EGYÜTT. VELED

CONSOLIDATED ANNUAL REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS

PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019

EGYÜTT. VELED

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019

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CONSOLIDATED FINANCIAL STATEMENTS

OF MAGYAR TELEKOM TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ENDORSED BY THE EUROPEAN UNION (EU IFRS)

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Magyar Telekom Telecommunication Public Limited Company

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Magyar Telekom Telecommunication Public Limited Company (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated statements of financial position as at 31 December 2019 (in which the total of consolidated statements of financial position is MHUF 1 228 870), the consolidated statements of profit or loss and other comprehensive income (in which the total comprehensive income for the year is MHUF 46 942 profit), the consolidated statements of cash flows, the consolidated statements of changes in equity for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 21 to the consolidated financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

PricewaterhouseCoopers Könyvvizsgáló Kft., 1055 Budapest, Bajcsy-Zsilinszky út 78.
T: +36 1 461 9100, F: +36 1 461 9115, www.pwc.com/hu

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

Our audit approach

Overview

Overall group materiality	Materiality applied was MHUF 4 700, which is approximately 2.5% of the consolidated EBITDA AL (Earnings before Interest, Taxes, Depreciation and Amortization decreased with the impact of the IFRS 16 standard application to the Depreciation, Amortization and Interest.)
Group Scoping	In addition to the parent company, Magyar Telekom Telecommunication Plc., we included two subsidiaries in our audit, Makedonski A.D. and T-Systems Magyarország Zrt., which are operating in Macedonia and Hungary. These three companies represent for 97% of the consolidated revenues and for 97% of the consolidated EBITDA.
Key Audit Matters	• Goodwill impairment assessment • Accuracy of revenue recognition due to complex billing systems • Completeness and accuracy of lease agreements and adoption of IFRS 16

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Materiality	MHUF 4 700
Determination	Approximately 2.5% of the consolidated EBITDA AL
Rationale for the materiality benchmark applied	We chose consolidated EBITDA AL as the benchmark as we believe that it is comparative benchmark which is also the major new key performance measure of the group. We chose 2.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have identified two subsidiaries: Makedonski A.D. operating in Macedonia and T-Systems Magyarország Zrt. operating in Hungary, which, in our view, required an audit of their complete financial information, due to their financial significance to the Group.

For the remaining components we performed analytical review at the Group level. This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Goodwill impairment assessment As at 31 December 2019, goodwill relating to the Hungarian and Macedonian segments amounted to MHUF 192 908 and MHUF 20 199 respectively out of a total goodwill balance of MHUF 213 107. Impairment assessments involve significant estimates, as they are sensitive to the change in assumptions (in particular the input variables and long term growth rates, discount rates and assumptions underlying future operating cash flows).	We agreed the cash flow forecasts used in the impairment assessment to forecasts approved by the board of directors. We considered management's expectations in respect of material impacts of the external environment and planned operational improvements and whether these were appropriately reflected in the cash flow forecasts. We compared actual historical cash flow performance with previous forecasts and determined whether any differences fell within an acceptable range.

Management concluded that there was no need for impairment of goodwill.	We independently calculated a weighted average cost of capital with reference to market data and compared the long term growth rate to market data.
Details of the nature of the goodwill impairment assessment performed by management are given in notes 3.2 and 10.4 to the consolidated financial statements.	We assessed the sufficiency of the sensitivity analysis performed by management and performed further sensitivity analysis, primarily focused on changes in operating cash flows. We read notes 3.2 and 10.4 of the consolidated financial statements in order to assess whether they are in line with the requirements of the IAS 36.
Accuracy of revenue recognition due to complex billing systems The accuracy of revenues recorded is an inherent industry risk. This is because telecommunication billing systems are complex and process large volumes of data with a combination of different products sold and price changes during the year, through a number of different systems. Total revenue of the Group was MHUF 666 653. Detailed disclosures and related accounting policies are in notes 3.4 and 18 of the consolidated financial statements.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over the: • Capturing and recording of revenue transactions; • Authorization of price changes and the input of those to the billing systems; • Calculation of amounts billed to the customers; and • Monitoring of assumptions and judgements related to contract assets, contract costs, and contract liabilities. We also tested a sample of items from the customer billing systems to the invoices raised and checked these to the cash received from the customers. Our testing included customer bills for consumers and corporate customers. We also utilized computer assisted auditing technique to gain comfort over the accuracy of the revenue transactions We performed detailed testing by recalculating the contract assets, contract costs, and contract liabilities on a portfolio basis as at 31 December 2019.

Completeness and accuracy of lease agreements and adoption of IFRS 16

The Group adopted IFRS 16 as at 1 January 2019, applying the modified retrospective method.

The adoption of IFRS 16 is considered a key audit matter due to the material nature of the lease contracts and the judgments needed in establishing the underlying key assumptions such as the discount rates and extension options. A significant data extraction exercise was undertaken by management to identify and classify all lease data, allowing the respective inputs to be uploaded into management's model. The complexity of the data extraction is due to the number of sources to the contracts and the judgements applied as part of the identification and classification.

In order to comply with the requirements of the new standard, the Group made developments on its existing contract management systems and implemented a new system - which serves as a data warehouse for lease contracts – and developed a software which calculates the impact of the lease contracts. These complex systems execute data transfers via interfaces.

Total right-of-use assets of the Group was MHUF 106 682 and the total lease liabilities of the Group was MHUF 111 997 as at the date of 31 December 2019. Detailed disclosures and related accounting policies are in note 1.4, 2.1.1. and 17 of the consolidated financial statements.

We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over the:

- Complete identification and classification of leases;
- Complete import of lease data into the relevant lease systems.

We have checked whether the accounting treatment of leases is consistent with the definitions of IFRS 16 including factors such as lease term, discount rate and measurement principles. Furthermore, we have checked the modified retrospective application and assessed whether this is consistent with the definition and expedients of IFRS 16. Due to the degree of management judgment in establishing the underlying assumptions we checked the appropriateness of the discount rates and extension options used in the IFRS 16 calculations.

We performed detailed testing by recalculating the short-, and long-term lease liability balances as at the date of 31 December 2019.

We also tested a sample of new contracts to check the book value of the right of use assets recognised during the financial year.

Regarding the interest expense, we recalculated the amount of interest expense based on the average lease liability for the period and the weighted average interest rate.

Other information: the consolidated business report

Other information comprises the consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the consolidated business report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the consolidated business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the consolidated business report to consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the consolidated business report is consistent with the consolidated financial statements.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the consolidated business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C in its consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

In our opinion, the 2019 consolidated business report of the Group, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, is consistent with the 2019 consolidated financial statements in all material respects, and the consolidated business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the consolidated business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the consolidated business report, therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and to prepare the consolidated financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the consolidated financial statements unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained

up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 31 December 1991. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 28 years.

The statutory auditor on the audit resulting in this independent auditor's report is Szilvia Szabados.

Budapest, 26 February 2020

Armin Krug
Partner
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Szilvia Szabados
Statutory auditor
Licence number: 005314

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.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - ASSETS

(in HUF millions)	Note	At January 1, 2018 (re-presented)*	At December 31, 2018 (re-presented)*	At December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	4.2.1	5,399	7,204	13,398
Trade receivables	1.3,4.2.2, 18	139,620	165,271	170,503
Other assets	1.3,12.1	13,306	12,129	6,437
Other current financial assets	4.2.3.1	8,162	11,631	8,996
Contract assets	1,3, 18	14,286	17,820	16,306
Current income tax receivable	6.1	45	254	434
Inventories	7	17,175	19,118	19,833
		197,993	233,427	235,907
Assets held for sale	8	162	-	659
Total current assets		**198,155**	**233,427**	**236,566**
Non current assets				
Property, plant and equipment	9	458,343	443,147	426,826
Right-of-use assets	1.4,9, 17	-	-	106,682
Intangible assets	10	441,458	447,952	425,821
Investments in associates and joint ventures	11	1,324	1,393	1,078
Deferred tax assets	6.3	16	77	103
Trade receivables over one year	1.3, 4.2.3.2	16,690	18,056	17,448
Other non current financial assets	4.2.3.3, 18	2,633	3,369	5,593
Contract assets	1,3, 18	3,365	3,560	3,800
Other non current assets	12.2	5,634	5,015	4,953
Total non current assets		**929,463**	**922,569**	**992,304**
Total assets		**1,127,618**	**1,155,996**	**1,228,870**

*See Note 1.3 for details regarding the re-presentation.

Budapest, February 18, 2020

Tibor Rékasi
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES & EQUITY

(in HUF millions)	Note	At January 1, 2018 (re-presented)*	At December 31, 2018 (re-presented)*	At December 31, 2019
Current liabilities				
Financial liabilities to related parties	4.4.1	35,191	111,144	80,493
Lease liabilities	1.4, 17	-	-	17,355
Trade payables	4.4.3	135,446	175,312	155,048
Other financial liabilities	4.4.2	8,693	9,228	8,633
Current income tax payable	6.1	680	343	844
Provisions	13	3,267	3,418	4,755
Contract liabilities	1.3, 18	11,265	12,372	11,167
Other current liabilities	14	32,153	29,023	23,283
Total current liabilities		**226,695**	**340,840**	**301,578**
Non current liabilities				
Financial liabilities to related parties	4.4.1	231,646	123,349	129,823
Lease liabilities	1.4, 17	-	-	94,642
Other financial liabilities	4.4.2	47,608	47,919	40,805
Deferred tax liabilities	6.3	15,136	17,246	19,030
Provisions	13	9,231	11,265	10,446
Contract liabilities	1.3, 18	520	428	383
Other non current liabilities	1.3, 15	314	17	9
Total non current liabilities		**304,455**	**200,224**	**295,138**
Total liabilities		**531,150**	**541,064**	**596,716**
EQUITY				
Common stock		104,275	104,275	104,275
Capital reserves		27,282	27,263	27,379
Treasury stock		(2,187)	(3,991)	(3,991)
Retained earnings		412,044	429,294	444,278
Accumulated other comprehensive income		21,505	23,650	25,047
Total Equity of the owners of the parent		562,919	580,491	596,988
Non-controlling interests	16	33,549	34,441	35,166
Total equity		**596,468**	**614,932**	**632,154**
Total liabilities and equity		**1,127,618**	**1,155,996**	**1,228,870**

*See Note 1.3 for details regarding the re-presentation.

Budapest, February 18, 2020

Tibor Rékasi
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2018	2019
		(in HUF millions, except	per share amounts)
Revenues	**18**	**657,104**	**666,653**
Direct costs	19	(286,931)	(292,412)
Employee related expenses	20	(82,968)	(80,192)
Depreciation and amortization	9, 10	(115,529)	(137,382)
Other operating expenses	21	(103,915)	(81,041)
Operating expenses		**(589,343)**	**(591,027)**
Other operating income	22	9,217	7,554
Operating profit		**76,978**	**83,180**
Interest income	23	363	377
Interest expense	24	(13,423)	(14,291)
Other finance expense - net	25	(4,724)	(10,211)
Net financial result		**(17,784)**	**(24,125)**
Share of associates' and joint ventures' net profit	11	588	90
Profit before income tax		**59,782**	**59,145**
Income tax	6.2	(13,333)	(14,633)
Profit for the year		**46,449**	**44,512**
Other comprehensive income			
(Items that are or may be reclassified subsequently to profit or loss):			
Exchange differences on translating foreign operations		3,169	2,293
Revaluation of financial assets at FV OCI		219	137
Other comprehensive income for the year, net of tax		3,388	2,430
Total comprehensive income for the year		**49,837**	**46,942**
Profit attributable to:			
Owners of the parent		43,318	41,157
Non-controlling interests		3,131	3,355
		46,449	44,512

	Note	For the year ended December 31, 2018	2019
		(in HUF millions, except per share amounts)	
Total comprehensive income attributable to:			
Owners of the parent		45,463	42,554
Non-controlling interests		4,374	4,388
		49,837	46,942
Earnings per share (EPS) information:	27		
Profit attributable to the owners of the Company		43,318	41,157
Weighted average number of common stock outstanding used for basic EPS		1,035,393,968	1,033,906,195
Average number of dilutive shares		6,074,013	0
Weighted average number of common stock outstanding used for diluted EPS		1,041,467,981	1,033,906,195
Basic earnings per share (HUF)		41.84	39.81
Diluted earnings per share (HUF)		41.59	39.81

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2018	2019
		For the year ended December 31, (in HUF millions)	
Cashflows from operating activities			
Profit for the year		46,449	44,512
Depreciation and amortization		115,529	137,382
Income tax expense		13,333	14,633
Net financial result		17,784	24,125
Share of associates' and joint ventures' result		(588)	(90)
Change in assets carried as working capital		(30,237)	(392)
Change in provisions		1,385	150
Change in liabilities carried as working capital		29,857	(20,107)
Income tax paid		(11,953)	(12,560)
Dividend received		535	442
Interest and other financial charges paid		(18,810)	(22,931)
Interest received		312	353
Other non-cash items		(4,498)	(3,149)
Net cash generated from operating activities		**159,098**	**162,368**
Cashflows from investing activities			
Purchase of property plant and equipment (PPE) and intangible assets	28	(93,688)	(97,657)
Purchase of subsidiaries and business units	29	(2,045)	(1,447)
Cash acquired through business combinations		137	-
Proceeds from other financial assets		7,033	6,577
Payments for other financial assets		(4,978)	(1,761)
Proceeds from disposal of PPE and intangible assets		10,449	9,352
Proceeds from disposal of subsidiaries and business units		-	-
Payments for interests in associates and joint ventures		-	-
Net cash used in investing activities		**(83,092)**	**(84,936)**
Cashflows from financing activities			
Dividends paid to Owners of the parent and Non-controlling interest		(29,547)	(29,725)
Proceeds from loans and other borrowings	4.4.2.2	59,793	182,315
Repayment of loans and other borrowings	4.4.2.2	(96,767)	(205,466)
Repayment of lease and other financial liabilities	4.4.2.3	(5,988)	(18,560)
Treasury share purchase	20.1.2.4	(1,822)	-
Net cash used in financing activities		**(74,331)**	**(71,436)**
Exchange differences on cash and cash equivalents		130	198
Change in cash and cash equivalents		**1,805**	**6,194**
Cash and cash equivalents, beginning of year		5,399	7,204
Cash and cash equivalents, end of year	4.2.1	7,204	13,398

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

EGYÜTT. VELED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	pieces	In HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock (a)	Common stock (a)	Additional paid in capital (b)	Reserve for equity settled share based transactions (c)	Treasury stock (d)	Retained earnings (e)	Cumulative translation adjustment (f)	Revaluation reserve for financial assets at FV OCI – net of tax (g)	Equity of the owners of the parent	Non-controlling interests (h)	Total Equity
Balance at December 31, 2017	**1,042,742,543**	**104,275**	**27,379**	**(97)**	**(2,187)**	**396,320**	**21,526**	**(21)**	**547,195**	**32,878**	**580,073**
Adoption of new standards (IFRS 9, IFRS15) (l)						15,724			15,724	671	16,395
Revised balance at January 1, 2018	1,042,742,543	104,275	27,379	(97)	(2,187)	412,044	21,526	(21)	562,919	33,549	596,468
Dividend declared to Owners of the parent(i)						(26,068)			(26,068)	–	(26,068)
Dividend declared to Non-controlling interests (j)									–	(3,482)	(3,482)
Equity settled share based transactions (c)				(19)	18				(1)	–	(1)
Treasury share purchase (k)					(1,822)				(1,822)	–	(1,822)
Transactions with owners in their capacity as owners		–	–	(19)	(1,804)	(26,068)	–	–	(27,891)	(3,482)	(31,373)
Other comprehensive income							2,021	124	2,145	1,243	3,388
Profit or loss						43,318			43,318	3,131	46,449
Total comprehensive Income		–	–	–	–	43,318	2,021	124	45,463	4,374	49,837
Balance at December 31, 2018	**1,042,742,543**	**104,275**	**27,379**	**(116)**	**(3,991)**	**429,294**	**23,547**	**103**	**580,491**	**34,441**	**614,932**
Adoption of new standards (IFRS 16) (l)						12			12		12
Revised balance at January 1, 2019	1,042,742,543	104,275	27,379	(116)	(3,991)	429,306	23,547	103	580,503	34,441	614,944
Dividend declared to Owners of the parent(i)						(26,069)			(26,069)		(26,069)
Dividend declared to Non-controlling interests (j)									-	(3,663)	(3,663)
Equity settled share based transactions (c)				116		(116)			-		-
Treasury share purchase (k)										–	
Transactions with ownersin their capacity as owners		–	–	-		(26,185)	–	–	(26,069)	(3,663)	(29,732)
Other comprehensive income				116			1,316	81	1,397	1,033	2,430
Profit or loss						41,157			41,157	3,355	44,512
Total comprehensive Income						41,157	1,316	81	42,554	4,388	46,942
Balance at December 31, 2019	**1,042,742 543**	**104,275**	**27,379**	**-**	**(3,991)**	**444,278**	**24,863**	**184**	**596,988**	**35,166**	**632,154**
Of which treasury stock	(8,836,348)										
Shares of common stock outstanding at December 31, 2019	1,033,906,195										

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

NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(a) The total amount of issued shares of common stock of 1,042,742,543 (each with a nominal value of HUF 100) is fully paid as at December 31, 2019. The number of authorized ordinary shares on December 31, 2019 is 1,042,742,543.

Voting Rights and Voting

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

Transfer of Shares

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

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

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

(c) Reserve for equity settled share based transactions included in 2018 the compensation expenses accrued in this reserve related to share settled compensation programs. See also Note 20.1.2.

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

(e) Retained earnings include the accumulated and undistributed profit of the Group. The distributable reserves of the Company under Hungarian law (Section 5 (b) 114/B of Act C of 2000 on Accounting relating to untied retained earnings available for the payment of dividends) at December 31, 2019 amounted to approximately HUF 464 billion (HUF 450 billion at December 31, 2018).

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

(g) Revaluation reserve for financial assets at FV OCI includes the unrealized gains and losses net of tax on equity instruments measured at Fair Valiue through other comprehensive income. (See also Note 4.5.1.)

(h) Non-controlling interests represent the Non-controlling shareholders' share of the net assets of subsidiaries in which the Group has less than 100% ownership (Note 16).

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

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

(k) In 2018 Magyar Telekom Plc. purchased 4,251,418 ordinary shares for the purpose of the new employee incentive program (Note 20.1.2.4). In 2017 Magyar Telekom Plc. purchased 4,534,758 ordinary shares for the purpose of the new employee incentive program (Note 20.1.2.4). In 2016 Magyar Telekom Plc. purchased 1,252,616 ordinary shares for the purpose of the Employee Share Ownership Program (ESOP) (Note 20.1.2.4), of which the ESOP sold 25,764 shares due to the revision of the number of the participants in the program. These share transactions were carried out on the Budapest Stock Exchange through UniCredit Bank Hungary Zrt., as investment service provider. There was no other purchase of ordinary shares in 2019, and the company has not intention to renew the ESOP program in 2020.

(l) As of January 1, 2019 the Group adopted IFRS16. Details of the adoption are disclosed in Notes 1.4 and 2.1.1

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes a dividend distribution in total of HUF 20,855 million to be approved by the Annual General Meeting of the Company in April 2020. In 2019 the Annual General Meeting of the Magyar Telekom approved HUF 26,069 million dividend .

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 About the Company

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

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered seat is Könyves Kálmán krt. 36., 1097 Budapest, Hungary since November 1, 2018. Name of the Court of Registration and the registration number of the Company: Metropolitan Court as Court of Registration, Cg. 01-10-041928.

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

The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG) who fully consolidates Magyar Telekom Group. Deutsche Telekom Europe B.V. (Stationsplein 8, 6221 BT Maastricht, the Netherlands), a member of the Deutsche Telekom Group, is the direct owner of 59.21% of the Company's issued shares and voting rights. The consolidated financial statements of DT AG are available at DT AG's website (www.telekom.com/en).

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

The Company's Board of Directors (the Board) accepted the submission of these consolidated financial statements of the Company on February 18, 2020 to the Annual General Meeting (AGM) of the owners, which is authorized to approve these financial statements, but also has the right to require amendments before approval. As the controlling shareholders are represented in the Board of the Company that accepted the submission of these financial statements, the probability of any potential change required by the AGM is extremely remote, and has never happened in the past.

Persons authorized to sign the annual report:

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

János Szabó - Chief Financial Officer (residence: Budapest)

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

The Company is subject to compulsory audit. The Company's auditor is PricewaterhouseCoopers Könyvvizsgáló Kft. (its register number is 01-09-063022, its taxation number is 10256161-2-44), the responsible person for carrying out the audit is Szilvia Szabados (membership number at Chamber of Hungarian Auditors: 005314).

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

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

1.2 Composition of the Group

At December 31, 2018 and 2019 the major operating subsidiaries of the Group were as follows:

Subsidiaries	Group interest in capital as at December 31,		Activity
	2018	2019	
Incorporated in Hungary:			
T-Systems Magyarország Zrt., Budapest	100.00%	100.00%	System integration and IT services
KalászNet Kft., Budapest...	100.00%	100.00%	Telecom service provider
Telekom New Media Zrt., Budapest	100.00%	100.00%	Interactive service provider of telecommunications applications
Incorporated in North Macedonia:			
Makedonski Telekom A.D., Skopje (MKT)	56.67%	56.67%	Telecom service provider
Incorporated in Romania:			
Combridge S.R.L., Bucharest...	100.00%	100.00%	Wholesale telecom service provider
Incorporated in Bulgaria:			
Novatel EOOD, Sofia...	100.00%	100.00%	Wholesale telecom service provider

At December 31, 2018 and 2019 the joint venture of the Group was the follow:

Joint ventures	Group interest in capital as at December 31,		Activity
	2018	2019	
Incorporated in Hungary:			
E2 Hungary Zrt., Budapest..	50.00%	50.00%	Energy services to business customers

The Group's interest in the capital of the above subsidiaries equals the voting rights therein. There is no significant entity in the Group that is not controlled even though more than half of the voting rights are held. There is one structured entity (ESOP organization) in the Group that is fully consolidated, see Note 20.1.2.4.

All subsidiary undertakings are included in the consolidation.

1.3 Re-presentation of contract assets, trade receivables, contract liabilities and other assets

Management reviewed the structure of the Consolidated Statements of financial position regarding the current and non current portion of contract assets, contract liabilities, trade receivables and other assets to better represent the different nature of those and to align with emerging practice. The Group represented the figures of Statement of financial position as of 2018 accordingly.

Previously trade receivables (with unconditioned right to receive cash) contract assets and other assets were presented on one line.

The table below shows the impacts of these changes on the 2018 Consolidated statements of financial position.

	As of January 1,		As of December 31,	
	2018 as reported	2018 re-presented	2018 as reported	2018 re-presented
Trade receivables and other assets	167,212	-	195,220	-
Trade receivables	-	139,620	-	165,271
Other assets	-	13,306	-	12,129
Contract assets – current	-	14,286	-	17,820
Total	**167,212**	**167,212**	**195,220**	**195,220**
Trade receivables over one year		16,690		18,056
Other non current financial assets	22,688	2,633-	24,985	3,369
Contract assets – non current	-	3,365	-	3,560
Total	**22,688**	**22,688**	**24,985**	**24,985**
Other current liabilities	43,418	32,153	41,395	29,023
Contract liabilities – current	-	11,265	-	12,372
Total	**43,418**	**43,418**	**41,395**	**41,395**
Other non current liabilities	834	314	445	17
Contract liabilities – non current	-	520	-	428
Total	**834**	**834**	**445**	**445**

There was no other change in comparatives.

1.4 Financial information – impact of the adoption of IFRS 16

As a major change compared to 2018, the Company adopted IFRS 16 as of January 1, 2019. The following tables show the amounts by which each financial statement line item is affected in 2019 due to the application of the new standard. For further details please see Note 2.1.1. 2019 figures are presented in accordance with the new standard in the Notes to the Financial Statements, while the 2018 comparatives are presented as in the previous year in accordance with IFRS 16 transition requirements.

The tables below show the impacts of this on the 2019 Statement of financial position and Statements of profit or loss and other comprehensive income for the year ended December 31, 2019. As the impacts appear in a separate line in the Statement of Changes in Equity, this is not presented here.

The column Catch-up & reclass of IFRS 16 includes the accumulated effect of the first-time application of IFRS 16 with the related reclassifications that were required by this standard at the adoption date, i.e. as of January 1, 2019. The column IFRS 16 effects includes the impact resulting from the application of IFRS 16 throughout 2019. Other changes include the changes resulting from the usual business operations of the Group.

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(in HUF millions)	At December 31, 2018	Catch-up & reclass of IFRS 16	At January 1, 2019	IFRS 16 effects	Other changes	At December 31, 2019
ASSETS						
Current assets						
Cash and cash equivalents	7,204	-	7,204	-	6,194	13,398
Trade receivables	165,271	-	165,271	-	5,232	170,503
Other assets	12,129	(3,254)	8,875	-	(2,438)	6,437
Other current financial assets	11,631	-	11,631	-	(2,635)	8,996
Contract assets	17,820	-	17,820	-	(1,514)	16,306
Current income tax receivable	254	-	254	-	180	434
Inventories	19,118	-	19,118	-	715	19,833
	233,427	(3,254)	230,173	-	5,734	235,907
Assets held for sale	-	-	-	-	659	659
Total current assets	233,427	(3,254)	230,173	-	6,393	236,566
Non current assets						
Property, plant and equipment	443,147	(2,559)	440,588	-	(13,762)	426,826
Right-of-use assets	-	108,048	108,048	(1,366)	-	106,682
Intangible assets	447,952	(203)	447,749	-	(21,928)	425,821
Investments in associates and joint ventures	1,393	-	1,393	-	(315)	1,078
Deferred tax assets	77	-	77	-	26	103
Trade receivables over one year	18,056	-	18,056	-	(608)	17,448
Other non current financial assets	3,369	698	4,067-	(91)	1,617	5,593
Contract assets	3,560	-	3,560	-	240	3,800
Other non current assets	5,015	-	5,015	-	(62)	4,953
Total non current assets	922,569	105,984	1,028,553	(1,457)	(34,792)	992,304
Total assets	1,155,996	102,730	1,258,726	(1,457	(28,399)	1,228,870

(in HUF millions)	At December 31, 2018	Catch-up & reclass of IFRS 16	At January 1, 2019	IFRS 16 effects	Other changes	At December 31, 2019
LIABILITIES						
Current liabilities						
Financial liabilities to related parties	111,144	-	111,144	-	(30,651)	80,493
Lease liabilities	-	12,191	12,191	5,164	-	17,355
Trade payables	175,312	(670)	174,642	-	(19,594)	155,048
Other financial liabilities	9.228	(694)	8,534	-	99	8,633
Current income tax payable	343	-	343	-	501	844
Provisions	3,418	-	3.418	-	1,337	4,755
Contract liabilities	12,372	-	12,372	-	(1,205)	11,167
Other current liabilities	29,023	-	29,023	-	(5,740)	23,283
	340,840	10,827	351,667	5,164	(55,253)	301,578
Liabilities associated with assets held for sale	-	-	-	-	-	-
Total current liabilities	340,840	10,827	351,667	5,164	(55,253)	301,578
Non current liabilities						
Financial liabilities to related parties	123,349	-	123,349	-	6,474	129,823
Lease liabilities	-	95,023	95,023	(381)	-	94,642
Other financial liabilities	47,919	(3,132)	44,787	-	(3,982)	40,805
Deferred tax liabilities	17,246	-	17,246	-	1,784	19,030
Provisions	11,265	-	11,265	-	(819)	10,446
Contract liabilities	428	-	428	-	(45)	383
Other non current liabilities	17	-	17	-	(8)	9
Total non current liabilities	200,224	91,891	292,115	(381)	3,404	295,138
Total liabilities	541,064	102,718	643,782	4,783	(51,849)	596,716
EQUITY						
Common stock	104,275	-	104,275	-	-	104,275
Capital reserves	27,263	-	27,263	-	116	27,379
Treasury stock	(3,991)	-	(3,991)	-	-	(3,991)
Retained earnings	429,294	12	429,306	-	14,972	444,278
Accumulated other comprehensive income	23,650	-	23,650	-	1,397	25,047
Total Equity of the owners of the parent	580,491	12	580,503	-	16,485	596,988
Non-controlling interests	34,441	-	34,441	-	725	35,166
Total equity	614,932	12	614,944	-	17,210	632,154
Total liabilities and equity	1,155,996	102,730	1,258,726	4,783	(34,639)	1,228,870

The table below shows the above impact on the 2019 Consolidated Statements of profit or loss and other comprehensive income. In order to present comparable data of the Consolidated Statements of profit or loss, 2019 figures are also shown as if IAS 17 had been applied.

(in HUF millions, except per share amounts)	2018 IAS 17	2019 IAS 17	2019 IFRS 16 effect	2019 IFRS 16
Revenues	657,104	666,653	-	666,653
Direct costs	(286,931)	(292,412)	-	(292,412)
Employee related expenses	(82,968)	(80,192)	-	(80,192)
Depreciation and amortization	(115,529)	(119,967)	(17,415)	(137,382)
Other operating expenses	(103,915)	(100,579)	19,538	(81,041)
Operating expenses	(589,343)	(593,150)	2,123	(424,800)
Other operating income	9,217	7,538	16	7,554
Operating profit	76,978	81,041	2,139	83,180
Interest income	363	377	-	377
Interest expense	(13,423)	(8,734)	(5,557)	(14,291)
Other finance expense – net	(4,724)	(8,773)	(1,438)	(10,211)
Net financial result	(17,784)	(17,130)	(6,995)	(24,125)
Share of associates' and joint ventures' net profit	588	90	-	90
Profit before income tax	59,782	64,001	(4,856)	59,145
Income tax	(13,333)	(14,762)	129	(14,633)
Profit for the year	46,449	49,239	(4,727)	44,512
Other comprehensive income (Items that are or may be reclassified subsequently to profit or loss):				
Exchange differences on translating foreign operations	3,169	2,293	-	2,293
Revaluation of financial assets at FV OCI	219	137	-	137
Other comprehensive income for the year	3,338	2,430	-	2,430
Total comprehensive income for the year	49,837	51,669	(4,727)	46,942

(in HUF millions, except per share amounts)	2018 IAS 17	2019 IAS 17	2019 IFRS 16 effect	2019 IFRS 16
Profit attributable to:				
Owners of the parent	43,318	45,884	(4,727)	41,157
Non-controlling interests	3,131	3,355	-	3,355
	46,449	49,239	(4,727)	44,512
Total comprehensive income attributable to:				
Owners of the parent	45,463	42,554	-	42,554
Non-controlling interests	4,374	4,388	-	4,388
	49,837	46,942	-	46,942
Earnings per share (EPS) information:				
Profit attributable to the owners of the Company	43,318	45,884	(4,727)	41,157
Weighted average number of common stock outstanding used for basic EPS	1,035,394,968	1,033,906,195	-	1,033,906,195
Average number of dilutive shares	6,074,013	0	0	0
Weighted average number of common stock outstanding used for diluted EPS	1,041,467,981	1,033,906,195	-	1,033,906,195
Basic earnings per share (HUF)	41.84	44.38	(4.57)	39.81
Diluted earnings per share (HUF)	41,59	44.38	(4.57)	39.81

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of Magyar Telekom have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations endorsed by the EU effective as at December 31, 2019 and applicable to Magyar Telekom had been adopted. These consolidated financial statements also comply with the Hungarian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

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

2.1.1 Standards, significant amendments and interpretations effective and adopted by the Group in 2019

Title of standard	Nature of change	Impact on consolidated financial statements	Application date and EU endorsement
IFRS 16 Leases	IFRS 16 requires entities when they are a lessee, to ▪ recognize a right-of-use asset representing its right to use ▪ the underlying leased asset and a lease liability representing its obligation to make lease payments on the statement of financial position, initially measured at the present value of non-cancellable lease payments (including inflation-linked payments), and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease; ▪ recognize amortization of right-of-use assets and interest on lease liabilities over the lease term; and ▪ separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows .	Magyar Telekom applied the modified retrospective approach. The Group mainly leases cell sites, rooftops, office buildings and retail shops, network assets, space on masts or towers and cars that were affected by the new standard. IFRS 16 standard had a significant effect on the consolidated financial statements and introduced a single lease accounting model by taking right-of-use assets and lease liabilities on the balance sheet. The transitional effect on right-of-use assets, lease liabilities and profit or loss is disclosed in Note 1.4. As a result of adopting IFRS 16, the 2018 operating lease expenses were presented as depreciation and interest expense from January 1, 2019. Details of the Group's leases (including lease commitments) are disclosed in Note 17. On the lessor side, MT Group mainly analyzed the revised definition of leases including the head and sublease constructions. The lessor accounting itself did not change significantly through the introduction of IFRS 16. Regarding the transition to IFRS 16, MT Group decided: ▪ not to apply the practical expedient in IFRS 16.C3 ("Grandfathering approach"). As a result, a re-assessment was performed whether existing contracts are or contain a lease at the date of initial application, i.e. as of January 1, 2019. ▪ not to use the low value exemption, ▪ to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment) as a lessee, ▪ not to apply the practical expedient regarding short-term leases except for some minor and insignificant lease arrangements with a lease term of one month or less, ▪ to use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease. ▪ At transition date the lease liabilities equalled the right-of-use asset. No deferred tax is recognized as the net temporary difference is zero.	An entity is required to apply IFRS 16 for annual periods beginning on or after January 1, 2019 and permits to apply the new Leases Standard early, if the entity also applies IFRS 15 Revenue from Contracts with Customers before the date of early application. The European Union has endorsed this standard.

The table below is to summarize the Standards amended and the subject of the amendments effective on or after January 1, 2019 that can have an impact on the Group's accounting policies.

	Standard subject of amendment	Summary of the change	Conclusion of the change
1.)	IFRS 3 Business Combinations Previously held interest in a joint operation	Clarified that obtaining control of a business that is a joint operation (as defined in IFRS 11), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages.	The amendment of the standard does not result in material changes in the financial statements and the Group's

			current practice is in line with the clarification.
2.)	IFRS 11 Joint Arrangements	A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.	The amendment of the standard does not result in material changes in the financial statements and the Group's current practice is in line with the clarification.
3.)	IAS 12 Income Taxes Income tax consequences of payments on financial instruments classified as equity	An entity shall recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners.	The amendment of the standard does not result in material changes in the financial statements and the Group's current practice is in line with the clarification.
4.)	IAS 23 Borrowing Costs Borrowing costs eligible for capitalisation	The Board concluded that the reference to 'borrowings made specifically for the purpose of obtaining a qualifying asset' in paragraph 14 should not apply to a borrowing originally made specifically to obtain a qualifying asset if that qualifying asset is now ready for its intended use or sale.	The amendment of the standard does not result in material changes in the financial statements.
5.)	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on February 7,2018)	The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.	The amendment of the standard does not result in material changes in the financial statements and the Group's current practice is in line with the clarification.
6.)	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on October 12, 2017)	The issue relates to whether the measurement, in particular relating to impairment, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method.	The IASB added some clarification to the wording of the standard. The amendment does not require an accounting policy change, the Group's current practice is in line with the clarification.
7.)	IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7, 2017)	The IFRIC observed that entities apply diverse reporting methods when the application of tax law is uncertain. The IFRIC developed IFRIC 23 to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent.	The amendment of the standard does not result in material changes in the financial statements and the Group's current practice is in line with the new interpretations.
8.)	Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on October 12, 2017)	The IASB ('Board') has issued a narrow-scope amendment to IFRS 9. The amendment covers two issues: • What financial assets may be measured at amortised cost. • How to account for the modification of a financial liability.	The amendment of the standard does not result in material changes in the financial statements and the Group's current practice is in line with the new interpretations.

2.1.2 Standards, amendments and interpretations that are not yet effective as of December 31, 2019 and have not been early adopted by the Group

Title	Key requirements	Impact on the consolidated financial statments	Effetive date
Definition of a Business – Amendments to IFRS 3	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.	The amendment might have a significant impact in the financial statements of the Group.	January 1, 2020

2.2 Consolidation

2.2.1 Subsidiaries

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

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

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

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

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

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

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

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

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

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

There is one structured entity in the Group that is fully consolidated, see Note 20.1.2.4.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

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

2.3.2 Transactions and balances

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

2.3.3 Group companies

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. Management believes that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions can be material to our financial position, and results of operations. See Notes 9 and 10 for the changes made to useful lives in 2019.

The Group constantly introduces a number of new services or platforms. In the frame of announced group strategy Magyar Telekom continues the acceleration of its fiber rollout, the modernisation of its ED3 network, a migration to Gigabit networks and the retirement of its copper networks. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services or assets are designed to co-exist with the existing platforms, not necessarily resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

3.2 Estimated impairment of goodwill

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

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

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

During the annual impairment test the effects of the adaption of IFRS16 were taken into account in interest expenses, depreciation and CAPEX increase of right-of-use assets, nevertheless it had no significant effect on WACC.

Goodwill is allocated to the operating segments of the Group: MT-Hungary and North Macedonia.

In 2019 and 2018, no goodwill had to be impaired. Details of the carrying amounts of goodwill allocated to the segments are in Note 10.4.

The tables below show the WACCs and PGRs used in the fair value calculations of the Group's operating segments for the goodwill impairment test conducted in 2019 and 2018. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2019 or 2018 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In 2019 we disclose what impact a 5 percentage point increase of the WACC would have on the goodwill. In case of the PGRs we disclose what impact a 15 percentage point decrease of the PGR would have on the goodwill. In case of the cash flow projections we disclose what impact a 20% or a 50% lower than projected cash flow stream would have on the goodwill.

2019	MT-Hungary	North Macedonia
WACC		
Used in the calculation	5.97%	5.42%
If changed to	10.97%	10.42%
Potential impairment (HUF million)	29,351	-
PGR		
Used in the calculation	1.0%	1.0%
If changed to	(14.0%)	(14.0%)
Potential impairment (HUF million)	10,367	424
Cash-flow		
If changed by	(20%)	(20%)
Potential impairment (HUF million)	-	-
If changed by	(50%)	(50%)
Potential impairment (HUF million)	7,164	-

In 2018 we disclosed what impact a 4 percentage point increase of the WACC would have had on the goodwill. In case of the PGRs we disclosed what impact a 9 percentage point decrease of the PGR would have had on the goodwill. In case of the cash flow projections we disclosed what impact a 20% or a 40% lower than projected cash flow stream would have had on the goodwill.

2018	MT-Hungary	North Macedonia
WACC		
Used in the calculation	7.85%	7.10%
If changed to	11.85%	11.10%
Potential impairment (HUF million)	69,029	5,739
PGR		
Used in the calculation	1.0%	1.0%
If changed to	(8.0%)	(8.0%)
Potential impairment (HUF million)	17,211	1,785
Cash-flow		
If changed by	(20%)	(20%)
Potential impairment (HUF million)	-	-
If changed by	(40%)	(40%)
Potential impairment (HUF million)	63,911	4,887

The table below shows what changes can be observed in the 10 year plans prepared in 2018 compared to those prepared in 2019.

	MT-Hungary	North Macedonia
Cumulative average growth rate of revenues during the 10 years compared to 2019	0.4%	0.3%
Cumulative average growth rate of revenues during the 10 years compared to 2018	0.4%	0.5%
Cumulative average growth rate of EBITDA during the 10 years compared to 2019	1.0%	0.9%
Cumulative average growth rate of EBITDA during the 10 years compared to 2018	1.3%	0.9%
Cumulative average growth rate of Capex during the 10 years compared to 2019	(0.7%)	(0.8%)
Cumulative average growth rate of Capex during the 10 years compared to 2018	(1.4%)	(1.4%)

Magyar Telekom's management believes that preparing the value in use (VIU) calculation was unnecessary, since it would have resulted in a lower value than the FVLCS. The VIU method is assuming a model without future investments, meaning that additional capex and related revenues and gains to be recognized in the future cannot be considered in the calculations. Assuring the revenues on long term in a telecom business very much depends on future investments. It is obvious without these capital expenditures the revenue generation would start to decline sharply on a long term.

3.3 Estimated impairment of trade and other receivables

We calculate impairment for accounts receivable based on estimated losses resulting from the inability of our customers to make required payments. The loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet incurred as of the reporting date but which are expected to be incurred in the future (expected losses). For the largest customers and other telecommunications service providers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our accounts receivable balance and our historical write-off experience, customer credit-worthiness and recent and expected changes in our customer payment terms and forward looking information. These factors are reviewed annually, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile, internet, cable TV, etc.) and the environment in which the Group's entities operate in the various markets. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far. The Group applied IFRS 9 from 2018. See also Notes 4 and 5.1.2.

3.4 Contracts with customers

From 2018 with the adoption of IFRS 15 the Group applies the guidance to a group of contracts with similar characteristics instead of to a single contract with a customer. The characteristics considered include mainly the business segment of the customer, business model of the contract, and whether the contract is committed or not.

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

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

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

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

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

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

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

3.5 Annual fees of mobile licenses

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary and North Macedonia. These services are in most cases regulated by these countries' laws or other legislations. These services in most cases require the acquisition of a license or concession, which usually requires a one-off fee and annual payments. It is judgmental whether we consider the annual fees to be reliably estimable or not. If we consider that we can reliably estimate these annual fees, the present value of those are capitalized as part of the cost of the license, otherwise these are recognized as costs in the period they relate to.

As the conditions of the new license contract concluded in Hungary in 2014 and 2013 (see Note 34.1) substantially changed compared to the old ones, in addition to the initial cost of the new frequencies in 2014 (HUF 59 billion) and the renewal of the old ones in 2013 (HUF 38 billion) we also recognized the discounted present value of the future annual license fees (HUF 39 billion in 2014 and HUF 17 billion in 2013).

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

There were several Authority Contracts concluded between the Company and the NRA on the use of frequency bands (800MHz, 900 MHz and 1800 MHz in October, 2014) and on the prolongation of the already existing frequency bands (26 GHz frequency in August 2018 and 2100 MHz in December 2018) which also include annual fees that are in line with the ones achieved in 2013, i.e. we considered them reliably estimable to capitalize their discounted present value as part of the cost of the license.

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

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

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

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

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

Magyar Telekom uses the lessee's incremental borrowing rate.

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

In 2019, the range of used discount rates is 3.57%-5.48%. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.62%. It was calculated as the average of the borowings rates weighted by the discounted lease liability.

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

4 FINANCIAL INSTRUMENTS

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

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

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

4.1 Financial assets – accounting policies

Group classifies its financial assets on the basis of both:

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

in the following categories:

- at amortised cost if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

For the purpose of the above classification:

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

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

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

4.1.1 Impairment of financial assets

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

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

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

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

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

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

- Simplified approach

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

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

- General approach

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

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

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

4.1.2 Financial assets measured at amortised cost

The following items are assigned to this category:

- cash and cash equivalents;
- deposits over 3 months;
- trade receivables;
- other receivables.

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

Cash and cash equivalents

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

Bank deposits with original maturities over 3 months

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

Trade receivables

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

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

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

- for invoices which are overdue
- for invoices which are not yet due ('zero day impairment calculation')
- for unbilled revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Financial assets in the statement of financial position

4.2.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and all highly liquid deposits and securities with original maturities of three months or less, and exclude all overdrafts. These financial assets are exposed to credit risks, for which see more details in Note 5.1.2. No impairment had to be recognized for any of these balances in the reported years.

In HUF millions	**At December 31, 2018**	**At December 31, 2019**
Cash on hand	151	191
Cash in bank (demand deposits)	4,515	13,207
Bank deposits with original maturities less than 3 months	2,538	-
	7,204	13,398

Average interest rates	**At December 31, 2018**	**At December 31, 2019**
Cash on hand	0.00%	0.00%
Cash in bank (demand deposits)	0.10%	0.09%
Bank deposits with original maturities less than 3 months	0.24%	0.00%
Average interest rate	0.15%	0.09%

Cash and cash equivalents by currency In HUF millions	**At December 31, 2018**	**At December 31, 2019**
HUF	2,522	2,388
MKD	1,536	4,552
EUR	2,471	5,633
RON	521	579
USD	95	240
Other	59	6
	7,204	13,398

Cash and cash equivalents by country of location In HUF millions	**At December 31, 2018**	**At December 31, 2019**
North Macedonia	3,960	9,899
Hungary	2,627	2,866
Other countries	617	633
	7,204	13,398

4.2.2 Trade receivables

4.2.2.1 Trade receivables – carrying amounts

In HUF millions	At January 1, 2018	At December 31, 2018	At December 31, 2019
Trade receivables from third parties	130,265	154,579	161,915
Trade receivables from Deutsche Telekom Group companies	9,029	10,143	8,110
Trade receivables from associates and joint ventures	326	549	478
Trade receivables	139,620	165,271	170,503

The current portion of contract assets are shown on a separate line in 2019 (see Note 1.3)

(a) Age profile of Trade receivables

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

In HUF millions	Carrying amount as of Dec 31, 2019	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	154,942	134,370	13,961	2,549	916	1,602	890	654
North Macedonia	14,280	11,174	1,520	367	175	260	184	600
Other countries	1,281	1,153	63	18	12	27	7	1
Total	170,503	146,697	15,544	2,934	1,103	1,889	1,081	1,255

In HUF millions	Carrying amount as of Dec 31, 2018	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	150,647	128,891	15,904	2,518	741	1,254	696	643
North Macedonia	13,806	10,467	1,560	327	130	229	324	769
Other countries	818	697	74	14	14	13	5	1
Total	165,271	140,055	17,538	2,859	885	1,496	1,025	1,413

In HUF millions	Carrying amount as of Jan 1, 2018	of which not past due	of which past due by: less than 30 days	30–60 days	61–90 days	91–180 days	181–360 days	over 360 days
Hungary	125,597	109,047	10,208	2,261	1,143	961	529	1,448
North Macedonia	13,228	9,716	1,570	482	278	352	444	386
Other countries	795	634	76	24	11	30	14	6
Total	139,620	119,397	11,854	2,767	1,432	1,343	987	1,840

The vast majority of trade receivables is impaired on a portfolio basis. The vast majority of past due trade receivables is partly or fully impaired depending on the period of delay of payments.

4.2.2.2 Impairment losses of trade receivables and contract assets

The table below shows the impairment losses and changes of trade receivables therein for 2018 and 2019.

In HUF millions	At December 31,	
	2018	2019
Impairment loss, beginning of period	30,036	32,104
Charged to expense – net (included in Direct costs)	8,271	7,703
Translation difference	384	297
First time adoption of IFRS 9	771	-
Utilized	(7,358)	(9,411)
Impairment loss, end of period	32,104	30,693

The table below shows the impairment losses and changes of contract assets therein for 2018 and 2019.

In HUF millions	At December 31,	
	2018	2019
Impairment loss, beginning of period	-	1,469
Charged to expense – net (included in Direct costs)	1,225	1,351
Translation difference	16	15
First time adoption of IFRS 15	893	-
Utilized	(665)	(1,107)
Impairment loss, end of period	1,469	1,728

The table below includes the impairment losses and the changes therein in 2018 and 2019 for the countries of operation of the Group.

In HUF millions	At January 1, 2018	Charged to expense	Translation difference (and rounding)	First time adoption of new Reporting Standards	Utilized (1)	At December 31, 2018
Hungary	20,072	8,662	(1)	1,108	(7,174)	22,667
North Macedonia	9,815	831	391	556	(849)	10,744
Other countries	149	3	10	-	-	162
Group	30,036	9,496	400	1,664	(8,023)	33,573

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

In HUF millions	At January 1, 2019	Charged to expense	Translation difference (and rounding)	First time adoption of new Reporting Standards	Utilized (1)	At December 31, 2019
Hungary	22,667	7,799	(2)	-	(9,594)	20,870
North Macedonia	10,744	1,212	314	-	(924)	11,346
Other countries	162	43	-	-	-	205
Group	33,573	9,054	312	-	(10,518)	32,421

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

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

4.2.3 Other financial assets

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

4.2.3.1 Other current financial assets

		At December 31,	
In HUF millions		2018	2019
Bank deposits with original maturities over 3 months	(a)	3,915	0
Finance lease receivable	(b)	50	460
Loans and receivables from employees	(c)	355	290
Cashpool receivables	(e)	6,580	3,563
Receivables related to asset-related grants	(g)	-	3,870
Other		731	813
		11,631	8,996

(a) Bank deposits with original maturities over 3 months were deposited in North Macedonia predominantly in euro. They amounted to HUF 0 million as at December 31, 2019 (2018: HUF 3,915 million).

4.2.3.2 Trade receivables over one year

Trade receivables over one year include receivables from customers paying over 1-2 years in installments for telecommunications equipment sold. The impairment losses of trade receivables over one year amounted to HUF 1,336 million as at December 31, 2019 (2018: HUF 1,467 million).

4.2.3.3 Other non current financial assets

In HUF millions		At January 1, 2018	At December 31, 2018	At December 31, 2019
Finance lease receivable	(b)	346	308	886
Employee loans and receivables from employees	(c)	1,429	1,099	739
Derivative financial instruments contracted with related parties	(d)	-	1,026	2,909
Equity instruments	(f)	325	544	711
Other		533	392	348
Total	(h)	2,633	3,369	5,593

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

(c) Employee loans and receivables from employees primarily represent the housing loans provided to the employees of the Group. There are no significant past due employee receivables, and the loans are pledged with mortgage. See also 4.1.4).

(d) Derivative financial instruments contracted with related parties include the fair value of open currency forwards and cross-currency interest rate swaps (see more details in Note 5.1.1.1 and 5.1.1.2).

(e) The aggregate balance of the cashpool is a receivable (HUF 3,563 million) as at December 31, 2019 which also included cashpool liabilities (HUF 1,930 million). The aggregate balance of the cashpool was a receivable (HUF 6,580 million) as at December 31, 2018 which also included cashpool liabilities (HUF 592 million.

December 31, 2019	Carrying amount in HUF millions	Borrower	Currency	Effective Interest rate	Fixed / floating
	1,703	DT AG	HUF	0,00%	floating
	3,790	DT AG	EUR	0,00%	floating
	(1,930)	DT AG	USD	1,82%	floating
Due within 1 year	3,563				

December 31, 2018	Carrying amount in HUF millions	Borrower	Currency	Effective Interest rate	Fixed / floating
	6,249	DT AG	HUF	0.00%	floating
	923	DT AG	EUR	0.00%	floating
	(592)	DT AG	USD	2.46%	floating
Due within 1 year	6,580				

(f) Equity instruments include insignificant investments in equity securities.

(g) In 2016 HUF 12.2 billion of EU funds were granted to Magyar Telekom Plc. as a result of the first and second rounds of a tender aimed at developing digital networks nationwide to cover households in Western and Eastern parts of Hungary with a fixed network capable of reaching speed of at least 30 Mbps. The Company accomplished investments complied with the condition of EU Funding Contract. The financially not settled grant connected to this investment is presented as a receivable. See also Note 14.

(h) The non current portion of contract assets are shown on a separate line in 2019 (see Note 1.3)

4.3 Financial liabilities – accounting policies

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

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

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

4.3.1 Financial liabilities carried at amortized cost

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

(a) Loans and other financial liabilities

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

(b) Trade and other payables

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

4.3.2 Financial liabilities at fair value through profit or loss

The Group currently has no intention of measuring non-derivative financial liabilities at fair value, therefore, only derivative financial instruments are assigned to this category. However, contingent consideration recognised by the Group as acquirer in a business combination to which IFRS 3 applies will subsequently be measured at fair value through profit or loss.

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

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

4.4 Financial liabilities in the statement of financial position

4.4.1 Financial liabilities to related parties

Financial liabilities to related parties include HUF and EUR denominated loans taken from DT Group. In addition, for the whole nominal amount and interest payment of loans denominated in EUR granted by Deutsche Telekom International Finance B.V. (DTIF) we have cross-currency interest rate swap agreements in place (with DT AG) so that Magyar Telekom’s exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis.

For further information please see Note 32.1.1.

The tables below show the details of the financial liabilities towards Deutsche Telekom Group members as at December 31, 2018 and 2019.

December 31, 2019		Carrying amount in HUF millions	Lender	Currency	Effective Interest rate (%)	Fixed / floating	Maturity	Original Term
	(a)	41,315	DT AG	EUR	0.14	fixed	Jan 2020	0 years
		35,000	DT AG	HUF	3.83	fixed	Jun 2020	5 years
Due within 1 year		76,315						
Accrued interest		3,221						
Other financial liabilities		637						
Derivatives		320						
Total current		80,493						
		43,081	DTIF	EUR	1.99	fixed	Jan 2021	6 years
		45,510	DTIF	EUR	1.60	fixed	Jul 2021	5 years
		39,662	DT AG	EUR	0.49	floating	May 2024	5 years
Non current		128,253						
Derivatives		1,570						
Total non current		129,823						

(a) This loan was refinanced by long term loan from DT AG in January 2020.

As at December 31, 2019 current liabilities exceed current assets by HUF 65,012 million primarily due to the short-term loan facilities received from DT AG that was taken to finance working capital and daily ongoing activities. Management believes that short term liabilities from DT AG will be refinanced similar to previous years. Financing needs will also be covered by cash flows generated from operating activities and 3rd party credit line facilities (see Note 5.1.3).

December 31, 2018	Carrying amount in HUF millions	Lender	Currency	Effective Interest rate (%)	Fixed / floating	Maturity	Original Term
	35,000	DT AG	HUF	5.89	fixed	Mar 2019	5 years
	20,000	DT AG	HUF	4.98	fixed	Jun 2019	5 years
	50,000	DT AG	HUF	4.33	fixed	Oct 2019	5 years
Due within 1 year	105,000						
Accrued interest	5,872						
Other financial liabilities	185						
Derivatives	87						
Total current	111,144						
	35,000	DT AG	HUF	3.83	fixed	Jun 2020	5 years
	42,013	DTIF	EUR	1.99	fixed	Jan 2021	6 years
	45,811	DTIF	EUR	1.60	fixed	Jul 2021	5 years
Non current	122,824						
Derivatives	525						
Total non current	123,349						

The loans expired in 2018 were fully refinanced by DT, depending on the actual financing need of Magyar Telekom.

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

In HUF millions	At December 31, 2018		2019	
	Book value	Fair value	Book value	Fair value
HUF denominated loans				
At fixed rate	140,000	147,860	35,000	35,000
At floating rate	-	-	-	-
	140,000	147,860	35,000	35,000
EUR denominated loans				
At fixed rate	87,824	93,552	129,906	134,250
At floating rate	-	-	39,662	41,173
	87,824	93,552	169,568	175,423
USD denominated loans				
At fixed rate	-	-	-	-
At floating rate	-	-	-	-
	-	-	-	-
Accrued interest	5,872	5,872	3,221	3,221
Other financial liabilities	185	185	637	637
Derivatives	612	612	1,890	1,890
Total related party financial liabilities	234,493	247,896	210,316	216,171

The weighted average interest rate on related party loans was 1.55% in 2019 (3.57% in 2018). Any decrease of market interest rates will result in an increase of the fair value of the fixed interest rate liabilities.

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

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

4.4.2 Other financial liabilities

4.4.2.1 Other financial liabilities - Balances

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

In HUF millions		At December 31, 2018	2019
Annual frequency fee payable	(a)	3,722	3,755
Debtor overpayment		1,327	1,324
Finance lease payable	(b)	694	-
Contingent consideration liabilities	(c)	178	124
Other		3,307	3,430
Total other financial liabilities – current		9,228	8,633

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

In HUF millions		At December 31, 2018	2019
Annual frequency fee payable	(a)	42,392	38,989
Finance lease payable	(b)	3,132	-
Contingent consideration liabilities	(c)	530	415
Other		1,865	1,401
Total other financial liabilities – non current		47,919	40,805

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

(a) Annual frequency fee payable

Agreements between Magyar Telekom Plc. and the NRA signed the Authority Contract for the use of several frequency bands usually require a one-off fee and annual payments. In case agreements provide sufficient basis for a reliable estimate of the future annual fees payable related to these Hungarian frequency licenses the present value of the annual fees payable is recognized as part of the carrying amount of the licenses as intangible assets, with corresponding current and non current financial liabilities.

(b) Finance lease payable

Lease liabilities under IFRS16 new standard are presented separately in the Statements of financial positions in 2019 while finance lease liabilities under IAS17 were presented as a part of Other financial liabilities in 2018. See Note 17.2.2 for the details of leases as a lessee.

(c) Contingent consideration liabilities

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

4.4.2.2 Proceeds/repayments of loans and other borrowings

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

4.4.2.3 Additional disclosure about changes in liabilities arising from financing activities

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

Changes in financial liabilities without cash movement are mainly due to FX effects of financial liabilities denominated in EUR and transactions where future cash flows are recognized at the present value of the annual fees payable (e.g.: frequency fees and leases).

In HUF millions	Opening						Changes affecting cash flows from financing activities				Closing
	Balance at January 1, 2019	Effect of first application of IFRS16	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Proceeds from loans and borrowings	Repayment of loans and other borrowings	Repayment of other financial liabilities	Other	Balance at December 31, 2019
Related party loans	233,881			(11,219)	11,932		179,298	(205,466)			208,426
Derivatives from related parties	612				3,048	(1,770)					1,890
Frequency fee payable	46,115			(2,331)	2,359				(3,399)		42,744
Finance lease liabilities	3,826	103,388		(5,557)	23,024				(12,684)		111,997
Debtors overpayment	1,327			(3)							1,324
Contingent consideration	708				11	(180)					539
Other financial liabilities	5,171			109	2,028				(2,477)		4,831
-Less cash and cash equivalents	(7,204)		(6,194)								(13,398)
-Less other current financial assets	(11,631)			3,294	(7,151)	3,475	3,017				(8,996)
Net debt	**272,805**	**103,388**	**(6,194)**	**(15,707)**	**35,251**	**1,525**	**182,315**	**(205,466)**	**(18,560)**	**-**	**349,357**
Treasury share purchase											
Dividends paid to Owners of the parent and Non-controlling interest										(29,723)	
Net cash used in financing activities										**(71,436)**	

In HUF millions	Opening					Changes affecting cash flows from financing activities				Closing
	Balance at January 1, 2018	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Proceeds from loans and borrowings	Repayment of loans and other borrowings	Repayment of other financial liabilities	Other	Balance at December 31, 2018
Related party loans	261,225		(12,113)	15,163		72,953	(103,347)			233,881
Derivatives from related parties	5,612			(3,651)	(1,349)					612
Frequency fee payable	45,214		(2,604)	6,924				(3,419)		46,115
Finance lease liabilities	4,173			430				(777)		3,826
Debtors overpayment	1,110		217							1,327
Contingent consideration	-			708						708
Other financial liabilities	5,868		(572)	1,667				(1,792)		5,171
-Less cash and cash equivalents	(5,399)	(1,805)								(7,204)
-Less other current financial assets	(8,162)		602	(1,304)	3,813	(6,580)				(11,631)
Net debt	**309,641**	**(1,805)**	**(14,470)**	**19,937**	**2,464**	**66,373**	**(103,347)**	**(5,988)**	**-**	**272,805**
Treasury share purchase									(1,822)	
Dividends paid to Owners of the parent and Non-controlling interest									(29,547)	
Net cash used in financing activities									**(74,331)**	

4.4.3 Trade payables

In HUF millions	At December 31, 2018	2019
Payable to DT Group companies	11,119	12,060
Payable to associates and joint ventures	451	351
Other trade payables	163,742	142,637
	175,312	155,048

4.5 Additional disclosures on financial instruments

4.5.1 Financial assets and liabilities

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

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety. As at the date of initial application there were no changes in the carrying amounts arising from the change in measurement attribute on transition to IFRS 9. No fair value gain or loss was recognised in profit or loss or other comprehensive income during the reporting period at the reclassification.

There was no transfer between Level 1 and Level 2 financial instruments.

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

Level 2 information are available to determine derivatives assets and liabilities. Level 1 information is used for determining Fair Value of equity instruments designated as financial assets at fair value through other comprehensive income.

The tables below include the carrying amounts and fair values of the Group's financial assets and liabilities as at December 31, 2019 and 2018.

4.5.1.1 Financial assets – Carrying amounts and fair values

December 31, 2019 In HUF millions	Financial assets			Carrying amount	Fair value
	Amortized cost	FVOCI (Level1)	FVTPL (Level2)		
Cash and cash equivalents	13,398	-	-	13,398	13,398
Bank deposits with original maturities over 3 months	-	-	-	-	-
Cashpool	3,563	-	-	3,563	3,563
Trade receivables	170,503	-	-	170,503	170,503
Trade receivables over 1 year	17,448	-	-	17,448	18,540
Loans and receivables from employees	1,026	-	-	1.026	1,109
Derivative financial instruments contracted with related parties	-	-	2,909	2,909	2,909
Finance lease receivable	1,346	-	-	1,346	1,122
Equity instruments	-	711	-	711	711
Other current receivables	4,686	-	-	4,686	4,686
Other non current receivables	348	-	-	348	310
Total	212,318	711	2,909	215,938	216,851

December 31, 2018	Carrying amount *				Total	Fair value
In HUF millions	Amortized cost	FVOCI (Level 1)	FVTPL (Level 2)	FVTPL (Level 3)		
Cash and cash equivalents	7,204	-	-	-	7,204	7,204
Bank deposits with original maturities over 3 months	3,915	-	-	-	3,915	3,915
Cashpool	6,580	-	-	-	6,580	6,580
Trade receivables within one year	165,271	-	-	-	165,271	165,271
Trade receivables over one year	18,056	-	-	-	18,056	19,133
Loans and receivables from employees	706	-	748	-	1,454	1,524
Derivative financial instruments contracted with related parties	-	-	1,026	-	1,026	1,026
Finance lease receivable	358	-	-	-	358	467
Equity instruments	-	544	-	-	544	544
Other current receivables	731	-	-	-	731	731
Other non current receivables	392	-	-	-	392	325
Total	203,213	544	1,774	-	205,531	206,720

* In 2019 contract assets and liabilities are shown on separate lines (see Note 1.3)

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

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

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

4.5.1.2 Financial liabilities – Carrying amounts and fair values

December 31, 2019	**Carrying amount**			**Total**	**Fair value**
In HUF millions	**Measured at amortized cost**	**FVTPL (Level 2)**	**FVTPL (Level 3)**		
Financial liabilities to related parties	208,426	1,890	-	210,316	216,171
Trade payables	155,048	-	-	155,048	155,048
Frequency fee payable	42,744	-	-	42,744	51,914
Lease liabilities	111,997	-	-	111,997	125,163
Debtors' overpayment	1,324	-	-	1,324	1,324
Contingent consideration liabilities	-	-	539	539	539
Other current liabilities	3,430	-	-	3,430	3,430
Other non current liabilities	1,401	-	-	1,401	1,461
Total	524,370	1,890	539	526,799	555,050

December 31, 2018	**Carrying amount**			**Total**	**Fair value**
In HUF millions	**Measured at amortized cost**	**FVTPL (Level 2)**	**FVTPL (Level 3)**		
Financial liabilities to related parties	233,881	612	-	234,493	247,896
Trade payables	175,312	-	-	175,312	175,312
Frequency fee payable	46,114	-	-	46,114	52,845
Finance lease liabilities	3,826	-	-	3,826	7,119
Debtors' overpayment	1,327	-	-	1,327	1,327
Contingent consideration liabilities	-	-	708	708	708
Other current liabilities	3,307	-	-	3,307	3,307
Other non current liabilies	1,865	-	-	1,865	1,865
Total	465,632	612	708	466,952	490,399

Derivatives and liabilities from contingent consideration of a business combination are measured at fair value, while all other financial liabilities are measured at amortized cost.

Additional fair value information on the loans and other borrowings is provided in Notes 4.4.1 and 4.4.2.

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

FVTPL liabilities include both of derivative financial instruments, where the fair values of which are calculated the same way as FVTPL assets disclosed above in Note 4.5.1.1. and liabilities from contingent consideration of a business combination where the fair value of such liability is determined applying the discounted cash flow method.

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

The only financial instrument which is carried at fair value where the fair value was determined using level 3 type information is the contingent consideration liability. The table below includes the movements of these liabilities.

In HUF millions	2018	2019
Opening balance at January 1	-	708
Increase arising on business combinations	450	-
Increase arising on asset deals	250	-
(Gains) or losses for the period on remeasurement		
- recognised in profit or loss (net financial result)	8	11
- recognised in other comprehensive income	-	-
Payment		(180)
Closing balance at December 31	708	539

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

The tables below include income, expense, gains and losses arising on financial instruments in 2019 and 2018.

2019 In HUF millions	From interest	From subsequent measurement			From derecog-nition	From fee expense	Total net gain / (loss)
		Change in fair value	Currency translation	Impair-ment loss			
Equity instruments (Level 1)	-	137	-	-	-	-	137
Debt instruments (Level 2)	-	-	-	-	-	-	-
Financial assets measured at amortized cost	318	-	(153)	(9,054)	-	(4,720)	(13,609)
Financial liabilities measured at amortized cost	(14,034)	-	(7,074)	-	-	(39)	(21,147)
FVTPL financial instruments (Level 2)	-	606	-	-	840	-	1,446
FVTPL financial instruments (Level 3)	-	(11)	-	-	-	-	(11)
Net gain/(loss) on financial instruments	(13,716)	732	(7,227)	(9,054)	840	(4,759)	(33,184)

2018 In HUF millions	From interest	From subsequent measurement			From derecognition	From fee expense	Total net gain / (loss)
		Change in fair value	Currency translation	Impairment loss			
Equity instruments (Level 1)	-	219	-	-	-	-	219
Debt instruments (Level 2)	-	38	-	-	-	-	38
Financial assets measured at amortized cost	276	-	79	(9,496)	-	(4,375)	(13,516)
Financial liabilities measured at amortized cost	(12,062)	-	(6,042)	-	-	(33)	(18,137)
FVTPL financial instruments (Level 2)	-	3,048	-	-	2,236	-	5,284
FVTPL financial instruments (Level 3)	-	(8)	-	-	-	-	(8)
Net gain/(loss) on financial instruments	(11,786)	3,297	(5,963)	(9,496)	2,236	(4,408)	(26,120)

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

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

4.5.3 Offsetting financial assets and financial liabilities

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

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

In HUF millions	At January 1, 2018		At December 31, 2018		At December 31, 2019	
	Trade receivables	Trade payables	Trade receivables	Trade payables	Trade receivables	Trade payables
Gross amounts of recognized financial instruments *	142,625	138,451	167,267	177,308	172,767	157,312
Gross amounts of financial instruments set off	(3,005)	(3,005)	(1,996)	(1,996)	(2,264)	(2,264)
Net amounts of recognized financial instruments presented in the statement of financial position *	139,620	135,446	165,271	175,312	170, 503	155,048

* See Note 1.3.

4.5.4 Other disclosures about financial instruments

Magyar Telekom Plc. is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 14.7 billion as at December 31, 2019 (HUF 14,1 billion in 2018). In 2019, Magyar Telekom was registered as a participant by National Media and Infocommunications Authority in the auction procedure for spectrum licenses related to 5G and mobile broadband services, in connection with this additional guarantees were required to be issued. These guarantees were issued by banks on behalf of Magyar Telekom Plc. as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, consequently no significant drawdown of the guarantees happened in 2019 or 2018, and is not expected to happen in the future.

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

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

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

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are also used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Group's cash flows, no hedges are concluded to hedge fair values. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the counterparty risk, hedging transactions are generally only concluded with leading Hungarian or international financial institutions or Deutsche Telekom. Nevertheless, hedge accounting is not applied to such transactions, considering that not all the criteria in IFRS 9 are met.

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. These sensitivity analyses calculate with reasonably possible changes in the relevant risk variables and their impact on profit before tax. The impacts disclosed below for the reported periods are subject to an average effective income tax rate of approximately 25%, i.e. the impact on Profit for the year would be approximately 75% of the pre tax amount in a year that is free from significant one-off non-deductible pre-tax impacts and significant changes in the tax legislations. The potential impacts disclosed (less tax) would be the same on the Group's Equity.

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

5.1.1 Market risk

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

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

The fundamentals of Magyar Telekom's financing strategy are established each year by the Board of Directors. The Group's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio KPIs, and monitors their fulfillment annually. At the end of 2019 Magyar Telekom fulfilled both criteria; Total Debt to EBITDA ratio of 1.69 in 2019 (2018: 1.52), while the allowed maximum can be 2.8 and EBITDA to Net financial result ratio of 9.14 in 2019, (2018: 10.81), while the allowed minimum can be 3.0. The Group's Treasury is responsible for implementing the finance policy and for ongoing risk management. The details of foreign exchange, liquidity and counterparty risk management guidelines are determined and monitored by the Group's Treasury continuously.

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

For the presentation of market risks, we also provided sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on Profit before tax. These hypothetical changes were modeled to present a reasonably possible change in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the end of the latest reporting period (2019) and the preceding reporting period (2018). The balances at the end of the reporting period are usually representative for the year as a whole; therefore the impacts are calculated using the year end balances.

The methods and assumptions used in the sensitivity calculations did not change significantly compared to the previous period. As a result of the still rather volatile international capital and securities markets, higher fluctuations of the FX and interest rates are also possible.

5.1.1.1 Foreign currency risk

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

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

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

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

Sensitivity analysis

A reasonably possible strengthening or weakening of the EUR in the table below	Profit or loss	
	Strengthening	**Weakening**
At December 31, 2019		
EUR/HUF (10% movement)		
Loan	(16,957)	16,957
Swap agreements	17,550	(17,550)
Net effect	593	(593)
At December 31, 2018		
EUR/HUF (10% movement)		
Loan	(8,782)	8,782
Swap agreements	9,364	(9,364)
Net effect	582	(582)

(b) Other FX exposure

The remaining FX exposure of Magyar Telekom is mostly related to (i) holding foreign currency cash balances in its subsidiaries in the Southern and Eastern Europe region, and (ii) operating activities through revenues from, and payments to, international telecommunications operators as well as (iii) capital and operating expenditure contracted with vendors in foreign currency. In line with currency hedging policy, the Company holds sufficient amounts of foreign currencies on its bank accounts or buys foreign currencies through FX forward transactions, the amounts of which are determined considering the balance of short term FX denominated trade and leases payables and trade receivables in order to hedge the currency risk arising in connection with those assets and liabilities. The Group's foreign currency denominated liabilities (other than the above described loans) exceed the Group's foreign currency denominated assets, therefore changes of the functional currencies' exchange rates would have the following impact on the profit of the Group.

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The negative fair value of the related open short term forward positions was HUF 0.3 billion (liability as of December 31, 2019 (2018: HUF 0.1 billion liability). These positions were opened to hedge the FX risks of future FX payments exceeding FX income.

Sensitivity analysis

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

In HUF millions	Profit or loss	
	Strengthening	Weakening
At December 31, 2019		
EUR/HUF (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	(2,878)	2,878
Related forward agreements	231	(231)
Net effect	(2,647)	2,647
USD/HUF (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	(289)	289
Related forward agreements	-	-
Net effect	(289)	289
EUR/MKD (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	194	(194)
Related forward agreements	-	-
Net effect	194	(194)
USD/MKD (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank balances	26	(26)
Related forward agreements	-	-
Net effect	26	(26)

In HUF millions	Profit or loss	
	Strengthening	Weakening
At December 31, 2018		
EUR/HUF (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank	(3,683)	3,683
Related forward agreements	1,637	(1,637)
Net effect	(2,046)	2,046
USD/HUF (15% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank	(621)	621
Related forward agreements	76	(76)
Net effect	(545)	545
EUR/MKD (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank	166	(166)
Related forward agreements	-	-
Net effect	166	(166)
USD/MKD (10% movement)		
Net balance of FX denominated trade payables and trade receivables plus bank	11	(11)
Related forward agreements	-	-
Net effect	11	(11)

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

5.1.1.2 Interest rate risk

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

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

Changes in the market interest rate of interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IFRS 9 affect Other finance expense - net (net gain/loss from re-measurement of the financial assets to fair value).

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

(a) Financial assets

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

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

(b) Financial liabilities

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

As the vast majority of debt portfolio is denominated in HUF, or swap agreements are in place so that the loans payable are exposed to changes in HUF interest rates, the Group is mostly exposed to the HUF interest rate fluctuations for its financial liabilities. To control this interest rate risk, a combination of fixed and floating rate debt is used. Fixed interest-bearing debts (including loans swapped to fixed interest and excluding loans swapped to floating interest) made up 99% of the Group's total debt as of December 31, 2019 (2018: 100%).

Cash-flow sensitivity analysis for variable rate instruments

Floating interest-bearing debts (including loans swapped to floating interest and excluding loans swapped to fixed interest) made up 1% of the Group's total debt as of December 31, 2019 (2018: 0%).

A reasonably possible change of 100 basis points in interest rates during the reporting period (assuming the year-end balance throughout the reporting period) would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

In HUF millions	Profit or loss	
	100 bp increase	100 bp decrease
At December 31, 2019		
Floating rate instrument	(416)	416
IR swap	397	(397)
Cash-flow sensitivity (net)	(19)	19
At December 31, 2018		
Floating rate instrument	-	-
IR swap	-	-
Cash-flow sensitivity (net)	-	-

5.1.2 Credit risk

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

The maximum exposure to credit risk as at the end of the reporting period are represented by the carrying amounts of the financial assets in the Statement of financial position.

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

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

Cash and cash equivalents and Bank deposits with maturities over 3 months held in North Macedonia are primarily denominated in MKD and EUR. Cash and cash equivalents and Bank deposits with maturities over 3 months deposited in North Macedonia run higher counterparty risk, due to the small amount of internationally substantial financial institutions in that country. In this way we diversify excess cash among the biggest and financially strongerst local financial institutions and decrease the maturity to a reasonable level. The total cash kept with Macedonian banks amounted to HUF 9.8 billion as of December 31, 2019 (2018: HUF 7.8 billion).

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

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

In HUF millions	**At December 31,**	
	2018	**2019**
Hungary	150,647	154,942
North Macedonia	13,806	14,280
Other	818	1,281
	165,271	170,503

The amounts in the table above are shown net of provisions for impairment losses. The annual bad debt expense of the Group in 2019 was 1.4% (2018:1.4%) of the consolidated revenues. Adverse changes in customer payment behavior in the future, however, may result in higher impairment losses. Each additional 1 percentage point of uncollectible revenue would result in additional impairment charges of HUF 6.7 billion in 2019 (2018 HUF 6.6 billion).

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

Hungary

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

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

North Macedonia

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

5.1.3 Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient Cash and cash equivalents and Bank deposits as well as available funding through adequate amount of committed credit lines. The Group's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn credit lines amounted to HUF 17.2 billion as at December 31, 2019 (2018: HUF 43.5 billion).

The following two tables summarize the maturity structure of Magyar Telekom's financial liabilities including the interest payable on those liabilities as of December 31, 2019 and 2018. As the majority of the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

December 31, 2019 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	155,048	155,048	-	-
Financial liabilities to related parties	218,539	82,892	135,647	-
Lease liabilities	139,095	22,205	61,099	55,791
Other financial liabilities	65,544	10,903	22,239	32,402
Total other financial liabilities	204,639	33,108	83,338	88,193
Total cash flows	578,226	271,048	218,985	88,193
Open swap positions' cash flows				
Gross cash inflow in EUR million	404	11	393	-
Gross cash inflow in HUF million (at spot rate)	133,530	3,636	129,894	-
Gross cash outflow in HUF million	134,847	5,905	128,942	-
Net cash inflow in HUF million	(1,317)	(2,269)	952	-
Open forward positions' cash flows				
Gross cash inflow in EUR million	132	132	-	-
Gross cash inflow in USD million	-	-	-	-
Total gross cash inflow in HUF million (at spot rate)	43,629	43,629	-	-
Gross cash outflow in HUF million	43,951	43,951	-	-
Net cash inflow in HUF million	(322)	(322)	-	-

December 31, 2018 (in HUF millions)	Total	within 1 year	1 to 5 years	after 5 years
Trade payables	175,312	175,312	-	-
Financial liabilities to related parties	246,003	114,808	131,195	-
Lease liabilities	9,551	1,827	5,053	2,671
Other financial liabilities	53,321	8,534	16,728	28,059
Total other financial liabilities	62,872	10,361	21,781	30,730
Total cash flows	484,187	300,481	152,976	30,730
Open swap positions' cash flows				
Gross cash inflow in EUR million	290	10	280	-
Gross cash inflow in HUF million (at spot rate)	93,238	3,215	90,023	-
Gross cash outflow in HUF million	95,291	4,844	90,447	-
Net cash inflow in HUF million	(2,053)	(1,629)	(424)	-
Open forward positions' cash flows				
Gross cash inflow in EUR million	93	93	-	-
Gross cash inflow in USD million	2	2	-	-
Total gross cash inflow in HUF million (at spot rate)	30,462	30,462	-	-
Gross cash outflow in HUF million	30,521	30,521	-	-
Net cash inflow in HUF million	(59)	(59)	-	-

The average maturity of Magyar Telekom's debt portfolio was 1.50 years as at December 31, 2019 (2018: 1.36 years). The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2019 and 2018. For further information see Note 4.4.1.

5.2 Capital risk management

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

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

The Company paid HUF 26,068 million dividend in 2019 (2018: HUF 26,068 million), and the Company's Board recommends to declare a HUF 20,855 million dividend at the April, 2020 Annual General Meeting.

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

The equity capital, which the Group manages, amounted to HUF 632 billion on December 31, 2019 (2018: HUF 615 billion).

6 INCOME TAX

6.1 Income taxes – accounting policies

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

6.1.1 Current taxes

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

Income taxes comprises of corporate income taxes and other income taxes.

6.1.1.1 Corporate income taxes

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

6.1.1.2 Other income taxes

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

6.1.2 Deferred taxes

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

Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

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

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

	For the year ended December 31,	
In HUF millions	**2018**	**2019**
Corporate income tax	2,434	3,266
Other income taxes	8,991	9,600
Deferred income taxes	1,908	1,767
Total income tax expense	13,333	14,633

6.2.1 Tax expense reconciliation

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

In HUF millions		For the year ended December 31, 2018	2019
Consolidated IFRS profit before income tax		59,782	59,145
Tax at 9%		(5,380)	(5,323)
Impact of different tax rates	(a)	(124)	(147)
Tax shield of items not subject to income tax	(b)	1,010	611
Tax impact of non deductible items	(c)	(742)	(1,097)
Other income taxes	(d)	(8,991)	(9,600)
Impact of tax deductibility of other income taxes	(e)	809	864
(De)/recognized deferred tax on tax losses	(f)	(19)	(5)
Investment tax credit accretion	(g)	104	64
Income tax expense		(13,333)	(14,633)
Effective tax rate		22.30%	24.74%

(a) Impact of different tax rates

From January 1, 2017 a flat tax rate of 9% is effective in Hungary.

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

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

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

(c) Tax impact of non deductible items

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

(d) Other income taxes

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

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

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

(f) (De)/recognized deferred tax on tax losses

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

(g) Investment tax credit accretion

Investment tax credit accretion includes the increase of the net present value of the investment tax credit deriving from the utilization of the tax credits in periods subsequent to the year of recognition. See also Note 6.3.2.1.

6.3 Income taxes in the Statement of financial position

6.3.1 Current taxes in the Statement of financial position

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

6.3.2 Deferred taxes in the Statement of financial position

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

In HUF millions	Balance at Dec. 31, 2017	Effect on profit	Other movements	Balance at Dec. 31, 2018	Effect on profit	Other movements	Balance at Dec. 31, 2019
Deferred tax assets and (liabilities)							
Investment tax credits (Note 6.3.2.1)	7,738	(3,543)	(39)	4,156	(3,327)	29	858
Net operating loss carry-forward (Note 6.4.)	350	(202)	-	148	(129)	-	19
Other financial assets	(47)	4	(102)	(145)	(255)	(20)	(420)
Impairment of receivables and inventory	1,411	183	-	1,594	(231)	-	1,363
Property, plant and equipment and intangible assets	(9,877)	875		(9,002)	1,724	-	(7,278)
Goodwill	(12,843)	(1,638)	-	(14,481)	-	-	(14,481)
Trade and other payables	69	(69)	-	-	-	-	-
Loans and other borrowings	-	1	-	1	(446)	-	(445)
IFRS transition	(1,362)	708	-	(654)	654	-	-
Deferred revenue	(142)	99	-	(43)	237	-	194
First-time application of IFRS 15	-	1,436	(1,436)	-	-	-	-
Provisions for liabilities and charges	1,019	238	-	1,257	6	-	1,263
Total net deferred tax liability	(13,684)	(1,908)	(1,577)	(17,169)	(1,767)	9	(18,927)
Of which deferred tax liabilities	(13,743)			(17,246)			(19,030)
Of which deferred tax assets	59			77			103
Items included in other movements:							
First-time application of IFRS 15			(1,436)				
Relating to the merger of subsidiary			(102)			(20)	
Investment tax credit adjusted against P&L			(39)			29	

Items included in the Other movements column are the tax effects of the fair value or foreign exchange adjustments relating to the subsidiaries (HUF 73 million for ITgen merger and HUF 29 million for MKT in 2018 and HUF 20 million for MKT in 2019).

In addition items included in the Other movements column indicate the investment tax credit decrease in 2018 (HUF 39 million) and tax investment credit increase in 2019 (HUF 29 million), which was adjusted against the P&L in deferred taxes. Items in the line First-time application of IFRS 15 in 2018 include the effect of the transition to IFRS15, the standard on Revenue from contracts with customers.

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

The Group’s net deferred tax liability balance as at December 31, 2019 is HUF 18,927 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 2,602 million net deferred tax asset is expected to reverse in 2020 (deferred tax asset of HUF 3,434 million and deferred tax liability of HUF 832 million).

The Group's net deferred tax liability balance as at December 31, 2018 is HUF 17,169 million which includes a high amount of individual deferred tax asset and liability items (see in the above table). Of these items, approximately HUF 2,829 million net deferred tax asset was expected to reverse in 2019 (deferred tax asset of HUF 3,356 million and deferred tax liability of HUF 527 million).

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

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities or assets have not been recognized amounted to a net liability of HUF 14,219 million at December 31, 2019 (HUF 14,916 million at December 31, 2018).

Deferred tax liability on goodwill is related to the goodwill arising from the acquisition of subsidiaries (Emitel and T-Mobile) in the Company's financial statements, which had merged into Magyar Telekom Plc. The amortization of goodwill is a tax deductible expense in corporate income tax, while under IFRSs there is no amortization accounted in the books. The difference deriving from the two types of accounting is represented by the deferred tax liability.

6.3.2.1 Investment tax credits

The tax credit programs commenced in 2013 are "large investment" programs, where the investment value should have exceeded HUF 3 billion and certain special criteria (i.e. headcount increase) should have been met. As these investment tax credits are of a government grant nature, Magyar Telekom recognized the deferred tax asset against the cost of the related investment. There are no unrecognized tax credits. If the tax credits are not utilized in the year when earned, the amount of tax credits carried forward can be utilized at a higher amount as outstanding amounts are accreted. This accretion is recognized as an increase in the investment tax credit balance against a reduction in the current year deferred tax expense.

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

Earned in year	Amount of qualifying investment	Amount of tax credit earned	Accretion recognized in tax expense to date	Tax credit utilized	Tax credit carried forward at December 31, 2019	Tax credit carried forward at December 31, 2018	Expires in year
2013	13,735	4,701	580	(4,625)	656	3,988	2023
2014	490	158	14	-	172	168	2023
2019	79	-	29	-	29	-	2022
Total	14,304	4,859	623	(4,625)	857	4,156	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Group's entities, they had to comply with strict requirements as set out in the relevant tax regulations. The Company fulfilled the headcount criterion as well as the 5-year operational criterion during the previous years.

6.4 Tax loss carry forwards

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

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

Expires in year	Tax loss carry forwards at December 31, 2018	Tax loss carry forwards at December 31, 2019
2018	55	-
2019	90	89
2020	133	135
2022	2	2
2030	1,563	16
Total	1,843	242
Tax losses for which deferred tax is recognized	1,633	192
Tax losses for which deferred tax is not recognized	210	50
Total	1,843	242

The Hungarian corporate tax law was amended as of January 1, 2015 including that all tax loss carry forwards incurred up to December 31, 2014 may be used to reduce the pre-tax profit until no later than December 31, 2030.

6.5 Tax reviews

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

6.6 Dividends paid by Magyar Telekom Plc.

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

6.7 IFRS Transition of Magyar Telekom Plc.

As Magyar Telekom Plc. is listed on the Budapest Stock Exchange, it was obliged to adopt IFRS in its statutory financial statements from 2017 in accordance with the Act C of 2000 on Accounting. As a result of the IFRS transition, Magyar Telekom Plc. had an IFRS transition difference of HUF 21.8 billion, which qualified as a corporate income tax increasing item. The corporate income tax incurred in relation to this transition difference was paid in 3 equal instalments in 2017-2019, the tax effect for 2019 was HUF 654 million.

Other companies of the Group did not elect to adopt IFRS for their local financial statements.

7 INVENTORIES

7.1 Inventories – accounting policies

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

Impairment losses on Inventories are recognized in Other operating expenses.

7.2 Inventories in the statement of financial position

In HUF millions	At December 31, 2018	At December 31, 2019
Inventory for resale	17,286	18,461
Other inventory	2,069	1,608
Subtotal	19,355	20,069
Less allowances	(237)	(236)
	19,118	19,833

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

The Group has no inventory pledged as security as at December 31, 2018 or December 31, 2019.

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

8.1 Non current assets held for sale – accounting policies

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

8.2 Assets held for sale in the statement of financial position

In HUF millions	At December 31, 2018	At December 31, 2019
Property, plant and equipment	-	659
Total assets held for sale	-	659

Assets held for sale include primarily land and buildings identified for sale, which is expected within 12 months, as a result of the continuing improvement of utilization of properties.

9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Government grants relating to the purchase of PPE are deducted from the original cost of the items and are recognized in the Profit for the year through the reduced amount of depreciation of the related assets over their useful lives. Investment tax credits relating to qualifying investment projects (Note 6.3.2.1) are also recognized in this manner.

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

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

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

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

Depreciation is calculated on a straight-line basis from the time the assets are deployed and charged over their economic useful lives. On an annual basis, Magyar Telekom reviews the useful lives and residual values for consistency with current development plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 9.3. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

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

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

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

The fair values of the individual tangible assets of the Group in most cases cannot be determined as individual assets do not generate cash flows. Instead, the Group determines CGUs to which the individual assets are allocated and the fair values can only be determined at CGU level, primarily by using discounted cash flow analyses. See also Note 3.2. Corporate assets which have the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs when conducting impairment tests.

Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred. When conducting the impairment tests, Magyar Telekom allocates goodwill to its cash generating units determined at operating segment level. See also Note 3.2. Operating segments may include one clearly identifiable company or a group of companies, or certain components of one company and other companies as well.

The Group establishes the segments' recoverable amounts by determining their fair value less costs to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values determined as described above are used as a basis when establishing the need for an impairment of any goodwill allocated to the operating segments. See also Note 3.2. If the calculated fair value less costs to sell is lower than the carrying amount of the operating segment, goodwill is impaired.

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

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

In HUF millions	Land and equivalent rights	Buildings	Telecom equipments	Other equipment	Total
At January 1, 2018					
Cost	7,873	151,129	1,014,408	104,535	1,277,945
Accumulated depreciation	(2,417)	(61,726)	(672,997)	(82,300)	(819,440)
Carrying amount	**5,456**	**89,403**	**341,411**	**22,235**	**458,505**
Of which held for sale					(162)
					458,343
Carrying amount – January 1, 2018	5,456	89,403	341,411	22,235	458,505
Investments	34	2,061	52,692	7,386	62,173
Additions due to business combinations	-	-	779	(1,924)	(1,145)
Changes due to revisions of asset retirement obligations	-	-	140	(1)	139
Disposals	(665)	(4,708)	(538)	(278)	(6,189)
Depreciation charge	(77)	(5,106)	(59,791)	(7,784)	(72,758)
Reclassifications	22	1,226	(1,952)	704	-
Exchange differences	3	692	1,562	165	2,422
Carrying amount – December 31, 2018	**4,773**	**83,568**	**334,303**	**20,503**	**443,147**
At December 31, 2018					
Cost	7,267	147,112	1,035,352	103,904	1,293,635
Accumulated depreciation	(2,494)	(63,544)	(701,049)	(83,401)	(850,488)
Carrying amount	4,773	83,568	334,303	20,503	443,147
Of which held for sale					-
					443,147
Carrying amount – January 1, 2019	**4,773**	**83,568**	**334,303**	**20,503**	**443,147**
Adjusment of first time application of IFRS 16 Note (1.4)	-	(1,609)	(950)	-	(2,559)
Restated opening net book value	4,773	81,959	333,353	20,503	440,588
Investments	8	2,627	58,351	5,101	66,087
Additions due to business combinations	-	-	504	360	864
Changes due to revisions of asset retirement obligations	-	80	-	-	80
Disposals	(483)	(6,143)	(451)	(354)	(7,431)
Depreciation charge	(70)	(4,685)	(61,685)	(8,068)	(74,508)
Reclassifications	200	(30)	(2,216)	2,046	-
Exchange differences	1	513	1,136	155	1,805
Carrying amount – December 31, 2019	**4,429**	**74,321**	**328,992**	**19,743**	**427,485**
At December 31, 2019					
Cost	6,956	135,192	1,057,803	102,063	1,302,014
Accumulated depreciation	(2,527)	(60,871)	(728,811)	(82,320)	(874,529)
Carrying amount	**4,429**	**74,321**	**328,992**	**19,743**	**427,485**
Of which held for sale	(111)	(543)	(5)	-	(659)
)					**426,826**

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

	Land	Building	Tel.equipment	Other equipment	Total
Carrying amount – January 1, 2019.........	**-**	**-**	**-**	**-**	**-**
	673	74,197	29,986	3,192	108,048
Restated opening net book value 01.01.2019	**673**	**74,197**	**29,986**	**3,192**	**108,048**
Investments	220	13,788	6,350	2,525	22,883
Additions due to business combinations	-	-	-	-	-
Changes due to revisions of asset	-	-	-	-	-
Disposals	(5)	(6,297)	(469)	(137)	(6,908)
Depreciation charge.......................................	(218)	(11,972)	(3,572)	(1,653)	(17,415)
Reclassifications	-	-	-	-	-
Exchange differences	19	53	-	2	74
Carrying amount – December 31, 2019	**689**	**69,769**	**32,295**	**3,929**	**106,682**
At December 31, 2019					
Cost	909	81,047	35,833	5,508	123,297
Accumulated depreciation	(220)	(11,278)	(3,538)	(1,579)	(16,615)
Carrying amount	**689**	**69,769**	**32,295**	**3,929**	**106,682**

For further information, please also see Note 17.

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 56,959 million as at December 31, 2019 (2018: HUF 59,250 million). In the table above the assets in course of construction are shown in the categories where the asset is expected to be classified when placed into service.

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

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

Changes due to revisions of asset retirement obligations represent the adjustments of the carrying amounts of the assets against a provision for asset retirement obligation (see also Note 13.2.4).

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

No impairment was identified in 2019 and 2018.

The Group has no PPE with restricted titles or pledged as security as at December 31, 2019 or December 31, 2018.

9.3 Review of useful lives

The reviews of the useful lives (and residual values) of property, plant and equipment during 2019 affected the lives of a large number of assets primarily inhouse network. The revisions resulted in the following change in the original trend of depreciation in the current and future years.

In HUF millions	**2019**	**2020**	**2021**	**2022**	**After 2022**
Increase / (decrease) in depreciation expense	4,486	(2,076)	602	399	(3,411)

10 INTANGIBLE ASSETS

10.1 Intangible assets – accounting policies

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

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

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

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

On an annual basis, Magyar Telekom reviews the useful lives for consistency with current development and replacement plans and advances in technology. For further details on the groups of assets impacted by the most recent useful life revisions refer to Note 10.3. The annual revisions are conducted in the second quarter of the year and the resulting changes are applied from the third quarter of the year. In addition to the regular revisions, any investment decisions made throughout the year may also result in a change of useful life of a group of assets in any period of the year.

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

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

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

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

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

The fair values of the individual intangible assets of the Group in most cases cannot be determined as individual assets do not generate cash flows. Instead, the Group determines CGUs to which the individual assets are allocated and the fair values can only be determined at CGU level, primarily by using discounted cash flow analyses. See also Note 3.2. Corporate assets which have the distinctive characteristics of not generating cash inflows independently of other assets or groups of assets are allocated to CGUs when conducting impairment tests.

Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may have occurred. When conducting the impairment tests, Magyar Telekom allocates goodwill to its cash generating units determined at operating segment level. See also Note 3.2. Operating segments may include one clearly identifiable company or a group of companies, or certain components of one company and other companies as well.

The Group establishes the segments' recoverable amounts by determining their fair value less cost to sell by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values determined as described above are used as a basis when establishing the need for an impairment of any goodwill allocated to the operating segments. See also Note 3.2. If the calculated fair value less cost to sell is lower than the carrying amount of the operating segment, goodwill is impaired.

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

10.2 Intangible assets in the statement of financial position

In HUF millions	Goodwill	Concessions and licenses	Software	Other	Total
At January 1, 2018					
Cost	212,284	184,071	305,563	22,904	724,822
Accumulated amortization	-	(62,559)	(209,682)	(11,123)	(283,364)
Carrying amount	212,284	121,512	95,881	11,781	441,458
					-
Carrying amount – January 1, 2018	**212,284**	**121,512**	**95,881**	**11,781**	**441,458**
Investments	-	15,713	27,564	2,095	45,372
Additions due to business combinations	820	-		2,618	3,438
Disposals	-	-	(102)	(1)	(103)
Depreciation charge	-	(14,756)	(24,739)	(3,276)	(42,771)
Reclassifications	-	-	-	-	-
Exchange differences		112	241	205	558
Carrying amount – December 31, 2018	**213,104**	**122,581**	**98,845**	**13,422**	**447,952**
At December 31, 2018					
Cost	213,104	200,075	333,289	26,934	773,402
Accumulated amortization	-	(77,494)	(234,444)	(13,512)	(325,450)
Carrying amount	**213,104**	**122,581**	**98,845**	**13,422**	**447,952**
Of which held for sale					-
					447,952
Carrying amount – January 1, 2019	**213,104**	**122,581**	**98,845**	**13,422**	**447,952**
Adjusment of first time application of IFRS 16 Note (1.4)	-	-	-	(203)	(203)
Restated opening net book value	**213,104**	**122,581**	**98,845**	**13,219**	**447,749**
Investment	-	(60)	19,565	3,964	23,469
Additions due to business combinations	3	-	-	282	285
Disposals		-	(623)	(2)	(625)
Depreciation charge	-	(14,937)	(26,393)	(4,129)	(45,459)
Reclassifications	-	-	(67)	67	-
Exchange differences	-	79	193	130	402
Carrying amount – December 31, 2019	**213,107**	**107,663**	**91,520**	**13,531**	**425,821**
At December 31, 2019					
Cost	213,107	200,244	342,321	27,460	783,132
Accumulated amortization	-	(92,581)	(250,801)	(13,929)	(357,311)
Carrying amount	**213,107**	**107,663**	**91,520**	**13,531**	**425,821**
Of which held for sale					-
					425,821

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

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

Investments represent the regular investing activity in intangible assets. Additions to Concessions and licenses in 2019 include the cost of the right of use of the new frequency bands prolonged by the NRA for the Company in 2018 and the present value of the annual fees payable for the use of these frequencies until 2027. (See also Notes 4.4.2 and 34.)

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

The Group has no intangible assets with restricted title or pledged as security as at December 31, 2019 or December 31, 2018.

10.3 Useful lives

The reviews of the useful lives of intangible assets during 2019 affected the lives of a large number of assets primarily software. The revisions resulted in the following change in the original trend of amortization in the current and future years.

In HUF millions	2019	2020	2021	2022	After 2022
Increase / (decrease) in depreciation expense	(531)	(1,070)	259	620	723

10.4 Goodwill

For the goodwill impairment tests, the total amount of goodwill was allocated to the operating segments of the Group and the recoverable amounts of the operating segments were determined based on fair values less costs of disposal based on Level 3 inputs in the fair value calculations (Note 4.5.1). The recoverable amounts of the segments disclosed in the table below exclude net debts (Note 5.2), which are not allocated to the segments. For further information, please also see Note 3.2.

In HUF millions	As at December 31, 2018			2019		
	Carrying amount of goodwill allocated	Carrying amount of operating segment (incl. goodwill)	Recoverable amount of operating segment	Carrying amount of goodwill allocated	Carrying amount of operating segment (incl. goodwill)	Recoverable amount of operating segment
MT-Hungary	192,905	785,911	1,250,068	192,908	874,916	1,783,096
North Macedonia	20,199	65,160	181,057	20,199	116,537	257,766
Total	213,104	851,071	1,431,125	213,107	991,453	2,040,862

The Group regularly carries out an impairment test on goodwill in the last quarter of the financial years. During the annual impairment test conducted in the last quarter of 2018 and 2019 no goodwill impairment was established for any goodwill of the Group.

10.5 Significant individual other intangible assets

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

In HUF millions	As at December 31, 2018		As at December 31, 2019	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Hungarian mobile licenses acquired in 2014	77,211	15	72,230	14
Hungarian mobile licenses prolonged in 2018	39,509	3-7	30,842	2-7
Hungarian 3G license	1,788	3-8	1,306	2-7
Macedonian 4G license	2,473	15	2,373	14
Macedonian 2G/3G license	339	10-11	314	9-10
Other	1,261	3–8	598	2–7
Total concessions and licenses	122,581		107,663	

11 INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

11.1 Associates and joint arrangements – accounting policies

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

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

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

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

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

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

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

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

11.2 Associates

The Group had no significant associates at December 31, 2018 and 2019. The Group had no contingent liabilities or commitments related to its associates at December 31, 2018 and 2019.

11.3 Joint ventures

The only joint venture of the Group at December 31, 2018 and 2019 was E2 Hungary Zrt. established in 2015 by Magyar Telekom Plc. and MET Holding AG. E2 Hungary provides energy services for business customers from 2016. The company's issued capital is HUF 200 million, and additional HUF 1,800 million was contributed as additional paid-in capital which were fully paid by both parties. The joint venture is set up by the parties on a 50:50 ownership basis with balanced rights in the management structure. The investment was recognized at cost in 2015 and E2 Hungary Zrt. is accounted for using the equity method. The operations of the company resulted in HUF 721 million profit in 2018 and HUF 20 million profit in 2019. Current year profit is preliminary at the date of the approval of these financial statements. HUF 910 million was declared as dividend in 2019 (HUF 1,038 million in 2018).

The Group had no contingent liabilities or commitments relating to its joint ventures at December 31, 2018 and 2019.

The following table shows the total assets and liabilities as at December 31, 2018 and 2019, and revenues and profit for the year ended December 31, 2018 and 2019 of E2, the significant joint venture of the Group.

In HUF millions	**2018**	**2019**
Current assets	16,816	14,921
Non current assets	329	402
Current liabilities	14,423	13,303
Non current liabilities	-	-
Revenues	57,260	68,595
Profit/ (Loss) for the year	721	20

11.4 Joint operations

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

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

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

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

12 OTHER ASSETS

12.1 Other current assets

In HUF millions	At January 1, 2018	At December 31, 2018	At December 31, 2019
Prepayments and advance payments	8,756	9,784	5,494
Other taxes receivable	1,657	2,130	708
Other	2,893	215	235
Total	**13,306**	**12,129**	**6,437**

12.2 Other non current assets

Other non current assets mainly include assets recognized from the costs to obtain contracts with customers (amounting to HUF 4,551 million, see also Note 18.4) as at December 31, 2019.

13 PROVISIONS

13.1 Provisions – accounting policies

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

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the financial statement date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. Expenses for provisions are recognized in the statement of profit or loss line where the actual expense is expected to be incurred. When a provision is released unused, it is released to the same line of the statement of profit or loss where it was originally provided for.

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

13.2 Provisions in the statement of financial position

In HUF millions	Severance	Share-based payments	Other employee related	Total Employee related	Legal cases	ARO	Other	Total
January 1, 2018	1,605	848	790	3,243	1,012	7,488	755	12,498
Amounts reversed	(284)	(74)	(37)	(395)	(149)	(35)	(141)	(720)
Additions	2,999	731	5	3,735	1,173	174	1,094	6,176
Interest	-	1	-	1	28	190	-	219
Exchange rate difference	-	1	10	11	32	(2)	(1)	40
Amounts utilized (incl. interest component)	(2,723)	(56)	(633)	(3,412)	-	(43)	(75)	(3,530)
December 31, 2018	1,597	1,451	135	3,183	2,096	7,772	1,632	14,683
Of which current	1,316	725	-	2,041	884	23	470	3,418
Of which non current	281	726	135	1,142	1,212	7,749	1,162	11,265
January 1, 2019	1,597	1,451	135	3,183	2,096	7,772	1,632	14,683
Amounts reversed	(385)	(161)	-	(546)	(73)	(317)	(1,564)	(2,500)
Additions	3,505	1,107	39	4,651	186	397	2,323	7,557
Interest	-	(4)	-	(4)	113	180	-	289
Exchange rate difference	(2)	1	4	3	25	1	1	30
Amounts utilized (incl. interest component)	(3,550)	(745)	(4)	(4,299)	(21)	(52)	(486)	(4,858)
December 31, 2019	1,165	1,649	174	2,988	2,326	7,981	1,906	15,201
Of which current	916	1,026	-	1,942	1,034	21	1,758	4,755
Of which non current	249	623	174	1,046	1,292	7,960	148	10,446

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

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

13.2.1 Severance payment

The majority of the provision for severance as at December 31, 2019 relates to the stand-by-pool and the employee terminations payable in 2020 in relation to the further efficiency improvement in Magyar Telekom Plc. The stand-by-pool of employees includes people whose legal status is an employee, however, these people do not provide services to the Company any more, but the Company provides a reduced amount of compensation and pays social security expenses for them. This is a way of severance that is not paid in one lump sum but in monthly installments following the discontinuation of services. The majority of the provision for severance as at December 31, 2018 also related to the stand-by-pool and the employee terminations paid in 2019 in relation to the efficiency improvement in Magyar Telekom Plc.

1,333 employees left the Group in 2019 (2018: 1,181), related to which termination payments were made. The balance of provision as at December 31, 2019 relates to 136 employees and former employees in the stand-by-pool (2018: 164).

The total payments made in relation to employee termination in 2019 amounted to HUF 5,226 million (2018: HUF 4,486 million).

13.2.2 Share based payments

The bases of the provisions for share-based payments are described in Note 20.1.

13.2.3 Legal cases

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

13.2.4 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year. The revisions did not result in material changes in 2019 or 2018.

13.2.5 Other provisions

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

14 OTHER CURRENT LIABILITIES

In HUF millions		At January 1, 2018	At December 31, 2018	At December 31, 2019
Other taxes and social security		14,567	12,708	11,920
Salaries and wages		10,466	12,412	8,689
Deferred revenue and advances received		2,401	2,003	2,192
Advances received for asset-related grants	(a)	4,648	1,851	409
Dividend payable to non-controlling interests		22	24	34
Other liabilities		49	25	39
Total	(b)	32,153	29,023	23,283

(a) Advances received for asset-related grants

The Company received HUF 6.8 billion grant related to EU fund in advance. From which HUF 409 million has not been used yet. See also Note 4.2.3.3.

(b) In 2019 contract assets and liabilities are shown on separate lines (see Note 1.3).

15 OTHER NON CURRENT LIABILITIES

In 2018, other non current liabilities primarily include deferred revenues related to long term projects resulting from the non current contract liabilities. In 2019 contract assets and liabilities are shown on a separate lines (see Note 1.3)

16 NON-CONTROLLING INTERESTS

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

In HUF millions	MKT	Other	Total
Balance at January 1, 2018	33,470	(592)	32,878
Transition to IFRS 9 and 15	671	-	671
Dividend declared	(3,482)	-	(3,482)
Total comprehensive income	4,374	-	4,374
Balance at December 31, 2018	35,033	(592)	34,441
Dividend declared	(3,596)	(67)	(3,663)
Total comprehensive income	4,388	-	4,388
Balance at December 31, 2019	35,825	(659)	35,166

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

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

a) Summarized balance sheets

In HUF millions	MKT	
	2018	2019
Current assets	24,520	27,496
Current liabilities	(18,777)	(20,663)
Non-current assets	98,786	100,376
Non-current liabilities	(2,875)	(3,776)
Net assets	101,654	103,433

b) Summarized income statements

In HUF millions	MKT	
	2018	2019
Revenues	54,680	57,773
Profit before income tax	8,035	8,887
Profit for the period	6,986	7,777

c) Summarized cash flows

In HUF millions	MKT	
	2018	2019
Net cash generated from operating activities	19,453	22,312
Net cash from investing activities	(9,656)	(5,451)
Dividends/capital reduction paid to Controlling interests	(4,550)	(4,701)
Dividends/capital reduction paid to Non-controlling interests	(3,482)	(3,596)
Other cash flows from financing activities	(1,792)	(3,143)
Net cash used in financing activities	(9,824)	(11,440)

16.2 Transactions with non-controlling interests

There were no material transactions with non-controlling interests in 2019 or 2018 other than the dividend payments.

The only significant non-controlling interest of the Group is the Republic of North Macedonia, holding shares in MKT. MKT and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2019 or 2018 financial year with companies controlled by the Republic of North Macedonia or companies over which the Republic of North Macedonia can exercise a significant influence.

17 LEASES

17.1 Accounting policies

17.1.1. Leases – Accounting policies relevant from January 1, 2019

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

Adjustments recognized on adoption of IFRS 16

For leases previously classified as finance leases the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 were only applied after that date. This resulted in measurement adjustments that were not material. The remeasurements of the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. For the impact on the 2019 Statement of financial position and Statements of profit or loss and other comprehensive income due to the adoption of IFRS 16 see note 1.4.

Operating lease commitments disclosed as at December 31, 2018 (HUF 146,012 million) are adjusted in the below table, as a result of a thorough review of the lease-related contracts and processes.

Magyar Telekom - Adjustments recognised on adoption of IFRS 16

Operating lease commitments under IAS 17 as at December 31, 2018	**122,149**
Minimum lease payments (at its par value) from financial lease liabilities as of December 31, 2018	9,552
Discounting effect using the lessee's incremental borrowing rate of at the date of initial application	(37,646)
Add/(less): adjustments as a result of a different treatment of extension and termination options	14,556
Other	(1,397)
Lease liabilitiy recognised as at January 1, 2019	**107,214**
Of which are:	
Current lease liabilities	12,191
Non-current lease liabilities	95,023

IFRS 16 required entities to recognise assets and liabilities for essentially all leases. A lessee was required to recognise a right- of-use representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measured its right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognised depreciation of the right-of-use asset and interest on the lease liability, and also classified cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. Assets and liabilities arising from a lease were initially measured on a present value basis. The measurement included non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee was reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

IFRS 16 was applied to all leases, including leases of right-of-use assets in a sublease, except for:

- Rights held by a lessee under licensing agreements within the scope of (IAS 38) Intangible Assets
- Leases of intangible assets
- Service concession arrangements within the scope of (IFRIC 12) Service Concession Arrangements; and
- Licenses of intellectual property granted (or sold) by MT Group lessors within the scope of IFRS 15 Revenue from Contracts with Customers.

Recognition exemptions

Short-term leases, low value leases

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

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

Lease term

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

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

Options- “Reasonably certain criteria”

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

Lease payments

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

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

Reassessment of the lease liability

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

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

Accounting for lease modifications

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

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

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

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

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

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

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

Presentation and disclosures for MT Group as lessee

Statement of financial position

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

Statement of profit or loss and other comprehensive income

In the statement of profit or loss and other comprehensive income MT Group presents separately interest expense on the lease liability from depreciation for the right-of-use asset. In addition interest expense on the lease liability is a component of finance costs, which is presented as a separate line item in the statement of profit or loss and other comprehensive income.

Statement of cash flows

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

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

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

Presentation and disclosures for MT Group as lessor

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

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

In the Notes to the Financial Statements there is a further breakdown of Revenue provided including a breakdown of operating lease revenue by MT Group segments. The operating lease revenue line item in the Note 18,3 is titled “Other sources”.

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

Other lease topics

Sale and leaseback transactions

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

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

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

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

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

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

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

Subleases

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

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

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

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

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Presentation and disclosures for subleases

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

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

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

Lessor accounting

Finance lease – Definition

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

Operating lease – Definition

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

17.1.2. Leases – Accounting policies relevant until December 31, 2018

Finance lease – Company as lessor

Leases of assets where Magyar Telekom transferred substantially all the benefits and risks of ownership are classified as finance leases. Under finance leases, the Group recognized revenue and a finance lease receivable at the commencement of the lease. The revenue equalled the estimated present value of the minimum lease payments receivable and any unguaranteed residual value accruing to the lessor (net investment in the lease). The cost of the asset sold in a finance lease transaction was recognized in Profit for the period at the commencement of the lease. Each lease receipt was allocated between the receivable and interest income so as to produce a constant rate of return on the net investment in the finance lease. The interest income element of the lease receipt was recognized in Interest income.

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

Finance Lease –Group as lessee

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

Operating lease –Group as lessor

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

Sale and leaseback transactions

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

17.2 Finance leases

17.2.1 Finance lease – Group as lessor

Future lease receivables under finance leases at December 31, 2018 and 2019 are as follows:

	12.31.2018		
	Present value	**Interest component**	**Minimum lease receipt**
Within 1 year	50	14	64
1–5 years	161	42	203
After 5 years	147	70	217
Total	**358**	**126**	**484**

	12.31.2019		
	Present value	Interest component	Minimum lease receipt
Within 1 year	460	37	497
1–2 years	288	23	311
2–3 years	216	18	234
3–4 years	114	14	128
4–5 years	62	11	73
After 5 years	206	26	232
Total	**1,346**	**129**	**1,475**

The interest component represents the unearned finance income. The present value due within one year is included in Other current financial assets, while the present value after one year is included in Non current financial assets. The finance income accruing to the Company over the lease term is recognized in the Profit for the year (Interest income) (see Note 23).

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

Selling profit (or loss) relating to underlying assets was recognized in amount of HUF 166 million in 2019.

17.2.2 Lease – Group as lessee

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

In most cases the sale and lease back contracts are denominated in EUR, the term of the leases is 5–15 years, and the contracts include renewal options but no purchase options.

Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 2 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

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

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	17,415
Interest expense on lease liabilities	5,557
Expense relating to variable lease payments (included in cost of sales)	-
Foreign exhange loss on lease liabilities	1,438
Income from subleasing right-of-use assets	220
Gains or losses arising from sale and leaseback transactions	275

The Group had total cash outflows for leases of HUF 13,018 million in 2019. The Company has various lease contracts that have not yet commenced as at December 31, 2019. The future lease payments for these non-cancellable lease contracts are HUF 2,969 million.

The amount of undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term is HUF 14,401 million.

The Group initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. Typically the expected residual value at lease commencement is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees.
At the end of each reporting period, the expected residual value is reviewed to reflect actual residual values achieved on comparable assets and expectations about future prices.
As at December 31, 2019, amount of residual value guarantees to which the Company is potentially exposed that are not reflected in the measurement of lease liabilities is HUF 135 million, which is not expected to be payable.

17.3 Operating leases

17.3.1 Operating lease – Group as lessor

The following table includes the future minimum lease payments receivable by the Company for the operating leases where Magyar Telekom is the lessor. The increase in 2019 is due to the implementation of IFRS16. (See 2.1.1)

	12.31.2018
Within 1 year	596
1–5 years	1,181
After 5 years	1,145
Total	**2,922**

	12.31.2019
Within 1 year	3,669
1–2 years	3,808
2–3 years	3,586
3–4 years	3,430
4–5 years	1,822
After 5 years	239
Total	**16,554**

18 REVENUE

18.1 Revenue – accounting policies

18.1.1 Sale of goods and Rendering of services

The core principle of IFRS 15 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services.

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

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

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

Main principles

- If Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Group shall present the contract as a Contract asset, excluding any amounts presented as a receivable. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.
- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the Consolidated Statement of Financial Position.
- Expenses for sales commissions (customer acquisition costs) must now be capitalized in the Contract costs line of the Consolidated Statement of Financial Position and recognized over the estimated customer retention period.
- Later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
- Contract liabilities are netted off against the contract assets for each customer contract.
- When Magyar Telekom sells products for its own account (principal) gross revenue is recognised while for the account of others (agent) is recognised as net revenue.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.
- If the promise to grant a license is distinct from the other promised goods or services in the contract then the promise to grant the license is a separate performance obligation and the Group shall determine whether the license transfers to a customer either at a point in time or over time.

18.1.2 Revenue from operating leases

Revenues from operating leases are recognized as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Operating lease revenue are primarily recognized as System integration and IT revenue.

18.2 Revenues from major service lines

18.2.1 Mobile and Fixed line telecommunications revenues

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

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used.

Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to. In case of IFRS 15 usage-based consideration (e.g. airtime) is generally not part of the transaction price as the Group does not have a right to consideration at contract inception.

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

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

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

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

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

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

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

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

18.2.2 System integration (SI) and IT revenues

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

Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. The contracts are analyzed based on the IFRS 16 requirements– Determining whether an Arrangement contains a Lease, and if they include embedded lease elements, the revenues attributable to these are recognized according to IFRS 16 – Leases as described in Note 17.

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by one of the following types of contracts: fixed-price or time and material-based.

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

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

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

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

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

To determine the progress of performance Magyar Telekom Group is applying the Input method. Magyar Telekom Plc. recognizes revenue on the basis of Magyar Telekom's efforts or inputs to the satisfaction of a performance obligation (resources consumed, labour hours expended, cost incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of the performance obligation.

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

18.3.1 Disaggregation of revenue from contracts with customers

In HUF millions	2018	2019
Mobile revenues		
Voice retail	133,512	129,272
Voice wholesale	9,845	10,122
Data	80,881	91,935
SMS	19,175	20,257
Equipment	87,423	90,028
Other mobile revenues	12,309	12,748
Total Mobile revenue	343,145	354,362
Fixed line revenues		
Voice retail	42,695	41,014
Broadband retail	51,449	55,449
TV	47,098	48,857
Equipment	18,132	22,149
Data retail	9,367	8,863
Wholesale	19,879	18,735
Other fixed line revenues	18,281	17,592
Total Fixed line revenue	206,901	212,659
System integration and IT revenue	107,058	99,632
Total revenue:	657,104	666,653
Of which:		
Revenue from contracts with customers	653,388	662,037
Other sources*	3,716	4,616

* The calculation method of Revenue from contracts with customers and Other sources has been reviewed therefore the disaggregation of revenue has been changed in respect of 2018.

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

Equipment revenue is recognized at a point in time while service revenue is recognized over time. SI/IT revenue is recognized mostly over time and to a lesser extent at a point in time depending on the project. In 2018 approximately 68 % of SI/IT revenue was recognized over time.

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

Regarding geographical segmentation of revenue please see Note 33.

18.4 Assets and liabilities related to contracts with customers

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

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

In HUF millions	At December 31, 2018	2019
Contract assets – current	17,820	16,306
Contract assets – non current	3,560	3,800
Contract liabilities - current	(12,372)	(11,167)
Contract liabilities – non current	(428)	(383)
Net contract assets (liabilities)	8,580	8 556
Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period	7,700	10,128
Asset recognized from the costs to obtain contracts with customers	4,532	4,551
Amortisation recognized as cost of obtaining contracts during the period	(5,721)	(5,927)

Contract liabilities increased during 2019 as a result of new prepaid subscription contracts and construction contracts.

Impairment losses recognized on contract assets are disclosed together with trade receivables in Note 4.2.2.2 and they amounted to HUF 1,728 million as at December 31, 2019.

As of December 31, 2019 the aggregate amount of the transaction price allocated to the remaining performance obligation is HUF 145,413 million and the Group will recognize this revenue as services are rendered, which is expected to occur over the next 13-29 months.

19 DIRECT COSTS

In HUF millions		For the year ended December 31, 2018	2019
Interconnect costs		20,641	20,746
SI/IT service related costs		75,849	72,079
Telecom tax	(a)	25,487	24,788
Bad debt expense		9,496	9,054
Other direct costs	(b)	155,458	165,745
		286,931	292,412

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

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

20 EMPLOYEE RELATED EXPENSES

20.1 Employee related expenses – accounting policies

20.1.1 Short term employee benefits

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

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

20.1.2 Share based compensation

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

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

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

20.1.2.1 Share Matching Plan of Deutsche Telekom

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

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

In 2019 HUF 22 million was recognized as expenses for the program (2018: HUF 28 million).

20.1.2.2 Long-term incentive program (LTI)

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

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

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

In 2019 HUF 393 million was recognized as expenses for the program (2018: HUF 620 million).

20.1.2.3. Repeated Performance Incentive (RPI)

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

It is a four-year plan, running from 2018 to 2021. If there is a target achievement in two consecutive years as defined in the policy regarding the RPI, the first year is only considered as the year of eligibility. HUF 507 million was recognized at first time as expense for the program in 2019, but bonus still was not paid to eligible management yet. The amount of the bonus payout depends on Management level, target achievement of the segment and the number of years of consecutive overperformance.

20.1.2.4 Bonus payment via ESOP Organization

By reshaping the current remuneration structure, the Company launched an incentive program based on the new remuneration policy in 2017, by which the corporate financial targets, approximately half (50%) of the total bonus, was paid via the ESOP Organization for Magyar Telekom Plc. and T-Systems Magyarország Zrt. eligible employees. Under the new incentive program, the Company purchased 4,534,758 Magyar Telekom shares worth HUF 2,139 million during 2017 and additional 804,236 shares (HUF 364 million) in 2018. The purchased shares were transferred to the ESOP Organization in several installments. The vesting conditions of the new program were (a) that the operating free cash flow for the MT-Hungary segment for the financial year ended December 31, 2017 to exceed that for the previous year ended December 31, 2016 and (b) that the respective employee was employed by Magyar Telekom Plc. or T-Systems Magyarország Zrt. in March 2018 (vesting date). In accordance with the remuneration program those employees of the Company and T-Systems Magyarország Zrt. were rewarded who were under the personal scope of the Remuneration policy approved on February 22, 2017 by the Company's Board of Directors.

As the vesting conditions had been met the corporate financial target was paid in cash based on the employees' claims arising from the conversion of the Magyar Telekom ordinary shares transferred into cash which amounted to HUF 2,251 million in March 2018 via the ESOP Organization. The Company considered January 1, 2017 as grant date with respect to the initial assumptions of the newly formed share based program because the parties had a common understanding on the relevant terms defined by historical conditions at that date.

The Company was able to cover the significant proportion of the bonus payments related to the corporate financial target via the ESOP based on the formula in the Remuneration policy and relevant internal regulation. The remaining part of the total bonus was granted to the employees as supplementary benefit when the exchange rate for converting the shares into cash by the ESOP Organization was already known. The Company was liable to repurchase the shares under the Articles of Association of the ESOP Organization.

Employees who fell out of the scope of the Remuneration policy before the management of the ESOP Organization asserted the fulfillment of the vesting conditions, were not entitled for the benefit via the ESOP Organization, such benefits were paid off by the Company under the relevant internal regulations.

In 2017 HUF 2.1 billion was recognized as the total expenses of the program which was recognized in the statement of financial position as Other current liability.

The Company decided on further changes in the remuneration structure for 2018. Based on these changes significant portion of the central bonus for 2018 was paid via the ESOP Organization for Magyar Telekom Plc. and T-Systems Magyarország Zrt. eligible employees. To operate the incentive program, in addition to the treasury shares held by the Company, further Magyar Telekom shares worth HUF 1,458 million was purchased from the stock exchange and 8,845,794 Magyar Telekom shares worth HUF 3,846 million were transferred to the ESOP Organization together with the shares bought back from ESOP at bonus payment for program 2017.

The remuneration condition of the new program was met, the operating free cash flow for the MT-Hungary segment for the financial year ended December 31, 2018 to exceed that for the previous year ended December 31, 2017, therefore for the affected employee, who was employed by Magyar Telekom Plc. or T-Systems Magyarország Zrt. on March 18, 2019 (vesting date) the relevant compensation was paid in cash by the ESOP Organization through conversion of the Magyar Telekom shares provided, on April 1, 2019.

The Company considered January 1, 2018 as grant date with respect to the initial assumptions of the share based program because the parties had a common understanding on the relevant terms defined by historical conditions at that date.

The Company was able to cover the significant proportion of the bonus payments related to the corporate financial target via the ESOP based on the formula in the Remuneration policy and relevant internal regulation. The remaining part of the total bonus was granted to the employees as supplementary benefit.The Company was liable to repurchase the shares under the Articles of Association of the ESOP Organization.

Employees who fell out of the scope of the Remuneration policy before the management of the ESOP Organization asserts the fulfillment of the vesting conditions, were not entitled for the benefit via the ESOP Organization, such benefits were paid off by the Company under the relevant internal regulations.

In 2018 HUF 3.4 billion was recognized as the total expenses of the program which was recognized in the Consolidated statement of financial position as Other current liability. The ESOP Organization owned 8,732,763 Magyar Telekom shares on December 31, 2018.

The ESOP Organization did not own Magyar Telekom shares on December 31, 2019. In 2019 instead of the program implemented in previous years new types of incentives were introduced. The Group has no intention of renewing the program in 2020 either. The voluntary liquidation of ESOP Organisation begun on January, 2020.

20.1.3 Termination benefits

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

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

		For the year ended December 31,	
In HUF millions		**2018**	**2019**
Short term benefits (Note 20.1.1)		81,447	81,371
Termination benefits (Note 20.1.3)		4,495	4,798
Equity settled share based compensations (Note 20.1.2.1)	(a)	28	22
Cash settled share based compensations (Note 20.1.2.2)		620	393
Bonus payment via ESOP (Note 20.1.2.4)		3,391	-
Total before capitalization		89,981	86,584
Expenses capitalized		(7,013)	(6,392)
		82,968	80,192
Total costs expensed in relation to defined contribution plans (including social security contribution)	(b)	15,417	13,920
Average number of employees (full time equivalent)		9,160	8, 472
Closing number of employees (full time equivalent)		8,948	8,246

(a) The program initiated by DT is settled in DT shares with the participants, meanwhile Magyar Telekom has to settle it with DT AG in cash at the same time participants are granted therefore the actual closing balance of the program is presented as a related party financial liability in the consolidated statements of financial positions as it is due to be paid to DT AG

(b) The voluntary pension fund contribution which paid by the Magyar Telekom Plc., ceased in 2019.

21 OTHER OPERATING EXPENSES

In HUF millions		**2018**	**2019**
Cost of other purchased services	(a)	50,204	44,944
Rental and leasing expenses	(b)	19,652	-
Marketing expenses		11,491	10,609
Utility tax		7,159	7,218
Energy costs		7,130	6,726
Other operating expenses		8,279	11,544
		103,915	81,041

Research as well as marketing costs are expensed as incurred. Research costs recognized by the Group were not material in either of the presented years.

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

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

In HUF millions	**2018**	**2019**
Audit of the financial statements	438	386
Other audit related fees	43	51
Other non audit related fees	41	90
Total expenses payable to PwC	522	527

Audit of the financial statements is the aggregate fees of PwC in connection with the audit of our annual financial statements and services performed in relation to legal obligations and submissions required by regulatory provisions. Review of the quarterly financial statements is also included, as well as information systems and procedural reviews and testing to understand and place reliance on the systems of internal control.

Other audit related services mainly include other professional auditing services provided by the Auditor beyond the audit of the financial statements, as well as other audit procedure necessary for meeting the reporting requirements arising from public or corporate legal provisions.

(b) Rental and leasing expenses

IFRS 16 was launched in January 1, 2019. The maturity analysis of leases are disclosed in Note 17.

22 OTHER OPERATING INCOME

In HUF millions	2018	2019
Gain on the sale of PPE, Intangible assets and assets held for sale - net	4,604	2,978
Income received for the relocation and reconstruction of our own network	1,127	1,503
Income from leasing	-	16
Brand license fee	300	300
Income from insurance compensation	123	106
Income from intra-DT group support services	49	56
Other	3,014	2,595
	9,217	7,554

23 INTEREST INCOME

In HUF millions	2018	2019
Interest income on financial assets	276	318
Interest income from leases	19	16
Reversal of interest component of provisions	52	6
Dividend income	16	37
	363	377

24 INTEREST EXPENSE

In HUF millions	2018	2019
Interest expense payable to DT	8,818	5,689
Other interest expense	3,303	2,839
Interest expense on lease liabilities	1,214	5,557
Accretion / interest on provisions	219	289
less: borrowing costs capitalized	(131)	(83)
	13,423	14,291

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. Borrowing costs include interest and other costs that the Group incurs in connection with the borrowing of funds. The borrowing costs eligible for capitalization are capitalized applying the weighted average of the borrowing costs applicable to the general borrowings of the Group that are outstanding during the period. For further information see Note 2.1.1. A qualifying asset is an asset that necessarily takes a substantial period of time, in general over 12 months, to get ready for its intended use.

Total Interest expense is shown net of borrowing costs capitalized using average borrowing rates of 1.43%-3.47% in 2019 (2018: 3.04%-3.40%). When calculating the borrowing rates, Other finance expenses (included in Note 25) are also considered.

25 OTHER FINANCE EXPENSE – NET

In HUF millions	2018	2019
Fee expense	4,416	4,770
Net foreign exchange losses / (gains) on financial instruments	5,963	5,789
Other net foreign exchange losses / (gains)	(325)	1,109
Losses / (gains) on the subsequent measurement of derivatives contracted with related parties	(3,048)	(606)
Losses / (gains) on the subsequent measurement of financial assets at fair value through profit or loss (other than derivatives)	(38)	-
Losses / (gains) on the subsequent measurement of financial liabilities at fair value through profit or loss (other than derivatives)	(8)	(11)
Losses / (gains) on the derecognition of derivatives contracted with related parties	(2,236)	(840)
	4,724	10,211

26 CHANGES IN THE GROUP

26.1 Business combinations

26.1.1 Acquisition of ITgen Kft.

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

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

In HUF millions	For the year ended December 31,2019
	Carrying values
Consideration transferred	1,249
Less: Fair value of the net assets acquired	(873)
Goodwill	376
Net assets acquired:	
Cash and cash equivalents	137
Trade and other receivables	155
Brand	123
Property, plant and equipment	6
Customer value	688
Trade and other payables	(163)
Deferred tax liability	(73)
	873

From the total purchase price HUF 799 million was paid in cash in 2018 while the earnout payment of HUF 450 million depending on the 2018, 2019 and 2020 performance of the company will be paid in the relevant years.

26.1.2 Cable TV network and operations

In 2019 and 2018, the Group acquired a number of cable TV businesses in individually insignificant transactions. All these acquisitions qualified as business combinations of the MT-Hungary operating segment. The vast majority of the total purchase price was paid in cash in 2019 and 2018.

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

In HUF millions	2018	2019
Consideration transferred	1,092	1,148
Less: Fair value of the net assets acquired	(648)	(1,145)
Goodwill	444	3

26.2 Pro forma information

The pro forma information shows the most important financial data of the Group, as if the business combinations that took place in that year had been consolidated from the beginning of the year of acquisition, and also how much the business combination contributed to the reported figures since the acquisition date. Cable TV acquisitions were insignificant in 2018 and 2019 therefore their contribution to the Group's operations was also insignificant. ITgen Kft. was acquired in January 2018, and it's inclusion in the Group's operations was not significant therefore we do not present detailed pro forma information related to our acquisitions.

27 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to the owners of the Company for the period by the weighted average number of common stocks outstanding.

28 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The table below shows the reconciliation of investments in property, plant and equipment and intangible assets and the cash payments made for these investments from continuing operations. The investments in both property, plant and equipment and intangible assets of discontinued operations are included in the Net cash used in investing activities from discontinued operations line of the Consolidated Statement of cash flows. Capitalized borrowing costs are included in the Investments in PPE and intangible assets, where applicable.

		For the year ended December 31,	
In HUF millions		2018	2019
Investments in property, plant and equipment (Note 9.2)		62,173	66,087
Investments in Right-of-use assets (Note 9.2)	(c)	-	22,883
Investments in intangible assets (Note 10.2)		45,372	23,469
Total investments in PPE and intangible assets		107,545	112,439
Capitalized annual frequency fee payable	(a)	(4,391)	-
Net change of advances received for asset-related grants	(b)	2,797	5,330
Capitalized leases	(c)	(343)	-
Change in trade payables relating to capital expenditures	(d)	(11,920)	(20,112)
Cash payments for purchases of PPE and intangible assets		93,688	97,657

(a) Capitalized annual frequency fee payable

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

(b) Advances received for asset-related grants

In 2016 HUF 12.2 billion of EU funds were granted to Magyar Telekom as a result of the first and second rounds of a tender aimed at developing digital networks nationwide to cover households in Western and Eastern parts of Hungary with a fixed network capable of reaching speed of at least 30 Mbps. The Company used up HUF 5.5 billion of this advance in 2019. See also Notes 9 and 14 for government grants relating to the purchase of PPE.

(c) Capitalized leases

For further information, please see Note 17.

(d) Change in trade payables relating to capital expenditures

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

29 PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS

In HUF millions	For the year ended December 31, 2018	2019
Acquisition of ITgen Kft. (Note 26.1.1)	920	180
Cable TV businesses (Note 26.1.2)	1,125	1,267
Cash payments for purchases of subsidiaries and business units	2,045	1,447

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

30 CONTINGENT ASSETS AND LIABILITIES

30.1 Contingent assets

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

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

30.2 Contingent liabilities

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

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

30.2.1 Hungary

30.2.1.1 Guarantees

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

31 PURCHASE COMMITMENTS

31.1 Purchase commitments for tangible and intangible assets

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

	At December 31,	
In HUF millions	**2018**	**2019**
Property, plant and equipment	5,433	4,364
Intangible assets	6,499	3,632
Total	11,932	7,996

31.2 Purchase commitments for businesses

As at December 31, 2019 and 2018 the Group had no significant committed business combinations.

32 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

32.1 Deutsche Telekom Group and the Federal Republic of Germany

32.1.1 Deutsche Telekom Group

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

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

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

In HUF millions	2018	2019
Revenues from services provided to DT Group companies	19,854	19,068
Costs of services provided by DT Group companies	(15,921)	(16,908)
Income from support services provided to DT Group companies	49	56
Interest expense to DTIF	(2,172)	(1,591)
Interest expense to DTAG	(6,646)	(4,098)
Dividend paid to parent company	(15,516)	(15,566)
Accounts receivable from DT Group companies	10,143	8,110
Accounts payable to DT Group companies	(11,119)	(12,060)
Loans payable to DTIF	(87,824)	(88,591)
Loans payable to DTAG	(140,000)	(115,977)
Fair value of swap agreements with DTAG – asset	1,026	2,909
Fair value of swap agreements with DTAG – liability	(612)	(1,890)

32.1.2 The Federal Republic of Germany

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

DTAG and Magyar Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2019 or 2018 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

32.2 Associates and joint ventures

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

E2 Hungary Zrt. is a joint venture of the Magyar Telekom Group since July 9, 2015 and provides energy services for business customers. See also note 11.3. The Group did not have material transactions with its joint venture in either 2018 or 2019.

32.3 Board and Supervisory Board members

In HUF millions	For the year ended December 31, 2018	2019
Remuneration of the members of the Board of Directors	16	11
Remuneration of the members of the Supervisory Board	63	54
Loans granted to the members of the Board of Directors	-	-
Loans granted to the members of the Supervisory Board	1	-

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.

32.4 Key management

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

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

In HUF millions	For the year ended December 31, 2018	2019
Salaries and other employee benefits	969	627
Contractual termination expense	-	-
Share based compensation (Note 20.1)	8	9
	977	636
Of which costs expensed in relation to defined contribution plans (including social security contribution)	147	128

The Group does not provide loans to its key management.

33 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

33.1 Segment information

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

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from inter-segment support services.

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

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

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

33.2 Reportable segments

In 2019, Magyar Telekom's operating segments are: MT-Hungary and North Macedonia.

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

33.2.1 Information regularly provided to the Management Committee (MC)

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

Revenues	**For the year ended December 31,**	
In HUF millions	**2018**	**2019**
Total MT-Hungary revenues	602,609	609,079
Less: MT-Hungary revenues from other segments	(117)	(118)
MT-Hungary revenues from external customers	602,492	608,961
Total North Macedonia revenues	54,680	57,773
Less: North Macedonia revenues from other segments	(68)	(68)
North Macedonia revenues from external customers	54,612	57,705
Total consolidated revenue of the segments	657,104	666,666
Measurement differences / rounding between segment and Group revenue	-	(13)
Total revenue of the Group from continuing operations	**657,104**	**666,653**

MT-Hungary revenues	For the year ended December 31,	
In HUF millions	2018	2019
Voice	127,195	123,686
Non-voice	91,642	102,399
Equipment	79,886	81,818
Other	11,047	11,100
Total mobile revenue	309,770	319,003
Voice retail	37,685	36,168
Broadband - retail	46,134	49,940
TV	43,212	44,375
Equipment	17,722	21,841
Other	42,601	40,428
Total fixed-line revenue	187,354	192,752
SI/IT revenue	105,485	97,324
Total revenue of the MT-Hungary segment	**602,609**	**609,079**

North Macedonia revenues	For the year ended December 31,	
In HUF millions	2018	2019
Voice	16,162	15,708
Non-voice	8,414	9,793
Equipment	7,537	8,210
Other	1,266	1,651
Total mobile revenue	33,379	35,362
Voice retail	5,008	4,846
Broadband - retail	5,315	5,509
TV	3,886	4,482
Equipment	412	308
Other	5,107	4,958
Total fixed-line revenue	19,728	20,103
SI/IT revenue	1,573	2,308
Total revenue of the North Macedonia segment	**54,680**	**57,773**

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

Segment results (EBITDA)	For the year ended December 31,	
In HUF millions	2018	2019
MT-Hungary	170,776	197,178
North Macedonia	21,365	23,747
Total EBITDA of the segments from continuing operations	192,141	220,925
Measurement differences / rounding between segment and Group EBITDA	366	(363)
Total EBITDA of the Group	**192,507**	**220,562**
MT-Hungary	170,776	175,012
North Macedonia	21,365	22,941
Total EBITDA AL of the segments from continuing operations	192,141	197,953
Measurement differences / rounding between segment and Group EBITDA AL	366	(363)
Total EBITDA AL of the Group	**192,507**	**197,590**

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Capital expenditure (Capex) on PPE and Intangible assets	As at December 31,	
In HUF millions	2018	2019
MT-Hungary	81,403	100,483
North Macedonia	10,566	12,097
Total capital expenditure of the segments	91,969	112,580
Acquisition of mobile licenses (Note 10)	15,713	(60)
Other measurement differences between segment and Group Capex	(137)	(81)
Total investments of the Group in PPE and Intangible assets	**107,545**	**112,439**

The acquisition of mobile licenses is not considered part of the Capex measure of the segments. Total investments of the Group in PPE and Intangible assets correspond to the “Investments” lines disclosed in Notes 9, 10 and 28.

33.3 Information about geographical areas

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

Revenues	For the year ended December 31,	
In HUF millions	2018	2019
Hungary	596,603	602,270
North Macedonia	54,612	57,705
Romania	3,579	4,036
Bulgaria	2,310	2,642
Total revenue of the Group	**657,104**	**666,653**

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

Non current assets In HUF millions	As at December 31, 2018	 2019
Hungary	794,822	863,786
North Macedonia	96,324	98,229
Bulgaria	3,361	3,659
Romania	1,607	2,408
Total excluding Other non current financial assets, Investments in associates and joint ventures and Deferred tax assets	896,114	968,082
Other non current financial assets (Note 4.2.3.3)	24,985	23,041
Investments in associates and joint ventures (Note 11)	1,393	1,078
Deferred tax assets (Note 6.3.2)	77	103
Total Non current assets of the Group	922,569	992,304

34 REGULATED MARKETS AND PROCEDURES

Magyar Telekom's primary activities are the fixed line and mobile operations in Hungary. These services are partially regulated by Hungary' laws or other legislations. These services in most cases require request for service provision or acquisition of requested rights, which usually requires a one-off fee and annual payments.

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

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

Hungary is expected to implement Directive 1972/2018 / EU (Code) by December 2020, which will reform the EU regulatory framework for telecommunications. The Code will regulate fix and mobile call termination rates in the whole EU/EEA, but the legal framework for formerly regulated markets remains largely unaffected.

34.1 Access regulation

Currently, the following markets are identified in Hungary in accordance with Commission Recommendation 2014/710 / EU:

- 1. Wholesale fixed call termination (M1)
- 2. Wholesale mobile call termination (M2)
- 3.a) Wholesale local access at a fixed location – WLA (M3a)
- 3.b) Wholesale central access for mass-market products – WCA (M3b)
- 4. Wholesale high-quality access at a fixed location (M4)

Magyar Telekom was designated as an SMP operator (a service provider with significant market power) on all 4 regulated markets.

M1: Withregards the fix networks' regulated interconnection (M1) the NRA published its fifth round market analysis procedure's resolution on May 15, 2018. The resolution's FTR (fix termination rate) proposal - that is based on a pure BU-LRIC model - is 0.26 HUF/min. The new fee had to be applied symmetrically with an effect from end of Q2 2018 altogether for 144 operators. Previous regulation of fix origination, also carrier selection and call-by-call obligation was terminated with this last resolution.

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

M2: The Company is designated as an SMP operator (a service provider with significant market power) in the mobile wholesale call termination market (new M2, old M7 market) and subject to regulatory obligations regarding the termination charge of calls into its network, mobile termination rate (MTR). The last mobile market resolution was published on March 18, 2015 with a newly defined pure Bottom-Up Long Run Incremental Costing model (pure BU-LRIC) resulting in an MTR of 1.71 HUF/min net cost based fee.

M3: Magyar Telekom is Hungary's leading fixed line broadband service provider in the wholesale market and one of the leading ones in the retail market. In accordance with the effective resolution, all retail fixed products shall be 'reproducible' by competitors based on the wholesale service. Consequently, the full retail portfolio shall have a wholesale equivalent. Previous regulation defined a retail minus price setting.

The NRA published the latest *resolutions* with regards to markets 3a (M3a) and 3b (M3b) on December 15, 2017. SMP operators are obliged to prepare reference unbundling offer for access to (physical) passive network infrastructure (RUO) and to provide these services when there is a request for them by other telecommunications service providers. The reference offer of each SMP operator must be approved by the NRA. The latest market resolution introduced the geographical segmentation, thus relieving the company of obligations in certain competing settlements. Magyar Telekom was designated as an SMP in both 3a and 3b markets. Service fee calculation for all relevant regulated services – both markets 3a (resolution PC/17915-66/2017.) and 3b (resolution PC/17920-66/2017.) - are with a BU-LRIC+ model. New fees had to be applied as of 1st January, 2019.

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

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

34.2 Spectrum procedures

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

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

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

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

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

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

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

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

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

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

Furthermore in August, 2019 Magyar Telekom has been registered as a participant in the auction for spectrum usage rights supporting the introduction of 5G. This procedure is still ongoing.

34.3. Universal services

Universal services are basic communications services (including access to communication services at a fixed location, public payphones, directory and directory enquiry services) that should be available to all customers at an affordable price. The NRA published its request for voluntary universal service provisioning on January 19, 2018. MT did not bid to any parts of the universal services, so the NRA designated MT to offer the following universal services from January 1, 2019: public payphones, access on fixed location and for national directory enquiry service. As a result of the procedure MT lost 2 primary areas to serve (Szekszárd – nr74 and Paks – nr75) and received a new one (Szeged - nr62).

34.4. End-user rights

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

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

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

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

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

34.5 Macedonian Mobile

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

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

Decision for granting three licenses was published in 2008. The validity of the license is 10 years i.e. December 17, 2018. License was renewed in 2018 for 10 years, until 2028 in accordance with the ECL.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 North Macedonian mobile operators, at that time, obtained an LTE radiofrequency license of 1x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band.

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

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

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

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

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

An MVNO, Lyca Mobile hosted on A1 network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions.

Telekabel offering fixed services, in January 2019 started operating as MVNO hosted on Makedonski Telekom mobile network under regulated wholesale conditions.

Both operators, Makedonski Telekom and A1 are designated as operators with SMP status on relevant wholesale market “Wholesale call termination on public mobile networks”. The current termination rates are symmetrical for Makedonski Telekom and A1, but Lyca Mobile has high assymmetry starting from May 2018.

NRA made new market analysis in the middle of 2018 for „Wholesale SMS termination in public mobile networks” and deregulated Makedonski Telekom and A1, which were SMP operators on this market, and removed all obligations to both operators.

Based on public debate at the beginning of 2017 NRA adopted changes in the Rulebook on Radiofrequencies fees:

- Decrease of RF fees from 2.3 GHz to 3 GHz for 43% (from 16,800 EUR/MHz to 9,600 EUR/MHz)
- Decrease of RF fees above 3 GHz for 76 % (from 16,800 EUR/MHz to 4,000 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) for 50% (from 8,000 EUR/250 MHz to 4,000 EUR/250 MHz)

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

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

Based on appeal submitted by A1for this decision, in September 2019 the reshuffling request on 1800 Mhz was finally approved by the NRA, due to a court decision in favor of A1 Macedonia. In the 1800 MHz range A1 Macedonia will get huge continuous block of 35 MHz effective Oct 15th 2019. Based on MKT request, NRA prolonged licenses on 900 (2x12.5MHz), 1800 (2x10MHz) and 2100 (2x15MHz) for additional 10 years validity (until 2028-2029) without onetime fee.

NRA announced in their 2020 working program preparation of tender for 700 MHz band. They also announced release of Digital dividend 2 radiofrequencies and repositioning of the broadcasters in the lower part of the UHF band. Also, public debate on high of onetime fees and annual fees for 5G spectrum is expected in second half of 2020 with possibility 3.xGHz to be announced on public tender.

In April 2019, Ministry of information society issued National Broadband strategy which sets the following targets:

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

34.6 Macedonian Fixed line

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

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

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

According to the Rulebook for technical conditions and building infrastructure (from July 15, 2014), Makedonski Telekom AD is obliged to build its infrastructure underground in urban areas with over 15,000 citizens for buildings for collective living with more than eight apartments. MKT has a Digital Agenda obligation for coverage of 100% and 50% of all Macedonian households with 30 Mbps and 100 Mbps broadband speed respectively, with a technology neutral basis until the end of 2020.

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

NRA published tender for USO provider at the end of 2016, and one of the main criteria is the required amount for a refund.

According to the results from the last tender, Makedonski Telekom is universal service provider until 2021 for the following services:

- Fixed access and access to disabled users (voice and internet of minimum 2Mbit/s download)
- Public payphones

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

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

In the middle of 2019 NRA implemented ERT testing to NGA based broadband wholesale services supplied by the two dominant operators (MKT and A1Macedonia – former One.Vip). The developed ERT model will test the economic replicability of the retail bundles including broadband services with access speed higher than 30 Mb/s. Ministry for information society and administration completed National Broadband Plan and 5G strategy for fulfillment of the Digital Agenda and is in the process of implementation.

34.7 Energy services in Hungary

Magyar Telekom decided to exit from the residential segment of the gas market with effect from July 31, 2015 and also from the residential segment of the electricity market with effect from November 1, 2017.

From October 1, 2016, Magyar Telekom seized its operation in the public procurement gas market as the natural gas services segment of the energy business was outsourced to E2 Hungary Zrt., a joint venture owned by Magyar Telekom Plc. and MET Holding AG to operate in the business and public procurement segment of the Hungarian gas and energy market. In accordance with the agreement of the owners, Magyar Telekom transferred its business energy operations to E2.

On December 31, 2019 Magyar Telekom had no licence for providing electricity and natural gas services therefore according to the Act LXXXVI of 2007 on Electricity (VET) and the Act XL of 2008 on Natural Gas (GET) these activities are not disclosed separately in the Annual Report.

35 EVENTS AFTER THE REPORTING PERIOD

35.1 Management Committee

The Company's Board of Directors resolved to streamline its management structure by re-allocating the tasks and responsibilities of the Management Committee to the Chief Officers and to the Board of Directors of the Company with effect from January 1, 2020. As a result of this change, the Management Committee of the Company will cease to exist as a formal corporate decision-making body as of January 1, 2020. Currently it is under consideration whether the change has any impact on the financial statements or not.

35.2 Severance payment

In December of 2019 Magyar Telekom agreed with the trade unions on the termination of the employment relationship of ca. 450 employees in the frame of agile transformation. According to the agreement Magyar Telekom has started the identification of the employees who will be affected by the severance payment. The majority of the terminations are expected to be carried out in the first quarter of 2020 consequently the related provision will be recognised in that period.

35.3 Loss of joint control in E2Hungary Zrt.

In December 2019 Company signed an agreement with MET Holding AG which eventuated that the Company lost the joint control and significant influence over E2 Hungary Zrt. The transaction was approved by the various competent authorities and this investment will be disclosed as an other financial asset in the Statements of Financial Position. The effect on Statements of Financial Position and the Statements of Profit or Loss and Other Comprehensive Income will not be significant.

Budapest, February 18, 2020.

Tibor Rékasi
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

CONSOLIDATED BUSINESS REPORT

MAGYAR TELEKOM TELECOMMUNICATIONS
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019

INTRODUCTION

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

- SUMMARY ON 2019 OPERATIONS
- THE COMPANY'S SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES
- CORPORATE GOVERNANCE
- SOCIAL COMMITMENTS, LABOUR STANDARDS, HUMAN RIGHTS
- COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD, AND MANAGEMENT COMMITTEE
- RESEARCH AND DEVELOPMENT
- REAL ESTATE, SITES OF OPERATION
- SUSTAINABILITY
- ENVIRONMENT PROTECTION
- CORPORATE COMPLIANCE
- ECONOMIC ENVIRONMENT, OUTLOOK AND TARGETS
- INTERNAL CONTROLS, RISKS AND UNCERTAINTIES
- ANALYSIS OF FINANCIAL RESULTS FOR 2019
- SUBSEQUENT EVENTS BETWEEN THE END OF THE YEAR AND THE RELEASE OF THE REPORT

SUMMARY ON 2019 OPERATIONS

Tibor Rékasi, CEO commented:

“We are pleased to announce that the Group has sustained its momentum in 2019, delivering revenue and EBITDA growth. On revenue we outperformed our guidance, achieving total revenues of HUF 666.7 billion in 2019, a growth of 1.5% year-on-year. We also recorded a 4.4% increase in EBITDA in 2019, against our guidance of 1-2% growth, achieving a figure of HUF 201.0 billion for the full year (excluding the impact of IFRS16 adoption). CAPEX for the Group stood at HUF 89.6 billion (excluding the impact of IFRS16 adoption), in line with our broadly stable expectation for the year. Unfortunately for the first time in recent years we missed our free cash flow target, where instead of the projected circa 5% growth we reported a 4.2% decline to HUF 65.1 billion (excluding spectrum license payments). This decline was attributable to timing issues in our real estate project, as proceeds from the sale of a major asset was not realized in 2019.

In Hungary, we refined our mobile and fixed portfolios, in alignment with our ‘more-for-more’ strategy, to ensure we remain well positioned to meet customer needs and market expectations. This is reflected in the year-on-year revenue increases reported by our fixed and mobile segments of 2.9% and 3.0%, respectively. Both segments continue to grow, primarily due to our data products, which are the fastest growing revenue lines in both the fixed and mobile segment. This was further supported by robust equipment sales, both in the domestic market and abroad. In the mobile segment, we continue our efforts to migrate customers from pre- to postpaid packages, thus increasing our blended mobile ARPU.

In the fixed market we maintained our strong focus on growing our network, bringing us closer to our goal of providing gigabit internet connectivity nationwide. We continued to see positive results from this strategy in the growth of fixed line revenue.

While we experienced some setbacks in the SI/IT sector during the year in relation to postponed public sector spending, by the end of the year we were back on track with revenues growing again in Q4 2019. Unfortunately, this was not enough to fully offset the decline recorded earlier in the year resulting in an annual decline of 6.9%.

Consistent with our strategy, we remain determined to expand our FMC customer base. To maintain our competitive advantage, we have enhanced our Magenta1 offering which delivers highly attractive services and related equipment. In addition to enabling customers with a prepaid mobile tariff to take advantage of the Magenta 1 offer, we have also reviewed the offer to ensure its advantages are more clearly presented to customers.

In North Macedonia we are continuing to deliver a turnaround in revenue and EBITDA, with figures growing annually by 5.7% and 7.5% respectively. Despite intensifying competition in the market, we have successfully grown our core business, supported by increased customer demand for data and equipment. In the SI/IT segment we have seen exceptional growth as revenues more than doubled in the final quarter versus the prior year, resulting in 46.7% growth for the full year in the segment.

Looking ahead we expect revenues to stay at the current level throughout 2020, whilst EBITDA After Lease is expected to increase by 1%-2% thanks reduction in indirect costs. Capital expenditures are expected to remain stable (excluding the increase driven by IFRS 16 implementation and any possible spectrum costs) as spending on the fixed network will continue to reflect the accelerated fiber-rollout program. We expect free cash flow (excluding spectrum license fees) to increase by around 5% thanks to further real estate sales. However, as opposed to earlier forecasts, now we expect free cash flow to stay broadly stable in 2021 as we plan to complete the real estate sales projects in 2020.”

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

As of December 31, 2019, the share capital of Magyar Telekom Plc. was HUF 104,274,254,300, consisting of 1,042,742,543 Series "A" dematerialized ordinary shares. All Series "A" ordinary shares have a nominal value of HUF 100. Rights and obligations related to Series "A" ordinary shares are described in detail in Section 2 of the Articles of Association (http://www.telekom.hu/about_us/investor_relations/corporate_governance/corporate_governance_documents). Information concerning our ownership structure as of December 31, 2019 is described in the following table:

Shareholder	Number of shares	Percentage of share capital
Deutsche Telekom Europe B.V.	617,436,759	59.21
Publicly traded	416,469,436	39.94
Treasury shares	8,836,348	0.85
	1,042,742,543	100.00

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

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

1.1 Voting Rights and Voting

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

1.2 Transfer of Shares

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

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

2 CORPORATE GOVERNANCE

2.1 Annual General Meeting

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

2.2 Board of Directors

The detailed rules on the scope of authorities and operation of the Board of Directors are detailed in 6.4 of the Articles of Association and in the Rules of Procedure of the Board of Directors (https://www.telekom.hu/about_us/investor_relations/corporate_governance/board_of_directors).

The rules of competence regarding the capital increase and purchase of treasury shares are detailed in Sections 5.2 (b) and (p) as well as 6.4. (l) and (m) of the Articles of Association. The General Meeting by its Resolution No. 9/2019 (IV.9.) authorized the Board of Directors to purchase Magyar Telekom ordinary shares for 18 months starting from the date of approval of the resolution. See the detailed description of the authorization on the General Meetings section of our website.

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

Pursuant to the Articles of Association, the Board of Directors consists of a minimum of six and a maximum of eleven members elected by the General Meeting for a term of three years, unless otherwise provided by the General Meeting. On December 31, 2019, there were six members of the Board of Directors.

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

On December 31, 2019, members of the Board of Directors, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. Robert Hauber	1971	Senior Vice President Finance & Performance Management Europe, DT AG, Chairman of the Board of Directors of Magyar Telekom Plc.	2017
Ralf Nejedl	1970	Senior Vice President B2B Europe, Deutsche Telekom AG	2016
Frank Odzuck....................................	1959	Chief Executive Officer of Zwack Unicum Plc.	2006
Péter Ratatics....................................	1982	Chief Operating Officer of MOL	2019
Tibor Rékasi	1973	Chief Executive Officer of Magyar Telekom Plc.	2018
Éva Somorjai-Tamássy.....................	1966	Chief Human Resources Officer of European Center, Deutsche Telekom AG	2019

The members' assignment lasts until May 31, 2022.

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:

(https://www.telekom.hu/static-tr/sw/file/20190401-MT-MC-RoP-ENG.pdf)[1].

As part of an ongoing corporate governance simplification initiative, the Board of Directors of Magyar Telekom resolved to re-allocate the current tasks and responsibilities of the Management Committee to the Chief Officers and to the Board of Directors of the Company and thus to transform the Management Committee into an agile "Leadership Squad". As a result of this change, the Management Committee of the Company will cease to exist as a formal corporate decision-making body as of January 1, 2020.

On December 31, 2019, the members of the Management Committee and the years of their original election were as follows:

Name	Born	Current position	Member since
Tibor Rékasi	1973	Chief Executive Officer of Magyar Telekom Plc.	2013
János Szabó	1961	Chief Financial Officer	2013
Melinda Szabó	1971	Chief Commercial Officer Residential	2018
Zsuzsanna Friedl	1977	Chief Human Resources Officer	2017
Zoltán Kaszás...................................	1968	Chief Commercial Officer Enterprise, Chief Executive Officer of T-Systems Hungary Ltd.	2017
Lubor Zatko	1974	Chief Technology and IT Officer	2019

2.4 Supervisory Board

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

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

[1] Repealed as of January 1, 2020.

On December 31, 2019, the members of the Supervisory Board, their principal occupation and the years of their original election were as follows:

Name	Born	Principal Occupation	Member since
Dr. László Pap	1943	Professor emeritus, Budapest University of Technology and Economics	1997
Attila Bujdosó	1967	President of the Telecommunications Trade Union	2018
Dr. János Illéssy	1962	Managing Director of Lebona Kft., Chief Financial Officer of Ventil Kft.	2006
Dr. Sándor Kerekes	1948	Professor emeritus, Corvinus University Budapest	2006
Tamás Lichnovszky	1962	Chairman of the Central Workers' Council, Magyar Telekom	2010
Martin Meffert	1960	Project Manager Asset Development Europe, Deutsche Telekom AG	2009
Dr. Károly Salamon	1954	Managing Director of MIS Kft.	2010
Zsoltné Varga	1969	Chairwoman of the Central Functions Workers Council, Magyar Telekom	2008
Dr. Konrad Wetzker	1950	Chairman of the School of Management of Corvinus University Budapest	2011

The members' assignment lasts until May 31, 2020.

2.5 Audit Committee

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

On December 31, 2019, the members of the Audit Committee were as follows:

- Dr. János Illéssy
- Dr. Sándor Kerekes
- Dr. László Pap
- Dr. Károly Salamon
- Dr. Konrad Wetzker

2.6 Remuneration and Nomination Committee

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

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

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

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

On December 31, 2019, the members of the Remuneration and Nomination Committee were as follows:

- Dr. Robert Hauber
- Ralf Nejedl
- Frank Odzuck

2.7 Corporate Governance and Management Report

Magyar Telekom Plc. is a public limited company listed on the Budapest Stock Exchange. In 2004, the Budapest Stock Exchange issued its Corporate Governance Recommendations (the Recommendations) containing recommendations related to the corporate governance practice of companies listed on the Budapest Stock Exchange, taking account of the most commonly used international principles, of experiences gathered in Hungary, and of the characteristics of the Hungarian market as well as the Companies Act. The Recommendations were updated in 2007, 2008, 2012 and in 2018. The Recommendations effective from time to time is available at the website of the Budapest Stock Exchange: https://www.bse.hu/Products-and-Services/Rules-and-Regulations/BSE-Rules

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

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

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

The Corporate Governance Declaration on the Compliance with the Corporate Governance Recommendations, and regarding certain questions the possible alterations and their explanations are included in the report. Sections 1 to 5 of the above report include the description and operation of the Board of Directors, the Supervisory Board, the relevant committees and executive management. Section 6 of the report includes a description of the internal controls and risk management procedures, while Section 8 of the report describes the disclosure policies and insider trading guidelines. In Sections 9 to 10 the method of excercising shareholders’ right and the rules on conducting the General Meeting is summarized, while Section 11 contains the Remuneration Statement. The Company complies with the vast majority of the 85 recommendations and proposals, however in the business year of 2019 in case of 3 recommendations and 2 proposals it has not or not completely complied with due to the organizational structure or processes of the Company.

In 2019 the Company’s disclosure processes were evaluated in the ICS (Internal Control System) by the relevant organizational units and were tested by the internal audit area. In general, the disclosure controls and procedures of the Company were effective and designed to ensure a proper basis for the timely and accurate disclosures to the market participants required under the respective accounting, capital markets and company law regulations. Based on the ICS control test evaluation, the internal confirmatory process after the publication of the ad hoc releases should be strengthened.

3 SOCIAL COMMITMENTS, LABOUR STANDARDS, HUMAN RIGHTS

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

3.1 People strategy

3.1.1 People strategy from the perspective of the company

The priorities of Magyar Telekom's people strategy in 2019 were:

- Improvement of employer branding
- Culture development – growth mindset – development based corporate culture
- Increased digitalization
- Agile methodology in operations

3.1.2 People strategy from the perspective of our employees

The business strategy of Magyar Telekom is centered around the realization of a digital business model that is based on utilizing new technologies in service of consumer relationship management in order to build trust and drive value creation. In support of reaching this goal the operating model and the organization of HR has been transformed to an even more efficient and client oriented body backing up the corporate business strategy goals.

Key focus areas of HR in 2019:

- Efficient support of transforming workforce
- Development of adaptive corporate structure and culture
- Diverse and attractive workplace
- Resilient and impactful HR organization related to corporate operations.

Employer brand building – we create a livable and likeable workplace, which is satisfactory for our employees and offers an attractive perspective in the labor market through its future oriented methods of work. We put greater emphasis on using social media solutions in building the brand.

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

Remuneration –We make our company attractive for employees by means of our wide range of benefits. We have a transparent, simpler and consistent job grading model, which reflects primarily the respective values of jobs, and provides for market comparison, as a basis for a competitive remuneration policy.

Training development– We owe our competitive advantage to our qualified workforce. We are building a digital Telekom, thus put an increasing emphasis on collaborative digital tools and solutions that enable and inspire self-development. Online training catalogue, online training materials, online coachbank and mentoring, online knowledge sharing (Share).

Wellbeing – Energetic employees We take action for each other and ourselves in order to maintain our physical, mental and social wellbeing. Energized employees make us successful. We draw employees' attention to conscious preventive health efforts, volunteer work, sustainability and work-life balance**.**

3.1.3 Headcount

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

	2018	2019
Magyar Telekom Plc.	6,134	5,501
Magyar Telekom Plc. and its consolidated subsidiaries	8,948	8,246

	2018	2019
MT-Hungary /Telekom Hungary	7,865	7,178
North Macedonia	1,083	1,068
Total	8,948	8,246

From 2017 the operating segments of the Group: MT-Hungary and North-Macedonia. Please refer to the Note 33. to Consolidated financial statement for further details.

3.2 Policies

3.2.1 Policies and agreements

Code of Conduct: https://www.telekom.hu/static-tr/sw/file/mt-code-of-conduct.pdf

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

Code of Human Rights and Social Principles:

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

Equal Opportunities Plan: https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_Eselyegyenlosegi_Terv_2016_2020_en.pdf

The Code of Human Rights and Social Principles and the Equal Opportunities Plan of Magyar Telekom set the general human rights principles of the group and guidance to their group-wide implementation. Magyar Telekom Group recognizes and respects the fact that the cultural, social and legal diversity of its employees provide the foundations of operations based on equal opportunities. It is also a competitive advantage that leads to business success.

Diversity Policy - https://www.telekom.hu/static-tr/sw/file/Diversity_Policy.pdf

The Diversity Policy of Magyar Telekom Group underscores our commitment to consistently identify and utilize potential for improvement.

Group Policy on Employee Relations - https://www.telekom.hu/static-tr/sw/file/Employee-relations-policy.pdf

The policy is present as an internal corporate directive since 2011 and was being published as a public corporate policy in 2018. Based on our shared values and Guiding Principles, this policy offers a framework that enables the entire workforce to strengthen business performance, contribute individually to business objectives and increase shareholder value. Employee relations cover all aspects of the work life cycle that are relevant to the employment relationship.

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

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

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

Equal Opportunities Plan: https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_Eselyegyenlosegi_Terv_2016_2020_en.pdf

Anti-discrimination and the safeguarding of equal opportunities is a key priority to Magyar Telekom Group. According to the act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities, and the corporate protocol in place since 2010 Magyar Telekom Group has accepted its 4th Equal Opportunities Plan in order to secure the practices of equal treatment, the advancement of equal opportunities and the monitoring an improvement of the labor positions of particular disadvantaged employee groups. The Equal Opportunities plan currently in force is valid between 2016 and 2020 and has been developed in close cooperation with the employee representative bodies.

The Diversity Charter of the European Union – Hungary has joined the Diversity Charter of the European Union in 2016 and, among 50 signatory companies Magyar Telekom has also underscored its dedication to safeguard diversity as a fundamental value. Magyar Telekom has been among the signatory companies in in the forthcoming years as well as in 2019.

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

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

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

3.2.2 Monitoring and auditing practices

The group-level coordination of corporate sustainability operations that also incorporate labor standards, social issues and the protection of human rights is being coordinated by the Group Sustainability Coordination Council (GSCC). The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the GSCC, thus the process of implementing sustainability activities is divided to the level of strategy development and management, and the level of operative implementation.

According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers. 50% of the bonuses of Chief Officers depend on the performance of collective objectives. More detailed information about the actual operation of the GSCC and its reporting obligations towards the Management Committee could be found in the Sustainability chapter of this document and in the annual Sustainability Report.

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

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

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

3.3 Results of Policies

3.3.1 Diversity and Equal Opportunities

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

The corporate Equal Opportunities Plan of 2016-2020 addresses actions and procedures to improve the labor conditions and career perspectives of particular vulnerable employee target groups such as women, employees with families, employees on child-care leave, employees living with disabilities, recent graduates and 50+ employees. In order to maintain this focus Magyar Telekom has developed and accepted Equal Opportunities plans since 2008 in close cooperation with the employee representative bodies. The current is the 4th Equal Opportunities Plan of the company, the guidelines, policies and actions of which cover the 2016-2020 period.

The principles of justice and equal treatment of Magyar Telekom are being defined by our Code of Conduct. Ways of non-typical employment such as Telework, flexible working hours, part-time work, employment of people living with disabilities allow the company to realize the principle of equal treatment in practice. These measures are further assisted by several measures implemented in corporate day-to-day operations, such as the large office spaces that are designed to support Teleworking in the new headquarters of Magyar Telekom.

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

Our 2016-2020 Sustainability strategy was supplemented with a Diversity and Inclusion plan the strategic steps, targets and result indicators of which have been defined based on employee feedback. Our employee survey on the perceptions of corporate D&I culture is being repeated biannually to support the revision of the key targets of the D&I action plan. One of the top priorities in 2019 was the development of our diversity culture along which we were the first Hungarian company to develop a Hungarian language e-learning material on 'unconscious bias', adapting the term and it's context to local language and understanding. 92% of Telekom employees did this course by the end of October, 2019. In order to support the anti-discrimination efforts of our society in general, we have made the e-learning material publicly available and free to use for all.
We have also restructured our parental leave and back-to work scheme, and we have furthered and expanded our family-friendly solutions and carework scheme. Thorough and detailed intranet sites have been developed in 2019 in order to inform and guide our employees through our D&I topics and summaries of these topics are to be found on our public website as well.
https://www.telekom.hu/about_us/sustainability/diversity-inclusion

3.3.2 Anti-discrimination and labor-market integration actions

As an employer, Magyar Telekom has issued the following actions in 2019 to improve the conditions of the employee groups marked in the 2016–2020 Equal Opportunities plan.

As a mentor company Telekom supports roma workforce integration programs Integrom and HRom to contribute to the equal labor market opportunities. The program participants are being supported with job application counselling, job interview-practices, CV writing and editing skill practices. Our inclusive recruitment practices include dedicated recruiter tracking support for program participants throughout their application process, providing detailed evaluation and feedback, and company mentoring upon request.

As members of the Hungarian Employers Forum on Equal Opportunities (MEF) in 2019 Telekom has participated in the working group for LGBTQ open and inclusive working environments under the professional supervision of Háttér Society.

In order to secure the equal opportunities of our current and future colleagues living with disabilities, we are using a special module on our online job-application site (http://www.telekom.hu/rolunk/ karrier) since 2010, where our applicants are encouraged to state any accessibility requests they might have in order to attend the selection process. Apart from workplace accessibility we support the workplace integration and enablement of our entrants and their welcoming teams by education materials with modules for basic attitudes and inclusive behavior with colleagues with visual or hearing impairments, colleagues facing physical or mental difficulties to work independently within the team. We also provide workshops on demand.

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

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

New employees of Magyar Telekom Group as part of their orientation process in their first two months receive compulsory education about the company principles, guidelines and practices concerning social issues, labor standards and human rights. All employees must understand and accept these guidelines as the fundaments of their own professional behavior and operations.

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

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

3.3.4 Relationship of management and employees

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

Trade union and the workers' council (Central Workers Council) must be consulted and their opinion solicited on significant decisions resulting in organizational changes or changes affecting a large group of employees. In organization restructuring decisions the collective bargaining bodies have 7 days to submit their comments, in other cases 15 days. The measure in question may not be implemented during this 15-day period. Trade unions and workers' councils (Central Workers Council) must be consulted with regard to draft resolutions, aiming at organizational changes without regard to the number of employees concerned.

Under the Act V of 2013 on the Civil Code one third of the Supervisory Board shall consist of employee representatives. The employee representatives in the Supervisory Board are nominated by the Central Workers' Council considering the opinion of the trade unions operating at the Company. Persons nominated by the Central Workers' Council shall be elected by the General Meeting to the member of the Supervisory Board, except if disqualifications exist in respect of the nominated persons. On December 31, 2019, three members of the Supervisory Board were employee representatives. These members were Tamás Lichnovszky, Zsoltné Varga and Attila Bujdosó.

3.3.5 Freedom of organization and collective bargaining

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

The Social Charter together with the long history of mutual respect and cooperation of the management and employee representative councils are the guarantees that these rights are being fully and thoroughly respected. 100% of the employment contracts of Magyar Telekom Group employees operating in Hungary fall under collective bargaining agreements developed with the Hungarian Telecommunications Trade Unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszevezet, MATÁSZ). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the collective bargaining agreement must be renegotiated annually. If the employment is terminated due to reasons related to the employer's operation, employees are entitled to a specific amount of severance pay surplus, which depends on the tenure of the employee.

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

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

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

3.3.6 Workforce Reduction and Redeployment

Magyar Telekom – in order to ensure the resources related to the Company's strategic objectives - has reached an agreement with the trade unions in 2018 on headcount reduction and wage increase measures for 2019.

According to the terms of the agreement, the Company plans to make ca. 450 parent company employees redundant. Majority of employees affected are to be made redundant are expected to have left the Company by March 1, 2020. The company provides active job search, labor market training and one-on-one counselling to the colleagues laid off, in the framework of Program Chance, which has proven its success in the past years, and trusts that the above support these highly-trained employees of up-to-date professional expertise in finding employment elsewhere as soon as possible.

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

As from April 1, 2020, employee salaries at the Company will rise by an average of 5%.

3.3.7 Benefit Programs

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

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

3.4 Risk management

3.4.1 Providing educational and professional background

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

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

Magyar Telekom also provides practice opportunities for secondary school pupils from the relevant technological industries. In 2019 7 students have spent their mandatory practices at our company.

We supported the work of the Environment Protection Committee of the Hungarian Academy of Sciences as well as the scientific work of the National Adaptation Center. Our colleagues are in close relationship with several higher education institutes and we help the universities with consultancy for writing theses, expert education and giving lectures.

3.4.2 Employee expectations and equal opportunities

The pillars of our People Strategy are based on the aim to meet the needs of our employees, and to live up to the challenges of maintaining our company status as a highly competitive and future oriented employer. Our employees require security, stability, opportunities for advancement and competitive compensations. Magyar Telekom, as a company committed to provide equal opportunities to its employees, finds it especially important to harmonize wages and to terminate unjust wage gaps. Our tiered wage system, built on the Hay methodology, serves the above purpose. Our remuneration system is fully transparent thus our base wage tables and the relevant policies are available for all employees. We pay extraordinary attention not to differ unreasonably the wages of the employees performing the same tasks and that the wage differences between the employees reflect real work differences.

As an employer dedicated to diversity as a core value, Magyar Telekom finds it important to raise the amount of women in leadership positions. As a member of Deutsche Telekom Group the objective in 2010 was to increase the proportion of female managers to 30% by 2020. Along the aim to contribute to reaching the defined target, the company strives to utilize the actual business benefits inherent to the advancement of corporate diversity culture.

Magyar Telekom considers stress, overload and burnout related risk-reduction as its priority duty in relation to its employees. In order to take charge of these risks by securing an empowering environment to develop and maintain a healthy lifestyle, employees are also provided with coaching and training opportunities that help in the advancement of their task management skills. Efficient work-life balance of employees with families is further supported by our child-friendly offices and the available, tax-free nursery and/or kindergarten support that could be selected from our cafeteria benefit scheme, thus contributing to the reduction of expenses. Taking notice of the special conditions of employees (ex. illness or the longer term domestic care of a relative) a longer period of unpaid leave is also available.

3.5 Performance indicators

Education results of the 2016-2020 Sustainability Strategy:

- 72,438 smarter brains since 2016 with the help of digital inclusion programs eg. Digital Bridge, LTI, LTMG

Non-typical employment at Magyar Telekom Group

- No. of Part-time employees in 2019: 393
- No. of Flexi-time employees in 2019: 1,366
- No. of Teleworking employees in 2019 : 2,877

More women in leadership positions at Magyar Telekom Plc.

- Percentage of women in overall workforce: 34.3%
- Percentage of women in senior management: 27.5%
- Percentage of women in executive board: 33.3%

Volunteer work benefits at Magyar Telekom Group

- No. of volunteer working hours: 6,158
- No. of supported people by the projects: 24,387

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 11 million in 2019.

The aggregate compensation of the members of the Supervisory Board in their capacity as Supervisory Board members was HUF 54 million in 2019.

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 755 million in 2019.

On December 31, 2019, five MC members have an employment contract with indefinite and one member with definite duration. The notice period is two months for all five of the indefinite contracts. 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. In case of one contract the severance payment is in accordance with the Labour Code and the Collective Agreement, for the rest of the contracts the severance payment is between 3 and 16 months.

In addition to the above, the affected persons are bound by the non-compete clause, under which the employee is barred from entering into employment with any Hungarian or international competitor of Magyar Telekom and is required to refrain from providing direct or indirect services or activities of any kind to such companies for a definite period (not longer than one year) upon termination of his/her employment. Furthermore, such employee is barred from any action aimed to recruit employees of Magyar Telekom for any other company. This limitation entails certain compensation which is proportional with the above obligation. If the employee is in breach of the agreement, he/she will reimburse the net amount of compensation to the employer. In addition, the employee will be liable for a payment of compensation to the employer.

MC members from foreign countries may be entitled to housing subsidies. There is one member affected by this entitlement.

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

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

5 RESEARCH AND DEVELOPMENT

Hungary

In 2019, within the scope of tender obligations, the research and development activities of Magyar Telekom were comprised of maintaining the R&D tender project funded and awarded by the National Research, Development, and Innovation Fund.

During 2019, in addition to the tender obligation, we have continued the development of several project related products and services that were based on the R&D activities of previous years.

In addition to innovative domestic SMEs, the research and development tasks are performed by the internal researchers as well as the product and services development staff of Magyar Telekom Group. In addition, the Company leverages the synergistic effect of an internal and external knowledge base, and strives for partnership with well-known innovation centers and institutes of higher education. Our main partners are renowned Hungarian universities and research institutes, such as the Budapest University of Technology and Economics, the Eötvös Loránd University, the Budapest Corvinus University, the Óbuda University, the Hungarian Academy of Sciences, the University of Szeged and the Szent István University. In 2019 the Group entered into strategic cooperation with the latter two universities.

In 2019, we have terminated the 2nd season of our internal idea incubation initiative the Mission T Program. All the applicants were from the employees of the Magyar Telekom group. Within the framework of this program applications are received and after several rounds of selection, the best five ideas are realized to prototype level. This has been followed by development, go-live and business utilization of more idea-prototypes.

In addition to the above, Magyar Telekom also believes it important to support R&D type knowledge transfer projects. As a result, it has been an active participant of the EIT ICT Labs knowledge transfer program as a professional cooperating partner since 2012, and cooperates several international R&D tender initiatives. In addition in 2019, T-Systems Magyarország Zrt., as a member of Magyar Telekom Group, was actively involved in the MI Coalition established by the Ministry of Innovation and Technology, and acting as the leader of the Technology and Security Working Group.

North Macedonia

Makedonski Telekom (MKT) continues with its determination and its work to be innovation and technology leader on the market. Among the main focuses, as a continuation to the previous years, are the projects in the area of the Smart City. Further to our successful Smart Bus Transport Project implemented for the City of Skopje in 2015 and 2016, in 2019 agreement was extended for additional 2 years, including technical support for the customer and development of the new software functionalities for improvement of the current processes in the public transport (introduction of mobile application for smart ticketing, introduction of the electronic one ride ticket, improvement of the line control and integration with Google Transit service). MKT has high probability of getting the contract for Smart City Skopje (including Smart lighting, Smart parking and Smart metering) In 2019 few offers were prepared for several municipalities regarding Smart lighting and Smart parking. From society digitalization perspective, support activities for e-health and e-education strategy preparation are ongoing.

Other important segment that was covered in 2019 I SW development. The E-Inspector system, developed by internal resources, for Municipality of Skopje provides transparency in the work of the inspectors, efficiency and safety of the inspectors in the field, submission of digital field records, supervision of the inspectors' work in their current location and administration of the inspectors. The E-Inspector System consists of the mobile application to be developed for Android and IOS platform for the needs of field inspectors, WEB application for the needs of inspectors' dispatchers and smart phones as end user equipment. Furthermore, since Cyber security is a hot topic for organizations and businesses of all sizes across every industry, Penetration testing of the National Bank of the Republic of Macedonia's (NBRMS), as a service obtained by our experts and partners' ones includes focused screening of their IP addresses for assessing infrastructure security, operating systems, databases and other system software, as well as application security.

Moreover, collaborating with our partners MKT established a (web-based) integrated communication and data management system for documents and workflows that will digitize and automate the existing work processes and documents that are part of the work of the public services company in Skopje. The process of cloudification is finished successfully as the system is hosted on our own virtual private servers.

Moreover we investigated potential market and we made cost analysis for implementation of Narrowband for Internet of Things (NB-IoT). Furthermore, utilizing the potential coming out from the EU funded projects in smart Digitalization, IoT solutions, e-government, etc., was also under close loop.

Also, utilizing the potential coming out from the EU funded projects in the smart Digitalization, IoT solutions, e-government, etc., was under close loop as well.

In addition to the business development activities given above, in 2018 we put the focus on the development of the projects and products for digitalization and smart working for the business segment, which we believe are growing market potentials in the forthcoming years, expected to be driven by the advantages of the efficiency of ICT in daily workflows systems and networks, as well as by the transparency and accountability of such solutions.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNER, we keep further on our strategic technology partnerships-Cisco Gold, EMC Cloud solution provider. We started the process for potential cooperation with SAP, also. These partnerships are confirmations of MKT's competences in the areas of enterprise networks, cloud, collaborations, network securities, and Data Center technologies. Such competences are deemed to be crucial assets on which we can leverage further in our ICT business development activities.

Competitive pressure in conjunction with saturated Telco market, complexity of business environment with multiple and more sophisticated customer segments, multiple vendors and complex service offerings, fast changes in the technology with new technology paradigm targeting for one universal IP network and cloud-based service delivery platform, as well as changes in the regulations, are only part of the challenges that MKT will face in the next few years.

In order to keep sustainable business and major revenue streams in very complex telecommunication environment, as well as proactively influence the market trends with new business opportunities, MKT is aiming to keep its technology leadership position and ensure growth through service improvement and innovation by continuous development of its infrastructure.

Development of infrastructure and investment in Technology should encompass the following objectives/trends: broadband performance, integrated service delivery platforms, efficiency and quality leadership, self-service enablers, cloud concept and "virtual" infrastructure, cost efficiency, flexibility and responsiveness – reduced time-to-market, as well as competence development.

During 2019, MKT has made significant steps towards achievement of targets with the development of telecommunication network, service platforms and supporting systems.

In order to ensure high quality broadband (BB) performance, BB market and technology leadership, MKT is continuously investing in fixed and mobile access development. At the end of 2019, installed capacity of more than 196,000 homes passed or 31.42% households' coverage with FTTH from MKT's network was reached. Regarding the VDSL rollout, the total numbers of VDSL CO were more than 192,000 and more than 19,000 VDSL FTTC homes passed.

Hybrid Access Solution was further developed which aggregates the bandwidth of both DSL and LTE transmission links and create a single, powerful broadband pipe between the network service node and the customer's Broadband CPE. At the end of 2019, there were more than 5,000 hybrid users and more than 5,300 FMS users.

Significant improvement was also achieved in terms of the LTE rollout, reaching 93% territory coverage and 99.8% population coverage outdoor. More than 99% of the total sites provide LTE services. At the end of 2019, 63.3% of BTSs were connected via optic.

During Q4 2019, Makedonski Telekom set up the first test 5G network in the centre of Skopje thus providing conditions for testing this new technology in real conditions. This is another step towards the introduction of 5G in Macedonia which will provide technological advancement of the society and many new functionalities for the users. The purpose of the test 5G network is testing the performances in real conditions which would enable new services for the users, such as: super-fast fixed wireless internet, VR (Virtual Reality) 3,600 live video, VR gaming in real time, ultra-HD multi video streaming, etc. The tests will be conducted during 2020 and based on them the network will be prepared for the commercial phase.

In the core domain, the emphasis was placed on the mobile voice network modernization. Several projects were initiated. The scope of the first one was HW upgrade of the existing MGWs in mobile network, in particular replacement of five obsolete MGWs with two new MRS network elements and migration of the commercial traffic. The second project was upgrade of the MSC nodes in Skopje and Veles from 16A to new SW version 18.1. The third project was related to the UDC. It was upgraded to new SW version R1 that bring new and enhanced features and also contain SW patches that will make the SW more stable and reliable.

Investing in new technologies that contribute to the improvement of the services and thus the customer experience is MKT continuous focus. In that line, at the end of 2019, MKT introduced VoLTE technology in mobile telephony (Voice over LTE) which provides number of benefits to customers during making calls and transferring data to the up-to date 4G network. The users of Samsung S9 and Samsung S9 plus are the first to access the VoLTE technology, and then the technology will be expanded to other phone models and manufacturers collaboration like Apple, Huawei, etc.

The growth of BB access and continuous traffic increase are supported with further development of the IP Core and transport network as cornerstone of all services. During the last three years, IP Core & Transport Network Modernization project which includes modernization, reorganization and extension of all IP Core Network elements, Transport and Aggregation systems was successfully completed. MKT managed to install full DWDM network and finalized IP Core implementation and integration, as well as IP Core services migration. The plan is to continue with the second phase of HA Aggregation Network modernization and to finish 100% of the Aggregation sites till the 2021.

Modernization of the SPNI segment of the network continuing in the Q4 2019 and it will be finished till the end of 2020. Scope of the SPNI project is integration of the main DCs into one geographically distributed network layer, providing network connectivity to all IT and NT services as well as laying down the foundation for Cloudification of the NT and IT production are started.

The video and high-speed data services are expected to be the main driver and main potential for further market differentiation as well as main opportunity for business growth. In order to improve the quality of the IPTV service and to achieve the ambition for being #1 TV provider on the Macedonian market, during 2019 MKT joined Mediaroom Advanced Program and performed upgrade of IPTV video/audio subsystem to MediaRoom 3.0. In that line, expectation from the platform besides ensuring the high quality of the existing services, is a new functionality that should increase the interactivity and service personalization for the customers in a more flexible and competitive manner.

Information technology

During 2019, Makedonski Telekom started the IT Transformation

- Main objective of IT transformation is selection of sustainable and feasible concept for the IT Operating Model, that will enable implementation of DT and MKT digital strategy, financially most efficient option within the budget
- Different IT operating models were evaluated for implementation in the 6-9 months period and used in next 7 years that can leverage EIRA as foundational capability for the digital future.

- IT transformation model is combination of outsourcing legacy systems and insourcing new employees that will cover the missing skillset
- Dedicated cross-functional teams is build, unifying IT, Business and Operation for improved and flexible delivery.
- Company focused on Digitalization and building EIRA
- Transformation will allow MKT to become competitive employer, leveraging from employee performance

There were several projects that were aimed at providing efficient IT systems and solutions which will fulfill the plan and enable the realization of the strategic focuses.

In OSS domain, Net Cracker project was successfully completed in two phases:

- Phase 1- Set up of NC development environment and introducing collaboration model for implementation of functional change request in OSS NetCracker platform without NC involvement
- Phase 2 – Implementation of new functionalities in NetCracker sytem with MKT partner (CGI)
  - Optimization of NC WorkForce Management system with simplifying the process and improvement of the data input
  - Introducing Employee backpack for improving the material and equipment work in WFM
  - Development of generic interface for WFM system, in order to have the possibility the system to be used by other external system without additional development on NC side
  - Additional functionalities for presenting the necessary information in Trouble Ticketing and CRM

In CRM domain, Sales Force Automation was introduced.

In ERP domain, One.ERP project has started rolling out in Makedonski Telekom in October 2019. Standardized data, standardized processes, and standardized IT based on SAP Standard on a group-wide Enterprise Resource Planning (ERP) platform is the main core of the platform. Joining the program, MKT is gaining experience with the largest ERP project in Europe and one of the largest ERP platforms in the world. The project completion is expected in very short period of time of only 14 months.

6 REAL ESTATE, SITES OF OPERATION

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

Headquarters of major member companies of the Group

- Magyar Telekom Plc.: Hungary, 1097 Budapest, Könyves Kálmán körút 36.
- T-Systems Magyarország Zrt.: Hungary, 1097 Budapest, Könyves Kálmán körút 36.
- Makedonski Telekom A.D.: North Macedonia, 1000 Skopje, Kej 13 Noemvri, No. 6.
- Combridge S.R.L.: Romania, Municipiul Sfantu-Gheorghe, Strada 1 DECEMBRIE 1918, parter comercial, nr. VI, Bloc 6, Judet Covasna
- Novatel EOOD: Bulgaria, Sofia Oblast, Stolichna Municipality, Sofia 1309, Ilinden District, 2 Kukush street, Siemens building, floor 1.

Hungary

Out of the number of 1,670 buildings that take place on the 1,469 sites of Magyar Telekom Plc, 46% is owned by the company, 5 % is jointly owned and the rest 49% is leased. These figures do not contain the technology sites, from these types of sites we have 6,186.

The total area of properties used by Magyar Telekom Plc. as of December 31, 2019 was 644,763 m^2. The majority of sites used in our operations are smaller than 100 m^2. The largest site is our headquarters building (leased) located at Könyves Kálmán krt. 36 in Budapest, with floor space of over 55,000 m^2

North Macedonia

At the end of December 2019, MKT radio access network consisted of 845 physical sites on which there are 706 2G base stations, 837 3G base stations and 827 4G base stations. 91% of the site infrastructure (towers) is in possession of MKT and 9% is leased.

The total area that is used by MKT is around 109,029 m2 as of December 2019, out of which around 44, 530 m2 are in sole possession of MKT and in great part (53 %) is attributable to 2 major buildings, the headquarters and the main technical building. The remaining 64,499 m2 are in joint possession with Macedonian Post.

7 SUSTAINABILITY

Magyar Telekom has been addressing the sustainability implications of its operations for close to twenty years, and for 15 years its sustainability activities are characterized by comprehensive, long-term plans, and the Company is currently implementing its fourth five-year sustainability strategy.

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

Magyar Telekom's sustainability activities and achievements are comprehensively discussed in the annual Sustainability Reports, which aims to make the Group's environmental, social and economic activities transparent to everyone.

The present report includes reference only to certain key topics of our sustainability approach, namely human rights, employees, environment protection and compliance.

Charters and initiatives of cooperation accepted and signed by Magyar Telekom Group

Besides professional challenges, the Group also seeks cooperation opportunities for the solution of social and environmental problems.

Magyar Telekom has been an active member of ETNO's (European Telecommunications Network Operators Association) Sustainability Workgroup for years. The members work closely towards solving all kinds of sustainability-related programs.

In respect of the hello holnap! fee package various forums were held with the involved organizations of people living with disabilities (AOSZ, ÉFOÉSZ, MEOSZ, MVGYOSZ). Our cooperation with these bodies is continuous, active and based on the proposals we continuously improve our relationship with disabled people.

The work of the Environment Protection Committee of the Hungarian Academy of Sciences was supported. Colleagues are in close relationship with several higher education institutes and help the universities with consultancy for writing theses, expert education and giving lectures.

Magyar Telekom has been the first among the Hungarian companies to accept OECD Guidelines for Multinational Enterprises and set them up as mandatory guidelines for its operations.

European Union's Diversity Charter has been signed by the company and considered as a mandatory guideline.

UN Global Compact has been signed by the company and the "Communication on progress" report on achievements in the 10 principles is published yearly.

Magyar Telekom has acknowledged the UN Sustainable Development Goals (SDG) and through incorporating the priority ones in its Sustainability strategy 2016-2020 the company finds the contribution to the goals a mandatory element of its operations.

Magyar Telekom discloses data and information on its climate related activities through the CDP (Carbon Disclosure Project) platform.

Magyar Telekom has been the first Hungarian company to join the Science Based Target Initiative (SBTi) and has emission reduction targets approved by SBTi.

Magyar Telekom has joined the UNFCCC Climate Neutral Now initiative.

The Group is a member of several working groups of the Hungarian Business Leaders Forum (HBLF).

https://www.telekom.hu/about_us/society_and_environment/cooperation

Quality guarantees in the Magyar Telekom Group can be found:

https://www.telekom.hu/about_us/about_magyar_telekom/principles/quality_guarantees

7.1 Sustainability strategy

In 2016, Magyar Telekom Group started its current five-year sustainability strategic cycle, 2016-2020.

In addition to the results of our Sustainability Strategy 2011- 2015, the goals and tasks defined for the period through the end of 2020 have been determined by the goals and directions applied internationally in terms of sustainable development (SDG, CDP, GeSI SMARTer2030, EU2020 climate package). When identifying the priorities, the company has focused on the expectations of the responsible investors monitoring our company and the current corporate trends. Of course, local market conditions, as well as consumer behavior and demand have also been taken into account, with a proactive and awareness raising attitude.

When identifying strategic goals, it was kept in mind that the Group's sustainable operation has a significant impact on the society, the economy and the environment. In addition to playing an important role for the livable future of several million customers and more than 8 000 employees, as a market leader ICT provider and a large enterprise of regional proportions, Magyar Telekom is aware that our business and operational decisions influence the economy and the society of the future, too. It is its firm belief that Telekom, as a company, is responsible for all the groups of people whom it can enable by ICT solutions, and that it has to make social, economic and environmental responsibility a part of its corporate genetic code to thus promote sustainable development and opportunities for future generations.

The main objective set forth by the fourth Sustainability strategy is to make sustainability part of Magyar Telekom's business. This can be ensured, if considering all three pillars of sustainability, we are comprehensive, credible and innovative. Until the end of 2020, climate protection, education, digitally enabled sustainablility and diversity and inclusion are the major foci of the strategy.

Climate protection

The goal is to make customers climate-conscious, too, and to be an authentic and responsible company that helps them along that journey. It is the ambitious objective to generate revenue from the climate protection activities, as the ICT world offers especially great potential for that, at the same time to push Magyar Telekom Group's actual CO_2 emission below 100,000 tons. In order to achieve the above, in addition to the emission decreasing initiatives, the company needs to work on elaborating "green" services specifically.

Education

Magyar Telekom wants to assume a role in educating the public and its customers. One goal of the BE SMARTER Sustainability strategy 2016-2020 is to directly or indirectly reach 1,000,000 people in Hungary with its trainings by the end of the period covered by the strategy. Telekom shall primarily focus these trainings on the areas: programs aimed at eliminating the digital gap and the succession pool of the industry beside highlighting the development of its edutainment/inspitainment contents. Every program, activity and campaign are considered as SMART that make customers more sustainable, more responsible, more aware and more educated digitally.

Digitally enabled sustainability

Being a sustainable digital company, Magyar Telekom's clear expectation that its customers should also use sustainable digital services. To that end, the company strives to pursue responsible marketing and activities that enable and inspire others, as well as are based on sharing. In this context, its goal is that awareness about Magyar Telekom, as a sustainable company should reach 50%.

Diversity

The diverse and inclusive workforce of Magyar Telekom is a key asset for its business success. The company's commitment to equity based corporate culture is deeply rooted in its guiding principles and policies. It is embedded in its everyday practices guiding Magyar Telekom towards an even more open, inclusive and safe workplace for colleagues with all backgrounds and abilities. As a responsible employer the company pays special attention to the elimination of discrimination from the workplace environment, ensuring all voices be heard and all perspectives respected. Its equity and inclusion efforts imply a special focus on the diverse needs of employees coming from underrepresented social groups when it comes to the comfort of well-being, sense of belonging or career aspirations.

Awards and sustainability recognitions achieved in 2019:

- FTSE4Good Index membership, top1% in sector
- CECE SRI sustainability index membership
- MSCI ESG rating AA
- Disability-friendly Workplace title
- Family-friendly Workplace certificate, bronze grade – initiating organization: Családbarát Ország Nonprofit Közhasznú Kft.
- Family-friendly Mentor Company – initiating organization: Három Királyfi, Három Királylány Mozgalom

7.2 Initiatives concerning stakeholders

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

- Investors – investor (and responsible investor) assessment
- Customers – sustainable products and services, hello holnap! mobile app, child protection
- Employees – community solar project, family friendly services, diversity contents, volunteering
- Regulators – conformity, regulatory relations
- Local communities –Telekom Community Gardens, Superfast Internet Program (SZIP), network development, "Movie Club Picnic"
- Non-profit organizations –12th Sustainability Day, DELFIN Award
- Suppliers – sustainable supply chain management, TOP3 sustainable supplier of Magyar Telekom
- Media –Press Award on the Sustainability Chat event
- Future generations – Become an IT expert! , Become! part of generation NOW, sustainable innovations, Forum "Most", JunctionX Budapest 2019 Hackaton, 24h selection of interns

In 2019 Magyar Telekom renewed the way it keeps contact with its stakeholders. By now, they can express their expectations towards Magyar Telekom through the redesigned helloholnap.hu site, which the company then take into account in course of pursuing our sustainability activities. At the same time, Magyar Telekom held a "Sustainability Chat – a Thought Provoking Discussion" event on September 11, 2019, where stakeholders could ask questions, as well enter into a dialogue and joint thinking about specific topics.

Activities related to more stakeholder groups

As part of our 2018 Diversity&Inclusion plan, Magyar Telekom is striving towards an inclusive, open and safe working environment for employees from all backgrounds. In order to promote a working culture of inclusion and non-discrimination the company has developed the first Hungarian language unconscious bias e-learning material and launched it as a mandatory course for all employees, 92% of whom have successfully completed it by the end of October, 2019. The e-learning is now part of the onboarding curriculum and is mandatory for all new entrants. The aim was not only to support the development of its own working culture but to provide an accessible and easily adaptable learning material for all Hungarian enterprises and thus contribute to the promotion of anti-discrimination in the society at large. That is why Magyar Telekom has made the e-learning material publicly available to everyone and published it on the Magyar Telekom website (only HU).

Recognizing the importance of plastic pollution, Magyar Telekom set a new goal to significantly reducing the amount of single-used plastics generated during our operations. Within the Plastic Free Telekom initiative, first we removed these plastics from the headquarters operation. We provided our colleagues filtered water and jugs to reduce the amount of PET bottles. By the end of the Sustainability Strategic Period, we aim to reduce the volume of PET bottles by 80% and completely eliminate disposable plastics. This requires strong cooperation with suppliers and partners and customers are affected to through the T-shops.

Investors

Magyar Telekom remained to be a constituent in the FTSE4Good Index Series, the respective ESG assessment put the company among the top1% in sector. The US based MSCI rated Magyar Telekom into the category 'AA' on the scale CCC-AAA. Magyar Telekom continued to disclose climate related data and information via the CDP platform. Magyar Telekom remained a constituent in the CECE SRI (formerly CEERIUS) Index on the Wiener Börse as well.

Customers

Magyar Telekom's revenue from sustainable products and services witnesses stable annual increase. By 2019, revenue from these products has reached a 35.8% ratio. The sustainability impact of products/services is measured in 3 dimensions, in 15 topics and through 42 questions. According to the related regulation sustainability assessment covers all products and services of the company.

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

Magyar Telekom launched the “hello holnap!” mobile app in 2014, by which it drew attention to Telekom’s sustainability efforts in particular and sustainable lifestyles in general. By using the app, users were able to collect “hello holnap!” points and donate them, converted into real money by Telekom, to non-governmental organizations of their choice. The success of the mobile application in 2019 is best represented by the fact that it had more than 25,000 downloads and HUF 8 million have been donated to the organizations connected to the application.

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

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

Employees

In 2019 Magyar Telekom announced again its community solar project. During the program employees had the opportunity to adopt a solar panel. 110 solar panels had been adopted in 18 hours .

The outcomes of the 2018 employee survey on diversity and inclusion served as a base for the further development and expansion of the family-friendly solutions. As part of this process Magyar Telekom has established a Kids Playroom in the new HQ building in Budapest, where professional childcare is offered to children aged 3-10 for a few hours during the days of school holidays that are sometimes challenging for working parents.

Magyar Telekom has also renewed and expanded its parental leave and back to work scheme. Colleagues are provided with a detailed step-by-step guide and detailed information platforms to support them through the processes of planning, preparation for parental leave, on-leave period and the return-to-work preparation period. During the parental leave the colleagues can stay connected and reach all relevant company or employment information they might need. They also continue to be entitled to the use of the entire learning and development portfolio while on leave and we have also introduced some additional solutions to support the re-integration of colleagues returning from parental leave.

In 2019, Magyar Telekom continued to sensitize its employees to social issues by organizing volunteer work events. The strategic target of the corporate volunteering is 50,000 hours of voluntary work by Magyar Telekom employees by the end of 2020. To achieve that they had the possibility to grow the amount of the theoretical contribution to society by educational (eg. Be an IT expert!, Close to the Customers Program) and charity (eg. It is good to give! cookie campaign) voluntary events and the Winter Volunteering – a day when employees can experience and help another team’s everyday work. The philanthropic voluntary programs are very popular among the employees eg. the seasonal blood donation or philantropic teambuilding activities. During the year 467 Telekom colleagues worked 6,158 hours of volunteer work, by means of which a theoretical amount of HUF 23.2 million was thus donated to the society.

Local communities

Magyar Telekom and the Hungarian Contemporary Architecture Centre continued to run community gardens in 2019, too. Gardening works are still ongoing at Csárdás Garden and Kerthatár Community Garden. The two gardens offer the opportunity to more than 150 families in the city to get involved in gardening.

For Telekom it is utmost importance for all to access the opportunities and benefits of the digital world. Within the framework of the Digital Welfare Program, Magyar Telekom has launched its fixed and mobile Digital Welfare Program package providing quality internet service for users on a budget. Where the fixed internet network is not yet available, the SZIP Mobile internet tariff package can be ordered for the addresses defined in the SuperFast Internet Program (SZIP).

Magyar Telekom's network provides more than 1.7 Million Gigabit speed endpoint connection for one third of Hungarian homes and businesses. The advantages of optic network not only available for people living in cities, but for more than 400 settlement under 5,000 residents, half of them has less than 1,000.

Magyar Telekom organized Movie Club Picnic events at 8 locations across the country as part of the Network of Actions campaign in the summer of 2019. The company invited its customers to an open-air movie experience to demonstrate that Telekom's network enables them, too, to enjoy a movie anywhere.

Non-profit organizations

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

- Sustainable innovation;
- Diversity;
- Climate protection;
- Raising sustainability awareness.

The award winners are selected on the basis of the projects submitted by a professional jury consisting of expert curators. The twelfth award ceremony took place as part of the Sustainability Chat held on September 11, 2019. In 2019, the award in the Sustainable Innovation category went to GREEN Culture LLC, in the Diversity category to Live and Love without a Mom Foundation, and in the Sustainable Education category to CSEMETE Nature and Environment Protection Association and the Nature and Environment Protection Association of the Jane Goodall Institute.

The invited panel members (experts, academicians, business personalities, NGO representatives, artists, media personalities and sports people) of the 3 + 1 panel discussions held as part of the Sustainability Day event are prominent in their areas of expertise and substantially contribute to sustainability. The twelfth Sustainability Day event held on September 14, 2019, addressed the dirtiness experienced in the context of the environment, society and economy. The program reached an audience exceeding 11 000 people on location and online, who followed the panel discussions organized along the three pillars of sustainability, reviewed the projects submitted to the creative contest, and tried the interactive solutions demoed in the exhibition area. Each year, the exhibition area accommodates Hungarian and international innovative solutions, good sustainability practices, projects addressing renewing energy consumption, waste management and equal opportunity, as well as the respective efforts of NGOs and companies. In 2019, close to 40 entities exhibited their projects at the event.

Suppliers

In the framework of the sustainable supply chain management process Magyar Telekom assesses the sustainability performance of its suppliers each year. In 2019 with webaudit questionnaire – that contains questions on general, environmental, social and business ethical topics – 16 suppliers were assessed and so 56% of the total purchase value has been covered by valid webaudit assessments. The top rated suppliers of 2018 were awarded on 11 September 2019 at the Sustainability Chat – awareness raising discussion. At the event, the „Magyar Telekom's TOP3 sustainable supplier 2018" title was given to: Wavemaker Magyarország Kft., NEC Eastern Europe Kft. and Net-Micro Kft.

Media

The Sustainability Chat event presented an opportunity to hand over the Sustainability Media Award for the nineth time established by Magyar Telekom. Awards were distributed in three categories: tv/radio/video content, written newspaper (print, online); blog, vlog. The award amounted to HUF 300 000 for each category.

Future generations

One of the main objectives set forth by Magyar Telekom's Sustainability Strategy launched in 2016 is to achieve that there be 1 million better qualified people in Hungary by 2020. The target has been achieved, among other things, by industry-specific succession development programs like Be an IT Professional! or JunctionX Budapest 2019, educational events like the NOW Forum and digital education programs like Be a Member of the NOW Generation! As part of the Be an IT professional! program, employees volunteer to talk to high school students about the IT profession in general and help them get acquainted with its specific features. JunctionX Budapest 2019 Hackathon brought the latest technological developments closer to the youth. The monthly NOW Forum sessions address specific topics with the involvement of experts of the area, and explore the topics' digital aspects. As part of the Be a Member of the NOW Generation! program Telekom enlists the help of high school students to explain with their active involvement the benefits of the digital world to the pensioner generation.

In 2018, Magyar Telekom introduced a new element of the internship program with the aim to provide an efficient, fast and inspiring hiring experience beneficial for both the students and the company. The 24-hour intern selection system reached 900 university students, from whom 30 were hired to intern positions in 2019.

A new chapter was started in the history of Hungary's IT training, medical, food and agricultural IT. The partnership established among Magyar Telekom, T-Systems Hungary, the Science University of Szeged and Szent István University is to promote efficient cooperation in research and development, utilization of innovation and research results, technology transfer and the development of the entities' digital infrastructure. As part of the cooperation, the studies of the future engineers and professionals of the industries concerned can incorporate a focus on digital skills to an extent increasing year by year.

7.3 Annual Sustainability Report

Magyar Telekom Group has committed, among other things, to publish reports about its sustainability performance annually. When the reports are compiled the GRI (Global Reporting Initiative) guidelines and standards are applied, thus ensuring compliance with the principle that the reports have to be the cornerstones ensuring transparency and international comparability. Since 2007 Magyar Telekom has prepared reports adhering to the highest level of compliance with international standards each year, thus the 2013 Sustainability Report was the seventh to meet the requirements of the GRI A+ application level.

The 2014 and 2015 Sustainability Report was compiled along the Fourth-Generation Principles set forth by the Global Reporting Initiative (GRI G4), while since 2016 Sustainability reports have been compiled along the newest requirement, the GRI Standard on "Comprehensive" level. The independent assurance and certification of compliance with the GRI Standard criteria was conducted by PricewaterhouseCoopers along the ISAE 3000 international standard. Further details on the sustainability performance of the Company can be found in the annual reports available on:

https://www.telekom.hu/about_us/society_and_environment/sustainability_reports

The 2019 Sustainability Report is going to be published in the first half of 2020.

8 ENVIRONMENT PROTECTION

8.1 Policies

Magyar Telekom Group upholds its commitment to sustainable development and the environment protection in the environmental policy. The policy contains obligations for the members of the Magyar Telekom Group both individually and as a Group: https://www.telekom.hu/static-tr/sw/file/Magyar_Telekom_environmental_policy.pdf

The Group-level coordination is continued to be implemented under the auspices of the Group Sustainability Coordination Council (GSCC). The levels of development and management of the corporate sustainability strategy are separated from the operative implementation level within the operation of the GSCC, thus the process of implementing sustainability activities is divided to the following levels:

1. Strategy development and strategy management level operating under the auspices of the GSCC: development of strategic concepts, implementation of the strategy, relevant communication with national and international organizations

2. Operative implementation level managed by relevant organisations of the governance areas and business units, actual operative activities, task management, data provision etc.

The GSCC's operation is regulated by a group level directive: on the regulation of Magyar Telekom Group's sustainability operation and the responsibilities and competence of stakeholders.

The operative management of Magyar Telekom Group, the Management Committee receives at least once a year a report on the implementation of the tasks of the Group Sustainability Strategy and other ongoing significant sustainability activities, results, potential exposures and opportunities.

The MC is informed on the latest sustainability trends and may respond to the feedback from stakeholders through the annual report and based on the report may decide on the amendment of the strategy. The MC keeps contact with the stakeholders through the GSCC. Incoming inquiries are received by the respective professional areas and critical comments regarding sustainability are transferred to the responsible staff members by the GSCC members. According to the relevant group directive the strategic tasks are allocated to the respective Chief Officers.

8.2 Results of the policies

As a leading provider of info-communications services in the region, Magyar Telekom's commitment to sustainable development with a focus on preserving the environment lies in the centre of its mission. In the current Sustainability Strategy 2016-2020 the ambitious goal has been set to reduce the level of the company's carbon dioxide emission below 100 ,000 tons.

In 2018 Magyar Telekom was the first and only company in Hungary, whose long-term emission reduction targets have been approved by the Science Based Target initiative (SBTi):

- reduce absolute scope 1 and 2 GHG emissions 30% by 2030 from a 2015 base year;
- reduce absolute Scope 3 GHG emissions 30% by 2030 from a 2017 base year.

In 2019 Magyar Telekom continued its carbon offset project. The company spent half of the income of the company car policy regulated bonus-malus system to carbon offset. The aim was to become carbon neutral again in 2019 too. Magyar Telekom has reached its goal by using 100% renewable energy for electricity consumption and offset the rest of its emissions, by purchasing and retiring 32,771 CER (Certified Emission Reduction) units. The reduction came from a Chinese green project. In 2019 Magyar Telekom Plc. has purchased 182.5 GWh of renewable energy that is equal with 100% of the total amount of electricity used by the Company.

Our highlighted environmental and operational ecoefficiency goals are:

- Reducing CO_2 emissions (target set below 100,000 tons of CO_2 by 2020)
- Energy consumption: saving energy (reduce consumption), increase of energy efficiency levels, using green energy
- Increase the energy efficiency of buildings
- Decrease fleet consumption, promotion travel replacement solutions, and dematerialization solutions
- Introduction of sustainable and climate friendly products and services
- Waste management: reduction of waste (increased recycling-rate)
- Measure the climate footprint of customers and suppliers

8.3 Risks

Based on the Business Continuity Management System (BCM) the company has identified the critical climate risks (floods, heat waves) that might affect our operations and we have prepared action plans for possible risk management. According to the annual assessment the rate of climate damage in the network did not reach the level of intervention (HUF 50 million damage/ month). In 2019 46 climate related cases (storm damage) have been identified with the costs of HUF 5.7 million. During heatwaves the company allows its colleagues to work remotely, and increases the core temperature of datacenters and base stations in order to reduce the energy consumption.

In setting the emission reduction targets, Magyar Telekom has considered the current Paris Climate Agreement and EU standards, as well as the IPCC's 1.5 C ° goals, but it is assumed that regulators will set stronger emission reduction targets in the future, which may involve financial risks. On the other hand, thanks to the company's forward-looking climate strategy, Magyar Telekom has an advantage over its competitors, along with rigorous regulations.

8.4 Performance indicators

Cumulated CO_2 emission – 94,585 tons CO_2

Group CO_2 emission by categories – Scope1: 20,289 tons CO_2, Scope2: 74,295 tons CO_2

Energy efficiency – bits transmitted / energy consumption – 149.06 Gbit/kWh

The average CO_2 emission of the fleet – 111 g/km CO_2

9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom Group, the goal was to ensure that the Magyar Telekom Group pursues its business activity with maximum awareness of and commitment to the compliance with the applicable laws and legal provisions, in accordance with the strictest norms of ethical business conduct. To this end, we issued decrees addressing the potentially arising compliance-related risks, and we apply the procedures set out in these decrees and arrange continuous training courses for our employees related to these procedures. We established clear concise processes to report, examine, follow up and correct suspected cases of non-compliance.

The Corporate compliance program is supervised by the Group compliance officer. The Group compliance officer reports directly to the Audit Committee, and cooperates with the Board of Directors, the Supervisory Board and the management. The Corporate compliance program focuses on the Code of Conduct.

Code of Conduct of the Magyar Telekom Group contains the summary of the compliance requirement within the company, sets common values of the Group and is a key to the strong position, reputation and successful future of Telekom. The Code of Conduct applies to everyone within the Magyar Telekom Group from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom Group also have to know and accept these values, when registering to the procurement website.

In the year 2010 an external independent party audited the implementation of the Compliance program, and we were awarded a certificate of compliance with the external expectations and of the implementation of the system. The program was revised in 2013, including other related areas as well – such as procurement, internal audit, HR, sales. The audit was not aimed only at the implementation and control of the system in the different areas, but it measured the operational efficiency of the control system. We met the expectations and were awarded by a certificate issued by Ernst&Young as independent external party. In 2017 again an external auditor (KPMG) evaluated the effectiveness of the compliance management system of Magyar Telekom, and issued a certification that the program complies with the requirements of the new anti-corruption ISO standard.

The first distance learning course addressing compliance was started in 2008 in the topic of "Conscious recognition of fraud and corruption". Since then we have been providing a general eLearning course for our new employees, mandatory for all colleagues joining to the company. The course is completed with the acceptance of the Code of Conduct. Since the start of the program, 75 712 distance learning courses were completed by the employees on group level, related to topics, such as compliance awareness, supplier due diligence, anti-corruption measures, incompatibility or insider trading.

On the top of that, our company has arranged personal training sessions for employees working in professional areas exposed to compliance and abuse related risks – both within the parent company and Hungarian and international subsidiaries – in the topics of organized anti-corruption behavior, screening of contracted partners and rules of giving and accepting gifts.

In 2019 – similarly to the practice of the previous years – risk analyses were conducted with the participation of organizations and subsidiaries of Magyar Telekom Nyrt. Based on the results of the survey, a comprehensive audit was prepared for the potential compliance and abuse risks, the result of which was submitted to the Audit Committee of the Company.

During the year we check the soundness of the reports submitted to our company in connection with unethical behavior, and if necessary, we act on these reports. In case we identify actual abuses, we take care of the necessary and adequate countermeasures. Magyar Telekom published all cases of corruption and the related countermeasures in accordance with the related applicable laws and legal provisions.

9.1 Fight against bribery and corruption

9.1.1 Policies

Magyar Telekom des not tolerate any attempts of corruption, so numerous procedures and policies were introduced to prevent and fight corruption. Magyar Telekom complies with the anti-corruption rules the Group, and expects its business partners not engage in unlawful activities (including breaching the anti-corruption laws) such as utilize any money or other services provided by Magyar Telekom for unlawful purposes. This also includes direct or indirect payments to individual(s) to improve the perception of Magyar Telekom (or any parties acting for Magyar Telekom) or to influence any business decision. Magyar Telekom strictly prohibits any form of corruption including (but not only), receiving personal advantages or monetary gains, accepting or providing bribes or promising facilitating payments. The Group also prohibits employees to make beneficial decisions towards family, friends or close or distant acquaintances. It is not allowed to provide any gift or invitation to an event to third parties if it could potentially influence any business transaction. Magyar Telekom Group does not support morally or financially any political parties, organizations or representatives of these. Magyar Telekom will not start business relations with third parties that violate the anti-corruption clauses of the Compliance Program or the basic principles of the Code of Conduct.

Due Diligence procedures: There are no fixed procedures on how thorough due diligence should be to avoid legal responsibility or any investigation as per the anti-corruption laws. The aim of these procedures is to identify high-risk areas, and to provide indication when further due diligence or review is required.

9.1.2 Result of the policies

During the year, we have verified the plausibility of any complaints we have received about unethical behaviour and initiated internal investigations if necessary. If we have identified any misconduct we initiated the necessary measures and actions. Any complaints regarding breaches of internal or external rules can be sent to the Tell Me! portal of Magyar Telekom. Any questions regarding corporate compliance can be asked on the Ask Me! intranet portal.

9.1.3 Risk

The basis and prerequisite of the efficient defense against breaches of laws and policies is the register and analysis of compliance risks and identified other compliance relevant cases at Magyar Telekom. The yearly Compliance Risk Assessment (CRA) handles active and passive corruption separately. The risk assessment always includes Magyar Telekom, T-Systems and Makedonski Telekom. Other subsidiaries can be included on a case-by-case basis, based on information originating from internal investigations. The CRA fully covers the abovementioned companies. The Group Compliance Officer informs the Audit Committee, the Board of Directors, and the management about the result of the risk assessment and gives an update about the status of the measures in every quarter.

10 ECONOMIC ENVIRONMENTS, OUTLOOK AND TARGETS

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

10.1 Economic environments and outlooks

Hungary

The growth on traditional telco market is limited on mid-term due to the strong competition. The market is consolidating in the FMC direction, that is the new field of competition. Though the ARPU of the special services are declining due to competition, operators are offering more content in order to keep ARPU level. Market for voice services (both mobile and fixed) is saturated and voice services becoming a utility with flat tariffs and simple offers. There is an increasing demand for data services driven by content consumption, but strong competition puts pressure on prices. The centre of offering is data service both on fixed and mobile focusing on speed in fixed and unlimited on mobile. The fixed market is characterized by fixed-mobile integrated bundles, with broadband becoming a core element of service offerings. After finalization of Vodafone – UPC merge we still expect Digi – still struggling to launch its own mobile service - to enter the market as a third FMC operator.

Mobile market is characterised by great quality and coverage from network perspective. The mobile broadband uptake still fuels the overall mobile market. However, the increasing regulation, particularly the abolishment of roaming fees and the decrease in mobile termination rates, is putting further pressure on market players. In 2020 the 5G networks are expected to be launched. 5G networks is no longer the network with residential segment focus, but rather the industrial usage.

The growing economic environment had a positive effect on the households' budget in recent years. The growing budgets however are hard to translate into growing telco spending.

Outlook: We have begun to see the effect of a new player entering the FMC market. Nevertheless, we remain the leading FMC provider in the country and we intend to maintain this position. We'll do this by focusing on our key Telco business and strengthening our network – both fixed and mobile.

North Macedonia

Positive impact to overall economy expected, upon initiation of accession talks with the EU in June 2019 and NATO full membership by mid-2020 (After changing the country's constitutional name to North Macedonia, thus fulfilling its part of the mutual agreement with Greece to unlock Macedonia's NATO and EU integration).

Based on the above, main economy drivers expected to rebound, resulting telco market stabilization and return to growth.

Telekom with very good financial performance YoY, showing growth of +3.7% on revenues and +3.2% EBITDA excl. SI. for the second year in a row, after achieving positive turnaround in revenue development in 2018.

Integrated telco market overview shows stable position of Telekom with 55.2% Q3 2019 revenue market share, A1 with 37.7% Q3 2019 and 7.1% Q3 2019 to other operators.

Mobile market is remaining limited to two current players, although an open door is still kept further for new entrant (after several announcements by the regulator on expressed interests by 3rd parties). Lycamobile, currently single mobile MVNO in the country with insignificant revenue share and focused only on prepaid segment. New MVNO entrant started of operations at beginning of 2019. The new entrant, Telekabel (major cable operator), with expected impact on postpaid segment and FMC market reached 0.7% SIM marketshare at the end of 2019.

Fix market, from 2019, with 3 integrated players focused on convergent offers on the Market and other smaller operators. Telekom with further focus on fiber roll-out and providing high speed and high-quality internet to its customers.

Outlook: Competition in North Macedonia has intensified in recent months as both Telekabel and A1 have launched favourable offers primarily targeting postpaid mobile and FMC customers. To sustain the positive performance recorded in 2019, the Group intends to further leverage our integrated Magenta offer, high network quality and our market position as a premium provider.

10.2 Revenue, EBITDA and Capex targets

Magyar Telekom has sustained its momentum in 2019. We have continued our mission to satisfy our customers' needs and constantly refresh our product offering. This helped us to strengthen our position in the market in several key areas including the more and more important data related services, both in our mobile and fixed portfolio.

The moderate revenue growth recorded by the Group in the first nine months of 2019 continued into Q4 2019, resulting in a 1,5% revenue rise for the full year, beating our previous guidance of moderate decline in 2019. We have also continued to grow our EBITDA in this year thanks to continued market trends of customers requiring more and more data services. This coupled with the still growing equipment sales and mobile service revenues has managed to offset the decline in our SI/IT revenues in Q2 and Q3.

The Hungarian operation continued the positive trajectory set earlier this year in both mobile and fixed segment and managed to get back to the growth track in the SI/IT segment in Q4. However, the good performance of the fourth quarter in the SI/IT segment was not enough to make up for the previous two quarters decline.

Looking ahead to 2020 we see the market change, most importantly other players competing the FMC market. Though the competition is likely to intensify throughout the year, we are confident that we can keep our position as market leaders. To achieve this consistent with our strategy, we remain determined to expand our FMC customer base. To maintain our competitive advantage, we have enhanced our Magenta1 offering which delivers highly attractive services and related equipment.

In North Macedonia, we are confident that, in spite of challenging market conditions, the EBITDA turnaround is sustainable with upsides thanks to a still growing SI/IT business line.

Looking forward we expect revenues to stay broadly stable in 2020, whilst EBITDA is expected to increase by 1%-2% on a comparable basis thanks to a reduction in indirect costs and growing telecommunications revenues. Capital expenditures are expected to remain stable (excluding the increase driven by IFRS 16 implementation and any possible spectrum costs) as spending on the fixed network will continue to reflect the acceleration of the fiber-rollout program. Continuing the successful turnaround in profitability, we expect free cash flow (excluding spectrum license fees) to continue increase by around 5% compared to 2019.

11 INTERNAL CONTROLS, RISKS AND UNCERTAINTIES

11.1 The presentation of the systems of internal controls and the evaluation of the activity in the relevant period

Magyar Telekom's management is committed to establish and maintain an adequate internal control system to ensure the reliability of the financial reports, and minimize operating and compliance risks. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

For the business year 2019 we accomplished control documentation and evaluation in the IT supported ICS[i] system. Transaction Level Controls describe the controls built into our business processes that have been designed and operated to ensure that material misstatements in each significant financial account and disclosure within the financial statements are prevented or detected in a timely manner.

Complete evaluation of our internal control system is based on the method established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The operation of the internal control system is supported also by the independent internal audit function. Beyond tasks regarding the risk based internal audit work plan, contributes to the enhancement of the internal control processes and to the reduction of existing risks through ad-hoc audits. The Internal Audit area follows up the implementation of the measures defined on the basis of the audits. The Supervisory Board and the Audit Committee receive regular reports on the findings of the audits; measures, based on the findings and fulfilment of tasks.

In line with the criteria of the adopted internal control framework, management evaluates the effectiveness of internal control system within each financial year. Management's assessment for 2019 is finished, and based on the collected information internal control system has been operating effectively to prevent potential material misstatements in the financial statements, and minimize operating and compliance risks.

The Company's shareholders are being informed about the operation of our internal control system through our public reports.

The management and Board of Directors of Magyar Telekom are committed to conduct all business activities of Magyar Telekom Group according to the highest legal and ethical standards. Based on this commitment the Board of Directors established the Corporate compliance program of Magyar Telekom.

The Corporate compliance program is applicable to all bodies, organizations, employees of Magyar Telekom Group, and advisors, agents, representatives as well as to all persons and organizations that work on behalf of the Company or its subsidiary.

The Corporate compliance program of Magyar Telekom ensures that the business activities of the Group are conducted with observing and in compliance with the relevant laws to the outmost extent, according to the highest standards of training and commitment. It requires the realization of guidelines and processes that manage potential compliance risks and implement specific processes in order to report, investigate, monitor and correct suspected or actual lack of compliance.

11.2 The utilization of financial instruments, risk management and hedging policies

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

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

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

All risks related to material internal and external operations, financial and legal compliance and certain other risks are evaluated and managed by a well-defined internal mechanism. A risk management handbook and an internal regulation on risk management were issued. A risk management course was developed for employees responsible for risk management in all organizational areas. Risk items

[i] Internal Control System

affecting our operations are reviewed quarterly throughout the Company. All of our subsidiaries, business units, divisions and entities are obliged to identify and report their operational risks on a quarterly basis. After the evaluation of these risks, results are reported to our management, to the Board of Directors and to the Audit Committee.

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

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

11.3 Risk factors

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

- Magyar Telekom operates within a strictly regulated market environment. Most of the regulatory framework is the result of EU legislation. According to plans, Hungary implements the new EU regulatory framework (1972/2018/EU) by Eo2020. Elements of this framework might have negative effect on our operations (eg. consumer protection).
- In some areas, NRApractice is quite strict (eg. net neutrality, access obligations), therefore it might hinder innovation.
- We are subject to more intense competition in the fixed business due to meeting our competitors on more and more area as a result of the network roll-outs;
- Hungarian telecommunication market is in the process of restructuring, so we may be subject to more intense competition in the mobile and fixed business (Digi-Invitel acquisition, Vodafone-UPC acquisition, ownership change of Telenor);
- Beyond current market players in Hungary, DIGI also acquired 2x5 MHz spectrum block in the 1800 MHz band and 1x20 MHz spectrum block in the 3400-3600 MHz band, and entered the mobile market as a new player ;
- Adaption to new trends and technological changes in the telecommunications market (IoT, Big Data, AI, 5G) might be a serious challenge;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment of the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in North Macedonia is expected to remain strict, since the Regulatory Body's aim is at widening the scope of wholesale regulation;
- More intense competition in North Macedonia driven by A1 (formerly VIP) as well as Telekabel being integrated players;
- Our share price may be volatile, and the ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- Unpredictable changes in the Hungarian tax regulations may have an adverse effect on our results;
- Fluctuations in the currency exchanges rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.
- The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

11.4 Financial risk management

The classification of the group's financial instruments is described in detail in Note 4 and the financial risk management of the Group is described in detail in Note 5 of the Consolidated Financial Statements.

12 ANALYSIS OF FINANCIAL RESULTS FOR 2019

Key Performance Indicators (continuing operations)	At December 31,	
	2018	2019
Revenue (HUF million)	657,104	666,653
Mobile revenues	343,145	354,362
Fixed line revenues	206,901	212,659
System Integration/Information Technology revenues	107,058	99,632
EBITDA (HUF million)	192,507	220,562
EBITDA margin	29.3%	33.1%
Operating margin	11.7%	12.5%
Capex to sales ratio	16.4%	16.9%
Net debt (HUF million)	272,805	349,357
Net debt ratio (net debt to total capital)	30.7%	35.6%

12.1 Revenues

Total revenues increased from HUF 657.1 billion in 2018 to HUF 666.7 billion in 2019, driven primarily by the growth in telecommunication service revenues across the Group.

Mobile revenues increased to HUF 354.4 billion in 2019 compared to HUF 343.1 billion in 2018, reflecting the continued positive momentum in mobile data usage in both countries of operation.

- **Voice retail** revenues declined 3.2% to HUF 129.3 billion in 2019, as tariff pressure across both operations offset the positive impacts of customer base expansion and higher share of postpaid subscribers.
- **Voice wholesale** revenues rose by 2.8% to HUF 10.1 billion in 2019, as the slight increase in Hungary offset the decline recorded in North Macedonia. In Hungary, higher voice wholesale revenues reflected increased off-network traffic driven by a growing portion of flat rate packages. In North Macedonia, the decline was due to a further decrease in international incoming traffic.
- **Data** revenues grew by a significant 13.7% to HUF 91.9 billion in 2019, driven by continued growth in subscriber numbers and data usage in both countries.
- **SMS** revenues increased by 5.6% to HUF 20.3 billion in 2019, primarily as a result of further growth in mass messaging revenues in Hungary coupled with increasing retail postpaid customer bases in both countries.
- **Mobile equipment** revenues increased by 3.0% to HUF 90.0 billion in 2019, driven primarily by higher volume of export sales at the Hungarian operation.

Fixed line revenues increased to HUF 212.7 billion in 2019, up from HUF 206.9 billion in the previous year. The continued decline in voice revenues was fully offset by improvements in TV, broadband and equipment revenues.

- **Voice retail** revenues decreased by 3.9% to HUF 41.0 billion in 2019, primarily due to a further reduction in average tariff levels in both countries, and a lower customer base in Hungary.
- **Broadband retail** revenues increased by 7.8% to HUF 55.4 billion in 2019 thanks to growth in both Hungary and North Macedonia. In Hungary, customer base expansion was coupled with an increase in broadband ARPU levels as customers migrated to higher bandwidth packages. In North Macedonia, the positive impact of an expanding customer base offset the decline in broadband ARPU.
- **TV** revenues increased by 3.7% to HUF 48.9 billion in 2019, thanks to higher revenues in both Hungary and North Macedonia. In Hungary the dynamic growth of the customer base was coupled with lower ARPUs, whereas in North Macedonia the positive impact of the enlarged customer base was amplified by higher ARPU levels.
- **Fixed equipment** revenues rose by 22.2% to HUF 22.1 billion in 2019 driven by the increase in sales of smart devices to retail

customers at the Hungarian operation.

- **Data retail** revenues declined by 5.4% to HUF 8.9 billion in 2019 reflecting competition driven price erosion in this segment across the Group.
- **Wholesale** revenues decreased by 5.8% to HUF 18.7 billion in 2019 driven by lower broadband and voice wholesale revenues in both Hungary and North Macedonia.

System Integration (SI) and IT revenues recorded a decline of 6.9% to HUF 99.6 billion in 2019, compared to HUF 107.1 billion in 2018, driven by lower project volumes in Hungary. In Hungary, the decline was attributable to lower volumes of hardware and software sales, primarily to the public segment, including the absence of a major PC delivery project. In North Macedonia, strong growth was driven by the recovery in demand for public sector projects, especially in the field of customized solution projects.

12.2 Direct costs

Direct costs increased from HUF 286.9 billion in 2018 to HUF 292.4 billion in 2019, mainly attributable to higher equipment costs and Hungarian TV content fees.

- **Interconnect costs** grew by a moderate 0.5% to HUF 20.7 billion in 2019, driven by an increased volume of off-net mobile traffic that led to higher payments to other mobile operators. This was partly offset by lower outpayments to fixed operators in both Hungary and North Macedonia.
- **SI/IT service related costs** declined by 5.0% to HUF 72.1 billion in 2019, reflecting a lower volume of projects delivered in Hungary during the year.
- **Bad debt expenses** improved by 4.7% to HUF 9.1 billion in 2019 thanks to a one-off favourable impact resulting from a reduction of the impairment rates applied to the Hungarian fixed and mobile operations. This was partially offset by higher expenses related to the higher fixed and mobile revenues in Hungary and one-off impairments in North Macedonia.
- **Telecom tax** declined by 2.7% to HUF 24.8 billion in 2019, as lower residential fixed voice usage, coupled with an overall decline in voice usage among business customers, more than offset the growth of residential mobile traffic in Hungary.
- **Other direct costs** increased by 6.6% to HUF 165.7 billion in 2019, primarily due to the higher cost of equipment sales, in line with higher sales volumes in both Hungary and North Macedonia. TV content related costs and roaming payments also grew in Hungary.

12.3 Gross profit

Gross profit increased to HUF 374.2 billion in 2019, from HUF 370.2 billion in 2018, thanks to an increase in revenues.

12.4 Employee-related expenses

Employee-related expenses improved by 3.3% year-on-year to HUF 80.2 billion, reflecting a reduction in headcount as well as lower bonus expense in the Hungarian operation. In North Macedonia, employee expense improvement was driven by lower headcount and lower severance expenses versus the prior year.

12.5 Other operating expenses

Other operating expenses declined from HUF 103.9 billion in 2018 to HUF 81.0 billion in 2019 (or HUF 100.6 billion excluding the impact of IFRS 16). In Hungary, cost saving measures implemented during the year resulted in lower marketing, HR-related and maintenance costs. Hungarian utility tax was broadly unchanged at HUF 7.2 billion. Other operating expenses in North Macedonia, excluding the impact of IFRS 16, increased moderately driven by higher licence fees, HR-related and electricity expenses.

12.6 Other operating income

Other operating income decreased to HUF 7.6 billion in 2019 from HUF 9.2 billion 2018, reflecting lower one-off profits realised from the sale of real estate in Hungary.

12.7 EBITDA

EBITDA grew to HUF 220.6 billion in 2019 (or HUF 201.0 billion excluding the impact of IFRS 16) versus HUF 192.5 billion in 2018, thanks to improvements in gross profit in both countries of operation, coupled with lower indirect costs in Hungary.

12.8 Depreciation and amortization

Depreciation and amortization (D&A) expenses rose to HUF 137.4 billion in 2019 (or HUF 120.0 billion excluding the impact of IFRS 16) from HUF 115.5 billion in 2018. In Hungary, higher D&A expenses resulted from the shortened useful life of certain copper network related elements in relation to the copper retirement program, while in North Macedonia the increase reflected changes in the useful life of several assets.

12.9 Operating profit

Operating profit rose from HUF 77.0 billion in 2018 to HUF 83.2 billion in 2019 (or HUF 81.0 billion excluding the impact of IFRS 16) as higher D&A expenses did not fully offset the growth in EBITDA.

12.10 Net financial result

Net financial expenses rose from HUF 17.8 billion in 2018 to HUF 24.1 billion in 2019, reflecting the implementation of IFRS 16, while lower debt levels led to a decline in related interest expenses.

12.11 Income tax

Income tax expense increased from HUF 13.3 billion in 2018 to HUF 14.6 billion in 2019. Although profit before tax decreased moderately, higher local business tax, some increase in withholding tax as well as higher deferred tax expenses related to subsidiaries (i.e. a significant decrease in tax losses and a change in the handling of development reserves) led to higher income tax expenses.

12.12 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 3.1 billion in 2018 to HUF 3.4 billion in 2019, due to the higher level of profit generation at the North Macedonian subsidiary during the period.

12.13 Cash flows

Group Cash Flows

HUF millions	1-12 months 2018	1-12 months 2019	Change
Operating cash flow	159,098	162,368	3,270
Investing cash flow	(83,092)	(84,936)	(1,844)
Less: Payments for other financial assets - net	(2,055)	(4,816)	(2,761)
Investing cash flow excluding Payments for other financial assets – net	(85,147)	(89,752)	(4,605)
Repayment of other financial liabilities	(5,988)	(18,560)	(12,572)
Total free cash flow	**67,963**	**54,056**	**(13,907)**
Proceeds from other financial assets - net	2,055	4,816	2,761
Repayments of loans and other borrowings - net	(36,974)	(23,151)	13,823
Dividend paid to shareholders and Non-controlling interests	(29,547)	(29,725)	(178)
Repurchase of treasury shares	(1,822)	0	1,822
Exchange differences on cash and cash equivalents	130	198	68
Change in cash and cash equivalents	**1,805**	**6,194**	**4,389**

Free cash flow (FCF) decreased to HUF 54.1 billion cash inflow in 2019 (2018: HUF 68.0 billion cash inflow), mainly due to the reasons described below.

Operating cash flow

Net cash generated from operating activities amounted to a cash inflow of HUF 162.4 billion in 2019, compared to cash inflow of HUF 159.1 billion in 2018, attributable to the reasons outlined below:

- HUF 28.1 billion **positive impact** due to higher **EBITDA** in 2019 versus 2018, mainly as a result of the IFRS 16 implementation
- HUF 29.8 billion **positive change in active working capital,** mainly as a result of the following factors:
  - favourable change in instalment receivables year-on-year, attributable to shorter instalment periods and year-on-year differences in revenue generation (positive impact: ca. HUF 17.0 billion)
  - reduction in the balance of BAU trade receivables in 2019 compared to 2018 (positive impact: ca. HUF 6.6 billion)
  - higher SI/IT related advance payment settlements in 2019 compared to 2018 (positive impact: ca. HUF 2.0 billion)

- smaller increase in SI/IT related and handset inventory balances in 2019 compared to the increase in 2018, due to differences in project timings and improved inventory management (positive impact: ca. HUF 1.9 billion)
- lesser increase in prepaid expenses in 2019 compared to 2018 (positive impact: ca. HUF 0.8 billion)
- greater increase in SI/IT receivables in 2019 compared to 2018 (negative impact: ca. HUF 0.3 billion)

- HUF 1.2 billion **negative change in provisions,** mainly due to a change in legal provisions in 2019 versus 2018

- HUF 50.0 billion **negative change in passive working capital,** primarily driven by the following factors:
  - greater decrease in the balance of equipment creditors resulting from changes in payment conditions agreed with handset suppliers, as well as a larger decline in the balances of invoiced and non-invoiced other creditors due to the timing differences of payments in 2019 versus 2018 (negative impact: HUF 37.9 billion)
  - larger payment related to SI/IT services in 2019 compared to a moderate increase in 2018 (negative impact: HUF 5.7 billion)
  - higher decrease in the balance of creditors in relation to the new headquarter building in 2019 due to the fit-out costs relating to the new building for the company's headquarters (negative impact: HUF 3.5 billion)
  - higher HR-related personnel expense payments in 2019 compared to 2018 (negative impact: HUF 5.8 billion)

- HUF 4.1 billion **negative change** due to higher levels of **interest paid** in 2019 compared to 2018, mainly as a result of the application of IFRS 16, a new accounting standard applied from January 1, 2019

- HUF 1.3 billion **positive change in other non-cash items** mainly due to the lower net results from the real estate sales recorded in 2019 compared to 2018

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF 89.8 billion in 2019, compared to HUF 85.1 billion in 2018, with the higher cash outflow driven mainly by the following:

- HUF 5.0 billion **negative effect** due to higher **CAPEX** in 2019 versus 2018, mainly due to the combined effect of application of IFRS 16, a new accounting standard applied from January 1, 2019 (negative impact: ca. HUF 22.9 billion) and lower spectrum licence purchase (positive impact: HUF 15.6 billion)
- HUF 1.0 billion **positive change** due to the combined effect of higher payments to **CAPEX creditors** (including a payment of HUF 11.0 billion in relation to the extension of the 2100 MHz mobile license) in 2019 compared to 2018 which was more than offset by the effect of the application of the new IFRS 16 accounting standard
- HUF 0.6 billion **positive impact** from lower cash outflows associated with business combinations (**ITGen Kft.** in 2018)
- HUF 0.1 billion **negative impact** due to a lower amount of **cash acquired** through acquisitions
- HUF 1.1 billion **negative change** related to the **disposal of PPE,** mainly reflecting the lower proceeds from real estate sale in 2019 compared to real estate sales in 2018

Repayment of other financial liabilities

Repayment of lease and other financial liabilities increased to HUF 18.6 billion in 2019 from HUF 6 billion in 2018, mainly due to:

- HUF 11.9 billion **negative change** caused by higher **finance lease** payments in 2019 versus 2018, due to the application of the new IFRS 16 accounting standard with effect from January 1, 2019
- HUF 0.7 billion **negative change** due to higher North Macedonian **content right** payments in 2019 compared to 2018

Free cash flow (FCF) decreased from an inflow of HUF 68.0 billion to an inflow of HUF 54.1billion, mainly due to the reasons described above.

Proceeds from other financial assets - net increased by HUF 2.8 billion, mainly due to higher cash inflows from forward transactions in 2019 versus in 2018.

Repayments of loans and other borrowings – net increased by HUF 13.8 billion due to the combined effect of higher repayments of DT Group loans, as well as the higher drawdown of inhouse group funds in 2019 compared to 2018.

Repurchase of treasury shares improved by HUF 1.8 billion due to the absence of a repurchase of treasury shares for the Employee Stock Ownership Program (ESOP) in 2019.

The financial and operating statistics are available on the following website:

http://www.telekom.hu/about_us/investor_relations/financial

12.14 Statements of Financial Position

The most significant changes in the balances of the Statements of Financial Position from December 31, 2018 to December 31, 2019 can be observed in the following lines:

- Trade receivables
- Other assets
- Property plant and equipment, Right-of-use assets and intangible assets (including Goodwill)
- Financial liabilities to related parties (current and non current combined)
- Lease liabilities (current and non-current combined)
- Trade payables
- Other current liabilities

Trade receivables increased by HUF 5.2 billion from December 31, 2018 to December 31, 2019, mainly driven by the HUF 4.3 billion increase in SI/IT receivables.

Other assets decreased by HUF 5.7 million from December 31, 2018 to December 31, 2019 mainly as a result of the reclassification of the prepaid lease expenses to Right-of-use assets by HUF 3.3 billion due to the transition requirement of the new IFRS 16 accounting standard.

Property plant and equipment (PPE), Right-of-use assets and intangible assets (including Goodwill) together increased by HUF 68.2 billion from December 31, 2018 to December 31, 2019. This increase was driven mainly by the recognition of Right-of-use assets in connection with the transition to the new IFRS 16 accounting standard - this amounted to HUF 108.0 billion, of which HUF 2.8 billion resulted from the reclassification of former financial leased assets under IAS 17. This effect was offset by the decrease in the balances of Property plant and equipment and Intangible assets, as the depreciation and scrapping of assets exceeded capital expenditure for the period.

Financial liabilities to related parties (current and non current combined) decreased by HUF 24.2 billion from December 31, 2018 to December 31, 2019 mainly due to the higher repayment of DT Group loans than the drawdown of refinanced loans.

Lease liabilities (current and non-current combined) increased by HUF 112.0 billion from December 31, 2018 to December 31, 2019 driven by the transition to the new IFRS 16 accounting standard. At the date of initial application (January 1, 2019), the total impact of opening balances was HUF 107.2 billion of which HUF 3.8 billion resulted from the reclassification of former financial leased liabilities.

Trade payables declined by HUF 20.3 billion from December 31, 2018 to December 31, 2019, reflecting the decrease in outstanding balances to handset, SI/IT, CAPEX and OPEX suppliers.

Other current liabilities decreased by HUF 5.7 billion from December 31, 2018 to December 31, 2019. This change was driven by the decreasing HR related liabilities mainly due to the change in the incentive program in 2019.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position in the period from December 31, 2018 to December 31, 2019. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2019 and the related explanations provided above in section 12.13 Cash flows.

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

13.1 Management Committee

The Company's Board of Directors resolved to streamline its management structure by re-allocating the tasks and responsibilities of the Management Committee to the Chief Officers and to the Board of Directors of the Company with effect from January 1, 2020. As a result of this change, the Management Committee of the Company ceased to exist as a formal corporate decision-making body as of January 1, 2020. Currently it is under consideration whether the change has any impact on the financial statements or not.

13.2 Severance payment

In December of 2019 Magyar Telekom agreed with the trade unions on the termination of the employment relationship of ca. 450 employees in the frame of agile transformation. According to the agreement Magyar Telekom has started, the identification of the employees who will be affected by severance payment. The majority of the terminations are expected to be carried out in the first quarter of 2020 consequently the related provision willbe recognised in that period.

13.3 Loss of joint control in E2 Hungary Zrt.

In December 2019 Company signed an agreement with MET Holding AG which eventuated that the Company lost the joint control and significant influence over E2 Hungary Zrt. The transaction was approved by the various competent authorities and this investment will be disclosed as an other financial asset in the Statements of Financial Position. The effect on Statements of Financial Position and the Statements of Profit or Loss and Other Comprehensive Income will not be significant.

Budapest, February 18 2020.

Tibor Rékasi
Chief Executive Officer, Board member

János Szabó
Chief Financial Officer

Declaration

We the undersigned declare that

- the attached annual financial statements which have been prepared in accordance with the applicable set of accounting standards and to the best of our knowledge, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, and
- the business report gives a fair view of the position, development and performance of Magyar Telekom Plc. and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties of its business.

Budapest, April 24, 2020

Tibor Rékasi
Chief Executive Officer,
Member of the Board

Darja Dodonova
Chief Financial Officer