



SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

**DECISION ON THE APPROVAL OF THE 2013 STAND
ALONE FINANCIAL STATEMENTS OF THE
COMPANY PREPARED IN ACCORDANCE WITH
THE REQUIREMENTS OF THE ACCOUNTING ACT
(HAR); PRESENTATION OF THE RELEVANT
REPORT OF THE SUPERVISORY BOARD, THE
AUDIT COMMITTEE AND THE AUDITOR**

BUDAPEST, APRIL 11, 2014



EGYÜTT. VELED

According to Section 302 e) of the Companies Act and Section 6.2. (i) of the Articles of Association, approving the financial statements prepared according to the Accounting Act belongs to the exclusive authority of the General Meeting.

Resolution proposal:

The General Meeting approves the 2013 Standalone Financial statements of the Company prepared according to the Hungarian Accounting Regulations (HAR), including
Balance Sheet Total Assets of HUF 933,229 million and
After-tax Net Income of HUF 32,133 million.



MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT AND BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

PREPARED IN ACCORDANCE WITH
THE HUNGARIAN ACCOUNTING LAW
(HAR)



INDEPENDENT AUDITOR'S REPORT (Free translation)

To the Shareholders of Magyar Telekom Telecommunications PLC

Report on the financial statements

We have audited the accompanying financial statements of Magyar Telekom Telecommunications PLC ("the Company") which comprise the balance sheet as of 31 December 2013 (in which the balance sheet total is HUF 933,229 million, the profit per balance sheet is HUF 32,133 million), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Magyar Telekom Telecommunications PLC as of 31 December 2013, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.

Other Matters

We draw attention to the fact that the attached financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and, as such, do not reflect the effects, if any, of resolutions that might be adopted at that meeting. Our opinion is not qualified in respect of this matter.

Other reporting requirements regarding the business report

We have examined the accompanying business report of Magyar Telekom Telecommunications PLC ("the Company") for the financial year of 2013.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2013 business report is consistent with the disclosures in the financial statements as of 31 December 2013.

Budapest, March 4, 2014

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

Balázs Árpád
Statutory auditor
Licence number: 006931

Translation note:

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

BALANCE SHEET AS OF DECEMBER 31, 2013

ASSETS

All amounts in millions of HUF

	Note	December 31, 2012	December 31, 2013
A. FIXED ASSETS AND FINANCIAL INVESTMENTS		766 794	809 170
I. Intangible assets	4	188 424	240 738
3. Rights		75 431	137 414
4. Intellectual property		4 779	5 108
5. Goodwill		108 214	98 216
II. Tangible assets	5	398 802	378 939
1. Land and buildings and related rights		236 122	233 572
- Land		2 195	2 872
- Buildings		59 572	62 466
- Telecommunication network		164 692	159 176
- Other properties		8 945	8 437
- Real estate related rights		718	621
2. Technical equipment, machinery and vehicles		120 479	111 560
- Telecommunication equipment and machinery		118 428	109 944
- Other technical equipment, machinery and vehicles		2 051	1 616
3. Other equipment and vehicles		6 175	7 977
5. Construction-in-progress		36 021	25 825
6. Advance payments on construction-in-progress		5	5
III. Financial investments		179 568	189 493
1. Non-current investments in related parties	6	172 890	178 886
5. Other non-current loans granted	7	6 678	10 607
B. CURRENT ASSETS		77 423	85 434
I. Inventories	8	10 378	8 320
1. Raw materials		399	416
2. Work in progress and semi-finished products		5	62
5. Goods for resale		9 974	7 842
II. Receivables		63 238	71 913
1. Accounts receivable	9	41 639	47 834
2. Receivables from related parties	10	12 588	17 158
5. Other receivables	11	9 011	6 921
III. Securities	12	307	307
3. Treasury stock, quotas		307	307
IV. Liquid assets		3 500	4 894
1. Cash and cheques		153	218
2. Bank deposits		3 347	4 676
C. ACCRUALS	13	36 095	38 625
1. Accrued income		33 601	35 230
2. Prepaid costs and expenses		2 494	3 395
TOTAL ASSETS		880 312	933 229

Budapest, February 27, 2014


 Christopher Mattheisen
 Chief Executive Officer,
 Member of the Board


 János Szabó
 Chief Financial Officer

The Notes form an integral part of these financial statements.

BALANCE SHEET AS OF DECEMBER 31, 2013

LIABILITIES AND SHAREHOLDERS' EQUITY

All amounts in millions of HUF

	Note	December 31, 2012	December 31, 2013
D. SHAREHOLDERS' EQUITY	14	323 396	355 529
I. Common stock		104 274	104 274
<i>- of this treasury stock at par value</i>		39	39
II. Unpaid share capital (-)		0	0
III. Capital reserves		58 952	58 952
IV. Retained earnings		158 363	158 863
V. Restricted reserves		1 807	1 307
VI. Valuation reserves		0	0
VII. Net income		0	32 133
E. PROVISIONS	15	17 978	13 806
1. Provision for expected obligations		17 978	13 806
F. LIABILITIES		494 664	513 841
I. Subordinated liabilities		0	0
II. Non-current liabilities		253 780	255 924
3. Debt from issuance of bonds	16	120	0
5. Other non-current loans	16	0	4 454
7. Non-current liabilities to other related parties	17	253 093	232 562
8. Other non-current liabilities	18	567	18 908
III. Current liabilities		240 884	257 917
1. Current borrowings	16	70	189
<i>- of this convertible bonds</i>		0	0
2. Current loans	19	36 335	91 419
3. Advances received		359	535
4. Accounts payable	20	47 105	37 198
6. Current liabilities to related parties	21	48 048	46 015
7. Current liabilities to other related parties	22	34 486	57 268
8. Other current liabilities	23	74 481	25 293
<i>- of this dividends payable</i>		52 117	0
G. ACCRUALS	24	44 274	50 053
1. Deferred revenue		4 184	3 952
2. Accrued expenses		39 129	44 953
3. Other deferred income		961	1 148
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		880 312	933 229

Budapest, February 27, 2014



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.

INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2013

All amounts in millions of HUF

	Note	January-December, 2012	January-December, 2013
1. Net domestic sales	25	444 158	471 656
2. Net export sales	26	16 727	16 462
I. Sales revenues		460 885	488 118
3. Change in self-manufactured inventories		3	57
4. Capitalized value of self-manufactured assets		21 041	21 721
II. Own work capitalized		21 044	21 778
III. Other income	27	15 939	26 482
of which: reversal of impairment		0	0
5. Costs of raw material		25 778	26 103
6. Costs of services	29	78 187	82 265
7. Costs of other services		14 731	13 377
8. Cost of goods sold	30	58 512	93 778
9. Costs of (mediated) services sold	31	67 357	65 966
IV. Material-type expenses		244 565	281 489
10. Salaries and wages	32	43 993	46 326
11. Other employee related expenses	32	7 854	7 029
12. Employee related contributions		14 241	14 754
V. Employee related expenses		66 088	68 109
VI. Depreciation and Amortization		84 547	85 744
VII. Other expenses	34	66 697	65 778
of which: impairment		8 196	12 416
A. PROFIT FROM OPERATING ACTIVITIES		35 971	35 258
13. Dividends and profit sharing (received or due)		18 785	25 260
of which: received from related parties		18 785	25 260
14. Gains on sale of investments		4 361	0
of which: received from related parties		0	0
15. Interest income and gains on financial investments		269	0
of which: received from related parties		269	0
16. Other interest income received		1 096	966
of which: received from related parties		922	832
17. Other income from financial transaction		6 773	4 956
VIII. Income from financial transactions		31 284	31 182
19. Interest expense		24 076	21 793
of which: to related parties		1 258	721
to other related party		18 903	17 350
20. Impairment of investments, securities and bank deposits		2 344	67
21. Other expenses from financial transactions		11 445	8 484
IX. Expenses from financial transactions		37 865	30 344
B. RESULT FROM FINANCIAL TRANSACTIONS	35	-6 581	838
C. PROFIT FROM ORDINARY ACTIVITIES		29 390	36 096
X. Extraordinary income	36	16 701	3 708
XI. Extraordinary expenses	37	13 924	6 270
D. RESULT FROM EXTRAORDINARY ACTIVITIES		2 777	-2 562
E. PROFIT BEFORE TAXES		32 167	33 534
XII. Corporate income tax	39	1 375	1 401
F. NET INCOME		30 792	32 133
22. Use of retained earnings for dividends		21 325	0
23. Dividend paid (approved)	40	52 117	0
G. BALANCE SHEET NET INCOME		0	32 133

Budapest, February 27, 2014

Christopher Mattheisen
Chief Executive Officer,
Member of the Board

János Szabó
Chief Financial Officer

The Notes form an integral part of these financial statements.



MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

0 NOTE ADDED FOR TRANSLATION

This annual report for December 31, 2013 is the English translation of the annual report issued in Hungarian language and prepared in accordance with Act C of 2000 on Accounting and with generally accepted accounting principles in Hungary.

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

The auditors' report is a translation of the auditors' report issued in Hungarian language on the Hungarian annual report as outlined above.

In the event of any discrepancy, whether in the auditors' report or in the annual report, the Hungarian original version prevails.

1 BACKGROUND AND GENERAL INFORMATION

1.1 General Information about Magyar Telekom Plc.

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

Abbreviated name of the Company: Magyar Telekom Plc.

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

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

The Hungarian Telecommunications Company, the legal predecessor of Magyar Telekom Telecommunications Public Limited Company ("Magyar Telekom Plc." or the "Company") was founded by the Ministry of Transport, Communications and Construction on January 1, 1990. The Company was transformed by the Board of Directors of State Asset Holding Ltd. into a wholly owned company limited by shares as of December 31, 1991.

The Company was privatized on December 22, 1993, when the MagyarCom consortium acquired a 30.1 per cent stake in the Company. At the second stage of the privatization, which took place in December 1995, MagyarCom became the majority owner.

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

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

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

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

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

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

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

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

Persons authorized to sign the annual report:

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

János Szabó - Chief Financial Officer (residence: Budapest)

In Magyar Telekom Plc., the accounting services are supervised by the Director of Accounting and Tax, Melinda Modok (certificate number: 187110. Area of speciality: entrepreneurial activity. Status: registered. Residence: Budapest).

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

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

1.2 The Company's area of activity

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

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

The Company started its electricity and natural gas retail activities in 2010. The natural gas services are available for public consumers since June 1, 2010, the electricity services since July 1, 2010. The sale for business customers started on July 1, 2010 after the date on which the commercial licenses and business regulations approved by the Hungarian Energy Office entered into force.

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

1.3 Modifications of the Authority Contract related to frequency usage rights

On September 6, 2013 Magyar Telekom Plc. and the President of the National Media and Infocommunications Authority of Hungary (NMAH) signed the modification of the Authority Contract („Modification”) on the use of the 900 MHz and 1800 MHz frequency bands. On the basis of this Modification, Magyar Telekom Plc.'s „concessionary” 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 7 and 8, 2022, respectively. As a result of this, the frequency usage rights of all three Hungarian Mobile Network Operators (MNO's) will expire in 2022. The Modification will create a solid basis for the MNO's providing high quality public mobile services in the future.

On the basis of the Authority Contract, which was signed on October 11, 2013 between the General Director of the Office of the NMAH and the three incumbent mobile operators, Magyar Telekom Plc. has frequency usage right until April 8, 2022 for the 2 pcs of 1 MHz wide spectrum blocks in the 900 MHz band, which were acquired in 2012 in the 900 MHz auction. As a result of this, Magyar Telekom Plc. presently has 10 MHz (9 MHz continuous a 1 MHz separate) duplex frequency block in the 900 MHz band and 15 MHz continuous duplex frequency block in the 1800 MHz band.

1.4 Investigations 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, 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.

In particular, the Company disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on January 5, 2014, and, further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against the Company on February 5, 2014.

On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7,366 million in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC. The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011. No further provisions were made in 2012 or 2013 for these cases.

2 ACCOUNTING POLICIES

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

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

The closing day of the Company's business year is December 31. The balance sheet preparation date is January 2, 2014 in respect of the annual report for 2013.

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

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

- Land and buildings and related rights:
 - Land
 - Buildings
 - Telecommunication network
 - Other properties
 - Real estate related rights
- Technical equipment, machinery and vehicles:
 - Telecommunication equipment and machinery
 - Other technical equipment, machinery and vehicles

and the following captions are omitted:

- Adjusted value of intangible assets
- Breeding stock
- Adjusted value of tangible assets
- Non-current loans granted to independent undertakings
- Adjusted value of financial investments
- Valuation difference of invested financial assets

- Animals for breeding and fattening and other livestock
- Finished products
- Valuation difference of receivables
- Valuation difference of derivative instruments (positive)
- Valuation difference of securities
- Valuation reserve for adjustments
- Fair value reserve
- Subordinated liabilities to related parties
- Subordinated liabilities to independent undertakings
- Subordinated liabilities to other economic entities
- Valuation difference of liabilities
- Valuation difference of derivative instruments (negative)

Moreover the Company does not disclose in the balance sheet and in the income statement those captions marked with Arabic characters where there were no data neither for the previous year nor this year.

In 2013, these captions were as follows:

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

Since January 1, 2005 the Company has complied with its obligation to prepare consolidated annual report in such a way that it prepares its consolidated annual report in accordance with the International Financial Reporting Standards.

Deutsche Telekom Group's consolidated annual report prepared by Deutsche Telekom AG (Friedrich-Ebert-Alle 140, 53113 Bonn, Germany) also includes Magyar Telekom Plc. and its subsidiaries.

2.1 Definition of the accounting principles, guidelines and methods

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

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

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

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

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

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

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

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

- Telecommunication or Other activity: those general ledger accounts which contain items connected exclusively to either telecommunication activity or non-telecommunication and non-energy supply activities (e.g. property rental fee revenues).
- Energy: contains items connected exclusively to energy supply activity and can be allocated definitely to electricity or to natural gas services activity.
- Not relevant: accounts which have no bookings or technical accounts
- To be allocated: settlements on these accounts are connected to telecommunication, to other and to energy supply activities. Amounts on these accounts are allocated to energy supply, telecommunication or other activities based on further allocation rules.

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

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

The allocation for electricity and natural gas services of the amounts booked directly to energy supply activity (however cannot be separated directly to electricity and natural gas services) and allocations during the separation process are based on the proportion of the point of delivery (POD) numbers.

In case of those amounts which are related to telecommunication, other or energy activities, the allocation is based on proportion of corrected direct margin because of the different profit of telecommunication and energy products. The corrected direct margin is determined as follows: direct margin is the difference between revenues and direct costs related to it; corrected by the effect of utility costs reduction, the amount of discount related to energy services connected to telecommunication services and the result related to payment behavior of customers.

Determination of the corrected direct margin compared to previous years has changed by the impact of utility costs reduction and the realized gain from derivatives on energy activities, which are excluded from the ratio calculation.

Due to the change in allocation principles, the balance sheet and income statement for 2012 were re-allocated based on the allocation principles applied in 2013 to ensure the comparability of the 2012 and 2013 figures. The re-allocated amounts did not change significantly the allocated balance sheet total of the year 2012 or the difference because of separation, nor did it have a major effect on the income statement. Because of this, the change of principles does not affect the comparability of figures.

2.3 Valuation methods used for the preparation of the Balance Sheet

2.3.1 Assets

2.3.1.1 Recognition and measurement of non-current assets

Intangible and tangible fixed assets

Magyar Telekom Plc. carries intangible and tangible fixed assets at historical cost less accumulated depreciation, in case of advance payments on intangible assets and on construction-in-progress at historical cost less impairment. Property, plant and

equipment includes the capitalized value of improvements and refurbishment that extend the useful life of the asset, increase its capacity and/or functionality.

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

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

Depreciation policy

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

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

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

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

In case of intangible fixed assets:

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

In case of tangible fixed assets:

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

The Company determines residual values for those groups of assets where the residual values are considered to be significant. Residual value is considered to be significant if the expected realizable value exceeds the expected scrap value when the asset is taken out of service. The Company determines residual value for buildings, vehicles and set-top boxes at customers which were purchased in closed-end lease construction. Residual value is not considered to be significant for intangible assets and other groups of the tangible fixed assets.

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

The Company determines residual values for buildings, vehicles and customer premises equipment (CE routers, 3play equipment etc.) installed at customer premises (purchased in closed-end lease construction). The residual values in case of other tangible and intangible assets are not significant so residual values for these assets were not determined. Useful lives are determined based on generally accepted international telecommunication industry practices and development potentials. Magyar Telekom Plc. regularly reviews the useful lives of fixed assets and modifies them if necessary.

Since January 1, 2011 the Company does not use the option given in the Section 80. (2) of Act on Accounting which declares that the acquisition value of intangible and tangible assets with an individual purchase cost below HUF 100,000 may be charged in one sum as depreciation upon the commencement of use.

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

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

Capitalized value of foundation and restructuring

The Company does not capitalize foundation and restructuring costs.

Capitalized value of experimental development

The Company does not capitalize experimental development costs.

Goodwill

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

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

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

Intellectual property

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

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

Own work capitalized

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

Financial investments

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

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

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

2.3.1.2 Recognition and measurement of current assets

Inventories

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

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

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

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

The Company records impairment on inventories purchased if:

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

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

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

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

Trade receivables and other receivables

The balance of trade receivables reflects invoiced and acknowledged amounts.

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

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

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

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

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

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

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

The Company uses the following rates for impairment:

Overdue	Rate of impairment ¹
1-30 days	0%-9%
31-60 days	0%-40%
61-90 days	0%-65%
91-180 days	0%-75%
181-360 days	0%-90%
361-720 days	75%-100%
more than 720 days	90%-100%
Customers in state of bankruptcy	100%

¹ The Company uses different impairment rates for different groups of customers.

Securities

The Company discloses the original cost of bonds, shares, other securities held for sale and the repurchase value of treasury stock as Securities in current assets.

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

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

2.3.1.3 Accruals (asset)

Accrued income

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

Prepayments for costs and expenses

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

2.3.2 Liabilities and Shareholders' equity

2.3.2.1 Valuation reserve

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

2.3.2.2 Restricted reserve

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

2.3.2.3 Provisions

Provisions include the following uncertain liabilities and commitments:

- early retirement, pre-age pension liabilities and severance payments,
- pending legal cases,
- environmental liabilities,
- guarantee liabilities determined by law,
- future demolition or recovery liabilities deriving from a contract,
- set up provision in respect of valuation of derivatives,
- liabilities related to customer loyalty program.

2.3.2.4 Accruals (liability)

Deferred revenue

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

Accrued expenses

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

Deferred income

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

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

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

2.3.3 Valuation of items in foreign currencies

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

2.3.4 Derivatives

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

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

2.4 Measurement principles applied in the preparation of the Income Statement

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

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

The Company discloses as domestic sales revenues in particular:

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

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

The Company discloses as export sales in particular:

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

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

Non-realized exchange rate differences are recognized as follows:

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

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

The fees paid by Magyar Telekom Plc. to carrier, mobile and international service providers for call termination are invoiced to the customers by Magyar Telekom Plc. Therefore the payments for calls initiated in Magyar Telekom Plc.'s network and terminated by carrier, mobile and international service providers as well as payments for leased lines (both domestic and international) are recorded and disclosed as mediated services disclosed as costs of services sold.

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

2.5 Other

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

The Company did not have penalty expenses due to environmental liabilities in 2013 or in any previous years.

3 SUMMARY OF THE COMPANY'S FINANCIAL POSITION AND LIQUIDITY

The Company's financial position and liquidity as of December 31, 2012 and 2013 are represented by the following financial ratios:

	<u>2012</u>	<u>2013</u>
Liquidity ratio (= current assets / current liabilities)	0.32	0.33
Operating margin (= operating profit / (sales revenues + other income))	0.08	0.07
Operating return on assets (= operating profit / total assets)	0.04	0.04
Leverage ratio (= non-current liabilities / (non-current liabilities + equity))	0.44	0.42

The following is the cash-flow statement for the years ended on December 31, 2012 and 2013:

		2012	2013
I. Cash flows from operating activities (lines 1-14)		40,961	37,136
1. Profit before taxes (before dividend received)	(+/-)	9,139	5,713
2. Depreciation and amortization	(+)	85,174	85,744
3. Impairment losses charged and reversed	(+/-)	10,542	12,483
4. Change in provisions	(+/-)	6,143	-4,172
5. Profit or loss on the sale of non-current assets	(+/-)	-247	-213
6. Change in accounts payable	(+/-)	10,900	-8,717
7. Change in other current liabilities	(+/-)	-14,297	-53,053
8. Change in accruals (liability)	(+/-)	-2,484	5,732
9. Change in accounts receivable	(+/-)	-13,011	-17,893
10. Change in current assets (without accounts receivable and cash and cash equivalents)	(+/-)	-718	1,178
11. Change in accruals (asset)	(+/-)	496	-2,530
12. Income tax paid (on profit and loss)	(-)	-1,285	-1,493
13. Dividend and shares paid/payable	(-)	-52,117	0
14. Other non cash items	(+/-)	2,726	14,357
II. Cash flows from investing activities (lines 15-17)		-46,010	-77,314
15. Acquisition of fixed assets and financial investments	(-)	-65,041	-102,786
16. Proceeds from sale of fixed assets and financial investments	(+)	246	212
17. Dividends and advance dividends received	(+)	18,785	25,260
III. Cash flows from financing activities (lines 18-29)		4,230	41,572
18. Proceeds from issue of shares	(+)	0	0
19. Proceeds from the issuance of bonds	(+)	0	0
20. Loans received	(+)	251,602	333,997
21. Redemption from non-current loans granted and bank deposits	(+)	6,387	726
22. Non-repayable liquid assets received	(+)	249	249
23. Share capital decrease	(-)	0	0
24. Treasury stock repurchases	(-)	0	0
25. Repayment of bonds	(-)	0	0
26. Repayment of loans	(-)	-252,898	-292,525
27. Non-current loans granted and bank deposits	(-)	-895	-550
28. Non-repayable donations given	(-)	0	0
29. Change in liabilities to founders and other non-current liabilities	(+/-)	-215	-325
IV. Change in liquid assets (lines I. + II. + III.)	(+/-)	-819	1,394
Cash at the beginning of the year		4,319	3,500
Cash at year-end		3,500	4,894

4 INTANGIBLE ASSETS

The following table is a summary of intangible fixed asset movements between January 1, 2012 and December 31, 2013:

GROSS BOOK VALUE

	Rights	Intellectual property	Goodwill	Advances on intangible assets	Total
Opening balance as of January 1, 2012	189,821	15,925	222,856	20	428,622
Additions	28,017	1,316	100	0	29,433
Disposals	-2,344	-14	0	-20	-2,378
Reclassifications	921	-913	0	0	8
Closing balance as of December 31, 2012	216,415	16,314	222,956	0	455,685
Additions	83,156	802	100	0	84,058
Disposals	-4,643	-171	0	0	-4,814
Disposals due to in-kind contribution	-1,052	-309	0	0	-1,361
Reclassifications	-8,542	381	0	0	-8,161
Closing balance as of December 31, 2013	285,334	17,017	223,056	0	525,407

AMORTIZATION

Opening balance as of January 1, 2012	129,488	11,330	103,136	0	243,954
Charge for the year	13,298	738	10,129	0	24,165
Impairment	0	0	1,477	0	1,477
Disposals	-2,332	-9	0	0	-2,341
Reclassifications	530	-524	0	0	6
Closing balance as of December 31, 2012	140,984	11,535	114,742	0	267,261
Charge for the year	16,180	648	10,098	0	26,926
Impairment	0	0	0	0	0
Disposals	-297	-163	0	0	-460
Disposals due to in-kind contribution	-614	-285	0	0	-899
Reclassifications	-8,333	174	0	0	-8,159
Closing balance as of December 31, 2013	147,920	11,909	124,840	0	284,669

NET BOOK VALUE

as of December 31, 2012 **75,431** **4,779** **108,214** **0** **188,424**

NET BOOK VALUE

as of December 31, 2013 **137,414** **5,108** **98,216** **0** **240,738**

The main components of the changes in 2013:

Rights

The gross value of rights increased by HUF 83,156 million in the current year. Significant part of this increase was caused by the HUF 60,226 million increase of concession rights which is connected to the capitalized right of use related to the provision of mobile telecommunication services in the 900 MHz and 1,800 MHz frequency band based on the modification of the Authority Contract concluded with the President of the National Media and Infocommunications Authority of Hungary signed on September 6, 2013. (See further information on frequency usage rights in Note 1.3)

Further significant increase is caused by the software rights of use connected to the new billing system (HUF 13,170 million) and the capitalization of the new generation CRM software (HUF 2,475 million).

The decrease in Rights is mainly due to the shortened original length of usage rights whereby the one-off fee for using the 900 MHz and 1,800 MHz frequency bands decreased by HUF 4,000 million based on the modification of the Authority Contract concluded with the President of the National Media and Infocommunications Authority of Hungary signed on September 6, 2013.

Intellectual properties

The increase is mainly due to the upgrades of the billing software for mobile services (HUF 760 million).

The decrease is mainly due to the in-kind contribution to T-Systems Magyarország Zrt. (gross value is HUF 309 million, net value is HUF 24 million).

In 2013, the Company reviewed the useful life of rights and intellectual properties and changed the useful life where the Company deemed it necessary. Due to the changes HUF 269 million less amortization was charged in 2013.

Goodwill

The movements of goodwill in 2013 are summarized as follows:

Description	Net value as of December 31, 2012	Goodwill recorded in 2013	Amortization charge/ extraordinary amortization in 2013	Net value as of December 31, 2013
T-Mobile Magyarország Távközlési Rt. ¹	81,762	0	-9,115	72,647
T-Systems Magyarország Zrt. (KFKI Zrt.)	8,851	100	0	8,951
Dataplex Kft. ¹	4,793	0	0	4,793
Stonebridge A.D.	4,109	0	-391	3,718
EMITEL Távközlési Zrt. ¹	3,778	0	-589	3,189
ISH Informatika Kft. ¹	1,707	0	0	1,707
IQSYS Zrt. ¹	1,132	0	0	1,132
Combridge S.R.L.	818	0	0	818
DATEN-KONTOR Kft. ¹	529	0	0	529
Novatel E.O.O.D.	447	0	0	447
KalászNet Kft. (Budakalász Kábel TV Kft.)	185	0	0	185
Dél-Vonal Kft. ¹	100	0	0	100
IQSYS Zrt.(Integris Rendszerház Kft. -Rába Szolgáltatóház Kft.) ¹	3	0	-3	0
Total	108,214	100	-10,098	98,216

¹ On December 31, 2013 the marked companies did not operate as independent companies due to transformation but the market perception of their operations gave no reasons for impairing or derecognizing the goodwill.

In 2013, further HUF 100 million purchase price installment depending upon DATEN-KONTOR Kft's result of the year was paid connected to this investment which was recognized as goodwill. Since at the time of settlement DATEN-KONTOR Kft. has already been merged into T-Systems Magyarország Zrt. the goodwill is disclosed connected to the successor company.

During 2013, HUF 10,098 million amortization was charged on goodwill for items recognized before 2005. Extraordinary depreciation was not recognized in 2013.

5 TANGIBLE FIXED ASSETS

The following table is a summary of tangible fixed asset movements – without construction in progress and advance payments for construction in progress – between January 1, 2012 and December 31, 2013:

GROSS BOOK VALUE	Land and buildings and related rights	Technical equipment, machinery and vehicles	Other equipment and vehicles	Total
Opening balance as of January 1, 2012	422,584	659,657	65,745	1,147,986
Additions	16,310	25,724	2,711	44,745
Disposals	-2,227	-30,057	-10,842	-43,126
Reclassifications	-2,483	-628	-1,328	-4,439
Reclassifications from low value assets (below HUF 50 000)	0	2,285	42	2,327
Closing balance as of December 31, 2012	434,184	656,981	56,328	1,147,493
Additions	12,611	34,184	3,745	50,540
Disposals	-2,089	-73,904	-3,647	-79,640
Disposals due to in-kind contribution	0	-4,554	-79	-4,633
Reclassifications	2,025	-3,054	3,137	2,108
Closing balance as of December 31, 2013	446,731	609,653	59,484	1,115,868
DEPRECIATION				
Opening balance as of January 1, 2012	184,175	520,915	58,463	763,553
Charge for the year	16,312	41,457	3,240	61,009
Impairment	0	0	0	0
Disposals	-1,655	-29,075	-10,566	-41,296
Reclassifications	-770	920	-1,026	-876
Reclassifications from low value assets (below HUF 50 000)	0	2,285	42	2,327
Closing balance as of December 31, 2012	198,062	536,502	50,153	784,717
Charge for the year	16,636	38,894	3,288	58,818
Impairment	0	0	0	0
Disposals	-1,444	-72,546	-3,360	-77,350
Disposals due to in-kind contribution	0	-3,335	-75	-3,410
Reclassifications	-95	-1,422	1,501	-16
Closing balance as of December 31, 2013	213,159	498,093	51,507	762,759
NET BOOK VALUE				
as of December 31, 2012	236,122	120,479	6,175	362,776
NET BOOK VALUE				
as of December 31, 2013	233,572	111,560	7,977	353,109

Further details are disclosed in Appendix 2.

The mainly reasons of the changes in 2013 are as follows:

Land and buildings and related rights

The increase in real estate and related rights is HUF 12,611 million in gross value which was caused by the increase of buildings and other real estate and related rights (HUF 3,909 million in gross value) and of networks (HUF 8,702 million in gross value) – see Appendix 2. The increase in buildings and other real estate is mainly due to the expansion and capitalization of antenna towers (HUF 1,911 million) and the improving (HUF 607 million) and renovating (HUF 273 million) of own office buildings.

The gross value of telecommunication networks increased by HUF 8,702 million (see Appendix 2) of which the significant items are:

- copper wire telecom cables of local network (HUF 2,070 million)
- client-side copper based network (HUF 1,299 million)
- cable TV coax network (HUF 1,187 million)
- Digital Video Broadcasting - Satellite (DVBS) infrastructure (HUF 804 million)

The decrease in real estate and related rights is mainly due to partial scrapping of which the significant items are:

- copper wire telecom cables of local network (gross value is HUF 466 million, net value is HUF 135 million)
- cable TV coax network (gross value is HUF 343 million, net value is HUF 152 million)
- copper wire telecom cables of trunk, regional and backbone network (gross value is HUF 178 million, net value is HUF 11 million)

Technical equipment, machinery and vehicles

The increase is due to the capitalization and extension of telecommunication equipment of HUF 34,184 million in gross value, of which the significant items are:

- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (HUF 8,349 million)
- IP network equipment - routers, used for IP network services (HUF 4,996 million)
- data-transmission terminal equipment installed at customer premises for service provisioning - CE router (HUF 2,535 million)
- system of operation for networks using broadband, optical Wavelength-Division Multiplexing (HUF 2,448 million)
- Internet cable TV modems (HUF 1,379 million)
- Internet providing equipment (HUF 983 million)
- building engineering equipment (HUF 776 million)

HUF 78,458 million decrease in gross value of technical equipment is mainly due to the sales and scrappings because of redemptions related to the mobile network modernization project and scrappings of ADSL node equipment, intelligent service control, NT and EWSD customer exchanges, for example:

- radio communication equipment ensuring radio access in GSM/DCS/UMTS/LTE radio networks (gross value is HUF 14,272 million, net value is HUF 27 million)
- GSM network control system (gross value is HUF 12,310 million, net value is zero)
- mobile switch control – management (gross value is HUF 9,972 million, net value is HUF 252 million)
- radio communication equipment ensuring radio access in 3G (UMTS) radio networks (gross value is HUF 4,396 million, net value is HUF 22 million)
- microwave equipment and antennas (gross value is HUF 3,957 million, net value is HUF 20 million)
- mobile subscribers data storage (gross value is HUF 3,507 million, net value is HUF 1 million)
- intelligent service control (gross value is HUF 3,457 million, net value is zero)
- ADSL node equipment (gross value is HUF 3,277 million, net value is HUF 78 million)
- line multiplexers (gross value is HUF 1,115 million, net value is HUF 6 million)
- EWSD – phone exchanges manufactured by Siemens (gross value is HUF 1,094 million, net value is zero)

Further significant decrease is due to the in-kind contribution to T-Systems Magyarország Zrt. (gross value is HUF 4,554 million, net value is HUF 1,218 million).

Other equipment and vehicles

Other equipment and vehicles increased by HUF 3,745 million in gross value, of which the significant items are:

- capitalization and extension of IT application and other servers (HUF 1,791 million)
- capitalization and extension of computers and peripheral devices not serving the core activities (HUF 525 million).

The HUF 3,726 million decrease in gross value of other equipment and vehicles is mostly due to scrapping, sales and inventory shortages discovered.

Scrappings mainly related to the following assets:

- intra-company telecommunication equipment for internal purposes (gross value is HUF 347 million, net value is zero)
- furniture (gross value is HUF 138 million, net value is HUF 2 million)
- system support purpose telecommunication equipment (gross value is HUF 128 million, net value is HUF 12 million)
- development and experimental purpose equipment (gross value is HUF 111 million, net value is zero)
- office equipment (gross value is HUF 58 million, net value is zero)

Sales mainly related to the following assets:

- IT hardware (gross value is HUF 610 million, net value is zero)
- computers and peripheral devices not serving the core activities (gross value is HUF 487 million, net value is HUF 1 million)
- passenger cars for personal use (gross value is 197 million, net value is HUF 47 million)
- mobile handsets (gross value is HUF 126 million, net value is HUF 11 million)

Inventory shortages mainly related to the following assets:

- servers (gross value is HUF 326 million, net value is HUF 162 million)
- IT hardware (gross value is HUF 101 million, net value is HUF 15 million)
- computers and peripheral devices not serving the core activities (gross value is HUF 56 million, net value is HUF 2 million)

In 2013, the Company reviewed the useful life of tangible assets and changed the useful lives where the Company deemed it necessary. In consequence, HUF 1,207 million more depreciation was charged in 2013.

The significant increase in depreciation due to the changes in useful lives was caused by the following major projects:

- mobile network modernization project (HUF 614 million),
- withdrawal of microwave equipment and antennas (HUF 267 million).

6 NON-CURRENT INVESTMENTS IN RELATED PARTIES

6.1 Changes of Non-current investments in 2013

As of December 31, 2012 and 2013, the Company's non-current investments are summarized as follows (further details on investments (ownership, voting rights, shareholders' equity data) are disclosed in Appendix 3):

	Ownership direct (%)	Ownership indirect (%)	Net book value	
	2013		2012	2013
Stonebridge A.D. Skopje ¹	100.00%		102,181	104,019
Crnogorski Telekom A.D. ¹	76.53%		42,363	43,173
T-Systems Magyarország Zrt.	100.00%		16,738	19,944
ViDaNet Zrt.	67.50%	22.50%	2,836	2,836
Origo Zrt.	100.00%		2,418	2,418
Combridge S.R.L. ¹	100.00%		2,156	2,197
Investel Zrt.	100.00%		1,658	1,658
KalászNet Kft. (Budakalász Kábel TV Kft.)	100.00%		74	1,074
Novatel E.O.O.D. ¹	100.00%		728	742
Telekom New Media Zrt.	100.00%		700	700
MODULTECHNIKA Kft. "v.a."	100.00%		110	62
KIBU Innováció Nonprofit Kft.	99.20%	0.80%	34	34
Telemacedonia A.D. (under liquidation) ¹	100.00%		24	25
ISH Kft.	100.00%		3	3
TeleData Kft.	50.98%		20	1
DATEN-KONTOR Kft.	100.00%		847	0
Total			172,890	178,886

¹In 2013, the decrease of book value of investment is due to the balance sheet date revaluation whereby HUF 2,704 million foreign exchange loss was recorded in the books.

Magyar Telekom Plc. increased the capital in KalászNet Kft. by HUF 1,000 million in 2013.

T-Systems Magyarország Zrt. concluded a merger contract with DATEN-KONTOR Kft. declaring the merger of the two companies in 2013. DATEN-KONTOR Kft. merged into T-Systems Magyarország Kft. by this transformation. Magyar Telekom Plc.'s investments decreased by HUF 847 million due to the cancellation of the investment in DATEN-KONTOR Kft. and increased by HUF 1,414 million due to the increase of the book value of T-Systems Magyarország Zrt.'s (as legal successor) share.

The Company executed a capital increase in T-Systems Magyarország Zrt. whereby 100 pieces of new shares were issued by private offering at their nominal value of HUF 10,000 through in-kind contribution. The issue value of the shares was HUF 1,792 million which increased the investment in Magyar Telekom Plc.'s books.

In 2013, the liquidation procedure of Mindentudás Egyeteme Nonprofit Kft. "v.a" was finished. The termination of the company was registered at the Court of Registry on July 31, 2013. The investment was derecognized from the books but the amount of non-current investment did not change because the company's book value was written-off to zero earlier.

In 2013, impairment recorded on investments decreased the book value of non-current investments by HUF 67 million (TeleData Kft. and MODULTECHNIKA Kft.).

Impairments on non-current investments are detailed in Appendix 4.

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

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

In December 2000, Magyar Telekom Plc., on behalf of a consortium, reached an agreement with the government of Macedonia to purchase 51 percent of Makedonski Telekom AD, the leading telecommunication provider of Macedonia. The 51 percent ownership acquired by Magyar Telekom Plc. was contributed in 2001 to a newly established Macedonian holding company, Stonebridge A.D. residing in Skopje. Magyar Telekom Plc. has 100 per cent share in Stonebridge A.D. since 2004 and the company has 51 per cent share in Makedonski Telekom. The company suspended its liquidation procedure and restored its normal activities from January 1, 2014.

Crnogorski Telekom A.D.

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

T-Systems Magyarország Zrt.

In 2006 Magyar Telekom Plc. purchased the 100 per cent ownership in KFKI Zrt. Thereafter the company has undergone several transformations whereby ICON Zrt., KFKI-DIREKT Kft. and EPT Zrt. were merged into the company.

In 2012, the company changed its name and continues its activities under the name of T-Systems Magyarország Zrt. Also in 2012, the company concluded a merger contract with Dataplex Kft., IQSYS Kft. and ISH Informatika Kft. and these companies merged into T-Systems Magyarország Zrt. In 2013, after the conclusion of another merger contract, DATEN-KONTOR Kft. merged into T-Systems Magyarország Zrt.

Origo Média és Kommunikációs Szolgáltató Zrt. (Origo Zrt.)

The Extraordinary General Meeting of Magyar Telekom Plc. held on June 29, 2007 decided on the merger of the access business line of T-Online Magyarország Zrt. into Magyar Telekom Plc. The internet and content providing business line of T-Online Magyarország Zrt. continued its activities under the name of Origo Média és Kommunikációs Szolgáltató Zrt. In 2010, M-Factory Zrt. merged into the company based on the merger contract with M-Factory Zrt.

ViDaNet Kábeltelevíziós Szolgáltató Zrt. (ViDaNet Zrt.)

ViDaNet Zrt. was established in 2003 by the merger of several companies for providing cable television services. Magyar Telekom Plc.'s direct and indirect ownership in total is 90 per cent and has 49.995 per cent voting right in the company. In 2013, M-Kábel Kft. (100 per cent owned by the company) merged into ViDaNet Zrt.

Combridge S.R.L.

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

Investel Magyar Távközlési Befektetési Zrt. (Investel Zrt.)

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

Novatel E.O.O.D.

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

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

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

MODULTECHNIKA Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság “under liquidation” (MODULTECHNIKA Kft. “v.a.”)

MODULTECHNIKA Kft. provided cable TV and internet services through its cable TV network in and around Ajka. The Company signed an agreement on July 6, 2010 to buy 100 per cent of the shares in MODULTECHNIKA Kft. The company decided to start its liquidation procedure with effect from April 1, 2013.

KalászNet Kábel TV Korlátolt Felelősségű Társaság (KalászNet Kft.)

In 2009, the Company acquired 25 per cent share in Budakalász Kábel TV Kft. during the merger of T-Kábel Magyarország Kft. into Magyar Telekom Plc. In 2011, Magyar Telekom Plc. became the sole owner of the company by purchasing further 75 per cent. The company performs cable TV and internet services in various regions of Hungary. After the registration at the Court of Registry on April 22, 2013 the company continues its activities under the name of KalászNet Kábel TV Korlátolt Felelősségű Társaság (KalászNet Kft.).

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

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

7 OTHER NON-CURRENT LOANS GRANTED

Other non-current loans granted as of December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Long term part of installment receivables from equipment sales ¹	3,027	7,169
Long term part of housing loans granted to employees	3,618	3,404
Other deposits given	33	34
Total	6,678	10,607

¹The increase is due to the significant increase of installment sales of smart phones, tablets, laptops and TV sets connected to multimedia packages.

8 INVENTORIES

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

The following is a movement table of inventories between January 1, 2012 and December 31, 2013:

	2012	2013
Opening balance	6,399	10,378
Change in inventories	4,018	-1,962
Impairment loss	-39	-96
Closing balance	10,378	8,320

The decrease in inventories is mainly due to the decrease of buildings intended for sale.

Further details of inventory impairment are disclosed in Appendix 4.

9 ACCOUNTS RECEIVABLE

As of December 31, 2012 and 2013 accounts receivable include the following:

	2012	2013
Domestic accounts receivable ¹	54,749	61,170
Foreign accounts receivable	2,231	1,804
Impairment of receivables	-15,341	-15,140
Total	41,639	47,834

¹ The increase of domestic accounts receivable is mainly due to the increase of installment sales of telecommunication equipment.

Further details on impairment of receivables are disclosed in Appendix 4.

10 RECEIVABLES FROM RELATED PARTIES

Receivables from related parties as of December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Receivables from T-Systems Magyarország Zrt. ¹	7,418	13,086
Receivables from Novatel E.O.O.D. ²	2,294	2,346
Receivables from Origo Zrt. ³	1,040	1,315
Receivables from ViDaNet Zrt. ⁴	1,602	239
Receivables from Combridge S.R.L.	80	73
Receivables from Makedonski Telekom A.D.	57	34
Other	97	65
Total	12,588	17,158

¹ The increase is mainly due to the significant increase of the Cash-pool receivable from T-Systems Magyarország Zrt.

² The major part of the receivables from Novatel E.O.O.D. is the loan granted (HUF 2,334 million).

³ The most significant part of the receivables from Origo Zrt. is the cash-pool receivable (HUF 1,204 million).

⁴ In 2013, HUF 1,370 million was paid back from the loan granted to ViDaNet Zrt.

11 OTHER RECEIVABLES

The Company's other receivables as of December 31, 2012 and 2013 are as follows:

	2012	2013
Roaming discount receivables	3,189	2,398
Receivables from employees	1,138	1,068
Tax receivables	1,557	705
Advance payments given	1,119	584
Receivables from dealers	460	568
Receivables from forward deals	254	166
Other	1,294	1,432
Total	9,011	6,921

12 SECURITIES

The amount of HUF 307 million includes the cost of the repurchased treasury stock. The number and face value of repurchased treasury stock are detailed in Note 14.

13 ACCRUALS (ASSETS)

	2012	2013
Accrued income from telecommunication activities	27,841	28,445
Accrued income from electricity and gas retail services	3,973	4,713
Accrued income from related parties	866	876
Other	921	1,196
Accrued income	33,601	35,230
Prepaid costs and expenses related to electricity and gas retail services ¹	329	1,446
Rental fees	1,078	1,142
Insurance fees	354	358
Accrued amount of value correction paid related to loans	307	159
Other	426	290
Prepaid costs and expenses	2,494	3,395
Total	36,095	38,625

¹ The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than in 2012.

14 SHAREHOLDERS' EQUITY

The Company's owners' structure based on the shareholder registration in the Share Register as of December 31, 2013:

Shareholder	Number of shares (HUF 100 per share)	Total value (HUF million)	Ownership percentage (%)
T-Mobile Global Holding Nr. 2 GmbH	617,436,759	61,744	59.21%
Other foreign companies	177,735,211	17,774	17.04%
Domestic companies	82,862,545	8,286	7.95%
Domestic and foreign private persons	84,121,478	8,412	8.07%
Other (not named and nominees)	80,053,660	8,005	7.68%
Government in total	142,028	14	0.01%
Repurchased treasury stock	390,862	39	0.04%
Total	1,042,742,543	104,274	100.00%

Changes in the equity items between January 1, 2012 and December 31, 2013 are summarized as follows:

	Common stock	Capital reserves	Retained earnings	Restricted reserves ¹	Balance Sheet Net Income
Opening balance as of January 1, 2012	104,274	58,952	180,002	2,307	0
Reclassifications	0	0	500	-500	0
Effect of self-revision	0	0	-814	0	0
Profit of the year	0	0	0	0	30,792
Dividend	0	0	-21,325	0	-30,792
Balance as of December 31, 2012	104,274	58,952	158,363	1,807	0
Reclassifications	0	0	500	-500	0
Profit of the year	0	0	0	0	32,133
Balance as of December 31, 2013	104,274	58,952	158,863	1,307	32,133

¹ Restricted reserves contain the amount of the development reserve (HUF 1,000 million) and the book value of the repurchased treasury stock (HUF 307 million) as of December 31, 2013.

15 PROVISIONS

Provisions were increased and reversed under the following titles between January 1, 2012 and December 31, 2013:

	Early retirement, severance payments, employee bonuses	Asset retirement obligation and environmental liabilities	Customer loyalty program	Derivatives	Legal cases	Other	Total
Opening Balance as of January 1, 2012	2,711	6,088	1,340	0	1,543	153	11,835
Increase	3,796	167	1,268	2,162	2,027	104	9,524
Decrease	-1,728	-163	-1,114	0	-263	-113	-3,381
Closing Balance as of December 31, 2012	4,779	6,092	1,494	2,162	3,307	144	17,978
Increase	2,083	241	1,304	1,287	273	69	5,257
Decrease	-3,526	-111	-1,192	-1,701	-2,836	-63	-9,429
Closing Balance as of December 31, 2013	3,336	6,222	1,606	1,748	744	150	13,806

16 OTHER NON-CURRENT LOANS, DEBT FROM ISSUANCE OF BONDS

The following is a movement table of other non-current loans between January 1, 2012 and December 31, 2013:

	2012	2013
Opening balance	14,556	0
Drawdown	0	14,839
Repayment	-11,000	0
Reclassification to current loans	-3,556	-10,460
Foreign exchange difference	0	75
Closing balance	0	4,454

The Company does not have any assets pledged for loans.

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

Maturity	Amount
2015	2,969
2016	1,485
Total	4,454

The Company's debt from issuance of bonds was reclassified to current borrowings.

17 NON-CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the non-current portion of other related party loans received from Deutsche Telekom Finance B.V and Deutsche Telekom A.G. The closing balance of these loans as of December 31, 2013 is HUF 232,562 million. During the year, HUF 21,847 million was reclassified to current liabilities to other related parties and HUF 1,316 million non-realized foreign exchange difference was recognized.

The short term portion of related party loans (HUF 57,268 million) is disclosed in Note 22.

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

Maturity	Amount
2015	98,447
2016	112,440
2017	6,829
2018	14,846
Total	232,562

18 OTHER NON-CURRENT LIABILITIES

This caption mainly contains the non-current part of the frequency fees to be paid by the Company until the end of the frequency usage rights term (2022) based on the conditions in the Authority Contract related to frequency usage rights concluded with the National Media and Infocommunications Authority of Hungary. See detailed information related to Authority Contract in Note 1.3.

19 CURRENT LOANS

The following is a movement table of current loans between January 1, 2012 and December 31, 2013:

	2012	2013
Opening balance	46,081	36,335
Drawdown	149,932	281,569
Increase due to factored accounts payable ¹	0	17,163
Repayment	-163,083	-254,255
Reclassification from non-current loans	3,556	10,460
Foreign exchange difference	-151	147
Closing balance	36,335	91,419

¹ The amount of liability from factored vendor invoices is HUF 9,740 million. 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.

20 ACCOUNTS PAYABLE

The accounts payable as of December 31, 2013 contain the following main items:

	2012	2013
Domestic suppliers ¹	41,694	33,152
Foreign suppliers	5,411	4,046
Total	47,105	37,198

¹ On December 31, 2013 the amount of liability from factored vendor invoices is HUF 9 740 which was recognized as liabilities to banks (see detailed in Note 19).

21 CURRENT LIABILITIES TO RELATED PARTIES

The current liabilities to related parties as of December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Liabilities to Stonebridge A.D. ¹	36,111	36,335
Liabilities to T-Systems Magyarország Zrt. ²	9,693	7,602
Liabilities to Telekom New Media Zrt.	445	469
Liabilities to KalászNet Kft. ^{3, 4}	125	459
Liabilities to Investel Zrt.	633	438
Liabilities to Combridge S.R.L.	537	376
Liabilities to Origo Zrt.	283	263
Other ⁴	221	73
Total	48,048	46,015

¹ Contains loan payable to Stonebridge A.D.

² Decrease of liabilities to T-Systems Magyarország Zrt. is mainly due to the decrease of accounts payable. In 2013, liabilities to DATEN-KONTOR Kft. are disclosed in this line because the company merged into T-Systems Magyarország Zrt. on March 31, 2013 (see details in Note 6.1).

³ In 2013, liabilities to KalászNet Kft. mainly include loans payable.

⁴ In 2012, liabilities to KalászNet Kft. were disclosed in Other.

22 CURRENT LIABILITIES TO OTHER RELATED PARTIES

This caption contains the short term part of the loans from Deutsche Telekom Finance B.V. and Deutsche Telekom A.G.

Maturity	Interest	Amount
January 2014	3 months BUBOR +0.8%	35,000
June 2014	fix 4.45025%	22,268
Total		57,268

Deutsche Telekom AG has expressed its commitment to finance the Company's budgeted financing needs at least until the end of June, 2015.

23 OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Liabilities to government ¹	4,863	5,939
Value Added Tax	4,035	4,873
Discount granted subsequently on roaming traffic	2,705	3,540
Liability from topping up the universal balance	3,188	3,482
Annual frequency fee ²	0	3,351
Customer overpayments	1,456	1,787
Payables to employees and related contributions ³	3,932	795
Personal income tax	1,119	706
Dividends payable 2012 ⁴	52,117	0
Other	1,066	820
Total	74,481	25,293

¹ In 2013, the main part of liabilities to government are the telecommunication tax (HUF 4,377 million) and social contribution (HUF 1,102 million).

² Based on the conditions in the Authority Contract related to frequency usage rights concluded with the National Media and Infocommunications Authority of Hungary the frequency fees to be paid until the end of the term of frequency usage rights (to 2022) were recognized as liabilities. The table contains the amount to be paid in 2014. See detailed information in Note 1.3.

³ Decrease in payables to employees and related contributions is mainly due to that the wages of December was paid at the end of December, 2013.

⁴ No dividend is expected to be declared for 2013 (Dividends payable for previous years unsettled financially are disclosed in Other).

24 ACCRUALS (LIABILITIES)

	2012	2013
Deferred subscription and traffic fees	2,242	2,027
Deferred revenue from related parties	1,099	1,038
Other	843	887
Deferred revenue	4,184	3,952
Interest on owners' loan	7,244	6,830
Payroll related expenses ¹	3,649	6,579
Expenses from energy services ²	1,842	5,581
Expenses related to TV services	2,805	3,659
Accrued expenses to related parties	2,893	3,241
Rental fees	2,754	2,990
Payments to mobile operators	2,692	2,147
Charges for public utility services	1,813	1,553
Marketing expenses	1,943	1,491
Frequency usage fee ³	2,790	1,459
Commission fees	1,506	1,169
Consultancy fees	564	682
Maintenance expenses	548	618
Expenses related to value added services and content provision	405	544
Payment to other fixed line network operators	502	541
Mediated RI/IT services	269	262
Interests	210	174
Other (vendor accruals)	4,700	5,433
Accrued expenses	39,129	44,953
Deferred income	961	1,148
Total	44,274	50,053

¹ Significant part of bonuses for 2012 was paid until the end of 2012 while a significantly lower amount of the bonuses was paid out in 2013.

² The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the quantities of consumed energy are also significantly higher than in 2012.

³ Based on the conditions in the Authority Contract related to frequency usage rights concluded with the National Media and Infocommunications Authority of Hungary the frequency fees to be paid until the end of the term of the frequency usage rights were capitalized as Rights in September, 2013. In previous years these fees were recognized as expenses and the amount in accrued expenses relates to periods before September 2013. See detailed information in Note 1.3.

25 NET DOMESTIC SALES

Net domestic sales in the years ending December 31, 2012 and 2013 were as follows:

	2012	2013
Voice retail	142,055	140,523
Voice wholesale	19,396	16,056
Non-voice	61,463	66,636
Sale of handsets and other devices	24,720	33,257
Other mobile revenues	3,539	4,636
Revenues from mobile services	251,173	261,108
Voice retail	62,690	58,058
Voice wholesale	3,336	2,822
Internet	39,569	38,386
Data	13,746	11,651
TV	27,895	29,943
Sale of handsets and other devices	1,865	5,525
Other fixed line services	7,077	7,316
Revenues from fixed line services	156,178	153,701
System integration and IT revenues	7,273	6,512
Energy revenues¹	26,013	47,996
Other sales revenues	3,521	2,339
Total net domestic sales	444,158	471,656

¹ The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the sold quantities are also significantly higher than in 2012.

26 NET EXPORT SALES BY GEOGRAPHICAL AREAS

Net export sales by geographical areas in the years ending December 31, 2012 and 2013 are summarized as follows (sales are solely connected with services provided):

	2012		2013	
		%		%
EU	12,996	77.68%	12,336	74.94%
Europe (outside the EU)	2,359	14.11%	1,987	12.07%
Asia	734	4.39%	1,194	7.25%
America	429	2.57%	558	3.39%
Africa	139	0.83%	250	1.52%
Australia	70	0.42%	137	0.83%
Total net export sales	16,727	100.00%	16,462	100.00%

27 OTHER INCOME

Other income in the years ending December 31, 2012 and 2013 are as follows:

	2012	2013
Reversal of provisions ¹	3,381	9,429
Default interest, penalties, damage compensations	4,087	7,668
Other income from reversal of impairment ²	2,711	3,779
Discount received subsequently	2,970	2,605
Revenue from receivable factoring	652	711
Revenue from sale of intangible and tangible fixed assets	888	686
Other	1,250	1,604
Total	15,939	26,482

¹ Details of provisions are disclosed in Note 15.

² The change is due to the increase in the received amounts for overdue and impaired receivables in relation to the previous year.

28 IMPORT PURCHASES

Import purchases by geographical areas in the years ending December 31, 2012 and 2013 are summarized as follows:

	2012			2013		
	Services	Products	Total	Services	Products	Total
EU	17,505	19,053	36,558	16,944	28,171	45,115
Asia	2,010	1,614	3,624	2,389	927	3,316
Europe (outside the EU)	2,965	394	3,359	1,686	152	1,838
America	1,015	789	1,804	539	208	747
Africa	238	0	238	251	0	251
Australia	83	0	83	37	0	37
Total	23,816	21,850	45,666	21,846	29,458	51,304

During 2013, Magyar Telekom Plc. purchased HUF 29,458 million import products of which less than 30% were recognized as fixed assets, while the rest was purchased inventory for resale.

During 2013, the amount of imported services was HUF 21,846 million. 59 per cent of these are disclosed as cost of services, 40 per cent as mediated services and the remaining part as other services and other payroll related expenses.

29 COSTS OF SERVICES

Costs of services in the years ending December 31, 2012 and 2013 are as follows:

	2012	2013
Repair and maintenance costs	17,527	19,511
Rental fees	14,543	16,309
Commissions paid	7,849	7,991
Marketing expenses	7,264	7,448
Costs of outsourced sales and management services related to business customers	3,935	5,235
Consultancy	4,399	4,312
Payments to international network operators	4,898	4,144
Other services related to revenues	1,832	3,114
Property operating costs	2,432	2,669
Postage	2,677	1,899
Brand license fee	1,142	1,322
Costs of delivery and storage	911	1,071
Expenses of rented workforce and operator activities	2,644	1,029
Education, training expenses	740	862
Administrative services and related costs	695	667
Costs of property security and cash transport services	679	655
Payments to Internet and TV service providers	603	401
Database and 'infodok' expenses	470	395
Travel and accommodation costs	301	394
Membership fees, copyright payments	201	207
Costs of vehicle fleet	204	197
Translation and interpretation fees	106	114
Other	2,135	2,319
Total	78,187	82,265

30 COST OF GOODS SOLD

Cost of goods sold in the years of 2012 and 2013 contains the following major items:

	2012	2013
Fixed line and mobile equipment ¹	39,869	55,121
Energy ²	18,416	37,909
Other	227	748
Total	58,512	93,778

¹The increase of the cost of equipment sales is due to the significant increase of sales of smart phones, tablets, laptops and TV sets connected to multimedia packages.

²The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than in 2012.

31 COSTS OF (MEDIATED) SERVICES SOLD

Costs of mediated services sold in the years ending December 31, 2012 and 2013 are as follows:

	2012	2013
Payment to mobile operators ¹	32,930	25,829
Costs of TV services ²	10,736	12,622
System usage and other charges related to electricity and gas retail services ³	6,963	10,994
Costs of content providing and mobile trade services sold	6,139	7,029
Payment to other fixed line network operators	4,441	4,004
Costs of mediated system integration and IT services	4,969	3,951
Other	1,179	1,537
Total	67,357	65,966

¹ The decrease is due to the significant decrease in regulated call termination and roaming charges.

² The increase is due to the increase of IPTV subscriber numbers and the increase of program costs charged by broadcasters.

³ The increase is due to the significant increase of electricity and natural gas measuring sites compared to the previous year and along with it the consumed quantities are also significantly higher than in 2012.

32 EMPLOYEES

The average statistical number of employees in 2012 and 2013 are as follows (by function):

		2012		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	962	3,177	1,100
	white collar	6,092	39,119	6,133
	total	7,054	42,296	7,233
Part-time employees				
	blue collar	1	3	1
	white collar	242	423	172
	total	243	426	173
Employees total				
	blue collar	963	3,180	1,101
	white collar	6,334	39,542	6,305
	total	7,297	42,722	7,406
Employees not in headcount ¹		0	1,271	448
Total		7,297	43,993	7,854

		2013		
		Average statistical number of employees (person)	Salaries and Wages	Other payroll related expenses
Full-time employees				
	blue collar	853	3,221	818
	white collar	6,241	40,709	5,419
	total	7,094	43,930	6,237
Part-time employees				
	blue collar	1	3	1
	white collar	301	597	183
	total	302	600	184
Employees total				
	blue collar	854	3,224	819
	white collar	6,542	41,306	5,602
	total	7,396	44,530	6,421
Employees not in headcount ¹		0	1,796	608
Total		7,396	46,326	7,029

¹ Includes employees absent permanently, who are excluded from the average statistical number of employees.

33 REMUNERATION OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The compensation granted to members of the Board of Directors and the Supervisory Board of the Company in the years ending December 31, 2012 and 2013 is summarized below:

Year	Board of Directors	Supervisory Board	Total
2012	14	57	71
2013	14	57	71

The members of the Board of Directors have not received any advance payments or loans.

Loans granted to the members of the Supervisory Board are limited to the employee delegates and had been granted to them in their capacity as employees. The changes in these loans in 2013 were as follows:

Loans	Supervisory Board
Opening balance	6
Disbursements in the current year	1
Loans repaid in the current year	-1
Closing balance	6

The loans are repayable monthly, the average remaining payment term is 71 months. Interest rate of loans: 5.5 per cent or free of interest.

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

34 OTHER EXPENSES

Other expenses in the years ending December 31, 2012 and 2013 were as follows:

	2012	2013
Taxes, contributions, fees (Government taxes)	41,261	40,084
Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets ¹	9,740	12,416
Provisions ²	9,524	5,257
Discount granted subsequently on roaming traffic	2,518	3,343
Factored receivables	1,691	1,924
Damage compensation related to legal cases ³	0	1,400
Net book value of fixed assets sold	653	474
Write-off of uncollectible receivables	298	120
Loss of intangible and tangible assets ¹	236	16
Other	776	744
Total	66,697	65,778

¹ In 2012, scrappings and shortage of assets were disclosed on Loss of intangible and tangible assets while in 2013 these items are included in the Impairment of receivables and inventories, extraordinary depreciation of intangible and tangible fixed assets

² Details of provisions are disclosed in Note 15.

³ In 2013, HUF 1,400 million damage compensation was paid related to the termination of the Call Center Service Contract following the agreement of the parties.

35 RESULTS FROM FINANCIAL ACTIVITIES

Results from financial activities in the years ending December 31, 2012 and 2013 were as follows:

	2012	2013
Dividends from Stonebridge A.D.	12,913	15,393
Dividends from Crnogorski Telekom A.D.	3,777	5,122
Dividends from T-Systems Magyarország Zrt.	0	4,000
Dividends from Investel Zrt.	237	213
Dividends from MODULTECHNIKA Kft.	1,070	90
Dividends from Telekom New Media Zrt.	410	0
Other	378	442
Dividends and profit sharing (received or due)	18,785	25,260
Gains on sale of investments¹	4,361	0
Interest from Pro-M Zrt.	269	0
Interest income and gains from financial investments	269	0
Interest from T-Systems Magyarország Zrt.	255	643
Interest from banks	103	28
Interest from IQSYS Zrt.	251	0
Interest from Dataplex Kft.	92	0
Other	395	295
Other interest income received	1,096	966
Realized foreign exchange gain	6,339	4,204
Non-realized foreign exchange gain	0	356
Other	434	396
Other income from financial activities	6,773	4,956
Income from financial transactions	31,284	31,182
Interest to Deutsche Telekom	18,781	17,350
Interests to banks	4,145	3,804
Other interests	1,150	639
Interest expense	24,076	21,793
Origo Zrt. impairment	2,323	0
Other impairments	21	67
Impairment of investments	2,344	67
Realized foreign exchange loss	9,255	8,336
Non-realized foreign exchange loss	2,042	0
Other	148	148
Other expenses from financial activities	11,445	8,484
Expenses from financial transactions	37,865	30,344
Results from financial activities	-6,581	838

¹ Gain on the sale of Pro-M Zrt.

36 EXTRAORDINARY INCOME

Extraordinary income in the years ending December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Income related to investments in subsidiaries:		
- Merger of DATEN-KONTOR Kft. into T-Systems Magyarország Zrt.	0	1,414
- Merger of Dataplex Kft. into T-Systems Magyarország Zrt.	4,889	0
- Merger of ISH Kft. into T-Systems Magyarország Zrt.	3,186	0
- Merger of IQSYS Zrt. into T-Systems Magyarország Zrt.	2,885	0
- Liquidation of EurAccount Kft.	493	0
Extraordinary income adjusting tax base	11,453	1,414
Contract value of assets contributed in-kind in T-Systems Magyarország Zrt.	0	1,792
Assets received free of charge	217	74
Development contributions	63	47
Income related to investments in subsidiaries:		
- Decrease of Investel Zrt.'s capital	3,905	0
- Decrease of Telekom New Media Zrt.'s capital	1,000	0
- Liquidation of Novatel Ukraine L.L.C.	32	0
Other extraordinary income	31	381
Extraordinary income not adjusting tax base	5,248	2,294
Total	16,701	3,708

37 EXTRAORDINARY EXPENSES

The extraordinary expenses of the Company in the years ending December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Loans forgiven to subsidiary (T-Systems Magyarország Zrt.)	0	2,000
Expenses related to investments in subsidiaries:		
- Merger of DATEN-KONTOR Kft. into T-Systems Magyarország Zrt.	0	847
- Merger of IQSYS Zrt. into T-Systems Magyarország Zrt.	2,875	0
- Merger of Dataplex Kft. into T-Systems Magyarország Zrt.	2,005	0
- Merger of ISH Informatika Kft. into T-Systems Magyarország Zrt.	1,587	0
- Liquidation of EurAccount Kft.	446	0
Donation to foundations, charities and other organizations	180	209
Net book value of assets contributed free of charge and service provided	100	131
Extraordinary expenses adjusting tax base	7,193	3,187
Book value of assets contributed in-kind in T-Systems Magyarország Zrt.	0	1,834
Receivables waived	40	629
Assets contributed and service provided free of charge	442	355
Dimenzió contributions	196	213
Expenses related to investments in subsidiaries:		
- Book value of Investel Zrt.'s capital decrease	4,975	0
- Book value of Telekom New Media Zrt.'s capital decrease	1,045	0
- Derecognition of investment in Novatel Ukraine L.L.C.	33	0
Other extraordinary expense	0	52
Extraordinary losses not adjusting tax base	6,731	3,083
Total	13,924	6,270

38 TRANSACTIONS WITH RELATED PARTIES AND MEMBERS OF DEUTSCHE TELEKOM GROUP

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

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

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

Transactions with related parties and members of Deutsche Telekom Group in the years ending December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Net domestic sales	444,158	471,656
- of which: related parties	4,535	3,711
- of which: members of Deutsche Telekom Group	3,042	2,552
Net export sales	16,727	16,462
- of which: related parties	458	1,011
- of which: members of Deutsche Telekom Group	9,552	9,341
Other income	15,939	26,482
- of which: related parties	478	272
- of which: members of Deutsche Telekom Group	1,335	2,039
Accounts receivable	41,639	47,834
- of which: members of Deutsche Telekom Group	1,415	1,123
Other receivables	9,011	6,921
- of which: members of Deutsche Telekom Group	3,350	2,526
Accrued income	33,601	35,230
- of which: members of Deutsche Telekom Group	868	738
Prepaid expenses	2,494	3,395
- of which: members of Deutsche Telekom Group	360	159
Accounts payable	47,105	37,198
- of which: members of Deutsche Telekom Group	2,211	1,669
Current liabilities to other related parties	34,486	57,268
- of which: members of Deutsche Telekom Group	34,486	57,268
Other current liabilities	74,481	25,293
- of which: members of Deutsche Telekom Group	33,446	3,312
Deferred Income	4,184	3,952
- of which: members of Deutsche Telekom Group	1,096	831
Accrued expenses	39,129	44,953
- of which: members of Deutsche Telekom Group	9,837	9,217

39 CORPORATE INCOME TAX

The differences between profit before tax and the tax base for the years ending December 31, 2012 and 2013 are presented below:

	2012	2013
Profit before tax	32,167	33,534
Depreciation according to the Act on Accounting	86,193	86,290
Impairment of receivables, recognized impairment in previous year	6,511	9,538
Recognition of provisions	9,524	5,257
Increase of expenditure and decrease of income discovered by tax audit or self-revision	0	2,835
Recoverable receivables waived and expired	120	2,257
Non-repayable donations, assets and services given free of charge, assumed liabilities	280	339
Penalty, sanction	282	115
Write-off of intangible and tangible fixed assets, reclassification to current assets	506	0
Other increasing items	2,871	182
Tax base increasing items	106,287	106,813
Depreciation according to the Tax Law	-75,006	-76,231
Dividend income	-18,785	-25,260
Reversal of provisions	-3,381	-9,429
Bad debt write-off, received payments on uncollectible receivables, reversal of impairment	-3,609	-4,458
Decrease of expenditure and increase of income discovered by tax audit or self-revision	0	-1,298
Realized gain on sale of investment	-4,541	-567
R&D costs	-12	-306
Donations	-41	-45
Factoring revenue	-311	0
Write-off of intangible and tangible fixed assets, reclassification to current assets	49	0
Other decreasing items	-44	-2,704
Tax base decreasing items	-105,681	-120,298
Tax base	32,773	20,049
Calculated amount of tax	6,182	3,764
Tax credit	-5,689	-3,441
Corporate Income Tax	493	323
Energy suppliers' tax	44	154
Withholding tax paid abroad	838	1,033
Tax liability	1,375	1,510
Tax liability (self-revision)	0	-109
Tax liability	1,375	1,401

39.1 Information on investment tax credits

Based on the broadband investments, as well as on the investments exceeding HUF 3,000 million made in 2012 and 2013, Magyar Telekom is entitled to utilize investment tax credits which are as follows:

552/2004 Ministry of Finance Resolution: "Tax credit in connection with development program cannot exceed HUF 5,908 million at present value."

19/2005 Ministry of Finance Resolution: "Tax credit in connection with development program cannot exceed HUF 2,614 million at present value."

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

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

12.724/2005 Ministry of Finance Resolution: "The tax credit is applicable in connection with construction of WLAN put into service by T-Mobile Magyarország Rt. which also provides broadband internet service and cannot exceed HUF 334 million at present value." The tax credit is applicable in connection with construction of UMTS network announced by T-Mobile on August 18, 2005 which also provides broadband internet service and cannot exceed HUF 4,215 million at present value. Tax credit on broadband Internet investments announced for 2006 by T-Mobile. The tax credit is applicable in connection with construction of WLAN which also provides broadband internet service and cannot exceed HUF 835 million at present value.

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

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

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

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

39.2 Other tax related information

On November 20, 2012 the Hungarian Parliament adopted an act imposing tax on utility networks, effective from January 1, 2013. The act provides that a tax of HUF 125 per meter will be 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 will depend on the length of ducts: 20 per cent of the HUF 125 per meter is levied on the first 170,000 meter length of ducts, 40 per cent is levied between 170,000 and 250,000 meters, 80 per cent 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.

Magyar Telekom recognized a utility tax expense of HUF 7,448 million in 2013.

In May 2012 the Hungarian Parliament adopted a new law on telecommunication tax. Magyar Telekom is subject to this new tax as of July 1, 2012. The telecommunication tax was imposed on SMS/MMS services, as well as on mobile and fixed line telecommunication services provided on the telecommunication network. The amount of telecommunication tax was HUF 23,900 million in 2013, recorded as expense and decreased the profit before taxes based on the legislation.

40 DIVIDEND

The Company's Board of Directors does not recommend to the General Meeting to declare dividends after Magyar Telekom Plc.'s 2013 results.

41 OFF-BALANCE SHEET ITEMS

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

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

Off-balance sheet items are detailed in Appendix 5.

42 HAZARDOUS WASTE

The following table shows the movement of hazardous waste at the Company in 2013:

	<u>Hazardous waste (kg)</u>
December 31, 2012	0
Increase:	
Lead batteries	123,947
Soil and rocks containing hazardous materials	58
Other	9,447
Increase in total	133,452
Decrease:	
Lead batteries	-123,473
Soil and rocks containing hazardous materials	-58
Other	-8,759
Decrease in total	-132,290
December 31, 2013	1,162

HUF 682 million environmental expenses were recorded in 2012 and HUF 570 million in 2013.

43 RESEARCH & EXPERIMENTAL DEVELOPMENT COSTS

In 2013, HUF 306 million research and experimental development costs were recorded in Magyar Telekom Plc.

44 SELF-REVISIONS

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

In 2013, the total of all errors (whether negative or positive) for a given financial year (separately for each year) and the impacts thereof – increasing or decreasing the profit or loss or the equity – do not exceed the value limit set out in the Act on Accounting and in the accounting policy i.e. the 2 per cent of the balance sheet total of the financial year.

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

The total (profit decreasing) impact of self-revisions is HUF 1,428 million and is broken down by corresponding years as follows:

<u>Year</u>	<u>Self-revision</u>
2006	175
2007	24
2008	50
2009	36
2010	-12
2011	-505
2012	-1,196
	<u>-1,428</u>

The major items of self-revisions in the structure of the „A” type income statement lines are the following:

I. Sales revenue	311
Leased lines and data transmission revenues	-47
Other revenues	415
Revenues from TV services	-45
Fixed line traffic revenues	-39
Other	27
II. Own work capitalized	-1
Change in self-manufactured inventories, capitalized value of self-manufactured assets	-1
III. Other income	276
Revenue from collection	273
Other	3
IV. Material-type expenses	-62
Rental fees	-56
Other	-6
V. Payroll and related expenses	55
Payroll related contributions	41
Personal income tax on contribution in kind with reduced rate	25
Salaries and wages	-11
VI. Depreciation	1,024
Depreciation related to prior years	1,024
VII. Other expenses	1,133
Shortages, damages and impairment of tangible and intangible assets	910
Impairment on accounts receivable	337
Taxes	-150
Other	36
D. PROFIT FROM EXTRAORDINARY ACTIVITIES	27
Fixed assets surplus	27
XII. Corporate income tax	-109
Tax liability	-109
Impact on net income	-1,428

45 REMUNERATION OF AUDITOR

Fees charged by the auditors for the years ending December 31, 2012 and 2013 are summarized as follows:

	2012	2013
Audit	197	200
Other assurance services	66	71
Other non-audit services	11	90
Total	274	361

Budapest, February 27, 2014



Christopher Mattheisen
Chief Executive Officer,
Member of the Board



János Szabó
Chief Financial Officer

APPENDIX 1A

BALANCE SHEET RELATED TO ENERGY SERVICES – ASSETS

	December 31, 2012				December 31, 2013				data in millions of HUF
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	
A. FIXED ASSETS AND FINANCIAL INVESTMENTS	571	445	765 778	766 794	755	648	807 767	809 170	
I. Intangible assets	507	396	187 521	188 424	574	493	239 671	240 738	
3. Rights	507	396	74 528	75 431	574	493	136 347	137 414	
4. Intellectual property	0	0	4 779	0	0	0	5 108	5 108	
5. Goodwill	0	0	108 214	108 214	0	0	98 216	98 216	
II. Tangible assets	28	21	398 753	398 802	153	131	378 655	378 939	
1. Land and buildings and related rights	25	19	236 078	236 122	132	113	233 327	233 572	
- Land	1	1	2 193	2 195	7	6	2 859	2 872	
- Buildings	21	17	59 534	59 572	116	99	62 251	62 466	
- Telecommunication network	0	0	164 692	164 692	0	0	159 176	159 176	
- Other properties	3	1	8 941	8 945	9	8	8 420	8 437	
- Real estate related rights	0	0	718	718	0	0	621	621	
2. Technical equipment, machinery and vehicles	0	0	120 479	120 479	0	0	111 560	111 560	
- Telecommunication equipment and machinery	0	0	118 428	118 428	0	0	109 944	109 944	
- Other technical equipment, machinery and vehicles	0	0	2 051	2 051	0	0	1 616	1 616	
3. Other equipment and vehicles	3	2	6 170	6 175	20	17	7 940	7 977	
5. Construction-in-progress	0	0	36 021	36 021	1	1	25 823	25 825	
6. Advance payments on construction-in-progress	0	0	5	5	0	0	5	5	
III. Financial investments	36	28	179 504	179 568	28	24	189 441	189 493	
1. Non current investments in related parties	0	0	172 890	172 890	0	0	178 886	178 886	
5. Other non current loans granted	36	28	6 614	6 678	28	24	10 555	10 607	
B. CURRENT ASSETS	1 488	3 403	72 532	77 423	2 837	3 442	79 155	85 434	
I. Inventories	0	0	10 378	10 378	0	0	8 320	8 320	
1. Raw materials	0	0	399	399	0	0	416	416	
2. Work in progress and semi-finished products	0	0	5	5	0	0	62	62	
5. Goods for resale	0	0	9 974	9 974	0	0	7 842	7 842	
II. Receivables	1 487	3 402	56 349	63 238	2 828	3 434	65 651	71 913	
1. Accounts receivable	1 444	3 359	36 836	41 639	2 703	3 312	41 819	47 834	
2. Receivables from related parties	7	4	12 577	12 588	37	32	17 089	17 158	
5. Other receivables	36	39	8 936	9 011	88	90	6 743	6 921	
III. Securities	0	0	307	307	0	0	307	307	
3. Treasury stock, quotas	0	0	307	307	0	0	307	307	
IV. Liquid assets	1	1	3 498	3 500	9	8	4 877	4 894	
1. Cash and cheques	0	0	153	153	0	1	217	218	
2. Bank deposits	1	1	3 345	3 347	9	7	4 660	4 676	
C. ACCRUALS	1 506	2 798	31 791	36 095	2 209	3 958	32 458	38 625	
1. Accrued income	1 505	2 468	29 628	33 601	2 204	2 508	30 518	35 220	
2. Prepaid costs and expenses	1	330	2 163	2 494	5	1 450	1 940	3 395	
TOTAL ASSETS	3 565	6 646	870 101	880 312	5 801	8 048	919 380	933 229	

APPENDIX 1B

BALANCE SHEET RELATED TO ENERGY SERVICES – LIABILITIES

	December 31, 2012				December 31, 2013				data in millions of HUF
	Electricity	Gas	Other	Total	Electricity	Gas	Other	Total	
D. SHAREHOLDERS' EQUITY	-1 447	-2 001	326 844	323 396	-3 718	-3 974	363 221	355 529	
I. Common stock	0	0	104 274	104 274	0	0	104 274	104 274	
- of this treasury stock at par value	0	0	39	39	0	0	39	39	
II. Unpaid share capital (+)	0	0	0	0	0	0	0	0	
III. Capital reserves	0	0	58 952	58 952	0	0	58 952	58 952	
IV. Retained earnings	-583	-851	159 797	158 363	-1 447	-2 001	162 311	158 863	
V. Restricted reserves	0	0	1 807	1 807	0	0	1 307	1 307	
VI. Valuation reserves	0	0	0	0	0	0	0	0	
VII. Net income	-864	-1 150	2 014	0	-2 271	-1 973	36 377	32 133	
E. PROVISIONS	0	157	17 821	17 978	11	9	13 786	13 806	
1. Provision for expected obligations	0	157	17 821	17 978	11	9	13 786	13 806	
F. LIABILITIES	977	4 779	488 908	494 684	6 502	6 861	500 478	513 841	
I. Subordinated liabilities	0	0	0	0	0	0	0	0	
II. Non current liabilities	120	93	253 567	253 780	621	533	254 770	255 924	
3. Debt from issuance of bonds	0	0	120	120	0	0	0	0	
5. Other non current loans	0	0	0	0	11	10	4 433	4 454	
7. Non current liabilities to other related parties	120	93	252 880	253 083	582	499	231 481	232 562	
8. Other non current liabilities	0	0	567	567	28	24	18 856	18 908	
III. Current liabilities	857	4 686	235 341	240 884	5 881	6 328	245 708	257 917	
1. Current borrowings	0	0	70	70	0	0	189	189	
- of this convertible bonds	0	0	0	0	0	0	0	0	
2. Current loans	17	13	36 305	36 335	5 099	4 805	81 515	91 419	
3. Advances received	0	0	359	359	0	0	535	535	
4. Accounts payable	404	4 802	41 899	47 105	297	917	35 984	37 198	
6. Current liabilities to related parties	52	40	47 956	48 048	121	103	45 791	46 015	
7. Current liabilities to other related parties	16	13	34 457	34 486	143	123	57 002	57 268	
8. Other current liabilities	368	-182	74 295	74 481	221	380	24 692	25 293	
- of this dividends payable	0	0	52 117	52 117	0	0	0	0	
G. ACCRUALS	2 140	1 385	40 749	44 274	3 238	4 396	42 419	50 053	
1. Deferred revenue	1	0	4 183	4 184	1	1	3 950	3 952	
2. Accrued expenses	2 139	1 385	35 605	39 129	3 237	4 395	37 321	44 953	
3. Other deferred income	0	0	961	961	0	0	1 148	1 148	
DIFFERENCE BECAUSE OF SEPARATION	1 895	2 326	-4 221	0	-232	756	-524	0	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3 565	6 646	870 101	880 312	5 801	8 048	919 380	933 229	

APPENDIX 1C

INCOME STATEMENT RELATED TO ENERGY SERVICES

data in HUF millions

	2012			2013		
	Electricity	Gas	Other	Electricity	Gas	Other
1. Net domestic sales	10 185	15 833	418 140	22 104	25 896	423 656
2. Net export sales	0	0	16 727	0	0	16 462
I. Sales revenues	10 185	15 833	434 867	22 104	25 896	440 118
3. Change in self-manufactured inventories	0	0	3	0	0	57
4. Capitalised value of self-manufactured assets	19	14	21 008	23	20	21 678
II. Own work capitalized	19	14	21 011	23	20	21 735
III. Other income	3	3	15 933	68	118	26 295
of which: reversal of impairment	0	0	0	0	0	0
5. Costs of raw material	49	38	25 691	45	39	26 019
6. Costs of services	352	297	77 538	320	294	81 651
7. Costs of other services	59	61	14 611	141	138	13 098
8. Cost of goods sold	6 714	11 702	40 096	17 115	20 794	55 869
9. Costs of (mediated) services sold	3 349	3 614	60 394	5 799	5 195	54 972
IV. Material-type expenses	10 523	15 712	218 330	23 420	26 460	231 609
10. Salaries and wages	347	271	43 375	353	303	45 670
11. Other employee related expenses	51	39	7 764	47	41	6 941
12. Employee related contributions	96	76	14 070	103	88	14 563
V. Employee related expenses	494	385	65 209	503	432	67 174
VI. Depreciation and Amortization	84	65	84 398	100	86	85 558
VII. Other expenses	100	714	65 883	477	905	64 396
of which: impairment	28	82	8 066	265	161	11 990
A. PROFIT FROM OPERATING ACTIVITIES	-994	-1 026	37 991	-2 304	-1 849	39 411
13. Dividends and profit sharing (received or due)	0	0	18 785	0	0	25 260
of which: received from related parties	0	0	18 785	0	0	25 260
14. Gains on sale of investments	0	0	4 361	0	0	0
of which: received from related parties	0	0	0	0	0	0
15. Interest income and gains on financial investments	0	0	269	0	0	0
of which: received from related parties	0	0	269	0	0	0
16. Other interest income received	1	0	1 095	2	2	962
of which: received from related parties	1	0	921	2	2	828
17. Other income from financial activities	203	157	6 413	329	449	4 178
VIII. Income from financial transactions	204	157	30 923	331	451	30 400
19. Interest expense	12	9	24 035	56	48	21 689
of which: to related parties	1	0	1 257	2	2	717
to other related party	9	7	18 867	43	37	17 270
20. Impairment of investments, securities and bank deposits	0	0	2 344	0	0	67
21. Other expenses on financial transactions	37	253	11 155	157	454	7 873
IX. Expenses from financial transactions	49	262	37 554	213	502	29 629
B. RESULT FROM FINANCIAL TRANSACTIONS	155	-105	-6 631	118	-51	771
C. PROFIT FROM ORDINARY ACTIVITIES	-839	-1 131	31 360	-2 186	-1 900	40 182
X. Extraordinary income	0	0	16 701	0	0	3 708
XI. Extraordinary expenses	1	0	13 923	6	5	6 259
D. RESULT FROM EXTRAORDINARY ACTIVITIES	-1	0	2 778	-6	-5	-2 562
E. PROFIT BEFORE TAXES	-840	-1 131	34 138	-2 192	-1 905	37 631
XII. Corporate income tax	24	19	1 332	79	68	1 254
F. NET INCOME	-864	-1 150	32 806	-2 271	-1 973	36 377
22. Use of retained earnings for dividends	0	0	21 325	0	0	0
23. Dividend paid (approved)	0	0	52 117	0	0	0
G. BALANCE SHEET NET INCOME	-864	-1 150	2 014	-2 271	-1 973	36 377

APPENDIX 2A

LAND AND BUILDINGS AND RELATED RIGHTS

Description	Land	Building	Telecommunication Network	Other Properties	Real Estate related Rights	Real Estate and related Rights Total
1. Gross value ¹						
11. Opening gross value (on January 1, 2013)	2 195	83 718	326 395	16 532	5 344	434 184
12. Additions in gross value	270	3 374	8 702	204	61	12 611
13. Disposals in gross value	-1	-224	-1 581	-220	-63	-2 089
14. Reclassifications	408	2 852	13	-260	-988	2 025
15. Closing gross value (on December 31, 2013)	2 872	89 720	333 529	16 256	4 354	446 731
2. Accumulated depreciation ¹						
21. Opening depreciation (on January 1, 2013)	0	24 146	161 703	7 587	4 626	198 062
22. Annual depreciation	0	2 320	13 684	470	162	16 636
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals in depreciation	0	-159	-1 048	-174	-63	-1 444
25. Reclassifications	0	947	14	-64	-992	-95
26. Closing depreciation (on December 31, 2013)	0	27 254	174 353	7 819	3 733	213 159
3. Net book value (on December 31, 2013) ¹	2 872	62 466	159 176	8 437	621	233 572
Of which residual value	0	177	0	5	0	182
4. Other						
Ordinary depreciation (Months 1-12, 2013) ¹	0	2 320	13 684	470	162	16 636
Impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0

¹ Excludes the assets below HUF 50,000

APPENDIX 2B

TECHNICAL AND OTHER EQUIPMENT, MACHINERY AND VEHICLES

Description	Telecommunication Equipment, Machinery	Other Technical Equipment, Machinery and vehicles	Technical Equipment, Machinery and Vehicles Total	Other Equipment Total	Technical and Other Equipment Total	Technical and Other Equipment used for environmental protection
(in HUF millions)						
1. Gross value ¹						
11. Opening gross value (on January 1, 2013)	651 577	5 404	656 981	56 328	713 309	33
12. Additions in gross value	33 981	203	34 184	3 745	37 929	0
13. Disposals in gross value	-73 016	-888	-73 904	-3 647	-77 551	0
Disposals in gross value due to in-kind contribution	-4 554	0	-4 554	-79	-4 633	0
14. Reclassifications	-3 712	658	-3 054	3 137	83	0
15. Closing gross value (on December 31, 2013)	604 276	5 377	609 653	59 484	669 137	33
2. Accumulated depreciation ¹						
21. Opening depreciation (on January 1, 2013)	533 149	3 353	536 502	50 153	586 655	33
22. Annual depreciation	38 255	639	38 894	3 288	42 182	0
23. Extraordinary depreciation	0	0	0	0	0	0
24. Disposals in depreciation	-71 844	-702	-72 546	-3 360	-75 906	0
Disposals in depreciation due to in-kind contribution	-3 335	0	-3 335	-75	-3 410	0
25. Reclassifications	-1 893	471	-1 422	1 501	79	0
26. Closing depreciation (on December 31, 2013)	494 332	3 761	498 093	51 507	549 600	33
3. Net book value (on December 31, 2013) ¹	109 944	1 616	111 560	7 977	119 537	0
Of which residual value	17	1 061	1 078	326	1 404	0
4. Other						
Ordinary depreciation (Months 1-12, 2013) ¹	38 255	639	38 894	3 288	42 182	0
Impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0

¹ Excludes the assets below HUF 50,000

APPENDIX 3
DIRECT INVESTMENTS OF MAGYAR TELEKOM PLC.

(in HUF millions)

Company	Headquarter	Ownership Direct (%)	Ownership Indirect (%)	Ownership Direct and Indirect (%)	Voting Rights (%)	Common Stock	Reserves	Net Income	Equity
Combridge S.R.L. ¹	Calea Victoriei Nr.155, Bl.D1, Tronson 6, Et. 1, sector 1, 010073 Bucuresti, Romania	100.00%		100.00%	100.00%	1 948	307	545	2 800
Cmogorski Telekom A.D. Podgorica ¹	Moskovska 29, Podgorica 81000, Montenegro	76.53%		76.53%	76.53%	34 851	8 493	5 812	49 156
Investel Zrt.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1 113	188	15	1 316
ISH Kft.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	3	20	-2	21
KálászNet Kábel TV Kft.	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	200	952	-37	1 115
KIBU Innováció Nonprofit Kft.	1092 Budapest, Ráday u. 30.	99.20%	0.80%	100.00%	100.00%	40	35	-28	47
MODUL TECHNIKA Kft. "va." ²	1013 Budapest, Krisztina krt. 55.	100.00%		100.00%	100.00%	1	62	-1	62
Novatel E.O.O.D. ¹	1680 Sofia, Bulgaria bvd 98, bulding Astra, entrance D, fl.3, office 5G	100.00%		100.00%	100.00%	669	349	-111	907
Origo Zrt.	1073 Budapest, Dob utca 76-78.	100.00%		100.00%	100.00%	300	366	-355	311
Stonebridge Communications A.D.	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	102 370	16 052	20 536	138 958
TeleData Kft.	2040 Budapest, Baross u. 89.	50.99%		50.99%	50.99%	39	48	-86	1
Telekom New Media Zrt.	1222 Budapest Nagytényi út 29.	100.00%		100.00%	100.00%	670	230	156	1 056
Telemacedonia A.D. under liquidation ¹	1000 Skopje, Kej 13 Noemvri, No. 6., Municipality of Centar	100.00%		100.00%	100.00%	3	53	-8	48
T-Systems Magyarország Zrt.	1117 Budapest, Budafoki út 56.	100.00%		100.00%	100.00%	2 002	16 376	1 147	19 525
ViDaNet Zrt.	9024 Győr, Orgona u. 10.	67.50%	22.50%	90.00%	49.995%	2 000	3 306	946	6 252

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

¹ The equity figures of foreign subsidiaries are based on IFRS reports and were revalued using foreign exchange rates as of December 31, 2013.

² Under liquidation.

APPENDIX 4
IMPAIRMENTS

(in HUF millions)

Description	For Financial Investments			For Current Assets		
	Investments	Loans granted	Securities	Inventories	Receivables	Securities
Opening balance	5 149	0	0	4 340	15 341	0
Current year increase	67	623	0	96	9 252	0
Current year decrease/disposal	-3	0	0	0	-9 453	0
Closing balance	5 213	623	0	4 436	15 140	0

The table does not contain the impairment on tangible and intangible assets. They are disclosed in the Notes 4 and 5.

APPENDIX 5/1 OFF-BALANCE SHEET ITEMS



(HUF million)

	Összesen
Guarantee obligation	9 840
Commitment for capital expenditure and other developments	12 080
Commitment for capital expenditure with related parties	395
Environmental protection, restoration and other obligations	360

Open swap F/X deals on December 31, 2013 were contracted on the OTC market with the original aim of delivery ¹

ID	Date	Off-balance sheet liability (HUF million)	F/X	Off-balance sheet receivable	F/X	Value date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
DTAG_20090626_30 mrd	06.25.2009	-30 000	HUF	107 066 533	EUR	01.19.2015	280.20	-461
DTAG_20090626_5mrd	07.01.2009	-5 000	HUF	18 470 632	EUR	01.19.2015	270.70	116
DTAG_20090626_9.6 mrd	07.02.2009	-9 595	HUF	35 661 451	EUR	01.19.2015	289.05	304
DTAG_20091007_5 mrd_59592	09.15.2009	-5 000	HUF	18 368 846	EUR	06.02.2014	272.20	315
DTAG_20091007_5 mrd_52619	09.15.2009	-5 000	HUF	18 382 353	EUR	06.02.2014	272.00	319
DTAG_20091007_5 mrd_52629	09.16.2009	-5 000	HUF	18 511 662	EUR	06.02.2014	270.10	360
DTAG_20091007_5 mrd_52637	09.16.2009	-5 335	HUF	19 737 138	EUR	06.02.2014	270.30	380
DTAG_20110711_50 mEUR	07.06.2011	-13 250	HUF	50 000 000	EUR	11.20.2018	285.00	3 169
DTAG_20110711_23 mEUR	07.06.2011	-6 095	HUF	23 000 000	EUR	05.19.2017	285.00	1 515
K&H swap as of 2013	05.15.2013	-7 375	HUF	25 000 000	EUR	05.17.2016	295.00	-64
Total		-91 650		334 198 615	Total EUR			5 953

¹ In case of these deals results were not recognized in the current year.

APPENDIX 5/2
OFF-BALANCE SHEET ITEMSOpen forward F/X deals on December 31, 2013 were contracted on the OTC market with the original aim of delivery ¹

ID	Date	Off-balance sheet liability on strike price (HUF millions)	F/X (original)	Off-balance sheet receivable	F/X (original)	Value Date	Exchange rate	Fair value (Profit+ / Loss-) (HUF million)
1401 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	02/28/2013	-1 526	HUF	5 000 000	EUR	01.06.2014	305.18	-41
1402 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	02/28/2013	-1 528	HUF	5 000 000	EUR	01.13.2014	305.53	-42
1403 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	02/28/2013	-1 529	HUF	5 000 000	EUR	01.27.2014	305.88	-43
1404 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	02/28/2013	-1 530	HUF	5 000 000	EUR	02.03.2014	306.00	-44
1405 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	02/28/2013	-1 529	HUF	5 000 000	EUR	02.10.2014	305.70	-42
1406 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	02/28/2013	-1 530	HUF	5 000 000	EUR	02.24.2014	306.00	-43
1412 Deutsche Telekom AG / D-53113 Bonn	03/21/2013	-1 577	HUF	5 000 000	EUR	03.03.2014	315.35	-88
1413 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	03/21/2013	-1 578	HUF	5 000 000	EUR	03.10.2014	315.55	-90
1427 Deutsche Telekom AG / D-53113 Bonn	03/21/2013	-1 572	HUF	5 000 000	EUR	01.21.2014	314.31	-85
1429 Deutsche Telekom AG / D-53113 Bonn	03/21/2013	-1 574	HUF	5 000 000	EUR	02.18.2014	314.86	-86
1473 Deutsche Telekom AG / D-53113 Bonn	06/20/2013	-1 541	HUF	5 000 000	EUR	05.05.2014	308.19	-49
1475 Deutsche Telekom AG / D-53113 Bonn	06/20/2013	-1 544	HUF	5 000 000	EUR	05.19.2014	308.81	-52
1476 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	06/20/2013	-1 544	HUF	5 000 000	EUR	06.02.2014	308.89	-52
1515 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09/27/2013	-1 529	HUF	5 000 000	EUR	06.30.2014	305.72	-36
1516 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09/27/2013	-1 530	HUF	5 000 000	EUR	07.14.2014	306.00	-36
1517 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	09/27/2013	-1 533	HUF	5 000 000	EUR	08.11.2014	305.55	-38
1520 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/10/2013	-746	HUF	2 500 000	EUR	02.24.2014	298.54	-3
1521 Deutsche Telekom AG / D-53113 Bonn	10/10/2013	-661	HUF	2 200 000	EUR	05.27.2014	300.34	-4
1522 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/10/2013	-1 390	HUF	4 600 000	EUR	08.25.2014	302.15	-14
1524 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/16/2013	-1 360	HUF	4 500 000	EUR	10.01.2014	302.20	-12
1525 Deutsche Telekom AG / D-53113 Bonn	10/16/2013	-1 210	HUF	4 000 000	EUR	10.14.2014	302.47	-10
1533 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/21/2013	-1 502	HUF	5 000 000	EUR	10.20.2014	300.37	-2
1537 Deutsche Telekom AG / D-53113 Bonn	10/30/2013	-1 477	HUF	5 000 000	EUR	01.27.2014	295.44	10
1538 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/30/2013	-1 483	HUF	5 000 000	EUR	04.01.2014	296.50	6
1539 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/30/2013	-1 483	HUF	5 000 000	EUR	04.07.2014	296.57	6
1541 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/30/2013	-858	HUF	4 000 000	USD	01.13.2014	214.47	5
1542 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/30/2013	-860	HUF	4 000 000	USD	02.24.2014	214.98	4
1543 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/31/2013	-1 494	HUF	5 000 000	EUR	07.01.2014	298.86	-1
1544 Deutsche Telekom AG / D-53113 Bonn	10/31/2013	-1 500	HUF	5 000 000	EUR	09.08.2014	300.07	-3
1545 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/31/2013	-1 505	HUF	5 000 000	EUR	10.27.2014	300.95	-4
1546 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/31/2013	-433	HUF	2 000 000	USD	03.10.2014	216.70	-1
1547 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/31/2013	-888	HUF	4 000 000	USD	04.01.2014	217.08	-3
1548 Deutsche Telekom AG / D-53113 Bonn	10/31/2013	-652	HUF	3 000 000	USD	04.22.2014	217.35	-3
1549 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/31/2013	-653	HUF	3 000 000	USD	05.19.2014	217.65	-3
1550 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	10/31/2013	-436	HUF	2 000 000	USD	06.02.2014	217.80	-2
1551 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	10/31/2013	-655	HUF	3 000 000	USD	07.01.2014	218.18	-4
1552 Deutsche Telekom AG / D-53113 Bonn	10/31/2013	-655	HUF	3 000 000	USD	07.21.2014	218.46	-4
1553 Deutsche Telekom AG / D-53113 Bonn	11/05/2013	-898	HUF	4 000 000	USD	08.25.2014	224.40	-28
1554 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	11/05/2013	-449	HUF	2 000 000	USD	09.08.2014	224.47	-14
1555 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	11/05/2013	-674	HUF	3 000 000	USD	10.01.2014	224.73	-22
1559 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	11/29/2013	-1 514	HUF	5 000 000	EUR	03.24.2014	302.77	-25
1560 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	11/29/2013	-1 525	HUF	5 000 000	EUR	07.21.2014	304.92	-31
1561 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	11/29/2013	-1 527	HUF	5 000 000	EUR	08.18.2014	305.37	-32
1562 Deutsche Telekom AG / D-53113 Bonn	11/29/2013	-1 534	HUF	5 000 000	EUR	11.03.2014	306.77	-31
1564 Deutsche Telekom AG / D-53113 Bonn	12/05/2013	-909	HUF	3 000 000	EUR	01.02.2014	302.90	-17
1568 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12/20/2013	-1 196	HUF	4 000 000	EUR	01.15.2014	298.90	-7
1569 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12/20/2013	-1 508	HUF	5 000 000	EUR	07.07.2014	301.68	-15
1570 Deutsche Bank AG, London Branch / 1 Winchester House, Great Winchester Street /	12/20/2013	-1 516	HUF	5 000 000	EUR	10.06.2014	303.15	-18
1571 Deutsche Telekom AG / D-53113 Bonn	12/20/2013	-1 520	HUF	5 000 000	EUR	12.01.2014	304.02	-13
1572 Deutsche Telekom AG / D-53113 Bonn	12/20/2013	-657	HUF	3 000 000	USD	01.02.2014	219.09	-10
1573 Deutsche Telekom AG / D-53113 Bonn	12/20/2013	-445	HUF	2 000 000	USD	11.03.2014	222.51	-9
1574 Citibank Europe plc, Magyarországi Fiók / Szabadság tér 7 / 1051 Budapest	12/20/2013	-446	HUF	2 000 000	USD	12.01.2014	222.80	-8
				174 800 000	Total EUR			
				44 000 000	Total USD			

¹ In case of these deals results were not recognized in the current year.



EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

BUSINESS REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

INTRODUCTION

This Business Report covers the analysis of our results as well as all additional information necessary to evaluate our operations, including, among others, our outlook with the accompanying risk factors, the introduction of our management, our HR and risk management policies, and our R+D activities. The Company's activities are described in the Notes to the Financial Statements (1.2 The Company's area of activity).

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

As of December 31, 2013, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in the Articles of Association Section 4 (https://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). Information concerning our ownership structure as of December 31, 2013 is described 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.

1.1 Voting Rights and Voting

Each ordinary share entitles the holder to one vote. Only shareholders or nominees registered in the Share Register until 6 p.m. on the second working day prior to the starting date of the General Meeting may participate at the General Meeting with voting right. The General Meeting shall adopt its resolutions by a simple majority vote except for resolutions on issues listed in the Articles of Associations, which shall require at least a three-quarters majority of the votes cast. There is no limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the ordinary shares. There is no limitation of voting rights for ordinary shares in the Articles of Association. The Company has no shares assigned with special management rights.

1.2 Transfer of Shares

The acquisition and transfer of the dematerialized share shall only be effected through crediting or debiting the securities account. The owner of the security – unless the contrary is proved – shall be the person on whose account the security is registered. The transfer of registered or Interim Share Certificates shall be effective with respect to the Company when the name of the new owner of the shares has been entered in the Share Register.

If any request regarding the registration at the registrar is justified by the appropriate documents, the Company shall make a

prompt entry into the Share Register. If the Company establishes that the transfer occurred in violation of the Articles, it shall not register such transfer of shares. The Company shall promptly notify the new owner of its reasoned decision and the new owner shall have the right to request, within thirty (30) days of the rendering of such decision, the competent court to review the decision.

Those shareholders who wish so, shall not be registered in the Share Register in addition to those who obtained the shares in violation of laws or the Articles of Association regarding the transfer of shares.

The registrar, except in case set forth in Section 2.4. (b) and (c) of the Articles of Association, shall not refuse prompt registry and shall promptly delete such shareholder who wishes so.

If the ownership of the shareholder ceased to exist with the transfer of shares the custodian shall notify the registrar on this fact within two working days upon such event. The registrar, based on the notification, shall promptly incorporate such changes in the Share Register.

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

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

The General Meeting of the shareholders has the sole right to approve and amend the Articles of Association (section 6.2. (a)) unless otherwise provided by law or the Articles of Association. According to the Articles of Association, the Board of Directors is entitled to make decisions regarding any change in the sites, branch offices and – except for the main activity – the scope of activities of the Company and in relation to this, to modify the Articles of Association (section 7.4.1.(p)).

2.2 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:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
Dr. Ferri Abolhassan	1964	Director Production and Member of the Executive Board, T-Systems International GmbH, DT AG	2010
Dr. Mihály Patai	1953	Chairman-CEO of Unicredit Bank Plc.	2012
Günter Mossal	1961	Vice President for Area Management Europe, DT AG	2012
György Mosonyi	1949	Chairman of the Supervisory Board of Mol	2012
Thilo Kusch	1965	Chief 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.

2.3 Management Committee

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

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

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

<u>Name</u>	<u>Born</u>	<u>Current position</u>	<u>Member since</u>
Christopher Mattheisen	1961	Chief Executive Officer of Magyar Telekom Plc.	2006
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 Corporate 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

2.4 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:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
Dr. László Pap.....	1943	Budapest University of Technology and Economics, Professor	1997
Dr. János Bitó	1936	Chairman of the Thesis and Final Examination Board at Pázmány Péter Catholic University, Information Technology Faculty	2010
Attila Bujdosó	1967	President of the Telecommunications Trade Union, Magyar Telekom	2010
Dr. János Illéssy	1962	Managing Director, Lebona Kft.	2006
Dr. Sándor Kerekes.....	1948	Director of Institute of Environmental Sciences, Corvinus University Budapest	2006
Konrad Kreuzer	1948	Member of the Supervisory Board of E.ON Hungária Zrt.	2006
Tamás Lichnovszky	1962	Chairman of the Central Workers' Council, Magyar Telekom	2010
Martin Meffert	1960	Responsible for Corporate Governance issues of Magyar Telekom, Makedonski Telekom and 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.

2.5 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

2.6 Remuneration and Nomination Committee

As of September 20, 2013 certain nomination related tasks were assigned to the 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

2.7 Corporate governance and management report

Magyar Telekom Plc. is a public limited company listed on the Budapest Stock Exchange. In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the "Recommendations") containing 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.

3 HUMAN POLICY

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

3.1 Human strategy from the Company's aspect

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

3.2 Human strategy from the employees' aspect

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

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

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

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

3.3 Headcount

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

	At December 31,		
	2011	2012	2013
Number of full-time employees, including full-time equivalents:	6,097	7,474	7,359

3.4 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.

3.5 Workforce Reduction and Redeployment

Centralization, technological improvements and attrition have allowed us to reduce the size of our workforce. While overall personnel levels are falling (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 T-Online 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 Company. The decision on the change in the organizational model was a further step to ensure a more customer-focused approach and a lean management structure. With the aim to further improve efficiency and reduce headcount, management 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 the Company's 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.

3.6 Employee Representation and Labor Relations

Magyar Telekom Plc. has entered into a collective bargaining agreement with the Hungarian telecommunications trade unions (Távközlési Szakszervezet, "TÁVSZAK" and Magyar Távközlési Ágazati Szakszervezet, "MATÁSZ"). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the 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 the Company 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.

3.7 Pensions and Benefit Programs

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

We provide employees with discounted telephone services, subsidized meals, interest-free housing loans (such loans are not offered or extended to the Company's 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.

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

The aggregate compensation of the members of the Board of Directors in their capacity as Board members was HUF 14 million in 2013.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 57 million in 2013.

The total compensation expenses (including social security and other payroll-related taxes as well as contractual termination expenses) of the members of the Management Committee ("MC") was HUF 1,384 million in 2013.

At December 31, 2013, two of the nine 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 indefinite (altogether six) contracts, while the severance payment is in accordance with the Hungarian legislation and the Collective Agreement. For the other four 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 employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the

employee will be liable for a payment of compensation to the employer.

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

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

5 RESEARCH AND DEVELOPMENT

In 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 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 the Company'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.

6 REAL ESTATE, SITES OF OPERATION

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

6.1 The registered office of the Company:

- 1013 Budapest, Krisztina krt. 55.

6.2 Sites of the Company:

- 1117 Budapest, Magyar tudósok krt.9.
- 1073 Budapest, Dob u. 76-78.
- 1051 Budapest, Petőfi Sándor u. 17-19.
- 1117 Budapest, Kaposvár u. 5-7
- 1117 Budapest, Budafoki u. 103-107
- 1107 Budapest, Száva u. 3-5.
- 1077 Budapest, Kéthly Anna tér 1.
- 1117 Budapest, Szerémi út 4.
- 1117 Budapest, Budafoki út 56.
- 1106 Budapest, Örs vezér tere 25. 1. em.
- 1106 Budapest, Örs vezér tere 25. mélyföldszint
- 1138 Budapest, Váci út 178.
- 1195 Budapest, Üllői út 201.
- 1191 Budapest, Vak Bottyán u. 75. a-c.
- 1024 Budapest, Lövőház u. 2-6. 2. em.
- 1024 Budapest, Lövőház u. 2-6. fszt.
- 1123 Budapest, Alkotás út 53.
- 1152 Budapest, Szentmihályi út 131.
- 1062 Budapest, Váci út 1-3.
- 1117 Budapest, Október huszonharmadika utca 8-10.

The number of sites used by Magyar Telekom Plc. is approximately 2,400, out of which 22% are owned by the Company, 41% jointly owned and 37% leased. These figures include the sites where are telecommunication towers and antennas, but do not include the mobile technology sites. We have more than 3,600 mobile technology sites, of which six percent is owned by Magyar Telekom Plc. and 94% is leased from other telecommunications operators or other third parties.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2013 was 555.493 m². The majority of sites used in our operations are smaller than 100 m². The largest site is our headquarters building located at Krisztina krt. 55 in Budapest, with floor space of over 30,000 m².

7 SUSTAINABILITY, ENVIRONMENT PROTECTION

7.1 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 Company 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 CO₂ emission of the Company 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

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.

7.2 Environment protection

Magyar Telekom, 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's environmental commitment and responsibilities assumed are published in Magyar Telekom's Environmental Policy: http://www.telekom.hu/static/sw/download/Magyar_Telekom_environmental_policy.pdf

7.2.1 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 6762 times (60 times on average per day), and employees travelled 10 613 kilometers and thus saved 2 585 kg CO₂ 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 CO₂ 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 3520 tonnes of CO₂ by supporting two projects in India.

Magyar Telekom continued to roll-out the ventilation 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.

7.3 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, 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 4552 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.

7.4 Annual Sustainability Report

One of Magyar Telekom'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

8 ECONOMIC ENVIRONMENT

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

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile 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.

9 TARGETS AND STRATEGY

9.1 Outlook

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

regulation (e.g., low entry barriers, new business models, convergence in the telecommunications and media broadcast industry).

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

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 Central Bank of Hungary 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 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.

9.2 Strategy

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile and Internet 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.

10 RISKS AND UNCERTAINTIES

10.1 Risk management policies

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

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

10.2 Risk factors

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

- Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition;
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet and retail energy revenues;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairments in the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in Hungarian tax regulations;

- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- We are continuously involved in disputes and litigation with regulators, competitors and other parties, the outcome of which could have an adverse effect on our results of operations.

10.3 Financial risk management

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

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Company's cash flow, 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 and international financial institutions or Deutsche Telekom

The detailed descriptions of risks, and their mitigation are provided below.

10.3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Company's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio limits, and monitors their fulfillment annually. At the end of 2012 and 2013 Magyar Telekom fulfilled both criteria. The Company's Treasury department is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Company Treasurer continuously.

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

Foreign currency risk

Due to the free-float of the HUF introduced in 2008, the Company is exposed to FX risk in case of FX denominated financial instruments 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 it with derivative instruments to completely eliminate FX risk.

The FX exposure of Magyar Telekom is mostly related to

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

In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Company's foreign currency denominated assets are below the Company's foreign currency denominated liabilities (other than the above described loans), therefore changes of currencies' exchange rates would have significant impact on the profit of the Company.

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

Interest rate risk

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

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

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.

10.3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The vast majority of credit risks may arise in respect of Trade receivables.

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

In line with the Company's risk management policy Magyar Telekom deposits 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 for Magyar Telekom to make possible the compensation of debts and loans in case of the default of the bank.

10.3.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Company Treasury's management aims at maintaining flexibility in funding by keeping committed credit lines available. In addition to the above, DT confirmed its readiness to finance Magyar Telekom's budgeted financing needs until the end of June 2015.

10.3.4 Capital risk management

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

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

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

11 ANALYSIS OF FINANCIAL RESULTS FOR 2013

Main indicators presenting the Company's financial position and liquidity are disclosed in the Notes to the Financial Statements (Note 3).

11.1 Revenues

Our sales revenues increased from HUF 460,885 million in 2012 to HUF 488,118 million in 2013 mainly driven by the significant revenues generated from the retail energy trade business introduced in 2010. Energy revenues increased from HUF 26,013 million to HUF 47,996 million, representing an increase of 84.5% caused by the significant increase of the number of points of delivery (the number of energy points of delivery increased from 87,945 to 106,287, while the number of gas points of delivery grew from 59,900 to 67,587).

Revenues from equipment sales increased as well, due to increased higher category phone set (smart phone), tablet, notebook and TV sales, mainly driven by the sales on 24 monthly instalments in 2013. Mobile equipment revenues increased by 34.5% from HUF 24,720 million to HUF 33,257 million in 2013 compared to 2012, while revenues from fixed line equipment grew from HUF 1,865 million to HUF 5,525, representing an increase of 196.2%.

Mobile voice-wholesale revenues were down by 17.2% to HUF 16,056 million in 2013 compared to HUF 19,396 million in 2012, due to mobile termination rate cuts.

Mobile non-voice revenues increased from HUF 61,463 million in 2012 to HUF 66,636 million in 2013, resulting in an 8.4% increase, primarily due to the higher number of mobile broadband subscribers.

Fixed line voice-retail revenues decreased to HUF 58,058 million in 2013 compared to HUF 62,690 million in 2012 (represents a 7.4% decrease), mainly driven by the continuous decline in the number of revenue producing fixed lines and lower average tariff levels.

Fixed line data revenues decreased from HUF 13,746 million to HUF 11,651 million (represents a 15.2% decrease) deriving from lower number of domestic and international leased line customers as well as decreased prices.

Other revenues increased from HUF 15,939 million to HUF 26,482 million, representing an increase of 66.1% caused mainly by the release of provisions created in the previous years.

11.2 Operating Expenses

Material-type expenses increased from HUF 244,565 million in 2012 to HUF 281,489 million in 2013 primarily due to higher costs of goods sold. The change was mainly due to the increased sales of higher price category smartphones, tablets, notebooks, TV sets, and to the increase in energy related expenses in line with the growth of electricity and gas points of delivery.

Payroll and related expenses increased from HUF 66,088 million in 2012 to HUF 68,109 million in 2013 mainly due to higher salaries in line with the increase in the average employee figure. Change is due to the insource of staff previously hired on a temporary basis as of April 2012. The effect of the insource on average employee figure and on the related expenses was prorated in 2012. Average salary increase in April 2013 also contributed to the increase.

Other expenses decreased from HUF 66,697 million in 2012 to HUF 65,778 million in 2013. The change is not significant, but resulted from several contrary effects. Amount of provisions (mainly relating to legal cases) decreased significantly year over year. Higher bad debt expenses, and damage compensations paid pursuant to the settlement relating to the legal case connected to the termination of Customer Relations service contracts counterbalanced this decrease.

11.3 Financial result

Financial result changed from HUF 6,581 million loss in 2012 to HUF 838 million gain in 2013 which is mainly caused by the favorable result of our subsidiaries (HUF 6,475 million higher dividends received, HUF 2,277 million lower impairments and HUF 4,361 million lower gain on sale of investment), lower interest expense as a result of lower average interest rate (HUF 2,283 million) and lower amount of foreign exchange loss (HUF 1,182 million).

11.4 Description of segments

The Telekom Hungary segment operates in Hungary providing mobile, fixed line telecommunications and TV distribution and energy retail services to millions of residential and small and medium business customers mainly under the Telekom brand.

T-Systems Hungary provides mobile and fixed line telecommunications, info-communications and system integration services mainly under the T-Systems brand primarily to key business partners (large corporate customers and public sector).

11.5 Key operating statistics

The following table sets forth information regarding the key operating mobile statistical figures of Telekom Hungary:

	At December 31,	
	2012	2013
Mobile penetration (%) ⁽¹⁾	116.5	117.0
Mobile SIM market share (%) ⁽¹⁾	45.9	46.3
Number of customers	4,836,965	4,886,705
Postpaid share in the customer base (%)	47.3	48.5
Average MOU per subscriber	160	161
ARPU (HUF)	3,455	3,384
Postpaid	5,698	5,518
Prepaid	1,414	1,355
Overall churn rate (%)	18.4	18.4
Postpaid (%)	14.5	13.2
Prepaid (%)	21.9	23.2
Ratio of non-voice revenues in ARPU (%)	23.5	25.4
Average acquisition cost per gross add (HUF)	5,479	6,407
Number of mobile broadband subscriptions	1,362,750	1,712,807
Mobile broadband market share (%) ⁽²⁾	45.8	45.2
Population-based outdoor 3G coverage ⁽²⁾	80.5	82.9

(1) Data relates to Hungary.

(2) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment



The following table sets forth information regarding the key operating fixed line statistical figures relating to the major services provided by Telekom Hungary:

	At December 31,	
	2012	2013
Voice services		
Total PSTN lines	1,228,150	1,087,537
Payphone	9,343	8,395
Total PSTN outgoing traffic (thousand minutes).	2,842,341	2,580,380
Blended average monthly Minutes of Use ("MOU") per subscriber (outgoing)	182	182
Blended Average monthly Revenue per Access ("ARPA") (HUF)	2,875	2,792
Data products		
Blended retail broadband market share (%) ⁽¹⁾	36.9	37.6
Number of retail DSL customers	497,217	518,217
Number of cable broadband customers	203,535	237,708
Number of fiber optic connections	41,802	50,953
Total retail broadband customers	742,554	806,878
Blended broadband ARPU (HUF) ⁽¹⁾	3,863	3,560
TV services		
Blended TV market share (%) ⁽¹⁾	25.4	25.8
Number of cable TV customers ⁽¹⁾	148,353	118,048
Number of satellite TV customers ⁽¹⁾	291,118	307,147
Number of IPTV customers ⁽¹⁾	313,285	389,700
Total TV customers ⁽¹⁾	752,756	814,895
Blended TV ARPU (HUF)	3,035	3,070
Energy services		
Electricity points of delivery	87,945	106,287
Gas points of delivery	59,900	67,587

(1) Data relates to Magyar Telekom Plc., not only to Telekom Hungary segment

The following table sets forth information regarding the key operating mobile statistical figures of T-Systems segment:

	At December 31,	
	2012	2013
Number of customers	483,104	515,701
Overall churn rate (%)	8.8	6.8
MOU	281	277
ARPU (HUF)	4,441	3,973
Number of mobile broadband subscriptions	93,036	132,737
Ratio of non-voice revenues in ARPU (%)	37.4	39.2
Average subscriber acquisition cost per gross add (HUF)	4,059	3,398

The following table sets forth information regarding the key operating fixed line statistical figures for the major services provided by T-Systems segment:

	At December 31,	
	2012	2013
Voice services		
Business	39,358	39,141
Managed leased lines (Flex-Com connections)	1,715	1,389
ISDN channels	130,052	127,224
Total	<u>171,125</u>	<u>167,754</u>
 Total outgoing traffic (thousand minutes)	 245,550	 229,841
MOU (outgoing)	176	177
ARPU (HUF)	4,315	4,246
 Data products		
Number of retail broadband access	14,289	15,043
Retail DSL ARPU (HUF)	7,446	6,981

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

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