or Chief Officer at a number of companies and institutions, and as senior advisor to a minister. Between 1965 and 2005, he accomplished considerable achievements in scientific research and development. He is a member of a number of scientific organizations, including the Committee on Information Science and the Committee on Automation and Computer Science of the Hungarian Academy of Sciences. He was member of the Board of Directors or Supervisory Board or Chairman of the Supervisory Board at a number of companies. At present he is the Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty. A lot of publications are connected to his name (articles, university notes, books), he is the owner of many prizes and awards.

ATTILA BUJDOSÓ

Mr. Attila Bujdosó holds a degree in electrical engineering from Kandó Kálmán Technical College of Budapest, Faculty of Electrical Engineering. Since 1985, he has been working at Magyar Telekom and its legal predecessors. Until 1998, he worked as an exchange maintenance technician, then as a technical coordinator and an administrative operator. He has been a member of various trade unions since 1985: between 1985 and 1990 a member of the Postal Workers' Trade Union, between 1990 and 1993 a member of the Telecommunications Workers' Trade Union, between 1993 and 2004 a member of the Hungarian Telecommunications Branch Trade Union, from 2004 a member, and since July 1, 2008, the President of the Telecommunications Trade Union. Between 2005 and 2007, he was a member of the Workers' Council and between July 1, 2008 and December 31, 2010 he was a member of the Presidency of MSZOSZ (National Confederation of Hungarian Trade Unions).

DR. JÁNOS ILLÉSSY

Dr. János Illéssy holds a degree in electrical engineering from the Budapest Technical University and has later received MBA and PhD degrees from the University of Pittsburgh, USA. He spent over a decade and a half with Pannonplast, a plastics producer listed on the Budapest Stock Exchange, as consultant, controller, Chief Financial Officer and then Chairman-Chief Executive Officer. Between 2001 and 2003 he worked as managing director of the Hungarian subsidiary bank of BNP Paribas. Between 2004 and 2007 he was the Chief Financial Officer and member of the Board of Directors of BorsodChem. Currently, he is the managing director of Lebona Kft. and teaches Financial Economics at the Institute of International Business Relations and also at the Business School of Central European University as an Adjunct Professor.

DR. SÁNDOR KEREKES

Professor Dr. Sándor Kerekes holds an MSc in Chemistry and Economics. He taught chemical technology for 16 years. He received a Dr. univ degree in 1973, a PhD (CSc) degree in Economics in 1984 and Doctor of Sciences of the Hungarian Academy of Sciences in 2003. In 1994, he accomplished the Advanced Management Program at Harvard Business School. For 15 years, he had been member or Chairman of the Board of Directors or Supervisory Boards of various Hungarian mid-size companies. Since 1986, he has served as the Head of Department and later as Institute director at Corvinus University and its legal predecessors. Between 1994 and 1997 and between 2002 and 2006 he served as the Dean of Business Administration Faculty of Corvinus University of Budapest. He is the Director of the Institute of Environmental Sciences of the University. Form 2008 he was Vice Rector of Academic Affairs of the University until December 14, 2011. He is member of the editorial boards of various papers (e.g., Society and Economy , Vezetéstudomány) and the author of many books and articles.

KONRAD KREUZER

Mr. Konrad Kreuzer is a lawyer with a degree in Business Administration. After serving in various positions at the Universities of Munich and Konstanz and in the Ministry of Domestic Affairs of the State of Bavaria, he joined Bayernwerke utilities as the Director of Law and Property Department, later as Managing Director of EuroBayernwerk, the affiliate for international development of Bayernwerk. Between 1997 and 2013 he has served as Chief Executive Officer and as Chairman of the Board of Directors of E.ON in Hungary, and from 2002 on in addition as Chairman and Chief Executive Officer of Zapadoslovensko Energetika/Eon Slovensko. Currently he is member of the Supervisory Board of E.ON Hungária Zrt. and adviser and member of the Board of Directors/ Supervisory Board of other companies in Hungary, Slovakia and Czech Republik.

TAMÁS LICHNOVSZKY

Mr. Tamás Lichnovszky received a Bachelor's degree as licensed signal officer and telecommunications engineer in 1984 from Zalka Máté Military Technical College and as manager engineer in 2002 from the Budapest Technical College. In 2010, he received a post-graduate degree in complementary legal studies from the Pázmány Péter Catholic University. He has been working at Magyar Telekom and its legal predecessor in technical and customer service areas since 1990. He has been an elected member of the Workers' Council since 1998 and from March, 2011 he is the Chairman of the Central Workers' Council.

MARTIN MEFFERT

Mr. Martin Meffert holds a degree in Telecommunications Engineering from the University of Applied Sciences and a degree in Economics from the Business and Administration Academy in Koblenz, Germany. He started his career in 1985 as a telecommunications network planner and later satellite services specialist in the regional directorate of Deutsche Bundespost in Koblenz. Between 1990 and 1998 he served in the Ministry of Telecommunications in Bonn at the departments of satellite systems and international network projects. In 1999, he joined the fixed line business of Deutsche Telekom responsible for cooperation and alliance management for various regions in South and Eastern Europe. Since the formation of the Board Area Europe within the Group Headquarters of Deutsche Telekom in 2010, he takes care of the Corporate Governance of Magyar Telekom, Makedonski Telekom and Crnogorski Telekom.

ÉVA ŐZ

Ms. Éva Őz graduated as an engineer economist. Between 1978 and 1996 she worked as the leader of the architect planning group at the predecessor of Magyar Telekom, at Pécs. From 1996 she took the position of leading the Investment Group of Real Estate Directorate at Pécs. After obtaining her second degree, since 1999 she has been working in the area of economy, she presently works as a controlling manager at the Controlling Directorate. She has been taking part in the work of the Central Workers' Council since 1999. She has been elected as the Chairwoman of the Workers' Council of Central Functions already for the fifth election period and she still fills this position.

DR. KÁROLY SALAMON

Dr. Károly Salamon graduated in 1977 from the Kandó Kálmán Technical College of Budapest with a bachelor of science of Electrical Engineering, and in 1983 from Eötvös Lóránd University of Sciences with a master of science of Mathematics. He received an MBA degree at the University of Pittsburgh (USA) in 1991 and then he received a PhD from the University of Economics in Budapest in 1993. Between 1977 and 1990, he worked as a design engineer, then as a development engineer and later as a project leader at different companies. From 1990, he worked for Ernst and Young International Audit and Consulting Company first as an employee, and later as a partner. Between 1995 and 2005, he was the Chief Financial Officer, then from 2006 to 2008 the Chairman-Chief Executive Officer of Allianz Hungária Biztosító Zrt. From 2008, he is the general director of MIS Ltd. Between 2003 and 2008 he was a member or the Chairman of the Board of Directors, or a member of the Supervisory Board of a number of banks. Between 2006 and 2011 he was a member of the Board of Directors of the Hungarian Mortgage Bank, between 2007 and 2011 he was a member
of the Presidency of the German-Hungarian Chamber of Commerce. From 2009 he was a member of the Board of Directors of the State Motorway Management Company Ltd. He has been the Chairman-Chief Executive Officer of MKB General Insurance Zrt. and MKB Life Insurance Zrt. since July 1, 2010.

ZSOLTNÉ VARGA

Mrs. Zsoltné Varga graduated from the College of Transport and Telecommunications at Győr in 1991. She has been working for Magyar Telekom (and its legal predecessor) since 1991. From 1991 to 1996, she was an engineer in the technical area, later she was head of a T-Pont shop. Currently, she works as a quality manager. In 1998, she became an elected member of the Workers' Council and she is member of the Central Workers' Council. Since 2004 she has been a member and from 2009 Deputy Chairwoman of Deutsche Telekom's European Workers' Council.

DR. KONRAD WETZKER

Dr. Konrad Wetzker graduated from the University of Economic Science Karl Marx in Budapest in 1975, in mathematical analysis of the national economy. He earned his PhD in 1979, then in 1988 Doctor of Science. Between 1975 and 1989 he worked in applied research and was the leader of various research teams. Between 1989 and 1990 he was the President of the Institute for Applied Research in Berlin, and also a member of different Committees managing the economic part of the reunification in Germany. From 1991 until 2010 he worked for the Boston Consulting Group, in Düsseldorf, and from 1996 in Budapest, as Principal, Partner, Senior Partner and Chairman of Hungary, mainly for energy players, financial institutions, and in telecommunications and infrastructural industries. He worked for more than 50 international companies in strategy, organization and internationalization projects. He took part in supporting the market entry of Western European Players, especially in Hungary, Slovakia, and Czech Republic. He is the co-founder of the Corvinus School of Management in Budapest, and since 2005 he is its Chairman. Since 2011 he has been senior advisor at the Corvinus University of Budapest. He gives lessons at various universities (e.g. Harvard, University of Cambridge) and is the author of almost 100 publications (e.g. books and articles).

AUDIT COMMITTEE

The Audit Committee executes its duties pursuant to the Articles of Association Section 8.7, and its own Rules of Procedure (http://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 duration as their membership of the Supervisory Board.

On December 31, 2013, the members of the Audit Committee were as follows:
- Dr. János Illéssy
- Dr. János Bitó
- Dr. Sándor Kerekes
- Dr. László Pap
- Dr. Károly Salamon

REMUNERATION AND NOMINATION COMMITTEE

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

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

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

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

On December 31, 2013, the members of the Remuneration and Nomination Committee were as follows:
- Dr. Ralph Rentschler
- Branka Skaramuca
- Frank Odzuck

COMPENSATION OF DIRECTORS AND OFFICERS

In 2013, the total compensation of the members of the Board of Directors in their capacity as Board members was HUF 14 million in the following breakdown:

Name	Position held	Compensation
Frank Odzuck	Member of the Board of Directors	HUF 4.8 million
György Mosonyi	Member of the Board of Directors	HUF 4.8 million
Dr. Mihály Patai	Member of the Board of Directors	HUF 4.8 million

In 2013, the total compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 57 million in the following breakdown:

Name	Position held	Compensation
Dr. János Illéssy	Member of the Supervisory Board	HUF 3.53 million
	Chairman of the Audit Committee	HUF 5.25 million
Dr. Sándor Kerekes	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Dr. László Pap	Chairman of the Supervisory Board	HUF 5.31 million
	Member of the Audit Committee	HUF 2.64 million
Konrad Kreuzer	Member of the Supervisory Board	HUF 3.53 million
Zsoltné Varga	Member of the Supervisory Board	HUF 3.53 million
Dr. János Bitó	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Dr. Károly Salamon	Member of the Supervisory Board	HUF 3.53 million
	Member of the Audit Committee	HUF 2.64 million
Attila Bujdosó	Member of the Supervisory Board	HUF 3.53 million
Tamás Lichnovszky	Member of the Supervisory Board	HUF 3.53 million
Dr. Konrad Wetzker	Member of the Supervisory Board	HUF 3.53 million
Éva Őz	Member of the Supervisory Board	HUF 3.53 million

In 2013, the total compensation expenses (including social security and other payroll related taxes) of the members of the Management Committee (“MC”) was HUF 1,384 million.

Currently two of the MC members have an employment contract for a fixed duration. Pursuant to Hungarian legislation, if an employment contract is terminated before the end of its term, the absence fee received for the remaining period is up to 12 months.

The notice period is two months for two of the undetermined contracts, while the severance payment is in accordance with the Hungarian legislation and the Collective Agreement. For the other contracts the notice period is six months, while the severance payment is between 10 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom 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 ex-employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the ex-employee will be liable for a payment of compensation to the employer.

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

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

SHARE BASED PAYMENTS

For information about our Mid-term Incentive Plan ("MTIP"), see Note 24.1 to the Consolidated Financial Statements. For information about the Matching Share Plan, see Note 24.2 to the Consolidated Financial Statements. For further information about the compensation of key management, see Note 34.4 to the Consolidated Financial Statements.

SHARE OF OWNERSHIP OF MANAGEMENT

The following table sets out information relating to holdings of ordinary shares by our directors and executive officers at December 31, 2013:

Name	Position	No. of Shares Owned
Christopher Mattheisen	Chief Executive Officer of Magyar Telekom Plc., Member of the Board of Directors	96,636
Thilo Kusch	Chief Executive Officer of Makedonski Telekom	17,000
Tamás Lichnovszky	Supervisory Board Member	7,790
Zsoltné Varga	Supervisory Board Member	1
Éva Somorjai	Chief Human Resources Officer	14,400
János Szabó	Chief Financial Officer	10,000
Dr. Balázs Máthé	Chief Legal & Corporate Affairs Officer	15,650
Kerstin Günther	Chairperson of the Board of Directors of Magyar Telekom Plc.	7,059
Total		**168,536**

HUMAN POLICY

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

HUMAN STRATEGY FROM THE COMPANY'S ASPECT

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

HUMAN STRATEGY FROM THE EMPLOYEES' ASPECT

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

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

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

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

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

Our subsidiaries in Macedonia and Montenegro follow the same principles in their Human Strategy.

HEADCOUNT

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

	2011.	2012.	2013.
		December 31,	
Magyar Telekom Plc.	6,097	7,474	7,359
Magyar Telekom Plc. and its consolidated subsidiaries	10,111	11,653	11,324

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

	2011.	2012.	2013.
		December 31,	
Telekom Hungary	6,124	7,793	7,649
T-Systems Hungary	1,594	1,509	1607
Macedonia	1,668	1,623	1,418
Montenegro	725	728	650
Total	**10,111**	**11,653**	**11,324**

TOTAL WORKFORCE MANAGEMENT

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

WORKFORCE REDUCTION AND REDEPLOYMENT

Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling (disregarding the technical effects of acquisitions and Total Workforce Management), the number of highly skilled employees is increasing. We plan to further reduce the number of our employees.

In order to simplify and streamline its organization, Magyar Telekom has already implemented several integration steps. The merger with T-Mobile Hungary in 2006, the integration of Emitel and the access business area of TOnline into the parent company in 2007 and the integration of T-Kábel in 2009 enabled the management to eliminate overlaps and simplify the processes and the operational structure of the Group. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management started negotiations with the trade unions and reached an agreement in October 2013.

According to the terms of the agreement, the Company made around 250 employees redundant from 2014. The majority have left the Company by the end of 2013. Total severance expenses related to the headcount reduction is approximately HUF 2.3 billion and the majority of these were accounted for in the fourth quarter of 2013.

The agreement with the trade unions also states that as part of the cost efficiency measures, there will not be any general increase in the base salaries for parent company employees during 2014. Based on these measures, our goal is to keep Total Workforce Management related costs (excluding severance and capitalized employee expenses) flat in 2014 compared to 2012.

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

EMPLOYEE REPRESENTATION AND LABOR RELATIONS

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

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

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

Under the Act IV of 2006 on Business Associations (the "Companies Act"), employee representatives on the Supervisory Board are nominated by the Workers' Council in cooperation with the Trade Union. The composition of the Supervisory Board is approved by the AGM. At least one third of the members of the Supervisory Board must be employee representatives. On December 31, 2013, four members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga, Éva Őz and Attila Bujdosó.

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

PENSIONS AND BENEFIT PROGRAMS

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

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's executive officers and directors), discount holiday facilities and other fringe benefits. In addition to our statutory contributions to governmental health, retirement and unemployment schemes, we contribute to the employees' voluntary pension fund and supplementary benefits fund, which provide private pension and health insurance benefits supplementing government pension and health benefits. We do not, however, guarantee payment by the fund to its members. At the end of 2013, approximately 63% of all employees participated in the pension-, 44% in the self-aid-, and 66% in the health fund.

SUSTAINABILITY

SUSTAINABILITY STRATEGY

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

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

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

- Brand management: our goal is to raise awareness about the concept of sustainability and to enhance the sustainability perception of Magyar Telekom
  - Awareness about the concept of sustainability: KPI: public: 20%, employees: 80%
  - Magyar Telekom's sustainability perception: KPI: 25% of the public, 50% of the employees name Telekom as the most sustainable company
- Innovation management: our goal is to increase innovations aimed at society and environment, KPI: 10% of the R&D value
- Climate strategy: our goal is to reduce the CO_2 emission of the group by 20% by 2015 (base year: 2004)
- Supplier standards: our goal is to develop a regulated sustainable supplier chain management process.
- Effects of telecommunication services: our goal is to increase the ratio of sustainable products and services, and to keep our customers informed
  - Increase revenue from services of sustainable nature, KPI: 20% of annual sales
  - Sustainable products, KPI: their ratio in the portfolio: 25%

PERFORMANCE OF THE STRATEGY

We measure our sustainability achievements through our Dow Jones Sustainability Index (DJSI) evaluation and different awards received, while the visibility of our leadership is assessed through surveys conducted among the public and the employees.

- According to the DJSI, in 2012, we scored 72, which put us in the top third globally, and this achievement was accompanied by numerous awards.
- Awards and assessments in 2013:
  - Family Friendly Workplace title,
  - Disability-friendly workplace award,
  - TOP 10 Diverse Organizations,
  - CEERIUS sustainability index membership,
  - Oekom responsible investment assessment: Prime category
  - Telekom MobileSchool Award for Volunteering
  - Crnogorski Telekom: Annual Award for Social Responsibility (Montenegrin Chamber of Economy Annual Awards for 2012).

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

- The survey conducted among the public in 2013 showed that 6% of the responders name Magyar Telekom and its offer brands as a company of a leading role in sustainability, while 85% cannot name any companies at all. The survey conducted among the employees showed that 60% of responders name the company as a company assuming a leading role, while 20% cannot name any companies like that at all. The concept of sustainability is known by 19% among the public and 74% among employees.

ENVIRONMENT PROTECTION

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

ENVIRONMENT AND CLIMATE PROTECTION PERFORMANCE

In 2013, Magyar Telekom bought from E.ON 34 GWh electric power generated from renewing energy sources, which is 16% of the company's total electric power consumption. The 5-year strategy sets forth the objective of sustaining a green energy consumption level of at least 46 GWh per year.

In 2013 we already had 3 cars running 100% on electricity in Magyar Telekom's fleet. One of the electric cars is used by technicians working for the Technical Services Directorate, while the other two are used as pool-cars by Telekom employees. It is to be noted that the pollutant emission of electric cars is zero and their fuel consumption is low. By the end of 2013, the cars have run more than 20 000 kilometers.

On May 24, 2013, Magyar Telekom's bike rental service available for employees, called TeleBike was launched. Employees of the company can pick up their bikes at stations of standard, well-recognizable design, and use them free of charge to travel between different sites of the company during working hours faster and putting less burden on the environment. In 2013, the TeleBike system works with 40 bikes. Employees can use the bikes to travel between four facilities of Telekom and T-Systems Hungary. Some figures attached to the system: in 2013, 1,130 users registered, bikes were rented 6,762 times (60 times on average per day), and employees travelled 10,613 kilometers and thus saved 2,585 kg CO_2 emission.

Magyar Telekom installed solar collectors on its guest house in 2013 for the purpose of communal water heating. The solar collectors provide 30% of the total hot water needed, which is expected to save close to 8 tons of CO_2 emission according to the preliminary calculations.

We introduced a bonus-malus system for our personal used vehicles. Malus should be paid if the vehicle emits more than the average emission value. We spent 50% of the malus on carbon offset project. In 2013 we could offset 3,520 tonnes of CO_2 by supporting two projects in India.

Magyar Telekom continued to roll-out the ventillation technology used for cooling large technological rooms and remote facilities in 2013, too. By that, the use of air-conditioning equipment and electric power consumption are decreased. The company completed the implementation of the smart cooling pilot, which aims to run air-conditioning equipment at optimal load, thus ensuring lower energy consumption. Initiatives aimed at replacing furnaces and modernizing heating centers, as well as using residual heat generated at certain technological rooms for heating have also continued.

Apart from the hardcore aspects of sustainable development such as constant technological enhancement which result in permanent reduction of electricity consumption, increased substitution of travelling by means of better usage of tele-presence and MS Lync tools, further car fleet optimization, etc. Crnogorski Telekom is also pioneering in Montenegro in soft elements of sustainability such as selective waste collection in the three main buildings in Podgorica (HQ, Main Technology and Customer Service buildings) being one of the first companies in the country to do it. The process started in May 2013.

INITIATIVES CONCERNING STAKEHOLDERS

In 2013 we organized the Sustainability Roundtable Discussion for the 14th time, the objective of which is to have an open dialogue with our stakeholders for the sake of understanding the demands towards Magyar Telekom Group, discussing the arising problems, and to provide a suitable background for thinking together and co-operating in building a sustainable future.

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

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

It is an expert jury that decides which project submitted should receive the award. The sixth award ceremony took place as part of the Sustainability Roundtable held on June 21, 2013. In 2013, organizations and enterprises working in the areas of energetics, renewing energies and people of changed work ability were awarded.

As a responsible company, Magyar Telekom considers it important to take an active part in the Earth Hour events. We had taken part for the first time in 2009, and have done so every year since with the objective to draw attention to the threat posed by and the relationship between overconsumption and climate change. In 2013, we joined the worldwide initiative again: we switched off the lights of our shops and office buildings, as well as our billboards for the duration of the event and sold our environment-friendly products with discounts at the same time.

On September 28, 2013, it was for the sixth time that we organized our Sustainability Day Conference, the aim of which is to provide specific positive examples to enable people interested in and open to the issue to live their lives in a more conscious manner. As part of the event, innovations, developments and initiatives were presented in the contexts of economy, society and environment that all strive to promote more livable, sustainable and ethical lifestyles. The economy session addressed the ethical aspects of environmental, social and financial innovation, the environmental session discussed the social effects of climate change, the social session focused on changes in consumption patterns, and the one extra session put into the limelight the power of communities. It was for the first time that as part of the sixth Sustainability Day Magyar Telekom held a session numbered minus one, with the involvement of the Sustainability Media Club, addressing safe media consumption by children.

In 2013, we continued to sensitize our employees to social issues by organizing volunteer work events. Those interested could join our volunteer efforts at the nationwide “hello holnap!” Volunteer Day and at the T-Shops. The cause of employees’ volunteer work was also furthered by charitable teambuilding exercises. In course of the year, 562 colleagues worked 4,552 hours of volunteer work, by means of which a theoretical amount of HUF 25.7 million was thus donated to the society.

The MobileSchool education program created by employees of Telekom has set the goal to educate young people in conscious and safe use of mobile phones and the internet, thereby to prevent incidents suffered by a growing number of people in these days that can damage the soul of young people. In 2013 14,500 students of 450 classes of 200 schools participated at the scheme. Currently 230 volunteers take part in the program, including associates and managers from versatile professional areas of the company.

In 2013, Magyar Telekom’s thematic donations program joined the 28th Vivicitta urban landscape protection run. Telekom offered the schools of Budapest that joined the Vivicitta run to establish community gardens, where children could learn about self-sustained lifestyles and thus the concept of sustainability while tending to or using the garden and in certain cases by attending thematic classes in the subject matter.

It was in March 2013 that the “hello holnap!” experts’ sustainability club was launched for employees. The club held events every month, hosting prominent guests. In order to recognize the active participation and conscious approach demonstrated by its employees, the company launched, simultaneously with the start of the “hello holnap! club, the “hello holnap!” scoring system. Under the initiative, employees attending sustainability-related events collect scores and the one collecting the most scores is awarded at the end of the year.

Magyar Telekom established a sub-site of the telekom.hu web site, which is to address the threats posed by children’s media consumption exclusively. The site provides parents information not only on the relevant ICT technologies, equipment and content, but on threats and preventive measures to be observed in the context of media consumption.

In November, 2013, Magyar Telekom introduced its “hello holnap!” tariff packages designed with the special needs of handicapped people in mind, and the company supports an NGO working with handicapped people by donating the proceeds of the “It feels good to give” Cookie Action of December 2013. The NGO to be supported was selected from a list of NGOs provided by Magyar Telekom through vote by the members of the Sustainability Media Club.

Crnogorski Telekom has four focus areas in the sustainability activities: education, health and environment, culture and connect the unconnected. This year the company supported a number of NGOs and organizations, dealing with problems of socially vulnerable groups or promoting good causes and initiatives for the society, as prevention and early detection of diseases, fighting poverty, education on the protection of environment and reducing of environmental impact. The company donated two fully equipped ambulance vehicles to the Institute for urgent health care of Montenegro, supported the Food Bank initiatives and national electronics competition for high school students, worked with an NGO for parents and children rights, joined the campaign to raise funds for the purchase of a mammography device, in order to help the process of timely diagnosis of breast cancer, worked with the municipality of Podgorica on a joint project with the aim of promoting of healthy lifestyle and sport activities, as well as protection of the environment.

On March 5, 2013, Foundation T-Mobile for Macedonia and the United Nations Children's Fund (UNICEF) began a one year partnership to expand early childhood development services. The program:

- Aims to ensure universal access to opportunities for healthy physical, social, emotional, and cognitive development in the first five years of life.
- Includes an initial cash donation from Foundation T-Mobile for Macedonia of USD 50,000.
- In order to close the gap between urban and rural areas where kindergartens are underrepresented, new early childhood development centers will be built in communities that need them most.
- A campaign to raise awareness about the importance of responsive caregiving in a safe and stimulating environment during the first 5 years of life.
- Activities to appeal to the entire community to get involved.

ANNUAL SUSTAINABILITY REPORT

One of Magyar Telekom Group's commitments is that it annually publishes a report about its sustainability performance. Reports are prepared in accordance with the GRI G3 principles of Global Reporting Initiative (GRI) published in 2006, thus meeting the expectation that the reports comply with the principles of transparency and international comparability. Each year since 2007 Magyar Telekom achieved the highest compliance in accordance with the international principles, so its Sustainability report for the year 2012 continued to apply the principles on A+ level for the sixth time already. In 2013 an independent assurance report with the GRI criteria was completed and certified by PricewaterhouseCoopers in accordance with ISAE 3000 international standards. Further details on the sustainability performance of the Company can be found in the annual reports available on the site: http://www.telekom.hu/society_and_environment/sustainability_reports.

RESEARCH AND DEVELOPMENT ACTIVITIES

HUNGARY

In 2013 the Research and Development activities of Magyar Telekom covered primarily the implementation of R&D grant projects launched and won in the frame of the Research and Technology Innovation Fund. The project titled "Implementation of Info-communications R&D&I umbrella projects at Magyar Telekom" was completed in 2013. By this project, Magyar Telekom delivered more independent R&D projects, the project value is HUF 492 million. The used financial resources are based on a HUF 231 million subsidy which comes from a non-refund tendering process and on the company's own interest for 261 million. The goal of the project is to support further improvement of the Company's current consumer and business services with novel, innovative solutions, and to facilitate search for new development areas and innovation directions going beyond the core activities. Under the grant, nearly thirty topics selected in advance by the R&D Committee were implemented in cooperation with domestic SMEs, research institutes, institutions of tertiary education and large companies. In addition to the external partners, Magyar Telekom's research, product and service development staff also participated in projects connected to the various research topics.

The grant project titled "Magyar Telekom Plc.'s Healthcare Mobile Service R&D" was also started in 2013 and will be completed in the spring of 2014.Under this project, Magyar Telekom won HUF 64 million non-refundable grant for the implementation of the R&D project, which is complemented by Magyar Telekom's own contribution totaling HUF 72 million (the total project value of HUF 136 million may decrease in line with actual expenditures, in compliance with the regulations on funding). Within the one-year project, the Company works on the development of an e-Health platform which connects various mobile-based health services designed for citizens. In addition to innovative domestic SMEs, research and development tasks are performed by Magyar Telekom's own research, product and service development staff.

Both projects are supported by the Hungarian Government, managed by the National Development Agency and financed by the Research and Technology Innovation Fund.

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

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

Early 2013 the Company joined as a supporting member the National Research Program "Internet of the future" led by the University of Debrecen.

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

MACEDONIA

In order to stimulate corporate R&D and innovation, Makedonski Telekom and T-Mobile Macedonia organized an Innovation Partner Contest in 2013. The Innovation Contest was officially announced at a Telecom Innovation Conference organized by MKT Group and the Macedonian ICT Chamber of Commerce in December 2012. More than 70 proposals were submitted within the contest by various entities such as universities, start-up companies, and individual innovators. The following five projects were selected by MKT Group for joint product development and implementation with the selected partners:

- “T-Care” (Multi-user platform for online customer care, based on artificial intelligence)
- “Smart Wine” (Integrated end-to-end M2M cloud solution for intelligent monitoring of agriculture parameters using wireless sensor network)
- “Cloud Message” (Distributed web-based social network for sharing messages, private or public, and advertisement coupons, depending on the user’s preference, with a mobile augmented reality based client)
- DoxBee (Cross-platform system for collaboration with MS word documents)
- MarketKonekt (B2B/B2C online trading platform in Macedonia)

Makedonski Telekom will continue its activities in the area of new development and innovation. In that line also cooperation with the Universities is seen as a good opportunity to support these activities.

MONTENEGRO

In 2013, Crnogorski Telekom was chosen as main partner for testing of Hybrid Access technology in DT group through “EU Hybrid Access Trial Project”. Project goal was to develop home gateways and Software applications which bond DSL and LTE/3G capacities in order to provide better throughputs and customer experience. Testing includes parallel development of hybrid technology “at home” and “on the move”.

Crnogorski Telekom is also in negotiations with Faculty for Electrical Engineering – University of Montenegro about partnership in order to provide participation in developing projects (about LTE, Cloud Computing etc.) of TLabs in Germany for Montenegrin talented students.

Moreover, we made some smaller investment in development of smartphone applications for advanced services of Crnogorski Telekom.

THE COMPANY'S RISKS AND RELATED UNCERTAINTIES

RISK MANAGEMENT POLICIES

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

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

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

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

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

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

We established the Disclosure Committee on July 31, 2003, which supports the CEO and the CFO in fulfilling their responsibility to oversee processes designed to ensure accuracy and timeliness of our disclosures.

RISK FACTORS

We have identified several risk factors which may affect our financial condition or results of operations or the trading prices of our securities in the future. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial also could have a material adverse effect on our financial condition or results of operations or the trading prices of our securities. The summary of our principal risks and uncertainties are described below:

Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations.

The Electronic Communications Act of 2003 ("Electronic Communications Act"), which came into force in January 2004, was enacted by the Hungarian Parliament to achieve harmonization of the telecommunications regulatory regime in Hungary with the New Regulatory Framework ("NRF") of the EU for electronic communications adopted in 2002, and to encourage further competition in the market.

The NRF has been subject to review by the EU since 2007. The agreed reforms to the NRF accepted in November 2009 are the result of three years of discussions with stakeholders, national regulators and users. Changes to the NRF were required to be implemented by national legislation by May, 2011. The Hungarian Electronic Communications Act was modified and entered into force August 3, 2011. The significant executive decrees were already published by the National Media and Infocommunications Authority of Hungary by the first quarter of 2012.

The European Commission on September 11, 2013 presented its proposal for a regulatory package aiming at laying down measures to complete the European single market for electronic communications and to achieve a Connected Continent, containing a draft Regulation. If adopted, the Regulation is going to enter into force directly in Hungary as of its nature. The implementation of the obligations is going to affect the business of Magyar Telekom. The regulation is assumed to be adopted in Q2 2014 by the European Parliament, and could enter into force at the earliest in 2015 on EU level (after the approval of European Council).

The National Media and Infocommunications Authority of Hungary ("NMIAH") was officially established on August 11, 2010 to ensure the undisturbed operation, in compliance with applicable legislation, of the media and the markets for electronic communications, postal and information technology services in Hungary in accordance with the Electronic Communications Act and Act I of 1996 on Television Broadcasting, as amended. The new, converged regulator performs the tasks of its predecessors: the National Communications Authority ("NCA") and the National Radio and Television Commission ("NRTC"). One of the primary responsibilities of the NMIAH is to perform market analysis procedures under which it defines "relevant markets," or markets subject to the regulatory framework. The NMIAH analyzes such markets for the level of competition and, if it finds a lack of sufficient competition in such markets, identifies service providers with significant market power ("SMP"), and imposes appropriate regulatory obligations on such providers to encourage competition.

The relevant markets examined by NMIAH are the same as the relevant markets listed in the revised Recommendation of the European Commission on relevant product and service markets within the electronic communications sector (2007/879/EC, relevant markets 1–7/2007). As a result of the EU review, the number of relevant markets decreased from 18 to 7. Related to these relevant markets several market analysis procedures have been closed by NMIAH. According to the current regulation, the NMIAH must analyze the relevant markets once in three years. The current relevant product and service markets are: access to the public telephone network at a fixed location for residential and non-residential customers (1/2007); call origination on the public telephone network provided at a fixed location (2/2007); call termination on individual public telephone networks provided at a fixed location (3/2007); wholesale (physical) network infrastructure access at a fixed location (4/2007); wholesale broadband access (5/2007); wholesale terminating segments of leased lines (6/2007) and voice call termination on individual mobile networks (7/2007). The Company is currently identified as having SMP in all of the 7 relevant markets.

The Consumer Rights Directive was published on November 22, 2011 (2011/83/EC) with more rules concerning subscriber contracts. The transposition of the new rules into the national laws has been started.

The NMIAH places the utmost importance on safeguarding customers' rights. One objective of the market surveillance procedures started by NMIAH is the strengthening of consumer protection between electronic communication service providers and their consumers. During the NRF implementation, the regulations related to the general terms and conditions and the detailed rules of subscriber contracts were modified and became more rigorous. Due to stricter consumer protection rules further market surveillance procedures are expected.

The Hungarian Government wants to undertake a greater role in domestic ICT market through the following intentions: government purpose network and services, national mobile payment system. The Government intends to develop and restructure the operation of Government-related networks in order to be able to operate a high quality and safe electronic public administration. On November 7, 2011 the government announced its decision that MVM will take over the operation of the EKG Network (Uniformed Government Backbone Network) from the Company. Services were switched over to the new network continuously starting from December, 2011. According to the new operation model, services are provided by National Infocommunications Services Zrt.

The European Commission (the "Commission") has issued a recommendation on mobile termination rates by prescribing detailed cost accounting methodology to be applied over a set timeframe by the national regulatory authorities ("NRAs"). The latest final mobile termination resolution was published in August 2011 setting fees for indefinite period. In 2014, a new resolution on mobile termination fees is expected. It may define lower mobile termination fees.

On June 30, 2007 an EU regulation, the Roaming Regulation I. entered into force which regulates international roaming tariffs for wholesale and retail customers on the basis of a capped pricing system. After the first review of roaming prices development, the European Commission published a stricter Roaming Regulation II. on June 29, 2009. It applied to voice, SMS and data roaming fees and resulted in significant price decreases. Latest Roaming Regulation III. was published on June 13, 2012 (EU Regulation No 531/2012) and applies decreased retail and wholesale price caps to voice, SMS and data services. Furthermore the regulation obliges operators to structurally separate their roaming services from their domestic services as of July 1, 2014, and the Company expects to be compliant with the new structural measures.

In addition, our businesses in Macedonia and Montenegro are also subject to various regulatory developments.

In 2011 relevant markets were defined by the Agency for Electronic Communications and Postal Services ("EKIP") in Montenegro. New obligations from 2012 are publication of cost based reference offer and accounting separation submissions.

In August, 2013, a new eLaw was adopted and it established various obligations and in some cases investments will be necessary. The Authority EKIP designated Crnogorski Telekom as SMP on 8 relevant markets (7 out of 8 are the ones defined by the EC, the 8th is the retail broadband market). Retail price regulation will intensify in 2014. These requirements may have an impact on the profitability of our Montenegrin operations.

In Macedonia, the SMP status of Makedonski Telekom and T-Mobile Macedonia in various markets may lead to additional obligations. We assume to have declining fixed and mobile termination rates, and access to ducts and specific network elements (optic/fiber access), universal service and requirements to publish general conditions and quality parameters of services. The activities of the Agency for Electronic Communications (''AEC'') related to retail price control will be enhanced. These requirements may have an impact on the profitability of our Macedonian operations.

We cannot fully anticipate the combined impact of these and other regulatory developments on our business and results of operations. Our business and results of operations may be adversely affected by these changes or similar regulatory developments or changes by our regulators.

We are subject to more intense competition.

The scope of competition and any adverse effect on our results depend on a variety of factors that we cannot assess with precision and are for the most part not within our control. Among such factors are business strategies and capabilities of new competitors, prevailing market conditions, as well as the effectiveness of our efforts to prepare for new market conditions. Specific risks in the fixed line market include continuous downward pressure on tariff levels, loss of customers as a result of unbundled access to the local loop, competition from alternative operators using new technologies (e.g., VoIP, VoCable) and migration to lower priced internet price offers as a result of speed upgrades. In addition, the declining prices of mobile telecommunications services also lead to the churn of fixed line customers.

The most significant trend in the fixed line market is the increasing share of 2Play or 3Play offers (bundling voice, Internet and television services into one package) which usually results in discounts on purchased services for customers. In Hungary, cable penetration is above the European average. From a competition point of view, the unregulated cable television operators may be able to offer more flexible price structures to customers than the regulated market players can, such as Magyar Telekom Plc. In case of increasing price competition, this may narrow our ability to give adequate market responses to the competitors' actions.

In the mobile communications business, we face intense competition. As all telecommunications markets have become increasingly saturated, the focus of providers has shifted from customer acquisition to retention. Significant customer defections could have an adverse effect on our results of operations, and customer acquisition and retention expenses are substantial. Due to intense competition and new price plans, prices for mobile telephone services have been declining over the past years and may continue to decline.

New market models using Internet-based messaging and communication services may adversely affect both our fixed line and mobile voice and messaging services. Entry by mobile virtual network operators (MVNOs) into the mobile telecommunications market may intensify the competition. MVNOs are mobile operators that do not own their own spectrum or network infrastructure, and instead buy the use of the spectrum and network infrastructure from traditional mobile operators and provide mobile telecommunications services to consumers based on the purchased capacity. MVNOs are likely to target the lower segment of the market and such development will likely increase price-based competition. Currently there is no regulation in Hungary, Macedonia or Montenegro, where incumbents would be obliged to provide regulation based access prices for MVNOs. We do not expect changes in this field in the near future.

Telenor in Hungary launched branded mobile service in co-operation with Red Bull (energy drink provider) under the name “Red Bull Mobile”. Also on February 1, 2012 Lidl (discount supermarket chain) launched branded mobile services under the name “Blue Mobile” in Hungary, in co-operation with Magyar Telekom Plc., and Tesco (retailer chain) launched “Tesco Mobile” MVNO service partnering with Vodafone on March 1, 2012. MOL, the Hungarian Oil and Gas Company Plc. launched a branded mobile service under the name “Mol Mobile” in co-operation with Magyar Telekom Plc. in 2013. The entry pressure from other interested parties to the mobile markets may increase in the future. If an MVNO is hosted by one of our competitors, Magyar Telekom could lose revenue as customers may be lost to the MVNO and the tariff level in the mobile markets may significantly decrease.

The risk with regard to spectrum has decreased significantly in 2013 with the prolongation and harmonization of 900 MHz 1800 MHz frequency usage rights for the so called „concessionary” blocks in Hungary. Magyar Telekom Plc. and the NMIAH (National Media and Infocommunications Authority of Hungary) signed an Agreement on September 6, 2013 on the modification of the 900 MHz/1800 MHz Authority Contract. Upon the Agreement, the 900 MHz frequency usage right was prolonged to April 8, 2022 and the 1800 MHz frequency usage right to April 7, 2022. Magyar Telekom Plc. now has 10 MHz (non-contiguous) duplex block in the 900 MHz band and 15 MHz duplex block in the 1800 MHz band.

The licensing of the Digital Dividend 1 band (790–862 MHz) and other frequency bands (900 MHz, 1800 MHz, 2600 MHz): The analogue to digital switch-over of the terrestrial television broadcast service was carried-out in two stages in Hungary by October 31, 2013. The re-tuning of the DVB-T transmitters (digital broadcast channels) in the Digital Dividend 1 band below 790 MHz was finished by November 29, 2013. The NMIAH published the draft tender documentation for spectrum licenses providing broadband services on November 29, 2013, which attracted a lot of proposals from interested parties. The license award mechanism will be beauty contest. The NMIAH compiled different spectrum packages for sale.

We also face intense competition in the market for Internet services, as well as in the data communications markets from other fixed line, mobile and cable television service providers.

Competition posed by new entrants may result in a downward pressure on pricing, sales volume and profitability, which would have an adverse effect on our financial condition and results of operations.

Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet, SI/IT and retail energy revenues.

In fixed line operations, we expect continued decline in fixed line voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and increased competition in the fixed line market, including competition from VoIP or VoCable providers. To mitigate this decrease in fixed line voice revenues, we are now moving from pure fixed line voice offers to integrated 2Play, 3Play, 4Play packages and energy (electricity, natural gas) services (in Hungary), which allow us to partially substitute declining voice traffic revenues with content, entertainment and bundled access revenues. In the mobile operations, market penetration has now reached full saturation levels, and we expect declining voice revenues in 2014.

We may be unable to adapt to technological changes in the telecommunications market.

The telecommunications industry is characterized by rapidly changing technology with related changes in customer demands for new products and services. Technological developments are also shortening product life cycles and facilitating convergence of various segments of the increasingly global telecommunications industry. Our future success will largely depend on our ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Technological advances may also affect our revenues and financial condition by shortening the useful life of some of our assets or potentially requiring their impairment. Further, the tough economic situation in the past years has affected our ability to invest in and deploy new technology.

The future of our current operational model is subject to currently unforeseeable changes in the future business environment.

The telecommunications sector is undergoing a major change globally. We have considered these market trends including changes in technology, customer requirements, competition and regulation, and accordingly, we have planned our operational restructuring to be in line with these market trends. Our operational model effective from 2008 is based on customer segments and also provides a solid basis to capture long-term growth. We have designed our operational model according to our most current knowledge of market trends and our business needs; however, the future business environment might evolve into currently unforeseen directions that will require us to adjust our operational model.

At its meeting held on June 18, 2012, the Company's Board of Directors approved the mid- and long-term strategic direction of the company's operations. One of the first steps is the establishment of a new management structure. The changes, to start from January 2013, will enable Magyar Telekom to exploit the new, innovative service and business opportunities by responding more flexibly to changes in customer demand and to market challenges. The company's new organizational structure is also designed to enable Magyar Telekom to serve its customers in a high-quality, state-of-the-art and efficient way.

Developments in the technology and telecommunications sectors may result in impairments in the carrying value of certain of our assets.

Developments in the technology and telecommunications sectors, including significant declines in stock prices, market capitalization and credit ratings of market participants may result in impairments of our tangible, intangible and financial assets. Future changes in these areas could lead to further impairments at any time. Recognition of impairment of tangible, intangible and financial assets could adversely affect our financial condition and results of operations and might lead to a drop in the price of our shares. We review on a regular basis the fair value of each of our segments. In addition to our regular impairment tests, whenever we identify any indication (including changes in the economic, regulatory, business or political environments) that goodwill, intangible assets or fixed assets may have been impaired, we consider the necessity of performing impairment tests which may result in an impairment charge.

Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies.

Hungary based its EMF (ElectroMagnetic Field) limits on ICNIRP (International Commission on Non-Ionizing Radiation Protection) following the approach of most European countries as well as the EU Commission Recommendation. Media reports suggest that radio frequency emissions from mobile telephones are linked to medical conditions such as cancer. In addition, a number of consumer interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital mobile technologies pose health risks and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on our mobile business or will not lead to additional government regulations. Our ability to install new mobile telecommunications base stations and other infrastructure may also be adversely affected, and related cost may increase, due to regulations or consumer action in response to concerns over health risks and adverse effect on the value of properties adjacent to such facilities. The actual or perceived health risks of mobile communications devices could adversely affect mobile communications service providers, including us, through increased barriers to network development, reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the mobile communications industry.

System failures could result in reduced user traffic and revenue and could harm our reputation.

Our technology infrastructure (both fixed and mobile) is vulnerable to damage and interruption from information technology failures, power loss, floods, windstorms, fires, intentional wrongdoing and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures or computer viruses could affect the quality of our services and cause service interruptions.

In addition, we face continuous pressure on the operating expenses of our network. Each year, we have limited resources to spend on network maintenance. As a result, we also have to reduce the value of our support contracts, which is a significant part of our costs. The reduction of support fees, in most cases, can be realized by renegotiating our contracts by the reduction of services ordered from suppliers, and the reduction of the amount and quality of the support activities. Both of these actions cause significant risk related to the quality levels of operated equipment and the services provided by these equipment, as well. The amount of preventive maintenance has reduced significantly, causing the aging of our equipment. Due to the decrease of vendor support and the aging technologies, we face increasing risk in the number of failures and the probability of longer fault repair time, which may result in revenue losses and increasing number of penalties.

Any of these occurrences could also result in reduced user traffic and revenue and could harm our reputation.

Loss of key personnel could weaken our business.

Our operations are managed by a small number of directors and key executive officers. The loss of directors or key executive officers could significantly impede our financial, marketing and other plans. We believe that the growth and future success of our business depends in large part on our continuing ability to attract and retain highly skilled and qualified personnel; however, the competition for qualified personnel in the telecommunications industry is intense. We can give no assurances that we will be able to hire or retain necessary personnel.

Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs.

The Hungarian equity market is relatively small and illiquid compared to major global markets. As a result of the limitations of the Hungarian equity market and the volatility of the price of telecommunications sector's shares in general, the price of our shares and ADSs may be relatively volatile and our shareholders may have difficulty selling our shares in the event of unfavorable market conditions.

The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries.

Our business depends on general economic conditions in Hungary and abroad. Each of our business segments is affected by its unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. A cautious or negative business outlook may cause our customers to delay or cancel investment in information technology and telecommunications systems and services, which would adversely affect our revenues directly and, in turn, slow down the development of new services and applications that could become future revenue sources.

T-Systems Hungary was also affected by heavy spending cuts by the government, our largest business customer.

A significant amount of cash of the Group's Macedonian and Montenegrin subsidiaries is held in local banks and in connection with these deposits the counterparty risk may be higher, due to the small number of internationally substantial financial institutions in these countries, however, all of our deposits are covered with bank guarantees issued by leading international banks.

We may also experience higher financing costs in the future in case of higher fluctuations of interest rates due to the increased volatility in the international capital and money markets. For additional information about our financial risk management, see Note 3 of the Consolidated Financial Statements.

We are subject to unpredictable changes in Hungarian tax regulations.

Special "crisis" taxes on telecommunications services, retail sales and energy sales prevailing between 2010–2012, did not exist in 2013.

However, another sector specific 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 amounted to HUF 2 per minute and HUF 2 per SMS/MMS. The tax was capped at HUF 400 per month per calling number for private individuals' subscriptions and HUF 1400 per month per calling number for other subscribers' subscriptions in 2012. In 2013, the tax was capped at HUF 700 per month per calling number for private individuals' subscriptions, and was HUF 2500 per month per calling number for non-private individual subscribers' subscriptions. From August 1, 2013, the tax measure was raised to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also the cap applicable to these subscriptions was raised to HUF 5,000 per month.

Besides this, on November 20, 2012 the Hungarian Parliament adopted an act imposing a tax on utility networks, effective from January 1, 2013 for an indefinite period of time. The tax expense and liability was recognized in the first quarter of 2013, as the full annual tax liability was payable based on the taxable infrastructure in place on January 1, 2013. Payments were made in two instalments in March and September 2013 in the total amount of HUF 7.4 billion. Telecommunication and utility taxes are recognized among other operating expenses.

The Hungarian Parliament passed an amendment of the act on cuts in energy prices on February 6, 2014 so that gas prices will be cut by 6.5% from April 2014 and electricity prices will be further cut by 5.7% from September 2014. As the applicable laws or regulations are not available yet, we cannot assess the exact impact of this announcement on the results of our energy business.

These uncertain and unforeseeable changes to tax legislation in Hungary have had, and in the future may continue to have a material effect on our results of operations and financial condition.

Fluctuations in the currency exchange rate could have an adverse effect on our results of operations.

We are subject to currency translation risks, mainly relating to the results of our Macedonian and Montenegrin operations. Devaluation of the Macedonian denar or the EUR, or appreciation of the Hungarian forint may have a negative impact on the Macedonian and/or Montenegrin results when converted into HUF. The conversion of the results of our foreign operations into HUF depends on the value of the HUF against the MKD/ EUR. This is mainly a reporting risk, but through the dividend payments it has direct financial (cash flow) effects on us as well. The recent financial crisis increased the volatility of exchange rate fluctuations, which affect our purchasing costs of goods and services. While the vast majority of our revenues are denominated in the functional currency of the pertinent Group company, part of our operating expenses and capital expenditures are denominated in EUR and USD.

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party, or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or could be involved (or settlements thereof), may have a material adverse effect on our results of operations or

SHARE INFORMATION

MAJOR SHAREHOLDERS

The share capital of Magyar Telekom Plc. is HUF 104,274,254,300, consisting of 1,042,742,543 Series “A” ordinary shares with a nominal value of HUF 100 each at December 31, 2013.

Information concerning our ownership structure as of December 31, 2013 is set out in the following table:

Shareholder	**Number of shares**	**Percentage of share capital**
T-Mobile Global Holding Nr. 2 GmbH (DT) (1)	617,436,759	59.21
Publicly traded	424,914,922	40.75
Treasury stock	390,862	0.04
	1,042,742,543	**100.00**

(1) T-Mobile Global Holding Nr. 2 GmbH is a wholly owned subsidiary of Deutsche Telekom.
CMobil B.V. (a wholly owned subsidiary of T-Mobile Global Holding Nr. 2 GmbH) has been registered into the Share Register on February 7, 2014.

As of October 4, 2013 MagyarCom GmbH (MagyarCom) the immediate controlling shareholder of the Company owning 59.21% of the issued shares was merged into T-Mobile Global Holding Nr. 2 GmbH, also 100% owned by Deutsche Telekom AG. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH increased the registered capital of its 100% owned subsidiary CMobil B.V. registered in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands) through in-kind contribution of Magyar Telekom shares. As a result of the transaction CMobil B.V. became a shareholder of Magyar Telekom Plc. directly owning 59.21% of the Company’s voting rights (registered in Share Register on February 7, 2014). The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG).

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

PROSPECTIVE SHARE REPURCHASE PROGRAM

On February 27, 2014, the Board of Directors resolved to propose to the General Meeting to provide a new authorization for the repurchase of ordinary Magyar Telekom shares. The purpose of the authorization is to supplement Magyar Telekom's current shareholder remuneration policy in line with international practice. The purchased shares might also be used for management remuneration.

According to the Board of Directors' proposal, the General Meeting would authorize the Board of Directors to purchase a total of up to 104,274,254 ordinary shares (with a face value of HUF 100 each) of Magyar Telekom Plc. The authorization will be valid for 18 months starting from the date of approval of this General Meeting resolution. The shares to be purchased on the basis of this authorization together with the treasury shares already held by Magyar Telekom shall not at any time exceed 10% of the share capital (i.e. up to 104,274,254 ordinary shares with a face value of HUF 100 each) of Magyar Telekom Plc. The shares can be purchased through the stock exchange. The equivalent value per share paid by Magyar Telekom Plc. may not be more than 5% above the market price of the share determined by the opening auction on the trading day at the Budapest Stock Exchange. The minimum value to be paid for one share is HUF 1. The authorization may be exercised in full or in part, and the purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume has been reached.

DIVIDEND POLICY

Under Hungarian law, the Company is permitted to pay annual dividends out of profits and profit reserves, determined on the basis of the standalone financial statements prepared in accordance with the Hungarian Accounting Act, following a declaration by the AGM of shareholders. Prior to the approval of the audited financial statements, the Company's shareholders at the Extraordinary General Meeting may also declare a dividend advance on the basis of an audited interim set of financial statements. The General Meeting of shareholders may decide to declare a higher or lower dividend than that recommended by the Board of Directors, provided that shareholders' equity under Hungarian Accounting Act would still meet the statutory requirements following the dividend payment.

The determination of whether to pay dividends and the amount of dividends paid depends upon, among other things, the Company's earnings, financial condition and cash requirements, applicable restrictions on the payment of dividends under Hungarian law and any other factors the Board of Directors may consider relevant. As of December 31, 2013, the reserves available for dividend distribution were approximately HUF 191 billion.

The Company intends to maintain a flexible balance sheet by keeping the consolidated net debt ratio (net debt divided by equity and net debt) in the range of 30%–40%. Dividend payments are mostly dependend on the future profitability and financial position of the Group.

The Board of Directors of the Company proposed no dividend payment for the financial year 2013 for approval to the Annual General Meeting of the Company on April 11, 2014.

CONSOLIDATED FINANCIAL STATEMENTS

EGYÜTT. VELED

CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2013

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

(IFRS)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Magyar Telekom Telecommunications PLC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Magyar Telekom Telecommunications PLC and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as of 31 December 2013 (in which the statement of financial position total is HUF 1,091,248 million, the total comprehensive income for the year is HUF 32,918 million), the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Magyar Telekom Telecommunications PLC and its subsidiaries as of 31 December 2013, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the consolidated business report

We have examined the accompanying consolidated business report of Magyar Telekom Telecommunications PLC and its subsidiaries (together "the Group") for the financial year of 2013.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements. Our work in respect of the consolidated business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Group. In our opinion the 2013 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2013.

Budapest, March 4, 2014

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

Balázs Árpád
Statutory auditor
Licence number: 006931

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At December 31, 2012	At December 31, 2013
		(in HUF millions)	
ASSETS			
Current assets			
Cash and cash equivalents	6	15,211	14,633
Trade and other receivables	7	130,709	136,712
Other current financial assets	8.1	53,966	28,615
Current income tax receivable	9.1	821	896
Inventories	10	12,400	12,478
Non current assets held for sale	11	2,816	607
Total current assets		215,923	193,941
Non current assets			
Property, plant and equipment	12	510,962	493,619
Intangible assets	13	311,066	381,199
Investments in associates and joint ventures	14	-	5
Deferred tax assets	9.4	532	238
Non current financial assets	8.2	18,862	21,619
Other non current assets	15	499	627
Total non current assets		841,921	897,307
Total assets		1,057,844	1,091,248
LIABILITIES			
Current liabilities			
Financial liabilities to related parties	16	35,344	58,682
Other financial liabilities	17	40,341	100,060
Trade payables	18	115,723	103,549
Current income tax payable	9.1	762	759
Provisions	19	5,668	4,076
Other current liabilities	20	37,069	40,097
Total current liabilities		234,907	307,223
Non current liabilities			
Financial liabilities to related parties	16	261,126	239,522
Other financial liabilities	17	5,498	26,214
Deferred tax liabilities	9.4	22,428	19,075
Provisions	19	10,858	8,516
Other non current liabilities	21	944	1,122
Total non current liabilities		300,854	294,449
Total liabilities		535,761	601,672
EQUITY			
Equity of the owners of the parent			
Common stock		104,275	104,275
Capital reserves		27,383	27,387
Treasury stock		(307)	(307)
Retained earnings		310,452	281,795
Accumulated other comprehensive income		21,253	24,318
Total Equity of the owners of the parent		463,056	437,468
Non-controlling interests		59,027	52,108
Total equity		522,083	489,576
Total liabilities and equity		1,057,844	1,091,248

These consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2014 and signed on their behalf by:

Christopher Mattheisen
Chief Executive Officer, member of the Board

János Szabó
Chief Financial Officer

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2012	2013
		(in HUF millions, except	per share amounts)
Revenues	22	607,128	637,521
Expenses directly related to revenues	23	(193,978)	(236,470)
Employee related expenses	24	(94,084)	(96,691)
Depreciation and amortization	12, 13	(106,897)	(104,741)
Other operating expenses	25	(134,418)	(128,087)
Operating expenses		(529,377)	(565,989)
Other operating income	26	10,170	3,189
Operating profit		87,921	74,721
Interest income	27	3,539	2,039
Interest expense	28	(24,218)	(22,734)
Other finance expense - net	29	(7,919)	(10,865)
Net financial result		(28,598)	(31,560)
Share of associates' and joint ventures' profits	14	-	-
Profit before tax		59,323	43,161
Income tax expense	9.2	(13,468)	(14,306)
Profit for the year		45,855	28,855
Other comprehensive income (all of which may be reclassified subsequently to profit or loss):			
Exchange differences on translating foreign operations		(13,755)	4,111
Revaluation of available-for-sale financial assets		(33)	(48)
Other comprehensive income for the year, net of tax		(13,788)	4,063
Total comprehensive income for the year		32,067	32,918
Profit attributable to:			
Owners of the parent		36,859	23,460
Non-controlling interests		8,996	5,395
		45,855	28,855
Total comprehensive income attributable to:			
Owners of the parent		27,153	26,525
Non-controlling interests		4,914	6,393
		32,067	32,918
Earnings per share (EPS) information:			
Profit attributable to the owners of the Company		36,859	23,460
Weighted average number of common stock outstanding (thousands) used for basic and diluted EPS		1,042,352	1,042,352
Basic and diluted earnings per share (HUF)		35.36	22.51

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended December 31, 2012	For the year ended December 31, 2013
		(in HUF millions)	
Cashflows from operating activities			
Profit for the year		45,855	28,855
Depreciation and amortization		106,897	104,741
Income tax expense		13,468	14,306
Net financial result		28,598	31,560
Share of associates' and joint ventures' profits		-	-
Change in assets carried as working capital		(12,828)	(12,866)
Change in provisions		947	(3,327)
Change in liabilities carried as working capital		4,507	(6,672)
Income tax paid		(13,128)	(12,417)
Dividend received		15	8
Interest and other financial charges paid		(26,816)	(27,903)
Interest received		3,123	1,469
Other cashflows from operations		(5,411)	13,858
Net cash generated from operating activities		145,227	131,612
Cashflows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	30	(96,614)	(120,138)
Purchase of subsidiaries and business units	31	(2,388)	(871)
Cash acquired through business combinations	5.1	48	-
Proceeds from other financial assets		55,788	37,375
Payments for other financial assets		(45,143)	(23,603)
Proceeds from disposal of subsidiaries and associates – net	5.4	14,388	-
Proceeds from disposal of PPE and intangible assets		1,046	1,188
Net cash used in investing activities		(72,875)	(106,049)
Cashflows from financing activities			
Dividends paid to shareholders and Non-controlling interest		(66,104)	(65,405)
Proceeds from loans and other borrowings		235,346	331,457
Repayment of loans and other borrowings	17.2	(238,268)	(281,213)
Repayment of other financial liabilities	17.2	(2,036)	(11,157)
Net cash used in financing activities		(71,062)	(26,318)
Exchange differences on cash and cash equivalents		(530)	177
Change in cash and cash equivalents		760	(578)
Cash and cash equivalents, beginning of year		14,451	15,211
Cash and cash equivalents, end of year	6	15,211	14,633

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for AFS financial assets – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2011	1,042,742,543	104,275	27,379	–	(307)	325,709	31,022	(63)	488,015	68,076	556,091
Dividend (i)						(52,116)			(52,116)	–	(52,116)
Dividend declared to Non-controlling interests (j)									–	(13,951)	(13,951)
Disposal of subsidiary (k)									–	(12)	(12)
Equity settled share based transactions (c)				4					4	–	4
Transactions with owners in their capacity as owners				4		(52,116)			(52,112)	(13,963)	(66,075)
Other Comprehensive income							(9,687)	(19)	(9,706)	(4,082)	(13,788)
Profit or loss						36,859			36,859	8,996	45,855
Balance at December 31, 2012	1,042,742,543	104,275	27,379	4	(307)	310,452	21,335	(82)	463,056	59,027	522,083
Dividend (i)						(52,117)			(52,117)	–	(52,117)
Dividend declared to Non-controlling interests (j)									–	(13,312)	(13,312)
Equity settled share based transactions (c)				4					4	–	4
Transactions with owners in their capacity as owners				4		(52,117)			(52,113)	(13,312)	(65,425)
Other Comprehensive income							3,090	(25)	3,065	998	4,063
Profit or loss						23,460			23,460	5,395	28,855
Balance at December 31, 2013	1,042,742,543	104,275	27,379	8	(307)	281,795	24,425	(107)	437,468	52,108	489,576
Of which treasury stock	(390,862)										
Shares of common stock outstanding at December 31, 2013	1,042,351,681										

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

NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2013. The number of authorized ordinary shares on December 31, 2013 is 1,042,742,543.

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

(c) Reserve for equity settled share based transactions includes the compensation expenses accrued in this reserve related to share settled compensation programs. The December 31, 2013 and 2012 balances of this reserve represent the amount reserved for the Matching Share Plan (Note 24.2).

(d) Treasury stock represents the cost of the Company's own shares repurchased.

(e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law at December 31, 2013 amounted to approximately HUF 191 billion (HUF 211 billion at December 31, 2012).

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

(g) Revaluation reserve for available-for-sale (AFS) financial assets includes the unrealized gains and losses net of tax on available-for-sale financial assets.

(h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries in which the Group has less than 100% ownership.

(i) In 2013 Magyar Telekom Plc. declared HUF 50 dividend per share (HUF 50 in 2012).

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

(k) In 2012 Magyar Telekom disposed of its 80% owned subsidiary, Compargo Kft.. As a result of the transaction the Non-controlling interest related to this company was eliminated in an amount of HUF 12 million (Note 5.4.2).

Together with the approval of these financial statements for issue, the Board of the Company proposes no dividend distribution to be approved by the Annual General Meeting of the Company in April 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal provider of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria and Romania. These services are subject to various telecommunications regulations depending on the countries of operations (Note 1.3).

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

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

The immediate controlling shareholder of the Company was MagyarCom Holding GmbH (MagyarCom) owning 59.21% of the issued shares until October 4, 2013 when MagyarCom Holding GmbH merged into T-Mobile Global Holding Nr. 2 GmbH. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH contributed its shares as capital increase into its fully owned subsidiary, CMobil B.V. with headquarters in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands). As a result of this transaction CMobil B.V. became Magyar Telekom Plc.'s shareholder with direct voting right of 59.21% (registered in Share Register on February 7, 2014). Considering that the CMobil B.V. is the 100% owned subsidiary of T-Mobile Global Holding Nr. 2 GmbH and T-Mobile Global Holding Nr. 2 is the 100% owned subsidiary of Deutsche Telekom AG (DT or DTAG), after the transaction the indirect voting right and influence of Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) in Magyar Telekom Plc. remained unchanged.

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

These consolidated financial statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, has the right to require amendments before acceptance. As the controlling shareholders are represented in the Board of the Company that approved these financial statements for issuance, the probability of any potential change required by the AGM is extremely remote, and has never happened in the past.

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

1.2 Investigation into certain consultancy contracts

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

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

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

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

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

1.3 Public service concession and license arrangements

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

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

1.3.1 Hungarian Fixed line

Magyar Telekom Plc. is the market leading fixed line telecom service provider in Hungary. The Implementation of the EU New Regulatory Framework (NRF) Review package had been completed by the amendment of the Act C of 2003 on Electronic Communications (hereinafter: Communications Act). Amendments of the Communications Act came into effect on August 3, 2011. The National Media and Infocommunications Authority of Hungary (NMIAH) is the supreme supervisory body and is responsible for secondary legislation making and the preparation of relevant decrees. In 2011 and 2012, as the result of secondary legislation making process, the NMIAH published some important decrees, such as Decree on subscriber contracts issues, Decree on Numbering related issues as well as the Decree on Service Quality requirements and the Decree on Number Portability. In 2013, secondary legislation making process of NMIAH continued and new Decrees on Numbering, Universal Service obligations and Spectrum related topics were issued.

Universal services are basic communications services (including access to communication services at a fixed location, public payphones, directory and directory enquiry services) that should be available to all customers at an affordable price. Magyar Telekom Plc. was a Universal Service Provider from 2002 to 2008, for which a universal service contract was valid until December 31, 2008. The necessary modifications of the telecommunications law and the concerning governmental and ministerial decrees entered into force in the first half of 2010. The new legislation provides favorable conditions - in line with market changes – than the earlier regime. Magyar Telekom's universal service contract was signed on July 29, 2011, with a retrospective effect from January 1, 2011. The universal service contract expired on December 31, 2011. Even though there was no universal service contract in place as at December 31, 2012, the Company continues to comply with the provisions of the expired contract. According to the latest Communications Act amendment (June 2012), NMIAH is responsible for ensuring the universal service in Hungary. The Authority published the detailed rules on the public tender procedure and on the technical and quality requirements of universal services. The NMIAH published its request for proposal on the provision of universal services on November 4, 2013. The tender process is ongoing.

In the electronic communications field Magyar Telekom was designated as an SMP operator (a service provider with significant market power) on the regulated markets. The current 7 relevant markets include retail and wholesale telephony and broadband services stipulated by the EU (according to the second recommendation on the relevant markets).

Magyar Telekom is Hungary's leading fixed line broadband service provider in the wholesale market and one of the leading ones in the retail market. In 2011, the NMIAH designated the Company again as an SMP operator on the wholesale broadband access market. In accordance with the effective resolution, all retail fixed products shall be 'reproducible' by competitors based on the wholesale service. Consequently, the full retail portfolio shall have a wholesale equivalent compliant to the pricing regulations (retail minus methodology) set forth by the NMIAH. Both the current fees and retail minus (RM) values of wholesale broadband services are specified in RM17 resolution of the NMIAH. Approval process of the new fees for RM18 time period is in progress. The Company has a non-discrimination obligation, which means that the same terms and conditions shall be granted in terms of wholesale services to competitors under identical circumstances.

SMP operators are obliged to prepare reference unbundling offer for access to (physical) passive network infrastructure (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NMIAH. The price setting of these services has to be cost based and calculated by a Top-Down Long Run Incremental Costs (TD-LRIC). It is expected that the new RUO will be approved by the NMIAH in Q1 2014.

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

SMPs are also obliged to prepare reference offer for interconnection (RIO), containing applicable fees, and to provide these services in accordance with the reference offer when there is a request for them by other telecommunications service providers. The reference offers of the SMPs must be approved by the NMIAH, and prices have to be based on LRIC. The call origination and supplementary interconnection service fees in the currently effective reference offer are applicable from December 23, 2011.

The Chairman of the NMIAH modified the existing MARIO – Magyar Telekom's RIO - termination fee on its own authority in its resolution issued on December 30, 2013. Approval of the new RIO is expected in Q2 2014, but the new termination fee had been set for all SMP operators already from January 1, 2014.

SMP operators are obliged to enable carrier selection to their subscribers. Consequently, voice telephony customers have the right to select different service providers for each call directions by dialing a pre-selected number or by using a call-by-call pre-fixed number. The requirements for carrier selection are set out in the RIO based interconnection agreements between the affected service providers.

Fixed line telecommunications service providers are obliged to provide number portability on their networks starting January 1, 2004. This means that service providers must enable subscribers to change service provider without changing their fixed telephone numbers within the same geographical area. In the above mentioned Decree on Number Portability the NMIAH implemented the 2 working days number portability obligation which was specified in the EU NRF Review package.

1.3.2 Macedonian Fixed line

The Group is also present in the Macedonian fixed line telecommunications market through its subsidiary, Makedonski Telekom AD Skopje (MKT). MKT is the largest fixed line service provider in Macedonia. The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2005 as primary legislation and rulebooks as secondary legislation.

During 2012, there were several amendments in the ECL and also most of the existing Rulebooks were implemented or amended by the Agency for Electronic Communications (the Agency or AEC) relating to

- retail price regulation;
- technical, usage and other conditions for relevant types of electronic communication networks and infrastructure, associate infrastructure capacities and facilities;
- determination of calculation method for number usage and annual fees;
- assignment of numbers and series of numbers from the numbering plan; general terms and conditions;
- cultural SMS and educations (school info) SMSs;
- "underground cabling";
- Local Bitstream access;
- wholesale leased lines;
- minimal set of leased lines.

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

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

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

In line with the public switched telephone network (PSTN) migration of MKT's network, process that last until the end of 2013, the Agency approved proposed modifications of MKT's Wholesale Line Rental Reference Offer (WLR) and Bitstream Access Service and Bitstream service resale offer (BSA) applicable as of January 1, 2012. In parallel MKT is trying to harmonize the process of PSTN migration with Wholesale operators. Additional changes of Reference Interconnection offer and Wholesale Line rental offers are expected.

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

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

New remedies are following:

- Implementation of IP (Internet Protocol) IC (interconnection) latest by 2016 for fixed and mobile operators;
- Transitional period for IP interconnection for alternative fixed and mobile operators up to 3 years;
- Submission of updated MATERIO (MKT Referent Interconnect Offer) with IP IC description (service and fees) and conditions latest by October 31, 2013 with content at least for:
    - IP network structure and information on the IP IC equipment
    - Number and location of IP PoIs
    - Voice transmission protocols and IP signalization
    - Technical parameters and interface for IP IC
    - Deadline for IP IC testing
    - Continuous update of MATERIO in the prices and cost oriented prices segments
    - Other remedies for Market 4 are the same as before (IC and access, access to specific network facilities, CS (carrier selection) and CPS (carrier preselection), transparency, non discrimination, accounting separation, price control and cost accounting).

In June 2013, the AEC announced starting the first analysis on wholesale market 13 (Transmission of broadcasting content to end users) and starting the second analysis of market 9 and 10 (Transmission and termination segments of LL) and also on market 7 (Physical access to network infrastructure). It is expected that by the end of Q1 2014 the analysis will be finished and published for public hearing. Possible remedies are expected in 2014.

The IP MATERIO was submitted for approval to the Agency in October 2013 on MKT's initiative, in line with market analyses conclusion for submission of MATERIO changes with description and conditions for IP interconnection. On December 27, 2013, MKT received resolution for approval of IP MATERIO. In the process of approval additional changes were made (new interconnection prices based on "Top down LRIC" costing model were included). There are new prices for termination with no peak or off-peak prices. Changes in the IP MATERIO came into force from January 1, 2014. Regional and local termination prices will exist until last Time division multiplexing (TDM) switch is extinguished.

Resolution from December 6, 2013 for approval of Reference offer for provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity was received by MKT on December 20, 2013. Changes will provide easier provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity; they entered into force on January 1, 2014.

1.3.3 Montenegrin Fixed line

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

The Agency for Electronic Communications and Postal Services of Montenegro ("the Agency" or NRA) issued to CT a Fixed line license that is valid form January 1, 2002 for a period of 25 years. In 2004, the Ministry of the Economy prescribed a special one-time fee for the provision of international traffic services, which was paid by CT. The license consequently granted for the provision of international traffic services is for a period of 25 years.

In October 2007, the Broadcasting agency of Montenegro issued to CT a license for building and distributing / broadcasting radio and TV programs to customers (IPTV license) for a period of ten years.

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

As a result of the second round of market analysis, completed at the end of 2013 (previously analyzed in 2010), CT was designated as an SMP operator at all seven EU standard relevant markets. Local loop unbundling (including fiber access), bitstream access, wholesale leased line and carrier pre-selection, other than on Market 4, where prices stayed as determined in the previous round in 2010, the NRA obliged CT to apply prices from cost model provided in the 2012 regulatory reports. Carrier pre-selection was introduced in 2011 and carrier selection was already implemented in 2008. Number portability was introduced in 2011. RIO rates have been determined by the NRA based on cost model results provided in the 2012 regulatory reports. In 2011 the NRA designated CT as SMP on the markets: 1. Retail market for local and long-distance calls, for business and residential, provided on fixed location 2. Retail market for international calls, for business and residential, provided on fixed location 3. Wholesale market of trunk segments of leased lines. Standard EU remedies (also prescribed in the Montenegrin Law) are imposed to CT. The NRA applied the Three criteria test to the Retail broadband internet access services market. The market fulfilled the three criteria test and the NRA entered into the market analysis. The final decision of this market analysis is expected to be published in Q1 2014.

In May 2011, the NRA adopted Cost Accounting methodology which will be applied by CT. First (revised) regulatory reports were submitted on August 30, 2012. The Document was approved by the NRA in November 2012. In September 2013, the NRA approved Crnogorski Telekom fix 2012 regulatory reports.

1.3.4 Hungarian Mobile

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

The initial duration of the concession regarding the GSM 900 public mobile radio telephone service was a period of 15 years starting from the execution of the concession agreement (November 4, 1993 to November 4, 2008). On October 7, 1999 an amended concession contract was signed with the Ministry of Economy and Transport which allowed the Company to provide mobile radio telephone service also in the 1800 MHz band in Hungary until October 7, 2014. The duration of the concession regarding the DCS 1800 public mobile radio telephone service was originally 15 years starting from the execution of the new concession agreement (October 7, 1999 to October 7, 2014). As it was stipulated in the concession contracts, the Minister was entitled to extend the concession period for both services upon their expiration for another 7.5 years without the invitation of a tender. On November 8, 2007, the Company signed the renewed Concession Contract along with the Cooperation Agreement with the Minister that was effective from November 2008. The new Concession Contract prolonged the duration of the 900 MHz frequency usage right until May 4, 2016. The decree on frequency fees was changed from April 1, 2011 which made the modification of the concession contract necessary. The modification was made on March 31, 2011 allowing the introduction of band fees in the concessionary 900 MHz and 1800 MHz bands. The concession contract was modified again on December 14, 2011 allowing the technology-neutral (GSM, UMTS, LTE and WiMAX) use of the concessionary 900 MHz and 1800 MHz bands. According to the Act on Electronic Communications entering into force on July 25, 2012 the Company initiated the transformation of the concession contract into authority contract, which was concluded on November 30, 2012 leaving the possibilities for prolongations of frequency usage rights unchanged.

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

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

The Company won a tender published on October 22, 2008 for a spectrum usage right license for a 26 GHz block (D) on April 30, 2009. On May 14, 2012 the NMIAH granted frequency assignment decision to Magyar Telekom for 4 pieces of basic spectrum blocks (2 x 28 MHz each) in the 26 GHz band.

The Company filed an auction bid in December 2011 with the NMIAH for the right of use of unused spectrum in the 900 MHz frequency band, related to the provision of mobile telecommunications services. The spectrum can be utilized in a technology-neutral manner. The NMIAH announced its first-instance decision on the result of the 900 MHz auction ("Auction") on January 30, 2012. A 5 MHz slot in the 900 MHz band was awarded to a state consortium. The three incumbent mobile network operators also won spectrum blocks. Magyar Telekom won the right of use of two duplex frequency blocks of 1 MHz each for a period of 15 years. On March 12, 2012 Magyar Telekom and the other incumbent operators filed a petition with the Metropolitan Court, requesting that the Court annul the designation of the Consortium as an auction winner and certain relating requirements of the final decision. The Metropolitan Court, by its final judgment announced on September 17, 2012, annulled the entire decision closing the auction. The Curia, by its judgment rendered in a judicial review process, announced on February 26, 2013, upheld the judgment of the Metropolitan Court.

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

- Magyar Telekom's frequency usage rights in the 1800 MHz frequency band otherwise expiring on October 7, 2014 and in the 900 MHz frequency band otherwise expiring on May 4, 2016 were prolonged and harmonized until April 2022.
- Magyar Telekom will retain frequency usage right also until April 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band won in the 900 MHz auction in 2012. Accordingly, Magyar Telekom currently has frequency usage rights of 10 MHz duplex frequency blocks in the 900 MHz frequency bands and of 15 MHz duplex blocks in the 1800 MHz frequency band.
- The one-off fee of the prolongation and harmonization of 900 MHz/1800 MHz frequency licences was HUF 38 billion. However, Magyar Telekom was required to pay HUF 34 billion out of the aforementioned amount, considering the expiry of the frequency blocks won in 2012 being changed from the original 2027 date to 2022.
- The annual fees, frequency usage fees, and frequency band fees of the frequency bands currently used by Magyar Telekom are to be lower by approximately HUF 3.8 billion annually between 2014 and 2022.

On November 29, 2013, the NMIAH published the draft documentation of the forthcoming tender for the frequency usage rights connected to broadband services. Magyar Telekom sent its detailed comments on the draft documentation to the NMIAH on December 19, 2013 and stated them in the public hearing also held in the same subject.

The Company is subject to number portability regulation since 2004, applicable only in case of other mobile operators. The 2 working days number portability obligation is also applicable for mobile services (as well as for fixed line) from September 30, 2012. In 2005 and 2006 the Company was designated as an SMP in the mobile wholesale call termination market, and it is currently subject to regulatory obligations regarding the termination charge of calls into its network. At the end of August 2011, NMIAH made its third new market analysis decisions, which affect the SMP operators' next half-year commitments. On the mobile voice market the three mobile operators have to cut their wholesale prices by 40% in three steps.

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 Regulation prescribed a glide-path that mandates further annual reductions of wholesale and retail prices in the forthcoming years. As of July 2009 the EU introduced regulated tariffs for SMS and data roaming similarly to the regulation of voice roaming. The European Commission introduced Roaming Regulation III which came into force on July 1, 2012.

1.3.5 Macedonian Mobile

T-Mobile Macedonia (T-Mobile MK), the Group's subsidiary, is the leading mobile service provider in Macedonia. With the changes of the ECL published on August 4, 2008, the existing Concession Contract of T-Mobile MK ceased to be valid as of August 5, 2008. On September 5, 2008 the Agency, ex officio, issued a notification to T-Mobile MK for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by T-Mobile MK with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until September 5, 2018, which can be renewed up to an additional 20 years in accordance with the ECL. Due to changes in the bylaws the 900 MHz band was opened for UMTS technology and based on T-Mobile MK's request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology. This is also the case with the T-Mobile MK radiofrequency license in the 1800 MHz band.

After the analysis of the wholesale (WS) market "Call termination services in public mobile communication networks" the Agency on November 26, 2007 brought a decision by which T-Mobile MK was designated with SMP status on this market. T-Mobile MK published a RIO with regulated termination rate effective from August 1, 2008.

On September 2, 2008 a decision for granting three 3G licenses was published. T-Mobile MK started commercial operations of the 3G services on June 11, 2009. The validity of the license is 10 years i.e. December 17, 2018, with a possibility for extension for 20 years in accordance with the ECL.

In March 2011, the Agency published the final market analysis for WS SMS termination, and in May 2011 all 3 mobile operators were designated with SMP status on the WS SMS termination market. In June 2011 all 3 mobile operators submitted draft RIOs with the SMS termination service included, and in July 2011 the RIOs were approved by the Agency with the regulated SMS termination price being symmetrical for all 3 operators.

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

During 2013, there an ECL amendment affecting the work of the Agency and there were modifications of the secondary legislation related to the annual radiofrequency fees, the national radiofrequency allocation plan and table and the quarterly reports for provision of electronic communication services.

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

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

On August 23, 2013, T-Mobile MK was designated as SMP on the relevant market for wholesale of products and call termination services in the public telephone network provided at a fixed location by the Agency, and it was enabled by an Agency decision to modify the RIO by including this service.

1.3.6 Montenegrin Mobile

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

The Agency issued a mobile telecommunication license for GSM 900 MHz for the territory of Montenegro valid from January 1, 2002 for a period of 15 years. At the expiration of this period, CT shall have the option to extend the license for an additional period of ten years for a nominal price. On March 28, 2007, the Agency awarded a 3G license to CT valid for a period of 15 years.

As a result of the market analysis of the NRA in 2011 and 2013, CT is designated as an SMP in the market of termination of voice calls in its own network and on the Wholesale market on access and origination of calls in mobile networks. Interconnect rates have been determined by the Regulator based on cost model results provided in the 2012 regulatory reports. Beside standard remedies, carrier selection was also imposed. Updated RIO was published in February 2011 and Mobile Access RO in April 2012. Mobile number portability was also introduced in the mobile sector in October 2011. In 2013 the NRA applied the Three criteria test to the Retail mobile services market. This market does not fulfill the Three criteria test, so it will not be subject to further market analysis.

In September 2012, the NRA adopted Cost Accounting Methodology for mobile networks to be applied by all three operators. First Regulatory reports (revised) needed to be submitted by June 30, 2013. In September 2013, the NRA approved Crnogorski Telekom's mobile 2012 regulatory reports.

1.3.7 Energy services in Hungary

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

Magyar Telekom's energy revenues contain energy fees, system operator relevant fees and other fees. In case of the residential customers and a part of the business customers (universal customers) the sales price is based on the Universal Service Providers' (USP) price which is regulated by the Minister of National Development. The system operator fees are regulated in case of every customer segment. The regulations guarantee the margin level of the USPs and in case of the natural gas market a special sourcing structure with special sourcing prices is ensured for the USPs.

Hungary's government approved a cut in household energy prices by 10% from January 1, 2013, and a further 10% cut from November 1, 2013. The move applies to electricity, natural gas and district heating prices. The Hungarian Parliament accepted changes to the natural gas and electricity regulations in September 2013, mainly focusing on the ones effective from January 2013, regulating the details of the 10% price cut effective from January 2013.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations endorsed by the EU effective as at December 31, 2013 and applicable to Magyar Telekom had been adopted. These consolidated financial statements also comply with the Hungarian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The consolidated financial statements are presented in millions of HUF.

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

2.1.1Standards, amendments and interpretations effective and adopted by the Group in 2013

IAS 1 (amended) – The IASB published amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be reclassified to the profit or loss section of the income statement (recycled) and those elements that will not. The Group adopted the amended standard as of January 1, 2013. The amended standard did not have any significant impact on the disclosures in the Group's financial statements.

IAS 19 (amended) – The IASB published amendments to IAS 19 – Employee Benefits in June 2011. The amendments mostly focus on areas which are not relevant for the Group (defined benefit plans), while the ones relevant for the Group did not result in any change in the recognition, measurement or disclosure of employee benefits.

IFRS 7 (amended) – The IASB published amendments to IFRS 7 – Amendments to IFRS 7 Financial Instruments: Disclosures in December 2011. The IASB and the Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help assessing better the effect or potential effect of offsetting arrangements on a company's financial position. The common disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of collateral pledged or received. The Group adopted the amended standard as of January 1, 2013. The amended standard did not have a significant impact on the disclosures in the Group's financial statements.

IFRS 13 - The IASB published IFRS 13 – Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The Group adopted the amended standard as of January 1, 2013. The new standard did not have a significant impact on the Group's financial statements.

2.1.2 Standards, amendments and interpretations effective in 2013 but not relevant for the Group

IFRIC 20 - In October 2011, the IASB published IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine. As Magyar Telekom does not have mining activity, the interpretation did not have any impact on the Group's financial statements.

IFRS 1 - In 2012, the IASB published amendments to IFRS 1. As Magyar Telekom already adopted IFRS, the amendments did not have any impact on the Group's financial statements.

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

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

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

The application of the amendment is required for annual periods beginning on or after January 1, 2014. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendment of the standard.

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

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

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

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

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

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

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

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

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

The IASB issued amendments to IFRS 9 in December 2011 and in November 2013 and deferred the mandatory effective date of IFRS 9. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The adoption of the new standard will likely result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has not yet endorsed either the standard or its amendments.

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

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

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

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

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

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

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

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

An entity shall apply this package of five new and revised standards for annual periods beginning on or after January 1, 2014. We do not expect that their adoption would result in significant changes in the financial statements of the Group. The European Union has endorsed the new standards and the May 2011 amendments.

IAS 36 (amended) – The IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 – Impairment of Assets in May 2013. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The application of the amendment is required retrospectively for annual periods beginning on or after January 1, 2014. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Group. The European Union has endorsed the amended standard.

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

IFRIC 21 – The IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments in May 2013. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The application of IFRIC 21 is required for annual periods beginning on or after January 1, 2014. We do not expect that the adoption of the new interpretation would result in significant changes in the financial statements of the Group as our interpretation of IAS 37 has been in line with the newly issued IFRIC. The European Union has not yet endorsed the interpretation.

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

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

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

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

2.2 Consolidation

2.2.1 Subsidiaries

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are no longer consolidated from the date control ceases. The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition whereby costs directly attributable to the acquisition are expensed for transactions closed after January 1, 2010. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Profit for the year (Other operating income).

If applicable, the Group recognizes at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it is recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill for acquisitions concluded after January 1, 2010. For acquisitions concluded before, the difference between the contingent consideration recognized at the acquisition date and the actual contingent consideration paid was recognized as an adjustment to goodwill.

As for the measurement of non-controlling interest, from January 1, 2010, 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. Before that date, the Group could only recognize its own share of the goodwill. 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 since January 1, 2010. Before that date, the balance of the Non controlling interests could not be a negative amount and thus these losses would be allocated to the Group.

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

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

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

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

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

At December 31, 2013 and 2012 the principal operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31,			Activity
	2012	2013		
Incorporated in Hungary:				
Origo Zrt., Budapest	100.00%	100.00%		Internet and TV content provider
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%		System integration and IT services
DATEN-KONTOR Kft., Budapest.......................	100.00%	-	a)	Software development
Telekom New Media Zrt., Budapest.................	100.00%	100.00%		Interactive service provider of telecommunications applications
Incorporated in Macedonia:				
Makedonski Telekom A.D., Skopje (MKT)	56.67%	56.67%		Fixed line telecom service provider
T-Mobile Macedonia A.D., Skopje (T-Mobile MK)	56.67%	56.67%		Mobile telecom service provider
Stonebridge A.D., Skopje..................................	100.00%	100.00%		Holding company
Incorporated in Montenegro:				
Crnogorski Telekom AD, Podgorica (CT) ...	76.53%	76.53%		Telecom service provider
Incorporated in Romania:				
Combridge S.R.L., Bucharest............................	100.00%	100.00%		Wholesale telecom service provider
Incorporated in Bulgaria:				
Novatel EOOD, Sofia	100.00%	100.00%		Wholesale telecom service provider

(a) DATEN-KONTOR Kft. was merged into T-Systems Magyarország Zrt. in March 2013.

The Group's interest in the capital of the above subsidiaries equals the voting rights therein.

2.2.2 Associates and joint ventures

Associates are entities over which the Group has significant influence but not control, generally reflecting a voting right between 20% and 50%. Joint ventures are entities in which the Group has a voting right of 50% with and equivalent external partner holding the other 50% of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill arising on acquisitions, and net of any accumulated impairment loss.

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

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

At December 31, 2013 there was only one operating associate of the Group:

Associates	Group interest in capital as at December 31,		Activity
	2012	2013	
Incorporated in Hungary:			
Közbringa Kft., Budapest	-	25.00%	Project company for bike rental

The Group established a project company, Közbringa Ltd. together with Csepel Zrt. in August 2013 after winning the tender Budapest Bike (BuBi) for establishing a bike rental system for the Budapest Transportation Center (BKK). During the implementation of the project the Group grants system integration, data communication services and software while Csepel Zrt. produces and delivers the bicycles and makes the necessary installation through Közbringa Kft. After the delivery in April 2014 the maintenance of the BuBi operations will also be performed by the project company.

At December 31, 2012 the Group had no associates or joint ventures.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

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

2.3.2 Transactions and balances

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

2.3.3 Group companies

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

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

2.4 Financial instruments

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

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

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

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

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

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

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

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

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

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

2.4.1 Financial assets

The Group classifies its financial assets in the following categories:

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

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

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

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

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

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

2.4.1.1 Financial assets at fair value through profit or loss

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

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

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

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

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

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

2.4.1.2 Loans and receivables

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

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

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

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

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

(a) Cash and cash equivalents

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

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

(b) Bank deposits with original maturities over 3 months

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

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

(c) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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

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

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

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

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

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

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

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as interconnection receivables and payables).

(d) Employee loans

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

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

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

2.4.1.3 Available-for-sale (AFS) financial assets

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

The “available-for-sale financial assets” measurement category includes:

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

AFS financial assets are initially recognized and also subsequently carried at fair value. The unrealized changes in the fair value of available-for-sale financial assets are recognized in equity (Revaluation reserve for AFS financial assets).

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

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

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

2.4.1.4 Held-to-maturity investments

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

2.4.2 Financial liabilities

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

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

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

2.4.2.1 Financial liabilities carried at amortized cost

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

(a) Loans and other financial liabilities

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

(b) Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The carrying values of trade and other payables approximate their fair values due to their short maturity.

2.4.2.2 Financial liabilities at fair value through profit or loss

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

The Group does not apply hedge accounting, therefore, all derivatives are classified as "held for trading".

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

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

2.5 Inventories

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

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

Impairment losses on Inventories are recognized in Other operating expenses (Materials, maintenance and service fees).

2.6 Non current assets held for sale

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

2.7 Property, plant and equipment (PPE)

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

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

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

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

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

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

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

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

2.8 Intangible assets

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

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

Costs associated with the acquisition of long term frequency licenses are capitalized including any related borrowing costs. The present value of the future annual payments for the use of the frequencies are also capitalized if these payments can be estimated reliably, or otherwise recognized as Other operating expenses (included in Fees and levies) in the year the payment obligation refers to. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life.

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

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

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

2.9 Impairment of PPE and intangible assets

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

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

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

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

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

2.10 Provisions and contingent liabilities

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

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

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

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

2.11 Treasury stock

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

2.12 Revenues

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

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

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

2.12.1 Fixed line and mobile telecommunications revenues

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

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

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

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

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

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

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

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

2.12.2 System integration (SI) and IT revenues

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

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

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

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

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

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

2.12.3 Energy retail revenues – gas and electricity

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

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

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

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

2.13 Employee benefits

2.13.1 Short term employee benefits

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

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

2.13.2 Share based compensation

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

Fair values are determined using option pricing models (such as Black–Scholes and Monte Carlo simulation) and other relevant techniques. As Magyar Telekom Plc. is listed and actively traded on the Budapest Stock Exchange, the share price and its history is readily available as a basis for fair value calculations.

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

2.13.3 Termination benefits

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

2.13.4 Post-employment defined benefits

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

2.14 Research and Marketing expenses

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

2.15 Borrowing costs

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

2.16 Income taxes

2.16.1 Corporate income taxes

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

2.16.2 Other income taxes

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

2.16.3 Deferred taxes

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Deferred tax is also provided on taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Leases

2.17.1 Operating lease – Group as lessor

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

2.17.2 Finance lease – Group as lessor

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

2.17.3 Operating lease – Group as lessee

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

2.17.4 Finance lease – Group as lessee

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

2.17.5 Sale and leaseback transactions

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

2.18 Earnings per share

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

2.19 Dividends

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

2.20 Segments

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

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

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

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

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

2.21 Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant Notes. In 2013 there were no material reclassifications.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. These sensitivity analyses calculate with reasonably possible changes in the relevant risk variables and their impact on profit before tax. The impacts disclosed below for the reported periods are subject to an average effective income tax rate of approximately 30% (2012: approximately 25%), i.e. the impact on Profit for the year would be approximately 70% of the pre tax amount in a year that is free from significant one-off non-deductible pre-tax impacts and significant changes in the tax legislations. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

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

3.1.1 Market risk

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

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2012 and 2013 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 2.37 in 2013 (2012: 1.76), the allowed maximum of which would be 2.5 and EBITDA to Interest Expense ratio of 5.69 in 2013, (2012: 6.81), the allowed minimum of which would be 3.0. The Group's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury department continuously.

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

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2013) and the preceding reporting period (2012). The balances at the end of the reporting period are usually representative for the year as a whole; therefore the impacts are calculated using the year end balances . The methods and assumptions used in the sensitivity calculations did not change significantly compared to the previous period. As a result of the still rather volatile international capital and securities markets, higher fluctuations of the FX and interest rates are also possible.

3.1.1.1 Foreign currency risk

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

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

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

From 2009 not all new loans taken from DT were denominated in HUF. In agreement with Deutsche Telekom, several new related party loans taken to finance general corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) from June 2009 are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG (DT AG) to fix the actual cash flows of Magyar Telekom in HUF for the whole nominal amount and interest payments of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. As of December 31, 2013, a 10% weaker HUF would cause an FX loss of approximately HUF 9 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 10 billion. As of December 31, 2013, a 10% stronger HUF would cause an FX gain of approximately HUF 9 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 10 billion. As of December 31, 2012, a 15% weaker HUF would have caused an FX loss of approximately HUF 14 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 15 billion. As of December 31, 2012, a 15% stronger HUF would have caused an FX gain of approximately HUF 14 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 15 billion.

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

Magyar Telekom also has third party loans denominated in EUR, for the majority of which we also concluded cross-currency interest rate swap agreements with one of the substantial Hungarian banks to eliminate FX risk in connection with these loans and hedge the whole foreign currency denominated cash flows of these loans. Even though the Group does not apply hedge accounting, the change in the HUF/EUR exchange rate has limited (net) impact on Profit before tax related to the hedged loans and the swaps together. As of December 31, 2013, a 10% weaker HUF would cause an FX loss of approximately HUF 0.8 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a gain of approximately HUF 0.7 billion. As of December 31, 2013, a 10% stronger HUF would cause an FX gain of approximately HUF 0.8 billion on the EUR denominated loans, while the swap agreements would have a compensating impact of a loss of approximately HUF 0.7 billion. As of December 31, 2012, a 15% weaker HUF would have caused an FX loss of approximately HUF 0.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a gain of approximately HUF 0.4 billion. As of December 31, 2012, a 15% stronger HUF would have caused an FX gain of approximately HUF 0.4 billion on the EUR denominated loans, while the swap agreements would have had a compensating impact of a loss of approximately HUF 0.4 billion.

(c) Other FX exposure

The remaining FX exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from, and payments to, international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency. In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated assets (primarily held by the Group's foreign subsidiaries), however, exceed the Group's foreign currency denominated liabilities (other than the above described loans), therefore changes of the functional currencies' exchange rates would have the following impact on the profit of the Group. Compared to the spot FX rates as of December 31, 2013, a 10% weaker functional currency HUF against the EUR and a 15% weaker HUF against the USD would have caused an unrealized loss of HUF 1.2 billion on this net balance (2012: HUF 1.7 billion loss). The same amount of gain would have been caused by a 10% stronger functional currency HUF against the EUR and a 15% stronger HUF against the USD. Compared to the spot FX rates as of December 31, 2013, a 10% weaker functional currency MKD against the EUR and USD would have caused less than HUF 1.0 billion unrealized gain on this net balance (2012: HUF 1.8 billion gain). The same amount of loss would have been caused by a 10% stronger functional currency MKD against the EUR and USD.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The fair value of the open short term forward positions was HUF 1.2 billion liability as of December 31, 2013 (2012: HUF 0.6 billion liability). These positions were opened to hedge the FX risks of future FX payments exceeding FX income. Compared to the spot FX rates as of December 31, 2013, a 10% weaker functional currency HUF against the EUR and a 15% weaker HUF against the USD would have caused HUF 5.4 billion unrealized gain on this net balance while a 10% stronger HUF against the EUR and a 15% stronger HUF against the USD would have caused HUF 7.8 billion unrealized loss.

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

3.1.1.2 Interest rate risk

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

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

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

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

(a) Financial assets

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

The Group had no significant HUF denominated bank deposits at the end of 2013 and 2012.

The Group's MKD denominated bank deposits amounted to HUF 8.2 billion at the end of 2013 (2012: HUF 10.1 billion). A 1 percentage point higher interest rate throughout 2013 (assuming the year-end 2013 balance throughout 2013) would have resulted in HUF 0.1 billion higher interest income in 2013 (2012: HUF 0.1 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

The Group's EUR denominated bank deposits amounted to HUF 20.4 billion at the end of 2013 (2012: HUF 37.7 billion). A 1 percentage point higher interest rate throughout 2013 (assuming the year-end 2013 balance throughout 2013) would have resulted in HUF 0.2 billion higher interest income in 2013 (2012: HUF 0.4 billion). The interest income would be lower by the same amount in case of 1 percentage point lower interest rate.

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

(b) Financial liabilities

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

As the vast majority of debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 54% of the Group's total debt as of December 31, 2013 (2012: 69%).

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 46% of the Group's total debt as of December 31, 2013 (2012: 31%). A 3 percentage point higher interest rate throughout 2013 (assuming the year-end 2013 balance throughout 2013) would have resulted in HUF 5.0 billion higher interest expense in 2013, while the same decrease of interest rates would cause the same decrease in interest payments (2012: HUF 3.1 billion).

The fair value of the swap agreements contracted with DT is also exposed to changes in the HUF and EUR interest rates. Assuming an unchanged HUF interest but an increase of 1% in the EUR interest rates, the fair value of the swap agreements would also change causing a loss of HUF 1.6 billion, while a 1% decrease in the EUR rates would result in an income of HUF 1.7 billion. Similarly, assuming an unchanged EUR interest but an increase of 3% in the HUF interest rates, the fair value of the swap agreements would also change resulting in an income of HUF 2.0 billion, while a 3% decrease in the HUF rates would cause a loss of HUF 2.1 billion.

3.1.1.3 Other price risk

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

3.1.2 Credit risk

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

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

The following table presents Magyar Telekom's maximum exposure to credit risk as at December 31, 2012 and 2013.

In HUF millions	At December 31,	
	2012	2013
Cash and cash equivalents	15,211	14,633
Bank deposits with original maturities over 3 months	39,632	23,593
Trade receivables	121,362	126,535
Reclaimable frequency auction price	10,923	-
Finance lease receivables	3,535	2,811
Employee loans and receivables	4,514	4,478
Derivative financial instruments	6,652	6,674
Trade receivables over one year	4,215	8,714
Financial assets available for sale	244	214
RDC receivables	383	212
Other current	1,045	1,999
Other non-current	1,685	1,539
	209,401	191,402

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

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

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

Cash and cash equivalents and Bank deposits with maturities over 3 months held in Macedonia are primarily denominated in MKD and EUR, while the Cash and cash equivalents and Bank deposits with maturities over 3 months held in Montenegro are primarily denominated in EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in these countries run higher counterparty risk, due to the small amount of internationally substantial financial institutions in those countries. The bank deposits of the Montenegrin subsidiary of HUF 16.0 billion as at December 31, 2013 (2012: HUF 15.7 billion) and those in Macedonia of HUF 12.5 billion as at December 31, 2013 (2012: HUF 32.1 billion) are fully covered with bank guarantees issued by international financial institutions rated at BBB or above deposited abroad with at least BBB+ rated banks. Credit risk related to bank deposits is further limited by the diversification of the deposits among several independent credit institutions determinant on the local market.

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

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

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

In HUF millions	At December 31,	
	2012	2013
Hungary	103,429	107,389
Macedonia	12,486	12,940
Montenegro	4,534	5,218
Other	913	988
	121,362	126,535

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2013 was 1.4% (2012: 1.1%) of the consolidated revenues. Adverse changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.4 billion in 2013 (2012: HUF 6.1 billion).

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

Hungary

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

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

Macedonia

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

Montenegro

In order to manage receivables, control credit risk, as well to manage anti-fraud and revenue assurance activities, Customer finance department was formed in 2010. A large number of processes were changed which gave good results in the past years. The focus on receivables and credit control was even higher in 2012 in order to mitigate the negative effects of the prolonged economic crisis. There were further improvements introduced in the credit checking area and in the dunning/collection process. Therefore, focus was on business collection as well as on credit risk related to selling on installments which increased significantly in the last period. Also, mutual credit check for new customers with two other mobile operators (Telenor and M:tel) was introduced in March 2013.

3.1.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 46.4 billion as at December 31, 2013 (2012: HUF 88.9 billion), and the Company also had uncommitted credit lines from Hungarian Banks as at December 31, 2013 and 2012. In addition to the above, Deutsche Telekom confirmed its readiness to finance Magyar Telekom Group's budgeted financing needs until the end of June 2015.

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, 2013 and 2012. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

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

December 31, 2012 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	115,723	115,723	-	-
Financial liabilities to related parties	353,904	53,032	285,313	15,559
Bank loans	38,076	38,076	-	-
Finance lease liabilities	6,726	1,282	3,300	2,144
Other financial liabilities	5,676	2,161	3,514	1
Total other financial liabilities	50,478	41,519	6,814	2,145
Total cash flows	520,105	210,274	292,127	17,704
Open swap positions' cash flows				
Gross cash inflow in EUR million	364	23	289	52
Gross cash inflow in HUF million (at spot rate)	106,343	6,842	84,288	15,213
Gross cash outflow in HUF million	(108,722)	(9,902)	(84,802)	(14,018)
Net cash (outflow)/inflow in HUF million	(2,379)	(3,060)	(514)	1,195
Open forward positions' cash flows				
Gross cash inflow in EUR million	182	182	-	-
Gross cash inflow in USD million	3	3	-	-
Gross cash inflow in HUF million	4,985	4,985	-	-
Total gross cash inflow in HUF million (at spot rate)	58,612	58,612	-	-
Gross cash outflow in HUF million	(59,716)	(59,716)	-	-
Net cash outflow in HUF million	(1,104)	(1,104)	-	-

The average maturity of Magyar Telekom's debt portfolio was 1.53 years as at December 31, 2013 (2012: 2.5 years).The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2013 and 2012.

3.2 Capital risk management

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

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

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

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

During 2012 and 2013, the Group's mid and long term target as approved by the Board was to maintain a gearing ratio within 30% to 40%. The gearing ratio at December 31, 2013 was 43.8% (2012: 34.3%). As a result, the management did not recommend to the Board to pay dividend in 2014.

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

The equity capital, which the Group manages, amounted to HUF 490 billion on December 31, 2013 (2012: HUF 522 billion).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. As an example, if Magyar Telekom was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately HUF 11 billion (2012: HUF 11 billion). See Notes 12 and 13 for the changes made to useful lives in 2013.

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

4.2 Estimated impairment of goodwill

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

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

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

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

In 2013 and 2012, no goodwill had to be impaired.

The tables below show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2013 and 2012. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2013 or 2012 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In case of the WACCs we disclose what impact a 1 percentage point increase of the WACC would have on the goodwill (2012: 2 percentage point increase). In case of the PGRs we disclose what impact a 2 percentage point decrease of the PGR would have on the goodwill (2012: 5 percentage point decrease). In case of the cash flow projections we disclose what impact a 10% or a 20% lower than projected cash flow stream would have on the goodwill.

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

2012	Telekom Hungary	T-Systems	Macedonia	Montenegro
WACC				
Used in the calculation	9.32%	9.74%	9.02%	7.85%
If changed to	11.32%	11.74%	11.02%	9.85%
Potential impairment (HUF million)	20,773	-	-	-
PGR				
Used in the calculation	0.0%	1.0%	0.0%	0.0%
If changed to	-5.0%	-4.0%	-5.0%	-5.0%
Potential impairment (HUF million)	10,896	-	-	-
Cash-flow				
If changed by	-10%	-10%	-10%	-10%
Potential impairment (HUF million)	-	-	-	-
If changed by	-20%	-20%	-20%	-20%
Potential impairment (HUF million)	36,394	-	-	-

The table below shows what changes can be observed in the 10 year plans prepared in 2012 compared to those prepared in 2013

	Telekom Magyarország	T-Systems	Macedónia	Montenegró
Cumulative average growth rate of revenues during the 10 years compared to 2012	0.6%	1.4%	-1.0%	-1.1%
Cumulative average growth rate of revenues during the 10 years compared to 2013	1.5%	1.7%	-1.3%	-0.9%
Cumulative average growth rate of EBITDA during the 10 years compared to 2012	1.6%	1.8%	-3.3%	0.1%
Cumulative average growth rate of EBITDA during the 10 years compared to 2013	3.1%	3.6%	0.1%	-0.1%
Cumulative average growth rate of Capex during the 10 years compared to 2012	0.4%	1.1%	-9.6%	1.3%
Cumulative average growth rate of Capex during the 10 years compared to 2013	-1.1%	0.8%	-4.0%	0.6%

Magyar Telekom's management believes that preparing the value in use (VIU) calculation was unnecessary, since it would have resulted in a lower enterprise value than the FVLCS. The VIU method is assuming a model without future investments, meaning that additional capex and related revenues and gains to be recognized in the future cannot be considered in the calculations. Assuring the revenues on long term in a telecom business very much depends on future investments. In Magyar Telekom on average only approximately 20% of the capex spent in a year is related to maintenance. Others are new investments, also related to providing new connections to the network. It is obvious, that without this the revenue generation would start to decline sharply on a long term. Consequently, we did not prepare the value in use calculations for any of the segments.

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

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

4.4 Estimated impairment of trade and other receivables

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

4.5 Provisions

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

4.6 Subscriber acquisition and retention costs

Subscriber acquisition and retention costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition and retention costs. The up-front fees collected from customers for activation or connection are marginal compared to the incremental acquisition and retention costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition and retention costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. Among these, net losses on equipment sales of the Group amounted to HUF 15.6 billion in 2013 (2012: HUF 14.0 billion). In addition, agent fees amounted to HUF 9.5 billion in 2013 (2012: HUF 9.2 billion), while the Group's marketing costs amounted to HUF 12.8 billion in 2013 (2012: HUF 12.7 billion).

4.7 Annual fees of mobile licenses

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary, Macedonia and Montenegro. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee and annual payments. It is judgmental whether we consider the annual fees to be reliably estimable or not. If we consider that we can reliably estimate these annual fees, the present value of those are capitalized as part of the cost of the license, otherwise these are recognized as costs in the period they relate to.

As the conditions of the new license contract concluded in Hungary in 2013 (see Note 1.3.4) have substantially changed compared to the old ones, in addition to the initial cost of the renewal (HUF 38 billion) we also recognized the discounted present value of the future annual license fees (HUF 17 billion) in 2013. In case of the other frequency license fees of the Group, we do not consider the annual fees to be reliably estimable, therefore, those are not capitalized.

5 BUSINESS COMBINATIONS AND DISPOSALS OF BUSINESSES

5.1 Acquisitions in 2013

5.1.1 Cable TV business acquisitions

In 2013 the Group acquired a number of cable TV businesses for HUF 719 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The total purchase price was paid in cash in 2013. The table below shows the summary of the individually insignificant transactions.

In HUF millions	Fair values	Carrying values
Consideration transferred	719	719
Less: Net assets acquired	650	428
Goodwill	69	

5.2 Acquisitions in 2012

5.2.1 M-Kábel

Magyar Telekom signed a share purchase agreement to acquire 100% of M-Kábel Kft. on April 27, 2012. At the same time the Group also acquired a cable TV network from the same seller. The closing of the combined transaction took place on May 31, 2012. The initial purchase price of HUF 2.1 billion was paid in May 2012, and additional HUF 118 million was paid in August 2012 based on the actual net debt of M-Kábel at the closing of the transaction. M-Kábel was the exclusive internet service provider in a western region of Hungary operating on the network acquired at the same time. M-Kábel has been a consolidated subsidiary of the Group since May 31, 2012, included in the Telekom Hungary operating segment.

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

In HUF millions	Fair values	Carrying values
Consideration transferred	2,168	
Less: Net assets acquired	(1,281)	
Goodwill	887	
Net assets acquired:		
Cash and cash equivalents	48	48
Trade and other receivables	80	80
Property, plant and equipment	534	534
Intangible assets	699	-
Trade and other payables	(10)	(10)
Net deferred tax liability	(70)	-
	1,281	652

The total purchase price was paid in cash in 2012.

The customer contract value recognized as an intangible asset only represents the customers and services rendered to them existing on the acquisition date, while the majority of the goodwill represents the value of, and the future expected revenues from, customers to be acquired from the acquisition date and the planned extension of services.

In Hungarian GAAP, there is also no goodwill amortization, but in case of impairment, the total amount of goodwill (HUF 1,532 million) recognized is tax deductible according to the corporate tax law.

5.2.2 Other cable TV business

In 2012 the Group acquired a number of cable TV networks for HUF 23 million in individually insignificant transactions. All these acquisitions qualified as business combinations of the Telekom Hungary operating segment. The total purchase price was paid in cash in 2012.

5.3 Pro forma information on business combinations

The following pro forma information shows the most important financial data of the Group, including the subsidiaries and businesses acquired as if they had been consolidated from the beginning of the year of acquisition, and also how much the business combinations contributed to the reported figures since the acquisition date in the year of acquisition.

In HUF millions	2012	2013
Revenues		
Reported	607,128	637,521
Pro forma – if consolidated from beginning of year	607,398	n.m.
Current year contribution	380	n.m.
Profit for the year		
Reported	36,859	23,460
Pro forma – if consolidated from beginning of year	36,901	n.m.
Current year contribution	60	n.m.

In 2013 business combination transactions were insignificant, therefore their affect on the Group figures were also insignificant.

5.4 Disposals of subsidiaries

In 2012 Magyar Telekom sold two of its investments in subsidiaries. These subsidiaries were not considered separate cash generating units, therefore they did not constitute discontinued operations. In the Consolidated Statements of cash flows the proceeds from the sale of subsidiaries and business units are disclosed net of the Cash and cash equivalents of the subsidiaries sold.

5.4.1 Pro-M

In August 2012, the Company signed a share purchase agreement for the sale of the total of its 100% shareholding in Pro-M Zrt. to National Infocommunications Service Zrt., a Hungarian state-owned company. The initial purchase price was HUF 19.9 billion which was adjusted with the value of the working capital of Pro-M at the closing of the transaction. The buyer withheld HUF 1 billion in order to offset the possible difference between the preliminary and final working capital calculation of Pro-M. The calculation was agreed on October 15, 2012 which resulted in HUF 967 million additional consideration transferred.

The result of the disposal was recognized as Other operating income. (See also note 26).

In HUF millions	Fair values
Agreed purchase price	19,900
less working capital of Pro-M	(1,698)
Consideration received	18,202
Net assets disposed of	(16,602)
Income on sale	1,600
Net assets disposed of:	
Cash and cash equivalents	(7)
Finance lease receivables	(11,264)
Trade and other receivables	(7,480)
Inventories	(15)
Property, plant and equipment	(364)
Intangible assets	(33)
Trade and other payables	1,692
Income tax liabilities	42
Provisions	3
Net deferred tax liability	824
	(16,602)

HUF 3,891 million of the total cash payment received (HUF 18,202 million) was included in the Consolidated Statement of Cash Flows as part of the Change in assets carried as working capital considered as collection of trade receivables outstanding from the state-owned buyer of Pro-M at the date of the transaction while the remaining HUF 14,304 million (net of the cash balance of HUF 7 million disposed of) was disclosed as Proceeds from disposal of subsidiaries and associates - net in the Consolidated Statement of Cash Flows.

5.4.2 Compargo Kft.

In March 2012, Magyar Telekom signed a sale-purchase agreement for the total of its 80% investment in Compargo Kft. for HUF 84 million (net of the cash balance disposed of), resulting in a gain of HUF 46 million.

6 CASH AND CASH EQUIVALENTS

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

In HUF millions	At December 31, 2012	At December 31, 2013
Cash on hand	189	278
Cash in bank (demand deposits)	6,648	8,956
Bank deposits with original maturities less than 3 months	8,374	5,399
	15,211	14,633

Average interest rates	At December 31, 2012	At December 31, 2013
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	1.36%	0.53%
Bank deposits with original maturities less than 3 months	2.56%	0.99%
Average interest rate	2.01%	0.72%

Cash and cash equivalents by currency In HUF millions	At December 31, 2012	At December 31, 2013
MKD	2,045	5,215
EUR	9,616	5,096
USD	1,076	2,292
HUF	2,389	1,973
Other	85	57
	15,211	14,633

Cash and cash equivalents by country of location In HUF millions	At December 31, 2012	At December 31, 2013
Macedonia	2,643	6,900
Hungary	4,551	6,412
Montenegro	7,701	1,094
Other countries	316	227
	15,211	14,633

7 TRADE AND OTHER RECEIVABLES

7.1 Trade and other receivables – carrying amounts

In HUF millions		At December 31, 2012	At December 31, 2013
Trade receivables from third parties		112,602	118,593
Trade receivables from Deutsche Telekom Group companies		8,760	7,942
Total trade receivables	(a)	121,362	126,535
Prepayments and advance payments		6,253	8,039
Other taxes receivable		2,343	1,444
Other		751	694
Total other receivables		9,347	10,177
		130,709	136,712

(a) Age profile of Trade receivables

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

In HUF millions	Carrying amount as of Dec 31, 2013	of which not past due	of which past due by: less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	over 360 days
Hungary	107,389	86,507	11,702	1,849	1,696	2,311	2,634	690
Macedonia	12,940	9,561	1,332	647	386	484	304	226
Montenegro	5,218	4,140	590	223	110	103	49	3
Other countries	988	777	54	34	20	17	44	42
Total	126,535	100,985	13,678	2,753	2,212	2,915	3,031	961

In HUF millions	Carrying amount as of Dec 31, 2012	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	103,429	85,655	11,619	2,164	649	976	993	1,373
Macedonia	12,486	9,443	1,173	483	294	555	274	264
Montenegro	4,534	3,317	540	205	117	221	131	3
Other countries	913	769	42	34	32	9	27	-
Total	121,362	99,184	13,374	2,886	1,092	1,761	1,425	1,640

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

Non past due receivables are not assessed collectively for impairment, but in case of bankruptcy of the customer or defaults on installment payments non past due receivables may have to be partly or fully impaired, the amount of which is not significant, therefore, not disclosed separately. The non past due trade receivables represent approximately 1.9 months of revenue (2012: 2.0 months of revenue). As disclosed in Note 3.1.2, the annual bad debt expense of the Group is approximately 1.4 percent of the annual consolidated revenue, therefore, we can estimate that approximately this percentage of the non past due portion of trade receivables will not be collected, i.e. will have to be impaired in future periods, but are not impaired at the end of the reporting period.

The Group has no collaterals related to its trade receivables.

7.2 Impairment losses of trade and other receivables

The table below shows the impairment loss and changes therein for 2012 and 2013.

In HUF millions	At December 31, 2012	At December 31, 2013
Impairment loss, beginning of period	34,568	30,040
Charged to expense – net (included in Expenses directly related to revenues)	6,752	8,690
Translation difference	(878)	252
Utilized	(10,402)	(8,396)
Impairment loss, end of period	30,040	30,586

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

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

The table below includes the impairment losses and the changes therein in 2012 and 2013 for the countries of operation of the Group.

In HUF millions	At December 31, 2011	Charged to expense	Translation difference	Utilized	At December 31, 2012
Hungary	20,869	6,040	-	(9,959)	16,950
Macedonia	8,982	249	(569)	(414)	8,248
Montenegro	4,639	432	(292)	(29)	4,750
Other countries	78	31	(17)	-	92
Group	34,568	6,752	(878)	(10,402)	30,040

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

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

8 OTHER FINANCIAL ASSETS

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

8.1 Other current financial assets

In HUF millions		At December 31, 2012	At December 31, 2013
Bank deposits with original maturities over 3 months	(a)	39,632	23,593
Reclaimable frequency auction price	(b)	10,923	-
Finance lease receivable	(c)	799	746
Loans and receivables from employees	(d)	505	494
RDC receivable	(e)	190	212
Derivative financial instruments contracted with related parties	(f)	480	1,549
Derivative financial instruments contracted with third parties	(g)	392	22
Other		1,045	1,999
		53,966	28,615

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

In HUF millions	At December 31, 2012	At December 31, 2013
Germany	4,369	9,798
Macedonia	30,306	7,560
Montenegro	4,952	6,235
Hungary	5	-
	39,632	23,593

(b) The Company challenged the decision closing the 900 MHz frequency auction in Hungary before court in March 2012. The final court decision announced on September 17, 2012, which was subsequently upheld on February 26, 2013 annulled the decision closing the 900 MHz frequency auction, as a result of which the carrying amount of the right of use of the frequency as at December 31, 2012 was derecognized. As the auction price paid for the right of use of the frequency awarded to the Company in 2012 became reclaimable as a result of the court decision, the Company recognized a financial receivable in an amount equivalent to the auction price paid for the right of use of the frequency in March 2012 (excluding VAT). On September 6, 2013 the Company and the NMIAH signed the modification of the Authority Contract on the use of the 900 MHz and 1800 MHz frequency bands (see also Note 1.3.4). According to the Contract – among other items - Magyar Telekom retained the frequency usage right until April 8, 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band won in the auction in 2012. As the original length of the usage right was shortened, HUF 4 billion of the auction price was settled net with the NMIAH in November 2013, while the remaining HUF 6.9 billion was classified back to Intangible assets (Note 13 - Reinvestment).

8.2 Other non current financial assets

In HUF millions		At December 31, 2012	2013
Finance lease receivable	(c)	2,736	2,065
Loans and receivables from employees	(d)	4,009	3,984
RDC receivable	(e)	193	-
Trade receivables over one year	(h)	4,215	8,714
Derivative financial instruments contracted with related parties	(f)	5,780	5,103
Derivative financial instruments contracted with third parties	(g)	-	-
Financial assets available for sale	(i)	244	214
Other		1,685	1,539
		18,862	21,619

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

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

(e) RDC receivable represents Crnogorski Telekom's receivable from the Government of Montenegro originating from the Share Transfer Agreement on the sale of ownership in the Radio Difuzni Centar (RDC) entered into in 2004.

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

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

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

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

9 INCOME TAX

9.1 Current income tax receivable and payable

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

9.2 Income tax expense

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

In HUF millions	For the year ended December 31, 2012	2013
Corporate income tax	4,578	4,305
Other income taxes	8,115	7,974
Deferred income taxes	775	2,027
Total income tax expense	13,468	14,306

9.3 Tax rate reconciliation

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

In HUF millions		For the year ended December 31, 2012	2013
Consolidated IFRS profit before income tax		59,323	42,861
Tax at 19%	(a)	(11,271)	(8,144)
Impact of different tax rates	(a)	4,554	2,651
Tax on items not subject to income tax	(b)	1,909	972
Tax on non deductible items	(c)	(547)	(2,244)
Other income taxes	(d)	(8,115)	(7,974)
Impact of tax deductibility of other income taxes	(e)	1,542	1,484
Withholding tax on expected dividends	(f)	(2,990)	(2,415)
(De)/recognized deferred tax on tax losses	(g)	166	118
Investment tax credit accretion	(h)	1,284	1,246
Income tax expense		(13,468)	(14,306)
Effective tax rate		22.7%	33.4%

(a) Impact of different tax rates

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

This line of the reconciliation also includes the tax impacts of the different tax rates of the foreign countries where the Group is also present through its subsidiaries. The tax rate in Macedonia is 0% for undistributed profits. The corporate tax rate is 9% in Montenegro, 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 19% theoretical tax rate applied to the profit before tax.

(b) Tax on items not subject to income tax

Items not subject to income tax includes the tax effect of donation for non-profit organizations and R&D cost deductible from the corporate income tax base as well as the deductible depreciation of assets subject to investment tax credits.

(c) Tax on non deductible items

This line of the reconciliation shows the negative tax impact of the non deductible expenses, including primarily the premature receivable write-downs, certain donations without considerations as well as non deductible penalties.

(d) Other income taxes

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

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

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

(f) Withholding tax on expected dividends

Macedonia and Montenegro levy a 5% withholding tax on dividend distribution to Hungary. In addition, according to the Macedonian tax law Macedonian companies have to pay "corporate income tax" on their annual profits if they distribute those profits as dividends to foreign companies (or Macedonian individuals) at 10%. We assess that the Macedonian corporate tax in 2012 and 2013 is in fact a withholding tax that is levied at the dividend distributions from Macedonia to Hungary, which imposes additional tax expenses for the Group related to the 2012 and 2013 profits of the Macedonian subsidiaries.

The reconciliation includes the amount of withholding tax accruing on the current year's profits to be distributed from the foreign subsidiaries to the Company. Dividends received by the Hungarian parent companies (from Macedonia and Montenegro as well) are eliminated on consolidation, therefore, the Group's profit before tax excludes these dividends. As these dividends are not subject to corporate tax in Hungary, this line of the reconciliation includes the Company's withholding tax burden expected on the annual profits of the Macedonian and Montenegrin subsidiaries.

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

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

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

(h) Investment tax credit accretion

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

9.4 Deferred taxes

Magyar Telekom's deferred tax balances are as follows:

In HUF millions	Balance at Dec. 31, 2011	Effect on profit	Other move-ments	Balance at Dec. 31, 2012	Effect on profit	Other move-ments	Balance at Dec. 31, 2013
Deferred tax assets and (liabilities)							
Investment tax credits	15,506	(4,184)	3,626	14,948	(941)	5,025	19,032
Net operating loss carry-forward	956	155	-	1,111	(77)	-	1,034
Investments in subsidiaries	(1,569)	1,006	-	(563)	158	-	(405)
Withholding tax	(2,385)	(81)	-	(2,466)	326	-	(2,140)
Other financial assets	(2,691)	1,477	-	(1,214)	(19)	-	(1,233)
Impairment of receivables and inventory	3,327	(729)	-	2,598	83	-	2,681
Property, plant and equipment and intangible assets	(28,605)	2,352	773	(25,480)	603	61	(24,816)
Goodwill	(12,454)	(1,841)	-	(14,295)	(1,840)	-	(16,135)
Trade and other payables	67	46	-	113	(6)	-	107
Loans and other borrowings	313	(29)	-	284	239	-	523
Deferred revenue	(324)	80	-	(244)	6	-	(238)
Provisions for liabilities and charges	2,339	973	-	3,312	(559)	-	2,753
Total net deferred tax liability	(25,520)	(775)	4,399	(21,896)	(2,027)	5,086	(18,837)
Of which deferred tax liability	(26,270)			(22,428)			(19,075)
Of which deferred tax asset	750			532			238

Items included in other movements	2012	2013
Investment tax credit recognized against cost of PPE	3,626	5,025
Currency translation adjustment arising on consolidation	19	(21)
Arising on business combinations and disposal of subsidiaries	754	82
	4,399	5,086

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

The Group's net deferred tax liability balance is HUF 18,837 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 4,068 million net deferred tax asset is expected to reverse in 2014 (deferred tax asset of HUF 5,545 million and deferred tax liability of HUF 1,477 million). The above items exclude deferred tax items expected to arise in 2014.

The Group's net deferred tax liability balance was HUF 21,896 million at December 31, 2012 which included a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 3,951 million net deferred tax asset was expected to reverse in 2013 (deferred tax asset of HUF 4,564 million and deferred tax liability of HUF 613 million). The above items excluded deferred tax items expected to arise in 2013.

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

Deferred tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. There is no tax loss expiring in 2014 for which a deferred tax asset has been recognized. As of December 31, 2013, the balance of recognized tax losses is HUF 5,442 million without statutory limitations (2012: HUF 5,975 million without statutory limitations). Tax loss carry forwards for which no deferred tax has been recognized as at December 31, 2013 amounts to HUF 6,646 million of which HUF 350 million is subject to statutory limitations (2012: HUF 6,073 million of which HUF 279 million was subject to statutory limitations). The Group recognized deferred tax asset on tax losses for HUF 1,034 million as at December 31, 2013 (2012: HUF 1,111 million).

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 10,942 million at December 31, 2013 (2012: temporary differences of HUF 14,262 million).

If the Group's Macedonian and Montenegrin subsidiaries distributed their total distributable reserves in the form of a dividend, the amounts paid to Hungary would be subject to withholding tax. We recognize a deferred tax liability for the total amount of reserves distributable to the Company, considering our share of ownership.

Deferred tax liability on goodwill is related to the goodwill arising to the acquisition subsidiaries Emitel and T-Mobile Hungary, which had merged into Magyar Telekom Plc. The amortization of the statutory amount of the goodwill is a tax deductible expense.

In order to maintain consistency with the current year presentation in the table above, certain items disclosed in the prior years were reclassified between Investments in subsidiaries, Withholding tax and Goodwill.

9.5 Investment tax credits

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

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

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2013	Expires in year
2003	6,194	2,592	1,143	(3,735)	-	
2004	6,876	2,983	1,862	(4,845)	-	
2005	13,860	5,598	2,794	(8,392)	-	
2006	14,952	4,348	3,058	(2,621)	4,785	2016
2007	10,681	2,822	1,779	(16)	4,585	2017
2008	2,165	451	211	-	662	2018
2012	12,071	3,699	208	(2)	3,905	2021
2013	10,362	5,096	-	(2)	5,095	2022
Total	77,160	27,589	11,055	(19,613)	19,032	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group's entities, they have to comply with strict requirements as set out in the relevant tax regulations. The most important requirement for all investment tax credits is that the relevant assets have to be operated for at least 5 years. However, for those earned in 2012 and in 2013 certain increase in headcount and/or salary has to be maintained for at least 4 subsequent years following the first year of tax credit utilization. The headcount of the Company has to be increased by 150 and maintained in the subsequent 4 years from the first utilization of the investment tax credit (which is 2012 and 2013). The base year is the year before starting the investments, i.e. 2011 and 2012, respectively. Management believes that the headcount criterion is not a substantive requirement. There was a significant headcount increase in 2012 due to insourcing of certain activities carried out by subcontractors before and there are further insourcing plans in place. Based on the above, management believes that the Group has complied and will be able to comply with the requirements to recognize these as deferred tax assets.

9.6 Tax reviews

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

9.7 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.

10 INVENTORIES

	At December 31,	
In HUF millions	**2012**	**2013**
Inventory for resale	10,252	10,202
Other inventory and advances	2,465	2,607
Subtotal	12,717	12,809
Less allowances for obsolete inventory	(317)	(331)
	12,400	12,478

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

The Group has no inventory pledged as security as at December 31, 2013 or December 31, 2012.

11 NON CURRENT ASSETS HELD FOR SALE

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

12 PROPERTY, PLANT AND EQUIPMENT

In HUF millions	Land and equivalent rights	Buildings	Telecom. equipment	Other equipment	Total
At January 1, 2012					
Cost	8,140	139,553	1,236,234	101,473	1,485,400
Accumulated depreciation	(1,981)	(42,139)	(821,076)	(78,815)	(944,011)
Carrying amount	6,159	97,414	415,158	22,658	541,389
Of which held for sale					(5,165)
					536,224
Carrying amount – January 1, 2012	6,159	97,414	415,158	22,658	541,389
Exchange differences	(87)	(1,142)	(4,473)	(685)	(6,387)
Additions due to business combinations	-	14	527	11	552
Changes due to revisions of asset retirement obligations	-	(24)	(33)	-	(57)
Investments	7	15,337	47,798	6,370	69,512
Disposals	(5)	(3,328)	(166)	(441)	(3,940)
Decrease due to sale of subsidiary	-	(114)	(154)	(114)	(382)
Depreciation charge	(105)	(4,889)	(71,368)	(7,231)	(83,593)
Reclassifications	(339)	523	(4,912)	1,412	(3,316)
Carrying amount – December 31, 2012	5,630	103,791	382,377	21,980	513,778
At December 31, 2012					
Cost	7,706	148,505	1,217,053	92,188	1,465,452
Accumulated depreciation	(2,076)	(44,714)	(834,676)	(70,208)	(951,674)
Carrying amount	5,630	103,791	382,377	21,980	513,778
Of which held for sale					(2,816)
					510,962
Carrying amount – January 1, 2013	5,630	103,791	382,377	21,980	513,778
Exchange differences	25	508	1,176	201	1,910
Additions due to business combinations	-	-	445	4	449
Changes due to revisions of asset retirement obligations	-	27	28	-	55
Investments	-	4,658	51,458	5,135	61,251
Disposals	(2)	(59)	(245)	(537)	(843)
Depreciation charge	(105)	(4,374)	(68,409)	(7,898)	(80,786)
Reclassifications	729	(520)	(3,899)	2,102	(1,588)
Carrying amount – December 31, 2013	6,277	104,031	362,931	20,987	494,226
At December 31, 2013					
Cost	8,398	152,858	1,177,442	93,988	1,432,686
Accumulated depreciation	(2,121)	(48,827)	(814,511)	(73,001)	(938,460)
Carrying amount	6,277	104,031	362,931	20,987	494,226
Of which held for sale					(607)
					493,619

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 37,570 million as at December 31, 2013 (2012: HUF 41,737 million). In the table above the assets in course of construction are shown in the categories where the asset is expected to be classified when placed into service.

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

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

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

Investments represent the regular investing activity in PPE assets. These additions are shown net of the investment tax credit earned. For more details, see Note 9.5.

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

No impairment was identified in 2013 and 2012.

Included in buildings are assets sold and leased back under finance lease conditions. At December 31, 2013 the gross book value of the leased back assets is HUF 2,629 million (2012: HUF 2,413 million) and the net book value is HUF 1,120 million (2012: HUF 1,182 million).

Included mainly in buildings and telecom equipment are also assets leased under finance lease conditions other than sale and lease back. At December 31, 2013 the gross book value of the finance leased assets is HUF 7,990 million (2012: HUF 1,183 million) and the net book value is HUF 6,302 million (2012: HUF 587 million).

Included in telecommunications equipment at December 31, 2013 are assets leased under operating lease contracts to customers with a gross book value of HUF 684 million (2012: HUF 854 million) and net book value of HUF 8 million (2012: HUF 17 million).

The Group has no PPE with restricted titles or pledged as security as at December 31, 2013 or December 31, 2012.

The reviews of the useful lives (and residual values) of property, plant and equipment during 2013 affected the lives of a large number of assets including primarily radio equipment, and other telecommunication equipment. The revisions result in the following change in the original trend of depreciation in the current and future years.

In HUF millions	**2013**	**2014**	**2015**	**2016**	**After 2016**
Increase / (decrease) in depreciation expense	1,200	(2,149)	(116)	591	474

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

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

13 INTANGIBLE ASSETS

In HUF millions

	Goodwill	Software	Concessions and licenses	Other	Total
At January 1, 2012					
Cost	217,259	206,520	51,469	20,292	495,540
Accumulated amortization	-	(148,852)	(26,484)	(11,891)	(187,227)
Carrying amount	217,259	57,668	24,985	8,401	308,313
Carrying amount – January 1, 2012	217,259	57,668	24,985	8,401	308,313
Exchange differences	(437)	(683)	(369)	(352)	(1,841)
Additions due to business combinations	887	20	-	684	1,591
Investments	-	22,355	11,232	216	33,803
Disposals	-	(72)	(10,705)	-	(10,777)
Decrease due to sale of subsidiary	-	(35)	-	-	(35)
Amortization charge	-	(16,658)	(4,619)	(2,027)	(23,304)
Reclassifications	-	3,316	-	-	3,316
Carrying amount – December 31, 2012	217,709	65,911	20,524	6,922	311,066
At December 31, 2012					
Cost	217,709	217,596	51,102	18,881	505,288
Accumulated amortization	-	(151,685)	(30,578)	(11,959)	(194,222)
Carrying amount	217,709	65,911	20,524	6,922	311,066
Of which held for sale					-
					311,066
Carrying amount – January 1, 2013	217,709	65,911	20,524	6,922	311,066
Exchange differences	117	168	89	53	427
Additions due to business combinations	69	-	-	222	291
Investments	-	26,051	58,675	145	84,871
Disposals	-	(5)	-	(7)	(12)
Reinvestment	-	-	6,923	-	6,923
Amortization charge	-	(15,529)	(6,787)	(1,639)	(23,955)
Reclassifications	-	1,408	-	180	1,588
Carrying amount – December 31, 2013	217,895	78,004	79,424	5,876	381,199
At December 31, 2013					
Cost	217,895	237,073	89,617	17,452	562,037
Accumulated amortization	-	(159,069)	(10,193)	(11,576)	(180,838)
Carrying amount	217,895	78,004	79,424	5,876	381,199
Of which held for sale					-
					381,199

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

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

Investments represent the regular investing activity in intangible assets. Additions to Concessions and licenses in 2013 include the initial cost of the right of use of the 900 and 1800 MHz frequency bands awarded to the Company in 2013 for HUF 38 billion and the present value of the annual fees payable for the use of these frequencies until April 2022. See also Note 1.3.4. As the conditions of the new Contract and the related regulations are substantially different from the conditions of the old agreements, the accumulated amortization of all the impacted frequencies was eliminated against their gross book values in 2013 and the amortization is charged on the cost of the licenses defined by the new Contract and the related regulations in force from September 2013, considering the new useful lives (license periods).

Additions to Concessions and licenses in 2012 also included the cost of the right of use of two duplex frequency blocks of 1 MHz each awarded to the Company for HUF 10,923 million in 2012 for a period of 15 years in Hungary, which was subsequently derecognized at the end of 2012 (see below).

Disposals in 2012 also include the derecognition of the carrying amount of the above described right of use in an amount of HUF 10,705 million. The Company challenged the decision closing the 900 MHz frequency auction in Hungary before court in March 2012. The final court decision announced on September 17, 2012, which was subsequently upheld on February 26, 2013 annulled the decision closing the 900 MHz frequency auction, as a result of which the carrying amount of the right of use of the frequency as at December 31, 2012 was derecognized. See also Note 8.1.

Reinvestment in 2013 includes the re-recognition of a part of the frequency licence cost derecognized in 2012 (see above). On September 6, 2013 the Company and the NMIAH signed the modification of the Authority Contract on the use of the 900 MHz and 1800 MHz frequency bands (see also Note 1.3.4). According to the Contract – among other items - Magyar Telekom retained the frequency usage right until April 8, 2022 on the two duplex 1 MHz frequency blocks in the 900 MHz frequency band. As the original length of the usage right was shortened, the proportionate amount of HUF 6.9 billion was re-recognized as an intangible asset, while HUF 4 billion was settled net with the NMIAH in November 2013. See also Note 8.1.

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

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

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

The reviews of the useful lives of intangible assets during 2013 affected the lives of a large number of assets including primarily the remaining useful life of the GSM license which was prolonged to 2022 for additional payments (See Note 1.3.4). The revisions resulted in the following change in the original trend of amortization in the current and future years.

In HUF millions	**2013**	**2014**	**2015**	**2016**	**After 2016**
Increase / (decrease) in depreciation expense	(584)	(2,048)	(421)	649	2,404

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

In HUF millions	As at December 31, 2012		2013	
	Carrying amount of goodwill	Recoverable amount of operating	Carrying amount of goodwill	Recoverable amount of operating
Telekom Hungary	163,546	697,428	163,615	779,295
T-Systems	27,928	93,529	27,928	75,403
Macedonia	20,199	153,600	20,199	130,530
Montenegro	6,036	80,783	6,153	74,551
Total	217,709	1,025,340	217,895	1,059,779

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. During the annual impairment test conducted in the last quarter of 2012 and 2013 no goodwill impairment was established for any goodwill of the Group.

Besides goodwill, the most significant individual intangible assets are the concessions and licenses. The carrying values and remaining amortization periods of these assets are listed in the table below. For further information on these assets, please see Note 1.3.

In HUF millions	As at December 31, 2012		2013	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungarian 900 and 1800 MHz licenses	6,186	2-3	60,169	8
Hungarian UMTS license	8,317	7	10,657	6
Macedonian LTE (4G) license	-	-	3,050	20
Macedonian UMTS (3G) license	1,838	6	1,561	5
Other	4,183		3,987	
Total concessions and licenses	20,524		79,424	

The Group has no intangible assets with restricted title or pledged as security as at December 31, 2013 or December 31, 2012.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group had no significant associates or joint ventures at December 31, 2012 and 2013.

15 OTHER NON CURRENT ASSETS

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

16 FINANCIAL LIABILITIES TO RELATED PARTIES

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

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2013 and 2012.

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

December 31, 2012	Carrying amount in HUF millions	Lender	Currency	Interest rate (%)	Fixed / floating	Maturity
	9,596	DTIF	HUF	6.98	floating	Jan 2013
	25,329	DTIF	HUF	7.25	fixed	Oct 2013
Due within 1 year	34,925					
Derivatives	419					
Total current	35,344					
	22,613	DTIF	EUR	3.76	fixed	Jun 2014
	48,430	DTIF	EUR	4.46	fixed	Jan 2015
	53,041	DTIF	HUF	8.30	fixed	May 2015
	35,686	DT AG	HUF	8.00	floating	Mar 2016
	35,738	DT AG	HUF	7.66	fixed	Sep 2016
	28,495	DTIF	HUF	6.32	fixed	Dec 2016
	14,062	DTIF	HUF	6.39	fixed	Dec 2016
	7,310	DTIF	EUR	3.71	fixed	May 2017
	14,911	DTIF	EUR	4.08	fixed	Nov 2018
Non current	260,286					
Derivatives	840					
Total non current	261,126					

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

In HUF millions	At December 31, 2012		At December 31, 2013	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	156,665	165,462	131,365	141,842
At floating rate	45,282	45,282	70,644	71,394
	201,947	210,744	202,009	213,236
EUR denominated loans				
At fixed rate	93,264	101,774	94,956	99,662
At floating rate	-	-	-	-
	93,264	101,774	94,956	99,662
Accrued interest	-	-	284	284
Derivatives	1,259	1,259	955	955
Total related party financial liabilities	296,470	313,777	298,204	314,137

The weighted average interest rate on related party loans was 5.67% in 2013 (6.47% in 2012). The fixed interest rate loans are exposed to fair value risk as it can be seen in the table above. Any decrease of market interest rates will result in an increase of the fair value of the fixed interest rate liabilities.

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

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

17 OTHER FINANCIAL LIABILITIES

17.1 Balances

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

In HUF millions		At December 31, 2012	At December 31, 2013
Bank loans	(a)	36,780	82,035
Liabilities to banks from factored trade payables	(b)	-	9,786
Annual frequency fee payable	(c)	-	2,262
Finance lease payable	(d)	497	3,074
Building exchange	(e)	887	905
Third party derivatives	(f)	903	729
Other		1,274	1,269
Total other financial liabilities – current		40,341	100,060

In HUF millions		At December 31, 2012	At December 31, 2013
Bank loans	(a)	-	4,461
Annual frequency fee payable	(c)	-	14,810
Finance lease payable	(d)	1,983	4,173
Building exchange	(e)	3,076	2,429
Third party derivatives	(f)	-	64
Other		439	277
Total other financial liabilities – non current		5,498	26,214

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

(a) Bank loans

In HUF millions	As at December 31, 2012	As at December 31, 2013
Due within 1 year	36,780	82,035
Due in 1–2 years	-	2,974
Due in 2–3 years	-	1,487
Due after 3 years	-	-
Total bank loans	36,780	86,496

Loans totaling HUF 64,709 million at December 31, 2013 are revolving loans (2012: HUF 20,422 million) which can be prepaid at any time and may be drawn down in one to six month rolling periods.

The weighted average interest rate on bank loans was 3.54% in 2013 (6.07% in 2012).

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

In HUF millions	At December 31,			
	2012		2013	
	Book value	Fair value	Book value	Fair value
HUF denominated bank loans				
At fixed rate	-	-	-	-
At floating rate	31,491	31,491	76,744	76,744
	31,491	31,491	76,744	76,744
EUR denominated bank loans				
At fixed rate	2,944	2,958	7,435	7,495
At floating rate	1,952	1,952	1,989	1,989
	4,896	4,910	9,424	9,484
Accrued interest	393	393	327	327
Total bank loans	36,780	36,794	86,496	86,555

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

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

(b) Liabilities to banks from factored trade payables

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

(c) Annual frequency fee payable

On September 6, 2013 Magyar Telekom and the NMIAH signed the modification of the Authority Contract on the use of the 900 MHz and 1800 MHz frequency bands. See Note 1.3.4 for the details of the agreement. The new agreement provides sufficient basis for a reliable estimate of the future annual fees payable related to these Hungarian frequency licenses, as a result of which the present value of the annual fees payable (HUF 17,332 million) was recognized as part of the carrying amount of the licenses as intangible assets, with corresponding current and non current financial liabilities falling due from 2014 to 2022.

(d) Finance lease payable

See Note 33.1 for the details of finance leases.

(e) Building exchange

The Group entered into a real estate transaction in Macedonia in September 2012, by which four old buildings were exchanged for a new one. The difference between the cost of the new building (HUF 10.7 billion) and the trade-in value of the old buildings (HUF 6.9 billion) is payable in six yearly instalments, the present values of which were recognized as current and non current financial liabilities. See also Note 26 (a).

(f) Third party derivatives

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

17.2 Repayment of other financial liabilities

Repayment of other financial liabilities in the statements of cash flows includes the cash payments of the discounted liabilities from vendor factoring, the annual frequency fees, finance lease liabilities and the Macedian building exchange transaction included in Note 17.1. Cash payments for regular bank loans and related party loans are included in the Repayment of loans and other borrowings line of the statement of cash flows.

18 TRADE PAYABLES

	At December 31,	
In HUF millions	**2012**	**2013**
Payable to DT Group companies	9,169	9,479
Other trade payables	106,554	94,070
	115,723	103,549

19 PROVISIONS

In HUF millions	Severance	MTIP	Other employee related	Total Employee related	Legal cases	ARO	Other	Total
January 1, 2012	2,582	198	426	3,206	4,783	6,089	861	14,939
Amounts reversed	(377)	(190)	(5)	(572)	(1,409)	(118)	(563)	(2,662)
Additions	5,041	-	576	5,617	1,862	61	689	8,229
Accretion / interest	-	-	22	22	345	157	-	524
Exchange rate difference	(7)	-	(14)	(21)	(183)	-	(18)	(222)
Amounts utilized	(2,612)	-	(20)	(2,632)	(1,132)	(96)	(422)	(4,282)
December 31, 2012	4,627	8	985	5,620	4,266	6,093	547	16,526
Of which current	3,907	-	183	4,090	1,125	61	392	5,668
Of which non current	720	8	802	1,530	3,141	6,032	155	10,858
January 1, 2013	4,627	8	985	5,620	4,266	6,093	547	16,526
Amounts reversed	(987)	(10)	(35)	(1,032)	(972)	(63)	(332)	(2,399)
Additions	3,249	-	685	3,934	555	118	301	4,908
Accretion / interest (incl. reversal of interest component)	-	-	47	47	(431)	135	-	(249)
Exchange rate difference	-	2	7	9	24	-	3	36
Amounts utilized (incl. interest component)	(3,940)	-	(169)	(4,109)	(1,855)	(61)	(205)	(6,230)
December 31, 2013	2,949	-	1,520	4,469	1,587	6,222	314	12,592
Of which current	2,348	-	102	2,450	1,425	28	173	4,076
Of which non current	601	-	1,418	2,019	162	6,194	141	8,516

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

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

19.1 Severance

The majority of the provision for severance as at December 31, 2013 relates to the stand-by-pool and the employee terminations in 2014 in relation to the further efficiency improvement in Magyar Telekom Plc. The stand-by-pool of employees include people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them. This is a way of severance that is not paid in one lump sum but in monthly installments following the discontinuation of services. The majority of the provision for severance as at December 31, 2012 also related to the stand-by-pool and the employee terminations in 2013 in relation to the further efficiency improvement in Magyar Telekom Plc.

482 employees were dismissed in 2013 (2012: 182) from the Group, related to which severance payments were made. The balance of provision as at December 31, 2013 relates to 451 employees and former employees in the stand-by-pool (2012: 719).

The total payments made in relation to employee termination in 2013 amounted to HUF 7,508 million (2012: HUF 4,253 million).

19.2 MTIP

For more details on the Mid-term Incentive Plan see Note 24.1.

19.3 Legal cases

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

19.4 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year. The revisions did not result in material changes in 2013 or 2012.

19.5 Other provisions

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

20 OTHER CURRENT LIABILITIES

	At December 31,	
In HUF millions	**2012**	**2013**
Deferred revenue and advances received	10,697	11,013
Other taxes and social security	15,300	17,489
Salaries and wages	8,883	8,616
Dividend payable to non-controlling interests	355	383
Other liabilities	1,834	2,596
	37,069	40,097

21 OTHER NON CURRENT LIABILITIES

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

22 REVENUE

In HUF millions	For the year ended December 31, 2012	2013
Mobile revenues		
Voice retail	171,562	165,141
Voice wholesale	32,660	27,511
Voice visitor	3,347	2,563
Non voice	64,248	68,080
Equipment	29,843	40,077
Other mobile revenues	7,626	7,573
Total Mobile revenue	309,286	310,945
Fixed line revenues		
Voice retail	80,848	73,021
Voice wholesale	15,179	14,015
Internet	52,765	51,835
Data	22,512	19,607
TV	34,428	37,270
Equipment	4,064	8,110
Other fixed line revenues	8,304	11,524
Total Fixed line revenue	218,100	215,382
System integration and IT revenue	54,256	64,054
Revenue from energy services	25,486	47,140
	607,128	637,521

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

In order to maintain consistency with the 2013 year presentation of revenues, certain items were reclassified for comparative purposes. From 2013, all mobile terminated incoming international traffic revenues are disclosed as Mobile wholesale revenues, while they were disclosed as Fixed line wholesale revenues when transited through Makedonski Telekom to T-Mobile Macedonia (HUF 4,321 million in 2012). The previous year's income statement disclosure of the revenue breakdown was modified to be comparable to the 2013 year's presentation. This change makes the financial data and mobile KPIs of the Macedonian segment and the Group more comparable with other market participants.

23 EXPENSES DIRECTLY RELATED TO REVENUES

In HUF millions	For the year ended December 31, 2012	2013
Mobile revenue-related	79,835	84,934
Fixed line revenue-related	39,045	43,154
SI/IT revenue–related	32,092	39,684
Energy revenue–related	25,428	48,903
Agent commissions	10,826	11,105
Bad debt expense	6,752	8,690
	193,978	236,470

24 EMPLOYEE RELATED EXPENSES

In HUF millions	For the year ended December 31, 2012	2013
Short term benefits	95,730	98,623
Termination benefits (Note 19.1)	6,305	5,830
Share based payments – MTIP (Note 24.1)	(190)	(8)
Share based payments – Matching Share Plan (Note 24.2)	4	4
Total before capitalization	101,849	104,449
Expenses capitalized	(7,765)	(7,758)
	94,084	96,691
Total costs expensed in relation to defined contribution plans (including social contribution)	20,176	20,755
Average number of employees (full time equivalent)	11,285	11,350
Closing number of employees (full time equivalent)	11,653	11,324

24.1 Mid-term incentive plan (MTIP)

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

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

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

Tranche	Vesting period	MT Share price at the beginning of the vesting period (HUF)	Fulfillment
2010	January 1, 2010 – December 31, 2012	725	Neither targets met
2011	January 1, 2011 – December 31, 2013	524	Neither targets met

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

24.2 Matching Share Plan of Magyar Telekom

In December 2011 the Board of Directors approved the implementation of the revolving Matching Share Plan of Magyar Telekom. The program was implemented for the CEO of Magyar Telekom starting in 2012. In order to ensure the long-term incentive effect and orientation toward the sustained development of the Company, an amount of minimum 10% of the gross annual variable bonus is to be invested in shares of Magyar Telekom. The investment must be made from the net premium payout. The CEO has the option of voluntary increase to a maximum of 33.3% of his bonus. These shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period of 4 years has passed, one additional share („matching share") will be granted for every share acquired as part of the aforementioned personal investment. The program is planned to be revolving in 5 consecutive years starting in 2012. As the vesting period of the program started with the first purchase of shares by the CEO in 2012, no expenses were recognized for the program in 2011, while HUF 4 million was recognized in 2012 and HUF 4 million in 2013.

25 OTHER OPERATING EXPENSES

In HUF millions		For the year ended December 31, 2012	2013
Materials, maintenance and service fees		53,231	52,320
Crisis taxes	(a)	24,351	-
Telecom tax	(b)	8,741	23,939
Utility tax	(c)	-	7,448
Rental and operating lease		14,693	14,228
Other taxes, fees and levies		13,338	11,191
Marketing		12,696	12,807
Consulting, audit and other expert fees	(d)	4,514	3,666
Other expenses		2,854	2,488
		134,418	128,087

(a) Crisis taxes

On October 18, 2010 the Hungarian Parliament passed an act imposing special "crisis" taxes on telecommunications services, retail sales and energy sales as of January 1, 2010. These taxes were enacted for a defined period of 2010-2012.

Although Magyar Telekom is also engaged in energy and retail sales, the tax burden on those were either not applicable to the Group (energy) or not material (retail). The amount included in the table above related to the revenues earned from electronic telecommunications services provided by the Hungarian members of the Group in 2012. The tax was defined as a certain percentage of the revenue generated from the services defined as electronic telecommunications. The tax was progressive, i.e. the more revenue was generated the higher the applicable tax rate was. Due to the high amount of revenues generated by the Group, the vast majority of the Group's Hungarian revenues were in the highest tax band subject to a tax rate of 6.5%.

(b) Telecom tax

A new 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. The tax was capped at HUF 400 per month per calling number for private individuals' subscriptions and HUF 1400 per month per calling number for other subscribers' subscriptions in 2012. The caps starting from January 2013 were HUF 700 per month per calling number for private individuals' subscriptions and HUF 2,500 per month per calling number for other subscribers' subscriptions. On June 27, 2013 the Hungarian Parliament adopted an act amending the amount of the telecommunication tax, raising the tax measure to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also raising the cap applicable to these subscriptions to HUF 5,000 per month. These changes took effect from August 1, 2013.

(c) Utility tax

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

(d) Audit costs included in Consulting, audit and other expert fees

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

	For the year ended December 31,	
In HUF millions	**2012**	**2013**
Audit of the financial statements	326	301
Other audit related fees	77	81
Other non audit related fees	14	90
Total expenses payable to PwC	417	472

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

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

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

26 OTHER OPERATING INCOME

In HUF millions	For the year ended December 31, 2012	2013
Gain on the sale of PPE, Intangible assets and assets held for sale .... (a)	4,012	333
Gain on sale of subsidiaries and associates .... (b)	1,646	-
Income received for the relocation and reconstruction of our own network	719	694
Government grants received/receivable for the compensation of expenses	378	462
Other operating income	3,415	1,700
	10,170	3,189

(a) Gain on the sale of PPE, Intangible assets and assets held for sale

In 2012, the Gain on the sale of PPE, Intangible assets and assets held for sale included a gain of HUF 3.8 billion realized on a real estate transaction in Macedonia, where four old buildings were exchanged for a new one. The trade-in value of the four old buildings (based on independent property valuations) was HUF 6.9 billion, while the book value was HUF 3.1 billion, resulting in the aforementioned gain. The fair value of the newly acquired building was HUF 10.7 billion, recognized as investment in Property, plant and equipment. See also Note 17 (e).

(b) Gain on sale of subsidiaries and associates

In 2012 HUF 1,600 million income was realized on the sale of Pro-M Zrt. (Note 5.4.1) and HUF 46 million on the sale of Compargo Kft. (Note 5.4.2).

27 INTEREST INCOME

In HUF millions	For the year ended December 31, 2012	2013
Interest income on loans and receivables	2,474	1,262
Reversal of interest element of provisions	401	561
Finance lease interest income	649	208
Dividend income	15	8
	3,539	2,039

28 INTEREST EXPENSE

In HUF millions	For the year ended December 31, 2012	2013
Interest expense to DT	18,664	17,531
Other interest expense	4,547	4,804
Finance lease interest expense	891	1,000
Accretion / interest on provisions	925	312
less: borrowing costs capitalized	(809)	(913)
	24,218	22,734

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 5.48-6.33% in 2013 (2012: 6.29-6.46%). When calculating the borrowing costs capitalized, Other finance expenses (included in Note 29) are also considered, however, for disclosure purposes, we included the borrowing costs capitalized in the table above.

29 OTHER FINANCE EXPENSE – NET

In HUF millions	For the year ended December 31, 2012	2013
Fee expense	3,124	5,098
Net foreign exchange losses / (gains) on financial instruments	(8,939)	2,168
Other net foreign exchange losses	287	208
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	5,578	(785)
Losses / (gains) on the subsequent measurement of derivatives contracted with third parties	4,351	260
Losses on the derecognition of derivatives contracted with related parties	3,829	3,338
Losses / (gains) on the derecognition of derivatives contracted with third parties	(311)	578
Losses / (gains) on the derecognition of AFS financial instruments (Reclassifications from Other comprehensive income)	-	-
	7,919	10,865

30 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

In HUF millions		For the year ended December 31, 2012	2013
Investments in property, plant and equipment (Note 12)		69,512	61,251
Investments in intangible assets (Note 13)		33,803	84,871
Total investments in PPE and intangible assets		103,315	146,122
Recognition of investment tax credit (Note 9.5)	(a)	3,626	5,025
Trade-in value of buildings exchanged	(b)	(6,837)	-
Payable related to building exchange transaction	(b)	(3,945)	-
Capitalized annual frequency fee payable	(c)	-	(17,517)
Reimbursed amount of frequency fee	(d)	-	(4,000)
Capitalized finance leases	(e)	-	(7,425)
Change in trade payables relating to capital expenditures	(f)	455	1,052
Cash payments for purchases of PPE and intangible assets		96,614	123,257

(a) Investment tax credit

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

(b) Building exchange transaction

There was a real estate transaction in Macedonia, where four old buildings were exchanged for a new one in 2012. The 2012 investments in PPE and intangible assets included the fair value of the new building, however, the trade-in value of the four old buildings did not and will not result in cash payment. Also, the remaining amount was not paid in cash immediately, but it is payable in six annual instalments. The annual capital instalments of the discounted liability are included in the Repayment of other financial liabilities line of the financing cash flow, while the interest payments accruing on the discounted liability are included in the Interest and other financial charges paid line of the cash flow.

(c) Capitalized annual frequency fee payable

The present value of annual frequency fees are capitalized as part of the intangible asset (Licenses) if the future payments can be reliably estimated, however, these fees are paid in cash in subsequent periods. The cash payments on the discounted liability are included in the Repayment of other financial liabilities line of the financing cash flow, while the interest payments accruing on the discounted liability are included in the Interest and other financial charges paid line of the cash flow. The significant transaction in 2013 is described in Note 13.

(d) Reimbursed amount of frequency fee

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

(e) Capitalized finance leases

Investments in PPE as a result of finance lease transactions do not usually result in immediate cash payments. The Company changed its IPTV set-top box rental contracts into finance leases in 2013, as a result of which these assets were recognized as PPE in 2013, while the cash payments throughout the lease term appear as Repayment of other financial liabilities and Interest and other financial charges paid.

(f) Change in trade payables relating to capital expenditures

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

31 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

	For the year ended December 31,	
In HUF millions	**2012**	**2013**
Cable TV network and operations (Notes 5.1.1 and 5.2.1)	2,191	719
DATEN-KONTOR	100	100
KFKI-Direkt	-	31
Modultechnika	97	21
Cash payments for purchases of subsidiaries and business units	2,388	871

Cash payments related to the purchases of subsidiaries and business units also include amounts paid as additional contingent purchase prices disbursed in years following the year of the business combination.

32 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

32.1 Reportable segments

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

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

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

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

32.1.1 Information regularly provided to the Management Committee (MC)

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

Revenues	**For the year ended December 31,**	
In HUF millions	**2012**	**2013**
Total Telekom Hungary revenues	433,616	464,076
Less: Telekom Hungary revenues from other segments	(28,548)	(27,736)
Telekom Hungary revenues from external customers	405,068	436,340
Total T-Systems revenues	117,886	123,640
Less: T-Systems revenues from other segments	(13,794)	(15,984)
T-Systems revenues from external customers	104,092	107,656
Total Macedonia revenues	65,059	60,786
Less: Macedonia revenues from other segments	(50)	(39)
Macedonia revenues from external customers	65,009	60,747
Total Montenegro revenues	32,975	32,804
Less: Montenegro revenues from other segments	(30)	(27)
Montenegro revenues from external customers	32,945	32,777
Total consolidated revenue of the segments	607,114	637,520
Measurement differences to Group revenue	14	1
Total revenue of the Group	**607,128**	**637,521**

Segment results (EBITDA)	For the year ended December 31,	
In HUF millions	2012	2013
Telekom Hungary	130,928	129,035
T-Systems	16,838	14,194
Macedonia	34,628	24,167
Montenegro	12,325	12,067
Total EBITDA of the segments	194,719	179,463
Measurement differences to Group EBITDA	99	(1)
Total EBITDA of the Group	**194,818**	**179,462**
Depreciation and amortization	(106,897)	(104,741)
Total Operating profit	87,921	74,721
Net financial result	(28,598)	(31,560)
Share of associates' and joint ventures' profits	-	-
Total Profit before income tax	59,323	43,161
Income tax expense	(13,468)	(14,306)
Total Profit for the year	45,855	28,855

Capital expenditure (Capex) on PPE and Intangible assets	As at December 31,	
In HUF millions	2012	2013
Telekom Hungary	57,791	66,748
T-Systems	5,172	4,431
Macedonia	24,591	12,089
Montenegro	4,202	4,304
Total capital expenditure of the segments	91,756	87,572
Acquisition of mobile licenses (Note 13)	10,923	58,589
Other measurement differences to capital expenditure of the Group	636	(39)
Total investments of the Group in PPE and Intangible assets	**103,315**	**146,122**

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

32.2 Information about geographical areas

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

Revenues In HUF millions	For the year ended December 31, 2012	2013
Hungary	504,184	538,603
Macedonia	65,009	60,747
Montenegro	32,945	32,777
Romania	4,029	4,109
Bulgaria	961	1,285
Total revenue of the Group	607,128	637,521

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

Non current assets In HUF millions	As at December 31, 2012	2013
Hungary	678,508	730,763
Macedonia	101,345	103,118
Montenegro	38,189	37,240
Bulgaria	2,868	2,704
Romania	1,617	1,625
Total excluding Non current financial assets and Deferred tax assets	822,527	875,450
Non current financial assets (Note 8.2)	18,862	21,619
Deferred tax assets (Note 9.4)	532	238
Total Non current assets of the Group	841,921	897,307

33 LEASES AND OTHER COMMITMENTS

33.1 Finance lease – Group as lessee

Finance leases in 2012 and 2013 mainly relate to the sale and lease back of spaces in buildings accommodating telephone exchanges. In most cases the contracts are denominated in EUR, the term of the leases is 5–10 years, and the contracts include renewal options but no purchase options.

Future lease payments under finance leases related to sale and lease back transactions at December 31, 2012 and 2013 are as follows:

	At December 31, 2012			At December 31, 2013		
In HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	356	736	1,092	282	728	1,010
1–5 years	1,050	1,976	3,026	740	2,164	2,904
After 5 years	436	1,430	1,866	717	1,606	2,323
Total	1,842	4,142	5,984	1,739	4,498	6,237

Finance leases other than sale and lease back in 2012 and 2013 mainly relate to vehicles and IT equipment. In most cases the contract term of the leases is 3–5 years with renewal and purchase options.

Future lease payments under finance leases other than sale and lease back transactions at December 31, 2012 and 2013 are as follows:

	At December 31, 2012			At December 31, 2013		
In HUF millions	**Present value**	**Interest component**	**Minimum lease payment**	**Present value**	**Interest component**	**Minimum lease payment**
Within 1 year	141	58	199	2,792	138	2,930
1–5 years	264	84	348	2,503	99	2,602
After 5 years	233	45	278	213	37	250
Total	638	187	825	5,508	274	5,782

The Group has no contingent rents related to its finance leases. The Group does not sub-lease any of the assets leased in a finance lease contract. The 2013 increase resulted from renegotiating and restructuring contracts where Magyar Telekom previously rented IPTV set-top-boxes under operating leases. See also Note 30 (d).

33.2 Operating lease – Group as lessee

Operating lease commitments are mainly in respect of the rental of mobile cell sites, and to a lesser extent, related to buildings, network and other telecommunications facilities and equipment.

In HUF millions	At December 31, 2012	2013
Within 1 year	10,265	11,222
1–5 years	26,337	26,634
After 5 years	9,414	8,524
Total	46,016	46,380

The lease commitments represent a high amount of individually immaterial lease agreements, the terms of which vary on a wide range, spanning from 3 to 20 years with renewal options in most cases, but no purchase options.

33.3 Finance lease – Group as lessor

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

Future lease receivables under finance leases at December 31, 2012 and 2013 are as follows:

	At December 31, 2012			At December 31, 2013		
In HUF millions	Present value	Interest component	Minimum lease receipt	Present value	Interest component	Minimum lease receipt
Within 1 year	799	223	1,022	746	175	921
1–5 years	2,105	452	2,557	1,733	344	2,077
After 5 years	631	83	714	332	43	375
Total	3,535	758	4,293	2,811	562	3,373

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

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

33.4 Operating lease – Group as lessor

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

In HUF millions	At December 31, 2012	2013
Within 1 year	739	963
1–5 years	1,652	1,584
After 5 years	719	497
Total	3,110	3,044

33.5 Purchase commitments for tangible and intangible assets

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

	At December 31,	
In HUF millions	2012	2013
Property, plant and equipment	4,269	7,076
Intangible assets	5,357	8,675
Total	9,626	15,751

34 RELATED PARTY TRANSACTIONS

No provision was recognized for doubtful debts related to the amount of outstanding balances; and no expense was incurred during the periods presented in respect of doubtful debts due from related parties.

34.1 Deutsche Telekom Group and the Federal Republic of Germany

34.1.1 Deutsche Telekom Group

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

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

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

In HUF millions	2012	2013
Revenues from services provided to DT Group companies	25,857	25,254
Costs of services provided by DT Group companies	(15,946)	(11,672)
Interest expense to DTIF	(14,455)	(12,193)
Interest expense to DTAG	(4,209)	(5,338)
Dividend paid to parent company	(30,872)	(30,872)
Accounts receivable from DT Group companies	8,760	7,942
Accounts payable to DT Group companies	(9,169)	(9,479)
Loans payable to DTIF	(223,787)	(190,571)
Loans payable to DTAG	(71,424)	(106,678)
Fair value of swap agreements with DTAG – asset	6,260	6,652
Fair value of swap agreements with DTAG – liability	(1,259)	(955)

Deutsche Telekom has pledged its support for Magyar Telekom's budgeted financing needs through to June 30, 2015.

34.1.2 The Federal Republic of Germany

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal

Republic can exercise a significant influence are classified as related parties of DTAG, and consequently of Magyar Telekom as well.

DTAG and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2013 or 2012 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

34.2 Associates and joint ventures

The Group has no significant associates or joint ventures. The only associate the Group has is Közbringa Kft. established in 2013. The table below summarizes the transactions with Közbringa Kft.

In HUF millions	2012	2013
Revenues from sale of goods and services	-	284
Accounts receivable	-	243

34.3 Board and Supervisory Board members

	For the year ended December 31,	
In HUF millions	2012	2013
Remuneration of the members of the Board of Directors	14	14
Remuneration of the members of the Supervisory Board	57	57
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	6	6

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

34.4 Key management

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

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

	For the year ended December 31,	
In HUF millions	2012	2013
Salaries and other short-term employee benefits	1,462	1,384
Contractual termination expense	460	101
Share based compensation (Note 24)	(84)	(4)
	1,838	1,481

The Group does not provide loans to its key management.

35 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

35.1 Financial assets and liabilities

The tables below include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2013 and 2012.

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

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

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

There was no transfer between Level 1 and Level 2 financial instruments. Loans and receivables and most of the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

35.1.1 Financial assets – Carrying amounts and fair values

December 31, 2013	Carrying amount					
In HUF millions	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (Level 2)	Total	Fair value
Cash and cash equivalents	14,633	-	-	-	14,633	14,633
Bank deposits with original maturities over 3 months	23,593	-	-	-	23,593	23,593
Trade receivables within one year	126,535	-	-	-	126,535	126,535
Trade receivables over one year	8,714	-	-	-	8,714	8,264
Loans and receivables from employees	4,478	-	-	-	4,478	4,512
Derivative financial instruments contracted with related parties	-	-	-	6,652	6,652	6,652
Derivative financial instruments contracted with third parties	-	-	-	22	22	22
RDC receivables	212	-	-	-	212	212
Financial assets AFS	-	-	214	-	214	214
Other current	1,999	-	-	-	1,999	1,999
Other non current	1,539	-	-	-	1,539	1,408
Total	181,703	-	214	6,674	188,591	188,044

December 31, 2012	Carrying amount					
In HUF millions	Loans and receivables	Held-to-maturity	Available-for-sale (Level 1)	Held for trading (Level 2)	Total	Fair value
Cash and cash equivalents	15,211	-	-	-	15,211	15,211
Bank deposits with original maturities over 3 months	39,632	-	-	-	39,632	39,632
Trade receivables within one year	121,362	-	-	-	121,362	121,362
Reclaimable frequency auction price	10,923	-	-	-	10,923	10,923
Trade receivables over one year	4,215	-	-	-	4,215	4,217
Loans and receivables from employees	4,514	-	-	-	4,514	4,597
Derivative financial instruments contracted with related parties	-	-	-	6,260	6,260	6,260
Derivative financial instruments contracted with third parties	-	-	-	392	392	392
RDC receivables	383	-	-	-	383	393
Financial assets AFS	-	-	244	-	244	244
Other current	1,045	-	-	-	1,045	1,045
Other non current	1,685	-	-	-	1,685	1,958
Total	198,970	-	244	6,652	205,866	206,234

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

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

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

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

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

35.1.2 Financial liabilities – Carrying amounts and fair values

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

December 31, 2012 **In HUF millions**	**Carrying amount** **Measured at amortized cost**	**Carrying amount** **Held for trading (Level 2)**	**Total**	**Fair value**
Financial liabilities to related parties	295,211	1,259	296,470	313,777
Bank loans	36,780	-	36,780	36,794
Trade payables	115,723	-	115,723	115,723
Derivative financial instruments contracted with third parties	-	903	903	903
Payable for building exchange transaction	3,963	-	3,963	4,012
Other current	1,274	-	1,274	1,274
Other non current	439	-	439	383
Total	453,390	2,162	455,552	472,866

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

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

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

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

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

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

The tables below include income, expense, gains and losses arising on financial instruments in 2013 and 2012.

2013 In HUF millions	From interest	From subsequent measurement			From derecog-nition	From fee expense	Total net gain / (loss)
		At fair value	Currency translation	Impair-ment loss			
Available-for-sale financial assets (Level 1)	-	(48)	-	-	-	-	(48)
Financial instruments held for trading (Level 2)	-	525	-	-	(3,916)	-	(3,391)
Loans and receivables	1,262	-	483	(8,690)	-	(4,997)	(11,942)
Financial liabilities measured at amortized cost	(22,335)	-	(2,651)	-	-	(101)	(25,087)
Net gain/(loss) on financial instruments	(21,073)	477	(2,168)	(8,690)	(3,916)	(5,098)	(40,468)

2012 In HUF millions	From interest	From subsequent measurement			From derecog-nition	From fee expense	Total net gain / (loss)
		At fair value	Currency translation	Impair-ment loss			
Available-for-sale financial assets (Level 1)	-	(31)	-	-	-	-	(31)
Financial instruments held for trading (Level 2)	-	(9,929)	-	-	(3,518)	-	(13,447)
Loans and receivables	2,474	-	(519)	(6,752)	-	(2,987)	(7,784)
Financial liabilities measured at amortized cost	(23,211)	-	9,458	-	-	(137)	(13,890)
Net gain/(loss) on financial instruments	(20,737)	(9,960)	8,939	(6,752)	(3,518)	(3,124)	(35,152)

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

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

35.3 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 9.8 billion as at December 31, 2013 (2012: HUF 6.4 billion). These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees happened in 2013 or 2012, and is not expected to happen in the future.

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

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

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

36 CONTINGENT ASSETS AND LIABILITIES

36.1 Contingent assets

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

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

36.2 Contingent liabilities

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

36.2.1 Macedonia

36.2.1.1 Alleged breach of certain deadlines

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

36.2.2 Hungary

36.2.2.1 Public lawsuits relating to transaction fee

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

36.2.2.2 Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees for which see more details in Note 35.3.

37 EVENTS AFTER THE REPORTING PERIOD

37.1 Further expected cuts in energy prices

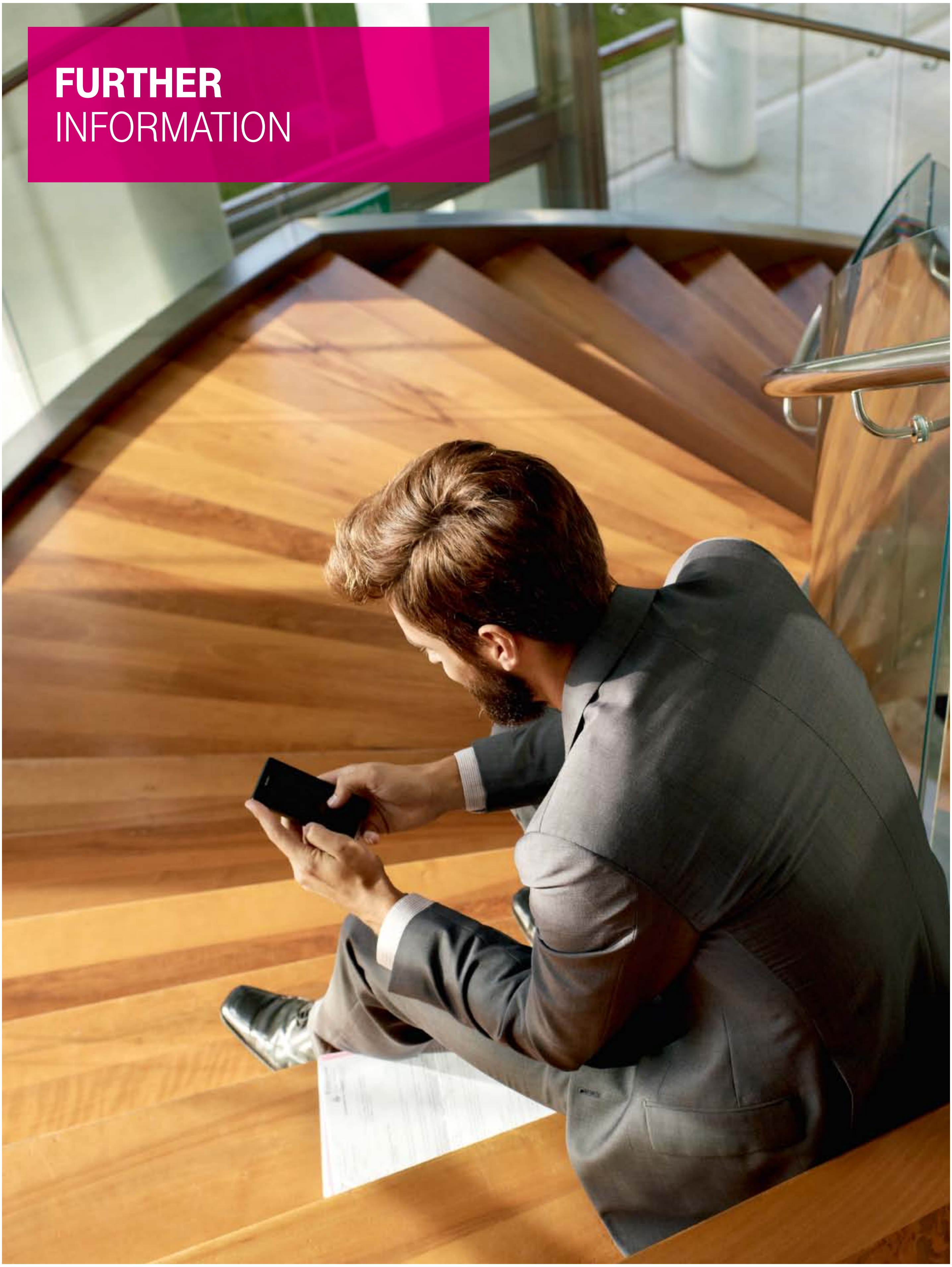
The Hungarian Parliament passed an amendment of the act on cuts in energy prices on February 6, 2014 so that gas prices will be cut by 6.5% from April 2014 and electricity prices will be further cut by 5.7% from September 2014. As the applicable laws or regulations are not available yet, we cannot assess the exact impact of this announcement on the results of our energy business.

Budapest, February 27, 2014.

Christopher Mattheisen
Chief Executive Officer, member of the Board

János Szabó
Chief Financial Officer

FURTHER INFORMATION



GLOSSARY

Explanation of abbreviations used throughout the report

Abbreviation	Term
3G, 4G	Third/Fourth-generation mobile technology
2Play, 3Play, 4Play	Double-play, triple-play, quadruple-play
ADS	American Depository Share
AEC	Agency for Electronic Communications (Macedonia)
ARPU	Average monthly Revenue per User
B2B	Business to Business
B2C	Business to Consumer
CRM	Customer Relationship Management
DJSI	Dow Jones Sustainability Index
DSL	Digital Subscriber Line
DVB-S	Digital Video Broadcasting - Satellite
DVB-T	Digital Video Broadcasting - Terrestrial
EKIP	Agency for Electronic Communications and Postal Services (Montenegro)
EMF	ElectroMagnetic Field
FMC	Fixed-mobile convergence
FTE	Full time equivalent
FTTx	Fiber to the x
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
ICNIRP	International Commission on Non-Ionizing Radiation Protection
ICT	Information and Communications Technology
IPTV	Internet Protocol-based TV
IRU	Indefeasible Right of Use
IT	Information Technology
LRIC	Long-Run Average Incremental Cost
LTE	Long Term Evolution
M2M	Machine to Machine
MOU	Average monthly Minutes of Use per subscriber
MTIP	Mid-term Incentive Plan
MTR	Mobile Termination Rate
MVNO	Mobile Virtual Network Operator
NGA	Next Generation Access

Abbreviation	Term
NGO	Non-Governmental Organization
NMIAH	National Media and Infocommunications Authority of Hungary
NRA	National Regulatory Authority
OTT	Over-the-top
PC	Personal Computer
PSTN	Public Switched Telephone Network
RAN	Radio Access Network
RPC	Revenue Producing Customer
R&D	Research and Development
SAC	Subscriber Acquisition Cost
Sat TV	Satellite TV
SI	System Integration
SIM	Subscriber Identity Module
SMP	Significant Market Power
SMS	Short Message Service
SOHO	Small Office/Home Office
TWM	Total Workforce Management
VoCable	Voice over Cable television
VoIP	Voice over Internet Protocol

FINANCIAL CALENDAR 2014

February 27, 2014	Release of 2013 4th quarter results
April 11, 2014	Annual General Meeting
May 8, 2014 *	Release of 2014 1st quarter results
August 7, 2014 *	Release of 2014 1st half results
November 6, 2014 *	Release of 2014 3rd quarter results

* planned date

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement.

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