



EGYÜTT. VELED

## ANNUAL REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019



EGYÜTT. VELED

# SEPARATE FINANCIAL STATEMENTS AND MANAGEMENT REPORT

OF MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

FOR THE YEAR ENDED DECEMBER 31, 2019



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# SEPARATE 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 financial statements**

### **Opinion**

We have audited the accompanying financial statements of Magyar Telekom Telecommunication Public Limited Company (the "Company") which comprise the statements of financial position as at 31 December 2019 (in which the total of statements of financial position is MHUF 1 132 657), the statements of profit or loss and other comprehensive income (in which the total comprehensive income for the year is MHUF 39 333 profit), the statements of cash flows, the statements of changes in equity for the year then ended and the notes to the financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its 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 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 financial statements" section of our report.

We are independent of the Company 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 Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 21 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company 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.

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

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



## Our audit approach

### Overview

<i>Overall materiality</i>	Overall materiality applied was MHUF 3 900, which is approximately 2.5% of 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.)
<i>Key Audit Matter</i>	<ul style="list-style-type: none"> <li>• Accuracy of revenue recognition due to complex billing systems</li> <li>• Completeness and accuracy of lease agreements and adoption of IFRS 16</li> </ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

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

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

<i>Materiality</i>	MHUF 3 900
<i>Determination</i>	Approximately 2.5% of the EBITDA AL.
<i>Rationale for the materiality benchmark applied</i>	<p>We chose consolidated EBITDA AL as the benchmark as we believe that it is a comparative benchmark which is also the major new key performance measure of the Company.</p> <p>We chose 2.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.</p>



**Key audit matters**

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

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*Key audit matter*

*How our audit addressed the key audit matter*

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**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 Company was MHUF 507 877. Detailed disclosures and related accounting policies are in notes 3.4 and 18 of the 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 both consumers and corporate customers.

We performed detailed testing by recalculating the contract assets, contract costs, and contract liabilities as at 31 December 2019.

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***Completeness and accuracy of lease agreements and adoption of IFRS 16***

The Company 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 Company was MHUF 96 103 and the total lease liabilities of the Company was MHUF 111 297 as at the date of 31 December 2019. Detailed disclosures and related accounting policies are in note 1.3, 2.1.1. and 17 of the 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 business report**

Other information comprises the business report of the Company. 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 financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the 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 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 business report to consider whether the 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 business report is consistent with the 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 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 and the conditions in Paragraph a) and b) of Subsection (1) of Section 95/C of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by 95/C in its business report. In this respect, we shall state whether the business report includes the non-financial statement required by Section 95/C of the Accounting Act.

In our opinion, the 2019 business report of the Company, 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 financial statements in all material respects, and the 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 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 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 business report includes the non-financial statement required by Subsection (1) of Section 95/C of the Accounting Act.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 financial statements unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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 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 Company 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.*



STATEMENTS OF FINANCIAL POSITION - ASSETS

		HUF millions		
	Note	1.1.2018 (re-presented)*	12.31.2018 (re-presented)*	12.31.2019
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents .....	4, 5	948	1,315	925
Trade receivables.....	1, 4, 5	101,584	120,115	119,055
Other assets .....	12	7,176	6,349	2,983
Other current financial assets .....	4, 5, 17	11,173	22,271	13,283
Contract assets .....	1, 4, 18	10,074	11,755	11,890
Current income tax receivables .....	6	-	33	292
Inventories.....	7	13,743	15,192	14,453
		144,698	177,030	162,881
Assets held for sale .....	8	161	-	656
<b>Total current assets.....</b>		<b>144,859</b>	<b>177,030</b>	<b>163,537</b>
<b>Non current assets</b>				
Property, plant and equipment .....	9	371,732	359,584	343,704
Right-of-use assets .....	9, 17	-	-	96,103
Intangible assets .....	10	378,630	379,986	359,040
Investments .....	11	131,500	132,665	132,665
Trade receivables over one year.....	1, 4	15,221	16,294	15,704
Other non current financial assets .....	1, 4, 5, 17	4,554	3,022	14,382
Contract assets.....	1, 4, 18	3,269	3,142	3,325
Other non current assets .....	12	5,110	4,181	4,197
<b>Total non current assets .....</b>		<b>910,016</b>	<b>898,874</b>	<b>969,120</b>
<b>Total assets .....</b>		<b>1,054,875</b>	<b>1,075,904</b>	<b>1,132,657</b>

\*See Note 1.2 for details regarding the re-presentation.

Budapest, February 18, 2020

  
 Tibor Rékasi  
 Chief Executive Officer, Board member

  
 János Szabó  
 Chief Financial Officer

**STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY**

		HUF millions		
	Note	1.1.2018 re- presented)*	12.31.2018 (re- presented)*	12.31.2019
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Financial liabilities to related parties .....	4, 5	39,336	117,781	81,986
Lease liabilities .....	1, 4, 17	-	-	16,997
Trade payables .....	4	110,978	149,425	118,372
Other financial liabilities .....	1, 4, 17	5,557	6,044	5,665
Current income tax payables.....	6	522	35	387
Provisions .....	13	2,312	2,270	3,468
Contract liabilities.....	1, 18	6,408	7,393	7,147
Other current liabilities .....	1, 14	22,494	19,563	16,385
		<u>187,607</u>	<u>302,511</u>	<u>250,407</u>
Liabilities associated with assets held for sale .....	8	-	-	-
<b>Total current liabilities .....</b>		<b><u>187,607</u></b>	<b><u>302,511</u></b>	<b><u>250,407</u></b>
<b>Non current liabilities</b>				
Financial liabilities to related parties .....	4	231,647	123,350	129,822
Lease liabilities .....	1, 4, 17	-	-	94,300
Other financial liabilities .....	1, 4, 17	44,783	45,313	38,989
Deferred tax liabilities .....	6	13,579	15,789	17,767
Provisions .....	13	8,674	10,870	10,067
Other non current liabilities .....	15	286	-	-
<b>Total non current liabilities .....</b>		<b><u>298,969</u></b>	<b><u>195,322</u></b>	<b><u>290,945</u></b>
<b>Total liabilities .....</b>		<b><u>486,576</u></b>	<b><u>497,833</u></b>	<b><u>541,352</u></b>
<b>EQUITY</b>				
Common stock .....	16	104,274	104,274	104,274
Capital reserves .....	16	25,078	23,359	27,379
Treasury stock .....	16	(27)	(45)	(4,133)
Retained earnings .....	16	438,974	450,483	463,785
<b>Total equity .....</b>		<b><u>568,299</u></b>	<b><u>578,071</u></b>	<b><u>591,305</u></b>
<b>Total liabilities and equity .....</b>		<b><u>1,054,875</u></b>	<b><u>1,075,904</u></b>	<b><u>1,132,657</u></b>

\*See Note 1.2 for details regarding the re-presentation.

Budapest, February 18, 2020

  
 Tibor Rékasi  
 Chief Executive Officer, Board member

  
 János Szabó  
 Chief Financial Officer



STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		HUF millions (except per share amounts)	
	Note	2018	2019
<b>Revenue</b> .....	18	<b>493,317</b>	<b>507,877</b>
Direct costs .....	19	(197,219)	(204,922)
Employee related expenses .....	20	(56,868)	(54,821)
Depreciation and amortization .....	9, 10	(93,833)	(114,402)
Other operating expenses .....	21	(92,842)	(74,135)
<b>Operating expenses</b> .....		<b>(440,762)</b>	<b>(448,280)</b>
Other operating income .....	22	8,712	6,929
<b>Operating profit</b> .....		<b>61,267</b>	<b>66,526</b>
Interest income .....	23	265	887
Interest expenses .....	24	(13,233)	(14,150)
Other financial expenses - net .....	25	(3,930)	(9,450)
<b>Net financial result</b> .....		<b>(16,898)</b>	<b>(22,713)</b>
Results from investments.....	26	4,166	7,079
<b>Profit before income tax</b> .....		<b>48,535</b>	<b>50,892</b>
Income tax.....	6	(10,869)	(11,559)
<b>Profit for the year</b> .....		<b>37,666</b>	<b>39,333</b>
<b>Total comprehensive income for the year</b> .....		<b>37,666</b>	<b>39,333</b>
<b>Earnings per share (EPS) information:</b>			
Profit attributable to the owners of the Company .....	27	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) .....	27	41.84	39.81
Diluted earnings per share (HUF) .....	27	41.59	39.81

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



STATEMENTS OF CASH FLOWS

	Note	2018	HUF millions 2019
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b> .....		<b>37,666</b>	<b>39,333</b>
Depreciation and amortization .....		93,831	114,402
Income tax expense .....		10,869	11,560
Net finance result .....		12,732	15,633
Change in assets carried as working capital .....		(20,795)	3,408
Change in provisions .....		1,454	116
Change in liabilities carried as working capital .....		29,134	(29,473)
Income tax paid .....		(9,218)	(9,459)
Dividend received .....		4,066	7,079
Interest and other financial charges paid .....		(18,441)	(22,581)
Interest received .....		337	1,022
Other non-cash items .....		(6,528)	1,150
<b>Net cash generated from operating activities</b> .....		<b>135,107</b>	<b>132,190</b>
<b>Cash flows from investing activities</b>			
Purchase of property plant and equipment (PPE) and intangible assets .....	28	(74,882)	(82,204)
Proceeds from other financial assets.....		6,946	1,729
Purchase of other financial assets .....		(2,150)	(9)
Proceeds from disposal of PPE and intangible assets .....		10,053	9,036
<b>Net cash used in investing activities</b> .....		<b>(60,033)</b>	<b>(71,448)</b>
<b>Cash flows from financing activities</b>			
Dividends paid .....		(26,068)	(26,063)
Proceeds from loans and other borrowings .....	4	82,122	187,394
Repayment of loans and other borrowings .....	4	(126,797)	(202,759)
Repayment of lease and other financial liabilities .....	4	(3,928)	(15,616)
Purchase of treasury share.....	20	(36)	(4,088)
<b>Net cash used in financing activities</b> .....		<b>(74,707)</b>	<b>(61,132)</b>
<b>Change in cash and cash equivalents</b> .....		<b>367</b>	<b>(390)</b>
Cash and cash equivalents, beginning of year .....	4	948	1,315
Cash and cash equivalents, end of year .....	4	<u>1,315</u>	<u>925</u>

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





STATEMENTS OF CHANGES IN EQUITY

	pieces				HUF millions		
	Shares of common stock (a)	Common stock (a)	Capital reserves		Treasury stock (d)	Retained earnings (e)	Total Equity
			Additional paid in capital (b)	Reserve for equity settled share based transactions (c)			
<b>Balance at January 1, 2018</b>	<b>1,042,742,543</b>	<b>104,274</b>	<b>27,379</b>	<b>(2,301)</b>	<b>(27)</b>	<b>438,975</b>	<b>568,300</b>
Dividend (f).....	-	-	-	-	-	(26,068)	(26,068)
Equity settled share based transactions (c).....	-	-	-	(1,809)	18	-	(1,791)
Treasury share purchase (g).....	-	-	-	-	(36)	-	(36)
Transferring the result of ESOP (i) .....	-	-	-	90	-	(90)	-
<b>Transactions with owners in their capacity as owners .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,719)</b>	<b>(18)</b>	<b>(26,158)</b>	<b>(27,895)</b>
Profit or loss.....	-	-	-	-	-	37,666	37,666
<b>Total comprehensive income .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,666</b>	<b>37,666</b>
<b>Balance at December 31, 2018.....</b>	<b>1,042,742,543</b>	<b>104,274</b>	<b>27,379</b>	<b>(4,020)</b>	<b>(45)</b>	<b>450,483</b>	<b>578,071</b>
Adoption of new standard IFRS 16 (h).....	-	-	-	-	-	(29)	(29)
<b>Revised balance at January 1, 2019</b>	<b>1,042,742,543</b>	<b>104,274</b>	<b>27,379</b>	<b>(4,020)</b>	<b>(45)</b>	<b>450,454</b>	<b>578,042</b>
Dividend (f).....	-	-	-	-	-	(26,069)	(26,069)
Equity settled share based transactions (c).....	-	-	-	4,087	-	-	4,087
Treasury share purchase (g).....	-	-	-	-	(4,088)	-	(4,088)
Transferring the result of ESOP (i) .....	-	-	-	(67)	-	67	-
<b>Transactions with owners in their capacity as owners .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,020</b>	<b>(4,088)</b>	<b>(26,002)</b>	<b>(26,070)</b>
Profit or loss.....	-	-	-	-	-	39,333	39,333
<b>Total comprehensive income .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,333</b>	<b>39,333</b>
<b>Balance at December 31, 2019.....</b>	<b>1,042,742,543</b>	<b>104,274</b>	<b>27,379</b>	<b>-</b>	<b>(4,133)</b>	<b>463,785</b>	<b>591,305</b>
<b>Of which treasury stock .....</b>	<b>(8,836,348)</b>						
<b>Shares of common stock outstanding</b>							
at December 31, 2019.....	1,033,906,195						

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



## NOTES TO THE SEPARATE STATEMENTS OF CHANGES IN EQUITY

- (a) The total amount of issued shares of common stock is 1,042,742,543 (each with a nominal value of HUF 100) as of 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 share-based payment expenses accrued in this reserve related to share settled compensation programs.
- (d) Treasury stock represents the cost of the Company's own shares repurchased. When the Company purchases its 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 Company. The distributable reserves of the Company at December 31, 2019 amounted to approximately HUF 464 billion (HUF 450 billion at December 31, 2018). Untied retained earnings is available for the payment of dividends which contains retained earnings from the last financial year (Note 16.1).
- (f) Dividends payable to the Company's shareholders are recognised as a liability and debited against Retained earnings in the period in which the dividends are approved by the shareholders.
- (g) In 2019 Magyar Telekom Plc. purchased 8,732,763 shares from the ESOP (Employee Share Ownership Program) Organization (Note 20.1.2.4) in an OTC transaction. There was no other purchase of ordinary shares in 2019, and the Company has no intention to renew the ESOP in 2020.
- (h) As of January 1, 2019, the Company adopted IFRS 16. Details of the adoption are disclosed in Note 1.2 and 2.1.1.
- (i) Transferring the result of ESOP into Retained earnings.

Together with the approval of these financial statements for issue, the Board of Directors of the Company proposes a dividend distribution in total 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 financial statements.



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

#### 1.1 About the Company

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom) is the principal provider of telecommunications services in Hungary. These services are subject to various telecommunications regulations.

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

Magyar Telekom 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 the Company is Deutsche Telekom AG (DT or DT AG) who fully consolidates Magyar Telekom Group. Deutsche Telekom Europe B.V. (Stationsplein 8, 6221 BT Maastricht, the Netherlands), a member of the Deutsche Telekom Group, is the direct owner of 59.21% of the Company's issued shares and voting rights.

The Consolidated Financial Statements of DT AG are available at DT AG's website ([www.telekom.com/en](http://www.telekom.com/en)).

The Separate Financial Statements are prepared and presented in millions of HUF, unless stated otherwise, as the Company's presentation currency is the Hungarian Forint.

The Company's Board of Directors (the Board) accepted the submission of these Separate 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, 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 and the Consolidated Financial Statements of Magyar Telekom Group are available at the Company's registered office and on its corporate website.

Magyar Telekom's corporate website is: [www.telekom.hu](http://www.telekom.hu)



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

Management reviewed the structure of the Separate Statements of financial position regarding the current and non current portion of contract assets, contract liabilities, trade receivables and other assets to better represents the different nature of those and to align with with emerging practice. The Company 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 separate 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 .....	118,834	-	138,219	-
Trade receivables .....	-	101,584	-	120,115
Other assets .....	-	7,176	-	6,349
Contract assets – current .....	-	10,074	-	11,755
<b>Total</b> .....	<b>118,834</b>	<b>118,834</b>	<b>138,219</b>	<b>138,219</b>
Other non current financial assets .....	23,044	4,554	22,458	3,022
Contract assets – non current .....	-	3,269	-	3,142
Trade receivables over one year .....	-	15,221	-	16,294
<b>Total</b> .....	<b>23,044</b>	<b>23,044</b>	<b>22,458</b>	<b>22,458</b>
Other current liabilities .....	28,902	22,494	26,956	19,563
Contract liabilities – current.....	-	6,408	-	7,393
<b>Total</b> .....	<b>28,902</b>	<b>28,902</b>	<b>26,956</b>	<b>26,956</b>



### 1.3 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 statements 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 Statements 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 Company.

(in HUF millions)	At December 31, 2018	Catch-up & reclass of IFRS 16	At January 1, 2019	IFRS 16 effect	Other changes	At December 31, 2019
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents.....	1,315	-	1,315	-	(390)	925
Trade receivables.....	120,115	-	120,115	-	(1,060)	119,055
Other assets.....	6,349	(3,244)	3,105	-	(122)	2,983
Other current financial assets.....	22,271	496	22,767	18	(9,502)	13,283
Contract assets.....	11,755	-	11,755	-	135	11,890
Current income tax receivables.....	33	-	33	-	259	292
Inventories.....	15,192	-	15,192	-	(739)	14,453
	<u>177,030</u>	<u>(2,748)</u>	<u>174,282</u>	<u>18</u>	<u>(11,419)</u>	<u>162,881</u>
Assets held for sale.....	-	-	-	-	656	656
<b>Total current assets.....</b>	<b>177,030</b>	<b>(2,748)</b>	<b>174,282</b>	<b>18</b>	<b>(10,763)</b>	<b>163,537</b>
<b>Non current assets</b>						
Property, plant and equipment....	359,584	(2,223)	357,361	-	(13,657)	343,704
Right-of-use assets.....	-	97,323	97,323	(1,220)	-	96,103
Intangible assets.....	379,986	-	379,986	-	(20,946)	359,040
Investments.....	132,665	-	132,665	-	-	132,665
Trade receivables over one year...	16,294	-	16,294	-	(590)	15,704
Other non current financial assets	3,022	10,772	13,794	(414)	1,002	14,382
Contract assets.....	3,142	-	3,142	-	183	3,325
Other non current assets.....	4,181	-	4,181	-	16	4,197
<b>Total non current assets.....</b>	<b>898,874</b>	<b>105,872</b>	<b>1,004,746</b>	<b>(1,634)</b>	<b>(33,992)</b>	<b>969,120</b>
<b>TOTAL ASSETS.....</b>	<b>1,075,904</b>	<b>103,124</b>	<b>1,179,028</b>	<b>(1,616)</b>	<b>(44,755)</b>	<b>1,132,657</b>



(in HUF millions)	At December 31, 2018	Catch-up & reclass of IFRS 16	At January 1, 2019	IFRS 16 effect	Other changes	At December 31, 2019
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Financial liabilities to related parties	117,781	-	117,781	-	(35,795)	81,986
Lease liabilities*.....	-	11,371	11,371	5,626	-	16,997
Trade payables.....	149,425	(670)	148,755	-	(30,383)	118,372
Other financial liabilities.....	6,044	(613)	5,431	-	234	5,665
Current income tax payables.....	35	-	35	-	352	387
Provisions.....	2,270	-	2,270	-	1,198	3,468
Contract liabilities.....	7,393	-	7,393	-	(246)	7,147
Other current liabilities.....	19,563	-	19,563	-	(3,178)	16,385
	<u>302,511</u>	<u>10,088</u>	<u>312,599</u>	<u>5,626</u>	<u>(67,818)</u>	<u>250,407</u>
Liabilities associated with assets held for sale.....	-	-	-	-	-	-
<b>Total current liabilities.....</b>	<b><u>302,511</u></b>	<b><u>10,088</u></b>	<b><u>312,599</u></b>	<b><u>5,626</u></b>	<b><u>(67,818)</u></b>	<b><u>250,407</u></b>
<b>Non current liabilities</b>						
Financial liabilities to related parties	123,350	-	123,350	-	6,472	129,822
Lease liabilities*.....	-	95,984	95,984	(1,684)	-	94,300
Other financial liabilities.....	45,313	(2,920)	42,393	-	(3,404)	38,989
Deferred tax liabilities.....	15,789	-	15,789	-	1,978	17,767
Provisions.....	10,870	-	10,870	-	(803)	10,067
Other non current liabilities.....	-	-	-	-	-	-
<b>Total non current liabilities.....</b>	<b><u>195,322</u></b>	<b><u>93,064</u></b>	<b><u>288,386</u></b>	<b><u>(1,684)</u></b>	<b><u>4,243</u></b>	<b><u>290,945</u></b>
<b>TOTAL LIABILITIES.....</b>	<b><u>497,833</u></b>	<b><u>103,152</u></b>	<b><u>600,985</u></b>	<b><u>3,942</u></b>	<b><u>(63,575)</u></b>	<b><u>541,352</u></b>
<b>EQUITY</b>						
Common stock.....	104,274	-	104,274	-	-	104,274
Capital reserves.....	23,359	-	23,359	-	4,020	27,379
Treasury stock.....	(45)	-	(45)	-	(4,088)	(4,133)
Retained earnings.....	450,483	(28)	450,455	-	13,330	463,785
<b>TOTAL EQUITY.....</b>	<b><u>578,071</u></b>	<b><u>(28)</u></b>	<b><u>578,043</u></b>	<b><u>-</u></b>	<b><u>13,262</u></b>	<b><u>591,305</u></b>
<b>TOTAL LIABILITIES AND EQUITY.....</b>	<b><u>1,075,904</u></b>	<b><u>103,124</u></b>	<b><u>1,179,028</u></b>	<b><u>3,942</u></b>	<b><u>(50,313)</u></b>	<b><u>1,132,657</u></b>

\* Lease liabilities with related parties are also presented in these lines (see Note 32).

The following table shows the impact of the adoption of IFRS 16 on the 2019 Statements of profit or loss and other comprehensive income. In order to present comparable data of the Statements of profit or loss and other comprehensive income, 2019 figures are also shown as if IAS 17 had been applied.

(in HUF millions, except per share amounts)	2018	2019	2019 Effects of	2019
	IAS 17	IAS 17	IFRS16	IFRS16
<b>Revenue</b> .....	<b>493,317</b>	<b>507,877</b>	-	<b>507,877</b>
Direct costs.....	(197,219)	(204,922)	-	(204,922)
Employee related expenses.....	(56,868)	(54,821)	-	(54,821)
Depreciation and amortization.....	(93,833)	(97,459)	(16,943)	(114,402)
Other operating expenses.....	(92,842)	(94,240)	20,105	(74,135)
<b>Operating expenses</b> .....	<b>(440,762)</b>	<b>(451,442)</b>	<b>3,162</b>	<b>(448,280)</b>
Other operating income.....	8,712	6,913	16	6,929
<b>Operating profit</b> .....	<b>61,267</b>	<b>63,348</b>	<b>3,178</b>	<b>66,526</b>
Interest income.....	265	887	-	887
Interest expenses.....	(13,233)	(8,585)	(5,565)	(14,150)
Other financial expenses - net.....	(3,930)	(8,012)	(1,438)	(9,450)
<b>Net financial result</b> .....	<b>(16,898)</b>	<b>(15,710)</b>	<b>(7,003)</b>	<b>(22,713)</b>
Results from investments.....	4,166	7,079	-	7,079
<b>Profit before income tax</b> .....	<b>48,535</b>	<b>54,717</b>	<b>(3,825)</b>	<b>50,892</b>
Income tax.....	(10,869)	(11,688)	129	(11,559)
<b>Profit for the year</b> .....	<b>37,666</b>	<b>43,029</b>	<b>(3,696)</b>	<b>39,333</b>
<b>Total comprehensive income for the year</b> .....	<b>37,666</b>	<b>43,029</b>	<b>(3,696)</b>	<b>39,333</b>
<b>Earnings per share (EPS) information:</b>				
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.....	1,035,393,968	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 Separate 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 are effective as at December 31, 2019 and applicable to Magyar Telekom had been adopted. These Separate Financial Statements also comply with the Hungarian Accounting Act on Separate Financial Statements, which refers to the IFRS as endorsed by the EU.

The Company as parent company also prepared consolidated financial statements in accordance with IFRS as endorsed by the EU which were approved by the Company's Board of Directors on February 18, 2020.

The preparation of financial statements according to IFRS requires the use of certain critical accounting estimates. It also requires management judgement to apply Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Separate 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 Company in 2019

Title of standard	Nature of change	Impact on financial statements	Application date and EU endorsement
IFRS 16 Leases	<p>IFRS 16 requires entities when they are a lessee, to</p> <ul style="list-style-type: none"> <li>▪ 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 statements 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;</li> <li>▪ recognize amortization of right-of-use assets and interest on lease liabilities over the lease term; and</li> <li>▪ separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statements of cash flows.</li> </ul>	<p>Magyar Telekom applied the modified retrospective approach. The Company mainly leases cell sites, rooftops, office buildings and retail shops, network assets, space on masts or towers and cars that are affected by the new standard. IFRS 16 standard had a significant effect on the Separate 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 1.3. 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 Company's leases (including lease commitments) are disclosed in Note 17. On the lessor side, Magyar Telekom mainly analyzed the revised definition of leases including the head and sublease constructions. The lessor accounting itself was not changing significantly through the introduction of IFRS 16.</p> <p>Regarding the transition to IFRS 16, Magyar Telekom decided:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ not to use the low value exemption,</li> <li>▪ 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 asset in a similar economic environment) as a lessee,</li> <li>▪ 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,</li> <li>▪ to use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.</li> <li>▪ at transition date there was no temporary difference between the carrying amount of right-of-use assets and lease liabilities consequently deferred tax assets and liabilities are not required to be recognized.</li> </ul>	<p>An entity was required to apply IFRS 16 for annual periods beginning on or after January 1, 2019 and permitted to apply the new Leases Standard early, if the entity also applied IFRS 15 Revenue from Contracts with Customers at or before the date of early application.</p> <p>The European Union has endorsed this standard.</p>



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 Magyar Telekom's accounting policies.

	<b>Standard subject of amendment</b>	<b>Summary of the change</b>	<b>Conclusion of the change</b>
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 Company'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 Company'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 Company'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 and the Company's current practice is in line with the clarification.
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 Company'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 Company'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 Company's current practice is in line with the new interpretation.

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: <ul style="list-style-type: none"> <li>• What financial assets may be measured at amortised cost.</li> <li>• How to account for the modification of a financial liability.</li> </ul>	The amendment of the standard does not result in material changes in the financial statements and the Company's current practice is in line with the new interpretation.
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### 2.1.2 Standards, amendments and interpretations that are not yet effective as at December 31, 2019 and have not been early adopted by the Company

Title	Key requirements	Impact on the separate financial statements	Effective 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 Company.	January 1, 2020

### 2.2. Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates, that is the Hungarian forint (HUF), which is the functional currency of the Company.

Foreign currency transactions are translated into HUF 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).

## 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 Company 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 Company. 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 the financial position of the Company, and results of operations. See Notes 9 and 10 for the changes made to useful lives in 2019.

The Company 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 that, the Company 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. On Magyar Telekom Group ("Group") level the Company has a considerable part in assets and liabilities presented in MT-Hungary segment besides it contributes with a significant proportion to the result of MT-Hungary segment. 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. The goodwill presented in the Company was tested as the considerable part of this segment when MT-Hungary segment was examined.

Since the Company as a whole is the non-separable part of MT-Hungary segment therefore the impairment test presented hereinafter is in reference to MT-Hungary segment of Magyar Telekom Group. 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 Company 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. The MT-Hungary segment uses 10 year cash flow projections as the payback period of our investments in the telecommunications operations often exceeds 5 years.

The recoverable amounts of the operating segments determined by the operating segments' fair values less cost to sell. In the calculations, Magyar Telekom uses weighted average cost of capital (WACC) and estimated perpetual growth rate (PGR). 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.

The fair value less costs to sell (FVLCS) of MT-Hungary segment far exceeds its carrying amount and Magyar Telekom represents a non-separable but significant part of MT-Hungary segment therefore impairment of goodwill did not need to be recognized neither in 2019 nor in 2018. See Note 10.4 for details of carrying amount of goodwill allocated to segments.

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 2018 and 2019. The tables below also include sensitivity analyses that show how much impairment would have been recognized as at December 31, 2018 or 2019 for the goodwill allocated to the operating segments if we changed the sensitive parameters in the calculations.

In 2019 we disclosed what impact a 5 (2018: 4) percentage point increase of the WACC would have on the goodwill. In case of the PGRs we disclose what impact a 15 (2018: 9) 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% (2018: 20% or 40%) lower than projected cash flow stream would have on the goodwill.



	2018	2019
	<u>MT-Hungary</u>	
<b><u>WACC</u></b>		
Used in the calculation .....	7.85%	5.97%
If changed to.....	11.85%	10.97%
Potential impairment (HUF million) .....	69,029	29,351
<b><u>PGR</u></b>		
Used in the calculation .....	1.0%	1.0%
If changed to.....	(8.0%)	(14.0%)
Potential impairment (HUF million) .....	17,211	10,367
<b><u>Cash-flow</u></b>		
If changed by.....	(20%)	(20%)
Potential impairment (HUF million) .....	-	-
If changed by.....	(40%)	(50%)
Potential impairment (HUF million) .....	63,911	7,164

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

	<u>MT-Hungary</u>
Cumulative average growth rate of revenues during the 10 years compared to 2019 .....	0.4%
Cumulative average growth rate of revenues during the 10 years compared to 2018 .....	0.4%
Cumulative average growth rate of EBITDA during the 10 years compared to 2019 .....	1%
Cumulative average growth rate of EBITDA during the 10 years compared to 2018 .....	1.3%
Cumulative average growth rate of Capex during the 10 years compared to 2019.....	(0.7%)
Cumulative average growth rate of Capex during the 10 years compared to 2018.....	(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 revenue on long term in a telecom business very much depends on future investments related to providing new connections to the network. It is obvious without these capital expenditures the revenue generation would start to decline sharply on a long term. Consequently, we did not prepare the value in use calculations.

### 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 Company'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 Company 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 Company 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 Company 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 cost). 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 includes 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 amortisation period.

The Company 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. These services are in most cases regulated by the Hungarian 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 the management considers the annual fees to be reliably estimable or not. If the management considers that these annual fees can reliably estimated, 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 (800 MHz, 900 MHz and 1800 MHz in October, 2014) and on the prolongation of the already existing frequency bands (26 GHz in August, 2018, and 2100 MHz in December, 2018) which also included 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 Company, 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 use the lessee's incremental borrowing rate.

Magyar Telekom never use 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 borrowings 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 Company 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 Company 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

The Company 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 Company 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 Company 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 was 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 were 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. The Company has chosen the right to use the simplified approach for these receivables with a significant financial component as well.

- General approach

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

According to the expected credit risk model the impairment is determined differently for the three buckets. The impairment for financial instruments in bucket 1 is calculated based upon the 12 months expected credit loss. The impairment for financial instruments in bucket 2 and 3 is calculated based upon the lifetime expected credit losses. Once a long term asset moved to bucket 3 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.

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 Company 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 statements 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.

	<u>12.31.2018</u>	<u>12.31.2019</u>
Cash on hand.....	115	116
Cash in bank (demand deposits).....	1,200	809
<b>Total cash and cash equivalents .....</b>	<b><u>1,315</u></b>	<b><u>925</u></b>

<b>Average interest rates</b>	<u>12.31.2018</u>	<u>12.31.2019</u>
Cash on hand.....	0.00%	0.00%
Cash in bank (demand deposits).....	0.00%	0.00%
<b>Average interest rate .....</b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>



Cash and cash equivalents by currency

	<u>12.31.2018</u>	<u>12.31.2019</u>
EUR .....	41	36
HUF .....	1,257	862
USD .....	17	27
	<u><b>1,315</b></u>	<u><b>925</b></u>

4.2.2 Trade receivables

4.2.2.1 Trade receivables – carrying amount

	<u>At January 1,</u>	<u>At December 31,</u>	
	<u>2018</u>	<u>2018</u>	<u>2019</u>
Trade receivables from third parties.....	90,364	108,939	111,036
Trade receivables from subsidiaries .....	4,894	3,360	1,570
Trade receivables from associates and joint ventures.....	314	548	478
Trade receivables from other related parties .....	6,012	7,268	5,971
<b>Total trade receivables .....</b>	<u><b>101,584</b></u>	<u><b>120,115</b></u>	<u><b>119,055</b></u>

The current portion of contract assets are shown on a separate line in 2019 (see Note 1.2).

Age profile of trade receivables

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

	<u>At January 1,</u>	<u>At December 31,</u>	
	<u>2018</u>	<u>2018</u>	<u>2019</u>
Not past due.....	88,184	101,394	102,784
Past due by			
less than 30 days.....	8,860	13,885	11,530
30–60 days .....	1,689	2,245	1,983
61–90 days .....	525	639	790
91–180 days .....	659	921	914
181–360 days.....	509	549	711
over 360 days .....	1,158	482	343
<b>Carrying amount .....</b>	<u><b>101,584</b></u>	<u><b>120,115</b></u>	<u><b>119,055</b></u>

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



The Company uses the following rates for impairment:

Overdue	Rate of impairment*
Not due yet	0%-15%
1-30 days	0%-15%
31-60 days	0%-50%
61-90 days	0%-65%
91-180 days	0%-80%
181-360 days	0%-90%
361-720 days	50%-100%
more than 720 days	50%-100%
Customers in state of bankruptcy	100%

\* The Company uses different impairment rates for different groups of customers within overdue terms based on the previous years' payment experiments. Considering the basis of impairment the installment receivables from equipment sales is treated as a separate group of customers and the used rates of impairment are generally in the higher sections of the indicated intervals.

#### 4.2.2.2 Impairment losses of trade receivables and contract assets

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

	2018	2019
Impairment loss, beginning of period .....	18,652	19,842
Charged to expense – net (included in Direct costs) .....	7,216	6,789
First-time adoption of IFRS 9.....	572	-
Utilized .....	(6,598)	(8,488)
<b>Impairment loss, end of period .....</b>	<b>19,842</b>	<b>18,143</b>

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

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

	2018	2019
Impairment loss, beginning of period .....	-	1,029
Charged to expense – net (included in Direct costs) .....	953	986
First-time adoption of IFRS 15 .....	475	-
Utilized .....	(399)	(815)
<b>Impairment loss, end of period .....</b>	<b>1,029</b>	<b>1,200</b>

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

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

#### 4.2.3 Other financial assets

Other financial assets include receivables due within 12 months (current) and due after 12 months (non current) from the end of the reporting period (financial statements 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**

		<u>12.31.2018</u>	<u>12.31.2019</u>
Cashpool receivables .....	(a)	18,769	6,616
Receivables related to asset-related grants.....	(b)	-	3,870
Loans to related parties .....		2,616	1,307
Finance lease receivable.....	(c)	4	633
Loans and receivables to employees .....		236	171
Other .....		646	686
<b>Total.....</b>		<b><u>22,271</u></b>	<b><u>13,283</u></b>

**4.2.3.2 Trade receivables over one year**

Trade receivables over one year mainly includes receivables from customers paying over 1-2 years in installments for telecommunications equipment sold. The impairment on trade receivables over one year was HUF 1,337 million as of December 31, 2019 (HUF 1,467 million in 2018). Further information see Note 1.2.

**4.2.3.3 Other non current financial assets**

		<u>At January 1,</u>	<u>At December 31,</u>	
		<u>2018</u>	<u>2018</u>	<u>2019</u>
Finance lease receivable .....	(c)	64	62	10,436
Derivative financial instruments contracted with related parties.....	(d)	-	1,026	2,909
Loans and receivables from employees .....		1,186	914	612
Borrowings from related parties.....		2,800	650	100
Other .....		504	370	325
<b>Total .....</b>	<b>(e)</b>	<b><u>4,554</u></b>	<b><u>3,022</u></b>	<b><u>14,382</u></b>

(a) The aggregate balance of the cashpool is a receivable (HUF 6,616 million) as at December 31, 2019 which also includes cashpool liabilities (HUF 3,532 million). The aggregate balance of the cashpool was a receivable as well (HUF 18,769 million) as at December 31, 2018 which also included cashpool liabilities (HUF 1,518 million).

<u>December 31, 2018</u>	<u>Carrying amount in</u> <u>HUF millions</u>	<u>Borrower</u>	<u>Currency</u>	<u>Interest rate</u> <u>(%)</u>	<u>Fixed /</u> <u>floating</u>
	2,750	KalászNet Kft.	HUF	1.19	floating
	923	DT AG	EUR	0.00	floating
	6,249	DT AG	HUF	0.00	floating
	(592)	DT AG	USD	2.46	floating
	(926)	TSM Zrt.	EUR	1.37	floating
	8,739	TSM Zrt.	HUF	0.69	floating
	1,626	TSM Zrt.	USD	3.84	floating
Due within 1 year	<u>18,769</u>				

December 31, 2019	Carrying amount in HUF millions	Borrower	Currency	Interest rate (%)	Fixed / floating
	1,796	KalászNet Kft.	HUF	1.28	floating
	14	KIBU Kft.	HUF	1.18	floating
	3,790	DT AG	EUR	0.00	floating
	1,703	DT AG	HUF	0.00	floating
	(1,930)	DT AG	USD	1.82	floating
	(1,072)	TSM Zrt.	EUR	1.33	floating
	2,844	TSM Zrt.	HUF	0.78	floating
	(529)	TSM Zrt.	USD	3.08	floating
Due within 1 year	<u>6,616</u>				

(b) In 2016 HUF 12.2 billion of EU funds have been granted to Magyar Telekom. This is 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.

(c) See Note 17.2 for more information on Finance lease receivable.

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

(e) The non current portion of contract assets and trade receivables are shown on a separate line in 2019 (see Note 1.2).

### 4.3 Financial liabilities – accounting policies

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

- 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 Statements 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

Derivative financial instruments are assigned to this category.

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

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and their fair values are re-measured at subsequent financial statements dates. The Company 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 statements of financial position

##### 4.4.1 Financial liabilities to related parties

Financial liabilities to related parties include HUF and EUR denominated loans taken from Deutsche Telekom International Finance B.V. (DTIF), Deutsche Telekom AG (DT AG) and the Company's subsidiaries and cashpool liabilities. In 2018 these financial liabilities also included liabilities related to the ESOP (see Note 20.1.2.3.). For the whole nominal amount and interest payment of loans denominated in EUR granted by DTIF we have cross-currency interest rate swap agreements in place (with DT AG) so that Magyar Telekom's exposure in fact remains in HUF. The loans and the related swap agreements are accounted for and disclosed on a gross basis.

Further information see Note 32.3.2.

The tables below show the details of the financial liabilities towards related parties as at December 31, 2019 and 2018.

12.31.2018							
	Carrying amount	Lender	Currency	Effective interest rate	Fixed / floating	Maturity	Original Term
	35,000	DT AG	HUF	5.89%	fixed	Mar 2019	5
	20,000	DT AG	HUF	4.98%	fixed	Jun 2019	5
	50,000	DT AG	HUF	4.33%	fixed	Oct 2019	5
	1,841	Investel Zrt.	HUF	0.71%	floating	Cashpool	4
	26	KIBU	HUF	0.71%	floating	Cashpool	4
	988	Other					
Due within 1 year.....	107,855						
Accrued interest.....	5,875						
Other financial liabilities	122						
Derivatives.....	87						
ESOP.....	3,842						
<b>Total current.....</b>	<b>117,781</b>						
	35,000	DT AG	HUF	3.83%	fixed	Jun 2020	5
	42,013	DTIF	EUR	1.99%	fixed	Jan 2021	6
	45,812	DTIF	EUR	1.60%	fixed	Jul 2021	5
Non current.....	122,825						
Derivatives.....	525						
<b>Total non current.....</b>	<b>123,350</b>						



12.31.2019

	<u>Carrying amount</u>	<u>Lender</u>	<u>Currency</u>	<u>Effective interest rate</u>	<u>Fixed / floating</u>	<u>Maturity</u>	<u>Original Term</u>
	41,315	DT AG	EUR	0.14%	fixed	Jan 2020	0
	35,000	DT AG	HUF	3.83%	fixed	Jun 2020	5
	593	Investel Zrt	HUF	0.85%	floating	Cashpool	5
	961	Other					
Due within 1 year.....	<b>77,869</b>						
Accrued interest.....	3,225						
Other financial liabilities	892						
Derivatives.....	-						
ESOP.....	-						
<b>Total current .....</b>	<b><u>81,986</u></b>						
	43,080	DTIF	EUR	1.99%	fixed	Jan 2021	6
	45,510	DTIF	EUR	1.60%	fixed	Jul 2021	5
	39,662	DT AG	EUR	0.43%	floating	May 2024	5
Non current.....	<b>128,252</b>						
Derivatives.....	1,570						
<b>Total non current .....</b>	<b><u>129,822</u></b>						

The loans expired in 2018 and 2019 were fully refinanced by DT, depending on the actual financing need of Magyar Telekom.

The loan expired in January, 2020 was also refinanced by long term loan from DT AG.

As at December 31, 2019 current liabilities exceed current assets by HUF 86,870 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 3<sup>rd</sup> party credit line facilities (see Note 5.1.3).



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

	12.31.2018		12.31.2019	
	Book Value	Fair Value	Book Value	Fair Value
<u>HUF denominated loans</u>				
At fixed rate.....	140,000	147,860	35,000	35,000
At floating rate.....	2,067	2,067	793	793
	<u>142,067</u>	<u>149,927</u>	<u>35,793</u>	<u>35,793</u>
<u>EUR denominated loans</u>				
At fixed rate.....	87,825	93,553	129,905	130,123
At floating rate.....	788	792	40,423	49,399
	<u>88,613</u>	<u>94,345</u>	<u>170,328</u>	<u>179,522</u>
<u>USD denominated loans</u>				
At fixed rate.....	-	-	-	-
At floating rate.....	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accrued interest.....	5,875	5,875	3,225	3,225
Other financial liabilities.....	122	122	572	572
Derivatives.....	612	612	1,890	1,890
ESOP.....	3,842	3,842	-	-
	<u>10,451</u>	<u>10,451</u>	<u>5,687</u>	<u>5,687</u>
<b>Total related party financial liabilities.....</b>	<b><u>241,131</u></b>	<b><u>254,723</u></b>	<b><u>211,808</u></b>	<b><u>221,002</u></b>

The weighted average interest rate on related party loans was 1.55% in 2019 (3.54% in 2018). Any decrease of market interest rates will result in an increase of the fair value of the fixed interest rate liabilities.

Borrowings subject to floating interest rates are exposed to cash flow risks. If interest rates rise, it will result in higher cash outflows through interest payments.

Derivatives contracted with related parties include cross-currency interest rate swaps and FX forwards concluded with DT AG to change the Company'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 tables below show the current and non current balances of Other financial liabilities.

	12.31.2018	12.31.2019
Annual frequency fee payable..... (a)	3,723	3,754
Finance lease payable..... (b)	613	-
Debtor overpayment.....	1,327	1,324
Other.....	381	587
<b>Total other financial liabilities – current.....</b>	<b><u>6,044</u></b>	<b><u>5,665</u></b>

	<u>12.31.2018</u>	<u>12.31.2019</u>
Annual frequency fee payable..... (a)	42,393	38,989
Finance lease payable..... (b)	<u>2,920</u>	<u>-</u>
<b>Total other financial liabilities – non current.....</b>	<b><u>45,313</u></b>	<b><u>38,989</u></b>

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

**(a) Annual frequency fee payable**

Agreements between Magyar Telekom 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 the new IFRS16 standard were presented separately in the Statements of financial position in 2019 while finance lease liabilities under IAS17 was presented as part of Other financial liabilities in 2018. See Notes 1.3 and 17.2.2 for the details of leases as a lessee.

**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 tables include changes in net debt reconciled with their effects on the Statements 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 fee payable (e.g.: frequency fees and leases).



	Opening Balance at January 1, 2018	Changes in cash and cash equivalents	<u>Changes that effect the cash flows from operating activities</u>	Addition to financial liabilities without cash movement	<u>Changes that effect the cash flows from investing activities</u>	<u>Changes that effect the cash flows from financing activities</u>			Closing Balance at December 31, 2018	
						Proceeds from loans and borrowings	Repayment of financial liabilities	Repayment of other financial liabilities	Other	
Related party loans .....	265,370		(10,401)	14,970		97,377	(126,797)			240,519
Derivatives from related parties .....	5,613			(3,652)	(1,349)					612
Frequency fee payable .....	45,215		(2,604)	6,924				(3,419)		46,116
Finance lease liabilities .....	3,612			430				(509)		3,533
Debtors overpayment .....	1,110		217							1,327
Other financial liabilities .....	467		29	(115)						381
-Less cash and cash equivalents .....	(948)	(367)								(1,315)
-Less other current financial assets .....	(11,173)		(254)	1,501	2,910	(15,255)				(22,271)
<b>Net debt</b>	<b>309,266</b>	<b>(367)</b>	<b>(13,013)</b>	<b>20,058</b>	<b>1,561</b>	<b>82,122</b>	<b>(126,797)</b>	<b>(3,928)</b>		<b>268,902</b>
Treasury share purchase .....									(36)	
Dividend paid .....									(26,068)	
<b>Net cash used in financing activities .....</b>									<b>(74,707)</b>	



	Opening Balance at January 1, 2019	Effect of first application of IFRS16	Changes in cash and cash equivalents	Changes that effect the cash flows from operating activities	Addition to financial liabilities without cash movement	Changes that effect the cash flows from investing activities	Changes that effect the cash flows from financing activities			Closing Balance at December 31, 2019	
							Proceeds from loans and borrowings	Repayment of financial liabilities	Repayment of other financial liabilities	Other	
Related party loans .....	240,519			(15,091)	12,007		175,242	(202,759)			209,918
Derivatives from related parties.....	612				3,047	(1,769)					1,890
Frequency fee payable.....	46,116			(2,332)	2,357				(3,399)		42,744
Lease liabilities.....	3,533	103,823		(5,273)	21,431				(12,217)		111,297
Debtors overpayment .....	1,327			(3)							1,324
Other financial liabilities.....	381			160	45						586
-Less cash and cash equivalents.....	(1,315)		390								(925)
-Less other current financial assets ...	(22,271)			4,034	(3,868)	(3,329)	12,151				(13,283)
<b>Net debt</b>	<b>268,902</b>	<b>103,823</b>	<b>390</b>	<b>(18,503)</b>	<b>35,019</b>	<b>(5,098)</b>	<b>187,393</b>	<b>(202,759)</b>	<b>(15,616)</b>		<b>353,551</b>
Treasury share purchase.....										(4,088)	
Dividend paid .....										(26,063)	
<b>Net cash used in financing activities .....</b>										<b>(61,132)</b>	

#### 4.4.3 Trade payables

	<u>12.31.2018</u>	<u>12.31.2019</u>
Payable to subsidiaries.....	17,614	9,303
Payable to associated companies and joint ventures .....	447	-
Payable to other related parties .....	8,852	8,915
Payable to non-related parties.....	<u>122,512</u>	<u>100,154</u>
<b>Total.....</b>	<b><u>149,425</u></b>	<b><u>118,372</u></b>

#### 4.5 Additional disclosures on financial instruments

##### 4.5.1 Financial assets and liabilities

The Company 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 most of the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, mainly by applying the discounted cash flow method. The cash flow estimations are based on the relevant underlying contracts and the discount rates are calculated based on the interest rate benchmarks applicable for the relevant maturities and currencies (BUBOR, BIRS, EURIBOR, EUR swap yields). Foreign exchange conversion is made based on central bank FX fixings (preferably that of the 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.

Level 2 information are available to determine derivatives assets and liabilities.

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

**4.5.1.1 Financial assets – Carrying amounts and fair values**

Carrying amounts, fair values and fair value hierarchy of financial assets are the following:

12.31.2018	Carrying amount re-presented*			Total	Fair value
	Amortized cost	FVTPL (Level 2)	FVTPL (Level 3)		
Cash and cash equivalents .....	1,315	-	-	1,315	1,315
Clearing receivables from related parties .....	18,768	-	-	18,768	18,768
Trade receivables within one year.....	120,115	-	-	120,115	120,115
Trade receivables over one year.....	16,294	-	-	16,294	17,434
Loans and receivables from employees.....	400	750	-	1,150	1,225
Derivative financial instruments contracted with related parties.....	-	1,026	-	1,026	1,026
Loans given to related parties.....	3,266	-	-	3,266	3,266
Finance lease receivable .....	67	-	-	67	76
Other current receivables .....	646	-	-	646	646
Other non current receivables .....	369	-	-	369	303
<b>Total .....</b>	<b>161,240</b>	<b>1,776</b>	<b>-</b>	<b>163,016</b>	<b>164,174</b>

\*In 2019, contract assets are shown on separate line (see Note 1.2).

12.31.2019	Carrying amount			Total	Fair value
	Amortized cost	FVTPL (Level 2)	FVTPL (Level 3)		
Cash and cash equivalents .....	925	-	-	925	925
Clearing receivables from related parties .....	6,616	-	-	6,616	6,616
Trade receivables within one year.....	119,055	-	-	119,055	119,055
Trade receivables over one year.....	15,704	-	-	15,704	16,810
Loans and receivables from employees.....	783	-	-	783	872
Derivative financial instruments contracted with related parties.....	-	2,909	-	2,909	2,909
Loans given to related parties.....	1,408	-	-	1,408	1,408
Finance lease receivable .....	11,070	-	-	11,070	13,333
Other current receivables .....	4,556	-	-	4,556	4,556
Other non current receivables .....	324	-	-	324	366
<b>Total .....</b>	<b>160,441</b>	<b>2,909</b>	<b>-</b>	<b>163,350</b>	<b>166,850</b>

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 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 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.

**4.5.1.2 Financial liabilities**

Carrying amounts, fair values and fair value hierarchy of financial liabilities are the following:

	Carrying amount			Total	Fair value
	Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 1)		
Financial liabilities to related parties.....	236,676	612	3,842	241,130	263,596
Trade payables.....	149,425	-	-	149,425	149,425
Frequency fee payable.....	46,116	-	-	46,116	52,846
Finance lease liabilities.....	3,533	-	-	3,533	7,180
Debtors' overpayment.....	1,327	-	-	1,327	1,327
Other current liabilities.....	381	-	-	381	381
<b>Total</b>	<b>437,458</b>	<b>612</b>	<b>3,842</b>	<b>441,912</b>	<b>474,755</b>

In 2018 derivatives and liabilities on obligation of repurchasing the Magyar Telekom shares from ESOP Organization were measured at fair value. All other financial liabilities were measured at amortized cost.

	Carrying amount			Total	Fair value
	Measured at amortized cost	FVTPL (Level 2)	FVTPL (Level 1)		
Financial liabilities to related parties.....	209,918	1,890	-	211,808	217,663
Trade payables.....	118,372	-	-	118,372	118,372
Frequency fee payable.....	42,744	-	-	42,744	51,914
Lease liabilities.....	111,297	-	-	111,297	124,246
Debtors' overpayment.....	1,324	-	-	1,324	1,324
Other current liabilities.....	586	-	-	586	586
<b>Total</b>	<b>484,241</b>	<b>1,890</b>	<b>-</b>	<b>486,131</b>	<b>514,105</b>

FVTPL liabilities include derivative financial instruments, the fair values of which are calculated the same way as FVTPL assets disclosed in Note 4.5.1.1.

Additional fair value information on financial liabilities 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.

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

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

2018

	From subsequent measurement					From fee expense	Total net gain / (loss)
	From Interest	Change in fair value	Currency translation	Impairment loss	From derecognition		
FVTPL financial instruments (Level 2).....	-	3,048	-	-	2,236	-	5,284
Financial assets measured at amortized cost.....	212	-	24	(8,169)	-	(3,811)	(11,744)
Financial liabilities measured at amortized cost.....	(11,950)	-	(5,571)	-	-	(29)	(17,550)
Debt instruments (Level 2).....	-	37	-	-	-	-	37
<b>Net gain/(loss) on financial instruments .....</b>	<b>(11,738)</b>	<b>3,085</b>	<b>(5,547)</b>	<b>(8,169)</b>	<b>2,236</b>	<b>(3,840)</b>	<b>(23,973)</b>

2019

	From subsequent measurement					From fee expense	Total net gain / (loss)
	From Interest	Change in fair value	Currency translation	Impairment loss	From derecognition		
FVTPL financial instruments (Level 2).....	-	606	-	-	840	-	1,446
Financial assets measured at amortized cost.....	271	-	116	(7,775)	-	(4,375)	(11,763)
Financial liabilities measured at amortized cost.....	(13,360)	-	(5,371)	-	-	(20)	(18,751)
<b>Net gain/(loss) on financial instruments .....</b>	<b>(13,089)</b>	<b>606</b>	<b>(5,255)</b>	<b>(7,775)</b>	<b>840</b>	<b>(4,395)</b>	<b>(29,068)</b>

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 Company 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 Statements of financial position.





	At January 1,		At December 31,			
	2018		2018		2019	
	Trade receivables	Trade payables	Trade receivables	Trade payables	Trade receivables	Trade payables
Gross amounts of recognized financial instruments* .....	102,874	112,268	120,988	150,298	119,561	118,878
Gross amounts of financial instruments set off .....	(1,290)	(1,290)	(873)	(873)	(506)	(506)
<b>Net amounts of recognized financial instruments presented in the statements of financial position* .....</b>	<b>101,584</b>	<b>110,978</b>	<b>120,115</b>	<b>149,425</b>	<b>119,055</b>	<b>118,372</b>

\* See Note 1.2.

#### 4.5.4 Other disclosures about financial instruments

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 14.7 billion as at December 31, 2019 (2018: HUF 14.1 billion). 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 as collateral to secure the fulfillment of the Company's certain contractual obligations. The Company has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2019 or 2018, and is not expected to happen in the future.

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

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

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

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

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

Financial risk management aims to limit these risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are also used for this purpose, depending on the risk assessment. Magyar Telekom only hedges the risks that affect the Company'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 Company'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 Company's policy is to borrow centrally using a balanced combination of medium term and short term loans, and fixed and floating interest rates on those loans. The Board of Directors has approved two debt protection ratio KPIs at MT Group level, and monitors their fulfillment annually. At the end of 2018 Magyar Telekom Group 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 Company'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 Company's Treasury.

Magyar Telekom is exposed to interest and foreign exchange (FX) rate risk associated with its interest bearing assets and liabilities and anticipated transactions. The functional currency 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, sensitivity analyses is also provided that show the effects of hypothetical changes of relevant risk variables on Profit before tax and Equity. 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 arise on financial instruments denominated in currencies other than the functional currency of the Company. 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 corporate needs from the financing vehicle of Deutsche Telekom, Deutsche Telekom International Finance B.V. (DTIF) are denominated in EUR, while, at the same time, cross-currency interest rate swaps are concluded with Deutsche Telekom AG (DT AG) to fix the actual cash flows of Magyar Telekom in HUF. Even though the Company 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 swaps together.

#### *Sensitivity analysis*

A reasonably possible strengthening or weakening of the EUR in the table below against HUF as at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and increased (+)/ decreased (-) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

	Profit or loss	
	Strengthening	Weakening
<b>12.31.2018</b>		
EUR/HUF (10% movement)		
Loan .....	(8,782)	8,782
Swap agreements .....	9,364	(9,364)
<b>Net effect .....</b>	<b>582</b>	<b>(582)</b>
<b>12.31.2019</b>		
EUR/HUF (10% movement)		
Loan .....	(16,952)	16,952
Swap agreements .....	17,550	(17,550)
<b>Net effect .....</b>	<b>598</b>	<b>(598)</b>

**(b) Other FX exposure**

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

In order to reduce the above exposure, Magyar Telekom occasionally enters into derivative contracts. The negative fair value of the open short term forward positions was HUF 0.2 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 as at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and increased (+)/ decreased (-) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. As the profit or loss effect would be the same as the equity effect, only the former is disclosed.

	Profit or loss	
	<u>Strengthening</u>	<u>Weakening</u>
<b>12.31.2018</b>		
EUR/HUF (10% movement)		
Net balance of f/x trade payables, trade receivables and bank deposits .....	(3,983)	3,983
Connected forward deals.....	1,637	(1,637)
<b>Net effect .....</b>	<b><u>(2,346)</u></b>	<b><u>2,346</u></b>
USD/HUF (15% movement)		
Net balance of f/x trade payables, trade receivables and bank deposits .....	(544)	544
Connected forward deals.....	76	(76)
<b>Net effect .....</b>	<b><u>(468)</u></b>	<b><u>468</u></b>
<b>12.31.2019</b>		
EUR/HUF (10% movement)		
Net balance of f/x trade payables, trade receivables and bank deposits .....	(3,736)	3,736
Connected forward deals.....	231	(231)
<b>Net effect .....</b>	<b><u>(3,505)</u></b>	<b><u>3,505</u></b>
USD/HUF (15% movement)		
Net balance of f/x trade payables, trade receivables and bank deposits .....	(410)	410
Connected forward deals.....	-	-
<b>Net effect .....</b>	<b><u>(410)</u></b>	<b><u>410</u></b>

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 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 does not affect Profit for the year because none of them are measured at fair value through profit or loss. 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 Company's Hungarian operations is primarily used to repay loans so it has no significant bank deposits.

**(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 Company is managed centrally. The analysis below describes the Company'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 Company 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 98% of the Company's total debt as of December 31, 2019 (2018: 99%).

*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 2% of the Company's total debt as of December 31, 2019 (2018: 1%).

A reasonably possible change of 100 basis points in interest rates at the reporting date 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.

	<b>Profit or loss</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>12.31.2018</b>		
Floating rate instrument .....	(29)	29
Interest rate swap .....	-	-
<b>Cash-flow sensitivity (net).....</b>	<b>(29)</b>	<b>29</b>
<b>12.31.2019</b>		
Floating rate instrument .....	(431)	431
Interest rate swap .....	396	(396)
<b>Cash-flow sensitivity (net).....</b>	<b>(35)</b>	<b>35</b>

**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 Statements of financial position. Guarantee agreements reducing the maximum exposure to credit risk as at the end of the reporting period are described later in this section.

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

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

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

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

The annual bad debt expense of the Company in 2019 was 1.5% (2018: 1.7%) of the 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 5.1 billion in 2019 (2018: HUF 4.9 billion).

There are varying credit checking practices applied as described below.

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, 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 the Company applies 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.

### 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 Company's Treasury management aims at maintaining flexibility in funding by keeping committed credit lines available. The undrawn bank 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 (undiscounted amounts) 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 following tables.



	12.31.2018			
	Total	within 1 year	1 to 5 years	after 5 years
Trade payables.....	149,425	149,425	-	-
Financial liabilities to related parties .....	217,055	102,077	114,979	-
Finance lease liabilities .....	8,971	1,466	4,807	2,698
Other financial liabilities .....	45,220	6,130	12,777	26,313
<b>Total other financial liabilities .....</b>	<b>54,192</b>	<b>7,596</b>	<b>17,584</b>	<b>29,011</b>
<b>Total cash flows .....</b>	<b>420,672</b>	<b>259,098</b>	<b>132,563</b>	<b>29,011</b>
<u>Open swap positions' cash flows</u>				
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	-
<b>Net cash inflow in HUF million .....</b>	<b>(2,053)</b>	<b>(1,629)</b>	<b>(424)</b>	<b>-</b>
<u>Open forward positions' cash flows</u>				
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	-	-
<b>Net cash inflow in HUF million .....</b>	<b>(59)</b>	<b>(59)</b>	<b>-</b>	<b>-</b>

	12.31.2019			
	Total	within 1 year	1 to 5 years	after 5 years
Trade payables.....	118,372	118,372	-	-
Financial liabilities to related parties .....	218,239	82,593	135,646	-
Lease liabilities .....	138,051	21,848	61,543	54,660
Other financial liabilities .....	60,633	7,935	20,295	32,403
<b>Total other financial liabilities .....</b>	<b>198,684</b>	<b>29,783</b>	<b>81,838</b>	<b>87,063</b>
<b>Total cash flows .....</b>	<b>535,295</b>	<b>230,748</b>	<b>217,484</b>	<b>87,063</b>
<u>Open swap positions' cash flows</u>				
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	-
<b>Net cash inflow in HUF million .....</b>	<b>(1,317)</b>	<b>(2,269)</b>	<b>952</b>	<b>-</b>
<u>Open forward positions' cash flows</u>				
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	-	-
<b>Net cash inflow in HUF million .....</b>	<b>(322)</b>	<b>(322)</b>	<b>-</b>	<b>-</b>

The average maturity of Magyar Telekom's debt portfolio was 1.49 years as at December 31, 2019 (2018: 1.35 years). The floating interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2019 and 2018. Actual cash flows may be different if the floating interest rate changes in future periods. Further information see Note 4.4.1.

## 5.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an 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 Company. This can be achieved primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, selling or buying own shares.

In 2019 the Annual General Meeting of the Magyar Telekom approved HUF 26,069 million dividend (HUF 26,068 million dividend in 2018), 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 (2013. V.), Magyar Telekom has to ensure that the Company's Equity in the Separate Financial Statements does not fall below two thirds of its Common stock, i.e. the total of the reserves should not be negative. The Company is in compliance with this regulation.

The equity capital, which the Company manages, amounted to HUF 591 billion on December 31, 2019 (2018: HUF 578 billion).



## 6 INCOME TAXES

### 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. The basis of the tax is the taxable entities' accounting profit adjusted for non-deductible and non-taxable items. The withholding tax relating to the dividend received is also reported in corporate income taxes. From January 1, 2017 a flat corporate income tax rate of 9% has been enacted.

As Magyar Telekom is listed on the Budapest Stock Exchange, it was obliged to adopt IFRSs in its statutory financial statements from 2017 in accordance with the Act C of 2000 on Accounting (HAR). In the first and in the second year following the IFRS transition, taxpayers, who chose to adopt IFRS in their statutory financial statements, are obliged to pay the total sum of their current taxes (i.e. corporate income tax and local business tax) calculated for the tax year preceding the year of the IFRS transition, if in these two years their current tax liabilities are lower than in the tax year preceding the IFRS transition (minimum tax). Magyar Telekom does not have this minimum tax payment obligation in 2018 and in 2019 either.

##### 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. Other income taxes include local business tax, innovation fee and energy suppliers' tax.

#### 6.1.2 Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is not recognized for

- if it arises from the 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,
- if it arises from the initial recognition of goodwill.

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 assets, which are not recognized, should be re-evaluated as of the financial statements date and recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets are recognized for temporary differences relating to the subsidiaries and investments to the extent that it is probable that the temporary difference will reverse in the near future, and a future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences relating to the subsidiaries and investment, except for the case that the Company controls the timing of the reverse of these temporary differences, and it is likely that the relevant temporary differences will not reverse in the near future.

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.

In the Company's statements of financial position deferred tax assets and liabilities are offset and disclosed as deferred tax asset or deferred tax liability based on their net balance.

## 6.2 Income taxes in the Statements of profit or loss and other comprehensive income

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

	<u>12.31.2018</u>	<u>12.31.2019</u>
Corporate income tax .....	714	1,187
Other income taxes .....	7,984	8,365
Total current income tax expense .....	8,698	9,552
Deferred tax expense .....	2,171	2,007
<b>Total income tax expense .....</b>	<b><u>10,869</u></b>	<b><u>11,559</u></b>

### 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:

	<u>12.31.2018</u>	<u>12.31.2019</u>
Profit before income tax .....	48,535	50,892
Calculated amount of tax 9% .....	(4,368)	(4,580)
Tax shield of items not subject to income tax .....	(a) 1,244	1,137
Tax impact of non deductible items .....	(b) (584)	(568)
Other income taxes .....	(c) (7,984)	(8,365)
Impact of tax deductibility of other income taxes .....	(d) 719	753
Investment tax credit accretion .....	(e) 104	64
<b>Income tax expense .....</b>	<b><u>(10,869)</u></b>	<b><u>(11,559)</u></b>
Effective tax rate .....	22.39%	22.71%

#### (a) 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 profit before tax, but deductible when determining the separate 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 statements of financial position, and which are not considered in the deferred tax calculation.

#### (b) Tax impact of non deductible items

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

**(c) Other income taxes**

Other income taxes include certain local and central taxes levied in Hungary. Other income taxes include the local business tax and the innovation tax, 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 corporate tax rate, the Hungarian local business tax and the innovation fee impose additional income tax expenses the Company, included in this line of the reconciliation.

**(d) 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.

**(e) 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 Statements of financial position**
**6.3.1 Current taxes in the Statements of financial position**

Current tax assets and liabilities in the Statements of financial position represent the amount of corporate and other income taxes receivable from, and payable to the Hungarian tax authorities.

**6.3.2 Deferred taxes in the Statements of financial position**

Magyar Telekom's deferred tax balances are as follows:

	Balance at 12.31.2017	Effect on profit	Other move- ments	Balance at 12.31.2018	Effect on profit	Other move- ments	Balance at 12.31.2019
<b>Deferred tax assets and (liabilities)</b>							
Investment tax credits.....	7,738	(3,543)	(39)	4,156	(3,327)	29	858
Impairment of receivables and inventory	1,392	81	-	1,473	(113)	-	1,360
PPE and intangible assets .....	(8,272)	693	-	(7,579)	722	-	(6,857)
Goodwill.....	(12,843)	(1,638)	-	(14,481)	-	-	(14,481)
Deferred tax effect of IFRS transition .....	(1,362)	708	-	(654)	654	-	-
First-time application of IFRS 15.....	-	1,221	(1,221)	-	-	-	-
Provisions for liabilities and charges.....	989	307	-	1,296	57	-	1,353
<b>Total net deferred tax.....</b>	<b>(12,358)</b>	<b>(2,171)</b>	<b>(1,260)</b>	<b>(15,789)</b>	<b>(2,007)</b>	<b>29</b>	<b>(17,767)</b>
Of which deferred tax liabilities.....	(22,477)			(22,714)			(21,338)
Of which deferred tax assets .....	10,119			6,925			3,571

Items included in the Other movements column indicate the investment tax credit decrease in 2018 (HUF 39 million) and the investments tax credit increase in 2019 (HUF 29 million) which was adjusted against the P&L in deferred taxes. The line of Deferred tax effect of IFRS transition includes the deferred tax effect of IFRS transition accounted in 2017 and 2018 (Note 6.4). Items in the line of First-time application of IFRS 15 in 2018 include the effect of the transition to IFRS 15, the standard on Revenue from contracts with customers.

The Company's net deferred tax liability balance as at December 31, 2019 was HUF 17,767 million which includes a high amount of

individual deferred tax asset and liability items (see in the table above).

The Company's net deferred tax liability balance as at December 31, 2018 was HUF 15,789 million which includes a high amount of individual deferred tax asset and liability items (see in the table above).

Deferred tax assets arising on investment tax credits are recognized in Note 6.3.2.1.

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 20,799 million at December 31, 2019 (HUF 20,799 million was the temporary difference not recognized at December 31, 2018).

Deferred tax liability on goodwill is related to the goodwill arising on the acquisition of subsidiaries (Emitel Zrt. and T-Mobile) in the Company's Separate Financial Statements, which had merged into Magyar Telekom. 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. 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 plus interests 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:

<b>Earned in year</b>	<b>Amount of qualifying investment</b>	<b>Amount of tax credit earned</b>	<b>Accretion recognized in tax expense to date</b>	<b>Tax credit utilized</b>	<b>Tax credit carried forward 12.31.2019</b>	<b>Tax credit carried forward 12.31.2018</b>	<b>Expires in year</b>
2013	13,735	4,701	580	(4,625)	656	3,988	2023
2014	490	158	14	-	172	168	2023
2019	79	-	29	-	29	-	2022
<b>Total</b>	<b>14,304</b>	<b>4,859</b>	<b>623</b>	<b>(4,625)</b>	<b>857</b>	<b>4,156</b>	

In order to utilize the tax credits and certain tax deductibility opportunities earned by the Company, 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 operation criterion during the previous years.

### 6.4 Tax effects of IFRS transition

In relation to corporate income tax, Magyar Telekom has opted for an exemption with regard to the difference between the IFRS and local GAAP value of intangible and tangible assets recorded in the Company's books on December 31, 2016, meaning that the base of taxation for these asset categories is calculated according to local GAAP rules. In relation to the remaining balance sheet items, Magyar Telekom had calculated 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 installments in 2017-2019, the tax effect for 2019 was HUF 654 million.

### 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

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

## 7 INVENTORIES

### 7.1 Inventories – Accounting policies

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

Impairment losses on Inventories are recognized in Other operating expenses.

### 7.2 Inventories in the statements of financial position

	<u>12.31.2018</u>	<u>12.31.2019</u>
Inventory for resale.....	14,702	13,815
Other inventory .....	<u>493</u>	<u>641</u>
Subtotal.....	15,195	14,456
Impairment.....	<u>(3)</u>	<u>(3)</u>
	<u><b>15,192</b></u>	<u><b>14,453</b></u>

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

Impairment and its reversal are not significant so no impairment movement table are presented.

## 8 ASSETS AND LIABILITIES HELD FOR SALE

### 8.1 Assets and liabilities 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 Company, and has been designated for sale, which is highly probable to take place within 12 months, and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. These assets are measured at the lower of their carrying amount and fair value less cost 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 less cost to sell 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

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

	<u>12.31.2018</u>	<u>12.31.2019</u>
Property, plant and equipment.....	-	656
<b>Total assets held for sale .....</b>	<b>-</b>	<b>656</b>

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 (PPE)

### 9.1 PPE – Accounting policies

Property, plant and equipment are measured at historical cost less accumulated depreciation and any accumulated 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 is recognized as a provision (see Note 13).

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 is capitalized if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Maintenance and repairs are recognized as an expense in the Profit for the year 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 estimated useful lives assigned to different classes of property, plant and equipment are as follows:

	<u>Years</u>
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 items of property, plant and equipment of the Company in most cases cannot be determined as individual assets do not generate cash flows. Therefore the Company determines the impairment of separate assets on CGU level. For this point of view the whole Company is considered as one CGU. The Company determines fair values at CGU level, primarily by using discounted cash flow analyses. See further information in Note 3.2.

The impairment losses of PPE assets are accounted for in the Depreciation and amortization line of the Statements of profit or loss and other comprehensive income.

**9.2 PPE in the statements of financial position**

	<u>Land and equivalent rights</u>	<u>Buildings</u>	<u>Telecom. equipment</u>	<u>Other equipment</u>	<u>Total</u>
<b>01.01.2018</b>					
Gross value.....	7,128	109,694	852,290	73,337	1,042,449
Accumulated depreciation .....	(2,350)	(45,381)	(562,702)	(60,123)	(670,556)
<b>Carrying amount .....</b>	<b>4,778</b>	<b>64,313</b>	<b>289,588</b>	<b>13,214</b>	<b>371,893</b>
Of which held for sale .....					(161)
					<b>371,732</b>
<b>Carrying amount - 01.01.2018 .....</b>	<b>4,778</b>	<b>64,313</b>	<b>289,588</b>	<b>13,214</b>	<b>371,893</b>
Investments .....	33	1,384	45,580	5,527	52,524
Addition due to acquisition.....	-	-	-	-	-
Changes due to revisions of asset retirement obligations.....	-	140	(1)	-	139
Disposals .....	(662)	(4,665)	(387)	(170)	(5,884)
Depreciation charge .....	(77)	(3,508)	(49,914)	(5,589)	(59,088)
Reclassifications.....	22	1,589	(2,017)	406	-
<b>Carrying amount - 12.31.2018 .....</b>	<b>4,094</b>	<b>59,253</b>	<b>282,849</b>	<b>13,388</b>	<b>359,584</b>
<b>12.31.2018</b>					
Gross value.....	6,521	104,444	861,930	73,470	1,046,365
Accumulated depreciation .....	(2,427)	(45,191)	(579,081)	(60,082)	(686,781)
<b>Carrying amount .....</b>	<b>4,094</b>	<b>59,253</b>	<b>282,849</b>	<b>13,388</b>	<b>359,584</b>
Of which held for sale .....					-
					<b>359,584</b>
<b>Carrying amount - 01.01.2019 .....</b>	<b>4,094</b>	<b>59,253</b>	<b>282,849</b>	<b>13,388</b>	<b>359,584</b>
Adjustment of first time application of IFRS 16 (Note 1.3).....	-	(1,608)	(615)	-	(2,223)
<b>Restated opening net book value - 01.01.2019.....</b>	<b>4,094</b>	<b>57,645</b>	<b>282,234</b>	<b>13,388</b>	<b>357,361</b>
Investments .....	8	1,990	49,061	4,127	55,186
Addition due to acquisition.....	-	-	-	-	-
Changes due to revisions of asset retirement obligations.....	-	80	-	-	80
Disposals .....	(483)	(6,143)	(343)	(177)	(7,146)
Depreciation charge .....	(70)	(3,299)	(52,267)	(5,485)	(61,121)
Reclassifications.....	200	447	(1,390)	743	-
<b>Carrying amount - 12.31.2019 .....</b>	<b>3,749</b>	<b>50,720</b>	<b>277,295</b>	<b>12,596</b>	<b>344,360</b>
<b>12.31.2019</b>					
Gross value.....	6,210	92,001	879,775	73,187	1,051,173
Accumulated depreciation .....	(2,461)	(41,281)	(602,480)	(60,591)	(706,813)
<b>Carrying amount .....</b>	<b>3,749</b>	<b>50,720</b>	<b>277,295</b>	<b>12,596</b>	<b>344,360</b>
Of which held for sale .....					(656)
					<b>343,704</b>



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

	<u>Land and equivalent rights</u>	<u>Building</u>	<u>Telecom equipment</u>	<u>Other equipment</u>	<u>Total</u>
<b>Carrying amount - 01.01.2019</b> .....	-	-	-	-	-
Adjustment of first time application of IFRS 16 (Note 1.3).....	6	58,687	34,115	4,515	97,323
<b>Restated opening net book value - 01.01.2019</b> .....	<b>6</b>	<b>58,687</b>	<b>34,115</b>	<b>4,515</b>	<b>97,323</b>
Investments .....	21	12,980	8,258	1,404	22,663
Addition due to acquisition.....	-	-	-	-	-
Changes due to revisions of asset retirement obligations.....	-	-	-	-	-
Disposals .....	-	(6,342)	(480)	(118)	(6,940)
Depreciation charge .....	(2)	(10,059)	(4,814)	(2,068)	(16,943)
Reclassifications.....	-	-	-	-	-
<b>Carrying amount - 12.31.2019</b> .....	<b>25</b>	<b>55,266</b>	<b>37,079</b>	<b>3,733</b>	<b>96,103</b>
<b>12.31.2019</b>					
Gross value.....	27	64,669	41,855	5,639	112,190
Accumulated depreciation .....	(2)	(9,403)	(4,776)	(1,906)	(16,087)
<b>Carrying amount</b> .....	<b>25</b>	<b>55,266</b>	<b>37,079</b>	<b>3,733</b>	<b>96,103</b>
Of which held for sale .....	-	-	-	-	-
					<b>96,103</b>

The closing balance of Property, plant and equipment (PPE) includes assets in the course of construction in an amount of HUF 46,600 million as at December 31, 2019 (2018: HUF 47,773 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.

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 amount of reclassifications and its effect on depreciation are not significant.

Investments represent the regular investing activity in PPE assets.

No impairment was identified in 2018 and 2019.

The Company 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 including primarily inhouse network assets. The revisions resulted in the following change in the original trend of depreciation in the current and future years.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>After 2022</u>
Increase / (decrease) in depreciation expense .....	4,765	(1,991)	538	263	(3,576)

## 10 INTANGIBLE ASSETS

### 10.1 Intangible assets – Accounting policies

Intangible assets (excluded goodwill) are measured at historical cost less accumulated amortization and any accumulated 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 Company, 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 recognized 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 the Company estimates that it will be realized without further consideration to be transferred.

Amortization of intangible assets 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 Company has no intangible assets with indefinite useful life. The amortization expense is presented in the depreciation and amortization line of the Statements of profit or loss and other comprehensive income.

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:

	<u>Years</u>
Software.....	2-24
Concessions and licenses .....	3-25
Other intangible assets.....	3-10

At the date of transition to IFRS (January 1, 2016) the Company recognized goodwill on those investments that merged into the Company after their acquisition but before the date of transition to IFRS in its separate statements of financial position.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets and contingent liabilities of the acquired business at the date of acquisition. Goodwill is carried at cost less any 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. See further information in Note 3.2.

In determining whether an asset that incorporates both intangible and tangible elements should be accounted for as a property, plant and equipment or as an intangible asset, 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 Company in most cases cannot be determined as individual assets do not generate cash flows. Instead, the Company 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.

See also Note 3.2. If the calculated fair value less cost to sell is lower than the carrying amount of the CGU, goodwill is impaired.

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

**10.2 Intangible assets in the statements of financial position**

	<u>Goodwill</u>	<u>Concessions and licenses</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
<b><u>01.01.2018</u></b>					
Gross value.....	173,572	175,691	261,322	7,761	618,346
Accumulated amortization.....	-	(57,180)	(180,056)	(2,480)	(239,716)
<b>Carrying amount .....</b>	<b><u>173,572</u></b>	<b><u>118,511</u></b>	<b><u>81,266</u></b>	<b><u>5,281</u></b>	<b><u>378,630</u></b>
<b>Carrying amount – 01.01.2018 .....</b>	<b>173,572</b>	<b>118,511</b>	<b>81,266</b>	<b>5,281</b>	<b>378,630</b>
Investments .....	-	15,713	19,837	638	36,188
Addition due to acquisition.....	-	-	-	-	-
Disposals .....	-	-	(87)	-	(87)
Depreciation charge .....	-	(14,494)	(19,573)	(678)	(34,745)
Reclassification .....	-	-	-	-	-
<b>Carrying amount – 31.12.2018 .....</b>	<b><u>173,572</u></b>	<b><u>119,730</u></b>	<b><u>81,443</u></b>	<b><u>5,241</u></b>	<b><u>379,986</u></b>
<b><u>12.31.2018</u></b>					
Gross value.....	173,572	191,403	280,534	8,310	653,819
Accumulated amortization.....	-	(71,673)	(199,091)	(3,069)	(273,833)
<b>Carrying amount .....</b>	<b><u>173,572</u></b>	<b><u>119,730</u></b>	<b><u>81,443</u></b>	<b><u>5,241</u></b>	<b><u>379,986</u></b>
<b>Carrying amount – 01.01.2019 .....</b>	<b>173,572</b>	<b>119,730</b>	<b>81,443</b>	<b>5,241</b>	<b>379,986</b>
Investments .....	-	(60)	13,229	2,223	15,392
Addition due to acquisition.....	-	-	-	-	-
Disposals .....	-	-	-	-	-
Depreciation charge .....	-	(14,731)	(20,413)	(1,194)	(36,338)
Reclassification .....	-	-	(67)	67	-
<b>Carrying amount – 31.12.2019 .....</b>	<b><u>173,572</u></b>	<b><u>104,939</u></b>	<b><u>74,192</u></b>	<b><u>6,337</u></b>	<b><u>359,040</u></b>
<b><u>12.31.2019</u></b>					
Gross value.....	173,572	191,343	284,798	10,600	660,313
Accumulated amortization.....	-	(86,404)	(210,606)	(4,263)	(301,273)
<b>Carrying amount .....</b>	<b><u>173,572</u></b>	<b><u>104,939</u></b>	<b><u>74,192</u></b>	<b><u>6,337</u></b>	<b><u>359,040</u></b>

The amortization expense as well as the impairment losses of intangible assets including also goodwill is accounted for in the Depreciation and amortization line of the Statements of profit or loss and other comprehensive income. The amount of reclassifications and its effect on depreciation are not significant.

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>After 2022</u>
Increase / (decrease) in depreciation expense .....	12	(696)	278	157	250

### 10.4 Goodwill

At the date of transition to IFRS (January 1, 2016) the Company recognized goodwill on investments that merged into the Company after their acquisition but before the date of transition to IFRS in its separate statements of financial position.

The Company recognizes goodwill for the following merged investments:

	<u>12.31.2018</u>	<u>12.31.2019</u>
T-Mobile.....	161,374	161,374
KTV/T-Kábel.....	4,408	4,408
T-Online .....	54	54
Emitel Zrt. ....	6,471	6,471
Dél-Vonal Kft. ....	100	100
Cable TV acquisitions.....	462	462
Modultechnika Kft. ....	703	703
<b>Total .....</b>	<b><u>173,572</u></b>	<b><u>173,572</u></b>

The Company is a considerable part of the MT-Hungary segment on Magyar Telekom Group level. The goodwill presented in the Company was tested as the considerable part of this segment. The recoverable amount of the MT Hungary segment significantly exceeds the carrying amount, therefore there is no indication that the goodwill presented in the Company may be impaired.

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, which are not allocated to the segments. For further information, please also see Note 3.2.

	<b>As at December 31,</b>					
	<u>2018</u>			<u>2019</u>		
	<b>Carrying amount of goodwill allocated</b>	<b>operating segment (incl. goodwill)</b>	<b>Recoverable amount of operating segment</b>	<b>Carrying amount of goodwill allocated</b>	<b>operating segment (incl. goodwill)</b>	<b>Recoverable amount of operating segment</b>
MT-Hungary.....	192,905	785,911	1,250,068	192,905	874,916	1,783,096

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.

## 10.5 Significant individual intangible assets

The Company's most significant individual 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 34.2.

	12.31.2018		12.31.2019	
	Carrying amount	Remaining amortization period (years)	Carrying amount	Remaining amortization period (years)
Licenses acquired in 2014.....	77,211	15	72,230	14
Licenses prolonged in 2018.....	39,509	3 - 7	30,842	2 - 7
Hungarian 3G license .....	1,788	3 - 8	1,306	2 - 7
Other .....	1,222	3 - 8	562	2 - 7
<b>Total concessions and licenses.....</b>	<b>119,730</b>		<b>104,940</b>	

## 11 INVESTMENTS

### 11.1 Investments – accounting policies

Investments in subsidiaries, associates, joint ventures and joint operations are measured at cost less any accumulated impairment losses. Cost of an investment is the fair value of consideration given, including contingent considerations and transaction costs incurred during the acquisition process.

The Company examines that an investment may or may not be impaired by using internal and external information.

Magyar Telekom implemented the requirements of IAS 36 standard as the following:

If the carrying amount of investment exceeds HUF 20 billion then its recoverable amount is always analyzed using a DCF model (irrespective of whether there is any indication of impairment or not). In 2019, the Company investigated the recoverable amount in case of T-Systems Magyarország Zrt. and Stonebridge A.D. The table below shows the net income and equity of the subsidiaries investigated. The figures on T-Systems Magyarország Zrt. are presented according to Act C of 2000 on Accounting (HAR) while figures on Stonebridge A.D. according to IFRS.

	12.31.2019	
	Profit after tax (unaudited)	Equity (unaudited)
T-Systems Magyarország Zrt. ....	1,859	34,467
Stonebridge A.D. ....	4,712	1,610

If the carrying amount of an investment does not exceed HUF 20 billion then the Company examines considering the followings whether there were any changes related to these investments which requires the preparation of impairment assessment based on DCF model:

- 1) The Company examines whether during the period there were or whether there are expected to be any significant adverse changes in the market or in the technological, economic and legal environment of the investment.
- 2) The company examines the forecasted results of its investments.
- 3) If subsidiaries, joint ventures or associates pay dividend then it has to be examined whether the investments' carrying amount in the Company's Separate Financial Statements exceeds the carrying amount of the investment's net assets (including goodwill) recognized in the consolidated financial statements. In addition, it has to be examined in the period the

dividend was declared whether the dividend exceeds the amount of usable reserve for dividend accumulated since the acquisition of the control.

If any of the above 3 examinations indicates that the market value of the investment declines below its carrying amount then the Company prepares the impairment assessment based on a DCF model also for that investment where the carrying amount does not exceed HUF 20 billion.

If the carrying amount of the investment exceeds its recoverable amount, the Company recognizes the necessary impairment loss. If the recoverable amount of the investment exceeds its carrying amount, no impairment is necessary. When the estimates used to determine an asset's or a CGU's recoverable amount have improved since the last impairment loss was recognised, the impairment loss that was previously recognised for the asset, other than goodwill, is reversed.

In this case the carrying amount of an assets shall not be increased above the lower of:

- Its recoverable amount and
- The carrying amount that would have been determined (net of amortization or depreciation) without any prior impairment loss.

## 11.2 Investments

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

As December 31, 2018 and 2019, the Company's investments in subsidiaries are summarized as follows.

	<b>1.1.2018 Opening amounts</b>	<b>Changes in 2018</b>	<b>12.31.2018 Carrying amounts</b>	<b>Changes in 2019</b>	<b>12.31.2019 Carrying amounts</b>
Stonebridge A.D. ....	77,999	-	77,999	-	77,999
T-Systems Magyarország Zrt. ....	40,820	1,164	41,984	-	41,984
Combridge S.R.L. ....	2,544	-	2,544	-	2,544
Novatel E.O.O.D. ....	1,999	-	1,999	-	1,999
Investel Zrt. ....	1,658	-	1,658	-	1,658
Other .....	5,480	-	5,480	-	5,480
<b>Total .....</b>	<b>130,500</b>	<b>1,164</b>	<b>131,665</b>	<b>-</b>	<b>131,665</b>

The Company examined the indicators mentioned in Note 11.1 and carried out the tests as necessary which did not result into any impairment in 2019.

The accumulated impairment recognized for investments was HUF 2 million on both December 31, 2018 and 2019.

ESOP Organization is a special organization of Magyar Telekom which is controlled by the Company without any shares in it. Further information see Note 20.

### Short descriptions of companies in which Magyar Telekom has significant shares:

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

In December 2000, Magyar Telekom, on behalf of a consortium, reached an agreement with the government of the Republic of North Macedonia to purchase 51 percent of Makedonski Telekom A.D., the leading telecommunication provider of North Macedonia. The 51



percent ownership acquired by Magyar Telekom was contributed in 2001 to a newly established Macedonian holding company, Stonebridge A.D. residing in Skopje which is owned by the Magyar Telekom in 100%.

#### **T-Systems Magyarország Zrt.**

In 2006 Magyar Telekom purchased the 100% ownership in KFKI Zrt (the predecessor of T-Systems Magyarország Zrt). In the course of the years the company acquired several firms which subsequently merged into the company.

#### **Combridge S.R.L.**

The company is an alternative telecommunication service provider of Romania. Its main activities are: international and domestic leased line connection, international internet access, international IPVPN services, roaming services and international VoIP call termination. Magyar Telekom has a 100% share in Combridge S.R.L.

#### **Novatel E.O.O.D.**

The company was established in 2004 with headquarters in Bulgaria. The company's main activities are: international and domestic leased line connection, international internet access and IPVPN services, roaming services, infocommunication business solutions and international call termination. Magyar Telekom has a 100% share in Novatel E.O.O.D.

A joint arrangement is an arrangement whereby two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

As of December 31, 2018 and 2019, the Company's investments in joint venture are summarized as follows:

	12.31.2018 Carrying amounts	Changes in 2019	12.31.2019 Carrying amounts
E2 Hungary Zrt. ....	1,000	-	1,000
<b>Total</b>	<b>1,000</b>		<b>1,000</b>

Magyar Telekom signed an agreement with MET Holding AG, a leading integrated retail energy services trader in the region to establish a joint venture in Hungary, E2 Hungary Zrt. as of July 9, 2015. E2 Hungary Zrt. 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 cost and the carrying amount of the investment in E2 Hungary Zrt. amounted to HUF 1,000 million as at December 31, 2019 and 2018. Further information see Note 35.3.

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

The Company had no investment in associates at December 31, 2018 and 2019.

### **11.3 Joint operations**

Magyar Telekom and Telenor Hungary agreed in 2015 to jointly operate and develop their 800 MHz 4G mobile networks in all parts of Hungary except Budapest. The primary goal of the agreement was to accelerate 4G mobile broadband coverage rollout in the countryside and to offer higher bandwidth to the 4G customers, in line with the coverage obligations of the 800 MHz spectrum contract signed in 2014 with the NRA. Based on the agreement, Telenor Hungary maintains sites in West Hungary and Magyar Telekom operates 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 Magyar Telekom to Telenor and from Telenor to Magyar Telekom are almost equal and settled on a net basis and accounted for in the Statements of profit or loss and other comprehensive income 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

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

### 12.1 Other current assets

	At January 1,	At December 31,	
	2018	2018	2019
Accrued income and prepayments for costs and expenses .....	3,548	4,869	2,135
Other tax receivable .....	603	1,070	437
Other receivables .....	3,025	410	411
<b>Total.....</b>	<b>7,176</b>	<b>6,349</b>	<b>2,983</b>

### 12.2 Other non current assets

Other non current assets include assets recognized from the costs to obtain contracts with customers (amounting to HUF 4,119 million, see Note 18.4) and HUF 78 million long-term prepaid employee benefits relating to housing loans provided by the Company to employees at lower than market interest rates.

## 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 at the best estimate of the economic outflow required to settle the present obligation at the reporting date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome.

Provisions expected to fall due after 12 months are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as Interest expense.

Expenses for provisions are recognized in the line item of the Statements of profit or loss and other comprehensive income where the actual expense is expected to be presented. When a provision is released unused, it is released to the same line item of the Statements of profit or loss and other comprehensive income where it was originally provided for. Provisions made for liabilities expected to be incurred in foreign currency are recognized in the functional currency at the spot FX rate, and any change in the provision in the functional currency as a result of a subsequent change in the FX rate is recognized in Other finance expense – net.

**13.2 Provisions in the statements of financial position**

	Severance payment	Share- based payments	Other employee related	Total employee related	Legal cases	ARO	Other	Total
<b>01.01.2018</b>	<b>1,537</b>	<b>756</b>	<b>544</b>	<b>2,837</b>	<b>220</b>	<b>7,486</b>	<b>443</b>	<b>10,986</b>
Reversed.....	(260)	(69)	(13)	(342)	(146)	(35)	(95)	(618)
Additions.....	2,610	632	5	3,247	1,172	174	1,028	5,621
Interest .....	-	1	-	1	(33)	191	-	159
Utilized (incl. interest component).....	(2,387)	(6)	(527)	(2,920)	-	(42)	(46)	(3,008)
<b>12.31.2018.....</b>	<b>1,500</b>	<b>1,314</b>	<b>9</b>	<b>2,823</b>	<b>1,213</b>	<b>7,774</b>	<b>1,330</b>	<b>13,140</b>
Of which current.....	1,219	643	-	1,862	2	24	382	2,270
Of which non current.....	281	671	9	961	1,211	7,750	948	10,870
<b>01.01.2019.....</b>	<b>1,500</b>	<b>1,314</b>	<b>9</b>	<b>2,823</b>	<b>1,213</b>	<b>7,774</b>	<b>1,330</b>	<b>13,140</b>
Reversed.....	(268)	(154)	-	(422)	(51)	(317)	(1,434)	(2,224)
Additions.....	3,371	920	3	4,294	97	397	2,109	6,897
Interest .....	-	(4)	-	(4)	54	179	-	229
Utilized (incl. interest component).....	(3,453)	(662)	(4)	(4,119)	(21)	(52)	(315)	(4,507)
<b>12.31.2019.....</b>	<b>1,150</b>	<b>1,414</b>	<b>8</b>	<b>2,572</b>	<b>1,292</b>	<b>7,981</b>	<b>1,690</b>	<b>13,535</b>
Of which current.....	900	877	-	1,777	-	22	1,669	3,468
Of which non current.....	250	537	8	795	1,292	7,959	21	10,067

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 relation to the 2020 efficiency improvement in Magyar Telekom. 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. 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 relation to the 2019 efficiency improvement in Magyar Telekom.

981 employees left the Company in 2019 (2018: 740), related to which termination payments were made. The balance of provision as at December 31, 2019 relates to 101 employees and former employees in the stand-by-pool (2018: 137).

The total payments made in relation to employee termination in 2019 amounted to HUF 4,310 million (2018: HUF 2,858 million).

**13.2.2 Share based payments**

The bases of the provisions for share-based payments are described in Note 20.1.2.

### 13.2.3 Legal cases

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

### 13.2.4 Asset retirement obligations (ARO)

Asset retirement obligations primarily exist in case of the telecommunications structures constructed on third parties' properties. The Company 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

	At January 1,	At December 31,	
	2018	2018	2019
Other taxes and social security.....	10,382	8,953	7,899
Salaries and wages .....	5,509	6,667	5,878
Deferred revenue and advances received .....	1,654	2,063	2,150
Advances received for asset-related grants..... (a)	4,648	1,851	409
Dividend payable to non controlled interest.....	11	10	16
Other liabilities .....	290	19	33
<b>Total.....(b)</b>	<b>22,494</b>	<b>19,563</b>	<b>16,385</b>

(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 4.2.3.2.

(b) In 2019, contract liabilities are shown on separate line (see Note 1.2).

## 15 OTHER NON CURRENT LIABILITIES

In 2017 Other non current liabilities include HUF 286 million deferred revenues related to long term projects and customer loyalty programs which was transferred to other current liabilities in 2018.

## 16 EQUITY

### 16.1 Equity reconciliation table

In accordance with Act C of 2000 on Accounting (HAR) effective in Hungary, the following equity reconciliation table shows the reconciliation between the components of equity presented in these financial statements (under EU IFRS) and the equity components defined by Section 4 (a) 114/B of HAR. The reconciliation consists of an allocation of equity components under EU IFRS to equity components under HAR and adjustments for differences between the equities determined on different bases.

**EGYÜTT. VELED**

	31.12.2018	31.12.2019
Common stock .....	104,274	104,274
Reserves .....	436,176	451,831
Treasury stock.....	(45)	(4,133)
Profit or loss for the year .....	37,666	39,333
<b>Equity in accordance with IFRS (Section 4 114/B) .....</b>	<b>578,071</b>	<b>591,305</b>
<b>Section 4 (a) 114/B Equity .....</b>	<b>578,071</b>	<b>591,305</b>
Common stock provided for by the articles of association if that qualified as an equity instrument .....	104,274	104,274
Nominal value of own shares repurchased (-).....	(10)	(883)
<b>Section 4 (b) 114/B Common stock in accordance with IFRS* .....</b>	<b>104,264</b>	<b>103,391</b>
<b>Section 4 (c) 114/B Subscribed but unpaid capital .....</b>	<b>-</b>	<b>-</b>
Sum of all part of equity that does not comply with the definitions of common stock, subscribed but unpaid capital, retained earnings, valuation reserve, profit or loss for the year or restricted reserves in accordance with IFRS .....	23,359	24,129
<b>Section 4 (d) 114/B Capital reserves .....</b>	<b>23,359</b>	<b>24,129</b>
Previous years' profit accumulated and not yet distributed for the owners disclosed in the financial statements in accordance with IFRS that may not include other comprehensive income (±).....	412,817	424,453
<b>Section 4 (e) 114/B Retained earnings .....</b>	<b>412,817</b>	<b>424,453</b>
<b>Section 4 (f) 114/B Valuation reserve.....</b>	<b>-</b>	<b>-</b>
Profit or loss for ongoing activities disclosed in statement of performance in its own right within the comprehensive income statement or in the separate profit and loss statements.....	37,666	39,333
<b>Section 4 (g) 114/B Profit or loss for the year.....</b>	<b>37,666</b>	<b>39,333</b>
<b>Section 4 (h) 114/B Restricted reserves .....</b>	<b>-</b>	<b>-</b>
<b>Section 5 (a) 114/B Reconciliation of the capital registered by the Court of Registry with the subscribed capital under IFRS</b>		
Capital registered by the Court of Registry .....	104,274	104,274
Subscribed capital under IFRS.....	104,264	103,391
<b>Difference (nominal value of treasury stock repurchased) .....</b>	<b>10</b>	<b>883</b>
<b>Section 5 (b) 114/B Untied retained earnings available for the payment of dividends</b>		
Retained earnings (contains profit or loss of the last financial year) .....	450,483	463,785
<b>Untied retained earnings available for the payment of dividends .....</b>	<b>450,483</b>	<b>463,785</b>

\*Common stock shows the value of common stock recorded in article of association in the balance sheet, the table above contains the deduction defined in the relevant sections of the Hungarian Act on Accounting.

## 17 LEASES

### 17.1. Leases – 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 Company 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 1.3.

Operating lease commitments disclosed as at December 31, 2018 (HUF 143,931 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

<b>Operating lease commitments under IAS 17 as at December 31, 2018</b>	<b>118,511</b>
Minimum lease payments (at its par value) from financial lease liabilities as of December 31, 2018 .....	9,218
Discounting effect using the lessee's incremental borrowing rate of at the date of initial application .....	(37,489)
Add/(less): adjustments as a result of a different treatment of extension and termination options .....	19,023
Other .....	(1,908)
<b>Lease liability recognised as at January 1, 2019</b>	<b>107,355</b>
Of which are:	
Current lease liabilities .....	11,371
Non-current lease liabilities.....	95,984

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 measures 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 recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statements of cash flows applying IAS 7 Statements 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 applies 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 Company, 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 Company 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 Magyar Telekom 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 Magyar Telekom 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 Magyar Telekom 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 Magyar Telekom as lessee

#### Statements of financial position

The Company 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 statements of financial position.

#### Statements of profit or loss and other comprehensive income

In the statements of profit or loss and other comprehensive income Magyar Telekom 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 statements of profit or loss and other comprehensive income.

#### Statements of cash flows

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

- cash payments for the interest portion of the lease liability, according to the Company 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 statements of cash flows.

## **Presentation and disclosures for Magyar Telekom as lessor**

### **Presentation of leases in Statements of profit or loss and other comprehensive income and in Statements of financial position**

In the Statements 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".

The operating lease revenue line item in the Notes is titled "Other sources" (see Note 18.3.1).

Magyar Telekom 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 Company, portions of assets that are physically distinct and are identified as underlying assets (leases) are not presented separately from the whole asset in the statements of financial position.

### **Other lease topics**

#### **Sale and leaseback transactions**

##### **Assessing whether the transfer of the asset qualifies as a sale**

In the Company, both the short-term and the low value recognition exception have not been elected for any asset class. As a result, Magyar Telekom 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 Company first considers whether the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. The Company 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 transactions have no material effect on financial statements of Magyar Telekom.

### **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, Magyar Telekom, 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.

#### **• Sublease is a finance lease**

If Magyar Telekom classifies the sublease as a finance lease, the lease is entered into the following:

- derecognise the right-of-use asset relating to the head lease that it transfers to the sublessee and recognises the net investment in the sublease;
- recognise any difference between the right-of-use asset and the net investment (finance lease receivable) in the sublease in profit or loss; and



retain the lease liability relating to the head lease in its statements of financial position, which represents the lease payments owed to the head lessor.

At the commencement date of the sublease, if Magyar Telekom 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.

#### **Presentation and disclosures for subleases**

No sublease specific balance sheet and income statements presentation rules apply to subleases. Magyar Telekom applies the respective presentation rules that apply to other finance and operating leases.

Magyar Telekom 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 are 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 were classified as finance leases. Under finance leases, the Company recognized revenue and a finance lease receivable at the commencement of the lease. The revenue equaled 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 is 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 – Company as lessee**

Leases of property, plant and equipment where Magyar Telekom assumed substantially all the benefits and risks of ownership were classified as finance leases. Finance 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 finance lease payable. Each lease payment was allocated between the finance lease

liability and interest expense so as to achieve a constant rate of interest on the outstanding balance payable. The finance lease obligations, net of finance charges, were included in the Statements 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 finance lease contracts were depreciated over the shorter of the lease term or the useful life of the asset.

### Operating lease – Company as lessor

Assets leased to customers under operating leases were included in Property, plant and equipment in the Statements 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.

### Operating lease – Company as lessee

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

### Sale and leaseback transactions

Sale and leaseback transactions involved the sale of an asset by Magyar Telekom and the leasing of the same asset or part of it back to Magyar Telekom. When sale and leaseback transactions 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 were recognized in the Profit for the year (Other operating income) at the time of the sale as the sales price reflects the fair value of the asset, while the lease payments 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 lease

### 17.2.1 Finance lease – Company as lessor

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

	<b>12.31.2018</b>		
	<b>Present value</b>	<b>Interest component</b>	<b>Minimum lease receipt</b>
Within 1 year .....	4	3	7
1–5 years .....	20	12	32
After 5 years .....	43	13	56
<b>Total.....</b>	<b>67</b>	<b>28</b>	<b>95</b>
	<b>12.31.2019</b>		
	<b>Present value</b>	<b>Interest component</b>	<b>Minimum lease receipt</b>
Within 1 year .....	633	600	1,233
1–2 years .....	666	567	1,233
2–3 years .....	661	533	1,194
3–4 years .....	685	498	1,183
4–5 years .....	666	461	1,127
After 5 years .....	7,758	2,117	9,875
<b>Total.....</b>	<b>11,069</b>	<b>4,776</b>	<b>15,845</b>

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 83 million in 2019.

The increase in 2019 is due to the lease of a part of the Magyar Telekom headquarters to T-Systems Magyarország Zrt. The term of the lease is 15 years.

### 17.2.2 Lease – Company 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 Company 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:

	<u>2019</u>
Depreciation expense of right-of-use assets.....	16,943
Interest expense on lease liabilities .....	5,565
Foreign exchange loss on lease liabilities .....	1,438
Expense relating to variable lease payments (included in cost of sales).....	-
Income from subleasing right-of-use assets .....	-
Gains or losses arising from sale and leaseback transactions .....	275

The Company had total cash outflows for leases of HUF 12,552 million in 2019. The Company has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are HUF 2,650 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 12,663 million.

The Company 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 Company does not expect to pay anything under the guarantees.

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 – Company 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 decrease in 2019 is due to the implementation of IFRS16 (See Note 2.1.1). Therefore the rental fee commitment of T-Systems Magyarország Zrt. due to the new Magyar Telekom headquarters building was reclassified as finance lease.

	<b>12.31.2018</b>
Within 1 year .....	1,938
1–5 years .....	7,023
After 5 years .....	11,439
<b>Total</b> .....	<b>20,400</b>

	<b>12.31.2019</b>
Within 1 year .....	3,454
1–2 years .....	3,603
2–3 years .....	3,411
3–4 years .....	3,292
4–5 years .....	1,837
After 5 years .....	251
<b>Total</b> .....	<b>15,848</b>

The Company has no lease income relating to variable lease payments that do not depend on an index or rate.

## 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 Company 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 Company determines that collectability is no longer ensured (e.g. because subsequently the customer's ability or intent to pay significantly deteriorates), the Company 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 Company 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 Company 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 Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Company shall present the contract as a Contract asset, excluding any amounts presented as a receivable. A contract asset is the Company's right to consideration in exchange for goods or services that the Company 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 Statements of Financial Position.
- Expenses for sales commissions (customer acquisition costs) must now be capitalized in the Contract costs line of the Statements of Financial Position and recognized over the estimated customer retention period.
- Later recognition of revenue appears 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 Company 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. For further information, please see Note 17.1.1.

## **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 Company does not have a right to consideration at contract inception.

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

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

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

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

To determine the progress of performance Magyar Telekom Company is applying the Input method. Magyar Telekom recognizes revenue on the basis of the Magyar Telekom's efforts or inputs to 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 Statements of profit or loss and other comprehensive income**

**18.3.1 Disaggregation of revenue from contracts with customers**

	2018	2019
<b>Mobile revenue</b>		
Voice retail.....	120,485	116,545
Voice wholesale.....	6,858	7,241
Data.....	73,760	83,528
SMS.....	17,966	18,979
Equipment.....	80,047	81,968
Other mobile revenue.....	11,098	11,130
<b>Total Mobile revenue.....</b>	<b>310,214</b>	<b>319,391</b>
<b>Fixed line revenue</b>		
Voice retail.....	37,347	35,836
Broadband retail.....	42,029	45,572
TV.....	38,904	39,934
Equipment.....	17,065	21,108
Data retail.....	8,297	7,801
Wholesale.....	14,823	13,714
Other fixed line revenue.....	17,414	17,192
<b>Total Fixed line revenue.....</b>	<b>175,879</b>	<b>181,157</b>
System integration and IT revenue.....	7,225	7,329
Revenue from energy services.....	(1)	-
<b>Total revenue.....</b>	<b>493,317</b>	<b>507,877</b>
Of which:		
Revenue from contracts with customers*.....	490,803	504,214
Other sources*.....	2,514	3,663

\* 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.

None of the Company'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 Company's revenues.

**18.4 Assets and liabilities related to contracts with customers**

Contract assets of the Company 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.

	<b>For the year ended December</b>	
	<b>2018</b>	<b>2019</b>
Contract assets – current .....	11,755	11,890
Contract assets – non current .....	3,143	3,325
Contract liabilities – current.....	(7,393)	(7,147)
Contract liabilities – non current .....	-	-
<b>Net contract assets (liabilities) .....</b>	<b><u>7,505</u></b>	<b><u>8,068</u></b>
Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period.....	5,527	6,380
Asset recognized from the costs to obtain contracts with customers.....	4,043	4,119
Amortisation recognized as cost of obtaining contracts during the period ..	(5,347)	(5,586)

Contract assets increased during 2019 as a result of the new 2019 contracts with telecommunication customers of the Company.

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 1,200 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 125,964 million and the Company will recognize this revenue as services are rendered, which is expected to occur over the next 13-24 months.

The Company did not account for revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods as IFRS 15 was adopted in 2018.

## 19 DIRECT COSTS

	<b>2018</b>	<b>2019</b>
Telecom tax.....(a)	25,442	24,749
Interconnect costs.....	16,291	16,236
Bad debt expense .....	8,169	7,775
SI/IT service related costs.....	6,351	6,304
Other direct costs .....	140,966	149,858
<b>Total direct costs .....</b>	<b><u>197,219</u></b>	<b><u>204,922</u></b>

### (a) Telecom tax

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

### (b) Other direct costs

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 the service is rendered by the employees.

#### 20.1.2 Share based payments

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 derecognized. If the services are received in a cash-settled share based payment transaction, the Company recognizes the expense against a liability, re-measured to fair value at each financial statements date.

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

##### 20.1.2.1 Share Matching Plan of Deutsche Telekom

As of July 1, 2015, Magyar Telekom 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 for 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 21 million was recognized (2018: HUF 26 million) as expenses for the program.

##### 20.1.2.2 Long-term incentive program (LTI)

As of January 1, 2015 Magyar Telekom Company changed its existing LTI program, which turned 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 DT AG and awarded to the plan participant in the form of virtual shares (basic number). The annual level of target achievement is determined at the end of each year. This target achievement level is multiplied on a pro rata basis by the basic number of virtual shares awarded. The number of virtual shares calculated using this method shall then be "fixed" for the plan participant as the binding result for that specific year ("annual result"). At the end of the plan term, the four binding annual results shall be added together. The resulting total number of virtual shares shall be converted into cash applying the prevailing price of DT AG shares at that time, which is paid to the plan participants. For dividend payments during the plan term, the virtual shares shall be treated as real shares. The dividends shall be

taken into account as follows: The first/second/third dividend payments shall be “reinvested” into virtual shares when the actual dividends are paid on real shares. The fourth (and last) dividend payment shall not be reinvested but paid in cash together with the plan payment following the DT AG shareholders' meeting at which a decision is made regarding this dividend payment. The plan currency is euro.

In 2019 HUF 322 million was recognized as expenses for the program (2018: HUF 563 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 444 million was recognized at first time as expenses on RPI 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 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 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 transferred Magyar Telekom ordinary shares transferred into cash which amounted to HUF 2,251 million in March 2018 (vesting date) 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.

Based on the initial information the Company estimated the amount of the bonus to be paid considering the headcount as of January 1, 2017 from which the necessary number of shares were calculated inversely by reference to the expected forward rate of shares relating to March, 2018 prevailing as at January 1, 2017. The estimated number of shares was 4,702,702 on January 1, 2017.

The Company was able to cover the significant proportion of the bonus payments related to 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. This liability was recognized at fair value by reference to the share price (see Note 4.4.1.).

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.

T-Systems Magyarország Zrt. was liable to the Company to reimburse the consideration of the own shares repurchased for the remuneration of T-Systems Magyarország Zrt.'s employees.

In 2017 HUF 1.4 billion was recognized as the total expenses of the program which presented in the balance sheet among Share-based payment (SBP) reserves.



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 be paid via the ESOP Organization for Magyar Telekom and T-Systems Hungary Ltd. 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 exceeded that for the previous year ended December 31, 2017, therefore for that employee who was employed by Magyar Telekom or T-Systems Magyarország Zrt. on March 18, 2019 (vesting date) the 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 expected to be 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 is already known. The Company is liable to repurchase the shares under the Articles of Association of the ESOP Organization. This liability is recognized at fair value by reference to the share price (see Note 4.4.1.).

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, are not entitled for the benefit via the ESOP Organization, such benefits will be paid off by the Company under the relevant internal regulations.

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 Company has no intention of renewing the program in 2020 either. The voluntary liquidation of ESOP Organisation began on January 1, 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 Company 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 Statements of profit or loss and other comprehensive income**

	<u>2018</u>	<u>2019</u>
Short term benefits (Note 20.1.1).....	56,868	56,287
Termination benefits (Note 20.1.3).....	2,820	3,958
Equity settled share based compensations (Note 20.1.2.1) ..... (a)	26	21
Cash settled share based compensations (Note 20.1.2.2) .....	563	322
Bonus payment via ESOP (Note 20.1.2.4) .....	<u>2,789</u>	<u>-</u>
Total before capitalization.....	63,066	60,588
Expenses capitalized .....	<u>(6,198)</u>	<u>(5,767)</u>
	<b><u>56,868</u></b>	<b><u>54,821</u></b>
Total costs expended in relation to defined contributions (including social security contribution)..... (b)	10,817	9,657
Average number of employees (full time equivalent).....	6,183	5,664
Closing number of employees (full time equivalent).....	6,134	5,501

(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 closing balance of the program is presented as a related party financial liability in the Separate statements of financial positions as it is due to be paid to DT AG.

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

**21 OTHER OPERATING EXPENSES**

	<u>2018</u>	<u>2019</u>
Cost of other purchased services..... (a)	47,858	45,015
Rental and leasing expenses..... (b)	18,190	-
Marketing expenses.....	8,380	7,735
Utility tax .....	7,157	7,214
Energy costs.....	5,843	5,330
Other operating expenses.....	<u>5,414</u>	<u>8,841</u>
	<b><u>92,842</u></b>	<b><u>74,135</u></b>

Research as well as marketing costs are expensed as incurred. The Company recognized in 2019 HUF 1 million (2018: HUF 1 million) for research and development among other operating expenses.

**(a) Audit costs included in 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 Company as well as other services provided by PricewaterhouseCoopers (PwC) as follows.

	<u>2018</u>	<u>2019</u>
Audit of the financial statements .....	340	307
Other audit related fees .....	23	33
Other non audit related fees .....	<u>41</u>	<u>90</u>
<b>Total expenses payable to PwC.....</b>	<b><u>404</u></b>	<b><u>430</u></b>



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 procedures necessary for meeting the reporting requirements arising from public or corporate legal provisions.

**(b) Rental and leasing expenses**

The Company adopted IFRS 16 as of January 1, 2019 (see Note 17).

**22 OTHER OPERATING INCOME**

	<u>2018</u>	<u>2019</u>
Gain on the sale of PPE, Intangible assets and assets held for sale .....	4,474	2,863
Income received for the relocation of our own network .....	1,127	1,503
Income from insurance compensation .....	87	72
Lessee income.....	-	16
Other .....	3,024	2,475
<b>Total.....</b>	<b><u>8,712</u></b>	<b><u>6,929</u></b>

**23 INTEREST INCOME**

	<u>2018</u>	<u>2019</u>
Interest income on loans and receivables .....	212	271
Unwinding of the interest component of provisions.....	50	5
Interest income from leases.....	3	611
<b>Total.....</b>	<b><u>265</u></b>	<b><u>887</u></b>

**24 INTEREST EXPENSES**

	<u>2018</u>	<u>2019</u>
Interest expense payable on loans to related parties .....	8,845	5,738
Interest expense on loans to unrelated parties .....	3,109	2,695
Interest expense on lease liabilities .....	1,201	5,565
Accretion / interest on provisions .....	209	235
Borrowing costs capitalized.....	(131)	(83)
<b>Total.....</b>	<b><u>13,233</u></b>	<b><u>14,150</u></b>

Borrowing costs include interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. The borrowing costs eligible for capitalization of general borrowings that are used for the purpose of obtaining qualifying assets are capitalized applying the weighted average of the borrowing costs applicable to the general borrowings of the Company that are outstanding during the period. 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. Other borrowing costs are recognized as an expense.

Total Interest expenses are 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 EXPENSES – NET

	<u>2018</u>	<u>2019</u>
Fee expense.....	3,803	4,395
Net foreign exchange losses / (gains) on financial instruments.....	5,547	5,255
Other net foreign exchange losses / (gains).....	(136)	1,246
Losses/(gains) on the measurement of derivatives contracted with related parties....	(3,048)	(606)
Losses/(gains) on the derecognition of derivatives contracted with related parties ...	(2,236)	(840)
<b>Total.....</b>	<b><u>3,930</u></b>	<b><u>9,450</u></b>

## 26 RESULTS OF INVESTMENTS

### 26.1 Results of investments in subsidiaries

Dividends receivable by the Company are recognized as a receivable and income in the period in which the dividends are approved by the general meeting of the investees.

The following table shows dividends received from the Company's investments related to years 2018 and 2019:

	<u>2018</u>	<u>2019</u>
Stonebridge A.D. ....	3,487	4,456
Investel Kft. ....	-	1,409
Other .....	160	809
<b>Total.....</b>	<b><u>3,647</u></b>	<b><u>6,674</u></b>

### 26.2 Results of investments in associated companies and joint ventures

Dividend received from E2 Hungary Zrt. was HUF 405 million in 2019 and HUF 519 million in 2018.

## 27 EARNINGS PER SHARE (EPS)

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.

The Company is subject to prepare consolidated annual report so disclosures related to EPS indicator (based on IAS 33) are shown based on consolidated financial statements.

## 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. Capitalized borrowing costs are included in the Investments in PPE and intangible assets, where applicable.

	<b>12.31.2018</b>	<b>12.31.2019</b>
Investments in property, plant and equipment (Note 9) .....	52,524	55,186
Investments in Right-of-use assets .....	(a) -	22,663
Investments in intangible assets (Note 10) .....	36,188	15,392
<b>Total investments in PPE and intangible assets.....</b>	<b>88,712</b>	<b>93,241</b>
Advances received for asset-related .....	(b) 2,797	5,330
Capitalized annual frequency fee payable .....	(c) (4,392)	-
PPE under leases .....	(a) (343)	-
Change in trade payables relating to capital expenditures .....	(d) (11,892)	(16,367)
<b>Cash payments for purchases of PPE and intangible assets.....</b>	<b>74,882</b>	<b>82,204</b>

### (a) PPE acquired under leases

For further information, please see Notes 9.2, 17.

### (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, 14 for government grants relating to the purchase of PPE.

### (c) 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. The significant license acquisitions are described in Note 10.5.

### (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

There were no any payments on acquisition considered as a subsidiary or a business combination in 2018 and 2019.

## 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 Company. These assets are not recognized in the statements of financial position.

The Company 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 Company; 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 Company 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 or the amount of the obligation cannot be measured with sufficient reliability.

#### 30.2.1 Guarantees

Magyar Telekom 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 Property, plant and equipment and intangible assets

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

	<u>12.31.2018</u>	<u>12.31.2019</u>
Property, plant and equipment.....	837	156
Intangible assets.....	1,331	2,870
<b>Total.....</b>	<b><u>2,168</u></b>	<b><u>3,026</u></b>

### 31.2 Investments

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

## 32 RELATED PARTY TRANSACTIONS

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

A person or a close member of that person's family is related to the Company 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.

### 32.1 Related party transactions in the Statements of financial position

The tables below summarize the carrying amount of assets and liabilities arising from transactions with related parties as of December 31, 2018 and 2019:

12.31.2018	Trade receivable	Other receivables (advances)	Loans given	Loans received	Swap - liability	Dividends payable
Parent.....	4,347	-	6,581	(144,038)	(612)	(15,516)
Subsidiaries .....	3,345	255	15,248	(2,865)	-	-
Associates and joint ventures.....	548	-	-	-	-	-
Other related parties	2,936	75	2	(89,772)	-	-
from this: DTIF .....	-	-	-	(89,700)	-	-
<b>Total .....</b>	<b>11,176</b>	<b>330</b>	<b>21,831</b>	<b>(236,675)</b>	<b>(612)</b>	<b>(15,516)</b>

12.31.2019	Trade receivable	Other receivables (advances)	Loans given	Lease receivable	Loans received	Lease liability	Swap - liability	Dividends payable
Parent.....	3,984	-	3,563	-	(117,313)	-	(1,890)	(15,566)
Subsidiaries .....	1,532	233	4,461	10,506	(1,564)	(6,767)	-	-
Associates and joint ventures.....	478	-	-	-	-	-	-	-
Other related parties	2,025	83	-	-	(91,041)	(6)	-	-
from this: DTIF .....	-	-	-	-	(90,516)	-	-	-
<b>Total .....</b>	<b>8,019</b>	<b>316</b>	<b>8,024</b>	<b>10,506</b>	<b>(209,918)</b>	<b>(6,773)</b>	<b>(1,890)</b>	<b>(15,566)</b>

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

**32.2 Related party transactions in the Statements of profit or loss and other comprehensive income**

The tables below summarize the significant transactions with related parties as of December 31, 2018 and 2019:

12.31.2018	Revenue from services	Cost of services	Dividend received	Interest expense	Swap	Dividend paid
Parent.....	4,139	(5,584)	-	(6,646)	(5,284)	(15,516)
Subsidiaries.....	3,807	(16,316)	3,647	(27)	-	-
Associates and joint ventures.....	400	(5,375)	519	-	-	-
Other related parties from this: DTIF.....	8,530	(7,875)	-	(2,172)	-	-
	-	-	-	(2,172)	-	-
<b>Total.....</b>	<b>16,876</b>	<b>(35,150)</b>	<b>4,166</b>	<b>(8,845)</b>	<b>(5,284)</b>	<b>(15,516)</b>

12.31.2019	Revenue from services	Cost of services	Dividend received	Interest expense	Swap	Dividend paid
Parent.....	3,929	(5,826)	-	(4,099)	(1,445)	(15,566)
Subsidiaries.....	4,417	(16,389)	6,674	(340)	-	-
Associates and joint ventures.....	159	(4,504)	405	-	-	-
Other related parties from this: DTIF.....	7,815	(8,211)	-	(1,591)	-	-
	-	-	-	(1,591)	-	-
<b>Total.....</b>	<b>16,320</b>	<b>(34,930)</b>	<b>7,079</b>	<b>(6,030)</b>	<b>(1,445)</b>	<b>(15,566)</b>

**32.3 Transactions with Deutsche Telekom Group and the Federal Republic of Germany**
**32.3.1 Deutsche Telekom Group**

Deutsche Telekom AG is the ultimate (indirect) controlling owner of Magyar Telekom 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 has regular transactions.

Deutsche Telekom International Finance B.V. (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.

**32.3.2 The Federal Republic of Germany**

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

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



### 32.4 Joint ventures

E2 Hungary Zrt. is a joint venture of the Magyar Telekom Company since July 9, 2015 and provides energy services for business customers.

The Company did not have material transactions with its joint venture in either 2018 or 2019.

### 32.5 Board and Supervisory Board members

	<u>12.31.2018</u>	<u>12.31.2019</u>
Remuneration of the members of the Board of Directors.....	13	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.

### 32.6 Key management personnel

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 Company in relation to the key management.

	<u>12.31.2018</u>	<u>12.31.2019</u>
Salaries and other employee benefits .....	969	627
Contractual termination expense.....	-	-
Share based payments (Note 20) .....	8	9
	<u>977</u>	<u>636</u>
Costs expensed in relation to defined contribution plans (including social security contribution).....	147	128

The Company did not provide loans or guarantees to its key management.

### 32.7. Guarantees provided by the Company for liabilities of related parties and guarantees provided by related parties for liabilities of the Company

#### 32.7.1 Bank guarantees

Bank guarantees for subsidiaries issued by Magyar Telekom in the name of the subsidiaries and it pays the related fees for the bank. In case of guarantee drawdown the Magyar Telekom's bank account shall be debited with the amount drawdown/paid. Fees paid by Magyar Telekom invoiced within the group.

The following table presents the guarantees provided by the Company for liabilities of related parties:

**Sum of Guarantee**

<b>Type of the guarantee</b>	<b>31.12.2018</b>	<b>31.12.2019</b>
Bank guarantee .....	2,842	3,190

Further information see Note 4.5.4.

### 32.7.2 Shareholders declaration

E2 Hungary Zrt. concluded a trade finance revolving loan contract (maturity over a year and in multi-currency) with OTP Bank Nyrt. in 2016. Magyar Telekom has issued the following shareholders declaration related to E2 Hungary Zrt. as the borrower for both 2018 and 2019 years:

- they shall adopt a decision whereby the registered capital of E2 Hungary Zrt. shall be decreased only subject to the prior written consent of lender
- they shall take out dividend or advance dividend (qualifying as such types of payments under Hungarian Accounting Rules) without the bank's prior written consent only to an extent that this does not decrease the equity of E2 Hungary Zrt. below HUF 1,800 million.

## 33 REPORTABLE SEGMENTS AND INFORMATION ABOUT GEOGRAPHICAL AREAS

### 33.1 General information

Magyar Telekom's chief operating decision makers are the members of the Management Committee (MC). The MC is responsible for allocating resources to, and assessing the performance on a monthly basis. The MC assesses the performance of the Company on Group level and makes its decisions at that level. The operating segments of the Company are the MT-Hungary and North Macedonia. Since the Company as a whole is part of MT-Hungary segment therefore the segment information related to the Company shall not be disclosed in this annual report.

Magyar Telekom operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small businesses customers mainly under the "Telekom" or "T" brand. Magyar Telekom is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Company. For details on revenue please refer to Note 18.

### 33.2 Information about geographical areas

Considering that Magyar Telekom provides its services within the boundaries of Hungary and the base of geographical classification is the headquarters of the Company, all the realized revenues by the Company are in the category of Hungary. In a similar manner all tangible assets of the Company are classified as Hungary considering geographical areas.

### 33.3 Information about revenues for group of products and services

Revenues from customers for group of similar products and services are disclosed in Note 18.3.

### 33.4 Information about revenues from major customers

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

## 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's 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: With regards to the fixed 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 1<sup>st</sup> 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 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 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 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





EGYÜTT. VELED

MAGYAR TELEKOM TELECOMMUNICATIONS  
PUBLIC LIMITED COMPANY

## **BUSINESS REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2019



## INTRODUCTION

The Company's activities are described in Note 1 of the 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 AND OUTLOOK
- 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

Since the Company is the parent company of Magyar Telekom Group, therefore the Summary on 2019 operations related to Magyar Telekom Group is presented below.

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.”



## 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](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
	<b>1,042,742,543</b>	<b>100.00</b>

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](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:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
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>)<sup>1</sup>.

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:

<u>Name</u>	<u>Born</u>	<u>Current position</u>	<u>Member since</u>
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](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.

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<sup>1</sup> 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:

<u>Name</u>	<u>Born</u>	<u>Principal Occupation</u>	<u>Member since</u>
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](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](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](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). Issuers can also explain any derogations from the proposals. 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 exercising 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 1 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 full-time employees, including full-time equivalents, of Magyar Telekom Plc.:

	<u>2018</u>	<u>2019</u>
Magyar Telekom Plc.....	6,134	5,501

## 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. 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](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 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](https://www.telekom.hu/static-tr/sw/file/Diversity_Policy.pdf)

The Diversity Policy of Magyar Telekom 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 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](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:

Anti-discrimination and the safeguarding of equal opportunities is a key priority to Magyar Telekom. 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 has accepted its 4<sup>th</sup> 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 the forthcoming years as well as in 2019.

**UN Guiding Principles on Business and Human Rights** – According to the dedication of Magyar Telekom 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 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](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'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 from employees to managing directors, executives and board members. Furthermore, Magyar Telekom 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's Corporate Compliance Program has been elaborated with the aim to ensure that Magyar Telekom 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 Company 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 4<sup>th</sup> 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](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 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 fundamentals 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 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 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 employees operating in Hungary fall under collective bargaining agreements developed with the Hungarian Telecommunications Trade Unions (Távközlési Szakszervezet, TÁVSZAK and Magyar Távközlési Ágazati Szakszervezet, MATÁSZ). The agreement, which can be terminated by either party with three months' notice, applies to all Magyar Telekom Plc. employees except the CEO, regardless of their union membership status. Wage terms in the 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

#### 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%

## 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 Financial Statements.

## 5 RESEARCH AND DEVELOPMENT

In 2019 Magyar Telekom Plc. was engaged in research and development activities together with several subsidiaries of the Group. For details see the consolidated business report of Magyar Telekom.

## 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. 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.

### 6.1 The registered office of the Company:

- 1097 Budapest, Könyves Kálmán körút 36.

### 6.2 Sites of the Company:

- 1117 Budapest, Magyar tudósok krt. 9.
- 1073 Budapest, Dob u. 76-78.
- 1117 Budapest, Kaposvár u. 5-7.
- 1117 Budapest, Budafoki u. 103-107.
- 1107 Budapest, Száva u. 3-5.
- 1117 Budapest, Szerémi út 4.
- 1106 Budapest, Örs vezér tere 25. 1. em.
- 1138 Budapest, Váci út 178.
- 1195 Budapest, Üllői út 201.
- 1191 Budapest, Vak Bottyán u. 75. a-c.
- 1024 Budapest, Lövház u. 2-6. 2. em.
- 1123 Budapest, Alkotás út 53.
- 1152 Budapest, Szentmihályi út 131.
- 1062 Budapest, Váci út 1-3.
- 1117 Budapest, Október huszonharmadika utca 8-10.
- 1033 Budapest, Huszti út 32.
- 1082 Budapest, József utca 19-23.





- 1095 Budapest, Soroksári út 166/A.
- 1098 Budapest, Távíró utca 3-5.
- 1156 Budapest, Száraznád utca 1-3.
- 1148 Budapest, Őrs vezér tere 24.
- 1211 Budapest, Rákóczi Ferenc út 154-170.

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<sup>2</sup>. The majority of sites used in our operations are smaller than 100 m<sup>2</sup>. The largest site is our headquarters building (leased) located at Könyves Kálmán krt. 36 in Budapest, with floor space of over 55,000 m<sup>2</sup>

## 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 Magyar Telekom'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**

Besides professional challenges, Magyar Telekom 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](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](https://www.telekom.hu/about_us/about_magyar_telekom/principles/quality_guarantees)

### **7.1 Sustainability strategy**

In 2016, Magyar Telekom 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 the company's 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 sustainability 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's actual CO<sub>2</sub> 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/inspiration 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 Királyné 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 – 12<sup>th</sup> 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 top 1% 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](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 philanthropic 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 ninth 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](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 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 both individually and as a Company:

[https://www.telekom.hu/static-tr/sw/file/Magyar\\_Telekom\\_environmental\\_policy.pdf](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 operative management of Magyar Telekom, the Management Committee receives at least once a year a report on the implementation of the tasks of the Company's 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<sub>2</sub> emissions (target set below 100,000 tons of CO<sub>2</sub> 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 the 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.



#### 8.4 Performance indicators

Cumulated CO<sub>2</sub> emission – 94,585 tons CO<sub>2</sub>

Group CO<sub>2</sub> emission by categories – Scope1: 20,289 tons CO<sub>2</sub>, Scope2: 74,295 tons CO<sub>2</sub>

Energy efficiency – bits transmitted / energy consumption – 149.06 Gbit/kWh

The average CO<sub>2</sub> emission of the fleet – 111 g/km CO<sub>2</sub>

## 9 CORPORATE COMPLIANCE

When shaping the compliance program of the Magyar Telekom, the goal was to ensure that the Magyar Telekom 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 compliance officer. The 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 contains the summary of the compliance requirement within the company, sets common values of the Company 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 from the employees to the members of the Board. In addition, contracted partners of the Magyar Telekom 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 entity 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 Plc. Based on the results of the survey, a comprehensive audit was prepared for the potential compliance and abuse risks, the result of which was submitted to the Audit Committee of the Company.

During the year we check the soundness of the reports submitted to our company in connection with unethical behavior, and if necessary, we act on these reports. In case we identify actual abuses, we take care of the necessary and adequate countermeasures. Magyar Telekom published all cases of corruption and the related countermeasures in accordance with the related applicable laws and legal provisions.



## 9.1 Fight against bribery and corruption

### 9.1.1 Policies

Magyar Telekom does not tolerate any attempts of corruption, so numerous procedures and policies were introduced to prevent and fight corruption. Magyar Telekom complies with the anti-corruption rules 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 Company 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 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 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 AND OUTLOOK

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.

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.

## 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<sup>i</sup> 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

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<sup>i</sup> Internal Control System

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 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, NRA practice 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;
- 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 exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.

- 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 Company's financial instruments is described in detail in Note 4 and the financial risk management of the Company is described in detail in Note 5 of the Financial Statements.

## 12 ANALYSIS OF FINANCIAL RESULTS FOR 2019

### 12.1 Revenues

Total revenues increased from HUF 493.3 billion in 2018 to HUF 507.9 billion in 2019, driven primarily by the significant growth in equipment and mobile data revenues.

**Mobile revenues** increased to HUF 319.4 billion in 2019, compared to HUF 310.2 billion in 2018, thanks to the continued dynamic increase in mobile data revenues and strong demand for smart devices.

- **Voice retail revenues** declined 3.3% to HUF 116.6 billion in 2019, as tariff pressure offset the positive impacts of customer base expansion and higher share of postpaid subscribers.
- **Voice wholesale revenues** rose by 5.6% to HUF 7.2 billion in 2019. The higher voice wholesale revenues reflected increased off-network traffic driven by a growing portion of flat rate packages.
- **Data revenues** grew by a significant 13.2% to HUF 83.5 billion in 2019, driven by continued growth in subscriber numbers and data usage.
- **SMS revenues** increased by 5.6% to HUF 19.0 billion in 2019 primarily as a result of further growth in mass messaging revenues.
- **Mobile equipment revenues** increased by 2.4% to HUF 82.0 billion in 2019, driven primarily by higher volume of export sales.

**Fixed line revenues** increased to HUF 181.2 billion in 2019, up from HUF 175.9 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 4.0% to HUF 35.8 billion in 2019, primarily due to a further reduction in average tariff levels, combined with the impact of lower customer base.
- **Broadband retail revenues** increased by 8.4% to HUF 45.6 billion in 2019, thanks to the customer base expansion was coupled with an increase in the broadband ARPU level as customers migrated to higher bandwidth packages.
- **TV revenues** increased by 2.6% to HUF 39.9 billion in 2019, thanks to higher revenues. The dynamic growth of the customer base was coupled with lower ARPU.
- **Fixed equipment revenues** rose by 23.7% to HUF 21.1 billion in 2019, driven by the increase in sales of smart devices to retail customers.
- **Data retail revenues** declined by 6.0% to HUF 7.8 billion in 2019, reflecting competition driven price erosion in this segment.
- **Wholesale revenues** decreased by 7.5% to HUF 13.7 billion in 2019, driven by lower broadband and voice wholesale revenues.

**System Integration (SI) and IT revenues** were HUF 7.3 billion in 2019 and did not change significantly since the previous year.

### 12.2 Direct costs

Direct costs increased from HUF 197.2 billion in 2018 to HUF 204.9 billion in 2019, mainly attributable to higher equipment costs and TV content fees.

- **Interconnect costs** declined by a moderate 0.3% to HUF 16.2 billion in 2019, driven by lower outpayments to fixed operators. This was partly offset by an increased volume of off-net mobile traffic that led to higher payments to other mobile operators.
- **SI/IT service related costs** decreased by 0.7% to HUF 6.3 billion in 2019, reflecting a lower volume of projects delivered during the year.

- **Bad debt expenses** improved by 4.8% to HUF 7.8 billion in 2019 thanks to a one-off favourable impact resulting from a reduction of the impairment rates applied to the fixed and mobile operations. This was partially offset by higher expenses related to the higher fixed and mobile revenues.
- **Telecom tax** declined by 2.7% to HUF 24.7 billion in 2019, as lower residential fixed voice usage, coupled with an overall decline in voice usage among business customers, less than offset the growth of residential mobile traffic.
- **Other direct costs** increased by 6.3% to HUF 149.9 billion in 2019, primarily due to the higher cost of equipment sales, in line with higher sales volumes. TV content related costs and roaming payments also grew.

### 12.3 Gross profit

Gross profit increased to HUF 303.0 billion in 2019, from HUF 296.1 billion in 2018, thanks to an increase in revenues.

### 12.4 Employee-related expenses

Employee-related expenses improved by 3.6% year-on-year to HUF 54.8 billion, reflecting a reduction in headcount as well as lower bonus expense.

### 12.5 Other operating expenses

Other operating expenses declined from HUF 92.8 billion in 2018 to HUF 74.1 billion in 2019 (or HUF 94.2 billion excluding the impact of IFRS 16). The cost saving measures implemented during the year resulted in lower marketing, HR-related and maintenance costs. The utility tax was broadly unchanged at HUF 7.2 billion.

### 12.6 Other operating income

Other operating income decreased to HUF 6.9 billion in 2019 from HUF 8.7 billion 2018, reflecting lower one-off profits realised from the sale of real estates.

### 12.7 EBITDA

EBITDA grew to HUF 180.9 billion in 2019 (or HUF 160.8 billion excluding the impact of IFRS 16) versus HUF 155.1 billion in 2018, thanks to improvements in gross profit, coupled with lower indirect costs.

### 12.8 Depreciation and amortization

Depreciation and amortization (D&A) rose to HUF 114.4 billion in 2019 (or HUF 97.5 billion excluding the impact of IFRS 16) from HUF 93.8 billion in 2018. Higher D&A expenses resulted from the shortened useful life of certain copper network related elements in relation to the copper retirement program.

### 12.9 Operating profit

Operating profit rose from HUF 61.3 billion in 2018 to HUF 66.5 billion in 2019 (or HUF 63.3 billion excluding the impact of IFRS 16) as higher D&A expenses were not fully offset the growth in EBITDA.

### 12.10 Net financial result

Net financial expenses rose from HUF 16.9 billion in 2018 to HUF 22.7 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 expense increased from HUF 10.9 billion in 2018 to HUF 11.6 billion in 2019. 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.

## 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 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.

### 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 business report gives a fair view of the position, development and performance of Magyar Telekom Plc., 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